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. Since then, it has approved USD 1,170 million for 27 projects. A final board meeting is planned for December 2016, where the Fund hopes to make further progress towards its target of approving USD 2,500 million by the end of this year. 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. It 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 focused on addressing policy gaps in essential policies and frameworks to receive, manage, program and disburse finance as well as measure and account for its results and impacts. By mid-October, it also accredited a total of 41 implementing entities. The initial resource mobilisation effort that began in June 2014, raised USD 10.3 billion from 43 contributing countries (including eight developing countries) as well as a handful of regions and cities. By October 2016, USD 9.9 billion of pledged finance was formalised through contribution agreements. Heading into COP 22 in Marrakesh, this Climate Finance Fundamental provides a snapshot of the operationalisation and functions of the Fund. While the Fund's role in a post-2020 climate regime as the major finance channel under the Convention was confirmed, the scale of its resourcing remains to be clarified post-Paris. Past editions of this Climate Finance Fundamental detail the design and operationalisation phases of the Fund.

Introduction

In its first three Board meetings in March, June and October 2016 the GCF Board made important decisions, including on 19 project and program proposals for USD 1,002 million in GCF funding, to further advance towards full operationalisation and the rapid ramping up of disbursements by the GCF. A final meeting is scheduled for December 2016 in Samoa. The GCF presently offers grants, concessional loans, equity investments and guarantees using the executing and financial management 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. These are now being reviewed. 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, a role confirmed in the Paris Agreement, the GCF is "accountable to and function[s] under the guidance of the COP". It is mandated to take a country-driven approach, a principle that is supposed to guide all GCF investment decisions. It is also intended to channel "a significant share of new multilateral funding for adaptation". A total of USD 10.3 billion was pledged to the Fund during its initial resource mobilisation process by 43 contributing countries, with USD 9.9 billion already formalised through signed contribution agreements. Eight developing countries including host country Korea, Mexico Peru, Colombia, Panama, Mongolia and Indonesia are amongst the contributors to the Fund. With the exception of France and Canada, most contributions are grants. The GCF is already the largest multilateral climate fund, and could potentially channel even larger sums of finance over time.

Finalising the Operationalisation Process

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."

As the GCF's fourth co-chairs in 2016, Zaheer Fakir (South Africa) and Ewen McDonald (Australia) in their second one-year term focused on setting a strategic framework for the further development of the fund while ramping up Board approval of projects in an effort to reach a Board goal of USD 2,500 million by end of 2016.

In 2016, progress continued unevenly reflecting persistent differences between developed and developing countries, but also increasingly between Board members and the Secretariat on visions and best operating procedures for the Fund (see earlier CFF 11 from 2011 to 2015 for a more detailed elaboration). In 2016, the Board and Secretariat focused on fully operationalising the fund and increasing fund disbursement quickly, including by addressing policy gaps and reviewing and improving existing processes. Below we summarise some of the key decisions taken in 2016.

Strategic Vision: The GCF Board has engaged in an ongoing discussion of the need to elaborate a strategic vision for the GCF, and set up a Board committee for this purpose in 2015. After several drafts, and including in-depth discussions in an informal Board meeting in Cape Town, South Africa, in February 2016, the Board endorsed the GCF strategic plan at its 12th meeting in March. It is seen as a living document with an action plan focused on addressing policy gaps and scaling-up the programming of Fund resources for projects with the highest level of ambition until 2018, when the initial resource mobilisation period formally ends. The strategic plan lays also out Board views on the GCF's role in supporting the implementation of the Paris Agreement within an evolving climate finance landscape. The strategic plan will be reviewed as part of the GCF replenishment process by taking into account evolving priorities including COP guidance.

Resource Mobilisation: COP 21 guidance urged a speedy conversion of all remaining 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 mid 2016, 43 contributing countries, as well as several regions and cities, had pledged USD 10.3 billion. The GCF achieved "effectiveness", or the authority to make funding decisions, in May 2015 when 50% of the financing promises received during the November 2014 pledging conference in Berlin were fully paid in. By the 14th Board meeting in October 2016, USD 9.9 billion of the USD 10.3 billion in pledges for the GCF had been converted to signed contributions.

