



**GREEN
CLIMATE
FUND**

Meeting of the Board
1 – 4 July 2018
Songdo, Incheon, Republic of Korea
Provisional agenda item 7

GCF/B.20/Inf.09

8 June 2018

Reports from committees, panels and group of the Board of the Green Climate Fund

Summary

This document contains the reports on activities that have already conducted or are planned to be undertaken by the following committees and panels of the Board of the Green Climate Fund during the reporting period from January to May 2018:

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

I. Introduction

1. This report covers the reporting period of January to May 2018, and also indicates activities planned to be carried out by the committees and panels of the Board of the Green Climate Fund in advance of its twentieth meeting (B.20).

II. Report on activities of the Budget Committee

2. The Budget Committee (BC), with its given mandate under the terms of reference (decision B.12/37, Annex XXX), review and made recommendations on the proposed annual administrative budget, financial reports and on the implementation of the finance, administrative, and human resources operational policies.

2.1 Activities during the reporting period

3. Since the nineteenth meeting of the Board, the BC continued discussions and sharing of comments by email.

2.1.1. 2017 audited financial statements

4. The Committee reviewed and endorsed the 2017 GCF audited financial statements as per its role to cooperate with the Ethics and Audit Committee on the annual audits (decision B.12/37, Annex XXX (d)). Satisfactory explanations were received from the Secretariat on questions and comments.

2.1.1. 2018 Administrative budget

5. The BC reviewed and provided comments to the report on the execution of the administrative budget as at 30 April 2018 (document GCF/B.20/03).

6. The BC noted that expenditures were currently running at 25%. This is largely due to an underspend on full time staff. However, as staff are recruited in the later part of the year budget utilisation will increase. In addition, increased consultancy costs will partially offset the underspend. The likely increase in consultancy costs is because consultants are still providing a staff function where the staff positions have yet to be filled.

2.2 Next steps

7. Informal bilateral meetings between the BC and the Secretariat's Staff Council are planned to take place prior to Board Meetings, to further strengthen communication between the Board and the Secretariat.

III. Report on activities of the Investment Committee

8. Since the nineteenth Meeting of the Board (B.19), the Investment Committee (IC) has progressed on several Board mandates, including:

- (a) Revision of the structure and operations of the independent Technical Advisory Panel (decision B.19/08 and previous decisions including B.10/09);
- (b) Investment criteria indicators (decision B.19/07 and previous decisions on indicative minimum benchmarks including decisions B.07/06 and B.09/05); and

- (c) Review of financial terms and conditions of GCF financial instruments (decision B.09/04 and subsequent decisions B.12/15, B.15/05 and B.17/08).

3.1 Activities during the reporting period

9. IC members were invited to participate in several voluntary Committee briefings on the three main work streams above, as well as on GCF's grant equivalent calculator. These voluntary briefings allowed the Secretariat to brief IC members and their advisors, and facilitated a question and answer exchange during the paper drafting process. The Secretariat's responses to IC members' questions were compiled and shared with all IC members. Following these voluntary briefings, the decisions of draft papers were discussed by the IC.

10. The IC progressed on several matters related to the independent Technical Advisory Panel (TAP):

- (a) Updated terms of reference (ToR) for TAP. An updated ToR was agreed by the IC and subsequently approved by the Board on a between-meetings decision. The related decision also requested the IC to:
- (i) present a recommendation to the Board regarding the extension of three TAP members with contracts expiring in August 2018; and
 - (ii) nominate members of the TAP for endorsement by the Board if additional or replacement TAP members are required.
- (b) Revision of the structure and operations of the TAP. The IC discussed several recommendations and options related to the composition, processes and outputs of the TAP.
- (c) Ongoing performance reviews of the current TAP members. The IC was briefed on the progress of the performance review processes underway with an independent third party.
- (d) Call for experts for additional or replacement TAP members. The IC was briefed on the status of the process.

11. For the investment criteria indicators, the IC discussed a revised approach for indicators by building on previous indicative minimum benchmarks work, incorporating comments received from the Board during the nineteenth meeting of the Board (B.19) and the written comments received from Board members following the meeting.

