Decision Time?

The 4th Meeting of the Green Climate Fund Board focuses on the Fund's Business Model and its new Executive Director

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The 4th Meeting of the Board of the Green Climate Fund focuses on the Fund’s Business Model and its new Executive Director

When the Board of the Green Climate Fund (GCF) convenes for its fourth meeting from June 25 – June 28, 2013 in Songdo, South Korea, the Co-Chairs will be pushing the 24-member body to take some key decisions on how the GCF will conduct its business in order to push for the paradigm shift toward low-emission, climate-resilient, sustainable and gender-sensitive development in developing countries mandated by its Governing Instrument, and provide an answer to the question of what role the private sector will play in contributing to that shift. The discourse on the Business Model Framework (BMF) for the Fund – the constituent building blocks of policies, guidelines, and organizational structure of facilities, windows and units to operationalize the Fund – will dominate the Songdo meeting agenda, including a whole-day of informal discussions on June 25th. The Board will have to carefully navigate the unavoidable tension between urgency to “get on with it” and show results (as a prerequisite that developed countries have reiterated repeatedly to even start talking about the initial resource mobilization for the Fund) and the need to be thoughtful, thorough and innovative in getting the Fund right (to rationalize the existing climate finance architecture, fill delivery gaps and secure the GCF as the global community’s main multilateral climate funding mechanism for decades to come). At the same time, the Co-Chairs and the Secretariat have to show that they are receptive to and addressing the concerns of Board members, including on process and transparency of the BMF work.

Also on the agenda in Songdo, although somewhat overshadowed by the focus on the business model for the Fund, is the selection of the new Executive Director for its Independent Secretariat from a short-listed group of three candidates. Once chosen – presumably in a non-public executive Board session – the new GCF Executive Director will have to oversee as one of her/his first tasks the move of the current GCF Interim Secretariat from Bonn to Songdo and its reconstitution as permanent Independent Secretariat before the end of this year.

Several agenda items up for decision in Songdo are address the transparency and accountability of the GCF and its Board, including the Fund’s information disclosure, further work on a communication strategy, a competition to design a logo for the Fund, as well as voting rules for the Board. Much works remains for the GCF to meet, let alone set, new international best practice in terms of transparency. In Songdo, the Board could take a bold step toward this goal by allowing for web-casting of its proceedings and stipulating meaningful consultation on Board preparatory documents in order to ensure that stakeholders, particularly the people in developing countries who are to benefit from GCF funding decisions, have a way to contribute their expertise, experiences and suggestions to inform the Board’s actions.

Lastly, the Board will again have to take up the relationship of the Fund, which is an operating entity of the financial mechanism of the UN Framework Convention on Climate change (UNFCCC), with the Convention, its Conference of Parties (COP), to whom the GCF is accountable, and other organizations. The arrangements between the COP and the GCF are also addressed simultaneously in the Convention’s Standing Committee on Finance (SCF), where a recent meeting failed to reach agreement on elements of such arrangements.

The opening of the formal three day Board meeting will follow a day of informal discussions among Board members, alternates and advisors, and private sector and civil society active observers on June 25th on the business model framework (BMF) of the Fund. As in Berlin, this workshop before the official Board meeting is supposed to address existing controversies and disagreements among Board members regarding the objectives and structure of the Fund and the policies, guidelines, indicators and results frameworks it needs to develop in order to best operationalize the vision of the GCF as promoting, “[i]n
the context of sustainable development, ... the paradigm shift towards low-emission and climate resilient
development pathways" and doing so in a country-driven approach that seeks a balance between
funding for adaptation and mitigation, "while promoting environmental, social, economic and development
co-benefits and taking a gender-sensitive approach." The Co-Chairs hope that by the end of the informal
workshop they will have reached agreement or convergence among Board members on a number of
issues related to the Fund’s proposed business model in order to facilitate the decision-making on BMF
agenda items over the three-day Board meeting.

Business Model Framework
At the second GCF Board Meeting in Songdo, the Board had established a team of six Board members
(from France, the UK, Barbados, Norway and DRC, with Columbia chairing) to facilitate the preparation of
documents on a business model framework (BMF) for the Fund, with the Co-Chairs and the team of six to
provide “quality control” on the preparation of these Board documents. The BMF papers are to cover the
main constituent elements for how to operationalize the vision of the Fund as outlined in the Governing
Instrument’s section on objectives and guiding principles (paras. 1-3). At the last Board meeting in Berlin
in March, the Board approved the resources (up to US$ 600,000) and tasked the Interim Secretariat, the
BMF team and the Co-Chairs and/or consultants to carry out work on two sets of analytic papers, one for
consideration and decision-making at the June Board meeting, the second for discussion and decision at
the September Board meeting.

For the upcoming June meeting, six papers have been prepared by either consultants or the Interim
Secretariat. While draft versions have not been shared with the public and no outreach or consultation
efforts were made to solicit the opinions of stakeholders on the June BMF papers, they are now available
in their finalized forms on the GCF website. These six papers are intended to present policy choices and
design options for the Fund on 1) objectives and desired results of the Fund and performance indicators
for measuring these results; 2) how to ensure country-ownership of the Fund, looking at current best
practice; 3) assessment of best practice access modalities, including direct and international access, and
eligibility and accreditation procedures, drawing on experiences of other multilateral funds; 4) the range of
financial instruments the Fund could utilize, their advantages and disadvantages; 5) various institutional
models for the Private Sector Facility (PSF), its objectives and performance indicators and models of
delivering PSF resources; and 6) structure and organization of the Fund assessing currently existing
multilateral instruments. Those six papers are to be considered conjointly.

For the September meeting, three additional papers on elements of the GCF BMF are to be prepared with
policy choices to inform a decision by the Board on 1) different financial inputs to the GCF and the
experiences (benefits, disadvantages and applicability) of other funds; 2) allocation procedures, including
results-based approaches of other multilateral funds and their benefits, disadvantages and applicability
for the GCF; and 3) key elements of a results management framework and modalities for monitoring and
evaluation.