The Board will discuss replenishment policies at its 15th Board meeting. In the past, this item has been contentious, as developing country Board members want to avoid earmarking of resources as well as establishing voting shares for decision-making by contribution. Efforts are also likely to focus on reaching out to non-traditional contributors, including from the private sector and philanthropic foundations. It remains to be confirmed that the GCF replenishment will be triggered once 60% of total contributions to the GCF Trust Fund received by the 11th Board meeting have been approved for projects and programs or at the end of June 2017. The efforts by the Board to program USD 2,500 million of GCF funding by the end of 2016 have to be seen in this light.

New Executive Director: In February 2016, Hela Cheikhrouhou, the first Executive Director of the Fund who was appointed for an initial three-year term, announced that she would step down. During her three years with the GCF, she presided over the establishment of the Independent Secretariat, managed the initial resource mobilisation process, and executed the Board's decision to finalise the implementation of the GCF supporting the development of the first 17 projects. A Board-driven search for a successor concluded at the 15th Board Meeting with the confirmation of Howard Bamsey, who has vast experience with the UNFCCC as the former chief climate negotiator for Australia, and briefly led the Global Green Growth Institute (GGGI). Bamsey is expected to start in January 2017.

Structure, Organisation and Staffing of the Fund Independent Secretariat: In December 2013, an Independent Secretariat located in Songdo, South Korea began its work with around 40 people. The number of staff to be recruited has increased since, recognising the workload of the Secretariat. In early 2016, the goal was set to reach 100 filled positions by December 2016. As of mid-October 2016, the Secretariat remains understaffed with currently 60 positions and recruitment underway to add 40 more, including by expanding the staff for portfolio development and management and country and accredited entity relationship and readiness support significantly.
A proposed reorganisation of the secretariat structure stalled in 2016. The Secretariat is currently structured in four units, namely country programming, mitigation and adaptation, Private Sector Facility (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 the two mitigation and adaptation and PSF divisions would be rearranged into a portfolio development and a portfolio management division, respectively. The Board will approve the secretariat's administrative budget for 2017 in Samoa; it is expected to be significantly increased over the 2016 administrative budget of USD 29.2 million.

Results Management Frameworks and Performance Indicators: Since 2014, the GCF Board and Secretariat have worked to finalise 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. 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, aimed at capturing both outcomes of projects and programs funded, as well as the transformative impact of the Fund's aggregate activities, have been refined in 2016. 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. In 2016 efforts have focused on seeking to identify quantitative benchmarks to inform the investment framework of the Fund, to support review and assessment of project proposals alongside efforts to monitor implementation. Further methodological work is still ongoing.

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.

By September 2016, the GCF project pipeline was comprised of 44 funding proposals requesting USD 3.4 billion in GCF support; 71% of these requested funding for projects and programs in LDCs, SIDS and African states. If implemented, some 40% of total requested GCF funding would be for adaptation efforts, with 60% for mitigation. There are also 159 early-stage proposals in the form of concept notes in the pipeline that together would require USD 7.9 billion in GCF funding support. The Secretariat in the summer of 2016 also issued two targeted requests for proposals for specific pilot programmes approved by the Board in 2015 on Enhanced Direct Access (EDA) and micro, small and medium-sized enterprises (MSMEs), which received 12 concept notes for EDA and 30 for MSMEs for further development. 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 so far focused on reviewing and refining the proposal approval process, including by addressing the post-approval stages of the GCF project and programme funding cycle. At its 15th meeting in Samoa in December, the Board aims to also approve a simplified approval process for micro- and small-size low-risk projects.

To enhance the pipeline of quality proposals, at the 11th Board meeting in Zambia, the Board decided to set up a project preparation facility (PPF). At its 13th meeting, the Board approved USD 40 million for the initial phase of the PPF which will be open to request from all accredited entities. The Secretariat will make PPF funding decisions with a limit of USD 1.5 million in grant support per preparation request.

