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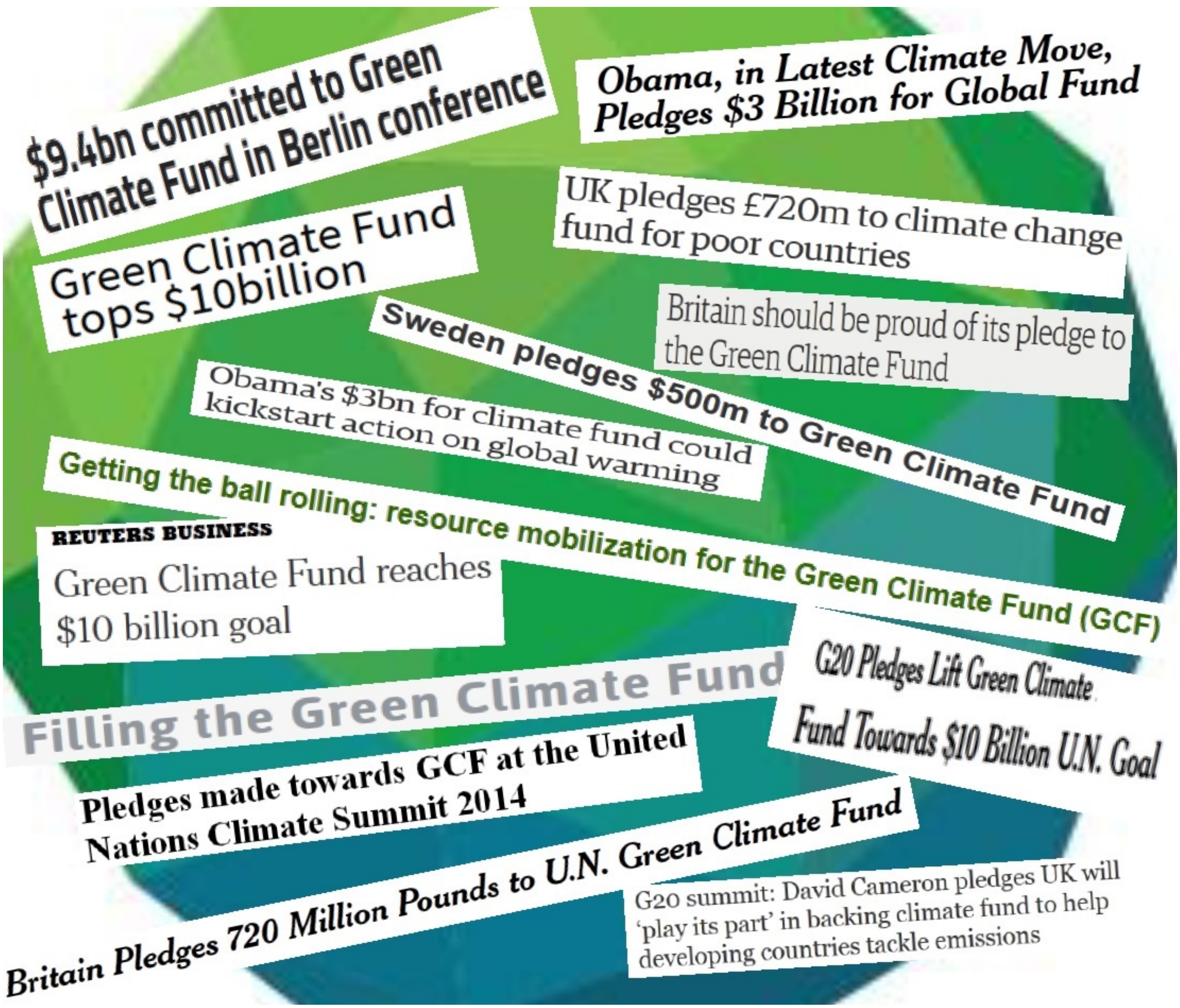
Moving Beyond "Business as Usual"

Hard-Fought Decisions at the GCF's 8th Board Meeting in Barbados Further Sharpen the Fund's Profile during Initial Resource Mobilization

by Liane Schalatek



ABOUT THE AUTHOR

Liane Schalatek is the Associate Director of the Heinrich Böll Foundation North America. She attended all meetings of the GCF Board so far as an accredited civil society observer and participated in the 2011 meetings of the Transitional Committee to design the Green Climate Fund. Summary reports of all previous GCF meetings are available at www.us.boell.org. A special interest of her work on climate finance is to increase the stakeholder participation and the gender responsiveness of existing instruments and funding structures, including work to operationalize a gender-sensitive approach in the GCF.

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Author: Liane Schalatek
Design: Lauren Edwards
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Heinrich Böll Stiftung
North America

1432 K Street NW
Suite 500
Washington, DC 20005
United States
T +1 202 462 7512
F +1 202 462 5230
E info@us.boell.org
www.us.boell.org

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Moving Beyond “Business as Usual”

Hard-Fought Decisions at the GCF’s 8th Board Meeting in Barbados Further Sharpen the Fund’s Profile during the Initial Resource Mobilization

The 8th meeting of the Board of the Green Climate Fund (GCF) in Barbados from October 14-17, 2014 took place in a paradisal setting close to the beach, but handled a hellish agenda, which kept Board members in a windowless conference room late at night. It overtaxed the ability of the Secretariat to prepare the more than 50 required documents, the Board members ability to read and think through all of them thoroughly, and thus the ability of the Board to agree on sufficiently elaborated consensus decisions on several issues, with decisions on many other key topics – including the investment framework, the Fund’s gender policy, or specific programs under its Private Sector Facility – postponed. A significant part of this stemmed from unfinished business and the need to clarify and elaborate some of the “bare(ly there) essentials” the Board decided at its 7th meeting in order to fulfill policy requirements for the initial resource mobilization process of the Fund to start. Added administrative requirements for the day-to-day organizational functioning of the Fund – the 2015 budget, human resources and procurement guidelines, privileges and immunities of its staff – and time-bound items –the work plan for 2015, a report to the COP 20 – contributed to the making of an “agenda impossible.” Nevertheless, the Board succeeded in taking a couple of “must” decisions. They are of fundamental importance for the Fund and show that the institution is starting to move “beyond business as usual” in its approach to funding climate actions. Key decisions taken in Barbados include further steps on a fit-for-purpose accreditation approach with fast-tracking and a commitment to support and enhance direct access for national and sub-national entities, including through a comprehensive readiness support program worth tens of US$ millions; a results management approach that recognizes the sustainable development context of all GCF funding action in measuring Fund performance in mitigation on the Fund-aggregate level; and a clear commitment that the recipient country has the final say in determining via an active no-objection procedure, which GCF-funded projects and activities, especially those implemented by private sector actors, will support its own strategic vision for a domestic paradigm shift.

Country ownership as the fundamental guiding principle for the Fund’s operationalization was also at the core of a set of decisions on the initial resource mobilization process, particularly the Board approved policies for contributions to the Fund with the Board rejecting the tired practice of existing institutions of tying contributions to voting power in the Board and allowing for earmarking of contributions. The successful pledging conference in Berlin on November 20, 2014 and the commitment of close to 30 countries, among them some developing countries, to contribute some US$10 billion to the Fund, largely in form of grants, can now truly be seen as an understanding of the Fund as a balanced partnership between developed and developing countries and a move beyond Bretton Woods-style business as usual approaches.

Departing Board Co-Chairs Manfred Konukiewitz from Germany and Jose Ma. Clemente Sarte Salceda from the Philippines leave a Fund behind that it hoping to accredit its first implementation partner institutions at the upcoming March Board meeting and to decide on the first non-readiness GCF projects and activities at its last Board meeting of this year in October. The new Co-Chairs Gabriel Quijandria from Peru (which also holds the current UNFCCC presidency) and Henrik Harboe from Norway will oversee an ambitious and politically driven agenda which intrinsically links the success of the Board in finalizing the operationalization of the GCF to the success of the Paris COP 21 in reaching a new global climate agreement

While the 7th Board meeting in Songdo in a deliberate effort had focused its agenda on the six outstanding modalities and policies considered to be part of the package of eight essential requirements for the Fund to start its initial resource mobilization process, the 8th Board meeting in Barbados was devoid of such a targeted approach. Instead, the four-day meeting (already extended by one day per prior Board decision) struggled through an “agenda impossible” of more than 30 agenda items for deliberation and decision for which some 50 supporting background and decision papers were prepared by the

Secretariat. This agenda overload stemmed in large part from deferred decisions that were supposed to have been tackled in the two prior Board meetings (the June Songdo meeting alone had postponed scheduled decisions on 11 topics). It was additionally aggravated by the need to clarify and elaborate further some of the June decisions which had focused, in the interest of reaching compromise, on the "bare(ly there) essentials" of required policies for the initial resource mobilization as well as by efforts to fulfill the workplan of the Board for 2014. The Barbados meeting was also not only the last Board meeting of 2014, but also the last under the guidance of the outgoing Board Co-Chairs, German Board member Manfred Konukiewitz and the Philippine's Jose Ma. Clemente Sarte Salceda (who was unable to attend the Barbados meeting because of disaster warnings and mass evacuations in the Philippine region where he is governor. Developing country Board members nominated the Saudi Arabian Board member Ayman Shasly to co-chair the Barbados meeting in his stead.) The Board in Songdo, mindful of this glut of outstanding issues, therefore requested with its decision B.07/10 that the Co-Chairs in consultation with the Board constituencies of developed and developing country members determine the priorities for the Barbados agenda.

It was indicative of the disagreements within the Board, often along its constituency lines (see Annex I for a list of current Board members) that the Co-Chairs did not succeed in curtailing the agenda and prioritizing a set of key decisions for the Board to take in Barbados – to the detriment of the Secretariat, which struggled with the untimely delivery of many of the Board papers last-minute just days before the meeting, and to the detriment of the mood among Board members going into the 8^{th} meeting. Several developing country Board members[*] (from Egypt, Philippines and Cuba) voiced their concern about the length of the agenda and warned that the Board would have to finish its 2014 workplan at the Barbados meeting if it did not want to set bad precedent in carrying unfinished business over into the new year. They also questioned the current preparation process of Board papers by the Secretariat, which involved a pre-clearance of papers by the Board co-chairs before they were shared with the wider Board – a process identified as a major obstacle to the timely delivery of Board documents to the Board well in advance of its meetings. This issue had caused consternation in the Board in prior meetings. Some Board members therefore urged a concentration on "life-or-death" issues for the Fund in Barbados. Speaking for the Secretariat, its Executive Director Hela Cheikhrouhou pointed to some key decisions which needed to be taken in Barbados in order to ensure the Fund's day-to-day work could continue, in particular work on the accreditation framework, the Fund's readiness activities, policies for the initial resource mobilization efforts as well as agreements on the Secretariat's administrative human resources and procurement guidelines. The agenda and organization of work for the Barbados meeting was begrudgingly accepted with the dire warning of one GCF Board member "that we will have to work late, I am afraid" – a prediction that came true when the Co-Chairs finally gaveled the meeting closed after a 19-hour fourth meeting day near sunrise.

The Board then adopted the meeting report of the 7^{th} GCF Board meeting, which was made available on the GCF webpage.[1] The website itself was redesigned since the last Board meeting in June, featuring prominently the GCF's new logo, which the Board had adopted in September as a decision in between meetings. The new logo, a globe-like sphere in blue and green hues, is meant to signal a new perspective on climate by moving beyond "latitude/longitude-globe logos, which have come to strongly connote air travel and global transport — activities whose growth contributes to global warming" and instead "depicts the earth and climate as one", thereby celebrating the "game-changing nature of the Fund".[2]

[*] Throughout this report, which draws on preparatory and decision documents as well as extensive notes taken by the author present as civil society observer in Barbados, the opinions and statements by Board members will be identified with reference to the countries/constituencies they represent. Possible misrepresentations of Board member interventions are thus due to errors in note-taking. While no written transcript of the meeting is made public by the GCF Secretariat, the Board at its 4^{th} Board meeting in June 2013 decided to provide a recording of the Board meeting to registered users on the GCF website three weeks after the meeting, thus making it possible for anybody interested to identify statements and positions by individual Board members. As of the publishing of this report (in early February 2015) the summary of decisions taken by the Board in Barbados as well as the recordings of the proceedings of the 8^{th} Board meeting are available on the GCF website at www.gcfund.org. .

Activity Reports of the Co-Chairs and the Secretariat

Both the Secretariat and the Co-Chairs presented their respective activity reports to the Board. The verbal activity report of the Co-Chairs was noted by the Board after only minor clarifications. It highlighted in particular efforts by the Co-Chairs to identify a host and venue and issue invitations for the first and second meeting on the GCF initial resource mobilization (which took place in Oslo, Norway June 30th – July 1st and in Bonn, Germany on September 8th and 9th, with attendance by the Board co-chairs and some Board members nominated by their constituencies as observers).

However, the longer and more detailed written activity report of the Secretariat[3] solicited numerous Board member interventions. They centered in particular on the recent recruitment of close to 20 key new secretariat staff, most of whom Executive Director Cheikhrouhou introduced in person to the Board at the meeting, as well as on the recent outreach efforts of the Secretariat to developing countries. Board members from India, Egypt and the Philippines in welcoming the new Secretariat staff also urged them to seek out and take into account the views of Board members in their work, especially in preparation of Board documents, which has to be understood in the context of the country-driven approach of the Fund and its linkage to the UNFCCC. The Board member from Georgia expressed some concern that the Secretariat’s current level of outreach activities might not be sufficient to prepare recipient country governments for the interaction with the Fund, reminding the Secretariat that outreach documents need to reflect consistency with guidance by the UNFCCC Conference of Parties (COP) to the GCF as well as correctly highlight the eligibility of all developing countries to receive funding from the GCF. In this context, the Board members from Egypt and Philippines criticized that the invitation for the IRM session were addressed to the New York UN representatives of countries and not their UNFCCC focal point, with the latter being more aware of the role and relevance of the GCF than their New York colleagues. Lastly, the Board member from Zambia sought some clarification on the recruitment process for some 20 key Secretariat staff positions from among the 530 applications received and vetted through the involvement of an executive search firm. Already in the Songdo meeting, some African Board members had expressed their worries that potential candidates for the six top positions (for four division chairs, the Chief Financial Officer and the legal counsel) might have received some job promises through the executive search firm that were then rescinded (suggesting then possibly through the interference of the Co-Chairs, who had commented on the initial job descriptions, had been informed about the recruitment process and had been provided a list of the top candidates). The Board member from Zambia pointed to possible reputational risk for Fund from a non-transparent recruitment process. The new legal counsel of the Fund clarified that it is indeed the role and sole mandate of the Secretariat’s Executive Director to hire new staff.

Reports from Committees, Panels and Groups

The Board then heard progress reports from the various standing Board committees and panels, including the Investment Committee, the Risk Management Committee, the Ethics and Audit Committee, the Private Sector Advisory Group (PSAG) and the Accreditation Committee and took note of them. These committees and panels are an indispensable part of the working structure of the Board, given its non-resident status and the limited number of Board meeting and meeting days, although the Board collectively continues to struggle with the question of whether and how much of its decision-making authority to delegate to such bodies and the GCF Secretariat. The updates from the Board’s Accreditation Committee, the PSAG and the Ethics and Audit Committee are addressed in the context of the relevant operational modalities and policies in sections further below.

Investment Committee and Continued Work on the Initial Investment Framework

Decision B.04/08 on the Private Sector Facility (PCF) at the 4th Board meeting in Songdo in June 2013 urged the establishment of an Investment Committee, to “review investment proposals and instruments and recommend their approval in accordance with social and environmental safeguards and the Fund’s objectives and the risk management framework.”[4] The 5th Board meeting in Paris in October 2013 then established an Investment Committee as a standing Board committee comprised of three Board or

Alternate Board members each from developed and developing countries. It is chaired by the Board member from India with colleagues from Australia, Denmark, Chile, the UK, and China[5]. The Investment Committee has the primary responsibility to develop the investment framework in close cooperation with the Private Sector Advisory Group (PSAG) and the Risk Management Committee. The investment framework was originally meant to only focus on the PSF, but now is to apply to the Fund's whole portfolio. The Fund's investment framework is tied closely to the "risk appetite" of the Fund, as well as the approval process, specifically by setting the investment criteria for Board approval of GCF projects and programs.

At its 6th meeting in Bali, the Board in an informal discussion had considered a progress report by the Secretariat[6], which outlined the purpose and core elements of the proposed GCF investment framework. It solicited strong feedback from Board members regarding a reluctance to delegate investment decision making from the full Board to either the Secretariat or the Board's Investment Committee and on whether the investment framework with a set of investment criteria should apply port-folio wide or be applied differentially, for example depending on mitigation or adaptation projects or recipient country groupings (such as based on need or income). A reworked paper on the GCF's proposed investment framework presented to the Board for decision at its 7th meeting in Songdo[7] suggested several components of an initial investment framework, namely (a) an initial set of **investment policies** setting out overall investment target goals and guiding principles; (b) an **investment strategy and portfolio targets,** which would be initially those set by the Fund-wide allocation parameters decided at the 6th Board meeting in Paris; and (c) specific **investment guidelines** elaborating the **activity-specific decision criteria** which the Board would apply for the approval of projects and programs under the initial proposal approval process.

Table 1: Initial Criteria for Assessing Project and Program Proposals

Criterion	Definition	Coverage area
Impact potential	Potential of the project/ program to contribute to the achievement of the Fund's objectives and results areas	• Mitigation impact • Adaptation impact
Paradigm shift potential	Degree to which the proposed activity can catalyze impact beyond a one-off project or program investment	• Potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than 2 degrees • Potential for knowledge and learning • Contribution to the creation of an enabling environment • Contribution to the regulatory framework and policies • Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans
Sustainable development potential	Wider benefits and priorities	• Environmental co-benefits • Social co-benefits • Economic co-benefits • Gender-sensitive development impact
Needs of the recipient	Vulnerability and financing needs of the beneficiary country and population	• Vulnerability of the country • Vulnerable groups and gender aspects • Economic and social development level of the country and the affected population • Absence of alternative sources of financing • Need for strengthening institutions and implementation capacity
Country ownership	Beneficiary country ownership of and capacity to implement a funded project or program (policies, climate strategies and institutions)	• Existence of a national climate strategy • Coherence with existing policies • Capacities of implementing entities, intermediaries or executing entities to deliver • Engagement with civil society organizations and other relevant stakeholders
Efficiency and effectiveness	Economic and, if appropriate, financial soundness of the program/project	• Cost-effectiveness and efficiency regarding financial and non-financial aspects • Amount of co-financing • Program/project financial viability and other financial indicators • Industry best practices

Source: Document GCF/B.07/11, "Decisions of the Board – Seventh Meeting of the Board, 18-21 May 2014", Annex XIV, Table 2, p. 63f.

Songdo Board decision B.07/06 adopted the Fund's initial investment framework with its initial activity-based investment guidelines after long and heated in-depth deliberations with Board consensus on six criteria (namely, "impact potential", 'paradigm shift potential", "sustainable development potential, "needs of the beneficiary recipient,” “country ownership” and “efficiency and effectiveness”). Each of these project-criteria was defined further by several coverage areas, such as “contribution to the creation of an enabling environment” or “mitigation impact”, some 25 in total (see Table 1 for an overview of the investment guidelines as they currently stand), with activity-specific sub-criteria and indicators and specifications to be developed based on advice of the Board’s Investment Committee and on consultations with the Private Sector Advisory Group (PSAG).

The decision from Songdo also set the initial portfolio targets for the Fund’s investment strategy in line with first-tier allocation decisions from the Bali meeting (decision B.06/06), such as the balanced allocation “over time” for mitigation and adaptation, the floor of 50 percent of GCF adaptation financing for particularly vulnerable countries, as well as efforts for geographic balance and maximized engagement with the private sector through a significant allocation for the PSF. Decision B.07/06 requested that the Investment Committee, with support from the Secretariat and considering recommendations from the PSAG, develop for decision at the 8th meeting in Barbados definitions for activity-specific sub-criteria and indicators taking into account the initial results management framework and the Paris allocation decision, but also Bali decision B.06/07 on gender and a future decision on additional results areas for adaptation. The Investment Committee was also tasked to prepare for the Barbados meeting “a comparison of methodologies to assess the quality and innovativeness of comparable proposals in comparable circumstances.”

Informing the full Board of the work of the Investment Committee since the last Board meeting, its chairman (the Board member from India) described the joint work of his committee colleagues and the Secretariat in developing activity-specific sub-criteria as well as the challenge in determining minimum benchmarks for each criterion. He also reported on the committee’s effort to identify and compare assessment methodologies of other funds and institutions for help in guiding how the GCF will eventually weigh and score project and program proposals. Over the past summer, a call for public input was launched to help in this task, acknowledging the key importance of the investment framework in determining to what extent the GCF will differentiate itself from existing funds and contribute to a paradigm shift by moving “beyond business-as-usual.” A compendium of the input received is published on the GCF website.[8] Some of the crucial questions that the Board will have to address with future decisions on the investment framework are whether mitigation and adaptation project proposals will be reviewed each with specific and separate criteria/sub-criteria; the extent to which both quantitative and qualitative investment and review criteria will be used; how competitive such a scoring and review system should be (as opposed to ascertaining minimum qualification requirements); and if in assessing project proposals country (portfolio) considerations should be taken into account – contentious issues where consensus seemed elusive among the Investment Committee members.

