Report on 9th Meeting of the Green Climate Fund (GCF) Board

Summary

Between 24-26 March the Board of the Green Climate Fund (GCF) held its 9th meeting in Songdo, South Korea. The Board had a lot on its plate for a three day discussion, but managed to make notable progress on some items, vital for approving the first funding proposals in the Board meeting ahead of Paris climate negotiations.

Notably, one of the more eminent steps was accrediting the first seven implementing entities (IEs), which will play an important role in implementing the first projects funded by the GCF. Through this decision the Board opened the door to submitting funding proposals and accessing Fund's resources. The accreditation process was however strongly criticized by civil society for lack of transparency. Nondisclosure of information on applicants identity and assessment process, that would allow for a meaningful input from stakeholders, did not reflect best practices (e.g. of the Adaptation Fund) or provide a good precedent for future accrediting.

The second imperative decision, which came after an extended and diligent discussion, was the adoption of the initial investment framework. The framework is an indispensable element of project development under the Fund's auspices that provides the criteria which will screen project proposals. To the disappointment of civil society, the Board did not make any explicit reference to exclude fossil fuel projects from Fund's support despite the strong push from civil society.

The Board intends to consider first funding proposals by mid-year as the Fund aims to approve the first set at the October Board meeting.

From the initially outlined thirty-one agenda items, decisions were also reached on the following issues:

- legal and formal arrangements with accredited entities (gcf/b.09/03)
- an interim gender policy and action plan (gcf/b.09/10)
- the policy on ethics and conflicts of interest (gcf/b.09/16)
- terms of reference of the independent technical advisory panel (gcf/b.09/09)
- initial term of Board membership (gcf/b.09/20)
- analysis of the expected role and impact of the GCF (gcf/b.09/06)
- financial terms and conditions of the Fund's instruments gcf/b.09/08
- potential approaches to mobilizing private sector funding (gcf/b.09/11/rev.01) and working with local private entities, including small and medium-sized enterprises (gcf/b.09/12)
- terms of reference of the appointment committee (gcf/b.09/22)
- the report on activities of the secretariat (GCF/B.09/Inf.03)
- date and venue of the 10th meeting of the Board (GCF/B.09/21) to take place from 24 to 26 June 2015 in Songdo, Republic of Korea

The discussion on a pilot phase for Enhance Direct Access (EDA) was deferred along with remaining agenda items because of a shortage of time and various unsettled issues (which will either be dealt with intersessionally or at the 10th Board Meeting.

The next vital step for countries will be to deliver the financial contributions they have pledged in the November 2014 pledging session. So far only about 1 per cent has been legally committed**.** The approaching deadline of 30 April 2015 gives countries only a month longer to sign off the remaining US$4.5 billion for the fund to become officially effective.

For more details on specific decisions and associated discussions, please read bellow:

Stamp of approval to first entities: hasty and non-transparent process to open the door to the Fund's resources

The Board made the first step towards implementing funded activities on the ground by accrediting the first set of national, regional and international implementing entities (IEs). The accredited entities will now be able to submit project proposals in order to receive GCF support.

After Consideration of Accreditation Proposals (GCF/B.09/04), the board accredited 7 IEs - two national, two regional and three international. IEs are public or private legal entities, which have the responsibility to supervise project implementation throughout the whole project cycle. That includes submitting the funding proposals, screening them in line with Fund's interim environmental and social safeguards and deploying resources from the Fund to executing entities implementing projects.

Entities were assessed according to the initial guiding framework for the Fund's accreditation process adopted by the Board through decision B.07/02. The three stage process *inter alia* includes institutional track record, alignment with the Fund's objectives and guiding principles, fiduciary standards and interim ESS. The discussion at the Board meeting was marked by political pressure to deliver first projects by the end of the year and rather than discussing applicants separately, led to approval of the whole package of seven entities:

- **Two national implementing entities** that intend to implement micro[1] projects or activities with minimal to no (category C) environmental and social risk. The entities were fast tracked under the Adaptation Fund (AF):[2]
    - **Centre de Suivi Ecologique (CSE)** from Senegal,
    - **Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE)**.

- **Two regional implementing entities:**
    - **Secretariat of the Pacific Regional Environment Programme (SPREP)**, an intergovernmental organization based in Samoa,

[1] Maximum total projected costs at the time of application of up to and including US$ 10 million for an individual projector an activity within a programme.