After three rounds of project considerations, by mid-October 2016 the Board approved USD 1,170 million for 27 GCF-supported projects, which include six private sector projects/programs, and seven to be implemented by direct access entities, including the first under the EDA pilot program. For an overview see Table 1.

Financial Instruments and Risk Management: The Fund has used financial instruments beyond grants and concessional loans in support of its first 27 supported projects and programs, including equity investments and risk guarantees. At its 13th meeting, the Board proposed interim risk and investment guidelines for one year differentiated for the public and private sector. While public sector projects can receive 100% GCF grant funding, for private sector investments the grant component is to be capped at 5% of total costs. For loans, co-financing should be sought whenever feasible. However, the Fund is still operating on a case-by-case approach, as a standard set of terms for even public sector lending is not yet elaborated. Over time the Fund may also offer an even broader suite of financial instruments directly. 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. In order to balance inputs into the Fund (currently only in form of grants from the public and private sector, paid-in public capital contributions and concessional public loans) with the risks and concessionality of finance that the GCF is to offer, the Fund established safeguards such as capital cushions. These are 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 in detail. The Board at its 13th meeting however reiterated that it intends the GCF to take risks that other institutions or funds are not willing or able to take. This approach will require careful oversight

Table 1: List of Board Approved Full Funding Proposals, as of 14 October 2016

Number	Project name	Location	Theme	Accredited Entity	GCF funding requested (USD million)
FP001	Building the Resilience of Wetlands in the Province of Datem del Marañón	Peru	Crosscutting	Profonanpe	6.2
FP002	Scaling Up the Use of Modernized Climate Information and Early Warnings Systems	Malawi	Adaptation	UNDP	12.3
FP003	Increasing the Resilience of Ecosystems and Communities through the Restoration of the Productive Bases of Salinized Lands	Senegal	Adaptation	CSE	7.6
FP004	Climate Resilient Infrastructure Mainstreaming	Bangladesh	Adaptation	KfW	40.0
FP005	KawiSafi Ventures Fund in Eastern Africa	Multiple (Africa)	Crosscutting	Acumen	25.0
FP006	Energy Efficiency Green Bond in Latin America and the Caribbean	Multiple (Latin America)	Mitigation	IDB	22.0
FP007	Supporting Vulnerable Communities to Manage Climate Change-Induced Water Shortages	*Maldives*	Adaptation	UNDP	23.6
FP008	Urban Water Supply and Wastewater Management Project	Fiji	Adaptation	ADB	31
FP009	Energy Savings Insurance (ESI) for Private Sector Efficiency Investments in SMEs	El Salvador/ regional	Mitigation	IDB	21.7
FP010	De-risking and Scaling Up Investments in Energy Efficiency Building Retrofits in Armenia	Armenia	Mitigation	UNDP	20.0
FP011	Large-Scale Ecosystem-based Adaptation in The Gambia: Developing a Climate-Resilient Natural-Resource-based Economy	The Gambia	Adaptation	UNEP	20.5
FP012	Africa Hydromet Program – Strengthening Country Resilience in Sub-Saharan Africa; Phase 1: Mali Country Project	Mali	*Adaptation*	World Bank	22.8
FP013	Improving the Resilience of Vulnerable Coastal Communities to Climate Change Related Impacts in Vietnam	Vietnam	Cross-cutting	UNDP	29.5
FP014	GCF Support fo Climate Adaptation and Mitigation for the Aral Sea Basin (CAMP4ASB)	Tajikistan, Uzbekistan	Adaptation	World Bank	19.0
FP015	*Tuvalu Coastal Adaptation Project*	Tuvalu	Adaptation	UNDP	36.0
FP016	Strengthening the Resilience of Smallholder Farmers in the Dry Zone to Climate Variability and Extreme Events	Sri Lanka	Adaptation	UNDP	38.1
FP017	Climate Action and Solar Energy Development Programme in the Tarapaca Region in Chile	Chile	Mitigation	CAF	49.0
FP018	Scaling-up of Glacial Lake Outburst Flood (GLOF) risk reduction in Northern Pakistan	Pakistan	Adaptation	UNDP	37.0
FP019	Priming Financial and Land-Use Planning Instruments to Reduce Emissions from Deforestation	Ecuador	Mitigation	UNDP	41.2
FP020	Sustainable Energy Facility for the Eastern Caribbean	Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St Vincent and the Grenadines	Mitigation	IDB	80.0
FP021	Senegal Integrated Urban Flood Management Project	Senegal	Adaptation	AFD	16.8
FP022	Development of Argan Orchards in Degraded Environments	Morocco	Cross-cutting	ADA	39.3
FP023	Climate Resilient Agriculture in Three of the Vulnerable Extreme Northern Crop Growing Regions (CRAVE)	Namibia	Adaptation	EIF	9.5
FP024	Empower to Adapt: Creating Climate Change Resilient Livelihoods through Community-based Natural Resource Management in Namibia	Namibia	Adaptation	EIF	10.0
FP025	Sustainable Energy Financing Facilities (SEFF)	Armenia, Egypt, Georgia, Jordan, Moldava, Mongolia, Morocco, Serbia, Tajikistan, Tunisia	Cross-cutting	EBRD	378.0
FP026	Sustainable Landscapes in Eastern Madagascar	Madagascar	Cross-cutting	CI/EIB	53.5
FP027	Universal Green Energy Access Programme (UGEAP)	Benin, Kenya, Namibia, Nigeria and Tanzania	Mitigation	Deutsche Bank	80.0

