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# Report of the Seventh Meeting of the Board, 18-21 May 2014

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**GCF/B.07/12**  
14 October 2014

**Meeting of the Board**  
18-21 May 2014  
Songdo, Republic of Korea  
Agenda item 17

## Table of Contents

Agenda item 1:	Opening of the Meeting	1
Agenda item 2:	Adoption of the Agenda and Organization of Work	1
Agenda item 3:	Adoption of the Report of the Sixth Meeting	3
Agenda item 4:	Reports on Activities of the Co-Chairs and the Secretariat	4
Agenda item 5:	Reports from Committees, Groups and Teams	6
Agenda item 6:	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	9
Agenda item 7:	Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding	15
Agenda item 8:	Initial Results Management Framework of the Fund	19
Agenda item 9:	Fund's Financial Risk Management And Investment Frameworks	23
Agenda item 10:	Structure of the Fund, Including the Structure of its Private Sector Facility	29
Agenda item 11:	Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility	31
Agenda item 12:	Confirmation of the Completion of the Essential Requirements and the Commencement of the Initial Resource Mobilization Process	33
Agenda item 13:	Outstanding Issues	36
Agenda item 14:	Date and Venue of Eighth Board Meeting	37
Agenda item 15:	Status of Resources	37
Agenda item 16:	Other Matters	37
Agenda item 17:	Report of the Meeting	38
Agenda item 18:	Closure of the Meeting	39
Annex I:	Initial Guiding Framework for the Fund's Accreditation Process	40
Annex II:	Initial Fiduciary Principles and Standards of the Fund	51
Annex III:	Interim Environmental and Social Safeguards of the Fund	62
Annex IV:	Terms of Reference of the Accreditation Committee	65
Annex V:	Terms of Reference of the Fund's Accreditation Panel	67
Annex VI:	Outline for the Fund's Environmental and Social Management System	71
Annex VII:	Project and Programme Activity Cycle	73
Annex VIII:	Indicative Initial Post-Approval Items	76
Annex IX:	Initial Mitigation Logic Model and Possible Initial Performance Indicators for Further Work by the Secretariat	77

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Annex X:	Initial Adaptation Logic Model and Possible Initial Performance Indicators for Further Work by the Secretariat	79
Annex XI:	Initial Financial Risk Management Framework	81
Annex XII:	The Fund's Financial Risk Categorization and Management*	84
Annex XIII:	Financial Arrangements for Grants and Concessional Loans and the Role of Implementing Entities and Intermediaries in Financial Arrangements	86
Annex XIV:	Initial Investment Framework	87
Annex XV:	Governing Instrument and Decisions of the Board and the Conference of the Parties to the United Nations Framework Convention On Climate Change Reflecting the Structure of the Fund and the Secretariat	90
Annex XVI:	Governing Instrument and Decisions of the Board and the Conference of the Parties to the United Nations Framework Convention on Climate Change Reflecting the Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility	92
Annex XVII:	Arrangements for the Collective Engagement in the Initial Resource Mobilization Process	93
Annex XVIII:	Decisions Taken Between Meetings	94
Annex XIX:	List of Board Members and Alternate Board Members Participating in the Meeting	95

## Report of the Seventh Meeting of the Board, 18-21 May 2014

### Agenda item 1: Opening of the meeting

1. The Co-Chairs opened the meeting on 18 May 2014.
2. The Co-Chairs welcomed new Board members (Mr. Angel Valverde Gallardo, Mr. Leonardo Martinez and Mr. Adam Kirchknopf) and an alternate member (Mr. Marcin Korolec).
3. They also welcomed the four active observers identified by the observer community: Mr. Brandon Wu (ActionAid International), Ms. Meenakshi Raman (Third World Network), Mr. Abyd Karmali (Climate Markets & Investment Association (CMIA)) and Ms. Gwen Andrews (World Business Council for Sustainable Development (WBCSD)).
4. The Co-Chairs stressed the urgency of the task ahead and noted decision B.05/17 on completing work on the eight essential requirements. They stressed that many documents were labelled “initial”, reflecting the fact that they were not cast in stone, but that they would be sufficient to ensure resource mobilization.

### Agenda item 2: Adoption of the agenda and organization of work

5. The Co-Chairs introduced the provisional agenda as set forth in document GCF/B.07/01 *Provisional Agenda*.
6. They explained the approach taken in preparing the agenda, as presented in the footnote of the provisional agenda and also in the cover note published by the Co-Chairs and circulated to the Board.
7. They proposed the inclusion of a new agenda item 13 “Outstanding issues” for the Board to discuss and prioritize the matters listed in the footnote, which are to be considered between meetings and at the eighth meeting.
8. The Secretariat provided information on the tentative timetable, and the Co-Chairs explained that they planned to be completely flexible in how matters would be dealt with between the Board and small groups.
9. Several Board members commended the approach to the agenda and footnote items and said that the recent informal Board dialogue hosted by the Korean Ministry of Strategy and Finance in Washington D.C. had been very valuable.
10. A number of matters were raised, including the election of the next Co-Chairs, the election of the Permanent Trustee, intersessional decision-making, representation of Board membership and administrative policies.
11. The Co-Chairs requested the Secretariat to amend the agenda accordingly. On intersessional decision-making, they said that the Secretariat would be requested to develop methodologies.
12. After the Co-Chairs had established there was a quorum, the Board adopted the agenda as set forth in document GCF/B.07/01/Rev.01 *Agenda*, amended as follows:

1. Opening of the meeting
2. Adoption of the agenda and organization of work<sup>1</sup>
3. Adoption of the report of the sixth meeting
4. Reports on activities
  - (a) Report on activities of the Co-Chairs
  - (b) Report on activities of the Secretariat
5. Reports from committees, groups and teams
6. 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
7. Initial proposal approval process, including the criteria for programme and project funding
8. Initial results management framework of the Fund
9. Fund's financial risk management and investment frameworks
10. Structure of the Fund, including the structure of its Private Sector Facility
11. Initial modalities for the operation of the Fund's mitigation and adaptation windows and its Private Sector Facility
12. Confirmation of the completion of the essential requirements and the commencement of the initial resource mobilization process
13. Outstanding issues
14. Date and venue of the eighth Board meeting
15. Status of resources
16. Other matters
  - (a) Election of Co-Chairs
  - (b) Representation of Board membership

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<sup>1</sup> In accordance with the 2014 work plan of the Board (document GCF/B.05/20) and previous decisions adopted by the Board, the following items were to be considered at the seventh meeting of the Board in addition to the items listed in this agenda:

- Policies and procedures for contributions;
- 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;
- 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;
- Terms of reference for the Appointment Committee of the Board;
- Communication strategy;
- Provisions for legal and formal arrangements with intermediaries and implementing entities, including policies on fees and payments;
- Understanding and defining the alternative sources of financial inputs to the Fund.

To allow Board members to focus on the remaining essential requirements for the commencement of the resource mobilization (decision B.05/17 and Annex XXII to document GCF/B.05/23), the aforementioned additional items will be considered under agenda item 13.

- (c) Implementation of elements of the administrative policies
  - 17. Report of the meeting
  - 18. Closure of the meeting
13. Co-Chair Mr. Jose Ma. Clemente Sarte Salceda notified the Board that he would be absent from the second day of the meeting. The Board elected Mr. Ayman M. Shasly as Interim Co-Chair.

### **Agenda item 3: Adoption of the report of the sixth meeting**

14. The Co-Chair drew the attention of the Board to the draft report of its sixth meeting, as circulated to the Board (document GCF/B.06/Drf.03 *Report of the Sixth Meeting of the Board, 19-21 February 2014*).
15. They highlighted that the decisions taken between the fifth and the sixth meetings were included in Annex VI to that document, and that a list of observers approved intersessionally, subject to the relevant guidelines that will eventually be adopted, was also included in the report.
16. A Board member brought to the Board's attention a substantive error in paragraph 127 relating to the lack of consideration in the mitigation results management framework of "important aspects of REDD+, including the package of REDD+ decisions taken at COP 19, and the topic of ex-ante payments in REDD+". He pointed out that this should, in fact, read "ex-post payments". The framework had been criticized for failing to mention results-based payments, which are ex-post payments for mitigation results in line with the measuring, reporting and verification procedure. By not dealing with ex-post payments for verified results, the document took a project-level approach to REDD+. However, the Conference of the Parties to the United Nations Framework Convention on Climate Change has already agreed that reducing emissions from deforestation and forest degradation (REDD+<sup>2</sup>) utilizes a national-level approach.
17. A Board member reminded the Board of an agreement made at the fifth Board meeting to include more detailed tables (tables 1, 2 and 3 in document GCF/B.05/21) in Annex XXIII to the Board decision on the approval of the budget (decision B.05/20). He asked that reference to this agreement, as well as the conclusion of the Co-Chairs that the detailed tables would be included in the report of the fifth meeting of the Board, be made in the section of the report on the sixth meeting (decision B.06/01) dealing with the adoption of the report of the fifth meeting.
18. An active observer from the Third World Network representing civil society organizations requested that the active observers receive, in advance of Board meetings, a copy of the draft report of the previous meeting. The Co-Chairs concluded that the active observers should receive draft reports at the same time as Board members.
19. After confirming that there were no objections, and subject to the points raised by members being followed up by the Secretariat, the Co-Chairs announced that the report had been duly adopted.
20. When discussing agenda item 18 on the final day of the meeting, Wednesday, 21 May 2014, the Co-Chairs reminded the Board of the comments made by one Board member regarding decisions B.05/20 and B.06/01. The Secretariat had since revised the tables in Annex XXIII of the report of the fifth meeting of the Board and modified decision B.06/01 accordingly.

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<sup>2</sup> Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

21. The revised report of the fifth meeting of the Board and the final report of the sixth meeting of the Board have been circulated.
22. It was confirmed that this matter would be reflected in the draft report of this meeting.
23. The Board adopted the following decision:

*DECISION B.07/01*

*The Board:*

- (a) Adopts the report of the sixth meeting contained in document GCF/B.06/Drf.03, as amended;
- (b) Agrees to publish it on the Fund's website (document GCF/B.06/19 Report of the Sixth Meeting of the Board, 19-21 February 2014);

## **Agenda item 4: Reports on activities**

### **A. Report on activities of the Co-Chairs**

24. The Co-Chairs presented a verbal report on the activities they undertook between the sixth and the seventh Board meetings.
25. Since the last meeting in February 2014, they had held several coordination meetings, so that the concerns of developing and developed countries could be discussed. During these meetings, the focus was on moving forward on the six essential requirements with many exchanges on this matter.
26. The preparation for the seventh meeting of the Board was central to the Co-Chairs activities, which involved providing guidance to the Secretariat as mandated by the Rules of Procedure. A meeting was held in Songdo from 23 to 25 April 2014, where they discussed several issues. Whilst unable to join the informal consultation in Washington D.C., they were involved with the relevant matters.
27. The Co-Chairs informed the Board that they corresponded with the Chairs of the Adaptation Committee and Technology Executive Committee of the United Nations Framework Convention on Climate Change concerning cooperation with the Fund. In accordance with its Governing Instrument, the Fund will decide on the framework for such cooperation as per its approved work plan for 2014 (document GCF/B.05/20).

### **B. Report on activities of the Secretariat**

28. A representative of the Secretariat introduced document GCF/B.07/Inf.02 *Report of the Activities of the Secretariat* and its addendum (GCF/B.07/Inf.02/Add.1).
29. The document presents the main tasks performed by the Secretariat after the sixth meeting of the Board. Some of the main tasks included:
  - Technical and logistical support to the various committees of the Board, panels and teams;
  - Participation in different events to further the goal of the Fund and supplement the efforts made by the Board and its Co-Chairs;
  - Efforts made in building the institution, including advancement of the hiring process and consultations with the United Nations Office of Legal Affairs on

possible institutional linkage between the Fund and the United Nations (see GCF/B.07/Inf.02/Add.1);

- The substantive, administrative and logistical preparations for this meeting.

30. Some Board members raised questions regarding the staff recruitment process, particularly the need to have a professional and transparent process which maintains the independence of the Secretariat in recruitment decisions. Two Board members said that the Fund should take action against the recruitment firm if it is proved that it went beyond its mandate.

31. The Executive Director explained the details of the recruitment process. The job descriptions for the first 20 positions were developed, and the Co-Chairs expressed keen interest to comment on the six senior positions. This was done, and all 20 positions were advertised on the Secretariat's website, following which applications were received and additional candidates were approached by the recruitment firm. Candidates were screened based on selection criteria. Five candidates were short-listed for each of the six top positions, and in-person interviews were conducted in March.

32. The Co-Chairs received updates regarding the recruitment process and two top candidates were selected for each senior position. The Co-Chairs endorsed the recommendations, but as there was a different understanding of the compensation package agreed by the Board at its sixth session, the Co-Chairs wished to give guidance on this matter.

33. Based on the parameters given by the Co-Chairs, the Secretariat issued five initial letters of intent through the recruitment firm while steps in the final selection process, such as medical clearances and background checks, were being carried out. By the seventh meeting of the Board, only one of the selected candidates had replied positively to the letter of intent. In view of the uncertainty regarding the responses of other candidates, the recruitment exercise is not considered closed as the first choices may not accept their offers. If an extended period of time is spent making a decision on the final package, some of the selected candidates may no longer be available for recruitment. The Co-Chairs have been informed of the responses the firm has received from the candidates.

34. Further concerns were expressed by other Board members on the role of the Co-Chairs, particularly regarding, for example, what appeared to be close involvement in the selection process of staff after the Interim Secretariat phase had passed.

35. Two Board members asked about progress in the nomination of national designated authorities (NDAs) by countries and in the preparation of a detailed programme of readiness and preparatory support. In response, the Secretariat invited the Board members to visit the Fund's updated website, starting with the new "Readiness" tab. In the first sub-tab, the Board members will find a list of the fifteen NDA/focal point designations that the Fund has received so far from member countries. In the second sub-tab, the Board members will find other updates, including:

- (a) The Executive Director's letter to developing countries inviting them to:
  - (i) Advise the Fund on their choice of NDA/focal point (with some preliminary guidance on choosing inclusive NDA arrangements, included in the annex to the Executive Director's letter); and
  - (ii) Inform the Fund of any needs they may have for readiness support (in the four categories provided in the annex to the Executive Director's letter).
- (b) The Fund's invitation to partner agencies (United Nations agencies, regional multilateral development banks, relevant civil society organizations/non-profits) to submit

- expressions of interest to work together with the Fund to deliver readiness support requested by member countries.
- (c) A readiness newsletter (dated May 2014) giving an overview of progress made in preparing the readiness programme since the sixth meeting.
36. Since February, the Secretariat has formed a small team to develop and launch the readiness support programme. The team planned to meet on 22 May 2014, immediately after this Board meeting, to develop next steps in delivering the programme.
37. Questions were raised by Board members about the NDA process. One Board member said the Board should take note of the exchange of letters. Another was concerned about the confusion regarding the addressees for the circulation of the NDA letter mentioned in paragraph 36 (a) above.
38. Two Board members asked why it was taking so long to send documents to Board members ahead of meetings.
39. The Executive Director explained the detailed process of preparing for Board meetings. She noted that there was significantly less time between the sixth and seventh meetings (February 2014 to May 2014) than between the fifth and sixth meetings (October 2013 to February 2014). The aim is to continue to improve.
40. A Board member stated that the Co-Chairs should not be involved in the preparation of documents for the Board. He requested that the practice of having Co-Chairs clear draft decisions be stopped and asked that terms of reference for document preparation procedures be developed.
41. The Co-Chairs proposed that questions raised on the recruitment process and document production process be dealt with by the Secretariat in writing. There was no objection from Board members and the agenda item was closed.

## **Agenda item 5: Reports from committees, groups and teams**

42. The Co-Chairs opened the agenda item.
43. The Risk Management Committee, Private Sector Advisory Group, Ethics and Audit Committee, and the Board Team on Accreditation provided a verbal report on their activities.
44. Due to the absence of its coordinator, the Investment Committee decided to introduce their report under the agenda item on the investment framework (agenda item 9).

### **Risk Management Committee**

45. Mr. Irfa Ampri, Chair of the Risk Management Committee, briefed the Board on committee activities since the sixth meeting. During this time it held five virtual meetings.
46. Over this period, the Committee provided input to the Secretariat for the preparation of the financial risk management framework. Following its review of document GCF/B.07/05 and the draft decision contained in its Annex I for presentation to the Board, the Committee was satisfied with the financial risk management framework, with one proposed addition to the draft decision, relating to the financial arrangements for grants and concessional loans and the role of implementing entities and intermediaries, which is included in document GCF/B.07/05/Add.1. This addendum provides important clarifications that, in the absence of a decision on terms and conditions, ensures that the financial risk management framework is complete and consistent. The addendum was made available to the Secretariat for circulation to the Board for consideration.

47. The Committee envisions the financial risk management framework as an initial framework, subject to regular updates as the Fund evolves. The framework should be adaptable to changing circumstances as the Fund grows and develops a broader base of intermediaries, recipients and instruments. The Board may consider this to be the initial financial risk management framework, allowing for periodic assessment and alterations.

48. In addition to its work in providing feedback to the Secretariat for the preparation of the financial risk management framework, the Risk Management Committee informed the Board that it is in the process of establishing a work programme that would principally aim at better defining the Fund's risk appetite. This could include, inter alia, the analysis of methods and modalities currently used by other relevant institutions in setting their respective financing volume and risk ratios, including options with respect to capital cushions, buffers, write-offs, offsets and non-performing loans; and a set of financial scenarios and stress tests, where appropriate providing comparisons with ratios and rates used by other relevant institutions. This work programme would aim at a clear and ambitious timeline. A first review of the financial risk management framework would be considered after one year.

49. The Risk Management Committee recommended that the Board request the Secretariat to compare the mandates and respective work plans of the Secretariat, the Investment Committee and the Ethics and Audit Committee, as well as the internal and external reporting timelines, overlaps and associated resource costs, where relevant.

### **Private Sector Advisory Group**

50. Mr. Zaheer Fakir, Co-Chair of the Private Sector Advisory Group (PSAG), presented the report of the PSAG to the Board (see document GCF/B.07/10), which had been circulated as an informal document in advance of the meeting.

51. The terms of reference and membership composition of the PSAG were defined at the fifth meeting of the Board and are contained in Annex XIX to document GCF/B.05/23.

52. The Board formally established the PSAG at its sixth meeting. Two meetings had been held since: an introductory meeting and one which included the private sector active observers and civil society organization active observers, focusing on the following critical areas:

- Initial operating modalities;
- Structure of the Fund, including its Private Sector Facility (PSF);
- Financial risk management and investment frameworks; and
- Financial instruments.

53. Mr. Fakir said that these recommendations are found in Annex I to document GCF/B.07/10.

54. It should be noted that the PSAG also agreed that there would be great value in the PSAG (in particular the members from the private sector and civil society organizations) having an interaction with the Board, preferably at the eighth Board meeting.

55. The intention is that the draft PSAG work plan contained in Annex IV to document GCF/B.07/10 will be updated and finalized following the seventh Board meeting.

56. In terms of actions, the Mr. Fakir asked that the Board take note of the report and request the various working groups and committees to consider these recommendations in their work over the following four days.

57. The next PSAG meeting is planned to take place in September 2014 in Cape Town, South Africa, and there may also be a need for an earlier meeting.

58. After the Co-Chairs reintroduced this item on the final day of the meeting it was noted that the Board had already made a decision related to the PSAG (see decision B.07/08, paragraph (e) (ii)) to discuss the PSAG report at the next Board meeting. After a discussion regarding the status of the report, the Board agreed to take note of it.

### **The Ethics and Audit Committee**

59. The Vice-Chair of the Ethics and Audit Committee Mr. Kwang-Yeol Yoo reported to the Board on the activities of Ethics and Audit Committee on behalf of Mr. Marcin Korolec.

60. He told the Board that the Committee had met the previous day in Songdo and discussed the draft code of conduct of the Board. The Secretariat had prepared an initial draft based on the codes of conduct of other international organizations. The Committee members reviewed the draft and provided feedback and guidance to the Secretariat. The Secretariat will prepare a draft version of the code of conduct reflecting these comments after the seventh Board meeting.

61. In addition, the Committee decided to postpone other items of discussion, including auditing and accounting standards, terms of reference for external auditors, and a review of the development of a disclosure of information policy, considering the significant workload of the Secretariat and the Board members connected with the eight essential requirements.

62. The Committee will continue its discussions on these issues leading up to the eighth Board meeting through, for example, virtual meetings.

### **Board Team on Accreditation**

63. H.E. Ambassador Jan Cedergren, as Chair of the Board Team on Accreditation, gave an update on the work of the group. He noted that the Board Team consisted of four Board members and four experts, and that it produced document GCF/B.07/02, which the Team felt was balanced.

64. The document contains the following components:

- (i) Definitions for implementing entities (IEs) and intermediaries;
- (ii) An outline of the accreditation process;
- (iii) Initial and specialized fiduciary standards;
- (iv) The Fund's environmental and social safeguards (ESS), developed using the International Finance Corporation (IFC) model on an interim basis, which will be gradually transformed into the Fund's own ESS;
- (v) An outline of a scaled risk-based approach for the application of the Fund's ESS;
- (vi) A proposal for a tiered approach to accreditation;
- (vii) An initial outline for the development of the Fund's environmental and social management system (ESMS); and
- (viii) Relevant documentation for establishing an Accreditation Panel, which would include some Board members.

65. He noted that the proposal to include Board members on the Accreditation Panel is based on the experiences of the Adaptation Fund and CDM Fund, where it has proved useful to establish a relationship between the Board and the Accreditation Panel, at least in the beginning. He noted that the document also puts a lot of focus on readiness and preparatory support.

66. He further updated the Board that the Board Team had a meeting on Saturday, 17 May 2014, where members identified the following areas in the document that needed further work:

- (i) More clarity needed on the scaled risk-based approach for the application of the ESS as well as on the tiered accreditation approach;
- (ii) More clarity needed on which fiduciary standards are applicable to which institutions;
- (iii) Annex needed on definitions, including for funding entities;
- (iv) More clarity needed regarding timelines;
- (v) More clarity needed on the structure of a fast-track option; and
- (vi) More clarity needed on accreditation and the private sector.

67. He also added that the Board Team is also responsible for working on enhanced direct access and that the Board Team has developed a document which is still a work in progress. He expressed confidence that they will develop a good proposal for the eighth meeting.

### **Group on Country Ownership**

68. Board Member Mr. Omar El-Arini provided an update on the work that had been undertaken by the Group on Country Ownership since the sixth meeting.

69. The Group was able to hold one virtual meeting on 5 May 2014 with participation by Board members Mr. El-Arini, Mr. Shri Dipak Dasgupta and alternate member Mr. C. Alexander Severens. Mr. El-Arini reported that the discussion mainly concerned the possibility of tacit no-objection subject to time lapse versus the requirement of written no-objection from the NDAs for any proposal submitted to the Secretariat.

70. There was agreement that the group should try to meet again in the course of the seventh Board meeting in order to further elaborate the no-objection procedure and discuss pending items from the discussion at the sixth meeting on competencies and guidelines for NDAs and a review of options for country coordination mechanisms.

71. The group is planning at least one additional in-person meeting to make progress on the matters mentioned in the above paragraph.

### **Agenda item 6: 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**

72. The Co-Chairs opened the agenda item.

73. They explained that the purpose of the first reading of each of the six essential requirements was:

- (i) To give an opportunity for Board members to comment on the document; and
- (ii) Identify convergences/divergences and assess the degree of divergence so that the Co-Chairs would be able to determine the best way forward.

The Co-Chair invited the Secretariat to provide an introduction to the agenda item.

74. A representative of the Secretariat drew the Board's attention to document GCF/B.07/02 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, which had been circulated to Board members in advance of the meeting. The Co-Chair invited Amb. Jan Cedergren, Chair of the Board Team on Accreditation, to provide introductory remarks. Amb. Cedergren said that he had nothing to add to the overview of the work of the team that he had provided under agenda item 5. The Co-Chair invited comments from Board members.

