Report on 10th Meeting of the Green Climate Fund (GCF) Board

6-9 July 2015, Songdo, Korea

Summary

6-9 July 2015, the 10th meeting of the Green Climate Fund (GCF) Board was held in Songdo, Korea. 36 Board and Alternate Board members gathered along with a number of observers to discuss 32 agenda items. The meeting was the last one before the first concrete funding proposals will be presented and likely be approved before the COP21 in Paris.

Key outcomes of the meeting include:

1. Accreditation of 13 new entities, including some strongly contested by civil society organizations; GCF now has 20 entities through which it can channel resources (5 national, 5 regional and 10 international)
2. A decision was reached to enhance direct access. This includes the launch of a five year pilot phase which will provide US$200 million for ten pilots, including at least four pilots to be implemented in Small Island Developing States (SIDS), Least Developed Countries (LCDs) and African States
3. The GCF will provide additional resources for two more pilot programmes; US$200 million for a pilot programmes by micro-, small- and medium-sized enterprises (MSMEs), and US$500 million to mobilize resources at scale
4. The GCF Secretariat announced that it will provide US$2.5 million for readiness and support program in 9 countries, to build their capacities in preparing their strategic framework for national engagement with the Fund
5. The Board decided to further develop the monitoring and accountability framework and provide details on compliance check, non-compliance measures and local monitoring
6. A decision on country ownership recognizes that National Designated Authorities (NDAs) or focal points should facilitate country coordination and engagement with representatives of relevant stakeholders, including civil society, on the basis of best practice options adopted by the Board

The accreditation procedures of the 13 entities caused a great deal of turmoil. The decisions were taken following a closed door discussion of the Board, presumably due to the accreditation of Deutsche Bank and World Bank, institutions known as major fossil fuel funders. Several civil society organizations, including Carbon Market Watch, argued this decision failed to reflect GCF's path towards achieving truly transformational change.

As a next step, the Board will consider funding proposals submitted by the accredited entities, and is expected to approve the first ones at the next Board meeting in November, taking place in Livingstone, Zambia. The Fund will first off consider project with lack of climate finance resources, especially projects for cities, land management and resilience of small island states. The decision on which projects will be financed through the GCF will be important because it will define what kind of fund the GCF will be and how successful it will be in promoting a paradigm shift. Hela Cheikhrouhou, Executive Director of the GCF, stated that only around US$500 million worth of projects, looked promising.

Controversial accreditation of 13 new entities to channel GCF resources

One of the most debated items at the 10th GCF Board meeting was accreditation of new partner institutions. Accredited entities can be sub-national, national, regional and international, public, private and non-governmental institutions that act as the Fund's channel to transfer resources to developing countries. At the previous meeting, the Board accredited first seven 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 (see Report on the 9th meeting of the GCF).

The following additional 13 entities were accredited at the 10th Board meeting:

National:

1. **Environmental Investment Fund of Namibia (EIF)**, which supports projects that ensure sustainable use of natural resources
2. **Ministry of Natural Resources of Rwanda (MINIRENA),** focusing on environment, climate change, and natural resources management
3. **National Bank for Agriculture and Rural Development** (NABARD), a national financial institution based in India

Regional :

4. **Corporación Andina de Fomento** (CAF), a Latin American development bank
5. **Caribbean Community Climate Change Centre** (CCCCC), a public organization focused on small island developing states in the Caribbean
6. **Africa Finance Corporation** (AFC), a public-private institution that provides support for sustainable development of infrastructure in Africa

International:

7. **Inter-American Development Bank** (IDB), a multilateral development bank
8. **International Bank for Reconstruction and Development** (IBRD) and the **International Development Association** (IDA), together known as the World Bank
9. **Conservation International Foundation** (CI), a non-profit environmental organization
10. **Agence Française de Développement** (AFD), a development finance institute
11. **Deutsche Bank Aktiengesellschaft (Deutsche Bank AG)**, an international investment bank
12. **European Bank for Reconstruction and Development (EBRD)**, a multilateral development bank
13. **United Nations Environment Programme (UNEP)**

Together with the implementing entities accredited at the last meeting, the GCF has so far 20 accredited entities - 5 national, 5 regional and 10 international entities.

The Board was castigated by the representatives of civil society for their decision on accrediting Deutsche Bank and World Bank, investments of which show contradiction with Fund's objectives. Civil society argued that entities needs to provide good institutional track record and prove their alignment with the Fund's objectives, guiding principles, fiduciary standards and interim environmental and social safeguards (ESS) in order to be accredited, and that Deutsche Bank and World Banks have fallen short of doing so.

Accreditation of Deutsche Bank was disapproved due to its role as one of world's largest financiers of coal, for denunciation of money laundering and human rights concerns. It has even been awarded the 'Black Planet Award' for environmentally destructive business policies. Similarly, the World Bank's accreditation was opposed due to its funding of fossil fuel energy, concerns around human rights as well as poor track record on climate finance. In addition, the World Bank is already GCF's interim trustee which leads to conflict of interest.