A draft document[9] prepared for the 8th Board meeting was not taken up in Barbados due to time-constraints. The draft document, which will certainly come up for Board discussion and consideration at the 9th GCF Board meeting, proposes a detailed set of initial activity-specific sub-criteria (acknowledging that these can neither be exhaustive nor final), which start to differentiate between those applying to adaptation or mitigation specifically, for example the mitigation sub-criteria focusing on cost-effectiveness and co-financing). It also proposes an illustrative assessment methodology which rates on a scale from 1-5, using some “illustrative assessment factors” or indicators, whether sub-criteria will be fulfilled and in the case of the country ownership criteria uses a yes/no determination of coherence with recipient country strategies and policies. These assessment factors as well as the rating scale are to be used by the Independent Technical Advisory Panel (ITAP) to conduct a technical assessment of funding proposals together with the Secretariat. Such a independent advisory panel was established with Board decision B.07/03 as part of the GCF’s initial approval process. The Board meeting in Barbados in following up work on the approval process was supposed to consider draft terms of reference for the ITAP. It will comprise four panel members to be nominated by the Investment Committee with expertise and competency in fields relevant to the Fund’s initial result areas (determined by Paris Board decision B.05/03) and further work on its initial results management framework (Board decision B.07/04). Further work on the initial investment framework as well as the mandate and nominees for the ITAP will most certainly be on the agenda for the Board’s 9th meeting in March 2015.

Risk Management Committee and Continued Work on the Initial Financial Risk Management Framework

At its 4th meeting June 2013 in Songdo, the Board in Decision B.04/08 on the Private Sector Facility (PSF) decided to set up a risk management framework for the Fund. The 5th Board meeting in Paris in October 2013 then established a Risk Management Committee as a standing Board committee comprised of three Board or Alternate Board members each from developed and developing countries. The Risk Management Committee is chaired by the Board member from Indonesia, with the Dutch colleague acting as vice-chair and colleagues from Japan, France, Zambia and the DRC as members[10]. It was tasked in Paris to provide guidance to the Board on elements of the Fund's risk management framework, focusing initially on a financial risk management framework for the Fund and addressing the GCF's "risk appetite" as reflected in the investment policy and criteria of the Fund's Investment Framework set by the Board's Investment Committee (see separate section). Thus, a close collaboration between both standing Board committees is essential.

At its 6th meeting in Bali, the Board considered only a progress report by the Secretariat[11], outlining the purpose and core elements of the proposed GCF financial risk management framework. In the Board discussion then, Board members had stressed that it was vital to have a clear understanding and consensus in the Board on the risk appetite for the Fund, which several Board members had urged must be higher than that of existing funds. Board members also asked for more guarantees to avoid cross-subsidization and ensure sufficient grant inputs into the Fund, for example by adding a significant capital cushion to loan inputs into the Fund. A reworked Board paper presented for decision at the 7th Board meeting Songdo[12] argued that by the nature of its mandate to achieve a paradigm shift, the Fund will have to assume a higher level of risk for climate-related investments than conventional market interventions (for example to deal with unconventional technologies, scaling-up, and perceived or real lack of financial viability). As the Fund will work – at least initially -- through intermediaries and implementing entities, the latter will have to assess and manage asset-side risk at the project level, while the Fund will monitor and manage aggregate or portfolio-wide financial risk of assets and liabilities (with a key role for the office of a risk manager in the Secretariat).

In Songdo, the Board adopted an initial financial risk categorization and management framework to be reviewed as early as after one year, with an in-depth review to take place no later than three years after the initial capitalization of the Fund. Songdo decision B.07/05 confirmed that the Fund's risk management and reporting system will have to be made operational before the Fund can approve proposals. In order to determine the Fund's eventual risk appetite, the Board requested the Secretariat to start some analytic work by surveying existing methodologies used by other relevant institutions to define and determine their own risk appetite and report for the Board's consideration at the Barbados meeting in October.

A Board paper was prepared for the 8th GCF meeting[13] and the issue put on the meeting's agenda, although in the end, due to time constraints, not considered by the Board. Reporting back for the GCF Board's standing Risk Management Committee, its Indonesian chairman informed his colleagues at the beginning of the meeting of the committee's collaboration with the Secretariat in producing the methodological survey as the first step of the requested actions on elaborating the Fund's Risk Management Framework under the Committee's workplan until end of 2015. The document elaborated the multiple dimensions of risk (financial and non-financial, including reputational risk categories), that in the aggregate – with the possibility of weighing differing types of risk differently – will then determine the Fund's risk appetite. It then surveyed the methodologies other institutions (such as the multilateral development banks or existing climate funds such as the Adaptation Fund or the GEF as well as some commercial banks) use. The paper suggested some risk assumptions regarding to the GCF funding decisions, for example that the Fund should have a higher appetite for risk when supporting activities with higher potential climate impacts or that the GCF should be more willing to take risks when supporting activities in small island developing states (SIDS) or Africa than the rest of the world and should be more willing to carry risks for GCF grants than for GCF loans.

The Board also received written initial recommendations by the Private Sector Advisory Group (PSAG) on determining the Fund's risk appetite, which underscored that the GCF risk appetite cannot be static and will have to adjust to the growing capacities of the Fund. As risks involve both losses and profits, the GCF must be capable of dealing with both with commensurate resources necessary for risk and asset management especially if the GCF in a future phase develops the capacity for direct investment instead of relying on the risk management functions of accredited intermediaries, according to the PSAG.[14]

The GCF Board in a first step will most likely at its 9th meeting in March review the proposed analysis and set of assumptions for the GCF risk appetite and could then decide in a second steo on a methodology for determining the initial risk appetite of the GCF. A set of appropriate indicators will have to be determined for financial risks of program execution, with a qualitative element added regarding the expected climate impact of activities, as well as for non-financial risks. The latter do include the danger of waning political or civil society support for the Fund ("stakeholder risk') or the reputational risk that the Fund might encounter if it were to engage in continued fossil fuel lending as well as if the Fund's social and environmental safeguards and its mandate for a gender-sensitive approach to its funding are inadequately operationalized or insufficiently enforced and could lead to blatant human rights violations as a result of GCF investments. In a third step, the Secretariat in collaboration with the Risk Management Committee will then outline various scenarios in applying this methodology. These steps are scheduled to be concluded with the 11th Board meeting, currently scheduled for October 2015.

Ethics and Audit Committee and Commencement of Annual Reporting and the External Auditing Process

The Ethics and Audit Committee was formed at the 5th GCF Board meeting in Paris as a standing Board Committee primarily to oversee the development and implementation of a draft Board policy on transparency, ethics and conflict of interest; the Fund's comprehensive information disclosure policy; and to provide recommendations for the establishment of the GCF Independent Integrity Unit and its Independent Redress Mechanism. The committee of six comprises Board members and alternates from Egypt, Spain, the United States, Saudi Arabia, and Korea and is chaired by Poland. At part of the Bali decision on the administrative policies of the Fund (decision B.06/03) in February 2014, the Secretariat was tasked to select an internationally accepted accounting system to record the financial transactions of the GCF administrative budget based on the recommendation of the Ethics and Audit Committee and to be approved by the Board. The Executive Director was requested to put in place appropriate internal control mechanisms to ensure clarity, transparency and accuracy of the management of the GCF administrative budget.

In Barbados, the Board member from Egypt, speaking on behalf of the Committee chairman in reporting back to the full Board, informed his colleagues that his committee since June worked with the Secretariat to draft a Board document to prepare accounting standards for the Fund. The Board document[15], reviewed by the Ethics and Audit Committee, compared three types of commonly used accounting and reporting standards, namely 1) the International Financial Reporting Standards (IFRS), 2) the International Public Sector Accounting Standards (IPSAS), and 3) the US Generally Accepted Accounting Standards (USGAAP), and details some of the similarities and differences between them. The Ethics and Audit Committee recommended that the GCF adopt the IFRS. The IFRS is also used by a multitude of international organizations, including the IMF, the GEF, the African Development Bank and the International Fund for Agriculture and Development (IFAD) and has become the *de facto* common global standard being required or permitted in 113 countries. Will the United States uses its own standards, the American Securities and Exchange Commission is considering a switch to IFRS. In Barbados, the Board followed this recommendation without discussion and with decision B.08/18 approved the IFRS as the accounting standard of the Fund. It also approved the terms of reference for external auditors. They will be appointed by the Board and report to the Board and the Ethics and Audit Committee on an annual basis and should be from an internationally recognized public accounting firm. They will serve two three-year terms of annual audit assignments. The Board also authorized the Secretariat to start work on the annual report for 2014. The primary purpose of the Fund's annual report is to demonstrate transparency and accountability and to inform stakeholders and contributors, including parties to the UNFCCC, about the performance of the grants and loans provided by the Fund. The 2014 annual report of the Secretariat will be presented at the 10th 2014Board meeting in June.

Initial Guiding Framework for the Fund’s Accreditation Progress, including Fiduciary Principles and Standards and Environmental and Social Safeguards

The Governing Instrument mandates the Board to “develop, manage and oversee an accreditation process for all implementing entities based on specific accreditation criteria that reflect the Fund’s fiduciary principles and standards and environmental and social safeguards” (para. 49). The 5th Board meeting in Paris (October 2013) then decided that a guiding framework and procedures for the accreditation process of the Fund should be developed that would elaborate the Fund’s own environmental and social safeguards and fiduciary principles and standards; set the criteria and application procedures for entities accredited to channel and implement Fund resources; look at possible governance approaches to execute the framework (for example the formation of an Accreditation Panel with independent technical advisory function to conduct the accreditation); and draw lessons for this from an assessment of a long list of institutions already working with other funds. In Paris, the Board also agreed that a set of best-practice fiduciary principles and standards as well as environmental and social safeguards referenced in separate annexes to Board Document GCF/05/23 should form the basis for developing the Fund’s own standards and safeguards.

Since Paris, the work on the GCF accreditation framework has been overseen by a Board team with members from France, Sweden, Barbados and Zambia. It is chaired by the Board member from Sweden with the Board member from Zambia serving as the Vice-Chair. This Board team is also working on modalities to enhancing direct access. Since Spring 2014, the Board team has been aided by four senior international experts on accreditation confirmed by the Board.[16] With a Board decision at its 7th meeting in Songdo in June 2014 on a guiding framework for accreditation, a new six-member independent technical advisory Accreditation Panel, reporting to and accountable to the Board, was established with members nominated by the Accreditation Committee and endorsed by the Board. It was formed largely by the members of the former expert group with two additional nominations by the Accreditation Committee. The Accreditation Panel is to review the applications for accreditation by implementing entities and intermediaries and recommend their approval (including with conditions) or rejection by the Board.

In Bali, only a progress report was presented to the Board on the way forward on the accreditation framework.[17] However, a number of developed country Board members then felt that relying on a minimum level of accreditation requirements for environmental and social safeguards based on principles drawing from both Adaptation Fund and IFC experiences was not enough. They asked instead to apply the full set of IFC performance standards, despite fears from developing country Board members expressed in Bali that this could impose an “impossible conditionality for poorer countries”. From international civil society, including more than 140 Southern civil society groups and networks supported by more than 60 Northern groups and networks[18], the use of the IFC performance standards as GCF interim ESS was met with concerns as many groups felt that IFC standards were treated in practice as “aspirational” only and with serious implementation deficits as highlighted by the IFC Compliance Advisor Ombudsman (CAO) in a recent report on IFC interaction with its financial intermediaries.[19] At Bali, numerous Board members also supported the idea of a dynamic accreditation with differentiation by accredited entity and/or activity and function (such as grant implementation only versus more complicated financial structuring) in a “fit-for-purpose” approach.

In Songdo at its 7th Board meeting, the Board then considered a revised document and new draft decision on a guiding framework for accreditation for the GCF.[20] After several revisions and an intense debate decision B.07/02 was adopted. In the Board discussion, many developing country Board members urged to ensure that the “fit-for-purpose” accreditation approach, including through readiness support, prioritized and favored the accreditation of national institutions as implementers and intermediaries, while a number of developed country Board members wanted assurances for the quick fast-tracking of a number of private sector and public sector entities already, many of them international, already active in climate-relevant development investments or accredited with other relevant funds,

Decision B.07/02 approved an initial guiding accreditation framework for the Fund to be reviewed within three years and applying to both public and private sector entities. It included a **detailed set of fiduciary standards** that applicant entities for accreditation have to meet. It listed **basic fiduciary standards** which are to apply to all entities seeking accreditation with the Fund and focus predominantly on key administrative and financial capabilities (such as financial management and accounting, auditing and procurement), and key determinants of transparency and accountability (such as the existence of a code of ethics, an investigation function or disclosure of conflicts of interests). Those it differentiated from **specialized fiduciary standards** which require additional capabilities to run grant award and/or funding allocation mechanisms (for example transparent allocation of financial resources and public access to information on beneficiaries and results) and the capability for on-lending and blending (such as financial resource management, investment and portfolio management and financial risk management such as asset liability management policies and functions). Project management capability is considered a specialized fiduciary standard, thus requiring a higher accreditation burden, which all implementing entities will need to transfer even grant financing to executing entities for project implementation.

Songdo decision B.07/02 also adopted the **set of eight environmental and social performance standards** elaborated by some detailed guidance notes, which the IFC, the private sector arm of the World Bank is using[21], as **initial environmental and social safeguards for the GCF** until the Fund's own ESS are fully developed. Within three years after the Fund becomes operational, the process of developing the Fund's own environmental and social safeguards is to be completed, building on evolving best practices and with inclusive multi-stakeholder participation. Of the eight IFC Performance Standards (PS), PS 1 – which covers assessment and management of environmental and social risks and impacts, and includes stipulations on social and environmental impact and risk assessments and effective community engagement and information disclosure – is to apply to all GCF projects, including individual projects or activities within a GCF program. The other seven performance standards will be used on a modular basis as applicable to specific projects and program. They address labor and working conditions (PS2); resource efficiency and pollution prevention (PS3); community health, safety and security (PS4); land acquisition and involuntary resettlement (PS5); biodiversity conservation and sustainable development of living natural resources (PS6); Indigenous Peoples (PS7); and cultural heritage (PS8).

Figure 1: Overview of GCF Fiduciary Standards and Environmental and Social Safeguards

Source: GCF Secretariat, "Accreditation to the Green Climate Fund," November 2014; available at: http://www.gcfund.org/fileadmin/00_customer/documents/Accreditation/GCF_Accreditation_Introduction_November_2014_final.pdf.

The initial guiding framework for the Fund's accreditation process adopted in decision B.07/02 laid out a **scaled risk-based approach** for the application of the Fund's interim environmental and social safeguards (ESS) at the program/project-level on the basis of their risk for imposing potential environmental and social harm, as for example currently most multilateral development banks (MDBs) do. Funding proposals will be classified (by the implementing entity or intermediary which could results in efforts to down-grade risks and poses a potential conflict of interest) as either Category A, B or C, with A describing activities with potential significant adverse environmental and/or social risk that could be irreversible, while C would represent activities with minimal or no adverse social and/or environmental risks and impacts. The scaled risk-based approach will also look at the level of financial intermediation and identify three levels of risks from high (I1 = the intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to Category A-type activities) to low (I3 = the intermediary’s portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts).

Table 2: Overview of GCF ESS and Intermediation Risk Categories.

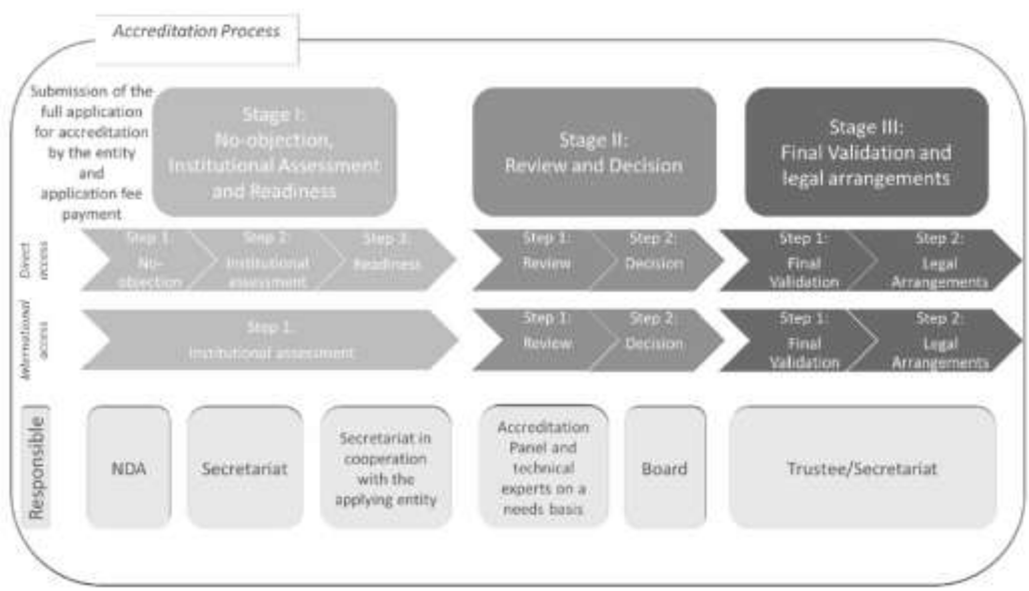
Risk level	Funding proposals	Intermediation*
High	Category A Activities with potential significant adverse environmental and/r social risks and/or impacts that are diverse, irreversible, or unprecedented	Intermediation 1 (I1) When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented
Medium	Category B Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures	Intermediation 2 (I2) When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented.
Low/No	Category C Activities with minimal or no adverse environmental and/or social risks and/or impacts	Intermediation 3 (I3) When an intermediary’s existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts.

* Activities involving investments through financial intermediation functions or through delivery mechanisms involving financial intermediation.

Source:GCF Secretariat, “Accreditation to the Green Climate Fund,” November 2014; available at:
http://www.gcfund.org/fileadmin/00_customer/documents/Accreditation/GCF_Accreditation_Introduction_November_2014_final.pdf

Songdo decision B.07/02 approved a **three-stage accreditation process** for the Fund with applications accepted and reviewed on a rolling basis. Accreditation once granted will be reviewed after five years, and the Board in the future will develop a policy covering suspension and cancelation of accreditation.

Figure 2: Three-Stage Accreditation Process of the Fund



Source:GCF Secretariat, “Accreditation to the Green Climate Fund,” November 2014; available at:
http://www.gcfund.org/fileadmin/00_customer/documents/Accreditation/GCF_Accreditation_Introduction_November_2014_final.pdf

Stage I of the accreditation process deals with the submission of a full application either under the direct access or international access track and applies to national, sub-national and regional entities seeking to work with the Fund. In the direct access track, two mandatory steps will apply with the recipient country's NDA or focal point signaling a no-objection to the application as well as an institutional assessment and completeness check for the application looking at the legal status, track record, readiness or relevant partner networks of the applicant entity. Another step, in which the applicant entity can ask for an individualized readiness and preparatory support activity plan by the Fund Secretariat to help with compliance with GCF accreditation requirements, is optional. International entities (such as MDBs, UN agencies or regional institutions) applying through the international access track will only complete the institutional assessment and completeness check.

Stage II of the accreditation process then consists of the application review where the applicant entity's capacity to manage environmental and social risks in accordance with the Fund's ESS will be assessed. The Accreditation Panel will examine the robustness of the applicant's own environmental and social management system (ESMS), including the existence of policies and procedures, its organization and staffing or its environmental and social measurement and management tools and then recommend either approval or rejection to the Board, with the Board deciding to proceed, reject or to recommend readiness support for the entity. It is in this context that a tiered or "fit-or-purpose" accreditation approach will apply, which could mean an entity would only be allowed to do certain activities or work in specific sectors (as for example not every entity will be involved in high-risk, high-cost energy infrastructure projects). Stage III then includes the final validation and formal arrangement with the applicant entity and the Fund.

For the further development of the Fund's initial framework for accreditation, Songdo decision B.07/02 asked the Accreditation Panel in collaboration with the Accreditation Committee and the Secretariat to develop the Fund's environmental and social management system, which must include guidelines for the categorization of projects by IEs and intermediaries according to the level of environmental and social risk. Requesting a report back on progress made already by the 8th Board meeting, the decision also:

- tasked the Secretariat, under guidance of the Accreditation Panel and Accreditation Committee, to develop guidelines for the fit-for-purpose accreditation approach that matches the nature, scale and risk of proposed activities to the application of the Funds initial fiduciary standards and interim safeguards;
- requested the Accreditation Panel, with the support of the Secretariat and guided by the Accreditation Committee to assess the potential, including through a gap analysis, for a fast-tracked accreditation process for entities already accredited under existing funds such as the GEF, the Adaptation Fund or the MDBs under the CIFs (in accordance with the principles of **complementarity and coherence** mandated for the GCF's engagement with existing funds under the Governing Instrument's paras. 33 and 34);
- mandated the Secretariat to develop a policy on fees for accreditation, taken into consideration the principle of cost recovery;
- tasked the Accreditation Panel with the identification of potential relevant private sector international best practice fiduciary standards and EES, presumably including the Equator Principles, and subjecting those to a gap analysis with input by the PSAG "and in consultation with relevant stakeholders" (although the decision did not specify who would be included in this consultation); and
- requested the Secretariat to prepare the relevant application documents for submissions of applications by interested institutions and entities for Board consideration, so that a call for submission of applications could be opened after October Board meeting.

