



**GREEN
CLIMATE
FUND**

Meeting of the Board
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30 March 2017

Reports from committees, panels and groups of the Board of the Green Climate Fund – Addendum

Summary

This document contains the reports on activities that have already been undertaken or are planned to be undertaken by the following committees and panels of the Board of the Green Climate Fund during the reporting period of November 2016 to February 2017:

- (a) Budget Committee;
- (b) Investment Committee;
- (c) Private Sector Advisory Group; and
- (d) Risk Management Committee.

I. Report on activities of the Budget Committee

1. The Budget Committee (BC), established by decision B.12/37 with its terms of reference set out in annex XXX to that decision, reviewed and made recommendations on the proposed annual administrative budget, financial reports and on the implementation of the finance, administrative and human resources operational policies.

1.1 Activities during the reporting period

2. Since the fifteenth meeting of the Board, the BC conducted two virtual meetings, one on 14 February and one on 15 March 2017.

1.1.1 Human resources

3. On the status of the staffing of the Secretariat, the BC reviewed and provided comments on the report,¹ and noted that the Secretariat's recruitment activities are progressing and that it expects to reach a total of approximately 100 staff members in April 2017. With regard to the staffing of senior posts, the Director of the Private Sector Facility Division joined in January 2017 and the Director of the Mitigation and Adaptation Division at the end of March 2017. The vacancy announcement for the position of the Director of the Country Programming Division closed on 13 March 2017.

4. The BC took note of the increased staffing of the Portfolio Management Unit.

5. The BC received updates on the progress of the revised Human Resources guidelines and encouraged a continued consultation process within the Secretariat. An update on the progress and any budgetary implications is planned to be provided to the Board during its seventeenth meeting (B.17) prior to presenting the guidelines for the Board's consideration at its eighteenth meeting.

1.1.2 Administrative budget

6. Following the information note prepared for the fifteenth meeting of the Board on the execution of the administrative budget for 2016,² the BC reviewed and provided comments on the report on the execution of the administrative budget as at 31 December 2016 and the 2016 unaudited financial statements. Further clarifications were sought on some budget items, which were noted and addressed.

7. The committee also reviewed the adjusted administrative budget and work programme of the Secretariat for 2017.³ In addition, it provided guidance on the presentation of the revised budget for contractual services.

1.2 Matters where specific guidance from the Board is sought

8. The BC was requested to provide guidance with regard to a remuneration proposal from the independent Technical Advisory Panel. The committee considered the proposals and recommended to present the outcome of the negotiations to the Board for approval at the earliest opportunity.

¹ GCF/B.16/11.

² GCF/B.15/Inf.13.

³ GCF/B.16/21.

II. Report on Activities of the Committee

9. The Investment Committee consists of Ms. Kate Hughes (Coordinator), Mr. Amjad Abdulla, Mr. Frank Fass-Metz, Mr. Nagmeldin Goutbi Elhassan, Mr. Mitsutoshi Kajikawa and Mr. Cristian Salas.

10. Since the B.15 meeting, the Investment Committee has advanced its work on indicative minimum benchmarks. The Committee has worked on this mandate throughout 2016, including considering a detailed research report, which laid out some technical challenges of defining indicative minimum benchmarks. These challenges include:

- (a) Addressing small sample sizes and data gaps, particularly for adaptation projects and different countries and regions;
- (b) Comparing data from different institutions given inherent differences in project portfolios and non-standardization of estimation methodologies;
- (c) Setting reference points on quantitative indicative minimum benchmarks (where to set the reference point, whether relatively higher or lower relative to the underlying data); and
- (d) Developing qualitative indicative minimum benchmarks in cases where quantitative benchmarks are less straightforward.

11. In addition to these technical challenges, the report also noted that “minimum benchmarks have had limited use in multilateral climate change and development funds that are implemented by multiple agencies,” but “have had relatively more use in global and regional development banks.” The Board has signalled through previous decisions that indicative minimum benchmarks would be developed not as a mechanism to, for example, automatically deem ineligible certain proposals, but as an instrument to facilitate decision-making in the context of the Fund’s investment criteria and other elements across the whole of the funding proposal design, assessment and approval processes.

12. Indicative minimum benchmarks will remain an important part of the Committee’s work in 2017, with a document expected for Board consideration at B.17. The Committee has agreed that the way forward should include a relatively straightforward initial proposal for indicative minimum benchmarks, supplemented by expanded research and analysis, and continuous liaising with other active research efforts.