Gender-Sensitive Approach
The 2013 work plan for the GCF Board, which the Board approved at its second meeting, lists a number
of priority areas for Board consideration, with most of them being incorporated in, or discussed in parallel
with the BMF. Although the Governing Instrument mandates in para. 3 that the GCF take a gender-
sensitive approach in order to maximize the impact of its funding for adaptation and mitigation, and thus
defines gender-sensitivity as a cross-cutting issue for operationalizing the Fund, the BMF discourse and
other work areas so far have paid little to no attention to gender issues as an area to be addressed in
implementing a vision for the Fund. A paper offered by the Danish/Dutch GCF Board seat on "Operationalizing the Gender-Sensitive Approach in the Green Climate Fund"; to be shared with the GCF
Board in advance of the upcoming Sonodgo meeting, addresses this gap by providing concrete
recommendations on how the gender dimension could be addressed and integrated in the BMF, such as
the PSF, the structure and organization of the Fund, its access modalities, financial instruments,
allocation approach or results measurement framework. It makes the case that the GCF has an important
opportunity to discuss the merits and elements of a gender-sensitive approach in the GCF in conjunction
with Board discussions and decisions on operational building blocks of the GCF business model, and thereby become the first climate fund that comprehensively addresses gender from the very outset of its operations. This would make the GCF the most important international fund to support developing countries’ move toward low-emission and climate-resilient development pathways in a way that addresses persistent gender inequalities as obstacles to effective climate action and climate financing.

Objectives, results and performance indicators

The paper prepared for the Songdo Board Meeting on objectives, results and performance indicators is intended to give Board members the necessary information to allow them to make decisions on the objectives of the Fund and the results the Fund aims to achieve. It helpfully elaborates some of the design considerations and possible trade-offs between short-term and long-term opportunities and priorities, the need to avoid lock in and for a consideration of capacity building and readiness activities accompanying GCF investments to support broad systemic change in recipient countries. Particularly at issue in the options presented is whether the Fund should be guided by a narrow strategic focus on adaptation and mitigation or take a multiple benefits approach, recognizing that national climate action cannot be separated from the sustainable development context and is more likely to receive developing countries’ political and implementation support if it does. A multiple benefits approach to GCF funding, which includes a gender-sensitivity, would highlight the importance of financing for adaptation and climate-resilient development action, which has been under-sourced in existing climate financing structures but might run counter to a preference of many developed countries to focus on large-scale emissions reductions programs with verifiable CO2 abatement results as the primary objective for the Fund.

In Songdo, the Board is asked to decide on priority results areas of the Fund for mitigation, adaptation and cross-sectoral support based on the aggregate impact, the development co-benefits and the transformative impact funding in these areas can achieve. Options presented for mitigation cover both large-scale and small scale sector-wide and household level interventions, such as reducing energy use from buildings and appliances, energy access for households to low-carbon modern energy sources, as well as supporting the reduction of emissions from energy-intensive industrial production or agriculture and land use management (including REDD+ implementation). Cross-sectoral options presented focus on sustainable cities and sustainable management of forests. The options under adaptation priority results areas range from narrow (support for some flagship or limited sector areas) to wide (across the full range of adaptation result areas), including a focus on scaling up community-based adaptation efforts. It remains to be seen if the Board chooses to prioritize a few options from the larger menu of options presented or takes a more comprehensive funding approach.

The Board’s decision on objectives and priority areas of course has implications for the performance indicators the Board will select. A Board decision on these indicators is expected at the September Board meeting, but Board members are asked to try to find agreement on the Board’s preferred indicators in Songdo. The discussion within the Board will likely go towards focusing on a (probably rather limited) set of core indicators. This will make it all the more important that the selected indicators are capable of measuring the multiple benefits of GCF financing, including for example poverty reduction and gender equality impacts, on top of more narrowly defined mitigation or adaptation impacts by disaggregating data collection or introducing baselines and targets according to such multiple benefits. Such smart indicators would then not look at “people” or “households” but would be disaggregated by gender and poverty level within households or target beneficiary groups. While the Board is to decide at the September Board meeting on a results measurement framework that is aligned with the core performance indicators it wants the Fund to employ, the selection of criteria and performance indicators by the Board has to be understood as an iterative process, to be handled with some flexibility (to allow for country circumstances) and to evolve with the Fund.

Country Ownership

At its Berlin Board meeting, the Board agreed in its discussions on the BMF that “a country driven approach is a core principle to build the business model of the Fund.” The GCF Governing Instrument
points to national designated authorities (NDAs), to be selected by recipient countries, as the structural “guarantor” of country ownership by ensuring consistency with national climate strategies and plans. The Durban decision on the GCF also mandated the Board to elaborate a no-objection-procedure that would allow countries to object to any public or private sector funding proposal inconsistent with recipient country priorities. The Board paper on country ownership elaborates experiences and best practices of existing funds with respect to a number of key responsibilities that the NDA will have to take on, namely program oversight, country programming, coherence with national plans and country-level coordination, designation of implementing entities (IEs) and approval of funding-requests and no-objection procedures. It then discusses two basic options for NDAs, to be applied either concurrently or consecutively. The first is a centralized, basic model where the NDA would essentially be a central clearing-house for proposals against national strategies, would not generate its own funding proposals and would have a limited consultative outreach and multi-stakeholder engagement structure. The second is a more decentralized, expanded model, where the NDA would coordinate funding requests, assume oversight responsibilities and select implementers through a decision-making process and structure that would involve multiple stakeholders.

In Songdo, the Board is asked to confirm the central role of NDAs for ensuring country ownership of Fund decisions and – while giving recipient countries flexibility on whether they want to designate such an NDA at all and what operational and governance structure to employ for their respective NDA – decide that the NDAs at a minimum should:

- Ensure consistency of GCF funding proposals with national plans and strategies;
- Act as the focal point for no-objection procedures; and
- Act as the focal point for Fund communications, including the nomination of National Implementing Entities.

