Climate Funds Update

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The Green Climate Fund

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Climate Finance Fundamentals 11

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The Green Climate Fund (GCF) is the newest actor in the multilateral climate finance architecture and became fully operational in 2015, approving USD 168 million for its first eight projects just weeks before COP 21. The GCF is an operating entity of the Financial Mechanism of the UNFCCC. A legally independent institution hosted by South Korea, it has its own secretariat and the World Bank as its interim trustee but functions under the guidance of, and is accountable to, the UNFCCC COP. The 24 GCF Board members, with equal representation of developed and developing countries, and support from the secretariat have been working to operationalise the fund since their first meeting in August 2012. This year the GCF further developed essential policies and frameworks to receive, manage, programme and disburse finance as well as measure and account for its results and impacts. It also accredited its first 20 implementing entities. The initial resource mobilisation effort that began in June 2014, raised USD 10.2 billion from 37 contributing countries (including eight developing countries). In 2015, USD 5.8 billion of pledged finance was formalised through contribution agreements. Heading into COP 21 in Paris, this Climate Finance Fundamental provides a snapshot of the operationalisation and functions of the Fund. The Fund's role in a post-2020 climate regime as the major finance channel under the Convention as well as the scale of its resourcing remain to be clarified and confirmed in Paris. Past editions of this Climate Finance Fundamental detail the design and operationalisation phases of the Fund.

Introduction

At its 11th meeting in Zambia in November 2015 the GCF Board made important decisions, including on the first eight GCF funding proposals, to further advance towards full operationalisation of the GCF. These decisions built on progress made at its two previous meetings in Songdo (in March and July 2015). In the immediate term, the GCF will offer grants, concessional loans, equity investments and guarantees, and work through a wholesale model – using the executing and financial intermediation capacities of partner organisations that will work as implementing entities or intermediaries. The interim criteria for accrediting GCF implementing and intermediation agencies were set in 2014, allowing for a "fit-for-purpose" graduated approach and considering comparable principles and standards of entities already accredited at other finance institutions. Contributions to the Fund are only accepted as grants, concessional loans and paid-in capital. GCF allocation will balance funding for mitigation and adaptation measures, and ring fence support for the urgent needs of Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African countries and for local private sector actors.

As an operating entity of the financial mechanism of the Convention under Article 11, the GCF is "accountable to and function[s] under the guidance of the COP". It is mandated to take a country-driven approach and this has been a central determinant for most Board decisions taken to date. This principle is supposed to guide all GCF investment decisions. The GCF is also intended to channel "a significant share of new multilateral funding for adaptation". While the precise volume of finance to be channeled through the GCF remains unclear, according to the GCF Secretariat, a total of USD 10.2 billion has been pledged to the Fund during the initial resource mobilisation process by 37 contributing countries. Eight developing countries including Korea, the host of the GCF (USD 100 million), Mexico (USD 10 million), Peru, Colombia, Panama, Mongolia and Indonesia are amongst the contributors to the Fund. With the exception of France and Canada, most country contributions are in the form of grants. Table 1 reflects pledges in the GCF Secretariat's official conversion into US dollars, and the amount formalised through signed contribution agreements (so far a total of USD 5.8 billion).

The fund could potentially channel tens of billions of dollars per year. These initial sums are already higher than the USD 6.5 billion originally pledged to the Climate Investment Funds (CIFs), the largest set of multilateral climate funds that exists today, and is nine times the size of current Global Environment Facility (GEF) grant making for climate change.

Table 1: Status of Pledges for GCF's Initial Resource Mobilisation (as of 2 November 2015)

Country	Pledges announced (USD millions[1])	Pledges signed (USD millions[1])
Australia	187.0	187.0
Austria	25.0	26.8
Belgium	69.0	54.3
Canada (Grant)	155.1	0
Canada (Loan)	101.6[2]	0
Canada (Cushion)	20.3	0
Chile	0.3	0.3
Columbia	6.0	0
Czech Republic	5.3	5.3
Denmark	71.8	71.8
Estonia	1.3	1.3
Finland	107.0	46.4
France (Grant)	577.9	577.9
France (Loan)	381.3[3]	0
France (Cushion)	76.3	0
Germany	1,003.3	1,003.3
Hungary	4.3	0
Iceland	0.2	0.2
Indonesia	0.3	0.3
Ireland	2.7	0
Italy	334.4	66.9
Japan	1,500.0	1,500.0
Latvia	0.5	0.5
Liechtenstein	0.1	0.1
Luxembourg	6.7	6.7
Malta	0.1	0.1
Mexico	10.0	10.0
Monaco	0.3	0.3
Mongolia	0.05	0
Netherlands	133.8	133.8
New Zealand	2.6	2.6
Norway	257.9	257.9
Panama	1.0	0.5
Peru	6.0	0
Poland	0.1	0.1
Portugal	2.7	0
South Korea	100.0	100.0
Spain	160.5	0
Sweden	581.2	581.2
Switzerland	100.0	30.0
United Kingdom	1,211.0	1,211.0
United States	3,000.0	0
TOTAL	**10,204.6**	**5,864.6**

