



**GREEN
CLIMATE
FUND**

Meeting of the Board
18 – 21 August 2020
Virtual meeting
Provisional agenda item 6

GCF/B.26/Inf.10/Add.01

18 August 2020

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 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 1 January 2019 to 30 June 2020:

- (a) Independent Technical Advisory Panel;
- (b) Performance Oversight Committee; and
- (c) Risk Management Committee.

I. Introduction

1. This report covers the reporting period of 1 January 2020 to 30 June 2020, and also indicates activities planned to be carried out by the committees and panels of the Board of the GCF in advance of its twenty-sixth meeting (B.26).

II. Report on the activities of the independent Technical Advisory Panel

2.1 Activities during the reporting period

2. The independent Technical Advisory Panel (ITAP) continued to review funding proposals and conduct its assessments based on the initial investment framework and guidelines provided through various subsequent decisions.

3. Since the previous reporting period, the ITAP received 23 funding proposals. In addition, there was one funding proposal that was endorsed by ITAP for submission to the twenty-fifth meeting of the Board, however the submission was deferred by the AE. Of these 23 funding proposals, three were resubmissions that the ITAP had declined previously.

4. The funding proposals were forwarded by the Secretariat to the ITAP on 3 April 2020 as scheduled.

5. The ITAP planned to meet in Songdo from 3 to 13 May 2020. However, the face-to-face meeting in Songdo became unfeasible due to various travel restrictions imposed globally. Accordingly, the meeting had to be replaced with a series of conference calls.

6. The ITAP assessed all 23 funding proposals. In carrying out these assessments, the ITAP continued to engage with the AEs. This was done by sending written questions and receiving written responses as well as through conference calls to present the ITAP assessments and discuss possible conditions and recommendations.

7. The ITAP concluded its assessment exercise on 4 June 2020. Most of the funding proposals were revised and resubmitted while the ITAP assessments were ongoing. Some were revised three to four times. Combined with the logistical constraints preventing face-to-face discussion between the ITAP and Secretariat, this resulted in a longer than usual assessment period.

8. Out of the 23 funding proposals, the ITAP endorsed 17 funding proposals for the twenty-sixth meeting of the Board. Six funding proposal were not endorsed. Most of them lacked critical studies and arguments to establish linkages between climate change impacts and proposed approaches and to enhance effectiveness in delivering the mitigation/adaptation impacts as claimed.

9. During the exercise, the ITAP had numerous conference calls, both internal and external (i.e., with the Secretariat and AEs). However, the calls could only take place at 9 pm (Korea time) and for three hours due to time differences. Because of this constraint, it was unfeasible to undertake calls with the Secretariat and AEs for all funding proposals. Nevertheless, the ITAP was able to have calls with the Secretariat and/or AEs on 13 funding proposals, which the ITAP determined important to finalize its assessment reports. Otherwise, the ITAP assessment reports were prepared based on the funding proposals and written responses provided by the AEs.

2.2 Lessons learned

10. The ITAP anticipates that its assessment process for the next round will remain the same unless the COVID-19 situation improves substantially and the travel restrictions currently in place are lifted.
11. During the assessment exercise, the ITAP was made aware that the Secretariat might not assess the country ownership criterion, one of the six investment criteria, if a no-objection letter is attached to a funding proposal. The AEs may need to be aware that the ITAP does not take the same approach irrespective of the project or program. While it is mandatory for the Board to consider the funding proposal, a no-objection letter cannot replace technical assessments of the host country policy and regulatory framework and the capacity of AEs and executing entities, which, in the ITAP's view, are critical for the Board to make an informed decision.

2.3 Next steps

12. The ITAP prepared and furnished the Secretariat, and subsequently the Investment Committee, with a list of experts that the ITAP believes would be helpful to recruit to accommodate a larger number of funding proposals in broader sectors in the future.

III. Report on the activities of the Performance Oversight Committee

13. The Performance Oversight Committee (POC) was formed at the twenty-first meeting of the Board (B.21) to provide performance oversight for the Executive Director and Heads of Independent Units, collectively referred to as "Board-Appointed Officials" (decision B.21/13).

3.1 Activities during the reporting period

14. In March 2020, during B.25, the proposal for the Implementation of the performance evaluation and performance-related pay systems for Board-appointed officials was presented to the Board for consideration. This proposal included: i) the approval of the policy for the performance evaluation and performance-related pay systems applicable to Board Appointed officials; and ii) the decision and terms of reference to hire an independent external human resources firm to provide specialist support to the Performance Oversight Committee in the conduct of the performance evaluation of the Heads of Independent Units and the Executive Director and the implementation of the pay increase system. It also included the budget required for the implementation of both systems.
15. A Between Board Meeting (B.BM) decision was taken on 18 April 2020, approved the formerly mentioned document.
16. Based on the Terms of references contained in the Board Approved document – GCF/BM-2020/05, POC developed the Request for Proposal (RFP).
17. Following GCF's procurement policies and procedures, the Secretariat assisted the POC to develop the RFP for issuance on 1 July 2020 and with closing date 29 July 2020.
18. During the reporting period, the terms of the previous members of the POC has expired on 30 June.

