



**GREEN
CLIMATE
FUND**

Meeting of the Board
2 – 5 November 2015
Livingstone, Republic of Zambia
Provisional Agenda Item 20*

GCF/B.11/22

10 October 2015

Trustee arrangements, including the review of the Interim Trustee and the initiation of a process to select the Trustee of the Green Climate Fund

Summary

This document presents an update on the steps towards selecting a Permanent Trustee and proposes a draft decision for consideration by the Board on the terms of reference of the selection process for the review of the Interim Trustee. The following points will be discussed:

- (a) Drafting the terms of reference for the review of the Interim Trustee, following paragraph 26 of the Governing Instrument for the Green Climate Fund (GCF);
- (b) Examining the option for the GCF to provide its own Permanent Trustee services;
- (c) Developing a list of institutions/organizations which could potentially serve as Permanent Trustee;
- (d) Developing a methodology for an open, transparent and competitive bidding process in order to select the Permanent Trustee; and
- (e) The anticipated activities and the necessary documents to be submitted by the Secretariat in order to further develop, implement and finalize the selection process for the Permanent Trustee.

* The agenda item number will be determined when the final sequence of items in the provisional agenda is confirmed by the Co-Chairs.

I. Introduction

1. In its decision B.08/22, the Board agreed that the process to appoint the Permanent Trustee should be concluded no later than the end of 2017 so that the Permanent Trustee can start its contractual agreement with the Green Climate Fund (GCF) no later than April 2018. In the same decision, the Board requested the Secretariat to consider the following actions:
 - (a) Drafting the terms of reference for the review of the Interim Trustee, following paragraph 26 of the Governing Instrument for the GCF;
 - (b) Examining the option for the GCF to provide its own Permanent Trustee services;
 - (c) Developing a list of institutions/organizations which could potentially serve as Permanent Trustee; and
 - (d) Developing a methodology for an open, transparent and competitive bidding process to select the Permanent Trustee.

II. Possible action by the Board

2. Regarding the review of the Interim Trustee, the Board may wish to approve the terms of reference for the review and authorize the Secretariat to implement it by the fourteenth meeting of the Board (B.14).

III. Review of the Interim Trustee

3.1 Key elements of the performance of a financial agent of the nature of the Interim Trustee

3. Based on the Governing Instrument, the GCF will have a Trustee to manage its financial assets, maintain appropriate financial records, and prepare the relevant financial statements and reports in accordance with the applicable decisions of the Board. Based on these roles and responsibilities, the main functions of the Interim Trustee thus far are as follows:¹
 - (a) Contribution management;
 - (b) Contribution agreement management and support;
 - (c) Investment management;
 - (d) Commitment recording and cash transfer; and
 - (e) Accounting and financial reporting.
4. As the GCF operations grow larger and more complex, so do the management of financial resources needs. In addition to the above-mentioned basic functions, there are other services which could be considered by the Board in the future as part of remit of the Interim Trustee:
 - (a) Support of the replenishment process;
 - (b) Provision of foreign exchange hedging products and other risk management financial instruments; and

¹ Based on two agreements: "Agreement on the terms and conditions for the administration of the Green Climate Fund Trust Fund", 15 October 2013, and "Amended and restated agreement on the terms and conditions for the administration of the Green Climate Fund Trust Fund", 22 April 2015.

- (c) Arrangement of the issuance of bonds. For example, GAVI Alliance for instance relied on its trustee (the World Bank) to issue bonds under the International Finance Facility for Immunisation mechanism.

3.2 Draft terms of reference for the review of the Interim Trustee

5. The draft terms of reference (TOR) are contained in annex II to this document. These TOR reflect the agreed services provided by the Interim Trustee as outlined in section 2.1 above.
6. The Interim Trustee has been involved with the GCF in two phases:
- (a) Phase 1 where the Interim Trustee supported the GCF prior to the recognition of its legal capacity, during which the Interim Trustee worked with the Interim Secretariat; and
- (b) Phase 2, once the GCF was endowed with legal personality.
7. In phase 1, the Interim Trustee entered into agreements directly with contributors, received and managed contributions, and made cash transfers to cover the administrative costs of the Interim Secretariat. In phase 2, the Interim Trustee enters into agreements with the GCF and with each contributor, supports initial resource mobilization and the contribution agreement process, processes cash payments by contributors, manages the deposit and encashment of promissory notes and makes transfers to GCF financed projects and programmes. Therefore, TOR should accommodate the performance review based on these two phases.
8. In addition to the draft TOR for the review, the Board may consider the methodology for this review, for example who will implement the review, how will this organization/person be selected, the specific process, how to collect data and inputs, costs, etc.

3.3 Next steps

9. Upon the decision of the Board to approve the TOR for the review of the Interim Trustee and to request the Secretariat to implement the review, in consultation with the Interim Trustee, the Secretariat will complete the review by B.14 and report to the Board the outcomes and recommendations of this review.