1. United States dollars equivalent (USD eq.) based on the reference exchange rates established for GCF's High Level Pledging Conference (GCF/BM-2015/Inf.01)
2. Canada's loan contribution is USD 20 million in grant equivalents
3. France's loan contribution is USD 105.1 in grant equivalents

The Operationalisation Process of the GCF

The governing instrument of the GCF presents a broad framework and general direction, which has given the board substantial flexibility on how to operationalise the Fund. In exercising this discretion, however, the Board members bear responsibility for making decisions that secure the ambition of the fund, and allow it to achieve its overriding objective of: "[i]n the context of sustainable development … promot[ing] the paradigm shift towards low-emission and climate-resilient development pathways."

The first GCF Board co-chairs Zaheer Fakir (South Africa) and Ewan McDonald (Australia) sought to make the board an efficient decision-making forum, rather than a negotiating body. The Interim Secretariat executed the vision of the Board in the absence of an Executive Director for the Fund. Under the second GCF Board co-chairs Manfred Konukiewitz (Germany) and Jose Maria Clemente Sarte Salceda (Philippines), both Board members, and a new GCF Executive Director had to redefine their working relationship for decision-making on operational policies and guidelines with increasingly complex technical granularity. The third GCF co-chairs Henrik Harboe (Norway) and Gabriel Quijandria (Peru) worked with an independent Secretariat growing in confidence to ready the Fund to accredit the first batches of implementing partners and prepare a GCF project pipeline.

In 2015, progress continued to be delayed because of persistent differences between developed and developing countries, but also increasingly between Board members and the Secretariat on visions for the Fund. Disagreements in the Board partly reflect longstanding tensions manifest in the design phase of the GCF (see the 2011 and 2012 CFF 11 for a detailed discussion) and earlier Board disagreements (see the 2013 and 2014 CFF 11 for further elaboration). But several Board members also disagreed with the Secretariat's policy recommendations, as well as the competence of the Secretariat and the background and diversity of its staff in shaping the Fund. Below we summarise some of the key decisions taken in 2015.

Resource Mobilisation: COP 20 guidance urged a speedy conversion of all pledges for the GCF in the initial resource mobilisation process (IRM), which began in mid-2014 (for a detailed discussion see the 2014 CFF 11) into signed contribution agreements. By early 2015, 37 contributing countries, including eight developing countries had pledged USD 10.2 billion. The GCF achieved "effectiveness", namely the authority to make funding decisions, as soon as 50 % of the financing promises received during the November 2014 pledging conference in Berlin were fully paid in. This milestone was reached in late May 2015.

At its 11th meeting in November 2015, the Board discussed procedures for a formal replenishment process, but did not agree on whether it should follow those used for the GEF or the World Bank's International Development Association, or expand on the previous IRM arrangements by reaching out to non-traditional contributors, including from the private sector and philanthropic foundations. There was also no agreement yet on whether the GCF replenishment would be triggered once 60% of total contributions to the GCF Trust Fund received by the 11th Board meeting have been approved for projects and programmes or at the end of June 2017. By the 11th Board meeting, only USD 5.8 billion of the USD 10.2 billion in pledges for the GCF had been converted to signed contributions.

Structure and Organisation of the Fund Independent Secretariat: Initially, the Fund is organised along thematic lines with adaptation and mitigation funding windows and a separate Private Sector Facility. In December 2013, an Independent Secretariat located in Songdo, South Korea began its work. The number of staff to be recruited has increased from 38 to 45 over the past year, including four experts on mitigation and adaptation, four on the private sector, and nine country-programming specialists, although 13 of the positions are still unfilled. With its workload expanding, the Secretariat at the Board's 11th meeting suggested an increase of professional and management staff to 79 as well as a reorganisation of the secretariat structure. The Secretariat is currently structured in four units, namely country programming, mitigation and adaptation, PSF, and support services, with four offices for the General Counsel, GCF Risk Manager, Secretary to the Board and Internal Auditor. In the proposed Secretariat reorganisation, deferred by the Board for a decision in 2016, the two mitigation and adaptation divisions and the PSF would be rearranged into a portfolio development and a portfolio management division, respectively. For 2016, the Board approved an administrative budget of USD 29.2 million.