In the GCF Governing Instrument, the role of effective multi-stakeholder engagement for the realization of a country-driven approach is highlighted (para.3), and the GCF asked to “encourage the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects.” (para. 31). The paper for Board discussion and decision highlights the central role of multi-stakeholder engagement in ensuring country ownership beyond national governments. Experiences of existing funds with multi-stakeholder engagement are discussed, although a number of them, for example the annual partnership forum employed by the World Bank’s Climate Investment Funds (CIFs), fall short of what many stakeholder representatives would consider meaningful and consistent involvement and participation “in the design, development and implementation of the strategies and activities to be financed by the Fund” (Governing Instrument, para. 71). The Global Fund for Aids, Tuberculosis and Malaria in contrast explicitly ties funding eligibility to transparent stakeholder engagement processes and gives non-governmental groups decision-making power in its Country Coordinating Mechanisms (CCMs), the functional equivalent of the GCF NDAs.

It is therefore of concern and incompatible with the core principle of country-ownership as elaborated in the GCF Governing Instrument that the draft decision on country ownership for Songdo makes country coordination, including engagement across a range of relevant stakeholders, only an optional function for NDAs at the current time. However, the Board is asked to request the preparation of a document for consideration at the September Board meeting that would elaborate best practice options for country coordination and multi-stakeholder engagement. The Global Fund experience should feature prominently in such a paper. Modalities for transparent no-objections procedures will also be part of the September paper.

**Access Modalities**

The GCF Governing Instrument provides specific guidance on access modalities. It stipulates that the GCF will provide simplified and improved access to funding, including direct access, under a country-driven approach that will encourage the involvement of all relevant stakeholders, including vulnerable groups and addressing gender aspects (para.31). Access will be through implementing entities (para. 40) for which an accreditation process needs to be established (para.49) – for direct access via sub-national, national or regional level entities and with enhanced direct access an option (para 47), and for
international access through UN agencies, MDBs, international financial institutions and regional institutions (para. 48). A national designated authority will guarantee that funding proposals are in line with recipient countries’ own strategies and plans (paras. 45 and 46).

In Berlin, Board members agreed on a country-driven approach as a core principle for the BMF and noted this as an area of convergence. However, there were objections to including a reference to decentralization or devolution to the national level, which developing countries have strongly argued in favor of, in the Berlin outcomes. Some developing country members emphasized that one of the key structures for country-ownership is direct access and urged a prioritization of this access modality, including with expanding enhanced direct access, in the BMF, acknowledging that this would have to be counterbalanced by a robust accountability framework. Some developed country Board members, however, argued that direct access, while important, was only one of several possible access modalities.

Direct access modalities, in which implementing functions are devolved to designated national bodies while operational fund management functions are retained at the fund level, are currently the exception more than the rule in international funds. They are utilized by the Adaptation Fund, the Global Fund and the GAVI Alliance to provide access to vaccines internationally, with the GEF piloting direct access via accreditation of a limited number of national implementing partners. International access where implementing functions are performed by accredited international entities such as UN agencies or MDBs are the access modality with the longest track record. Enhanced direct access is the most devolved access modality with for example National Trust Funds, of which currently more than 30 exist globally, taking on operational fund management functions. The provision of credit lines through financial intermediaries is another option of enhanced access modalities that the Board could consider.

In in order to successfully fund through implementing entities and intermediaries, the GCF will have to design and apply principles and standards for their accreditation that cover the fiduciary standards and environmental, gender and social safeguards (still to be developed by the Board and most likely to be taken up at the September Board meeting) against which applicant institutions need to be assessed. The Board document for Songdo details the experience and best practices of existing funds on these standards and safeguards, pointing out that at the GEF and the Adaptation Fund, for example, fiduciary standards are core elements of existing accreditation processes. For environmental, gender and social safeguards and criteria the experience is mixed, with for example the GEF setting minimum requirements, including gender mainstreaming criteria already at the accreditation phase, while at the Adaptation Fund related aspects are only considered in the project review phase. For the GCF, the consideration of standards and safeguards at both accreditation and project level might be necessary to realize the multiple benefits and the gender-sensitive approach the GI mandates for GCF funding. The Board of the GCF will have to decide if it will develop its own accreditation criteria or (maybe only initially) will accept existing accreditation procedures of other funds, such as the one for NIEs under the Adaptation Fund as “functionally equivalent,” although they might need be screened against additional criteria (for example environmental, gender and social safeguards in the case of the case of Adaptation Fund accredited implementing entities). At the same time, to not penalize recipient countries with lower national implementing capacity, a GCF accreditation process might have to be support by GCF-funded capacity-building support. Lastly, in order to be practical (taking into account different recipient countries’ institutional capabilities and capacities) accreditation criteria and procedures might have to be differentiated. The Board document for Songdo lists types of activities, thematic areas or scales of funding as categories differentiation of accreditation processes and criteria. For example, an institution accredited to potentially receive a US$100 million concessional mitigation loan for implementation would have to be treated differently than a non-governmental organization seeking access to GCF adaptation funding for a community-based project of up to US$100,000 under a possible GCF Small Grants Facility.

In Songdo, the Board is asked to note on which key elements of an accreditation model for implementing entities and intermediaries they can agree on and the respective responsibilities and accountability arrangements between the Fund and the institutions to be accredited. If the Board supports this approach, a document with a comprehensive list of existing fiduciary standards and criteria for environmental and social – and gender – safeguards is to be prepared for the September Board meeting, which would also look at how complete the coverage of those standards and safeguards are in existing implementing entities and intermediaries, for example for the GEF and the Adaptation Fund. Building on this, for the first Board meeting in 2014 two further documents could be prepared, one defining the GCF’s
own possible accreditation criteria, including best practice fiduciary standards and social and environmental safeguards and another one discussing options for accreditation processes differentiated by categories of institutions (such as MDBs, UN agencies, international finance institutions, national institutions or intermediaries). In the discussion of safeguards, best practice gender equality and mainstreaming standards should be integrated from the very beginning of the discourse, as a paper on operationalizing the gender-sensitive approach in the GCF, which is offered for Board colleagues in Songdo by the Danish/Dutch Board seat, argues.  