12. For the review of financial terms and conditions, the IC discussed a range of topics related to the financial terms and conditions offered by GCF. Two related items, the service fee and commitment fee, require further discussion of the IC and are closely linked to other B.20 policy documents, including on incremental cost, concessionality and co-financing. The IC intends to examine the terms of reference of the next review of financial terms and conditions. The revised terms of reference for the review will specifically include an examination of the service fee and commitment fee, their interlinkages with related policies, and any resulting recommendations.

3.2 Next steps

13. Following the voluntary briefings and IC meetings, the IC has cleared three draft papers for comments and feedback by the Board as of 24th May. The IC will continue its work on these drafts in the meantime and will hold a last call on 5th June, prior to the twenty-first meeting of the Board (B.21) publication deadline, to finalize these discussions.

IV. Report on activities of the Private Sector Advisory Group

14. This report covers the activities of the Private Sector Advisory Group (PSAG) from 16 January 2018 to 15 May 2018.

4.1 Activities during the reporting period

15. The members of the PSAG held a meeting from 1 to 2 March in Songdo, South Korea, immediately after B.19. The informal meeting took place on 1 March amongst the PSAG members to initiate the discussion. The PSAG members were also invited in the board room when two PSAG agenda items were presented to the Board. The formal meeting took place on 2 March with the PSAG members, PSAG board members, Secretariat and active private sector and civil society observers.

16. During the meeting, the PSAG reviewed and discussed a range of topics including the guidance and scope for providing support to private sector in adaptation, mobilization of private sector finance to progress GCF forestry-related result areas, and PSF outlook and expectations.

4.1.1. B.20 deliverables

17. Based on the discussions, the PSAG recommendations on opportunities to engage the private sector in adaptation will be presented for consideration by the Board at its twentieth meeting.

4.1.2. Private sector engagement in adaptation

18. PSAG members identified key existing barriers to engaging the private sector in adaptation, such as underdeveloped or non-existent markets, liquidity and macro-economic challenges, and information asymmetries. As a result, the PSAG recommended, among other things, to consider focusing on risk transfer instruments which can include insurance as a financing modality; facilitating blended finance and public-private partnerships (PPP); supporting a broader enabling framework, with improved access and use of climate data; enhancing private sector participation in national adaptation plans; and partnering with existing financial intermediaries that are expanding their work on adaptation. In addition, PSAG also recommended that the Secretariat undertake further analysis of the business models of private sector concept notes and funding proposals related to adaptation.

4.1.3. Mobilization of private sector finance to progress the GCF forestry-related result areas

19. The PSAG emphasized several aspects relating to the mobilization of private sector finance to progress GCF forestry-related results areas, of which key areas include the lack of considerable and stable demand for carbon credits, the crucial role of data and verification, the need to work on sustainable global value chain, foster private sector participation in agriculture and land-management practices, and scaling up community-based forestry.

20. PSAG recommendations on forestry-related activities will be further discussed and finalized at its next meeting. Accordingly, such recommendations will be presented to the Board for consideration at its twenty-first meeting.

4.1.4. 2018 PSAG workplan

21. As part of the mandate, the Board:

- (a) Requested the PSAG to provide recommendations on the opportunities to engage the private sector, including local actors, in adaptation action at the national, regional and international levels which will be presented to the Board at B.20;¹ and
- (b) Invited the PSAG to make recommendations on the mobilization of private sector finance to progress the GCF forestry-related result areas by B.21.²

4.2 Next steps

22. The PSAG plans to hold its next meeting from 16 to 17 August 2018 (location to be decided).
23. The PSAG will also contribute feedback on an ad-hoc basis throughout 2018, as the Secretariat prepares research in areas related to strategy, outreach, private sector engagement and other issues related to its mandate.