75. A number of Board members thanked the Board Team for a very good document.

76. Several Board Members emphasized the importance of ensuring that the Fund's accreditation process take into account the needs of capacity-constrained countries, including small island development States (SIDS) and least developed countries (LDCs). It was noted that the proposed interim environmental and social safeguards (ESS) were onerous from the perspective of capacity-constrained countries. Therefore, a tiered accreditation approach, as well as the proposed scaled risk-based approach (SRBA) to the application of ESS, will be important in providing flexibility. A Board member expressed the desire to see a decision related to a tiered accreditation process adopted by the Board at its eighth meeting and expressed the understanding that the tiered approach would be embedded in an accreditation process that would start after the decision on this agenda item is taken. One Board member questioned the choice of the International Finance Corporation's Performance Standards as the interim ESS, given that they are designed for a financial institution and not a Fund. This Board member asked whether the Board Team had considered the possibility and suitability of using the safeguards of the Global Environment Facility (GEF) in light of the fact that the GEF has a focal area dealing with climate change.

77. Many Board members also emphasized the importance of supporting activities to build the capacity of developing country institutions to meet the requirements to access the Fund's funding. It was noted that there must be a strong operational linkage between the Fund's work programme on readiness and the accreditation process. A Board member expressed the ambition for the provision of support to SIDS, LDCs and Africa to meet accreditation requirements so that they are able to directly access the Fund when it opens for business. Another Board member proposed that readiness support for national and subnational entities should allow these entities to be given priority in an accreditation process.

78. The importance of ensuring best-practice ESS and fiduciary standards was emphasized by one Board member who noted that the safeguards and standards of international institutions have benefitted from decades of experience and refinement. He also recognized the need to have some flexibility to enable a range of entities to be accredited, as long as this does not weaken the standards. The principle of finding a balance between a strong accreditation system with rigorous ESS and the flexibility to recognize specific challenges that developing countries face was emphasized by another Board member and reiterated by several others.

79. In this context, a number of Board members expressed agreement in principle to the idea of a tiered accreditation approach, but requested more detail on what this would involve. One Board member proposed that this might be linked to the type of activity, for example category B or C activities. Another Board member suggested using different accreditation criteria for institutions doing different activities. Several Board members also requested more clarity on the proposed SRBA to the application of the interim ESS. It was further noted that some of the basic fiduciary standards may not be applicable to certain entities. For example, intermediaries will not need project management capacities if they will not be managing projects and programmes.

80. Several Board members noted the need to set clear timelines for the development of the Fund's own ESS. A timeframe of one to two years was proposed by one Board member. It was

noted that consultations with civil society and governments of developing countries will be important in the development of the Fund's own ESS. One Board member noted that the IFC Performance Standards are not considered the best practice in all aspects. For example, the Adaptation Fund has a better standard on human rights, the United Nations Framework Convention on Climate Change on REDD+ safeguards, and the Asian Development Bank on consultations. This point was further emphasized by the civil society organization (CSO) active observer.

81. A number of Board members expressed support for the idea of establishing a fast-track process for the accreditation of entities that are accredited in the context of others funds and institutions. One Board member proposed that the multilateral development banks (MDBs) be accredited right away. The Adaptation Fund and the GEF were also mentioned in this context. The importance of facilitating access to private sector entities through the Private Sector Facility was noted by one Board member, who also proposed that the Board consider the possibility of fast-tracking the Equator Principle banks.

82. The question concerning the composition of the Accreditation Panel was discussed. Several Board members expressed the preference for a purely technical panel with no Board members. Other members preferred to have Board members on the Panel to create a linkage with the Board. It was suggested by one member that having two members on the panel might be preferable to the four proposed in the document. Questions were raised with regard to the competencies and roles of technical experts and Board members/alternates on the Accreditation Panel, as well as the role of the roster of experts.

83. A Board member noted that the proposed development of an environmental and social management system (ESMS) for the Fund mentioned in paragraph (h) (iii) of the draft decision presented in Annex I to document GCF/B.07/02 may be a good idea, but proposed that it be deferred to a later date. He also proposed to defer the development of the additional specialized fiduciary standards proposed in paragraph (j) of the same draft decision. In addition, he requested clarity on paragraph (g) regarding accreditation fees.

84. The Co-Chairs invited the CSO and PSO active observers to make interventions. The CSO active observer emphasized a number of points that had been raised, including the importance of country ownership and direct access, readiness support, the prioritization of national entities for accreditation, and the establishment of a funding floor for national entities. He also recommended that the Fund develop an exclusion list. He emphasized the inclusion of meaningful stakeholder engagement in the development of the Fund's own ESS. He noted that the accreditation of private sector entities should not be rushed and pointed out that the Equator Principles are voluntary, limited to project finance, and lack enforcement and accountability mechanisms.

85. The PSO active observer noted that:

- (i) The private sector is supportive of fast-track mechanisms, citing the Private Sector Advisory Group (PSAG) meeting which emphasized the need for speed in accrediting entities;
- (ii) The private sector is supportive of flexibility in the choice of intermediaries, given the need to consider instruments for a range of risks; and
- (iii) The choice of intermediaries should include a range of private sector entities, including from the local private sector, since the private sector in developing countries has a higher risk appetite.

86. The Co-Chairs mandated a small group to continue to work on this agenda item and to take note of the views raised by the Board members. The small group comprised the following

Board members: Mr. Arnaud Buisse, Mr. Leonardo Martinez, Mr. David Kaluba and Mr. Patrick McCaskie, as well as Amb. Jan Cedergren and Mr. George Zedginidze as ex officio members.

87. The Co-Chairs resumed the agenda item and drew the Board's attention to the copies of an amended version of the draft decision contained in Annex I to document GCF/B.07/02 that had been circulated. He invited the facilitator of the small group, Mr. Arnaud Buisse, to walk the Board through the changes.

88. Mr. Buisse expressed the view that the proposed decision was very robust and unique, and that it would be a distinctive feature of the Fund. He emphasized five salient points on the proposed decision:

- (a) It presented a fit-for-purpose accreditation approach that matched the nature, scale and risk of activities to the application of the interim ESS and initial fiduciary standards. This reflected the concern that the Fund should not diminish the fiduciary standards and ESS for the entities with which it works, but at the same time the Fund is looking to do business with a wide range of entities, including national entities;
- (b) A proposal for a fast-track process would be elaborated. This would recognize that there are existing funds that have carried out work which the Fund could build on without diminishing the standards. The idea would be to identify gaps between their processes and those of the Fund and to look only at what is missing in the accreditation assessment;
- (c) It established an Accreditation Panel, which would be purely technical with balanced representation and a range of skills. It also proposed an Accreditation Committee with four Board members, which would provide guidance to the Panel and could also facilitate interaction with countries;
- (d) An annual report would be provided to the Board that would analyse barriers to accreditation. This would be part of a dynamic process linked with the Fund's readiness programme, which would help entities overcome those barriers;
- (e) It incorporated the private sector, firstly by explicitly applying the same fiduciary standards and safeguards to the private sector. It was also recognized that it would be useful to look at principles such as the Equator Principles with regard to the fast-track mechanisms. Again, this would not involve diminishing the process, but rather building on information from other processes to expedite the review process.

89. Mr. Buisse emphasized that the proposed decision was fit-for-purpose, new, efficient and exactly what the Fund requires. He emphasized that nothing is perfect and requested Board members to express their comments for the record and indicate whether they would be able to approve the draft decision in the proposed form.

90. One Board member expressed the view that the decision was not strong enough and that he would not be able to go along with it. He cited concerns with:

- (i) Inconsistencies between the role of the Accreditation Panel and Accreditation Committee;
- (ii) Delays in addressing the list of entities accredited to other funds given in Annex VIII to document GCF/B.05/23;
- (iii) Confusion between the aforementioned list and the fast-track proposal; and
- (iv) The timeframe for a fit-for-purpose approach and a lack of a commencement date for the accreditation process. He expressed willingness to work with colleagues to find a solution for these concerns.

91. Another Board member expressed concern with the strong reference to a prominent role for the PSAG in charting an important policy of the Fund, as well as the vagueness in the reference to “relevant private sector associations” in the amended version of the draft decision that was under consideration. One of the members of the small group provided some clarification on this issue, explaining that the proposed decision would not give PSAG or other stakeholders a role in the decision-making on accreditation. Rather, the intention was to ensure that private sector and civil society stakeholders would have the opportunity to provide valuable insights into the process.

92. The Co-Chair invited active observers to comment. The CSO active observer raised two points:

- (i) He emphasized the importance of ensuring an inclusive multi-stakeholder consultation process in developing the Fund’s own ESS and suggested including language to this effect; and
- (ii) He expressed concern about the language on “relevant private sector associations” in the fast-track proposal, emphasizing that the Equator Principles do not form an accreditation process but are a set of voluntary principles with no oversight. He suggested that fast-tracking large international banks would fly in the face of the Fund’s aims. The private sector active observer noted that there are 78 financial institutions that have signed on the Equator Principles, one third of which are in developing countries. He further noted that there is a third party assurance mechanism for the Equator Principles that is in its pilot stage.

93. The Co-Chairs called on the facilitator of the small group to consult with colleagues to find a solution to the issues raised, and adjourned the agenda item.

94. The Co-Chairs resumed agenda item 6 and drew the attention of the Board to a new version of the proposed decision that had been circulated. He invited the facilitator of the small group, Mr. Arnaud Buisse, to explain to the Board the further changes that had been made.

95. Mr. Buisse gave a brief summary of the changes that had been made since the morning session. These aimed to achieve a more action-oriented decision and to provide more clarity on the mandate and role of the Accreditation Committee. They included an explicit mention of multi-stakeholder participation in the development of the Fund’s ESS; a refinement of the work surrounding the independent technical Accreditation Panel and clarification of its role; a new paragraph on a call for submissions of accreditation applications from implementing entities and intermediaries following the eighth meeting of the Board; and some adjustments to the terms of reference of the Accreditation Committee and Accreditation Panel (the final versions of which are contained in Annexes IV and V to this report, respectively) to be consistent with the decision text.

96. The Co-Chairs invited comments from the Board. One member noted some minor inconsistencies in the terms of reference of the Accreditation Panel. There were no further comments. The decision was duly adopted.

#### *DECISION B.07/02*

*The Board, having considered document GCF/B.07/02 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:*

- (a) *Decides to adopt the initial guiding framework for the Fund's accreditation process as contained in Annex I to this document, recognizing that it also applies to private sector entities;*
- (b) *Also decides to adopt the initial fiduciary principles and standards contained in Annex II to this document, and will conduct a review of these standards within three years;*
- (c) *Further decides to adopt, on an interim basis, the Performance Standards of the International Finance Corporation (IFC), as contained in Annex III to this document, noting that their use and implementation will be guided by the IFC Guidance Notes;<sup>3</sup>*
- (d) *Decides to aim to complete the process of developing the Fund's own environmental and social safeguards (ESS), which will build on evolving best practices, within a period of three years after the Fund becomes operational, and with inclusive multi-stakeholder participation;*
- (e) *Establishes an Accreditation Committee comprised of four Board members or alternates in accordance with the terms of reference contained in Annex IV;*
- (f) *Invites the Board members in the team established in decision B.05/08, paragraphs (d) and (e), to serve as the Fund's Accreditation Committee for its first term, with [Name of Board member or alternate] as Chair and [Name of Board member or alternate] as Vice-Chair;*
- (g) *Establishes the Fund's Accreditation Panel as an independent technical panel to advise the Board on matters related to the accreditation of implementing entities (IEs) and intermediaries to the Fund. The Panel will be comprised of six expert members with balanced representation between developing and developed countries and the appropriate range of expertise, to be nominated by the Accreditation Committee for endorsement by the Board soon thereafter. This Panel will be in charge of conducting the accreditation process in accordance with its terms of reference;*
- (h) *Adopts the terms of reference for the Fund's Accreditation Committee and Accreditation Panel contained in Annex IV and Annex V to this document, respectively;*
- (i) *Requests the Secretariat to develop, in consultation with the Accreditation Committee hereby established, a policy on accreditation fees that takes into account the financial capacities of institutions;*
- (j) *Agrees on a fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the initial fiduciary standards and interim ESS;*
- (k) *Requests the Secretariat to elaborate, under the guidance of the Accreditation Committee and Panel, the following elements for decision by the Board at its third meeting in 2014:*
- (i) *Guidelines for the operationalization of the fit-for-purpose accreditation approach referred to in paragraph (j) above; and*
- (ii) *A work programme on complementarity and coherence with the accreditation systems and processes of other relevant funds, as well as relevant private sector associations, in consultation with the Private Sector Advisory Group (PSAG) and relevant stakeholders;*

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<sup>3</sup> IFC, "International Finance Corporation's Guidance Notes: Performance Standards on Environmental and Social Sustainability", 1 January 2012. Available from <<http://www.ifc.org/wps/wcm/connect/efdaaa8043649142947696d3e9bda932/Guidance+Notes+to+Performanc+Standards+on+Environmental+and+Social+Sustainability.pdf?MOD=AJPERESTo>>.

- (l) *Requests the Accreditation Panel, with the support of the Secretariat, under the guidance of the Accreditation Committee, to elaborate the following elements for decision by the Board at its third meeting in 2014:*
- (i) *An assessment, including a gap analysis, of institutions accredited by other relevant funds and in line with the Fund's objectives against the interim ESS and initial fiduciary standards with recommendations on their potential accreditation or fast-tracking; and*
- (ii) *The identification of potential relevant private sector international best practice fiduciary principles or standards and ESS, and an assessment of gaps against the Fund's initial fiduciary standards and interim ESS, in collaboration with the PSAG and in consultation with relevant stakeholders;*
- (m) *Also requests the Secretariat to issue a progress report by September on the items contained in paragraph (k) above;*
- (n) *Further requests the Secretariat, in consultation with the Accreditation Committee and the Accreditation Panel as needed, to develop an environmental and social management system for the Fund, based on the outline contained in Annex VI, which will include guidelines on the categorization of projects by IEs and intermediaries according to the level of environmental and social risk and in accordance with the Fund's interim ESS;*
- (o) *Requests the Accreditation Panel, in collaboration with the Accreditation Committee and the Secretariat, to report annually to the Board on the status of applications for accreditation, identifying and analyzing barriers faced by applicants in meeting the requirements;*
- (p) *Recalling decision B.05/14, paragraph (b), on providing readiness and preparatory support to enable IEs and intermediaries to meet the Fund's fiduciary principles and standards, and ESS, in order to directly access the Fund, requests the Secretariat to consider the findings of the report referenced in paragraph (m) above in updating its readiness support programme accordingly, and to prepare tools and guidance materials to enable applicants to comply with the fit-for-purpose accreditation requirements and process;*
- (q) *Requests the Secretariat to develop, under the guidance of the Accreditation Panel, additional specialized fiduciary standards that may be deemed necessary to effectively accommodate all institutional capacities required in IEs and intermediaries in the initial phase of operations of the Fund; and*
- (r) *Decides to open a call for submissions of accreditation applications from IEs and intermediaries after the Board's third meeting of 2014, and requests the Secretariat to prepare the relevant application documents for consideration by the Board at its third meeting in 2014.*

## **Agenda item 7: Initial proposal approval process, including the criteria for programme and project funding**

97. The Co-Chairs opened the agenda item.
98. A representative of the Secretariat introduced document GCF/B.07/03 Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding, which had been circulated to Board members in advance of the meeting.
99. Generally Board members were positive about the initial proposal approval process, but a number of questions were raised during the discussion, including where the Board wanted the

Fund to be in five years' time as well as in three years' time. There was some consensus on the need for the process to be accelerated, simplified and streamlined.

100. Some Board members emphasized that the approval process must reflect the principle of country ownership and that there must be engagement with the national designated authority or focal point throughout the activity cycle, in line with the Governing Instrument. This argument was strongly supported by the CSO active observer. One Board member suggested that proposals that complement national strategies should be privileged. Another stressed that the communication of no-objection has to be active and not tacit, and that public and private proposals should not be differentiated.

101. A number of Board members recommended that, in line with the Governing Instrument, the Fund should have a delegated approval process, either by delegated authority to the Secretariat or to intermediaries and implementing entities (IEs). The CSO active observer said that civil society organizations were not in favour of any delegation of proposal approvals to the Secretariat at this stage. The PSO active observer said delegated authority is a key principle in making the Fund more attractive to the private sector. He said PSOs are supportive of devolved authority to the Secretariat and intermediaries, in keeping with recommendations 6 and 4 of the Private Sector Advisory Group (document GCF/B.07/10). He noted that devolved authority is key to enabling intermediaries to provide blended finance and for aggregating small-scale projects in small island developing States (SIDS) and least developed countries (LDCs).

102. A Board member stated that the proposed initial approval process did not fully address the provision of paragraph 53 of the Governing Instrument since it did not propose modalities for simplified processes. Two Board members highlighted that an approval process for small-scale activities should be developed, and one Board member stated that he would like to see a decision taken on an approval process for small-scale proposals at the eighth meeting of the Board.

103. Several Board members agreed that concept notes should be considered by the Secretariat rather than by the Board. One Board member suggested that a concept note should be mandatory to bring efficiency to the approval process.

104. A widely supported view was that there must be consistency between the initial proposal approval process, the initial investment framework and the initial results management framework.

105. One Board member stated that the concept of competition within the approval process must be strengthened, in particular through a process for comparing funding proposals. However it was emphasized that any competitive process needs to be fair to ensure that funding proposals from countries with similar characteristics are compared. Some Board members expressed support for the concept of funding cycles, and thought it should be strengthened in the decision.

106. Some Board members believed that independent technical advice should be considered in the assessment of funding proposals, including with regard to a competitive element. A member stressed that the Board should approve not just the content of the proposal but also the parameters of the terms and conditions, while allowing flexibility for the intermediary or IE to set specific terms and conditions.

107. One Board member stated that the proposed process did not incorporate gender considerations sufficiently throughout the entire cycle. The CSO active observer stated that stakeholder engagement needs to be integral to the activity cycle and suggested that all project and programme proposals be available on the Fund website for public comment for 60 days.

108. Several Board members emphasized that there is a need for readiness and preparatory support throughout the approval cycle, including appraisal guidelines and best practice guidelines for executing entities.
109. One Board member highlighted that there should be an option included in the approval process for interaction between the Secretariat and the IE or intermediary throughout the activity cycle. Another member expressed concern that there may be a conflict of interest, as the Secretariat is assumed to provide guidance to the IE or intermediary throughout the appraisal.
110. Some Board members stressed that input from the Private Sector Advisory Group needs to be incorporated into the approval process.
111. A Board member suggested that the Board should allow IEs and intermediaries to develop work programmes which would list activities per country that they intend to submit to the Board, including estimates of cost and climate impact. The role of the Secretariat would be to consolidate activities listed in the submitted work programmes, with a view to informing the Board of geographic distribution and the balance between adaptation and mitigation, as well as an estimate of the resources that would be needed.
112. A Board member raised the question of what would happen to proposals that are rejected. The Co-Chair responded that that is the role of the independent redress mechanism. Another Board member suggested that an annual external audit may be too much, and that the Fund should consider taking a risk-based approach to the frequency of auditing.
113. One Board member expressed concern as to whether the approval process truly applied to both projects and programmes. Another Board member highlighted that the initial proposal approval process should be flexible enough to allow for different kinds of intervention, including results-based approaches.
114. A Board member stated that there are inconsistencies between the initial phase and later stages. He also emphasized that initially it would be preferable to have a relatively small number of proposals coming to the Board that lead to large impacts on the ground.
115. The Co-Chair concluded that a small group should be formed to finalize work on the initial proposal approval process comprising the following Board members: Mr. Anton Hilber, Mr. Petr Kalas, Mr. Shri Dipak Dasgupta, Mr. Pedro Garcia Brito and Mr. Angel Valverde Gallardo.
116. The Co-Chairs resumed the agenda item. Mr. Anton Hilber, the facilitator of the small group, informed the Board that the group had discussed changes to the draft decision and the accompanying annexes contained in document GCF/B.07/03. These changes were circulated to Board members for their consideration.
117. The changes included: potential inclusion of a competitive element into the draft decision; moving certain elements of the initial draft decision that were not completely necessary for the approval process into another annex to be taken note of; establishment of a technical advisory panel to assess and advise the Board on funding proposals and a request to the Secretariat to develop the panel's terms of reference; inclusion of a voluntary stage zero in which the national designated authority (NDA) or focal point develops and submits to the Secretariat a country or regional work programme; making concept notes mandatory; and potentially removing the possibility to submit spontaneous funding proposals. He expressed uncertainty as to whether making concept notes mandatory was the right choice.
118. One Board member stressed that spontaneous submissions of funding proposals to the Secretariat should be allowed alongside calls for proposals.
119. Some Board members stressed that the concept note should be voluntary, as a mandatory concept note, which had been agreed in an earlier plenary, may overburden the Secretariat and prolong the whole approval process.

120. Board members were generally in agreement with the idea of a stage zero, but one Board member stressed that this stage should not disadvantage small countries. The same Board member also expressed concern that if the NDA or focal point chooses preferred IEs and intermediaries, this could cause perverse incentives and may not be cost-effective.
121. One Board member stated that it was his understanding that regional proposals would also be considered under the initial proposal approval process, and that regional programmes and projects were important to him.
122. The Co-Chair suspended the agenda item to allow the small group to continue to work on the draft decision.
123. The Co-Chairs resumed the agenda item. Mr. Hilber informed the Board that the group has discussed further changes to the draft decision and accompanying annexes contained in document GCF/B.07/03. These changes were circulated to Board members for their consideration.
124. The changes to the draft decision included: resolving the issue of competition; bringing in other elements such as policies relating to regional programmes and projects and a policy for cancellation and termination; reverting to the concept development being a voluntary step once again; including a reference to the no-objection procedure; further elements for the Secretariat's due diligence; an explicit reference to the Fund's interim environmental and social safeguards; reference to the Fund's independent redress mechanism; and a change in the language with regard to legal arrangements to make it more general.
125. One Board member noted that the language on activity-specific criteria needed to be revised to reflect the language in decision B.07/06 on the investment framework. Another suggested that in order to be fully in line with the language in the aforementioned decision, language referring to subcriteria should also be included. It was agreed that the activity-specific criteria would contain the subcriteria so that the language would not need to be modified.
126. There were no objections, and following the minor edit to reflect the language in the investment framework, the decision was adopted.

#### *DECISION B.07/03*

*The Board, having reviewed document GCF/B.07/03, Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding:*

- (a) Adopts the initial proposal approval process, as contained in Annex VII;*
- (b) Recognizes that the initial proposal approval process will identify programmes and projects for Board consideration that best achieve the Fund's objectives, and requests the Secretariat to develop methodologies for the selection process;*
- (c) Takes note of the initial post-approval items contained in Annex VIII and requests the Secretariat to further develop them for further consideration by the Board at its ninth meeting;*
- (d) Confirms that the criteria for programme and project funding are outlined in decision B.07/06 on the investment framework;*
- (e) Notes convergence on the need to consider: proposal development funds; early endorsement prior to full proposal development; the initial proposal approval process for regional programmes and projects; and a policy for cancellation and termination;*

- (f) *Decides to establish an independent technical advisory panel composed of experts to provide an independent technical assessment of and advice on funding proposals for the Board;*
- (g) *Requests the Secretariat to present draft terms of reference for the independent technical advisory panel for consideration by the Board at its eighth meeting;*
- (h) *Further requests the Secretariat to develop an operations manual and an appraisal toolkit for the initial proposal approval process for programme and project funding;*
- (i) *Also requests the Secretariat in the development of the Fund's information disclosure policy to address issues related to the initial proposal approval process;*
  - (i) *Decides to review the initial proposal approval process and to take action when it deems necessary.<sup>4</sup>*

## **Agenda item 8: Initial results management framework of the Fund**

127. The Co-Chairs opened the agenda item.

128. A representative of the Secretariat introduced document GCF/B.07/04 Initial Results Management Framework of the Fund, which had been circulated to Board members in advance of the meeting.