Financial Instruments

At the Berlin meeting in March, Board members agreed that the GCF would “[c]ommence as a fund that operates through accredited national, regional and international intermediaries and implementing entities” and disburse its funding initially only via grants and concessional loans. Other financial instruments can be added and employed later on following Board approval, with financing focusing on covering “identifiable additional costs” to make a climate investment viable and on catalyzing or leveraging additional public and private investments (Governing Instrument, para. 54). The BMF paper on financial instruments prepared for Songdo lays out possible financial instruments for the Fund, grouping them into four basic types, including guarantees and equity investments in addition to grants and concessional loans. It then describes 11 different options for modalities to use these four basic instruments, ranging from development policy loans (familiar from the MDB context to address programmatic policy and institutional changes) to public-private partnerships (PPPs), to blending of GCF financial resources with funding from MDBs or bilateral agencies (a practice used in the World Bank’s Clean Technology Fund) to advance market commitments to create viable market demand for private sector investment. A special focus is on performance-based payments, which the Governing Instrument explicitly allows for, particularly for verified mitigation results (para.55). What financial instruments the GCF will use in the medium-term in addition to grants and concessional loans will also depend on the level of resources and types of financial inputs the GCF Trust Fund will receive. If the GCF receives both grant and loan resources from contributing countries, as the Climate Investment Funds (CIFs) currently do, then the management of fund resources becomes more complex, requiring a risk management framework to guarantee the GCF’s ability to repay loans. With more complex financial instruments, the GCF might have to be structured and staffed more like a bank than a primarily grant-giving fund in order to manage reflows, assess risks and determine varying levels of concessionality; a prospect some of the developing country Board members are wary of, but some developed country Board members seem to prefer (with a few even suggesting to structure the GCF according to financial instruments instead of geographical units or mitigation and adaptation windows).

Before the Board decides on more complex financial instruments beyond grants and concessional loans, the paper suggests further research and discussion to develop criteria for the selection of modalities of such instruments. Those could include transformational impact, effective impact on the feasibility of the investment, leveraging potential or scalability of capital flows.

In Songdo, the Board is asked only to decide that the Fund will begin by providing grants and concessional loans to accredited national, regional and international intermediaries and implementing entities and will, over time, deploy other financial instruments such as guarantees and equity investments to be utilized via a broad, but undetermined, range of modalities. A document for the September Board meetings would then recommend to the Board the terms and conditions of the grants and concessional loans that the Fund will use initially in channeling funding through intermediaries and implementing entities.

Private Sector Facility

The development of a Private Sector Facility (PSF) is mandated by the Governing Instrument (para.41). This also places the activities under the PSF under the mandates and requirements of a country-driven approach (para.42), including, as defined by the COP decision in Durban on the GCF, the application of a no-objection procedure. Strangely, a discussion of the Durban decision context is absent from the Board paper on the PSF for Songdo, which serves as the basis for Board consideration and decision on the
subject matter. The PSF is maybe the key component of the BMF for many developed country Board members who have indicated in prior Board meetings that they see the development of a strong PSF as the main indicator for the success of the BMF, and as a trigger for successful resource mobilization for the Fund. In contrast, in the discourse on the BMF and the role of the PSF during the Berlin Board meeting, several developing country Board members felt it was overemphasized in the BMF discussion and almost treated as a separate fund (with a consideration suggested by some – and presented now in the Board document for Songdo as one of two options – of a governance structure separate from the GCF). They urged to include in the options paper on the PSF suggestions on how to operationalize the mandate of the Durban decision for a no-objection procedure giving developing countries the right to object to private sector investments through the GCF that are not in line with country priorities. They also wanted clarification that the implementation of PSF funding would prioritize domestic small and medium-sized enterprises (SMEs), as well as the domestic private sector particularly in the least developed and small island countries as the GCF governing instruments elaborates under para. 43.. Likewise, several members mentioned that it was short-sighted for the BMF to discuss leverage only in the context of raising additional private sector investments – and make private capital leverage a cornerstone of the PSF performance metrics -- and suggested to expand the use of the term in the BMF context to cover “funds, programs and policies, public and private efforts” and thus fundamental policy shifts in recipient countries more broadly.

The Songdo Board document on the PSF outlines the barriers to private sector investment from SMEs in developing countries, identifying several broad obstacles from higher up-front costs to limited expertise and local capacity, lack of awareness and limited capital market instruments. It suggests that in addition to objectives to be articulated by the Board for the GCF overall, the PSF should also elaborate specific separate objectives, such as increasing the viability of instruments, reducing investment risks, building capacity and readiness and supporting technology development with separate PSF results areas, to be developed under PSF-specific performance indicators with options defined as “dollars and carbon”, “weighing for development impacts” and ‘dollars, carbon and disclosure of development impacts.” Elaborating financial instruments and modalities for the PSF, the Board paper seems to put heavy, if not undue emphasis on the PSF’s possible role to act as a support-mechanism for carbon prices (by providing price guarantees for certified emissions reductions for some CDM projects prioritizing small-scale renewable energy investments). PSF carbon price guarantees are also mentioned for soil carbon benefits generated as a by-product of agriculture, forestry and land-use projects focused on increasing climate resilience (as the World Bank is already doing under its BioCarbon Fund) with “carbon as a PSF-funded output” placed prominently under a discussion of PSF adaptation financing instrument. These suggestions are sure to be controversial, as many LDCs and SIDS with lower carbon-abatement potential and communities in developing countries feel that the CDM and the carbon market have not benefitted them well in the past. Instead the focus of the PSF’s instruments and resources might be better utilized by focusing on direct benefits for these groups of recipient countries and for population groups within all developing countries who are currently underserved, such as support for small-scale renewable or the expansion of fair and gender-sensitive micro-credit provision.