V. Report on activities of the Risk Management Committee

24. 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, 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.
25. In decision B.13/36, the interim risk and investment guidelines were approved and 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.
26. The Board through decision B.BM-2017/02 decided “that the interim risk and investment guidelines adopted pursuant to decision B.13/36, paragraph (a) will expire the earlier of: (i) the eighteenth meeting of the Board, or (ii) the adoption of an updated set of risk policies and guidelines”. In accordance to the Work Plan of the Board 2017 adopted in decision B.BM-2017/02, the first set of components of the risk management framework (RMF) is to be considered at the seventeenth meeting of the Board, and additional components of the RMF are to be considered at the eighteenth meeting of the Board.
27. Through decision B.17/11, the Board adopted the first set of components of the RMF which included the revised risk register, risk appetite statement, risk dashboard, and risk guidelines for funding proposals. The Board also requested the Secretariat to further develop the risk dashboard and the underlying methodologies for consideration by the Board at its eighteenth meeting. In addition, the Board requested the Secretariat to continue with the development of appropriate risk rating models with the support from an external professional service provider and in consultation with the RMC and present the risk rating models for consideration by the Board at its nineteenth meeting.
28. At its eighteenth meeting, the Board took note of document GCF/B.18/05 titled “GCF risk management framework – Proposal by the Risk Management Committee”; however, no decision was taken under this item.
29. Through decision B.18/01, the Board approved the work plan of the Board for 2018 and decided to postpone the presentation of the risk rating methodologies for consideration by the Board to its twentieth meeting.

¹ Decision B.15/03, paragraph (i).

² Decision B.12/07, paragraph (f).

30. The Board through decision B.19/04 adopted the second set of components of the RMF which included three risk policies governing investment, non-financial and funding risks, respectively. Through the same decision, the Board also decided to update the risk dashboard with the revised approach to reporting on concentration and requested the Secretariat to publish the updated risk dashboard every quarter thereafter.

31. In decision B.12/31 (d), the Board requested the Executive Director to regard the template Accreditation Master Agreement (AMA) as the basis for negotiations with accredited entities. The Executive Director will determine, in consultation with the risk and legal teams, and the RMC, whether a change is considered substantive on a case-by-case basis, and would require Board approval.

5.1 Activities during the reporting period

32. In the reporting period from mid-January 2018 to mid-May 2018, the RMC held a formal meeting via conference call. The activities of the RMC were also conducted via e-mail correspondence due to scheduling conflicts. The RMC discussed and provided guidance to the Secretariat on the mandates related to risk and compliance given by the Board, including: (i) development of the RMF, and its underlying policies, guidelines and tools; and (ii) AMA consultation.

33. During the Board discussion on the non-financial risk policy at its nineteenth meeting, a point was raised regarding the role of the Independent Integrity Unit (IIU) in managing reputation risk in relation to non-financial matters. The Secretariat was asked to follow up on this matter with the IIU and in consultation with the RMC. The IIU was invited to participate in an informal conference call with the RMC on 11 April to introduce the unit's mandate and present to the RMC a proposed text for inclusion in the non-financial risk policy. At the virtual meeting, the Head of the IIU raised his concerns about the possible overlap in mandates with the Secretariat's compliance function within the Office of Risk Management and Compliance. It should be noted that the same concerns regarding a possible overlap in mandates were raised to the Ethics and Audit Committee by the Secretariat in the previous year. Following the meeting, further discussions have been taking place to decide how to better acknowledge in the policy documents the IIU's role in terms of mitigating reputational risks in line with the IIU's mandate.

34. Subsequent to the adoption of the second set of components of the RMF through decision B.19/04, the RMC reviewed the compliance risk policy which is an important element within the RMF and decided to present it to the Board for its consideration at B.20.

35. The Secretariat also presented further updates to the RMC on the development of the compliance framework, rating/scoring models, as well as the consulted with the RMC prior to the publication of the four-page summary of the risk dashboard.

36. Furthermore, the Secretariat consulted with the RMC on the following AMA during the reporting period:

- (a) AMA with the Bank of Tokyo Mitsubishi UFJ ("BTMU"); and
- (b) AMA with the Japan International Cooperation Agency ("JICA").

37. Following the review of the above-mentioned AMAs by the RMC, the RMC agreed with the Secretariat in its assessment that the changes made to the AMAs were not substantive and therefore did not require Board approval.

5.2 Next steps

Two formal RMC meetings have been scheduled following the end of this reporting period. The RMC may also decide to hold additional meetings in Songdo, Incheon, Republic of Korea during B.20.