by the Board's standing Risk Management Committee working with the Secretariat's risk manager. In 2016, the Risk Management Committee and the Board approved a risk register that also addresses non-financial risks that the fund faces as part of this framework, including reputational risk. It is to be updated as frequently as the Risk Management Committee deems necessary, but at least once every three years.

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). As of October 2016, funding approved by the Board for 27 projects allocated 29% to mitigation, 27.5% to adaption and 43.5% to cross-cutting issues (although the criteria the Secretariat uses for allocating funding under cross-cutting proposals to either adaptation or mitigation for calculation of the overall balance remain unclear). The regional distribution shows 25.3% for Africa, 20.4% for Asia-Pacific and 18.8% for Latin America and the Caribbean, with 32.3 % going for a single multi-region project. SIDS receive 15.5% of the allocations so far, while 19.4% of approved GCF funding goes to LDCs.

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 programs for GCF consideration and ensure the consistency of all funding proposals that the Secretariat receives with national climate and development plans and preferences. By August 2016, 141 countries had designated an NDA or focal point. Countries have flexibility on the structure, operation and governance of NDAs. At its 15th meeting the Board is expected to approve updated country ownership guidelines with more detailed guidance, including on country coordination functions and stakeholder engagement. A proposal will need to be accompanied with a formal letter of no-objection to the Secretariat from the NDA or focal point, in order for it to be considered by the GCF. For regional proposals, each country in which the project/program is to be implemented needs to issue a no-objection letter. This is intended to ensure recipient country ownership of funding for projects, particularly those that are not implemented by governments (for example through the private sector).

Access Modalities: The GCF works through a diverse range of partners. Like the Kyoto Protocol's Adaptation Fund, the GCF gives 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), under which developing country-based accredited institutions make their own decisions about how to programme resources under an allocation of GCF resources. Under a USD 200 million EDA pilot program, a July 2016 request for EDA proposals netted 12 concept notes. At its 14th meeting, the GCF Board approved its first EDA project for a small grants programme in Namibia.

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 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 program management. GCF accredited entities (AEs) also have to show their ability to comply with the GCF gender policy adopted in March 2015. 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 is supposed to develop its own ESS over three years with inclusive multi-stakeholder participation. The GCF safeguards development process is already delayed and will have to get started in earnest in early 2017. The GCF is also behind in developing its own Environmental and Social Management System (ESMS) and Environmental and Social Policy (ESP).

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 program 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. 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. The initial accreditation period is for five years, after which time an entity needs to reapply.