Reporting back in Barbados to the full Board, the Swedish Chair of the Accreditation Committee reported on progress made toward this accreditation package, pointing out that his Committee sought the Board's approval for five accreditation experts, which supported the Committee's work, to be approved as Accreditation Panel (a sixth prospective member resigned citing conflict of interest issues) and clarifying that because of time-pressures work on the fit-for-purpose approach as well as on private sector best practices could not be completed in time for the 8th Board meeting. The Board then took up and discussed each of the components of the package separately.

Guidelines for the Operationalization of the Fit-for-Purpose Accreditation Approach

In Barbados, the Board reviewed a paper by the Secretariat, which set out the guidelines for the operationalization of the fit-for-purpose approach, with the intent to match the nature, scale and risk of proposed activities to the application of fiduciary standards and ESS.[22] The rationale for this approach is that a uniform or one-size-fits all accreditation requirement would impose unnecessary burden on many applicant entities, particularly also from SIDS and LDCs and would not be necessary for the implementation of low-risk, smaller size interventions, which very often especially national and sub-national entities are interested in carrying out.

The paper thus proposed to assess conformity of an entity applying for Fund application with the GCF interim fiduciary standards and ESS according to several criteria, namely

1) **the nature of the fiduciary risk** – in managing a project, is the entity implementing, or intermediating financial resources (through either grant award and/or funding allocation or on-lending and/or blending);
2) **the scale of the intended activity** – the approach suggest that an entity can only access funding at a scale that is within its capacity to manage ranging from micro (maximum Fund contribution up to US$ 1 million for an individual project or activity) to small (between US$1 and US$10 million); medium (between US$10 million to US$ 50 million) and large (above US$ 50 million); and
3) **three defined categories of environmental and social risk and correlated intermediation** approved in Decision B.07/02 (with Category A being the highest risk and Category C being the lowest to no risk and I-1 the intermediation with the highest risk and I-3 the one with the lowest to no risks). The paper provided also illustrative examples of activities fitting under each risk categorization, suggesting for example that large-scale land reclamation might be considered Category A while it judged the implementation of policies or regulations or capacity building or monitoring programs to have minimal or no adverse environmental and social impacts (an assessment that can be questioned with respect to policies and regulations).

In seeking accreditation, an applicant entity would have to indicate the type of activities it envisions implementing for the Fund (its scale, highest risk level and level of financial intermediation). The accreditation process, taking the entity’s track record into account, would then assign a risk categorization to the entity. If the applicant entity has only a limited track record of project/program implementation – as many national and sub-national entities interested in being accredited with the Fund might have – more frequent reporting, smaller tranches of funding disbursement or a conditional accreditation for the first two years could apply. Once accredited, the entity can then only apply for approval of projects/programs at or below that risk category, but can seek an adjustment via an accreditation upgrade or downgrade over time. Accreditation will then be reviewed every five years.

In commenting on the proposed guidelines, Board members identified a couple of issues, around which many comments centered and on which they looked for clarification and improvements to the draft guidelines. They included concerns about disadvantaging national and sub-national entities with the current approach, the demand to strengthen provisions for the inclusion of gender considerations in the accreditation guidelines, the broader issues of ensuring accountability and sufficient monitoring and oversight and including consequences for serious shortcoming and failures in implementation, and whether the proposed differentiation by scale of activities/funding was appropriate. The Board members from South Africa, the DRC and Barbados felt that the proposed fit-for-purpose approach focused too little on empowering developing country institutions that might have the inherent potential to become a good entity for national action with a specific skill set and urged to ensure that the Fund would accredit a wider than traditional set of implementing entities, even with limited track records, to move beyond the usual players such as MDBs and development finance institutions and force the latter in return to “rethink their business models”. The Board members from Zambia and Benin stressed the need for the Fund’s readiness program to address possible accreditation gaps in order to avoid that LDCs end up with the fewest accredited national and sub-national entities. Their Swiss colleague likewise suggested that the accreditation process itself should be catalytic, while the French and German Board member wanted to ensure that the assessment of the track record of applicant entities would focus specifically on their experience with climate-related activities.

Several Board members from Sweden, the Philippines, France, the Netherlands and Germany felt that the capabilities of entities seeking accreditation to the Fund to address gender in GCF project/program implementation needed to be addressed more thoroughly, including their ability to conduct gender-sensitive consultations with stakeholders as well as provide a mandatory initial socioeconomic and gender assessment as the Fund’s draft gender policy proposes. Board members also worried about whether the proposed fit-for-purpose accreditation approach was strong enough to prevent harmful outcomes in implementation, with the Board member from the Philippines suggesting that third party verification of outcomes should be considered. The Board members from the Netherlands, France, the United States and Norway proposed that monitoring should include the possibility of downgrading or withdrawing an entity’s accreditation in cases of mal-practice in implementation and sought more clarity on the practicalities of who will be in charge of holding the intermediaries and IEs accountable. The proposed financial scale categorization solicited several comments by the Board, with the US member demanding that the scale should refer to the entire project, even if the GCF contribution was only a partial (co-)financing, as in cases of botched implementation the GCF would suffer the whole reputational risk and Norway wondering how a US$ 50 million project could be considered only as medium scale, while the Egyptian Board member reminded Board members that GCF financing involved both full-cost and incremental cost financing.

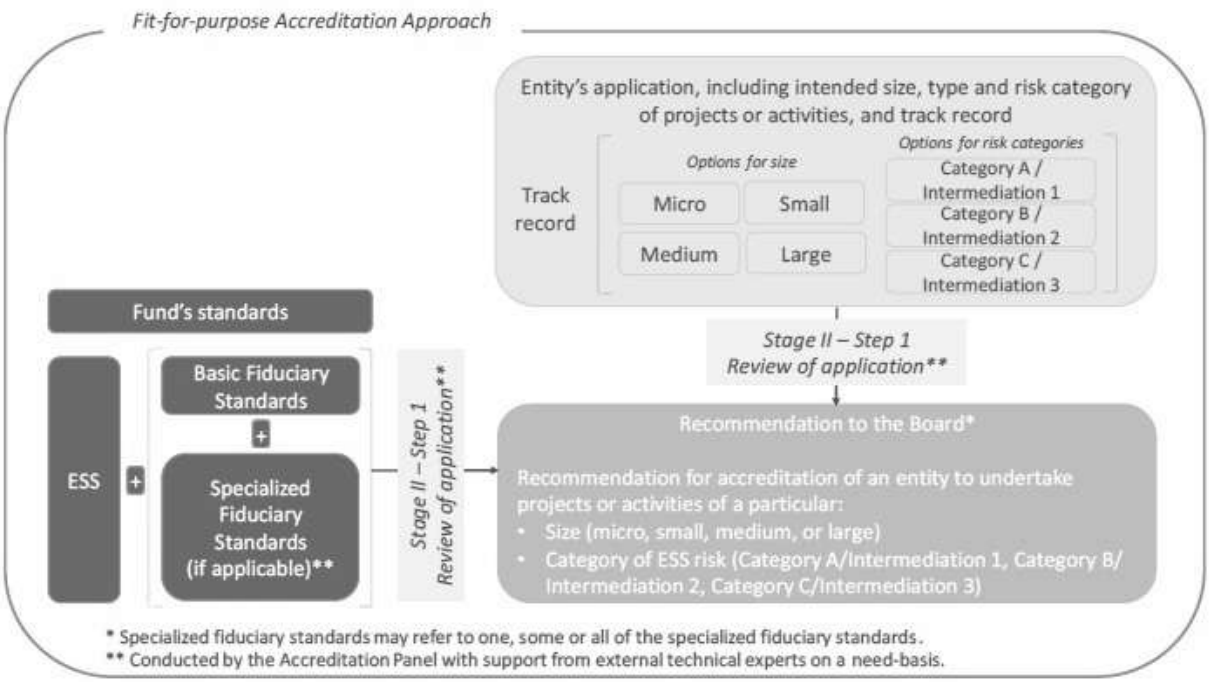
Clarifying on behalf of the Secretariat, the Country Programming Director explained that the current scale referred to GCF financing only, not the overall figure for a project, since in co-financed situations entities working with the Fund would have been through an accreditation process of other financing institutions, which the Fund should consider as appropriate due diligence. For civil society l, the Northern active observer saw many problems with the illustrative examples for risk categories, warning that in Category C very little of substance remained which could have serious implications for sub-national accredited entities. He also suggested the review of the environmental and social management system (ESMS) of the applicant entity through a third party as well as looking at actual outcomes on the ground. The exclusion of applicants with a bad track record from accreditation, for example for corruption or human rights violation, in line with current practice by many DFIs, including in the IFC, was another key point he stressed, arguing that the public should be given the opportunity to provide comments as part of a thorough review of the track record of an applicant entity.

The draft guidelines were sent back to the Accreditation Committee for further work during the Board meeting and re-introduced on the fourth day of the Barbados meeting having undergone quite significant changes and language additions. The new decision text introduced a chapeau clarifying that all entities are encouraged to seek accreditation with the Fund; it also strengthened language on the monitoring and accountability framework by suggesting that it should include policies on suspension and cancellation of accreditation and allow for the downgrading of accreditation as part of the normal five year review cycle. It also changed the scale categorization of projects to include the total project costs, not just the GCF-finance part and added the compliance with the Fund’s gender policy as an additional requirement for all applicant entities as well as clarified that the track report to be examined would be focused on climate-related activities.

In commenting on the new text version, Board members from South Africa, India and Zambia felt that country-driveness and direct access as priority of the fit-for-purpose accreditation were still not sufficiently spelled out. The South African Board member reminded his colleagues that not the decision itself but the results it brings are crucial and pointed to the experience with the direct access pilot of the GEF where among ten newly admitted implementing entities only one was from a developing country, while several international NGOs were granted accreditation. The American Board member wanted the sector of the activity added as a category to be taken into account for the fit-for-purpose accreditation approach. The adoption of the decision was put in jeopardy by the insertion of several new paragraphs in the revised draft guidelines, which specifically spelled out that bilateral development institutions based in developed countries could be accredited, including through fast-track, and which introduced a link between the contribution of a developed country to the Fund and the maximum of GCF funding that could be channeled through the bilateral development institutions of that country. While the Board member from the UK saw these paragraphs only as an “accounting exercise” and demanded that they stay, the developing country Board members from Cuba and the Philippines felt that these text passages could prioritize the accreditation of developed country entities at the expense of developing country ownership and the accreditation of national and sub-national implementing entities, a specter also raised by the civil society active observer in his comments. After further consultations on the sidelines of the meeting, the Swedish Chair of the Accreditation Committee had to report that there was no consensus on these paragraphs and that they should be therefore deleted from the revised draft guidelines, which were otherwise approved with only a minor adaptation proposed by the US Board member.

Barbados decision B.08/02 stressed the importance of building the capacities of developing country entities as part of the accreditation process and approved the revised guidelines for the fit-for-purpose approach. The adopted guidelines re-categorized the scale of intended activities to refer to the total projected costs at the time of application setting the **micro category up to US$ 10 million, the small category between US$ 10 million to US$ 50 million, the medium category between US$ 50 million and US$ 250 million, and the large category over US$ 250 million** for an individual project or an activity within a program. They also introduced some flexibility regarding needed application documentation tailored to different types of entities as well as set a time-line of six months for the completion of the accreditation process after submission of the required documentation. In taking up the recommendation of the US Board member, the guidelines now clarify that the Accreditation Panel could introduce conditions on the sectors of the projects or activities that an entity can undertake.

Figure 3: Fit-for-Purpose Accreditation Approach



Source: GCF/B.08/45, "Decisions of the Board –Eighth Meeting of the Board, 14-17 October 2014", Annex I, Figure 1, p.25.

Decision B.08/02 asked the Secretariat to open a call for submission of applications for accreditation to the GCF within four weeks after the Barbados Board meeting by mid-November 2014. The GCF Secretariat has in the meantime set up an online accreditation portal on its website.[23] The decision also requested the Secretariat to develop policies on suspension and cancellation of accreditation to complete the operational accreditation guidelines approved in Songdo in decision B.07/02 and the Fund's other accountability mechanisms for Board consideration at its next meeting in March 2015. For the next meeting, the Secretariat must also prepare additional guidelines on "non-multilateral international entities" (which includes internationally operating NGOs) and the role they could play in a country-driven approach – a direct response to the concern of some developing country Board members that (if the experience of the GEF is any indication) GCF accreditation could be easier for large international NGOs than for national and sub-national entities.

Assessment, including Gap Analysis, of Institutions Accredited by other Relevant Funds

With Songdo decision B.07/02, the Secretariat guided by the Accreditation Committee was tasked to provide an assessment and gap analysis of institutions accredited by other relevant funds by comparing those other funds' accreditation requirements and procedures against the GCF fiduciary standards (both basic and specialized) and institutional capacities to manage environmental and social risks and impacts in comparison with the Fund's own ESS. In Paris, decision B.05/08 on access modalities and accreditation had acknowledged the fiduciary standards and ESS of several entities as relevant for the Fund's deliberations on developing its own accreditation procedures. They then included the Global Environment Facility (GEF), the Adaptation Fund (AF) and the Directorate-General Development and Cooperation – EuropeAid for the European Commission (EU DEVCO) in addition to the World Bank/IFC. The gap analysis for Board consideration at the Barbados meeting focused on the GEF, the AF and EU DEVCO solely. The Secretariat's assessment and analysis for all three institutions in a paper presented to the Board[24] came to the conclusion that these organizations' own accreditation processes and requirements were largely compatible with and comparable to those of the GCF, finding no fundamental misfit. However, the gap analysis also revealed for each of the three institutions certain limited shortcomings in ESS and fiduciary standards, which differed between the three institutions. A fast-tracked accreditation for entities accredited to those three institutions with the interest to also be accredited with the GCF would thus focus in the review stage of the application only on the identified gaps and whether and how they have been addressed during the review stage of the application process.

In reaction to the presentation of the gap analysis and the potential of those entities accredited by the GEF, the AF and EU DEVCO for fast-track accreditation by the Secretariat, developing country Board members from South Africa, Egypt, Cuba, India, Benin and Zambia stressed that the first priority has to be accrediting developing country institutions, not creating "credit lines for MDBs," by creating a strong link between fast-tracking and direct access. Reminding his colleagues to push boundaries by demonstrating that the GCF is different, the South African Board member felt that the GCF needed to take risks in accreditation and act quickly, citing the GEF model of lengthy accreditation procedures as "bypassed by time". The Board member from Samoa underlined the need for readiness support for NIEs and regional implementing entities (RIEs), the latter with special relevance for SIDS. Several other developing country Board members also urged the Board to have a discussion about whether MDBs, bilateral agencies and international NGOs being fast-tracked for GCF accreditation were really in line with country-ownership. The Board member from Zambia lamented that among entities accredited to the three institutions only three were from the 48 LDCs. He demanding that the GCF accreditation processes put a bigger focus on the responsibility of international and bilateral agencies to help empower the accreditation of NIEs in the countries they are working in and that such a reference should be included in the Board's decision. The Board member from India agreed, suggesting that for every international or bilateral accredited entity five sub-national and national ones should be supported for accreditation.

In contrast, the French Board member felt that a competition of providers was helpful, that countries' NDAs/focal points through the no-objection had the last word on project/program choices and that the paper did not imply a restriction on the entities eligible to apply for accreditation. The developed country Board members from Germany, Italy, Japan and the UK urged a pragmatic approach by drawing on entities already working well, including international, regional and national ones that have a track-record of climate-change related work and are able to reach the most countries fastest. The Swedish Chair of the Accreditation Committee reminded his Board colleagues that even under fast-track there is no automatic shoo-in for any applicant entity, with all of them looked at individually. While the Swiss Board member urged to include a time-line for fast-tracking in the decision, the US Board member reiterated that even under fast-tracking it needed to be ensured that all entities receiving GCF funding applied all relevant GCF standards to their projects. He challenged some of the concrete recommendations from the Secretariat's gap analysis, suggesting that for AF and DEVCO institutions accreditation with a risk category "commensurate with experience" was a condition, citing some specific concerns with bilateral development finance institutions. Developed country Board members from the UK, Australia and France felt that the gap analysis did not sufficiently account for compliance with the GCF gender approach, as for example currently the AF and the GEF sport very different approaches on addressing gender. The Australian Board member therefore suggested linking the gender policy decision to a decision on fast-tracking accreditation. Lastly, for the active observers, the Southern civil society representative reiterated a call for the prioritization of support for national entities to accredit them "sooner rather than later" and noted with concern that the GEF ESS was out of compliance with GCF standards, with for example a labor safeguard in the GEF missing. For the private sector, the Southern active observer urged that the same fast-tracking approach should apply to entities from the public and the private sector and suggested that those private sector actors already working with the IFC should be considered for fast-track accreditation for the GCF (although there is no official accreditation process at the IFC, and due diligence checks are only provided at the individual project, not at the institutional level).

The draft decision was sent back to the Accreditation Committee to incorporate Board guidance into an updated decision. Coming back on the last day of the Board meeting with a substantially augmented version, only one additional modification was requested by the US Board member, who wanted the new decision to reflect that the gaps identified regarding the ESS for both EU DEVCO and AF accredited entities were not just related to the GCF performance standard 1, but the whole set of all eight performance standards. With this last adjustment, the Board adopted the decision.

Table 3: Fast-Track Accreditation Process for GEF-, AF- and EU DEVCO-accredited Entities

		GEF-accredited entities	**Adaptation Fund-accredited entities**	**EU DEVCO-accredited entities**
Eligible if:	Accreditation date	Up to October 17, 2014	Up to October 17, 2014	Up to October 17, 2014
	In full compliance with	GEF's Minimum Fiduciary Standards and Minimum Standard on ESS	AF's fiduciary standards	EU DEVCO fiduciary standards under the 6-pillar assessment
Gaps to be addressed by entity:	Fiduciary gap(s)	Anti-money laundering and anti-terrorist financing (basic fiduciary standard for the purpose of transparency and accountability)	1. Have a publicly available terms of reference that outline the purpose, authority and accountability for the investigation function (basic fiduciary standard for the purpose of transparency and accountability and scope of investigation) 2. Ensure functional independent by having the investigations function headed by an officer who reports to a level of the organization that allows the investigation function to fulfill its responsibilities objectively (basic fiduciary standard for the purpose of transparency and accountability and scope of investigation) 3. Public guidelines for processing cases, including standardized procedures for handling complaints received by the function and managing cases before, during and after the investigation process (basic fiduciary standard for the purpose of transparency and accountability and scope of investigation)	Anti-money laundering and anti-terrorist financing (basic fiduciary standard for the purpose of transparency and accountability)
	ESS gap(s)	Have the capacity to assess and manage relevant elements Performance Standards 1-4 and 6 environmental risks and impacts in line with the Fund's ESS through an ESMS	Have the capacity to assess and manage relevant Performance Standards 1-8 environmental risks and impacts in line with the Fund's ESS through an ESMS	Have the capacity to assess and manage relevant Performance Standards 1-8 environmental risks and impacts in line with the Fund's ESS through an ESMS
Fast-track accredit. against:	Basic fiduciary criteria and ESS	Yes	Yes	Yes
Fast-track accredit. against specialized fiduciary criteria	for project management	Yes	Yes	No
	for grant award and/or funding allocation mechanism	No	No	Yes
	for on-lending and/or blending	No	No	No

Source: GCF/B.08/45, "Decisions of the Board – Eighth Meeting of the Board, 14-17 October 2014",pp. 5-7.

Barbados decision B.08/03 takes note of the gap analysis provided by the Secretariat. It clarifies the purpose of the fast-track accreditation by reiterating that it is to expedite the accreditation of all entities (sub-national, national, regional and international) already accredited by other relevant funds and with fiduciary standards and ESS "comparable" to the GCF's. It also outlines the tasks that the Accreditation

Panel, supported by the Secretariat has to undertake as part of the fast-track accreditation process, namely to identify "the extent to which [standards and safeguards of other relevant funds or institutions] are comparable to those of the Fund and where gaps may exist"; rely in cases where those standards and safeguards are deemed comparable on the assessment of the other fund or institution; assess possible gaps consistent with a fit-for-purpose approach and recommend to the Board either approval for accreditation or possible conditions to be applied. The decision then list the specific gaps in fiduciary standards and ESS identified for the GEF, the AF and EU DEVCO respectively (replicated in table 3 above). The decision underscores that any entity accredited to either institution and applying for accreditation to the GCF needs to address the remaining gaps. It will then be assigned a risk category for funding proposals for project and activities "commensurate with its track record" by the Accreditation Panel. The implementing entities accredited by the GEF, AF and EU DEVCO are encouraged to apply for fast-track accreditation once the application process is open. Constituting a major victory for developing country concerns, the decision stipulates that the ability and willingness of an applicant international entity to strengthen capacities of or support potential sub-national, national and regional implementing entities and intermediaries to meet their own accreditation requirements as a way of enhancing country ownership should be an important consideration for the international entity's fast-track accreditation. Lastly, decision B.08/03 requests the Secretariat in consultation with the Accreditation Panel to identify other entities already using fiduciary standards and ESS comparable with those of the Fund and propose them to the Fund for eligibility under the fast-track accreditation process. The last stipulation could be applied to private sector entities or NGOs.