3.2 Next steps

19. The POC with the support of the Secretariat, through OHR and the Procurement team, will proceed with the technical evaluation of the proposals received from the participant bidders, pursuant to the criteria that was specified in the RFP.

20. After the technical evaluation is concluded, the negotiation is carried out by the Secretariat with the winning bidder and the final evaluation memo is submitted to POC for approval. Once approved, the contracting process takes place. The original timeline proposed envisioned this process finished by mid-September 2020, but this date will have to be adjusted depending on the start date of the technical evaluation after B.26.

21. The Board must decide on the acceptance of the resignation letter of the Head of the Independent Evaluation Unit and the Officer in Charge appointment during the recruitment of the new incumbent.

IV. Report on the activities of the Risk Management Committee

22. 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.

23. 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. 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.

24. 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.

25. At its twentieth meeting, the agenda item on “Risk management framework: compliance risk policy” was not opened by the Board and therefore no decision was taken under this item. At the same meeting, through decision B.20/03, the Board took note of the updated work plan of the Board for 2018 and decided to defer the consideration of the risk rating models, inter alia, and requested the Secretariat, in consultation with the Co-Chairs and relevant committees, panels and groups of the Board, to progress its work on the matter and present them for consideration by the Board at the earliest possible opportunity.

26. In Bahrain, at the twenty-first meeting of the Board, the agenda item on “Risk management framework: compliance risk policy” was not opened and therefore no decision was taken under this item. At the same meeting, through decision B.21/04, the Board approved the workplan of the Board for 2019 and decided to defer the consideration of the remaining components of the risk management framework, inter alia, and requested the Secretariat, in consultation with the Co-Chairs and relevant committees, panels and groups of the Board, to progress its work on the matter and present them for consideration by the Board at the earliest possible opportunity.

27. At the twenty-second meeting of the Board, no decision was taken by the Board on agenda item “Risk management framework: compliance risk policy” and the item was deferred to B.23.
28. In Songdo, at the twenty-third meeting of the Board, the Board adopted the risk management framework component VIII – compliance risk policy, through decision B.23/14.
29. At its twenty-fourth meeting in Songdo, the Board, through decision B.24/04 paragraphs (h) (iii) and (iv), requested the RMC to review in 2020 the initial financial risk management framework and components I-VII of the risk management framework.
30. Furthermore, at the same meeting through decision B.24/04 paragraph (j), the Board delegated to the Secretariat the development of the risk rating models, with the proviso to bring any recommendations requiring Board attention back to the Board.
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 Risk Management Committee (RMC), whether a change is considered substantive on a case-by-case basis and would require Board approval.

4.1 Activities during the reporting period

32. During the reporting period from 1 January to 30 June 2020, the RMC welcomed Ms. Marjolein Geusebroek and Mr. Christophe Bories to the RMC. Ms. Geusebroek replaced Mr. Roelof Buffinga as alternate member and Mr. Bories replaced Mr. Cyril Rousseau as Board member. The RMC thanks Mr. Buffinga and Mr. Rousseau for their contribution to the RMC and looks forward to working closely with the new RMC members
33. The RMC held five formal meetings and conducted activities via e-mail correspondence. The RMC discussed and provided guidance to the Secretariat on the mandates related to risk and compliance given by the Board, including: (i) the review of the initial financial risk management framework; (ii) the development of the risk management framework and its underlying policies, guidelines and tools; and (iii) AMA consultation.
34. The Secretariat provided the RMC with updates on the legal risk policy, risk rating models, analysis of currency risk on non-USD contributions, as well as presented the RMC with a revised paper on the initial financial risk management framework including the proposed changes.
35. Through decision B.24/04 paragraph (h) (iii), the Board requested the Risk Management Committee, with the support of the Secretariat, to review in 2020 the initial financial risk management framework pursuant to the review mandated by decision B.07/05, paragraph (f) and if action by the Board is required as a result of the review, to present recommendations to the Board for its consideration and approval.
36. The initial financial risk management framework adopted pursuant to decision B.07/05 paragraph (b) comprises two documents; namely the “Initial financial risk management framework” and the “Financial arrangements for grants and concessional loans and the role of implementing entities and intermediaries in financial arrangements”.
37. The Secretariat conducted an internal review of the initial financial risk management framework and submitted a revised paper with proposed changes to the RMC for its consideration in April 2020. Following its thorough review of the revised paper, the RMC determined that the proposed changes to the initial financial risk management framework are not material changes to the document. There was consensus within the RMC that action by the Board is not required on this matter.