Accredited Implementing Entities of the Fund: Since the call for accreditation applications was opened in November 2014, the Secretariat has received 111 applications, including 30 from direct access entities and 24 from the private sector. The GCF Board adopted its first 20 implementing entities and intermediaries in two batches at its 9th and 10th meetings. After deferring consideration of another package of nine applicant entities at the 11th Board meeting to 2016, so far this year a further 21 entities were approved in two batches at the 12th and the 14th Board meeting for a total of 41 entities. Of those, 23 are international access entities and 18 direct access entities (11 national and 7 regional) with 7 from the private sector (see: http://www.climatefundsupdate.org/listing/green-climate-fund for an overview of GCF accredited entities). The current GCF process has been relatively efficient, but has sparked concerns with some stakeholders, including with respect to its transparency and thoroughness as well as the diversity and balance of the GCF's accredited entities. Initially, applicant identities were only revealed after Board approval. After CSO protests and critical media coverage, the GCF, following the practice by other funds such as the Adaptation Fund now reveals the identity of applicants after a recommendation by the accreditation panel for approval by the Board, generally weeks before the actual decision. However, independent third-party views on the track record of applicant entities are still not part of the Accreditation Panel review process and there is a lack of information on the accreditation pipeline. Developing country Board members have raised concerns around the preponderance of multilateral and bilateral development agencies and financing organisations among the first 41 AEs (with 23 international access entities). They have urged more support for and focus on the accreditation of national and regional institutions (59 direct access entities had been nominated by 37 countries by September 2016). In 2016, the Board also discussed but still needs to agree an accreditation strategy. Options include prioritising or setting a cap for certain categories of entities or exclusion of some, for example Export Credit Agencies, entirely. Broader questions about how access to GCF funding will allow potential implementing partners to engage on the agenda of the Fund also need to be considered in this context. This issue will be revisited at the 15th Board meeting in Samoa.

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 oversaw the ongoing recruitment and selection process for the leadership of these independent GCF accountability mechanisms. By mid-October the IIU and IRM positions were filled and a decision on the IEU head pending. All three mechanisms are expected to commence their work by the end of the year. 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 with only spot checks by the Secretariat, but also highlights an oversight role for NDAs and local stakeholders through participatory monitoring approaches. It also importantly includes a provision to monitor the shift of the entire portfolio of AEs, not just the GCF-funded portion, away from fossil fuels as a condition for re-accreditation after five years.

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 program GCF finance effectively. Germany and South Korea provided early resources for this purpose. So far USD 43 million has been approved for readiness activities, of which 50% will support vulnerable countries 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 program. 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. At the national level, the NDA or focal point plays a lead role 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 September 2016, the GCF Secretariat has received 81 readiness support proposals and approved proposals from 50 countries (34 of them SIDS) with readiness support worth USD 13.4 million. The majority of this funding (USD 12.1 million) will go to support NDAs or focal points and the preparation of country programmes in 43 countries. In 2016 the Board took steps to simplify readiness grant agreements, including through framework agreements with readiness providers such as UNDP or GIZ which operate in many countries. At its 13th meeting, it also revised the list of activities that it can support to now also include up to USD 2 million per country for the formulation of National Adaptation Plans (NAPs) and other adaptation planning processes. The Board will review the Fund's Readiness and Preparatory Support Programme in 2017.

Private Sector Operations: The GCF's outreach to and engagement with the private sector is seen as a key defining element of the GCF. Originally set up as a separate Private Sector Facility (PSF), the Fund has now sought to make private sector operations a cross-cutting aspect of all GCF operations, including in accreditation, portfolio development and management and with a special focus on enabling domestic private investment in low carbon and climate resilient approaches.

A 20 member Private Sector Advisory Group (PSAG) 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, is tasked to provide strategic guidance on GCF engagement with private sector actors. The PSAG works closely with the

Secretariat as well as the Board Investment and Risk Management Committees. Since its formation 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 decided at its 13th meeting on the terms for a request for proposal for the MSME pilot. The call for proposals opened in summer 2016 solicited 30 concept notes for further development. At its 15th meeting, the Board is also to consider the terms for a request for proposals to mobilise resources at scale.