Relevant International Private Sector Best-Practice Fiduciary Principles and Standards and Environmental and Social Safeguards

With Songdo decision B.07/02, which adopted the initial guiding framework for the Fund's accreditation process, the Board requested the Secretariat working with the Accreditation Panel and involving the Private Sector Advisory Group (PSAG) and relevant stakeholders to identify potential relevant private sector best-practice fiduciary standards and ESS and assess them for potential gaps against the Fund's own standards and safeguards. This gap analysis is in preparation for recommendations for a list of institutions either from the private sector or working with private sector entities to be considered for fast-track accreditation. In Barbados, the Secretariat submitted such an assessment and analysis for Board consideration.[25] For fiduciary standards and principles it found that public development finance institutions (DFIs) with sufficient experience in entering into financial or risk-sharing agreements with financial intermediaries (FIs) generally have the best practices. The list considered included MDBs, but also national and sub-national development banks belonging to the 20-member International Development Finance Club (IDFC). It also assessed the due diligence interaction of the IFC with financial intermediaries to be "comparable to elements of the Fund's fiduciary standards." For ESS, the Secretariat's paper identified two sets of principles/standards as being widely acknowledged as private sector best practice, namely the IFC (whose environmental and social performance standards the Fund has adopted as its interim ESS), and the voluntary standards of the Equator Principles[26], to which 80 financial institutions (2/3 of which come from developed countries) subscribe. However, those institutions' capacity to implement the Equator Principles and their actual implementation are not independently audited or verified and likely differ widely between the 80 Equator Principles financial institutions (EPFI). [27]

The Secretariat analysis suggested that there were no gaps in comparing the EPFI with the Fund's interim ESS. A draft decision recommended to look at MDBs, IDFC member entities, financial intermediaries that have entered into a financial agreement with the MDBs and all Equator Principles financial institutions as potential candidates for accreditation or fast-tracking, citing the PSAG recommendation that the application of GCF fiduciary standards and ESS "should be commercially reasonable and commercially constructive."

Reacting to the draft analysis and decision proposed by the Secretariat, in Barbados, the Board member from South Africa in his capacity as chair of the PSAG clarified that it was not the PSAG which made the recommendation to include all MDBs, but individual PSAG members only. He worried that this paper and the recommended approach suggested "that we are accrediting for the purpose of accrediting" without a result-oriented discourse on whether these proposed institutions are really the right and the best ones to fulfill the objectives of the Fund. The Board members from India, Egypt and the Philippines argued that it was not enough to look at seemingly best-practice standards, but the practice of implementation on the ground and suggested that the MDBs and the IFC have failed in many instances to determine if the financial intermediaries they were working with were successful in preventing harm. The colleague from the Philippines also pointed out that the Equator Principles could not be comparable to the Fund's own interim standards and ESS, since the private sector did not have accountability to the Fund. The colleagues from India and Samoa stressed that there should be only one accreditation process applicable to both public and private sector entities. The perspective of several developed country Board members including from the US, UK, Norway and France was that in order to mobilize more private finance the inclusion of many more actors from the private sector was necessary to broaden the range of channels through with local banks and smaller financial institutions could be reached. The American Board member stressed that this did not constitute a double standard or watering down of standards since Equator Principles entities because of the voluntary nature of these standards would have to be fully vetted during an accreditation application. Both the Board members from Norway and France suggested also including the 15 bilateral members of the association of European Development Finance Institutions (EDFI) in a further assessment of accreditation and fast-track possibilities, since those 15 EDFI members already followed the IFC Performance Standards. For the private sector, the Southern active observer claimed that private sector financial entities would not have to fear the same rigorous accreditation process as public sector entities, "since many private sector financial entities are more regulated than DFIs in many countries" and proposed to allow all private sector entities already working with the IFC to apply for fast-track accreditation. This was rejected by the Southern active civil society observer who reminded Board members that IFC standards did not represent best practice overall (with other entities having stronger individual standards in many areas of civil society concern) and that many of the financial intermediaries the IFC is working with, including the Equator Principles Financial Institutions continued to fund fossil fuel projects, an approach that Southern-led civil society groups and networks in a letter to the Board had rejected in demanding the development of an exclusion list for certain types or categorizations of projects for the GCF, such as for example those funding continued use of fossil fuels, as part of a "do no harm" approach to the Fund's activities.[28]. She also objected to the PSAG recommendation of applying a measure of "commercially reasonable and feasible" as a recipe for special treatment and weakening standards and safeguards for the private sector and felt that the proposed list of applicable financial institutions was to open-ended.

The Co-Chairs noted consensus among Board members that there should be only one single accreditation procedure for both public and private sector entities and asked the Accreditation Committee to revise the draft decision taking into account Board member guidance. A revised version presented for adoption on the fourth meeting day was significantly shortened from earlier elaborations. It took out explicit references to the Equator Principles financial institutions, the MDBs or the IDFC, while initially still retaining an annex listing those banks. The Board members from Cuba and Egypt requested that this annex be stricken, while Board members from the UK, Sweden and the Netherlands felt that with the cuts in the new decision text the essential element on how to assess the potential for fast-tracking private sector actors was lost beyond a more general invitation for them to apply for GCF accreditation. While the Board members from India and China felt that a decision should wait until the issue could be given more thought and deliberation, Board members ultimately agreed on the pared down decision text. Decisoin B.08/05 underscores that the Fund's fiduciary standards and ESS will apply equally to public and private sector applicant entities. It invites "institutions with a track record of engaging with the private sector" particularly in areas of relevance for the implementation of the Fund's objectives to apply for GCF accreditation and requests the Secretariat to provide recommendations on their potential accreditation or fast-tracking for the March 2015 Board meeting.

Policy on Fees for Accreditation

Following up on the mandate by the Board from decision B.07/02, to develop a policy on accreditation fees that takes into account the financial capacities of entities seeking accreditation, the Secretariat submitted a draft policy for Board approval in Barbados.[29] It suggested tying the fee-schedule to the scale categorization that an applicant entity for accreditation would submit for, namely accreditation to implement GCF projects and individual activities within a program in the micro, small, medium and large project category. It also differentiated between application for basic fiduciary standards and compliance with ESS and additional specialized fiduciary standards, suggesting to add a fee for each specialized fiduciary standard (project management, grant-allocation or on-lending/blending) the applicant entity wants to be approved for. For entities from LDCs and SIDS applying for accreditation for micro- and small-sized categories, accreditation fees are to be waived, as well as for all entities that are endorsed for receiving readiness support for accredidation by the Fund. The accreditation fees, which are to be paid up-front in US dollars or other convertible currencies, could run up to US$ 46,000 for an intermediary seeking accreditation for the largest project category for the full range of specialized fiduciary standards.

In reacting to the proposed fee policy, developing country Board members from the Philippines, Samoa, Egypt and Cuba felt that entities applying as national or sub-national implementing entities to the Fund should be exempt from the accreditation fees so as to not act as a disincentive and discourage their application. The Egyptian colleague specifically disputed the logic of an NIE already accredited to the Adaptation Fund (which does not collect any accreditation fees) having to pay a fee for accreditation to the GCF. Several Board members, including from the Netherlands, Cuba, Switzerland and Chile had some questions regarding the categorization into fee classes and the proposed fee levels, with the Dutch Board member missing a clear link between cost and category and rejecting the proposal to pay the entire fee upfront as a potential hindrance for some entities. In contrast, the Board members from the UK and Italy felt that the up-front fee was sensible because it encouraged high quality bids and that any NIE interested in implementing medium or large-scale projects should have the capacity to pay the required fee. On behalf of the Secretariat, the Executive Director clarified that the proposed fee were far removed from efforts at cost-recovery, since the actual costs to conduct a rigourous accreditation review, including for legal contract work needed, would be far higher. She saw the fees as largely symbolic and acting to screen those institutions serious enough to put "some skin in the game".

The Board then approved with decision B.08/04 a slightly revised policy for accreditation fees, subject to a review after three years, that exempted all national and sub-national entities applying from developing countries from paying for application for activities under basic fiduciary standards in the micro category and given them a reduced fee for the basic fiduciary standards accreditation in the small category, while applicants from SIDS and LDCs are exempt from both. The policy notes that additional fees might apply, for example if an application for accreditation has to be reviewed more than twice. While additional fees have to be paid for upgrading the activity size (for example from micro to medium), there will be no refund should an already accredited entity decide it wants to downgrade its activity size level.

Table 4: Overview of GCF Accreditation Fees[30]

Financial capacity category	Total projected costs at the time of application, irrespective of the portion that is funded by the Fund, for an individual project or activity	Fee Level for accreditation application for undertaking activities related to Basic Fiduciary Standards and ESS	Fee Level for accreditation application for undertaking activities related to each Specialized Fiduciary Standard*	Other Fees
Micro	Less than or equal to US$ 10 million	Subnational and national entities in developing countries including SIDS and LDCs: no fee All other entities: US$ 1,000	US$ 500 each	Other fees may apply if the application is reviewed by the Secretariat or Accreditation Panel more than twice. The amount of the fee is to be determined on a case-by-case approach by the Secretariat.
Small	Above US$ 10 million and up to and including US$ 50 million	SIDS and LDCs: no fee Subnational and national entities in developing countries other than SIDS and LDCs: US$ 3,000 All other entities: US$ 5,000	US$ 1,000 each	
Medium	Above US$ 50 million and up to and including US$ 250 million	US$ 10,000	US$ 3,000 each	
Large	Above US$ 250 million	US$ 25,000	US$ 7,000 each	

* Specialized Fiduciary Standards refer to: 1) project management; 2) grant award and/or allocation mechanisms; and 3) on-lending and/or blending.

Source: GCF/B.08/45, "Decisions of the Board – Eighth Meeting of the Board, 14-17 October 2014", Annex VI, Table 1, p.64.

Application Documents for Submissions of Applications for Accreditation

Songdo decision B.07/02 on the initial accreditation framework requested the Secretariat to prepare the relevant documents and information requirements applicant entities would have to submit for accreditation to the GCF. A document for Board consideration in Barbados[31] elaborated that entities could only submit one application at a time and had to submit the application in English with all required supporting documentation either included in English or accompanied by an English translation. Besides background and contact information of the applicant entity, the documentation needs to include information on the scope of the intended activities and the estimated financial scale requested for an individual project or activity, on basic fiduciary criteria and applicable specialized fiduciary criteria, as well as on environmental and social safeguards and on gender. These respective sections of the applications require the applicants to demonstrate a competency and specific capabilities. For example, for compliance with the Fund ESS, all applicant entities need to develop an environmental and social management system (ESMS) to implement Performance Standards 1-8 that includes a policy, a management program for mitigating risks and impacts, organizational capacities for implementation and a monitoring and review program. All applicant entities seeking GCF accreditation also need to demonstrate “competencies, policies and procedures to implement the Fund’s Gender Policy” and experience and a track record of working on gender and climate change.

Reacting to the sections and content to be covered by application documents for accreditation, the Board members from France and Italy criticized the requirement that all documents had to be submitted in English or accompanied by an English translation, stressing this was a huge issue for applicants in many countries and urging to look for options that allows document submission in other than the English language. While the Board member from Egypt was concerned about how the Secretariat would reach out to and invite entities for potential accreditation, the American Board representative wanted applicant entities to describe more clearly what their demonstrated added-value to the work of the GCF would be. The Board member from Swedish objected to a provision in the application section on gender that would have made it sufficient for applicants to only demonstrate “willingness to acquire or develop the needed competencies, policies and procedures for gender-sensitive project preparation, design, implementation, and reporting” and asked that this sub-item was stricken, while the Indian Board member warned that in order to change behavior incentives had to be given and that organizations lacking the required policies or documentation could still do brilliant work on the ground.

For the Secretariat, the country programming director clarified that working with the best capable entities was key to the success of the Fund. He pointed out that outreach to applicants would be via the GCF website offering an online accreditation portal as well as through NDAs and focal points who are asked to identify prospective national and sub-national implementing entities and encourage them to apply for accreditation.

The draft decision was amended and then approved. Decision B.08/06 adopts the content of the application for GCF accreditation virtually unchanged from the proposed document with the exception of removing the section on gender that the Swedish Board member had objected to. It includes a time-line for the accreditation process by stipulating that the Secretariat finalized the relevant accreditation application documents and opened a call for applications by mid-November 2014. The Secretariat was requested to “use best efforts to have applications ready for consideration and possible decision on accreditation by the Board at its ninth meeting.” The Secretariat is also tasked to work on ways to allow for application documents to be submitted in other UN languages than English, the sole language accepted initially, “with due consideration of its implications in terms of cost and complexity.” Table 5 below provides an overview over the competencies and specific capabilities applicant entities need to demonstrate in their application documents with respect to fiduciary principles, ESS and gender.

Table 5: Demonstrated Competencies & Specific Capabilities Needed for GCF Accreditation

Section	Competency	Areas in which capabilities are required
Basic fiduciary criteria	Key administrative and financial capacities	• General management and administration • Financial management and accounting • Internal and external auditing • Control frameworks • Procurement
	Transparency and accountability	• Disclosure of conflicts of interest • Code of ethics • Prevention of or handling of financial mismanagement and other forms of malpractice • Investigations • Anti-money laundering and anti-terrorist financing
Specialized fiduciary criteria	Project Management	• Project preparation and appraisal (from concept stage to the full funding proposal) • Project oversight and control • Monitoring and evaluation • Project-at-risk systems and associated project risk management
	Grant award and/or funding allocation mechanism	• Grant award procedures • Transparent allocation of financial resources • Public access to information on beneficiaries and results • Good standing with regard to multilateral funding (e.g. through recogn ized public expenditure reviews)
	On-lending and/or blending	• Appropriate registration and/or licensing by a financial oversight body or regulator in the country and/or internationally, as applicable; • Track record, institutional experience and existing arrangements and capacities for on-lending and blending with resources from other international and multilateral sources; • Creditworthiness • Due diligence policies, processes and procedures • Financial resource management, including analysis of the lending portfolio of the intermediary • Public access to information on beneficiaries and results • Investment management, policies and systems, including in relation to portfolio management • Capacity to channel funds transparently and effectively, and to transfer the Fund's funding advantages to final beneficiaries • Governance and organizational arrangements, including relationships between the treasury function and the operational side (front desk)
Initial environmental and social safeguards	Assessment and management of environmental and social risks and impacts	Develop an environmental and social management system (ESMS) to consistently implement Performance Standards 1-8; the ESMS includes the following elements: • Policy; • Process to identify risk and impacts consistent with Performance Standards 1-8; • Management program that manages mitigation measures and actions stemming from the risks and impacts. It should include an identification process consistent with Performance Standards 1-8; • Monitoring and review program to ensure completion of mitigation actions; this should facilitate learning and include reporting on the effectiveness of the ESMS; • External communication channel that facilitates receipt of and response to external inquiries.
Gender policy	Gender	Demonstrate: (a) Competencies, policies and procedures to implement the GCF Gender Policy; and (b) Experience in gender and climate change, including a track record on lending to both women and men

Source: GCF/B.08/45, "Decisions of the Board – Eighth Meeting of the Board, 14-17 October 2014", Annex VII, tables 1-4, pp.68-70.

Accreditation Panel

At the 6th GCF Board meeting in Bali, the Board confirmed four senior international experts on accreditation[32] to help the standing Board Committee on Accreditation (with Board members from France, Sweden, Barbados and Zambia and chaired by the Board member from Sweden) develop the guiding framework for the initial accreditation process of the Fund. With Board decision B.07/02 from June 2014 on such an initial framework, the Board also established a new six-member independent technical advisory Accreditation Panel, reporting to and accountable to the Board. Its members were to be nominated by the Accreditation Committee to be endorsed by the Board. The Accreditation Panel is to review the applications for accreditation by implementing entities and intermediaries and recommend their approval (including with conditions) or rejection by the Board.

The Accreditation Committee nominated the four members of the former expert group, **Mr. Peter Richard Carter from the United Kingdom** (with a background as head of sustainable development at the European Investment Bank, EIB), **Mr. Gonzalo Castro de la Mata**, Peru (with a background as chair of Ecosystem Services in offset and REDD credit trading, and also recently appointed to the World Bank's Inspection Panel), **Mr. Wolfgang Diernhofer**, Austria (with a background working as with an Austrian Consulting firm and managing his country's Joint Implementation/Clean Development Mechanism program), and **Ms. Isna Marifa**, Indonesia (with a background as a consultant for USAID, the Indonesian government, and Mobil Oil Indonesia). In between meetings, Mr. Castro de la Mata resigned from the Panel, citing a conflict of interest. The Accreditation Committee also nominated two additional panel members, namely **Ms. Penelope Herbst** (South Africa/UK) and **Ms. Anastasia Northland** (from Russia/USA with a background as lecturer at the University of Miami and a former program officer at the UNFCCC).

In Barbados, the Board was asked to endorse the remaining five members of the Accreditation Panel for one term, after an attempt to secure a decision between the 7th and the 8th Board meeting on a no-objection basis had failed, with several Board members registering unhappiness with the proposed panel composition. In the Board discussion in Barbados, developing country Board members from India, Zambia, China, and Cuba felt that the geographic distribution and balance in the panel was askew with the majority of panel members coming from developed countries, including two from the UK, which the Board member from Cuba felt showed the need to set guidelines for the determination of those experts. The Board members from Spain, China and France also asked for a representation of language diversity on such a panel. The Swedish Chair of the Accreditation Committee responded by indicating the difficulty of filling a panel with experts fulfilling a long list of criteria. For the Secretariat, the country programming director and the Executive Director recounted their efforts to seek accreditation experts over the past months with a view to support both geographical and gender balance; of the 37 applications received as a result of an open competitive process, three candidates from developing countries had been shortlisted. The Board members from Zambia and China then suggested addressing the issue of geographical imbalance by prioritizing a nomination from a developing country as the panel's sixth expert. The American Board member requested that a sixth expert should have a strong background in assessing fiduciary standards to complement what he perceived to be already solid existing expertise in environmental and social safeguards of several panel members.

Barbados decision B.08/20 endorsed the nomination of the five experts to the Accreditation Panel for one term and asked the Accreditation Committee to nominate a sixth expert taking into account the need for fiduciary expertise and more balanced geographical representation for endorsement by the Board in between meetings. It also emphasized the importance of balance between developing and developed countries, gender and language diversity for future appointments and asked to strengthen the balance in subsequent terms of the Accreditation Panel by ensuring that no two members will be from the same country and there is a 50:50 participation of experts from developed and developing countries.[33]

Legal and Formal Arrangements with Intermediaries and Implementing Entities, including Policies on Fees and Payments

The Fund is a legal entity with the capacity to enter into legal agreements, including with implementing entities and intermediaries. The Executive Director is authorized through confirmation by the Board to enter into such legal agreements on behalf of the Fund. During phase II of the accreditation process as part of the due diligence process, the capacity of the entity applying for accreditation to the Fund to enter into a legal agreement with the Fund must be established. As the accredited entity will act as an agent of the Fund in dealing with executing entities (EEs) legal due diligence with respect to the EE must be part of the project approval process for each specific project or program activity.

A document for Board consideration in Barbados[34] proposed that the Fund standardize legal documents with general conditions applicable to all GCF grants and loans and suggested the development of legal templates to reflect the type of projects for which an entity is accredited under the fit-for-purpose accreditation. The Secretariat suggested that the Fund enter into a **framework agreement** with each accredited entity, detailing the general terms and conditions of the services the accredited entity would render for the Fund. Such an agreement would include for example relevant provisions on procedures for stakeholders’ input; adherence to Fund guidelines (including fiduciary standards and ESS); fees and payments; ownership of equipment and industrial property rights; confidentiality/disclosure policy; periodic reviews or spot-checks by the Secretariat, the Independent Evaluation Unit and the Independent Integrity Unit; Independent Redress Mechanism or applicable legal provisions for contracts with private sector companies and state-owned enterprise, or for dispute resolution.

In addition, after the Board’s approval of a specific project or program activity, the Fund would then enter into a **project agreement** with the accredited entity, which sets out specific project provisions, including fee or payment schedules or measurable results. In cases of blending or incremental cost financing, if the proposed project involves other funding sources, additional project agreements with other than the accredited entity might be also necessary. Several other agreements – for example between accredited IEs/intermediaries and EEs or between IEs/intermediaries and contractors – will usually not have the Fund involved as party to the agreement. Nevertheless, even in legal agreements where the Fund is not a party, the accredited entity must ensure that all of the agreements comply with the initial framework agreement and the Fund retains the right to review all IE/intermediary agreements with EEs, contractors or other sources of funding.

In the Board discussion in Barbados on this issue, several Board members, including from the Netherlands, France, the Philippines and the United States wondered whether it was really necessary for the Fund to enter into both a framework agreement and individual project agreements with each accredited entity. Both the American and the Egyptian Board members indicated that they were not ready to wrap up a decision in Barbados and asked for further clarification on what the framework agreement should entail. The Board member from the UK felt that stronger reference to anti-corruption measures and addressing fiduciary non-compliance should be included in a framework agreement as well as ensured that relevant safeguards provisions are included in all sub-contracts and IE/intermediary might enter into. Several Board members, including from Germany, India, Egypt and the UK proposed to deal with the issue intersessionally after submission of detailed technical comments in writing by Board members. The suggestion was also made to get a second opinion on what would be required for the Fund beyond the legal opinion provided by the Secretariat’s legal counsel. For the Secretariat, both the legal counsel and the Executive Director re-iterated that the Fund would be only able to enter into specific project agreements after a framework agreement with the accredited entity established a legal relationship of that entity with the Fund. The agenda item was closed in Barbados without decision and Board members were asked to submit their guidance to the Secretariat in written form.