129. Several Board members raised the issue as to whether the document was in compliance with decision B.05/03. By the annexes to this decision, the Board adopted 14 initial result areas and corresponding performance indicators (Annexes I and II to document GCF/B.05/23). The aforementioned decision had two levels of indicators (project and programme level), while the logic model in document GCF/B.07/04 proposed six levels.

130. Several Board members pointed to the need for consistency with the proposed decisions on the investment framework and the initial proposal approval process (subsequently adopted as decisions B.07/06 and B.07/03, respectively).

131. A Board member highlighted that paragraph (j) of decision B.05/03 stated that “national and sector-wide indicators will be used only at the discretion of the recipient country”. Other Board members mentioned that the approach to the assessment of forestry management should be consistent with REDD+ decisions taken at the nineteenth session of the Conference of the Parties (COP 19) regarding REDD+ and stated that the document failed to consider important aspects of REDD+, including the topic of ex-post payments in REDD+.

132. It was also suggested that the term “land use” be used instead of “forest” in order to allow for the inclusion of agriculture in the framework.

133. Several Board members stressed that indicators should be simple and comprehensive in guiding the Fund to value-added investments beyond business-as-usual. They should be verifiable and the reporting frequency should be reviewed.

134. Some members voiced the opinion that project-level outcomes are not conducive to achieving results and higher-level indicators could be more relevant for this goal. A Board member suggested more focus on qualitative indicators for the paradigm shift.

135. A Board member suggested that the impact at the strategic impact level in the mitigation logic model should be emission reduction (reflected across all boxes).

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<sup>4</sup> For example, the additional modalities that further enhance direct access and the recommendations of the Private Sector Advisory Group will be discussed at future Board meetings.

136. Some Board members requested that additional financing instruments and knowledge be added to grants and concessional loans at the input level.
137. For the initial performance measurement indicators included in Annexes IV and V to document GCF/B.07/04, clarification was sought on data sources and collection methods. It was felt that the Fund should make resources available for the measurement and evaluation of results.
138. Several Board members supported the use of gender-sensitive data disaggregation in the document. One Board member wanted the document to go beyond mainstreaming.
139. A civil society organization active observer stated that the central nature of mitigation and adaptation is not sufficiently reflected in the framework and that the performance measurement framework should include multi-stakeholder consultations. The representative also questioned how the Fund could discuss the expected results without having more knowledge about funding levels.
140. A private sector active observer cautioned against reinventing existing indicators. The Fund should also catalyse greater blending and private sector involvement, and the indicators for leveraging public and private sector funding and financial viability are critical. The observer also recommended the use of a balanced score card approach as a better tool for measuring results.
141. Several Board members requested that the draft decision be reviewed.
142. The Co-Chair established a small group on the results management framework consisting of Mr. Josceline Wheatley, Mr. Liang Ziqian, H.E. Ambassador Sergio Serra, Mr. Tosi Mpanu Mpanu, Ms. Ana Fornells de Frutos and Mr. Henrik Harboe. Mr. Wheatley was requested to facilitate the group's discussion. The group was asked to focus on:
- (i) Checking compliance with decision B.05/03 and consistency with other relevant documents under discussion at the seventh meeting;
  - (ii) Simplifying the framework; and
  - (iii) Resolving the divergence between the Board members on the issues mentioned above to come to a consensus on a consistent results framework at all levels.
143. The Co-Chairs re-opened the agenda item.
144. Speaking on behalf of the small group, Mr. Wheatley reported to the Board that they had completed the discussion on the item.
145. The Board considered the proposed draft decision and took note of the changes to the original document.
146. Several Board members expressed a concern regarding the proposed core indicator for adaptation "Volume of finance leveraged by Fund funding, disaggregated by public and private sources".
147. After a short intermission and discussion between the concerned parties, it was agreed to delete the indicator from the current decision. The small group facilitator Mr. Josceline Wheatley said that the group wished to have noted in the report that, since a consensus could not be reached on the inclusion of the indicator and because it was being deleted, the Secretariat would consider this again in subsequent iterations on indicators.
148. Two Board members expressed an understanding that the paradigm shift objective for mitigation in paragraph (b) (ii) (1) of decision B.07/04 below is the same as the coverage area for the paradigm shift in table 2 of the annex to decision B.07/06 (see Annex XIV to this document).

Board member Mr. Arnaud Buisse wished to record a strong expectation that the Secretariat would work on how to add an indicator on the paradigm shift.

149. The decision was duly adopted.

150. *DECISION B.07/04*

*The Board, having reviewed document GCF/B.07/04 Initial Results Management Framework of the Fund:*

(a) *Affirms that the elements of the initial results management framework of the Fund contained in this decision complement decision B.05/03, including the initial result areas of the Fund referred to in that decision, as contained in Annex I to document GCF/B.05/23, as well as the performance indicators of the initial result areas of the Fund also referred to in that decision, as contained in Annex II of document GCF/B.05/23;*

(b) *Adopts the elements of the initial results management framework of the Fund as outlined hereunder:*

(i) *Levels of the logic model:*

- *Paradigm shift objective*
- *Impacts (Fund level)*
- *Project/Programme outcomes*
- *Project/Programme outputs*
- *Activities*
- *Inputs*

(ii) *Initial mitigation logic model:*

1) *Paradigm shift objective for mitigation:*

- *Shift to low-emission sustainable development pathways;*

2) *Fund level impacts for mitigation:*

1.0 *Reduced emissions through increased low-emission energy access and power generation;*

2.0 *Reduced emissions through increased access to low-emission transport;*

3.0 *Reduced emissions from buildings, cities, industries and appliances;*

4.0 *Reduced emissions from land use, deforestation, forest degradation, and through sustainable forest management and conservation and enhancement of forest carbon stocks;*

3) *Project/programme level outcomes for mitigation:*

5.0 *Strengthened institutional and regulatory systems for low-emission planning and development;*

6.0 *Increased number of small, medium and large low-emission power suppliers;*

7.0 *Lower energy intensity of buildings, cities, industries, and appliances;*

8.0 *Increased use of low-carbon transport;*

- 9.0 *Improved management of land or forest areas contributing to emissions reductions;*
- (iii) *Initial adaptation logic model:*
- 1) *Paradigm shift objective for adaptation:*
    - *Increased climate-resilient sustainable development*
  - 2) *Fund level impacts for adaptation:*
    - 1.0 *Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions;*
    - 2.0 *Increased resilience of health and well-being, and food and water security;*
    - 3.0 *Increased resilience of infrastructure and the built environment to climate change threats;*
    - 4.0 *Improved resilience of ecosystems and ecosystem services;*
  - 3) *Project/programme level outcomes for adaptation:*
    - 5.0 *Strengthened institutional and regulatory systems for climate-responsive planning and development;*
    - 6.0 *Increased generation and use of climate information in decision-making;*
    - 7.0 *Strengthened adaptive capacity and reduced exposure to climate risks;*
    - 8.0 *Strengthened awareness of climate threats and risk-reduction processes;*
- (c) Adopts the following core indicators for mitigation:
- 1) *Tonnes of carbon dioxide equivalent (tCO<sub>2</sub>eq) reduced as a result of Fund-funded projects/programmes;*
  - 2) *Cost per tCO<sub>2</sub>eq decreased for all Fund-funded mitigation projects/programmes;*
  - 3) *Volume of finance leveraged by Fund funding, disaggregated by public and private sources;*
- (d) Adopts the following core indicator for adaptation:
- Total number of direct and indirect beneficiaries; number of beneficiaries relative to total population;*
- (e) Confirms that performance measured at the paradigm shift and impact levels refers to the aggregate project/programme-based results of the Fund;
- (f) Acknowledges that the inputs, activities, and outputs will be defined for each project/programme on a case-by-case basis;
- (g) Takes note of the initial performance indicators in Annex IX and Annex X to this document;
- (h) Affirms that national and sector-wide indicators will be used only at the discretion of the recipient country;
- (i) Decides that the results management framework should take a gender-sensitive approach and that the results should be disaggregated by gender where relevant;

- (j) *Requests the Secretariat to further develop the mitigation and adaptation performance measurement frameworks of the Fund, engaging international experts as required, for the Board to consider at its third meeting of 2014, including an approach to gender, indicators on mitigation and adaptation, and methodologies, data sources, frequency, and responsibilities for reporting;*
- (k) *Further requests the Secretariat to develop a logic model and performance framework for ex-post REDD+ results-based payments, in accordance with the methodological guidance in the Warsaw framework for REDD+, for consideration at the third Board meeting of 2014.*

## **Agenda item 9: Fund's financial risk management and investment frameworks**

### **A. Financial risk management framework**

151. The Co-Chairs opened the agenda item.
152. A representative of the Secretariat introduced document GCF/B.07/05 *Financial Risk Management Framework* and its addendum GCF/B.07/05/Add.1, and the Chair of the Risk Management Committee, Mr. Irfa Ampri, made a short statement.
153. The Board then held an initial discussion during which broad support was given for the document which had been circulated to the Board in advance of the meeting. They commended the work of the Risk Management Committee.
154. Several Board members underlined the need for non-financial risk, including reputational risk, to be taken into account in addition to financial risks. The Secretariat's representative noted that at the fifth meeting the Board had agreed to focus initially on financial risks but that later wider risks would be considered.
155. Board members raised the question of how best to prevent cross-subsidization of grants and loans.
156. Matters relating to the role of the Risk Manager and the reporting line to the Executive Director and Board were raised by several Board members and the PSO active observer.
157. There was a concern that restrictions on loan risk should not impede the Fund's ability to take risks with grant money, as grants are not intended to be repaid and thus do not share the same risk qualities. One Board member said he could not accept the addendum as currently framed.
158. The CSO active observer stated that making the terms of outgoing concessional loans dependent on the terms of incoming concessional loan contributions puts the priority the wrong way around. He said there obviously needs to be consistency between inputs and outputs, but the terms on which outgoing loans and the proportion of grants are decided should be needs-based, for example in accordance with the need not to exacerbate country indebtedness.
159. Multiple Board members supported lending in local currencies, though they also discussed the corresponding need to manage exchange rate risks.
160. There was discussion on the setting of a minimum percentage for incoming funding from grants: Document GCF/B.07/05 refers to having at least 50 per cent of the Fund's incoming funding from grants. Two Board members recommended eliminating this lower bound while a CSO active observer advocated strengthening it.

161. The PSO active observer commended the paper but noted that it did not mention a role for the Private Sector Advisory Group (PSAG). She said that in the terms of reference for the PSAG, it was required to advise the Risk Management Committee and the Investment Committee.

162. The Board agreed not to form a small group on Monday, 19 May 2014, to discuss this matter. Instead, the Secretariat would make the following amendments:

- (i) Merge the draft decision (Annex I to document GCF/B.07/05) and the addendum (GCF/B.07/05/Add.1).
- (ii) Update the document, particularly the draft decision, based on the feedback from the Board.
- (iii) Prepare a note for the Board taking a position on blending (task of the Risk Management Committee).

163. The Co-Chairs resumed the agenda item in plenary on Monday, 19 May. The Secretariat circulated a draft decision text and addendum to the draft decision, with changes tracked, and briefed the Board on the modifications which had been made based on the input from the Board and consultation with the Risk Management Committee.

164. There was substantive disagreement on the separation of loans and grants with regard to the Fund's risk appetite. A Board member expressed fundamental concerns regarding the lower bound for grants and pooling of loan and grant contributions, a matter which had been discussed in plenary on Sunday 18 May 2014. Another Board member disagreed, arguing that the risk appetite for grants is infinite, which he said is not the case for loans. He supported a capital cushion or write-down of non-performing loans, and he clarified that loan providers would provide the capital cushion. A member of the Risk Management Committee said he shared the concern about pooling but supported the case for doing so. The same Board member raised some concerns about language. He pointed out that in Annex IV (GCF/B.07/05/Add.1), the current wording implied that the Board would not be able to approve funding proposals and requested that this be amended. This was supported by several other members.

165. Another member expressed concern at the concept of a stress test. After the Secretariat representative clarified that stress testing is part of a process to determine the Fund's risk appetite, the Board member suggested that the stress test should only be enacted after initial resource mobilization.

166. The Co-Chairs noted that as there was one major area of divergence among Board members, further consultations should take place. They also reminded members that the Board must move forward on the eight essential requirements to operationalize the Fund whilst keeping an eye on the implications.

167. The Co-Chairs resumed the agenda item the following day. A representative of the Secretariat explained the changes following extensive consultations and further discussions with the Risk Management Committee.

168. Two Board members raised concerns regarding the dual reporting line of the Risk Manager. Another expressed concern that the decision would pre-empt the consideration of financial terms and conditions at the eighth Board meeting.

169. Another member applauded the inclusion of wording relating to a zero tolerance approach to fraud by the Fund but requested that this be broadened to include moral hazard of intermediaries.

170. A Board member wanted to highlight that as a result of the approach taken to capital cushions in the decision, effectively a percentage of Fund resources would not be available for mitigation and adaptation. He asked what the Board would report to the world about the Fund's

overall contribution. The Co-Chair observed that compared to other funds such as the Climate Investment Funds (CIF) the degree of caution being recommended for the Fund concerning risk was much, much higher.

171. The Secretariat's representative then summarized the changes which would be made to the document following the interventions by Board members.

172. Noting no objections, the Co-Chairs confirmed that the Board had adopted the decision.

#### *DECISION B.07/05*

*The Board, having reviewed document GCF/B.07/05 Financial Risk Management Framework:*

- (a) Recognizes that the initial financial risk management framework focuses on the financial risk environment that the Fund will encounter in its operations;*
- (b) Adopts the Fund's initial financial risk management framework as contained in Annex XI and Annex XIII to this document;*
- (c) Takes note of the Fund's financial risk categorization and management as contained in Annex XII to this document;*
- (d) Decides that the risk monitoring and reporting management system listed in table 1 of Annex XI to this document will be made operational before the Fund approves funding proposals;*
- (e) Requests the Secretariat, in consultation with the Risk Management Committee, to prepare an analysis of the Fund's potential risk appetite under different key assumptions as part of its financial risk management framework. To this end:*
  - (i) The Secretariat to provide, as a first step, a survey of methodologies used by relevant institutions to define and determine their risk appetite, for consideration by the Board at the third Board meeting of 2014;*
  - (ii) The Secretariat, in consultation with the Risk Management Committee, to present at the first meeting after the Fund's initial resource mobilization a methodology for determining the initial risk appetite of the Fund, for approval of the Board; and*
  - (iii) The Secretariat to outline various scenarios, using the approved methodology, to support the Board in the setting of the Fund's initial risk appetite.*
- (f) Decides to annually consider undertaking a review of the initial financial risk management framework, and to have an in-depth review no later than three years after the initial capitalization of the Fund;*
- (g) Requests that the Risk Management Committee, as part of its work programme, expand its analysis beyond financial risks to address other risks that the Fund may encounter.*

## **B. Investment framework**

173. The Board considered document GCF/B.07/06 *Investment Framework*. A representative of the Secretariat introduced the document.

174. A representative of the Investment Committee introduced an update to the Board that contained information on the interpretation by the Committee of its terms of reference, the constituent parts of the initial investment framework, and the recommendations of the Investment Committee for points of discussion by a small group.

175. A central element of the subsequent discussion was the need to ensure the substantive consistency and coherence of the document with the other documents under discussion by the Board, as well as with the Governing Instrument.
176. Several Board members pointed out that many parts of the initial investment framework were already well elaborated, but that the investment guidelines, containing the activity-specific criteria for funding decisions, needed further consideration. Specific comments referred to the level of abstraction of the activity-specific criteria, the need for improved differentiation between the criteria for mitigation and adaptation funding proposals, and the question of how the criteria could assist in facilitating competition between the proposals. Other members expressed the need for the criteria to be clear and measurable and many suggested keeping them at a higher level of abstraction to facilitate agreement by the Board. One Board member stressed that it was important that the criteria reflect the high level of ambition of the Fund instead of being fleshed out in detail.
177. A concrete suggestion was made by a Board member on how to operationalize the competition between funding proposals. He recommended assessing funding proposals according to need, feasibility and quality, and proposed a scoring method for each of the three. Furthermore, he suggested categorizing countries into specific groupings, both under the adaptation and the mitigation funding themes, to ensure the fairness of the competition. His proposal was commended by other members, while some raised concerns regarding the country groupings.
178. A Board member requested that the definition of the criteria should be guided by the recent findings of the Fifth Assessment Report of the Intergovernmental Panel on Climate Change, particularly the criterion that defines the paradigm shift towards low-emission, climate-resilient development. Other Board members pointed to the need to better reflect gender considerations in the criteria.
179. A question was also raised regarding the criteria according to which private-sector proposals would be considered and whether there was a need for differentiation between them and public sector proposals. It was proposed that the PSAG recommendations would be taken into account in this regard.
180. One Board member pointed out that that neither private nor public sector proposals should be prioritized, particularly considering that countries are in different stages of development. The same Board member mentioned that highly-indebted countries should receive special attention to ensure that their debt sustainability is not destabilized.
181. On a more general level, one Board member emphasized that investment decisions by the Fund should not be guided by the terms that regular financial institutions adopt, but by its high-risk ambition in order to achieve the intended paradigm shift.
182. Regarding the document itself, a Board member pointed to the missing link between the document and the initial result areas as adopted in decision B.05/03, and suggested establishing that link between the investment strategy and the guidelines.
183. Two active observers from the private sector and civil society made statements on this agenda item. The civil society organization active observer emphasized that the decision criteria should ensure that proposals are well placed to facilitate the paradigm shift while contributing to sustainability at the same time. The private sector active observer thought the document was too conservative and suggested that the criteria should incentivize higher-risk activities that would be able to lead to the paradigm shift and that the readiness programme should enable countries to establish such investment environments.
184. The Board concluded that a small group be established to further discuss the initial investment framework and to subsequently report back to the Board. The four Board members

that were appointed to form the group were Mr. Irfa Ampri, Mr. Per Callesen, Mr. Norbert Gorissen and H.E. Min. Audrey Joy Grant. Other members were also invited to join the group.

185. The Co-Chairs reintroduced the investment framework element of this agenda item. They reminded participants that a meeting document on the investment framework was circulated to Board members as document GCF/B.07/06. The facilitator of the small group (Mr. Per Callesen) reported back on the work of the group.

186. The Board took note of the changes to the original document that had been proposed following the discussions of the small group. It was noted that the proposed changes helped to further operationalize the investment framework, but that further work was required.

187. Regarding the draft decision, it was proposed to include a request to the Investment Committee to work, with the support of the Secretariat, not only on the definition of activity-specific subcriteria, indicators and minimum benchmarks, but also on a methodology for applying them in decision-making. There were no objections to the proposal in principle. However, the recommendation of one Board member to include a weighting and scoring system for decision-making, which was supported by several others, was objected by some Board members.

188. On the overall investment framework, the most important concern related to the way in which the framework would actually guide the investment of the Fund. One Board member pointed to several parts of the framework that contained inconsistent language and was insufficiently clear to guide decision-making by the Board. Responding to this concern, the Co-Chair reminded Board members that the isolated consideration of one document currently under revision by the Board would not suffice to guide its decision-making; rather, all documents and their individual contribution to the Fund's business model needed to be considered.

189. Other major concerns related to the table 2 of document GCF/B.07/06 entitled "Initial criteria for assessing programme/project proposals". One of the concerns related to one of the coverage areas in the table. Several Board members opposed the inclusion of the income levels of the country and affected population, whereas others were strongly in favour. A suggestion was made to replace the word "income" by "development", and some Board members felt that the coverage area also needed to refer to the respective size or share of the affected population for which the income level would be considered. No agreement on the language was reached. Another Board member objected to the proposal to establish another coverage area, namely the contribution to low-carbon development pathways that are consistent with a temperature increase of less than two degrees. One Board member felt that the criterion on economic and financial viability (which had been created by merging the two criteria on economic efficiency and financial viability) required a coverage area on adaptation since the existing ones related predominantly to mitigation activities.

190. There was broad convergence that the suggested criteria and coverage areas were part of the Fund's initial investment guidelines and would therefore be revisited. Another overall comment on the need for consistency between the documents under preparation was reiterated.

191. It was agreed that the small group would reconvene to do further work on the document. After the small group had completed further work on the initial investment framework and intensive consultations among Board members had taken place, the draft decision was introduced for adoption by the Co-Chairs.

192. The changes to the previous version of the draft decision included revised language to introduce a weighting and scoring system to ensure competition among the funding proposals. Another change was the insertion of a reference to sufficient funding for readiness and

preparatory activities in the table on the investment strategy and portfolio targets (table 1 in document GCF/B.07/06) to ensure consistency with decision B.06/06. The criterion of “economic and financial viability” in table 2 of the same document had been replaced by “efficiency and effectiveness”, and language had been introduced in response to the concern that adaptation had not been covered sufficiently under this item.

193. Under the paradigm shift criterion, the coverage area of the overall contribution to low-carbon development pathways that are consistent with a temperature increase of less than two degrees had been amended to include the word “global” and it had been linked to the coverage area on “potential for scaling-up and replication” to read “potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than two degrees”. As no agreement had been reached on whether or not to include a coverage area referring to the income level of the country or affected population, this coverage area had been removed.

194. The subsequent discussion by the Board revealed further concerns regarding the text of the draft decision and the meeting was suspended several times for further consultations.

195. One Board member underlined that his understanding of the coverage area of “overall global contribution to low-carbon development pathways, consistent with a temperature increase of less than two degrees” was that it would not restrict the sources of energy to be used.

196. Some Board members still felt uncomfortable with the degree to which the initial investment framework intended to guide the investment decisions to be taken by the Board. The introduction to chapter III of document GCF/B.07/06, as well as the title of table 2 were, thus reformulated in order to ensure consistency with decisions B.06/06 and B.05/03 and to reinforce the notion that the investment strategy was an initial one that would be further developed with regard to the initial parameters and guidelines for the allocation of resources, the initial result areas and subsequent decisions on additional result areas for adaptation.

197. Regarding the coverage areas under the initial criteria for assessing project and programme proposals, Mr. Per Callesen reaffirmed his understanding that these referred to both mitigation and adaptation, both public and private activities, and both large-scale and small-scale activities.

198. A Board member made a request to ensure that the coverage area “overall global contribution to low-carbon development pathways, consistent with a temperature increase of less than two degrees” would not exclude small-scale mitigation projects and programmes.

199. A Board member underlined that there had been broad consensus in the small group as well as among a large number of Board members to have a weighting/scoring system in order to be able to compare approval proposals. He requested that such a system be part of the methodologies that the Investment Committee would be developing with the support of the Secretariat. Another proposal was made to not only request the identification of methodologies but to also compare them with each other in order to enable the Secretariat to assess the relative quality and innovativeness of comparable proposals in comparable circumstances.

200. A Board member also expressed his dissatisfaction with the removal of the “income level of the country and the affected population” as a coverage area and stated that the Board would come back to that issue when reviewing the framework. Another Board member underlined this statement and added that he would also like to see the size of population reflected in future. A Board member then insisted on including a coverage area that would reflect the differentiation of income between countries. After another suspension of discussion, the objecting Board member agreed to withdraw his request to include “income level of the country and the affected population” and to replace it by “economic and social development level of the country and the affected population”.

*DECISION B.07/06*

*The Board, having reviewed document GCF/B.07/06 Investment Framework:*

- (a) Adopts the initial investment framework of the Fund, as contained in Annex XIV;*
- (b) Decides that the Fund's initial investment framework will reflect the Fund's theme/activity-based resource allocation system as laid out in decision B.05/05;*
- (c) Requests the Investment Committee to submit the following for consideration to the eighth Board meeting, with technical support from the Secretariat and other stakeholders and taking into consideration recommendations from the Private Sector Advisory Group, before the Fund approves funding proposals:*
  - (i) Definitions for activity-specific sub-criteria and a set of activity-specific indicators, taking into account the Fund's initial investment framework, the Fund's initial result areas and initial results management framework, and decisions B.05/05, B.06/07 and B.05/03 as well as subsequent decisions on additional result areas for adaptation;*
  - (ii) Minimum benchmarks for each criterion, taking into account the best practices of other institutions;*
  - (iii) Identification and comparison of methodologies, that enable the Secretariat to assess the relative quality and innovativeness of comparable proposals in comparable circumstances, including through a survey, for the application of the sub-criteria mentioned in paragraph (c) (i) above in the selection of proposals;*
- (d) Requests the Secretariat to prepare a document for the eighth Board meeting that considers the additional support, expert advice and/or additional structures that are required to facilitate the work of the Secretariat in the assessment of proposals against the activity-specific criteria and the work of the Investment Committee;*
- (e) Decides to keep under review the initial investment framework and to take action as necessary in particular with respect to the criterion on needs of the recipient countries in the investment guidelines.*

## **Agenda item 10: Structure of the Fund, including the structure of its Private Sector Facility**

201. The Co-Chairs opened the agenda item.

202. A working document on the structure of the Fund and the Secretariat was circulated to Board members as document GCF/B.07/07.