Likewise highly controversial could be one of the two options elaborated as potential institutional arrangements for the PSF, which suggests to not only create a separate governing body to which the GCF Board could delegate authority and which would include private sector representatives (but presumably no other civil society representatives), but also suggests outsourcing the establishment of the PSF (presumably the author(s) had the private sector arm of the World Bank, the International Finance Corporation, in mind?) or, at a minimum for an early start of the PSF, draw heavily for initial core staff from institutions such as the IFC.

As written, the document clearly favors this option over establishing the PSF as a business unit under the GCF that is fully integrated within the Fund’s governance and management structure. It also suggests that the PSF should be working initially entirely through accredited partner financial institutions as intermediaries. In this set-up, the PSF would be channeling grant and concessional resources to financial intermediaries such as the private sector arms of MDBs or private-sector oriented national development banks (such as Brazil’s BNDES, the USA’s OPIC or the Development Bank of Southern Africa (DBSA)). Direct financing could be added over time by developing the PSF as a fully-self-sufficient financial intermediary (presumably also with separate accounting and reflow structures from the rest of the GCF).
The draft decision of the Board on the PSF for Songdo would decide on the roles the PSF would play in addressing barriers to private sector investment in developing countries. However, the draft decision lacks a clear prioritization of a PSF focus on supporting domestic and especially SMEs in recipient countries, putting extra focus on those domestic private sector actors in SIDS and LDCs. In fact, those key terms (“domestic”, “SMEs”, “SIDS”, “LDCs”) do not appear at all in the current wording of the PSF draft decision. Board members are asked to decide on specific objectives for the PSF (in addition to noting that the results areas of the GCF as a whole will also apply to the PSF). The draft decision also foresees a decision by the Board already in Songdo on the institutional structure for the PSF. For the September Board meeting, a document for consideration by the Board is to be prepared that would spell out results and performance indicators specific to the PSF, terms of conditions of the grants and concessional loans the PSF is to start out with, and what the full range of financial instruments and modalities under the PSF over time could look like.

Structure and Organization

The Governing Instrument provides specific guidance on important key features for the way the GCF, once fully operational, will be structured and organized by stipulating that it will be accountable to and function under the guidance of the UNFCCC Conference of Parties (para.4); that it will be governed by a Board which can establish subcommittees and panels as needed (paras.5 and 18g); that it will have a fully independent secretariat headed by an executive director (paras. 19 and 20); that it will have a financial trustee (para. 24); that it will start out with an adaptation and mitigation window and have a private sector facility (paras. 37 and 41); that it will have an accreditation process for all implementing entities (para.49); that it will establish an independent evaluation unit (para. 60), an independent integrity unit (para. 68) and an independent redress mechanism (para. 69); and lastly, that the GCF Board will develop mechanisms for technical expert input (para. 70) and to promote the input and participation of stakeholders (para. 71). Board members in prior discussion have also stressed the need to make the Fund operational quickly in a cost-effective and streamlined fashion that provides enough flexibility to respond over time to country-driven demand and allows the Fund to evolve and grow. The BMF paper on structure and organization for Songdo assesses the practices of other multilateral organizations with very different sizes and structural complexity ranging from the MDBs, with a matrix of departments and units and a large staff, to the Adaptation Fund, with a small implementation unit of less than ten staff. Based on the GI guidance and by separating the functions that the GCF Secretariat is to provide into core operational and supporting units, the paper discusses four options for structuring the core operational units of the Secretariat, which the paper suggests could be an evolutionary sequence as the Fund grows, according to:

- Thematic structure with project focus (with only an adaptation and mitigation unit)
- Thematic structure with stronger country and programmatic focus (where a country strategy and program support unit is added)
- Geographic focus (with regional departments and including consideration of a separate LDCs and SIDS unit)
- Financial instrument focus (with a grants and concessional loan unit)

In each of these four options, the Private Sector Facility would be established as a separate unit. A number of other non-operational support units could be established in the Secretariat, for example to deal with accreditation, human resources, external relations, legal issues, resource mobilization or technical and expert advice. The number and complexity of these support units would grow, with the Fund with the paper recommending that some support functions, such as the Independent Evaluation Unit or the Independent Integrity Unit, might only be established over time.

In Songdo, the draft decision asks Board members to choose one of the four options for the organization of core operational units and to establish a human resources unit, an external relations and partnerships unit, a finance unit and an accreditation unit as the initial support units of the GCF Secretariat. A document to be prepared for the September Board meeting then will look at the cost and procedure for implementing the chosen option and provide a time-frame for the begin of operations under that structure. The document will also address the reporting and decision-making structure for the chosen option. If
Board members follow the draft decision, then the functions of a future Independent Evaluation Unit and Independent Integrity Unit would be initially taken on by the Secretariat. This could come at the cost of Fund accountability, legitimacy and the ability to course-correct in the early years of GCF operations. The draft decision also suggests that Board committees (both ad hoc and permanent) will become an important fixture of Fund organization to which decision-making authority could be delegated by the Board.

However, it is not clear that the Board will be ready in Songdo to decide on a basic organizational structure for the Fund as important elements of the Fund’s business model, for example its allocation and results management frameworks, will only be addressed at the September Board meeting. The Board might therefore decide to postpone the decision on the structure and organization of the Fund until it has reached consensus on the other elements of the business model framework.

Additional Rules of Procedure
The Governing Instrument for the GCF specifies important, yet largely rudimentary, rules of procedure for the Board, including its composition, the selection of Board members and their term, as well as basic rules for decision-making and observer participation (paras. 9-16). Since the first Board meeting in Geneva, the GCF Board has worked steadily and doggedly to reach agreement on additional rules of procedure, culminating in the adoption of a comprehensive set of additional rules of procedure with eleven annexes in Berlin in March. These annexes dealt with applicability and definitions (Annex I); the role and rights of observers (Annex II); composition of the Board and selection and term of Board members and alternates (Annex III); rules relating to the role of the Co-Chairs (Annex IV); procedures related to Board meetings, such as their frequency or document transmittal (Annex V); extraordinary meetings or executive sessions and rules governing the organization of the Board’s work in committees, panels, groups and subsidiary bodies (Annex VI); language and maintaining records of meeting (Annex VII); Board decision-making and voting rules (Annex VIII); rules on confidentiality and conflict of interest (Annex IX); future amendments to the additional rules of procedure (Annex X); as well as confirming the overriding authority of the Governing Instrument (Annex XI). In Berlin, in an attempt to separate “policy matters” from procedural rules and to keep additional rules of procedures “lean and mean” and thus prevent political linkage of separate annexes (as had happened with the issues of observer participation and financial support for developing country advisors), the Board adopted detailed guidelines for observer participation including for active observers and accreditation of observer organizations, as well as separate guidelines for eligible Board member travel and compensation for Board meetings.