Initial Results Management Framework of the Fund

The Governing Instrument mandates the development of a framework for measuring results with guidelines and appropriate performance indicators as the main monitoring tool for the GCF to ensure “the continuous improvement of the Fund’s impact, effectiveness and operational performance” (para. 58). It also stipulates results measurement as an “important criterion for allocating [GCF] resources” (para. 51). Addressing the issues of how to manage and measure results of GCF funding; which areas (sectors, policies, preferred actions and approaches) of GCF-funded adaptation and mitigation measures might yield the best outcomes and have the greatest impacts; and what the most relevant indicators are to account for these are thus key determinants to ensure that the GCF in its funding approach goes “beyond business as usual.” The decision-making process on the Fund’s initial results management framework (RMF), which includes elaborated performance measurement frameworks (PMF) for adaptation and mitigation each, the initial results areas for both as well as key indicators for different levels of Fund activities, has proved to be a very difficult one, having occupied and challenged the Board since its 5th meeting in Paris in October 2013. This highlights the complexity of the decisions the Board was asked to make, particularly in finding agreement on how the Fund would evaluate the transformative and paradigm shifting impact of its funding as articulated as goal in the Governing Instrument. Paragraphs 2 and 3) also mandate that this funding has to be channeled in the context of sustainable development and while taking a gender-sensitive approach. In Paris, the Board decided a set of 14 initial result areas, some core performance indicators and key criteria as the base for a detailed operational results management framework.[35] The Board over the course of the past several Board meetings attempted to agree on an initial version of such a framework. It is to be reviewed and revised based on some learning experiences down the road.

At the 6th Board meeting in Bali in February 2014, a progress report[36] was discussed, but no decision taken. In Bali, Board members worried that the proposed framework was too complex and rigid and urged a concentration on a small set of core indicators only, similar to the approach that the World Bank's Climate Investment Funds (CIFs) have taken. The issues of whether GCF results measurement on mitigation reduction could be country-wide, or only GCF funding-specific; an appeal to reconsider the REDD+ approach in the proposed RMF in order to bring it in line with the decisions at COP 19 in Warsaw on a REDD+ framework; the work on additional impact areas and indicators for adaptation; and lastly the need for the proper integration of the gender-sensitive approach in the Fund's RMF, for example through disaggregation of indicators by gender at all levels, were other issues where Board members in Bali asked for revision and improvement.

As one of the essential requirements for initial resource mobilization, the RMF came up again at the 7th GCF Board meeting in Songdo with a revised Secretariat paper and draft decision[37] and the need to move forward on this issue. A pared down decision was reached in Songdo (decision B.07/04), reflecting lingering disagreements and concerns over the best approaches among Board members, after several days of small group discussions. It adopted a proposed logical model (depicting the causal relationship between inputs, activities and their results in form of outputs, outcome, impacts and paradigm shift level objective) and the expected time for achieving results on various levels (see table 6 below).

Table 6: Levels of the Logic Model

Level	Description	Time required
Input	Funds (grants/concessional loans), human effort	start of intervention
Activity	Direct services provided through Fund investments	short-term
Project/program output	Changes achieved as a result of outputs	short-term
Project/program outcome	Aggregate changes identified in country policy or planning documents	medium to long-term
Impact level (Fund-wide)	Aggregate changes achieved in the Fund's key strategic result areas	long term
Paradigm shift objective	Paradigmatic, lasting changes achieved, i.e. all facets of society are demanding and integrating low-emission and climate resilient approaches to sustainable development	long term (15 years +)

Source: Songdo Board Document GCF/B.07/04, "Initial Results Management Framework of the Fund", table1, p.3.

Songdo Decision B.07/04 on the initial results management framework for the Fund affirmed the Paris decisions as well as the initial results areas and initial performance indicators agreed then. It requested the Secretariat to develop a logic model and performance framework for ex-post REDD+ results-based payments in accordance with the methodological guidance in the Warsaw REDD+ framework to be discussed at the 8th Board meeting. Decision B.07/04 only set the basic outlines of a performance measurement approach for both public and private adaptation and mitigation interventions by the Fund with only four Fund-wide aggregate core indicators agreed upon then. It provided only "possible initial performance indicators" as the Board was unable to agree on those in Songdo. It requested the Secretariat to take these however into account in further developing the performance measurement frameworks for adaptation and mitigation for the Barbados meeting and to look at methodologies, data sources, frequency and responsibilities of reporting and an approach to address gender considerations. The decision acknowledged that inputs, activities and outputs of Fund-supported measures will be defined for each project and program on a case-by-case basis and affirmed that national and sector-wide indicators will be used only at the discretion of the recipient country in line with the earlier decision from Paris. The latter was a concern of several Board members in Songdo, including those from China, Brazil, Japan, Ecuador and Switzerland with the Chinese Board member strongly objected to any attempts to create a separate MRV system for emissions reductions on the national level through the GCF results measurement framework outside of the UNFCCC.

The decision adopted the following initial mitigation logic model with a) **tons of carbon dioxide equivalent (tCO2eq) reduced as a result of Fund-supported projects/programs**, b) **costs per tCO2eq decreased for all Fund-supported mitigation projects/programs**, and c) **volume of finance leverage by Fund support, disaggregated by public and private sources** as core indicators:

I. Paradigm shift objective for mitigation:
- *Shift to low-emission sustainable development pathways;*

II. Fund level impacts for mitigation:

1.0 Reduced emissions through increased low-emission energy access and power generation;

2.0 Reduced emissions through increased access to low-emission transport;

3.0 Reduced emissions from buildings, cities, industries and appliances

4.0 Reduced emissions from land use, deforestation, forest degradation, and through sustainable forest management and conservation and enhancement of forest carbon stocks;

III. Project/program level outcomes for mitigation:

5.0 Strengthening institutional and regulatory systems for low-emission planning and development;

6.0 Increased number of small, medium and large low-emission power suppliers;

7.0 Lower energy intensity of buildings, cities, industries, and appliances;

8.0 Increased use of low-carbon transport;

9.0 *Improved management of land or forest areas contributing to emissions reductions*.

For adaptation, the Board adopted the "**total number of direct and indirect beneficiaries; number of beneficiaries relative to total population**" as the sole core indicator selected at this time. In Songdo, efforts by the British Board member to introduce a new core indicator for adaptation on "volume of finance leveraged by Fund funding and disaggregated by public and private sources," mirroring a similar core indicator for mitigation, were rebuffed. The following initial logic model for adaptation in the GCF was adopted:

I. Paradigm shift objective for adaptation:
- *Increased climate-resilient sustainable development*

II. Fund level impacts for adaptation:

1.0 Increased resilience and enhanced livelihoods for the most vulnerable people, communities, and regions;

2.0 Increased resilience of health and well-being, and food and water security;

3.0 Increased resilience of infrastructure and the built environment to climate change threats;

4.0 Improved resilience of ecosystems and ecosystem services;

III. Project/program level outcomes for adaptation:

5.0 Strengthened institutional and regulatory systems for climate-responsive planning and development;

6.0 Increased generation and use of climate information in decision-making;

7.0 Strengthened adaptive capacity and reduced exposure to climate risks;

8.0 Strengthened awareness of climate threats and risk-reduction processes.

For the Barbados Board meeting, the Secretariat prepared a document and draft decision on the further development of the initial RMF for Board consideration and decision.[38] It addressed the mandates from the Songdo decision to provide a) detailed suggestions for adaptation and mitigation performance indicators and the methodologies and to develop b) a logic model and performance framework for ex-post REDD+ resuls-based payments. But the paper and draft decision also dealt with a number of "leftover" issues to the Fund's results management approach from a number of earlier decisions, including c) the expected impacts and role of the Fund in the initial results areas (from Paris Decision B.04/04 on the objectives and results of the Fund); d) additional result areas and indicators for adaptation activities (requested by the Board both in Paris with decision B.05/03 and in Bali with decision B.06/05 on the initial RMF); e) a determination of Board flagship projects cutting across adaptation results areas (Paris document GCF/B.05/02); f) indicators capturing country-driven policies (Paris decision B.05/3); and g) a monitoring and evaluation policy (on the Board's work plan for 2014). They are addressed below in separate segments to the extent possible.

Mitigation and Adaptation Performance Measurement Frameworks

The performance measurement frameworks (PMFs) for the Fund's mitigation and adaptation activities aim to monitor results at the individual project, program and aggregate portfolio level. Following earlier Board guidance on keeping the PMFs to as few indicators as possible, the Secretariat paper for Barbados[39] proposed a set of Fund-level impact and project/program outcome indicators based on both quantitative and qualitative measurements in addition to the four core indicators for mitigation and adaptation approved in Songdo. For the latter, it suggested some detailed specific methodologies with technical definitions for baseline and results determination and suggested reporting format and reporting responsibility. Quantitative indicators – in accordance with the Fund's mandate for a gender-sensitive approach and the Songdo request to develop a gendered approach to GCF results management – should be disaggregated by gender "where feasible," including as part of the further development of indicator methodologies. Those can be complemented by qualitative indicators and a portfolio review on the percentage of adaptation and mitigation projects including specific gender elements. The Secretariat's proposed elaborated PMFs did not include indicators for individual project or program outputs and activities, as these will be defined for each activity on a case-by-case basis. It also relegated the consideration of environmental, social and economic co-benefits in measuring the performance of the Fund largely to the individual project or program level, thus not incorporating the broader sustainable development context and the multiple benefits of GCF funding. Both should be integrated in Fund aggregate performance measurement which has to go beyond a narrow focus on aggregate emissions reductions and their cost-effectiveness in the mitigation PMF for example.

In the mitigation PMF proposed for Board adoption in Songdo, success toward the paradigm-shifting objective of the Fund was measured based on a combination of qualitative and quantitative information looking at the "degree to which the Fund is achieving low emission sustainable development impacts. However, results in low-emission energy access and power generation; increased access to low-emission transport; reduced emissions from buildings, cities, industries or appliances or from land use and sustainable forest management on the impact level was measured solely by tons of carbon dioxide equivalent reduced or avoided as a results of Fund-funded activities, although the development of some sub-indicators, including on gender-sensitivity, was envisioned. This neglected the sustainable development context of these different approaches entirely. On the project/program level outcomes, proposed indicators took only a quantitative approach, suggesting for example the number of regulations or policies introduced to address low-emission planning and development or the number of low-emission energy suppliers or the hectares of land under improved forest management as suitable indicators for successful sector- or country-wide outcomes of Fund mitigation interventions.

The proposed adaptation performance measurement framework likewise proposed to rely on a combination of quantitative and qualitative information and assessments to determine the "degree to which the Fund is achieving a climate-resilient sustainable development impact" as proof of success in reaching a paradigm-shift in adaptation. Proposed new indicators, although suggested for disaggregation as appropriate by gender, sources, geographical coverage or hazards, likewise focused primarily on either numbers or the monetary value of assets (such as the value of infrastructure made more resilient or of ecosystem services generated or protected as well as the number of introduced health measures or early warning systems). They thus prioritized quantitative aspects of Fund adaptation measures instead of focusing on the utility and benefits of such activities for the most vulnerable and politically disenfranchised populations groups, including women and Indigenous Peoples.

In the Board discussion in Barbados, several Board members from Switzerland, France, the DRC, the UK, the Netherlands and Germany indicated that the new PMF versions reflected major progress over earlier versions while emphasizing that these frameworks will have to continue evolving over time with lessons learned and cannot be considered final at this stage. The Board members from Egypt, South Africa and Zambia underlined that in the absence of GCF activities implemented and a better understanding of appropriate funding scenarios for the GCF the suggested frameworks presented little more than a theoretical exercise, while the Board members from China, India, the Philippines and Cuba felt that the proposed frameworks were not sufficiently reflective of the realities in recipient countries as they for example lacked a focus on results in knowledge and technology transfers and in the creation of national capacity for monitoring and evaluation. Board members from both developed and developing countries urged further development of the PMFs to be consistent with the investment framework and accounting for both the sustainable development context of GCF funding and the need for qualitative assessments. The Board member from Germany, echoing previous calls by civil society observers, called for a measure to capture sustainable development co-benefits at the Fund-aggregate level, including for mitigation as well as the introduction of gender-sensitive Fund impact level sub-indicators. His colleagues from the Netherlands and the DRC urged a bigger focus on qualitative indicators looking at beneficiaries and distributional effects instead of relying primarily on quantitative ones. They cited the misguided suggested indicators on the number of policy or health measures as example of how not to measure aggregate outcomes and impacts. In contrast, the Board member from the United States felt that the CO_2 emissions reductions core indicators for mitigation outcomes were the right ones. He and the Board member from the UK proposed to elevate an indicator on the value of infrastructure to the level of a a Fund-wide aggregate core indicator for adaptation. In addition, the British Board member renewed her call for adding also a core indicator on leveraged adaptation financing. The latter was opposed by the Board member from DRC, reiterating that the Board in Songdo already rejected this request. Regarding the methodologies for PMF indicators, the Philippine Board member stressed the need for coherence with processes currently underway at the UNFCCC and its relevant expert bodies. Her Japanese colleague also underlined the need for further work on PMF methodologies, emphasizing that reliance on the judgment of individual experts for the development of the mitigation core indicator for financial leverage was insufficient. For civil society, the Northern active observer rejected the PMF in the form proposed by the Secretariat, stressing that in assessing fund level impacts in both mitigation and adaptation the sustainable development context must be strengthened, including by providing qualitative and utility-to-beneficiaries-centered indicators over quantitative measurement.

One of the mandates covered in the Secretariat’s paper had been to look at further adaptation results areas and indicators and at possible adaptation flagships projects cutting across adaptation result areas. The Board paper for Barbados suggested that the six levels of the logic model for adaptation cover already a broad range of results areas and thus already fulfill the earlier Board mandate. The Secretariat also laid out some illustrative examples for adaptation flagship projects covering several results areas (such as commercial benefits of installing water management and efficiency measures in housing), seeing the creation of public-private partnership and blending of finance as some possible approaches. The Board members from South Africa and China felt that the examples presented were not representative of cross-cutting adaptation issues. They also emphasized that adaptation flagship projects will have to be developed in a country-driven manner as a reflection of country needs, and rejected any “compulsory regulation of what they should look like.” The colleagues from Barbados and Cuba also stressed that in their opinion the Fund’s adaptation results areas were not complete and should include a look at tourism and fisheries, areas of particular relevance for SIDS.

The Board agreed with the proposal by several of its colleagues from China, the Netherlands, the US and Germany to move ahead with accepting the proposed PMF indicators for which the Board could find consensus while mandating the Secretariat to do further work on those that the Board could not yet agree on, including by working with Board members who voiced objections on the side-lines of the Barbados meeting. Their comments were incorporated into an updated version of the adaptation and mitigation PMFs presented to the Board for adoption on the last day of the meeting. This new version introduced an indicator on social, environmental and economic co-benefits at the impact level for the mitigation PMF, a major civil society ask, indicating that further work on this was needed. It also strengthened the focus on beneficiaries of health measures and early warning systems in the adaptation PMF, although the final indicators will have to be refined.

Barbados Board decision B.08/07 (a) – (g) adopted the revised versions of the mitigation and adaptation performance measurement frameworks with certain indicators as identified and noting indicators that need further work by the Secretariat for Board reconsideration at a later meeting. It stressed that the

PMFs can be refined over time in line with the Fund's role as a continuous learning institution. Methodologies for indicators are an area for further work by the Secretariat in consultation with relevant experts and thematic bodies, especially also at the UNFCCC. The decision notes that the Secretariat will further develop the PMF's gender-sensitive approach and that any national, economic, and sector-wide indicators will only be used at the discretion of the recipient country.

Table 7: Mitigation Performance Measurement Framework

Expected result	**Indicator** ***= core; ☑ = decided; ☐ = noted, but further refinement needed**
Paradigm-shift Objective	
Shift to low-emission sustainable development pathways	☐ Degree to which the Fund is achieving low-emission sustainable development impacts
Fund-level Impacts	
	☑ ***Tons of carbon dioxide equivalent (tCO_{2eq}) reduced as a result of Fund-funded projects/programs**
	☑ ***Cost per tCO_{2eq} decreased for all Fund-funded mitigation projects/programs**
	☑ ***Volume of finance leveraged by Fund funding**
1.0 Reduced emissions through increased low-emission energy access and power generation	☑ 1.1. *Tons of carbon dioxide equivalent (tCO_{2eq}) reduced as a result of Fund-funded projects/programs ☐ gender-sensitive energy access power generation (sub-indicator)
2.0 Reduced emissions through increased access to low-emission transport	☑ 2.1 *Tons of carbon dioxide equivalent (tCO_{2eq}) reduced as a result of Fund-funded projects/programs ☐ low emission gender-sensitive transport (sub-indicator)
3.0 Reduced emissions from buildings, cities, industries and appliances	☑ 3.1 *Tons of carbon dioxide equivalent (tCO_{2eq}) reduced as a result of Fund-funded projects/programs ☐ buildings, cities, industries and appliances sub-indicator
4.0 Reduced emissions from land use, deforestation, forest degradation and through sustainable management of forests and conservation and enhancement of forest carbon stocks	☑ 4.1 *Tons of carbon dioxide equivalent (tCO_{2eq}) reduced as a result of Fund-funded projects/programs ☐ forest and land-use sub-indicator
	☐ Social, environmental, economic co-benefit index/indicator on impact level
Project/Program Outcomes	
	☐ Number of technologies and innovative solutions transferred or licensed to support low-emission development as a result of Fund support.
5.0 Strengthened institutional and regulatory systems for low-emission planning and development	☐ 5.1 Institutional and regulatory systems that improve incentives for low-emission planning and development and their effective implementation
	☐ 5.2 Number and level of effective coordination mechanisms
6.0 Increased number of small, medium and large low-emission power supplier	☑ 6.1 Proportion of low-emission power supply in a jurisdiction or market
	☑ 6.2 Number of households and individuals (males and females) with improved access to low-emission energy sources
	☑ 6.3 MWs of low-emission energy capacity installed, generated and/or rehabilitated as a result of GCF support
7.0 Lower energy intensity of buildings, cities, industries and appliances	☐ 7.1 Energy intensity/improved efficiency of buildings, cities, industries and appliances as a result of Fund support.
8.0 Increased use of low-carbon transport	☐ 8.1 Number of additional female and male passengers using low-carbon transport as a result of Fund support.
	☐ 8.2 Vehicle fuel economy and energy source as a result of Fund support.
9.0 Improved management of land or forest areas contributing to emissions reductions	☐ 9.1. Hectares of land or forest under improved and effective management that contributes to CO_2 emissions reductions
Project/Program Outputs	[Defined for each project/program on a case-by-case basis.]
Activities	[Defined for each project/program on a case-by-case basis.]
Inputs	[Defined for each project/program on a case-by-case basis.]

Source: GCF/B.08/45, "Decisions of the Board – Eighth Meeting of the Board, 14-17 October 2014", Annex VIII A, pp.72-76.

Table 8: Adaptation Performance Measurement Framework

Expected result	**Indicator** ***= core; ☑ = decided; ☐ = noted, but further refinement needed**
Paradigm-shift Objective	
Increased climate-resilient sustainable development	☐ Degree to which the Fund is achieving a climate-resilient sustainable impact
Fund-level Impacts	
	☑ ***Total number of direct and indirect beneficiaries; number of beneficiaries relative to total population**
1.0 Increased resilience and enhanced livelihoods for the most vulnerable people, communities and regions	☐ 1.1. Change in expected losses of lives and economic assets (US$) due to the impact of extreme climate-related disasters in the geographic area of the GCF interventions
	☐ 1.2 Number of males and females benefitting from the adoption of diversified, climate resilient livelihood options (including fisheries, agriculture, tourism, etc.).
	☐ 1.3 Number of Fund-funded projects/programs that support effective adaptation to fish stock migration and depletion due to climate change
2.0 Increased resilience of health and well-being, and food and water security	☑ 2.1 Number of males and females benefiting from introduced health measures to respond to climate-sensitive diseases.
	☑ 2.2 Number of food-secure households (in areas/periods at risk for climate change impacts
	☑ 2.3 Number of males and females with year-round access to reliable and safe water supply despite climate shocks and stresses.
3.0 Increased resilience of infrastructure and the built environment to climate change threats	☐ ***3.1 Number and value of physical assets made more resilient to climate change variability, considering human benefits (reported where applicable)**
4.0 Improved resilience of ecosystems and ecosystem services	☐ 4.1 Coverage/scale of ecosystems protected and strengthened in response to climate variability and change
	☐ 4.2 Value (US$) of ecosystem services generated or protected in response to climate change
Project/Program Outcomes	
	☐ Number of technologies and innovative solutions transferred or licensed to promote climate resilience as a result of Fund support.
5.0 Strengthened institutional and regulatory systems for climate-responsive planning and development	☐ 5.1 Institutional and regulatory systems that improve incentives for climate resilience and their effective implementation
	☐ 5.2 Number and level of effective coordination mechanisms
6.0 Increased generation and use of climate information in decision-making	☐ 6.1 Use of climate information products/services in decision-making in climate-sensitive sectors
7.0 Strengthened adaptive capacity and reduced exposure to climate risks	☐ 7.1 Use by vulnerable households, communities, businesses and public-sector services of Fund-supported tools, instruments, strategies and activities to respond to climate change and variability
	☐ 7.2 Number of males and females reached by [or total geographic coverage of] climate-related early warning systems and other risk reduction measures established/strengthened
8.0 Strengthened awareness of climate risks and risk-reduction processes	☑ 8.1 Number of males and females made aware of climate threats and related appropriate responses
Project/Program Outputs	[Defined for each project/program on a case-by-case basis.]
Activities	[Defined for each project/program on a case-by-case basis.]
Inputs	[Defined for each project/program on a case-by-case basis.]

