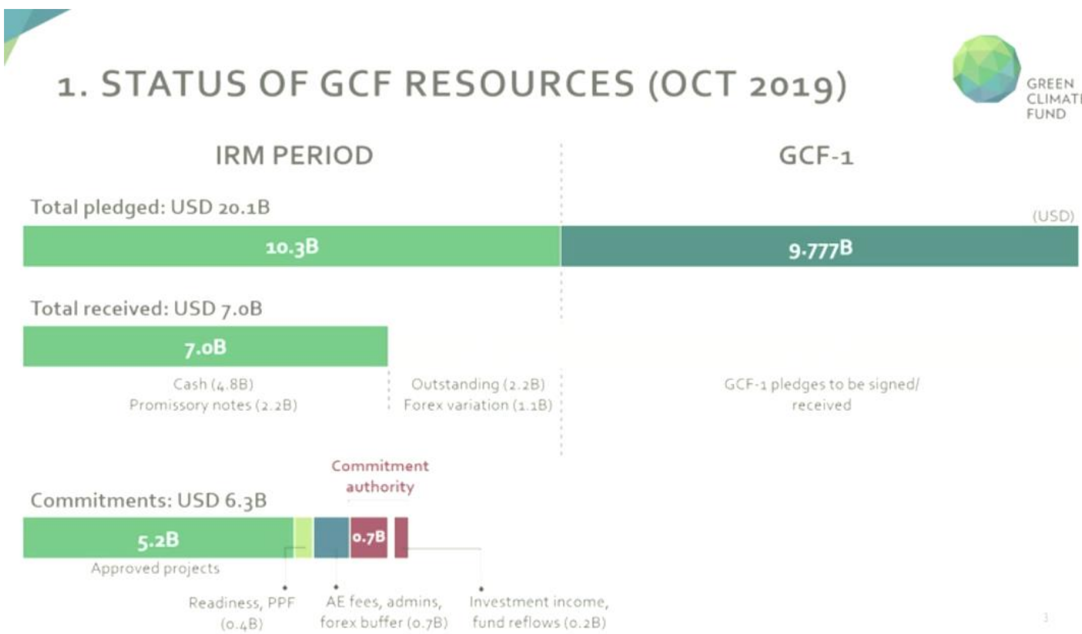
CSO UPDATE: GCF BOARD MEETING 24

13 NOVEMBER 2019 | SONGDO, SOUTH KOREA

Day 2 started with the **Status of GCF Resources and Portfolio Performance**, where the Board is requested to take note of the presentation of the Secretariat about the total amount of resources received by the GCF, overview of the funding proposals approved thus far, status of projects in the pipeline and implementation progress of the Fund portfolio. The summary of the findings are below:



- As of October 2019, a total of USD 5.9 billion was allocated to 99 Funding Proposals, USD 175 million for Readiness Program of 129 countries, and USD 17 million for Project Preparation Facility (PPF) of 25 countries
- Africa received the largest amount of allocated for FPs (USD 2.2 billion), followed by Asia (USD 1.6 billion) and Latin America and the Caribbean (USD 1.2 billion)
- As of B23, 41% of funding in nominal terms was allocated to private sector projects, and 59% for public sector projects; In terms of grant equivalent, 22% of funding was allocated to private sector, while 78% was for the public sector
- As of B23, more than 50% of the funding was allocated for adaptation projects both in nominal and grant equivalent
- As of October 2019, FPs in the pipeline amount to USD 3.2 billion, while USD 12.2 billion are allocated for concept notes received
- As of B23, Board has approved USD 57 million worth of proposals under the Simplified Approval Process (SAP), and USD 800 million SAP proposals are still in the pipeline
- After GCF's 3rd year of implementation, value of projects under implementation accounts for 39% or USD 4.6 billion of the total GCF funded activities.
- As of December 2018, USD 427 million is disbursed to accredited entities for GCF funded activites, while USD 226 million to executing entities

Comments from the Board were generally focused on the slow progress of Fund disbursements in funding proposals. BM from Australia recommended the Secretariat to strengthen its efforts in conducting dialogues and maintain communication with accredited entities in order to avoid delays in disbursing funds. BM from Saudi Arabia raised an important point by saying that the entitlement of the money once FPs are approved does not belong to anyone else but to the recipient countries. He reminded the Board that access to the GCF is the right of the developing countries and further delay would mean depriving people in the communities of the opportunity to adapt to climate impacts. He requested the co-chairs to look into this matter and suggested the Board to discuss the process of fund disbursement in the future.