Issues that could not be resolved in Berlin included information procedure rules, including on webcasting, voting rules and further details on the participation of advisers in Board meetings and proceedings, including work in working groups and committees.

Information disclosure, including webcasting
At the last Board meeting in Berlin, the Board had addressed information disclosure during its discussions on additional rules of procedure and asked the Secretariat to prepare a document on this topic, including webcasting and its cost implications, for discussion and decision at the Songdo meeting. In Berlin, most discussion on these issues centered around the question of document transmssion and disclosure, with several Board members advocating, for the sake of transparency and accountability, for webcasting of Board proceedings, although most envisioned a closed (by accreditation only) webcast and not the open one that the Transitional Committee to design the GCF had employed in 2011. Observers have consistently advocated for open webcasting and the full and timely release of documents to them at the same time that they are received by Board members. Annex V of the additional rules of procedures in para.10, which were agreed in Berlin, stipulates that documents for Board meetings will be posted on the GCF website on the same day they are released to Board members, in general 21 calendar days before the Board meeting.

In Berlin, cost implications were raised by Board members as reasons for and against webcasting, as some pointed out that it might make it easier and more cost effective for some Board members and their
advisers to attend the Board meetings full length, while others worried that webcasting of the Board meetings, something that for example the Adaptation Fund Board already does on a regular basis, would prove too expensive. The document for Board decision in Songdo, after deliberating different options regarding webcasting of Board meetings and their cost implications, including live webcast through the Internet, on demand-webcast with a video recording of the meeting made available through the Internet after the meeting, and no webcast (with the possibility of making transcripts of the meeting available only years after the meeting) lastly recommends "to not foresee webcasting". The draft decision on information disclosure does not list webcasting.

Costs presented in the paper for live webcasts are presumed to be in the range of up to US$30,000 for each three- to five-day meeting (although it is not clear from the paper, how that sum was arrived at). This is significantly more than the actual costs that the Adaptation Fund Board Secretariat has cited with roughly US$ 1,000 per day of webcasting and vastly higher than the quoted costs of commercially available webcasting services. Unclear is also why the paper, after explaining that the cost for on-demand webcast are de facto already incurred for the purposes of video-streaming the proceeding for the benefit of on-site registered Fund observers to an overflow room, does not recommend for the Board to follow at least initially this option. Some of the weightier reasons might be non-cost arguments, such that it could impact on the nature of the Board conversation by discouraging a candid exchange. The Board will have to decide if it is capable of accepting that a paradigm shift for the Fund might also have to entail a paradigm shift with business-as-usual in terms of the openness, accountability and transparency of GCF Board proceedings.

For the Fund’s overall disclosure policy, of which the webcasting discourse is only a (albeit important and symbolic) sub-segment, the paper discusses three possible approaches with different levels of complexity and different cost implications and implementation requirements. Under an interim approach, the Board would put in place certain practices for a first phase of GCF operations to prepare a more comprehensive fully-fledged information disclosure policy. Such a policy could follow either a “positive list” approach or a “negative list” approach. Under a positive list approach, the Board would decide which documents could be disclosed; such a list would be time-consuming to agree on, but also would be static and require amendments for example for new types of document only arising as the Fund grows and evolves. Under a negative list approach, which is the current international best practice utilized for example by the World Bank, IFAD and the Asian Development Bank, the type of information that the Board deems confidential and therefore does not want disclosed would be specified. Personal information or business or proprietary information of a third party (including of private sector entities with which the GCF might cooperate) could fall under such categorization. A “presumption to disclose” would be in place for all information not included in the negative list. This has been the best practice recommended to the GCF by international civil society.

How information is disclosed (routinely or after request or redacted only) and when it is disclosed (for example to ensure the effective input and participation of stakeholders in the design, development and implementation of GCF strategies and activities as mandated by para. 71 of the Governing Instrument) are further questions to be considered in such a comprehensive information disclosure policy. Its development, if done properly by soliciting the input of and consulting with stakeholders, could take up to a year. It is also important to recognize that because the Fund will provide funding to accredited implementing entities and approved intermediaries, their own information disclosure policy or practice could be inconsistent with the GCF information disclosure requirements. The Board will have to address the question – when GCF funds are involved – of whose disclosure standards prevail in cases of inconsistency of disclosure policies and practices, with a presumption that the higher standards in favor of public disclosure prevail in the name of transparency and accountability of the Board’s actions.

In Songdo, the Board is asked to adopt a negative list approach as the long-term approach to the GCF disclosure policy to be developed in 2014 while using a simplified interim information disclosure practice during that time which the Board is to decide on at its September meeting.
Participation of advisers

The role, responsibilities and engagement opportunities of advisors in Board proceedings, including financial support for advisors from developing countries to participate in GCF Board meetings, are to be clarified in Songdo. Draft guidelines suggest that advisers could be appointed to technical and expert panels established by the GCF Board with proof of their expertise, but cannot be part of Board committees and sub-committees. They could be included, if the Board so decides, in working groups. Board members and alternates are to be held accountable for the conduct of their respective advisers and have to decide whether to provide their advisers with access to documents or information, if it is not confidential or expressly restricted to Board members and alternates.