Source: GCF/B.08/45, "Decisions of the Board – Eighth Meeting of the Board, 14-17 October 2014", Annex VIII B, pp.76-80.

The adopted mitigation and adaptation PMFs reflecting the result areas and expected results as well as indicators are reproduced above. Indicators 5.1 and 5.2 in both PMFs, focusing on the strengthening of national institutional and regulatory systems, are considered as indicators allowing for the capture of country-driven policies at the discretion of recipient countries.

Logic Model and Performance Framework for REDD+ Results-Based payments

At the GCF's 7th Board meeting in Songdo in June 2014, the Board requested the Secretariat to develop a logic model and performance measure framework for ex-post REDD+ results-based payments in accordance with the methodological guidance in the Warsaw framework on REDD+. REDD+ as a mechanism under the UNFCCC is designed to provide incentives to halt, slow and reverse forest cover and resulting carbon loss in developing countries by paying countries ex-post after verified results. The Secretariat's paper for Board consideration and decision[40] suggested that the results of REDD+ activities funded by the GCF should be expressed in tCO_{2eq} per year in accordance with UNFCCC decisions at the COP 19 in Warsaw. A REDD+ logic framework and PMF is thought to contribute to the Fund's PMF for mitigation, covering only some aspects of its result areas 4.0 and 9.0. The proposed logic frame for REDD+ thus linked the levels of the paradigm shift objective, impact and (sector-wide) program outcomes explicitly to the GCF mitigation logic model (see above). The results of individual REDD+ activities and program outputs are to be defined in the context of ex-post results-based payments.

Reacting to the proposed logic model and PMF, several Board members from developing countries including from Peru, the Philippines and Chile stressed the importance of the approach for their respective constituency and worried about possible inconsistencies or misinterpretations of the UNFCCC Warsaw Framework on REDD+. Both the Swiss and the Philippine Board members pointed to ongoing work by the Standing Committee on Finance (SCF) on forest finance and suggested that the Secretariat seek the SCF's guidance. The Swiss representative also worried that the ex post approach to results-based payments was more suitable for developing countries already advanced in their readiness for REDD+ activities while the Board should also think about ex-ante results based payments for those developing countries still lagging behind in readiness. Board members from both developed and developing countries, including from Germany, Cuba, the DRC, France and the UK urged an inclusion of safeguard approaches and non-carbon benefits and benefit-sharing approaches in the Fund's PMF for REDD+. Further methodological work was requested by the Board members from the United States and Cuba, with the latter pointing out that the Warsaw framework talked about avoidance of emissions while the suggested approach would focus on increased removal. The French and Norwegian Board members reminded their colleagues that results-based payment is not just applicable to REDD+, but should be reflected in a broader set of results areas in the Fund's mitigation PMF. For the active observer, the Southern civil society representative pointed out that not all forest-related financing is or can be related to REDD+ and that the Fund in measuring the performance of its forest-related activities also need to look at the non-carbon benefits of REDD+ approaches and the impacts of forests on adaptation by addressing gender-sensitive benefit-sharing approaches for the sustainable management of forests. For the private sector, the Southern active observer felt that non-carbon benefits were better addressed in standards for projects that in a payment and performance measurement matrix.

Responding to some of the Board's comments, the Secretariat's Adaptation and Mitigation Director explained that while the Warsaw COP 19 decision recognized the importance of non-carbon benefits, its methodological core guidance for REDD+ did not have a clear definition of these; thus, the GCF REDD+ PMF at this point can only address CO_{2eq} measurements. In light of future COP decisions and guidance – the UNFCCC's Subsidiary Body for Scientific and Technological Advice (SBSTA) is scheduled to address the issue in its June 2015 meeting – the Secretariat can propose adjustments for Board consideration. The Co-Chairs instructed Board members to communicate their comments to the Secretariat for a reworking of the proposed REDD+ PMF. The Board approved the revised version, with two language adjustments. Instead of "sustainable forest management" it included now references to the "sustainable management of forest" consistent with UNFCCC language. It also removed a reference to "ex-post" to bring the language in line with language used in the logic model for the Fund's mitigation activities and its mitigation PMF.

Barbados decision B.08/08 adopts the revised version of the REDD+ PMF (see table 9 below), which specifies REDD+ results-based payments for verified tCO_{2eq} for national and sub-national program outcomes and outputs (as deemed appropriate by each country). The decision notes that the initial logic model and PMF can be updated with a Board decision and that both are prepared in accordance with the methodological guidance in the Warsaw Framework for REDD+. Methodologies for the indicators of the REDD+ PMF will be aligned with COP methodological guidance. The decision acknowledges that REDD+ results-base payments will be in line with the Fund's investment framework (which references a sustainable development criteria with co-benefits) and the Fund's allocation policy.

Table 9: Performance Measurement Framework for REDD+ Results-Based Payments

	Expected Results	Indicators
Elements of the Fund's initial mitigation logic model	**Paradigm shift objective**	
	Shift to low-emission sustainable investment pathways	Following the general mitigation PMF
	Impacts (Fund Level)	
	4.0 Reduced emissions from land use, deforestation, forest degradation, and sustainable management of forests and conservation and enhancement of forest carbon stocks	Tons of carbon dioxide equivalent (tCO_{2eq}) reduced (including increased removals) from REDD+ activities
REDD+ results-based payments (for verified tCO_{2eq})		
Elements defined for REDD+ results-based payments	↑ ↑ ↑ ↑ ↑	↑ ↑ ↑
	Program outcomes (national or sub-national)	
	A. Reduced emissions (tCO_{2eq}) from deforestation	Reduced emissions (tCO_{2eq})
	B. Reduced emissions and increased removals (tCO_{2eq}) from forest degradation	Reduced emissions (tCO_{2eq})
	C. Reduced emissions and increased removals (tCO_{2eq}) through the conservation of forest carbon stocks	Reduced emissions and increased removals (tCO_{2eq})
	D. Reduced emissions and increased removals (tCO_{2eq}) through the sustainable management of forests	Reduced emissions and increased removals (tCO_{2eq})
	E. Increased removals (tCO_{2eq}) through the enhancement of forest carbon stocks	Increased removals (tCO_{2eq})
	Program Outputs (national or sub-national) -- as deemed appropriate by each country	

Source: GCF/B.08/45, "Decisions of the Board – Eighth Meeting of the Board, 14-17 October 2014", Annex X and XI, pp. 84-86.

Role and Expected Impacts of the Fund in Initial Result Areas

At its 3rd meeting in Berlin in March 2013, the Board decided to consider at a future meeting the role and expected impacts of the Fund in achieving results (Berlin decision B.04/04). The Board agreed on initial result areas for the Fund with decisions at its 5th and 7th meetings on the initial results management framework, but did not address the role and impacts it hoped the Fund would have in these areas. Addressing this leftover issue, the Secretariat's paper on further development of the Fund's RMF[41] described the enormous challenges countries face, including tremendous resource challenges, to participate in global efforts to limit temperature rise to below 2 degree centigrade. IPCC estimates from 2013 put the price tag for incremental cost of key mitigation investments at around US$350 billion per year until 2029 and the global adaptation financing needs at around US$ 70-100 billion per year by 2050. The existing funding gap according to the paper represents an opportunity space for the Fund, including through its allocation of a significant share of its resources to the private sector, its engagement of local SMEs and its support for public private partnerships. The draft decision prepared by the Secretariat then proposed that the Board requested the Secretariat to present ways to strengthen its role in "channeling new, additional, adequate and predictable financial resources."

Reacting to these recommendations, the Board member from South Africa emphasized that in his opinion the presented analysis missed the mark and did not fulfill the mandate set by the Berlin meeting, as it was not a detailed analysis of that the Fund hoped to achieve in its various impact areas for a transformational impact and what financial resources would be needed by the Fund to fulfill this mandate. The Board members from Zambia and France agreed, stressing that the overall funding gaps on the global level are well-known but that the expected analysis should have addressed low-emission and climate-resilient sustainable development impacts and outcomes of Fund actions based on the projected/likely resource availability in the Fund after initial resource mobilization. The African group in the Board proposed a new text for this part of the RMF draft decision, supported by the Board's developing country constituency and welcomed by the Board members from the Netherlands, the UK, Australia and Germany. The revised decision text based on the African group's proposal forces the Board to have a concrete discussion about the expected investment levels of the Board in the near future. Barbados decision B.08/07 (k) aims for the Board to start making concrete investment decisions on program and project proposals "no later than its third meeting 2015" in October. Paragraph (l) requests the Secretariat to complete the analysis of the expected role and impact of the Fund's initial results areas and present it to the Board so that it can determine "Board level investment portfolios across the structure of the Fund based on the resource level outcomes of the initial resource mobilization process". This analysis is to focus particularly on the type of investment opportunities most supportive of the desired paradigm-shift and on activities that "are not currently being adequately supported by existing climate finance channels."[42]

Monitoring and Evaluation Policy

The Barbados paper also proposed an initial approach to the monitoring and evaluation policy (M & E policy) of the Fund based on results-based management principles and standards and seen as the key to a sustained and continuous learning process for the Fund. The M & E policy defines the role and responsibilities of the Fund Secretariat and its Independent Evaluation Unit (IEU) and of the GCF implementing entities, intermediaries and other relevant partners in M & E. Monitoring is to be carried out at all levels with monitoring guidelines to be elaborated by the Secretariat as a "living document" to be updated as lessons are learned and feedback is received. The Secretariat is tasked to maintain an online information management system. The IEU will be responsible for developing and updating the evaluation policy of the Fund through a set of different evaluations to include country-portfolio, thematic, project- and program-based evaluations as well as independent assessment of the overall performance of the Fund as commissioned by the COP.

Only a few Board members offered comments on the initial M&E policy of the Fund, with the Board member from Germany encouraging the inclusion of strong guidelines for participatory monitoring (in line with para 57 of the Governing Instrument) and the Board member from the Philippines suggesting the collaboration of the Secretariat with relevant UNFCCC expert groups and advisory bodies in the monitoring and evaluation of GCF results, including through methodological guidance. Barbados decision B.08/07 took note of the initial approach to the Fund's M & E policy with the draft policy amended to reflect the recommendation by the Philippine Board member and to further spell out opportunities for the involvement of relevant stakeholders in the process, including communities and civil society.[43]

Country Ownership

The agenda item on country ownership – with its main constituent elements of a transparent no-objection procedure, and best practice guidelines and options for country coordination and stakeholder engagement – has been a sticky point in Board deliberations for more than a year, reflecting the core importance of the issue for how the GCF will conduct its activities "beyond business as usual." The main point of contention throughout, and a sharply defined dividing line between developing and developed country Board members, was the question whether a country's no-objection to a project or program proposal should be active (in the form of a letter to the Secretariat) or tacit (by running out the clock on an agreed time-period for objection).

The GCF Governing Instrument in para. 3 states that the Fund "will pursue a country-driven approach and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders." At its 3rd Board meeting in Berlin in March 2013, the Board agreed that "a country driven approach is a core principle to build the business model of the Fund" (decision B.01-13/06). The GCF Governing Instrument points to national designated authorities (NDAs), to be selected by recipient countries, as the structural "guarantor" of country ownership by ensuring consistency with national climate strategies and plans (para. 46). Durban decision 3/CP.17 on the GCF also mandated the Board to elaborate a transparent no-objection-procedure to be conducted through NDAs that would allow countries to object to any public or private sector funding proposal inconsistent with recipient country priorities (para. 7); without that mandate, the COP would not have been able to agree on approving the Governing Instrument, putting the Fund's establishment in jeopardy.

At the 4th Board meeting in Songdo in June 2013, the decision B.04/05 [44] reaffirmed country-ownership and a country-driven approach as core principles of the Fund giving countries the option ("may") to designate an NDA or a country focal point, and stipulating that countries should have flexibility with respect to the location, structure, operation and governance of NDAs and focal points. Best practices for their establishment and composition were to be addressed at the Board's first meeting in 2014. In Songdo, the GCF Secretariat was also requested to prepare the call for developing countries to start the process of designating NDAs and focal points as early as possible and ideally before June 2014. At the 5th Board meeting in Paris in October 2013, the Board only considered a draft transparent no-objection procedure. There, the Board members from the US and Egypt indicated that they would not be in a position to support a decision and several Board members (including from Switzerland and Georgia) requested more information on the application and experience of no-objection procedures in other institutions. Thus, a revised paper on no-objection was presented to the Board for decision at its 6th meeting in Bali.

At the 6th Board meeting in Bali in February 2014, the country ownership discussion in Bali was led over two days. In an effort to address differences between Board members, a Board team with members from Egypt, India, the United States and Switzerland was tasked to try to develop a common understanding but reported that it was unable to conclude the work in Bali. The Board then authorized the small group to continue working between Bali and the next Board meeting with the goal to present a solution and draft decision for approval at the 7th Board meeting. As the 7th Board meeting focused only on the completion of the eight essential policy requirements for the start of the initial resource mobilization process (which did not formally include country ownership), the issue was not on the May meeting agenda. Instead, it came up again for deliberation and decision at the 8th GCF Board meeting in Barbados in October based on the Secretariat's unchanged paper and draft decision from Bali.[45]

In Barbados, the Board's deliberations on country ownership, which were stretched out over three days, centered solely on the no-objection procedure. The Board did not focus its discussion on the issues of country coordination and stakeholder engagement despite their importance other than to point out that the stalemate in the Board on no-objection was holding up the Board's guidance on how to best ensure the inclusiveness of determining country priorities for GCF funding. In the meantime – even in the absence of some best practice determination on country coordination and stakeholder engagement -- the registration of NDAs and focal points continued. As of early October 2014, some 65 countries designated NDAs or focal points; by mid-January 2015 that number reached 87.[46]

No-Objection Procedure

The Bali Board paper on country ownership compared some experience with active endorsement and no-objection procedures at other financial mechanisms, including the Adaptation Fund, the GEF, the Clean Development Mechanism and the IFC, concluding from the comparison that "a no objection is essential to legitimize the project or investment proposal in the context of national priorities, strategies and development plans." The draft no-objection procedure it proposed for the Fund, while indicating the no-objection as a condition for approval of all funding proposals submitted to the GCF, then suggested a procedure in which a "time lapse of three weeks" after the communication of an IE or intermediary to an NDA or focal point would be understood as "tacit no-objection in the absence of a response". In Bali, this procedure was deemed unacceptable by many developing countries (including from China, Brazil, Zambia, India, Egypt, Dominican Republic and Ecuador), while strongly favored by many developed country Board members (including from the US, Denmark, Japan and France). While the issue was not on the agenda at the 7th Board meeting in Songdo, the Board member from Egypt there reported back on efforts of the small group on country-ownership to find a consensus by advancing the draft decision from the Bali discourse. One of the options explored since Bali was whether it was acceptable to extend the framework of a suggested lapse-of-time process at the request of the recipient country beyond the narrow timeframe of three weeks, which was proposed in Bali and considered insufficient; another was to give some flexibility to the recipient country to indicate if it would be comfortable with a time-lapse approval or insist on an active no-objection endorsement letter.

Reporting back at the 8th Board meeting on the work that the small Board team on country ownership conducted since the Songdo meeting, the Board member from Egypt indicated that the group was at an impasse on the no-objection procedure, with basically two contradictory decision proposals. The Board members from China, the Philippines, Zambia, Cuba and India insisted on an active endorsement of project proposals by the NDA or focal point as a matter of sovereignty and a proof of the country-driven approach, with the Board members from Cuba and the Philippines pointing out specifically the issue of legal accountability implied by a project approval, including financial liability and debt resulting for the country from a GCF loan project and program and citing some unfavorable experiences with countries' engagement with MDBs. In contrast, the Board members from Switzerland, the United States, the UK, France, the Netherlands, Norway, Australia and Germany argued that the best way forward was to "let countries choose" – by writing a letter to the Secretariat – if they felt comfortable with a time-lapse procedure (such as the GCF Board is already using for Board decisions in-between meetings) or if they wanted an active NDA/focal point approval in writing. Either way, so the argument, countries would be empowered and that compromise would allow deliberations on country coordination and stakeholder engagement to finally go forward. The US Board member reiterated his previously made arguments that writing an active letter could present a corruption risk, pointing out that the private sector needed the certainty and predictability that the effort they put into proposals will pay off with governments accepting their proposals. The Southern private sector active observer concurred, asking for a time-line and suggesting that if a formal approval is required (which she described as a turnaround of the original intention of the procedure), it should be placed as early as possible in the proposal approval process. For civil society, the Northern active observer underlined that genuine country ownership goes beyond the engagement of the NDA or focal point to include the full range of stakeholder, particularly local communities, and that such an involvement was impossible without an active endorsement and a reasonable time-frame to allow for consultations. Additionally, so his argument, the active no-objection was necessary to help reduce reputational and strategic risk for the Fund posed by the direct access to GCF funding for the international private sector.

Rather than discuss further in a break-out group, as the Board member from Georgia suggested, the Saudi Arabian co-chair advised Board members with strong views on the matter to exchange on the side-lines and try to find a compromise with the technical support by Secretariat staff. The Board members from the United States and Egypt, which had both submitted specific new text proposals, were to take the lead. Coming back at the last day of the Board meeting to the full Board, compromise text now included a provision that indeed a letter of active approval was required from all governments. If however such a letter is not accompanying a submission for a funding approval by an intermediary or implementing entity, then the Secretariat will notify the NDA or focal point of the submission and ask for a letter of no-objection within 30 days after receiving this information. After 30 days have lapsed, the proposal will be considered canceled. This compromise, in the words of the US Board member, allows for country-ownership but also gives certainty to the private sector. The Board approved this version.

Barbados decision B.08/10 confirms that the Board will only consider funding proposal that are submitted with a formal letter of "no-objection" in accordance with an initial no-objection procedure which can be revised in the future "on the basis of evolving needs and experience gained in its implementation." It leaves it up to each country to decide how no-objection to funding proposals nationally will be determined (although the expectation is that it will follow best-practice guidance and options for country coordination and stakeholder engagement processes, which are part of the overall decision). The initial no-objection procedure includes a provision to enhance transparency by mandating that each proposal by an intermediary or implementing entity will provide a description about how country ownership was determined, giving the Board the option to reject it if deemed unsatisfactory. All no-objection communications will also be made public on the Fund's website and NDAs and focal points are encouraged to publicize their communications on the no objection procedure through their own communication channels domestically, especially in local languages. The Secretariat is also asked to disseminate information on the procedure widely and to assist NDAs and focal points upon request in understanding the requirements of the procedure.[47]

Best Practices for the Establishment and Composition of National Designated Authorities and Focal Points

As for the no-objection procedure, the Bali Board paper on country ownership compared the practices in existing funds (specifically the Adaptation Fund, IFIs and the GEF) in establishing or designating a liaison as an authoritative interface between recipient countries and the Fund. Draft best practice guidelines by the Secretariat suggested that countries could start out with a focal point (usually an individual within a ministry or government agency) while striving to establish an appropriate NDA as the next step, placed "within a ministry with authority and overview of the country's national budget, economic policies and their interrelation with climate change-related priorities and development plans." Thus, the recommendation was implicitly for prioritizing the ministries of finance or planning or national treasury officials for the country's NDA or focal point, including at "the level of minister or equivalent" and with the authority to oversee proposed capacities of the NDA or focal point. These included the adequate knowledge of and the ability to contribute to and drive national strategies and plans; familiarity with the climate change efforts and needs of the country as well as with relevant institutions and stakeholders; but also the capacity to facilitate and coordinate country coordination mechanisms and multi-stakeholder engagement and to communicate with the GCF in English while disseminating in local languages key operational procedures of the Fund.

In February 2014 at the 6th Board meeting in Bali, the Board's deliberations on country coordination and country coordinating mechanisms in February 2014 included concerns by developing country Board members about making the guidelines too prescriptive in proposing which country ministry or entity should serve as NDA, underlining that developing countries and the authorities given to ministries are not homogenous. That the NDAs should take on an even greater role as proposed came then up in several interventions, particularly with respect to country-coordination and the ability to conduct and resource multi-stakeholder engagement. Another demand strongly voiced then was for NDA support under the Secretariat's readiness and preparatory support activities, including for help in designating the appropriate NDA or focal point. Of the 65 countries that had designated NDAs or focal points by early October 2014, some 26 countries had requested readiness support, among them 10 each from African countries and SIDS.[48]

While best practices for NDA/focal point establishment were not discussed by the Board at its 8th meeting, the Barbados decision on country ownership (B.08/10) adopts initial best-practice guidelines for the selection and establishment of NDAs and focal points, largely unchanged from the Bali draft, and reiterates the invitation to developing countries to nominate their NDA or focal point no later than March 2015.[49] It makes clear that the designation of a focal point could be done as a preliminary first step while preparing to establish an NDA in which ideally a team of people would fulfill a number of tasks. These included the ability to contribute to and drive the development of climate-relevant national strategies and plans to facilitate and coordinate country coordination mechanisms and a country's consultative multi-stakeholder engagement on GCF funding priorities. The new guidelines go beyond the earlier draft in adding a reference to the NDA or focal point taking the lead in efforts to prepare a country program for Fund activities (which was included as a first step in the initial proposal approval process with Songdo decision B.07/03). They also include a section on funding for the establishment and operation of NDAs in line with earlier Board decisions on readiness and preparatory support. The Board in Barbados revised the work program on readiness and preparatory support (decision B.08/11) setting parameters for funding for NDAs and focal points up to US$ 300,000 per country to cover eligible costs for a two-year period such as human resource development, technical assistance or stakeholder consultations.[50]

Best-Practice Options for Country Coordination &Multi-Stakeholder Engagement

Draft best-practice options for country coordination & multi-stakeholder engagement were drawn up for Board consideration at the 6th GCF Board meeting in Bali in February 2014 and discussed then, with several Board members from both constituencies stressing the importance of stakeholder consultations and some suggesting that the "may" language provision in the draft guidelines and decision could be strengthened. The actives observers from both the private sector and from civil society argued already in Bali that the options presented missed minimum requirements in specifying that NDAs should be proactively engaging with a broad range of diverse stakeholder, including women, indigenous peoples and the local private sector already at the inception stage of planned activities and in elaborating country strategic frameworks. Such early engagement was necessary in order to solicit the free, prior and informed consent of those affected and allow for their participation in the design, implementation and monitoring and evaluation of activities.