203. The Executive Director of the Secretariat introduced document GCF/B.07/07 *Structure of the Fund and the Secretariat*. Members engaged in substantive discussions on this matter in response to the document as well as the draft decision presented therein.

204. Several members stated that the document and the decision on this matter need to clearly reflect and recognize the Private Sector Facility (PSF) as integral part of the Fund, as well as an elaboration of how the PSF relates to the other windows of the Fund, in the understanding that the PSF will evolve over time. In addition, several members highlighted the need for flexibility in the structure of the Fund to ensure the Fund's efficiency and make best use of synergies, and to reflect this in the decision. Suggestions were made to include provisions in the decision which make reference to the evolving nature of the Fund, especially with regard to the PSF, and that the decision would have to address how this evolving nature of the PSF would be addressed.

205. Further issues raised by members included one Board member highlighting the need to provide a clear understanding of the structure of the Fund in the document and proposed to include schematics on the governance of the Fund. Another member noted that the issue of decision-making in the context of absence of consensus was not adequately reflected. Another member asked for further clarification with regard to the urgent case process for the no-objection approval process of proposed decisions.. In this context, one member noted that there is still a need to establish guidelines for intersessional decision-making. One member also highlighted the need to ensure consistency across documents and to take into consideration the implications for other documents.

206. Furthermore, an issue raised by one Board member referred to the need to reflect the geographic balance of Secretariat staff, especially in senior positions, highlighting that developing country representation should be strengthened, and requested the Executive Director to provide information on how this geographic balance will be addressed in future employment processes.

207. The member also indicated that geographic and developing country balance should also be taken into consideration with regard to the expertise and experience of Secretariat staff, particularly with regard to practical experience on the ground. In response, the Executive Director provided information on the ongoing recruitment process and indicated that the Secretariat is in fact striving to achieve such balance, albeit not with regard to consultants, and indicated that this would be taken into consideration as of now.

208. A private sector active observer noted that the Chief Financial Officer role still needs to be clarified, for example in terms of reporting. Furthermore, the representative noted that the role of national designated authorities (NDAs) may need to be refined as, for example, they may prove useful in facilitating the in-country engagement of the PSF. The representative also referred to the recommendations of the Private Sector Advisory Group (PSAG) on using local implementing entities and intermediaries where possible in order to effect a behavioural change within intermediaries such as multilateral development banks (MDBs). The representative also made reference to the PSAG, which noted that structure is less important than efficient processes and rapid timelines. He furthermore highlighted the need for having a flexible structure in place, for example for the direct access of the private sector, and made the case for effective and appropriate delegation of the Board to the Secretariat and the Committees.

209. A civil society organization active observer stressed that the document did not address how the PSF relates to the other two funding windows. In addition, the representative indicated that more Secretariat staff with experience in environmental and social safeguards would be needed to fully address second level due diligence. She also asked for clarification on the roles and accountability of consultants and raised the issue that there are currently no developing country consultants involved in the work of the Secretariat. She added that the Secretariat should not just be driven by ex-staffers from multilateral organizations such as the World Bank. She also stated that, in order to achieve ownership, geographical balance and a multitude of competencies with regard to Secretariat staffing would be vital.

210. It was agreed that the Secretariat would revise the document based on consultations with various Board members.

211. The Co-Chairs resumed the item.

212. Based on consultations with Board members, the Secretariat revised document GCF/B.07/07/Rev.1 *Structure of the Fund and the Secretariat* in order to incorporate information on the adaptation and mitigation windows of the Fund, as well as on the PSF, as requested by Board members. In addition, Board members were presented with a revised draft

decision, including an additional paragraph with two options, as well as an addition to the annex to the draft decision. Based on this, the Board approved the following decision:

*DECISION B.07/07*

*The Board, having reviewed document GCF/B.07/07/Rev.01 Structure of the Fund and the Secretariat:*

- (a) Takes note of the document GCF/B.07/07/Rev.01 Structure of the Fund and the Secretariat;*
- (b) Affirms the structure of the Fund and the Secretariat as reflected in the Governing Instrument, and the decisions of the Board and the Conference of the Parties listed in Annex XV;*
- (c) Decides to undertake a review of the structure of the Fund and the Secretariat, no later than three years after the initial resource mobilization of the Fund;*
- (d) Recognizes that the structure of the Fund, including that of the Private Sector Facility (PSF), is evolving. In this regard, the Board will fully implement decision B.04/08 on the PSF and decision B.04/09 on the structure and organization, taking into consideration the recommendations of the Private Sector Advisory Group on enhancing the structure of the PSF.*

## **Agenda item 11: Initial modalities for the operation of the Fund's mitigation and adaptation windows and its Private Sector Facility**

213. The Co-Chairs opened the agenda item.

214. Agenda item 11 was taken up in plenary for the first time on 19 May 2014. The Secretariat presented document GCF/B.07/08 to Board members. Members engaged in discussions based on the document prepared by the Secretariat, as well as the draft decision contained therein.

215. Various members noted that, in light of the evolving nature of the Fund, the identification of initial modalities was a very difficult task.

216. Similar to the discussions surrounding the structure of the Fund, various members raised concerns about the lack of information on the Private Sector Facility (PSF) and indicated that the PSF would have to be reflected in the document and the decision regarding initial modalities, including information on how the PSF will initially operate. It was made clear by several members that clarity on how to operationalize the PSF would be essential in order to conclude that the eight essential requirements have been met.

217. In this context, several Board members indicated that the first report of the Private Sector Advisory Group (PSAG) and the recommendations contained therein constituted a useful starting point for the Board to identify the initial modalities of the PSF. Some members made explicit reference to recommendations 3, 11, 12 (c), (d), (e) and (f), and 13, as well as Annex V to the report of the PSAG, indicating that it would be important to operationalize some of the recommendations. Several members made reference to the need to identify further work to be conducted by the PSAG in this regard, for example producing documents for the next meeting of the Board.

218. One Board member indicated that the following three elements should be taken into account when taking a decision on the initial modalities:

- (a) The modalities of the PSF are to be further developed in line with the recommendations of the PSAG, including modalities for mobilization at scale;
- (b) Particular access modalities are essential, especially special financing instruments and vehicles for the PSF; and
- (c) The PSAG is to make recommendations to the Board on those issues for the eighth meeting.

219. However, one Board member raised concerns about utilizing recommendations from the PSAG report in light of the late issuance of the report, stating that he would have to consult domestically before being able to take decisions on those recommendations. In this context, another member clarified that the PSAG report had in fact been sent out to all members one week in advance of the meeting, albeit in the form of an informal document.

220. Another Board member highlighted that various PSF-related decisions had already been taken, for example with regard to the decision on allocation B.06/6, and that it would be important to ensure that the approval process is in compliance with the PSF-related decisions on allocation, among other things.

221. A Board member indicated that the decision on initial modalities could also address remaining grey areas, such as clarification on the interaction of the Fund with the implementing entities (IE) and intermediaries. A suggestion was made by this member to mandate the Secretariat to approach the IEs and the intermediaries in order to identify major pipelines of work.

222. With regard to the draft decision presented in the document, a Board member indicated that the initial modalities should not be reviewed, as proposed in the document, but should rather be revised. In addition, the member indicated that the timeline for this revision should not be three years, but rather one to two years after the staffing of the Secretariat and the preliminary operationalization of the Fund.

223. Another Board member indicated that in order to meet the essential requirements, it would be important to concentrate on minimum changes and that he would rather alter the document and decision relating to initial modalities than the relevant document regarding the structure of the Fund.

224. A private sector active observer highlighted that the document prepared by the Secretariat did not accurately reflect the decision that was made by the Board on the development of the PSF. This observer stated that some of the recommendations contained in the PSAG report would be useful to develop minimum modalities of how the PSF can be different from that of other institutions and therefore attract more financing. Furthermore, he recommended to either include PSAG recommendations in the decision on initial modalities (decision B.07/08), or at least make reference to the recommendations in that decision.

225. It was agreed to suspend the agenda item and that the Co-Chairs would consult with three Board members on the issue of the PSAG recommendations.

226. A Board member suggested that the Board should allow IEs and intermediaries to develop work programmes which would list the activities per country that they intend to submit to the Board, including estimates of cost and climate impact. The role of Secretariat would be to consolidate the activities listed in the submitted work programmes, with a view to informing the Board of geographic distribution, the balance between adaptation and mitigation, as well as an estimate of the resources that would be needed.

227. The facilitator of the small group, Mr. Rod Hilton, explained the changes that had been made to the draft decision and stated that he believed it was ready for adoption.

228. There were no objections, and after a slight formatting edit, the decision was adopted.

*DECISION B.07/08*

*The Board, having reviewed document GCF/B.07/08 Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility:*

- (a) Takes note of document GCF/B.07/08;*
- (b) Affirms the initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility (PSF) as reflected in the Governing Instrument, and the decisions of the Board and of the Conference of the Parties to the United Nations Framework Convention on Climate Change listed in Annex XVI;*
- (c) Recognizes that the mitigation and adaptation windows and the PSF are integral components of the Fund that will evolve over time;*
- (d) Decides to undertake a review of the initial modalities for the operation of the Fund's mitigation and adaptation windows and the PSF, no later than three years after the initial resource mobilization of the Fund;*
- (e) Decides that the Board, in line with decision B.04/08, will consider at its eighth meeting further work on the modalities of the PSF, including:*
  - (i) Modalities for mobilizing private sector resources at scale by the PSF and the use of other financial instruments, including guarantees and equity investment;*
  - (ii) The first report and recommendations of the Private Sector Advisory Group (PSAG);*
- (f) Requests the PSAG to provide advice on the implementation of decision B.04/08 for consideration at the eighth meeting of the Board, with a focus on:*
  - (i) Modalities to promote participation of private sector actors in developing countries, in particular local actors, including small and medium-sized enterprises and local financial intermediaries in small island developing States, least developed countries and Africa, and with a special emphasis on adaptation;*
  - (ii) Modalities and instruments to mobilize private resources at scale including through special financing vehicles or instruments, including risk mitigation instruments.*

## **Agenda item 12: Confirmation of the completion of the essential requirements and the commencement of the initial resource mobilization process**

229. The Co-Chairs opened the agenda item.

230. A document on the confirmation of the completion of the essential requirements and the commencement of the initial resource mobilization process was circulated to Board members as document GCF/B.07/09 *Confirmation of the Completion of the Essential Requirements and the Commencement of the Initial Resource Mobilization Process*. A representative of the Secretariat introduced the document and several Board members expressed strong support for it, although a number of concerns were also raised.

231. Many members highlighted the need for speed, simplicity and efficiency in the initial resource mobilization process, as well as a common sense of urgency for its initiation and the importance of showing the necessary ambition. However, several members acknowledged that there may be trade-offs in order to ensure speed and efficiency. In addition, several members highlighted that the credibility of the Fund would also depend on a successful initial resource mobilization process.

232. Several members called for an inclusion of the scale of ambition of the process and a minimum figure for contributions while making reference to the various decisions taken by the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change in this regard and under special consideration of the US\$ 100 billion goal. This was specifically raised by several Board members, also in the context of the report of the Fund to the COP at its twentieth session (COP 20), indicating that the Fund would have to provide concrete information related to the process. In this context, one member stated the Fund will be the key channel for the US\$ 100 billion.

233. Various members raised concerns about the role of the Board in the process, highlighting the need to clarify the role of the Board and avoid a disempowerment of the Board vis-à-vis the contributor group. In this context, several members raised concerns that the Board would be excluded from decision-making with regard to policies on contribution arrangements.

234. A member stated that recipient countries should also be allowed to make recommendations on the process. This was countered by a Board member who stated that the Board cannot pre-define such policies. The Board member stated that such discussions would have to take place at a meeting of the contributors, but that it would be in the interest of everybody to maintain the safeguards of the Fund. This was echoed by another Board member, who stated that discussions on, for example, the distribution between grants and loans would have to be conducted among contributors. Several members suggested ensuring that the Board remain in control of the process by clearly assigning a number of Board members and the Co-Chairs to actively participate in the process.

235. In addition, a few members noted the need to ensure the involvement of non-contributor participants as well as non-State contributors, such as philanthropic organizations and non-governmental organizations, highlighting the importance of such actors. Suggestions were made by a few members on how such participation could be structured in order to ensure regional participation. One member emphasized the importance of taking a streamlined approach to the participation of representatives.

236. Several Board members called for a clarification of the minimum contribution indicated in the document. The Secretariat clarified that this was a compromise suggestion based on, for example, the model of the Global Environment Facility. Several members disagreed with the amount of the minimum contribution listed in the document, stating that it could, for example, discourage willing contributors that are not in a position to meet the minimum but which may still want to make a contribution to the Fund. A suggestion was made in this context by one member to allow for the payment of contributions in tranches to facilitate broader engagement. However, other members said that the amount stated in the document prepared by the Secretariat was too low and that it should be significantly higher.

237. Another issue which was raised by many Board members was the need to identify a clear and urgent timeline for the initial resource mobilization process for the Fund, separate from the subsequent replenishment process. In this regard, a few members identified COP 20 as the milestone for the completion of the initial resource mobilization process. Other members indicated that an endpoint for the initial resource mobilization process is difficult to define, and also that the timeline as set in the document for the first meeting to take place in June is unrealistic.

238. Board members disagreed with regard to the involvement of an eminent person in the process, albeit many members indicated that it would be a valuable addition to involve, after careful consideration, a person with convening power. In this context, one member mentioned that the Climate Summit to be held by the United Nations Secretary-General in New York in September would be a good opportunity to organize a high-level pledging session for the Fund.

239. Several members highlighted the need to actively involve the private sector in the process and stated that this would have to take an efficient approach.
240. In addition, it was mentioned by a few members that looking at best practices may be useful in ensuring that the Fund will take an innovative approach. The issue of partnership was also highlighted by several members.
241. A Board member also indicated that the legal nature of the initial resource mobilization process will have to be clarified, including the date of effectiveness. In addition, the member noted that a link between inputs and instruments would have to be established and that there is a need for ambition and innovativeness. Another member stated that the process does not set a precedent for subsequent replenishments, and another member stated that there is a clear difference between the process and formal replenishment. Concerns were also raised about the envisaged allocation of Secretariat staff to the process. Furthermore, another member stated that rather than referring to pledging, it would be more suitable to refer to the initial capitalization of the Fund. With regard to the involvement of the Interim Trustee, a member noted that there may be a need for further budget contributions to the Interim Trustee if it is to be involved.
242. With regard to contributions, a Board member highlighted that there needs to be a sense of ownership and fairness, especially in light of a lack of distribution among key contributors.
243. A civil society organization active observer spoke on behalf of the poor and the world, indicating that there is urgent need for an initial resource mobilization process that shows the size and scale of ambition in order to maintain the credibility of the Fund. The representative said that achieving initial resource mobilization before COP 20 is essential to meet the commitments taken under the Convention. Furthermore, she raised concerns about the privileged role of contributors and the role of the Interim Trustee, and called for the active involvement of CSOs in the initial resource mobilization process.
244. It was agreed that the Secretariat would amend the document based on the feedback received from Board members and in close consultation with Board members.
245. Mr. Zaheer Fakir and Mr. Henrik Harboe were requested by the Co-Chairs to conduct work on this agenda item in a small group setting. The two facilitators presented a draft decision to the Board after consulting with the members of the small group based on a revised draft decision provided by the Secretariat. Responding to various questions, the Secretariat clarified that funding is available to finance the activities envisaged with regard to the initial resource mobilization process for the moment.
246. Following the discussion, the Board adopted the following decision:

*DECISION B.07/09*

*The Board, having reviewed document GCF/B.07/09 Confirmation of the Completion of the Essential Requirements and the Commencement of the Initial Resource Mobilization Process:*

- (a) *Decides that the eight essential requirements for the Fund to receive, manage, programme and disburse financial resources, as listed in Annex XXII of the decision B.05/17, have been met;*
- (b) *Takes note that the policies, frameworks and procedures of the Fund are evolving and may need to be further enhanced;*
- (c) *Decides to commence the process to mobilize resources commensurate with the Fund's ambition to promote the paradigm shift towards low-emission and climate-resilient*

- development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change;*
- (d) *Requests the Secretariat to make arrangements with all interested contributors, facilitating a collective engagement in the initial resource mobilization process as agreed in decision B.05/17;*
- (e) *Stresses the urgency to reach pledges by November 2014, while noting that the initial resource mobilization process may need to continue beyond this date;*
- (f) *Endorses the arrangements for a collective engagement in the initial resource mobilization process, as contained in Annex XVII;*
- (g) *Decides that the Board will consider the policies for contributions based on recommendations from the first meeting of interested contributors;*
- (h) *Requests the Interim Trustee to provide support, as part of its function to administer the Green Climate Fund Trust Fund, to the Secretariat on:*
- (i) *The preparation of a template for legal arrangements for contributions to the Fund for consideration by the Board;*
- (ii) *Other relevant financial management issues as agreed between the Secretariat and Interim Trustee;*
- (i) *Authorizes the Executive Director to confirm with the Interim Trustee the scope of Interim Trustee support, as referred to in paragraph (h).*

### **Agenda item 13: Outstanding issues**

247. The Co-Chairs introduced the item and confirmed that the Board, in consultation with constituencies and civil society organizations, had decided to focus this meeting on the essential requirements, including the commencement of resource mobilization, and to put all the other items under a separate but active item within the agenda to be called “Outstanding issues”. Board members were reminded that comments during the discussion and adoption of the agenda concluded with an agreement to discuss outstanding issues listed in the footnote of the agenda.

248. The Executive Director was invited to update the Board on the Secretariat workload.

249. Ms. HÉla Cheikhrouhou informed the Board of the number of activities being requested. She outlined these as follows: the agenda item 2 footnote, the 2014 work plan and decisions taken at the seventh meeting in Songdo. As a result of decisions taken at the meeting, those already approved in the 2014 work plan and the footnote items, there was a Secretariat requirement to prepare 37 documents for the eighth meeting. She noted that in parallel with this, the Secretariat would be supporting national designated authorities and the initial resource mobilization process. It would also be building institutional capacity and system acquisition. Ms. Cheikhrouhou asked that the Co-Chairs streamline the workload for the Secretariat for the eighth Board meeting.

250. Two Board members proposed Co-Chairs consulting with their constituencies to establish priorities in this list. After some further discussion the Board approved the following decision:

#### *DECISION B.07/10*

*The Board, having considered the workload of the Secretariat between the seventh and eighth meeting of the Board:*

*Requests the Co-Chairs to determine the priorities for the agenda of the eighth Board meeting in consultations with their constituencies, taking into account the outstanding issues listed in the footnote of document GCF/B.07/01/Rev.01, the work plan of the Board adopted in decision B.05/19, and the mandates emerging from the decisions adopted at its seventh meeting.*

## **Agenda item 14: Date and venue of eighth Board meeting**

251. The Co-Chairs introduced the agenda item.

252. Mr. Patrick McCaskie expressed the interest of the Government and the people of Barbados in hosting the eighth meeting of the Board and was optimistic that a firm offer would be submitted to the Co-Chairs and the Secretariat in the days following the seventh meeting.

253. He confirmed that Barbados would be able to organize the meeting on the changed dates of 15 to 17 October 2014 in order not to coincide with the meeting of the Ad Hoc Working Group on the Durban Platform scheduled for the following week.

254. The Board adopted the following decision:

### *DECISION B.07/11*

*The Board:*

*Decides that its third meeting in 2014 will take place in Barbados from 15 to 17 October 2014.*

## **Agenda item 15: Status of resources**

255. The Co-Chairs introduced the agenda item.

256. A representative of the Secretariat introduced document GCF/B.07/Inf.03. A representative of the Interim Trustee introduced document GCF/B.07/Inf.04 and provided a verbal update of financial events and changes in total funds available since the last financial reporting period (i.e. after 31 March 2014).

257. Mr. Buisse confirmed that the Government of France would be signing a contribution agreement for EUR 1 million for the administrative budget of the Fund shortly after the conclusion of the current meeting.

258. The Board took note of documents GCF/B.07/Inf.03 and GCF/B.07/Inf.04.

## **Agenda item 16: Other matters**

### **A. Election of Co-Chairs**

259. The Co-Chairs introduced the sub-agenda item on the election of Co-Chairs and invited the Board member who had raised the issue to present the topic.

260. The Board member reminded the Board that, as the tenure of the membership of some of the Board members from developing countries would terminate by the end of August, the developing country constituencies must select their new Board members in order to facilitate the election of the Co-Chair from a developing country in time for the eighth meeting of the Board in October.

261. The Co-Chairs thanked the Board member and confirmed that no action was needed at the present time.

262. The Board took note of the clarification provided by the Board member on this matter.

## B. Representation of Board membership

263. The Co-Chairs introduced the agenda sub-item.

264. The Co-Chairs reminded the Board that this agenda item addressed the question raised by a Board member regarding whether Board members should be identified during Board meetings as representatives of countries or constituencies, or in their personal capacity.

265. As this Board member was no longer present at the time the item was addressed, the Co-Chairs agreed to defer consideration of the matter to the eighth meeting of the Board.

266. The Board adopted the following decision:

### *DECISION B.07/12*

*The Board:*

*Decides* to consider the representation of Board membership at its eighth meeting.

## C. Implementation of elements of the administrative policies

267. The Co-Chairs introduced the agenda sub-item.

268. The Co-Chairs reminded the Board that Mr. Henrik Harboe had raised the matter of the implementation of elements of administrative policies.

269. Mr. Harboe explained that Board members had, following decisions taken at the sixth meeting of the Board, raised concerns as to the interpretation of administrative policy, and in particular the Secretariat's flexibility in defining the remuneration of the directors currently being recruited. He reported that the Board members in question had since received clarification from the Secretariat, both before and during the seventh meeting. The same Board members had communicated their views on the extent of this flexibility, and they appreciated the efforts of the Secretariat in clarifying the matter. Mr. Harboe added that he and the other Board members would continue to communicate with the Secretariat on this matter.

270. The Secretariat informed Board members that it had drafted a written explanation on the process of recruitment and the process of document preparation in response to a request from the Board made during the discussion of agenda item 4 (b). The Co-Chairs informed the Board that, owing to the need for acknowledgement of receipt and the sensitivity of the subject matter with regard to Secretariat staff, the letter would be distributed to Board members via email following the meeting.

## **Agenda item 17: Report of the meeting**

271. Following a comment by a Board member that recalled the approach taken at the fifth meeting of the Board, the Co-Chairs informed the Board that the document containing the decisions adopted by the Board during the meeting (document GCF/B.07/Drf.01 *Decisions of the Board – Seventh Meeting of the Board, 18 - 21 May 2014*) and the draft report of the meeting (document GCF/B.07/Drf.02 *Draft Report of the Seventh Meeting of the Board, 18-21 May 2014*) would be circulated to the Board electronically. Board members will be asked to provide

comments on the draft report that will be submitted for adoption at the beginning of the next Board meeting.

### **Agenda item 18: Closure of the meeting**

272. The Co-Chair asked the Board to recall that at the opening plenary of the Board meeting on 18 May 2014 under agenda item 3, one Board member made comments about decision B.05/20 and B.06/01 concerning the inclusion of more detailed tables in Annex XXIII of the report of the fifth meeting of the Board.