Results Management Frameworks and Performance Indicators: Throughout 2014 and in the first Board meeting of 2015, the GCF Board and Secretariat laboured on the development of a results management framework with performance measurement matrices against which the impact, effectiveness and efficiency of its funding will be assessed. The results framework defines the elements of a paradigm shift towards low-emission and climate resilient country-driven development pathways within individual countries, and aggregated across Fund activities. At the Paris meeting in October 2013, the Board agreed to initial results areas and key indicators. Work in 2014 refined and expand these and adopted a logic frame laying out a model for and expected time-lines to achieve paradigm change. The focus areas for mitigation include: low-emission transport, low emission energy access and power generation at all scales; reduced emissions from buildings, cities, industries and appliances; and sustainable land and forest management (including REDD+ implementation) for mitigation. The core metric is that of greenhouse gas (GHG) emission reductions in tons of carbon dioxide equivalents. For adaptation focus areas include: increased resilience of health, food and water systems; infrastructure; ecosystems; and enhanced livelihoods of vulnerable people, communities and regions. The Board approved a separate performance measurement framework for REDD+ activities, for results-based payments. Initial performance indicators for adaptation and mitigation were also agreed, aimed at capturing both outcomes of projects and programmes funded, as well as the transformative impact of the Fund's aggregate activities. In this context, the indicators also commit to assess the resulting development, social, economic and environment co-benefits and gender-sensitivity of GCF investments at the Fund-level, thereby including both quantitative and qualitative measures. Further methodological refinement will proceed in 2016.

Investment Framework and Initial Approval Process: At its 11th Board meeting in Zambia in November, the Board for the first time decided on project proposals that have been evaluated against a set of six agreed investment criteria focusing on 1) impact (contribution to the GCF results areas); 2) paradigm shift potential; 3) sustainable development potential; 4) needs of the recipient countries and populations; 5) coherence with a country's existing policies or climate strategies; and 6) the effectiveness and efficiency of the proposed intervention, including its ability to leverage additional funding (in the case of mitigation) as well as a list of activity-specific sub-criteria and indicators agreed to earlier in 2015. Evaluation of medium and large-size funding proposals is aided by a pilot scoring approach, ranking proposals as low, medium or high against the investment criteria. The Board still has to decide on methodologies to compare proposals "in comparable circumstances" (for example by country groupings or sectors), thereby adding an element of competiveness to the approval process, but balancing it with equity considerations aimed to ensure fairness for proposals from LDCs, SIDS and African states. The Board's decision-making is informed by recommendations on individual funding proposals provided by an Independent Technical Advisory Panel (ITAP), which was formed in 2015. Since mid-2015, the Secretariat has received 37 funding proposals requesting USD 1.5 billion in GCF support; 26 proposals totalling USD 993 million in requested funding came from the LDCs, SIDS and African States. The Secretariat will also issue targeted requests for proposals, for example for specific pilot programmes approved by the Board. It conducts due-diligence on proposals submitted to ensure compliance with the Fund's interim environmental and social safeguards, its gender policy, financial and other relevant policies and assesses proposals against the GCF investment framework. Only funding proposals that have received a no-objection clearance by a National Designated Authority (NDA) or a country's focal point can be submitted. Work in 2016 will focus on refining the proposal approval process, including by finalising the post-approval stages of the GCF project and programme funding cycle.

The Board approved USD 168 million for the first eight GCF-supported projects, which include two private sector and two mitigation projects and six public sector projects focusing on adaptation or crosscutting mitigation and adaptation. For an overview see Table 2.

Financial Instruments: The Fund has used financial instruments beyond grants and concessional loans in support of its first eight supported projects, including equity investments and risk guarantees, but has yet to finalise the general terms and conditions of its grants and loans beyond a case-by-case approach. Over time the Fund may offer an even broader suite of financial instruments directly, for example a GCF green bond. The GCF secretariat has a risk manager overseeing the Fund's risk management approach with guidance from a Board Risk Management Committee. The Committee is to review additional financing instruments and recommend them for approval. Some developing country Board members remain concerned that more complex financial instruments would move the Fund towards a bank structure, thus undercutting the core mandate of the GCF as an operating entity of the financial mechanism of the UNFCCC, which focuses on meeting the additional costs of climate change-related interventions through concessional financing.