13. Given the technical challenges already identified, since B.15 the Committee agreed to expand the research and analysis of the external consulting firm as input to the Committee’s future proposal on indicative minimum benchmarks. The key components of this work include:

- (a) Testing the projects/programmes already approved by the GCF against the initial quantitative minimum benchmarks proposed for mitigation;
- (b) Defining indicative minimum benchmarks for investment criteria that are of a more qualitative nature: sustainable development potential, paradigm shift potential, country ownership, needs of the recipient as well as impact potential and efficiency and effectiveness in adaptation; and
- (c) Proposing an initial implementation approach of minimum benchmarks, including potentially a pilot phase.

14. Once the consulting firm has started the next phase of work, the Committee will receive an interim report, which it will use to guide the documents and decisions to be presented to the Board at B.17. The Committee also plans to discuss during the B.16 meeting possible additional

mechanisms to collect stakeholder views. It is anticipated that the indicative minimum benchmarks will require ongoing refinement and discussion beyond B.17.

15. In addition to indicative minimum benchmarks, the Committee has also received updates on the procurement process for the following reviews:

- (a) Annual review of financial terms and conditions of the Green Climate Fund financial instruments (decision B.15/05); and
- (b) Review of the structure and effectiveness of the independent Technical Advisory Panel (decision B.15/06).

16. It is expected that once the consulting firms are procured and begin work on the respective reviews, the Committee will oversee the work in accordance with the terms of reference adopted at B.15. The two reviews will also require Committee feedback and guidance on respective interim reports before documents are finalized for Board consideration.

17. The Committee has also continued to receive regular updates on the status and progress of recruitment in the Division of Mitigation and Adaptation and the Private Sector Facility, which is reported to the Board as part of *Status of the Staffing of the Secretariat* (GCF/B.16/11).

III. Report on activities of the Private Sector Advisory Group

18. This report covers the activities of the Private Sector Advisory Group (PSAG) from November 2016 to February 2017.

19. As part of the PSAG mandate, the Board:

- (a) Requested the PSAG to provide advice on the modalities and instruments to mobilize private resources at scale including through special financing vehicles or instruments, including risk mitigation instruments;⁴
- (b) Also requested the PSAG to present further recommendations on possible measures to support the accreditation of entities with solid track records in supporting micro-, small- and medium-sized enterprises (MSMEs) and in mobilizing resources at scale for the Board's consideration;⁵
- (c) Invited the PSAG to make recommendations on the mobilization of private sector finance to progress the GCF forestry-related result areas for consideration by the Board;⁶
- (d) Requested the PSAG to include the actions outlined in the strategic plan for the GCF in its respective deliberations and work programmes as appropriate throughout the Initial Resource Mobilization period;⁷
- (e) Requested the Secretariat to undertake an analysis of barriers to crowding-in and maximizing the engagement of the private sector to present to the Board, and requested the PSAG to present recommendations for consideration by the Board.⁸ The Secretariat and the PSAG plan to present documents containing the analysis and the recommendations to the Board by B.17;

⁴ Decision B.07/08, paragraph (f)(ii);

⁵ Decision B.10/11, paragraph (h).

⁶ Decision B.12/07, paragraph (f).

⁷ Decision B.12/20, paragraph (f)

⁸ Decision B.13/05, paragraph (c)

- (f) Also requested the PSAG to present recommendation on the development of a private sector outreach plan,⁹ which is planned to be presented to the Board by B.17;
- (g) Requested the PSAG to provide recommendations to the Board at its seventeenth meeting on:¹⁰
 - (i) The development of modalities to support activities enabling private sector involvement in the least developed countries (LDCs) and small island developing States (SIDS); and
 - (ii) Opportunities to engage the private sector, including local actors, in adaptation action at the national, regional and international levels; and
- (h) Decided to co-opt a Board representative from the LDCs and another from the SIDS to assist the PSAG to develop its recommendations in relation to paragraph 10(g) above.

3.1 Activities during the reporting period

20. The members of the PSAG held a meeting from 20 to 22 February 2017 in Cape Town, South Africa.

21. During the meeting, the PSAG reviewed and discussed a range of topics including the following:

- (a) The GCF accreditation process;
- (b) The status of the pipeline and projects to date;
- (c) The results of the MSME request for proposal (RFP);
- (d) The relation between 'grants' versus the right level of grants in private sector proposals especially the level of grants needed in 'investment at scale' proposals;
- (e) The private sector contribution to forestry financing;
- (f) Barriers to private sector investment;
- (g) Avenues for mobilizing funding at scale;
- (h) An engagement strategy and outreach plan for the private sector; and
- (i) Opportunities for greater private sector engagement in SIDS and the LDCs.