[2] GCF provides fast-track accreditation to those entities that have been up to the time of board decision already accredited by Adaptation Fund, Global Environment Facility (GEF) or Directorate-General Development and Cooperation – EuropeAid of the European Commission (EU DEVCO). Fast-track provides a speed up process allowing to refrain from double checking certain requirements.

- **Acumen Fund**, **Inc.**, an impact investment fund operating primarily in Africa and the Asia–Pacific region. SPREP was fast tracked under AF and intends to develop small[3] projects of C category. Acumen was the only entity not fast tracked and sought accreditation to develop micro scale activities of C category.

- **Three international implementing entities:**
    - **Asian Development Bank (ADB)**, multilateral development bank based in the Philippines,
    - **German Development Bank - KfW**, a bilateral development bank,
    - **United Nations Development Programme (UNDP)**.

ADB was fast tracked under the AF, and KfW under the Directorate-General for Development and Cooperation – EuropeAid of the European Commission (EU DEVCO). Both plan to develop large[4] scale projects/activities with high environmental and social risk category (Category A). UNDP also received a fast-track accreditation under Adaptation fund to develop medium[5] size of project/activity within a programme of medium environmental and social risk (category B).

The session on accreditation was shadowed by strong criticism from the civil society over the lack of transparency in the process. Firstly, unlike the Board members, in the current process civil society was not informed about the applicants' identity, not even at the time of the Board meeting. This is not in line with the best practice, which GCF should follow. AF for example reveals the name of the entity once a positive recommendation for approval is made - meaning in advance of the Board meeting. Secondly, there was no disclosure of how the assessment of proposals was conducted or what questions applicants needed answering. Numerous civil society representatives argued that this information should be available to enable meaningful stakeholder input in the process. Thirdly, they exposed the importance of entities' track record in the assessment process and the need for the latter to be based on external consultation and verification, including evidence from affected stakeholders.

In addition, civil society pointed out that the entire accreditation process should be subjected to multi-stakeholder consultation at the national level, which is currently not the case. They highlighted that "wider stakeholder consultation is crucial at the national level to ensure that competent organizations with a good track record are recommended to the GCF". Finally, it was professed that the status on the applications that are under review, should also be disclosed as a part of good practice utilized by the AF.

Overall, the process to accredit implementing entities as witnessed at the 9th Board meeting was a hurried process wrapped in too much anonymity to reflect 'accountability, transparency and fairness', the guiding principles of accreditation process. It did not demonstrate best practices or provide a good precedent for future accrediting.

[3] Maximum total projected costs at the time of application between US$ 10 million and up to and including US$ 50million for an individual project or an activity within a programme.
[4] Total projected costs at the time of application of above US$ 250 million for an individual project or an activity within a programme.
[5] Maximum total projected costs at the time of application of above US$ 50 million and up to and including US$ 250 million for an individual project or an activity within a programme.

Initial Investment Framework: key to future funding proposals

The discussion on the initial investment framework (GCF/B.09/07) was a debate on what criteria should be used in scanning funding proposals and allocating the Fund's resources.

The debate, which was one of the most contemplated topics, covered three significant issues:

1. Firstly, the Board members shared their views on the proposed initial activity-specific sub-criteria and a set of activity-specific indicators (Annex II) put forward by the Secretariat. In the process of preparing proposals, accredited entity will need to respond only to sub-criteria and indicative assessment factors relevant to their proposal.
2. Secondly, participants were discussing the indicative minimum benchmarks set for each criterion, which would allow assessment of funding proposals in line with investment criteria.
3. Thirdly, participants were opting for one of the two options of the assessment methodology; Option A (Annex III.A) which stipulates assessment of proposals against minimum benchmarks and assigns a scaling system (low/medium/high) and; Option B which does not assign a scale or rating and relies more on qualitative judgment.

In the initial debate, most of the Board Members proposed additional paradigms to proposed sub-criteria and indicated that they need to be further streamlined. Many representatives of developed countries supported Congo's point that criteria should reflect the needs of the countries. Only few participants opted strictly for one of the two assessment methodologies. Some of the developed countries (Netherland, Japan, Switzerland, Australia and Italy) and representative of private sector argued that option A is the only way to signal high level of ambition, provide valuable guidance to accredited entities and project developers and ensure that decisions are effective. Australia testified that using minimum benchmarks provides more data for monitoring and evaluation, enables more transparency in decision making and gives opportunity to identify capacity building needs. Netherlands even argued that option A is not rigid enough and should be utilized as mandatory benchmark. USA contended that strong benchmarks are crucial and proposed two kinds of benchmarks; threshold benchmarks and aspirational benchmarks, which would be less binding but would allow countries to aim higher. Also instead of a three level scale, USA proposed a 5 point scale to allow more shades. Argentina suggested benchmarks to be applied only in necessary cases, taking into account particularity of each projects.