The Board will have to decide among several options for funding adviser travel to Board meetings, with the most restrictive option making funding for adviser travel the sole responsibility of the Board member or alternates, while two other options would provide funding under the GCF administrative budget for one designated advisor per eligible Board member from developing countries, or one per eligible developing country Board member and alternate member respectively. Up to now, travel funds for developing country advisers has been provided by the host country for the previous three Board meetings (in Switzerland, South Korea and Germany). While providing travel support for developing country advisers under the proposed rule could add up to US$180,000 in costs to the GCF administrative budget (for an assumed number of 20 eligible Board members and alternates for up to three meetings per year), developing country Board members and alternates have made clear that support for advisers is crucial to their capacity to effectively participate in GCF Board meetings.

Voting rules

Paragraph 14 of the Governing Instrument provides for decision-making in the GCF Board by consensus, with procedures to be developed for adopting decisions when consensus cannot be reached. The Board has yet to develop formal voting rules. In Berlin, several Board members suggested that an inclusion of a reference to formal voting in the additional rules of procedure was premature and that instead more work was needed on how formal voting can contribute to “efficient decision-making”. In the end, the Board struck any reference to voting from the additional rules of procedure text. In previous Board discussions it had become clear that some developed country Board members favor a weighted voting approach that would for example take financial contributions to the GCF into account (similar to current voting shares in the Bretton Woods Institutions), although there is disagreement on whether such voting weighted by contribution would apply only to the developed country Board constituency or to the entire GCF Board.

Several alternative voting procedure options circulated for informal discussion in Berlin. One option presented applied weighted voting only to developed country members, who could be entitled to cast votes proportionate to the actual cumulative contributions made by the developed countries they represent. Another option presented in Berlin suggested a double majority voting procedure independent of contributions with clear two-third majorities of those members present in both (developed and developing country) constituencies of the Board. A third option proposed to combine a two-thirds majority of the members present and voting to include a majority of members of developing countries with a 75 percent majority of contributions to the Fund. The discussion of voting rules in Songdo might very well take up these options again or present new ones. Songdo is expected to narrow down options with the Co-Chairs hoping that Board members can agree on possible elements of a voting rule.

Establishment of the Independent Secretariat

Selection of the Executive Director

At the second Board meeting in Songdo in October 2012, the Board established an Executive Director Selection Committee (including members of Sweden, Mexico, Egypt, Belize, Russia and chaired by Germany), and authorized it to review draft terms of reference (ToR) for the Executive Director (ED) of the GCF in accordance with the guiding principles of the GCF Governing Instrument. In Songdo, the Board authorized up to US$ 200,000 for the search, including through the use of an executive search firm, which was contracted in Spring 2013 to help narrow down the number of applications. At the Berlin Board
meeting, Board members finalized the selection criteria, indicating that they were looking for a candidate with “intellectual leadership” and possessing knowledge and experience of climate change, development and/or financial issues and their inter-relationship, and experience working in or with developing countries Post-Berlin, the job announcement was posted on the GCF website in addition to active outreach efforts and candidates proposed by Board members, with applications accepted until the end of April. Applications were whittled down to a long list of ten to twelve, and were then further narrowed to a short list of seven to be interviewed by the Selection Committee. This is to be reduced to a final group of three applicants to be presented to the Board without ranking ahead of the June Board meeting. In Songdo, the Board will meet with the three remaining candidates (rumor has it to be two women and one man) in an informal closed session on the morning of June 25th, to give Board members an opportunity to hear directly from the candidates about their vision in guiding the Fund. The Board will then make its selection on the first day of the formal Board meeting, presumably (to protect the identity of the unsuccessful candidates) in closed executive session. Due to privacy concerns, no information about who has applied for the job has been released.

The new GCF ED will have to hit the floor running. Her/his immediate task will be to prepare the move of the Secretariat of the Fund from its interim position in Bonn to its permanent seat in Songdo, South Korea before the end of the year, as mandated by the Durban decision on the GCF, as well as take charge of increasing the staff of the Secretariat from its current interim level (with staff mostly seconded from the UNFCCC and GEF Secretariats) to the level of support and expertise needed to implement the Board’s work plan for the speedy operationalization of the Fund. An important step in the process of moving the Independent Secretariat to Songdo was reached recently with the signing of the host-country agreement between the GCF and South Korea on June 10th. The agreement, which will confer legal personality to the GCF, will take effect after it is approved by the South Korean National Assembly.

To be successful in her/his role of “GCF Fundraiser-in-Chief”, the new ED will also need to start building good relationships, especially with developed country governments, by carefully preparing through diplomacy the timeline for and conduct of the Fund’s initial resource mobilization, for example via a pledge meeting or conference, most likely to happen in 2014.

**Administrative Policies and Procedures of the Independent Secretariat**

At the Berlin GCF Board meeting in March, the Board discussion on the proposed administrative policies of the Independent Secretariat offered an interesting insight into more fundamental differences of Board members regarding their visions for the Fund. At issue was what administrative framework the GCF should follow, with the Executive Director of the Independent Secretariat, once selected, tasked to establish the administrative policies of the Fund under a tight deadline. An options document presented in Berlin basically outlined three alternatives: 1) follow the United Nations common approach with lower base salaries, but the advantage of providing a range of non-salary benefits of particular interest to staff family as well as employment security; 2) follow the administrative policies of the Multilateral Development Banks (MDB) with higher salaries and fewer family benefits as well as limited term contracts; 3) a hybrid system such as the one employed by the Asian Development Bank, which is competitive in the region but includes more staff family benefits and support than regular MDB administrative policies. At issue were also the immunities and privileges that the GCF would provide to its Secretariat staff. Developed country members mostly argued for the MDB approach and bank salaries, noting that competitive salaries were needed to get the Fund-relevant financial expertise, while many developing country members noted that the GCF as a UN fund should follow the UN common approach. As the options paper highlighted, the salary cost differentials between the UN common system and the MDB administrative policies are largely eroded through the more generous benefit schemes under the UN system.