3.1.1 Accreditation

22. The PSAG considered the importance of direct and national access and being proactive in early engagement with these institutions on developing potential pipelines; it noted that the backlog of unsigned accreditation master agreements needs to be addressed; and recommended that local private sector workshops could help the Private Sector Facility to find the right partners and projects. In addition, it stressed the importance of simplifying and speeding up the accreditation process as well as the need to propose new avenues for the fast-tracking of private sector entities.

⁹ Decision B.13/05, paragraph (d).

¹⁰ Decision B.15/03, paragraph (i).

3.1.2 Status of the pipeline and portfolio

23. The status of the pipeline and portfolio was discussed by the members of the PSAG and the details will be addressed in the document prepared on the status of the GCF portfolio: pipeline and approved projects.¹¹

3.1.3 Micro-, small-, and medium-sized enterprise request for proposal results

24. The PSAG offered suggestions to improve the RFP process, recommended that the GCF increase the programme allocation for MSMEs and indicated a larger grant component could assist projects to be more transformational. Grants could be directed at activities that would help to develop an enabling market environment for climate finance, deploy technical assistance to build capacity in financial institutions for MSME financing, build regulatory frameworks, and develop MSME business planning and financing capacity. The PSAG also recommended focusing on drawing in local financial institutions and other stakeholders that provide technical and professional support for MSME activity.

3.1.4 Financing forestry

25. The PSAG identified that GCF financing for the forestry business model should be carefully considered, including the kind of private sector investment that is appropriate, and the types of limitations to private sector finance to prevent/halt deforestation. In addition, the PSAG indicated the importance of environmental and social safeguards and gender aspects when working in poor and local communities. It also indicated the importance of considering creative approaches that can generate cash flow to encourage private sector participation, as well as the sharing of best business practices.

3.1.5 Barriers to private sector investment

26. The PSAG noted that to meaningfully address barriers to investment would require working on real and perceived risk mitigation and broader market systems facilitation.

27. The PSAG also noted:

- (a) The importance of dealing with regulatory frameworks to enable investment to take place; thus encouraging national and local governments (including national designated authorities) and financial institutions to become more engaged;
- (b) The importance of engaging in industry- and sector-specific groundwork for the dissemination of new technologies (creating enabling environments as well as fostering increases in the demand for and supply of climate-related technologies);
- (c) The importance of capacity-building not only of practitioners as a prerequisite to creating bankable projects, but for political decision makers and financial actors in order to lower the perceived risks and political barriers preventing access to otherwise available finance; and
- (d) That financing barriers tend to include a lack of upfront equity, long tenor loans, and project standardization and aggregation practices, and separately of strong energy/off-taker contracts. For energy efficiency, scale was noted as being a limiting factor. Public-private partnerships and demonstration projects were recommended as a way of building early success in the market. It was noted that the GCF can play an important

¹¹ GCF/B16/Inf.06.

role in creating the conditions for infrastructure projects to be more efficiently and cost-effectively operated and built with private sector leveraged resources.

3.1.6 **Mobilizing funding at Scale**

28. The PSAG commented on recommended activities, including green bonds, renewable energy auctions, green banking, and seed funding for innovation. It noted the importance of guarantee funds in accessing bank credit for start-up projects, and of local institutions in mobilizing funding at scale. The renewable energy access space was particularly identified as an important market where the right type of support could be transformational in creating new, self-sustaining investment flows.

3.1.7 **Engagement strategy and outreach plan**

29. The PSAG recommended that the GCF:

- (a) Define its contribution to the private sector;
- (b) Engage and enable the national designated authorities for private sector investment;
- (c) Reach out to the national private sector in a coordinated way; and
- (d) Improve private sector access to the GCF by propagating a clear profile and being responsive to the needs articulated by private sector actors.

3.1.8 **Private sector engagement in small island developing States and the least developed countries**

30. The PSAG discussed the importance of systemic support for these most vulnerable countries, where markets for climate-related technologies are almost always pre-commercial and therefore unlikely to attract private sector activity without concerted and broad market activation efforts. On this matter, it recommended support for multi-stakeholder processes around the following:

- (a) Creating appropriate enabling political and regulatory environments for indigenous businesses in order to expand and attract foreign interest;
- (b) Skilling-up local private sector actors so as to engage in policy dialogue, attract investment and deliver on climate objectives;
- (c) Engaging and skilling-up civil society actors to build strong collaborative opportunities with the private sector in order to deliver climate-related goods and services where a lack of opportunities or incentives prevents the private sector from doing so on its own; and
- (d) Supporting awareness and behavioural change (i.e. communications) campaigns to build understanding and trust around new technologies that offer important benefits but may also represent high upfront costs (e.g. distributed renewable energy solutions).