After noting the presentation, the Board moved to the **Consideration of Funding Proposals.** Upon opening the item, the co-chair informed the Board that the Funding Proposal submitted by the International Finance Corporation (IFC) titled, Climate Bonds for Forests: Scaling up Private Sector Financing for REDD+ was withdrawn from the list of FPs for consideration. The GCF Executive Director explained that after consultations with the Independent Technical Advisory Panel (ITAP), IFC decided to withdraw the submission to ensure that the proposal is ready for implementation as soon as it is approved.

Many developing country BMs believe the technicalities and conditions set for the proposal were the underlying reasons for its withdrawal. Others believe that the CSO comments may have intimidated the AE submitting the proposal, while others agree with the decision especially as the Fund faces an implementation gap, not only in terms of Fund disbursements but also in monitoring and evaluation.

The Secretariat then provided an overview of the 13 remaining Funding Proposals seeking approval from the Board. For this batch, all are public sector proposals, 5 are under SAP with a total amount of USD 407.8 million, 2 projects are from DAEs, while 11 projects are from international access entities (IAEs). In terms of thematic areas, 60% (USD 245.5 million) are for mitigation projects, while 40% (USD 162.4 million) are for adaptation.

Many of the BMs were happy to know that the batch of FPs presented had a number of nature-based solutions projects. Some of them believe that it is about time the GCF support more reforestation activities. The increased number of SAP proposals were also noteworthy for some BMs as they believe such move is a step towards reaching more DAEs. Some BMs believe otherwise and urged the Board to look at the figures that show how most of the funding are still going to FPs submitted by IAEs.

BM from also raised the concerned of how the batch of FPs remain skewed towards mitigation, that are focused primarily in the area of energy. He suggested the Secretariat to also explore mitigation projects that would address the transport needs of developing countries, to which BM from Nicaragua countered and argued that forests and land use projects are not confined under mitigation alone as it can potentially address the ecosystem resilience needs of countries, which are considered adaptation actions. He also opposed the suggestion to explore projects around transport, particularly on projects that would utilize electromagnetic technology.

In our CSO Intervention, delivered by Liane Schalateck, the Active Observer from Developed Country CSOs, we raised the recurring bias towards funding proposals from IAEs, and urged the Board to consider suspending the approval of REDD+ Proposals until the review of the GCF REDD+ Pilot Mechanism is concluded. The Pilot Mechanism obviously requires significant amount of improvement, starting with ensuring meaningful consultation of wide-range of local communities and indigenous peoples on the projects.

The Funding Proposals were then deliberated by the Board one by one. Many of the SAP Proposals were approved easily and received no comments from the Board. We were able to make our CSO intervention on 1 SAP Proposal (SAP008 Bangladesh), mainly suggesting the AE to ensure that all stakeholders are consulted especially the indigenous peoples' communities, and that the role of local government units in project implementation are clarified.

As for the rest of the FPs, there were a number of concerns raised by some BMs, particularly BM from US who was against the approval of FP119 in Northern Gaza, arguing against the eligibility of Palestine in receiving GCF Funds, and the approval of FP082 in China, arguing that there is no adequate justification for the proposal and raised issues with regards to the research and development component, transparency and intellectual property rights.

It was FP082 China Shangdong Development Fund that received a considerable amount of back and forths between BMs as the proposal, originally submitted at B21, was once again submitted to the Board for consideration. The same BMs were blocking the approval of the FP and have argued that other countries that are more vulnerable should be prioritized in receiving GCF support. BM from US repeatedly questioned the items that will be financed in the project and believe that the project may potentially finance unnecessary technology development.

BMs from developing country believe that there is no use digging up previous debates. BM from Saudi firmly expressed his support to the project and said China remains a developing country and therefore eligible to receive GCF money to implement transformational projects. BM from Iran agreed and urged the Board to leave the politics behind and look at the merits of the proposal, to which BM from Nicaragua proposed a mechanism to resolve the debate.

Since the FP was first deliberated at B21 and the Board reached no consensus, it was suggested that the Board apply its recently adopted measure on Decision-Making in Absence of Consensus. This urged the co-chairs to suspend the item, conduct further offline consultations, and come up with a proposed solution to move forward in deliberating the proposal. As of this writing, the approval of FP082 is deferred but decision is expected before B24 ends.