Table 2: List of Board Approved Full Funding Proposals, as of 6 November 2015

Number	Project name	Location	Theme	Accredited Entity	Nature of Accredited Entity	GCF funding requested (USD million)
FP001	Building the Resilience of Wetlands in the Province of Datem del Marañón	Peru	Crosscutting	Profonanpe	Public	6.2
FP002	Scaling Up the Use of Modernised Climate Information and Early Warnings Systems	Malawi	Adaptation	UNDP	Public	12.3
FP003	Increasing the Resilience of Ecosystems and Communities through the Restoration of the Productive Bases of Salinized Lands	Senegal	Adaptation	CSE	Public	7.6
FP004	Climate Resilient Infrastructure Mainstreaming	Bangladesh	Adaptation	KfW	Public	40.0
FP005	KawiSafi Ventures Fund in Eastern Africa	Regional Africa	Crosscutting	Acumen	Private	25.0
FP006	Energy Efficiency Green Bond in Latin America and the Caribbean	Regional Latin America	Mitigation	IDB	Private	22.0
FP007	Supporting Vulnerable Communities to Manage Climate Change-Induced Water Shortages	Maldives	Adaptation	UNDP	Public	23.6
FP008	Urban Water Supply and Wastewater Management Project	Fiji	Crosscutting	ADB	Public	31
					Total funding requested	**168.0**

Forms of Capitalisation and Risk Management Framework: While the Governing Instrument of the GCF states that developed countries will provide the bulk of GCF financial inputs, the Board decided to allow for flexibility in resourcing. Initially, it only accepts grants from the public and private sector, paid-in public capital contributions and concessional public loans. As part of its replenishment procedures, it may seek to attract other forms of finance from the private or philanthropic sector, including from institutional investors, as well as from alternative sources (for example new taxes or levies from which funding might be raised for the GCF). By accepting loan contributions, however, the risks and concessionality of finance that the GCF is to offer recipients may be constrained, as it will need to make an adequate return on its investments to be able to repay these loans. Mindful of these challenges, the Board requested that the majority of inputs into the Fund be grants. It also established safeguards such as capital cushions to ensure that grant inputs would not need to be drawn on to pay for non-performing loan outputs, and to maintain the ability of the GCF to deliver a significant portion of its funding in the form of grants. The level of the capital cushion will need to be adjusted to match the risk profile and the risk appetite of the Fund, which has yet to be determined. This management approach will be carefully overseen by the Board's standing Risk Management Committee working with the Secretariat's risk manager. In 2015, the Risk Management Committee and the Board worked on setting up a risk register that also addresses non- financial risks that the fund faces as part of this framework. It is to be approved in the spring of 2016.

Allocation: The GCF is supposed to "balance" spending between mitigation and adaptation. In 2014 the Board approved an allocation framework which clarified that the GCF is to spend 50% of its funding on adaptation, of which 50% is to be spent in LDCs, SIDs and African States. Allocations will be tracked in grant equivalents. While there is no maximum allocation cap for individual countries, the Board has stressed the need for geographic balance (see the 2014 CFF 11 for further details on the GCF allocation approach).

Country Ownership: The Board repeatedly confirmed country ownership and a country-driven approach as core principles of the Fund. A National Designated Authority (NDA), or a focal point, will act as the main point of contact for the Fund, develop and propose individual country work programmes for GCF consideration and ensure the consistency of all funding proposals that the Secretariat receives with national climate and development plans and preferences. By November 2015, 136 countries had designated an NDA or focal point. Countries have flexibility on the structure, operation and governance of NDAs, though the Board has issued initial best practice guidelines and options for country coordination and multi-stakeholder engagement for the Fund. A proposal will need to be accompanied with a formal letter of no-objection to the Secretariat from the NDA or focal point, or receive it within thirty days of proposal receipt, in order for it to be considered by the GCF. This is intended to ensure recipient country ownership of funding for programmes, particularly those that are not implemented by governments such as through the private sector. NDAs will choose a process that works for them for issuing the letter of no-objection. The approach recognises the need of the private sector for timely clarity while safeguarding the priorities of recipient countries.