273. This had now been reflected under agenda item 3.

274. Board member Mr. Per Callesen requested the floor to make some farewell remarks on the occasion of his last meeting as a Board member. He was warmly thanked by Board members and Co-Chairs for his contribution to the establishment of the Fund.

275. The meeting was closed on 21 May 2014.

## Annex I: Initial guiding framework for the Fund's accreditation process

### I. General objective

1. The general objective of this guiding framework is to enable a coherent integration of the Fund's fiduciary principles and standards and environmental and social safeguards with the Fund's accreditation process and its related operational systems and procedures, including the organizational structure and governance system dedicated to supporting it.

### II. Guiding principles for the accreditation process of the Fund

2. The guiding principles for the Fund's accreditation process will consist of:
- (a) **Best practices and continuous update:** The Fund's fiduciary principles and standards and environmental and social safeguards will be consistently in line with international best practices and standards, and systematically endeavor to reflect the best of the experience and lessons learned by relevant institutions, as well as lessons learned from its own experiences with fiduciary principles and standards and environmental and social safeguards;
  - (b) **Accountability, transparency, fairness and professionalism:** Its governance system, procedures and organizational approach will ensure accountability, transparency, fairness and adequate professionalism in the accreditation process and across all operational procedures, allowing for reasonable levels of assurance and comparability with regard to the presence and performance of the required institutional capacities;
  - (c) **A dynamic process that is reliable, credible and flexible:** Its modalities will pursue rigorous, independent, objective and systematic assessment and review processes, while giving due attention to special circumstances of applicant entities. A dynamic accreditation process will aim at enabling potential entities to increase their scope of activities as their capacity increases over time;
  - (d) **Coherence and integration with other relevant provisions of the Fund:** The Fund's fiduciary principles and standards, environmental and social safeguards, and general accreditation procedures will be consistent and properly linked with other relevant elements of the Fund's governance, particularly the Fund's independent redress mechanism, interim disclosure policy, gender policy and others as appropriate; and
  - (e) **Readiness and effectiveness:** The accreditation process will allow for readiness and preparatory support in the context of direct access and the different capacities and capabilities of countries and institutions to enhance country ownership, with a view to facilitating capacity-building.

### III. Fund's initial fiduciary principles and standards

3. The Fund's fiduciary principles and standards will distinguish between basic fiduciary criteria and specialized fiduciary criteria, which will reflect the institutional capacities necessary to deliver against the Fund's objectives and in accordance with the scope of responsibilities entrusted to the implementing entity (IE) or intermediary.

4. In this initial phase of the Fund’s operations, the Fund’s initial fiduciary principles and standards will distinguish between basic and specialized fiduciary standards as illustrated in the table below:

**Table: Purpose and scope of the basic and specialized fiduciary standards**

	Purpose	Scope
Basic fiduciary criteria	Key administrative and financial capacities	<ul style="list-style-type: none"> <li>• General management and administrative capacities</li> <li>• Financial management and accounting</li> <li>• Internal and external audit</li> <li>• Control frameworks</li> <li>• Procurement</li> </ul>
	Transparency and accountability	<ul style="list-style-type: none"> <li>• Disclosure of conflicts of interest</li> <li>• Code of ethics</li> <li>• Capacity to prevent or deal with financial mismanagement and other forms of malpractice</li> <li>• Investigations</li> <li>• Anti-money laundering and anti-terrorist financing</li> </ul>
Specialized fiduciary criteria	Project management	<ul style="list-style-type: none"> <li>• Project preparation and appraisal (from concept to full funding proposal)</li> <li>• Project oversight and control</li> <li>• Monitoring and evaluation</li> <li>• Project-at-risk systems and related project risk management capabilities</li> </ul>
	Grant award and/or funding allocation mechanisms	<ul style="list-style-type: none"> <li>• Grant award procedures</li> <li>• Transparent allocation of financial resources</li> <li>• Public access to information on beneficiaries and results</li> <li>• Good standing with regard to multilateral funding (e.g. through recognized public expenditure reviews)</li> </ul>
	On-lending and/or blending	<ul style="list-style-type: none"> <li>• Appropriate registration and/or licensing by a financial oversight body or regulator in the country and/or internationally, as applicable;</li> <li>• Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;</li> <li>• Creditworthiness;</li> <li>• Due diligence policies, processes and procedures;</li> <li>• Financial resource management, including analysis of the lending portfolio of the intermediary;</li> <li>• Public access to information on beneficiaries and results;</li> <li>• Investment management, policies and systems, including in relation to portfolio management;</li> <li>• Capacity to channel funds transparently and effectively, and to transfer the Fund’s funding advantages to final beneficiaries;</li> <li>• Financial risk management, including asset liability management;</li> <li>• Governance and organizational arrangements, including relationships between the treasury function and the operational side (front desk).</li> </ul>

5. The Fund's fiduciary principles and standards will form the fiduciary criteria of the Fund to assess IEs and intermediaries for accreditation to the Fund, and will be applied according to the fit-for-purpose accreditation approach. Once accredited, IEs and intermediaries will be required to fully meet these criteria for as long as the entity intends to retain its accreditation status with and commitments to the Fund.
6. Annex II contains the Fund's initial fiduciary principles and standards.

#### **IV. Environmental and social safeguards**

7. The Fund will adopt, on an interim basis, the environmental and social Performance Standards (PS) of the International Finance Corporation (IFC). These will be used by the Fund in combination with the IFC's Guidance Notes, which provide more detail on each PS, until the Fund's own environmental and social safeguards (ESS) are fully developed.
8. Once the Fund has built up a track record of experience and lessons learned, an in-depth review will be conducted, including benchmarking against recently updated regional bank standards, the updated World Bank Safeguards (anticipated), and experience in implementing the Adaptation Fund principles. This review will aim at completing the process of developing the Fund's own ESS, which will build on evolving best practices, within a period of three years after the Fund becomes operational.
9. In addition, observations from the Independent Evaluation Unit and with the independent redress mechanism will be taken into account in the development of the Fund's own ESS.
10. The interim ESS contain the requirements that, in cases where there may be environmental and/or social impacts, accredited entities must ensure are implemented by executing entities in relation to activities supported financially by the Fund.
11. The Fund ESS will be applied to all projects, as well as individual projects or activities within a programme, to be funded by the Fund.
12. The package consists of eight standards with the first one, Performance Standard 1: Assessment and Management of Environmental and Social Risks, applying to all funding proposals.
13. Performance Standard 1 establishes the importance of:
  - (a) Integrated assessment to identify the environmental and social impacts, risks and opportunities of funding proposals;
  - (b) Effective community engagement through the disclosure of project-related information and consultation with local communities on matters that directly affect them; and
  - (c) The accredited entities' management of environmental and social performance throughout the life of the funding project or programme.
14. Performance Standards 2 through 8 establish objectives and requirements to avoid and minimize and, where residual impacts remain, compensate/offset the risks and impacts to workers, affected communities and the environment. While all relevant environmental and social risks and potential impacts should be considered as part of the assessment, Performance Standards 2 through 8 describe potential environmental and social risks and impacts that require particular attention.
15. PS 2–8 will be utilized in a modular way as needed. Where environmental or social risks and impacts are identified, the accredited entity is required to manage them in accordance with the Fund's ESS through the relevant executing entity(ies).

16. The IFC's PS and Guidance Notes will also serve as the basis for the development of the Fund's own ESS.

## 4.1 Scaled risk-based approach

17. The application of the Fund's interim ESS will be implemented in a risk-based manner and not in a blunt, one-size-fits-all approach. This approach will ensure that environmental and social requirements and processes are commensurate to their level of risk and, coupled with the modular application of the Fund's interim ESS, will not slow down or overburden low- to no-risk projects.

18. This approach also provides the Fund with a tool for quickly judging exposure to environmental and social risks, both at the individual project level as well as the portfolio level.

19. IEs and intermediaries accredited to the Fund will have the capacity and a system for screening funding proposals in order to identify the potential environmental and social risks and/or impacts and to determine if any potential inconsistencies with the Fund's interim ESS are insurmountable and/or not manageable over a reasonable period of time.

20. Funding proposals will thus fit into the following categories:

- (a) Category A: Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (b) Category B: Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures;
- (c) Category C: Activities with minimal or no adverse environmental and/or social risks and/or impacts;

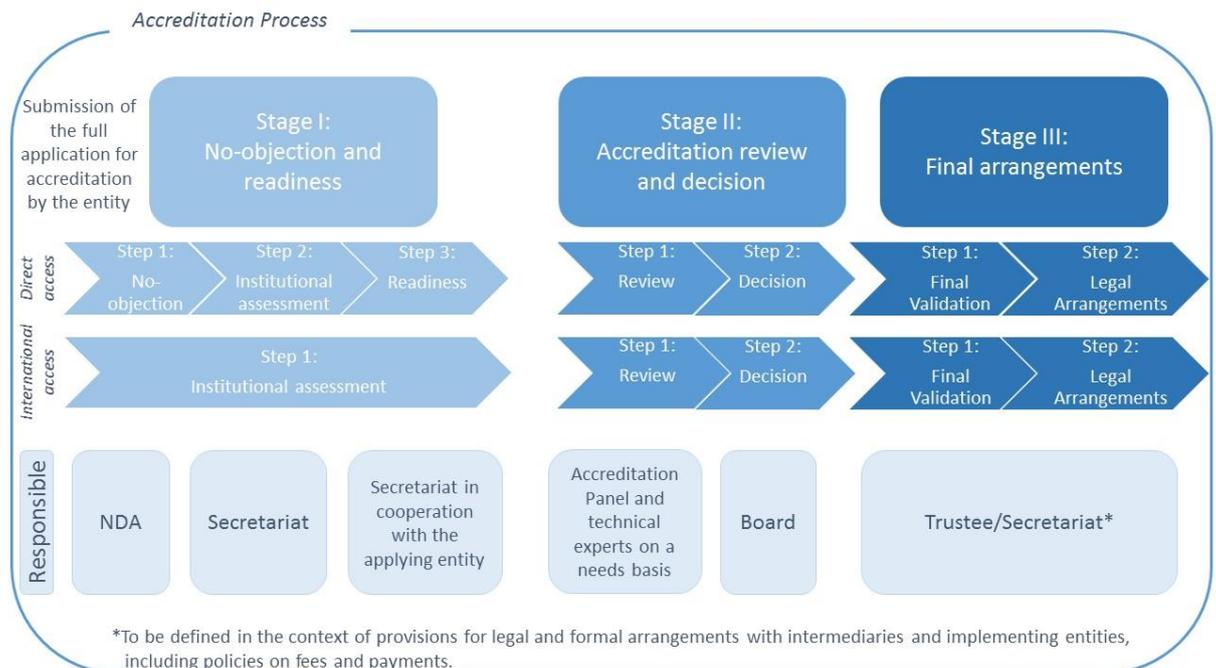
21. Category for intermediation: activities involving investments through financial intermediation functions or through delivery mechanisms involving financial intermediation, and are divided into the following three levels of risk:

- (a) High level of intermediation – I1: When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (b) Medium level of intermediation – I2: When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented;
- (c) Low level of intermediation – I3: When an intermediary's existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts.

22. Additional guidance will be developed for accredited entities on how to categorize projects.

## V. Accreditation process

23. The Fund's accreditation process will be based on three main stages:
- Stage I: No-objection and readiness;
  - Stage II: Accreditation review and decision;
  - Stage III: Final arrangements.



**Figure 1: Overview of the accreditation process**

24. The Fund will accept and review applications on a rolling basis. Applicant entities will submit their application in accordance with operational procedures to be developed by the Secretariat in consultation with the Accreditation Committee and Panel. Applicant entities will also have to include a communication indicating no-objection from the relevant national designated authority/focal point, if applicable.

### 5.1 Stage I: No-objection and readiness

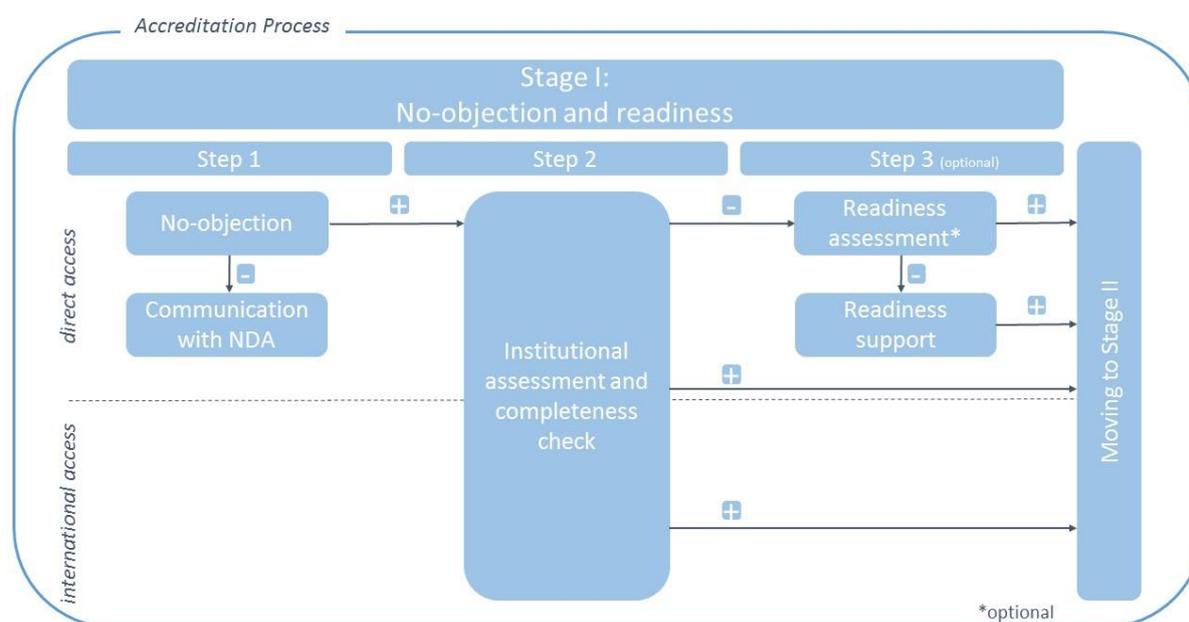
25. The overall purpose of this stage is to determine whether applicant entities show sufficient preparedness and institutional capabilities to progress to stage II in the accreditation process of the Fund.

26. Two tracks are envisioned: one applicable to direct access (for subnational, national and regional entities) and the other applicable to the international access (for international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions).

27. Stage I will be triggered by the submission of a full application by the applicant entity. This stage may follow one of two tracks:

- Direct access track (for subnational, national and regional applicant entities);

- (b) International access track (for international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions);
- (c) In the case of the direct access track, two mandatory steps will apply ('no-objection' and 'institutional assessment and completeness check') and one optional third step ('readiness').
28. In the case of the international access track, entities will only be required to go through the 'institutional assessment and completeness check'.



**Figure 2: Overview of Stage I of the Accreditation Process**

29. The main purpose of the 'institutional assessment and completeness check' step is to ensure that applications are properly submitted with all the necessary information and that they comply with criteria such as legal status and mandate, institutional track record, alignment with the Fund's objectives and guiding principles.
30. The 'institutional assessment and completeness check' step will look at:
- (a) **Legal status:** The applicant entity has full legal capacity within the relevant jurisdiction that enables it to undertake the intended activities to be funded by the Fund and to become an accredited entity of the Fund;
- (b) **Registration, permits and licenses:** The applicant entity possesses all necessary, relevant and applicable registrations, permits or licenses in good standing from national and/or international regulators or oversight bodies;
- (c) **Track record:** The applicant entity exhibits a consistent and positive track record in the context of its own institutional mandate, as well as in areas relevant to the Fund's objectives and initial results areas;
- (d) **Institutional presence and relevant networks:** The applicant is able to demonstrate potential for meaningful impact in one or more of the Fund's initial result areas, and has at its disposal networks of relevant institutions and experts at the regional and national level, as appropriate;

(e) **Readiness:** The applicant entity is able to describe succinctly how it meets the Fund’s initial basic fiduciary standards and applicable initial specialized fiduciary standards, as well as demonstrate that it has the capacity and commitment to implement the Fund’s ESS.

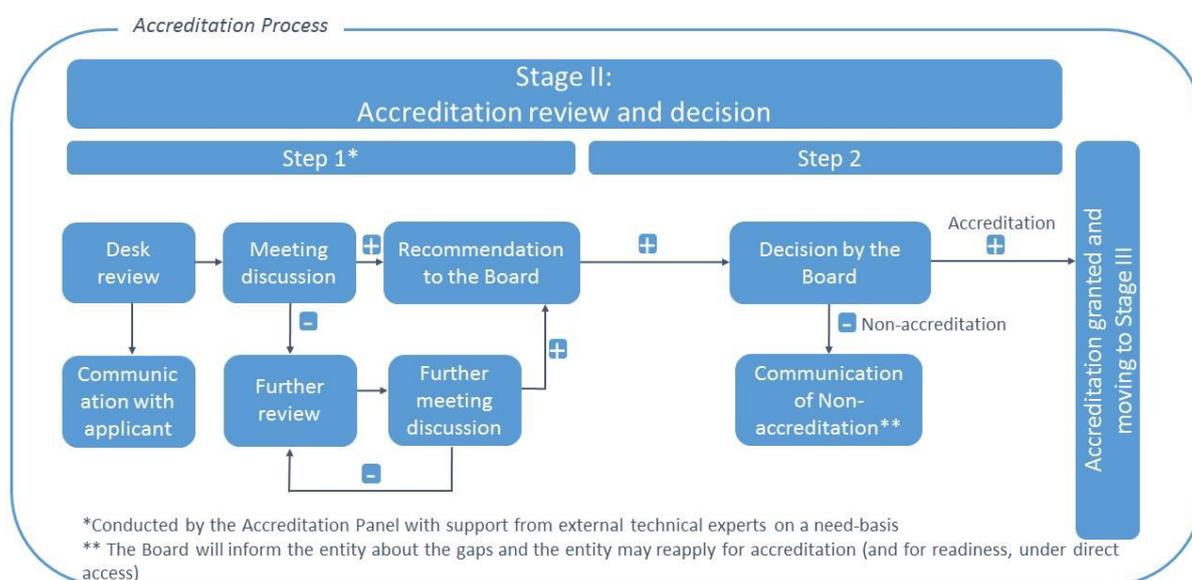
31. In the context of direct access, and in cases where weaknesses or a lack of capacity to meet the criteria above is determined, the applicant entity will be eligible to opt for a personalized readiness and preparatory support activity plan.

32. The operational details of these readiness and preparatory support activities for accreditation will be further elaborated and will also be included in the Fund’s Detailed Work Programme on Readiness and Preparatory Support.

33. The Secretariat will be responsible for the overall coordination and management of this stage as well as for conducting the screening and institutional assessment based on the criteria above.

## 5.2 Stage II: Accreditation review process and decision

34. The objective of this stage is to conduct the actual review of the applications for accreditation submitted by the interested entities, with a view to determining their suitability for accreditation to the Fund. This process will consist of two main steps: the review of the application for accreditation to be conducted by the Fund’s Accreditation Panel, and the decision on the application, to be made by the Board on the basis of the outcome of the review and recommendation of the Accreditation Panel.



**Figure 3: Overview of Stage II of the Accreditation Process**

### 5.2.1 Stage II – Step 1: Review of the application for accreditation

35. This step in stage II will ascertain whether applicant entities:

- (a) Meet the Fund’s applicable initial basic fiduciary standards and applicable initial specialized fiduciary standards; and
- (b) Have the capacity to manage relevant environmental and social risks in line with the Fund’s interim ESS and scaled risk-based approach.

36. The accreditation process will examine, where applicable and in line with the Fund's interim ESS, the robustness of the applicant's ESMS.

37. A fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the Fund's initial fiduciary standards and interim ESS will be elaborated. This approach will define the appropriate application of the criteria in paragraphs 35 and 36 above.

38. The Fund's Accreditation Panel will conduct the accreditation review process<sup>1</sup> and recommend to the Board whether the applicant entity should be accredited or not; or alternatively whether the applicant entity may reapply once it has addressed the specific areas of concern.

#### 5.2.2 Stage II – Step 2: Decision on the application for accreditation

39. At the end of this stage the Board will consider the recommendations of the Accreditation Panel and make a decision on whether the applicant entity can be granted accreditation and move on to stage III for final validation and legal arrangements.

40. Based on the recommendations of the Accreditation Panel, the Board may alternatively decide to assign the entity to stage I for additional focused readiness support and reconsider the application at a later date after the application undergoes a further focused accreditation review by the Accreditation Panel.

### 5.3 Stage III: Final validation and arrangements

41. Stage III will conclude the process through the validation and finalization of formal arrangements between the applicant entity and the Fund upon the successful completion of stage II.

42. This will include validation and registration of the accredited entity's payment instructions and the conclusion of legal arrangements between the accredited entity and the Fund.

### 5.4 Additional operational considerations

43. Accreditation will be reviewed after five years. Modalities for renewal will be developed based on a range of criteria, including performance by the entity during the five-year cycle.

44. The accreditation of additional institutional capacities (e.g. on-lending and blending) can be done at any time and as soon as the entity considers itself ready to pursue such accreditation. The accreditation process will then focus only on the new capacities to be reviewed and not on all the other capacities already accredited.

45. The guiding framework will also include a policy on fees on a cost-recovery basis that should take into account relevant criteria, such as whether readiness support was provided or not during stage I, specialized fiduciary standards being accredited, scale and size of intended operations, etc.

46. It is difficult to provide a timeline for the duration of the full accreditation process for a given application. However, assuming all documentation is provided in a timely and complete manner and that the applicant does not opt for readiness support, a full accreditation cycle should be completed within six months.

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<sup>1</sup> Decision B.05/08 (d) (iii).

47. A monitoring and accountability framework will be developed, which will include policies on the suspension and cancellation of accreditation to complement these operational guidelines and the Fund's other relevant accountability mechanisms.

## **VI. Governance and organizational approach**

48. The accreditation process will include and be conducted, implemented and supported by the following actors:

- (a) The Board;
- (b) The Secretariat;
- (c) The Accreditation Committee;
- (d) The Accreditation Panel; and
- (e) External technical experts.

### **6.1 Role and mandate of the Board**

49. As defined by the Governing Instrument, the Board will develop, manage and oversee an accreditation process for all IEs and intermediaries based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards.

50. The Board will therefore be the ultimate decision-making body on accreditation and overall policy guidance on accreditation matters, and will broadly oversee the accreditation process.

### **6.2 Role and mandate of the Accreditation Committee**

51. The Accreditation Committee will be accountable to the Board and under its authority. Its composition and the scope of its responsibilities will be defined in the terms of reference of the Fund's Accreditation Committee contained in Annex IV, and will include:

- (a) Providing guidance on the development of policies and procedures for the Fund's guiding framework for the accreditation process;
- (b) Facilitating the Board's interaction with recipient countries with regard to disseminating information to them and familiarizing them with the accreditation process; and
- (c) Providing policy guidance to the Accreditation Panel to facilitate the accreditation process without interfering with the technical assessments of the Panel.

### **6.3 Role and mandate of the Accreditation Panel**

52. The Accreditation Panel will function as an independent review body accountable to the Board and under its authority. Its composition and the scope of its responsibilities will be defined in the terms of reference of the Fund's Accreditation Panel contained in Annex V, and will include:

- (a) The accreditation review process;
- (b) Independent advice to the Board on applications for accreditation;

- (c) Expert inputs for the further development of the Fund's fiduciary standards, environmental and social safeguards, the Fund's environmental and social management system, as well as to the review of the guiding framework of the Fund's accreditation process; and
- (d) Expert advice and inputs for the development of the complementarity and coherence element of the guiding framework, its work programme as well as the criteria and assessment of entities already accredited to other relevant funds.

