

**THIRD WORLD NETWORK
INFORMATION SERVICE ON CLIMATE CHANGE**

13th Meeting of the Board of the Green Climate Fund (Article 5)

GCF to be an institution that takes risks – reiterates Board

Kuala Lumpur, 11 July (Hilary Chiew) – The 13th Board Meeting of the Green Climate Fund adopted the interim risk and investment guidelines at the recently concluded meeting in Songdo, South Korea, reiterating that the GCF “intends to be an institution that takes risks that other institutions or funds are not willing or able to take,” signaling that it has a higher risk appetite compared to other funds.

The meeting took place in 28-30 June.

The Board adopted the interim risk and investment guidelines, noting that the guidelines will expire by the 16th Board meeting (early next year) or at the adoption of an updated set of risk policies and guidelines.

The guidelines relate to the funds provided to the public and private sector respectively.

For the public sector, the guideline adopted is as follows: “Grants - The GCF can finance up to 100 per cent of agreed full costs and agreed incremental costs as per the Governing Instrument for the GCF and for loans, co-financing is highly recommended whenever feasible.”

In the guidelines for the private sector, in the case of grants, they are to be limited in order to allocate more grant resources to non-economically viable projects and programmes and limited to provide technical assistance and capacity-building for end beneficiaries.

Given the lack of capacity in the Secretariat, in the case of loans, equities and guarantees to the private sector, the guideline states that “the GCF wants to develop into an entity that takes on the requisite risk to make an impact. However, the GCF will temporarily need to rely on the expertise and experience of accredited entities (AEs) by aligning the AEs’ interest with that of the GCF. For those cases where the position of the GCF in a tranche is junior to that of the AE, the GCF can seek an independent and reputable third party’s opinion instead of relying on pari passu with the AE.”

The Board also decided that “in case these interim guidelines expire and the Secretariat cannot yet confirm that adequate in-house risk management capacity is in place, the GCF will only be able to participate in a tranche aligned with the accredited

entity on all terms and conditions other than pricing and must not be the largest contributor or financier in a tranche or any whole project, in order to mitigate GCF risk exposure.”

The Board reiterated that “the GCF intends to be an institution that takes risks that other institutions or funds are not willing or able to take” and requested the Secretariat “to develop the necessary methodologies and internal procedures, hire a permanent Risk Manager and additional staff to enhance the Secretariat’s risk management capacity as a matter of urgency, and report to the Board, as part of the report on the activities of the Secretariat at each meeting, on the status of this process.”

The matter was first discussed at the one-day informal consultation with the Co-Chairs that preceded the BM13 on 27 June.

Chair of the Risk Management Committee (RMC) **Jacob Waslander (The Netherlands)** presented the report on the proposed revision of the risk register. At the 12th Board Meeting, the RMC was asked to review the probability, impact and resulting priority of risks prior to the 13th meeting.

Waslander highlighted the problem with getting the office of the Risk Manager up and running and that the RMC could not function due to lack of members. He recalled that at the 12th Board Meeting, members contended that the GCF will take risks that other institutions and funds are not willing to, signalling the GCF’s high risk appetite. He outlined the eight risk categories in the risk register namely strategic, reputational, operational, legal, compliance, performance, funding and market risks.

Andrea Leward (United Kingdom) asked about the level of risk tolerance and the triggers.

Leonardo Martinez (United States) wondered if there was a way to create a dashboard that provides a snapshot of the risks that the GCF assumes over time, mapping the risks of the projects across the whole portfolio once they are aggregated into a matrix.

Waslander informed that the dashboard existed but not populated yet. On tolerance level and triggers, he said those items are being worked on and the challenge is whether to push the envelope strongly for innovation and go very far which could mean facing stakeholders’ criticism in the media. He further urged members to provide inputs.

On 28 June, the first day of the 13th Board Meeting, Waslander noted that the RMC had been developing the risk and investment guidelines. A revised document was being sent out and he urged members to provide further feedback.

On the last day of the meeting on 30 June, members considered two documents titled *Interim risk and investment guidelines - RMC proposal* and *Report on the proposed revision of the risk register* and the accompanying draft decisions.

Waslander opined that the guidelines struck a good balance between ambition and risks in terms of reality of the capacity of the Secretariat and stressed the need to prioritise the recruitment drive for more capacity in the Secretariat.

Waslander proposed that the Board endorse the report on the proposed revision of the risk register which is a good basis to further work on the risk framework.

The Board then adopted the decision noting “that the RMC reviewed the proposed revision of the risk register and concluded that the revision was reasonable; and decided “that the risk register will be updated as frequently as the RMC deems necessary, but no less frequently than once every three years.”

Referring to the interim risk and investment guidelines, Waslander informed the Board that based on further consultations, a second revision of the draft decision was made. He stressed the need for the office of the risk manager to be up and running without further delay.

Waslander also explained that while the GCF wants to take risks, if by March 2017, it still does not have sufficient staff on board in the Secretariat and the guidelines are in place, then it would have to reconsider its position on the risks. In the interim while waiting for the GCF’s risk management system to be put in place, he said the idea is to push the AEs to take up more risks than they otherwise will take.