Access Modalities: The GCF will work through a diverse range of partners. Like the Kyoto Protocol's Adaptation Fund, the GCF will give recipient countries direct access to funding through accredited national, sub-national and regional implementing entities and intermediaries. These may include government ministries, NGOs, national development banks, and other domestic or regional organisations that can meet the standards of the Fund. A letter of no-objection by the country's NDA or focal point is also necessary under the country-ownership principle to allow for the accreditation of a direct access entity to proceed. Countries can also access funding through accredited international and regional entities (such as multilateral and regional development banks and UN agencies,) under international access. Private sector entities can also be accredited as implementing entities or intermediaries. Developing countries have also been keen to explore modalities for enhanced direct access (EDA). At the 10th Board meeting in July 2015, the Board approved the modalities for a USD 200 million pilot programme for up to 10 EDA proposals, with a request for proposals to be issued in early 2016. Under EDA, developing country-based accredited institutions will receive an allocation of GCF finance and then make their own decisions about how to programme resources. This would contrast with current arrangements where they can only access finance for discrete projects and programmes approved by the GCF board. Possible recipients could include national climate change trust funds, which create a forum for nationally driven country programming and have their own project pipeline, or climate related budget support arrangements. The development of a national small grants programme could also be an option under such an approach.

Accreditation Framework with Fiduciary Standards and Environmental and Social Safeguards: In 2014, the Board agreed on a broad accreditation framework with a three-step accreditation process. Implementing entities and intermediaries from both the public and the private sector will need to have in place best practice social and environmental safeguards and meet strong fiduciary standards to ensure good financial management, with additional specialised fiduciary standards required for financial intermediation and programme management. In June 2014, the Board adopted the performance standards of the International Finance Corporation (IFC), the private sector arm of the World Bank Group, as the Fund's interim environmental and social safeguards (ESS) while it develops its own ESS over three years with inclusive multi-stakeholder participation. The GCF safeguards development process will have to get started in earnest in early 2016. GCF accredited entities (AEs) also have to show their ability to comply with the GCF gender policy adopted in March 2015.

Under a "fit-for-purpose" accreditation approach, in which the application of fiduciary standards and ESS are categorised and matched to the risk level, complexity and size of the project or programme that will be implemented, applicant entities choose which category of accreditation they seek and whether they want to be accredited to provide additional intermediating functions. Entities already accredited with the GEF, the Adaptation Fund and the development aid programme of the European Commission (EU DEVCO), as well as institutions with a track record of engaging with the private sector can apply for fast-track accreditation, provided any identified gaps in adherence with GCF standards and safeguards are addressed. A six-member Accreditation Panel reviews applicants' documentation and recommends to the Board whether an entity shall be granted accreditation and indicates further conditions where applicable.

Since the call for accreditation applications was opened in November 2014, the Secretariat has received 80 applications. The GCF Board adopted its first 20 implementing entities and intermediaries in two batches at its 9th and 10th meetings. Another package of nine applicant entities was to be considered at the 11th Board meeting, but a decision was deferred (see http://www.climatefundsupdate.org/listing/green-climate-fund for a full list of accredited entities). The current GCF process has been relatively efficient. But it has sparked concerns with some stakeholders, including with respect to its transparency as well as the diversity and balance of the GCF's accredited entities. Applicant identities are only revealed after Board approval, in part to avoid reputational impact if they are not accredited. Other funds such as the Adaptation Fund have opted for a slightly different approach where the identity of applicants is revealed after a recommendation by an accreditation panel for approval by the Board, generally weeks before the actual decision. As a result of the current GCF practice, independent third-party views on the track record of applicant entities are not part of the Accreditation Panel review process. Developing country Board members have raised concerns about the preponderance of multilateral and bilateral development agencies and financing organisations among the first 20 AEs. They have urged more support for and focus on the accreditation of national and regional institutions. The Board is to develop an accreditation strategy as part of a broader strategic plan for the GCF in early 2016.

Monitoring and Accountability: The GCF governing instrument foresees three separate accountability mechanisms, namely an independent evaluation unit (IEU) reporting to the Board, an independent integrity unit (IIU) and an independent redress mechanism (IRM). In Songdo in June 2014, the Board decided on the terms of reference for all three mechanisms, specifying for example that the IRM will receive complaints by affected people related to Fund operations as well as recipient country complaints about Board funding decisions. A Board appointment committee established in 2015 oversees the ongoing recruitment and selection process for the leadership of these independent GCF accountability mechanisms. These positions are expected to be filled by spring 2016 and the mechanisms should commence work shortly thereafter. At its 11th meeting, the Board also approved an initial monitoring and accountability (M&A) framework for GCF accredited entities, which is a key part of the broader monitoring and accountability framework of the GCF. It sets the incentives and remedial actions to ensure compliance by the accredited entities with the GCF safeguards, standards and its gender policy. The framework relies primarily on regular mandatory self-reporting by accredited entities, but also highlights an oversight role for NDAs and local stakeholders through participatory monitoring approaches.