IV. Options for the Green Climate Fund to provide its own Permanent Trustee services

4.1 Activities that could be carried out directly by the Green Climate Fund and those which would need to be contracted out

10. As per section 2.1 above, based on the needs of the GCF, the services that could be considered by the Board to be included in the TOR of a Permanent Trustee are the following;
- (a) Contribution management;
- (b) Contribution agreement and support;
- (c) Investment management;
- (d) Commitment recording and cash transfer;
- (e) Accounting and financial reporting of the Trust Fund;
- (f) Support of replenishment process;

- (g) Provision of foreign exchange hedging products; and
 - (h) Arrangement of the issuance of bonds.
11. Moreover, depending on the operational and administrative size and needs of the GCF, as well as its institutional capacity, the GCF needs to determine to what extent Trustee services can be engaged in directly.
12. The GCF could consider two options to provide its own permanent financial management services:
- (a) Outsourcing the activities to financial institutions; and
 - (b) Directly implementing all of the activities of the Trustee.
13. The Board may wish to have these two options considered in stages, as the operation and staffing of the GCF grows over time.
14. In the first stage, when the GCF reaches a level where the volume of its operations and the transactions related to them are at a significant scale, depending on the experience and knowledge built into the institutions and a cost-benefit analysis, the GCF could consider carrying out activities, which may not require the level of expertise necessary for investing funds and other specialized financing and continue to contract out the more specialized operations. For example, after about 10 years of being in operation with the World Bank as its Trustee, the Global Fund to Fight AIDS, Tuberculosis and Malaria decided to implement the transfer of funds itself, utilizing a third-party financial institution for execution. This activity used to be carried out by its Trustee. Also, the Board of the GAVI Alliance, the vaccine alliance in existence since 2000, approved a policy in 2011 to manage by itself its currency hedging.
15. In the second stage, after the GCF has grown into a sizable and mature institution where much knowledge and experience has been developed and accumulated, depending on the cost-benefit, it may consider managing most or all Trustee activities. This would mean that GCF and the Contributors would be the two co-signatories of contribution agreements/arrangements. Also, depending on the type of activities that the GCF would like to implement in-house, it may be necessary for the GCF to be licensed as a financial institution, for example, to have access to a payment system. The legal requirements and other implications would also have to be thoroughly analysed for the GCF to take this route.
16. Since the GCF is still in its early stages of operation and the institutional capacity development is also in process, the Board may wish to review the status of functions of a Trustee in parallel with the performance of the GCF operations during the review of Interim Trustee for further consideration of the GCF to have its own in-house Permanent Trustee.

V. Institutions/organizations with financial Trustee experience relevant to the Green Climate Fund

5.1 Types of Trustees

17. In general, there are two types of Trustee, according to the activities they are engaged in:
- (a) Basic financial resources management; and
 - (b) Provision of additional value-added services.

5.1.1 Basic financial resources management

18. These services could be considered the basic functions of a Trustee, where the functions would include performing basic financial services such as receiving contributions, strategic asset allocation, transferring funds based on instructions from the governing body, consolidating financial statements, etc. These services are usually provided by most global banks and some multilateral institutions.

5.1.2 Provision of additional value-added services

19. These additional value-added services could cover the following functions, which are necessary to the operations of the GCF:

- (a) Acting as a one of the legal counterparties to contribution agreements/arrangements;
- (b) Assisting in ensuring that legal documentation does not contravene the trust agreement;
- (c) Managing the timely receipt of contributions based on contribution agreements,
- (d) Administering sovereign promissory notes;
- (e) Assisting in the resource mobilization and replenishment processes;
- (f) Hedging of foreign exchange; and
- (g) The possibly arranging bond issuance.

20. For the GCF, as it is still at its early stages of operation and institutional capacity development, the Board may consider it as an advantage to have in place a permanent Trustee with both of the above characteristics as 'one stop shop' for effective and efficient management of the funds.

5.2 List of institutions with Trustee experience

21. There are two categories of institutions which can provide a combination of the above-mentioned services: international and multilateral institutions and banks. The section below explains each category and introduces a list of institutions which represents each group.

5.2.1 International and Multilateral institutions

22. These institutions include both multilateral development banks and multilateral financial institutions as well as international organizations, which provide financial support and professional advice on economic and social development activities in developing countries. As they provide financial support and services, many institutions under this category also provide a wide range of Trustee services. Examples of institutions which provide Trustee services are the African Development Bank, the Asian Development Bank, the European Investment Bank, the Inter-American Development Bank, the International Fund for Agricultural Development, the World Bank and some United Nations agencies.

5.2.2 Banks

23. Many global private banks have Trustee services, as one of their core business, with professional legal knowledge and financial expertise, detailed record-keeping and coordination with bankers, lawyers, accountants and other professional advisers, to assist in developing and implementing solutions that comply fully with all legal and regulatory requirements. Also, they usually have a global network of professionals that can assist in multiple jurisdictions. They could also provide a wide range of custom-made services such as cash management, foreign exchange execution services, portfolio advice and management, financial strategy advice,

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.11/22 titled “Trustee arrangements, including the review of the Interim Trustee and the initiation of a process to select the Trustee of the Green Climate Fund”:

- (a) Takes note of the arrangements for the review of the Interim Trustee;
- (b) Approves the terms of reference as contained in annex II to this document; and
- (c) Requests the Secretariat to implement the review of the Interim Trustee based on the approved terms of reference.