The Board in Barbados did not further discuss the proposed best-practice options, but instead adopted them unchanged from the Bali draft as part of the decision on country ownership (decision B.08/10). The adopted best-practice options for country coordination and multi-stakeholder engagement focus on two intervention levels, namely 1) the development of a country strategic framework based on existing or still to be elaborated national climate change plans and strategies (such as NAMAs, NAPs, or NAPAs) and 2) the development of concrete funding proposals. They rather vaguely allow that countries "could be encouraged to design a consultative process" to be understood as "an ongoing process rather than a discrete activity only occurring once with without the possibility of follow up, continuous update and regular assessment of progress." Criteria and options for country coordination through consultative processes "may include" the possibility, for example, of a dedicated country coordination mechanism. The decision notes that specific guidance on multi-stakeholder engagement in the context of development of funding proposals is to be included in the Fund's environmental and social safeguards. They require that all funding proposals for project and programs include an environmental and social management system (ESMS) that establishes a process for multi-stakeholder engagement such as stakeholder grievance management, documentation and reporting to stakeholders, stakeholder involvement in project or program monitoring and integrating these and other aspects in the Fund's project and program cycle.[51]

Additional Modalities that Further Enhance Direct Access, Including through Funding Entities

The Governing Instrument in para.42 stipulates that the Board "will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes" as part of the Fund's mandate to provide direct access to countries through accredited implementing entities. At its 3rd Board meeting in Berlin, the Board had decided that the Fund will operate initially through "accredited national, regional and international intermediaries and implementing entities" using grants and concessional lending only. At its 4th Board meeting in Songdo, the Board decided to start determining the access modalities, including accreditation procedures, for these implementing entities and intermediaries and recommended that additional modalities that further enhance direct access should be discussed at its first meeting in 2014. At its 5th Board meeting in Paris, the Board then put a small four-member Board team (with representatives from France, Sweden, Barbados and Zambia) in charge of overseeing the accreditation framework for the Fund and the work on further enhancing direct access.

In the past, Board members had disagreed about how much devolution of funding decision-making to the national level was implied by the wording in the Governing Instrument. Many developing country Board members interpreted the language as a clear endorsement of entrusting both the decision-making and management functions for large amounts of GCF resources to national implementing bodies, such as national climate change trust funds (of which dozens already exist in developing countries), while many developed country Board members were reluctant to agree to such a far-reaching interpretation.

At the 6th Board meeting in Bali, the Board discussed a paper prepared by the Secretariat[52], but did not adopt any decision. The Bali paper, which focused on "proposed operational understandings" (i.e. definitions) of what implementing entities and intermediaries mean and what functions they are expected to perform, presented essentially a hierarchy of entities accredited to the Fund with implementing entities (IEs) forming the broad base and intermediaries, either public or private, as the next step up. Intermediaries are accredited with additional specialized capacities to intermediate grants and/or concessional loans from the GCF, meaning passing them on to executing entities (EEs) in the form of various financial products and through diverse financial mechanism, including on-lending or grant award mechanisms; financial blending or structuring, including for guarantees; insurance mechanisms; or origination of financial structure products (which could include derivatives, indices, options or debt-issuance). Lastly, as a sub-category of intermediaries, the paper proposed public funding entities which could use national financial systems and budgets for the implementation of a policy intervention program, with GCF funding being essentially provided in the form of budget support. In the Board discussion in Bali, several Board members welcomed the document as a good start but asked to make it more operational by focusing more on the "how" and the "what" of the enhancing and by drawing out more clearly what cannot be achieved through standard direct access modalities, for example in support of programmatic or policy-reforming approaches. As the Board was unable to agree on the draft decision and the proposed operational understanding for intermediaries and implementing entities, a decision was deferred for further work to be undertaken jointly by the Accreditation Committee and the Secretariat.

A new paper and draft decision presented to the Board at is 8th Board meeting in Barbados[53] focused on devolved decision-making in GCF programs as a potential approach to further enhance direct access in line with the Governing Instrument's support for programmatic funding approaches in addition to project-based finance (para.36). In that context, enhancing direct access would mean the delegation of authority for approving individual activities within a program to accredited sub-national, national or regional implementing entities and intermediaries, which would then act as funding entities themselves (thus requiring the fulfillment of specialized fiduciary standards for intermediation such as on-granting or lending). The paper presented some illustrative existing examples for such an approach, including quantity performance (QP) instruments, where ex-post "on delivery" funding decisions are transacted based on a predetermined volume and price (for example as used in REDD+ fund schemes) and an ongoing Adaptation Fund project where a direct access grant is used by a national implementing entity to set up a domestic small grants facility, with the development of decision criteria for and the decision-making of individual small grants devolved to the accredited NIE. The draft decision proposed to launch a pilot phase on modalities that further enhance direct access focused on incentivizing program-based funding proposals from accredited entities with grant-awarding capabilities and to develop the terms of reference for the prompt operationalization of such a pilot phase.

In the Board discussion in Barbados, the Swedish chair of the Accreditation Committee endorsed the proposed approach as a secure way of testing out devolved decision-making, which is of extreme importance for the long-term operation of the Fund. Developing Board members from Zambia, the Philippines, Egypt, South Africa, Cuba, the DRC, and India agreed, stressing that the issue of devolving decision-making on GCF funding to developing country entities was a key priority for their countries and that the issue had been unnecessarily postponed repeatedly over the past year. However, the Board members from South Africa and India questioned if the proposed pilot was going far enough and broad enough, as it is essentially only proposing to replicate where other funds, namely the Adaptation Fund, have already gone, of if more needs to be envisioned, particularly in attempting to reach communities through innovative programs. For the developed country constituency, the Board members from the United Kingdom, Germany, Italy and France agreed with the long-term vision of devolved decision-making for the Fund and endorsed the proposed pilot phase approach, but asked for more clarification on the duration, scope and financial implications of such a pilot phase to guide the elaboration of terms of reference for its development. In contrast, the Board member from the Netherlands questioned if a pilot for a programmatic approach that she felt was not overly innovative would not unnecessarily overcomplicate the issue, while the US Board member reiterated previous concerns that developing modalities for enhanced direct access and decentralized decision-making of GCF funding decisions – especially without clarity of accountability channels – might be premature. For civil society, the Northern active observer clarified that enhancing direct access as a key element of the Fund's transformational mandate for building national capacity, increasing efficiency, effectiveness and country ownership and reducing the Fund's reputational and strategic risk must go beyond a programmatic approach, in which national and sub-national entities have limited decision-making authority for individual projects within the strict confines of a well-defined Board-approved program.

Acknowledging the wide Board support to go forward with a pilot phase on modalities to enhance direct access, the Secretariat in collaboration with the members of the Accreditation Committee was tasked to revise the draft decision to specify the elements that needed to be addressed in the decision. The Board approved the new decision text as decision B.08/09, which requests the Secretariat – under the guidance of the Accreditation Committee and in consultation with "relevant stakeholders" – to prepare terms of reference for the operationalization of a pilot phase on enhancing direct access.[54] These will specify the objective, type of activities supported and type of entities involved, specialized fiduciary standards required, as well as the timeframe and financial volume of the pilot phase. The terms of reference are to be approved at the next GCF Board meeting in March at which time the pilot phase will be launched. The pilot phase will include readiness support for sub-national, national and regional entities as requested.

Work Program on Readiness and Preparatory Support

The Governing Instrument in para. 40 makes readiness and preparatory activities and technical assistance, for example for low-emission development strategies and plans (including NAPAs, NAMAs and NAPs) and for in-country institutional strengthening (including for dealing with standards and safeguards for direct access), an explicit mandate of the GCF. GCF readiness and preparatory support is most critical for least developed and small island developing countries, which have been severely under-funded by existing climate finance instruments and often lack the capacity to access funds and implement programs, both directly and in cooperation with international implementing agencies. Developing country Board members from these country groups over the course of the last few Board meetings repeatedly advocated for readiness and preparatory support that is flexible and responsive to country needs and circumstances (and for example supports country needs assessments) as well as sustained and iterative and not a one-off activity.

At its 3rd meeting in Berlin in March 2013, the Board decided[55] to initiate a GCF readiness phase by identifying short-term initiatives to support readiness and preparatory support, asking the Secretariat to act as a kind of coordinating mechanism and clearinghouse on readiness support needs and gaps and to engage with existing initiatives and programs to ensure coherence. At the 4th Board meeting in Songdo, BMF decisions on country ownership, access modalities, and results management included cross-references to readiness and preparatory support. The decision on readiness and preparatory support from the 5th Board meeting in Paris reaffirms readiness and preparatory support as a strategic priority of the Fund to enhance country ownership and access for countries in the early stages of Fund operationalization, which is to be provided to all eligible countries and with the scope of supported activities evolving over time in accordance with countries' specific circumstances. The Secretariat was tasked to present a detailed work program on how readiness and preparatory support through the GCF can be provided and a possible allocation approach for readiness and preparatory finance support at the 6th Board meeting.

The draft work program and decision[56] that the Secretariat presented to the Board in Bali in February 2014 identifies four sets of priority activities, namely 1) support for the establishment of national designated authorities (NDAs) or focal points, for example via multi-stakeholder consultations to identify the appropriate entity; 2) help with developing an initial strategic framework for guiding a country's funding priorities for the GCF, based on existing or still to be elaborated national plans for mitigation and adaptation, including by supporting the development of coordination mechanisms or multi-stakeholder engagement for their elaboration; 3) the selection of intermediaries and/or implementing entities, with the call for each recipient country in the program to select at least one suitable IE or intermediary and then help in building its capacity to interact with the GCF; and lastly, 4) the development of an initial proposals pipeline in consultation with NDAs and focal points. Initial funding for such a work program was up to US$ 30 million, which was money committed by Germany and South Korea to the GCF Secretariat for this purpose. In Bali, the majority of Board members suggested that the draft work program needed revision and fine-tuning, with GCF-led readiness activities taking into account and building on ongoing readiness activities of other providers, for example by targeting areas that are not funded elsewhere.

Bali Board decision B.06/11 confirmed the four focus areas for GCF readiness and preparatory support and requested the Secretariat to elaborate a revised work program with a delivery plan of concrete readiness activities that countries indicate to the GCF Secretariat as their priorities, including timelines and implementation modalities and exploring options for collaboration with existing readiness initiatives. The Board allocated US$ 1 million to the Secretariat for the preparation of a detailed updated work program. This work was originally scheduled for the 7th Board meeting in May 2014, but then deferred to the Barbados meeting because of prioritization of work on completing the essential requirements for initial resource mobilization.

The revised work program presented in Barbados described readiness as an ongoing and iterative process rather than an end point, giving the NDA or focal point a central role in readiness programming by leading the deployment of readiness support funding either by receiving financing itself (direct support of up to US$ 300,000 per NDA/focal point upon request against demonstrated milestones) or by picking delivery partners within their country (to be determined through bidding in accordance with Fund's procurement guidelines). A Secretariat team of three regional readiness advisors and supported by the Secretariat's country programming division is tasked to tailor focused support activities to individual country needs. This team has already produced extensive information and outreach materials, available on the GCF website at http://www.gcfund.org/readiness/updates.html.

The draft work plan and decision proposed to allocate 75% of readiness support funding to SIDS, LDCs and African states with the remainder for other developing countries, capping readiness commitments for individual countries at US$ 1 million per year. With 26 of 65 countries, which had designated NDAs by early October 2014, requesting readiness support (20 of them from Africa and SIDS) and expecting further requests, the Secretariat projected that financial request for GCF readiness support from developing countries could reach at least US$ 45 million by the end of 2015 and US$ 101 million by the end of 2016. Of this projected demand, about US$ 10 million over two years would be for private sector activities. Currently, readiness programs are being developed for Antigua and Barbuda, Barbados, Belize, Columbia, Dominica, Ethiopia, Eritrea, Grenada, Indonesia, Kenya, Malawi, Maldives, Mali, Mongolia, Namibia, Palau, Peru, Saint Lucia, Rwanda, Sao Tome and Principe, and Thailand. A proposed work program approach detailed spending envelopes of varying sizes for five subsets of activities (see Table X below).

Table 10: Proposed Indicative Spending Approach to Planned Readiness Support Activities

Activity	Expected Commitment 2015 in $ Mio	Expected Commitment 2016 in $ Mio	Total Expected Commitment 2014-2016
Establishment and strengthening of NDAs and focal points (including institutional assessments and diagnostics) – work to begin in January 2015	**7.500**	**8.625**	**16.125**
Strategic frameworks for engagement with the Fund (including support for NDAs and focal points to work with national and sub-national stakeholders to develop country work programs) – work has already started	**5.125**	**6.150**	**11.275**
Selection of implementing entities or intermediaries (including information sharing, development of diagnostic tools for self-assessment of relevant capacities, targeted institutional strengthening) -- work has started	**10.125**	**12.656**	**22.781**
Initial pipelines of program and project proposals (including financial sustainability and risk assessments, pre-feasibility studies, establishment of project baselines and initiation of monitoring and reporting) – work to begin in 2015	**20.000**	**27.200**	**47.200**
Learning, outreach and experience exchange (including regional workshops for NDAs/focal points and other stakeholders, tool dissemination, periodic exchanges)			**2.900**
TOTAL	**42.800**	**54.631**	**100.181**

Source: Barbados Board Document GCF/B.08/10, "Revised Programme of Work on Readiness and Preparatory Support", p.5f.

In their discussion of the revised draft work program, the developing country Board members from Barbados and Zambia underlined that readiness support was at the heart of how their countries expected the GCF to go "beyond business-as-usual", with the Board members of South Africa, Georgia, the Philippines, India and Zambia also stressing that GCF readiness activities needed to be about empowering countries to deliver on the ground. The Board member from South Africa demanded that support activities in developing countries need to be "for the people by the people and not by consultant for consultants," a concern echoed by the Board members from the Philippines and India, who feared that as currently written the program would make international consultants, MDBs and bilateral agencies the primary delivery partners for GCF readiness support. They missed a stronger elaboration of the country-driveness of all readiness activities and proposed a strengthened focus on empowering and giving the central role in all activities to NDAs and focal points. Several developing country Board members, including from China, India, Chile and the Philippines also warned against the Secretariat seemingly deciding on the vulnerability and eligibility of countries for readiness support and thus "dividing developing countries." They argued that a proposed 75% allocation of GCF readiness funding for LDCs and SIDS was too rigid and not a good approach.

For developed countries, the Board members from the United States and the United Kingdom welcomed a strong focus on the development of program and project pipelines, while the Board member from

Germany, supported by his colleagues from France and Norway underlined the necessity of coordination of GCF readiness efforts with ongoing readiness activities. All three wanted to see a clear, results-driven approach to readiness activities including with strong monitoring and reporting back to the Board. For civil society, the Southern active observer stressed that a strong readiness support is one of the key ways for the Fund to be innovative and that in a sequenced approach strengthening the engagement of NDAs and focal points with all stakeholders, including from climate-affected communities must be a key priority. She underlined that NDAs should also be in the driver seat for project and program pipeline development focused on implementation by national and sub-national entities. For the private sector, the Southern active observer emphasized the priority engagement of private sector entities in the readiness program from the very beginning, in line with recommendations by the Private Sector Advisory Group (PSAG), not sequenced after NDA/focal point and MDB .

Following the initial discussion in the full Board, the Co-Chairs tasked the Board members from Germany and Barbados to collect and synthesize comments and recommendations from colleagues and to work with the Secretariat in proposing an updated draft decision for consideration by the Board. The new decision text took up some key developing country requests. It anchored the lead role of NDAs/focal points in determining a country's readiness activities and delivery partners, referenced Board decisions on country ownership, included text on building on existing country strategies and plans such as NAMAs, NAPs and NAPAs in developing strategic frameworks for national engagement with the Fund (including for country programs), and adjusted the readiness work programs allocation approach. The Board approved the revised decision text without further comments or objections.

Barbados decision B.08/11 is comprehensive and details allocation, objectives and activities and modalities and approach of the revised work program on GCF readiness and preparatory support. It reaffirms readiness activities as a strategic priority of the Fund in line with prior Board decisions on country ownership, allocation and the Bali decision B.06/11 on Secretariat reporting obligations – twice a year in detail on activities undertaken and progress in readiness funding commitment and disbursal. A minimum floor of 50% of readiness support is to be allocated to particularly vulnerable countries, including SIDS, LDCs and African states, with a cap of US$1 million per country per year; this allocation approach is to be reviewed in 2016. The decision includes a list of indicative activities to be supported by readiness funding in line with country ownership, however the decision does not spell out fund allocation as proposed for different sub-sets of activities (see originally proposed indicative allocation in table X above). Objectives and priority activities include support for the NDA/focal point to engage stakeholder in a gender-sensitive way to determine domestic funding priorities. In contrast to the draft decision text, the adopted version spells out that support for developing the strategic framework for countries' engagement with the Fund should build on existing strategies and plans and offers some initial guidelines for the preparation of country programs to that purpose. The development of such country program is an initial voluntary step of the Fund's approval process (as decided in Songdo decision B.07/03). Progress in addressing those priorities will be subject to an independent evaluation after two years. The decision allows for the Fund to provide up to US$ 300,000 of direct support to help establish an NDA or focal point for a two-year period with eligible costs including human resources development, technical assistance, planning and administration and training, workshops and consultations. A strong focus of readiness funding will be the preparation and support for sub-national, national and regional implementing entities and intermediaries for fit-for-purpose accreditation with the Fund with the approval of the relevant NDA(s) or focal point(s). Regarding the deployment of readiness funding aimed at the private sector, the PSAG is requested to provide recommendations. However, the Barbados decision does not longer contain a specific allocation amount for those activities for 2015 and 2016.

The Board decided to immediately allocate US$ 15 million for the execution of the readiness and preparatory support program, with a further US$ 14 million to be made available following the bi-annual report on progress in committing and disbursing available funds. Thus, the current funding approved with decision B.08/11 covers only the US$ 30 million already received by Germany and South Korea for readiness activities. The decision does hold out the prospect of additional funds for additional approved readiness and preparatory support activities. The NDA or focal point will either be the direct beneficiary of readiness support funding or will select delivery partners in accordance with the Fund's administrative policies and procurement guidelines, avoiding and addressing any conflicts of interest. Funding disbursement will be based on agreed milestones with appropriate indicators for each readiness activity. The Secretariat is asked to coordinate, collaborate and enter into partnerships with institutions already involved in readiness support activities while coordinating all such efforts with the NDA or focal at the national level.

Financial Instruments

The Fund's financial instruments are an important part of the GCF's business model and in the view of many developed country Board members key to fulfill the mandate of the GCF to promote the paradigm shift and go beyond business-as-usual approaches. The Governing Instrument stipulates the provision of "financing in form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board" (para.54). This gives the Board flexibility in determining both the terms and conditions of financial instruments as well as flexibility to consider instruments beyond grants and concessional loans, although in earlier discussion among the Board on the issue of financial instruments there was disagreement within the Board on whether the Board should and could disburse funding in forms other than grants and concessional loans. Article 11 of the UNFCCC text elaborates that the financial mechanism of the convention must provide financial resources "on a grant or concessional basis." As an operating entity of the UNFCCC financial mechanism, the GCF functions under the guidance of and is accountable to the COP.

At the Board meeting in Berlin in March 2013 in decision B.1-13/06 on the Business Model Framework (BMF) the Board decided that the GCF would work through accredited intermediaries and implementing entities and that it focus initially on grants and concessional lending, but could "employ other financial instruments as necessary to effectively achieve the objectives of the Fund." At its fourth meeting in Songdo in June 2013, the Board then was presented with and discussed a whole range of instruments as options for the GCF,[57] but in decision B.04/07 then advanced only work on the terms and conditions of grants and concessional loans.

Financial Terms and Conditions of Grants and Concessional Loans

In Paris, at its fifth meeting, the Board considered the terms and criteria of grants and concessional lending the Fund would deploy initially and agreed to a set of nine guiding principles for public and private sector finance operations to be used in the initial operationalization of the Fund. These principles included, the tailoring of grant elements to what was necessary to make a project viable; considering recipient countries' level of indebtedness and debt sustainability; and the calculation of the right level of concessionality to ensure financial additionality and to avoid crowding out of private financing.[58]

At its 6th Board meeting in Bali in February 2014, the Board was asked to approve specific financial terms and conditions for grants and concessional loans which the GCF is to use initially, including via its Private Sector Facility (without the determination when this initial phase will end). The Bali paper for Board consideration and decision[59] proposed that grants could be made in either international currencies or the local currency, with no maturity, interest rate or service fee applicable, at least not initially. For concessional loans two types (deeply concessional and moderately concessional) were proposed, which could be made in international currencies or a local currency. For both, a service fee of 0.75% would be charged "to cover the Fund's mobilization costs" (which would be significantly higher than the Clean Technology Fund's current service charge of 0.25%). Deeply concessional loans would charge no interest, have a maturity of 15 - 40 years and a grace period of 5 -10 years (comparable to terms of IDA loans). Moderately concessional loans would charge interest based on the benchmark rate of lending currencies (such as US Treasury bond rate), have a maturity of 8 – 15 years with a grace period of 2 -4 years.