Readiness and Preparatory Support: LDCs, SIDS and some developed countries on the GCF Board have made a strong case for early support for "readiness activities" that would build country capacity to access and programme GCF finance effectively. Germany and South Korea provided early resources for this purpose. While all developing countries will have access to readiness finance, the Board approved work programmes for the initial USD 29 million and established a floor of 50 % of this support for particularly vulnerable states, including SIDS, LDCs and African states. Supporting national, sub-national and regional implementing entities and intermediaries to meet GCF accreditation standards was identified as a priority of the programme. This is intended to ensure that these standards do not become a barrier to direct access to the GCF. The Fund also provides readiness support to strengthen the institutional capacities in recipient countries for country coordination and multi-stakeholder consultation mechanisms as needed, as well as to prepare country programmes and project pipelines. The Secretariat, which administers the programme and makes individual funding decisions, is to work in partnership and in coordination with bilateral agencies and national, regional and international institutions, including UN agencies, already delivering readiness support through ongoing initiatives. At the national level, the NDA or focal point will take the lead in deploying readiness and preparatory support funding, which is currently capped at USD 1 million per individual country per year. The GCF is one of the few international funds to give NDAs direct access to funding for institutional activities, and the development of country programmes.

As of November 2015, 87 countries have requested readiness support from the GCF, with readiness support worth USD 4.6 million committed to 17 countries for NDA or focal point support. At the 11th Board meeting in Zambia, Board members, especially from developing countries, however expressed concerns about the slow progress of readiness support disbursements. They have made the case for simpler access to funding, and more focus on helping relevant national and regional institutions become accredited to the Fund, or develop project pipelines. In Zambia, the Board approved another USD 14 million for readiness activities and asked for a review of the readiness finance allocation system.

Private Sector Facility: The PSF, an integral part of the GCF and operating under the guidance of the full GCF Board, is to provide funding to private actors, and support activities that especially enable domestic private investment in low carbon and climate resilient approaches. While the PSF is formally organised as a separate division in the GCF Secretariat, the secretariat has proposed that it be fully integrated into new divisions on portfolio development and portfolio management. Operationally, in the absence of agreement on the role and functions of the PSF, the division has had limited stand-alone functions (see the 2014 CFF 11 for more detail). Like the adaptation and mitigation windows, the PSF will use grants, concessional loans, risk guarantees and equity investments. Over time, the PSF's range of instruments to be used could further expand, and national private sector actors could be among the entities considered under enhanced direct access.

In October 2013 in Paris, the Board decided to establish a 20 person Private Sector Advisory Group (PSAG) whose members were confirmed in February 2014. The PSAG is composed of eight private sector representatives, four each from developed and developing countries, in addition to two civil society experts and three Board members each from developed and developing countries. It works closely with the Secretariat as well as the Board Investment and Risk Management Committees. The four formal GCF active observers from the private sector and civil society are also allowed to participate in PSAG meetings.

Since Bali, the PSAG has met several times and elaborated broad principles as well as targeted recommendations to the Board for Fund-wide engagement options and opportunities with the private sector, for example on mobilising funding at scale or working with local entities, particularly micro, small and medium-sized enterprises (MSMEs). Following core recommendations by the PSAG, the Board at its 10th meeting approved a USD 200 million MSME pilot programme and a USD 500 million pilot programme for mobilising resources at scale. The Board is to decide on the terms for a request for proposal for both private sector pilot programmes in spring 2016.