## 6.4 Role and mandate of the Secretariat

53. The Secretariat will support the systems, processes and procedures of the accreditation process and will be responsible for the following core functions:

- (a) Ongoing development, in consultation with the Accreditation Committee and Panel, of the Fund's fiduciary standards, environmental and social safeguards and criteria for the accreditation of subnational, national, regional and international intermediaries and IEs to the Fund, for adoption by the Board;
- (b) Operationalization of the procedures supporting the accreditation process of the Fund, and the execution of all necessary and related activities, including the implementation, management and maintenance of its supporting systems;
- (c) Overall responsibility for conducting the no-objection and readiness assessment and the general management of stage I of the Fund's accreditation process;
- (d) Presentation of the outcomes of the no-objection and readiness assessment to the Accreditation Panel for its consideration during the accreditation review;
- (e) Implementation, operation and execution of any other functions and/or activities necessary to effectively carry out its responsibilities in the accreditation process.

## 6.5 External technical experts

54. External technical experts may be engaged by the Accreditation Panel in the in-depth review of individual applications for accreditation. Independent and recognized professionals or specialized consultancy firms will need to demonstrate experience and expertise in relevant areas in order to qualify as external technical experts.

55. The Secretariat, in coordination with and on behalf of the Accreditation Panel, will be responsible for setting up and managing a roster of external technical experts through an open, competitive and transparent selection process, which should strive to ensure the availability of relevant competencies and achieve gender and regional balance where possible. The Secretariat will also assist the Accreditation Panel in developing and updating, as necessary, the terms of reference to guide the work of the external technical experts.

56. External technical experts will be compensated in accordance with relevant administrative provisions for contracting external technical support. Consequently, external technical experts will be bound by standard contractual regulations relating to the provision of consultancy services to the Fund.

## **VII. Complementarity and coherence with the accreditation processes of other relevant funds**

57. Following on the principle of complementarity and coherence underpinning the Fund's operational modalities, as outlined in the Governing Instrument, the guiding framework of the accreditation process will also pursue complementarity and coherence with the accreditation frameworks and processes of other relevant funds.
58. This element of the guiding framework includes, among other operational aspects:
- (a) Regular coordination, collaboration and exchange of information with the secretariats and accreditation panels, or their equivalent institutional arrangements, for other relevant funds;
  - (b) Formal and continuous mutual update on new operational guidelines and procedures, best-practice fiduciary principles and standards, environmental and social safeguards, IT support systems and other relevant policies and procedures; and
  - (c) Appropriate modalities for a fast-tracked accreditation process based on the appropriate degree of compatibility between the Fund and other accreditation systems of relevant funds, ensuring that the fast-track process will not diminish the rigour of the application of the initial fiduciary standards and interim ESS.

## **VIII. Review of the guiding framework**

59. The accreditation framework will be an evolving process intended to ensure continuous improvement and alignment with international good practices and to reflect the experience gained by the Fund.
60. The Secretariat will be responsible for proposing to the Board, in collaboration with the Accreditation Committee and Panel, the terms of reference for a comprehensive review of the guiding framework of the Fund's accreditation process once the Fund has built up a track record of experience and lessons learned.
61. The Secretariat, the Accreditation Committee, and the Accreditation Panel may also propose to the Board a focused review of specific elements of the guiding framework of the accreditation process, including the Fund's initial fiduciary standards and initial environmental and social safeguards, as deemed necessary and in the context of the development of the Fund's additional specialized fiduciary standards, its ESS, and its environmental and social management system.

## Annex II: Initial fiduciary principles and standards of the Fund

### I. Initial basic fiduciary standards

#### 1.1 Key administrative and financial capacities

1. Underlying principles of the Fund's initial basic fiduciary standards for administrative and financial capacities are:

- (a) Financial inputs and outputs are properly accounted for, reported, and administered transparently in accordance with pertinent regulations and laws, and with due accountability;
- (b) Information relating to the overall administration and management of the entity is available, consistent, reliable, complete and relevant to the required fiduciary standards; and
- (c) Operations of the entity show a track record in effectiveness and efficiency.

##### 1.1.1 General management and administrative capacities

2. Clear and formal definition of the main "corporate governance" actors of the entity and of their respective roles and responsibilities (for example, oversight authorities, audit committee, regulators, governing board, executive body, internal audit body, external audit body, etc.);

- (a) Existence of adequate internal oversight bodies and transparent rules regarding the appointment, termination and remuneration of members of such committees;
- (b) A consistent, clear and adequately communicated organization chart available, which describes, as a minimum, the entity's key areas of authority and responsibility, as well as well-defined reporting/delegation lines;
- (c) A consistent and formal process to set objectives and to ensure that the chosen objectives support and align with the mission of the entity.
- (d) Indicators to measure defined objectives and internal documents demonstrating that organization-wide objectives provide clear guidance on what the entity wants to achieve; and
- (e) A general management plan that also includes processes to monitor and report on the achievement of set objectives.

##### 1.1.2 Financial management and accounting

- (a) Financial statements follow the Generally Accepted Accounting Principles (GAAP) and are prepared in accordance with recognized accounting standards, such as the International Financial Reporting Standards (IFRS), or the International Public Sector Accounting Standards (IPSAS) in the case of public entities, or other equivalent standards;
- (b) The entity has in place a clear and complete set of financial statements that provide information on:
  - (i) A statement of assets, liabilities and fund balances (statement of financial position);

- (ii) A statement of financial performance (income and expenses/revenue and expenditure);
  - (iii) A statement of changes in financial position or a statement of changes in reserves and fund balances;
  - (iv) A statement of cash flows;
  - (v) A description of the accounting policies used explaining the accounting framework used; and
  - (vi) Appropriate notes and disclosures in annexes to the financial statements, in particular explaining the accounting framework used, the basis of preparation of the financial statements, and the specific accounting policies that are necessary for a proper understanding of the financial statements.
- (c) Financial statements are reported periodically, consistent with previous reporting periods, and allow for comparison among reporting periods;
- (d) The entity uses accounting and financial information systems based on the accounting principles and procedures indicated in paragraph (a) above and how the accounting policies of the entity are adapted to the nature and complexity of its activities;
- (e) Transparent and consistent payment and disbursement systems are in place with documented procedures and clear allocation of responsibilities. The entity has also legal and operational capacity to receive international payments from the Fund's Trustee and to make payments to the Fund's Trustee;
- (f) A track record in the preparation and transparent use of business plans, financial projections and budgets, and the ability to continuously monitor performance and expenditure against these; and
- (g) Resources, systems and procedures (including fiduciary accounts, as appropriate) are in place that ensure proper financial reporting over the use of funding received from the Fund.

### 1.1.3 Internal and external audit

#### A. Independent audit committee

3. An independent audit committee or comparable body is appointed and fully functional and oversees the work of the internal audit function as well as the external audit firm as it relates to the audit of financial statements, control systems and reporting.

4. The audit committee or comparable body is guided and mandated by written terms of reference that address its membership requirements, duties, authority, accountability and regularity of meetings.

#### B. Internal audit

5. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (as defined by the Institute of Internal Auditors).

- (a) The internal audit function has a documented terms of reference or charter, reviewed and approved formally by senior management and the audit committee, that outlines its purpose, authorized functions and accountability;
- (b) The internal audit function is carried out in accordance with internationally recognized standards such as those prescribed by the Institute of Internal Auditors or other equivalent standards;
- (c) Auditors and/or entities that provide internal auditing services adhere to ethical principles of integrity, objectivity, confidentiality and competency, which is supported by specific legal arrangements to this effect;
- (d) The internal audit function is independent and able to perform its respective duties objectively. It is headed by an officer specially assigned to this role with due functional independence, who reports to a level of the organization that allows the internal audit activity to properly fulfil its responsibilities;
- (e) The internal audit function has a documented description of the annual audit planning process, including a risk-based methodology for preparing an audit plan. The audit plan outlines the priorities of the function and is consistent with the organization's goals;
- (f) The chief audit officer shares information and coordinates activities with relevant internal and external parties (including external financial statement auditors) ensuring proper coverage and a minimization of duplication of efforts;
- (g) The internal audit function disseminates its findings to the corresponding senior management units and business management units, which are responsible for acting on and/or responding to recommendations;
- (h) The internal audit function has a process in place to monitor the response to its recommendations; and
- (i) A process is in place to monitor and assess the overall effectiveness of the internal audit functions, including periodic internal and external quality assessments.

### C. External audit

6. The external financial audit function ensures an independent review of financial statements and internal controls (as defined by the International Federation of Accountants (IFAC)).
- (a) The entity has appointed an independent external audit firm or organization;
  - (b) The work of the external audit firm or organization is consistent with the recognized international auditing standards such as International Standards on Auditing (ISA), or other equivalent standards;
  - (c) In cases where the entity is subject to external audits carried out by a national audit institution or other form of public independent inspection body, provisions should be made so that the external audits are guaranteed independence and impartiality, including through formal terms of reference, and are conducted periodically;
  - (d) The entity exhibits all necessary provisions and arrangements to ensure that an annual audit opinion on the financial statements and/or, as appropriate, on all financial resources received from the Fund and administered by the entity, is issued by the external auditor and made public; and
  - (e) The external auditor makes regular reports of observations with respect to accounting systems, internal financial controls, and administration and management of the

organization. Audits and management progress reports are reviewed by the audit committee or comparable body annually.

#### 1.1.4 Control framework

7. The Committee of Sponsoring Organizations (COSO) of the Treadway Commission defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of financial reporting;
- (c) Compliance with applicable laws and regulations;
- (d) A control framework that has been adopted and that is documented and includes clearly defined roles for management, internal auditors, the board of directors or comparable body, and other personnel;
- (e) A control framework that covers the control environment (“tone at the top”), risk assessment, internal control activities, monitoring, and procedures for information sharing;
- (f) A control framework that defines roles and responsibilities pertaining to the accountability of fiscal agents and fiduciary trustees;
- (g) At the institutional level, risk-assessment processes are in place to identify, assess, analyse and provide a basis for proactive risk responses in each of the financial management areas. Risks are assessed at multiple levels, and plans of action are in place for addressing risks that are deemed significant or frequent;
- (h) The control framework guides the financial management framework;
- (i) Procedures are in place for identifying internal controls and assessing the details of the controls annually in core financial management areas, including:
  - (i) Budgeting;
  - (ii) Accounting;
  - (iii) Internal control;
  - (iv) Funds flow (including disbursements, cash management, unused fund close-out);
  - (v) Financial reporting; and
  - (vi) Auditing arrangements;
- (j) Provisions for regular oversight of the procurement function with consistent monitoring and follow-up on review reports evidence that a risk management process exists and allows management to identify, assess and address existing or potential issues that may hamper the achievement of the entity’s objectives; and
- (k) Duties are segregated where incompatible. Related duties are subject to a regular review by management; response is required when discrepancies and exceptions are noted; and segregation of duties is maintained between settlement processing, procurement processing, risk management/reconciliations, and accounting.

### 1.1.5 Procurement

8. Procurement processes in the applicant entity cover regular procurement relating to the general operations of the entity as well as procurement in the context of the implementation and execution of funding proposals approved by the Fund. These should include formal standards, guidelines and systems based on widely recognized processes and an internal control framework to ensure fair and transparent procurement processes.

- (a) Formal internal guidelines and a procurement policy that promote economy and efficiency in procurement through written standards and procedures that specify procurement requirements, accountability, and authority to take procurement actions;
- (b) Specific procurement guidelines are in place with respect to different types of procurement managed by the entity, such as consultants, contractors and service providers;
- (c) Specific procedures, guidelines and methodologies as well as adequate organizational resources for overseeing, assessing and reviewing the procurement procedures of beneficiary institutions, executing entities or project sponsors are in place;
- (d) Procurement performance in the implementation of Fund's approved funding proposals is monitored at periodic intervals, and there are processes in place requiring a response when issues are identified;
- (e) Procurement records are easily accessible to procurement staff, and procurement policies and awards are publicly disclosed;
- (f) Evidence of transparent and fair procurement policies and procedures that are consistent with recognized international practice, including such provisions and practices as:
  - (i) Non-discrimination and equal treatment of candidates;
  - (ii) Dispute resolution procedures;
  - (iii) Obligation to use and adherence to tendering procedures;
  - (iv) Best value for money; and
  - (v) Adequate ex-post communication and publication of beneficiaries.

## 1.2 Transparency and accountability

9. Underlying principles are:

- (a) Protection and commitment against mismanagement and fraudulent, corrupt and wasteful practices;
- (b) Disclosure of any form of conflict of interest (actual, potential or perceived); and
- (c) Code of ethics, policies and culture that drive and promote full transparency and accountability.

10. Transparency and accountability are to be demonstrated through an effective combination of fully functional policies, procedures, systems and approaches. The following standards outline the key standards to demonstrate fiduciary alignment with the above principles.

### 1.2.1 Code of ethics

- (a) The organization has in place either a documented code of ethics that defines ethical standards to be upheld, listing the parties required to adhere to the standards, including employees, consultants, and independent experts; or alternatively, a set of clear and formal management policies and provisions are in place to define expected ethical behaviour by all individuals contracted or functionally related to the organization;
- (b) All individuals with a functional and/or contractual relationship to the organization are made aware of such codes of ethics or policies/provisions as appropriate; and
- (c) The organization has in place an ethics committee or has allocated such functions to other relevant instances within the organization.

### 1.2.2 Disclosure of conflict of interest

- (a) The organization has a disclosure policy, or equivalent administrative provisions to this effect, that establishes the necessary mandatory financial disclosures of possible, actual, perceived or apparent conflicts of interest by identified parties as appropriate; and
- (b) The policy, or equivalent administrative provisions, specifies prohibited personal financial interests and describes the principles under which conflicts of interests are reviewed and resolved. It should also describe sanction measures for parties that do not disclose such conflicts on a proactive basis where a conflict of interest is identified.

### 1.2.3 Capacity to prevent or deal with financial mismanagement and other forms of malpractice

- (a) Demonstrated experience and track record in accessing financial resources from national and international sources, as appropriate;
- (b) Evidence of tone or statement from the governing bodies or senior management of the organization emphasizing a policy of zero tolerance for fraud, financial mismanagement and other forms of malpractice by staff members, consultants, contractors, or from any other relevant party associated directly or indirectly with the general operations of the entity, and particularly in relation to the implementation of approved funding proposals;
- (c) Avenues and tools for reporting suspected ethics violations, misconduct, and any kind of malpractice, which should be complemented by provisions and mechanisms protecting whistleblowers and individuals reporting such violations;
- (d) Evidence of an objective investigation function for allegations of fraud and corruption, which includes procedures in the organization to process cases of fraud and mismanagement, undertake necessary investigative activities and generate periodic reports for information and follow-up by the ethics function; and
- (e) General management policies promote an organizational culture that is conducive to fairness, accountability and full transparency across the organization's activities and operations.

### 1.2.4 Investigation function

11. The investigation function provides for the independent and objective investigation of allegations of fraudulent and corrupt practices (using widely recognized definitions such as those agreed by the International Financial Institutions Anti-Corruption Task Force) in all operations of the entity as well as allegations of possible entity staff misconduct.

- (a) The investigation function has publicly available terms of reference that outline the purpose, authority and accountability of the function. This function may be assigned to a dedicated organizational component within the entity's structure or to another appropriate element of the organization;
- (b) To ensure functional independence, the investigations function is headed by an officer who reports to a level of the organization that allows the investigation function to fulfil its responsibilities objectively;
- (c) The investigation function has published guidelines for processing cases, including standardized procedures for handling complaints received by the function and managing cases before, during and after the investigation process; and
- (d) The investigation function has a defined process for periodically reporting case trends. To enhance accountability and transparency, case trend reports and other information are made available to senior management and relevant business functions to the extent possible.

#### 1.2.5 **Anti-money laundering and anti-terrorist financing**

## **II. Initial specialized fiduciary standards**

12. The Fund's specialized fiduciary criteria refer to institutional capacities that will qualify the applicant entities to undertake specialized activities depending on the nature and scope of their mandate within the Fund's operations.

### **2.1 Initial specialized fiduciary standards relating to project management**

13. The underlying principles are:
- (a) Ability to identify, formulate and appraise projects or programmes
  - (b) Competency to manage or oversee the execution of approved funding proposals, including the ability to manage executing entities or project sponsors and to support project delivery and implementation;
  - (c) Capacity to consistently and transparently report on the progress, delivery and implementation of the approved funding proposal;

#### **2.1.1 Project preparation and appraisal**

- (a) Track record of capability and experience (including appropriate tendering procedures for project proposals) in the identification and design of projects or programmes within the respective jurisdiction (subnational, national, regional or international, as applicable);
- (b) Capacity to clearly state project objectives and outcomes in preparing funding proposals and to incorporate key performance indicators with baselines and targets into the project design;
- (c) Ability to examine and incorporate technical, financial, economic and legal aspects as well as possible environmental, social and climate change aspects, and relevant assessments thereof, into the funding proposal at the appraisal stage; and

- (d) Appropriate fiduciary oversight procedures are in place to guide the appraisal process and ensure its quality and monitoring of follow-up actions during implementation.

### 2.1.2 Project oversight and control

- (a) Operational systems, procedures and overall capacity to consistently prepare project implementation plans, including project budgets, reporting guidelines and templates to be used by executing entities or project sponsors;
- (b) Operational capacity and organizational arrangements to continuously oversee the implementation of the approved funding proposal in order to regularly assess project expenditure against project budget as well as to monitor and identify opportunities for improving project performance against its budget and timelines;
- (c) Appropriate reporting capabilities and capacities to appropriately publish implementation reports; and
- (d) Operational systems and overall capacity to conduct necessary activities relating to project closure, including due reporting on results achieved, lessons learned and recommendations for improvement, as well as capacity to disseminate results and make key findings publicly available.

### 2.1.3 Monitoring and evaluation

14. The monitoring function detects, assesses, and provides management information about risks relating to projects, particularly those deemed to be at risk.
15. The evaluation function assesses the extent to which projects, programmes, strategies, policies, sectors or other activities achieve their objectives and contribute to the initial results areas of the Fund. The goal of evaluation is to provide an objective basis for assessing results, to provide accountability in the achievement of objectives, and to learn from experience (and to detect any deviation from project planning in the early stages).

## A. Monitoring

- (a) Operational and organizational resources are available to implement monitoring functions, policies and procedures consistent with the requirements of the Fund's monitoring and evaluation guidelines;
- (b) The roles and responsibilities of the monitoring function are clearly articulated at both the project and entity/portfolio levels. The monitoring function at the entity/portfolio level is separated from the project origination and supervision functions;
- Tools for reporting on project monitoring are available and monitoring results are periodically published.

## B. Evaluation

- (a) Independent evaluations are undertaken by an established body or function as part of a systematic programme of assessing results, consistent with relevant requirements and related Fund policies;
- (b) The evaluation function follows impartial, widely recognized, documented and professional standards and methods;
- (c) The evaluation body or function is structured to have the maximum independence possible from the organization's operations, consistent with the structure of the entity,

ideally reporting directly to the board of directors or comparable body. If its structural independence is limited, the evaluation body or function has provisions that ensure transparent reporting to senior management;

- (d) An evaluation disclosure policy is in place. Evaluation reports are disseminated as widely as possible, at a minimum to all parties directly or indirectly involved in the project or programme. To enhance transparency, reports are available publicly to the extent possible.

#### **2.1.4 Project-at-risk systems and related project risk management capabilities**

- (a) A process or system, such as a project-at-risk system, is in place to flag early on when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems;
- (b) Availability of an independent risk management function differentiated from project implementation and project supervision responsibilities;
- (c) Risk assessment:
  - (i) Demonstrated capabilities to undertake the assessment of financial, economic, political and regulatory risks during the implementation stages; and
  - (ii) Demonstrated ability to integrate risk mitigation and management strategies into the funding proposal at all levels listed above, and to exercise such strategies during the implementation stage.

## **2.2 Grant award mechanisms**

### **2.2.1 Transparent eligibility criteria and evaluation**

- (a) The grant award mechanism is organized in a fully transparent manner that guarantees impartiality and equal treatment to all applicants;
- (b) The evaluation process is based solely on the criteria for exclusion, eligibility, selection and award pre-announced in the call for proposals;
- (c) Eligibility evaluation performed on the basis of the criteria stated in the call for proposals;
- (d) All stages are formally documented through standardized checklists and forms;
- (e) There is an evaluation committee that:
  - (i) Evaluates the applications to make a recommendation for award and rejections in accordance with the pre-announced criteria; and
  - (ii) Works in accordance with the formal rules of procedure.

### **2.2.2 Grant award decision and procedures**

- (a) The grant award decision is taken by the person or body who is legally authorized to sign grant agreements on behalf of the awarding body;
- (b) The grant award decision is based on the grant award proposal prepared by the evaluation committee;
- (c) If the grant award does not follow evaluation committee's recommendation, the departing decision is adequately justified and documented;

- (d) The grant decision states the following:
  - (i) Subject and overall amount of decision;
  - (ii) Name of beneficiaries, title of granted activity, grant amount awarded, and the reason(s) for this choice; and
  - (iii) Name(s) of application(s) rejected and reason for their rejection(s).
- (e) Checks have been undertaken to guarantee that one and the same activity only results in the award of one grant to any one beneficiary;
- (f) No grant is awarded retrospectively for activities already started or completed at the time of the application;
- (g) All applicants are notified in writing of grant award outcome; and
- (h) Rejected applications result in rejected applicants receiving reason(s) for rejection with reference to the pre-announced criteria;

### **2.2.3 Public access to information on beneficiaries and results**

- (a) Grant-awarding entity makes the grant award results public;
- (b) Results made public within a reasonable timeframe following the grant award decision;
- (c) The following information should be included (at a minimum):
  - (i) Name, address and nationality of the beneficiary;
  - (ii) Purpose of the grant; and
  - (iii) Grant amount awarded and, where applicable, the maximum co-financing rate of the cost.

### **2.2.4 Transparent allocation and implementation of financial resources**

- (a) There is a system in place to provide assurance on the reality and eligibility of activities to be carried out with the grant award as well as the legality of the underlying operations;
- (b) There is a system in place to recover funds unduly paid;
- (c) There is a system in place to prevent irregularities and fraud;
- (d) The grant-awarding entity monitors the implementation of funded programme activities and supports beneficiaries through counselling and advice;
- (e) There are sufficient possibilities for the beneficiary to contact the grant-awarding entity;
- (f) The grant-awarding entity carries out on-site visits to monitor the implementation of individual projects;
- (g) Those on-site visits are used to support the beneficiary, gather and disseminate best practices and establish/maintain good relations between the awarding entity and the beneficiary entity;
- (h) There are clear procedures about procurement rules the grant beneficiary is required to apply, if any;
- (i) The amount of the grant is finalized only after the grant-accepting entity has accepted the final report and accounts;

- (j) There are procedures in place for the suspension, reduction, or termination of the grant if the beneficiary fails to comply with its obligations.

#### 2.2.5 Good standing with regard to multilateral funding

### 2.3 On-lending and/or blending

16. Additional specialized criteria for on-lending and blending will apply for intermediaries and IEs that wish to use those financial instruments with the Fund's resources. The following list suggests possible on-lending and blending capacities for consideration during the accreditation process:

- (a) Appropriate registration and/or license from a financial oversight body or regulator in the country and/or internationally, as applicable;
- (b) Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international or multilateral sources;
- (c) The creditworthiness of the institution making on-lending or blending arrangements;
- (d) Due diligence policies, processes and procedures in place;
- (e) Financial resources management, including analysis of lending portfolio of the intermediary;
- (f) Public access to information on beneficiaries and results;
- (g) Investment management, policies and systems, including in relation to portfolio management;
- (h) Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries;
- (i) Financial risk management, including asset liability management;
- (j) Governance and organizational arrangements, including relationships between the entity's treasury function and the operational side;
- (k) For intermediaries or IEs that blend grant awards:
  - (l) There are clear procedures about the grant award rules that the implementing partner is required to apply; or
  - (m) If the intermediary or IE uses its own rules, the minimum requirements are satisfactory.