On the other hand, business observers argued that such institutions are needed among accredited entities to leverage further finance through mainstream capital markets.

Several other concerns were raised in the accreditation process from the civil society and some Board members; the lack of transparency in the process and the fact that the names of the applicants were once again disclosed only after the accreditation process, the accreditation of 13 entities as a package rather than individual assessment, and the imbalance of predominantly accrediting financial institutions, which will grasp the larger share of the GCF resources.

The 7 accredited entities that were accredited at the 9th Board meeting have been working with the Fund to develop final project proposals and submit them for consideration at the next – 11th Board meeting in November.

Decision reached on Enhancing Direct Access to GCF

The main objective of Enhanced Direct Access (EDA) is 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. For this reason mechanisms are to be established for multi-stakeholder engagement at the country level. Such direct access allows for stronger country ownership but also requires adequate institutional capacities.

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.

At the 9th Board meeting, many unresolved questions left the conclusion on enhancing direct access delayed. At the 10th meeting, the board reached the decision and adopted the terms of reference for a pilot phase. The amount of US$ 100 million for five pilots over two years deliberated at the last meeting was raised to US$200 million for at least ten pilots, including at least four pilots to be implemented in Small Island developing States, the least developed countries and African states over five years.

The decision also requested the Secretariat to prepare and launch a call for proposals, conduct initial assessment of the proposals, and report back to the Board at 12th meeting next year.

Apart from EDA pilot programme, the Fund will provide additional resources for two more pilot programmes; US$200 million for a pilot programmes by micro-, small- and medium-sized enterprises (MSMEs), and US$500 million to mobilize resources at scale. All three programs will set out from 2016.

Decision to further develop monitoring and accountability framework

The Board decided to further develop an initial monitoring and accountability framework for accredited entities. The accreditation of implementing entity is valid for 5 years with assessment for further accreditation conducted by Secretariat and the Accreditation Panel. The monitoring and accountability framework is based on compliance with compliance with the Fund's environment and social safeguards, fiduciary standards and gender policy. The further development of the framework will consider actions for non-compliance, compliance audit and local monitoring.

GCF is set to distribute US$ 2.5 million for readiness and support program

The Fund established a readiness and support programme in order to maximize the capacity of countries to access GCF funding and amplify the effectiveness of their actions. The support is tailored to country needs and circumstances through actions including supporting NDA/focal point engagement with other stakeholders, developing strategic frameworks for national engagement with the Fund and helping national and sub-national institutions to meet the accreditation standards. Until now the Fund has provided support to 24 countries in the accreditation process of their national or regional entities. In July, the Fund set to allocate US$2.5 million to 9 countries (Comoros, the Dominican Republic, the Democratic Republic of Congo, Ethiopia, Mali, the Federated States of Micronesia, Rwanda, Thailand, and Togo).

Scaling system will apply to all medium and large proposals

Investment framework is a crucial element of project development under the Fund's auspices that provides the criteria which will screen project and programme proposals. At the 9th Board meeting, the decision was made to use a scaling system (low/medium/high) for a subset of proposals determined at 10th meeting, to efficiently assess performance of the project and programs. Despite some Board members opting for considering the GCF contribution for determination of project size, the Board decided that this subset should include all medium and large scale activities considering the total project/programme budget size.

Developing country Board members push for emphasis of country ownership

Decision was reached on importance of country ownership, which inter alia requests the Secretariat to prepare a Proposal of Guidelines and drawing from learning experiences and best practices across NDAs or focal points and recognizes that NDAs or focal points should facilitate country coordination and engagement with relevant stakeholders, including civil society organizations and women's organizations, on the basis of best practice options adopted by the Board in decision B.08/10.

Main financial instrument to be used by the GCF – grants or concessional loans?

One of the topics that was deliberated at the meeting was the type of financial instruments to be used by the Fund. While some Board members from developing countries expressed that the Fund should not act as a bank and thus disperse predominantly grants, the Secretariat was supporting the use of low-level concessional loans as the main instrument. Despite the push from developing country Board members to reach a decision and a proposal for draft decision declaring preferred decision of recipient countries, no consensus and thus no decision was reached on the matter in the end.

Status of resources

The Board noted that the Fund was able to reach its effectiveness in May 2015 by signing off 50 per cent of the money pledged in the November High-level Pledging Conference in Berlin. The total of signed contribution amounts to US$5.47 billion equivalent. The Board welcomed the conversion of pledges by some countries and urged others to do so. The Secretariat apprised that the Fund is expected to make funding decisions of up to about US$1.4 billion in 2015.

According to the Secretariat, the next step will be to convert all pledges into contributions before COP21 and leverage other public sources for additional contributions. The debate also took place about whether to make a new deadline for pledges not yet converted, but given the opposition of some Board members, including US Board member, the idea of a deadline was waived.

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