3.1.9 **Recommendations to the Board and the Secretariat**

31. At its meeting from 20 to 22 February 2017, the PSAG formed a short list of recommendations to help the GCF deliver on its objectives most effectively and the PSAG to work efficiently to facilitate this.

32. The PSAG advises the Board and the Secretariat to move ahead quickly with the development of a strategic approach and priorities for the Private Sector Facility as follows:

- (a) The strategy and approach must address not only gaps and capitalize on opportunities, but must offer additionality over and above other funding sources and institutions, including by being willing to take on appropriate risks in the early stages of market development;
 - (b) The strategy should spell out, inter alia, emphasis on adaptation versus mitigation measures, size and use of funds in the form of grants, and the role and scale of capacity-building measures;
 - (c) The strategy and approach should then be used to undertake a prioritization of accreditation applicants for delivering on this strategy; and
 - (d) The PSAG stands ready to offer advice on sectoral spread, addressing gaps and capitalizing on opportunities for leveraging impact, etc.
33. The PSAG recommends concluding accreditation master agreements with existing accredited entities, and resolving other issues with the accreditation process as a priority before advancing new accreditation applications. It is clear that an impasse exists between the objectives of accrediting entities quickly and the current process. It seems increasingly imperative that action be taken to increase flexibility in the process or to reduce requirements or risk inability for GCF to disperse funds and therefore deliver on its mandate.
34. The PSAG also recommends addressing ongoing issues of the resourcing and staffing of the Secretariat as a matter of urgency, and to consider all options for facilitating this.
35. The PSAG urges the Board and the Secretariat to consider options to ensure the most effective way to utilize PSAG time and expertise in order to facilitate the work of the GCF. These might include the following:
- (a) Working to ensure the participation of the entire group by providing ample lead-in time for meetings and conference calls, and consideration of a minimum quorum requirement;
 - (b) Creating longer-term (yearly) expected work plans for the PSAG, with the recognition that these are likely to change as the GCF progresses over time;
 - (c) Setting up additional communication and engagement opportunities, including calls and additional meetings as appropriate, as well as new methods such as encouraging the PSAG to proactively suggest opportunities for the GCF to consider; and
 - (d) Providing the PSAG with the opportunity to comment and be consulted on more issues, and in particular on the mandates for its own work.
36. The PSAG recommends that its membership should reflect an appropriate balance between sectors, country categories, gender, and mitigation and adaptation expertise. A transparent selection process is needed for appointing PSAG members. Where possible, the expertise of members should also reflect the strategic priorities of the GCF. New members should be provided with appropriate introductions and all members should be provided with preparation and background materials.
37. The PSAG stresses that, while the private sector is fundamental to the success of the GCF, the mandate of the GCF includes delivering in pre-commercial contexts where the private sector alone cannot provide all that is needed. Therefore, the PSAG recommends that balanced, multi-stakeholder, differentiated and integrated approaches to market activation for delivering mitigation and adaptation outcomes are ensured.
38. The PSAG emphasizes that project-based approaches are often inherently piecemeal in nature and that to deliver on the GCF transformational mandate, more programmatic and ecosystem-based work should be encouraged.

3.1.10 Recommended focus for private sector activity

39. The PSAG also identified two areas of activity where the private sector is able to make a significant contribution, and that align with GCF adaptation and mitigation goals. It recommended that the following be considered for potential future RFP programmes:

- (a) A disaster risk reduction window to build and strengthen efforts to create resilience to climate change. This may include topics such as:
 - (i) Building risk measurement capacity;
 - (ii) Crop/livestock insurance;
 - (iii) Infrastructure for vulnerable areas or groups; and
 - (iv) Building risk transfer mechanisms; and
- (b) Programmes to activate markets for universal access to renewable energy in pre-commercial contexts such as the LDCs, SIDS and remote areas in other countries. This may include topics such as the following:
 - (i) Expanding enabling environments in order to encourage private sector participation in energy markets;
 - (ii) Building the business and technical skills of the MSMEs and stakeholders working in these areas;
 - (iii) Building pipeline aggregation support so as to de-risk small projects/businesses; and
 - (iv) Providing direct financial support through early stage, high risk capital/guarantee funds.