Gender: At its Bali Board meeting in February 2014, the Board reaffirmed the need for all GCF funding to take a gender-sensitive approach and requested the development of a gender policy and a gender action plan for the Fund, including some expert staff and financial resources for implementation. Both were considered and approved at the 9th Board meeting in February 2015. The gender policy is principles-based and applies to all funding areas and funding decisions of the GCF, making for example a gender and social assessment mandatory for each funding proposal. In Bali, the Board also mandated the mainstreaming of gender considerations into key operational policies and guidelines on an ongoing basis. This led to Board decisions in 2014 stipulating the integration of a gender-sensitive approach to results management and investment decisions as well as in accreditation procedures and stakeholder engagement processes. The GCF is the first dedicated climate fund to have a gender mainstreaming approach in place at the beginning of its funding operations. The Board will also have to address other gender provisions in the governing instrument, particularly the need for gender balance among the Secretariat staff and in the 24 person GCF Board (which currently only includes four women, and two female alternate Board members). Gender balance and expertise are also crucial for the various committees and expert advisory bodies, including the PSAG, the ITAP and the accreditation panel.

GCF Relationship to the UNFCCC and the COP: The GCF is an operating entity of the UNFCCC's financial mechanism. It is to be "accountable to and function under the guidance of the COP". The GCF Board has sought to define the arrangements between the COP and the GCF with a decision in October 2013 which reaffirmed its full responsibility for funding decisions and which the Warsaw COP approved. The Standing Committee on Finance (SCF), a complementary UNFCCC body aimed at taking stock and ensuring accountability in the global climate finance architecture, has also developed recommendations to this end. The GCF Board prepares an annual report on its programmes, policies and priorities and status of resources and responds to feedback and guidance received in reaction from the COP. In addition, the COP will have the authority to commission an independent assessment of the GCF, which would evaluate overall Fund performance, including that of its Board and the adequacy of its resources, in connection with periodic reviews of the UNFCCC financial mechanism.

Stakeholder and Observer Input and Participation: The GCF governing instruments anticipates extensive stakeholder participation in the design, development and implementation of the strategies and activities financed by the GCF. Stakeholders are broadly defined as "private sector-actors, civil society organisations, vulnerable groups, women and indigenous peoples." These mandates are currently operationalised primarily in the context of arrangements for country-ownership and programming for the fund, and in accreditation criteria for implementing entities and intermediaries. GCF readiness support also supports the gender-sensitive engagement of national and sub-national stakeholders in the GCF programming process. Following the 6th Board meeting in 2014, the Secretariat improved efforts to consult observers intersessionally via carefully managed requests for written input and conference calls with Secretariat staff in charge of preparing Board documents. However, the Secretariat still needs to elaborate stakeholder engagement guidelines to improve comprehensive outreach and involvement of stakeholders and observers in the GCF. The Board will discuss observer engagement in early 2016.

There is also a provision for stakeholders to observe the deliberations of the Fund, and for two active observers each from the private sector and civil society to provide input at Board meetings.

Information Disclosure and Communication Strategy: The disclosure practice of the GCF – in the absence of a comprehensive information disclosure policy, which is still under development – operates under "presumption to disclose". Board meeting documents are posted on the GCF website at the same time they are send to Board members, advisors and active observers (www.greenclimate.fund). Under the interim disclosure policy, to be revised in early 2016, documents would be only kept confidential on an exceptional basis under special circumstances (a "negative list approach"). A revision of the interim information disclosure policy is crucial to bring more transparency to the accreditation process, as names of applicant entities under the interim policy are only formally disclosed after a positive accreditation decision by the Board. The Board may also reconsider a controversial earlier decision from 2013 that banned live webcasting of its meetings; a relatively low cost way to increase transparency and public awareness of the Fund's decision-making process that other climate finance bodies, for example the CDM-Board and the Adaptation Fund Board, already routinely employ. Currently, video recordings of the Board sessions are only available to registered users via the GCF-website three weeks after the Board meeting. The Secretariat's communication strategy, which is to set parameters for sharing information with the public, will only formally be considered in early 2016, however, the Secretariat – aided by a new website for the Fund – is already actively engaging in outreach activities as part of mandated policies to build global awareness and support for the GCF.