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## **Annex III: Interim environmental and social safeguards of the Fund**

### **I. Overview of the International Finance Corporation Performance Standards**

1. The eight Performance Standards (PS) and the objectives of each are as follows:
  - 1.1 **PS1: Assessment and management of environmental and social risks and impacts**
    - (a) Identify funding proposal's environmental and social risks and impacts;
    - (b) Adopt mitigation hierarchy: anticipate, avoid; minimize; compensate or offset;
    - (c) Improve performance through an environmental and social management system;
    - (d) Engagement with affected communities or other stakeholders throughout funding proposal cycle. This includes communications and grievance mechanisms.
  - 1.2 **PS2: Labour and working conditions**
    - (a) Fair treatment, non-discrimination, equal opportunity;
    - (b) Good worker-management relationship;
    - (c) Comply with national employment and labour laws;
    - (d) Protect workers, in particular those in vulnerable categories;
    - (e) Promote safety and health;
    - (f) Avoid use of forced labour or child labour.
  - 1.3 **PS3: Resource efficiency and pollution prevention**
    - (a) Avoid, minimize or reduce project-related pollution;
    - (b) More sustainable use of resources, including energy and water;
    - (c) Reduced project-related greenhouse gas emissions.
  - 1.4 **PS4: Community health, safety and security**
    - (a) To anticipate and avoid adverse impacts on the health and safety of the affected community;
    - (b) To safeguard personnel and property in accordance with relevant human rights principles.

## 1.5 PS5: Land acquisition and involuntary resettlement

- (a) Avoid/minimize adverse social and economic impacts from land acquisition or restrictions on land use:
  - (i) Avoid/minimize displacement;
  - (ii) Provide alternative project designs;
  - (iii) Avoid forced eviction.
- (b) Improve or restore livelihoods and standards of living;
- (c) Improve living conditions among displaced persons by providing:
  - (i) Adequate housing;
  - (ii) Security of tenure.

## 1.6 PS6: Biodiversity conservation and sustainable management of living natural resources

- (a) Protection and conservation of biodiversity;
- (b) Maintenance of benefits from ecosystem services;
- (c) Promotion of sustainable management of living natural resources;
- (d) Integration of conservation needs and development priorities.

## 1.7 PS7: Indigenous peoples

- (a) Ensure full respect for indigenous peoples
  - (i) Human rights, dignity, aspirations;
  - (ii) Livelihoods;
  - (iii) Culture, knowledge, practices;
- (b) Avoid/minimize adverse impacts;
- (c) Sustainable and culturally appropriate development benefits and opportunities;
- (d) Free, prior and informed consent in certain circumstances.

## 1.8 PS8: Cultural heritage

- (a) Protection and preservation of cultural heritage;
- (b) Promotion of equitable sharing of cultural heritage benefits.

2. The International Finance Corporation (IFC) PS can be viewed at:

[http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC\\_Performance\\_Standards.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/c8f524004a73daeca09afdf998895a12/IFC_Performance_Standards.pdf?MOD=AJPERES).

## II. Performance Standard Guidance Notes

3. A set of eight Guidance Notes, corresponding to each PS, offers guidance on the requirements contained in the PS. In addition, the World Bank Group Environmental, Health and Safety (EHS) Guidelines are technical reference documents with general and industry-specific examples of good international practice and are linked to the PS through PS2 and PS3.

4. The Guidance Notes and EHS Guidelines can be found at:

[http://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/.](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/)

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## **Annex IV: Terms of reference of the Accreditation Committee**

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

1. The role of the Accreditation Committee is to provide policy guidance to the Board on the Fund's evolving guiding framework for the accreditation process, enabling the Fund to enhance the efficiency and efficacy of the accreditation process.
2. In fulfilling this role, the Accreditation Committee will:
  - (a) Provide guidance on the development of policies and procedures for the Fund's guiding framework for the accreditation process; and
  - (b) Provide policy guidance to the Accreditation Panel to facilitate the accreditation process without interfering with the technical assessments of the Panel.
3. The Accreditation Committee will consider the recommendations and advice provided to it by the Accreditation Panel.

### **II. Membership**

4. The Accreditation Committee will comprise:
  - (a) Two developing country Board members or alternate members; and
  - (b) Two developed country Board members or alternate members.
5. The Secretariat will attend the meetings of the Accreditation Committee in an ex-officio capacity.
6. Members of the Accreditation Committee will serve for an initial term of 18 months.

### **III. Duration**

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

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

9. All members of the Committee should disclose any actual, potential or perceived conflict of interest in relation to any of the activities, discussions and recommendations of the Committee, which will be duly recorded.
10. Furthermore, at the time of appointment, all members of the Committee will sign the oath contained in the Appendix.

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## Appendix: Oath to be taken by members of the Accreditation Committee

“I solemnly declare that I shall perform my duties as a member of the Accreditation Committee (the Committee) of the Green Climate Fund (the Fund), honourably, faithfully, impartially and conscientiously.

I further solemnly declare and promise that I shall disclose any financial interest or any other real or perceived conflict of interest in: the accreditation of subnational, national, regional and/or international intermediaries and IEs of the Fund; the consideration and provision of advice on best-practice fiduciary principles and standards and environmental and social safeguards; and, in general, in any other matter in connection with the fulfilment of the mandate of the Committee.

I shall refrain from participating in the consideration of accreditation applications or policy discussions where any financial interest or any other real or perceived conflict of interest may arise, or where any personal circumstance might be incompatible with the requirements of integrity and impartiality expected of a member of the Committee.

Subject to my responsibilities to the Committee, I shall not disclose, even after the termination of my functions, any confidential or proprietary information which is transferred to the Board, the Committee, the Accreditation Panel, or the Secretariat, or any other confidential information coming to my knowledge by reason of my duties for the Committee.”

Full name: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

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## Annex V: Terms of reference of the Fund's Accreditation Panel

### I. Role and mandate

1. The Accreditation Panel (the Panel) will be an independent technical panel of the Fund to advise the Board on matters relating to:
  - (a) Independent technical advice to the Board on the results of the in-depth assessment and review of individual applications for accreditation;
  - (b) Expertise in good-practice fiduciary principles and standards, financial intermediation functions, intermediation regulations and oversight;
  - (c) Expertise in environmental and social safeguards, as well as in evaluating environmental and social management systems in order to ensure that applicant entities have the capacity to implement and oversee the Fund's interim and subsequent ESS;
  - (d) Expertise in international and recognized good practices in accreditation procedures and systems;
  - (e) Expert policy advice on developing countries' special circumstances, including sustainability and climate-related issues;
  - (f) Members of the Panel will have a three-year term, with the possibility of renewal for a maximum of another consecutive term.

### II. Composition and quorum

2. The Panel will be composed of six senior expert members, ensuring balanced representation between developing and developed countries and appropriate range of expertise.
3. The Panel may also invite senior expert observer members, on an ad-hoc or regular basis, to participate at sessions where no confidential information will be discussed.
4. The Secretariat will participate ex-officio.
5. Quorum will consist of participation by at least four senior expert members.

#### 2.1 Chair and Vice-Chair

6. The Panel will appoint its Chair and Vice-Chair. In the event of absence or inability to participate in meetings of the Panel by the Chair, the Vice-Chair will automatically chair the meetings.
7. The mandate of the Chair and Vice-Chair will extend for one year.

#### 2.2 Senior expert members

8. The senior expert members of the Panel will be selected and appointed through a nomination by the Board members and alternates of the Panel and endorsement by the Board. The composition of the senior expert members should ensure availability in the Panel of the following core areas of competency:
  - (a) Governance systems, financial management, audit and control framework;

- (b) Project management cycle and activity oversight;
  - (c) Transparency, investigation and anti-fraud provisions;
  - (d) Environmental and social safeguards and environmental and social management systems;
  - (e) Financial intermediation and/or financial sector supervision and oversight;
  - (f) Experience in working in/with developing countries.
9. Senior expert members will therefore demonstrate recognized capacity and expertise in their fields of competency, supported by a successful career track at senior and executive level. In addition to this, each senior expert member will be able to demonstrate unquestionable personal reputation, integrity and ethical behaviour throughout her or his professional trajectory.
10. Senior expert members may be appointed for a consecutive term.

## 2.3 Expert observer members

11. Expert observer members from specialized entities may be invited to participate in the non-confidential meetings or sessions of the Panel as deemed necessary in order to enhance the capacity of its work.
12. The Panel will issue an invitation to the expert observer member, or the institution s/he represents.
13. The Panel will agree, in consultation with the Secretariat, on the modalities for participation by expert observers. These modalities may be revised at any time to reflect the evolving needs of the Panel.

## III. Modalities of work

14. The Panel will operate as a senior and independent technical advisory body of the Fund, and will report and be accountable to the Board. The Panel will be bound by these terms of reference as well as by relevant policies and procedures, including a code of conduct, to be developed by the Panel and endorsed by the Board. The rules and procedures of the Board, as well as any other relevant guidelines to be adopted by the Board, will apply *mutatis mutandis* to the Panel.
15. Meetings of the Panel may be held with members being either physically or electronically present. The dates and modalities of meetings will be determined by the Panel taking into account criteria of efficiency and effectiveness.
16. The Chair of the Panel will define the agenda and calendar of meetings of the Panel.
17. The Panel may also develop rules and procedures, in addition to the above, that are necessary to enhance transparency and effectively guide the conduct of its meetings. The Panel will submit to the Board the additional agreed rules and procedures for endorsement.
18. In conducting the review of applications for accreditation, the Panel may decide to make use of additional external technical experts. The Panel will clearly allocate responsibilities for the external technical expert, which will be included in their mission plan.
19. The Panel, with support from the Secretariat, will maintain a roster of external technical experts and develop standard terms of reference for their work.

#### **IV. Compensation**

20. Travel and accommodation costs, per diem payment and a daily fee will be paid to senior expert members attending a meeting of the Panel in accordance with the Fund's rules and regulations.
21. If a senior expert member of the Panel is requested to carry out a specific task between meetings, they will be compensated for the task undertaken by means of payment of daily fees, subject to the input being of good quality and delivered in good time. The daily fee will be determined in accordance with the Fund's rules and regulations. The number of days necessary to complete a task will be determined by the Chair of the Panel in consultation with the Secretariat.
22. Travel and accommodation costs, per diem payment and a daily fee will be paid to external technical experts in accordance with the Fund's rules and regulations and the external technical experts' terms of reference.
23. Expert observers will not receive any payment and will be supported in their participation in meetings entirely by the entities they represent or in their own capacity.

#### **V. Disclosure of conflict of interest**

24. All members of the Panel should disclose any actual, potential or perceived conflict of interest in relation to any of the activities, discussions and recommendations of the Panel, which will be duly recorded.
25. Furthermore, at the time of appointment, all members of the Panel will sign the oath contained in the Appendix to these terms of reference.

#### **VI. Revision and termination of the terms of reference of the Panel**

26. The Board may revise these terms of reference as necessary in order to incorporate lessons learned and to reflect the evolving needs of the accreditation process of the Fund.
27. The mandate and terms of reference of the Panel may be revised or terminated by the Board, if deemed necessary.

## Appendix: Oath to be taken by members of the Accreditation Panel

“I solemnly declare that I shall perform my duties as a member of the Accreditation Panel (the Panel) of the Green Climate Fund (the Fund), honourably, faithfully, impartially and conscientiously.

I further solemnly declare and promise that I shall disclose any financial interest or any other real or perceived conflict of interest in: the accreditation of subnational, national, regional and/or international intermediaries and IEs of the Fund; the consideration and provision of advice on best-practice fiduciary principles and standards and environmental and social safeguards; and, in general, in any other matter in connection with the fulfilment of the mandate of the Panel.

I shall refrain from participating in the consideration of accreditation applications or policy discussions where any financial interest or any other real or perceived conflict of interest may arise, or where any personal circumstance might be incompatible with the requirements of integrity and impartiality expected of a member of the Panel.

Subject to my responsibilities to the Panel, I shall not disclose, even after the termination of my functions, any confidential or proprietary information which is transferred to the Board, the Panel or the Secretariat, or any other confidential information coming to my knowledge by reason of my duties for the Panel.”

Full name: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

## **Annex VI: Outline for the Fund's environmental and social management system**

### **I. Introduction**

1. As noted in GCF/B.06/09, the Fund's environmental and social safeguards (ESS) are a piece of a larger operational framework, which will form a Fund environmental and social management system (ESMS). An ESMS is a set of management processes and procedures that allow an organization to identify, analyse, control and reduce the adverse environmental and social impacts of its activities and maximize any potential environmental and social benefits in a consistent way and to improve the environmental and social standing of the organization and its activities over time. The Fund will continue examining policies, processes and procedures, etc., from many sources in order to derive the best ESMS for the interim and which will be further tailored to Fund activities. The Fund ESMS should be developed to be consistent with accepted evolving international systems for quality and environmental management systems. The initial elements of the Fund's ESMS will include:

#### **1.1 Environmental and social policy**

2. The Fund's environmental and social policy will describe the Fund's commitments, roles, and responsibilities related to environmental and social sustainability. This policy will also link with other Fund policies and internal structures such as:

- (a) Fund's information disclosure practice;
- (b) Fund's gender policy;
- (c) Fund's Independent Evaluation Unit;
- (d) Fund's independent redress mechanism.

##### **1.1.1 Standards**

3. The Fund's interim ESS (to be customized in the future) and supporting International Finance Corporation (IFC) Guidance Notes (to be customized in the future) set out the standards required for funding proposals. Annex I further elaborates upon the ESS and Annex III contains the Fund's interim ESS and a link to the supporting IFC Guidance Notes.

##### **1.1.2 Process and procedures**

4. A scaled risk-based approach will be applied by the accredited entities, which is elaborated upon further in Annex I.

##### **1.1.3 Environmental and social review of the institutional capacities of entities during the accreditation process**

5. The accreditation process will review entities to determine if they have the capacity to implement the Fund's interim ESS. The applicant entity also needs to be able to evaluate the executing entities' capacity and commitment to implement the Fund ESS. This process is described further in Annex I.

#### **1.1.4 Monitoring and reporting**

6. The Fund will require accredited entities to submit periodic reports of how they are classifying/categorizing and monitoring executing entity funding activities through mechanisms such as reports developed by executing entities, reports developed by independent third parties, and accredited entity site monitoring visits. This submission will include a summary evaluation from the accredited entity of how the executing entity is performing and, if they are not performing, how improved performance is being sought.

7. In all cases, the Fund will have the right to conduct site visits or audits of executing entity projects either with the accredited entity or independently.

#### **1.1.5 Organizational capacity and functions**

8. Environmental and social roles and responsibilities within the Fund and between various entities will be elaborated upon and included in the standard legal arrangements between the Fund and its IEs and intermediaries

## Annex VII: Project and programme activity cycle

KEY STAGES AND INDIVIDUAL STEPS		ACTOR(S)	RESPONSIBILITY AND TASK
<b>0. Country and/or regional work programme (voluntary)<sup>1</sup></b>			
0.1	Submission of country work programme	National designated authority (NDA) or focal point	Submit country work programme to Secretariat. Readiness support from Fund for countries upon request. NDA may inform Secretariat of preferred accredited implementing entities (IEs)/intermediaries that will implement programmes and projects under the work programme.
0.2	Compilation of country work programmes	Secretariat	Compilation of country work programmes submitted to the Board for information.
<b>I. Generation of programme or project funding proposals</b>			
1	Call for funding proposals	Secretariat	The Secretariat publishes regular calls for funding proposals on the Fund's website, as directed by the Board. NDAs, IEs and intermediaries may also submit spontaneous funding proposals to the Secretariat, which would be subject to this approval process.
<b>II. Concept development (voluntary)</b> If detailed funding proposal exists, go to Stage III			
2.1	Concept note submission	IE, intermediary or EE (e.g. project/programme sponsor)	The IE or intermediary submits the concept note to the Secretariat (Board needs to decide on provision of proposal development funds and on process for provision).
2.2	Feedback and recommendations on the concept	Secretariat, NDA/focal point	In consultation with the NDA or focal point, the Secretariat provides feedback and recommendations to the IE or intermediary, and clarifies if concept is endorsed, not endorsed with possibility of resubmission, or rejected.

<sup>1</sup> This is not part of the initial proposal approval process.

<b>III. Submission of funding proposal</b>			
3.1	No-objection	NDA/focal point	No-objection by the NDA or focal point, in line with the Fund's transparent no-objection procedure to be agreed by the Board.
3.2	Funding proposal <sup>2</sup> submission to the Secretariat	IE/intermediary	Full proposal submitted to the Secretariat in accordance with the transparent no-objection procedure. The Secretariat acknowledges the submission of the documentation, reviews it for completeness, and acknowledges receipt.
<b>IV. Analysis and recommendations to the Board</b>			
4.	Analysis and recommendation to the Board	Secretariat, technical advisory panel	<p>The Secretariat carries out necessary and appropriate second-level due diligence. The Secretariat also assesses compliance with Fund interim environmental and social safeguards, gender policy, financial policies and any other policies promulgated by the Board, in addition to performance of the project or programme against activity-specific criteria (as contained in the investment framework).</p> <p>The technical advisory panel independently assesses performance of the project or programme against activity-specific criteria.</p> <p>The Secretariat submits the following documentation to the Board:</p> <ul style="list-style-type: none"> <li>• The final funding proposal as submitted by the IE or intermediary;</li> <li>• The Secretariat's assessment of compliance with safeguards and policies and performance of the project or programme against activity-specific criteria. Proposals that best achieve the Fund's objectives will be selected based on selection process methodologies to be approved by the Board;</li> <li>• The technical advisory panel's independent assessment of and advice regarding the performance of the project or programme against activity-specific criteria;</li> <li>• A summary of the second-level due diligence carried out by the Secretariat;</li> <li>• A cover note containing: the funding recommendation by the Secretariat; and a summary of the proposal and the underlying assessments with respect to the activity-specific criteria.</li> </ul>

<sup>2</sup> The appraisal toolkit will include, inter alia, guidelines for multi-stakeholder consultations and engagement in line with Performance Standard 1 of the interim environmental and social safeguards and in accordance with future guidance provided through the Fund's Environmental and Social Management System.

<b>V. Board decision</b>			
5.	Board decision	Board, Secretariat	<p>The Board takes a decision<sup>3</sup> to:</p> <ul style="list-style-type: none"> <li>(i) Approve the funding proposal; or</li> <li>(ii) Provide an approval that is conditional on modifications to project or programme design or subject to availability of funding; or</li> <li>(iii) Reject the funding proposal.</li> </ul> <p>The decision is recorded by the Secretariat and communicated to the Interim Trustee. The Secretariat informs the IE or intermediary and the NDA or focal point of the decision and next steps.</p> <p>In the case of rejection, the Secretariat will inform the developing country that, in accordance with decision B.06/09, they may request reconsideration of the funding decision via the independent redress mechanism.</p>
<b>VI. Legal arrangements for approved proposals</b>			
6.1	Legal arrangements	Secretariat with IE or intermediary	<p>Necessary legal arrangements between the Fund and the IEs and intermediaries.</p> <p>Legal agreements are signed by the Executive Director and by the IE or intermediary. The Interim Trustee is notified.</p> <p>The NDA or focal point are informed.</p>
6.2	Letter of commitment	Interim Trustee	The Interim Trustee provides a letter of commitment, subject to availability of funding.

<sup>3</sup>Guidelines for decision-making regarding funding proposals, including for decisions in-between meetings, will be defined by the Board.



## Annex VIII: Initial post-approval items

KEY STAGES AND INDIVIDUAL STEPS		ACTOR(S)
<b>I. Implementation period</b>		
1.1	Transfer of funds to IE/intermediary against agreed criteria	Interim Trustee
1.2	Application of the relevant Fund's interim environmental and social safeguards	IE or intermediary
1.3	External audit report	IE or intermediary
<b>II. Commissioning/launch</b>		
2.1	Project or programme becomes effective	IE, intermediary, EE
2.2	Monitoring and evaluation of outcomes commences	IE or intermediary, Secretariat
<b>III. Impact period</b>		
3.1	Monitoring and evaluation of outcomes	IE or intermediary, Secretariat
3.2	Monitoring of financial and economic performance	IE or intermediary, Secretariat
3.3	Debt serviced according to loan agreement	Intermediary, Secretariat, Interim Trustee
3.4	Monitoring of financing covenants	IE or intermediary, Secretariat
<b>IV. Close</b>		
4.1	Financial closure	IE or intermediary, Secretariat and Interim Trustee
4.2	Activity exits the Fund's portfolio	n/a



## Annex IX: Initial mitigation logic model and possible initial performance indicators which may be taken into account for further work by the Secretariat

Levels	Results  (reference to Paris result areas provided)	Possible initial performance indicators which may be taken into account for further work by the Secretariat  (reference to Paris performance indicators provided)
<b><i>Paradigm shift objective</i></b>	Shift to low-emission development pathways	
↑		
<b><i>Impacts (Fund level)</i></b>	<p><b>1.0</b> Reduced emissions through increased low-emission energy access and power generation <i>(Paris result areas e &amp; f)</i></p> <p><b>2.0</b> Reduced emissions through increased access to low-emission transport <i>(Paris result area d)</i></p> <p><b>3.0</b> Reduced emissions from buildings, cities, industries and appliances <i>(Paris result areas b &amp; c)</i></p> <p><b>4.0</b> Reduced emissions from land use, deforestation, forest degradation, and through sustainable forest management, and conservation and enhancement of forest carbon stocks <i>(Paris result areas g, h &amp; i)</i></p>	<p>1.1 Level of capacity (MW) from low emission sources <i>(Paris performance indicators e, f &amp; h)</i></p> <p>2.1 Emissions levels from Vehicles <i>(Paris performance indicator c)</i></p> <p>3.1 Annual energy savings (GWh) <i>(Paris performance indicators b &amp; d)</i></p> <p>4.1 tCO<sub>2</sub>eq reduced from forest/land use <i>(Paris performance indicator g)</i></p>
↑	↑	
<b><i>Project/ programme outcomes (Country-driven from NAMAs, climate change strategies, mitigation policies, etc.)</i></b>	<p><b>5.0</b> Strengthened institutional and regulatory systems for low-emission planning and development</p> <p><b>6.0</b> Increased number small, medium and large low-emission power suppliers</p> <p><b>7.0</b> Lower energy intensity of buildings, cities, industries, and appliances</p> <p><b>8.0</b> Increased use of low carbon transport</p>	<p>5.1 Number of low-emission policies, laws, strategies and plans supported by the Fund</p> <p>6.1 MW of capacity from low emission sources <i>(Paris performance indicator f)</i></p> <p>7.1 Energy savings (GWh) <i>(Paris performance indicator b)</i></p> <p>8.1 Number of passengers (disaggregated by gender where possible) using low emission vehicles</p> <p>8.2 Modal share (by transportation type) <i>(Paris performance indicator e)</i></p>



	<b>9.0</b> Improved management of land and forest or improved management contributing to emissions reduction	9.1 Forest area under improved management and reduced carbon emissions practices (Paris performance indicator g) 9.2 Trend in women's/men's livelihood from sustainable forestry
↑	↑	
<b>Programme/ project outputs</b> (to be defined by executing entities)		
↑	↑	
<b>Activities</b> (to be defined by executing entities)		
<b>Inputs</b>		

## Annex X: Initial adaptation logic model and possible initial performance indicators which may be taken into account for further work by the Secretariat

Levels	Results	Possible initial performance indicators which may be taken into account for further work by the Secretariat
<b>Paradigm shift objective</b>	<b>Increased climate-resilient sustainable development</b>	
↑		
<b>Impacts (Fund level)</b>	<p><b>1.0</b> Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions</p> <p><b>2.0</b> Increased resilience of health and well-being, and food and water security</p> <p><b>3.0</b> Increased resilience of infrastructure and the built environment to climate change threats</p> <p><b>4.0</b> Increased resilience of ecosystems and ecosystem services</p>	<p>1.1 Percentage reduction in the number of people affected (c.f. CRED definition) by climate-related disasters, including the differences between vulnerable groups (women, elderly, etc.) and the population as a whole</p> <p>1.2 Number (percentage) of households adopting a wider variety of livelihood strategies/coping mechanisms</p> <p>2.1 Percentage of food-secure households (reduced food gaps)</p> <p>2.2 Percentage of households with year-round access to adequate water (quality and quantity for household use)</p> <p>2.3 Climate induced disease incidence in areas where adaptation health measures have been introduced (% of population)</p> <p>2.4 Area (ha) of agricultural land made more resilient to climate change through agricultural practices (e.g. planting times, new and resilient native varieties, efficient irrigation systems adopted)</p> <p>3.1 Value of infrastructure made more resilient to rapid-onset events (e.g. floods, storm surges, heat-waves) and slow onset-processes (e.g. sea-level rise)</p> <p>3.2 Number of new infrastructure projects or physical assets strengthened or constructed to withstand condition from climate variability and change (e.g. to heat, humidity, wind velocity and floods)</p> <p>4.1 Area (ha) of habitat or kilometres of coastline rehabilitated (e.g. reduced external pressures such as overgrazing and land degradation through logging/collecting); restored (e.g. through replanting); or protected (e.g. through improved fire management; flood plain/buffer maintenance)</p> <p>4.2 Number and area of agroforestry projects, forest-pastoral systems, or ecosystems –based adaptation systems established or enhanced</p>
↑	↑	



<p><b>Project/pr ogramme outcomes</b> <i>(Country- driven drawn from continuous planning as reflected in NAPs.)</i></p>	<p><b>5.0</b> Strengthened institutional and regulatory systems for climate-responsive planning and development</p> <p><b>6.0</b> Increased generation and use of climate information in decision-making</p> <p><b>7.0</b> Strengthened adaptive capacity and reduced exposure to climate risks</p> <p><b>8.0</b> Strengthened awareness of climate threats and risk-reduction processes</p>	<p>5.1 Degree of integration/ mainstreaming of climate change in national and sector planning and coordination in information sharing and project implementation [Core indicator]</p> <p>6.1 Evidence that climate data is collected, analysed and applied to decision-making in climate-sensitive sectors at critical times by the government, private sector and men/women. [Core indicator]</p> <p>6.2 Perception of men, women, vulnerable populations, and emergency response agencies of the timeliness, content and reach of early warning systems [Core indicator]</p> <p>7.1 Extent to which vulnerable households, communities, businesses, and public sector services use improved tools, instruments, strategies and activities (including those supported by the Fund) to respond to climate variability and climate change [Core indicator]</p> <p>8.1 Percent of target population aware of the potential impacts of climate change and range of possible responses [Core indicator]</p>
<p>↑</p>	<p>↑</p>	
<p><b>Programme / project outputs</b> <i>(to be defined by executing entities)</i></p>		
<p>↑</p>	<p>↑</p>	
<p><b>Activities</b> <i>(to be defined by executing entities)</i></p>		
<p><b>Inputs</b></p>		

## Annex XI: Initial financial risk management framework

1. The Fund's initial financial risk management framework consists of the following components:

- (a) Financial risk policies;
- (b) Risk monitoring and reporting; and
- (c) Risk governance.