38. The Chair of the RMC thus reported this review outcome to the Co-Chairs in May 2020 and recommended to the Co-Chairs that the Board is updated on this matter via the Report of the activities of the Committees. The Co-Chairs, having reviewed the revised document with the proposed changes, conferred and were in agreement with the RMC's determination that the changes are non-material. The Co-Chairs also agreed with the RMC's recommendation to update the Board on this matter via the Report of the activities of the Committees accordingly.

39. The revised initial financial risk management framework document with tracked changes is contained in Annex I and II to this report. The clean version of the revised initial financial risk management framework will supersede the initial financial risk management framework adopted pursuant to decision B.07/05 paragraph (b) and will be published on the GCF website.

40. With regard to AMAs, the RMC was also consulted on the following AMAs during the reporting period:

- (a) AMA with Nordic Environment Finance Corporation ("NEFCO");
- (b) AMA with Pegasus Capital Advisors, L.P. ("PCA");
- (c) AMA with the Kingdom of Cambodia, acting through the National Committee for Sub National Democratic Development ("NCDD");
- (d) AMA with the Republic of Armenia, acting through the Environmental Project Implementation Unit of the Ministry of Environment ("EPIU");
- (e) AMA with JS Bank Limited ("JS Bank");
- (f) AMA with Cassa Depositi e Prestiti Società per Azioni ("CDP"); and
- (g) AMA with Austrian Development Agency ("ADA Austria").

41. During the RMC's review of the NEFCO, PCA, NCDD, EPIU, JS Bank and ADA Austria AMAs, no objections were received from the RMC by the respective deadlines and the Secretariat proceeded to issue the execution version of the AMAs to the entities for signature. No objections were also received following the RMC's review of the CDP AMA and the Secretariat confirmed to CDP the RMC's no-objection to the agreed AMA text. CDP did not fulfill the accreditation conditions precedent to AMA signing before the end of the reporting period, and therefore, those conditions need to be addressed before issuing the execution version of the AMA to CDP for signature after CDP.

42. The RMC plans to meet virtually in 22 July 2020 prior to the twenty sixth formal meeting of the Board.

Annex I: Revised Initial Financial Risk Management Framework (as approved by the Risk Management Committee with tracked changes)

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 as contained in document GCF/B.07/11.

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

| RISK MONITORING AND REPORTING TOOL | FREQUENCY OF USE | PURPOSE |
|--|--|--|
| Financial risk management summary | Quarterly | Track key financial risk indicators in real time. |
| Financial risk register | Annually | Perform an annual in-depth review of key risk events, management response and residual risk. |
| Financial statements | Semi-annually Annually | Gain an overview of the institution’s financial situation and its trend over time. |
| Portfolio review | In real time, with an a 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 |
| External audit report | Annually | Confirm the accuracy of financial statements as well as obtain a third-party view of the financial health of an institution |
| Self-evaluation by the Committee of Sponsoring Organizations of the Treadway Commission or internal control risk assessments | Every two years [As needed] | Scan possible risk gaps not covered by the above-mentioned monitoring instruments. |

A Author
Explanation: GCF financial statements have only been compiled annually, for practical reasons. To date, this is considered to be sufficient. The Fund can consider a higher frequency of reporting but would not suggest making that mandatory in this policy.

A Author
Explanation: The reference to stochastic and sensitivity analyses is not considered to be necessary. The Office of Portfolio Management is currently reviewing the Results Management Framework and developing its Portfolio Performance Monitoring System. The description of the Frequency can be discussed, but monitoring will be on-going.

A Author
Note: The Secretariat is currently doing additional work on managing enterprise risks and controls, including involvement by the Office of the Internal Auditor.



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

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

A Author
Recommend combining the first two columns under the responsibility of the Secretariat. Explanation: A Secretariat Risk Working Group was not created. However, since B.07 the Secretariat has added capacity covering finance, risk management, audit, portfolio management, etc., to cover these responsibilities.

A Author
Explanation: The reference to the review of the financial statements is not considered to be problematic, but the RMC may want to consider whether it wants to keep this responsibility or revise the language. The external auditor is already reviewing the financial statements. In addition, the TOR of the EAC states that it will provide advice to the Board on “financial reporting and audit requirements” and “external audit reports”.

Author
Following its review of this paper, the RMC decided to remove the reference to the review of financial statements in this table to avoid duplication of responsibilities.

A Author
Explanation: Same as from Table 1.

A Author
Explanation: This would be managed by the Secretariat, as per the related edits in this document, with oversight by the RMC. This would also be consistent with the risk control self-assessments from the Risk Management Framework.

* 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 II: Revised Initial Financial Risk Management Framework (as approved by the Risk Management Committee with tracked changes): Financial arrangements for grants and concessional loans and the role of implementing entities and intermediaries in financial arrangements¹

A

Author

The Secretariat does not think that the text in this Annex needs updating. RMC concurs with this assessment.

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.

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