Funding Proposal	Status
SAP008: Extended Community Climate Change Project – Flood Bangladesh Accredited Entity: PKSF (DAE) Total financing: USD 13.3 million GCF financing: USD 9.7 million grant	**Approved**
SAP009: Building Resilience Urban Populations with Ecosystems Based Solutions in Lao PDR Accredited Entity: UNEP Total financing: USD11.5 million GCF financing: USD 10 million grant	**Approved**
SAP010: Multi Hazard Impact-Based Forecasting and Early Warning System for the Philippines Accredited Entity: Land Bank (DAE) Total financing: USD 20.19 million GCF financing: USD 9.9 million grant	**Approved**

SAP011: Climate resilient food sedurity for women and men smallholders in Mozambique through integrated risk management Accredited Entity: WFP Total financing :USD 10 million grant GCF financing: USD 9.2 million grant	**Approved**
SAP012: Inclusive Green Financing for Climate Resilient and Low Emission Smallholder Agriculture Accredited Entity: IFAD Total financing: Eur 11.475 million GCF financing: Eur 8.8 million (Eur 5.95 million loan, Eur 2.55 million grant)	**Approved**
FP082: China Shangdong Development Fund (submitted at B21) Accredited Entity: ADB Total financing: USD 1.5 billion GCF financing: USD 180 million (sovereign loan)	**Deferred**
FP116: Carbon Sequestration through Climate Investment in Forests and Rangelands in Kyrgyz Republic Accredited Entity: FAO Total financing: USD 29.9 million GCF financing: USD 30 million grant	**Approved**
FP117: GIZ Emissions Reductions Sustainable Forest Landscape Management in Lao PDR Accredited Entity: GIZ Total financing: Eur 65.2 million GCF financing: Eur 15.2 million grant	**Approved**
FP118: Building a Resilient Churia Region in Nepal Accredited Entity: FAO Total financing: USD 47.3 million GCF financing: USD 39.3 million grant	**Approved**
FP119: Water Banking and Adaptation of Agriculture to Climate Change in Northern Gaza Accredited Entity: AFD Total financing: Eur 44.7 million GCF financing: Eur 23.7 million grant	**Approved**
FP120: REDD+ RBP for 2014-2016 in Chile Accredited Entity: FAO GCF financing: USD 63.6million Results based payments	**Approved**
FP121: REDD+ RBP in Paraguay for 2015-2017 Accredited Entity: UNEP GCF financing: USD 50million RBP	**Approved**
FP122: Blue Action Fund in West Indian Ocean (multiple countries) Accredited Entity: KfW Total financing: Eur 55 million GCF financing: Eur 30 million grant	**Approved**
FP104: Nigeria Solar IPP Support Program Accredited Entity: AFC Total financing: USD 467 million GCF financing: USD 100 million loan	**Extension for condition approved**

The approval of FPs was immediately followed by the **Consideration of Accreditation Proposals**. For this Board Meeting, 7 entities are seeking accreditation, with 5 coming from DAEs and 2 from IAEs.

All BMs were generally positive especially as this is one of the rare times in which the number of DAEs for consideration exceed the number of IAEs. There were no objections from the boardroom, not until our CSO intervention was delivered by Liane Schalateck, Active Observer from Developed Country CSOs.

Before Liane was able to speak, the co-chair and BM from Saudi Arabia reminded her to keep the anonymity of the entities and refer to them as applicants, rather than identifying their names. Some BMs find the proposed process difficult, but the co-chair insisted Liane to comply.
Our CSO Intervention laid down our general comments on the batch of applicants, commending the secretariat how prioritization to accreditation of DAEs worked, and how the Accreditation Panel ensured information disclosure on crucial institutional policies such as the environmental and social safeguards policy and the gender policy.

We also expressed our concerns to specific applicants as written below:

> *<u>Applicant Entity 1:</u> We are concerned about the proposed accreditation of a large international bank of which an export credit agency is a wholly owned subsidiary. This then presents the risk that the GCF would be providing funds to an ECA. As we have stated in the past, the GCF should not be accrediting export credit agencies, which are designed to promote their own domestic companies doing business abroad.*
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> *<u>Applicant Entity 2:</u> The applicant entity in question is a subsidiary of a much larger infrastructure development and finance company, the latter becoming well known for a shadow banking mess that sent the entire financial sector in the developing country where the entity is located into a tailspin in 2018. The web of corruption around the company has yet to be fully unraveled, as even the forensic auditors and fraud office admit. The conditions that the Accreditation Panel applies to control for these risks are inadequate because they relate only to the subsidiary that is seeking accreditation and do not adequately control for the risk that the applicant entity could be implicated in problematic financial transactions and corruption cases within the broader parent company group. Our CSO financial and banking sector specialist who we asked to take a look at this and related documentation likened it to: "Accrediting a subsidiary of this parent company is a bit like trying to accredit Lehman Brothers after 2008:*

not a good idea." We also have some concerns about the waste-to-energy focus of the applicant – since this practice is highly polluting, expensive and inefficient. The GCF should be promoting "zero waste" methodologies other than incineration.