### I. Financial risk policies

2. The Fund's initial financial risk policies are:

- (a) The Fund will in aggregate seek to maximize grant contributions, taking into account its theme-based allocation. It is foreseen that grant contributions must significantly exceed loan amounts;
- (b) The Fund will initially provide grants and loans through implementing entities (IEs) and intermediaries as per the financial terms and conditions to be approved. Intermediaries will be permitted to blend grants and loans received from the Fund with their own sources of financing or with third-party financing;
- (c) There will be no cross-subsidization between providers of grants and providers of loans. To this end, the Fund, with support from the Trustee, will monitor incoming and outgoing flows and incorporate a conservative hypothesis with respect to possible financial losses in order to ensure that actual reflows from outgoing loans will always exceed repayments due to contributors. The modalities of loan contributions will be defined, both at the collective and at the individual contributor level, in terms of concessionality and other modalities (including the possibility of associated grant or capital provision and appropriate arrangements with contributors regarding the possible write-down of loan contributions), to ensure that loan contributions do not entail any risk in this respect. Overall, these provisions will ensure that the average concessionality level of outgoing loans will be less than the average concessionality level of incoming contributions with a sufficient margin to cover credit risk;
- (d) To further avoid cross-subsidization between providers of grants and providers of loans, future financial losses will be borne by all contributors, which will require that one of the following arrangements (preferably the same) be taken with each loan contributor:
  - (i) Appropriate arrangements with contributors regarding the possible write-down of loan contributions; or
  - (ii) The associated provision of a grant or capital contribution by the contributor to the Fund;
- (e) The grant or capital contribution to be made by loan contributors to cushion against credit risk should be calculated on the basis of a realistic assessment of the risks the Fund is expected to take. If, despite all reasonable efforts to maintain the risk profile of the portfolio of the Fund in line with this realistic assessment, the capital cushion proves inadequate, loan contributors will then be expected to contribute additional grant or capital contributions;
- (f) While maximizing effectiveness, the Fund will seek diversity in its asset portfolio on the basis of the Board-determined allocation criteria, geography, results areas, and

accredited entities, keeping in mind prudent risk limits from a portfolio diversification perspective where relevant for loans and instruments that entail possible losses;

- (g) The Fund shall take a zero tolerance approach to fraud and shall seek to minimize the risk of moral hazard with respect to intermediaries, consistent with the initial fiduciary principles and standards set out in Annex II.

## II. Financial risk monitoring and reporting management system

3. Table 1 provides an overview of the Fund’s risk monitoring and reporting management system.

**Table 1: Fund’s risk monitoring and reporting management system**

<b>RISK MONITORING AND REPORTING TOOL</b>	<b>FREQUENCY OF USE</b>	<b>PURPOSE</b>
<b>Financial risk management summary</b>	Quarterly	Track key financial risk indicators in real time.
<b>Financial risk register</b>	Annually	Perform an annual in-depth review of key risk events, management response and residual risk.
<b>Financial statements</b>	Semi-annually	Gain an overview of the institution’s financial situation and its trend over time.
<b>Portfolio review</b>	In real time, with an annual portfolio report	Identify leading indicators of financial risk within the portfolio based on the submission of information from intermediaries and implementing entities; perform stochastic portfolio analyses and sensitivity analyses.
<b>External audit report</b>	Annually	Confirm the accuracy of financial statements as well as obtain a third-party view of the financial health of an institution
<b>Self-evaluation by the Committee of Sponsoring Organizations of the Treadway Commission</b>	Every two years	Scan possible risk gaps not covered by the above-mentioned monitoring instruments.

## III. Financial risk governance: roles and responsibilities

4. Table 2 provides an overview of the roles and responsibilities related to the Fund’s financial risk governance.

**Table 2: Fund's financial risk governance: roles and responsibilities**

	<b>Chief Financial Officer (and Risk Manager*)</b>	<b>Secretariat's Risk Working Group**</b>	<b>Board's Risk Management Committee</b>
<b>Role and responsibility</b>	<ul style="list-style-type: none"> <li>• Preparation of financial statements</li> <li>• Preparation of annual portfolio reviews</li> <li>• Management of internal and external audit processes</li> <li>• Review of the financial reporting from the Trustee (and implementing entities and intermediaries)</li> <li>• Preparation of periodic financial risk management summaries</li> <li>• Development of an asset-liability management process</li> </ul>	<ul style="list-style-type: none"> <li>• Review of financial statements, portfolio review and risk summary</li> <li>• Integration of portfolio-level risk data into Secretariat's due diligence as part of the approval process for project and programme funding</li> <li>• Management of the annual Committee of Sponsoring Organizations of the Treadway Commission (COSO) risk self-assessment for the Secretariat</li> </ul>	<ul style="list-style-type: none"> <li>• Overall oversight of the Fund's risk management</li> <li>• Review of financial statements, portfolio review and risk summary</li> <li>• Recommendation of risk ceilings (the Fund's risk appetite or risk limit) for the Board's approval</li> <li>• Assessment of compliance of the Fund's financial risk levels with the ceilings</li> <li>• Provision of guidance to the Secretariat on portfolio risk</li> <li>• Reporting on financial risk to the Board</li> <li>• Management of the annual COSO risk self-assessment for the Board</li> </ul>

\* The Risk Manager and General Counsel report to the Executive Director and advise both Executive Director and the Board on risk and on legal matters respectively.

\*\* With support from the Trustee as appropriate.

## Annex XII: The Fund’s financial risk categorization and management\*

	ASSET-SIDE RISK	LIABILITY-SIDE RISK	ASSET-LIABILITY MISMATCH RISK
<b>Aspect of the Fund’s business</b>	<p>Funding extended to developing country entities to fund climate mitigation and adaptation projects and programmes</p> <ul style="list-style-type: none"> <li>• Grants</li> <li>• Concessional loans</li> <li>• Other financial instruments, as may be approved by the Board</li> </ul>	<p>Financial contributions pledged or received from partners</p> <ul style="list-style-type: none"> <li>• Grants</li> <li>• Capital contributions</li> <li>• Loans</li> <li>• Any other input received by the Fund</li> </ul>	<p>Mismatch between the Fund’s assets and liabilities</p>
<b>Key nature of risks (non-exhaustive list)</b>	<ul style="list-style-type: none"> <li>• Counter-party risk: counter-party evaluation, etc.</li> <li>• Implementation risk (non-performing borrower/intermediary or implementing entity (IE), as appropriate)</li> <li>• Technical risk (risky technology)</li> <li>• Market risk (price movements)</li> <li>• Foreign exchange risk, as may be approved by the Board (exchange rate risk, currency availability)</li> <li>• Country risk (war and civil disturbance, expropriation, breach of contract)</li> </ul>	<ul style="list-style-type: none"> <li>• Arrears in contributions</li> <li>• Foreign exchange movements in currencies held</li> <li>• Interest rate movements</li> <li>• Liquidity risk</li> <li>• Counter-party risk relating to the Trustee</li> </ul>	<ul style="list-style-type: none"> <li>• Maturity and tenor: mismatch in duration of funding received and funding granted</li> <li>• Interest rate: mismatch in pricing of funding received and granted</li> <li>• Currencies: mismatch in currencies of funding granted and received</li> <li>• Liquidity mismatch between assets and liabilities</li> <li>• Non-performing loan (NPL) rate: aggregate NPLs and grants provided exceed grants received</li> <li>• Cross-subsidy risk: grants from certain contributors serve to cross-subsidize loan repayments to other partners</li> </ul>

\*Excludes global financial and political risks.

	<b>ASSET-SIDE RISK</b>	<b>LIABILITY-SIDE RISK</b>	<b>ASSET-LIABILITY MISMATCH RISK</b>
	<p>Asset-side risks need to be monitored and managed in aggregate at the portfolio level</p> <p>At the project level, risks will be managed and mitigated by the IE or intermediary, as appropriate:</p> <ul style="list-style-type: none"> <li>• Risk assessment: technical and financial appraisal to evaluate the overall risk profile of the project/programme</li> <li>• Implementation risk: borrower/ implementer accreditation, third-party guarantees of performance</li> <li>• Technical risk: independent engineering review</li> <li>• Market risk: hedging, contractual terms (e.g. take-or-pay)</li> <li>• Foreign exchange risk: foreign exchange hedging, swaps</li> <li>• Country risk: political risk insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Arrears in contributions pledged: mitigated through contracts and/or backstop guarantees</li> <li>• Foreign exchange risk: mitigated through institutional exchange policies, hedging and/or swaps</li> <li>• Interest rate risk: mitigated through hedging such as swaps</li> <li>• Liquidity risk: mitigated by the Trustee through cash management</li> <li>• Counter-party risk: counter-party evaluation and/or performance guarantees/bonds</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of asset/liability match in real time to avoid exceeding Board-established ceilings on maturity and tenor; interest rate; currencies; and NPL rate</li> <li>• Ongoing asset-liability management process to track asset-liability mismatch</li> </ul>

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## **Annex XIII: Financial arrangements for grants and concessional loans and the role of implementing entities and intermediaries in financial arrangements<sup>1</sup>**

### **I. Financial arrangements for grants and concessional loans**

- (a) The implementing entity (IE) or intermediary will submit a funding proposal that in its assessment will make the project or programme viable given the risk profile of the project/programme as well as its contribution to the Fund's objectives;
- (b) The subsidy element provided through grants and/or concessional lending will be the minimum amount necessary to make the project or programme viable and help achieve the Fund's paradigm shift objective; and
- (c) The Secretariat, as part of its second stage due diligence, will assess the validity of the proposed financing terms and conditions, and will inform the Board accordingly in order for the Board to decide on the funding proposal.

### **II. The role of implementing entities and intermediaries**

- (a) The Fund will include in its administrative agreements with the IEs or intermediaries a provision on expected repayment of the non-grant portion of the funds; and
- (b) The intermediary will use resources provided by the Fund to finance a project or programme, under terms and conditions that will make it viable at the minimum level of concessionality, as specified in the agreed funding proposal, including blending where relevant.

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<sup>1</sup> This annex would not pre-determine the outcome of the document on financial terms and conditions.

## Annex XIV: Initial investment framework

1. The Fund's initial investment framework consists of the following components:
  - (a) Investment policies;
  - (b) Investment strategy and portfolio targets; and
  - (c) Investment guidelines.

### I. Investment policies

2. The Fund's initial set of investment policies covers all grants, concessional loans and other financial instruments extended by the Fund. They are as follows:
  - (a) The Fund will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development, in accordance with the Fund's initial results management framework, its initial result areas, as laid out in decision B.05/03, and subsequent decisions on additional result areas for adaptation, and consistent with a country-driven approach;
  - (b) Funding received and extended by the Fund will be accounted for in grant-equivalent terms based on a standard methodology, to be developed by the Fund based on best international practices to provide an accurate comparison of funding amounts between financial instruments;
  - (c) The Fund will provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable. Concessional funding is understood as funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme;<sup>1</sup>
  - (d) Financing provided by the Fund to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes;
  - (e) The Fund will not "crowd out" potential financing from other public and private sources; and
  - (f) Only revenue-generating activities that are intrinsically sound from a financial point of view will be supported through loans by the Fund.

### II. Investment strategy and portfolio targets

3. The Fund's investment strategy includes portfolio targets and investment guidelines. Table 1 and table 2 represent the initial decisions. The strategy will be further developed from the initial parameters and guidelines for allocation of resources as laid out in decision B.06/06 and the initial result areas as defined in decision B.05/03 and subsequent decisions on additional result areas for adaptation.

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<sup>1</sup> Governing Instrument, paragraph 35.

**Table 1: Initial portfolio targets**

<b>Initial allocation parameters</b>	<b>Initial portfolio targets</b>
Balance between mitigation and adaptation	50/50 (over time)
Adaptation allocation for vulnerable countries (including the least developed countries (LDCs), small island developing States (SIDS) and African States)	Floor of fifty per cent of adaptation allocation
Geographic balance	Reasonable and fair allocation across a broad range of countries
Engagement with the private sector	Maximize fund-wide engagement with the private sector, including through significant allocation to the PSF
Readiness and preparatory support	Sufficient support for readiness and preparatory activities associated with the above

### III. Investment guidelines

4. The Fund's initial investment guidelines will be activity-based and will be composed of the six criteria and 25 coverage areas shown in Table 2:

**Table 2: Initial criteria for assessing programme/project proposals**

<b>Criterion</b>	<b>Definition</b>	<b>Coverage area</b>
<b>Impact potential</b>	Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas	<ul style="list-style-type: none"> <li>• Mitigation impact</li> <li>• Adaptation impact</li> </ul>
<b>Paradigm shift potential</b>	Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment	<ul style="list-style-type: none"> <li>• Potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than 2 degrees</li> <li>• Potential for knowledge and learning</li> <li>• Contribution to the creation of an enabling environment</li> <li>• Contribution to the regulatory framework and policies</li> <li>• Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans</li> </ul>
<b>Sustainable development potential</b>	Wider benefits and priorities	<ul style="list-style-type: none"> <li>• Environmental co-benefits</li> <li>• Social co-benefits</li> <li>• Economic co-benefits</li> <li>• Gender-sensitive development impact</li> </ul>
<b>Needs of the recipient</b>	Vulnerability and financing needs of the beneficiary country and population	<ul style="list-style-type: none"> <li>• Vulnerability of the country</li> <li>• Vulnerable groups and gender aspects</li> <li>• Economic and social development level of the country and the affected population</li> </ul>

Criterion	Definition	Coverage area
		<ul style="list-style-type: none"> <li>• Absence of alternative sources of financing</li> <li>• Need for strengthening institutions and implementation capacity</li> </ul>
<b>Country ownership</b>	Beneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions)	<ul style="list-style-type: none"> <li>• Existence of a national climate strategy</li> <li>• Coherence with existing policies</li> <li>• Capacity of implementing entities, intermediaries or executing entities to deliver</li> <li>• Engagement with civil society organizations and other relevant stakeholders</li> </ul>
<b>Efficiency and effectiveness</b>	Economic and, if appropriate, financial soundness of the programme/project	<ul style="list-style-type: none"> <li>• Cost-effectiveness and efficiency regarding financial and non-financial aspects</li> <li>• Amount of co-financing</li> <li>• Programme/project financial viability and other financial indicators</li> <li>• Industry best practices</li> </ul>

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## **Annex XV: Governing Instrument, and decisions of the Board and the Conference of the Parties to the United Nations Framework Convention on Climate Change reflecting the structure of the Fund and the Secretariat**

Decision 1/CP.16: The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention

Governing Instrument for the Green Climate Fund

Rules of Procedure of the Board

Decision 3/CP.17: Launching the Green Climate Fund

Decision 6/CP.18: Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund

Decision 4/CP.19: Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund

Decision 5/CP.19: Arrangements between the Conference of the Parties and the Green Climate Fund

Decision B.01-13/01: Additional rules of procedure of the Board

Decision B.01-13/06: Business model framework

Decision B.02-12/02: Additional rules of procedure of the Board

Decisions B.04/02 and B.04/03: Establishment of the independent Secretariat

Decision B.04/05: Business model framework – Country Ownership

Decision B.04/08: Business model framework – Private Sector Facility

Decision B.05/08: Business model framework - Access

Decisions B.05/10 and B.05/11: Establishment of the independent Secretariat

Decisions B.05/12 and B.05/13: Committees and panels

Decision B.05/17: Resource mobilization

Decision B.05/21: Arrangements with the Interim Trustee

Decision B.06/03: Administrative policies of the Fund

Decisions B.06/08 and B.06/09: Terms of reference of the Independent Evaluation Unit, the Independent Integrity Unit, and the independent redress mechanism

Decision B.07/02: 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

Decision B.07/03: Initial proposal approval process, including the criteria for programme and project funding

Decision B.07/04: Initial results management framework of the Fund

Decision B.07/05: Fund's financial risk management framework

Decision B.07/06: Fund's investment framework

Decision B.07/08: Initial modalities for the operation of the Fund's mitigation and adaptation windows and its Private Sector Facility

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## **Annex XVI: Governing Instrument, and decisions of the Board and the Conference of the Parties to the United Nations Framework Convention on Climate Change reflecting the initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility**

Governing Instrument for the Green Climate Fund

- Decision 3/CP.17: Launching the Green Climate Fund
- Decision 4/CP.19: Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund
- Decision 5/CP.19: Arrangements between the Conference of the Parties and the Green Climate Fund
- Decision B.01-13/06: Business model framework
- Decision B.04/05: Business model framework – Country Ownership
- Decision B.04/06: Business model framework – Access
- Decision B.04/08: Business model framework – Private Sector Facility
- Decision B.05/03: Business model framework – Objectives, results and performance indicators and Results Management Framework
- Decision B.05/04: Business model framework – Financial Inputs
- Decision B.05/05: Business model framework – Allocation
- Decision B.05/07: Business model framework – Financial Instruments
- Decision B.05/08: Business model framework – Access
- Decision B.05/14: Readiness and preparatory support
- Decision B.06/06: Policies and procedures for the initial allocation of Fund resources
- Decision B.06/07: Options for a Fund-wide gender-sensitive approach
- Decision B.06/11: Detailed programme of work on readiness and preparatory support
- Decision B.07/02: 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
- Decision B.07/03: Initial proposal approval process, including the criteria for programme and project funding
- Decision B.07/04: Initial results management framework of the Fund
- Decision B.07/05: Fund's financial risk management framework
- Decision B.07/06: Fund's investment framework

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## **Annex XVII: Arrangements for the collective engagement in the initial resource mobilization process**

Arrangements for the collective engagement of all interested contributors in the initial resource mobilization process:

- (a) The collective engagement will take the form of one or more meetings, as well as virtual communication between meetings as necessary;
- (b) The Co-Chairs will issue an open invitation to all potential contributors to the Fund's initial resource mobilization process, including from the private sector and philanthropic organizations, within a week from adoption of this decision;
- (c) The first meeting of the initial resource mobilization process should take place before the end of June 2014. Further meetings may be arranged as necessary. A meeting aiming to finalize the collective engagement in the initial resource mobilization process, will take place no later than the end of November 2014;
- (d) The meetings will be open for participation by contributors, the Board's Co-Chairs, four representatives of the Board (two developed/two developing), two active observers of the Board (one civil society/one private sector), as well as the Executive Director;
- (e) The meetings will be organized in the form of technical sessions, open to contributors and observers, as well as executive sessions, which will be open only to contributors and the Co-Chairs of the Board. Representatives of the Interim Trustee will be invited to attend sessions of such meetings in order to provide relevant support to the Secretariat;
- (f) The rules of conduct of the initial resource mobilization process will be developed at the first meeting;

### *Documentation*

- (g) The Secretariat will prepare a programming document that will summarize the decisions taken by the Board that are necessary to guide decisions relevant to the initial resource mobilization process;
- (h) The disclosure of information and documents regarding the initial resource mobilization process will be governed by the Fund's Interim Information Disclosure Practice (decision B.05/15, Annex XX).

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## Annex XVIII: Decisions taken between meetings

*DECISION B.BM-2014/06*

*The Board, through a decision taken between meetings on a no-objection basis:*

*Approved the accreditation of the following as observer organizations with the Fund:*

***International entities:***

*Food and Agriculture Organization of the United Nations (FAO)*

*Global Water Partnership Organization (GWPO)*

*Center for International Forestry Research (CIFOR)*

***Civil society organizations:***

*Conservation International (CI)*

*Global Carbon Capture and Storage Institute (Global CCS Institute)*

*Save the Children Australia*

*Stichting Climate Action Network South Asia (CANSA)*

*Wahana Lingkungan Hidup Indonesia (WALHI)/ Friends of The Earth Indonesia (FoE Indonesia)*

*WLA - Club de Madrid*

*Women Organizing for Change in Agriculture and Natural Resources Management (WOCAN)*

*Yayasan Keanekaragaman Hayati Indonesia (Indonesian Biodiversity Foundation)*

***Private sector organizations:***

*Korea Finance Cooperation (KoFC)*

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## **Annex XIX: List of Board members and alternate members participating in the meeting**

### **Members of the Board**

Mr. Arnaud Buisse  
Mr. Per Callesen  
H.E. Amb. Jan Cedergren  
Mr. Omar El-Arini  
Mr. Zaheer Fakir  
Ms. Ana Fornells de Frutos  
Mr. Pedro Garcia Brito  
Mr. Henrik Harboe  
Mr. David Kaluba  
Mr. Adam Kirchknopf  
Mr. Manfred Konukiewitz (Co-Chair)  
Mr. Ziqiang Liang  
Mr. Patrick McCaskie  
Mr. Kentaro Ogata  
Mr. Jose Ma. Clemente Salceda (Co-Chair)  
H.E. Mr. Sergio Serra  
Mr. Ayman M. Shasly  
Mr. Angel Valverde  
Mr. George Zedginidze

### **Alternate members of the Board**

Mr. Mesbah U. Alam  
Mr. Irfa Ampri  
Mr. Dipak Dasgupta  
H.E. Amb. Ali'ioaigi Feturi Elisaia  
Mr. Norbert Gorissen  
H.E. M. Audrey Joy Grant  
Mr. Anton Hilber  
Mr. Rod Hilton  
Ms. Irene Jansen  
Mr. Petr Kalas  
Mr. Tosi Mpanu Mpanu  
Mr. Tomonori Nakamura  
Mr. Clarence Alexander Severens  
Ms. Ludovica Soderini  
Mr. Rodrigo Suarez  
Mr. Josceline Wheatley  
Mr. Kwang-Yeol Yoo

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