Annex II: Draft terms of reference for the review of the Interim Trustee

I. Green Climate Fund: Questionnaire to assess the performance of the Interim Trustee

1.1 Engagement with Green Climate Fund (including both phase 1 and phase 2)¹

1.1.1 Management of investments and costs

- (a) What has been the annualized return on investments on liquid GCF Trust Fund balances? (Since the inception of the GCF, but also the performance of the Interim Trustee Trust Funds investment portfolio in the last two-, one-year period.)
- (b) What benchmark is used by the fund manager to measure performance and what was the relative performance with respect to that benchmark during the time periods mentioned above?
- (c) In addition to the benchmark, what has been the return in equivalent trust funds investment portfolios in other relevant organizations with similar investment objectives, disbursement profiles and risk tolerances?
- (d) Has the annual administrative budget presented by the Interim Trustee been reasonable and reflected by how long it took to agree with the Board on final amounts? How do these expenses compare to similar Trustee services provided by other multilateral or commercial banks?

Indicators

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| (i) | Returns since the inception of the GCF and in the last two-, one-year period; |
| (ii) | Returns of the World Bank Trust Funds portfolio of investments in the last 10, 5, and 1-year periods; |
| (iii) | Returns of benchmarks and similar similar objectives, disbursement profiles and risk tolerances of other relevant organizations; and |
| (iv) | Evolution of costs as a percentage of assets under management; comparisons to other similar Trustees. |

1.1.2 Contribution management

- (a) How many contributions agreements have been finalized during phase 1 and phase 2?
- (b) How many contribution agreements have been drafted jointly with Secretariat during phase 1 and phase 2? How was the quality and timeliness of the Interim Trustee's response?

¹ Phase 1 refers to the period when the Interim Trustee supported the GCF prior to recognition of GCF legal capacity, during which the Interim Trustee worked with the Interim Secretariat. Phase 2 refers to the period when the GCF was endowed with legal personality and started providing financial support to GCF financed projects and programmes.

- (c) How many meetings and conferences has the Interim Trustee participated in with the Secretariat (including the Interim Secretariat) to discuss contribution agreements with contributors? How was the quality of Interim Trustee’s intervention?
- (d) Did the Interim Trustee send a timely request to the contributor regarding payments of cash and deposits of promissory notes according to the signed contribution agreements?

Indicators

- (i) Number of contributions agreements signed;
- (ii) Number of contribution agreements drafted;
- (iii) Number of meetings and conference calls attended by the Interim Trustee with the Secretariat to discuss contribution agreements with contributors;
- (iv) Number of requests sent to contributors regarding payments of cash and deposits of promissory notes according to the signed contribution agreements;
- (v) Qualitative assessment of the quality and timeliness of responses to inquiries from the Secretariat and contributors; and
- (vi) Qualitative assessment of Interim Trustee interventions at joint meetings and conferences.

1.1.3 Transfer of funds

- (a) How many transfers have been completed annually by the Interim Trustee to each one of the recipients of funds (implementing entities, the United Nations Framework Convention on Climate Change secretariat, the Global Environment Facility secretariat, the GCF Secretariat and the World Bank as Interim Trustee)?
- (b) Have these transfers been accurate and timely?

Indicators

- (i) Number and amount of transfers made in accordance with Board decisions; and
- (ii) Average time between request for transfers issued and funds received.

1.1.4 Financial reporting to the Board and the Secretariat

- (a) Have the financial reports on GCF Trust Fund been submitted in accordance with agreed procedures?
- (b) Were the contents of the financial reports accurate?
- (c) What has been the timeliness and effectiveness in responding to requests for changes in the formats of the reports?

Indicators

- (i) Number of quarterly, annual and other reports provided;
- (ii) Number of reports that were deemed by the Secretariat as needing revision due to inaccuracies; and
- (iii) Qualitative assessment of responsiveness to requests from the Board or the Secretariat, in accordance with procedures agreed between the GCF and the Interim Trustee.

1.1.5 **Overall relationship with the Board and Secretariat (customer service)**

- (a) Is Interim Trustee staff readily available for ad-hoc questions between Board meetings?
- (b) Is the Interim Trustee represented at Board meetings at the appropriate level and with staff with the necessary level of expertise to respond to Board members inquiries?

Indicators

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| (i) Survey of Board members and the Secretariat: Qualitative assessment of their interactions and interventions. |
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1.1.6 **Execution of legal contracts**

- (a) Is the legal staff of the Interim Trustee timely and effectively supporting the preparation of contribution agreements/arrangements jointly with the Secretariat?
- (b) Were contributors' questions and concerns timely and effectively addressed by the Interim Trustee and the Secretariat during the process of finalizing contribution agreements/arrangements?

Indicators

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| (i) Survey of contributors and the Secretariat: Qualitative assessment of their interactions with Interim Trustee staff. |
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