On an opposite pole, India and Cuba strongly argued for option B, asserting that option A would consume too much time and finance, that the GCF does not have the adequate capacity to carry out assessments and highlighted that, since the GCF is to follow best practices, other institutions and funds use qualitative assessment and don't use scaling.

Most Board members, despite preferences for one of the options, expressed willingness to find the middle ground and create an option C. Accordingly, this led to further discussions, which only draw to close in the last hours of the Board meeting.

Finally, the Board adopted the initial activity specific sub-criteria contained in Annex II of the document, with the understanding that national, and sector-wide sub-criteria can be used only at the discretion of the recipient countries. Secondly, the Board members agreed to use the indicative minimum benchmarks in order to "ensure projects and programmes demonstrate the maximum potential for a paradigm shift towards low-carbon and climate resilient sustainable development". The Board thus requested from the Secretariat to prepare indicative minimum benchmarks for consideration at the Board's 13th meeting, which should acknowledge the needs of the most vulnerable countries, particularly LDCs, SIDS and African states. Lastly, the Board opted for a scaling system (low/medium/high) to efficiently assess performance of the project and programs. This should however apply only to a subset of proposals, which will be recommended by Investment Committee. In case the Board members will be unable to come together on the subset of proposals by the 10th meeting, the scaling pilot will initially apply to all medium and large scale projects.

Although the Board did agree on a set of minimum benchmark for the greenhouse gas emissions reduction attained through projects, to the big disappointment of civil society, in a related debate the Board failed to agree to any exclusion list, which would ban coal power or any fossil fuel projects.

The Board anticipates the first project and programme proposals to be prepared by June as the Fund aims to approve the first set at the October Board meeting.

Decision on "Enhanced Direct Access" delayed

Enhanced Direct Access (EDA) was a concept conceived to achieve stronger devolution of decision-making, where both funding decisions and management take place at national or subnational level. This includes processes such as screening, assessment and selection of activities. Such responsibility requires adequate institutional capacities, which might need help developing and identifying existing gaps.

Given that there are many potential approached to enhance direct access at the country level, the Fund decided to kick off a pilot phase, which would allow effective operationalization of modalities and provide experience and additional insights on how to further enhance direct access. It was stressed that the pilot phase needs to provide learning experience aiming to improve current practice within the climate field.

The Board shortly deliberated on the paper (GCF/B.09/05) on the terms of reference of the pilot phase, which initially proposed to select five pilots with a total of US$ 100 million, with at least two of the pilots in small island developing states, the least developed countries and African States.

Although Board members accentuated the importance of EDA for paradigm shift and marked it as 'signature modality' of the Fund. Discussion on modalities brought up several unclarities. These included:

- the relationship between the two tracks - accreditation and EDA;
- The role of National Designated Authorities and their cooperation with IEs;
- The selection procedure for pilot projects;
- The timeline and assessment of pilot phase;
- The learning component of pilot phase;
- The role of multi-stakeholder engagement;
- The role of Technical Advisory Panel in the process;

Due to the lack of time to further deliberate, the discussion quickly came to a halt and it was decided to continue at the 10th Board Meeting.

Status of resources: the ticking clock

Board members discussed the status on initial resource mobilization (IRM). At the 8th meeting of the Board in October 2014, a decision was reached (GCF/B.08/45) that the fund will become officially 'effective' *"when 50 per cent of contributions, confirmed by fully executed contribution agreements/arrangements, pledged by the November 2014 pledging session are reflected in fully executed contribution agreement/arrangements received by the Secretariat no later than April 30, 2015."* The status of resources from February 2015 indicates that 4 out of 21 countries pledging by the November 2014, have signed contribution agreements (Czech Republic, Denmark, Luxembourg, Panama), summing up to $80 mio.

Countries concerned with legal consequences in case they fail to meet the deadline called for a back-up plan. The secretariat however argued that it needs to encourage discipline and urged countries to stick to the deadline. In case of technical breech (if country exceeds limit by days or weeks) or constitutional breech (by longer period), it was agreed that appropriate measures will be taken. Stringency was backed by civil society, which reminded the Board that the world out there is waiting and called the countries to live up to the promised '10 billion dollar fund'.

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