In Berlin, several Board members had urged to look more closely at the ADB’s practice and suggested to also consider the administrative framework of the International Fund for Agricultural Development (IFAD) as it is, like the GCF, an international Fund within the UN system (supporting the Food and Agriculture Organisation and the World Food Programme). The Board paper on administrative policies for the upcoming Songdo Board meeting elaborates on and recommends for approval such a hybrid version. If Board members follow that suggestion, the GCF administrative framework would
• Establish privileges and immunities for the Fund’s staff consistent with the model of the International Fund for Agricultural Development, and
• Base the Fund’s administrative policies, including for human resources, procurement, travel and finance on those used by the Asian Development Bank.

Arrangements between the Conference of the Parties and the GCF
Durban decision 3/CP.17 designated the GCF “as an operating entity of the financial mechanism of the convention, in accordance with Article 11 of the Convention”, while the GCF Governing Document specified in para.4 that it “will be accountable to and function under the guidance” of the COP. This wording is similar to the one describing the relationship between the COP and the GEF, which like the GCF is an operating entity of the UNFCCC financial mechanism. In Doha, the COP specified in decision 7/CP.18 that the Standing Committee on Finance and the GCF Board should develop the arrangements between the Fund and the COP for agreement by the Board and subsequent agreement by COP 19. In Berlin, the GCF Board mandated the GCF Co-Chairs to develop, together with the Co-Chairs of the Standing Committee on Finance, draft arrangements between the COP and the GCF. The Standing Committee on Finance had taken up the issue of COP-GCF arrangements in two meetings so far, forwarding a letter of its Co-Chairs to the March GCF Board meeting for consideration by the GCF Board, with the GCF Board taking note of the letter. At its recent June meeting, the Standing Committee members could not agree on a clean text of arrangement recommendations and decided not to forward any text for discussion at the Songdo GCF Board meeting. These will be presented at the June Board meeting for Board consideration and input, with a view to adopting proposed arrangements at the September Board meeting. It is thus not clear if, in the absence of agreed recommendations on the COP-GCF arrangements from the Standing Committee on Finance, the GCF Board can move ahead with draft arrangements. It is possible that the issue will reappear on the agenda of the next GCF Board meeting in September. The SCF will meet again in August and could then forward the agreed SCF draft text on the arrangements to the GCF Board.

Logo for the GCF
At its second meeting, the Board first discussed the idea of launching an international competition inviting arts and design students to submit an entry for a future logo for the GCF. This was seen as a good way for the Fund to reach out, particularly to young people, to raise awareness of the Fund and of the challenges and threats posed by climate change. In Berlin, an altered proposal was adopted by the Board opening up the competition to the wider public. Instead of a cash prize as originally proposed (with private sector sponsorship considered and then rejected in Berlin), the winner of the competition will be recognized by displaying the name of the individual/group at GCF headquarters and will only receive support from the GCF administrative budget for travel to and accommodation during the September Board meeting, where the winner of the competition will be announced. The competition opened on June 10th (information on the GCF website) with entries to be received until July 31st. At its upcoming June meeting, the Board will decide on a selection panel to include Board members, a representative each from civil society and the private sector and a well-known graphic designer. This panel will be asked to select the winner among a shortlisted set of 100 entries based on pre-selected criteria before the September Board meeting.

Other issues
Other important issues that the Board will discuss and consider at the upcoming Songdo meeting include:

• The relationship of the GCF with the UNFCCC and external bodies: A paper prepared for Songdo categorizes the range of bodies with which the GCF should develop ongoing linkages and relationships, including relationships with UNFCCC bodies, other climate funds and a range of possible implementing organizations. It recommends different levels of engagement, ranging from formal agreements on collaboration to inviting some climate funds, including the CIFs, the
Adaptation Fund, the Special Climate Change Fund (SCCF) and the Least Development Countries Fund (LDCF) under the GEF to formally register as observers to the GCF. A draft decision asks the Interim Secretariat to develop guidelines for Fund representation on such bodies for consideration at a future GCF Board meeting.

- **Update on the status of resources of the GCF**
  
  An information update on the approved administrative budget of the GCF until year’s end (Board and Interim Secretariat expenditures, including extensive consultancy work) and the World Bank’s report as Interim Trustee on the financial resources available in the GCF Trust Fund show that the projected expenditures of the GCF administrative budget will be covered, provided outstanding pledges are fulfilled by year’s end. As of April 2013, the GCF Trust Fund has received pledges from 11 countries (Australia, Denmark, Finland, France, Japan, Germany, Korea, Netherlands, Norway, Sweden and the UK) totaling US$ 8.24 million, with contributions received from 10 countries totaling US$ 7.54 million. The GCF Trust Fund has yet to receive a substantial pledge, other than for administrative expenses.

- **Communication Strategy**
  
  The GCF Board currently has no comprehensive communication strategy. This would guide how the Fund is presented to the outside world, for example in non-GCF events; the Fund’s key messaging. The Board at its Berlin meeting requested the development of a concept note for Board consideration in Songdo. This note suggests to extend the timeframe for completion of the GCF communication strategy to the first GCF Board meeting in 2014. The Board is asked to approve the terms of reference for the development of a communication strategy by consultants and allows for the use of up to US$ 50,000 of the GCF administrative budget for that purpose. As part of the communication strategy, the current perception of the GCF and its Board among key constituencies and stakeholders are to be reviewed and stakeholder and target audiences for the Fund mapped. The strategy is also to come up with recommendations for preferred communication channels for Fund messaging.

ENDNOTES:

Meeting documents for the 4th GCF Board meeting are posted on the GCF website as they become available (with some background papers not made public) at: [http://gcfund.net/documents.html](http://gcfund.net/documents.html).

1 For the agenda of the Songdo GCF Board meeting, see [http://www.gcfund.net/fileadmin/00_customer/documents/pdf/Provisional_agenda_Rev_1_19_June_13.pdf](http://www.gcfund.net/fileadmin/00_customer/documents/pdf/Provisional_agenda_Rev_1_19_June_13.pdf)


3 Ibid, para. 3.