Outlook for 2015

The three Board meetings of 2015 took place in the shadow of COP 21 and high expectations for the GCF to demonstrate that it was now operational. The Fund took on an ambitious but largely politically driven work plan aimed at allowing the Board to consider and approve its first set of full funding proposals just weeks before Parties to the UNFCCC will meet in Paris. In practice, this meant that important operational decisions accompanying policies and frameworks for project development and approval had to be postponed to 2016. These include the full operationalisation of the three GCF accountability units; the development of an environmental and social management system (ESMS) for the Fund as well as the start of the process to develop the GCF's own environmental and social safeguards; a best practice information disclosure policy; a fully articulated performance measurement framework for adaptation, mitigation and REDD+ results-based finance; the risk management system for the Fund with an articulation of the GCF's risk appetite and a risk register; and the general terms and conditions of GCF grants and loans to name some of the most important ones. The Fund is also still struggling with some administrative policies, including securing the privileges and immunities that will allow Fund staff and appointed personnel to operate in countries receiving GCF funding. The three Board meetings planned in 2016 (in early March, June and October) must tackle these outstanding policy issues to ensure that the GCF is not only rapidly disbursing resources, but also capable of exercising due diligence for the effective and equitable implementation of GCF funded projects and programmes. The first co-chairs of the Fund, Zaheer Fakir (South Africa) and Ewen McDonald (Australia), were elected in November for their second one year term after having led the Board through its inaugural year. They will need to help manage this challenging agenda and rally a more unified Board around a clear strategic vision for the GCF. Without a resident Board and with a limited number of opportunities for Board meetings and convening, the co-chairs, the GCF Board and the Secretariat jointly will also have to consider tackling more decisions in-between meetings as well as delegating more decisions either to the Secretariat and its Executive Director, or to some of its standing Board committees. Achieving this may necessitate an agreement on voting procedures in the absence of consensus among Board members in 2016.

With GCF funding based on voluntary contributions, how to secure the sufficient long-term capitalisation of the Fund remains a key question for UNFCCC parties to consider. This issue is, of course, linked to wider UNFCCC negotiations on long-term finance, and the climate finance architecture, which remain unsolved in the lead-up to the important Paris COP at which a new agreement on climate change is to be agreed. The challenge going forward will be to continue to strengthen the operational effectiveness of the GCF. This will be crucial to allow it to deliver on its mandate to support a paradigm shift towards low emission and climate resilient development, as the centerpiece of the post 2015 UNFCCC financial architecture.

In addition to the series of 12 Climate Finance Fundamentals, these recent ODI and HBS publications may be of interest:

- **Financing Intended Nationally Determined Contributions (INDCs): Enabling Implementation**. Meryln Hedger and Smita Nakhooda analyse the current and potential role for finance in INDCs published to date (October 2015). Available at: **http://bit.ly/1PzzKqc**
- **Climate Finance for Cities: How can climate funds best support low-carbon and climate resilient urban development?** Sam Barnard reviews the approaches taken by multilateral climate funds to support climate action in cities (June 2015). Available at: **http://bit.ly/1eTq23L**
- **What counts: tools to help define and understand progress towards the $100 billion climate finance commitment.** With Paul Bodnar, Jessica Brown, ODI's Smita Nakhooda, layout five simple tools to consider what should count to the 2020 target (August 2015). Available at: **http://bit.ly/1PzzQOY**
- **10 things to know about climate change and financing for development.** Smita Nakhooda and Charlene Watson highlight what you need to know about climate change and development finance (July 2015). Available at: **http://bit.ly/1RuUVgr**
- **From Innovative Mandate to Meaningful Implementation: Ensuring Gender-Responsive Green Climate Fund Projects and Programmes.** Liane Schalatek looks at the potential for the GCF to support gender responsive climate action (November 2015). Available at: **http://bit.ly/1HtEyMB**

Contact us for more information at **info@climatefundsupdate.org**

References and useful links

Green Climate Fund Website: www.greenclimate.fund

Green Climate Fund (2011). Governing Instrument for the Green Climate Fund. http://www.greenclimate.fund/documents/20182/56440/Governing_Instrument.pdf/caa6ce45-cd54-4ab0-9e37-fb637a9c6235

Green Climate Fund (2015). Press Release, Green Climate Fund approves first 8 investments. http://www.greenclimate.fund/documents/20182/38417/Green_Climate_Fund_approves_first_8_investments.pdf/679227c6-c037-4b50-9636-fec1cd7e8588

Green Climate Fund (2015). Status of Pledges and Contributions to the Green Climate Fund. http://www.greenclimate.fund/documents/20182/24868/Status+of+Pledges+%282015.11.2%29.pdf/d2f4b2b2-667b-4915-a72e-78894dad4db3

Schalatek, L. (2015). "Hurry Slowly" Toward Full Operationalization. GCF Board Accredits First Implementing Entities at its 9th Meeting, with Plenty of Homework to Do Before Considering Project Proposals. Heinrich Böll Stiftung North America. http://us.boell.org/2015/07/02/hurry-slowly-toward-full-operationalization

The Climate Finance Fundamentals are based on Climate Funds Update data and available in English, French and Spanish at **www.climatefundsupdate.org**

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