Gender: All GCF funding needs to take a gender-sensitive approach as elaborated in a gender policy and a gender action plan for the Fund, approved at the 9th Board meeting in March 2015 and currently under review. 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 as well as a project-specific gender action plan mandatory for each funding proposal. Gender considerations are also mainstreamed into key operational policies and guidelines such as results management, 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 (where women are underrepresented among its international staff) and in the 24 person GCF Board (which in September 2016 only included three women, and six 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 programs, 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. In 2016, the GCF Board, in following COP guidance, discussed frameworks to increase the collaboration of the GCF with UNFCCC bodies and entities, such as the Technology Executive Committee or the Adaptation Committee, as well as to forge stronger complementarity and coherence among various climate funding institutions.

Stakeholder and Observer Input and Participation: The GCF governing instrument 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.

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. In 2016, the Board initiated a participatory review of observer participation in Board proceedings with the goal of addressing existing weaknesses, such as the lack of financial support for the participation of developing country CSO observers or the lack of direct representation for Indigenous Peoples. This review is to be concluded at the 15th Board meeting in December in Samoa.

Information Disclosure and Communication Strategy: At its 12th meeting, the GCF Board approved a revised comprehensive information disclosure policy, which operates under "presumption to disclose". Board meeting documents are posted on the GCF website at the same time they are sent to Board members, advisors and active observers (www.greenclimate.fund). Under the disclosure policy, documents are only kept confidential on an exceptional basis under special circumstances (a "negative list approach"). The long anticipated comprehensive information disclosure policy also allowed webcasting of Board meetings, enabling stakeholders worldwide since the 13th Board meeting to take advantage of this relatively low cost way to increase transparency and public awareness of the Fund's decision-making process. The policy also set the time-frame for the public disclosure of project-related environmental and social assessments at 120 days for the highest risk projects (Cat. A), with 30 days prior disclosure for medium-risk projects (Cat.B), following global established practice. A communication strategy for the Fund, which is to set parameters for sharing information with the public, will only formally be considered in early 2017. The Secretariat – aided by an updated and expanded website for the Fund – will also need more staffing support to intensify its outreach activities as part of mandated policies to build global awareness and support for the GCF.

Outlook for 2017

Early in 2016 during an informal meeting, the Board decided to hold four Board meetings in 2016 in order to fulfil the high expectations for the GCF to demonstrate that it can disburse funding for quality projects and programs quickly. The Fund took on an ambitious goal of achieving USD 2,500 million in approved funding for 2016 in order to maintain its schedule to start a replenishment process in mid-2017. This focus meant that a number of important operational decisions accompanying policies and frameworks for project development, approval and ongoing project oversight and management received less focus in 2016. Striking an appropriate balance between moving quickly to demonstrate operational competence and delivering a deliberate and impactful portfolio remains an over-riding challenge for the Fund. Important operational functions need to be developed without further delays. Vital priorities in this regard include: (i) articulation of the GCF's risk appetite and the general investment guidelines with detailed terms and conditions for GCF public and private sector grants, loans, equity investments and risk guarantees (ii) the elaboration 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 and (iii) further elaborating the performance measurement framework for adaptation, mitigation and REDD+ results-based finance. The Fund is also still struggling with important administrative policies, including securing the privileges and immunities that will allow Fund staff and appointed personnel to operate in countries receiving GCF funding. Three Board meetings planned in 2017 (likely in March, June and October) must tackle these outstanding policy issues and ensure that the Fund attracts and invests in transformative and innovative projects and programmes. Both the Secretariat and the Board will need adequate expertise, competence and capacity to deliver on this important mandate. With a heavy work agenda remaining to be completed, better systems for inter-sessional decision-making will be needed, which may require an agreement on voting procedures in the absence of consensus. This issue has been raised many times, and is on the agenda for the last Board Meeting of 2016. In addition, new co-chairs are to be elected at this meeting. They will need to work with the new Executive Director of the Fund to develop a shared approach to tackling these challenges, and realising the promise of a fund created to support a paradigm shift towards low-carbon and climate resilient development.

References and useful links

Green Climate Fund Website: www.greenclimate.fund

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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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