3.2 Next steps

40. Based upon PSAG recommendations, a limited distribution document on establishing a programmatic framework for mobilizing funds at scale¹² is being presented for consideration by the Board at its sixteenth meeting.

41. The PSAG will hold a second meeting in 2017, time and venue to be confirmed, during which it will consider in more detail avenues for overcoming barriers to private sector investment, and a detailed strategy for private sector engagement and outreach.

42. The PSAG will also contribute feedback on an ad-hoc basis throughout 2017, as the Secretariat prepares research in areas related to strategy, outreach, private sector engagement and other issues related to its mandate.

IV. Report on activities of the Risk Management Committee

43. In decision B.12/34, the Board requested the Risk Management Committee (RMC), with support from the Secretariat, to prepare and present to the Board for its consideration, no later than the fifteenth meeting of the Board, an updated set of risk policies and guidelines that include internal risk ratings methodologies, which should consider a differentiation of risks between adaptation and mitigation.

¹² GCF/B.16/10.

44. In decision B.13/36, the interim risk and investment guidelines would expire the earlier of: (i) the sixteenth meeting of the Board (B.16); or (ii) at the adoption of an updated set of risk policies and guidelines as determined by decision B.12/34. The Board through decision B.14/01 paragraph (c) decided to defer the presentation and consideration of the risk and investment guidelines to B.16.

45. In decision B.12/31 (d), the Board requested the Executive Director to regard the template Accreditation Master Agreement as the basis for negotiations with accredited entities. The Executive Director will determine, in consultation with the risk and legal teams, and the Risk Management Committee, whether or not a change is considered substantive on a case-by-case basis, and would require Board approval.

4.1 Activities during the reporting period

46. After the fourteenth meeting of the Board, two formal sessions of the RMC were held via virtual call in November and December 2016. The purpose of these meetings was to discuss and provide guidance to the Secretariat on the mandates given by the Board, including: (i) Preparation of risk policies and rating methodologies; (ii) Accreditation Master Agreement (AMA) consultation; and (iii) Risk Assessment Exercise for Funding Risk.

47. The main activities of the RMC during this reporting period included the consultation on the deferment of the submission of risk policies and guidelines to the Board. The RMC agreed with the Secretariat that the deferment made sense considering that the consultancy hiring process was delayed due to the extension of the RFP as well as the lack of capacity within the Secretariat. The RMC proposed that the submission of risk and investment guidelines and risk management framework and policies be postponed to the seventeenth meeting of the Board.

48. Regarding the discussion on the AMA, the RMC agreed that there were no substantive changes made to the UNEP AMA other than those included in the UNDP AMA approved by the Board at B.14. It also noted an inconsistency in a provision on the independent certification of UNEP's annual accounts and asked the Secretariat to clarify this with UNEP providing this information to the RMC. After having received such clarification, the RMC decided in its meeting of 1 December that the UNEP AMA could be submitted to the Board for approval of the substantive changes.

49. In its virtual meeting on 1 December, the RMC discussed the AMA agreed by the Secretariat with IDB and asked for clarification of certain provisions. It was agreed that RMC members would send any comments by email to the Secretariat and that this could be further discussed, either via email or during the meeting to be scheduled on Sunday 11 December in Samoa.

50. The RMC noted with some concern the current status of AMA negotiations with the other MDBs. It encouraged the Secretariat to continue with the good work.

51. At the RMC meeting on Monday 12 December in Samoa, the RMC discussed the IDB and KfW AMA with the Secretariat and the RMC recommended that both AMAs are brought to the Board for their consideration.

52. Following the fifteenth meeting of the Board, the RMC also reviewed the AMA with the Ministry of Finance and Economic Cooperation of the Federal Democratic Republic of Ethiopia ("MOFEC") and agreed with the Secretariat that the changes made to the AMA were not substantive and therefore did not require Board approval.

53. The RMC has undergone a number of changes in the committee membership including a change in the Chairmanship subsequent to the fifteenth meeting of the Board. Thus, no formal

sessions of the RMC were held thereafter. The Secretariat will schedule formal sessions of the RMC in March 2017 prior to the sixteenth meeting of the Board.

4.2 Next Steps

54. Upon confirmation of the new Chair and members of the RMC, the Secretariat will schedule RMC formal sessions in March 2017. Additional RMC meetings may be held during the sixteenth meeting of the Board in Songdo, Incheon, Republic of Korea.