Applicant Entity 3: *We are deeply concerned about the applicant's financial stability and its potential negative impact to the Fund's portfolio. The applicant is currently at the epicenter of the rising stress in the national credit markets, where debt defaults by a major infrastructure lender (to which the previously referred to applicant is connected as a wholly owned subsidiary) have led to broader strains at other shadow banks last year. The applicant witnessed an 81% decline in its market stock price, and currently has very limited capital. It is struggling to raise capital and neither the market nor finance experts are optimistic about the future of the entity. Therefore, while we support the accreditation of more DAEs to the GCF, we highly recommend the Accreditation Committee to do further assessment, with consideration of recent market events, on this entity's application.*

Applicant Entity 4: *In looking at this applicant we were left with the feeling that the application is misleading and internally contradictory as there is no evidence that the entity concerned from a developing country has adequate experience in applying Environmental and Social Safeguards or gender policy. Its newly drawn up gender and ESS policy has not been used – indeed, the entity is clear that it will not use such a policy except for GCF projects ("greenwashing"), so there is no learning process. The "track record" catalogues a handful of real estate projects with no particular climate component: it is very clear from the entity's website – and confirmed by CSO colleagues in the country where the entity is located -- that the entity invests in luxury real estate and gentrification, not "green design." And its energy fund is invested in hydropower, but primarily only late in the project development not when it would have to address environmental or social concerns. Nor does it appear (based on its website and public documents such as annual reports) that it has any interest in advancing climate objectives. Partnering through accreditation with a private equity firm that has no environmental track record, no record of social development, and that specializes in high end real estate, and wealth management for the super-rich is likely to create reputational risk for the GCF. This even more so at a time when a large proportion of the population in the country where the entity is located is mobilized in protest at inequality, gentrification, and the high cost of living*.

These comments agitated some of the BMs. BM from Nicaragua's first reaction was "that was a massacre!" referring to the information disclosed in intervention as significant for the Fund to reassess its accreditation process. He even questioned whether the Secretariat and the Accreditation Panel have done their due diligence. He commended the ability of the CSOs to dig up all the necessary information and urged the Board to consider them in accrediting the applicants. Other BMs agreed with him and stressed the importance of being thorough with evidence and implement necessary processes in a more stringent manner. Site visits or dialogues with NDAs should also be backed by interaction with civil society.

Some BMs, mostly from developing countries, urged the Board to trust the rigorous process that the Accreditation Panel applied for the application of the entities, and consider the accreditation of all entities. BM from South Africa said it would be unfair if all the efforts undertaken by the applicants will be thrown away because of the accusations made by civil society. The same sentiment was expressed by Saudi Arabia and claimed that the CSO comments are not evidence-based, compared to the process carefully developed by the Accreditation Panel and the Secretariat.

After a number of back and forths, and realizing the difficulty of responding to the comments while maintaining the anonymity of the applicants, the co-chair suggested to go to an Executive Session. BM from Tanzania refused and urged the Board to deal with the matter in full transparency.

The Accreditation Panel and the Secretariat were then invited to answer the comments delivered in our CSO intervention. Their responses were mainly explanations of the entire accreditation process and an elaboration of the credibility of the applicants that they used against GCF standards. They did not however refute the information disclosed in our intervention, and said that they are aware of the controversies that involved some of the applicants.

After contemplating about the lessons learned and the need to revisit the entire accreditation process, the co-chair asked the Board to consider the accreditation of all 7 applications, to which the Board approved in one go.

The last item for Day 2 opened the discussion on **Matters Related to the First Formal Replenishment of the GCF**, an agenda item that requests the Board to take note of the Report of the Replenishment Process, and to adopt the Considerations and Endorsement of the Outcomes of the First Replenishment Process.

Because they were pressed for time, the Board ended Day 2 after hearing the Replenishment Report presented by the GCF Global Facilitator for Replenishment, Johannes Lin. Many BMs were impressed with the success of the entire replenishment process and commended not only the global facilitator but also the Secretariat and the contributors for their valuable commitments.

Comments from developed country BMs were succinct and revolved around strengthening the GCF in terms of implementation and policy. BMs from developing countries on the other hand, took the opportunity to remind the contributors about raising climate ambition not only in NDC targets, but also in climate finance. BM from Saudi Arabia emphasized that there is still a mismatch between what is needed and being asked, and what is on the table in terms of resource commitments. BM from Iran and Cuba urged contributors to pledge more and avoid setting conditions and giving out loans.

Our CSO Intervention, delivered by Helen Magata, Alternate Active Observer for Developing Country CSOs underscored the fact that the USD 10 billion pledge of developed countries remain to be very far from the USD 100 billion/year target by 2020 as per the Cancun agreement. We also challenged developed countries who have not given any contributions to commit and give their fair share of financial obligations.