In the discussion in Bali, developing country Board members urged for the bulk of Fund resources to be channeled via grants, including for all public expenditure on adaptation, and rejected for the highly concessional loans any terms worse than those currently offered for CTDF loans. In their view, the proposed terms of moderately concessional loans were too close to commercial lending. In contrast, developed country board members thought the Secretariat's paper was not going far enough in detailing how GCF money could be blended with non-concessional loans. In its Bali decision (B.06/12), the Board requested the Secretariat to submit a revised version of the paper at the 7th Board meeting in Songdo, where it was however not formally on the agenda because of the meeting's focus on completing the essential requirements for the initial resource mobilization process and also to allow for a further determination of the policies for contribution to the Fund (financial inputs) which determine the bounds of the terms and conditions of financial outputs. The issue did come up in the context of the Board's Songdo decision on the Initial Financial Risk Management Framework for the Fund (decision B.07/05), with an annex on financial arrangements for grants and concessional loans, stipulating that the subsidy element of these instruments "will be the minimum amount necessary to make the project or programme viable and help achieve the Fund's paradigm shift objective".[60]

For the 8th Board meeting in Barbados in October, a revised Secretariat paper on financial terms and conditions of grants and conditional loans was submitted.[61] It introduced the notion of a repayment contingency of grants to the private sector (by applying a GCF grant through an accredited intermediary to guarantee- or equity-like instruments) and proposed two types of concessional loans (highly concessional and moderately concessional) with interest rates based on the Fund's cost-of-borrowing (terms of the Fund's incoming loan-type contributions plus a margin) and on average less concessional outgoing than the concessionality level of the incoming contributions to the Fund. The proposed terms would also include a 0.5 percent service fee on the grant amount upfront per grant and on disbursed amounts annually for both types of concessional loans.

In reactions to the paper, several Board members felt the issue was not ripe for decision, even after a few iterations of the paper over several Board meetings. The Dutch Board member felt that a lot more variation on concessional loan types beyond the two proposed was needed, pointing to the fact that in the World Bank, IDA and IBRD together provided nine different loan types. She and the Board member from China also questioned the use of service fees for grants, particularly for the most vulnerable countries, with the American Board member worrying that proposed concessionality would not be sufficient for LDCs if a "country-risk premium" approach applies, which could disadvantage the most vulnerable countries. He asked for more information on a pricing policy for loans and grants by the Fund to be taken up at the 9th Board meeting. The Board members from Cuba, the Philippines and India underscored that rates and conditions should be at least equal to, but not worse than what is provided by IDA. The Board member from the DRC and others also worried about the reinterpretation of grant-provision as "contingent grant", fearing that this would jeopardize the engagement of African actors and lead to a bias for co-financed activities. He also felt that lending in local currencies should be considered to allow particularly small and medium-sized local private sector actors to engage. Given the Board's time constraints, the Co-Chairs asked the Board and the active observers to submit their comments in writing, but did not further advance a draft decision during the Barbados meeting. The existing paper might be adapted in light of Board member comments to form the basis for a decision of the Board on this issue, most likely at the 9th meeting in March 2015.

Use of Other Financial Instruments

The Board in Barbados did discuss the use of other financial instruments besides grants and concessional loans. Many Board members, predominantly from developed countries, had in past meetings stressed that the operationalization of the GCF's Private Sector Facility (PSF) and efforts to mobilize funding at scale necessitated a full range of financial tools beyond grants and concessional loans as a way to maximize leverage of private sector finance. One of the decisions taken on the essential requirements for initial resource mobilization at the 7th Board meeting in Songdo, namely the one on initial modalities for the operation of windows at the Fund's PSF (decision B.07/08), requested the Secretariat to advance work on the use of other financial instruments, including guarantees and equity investments, for consideration at the 8th Board meeting. A key set of recommendation by the GCF Private Sector Advisory Group (PSAG) annexed to a work report of the group and taken note of by the Board at its 7th Board meeting,[62] also included the expansion of financial instruments, suggesting that it should to focus especially on equity and de-risking instruments, including guarantees.

Decision B.07/08 also requested the PSAG to advice the Board for its 8th meeting on modalities and instruments to mobilize private sector resources at scale, "including through special financing vehicles or instruments, including risk mitigation instruments." For Barbados, the PSAG presented its six key recommendations on this issue in a short paper[63], arguing 1) that the PSF should be ready to make funding allocations at the same time that the overall GCF becomes available; 2) that the intermediaries are considered as GCF implementation partners with accountability for the execution of structuring financial instruments with projects; 3) that intermediaries should follow a set of principles in deploying instruments with the private sector; 4) that intermediaries have the flexibility to deploy any instruments “they have capacity and expertise to deploy”; 5) that selecting PSF intermediaries should look at additional considerations beyond the overall accreditation process such as their ability to bring in co-financing or pilot innovative instruments; and lastly 6) that PSF allocations by the Board should be “against an intermediary’s ability to deliver GCF objectives”, thus allowing the intermediaries to prescribe conditions and terms for specific projects under those allocations (i.e. in essence devolving project decisions to the private sector intermediary).

The Board paper for Barbados[64], taking into consideration a number of these PSAG recommendations both explicitly and implicitly, looked at four broad classes of financial instruments currently made available by the financial sector. It specifically excluded derivatives “because of their complex deployment and less immediate attractiveness for the Fund” at this point in time, while noting however that the use of derivatives could be considered by the Board at a later date. Those four classes are: 1) **debt**, which the Fund has already approved; 2) **guarantees** (comprehensive and partial); 3) **insurance products** (such as weather or disaster insurance); and 4) **non-debt risk-bearing instruments** such as equity based on grants received by the Fund. These instrument are to provide direct financial support to accredited intermediaries and could also support financial markets more indirectly, for example through credit support for bond issuance, particularly in developing countries.

The paper then looked at several key principles directly taken from work by the MDBs that should govern the use of GCF financial instruments to work with the private sector such as **financial additionality**, **commercial sustainability** and the **addressing and minimizing of market failures** and then ranked instruments in the four classes described above in their attractiveness to the Fund according to their risk-bearing capacity, scalability and potential for crowding in (“leveraging”) additional private sector resources. It then suggested to the Board to allow that grants received in the GCF Trust Fund could be utilized as guarantees and equity, arguing that this “recycling” of GCF grants as “smart grants” allows for their multiple disbursement without creating additional risks for the Fund. It proposed their deployment in an initial phase by giving grants to intermediaries and implementing entities for them to use as guarantees and equity, with the GCF grant to be returned if and when the associated guarantees expire unused and the equity investment is repaid to the intermediary. The expectation of repayment in using grants with intermediaries is also meant to reduce the risk of subsidizing private sector actors and shareholders and avoiding the creation of market distortions. After a review of the initial phase, the paper suggests that the Fund could extent its portfolio of financial instruments to include insurance as well as the ability to invest directly in projects. Such a second phase could be timed around the first Fund replenishment forecast for 2018.

In the Board discussion, several developing country Board members, including from the DRC, Zambia, South Africa and Barbados, sought reassurance from the Secretariat that “we are not taking a hammer to a screw” and that the litmus test for the use of proposed additional financial instruments was whether national actors, particularly SMEs would benefit from the application of these instruments. The Board members from Zambia, the DRC and Barbados missed financial instruments particularly suitable for their needs, especially for adaptation and including insurance products as further work in the COP on loss and damage progresses. They felt that the proposed additional instruments seemed biased toward utility for multilateral companies from developed countries for mitigation activities. While the Board members from France, Norway, China, the UK and the United States seemed happy overall to move forward with the draft decision, the Board members from China, the United States and Norway asked for some clarification about the cost and capacity implications of adding financial instruments for the Secretariat, among other issues pointing out that equity investment expertise (necessary then for due diligence by the Secretariat) was expensive. For the private sector, the Northern active observer recommended to include guarantees in a number of available instruments and to look at the limited use of derivatives for example as swaps to address currency risks. In contrast, the Northern active civil society observer argued that more work was needed to ensure compatibility of the use of other financial instruments with the UNFCCC framework and that in determining the use of other financial instruments their advantages and disadvantages with respect to social impacts and non-climate co-benefits as well as their ability to contribute to the allocation goals of the Fund and to also manage non-financial risks needed to be considered.

The Secretariat was asked to rework the draft decision and a new version was adopted by the Board with minor adjustments. Decision B.08/12 mandates that accredited entities as part of their application documentation indicate the "range of financial instruments that they have the capacity and expertise to deploy". Accredited implementing entities and intermediaries can disburse GCF funding in approved projects and programs by using grants, concessional loans, equity and guarantees. The Risk Management Committee is tasked to assess and monitor risks related to the implementation of Fund projects and programs through accredited intermediaries and implementing entities using these additional financial instruments and is to oversee a review of the lessons learned from their deployment. The Secretariat is asked to carry out such a review within three years of this decision.[65]

Private Sector Facility

The development of a Private Sector Facility (PSF) is mandated by the Governing Instrument (para.41), which also places the activities under the PSF under the mandates and requirements of a country-driven approach (para.42), including, as defined by the COP decision in Durban on the GCF, the application of a no-objection procedure. At the 4th Board meeting in Songdo, the Board decided to construct the PSF as an integral component of the Fund placed under the authority and guidance of the GCF Board and to establish a Private Sector Advisory Group (PSAG) as a joint panel of Board members and external experts on the private sector to make recommendations to the Board on the Fund-wide engagement with the private sector and modalities to that end (Board decision B.04/08). Paris decision B.05/13 established the Private Sector Advisory Group (PSAG), approved the terms of reference for the PSAG, including a set of criteria to determine the total eight private sector and two civil society members of the group, and appointed the Board members from South Africa and Switzerland, and the alternate members from Pakistan and the USA to the group. The Board at its 6th meeting in Bali in February 2014 then confirmed the selection of the eight private sector and two civil society international experts for an initial term of 18 months.[66] The PSAG is to recommend to the Board how the Fund, especially its Private Sector Facility (PSF) should engage the private sector in order to catalyze financial flows to recipient countries, with a specific focus on domestic small and medium sized enterprises (SMEs) and engaging local actors in small island developing states (SIDS) and least developed countries (LDCs).

Paris decision B.05/17 on resource mobilization also determined that initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility were part of the eight essential requirements for the Fund to receive, manage, program and disburse financial resources. For the 6th GCF Board meeting in Bali, the Secretariat had prepared a modalities paper for Board consideration and decision.[67] Board members in Bali welcomed the paper as a good overview, but noted also gaps, such as missing elaborations on the workings of the adaptation and mitigation windows and the PSF – their structure, how they interact, or eligibility criteria for recipient countries to access funding under each. In Bali, the Board did take a decision (B.06/04), acknowledging that the initial modalities were still under discussion, and asked for a revised document to address Board members' concerns about perceived shortcomings and gaps for the 7th Board meeting. In addition, modalities for the PSF were to be developed for Songdo based on the recommendations of the PSAG. The PSAG held a first workshop meeting in April 2014 in Geneva, preparing a document for the Board with key recommendations,[68] was taken note of by the Board at its 7th meeting in Songdo.

Reacting to the revised modalities paper presented for consideration and Board approval in Songdo[69], developed country Board members from Australia, the United States, Japan and the UK felt that there were too few details on the PSF, criticizing that they still missed a sense of how this important component of the GCF would work and urging the Board to take into account recommendations of the PSAG from its first workshop for the development of the PSF in line with the Bali decision. Songdo decision B.07/08 on the initial modalities for the Fund's windows and its PSF then proposed the consideration of further modalities for the PSF at the 8th GCF Board meeting, including how to mobilize private sector resources at scale, how to promote the participation especially of local and small and medium-sized enterprises and local financial intermediaries in vulnerable countries with an emphasis on adaptation, and what other financial instruments (including risk mitigation instruments such as guarantees as well as equity investments) might be needed to leverage private sector resources in line with the mandate from Paris decision B.04/08. The PSAG at its second meeting in Cape Town in early September 2014 addressed these modalities in its discussions and developed written recommendation on these issues for the consideration of the Board at its 8th meeting in Barbados. The PSAG recommendations also informed the preparation of separate Secretariat papers on these issues.

Reporting back to the full Board on the work of the PSAG, the South African Board member in his capacity as the co-chair of the PSAG stressed that the private sector members of the PSAG needed a more predictable schedule for future PSAG work to fit GCF matters into their schedule as busy CEOs as well as a continued support by the Secretariat for the group’s activities.

Working with Local Private Entities, Including Small- and Medium-Sized Enterprises

Board decision B.04/08 re-emphasized the Governing Instrument’s mandate of para. 43 that the PSF will promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises (SMEs) and local financial intermediaries and with a focus on actors in LDCs and SIDS and asked for modalities to be developed for Board consideration. The Songdo decision from June 2013 also demanded that the Fund’s PSF pay special attention to Africa and to adaptation activities. At the 7th Board meeting the decision on the initial modalities of the Fund’s mitigation and adaptation windows and the PSF (decision B.07/08) tasked the Secretariat to undertake further work on this issue and requested the PSAG to provide advice on how this decision could be best implemented.

The PSAG at its meeting in September considered the topic and provided written recommendations.[70] These were presented to the Board and fed into the work of the Secretariat in preparing the relevant Board paper. In recommendations to the Board and Secretariat, which were presented by a PSAG representative in Barbados, the advisory group pointed out that SMEs in developing countries account for over 60 percent of GDP and over 70 percent of total employment and are thus the heart of the private sector in developing countries. They advised the Fund to establish a targeted SME investment strategy with a Board decision on an allocation floor for that purpose. The provision of GCF funding for SMEs would focus on grants and highly concessional loans (with a reduction of interest rates and longer tenure). As the PSAG representative explained a 2 percent reduction in interest and a three year increase in the loan tenure could reduce the price of investment in solar energy for many SMEs to the point of price competitiveness with coal and other fossil fuels. While the PSAG supported the ultimate phasing in of a direct approach that would allow local private sector entities to access GCF funding without intermediaries in order to reduce transaction cost and allow for timely delivery (for example through a Fund-operated small grant & loan facility), it recommended the implementation of an SME investment strategy through accredited national and local intermediaries as a starting point.

The Board paper and draft decision[71] outlined four types of support the Fund could provide to micro-, small- and medium-sized enterprises (MSMEs) in recipient countries that would address and help overcome capacity constraints, high transactions costs, insufficient size or maturity of markets, including financial markets, and information gaps leading to market failure. All these currently undermine fair engagement opportunities for local MSMEs. These proposed four GCF support activities are: 1) Providing concessional resources to MSMEs to offset the lack of access to financial markets – **MSME Support Program:** this could focus on addressing the unmet needs for MSMEs (some US$ 2 trillion in developing countries to less restricted and more concessional, more patient bank loans. Financing be provided through national and local intermediaries selected through specific requests for proposals (RFPs). The Secretariat proposes to target “supply chain financing” for export-oriented MSMEs. 2) Providing resources for project development and capacity-building – **Private Sector Project Development/Capacity Building Program.** Such a program would include financial support for project preparation, development advisory services and target training to develop bankable projects and work through regional or national intermediaries participating in specific requests for proposals (RFPs)**.** 3) The **use of financial instruments, including an innovative provision of grant financing** and 4) a **streamlined approval processes for MSME private actors** are support actions to be considered in targeted programs. Actors to be involved in such a targeted Fund approach would be accredited national intermediaries such as commercial banks or insurance companies and microfinance institutions and as executing entities commercial enterprises and MSMEs in both the formal and informal sector. The Secretariat suggested that because of high transaction costs, support for MSMEs could be through a program-based approach with intermediaries rather than direct MSME access. The MSME program would support small-scale adaptation investments through concessional finance, for example early for warning systems, local insurance and micro-insurance provision or to address debt rescheduling needs in the face of business disruptions resulting from adverse climate change impacts. A draft decision suggested to the Board approval for the set-up of both proposed programs and to request the Secretariat to issue RFPs for entities/intermediaries to implement GCF funding under those programs.

In Barbados, Board members from both developed and developing countries welcomed the proposed MSME support program, calling it an exciting approach and a "low-hanging fruit ripe for decision" with just minor adjustments and clarifications needed. For developing countries, the Board members from Zambia, the Philippines, the DRC, Barbados and Cuba expressed their support, but asked that the program was designed to accommodate the needs of the smallest players so that larger players and intermediaries would not take advantage of them. Some also felt that technology development and transfer should be a focus and that not the supply-chain for export-orientation but the demand side of the MSMEs themselves should be the driving factor. The Board member from Cuba reminded his colleagues that SMEs are also found in the public sector and likewise needed targeted funding approaches. Lastly, the Egyptian Board member pointed out that MSMEs encompassed both the formal and informal sector and that a classification of MSMEs and an understanding of the extent of the informal sector and how it can be reached was important for the purpose of the program. For developed countries, the Board members from the United States, Switzerland, the UK, Germany and France spoke in favor of the approach and asked for some more specificity on the terms of reference for the envisaged programs. They underlined the importance of working through request of proposals from relevant Fund-accredited national intermediaries, such as large domestic financial institutions with a vast network of clients. For the private sector, the Northern active observer voiced support for the MSME program, pointing out that it should also seek to address regulatory constraints and explore linkages and synergies with programs already in existence at MDBs and other implementers. For civil society, the Southern active observer underlined that the PSF should be primarily about support to domestic MSMEs and that a clear definition of which entities such a program would target was necessary.

Following the discussion, the Co-Chairs asked the Secretariat to rework the draft decision based on the recommendations by the Board. Due to time-constraints, a new version of the decision text was not discussed in Barbados and the decision deferred to a future GCF Board meeting. Given that there was general Board consensus on the approach and the utility of the MSME program for the Fund's PSF, the Board could decide on specific terms of reference for such program already at its next meeting.

Potential Approaches to Mobilizing Funding at Scale

At its 4th meeting in Songdo in June 2013 as part of the discourse on the Fund's Business Model Framework (BMF), the Board in decision B.04/08 on the PSF recognized the need to mobilize funds at scale from the private sector, such as institutional investors like pension funds and sovereign wealth funds, and to design modalities for that purpose. One year later at its 7th meeting, the Board in decision B.07/08 committed to further work on defining modalities for mobilizing private sector resources at scale. In the same decision, the Board requested the PSAG to make recommendations on this issue.

The Secretariat's paper[72] focused on ways to enhance the Fund's core resources of public contributions by looking at how to attract financial inputs from institutional investors and the financial markets as contributors. It first identified the most prominent sources of private sector funding with global asset pools lead by commercial banking (US$115 trillion), private wealth (US$ 42.7 trillion), investment funds (US$22.4 trillion), pension funds (US$19.3 trillion), sovereign wealth funds (US$4.2 trillion) and alternative investments such as private equity (US$3.1 trillion), and rated their diverging interests and abilities to invest in climate change projects and programs. For example, commercial banks' investment appetite is usually limited to proven technologies and well-known project types and focused on a shorter time-frame of less than 10 years. In comparison, institutional investors such as pension funds and insurance have a long-term investment horizon of longer than 10 years, but usually require highly rated investment vehicles with AAA rating (which does not allow for much risk-taking).

As the Fund initially will have neither a credit rating nor a track record on investment financing, it has to work through intermediaries that have the ability to attract third party investors through special financial products and structures. The paper then explored the option of issuing **bonds** (with the Secretariat paper judging these to be "the single largest avenue through which the GCF can mobilize private sector funds at large scale"). It looked at **commercial paper programs** as a short term alternative for local private sector funds to invest into projects and to attract funding from local banks and high net worth individuals, presenting it as particularly suitable for attracting financing into micro-, small- and medium-sized (MSME) programs. **Syndications and club deals** were considered by the Secretariat's analysis to be good options for smaller scale projects as they are already widely used by banks to disseminate risk even in immature financial markets. The paper looked lastly at **private placement programs** which usually expect high returns and might therefore be more suitable to attract inputs by high net worth individuals into pilot projects.

A final section of the paper then explored how the PSF could deploy the grants and concessional lending it can provide to accredited intermediaries for them to blend and on-lend Fund resources with their own resources as a way to structure effective financial solutions by issuing competitive requests for proposals in which the private sector intermediary best able to attract third party funding at scale would receive PSF concessional funding. Examples provided include

- Support of debt securities by financial intermediaries in local capital markets (by providing credit or liquidity support in the form of first loss structure);
- Extending grace and repayment periods beyond what would be otherwise available on the market;
- Extending lines of credit to accredited financial institutions in the form of a program, with projects within the Fund-approved program chosen and managed by the intermediary, for example for MSME projects and activities (a form of enhancing direct access for national, sub-national and regional private sector entities).

The PSAG recommendations[73] focused on a number of key principles which propose to evolve the PSF into an increasingly risk-taking entity that matches project pipelines to leveraged finance and uses concessional finance to cover subordinated or first loss debt position and thereby ensures "appropriate return across the total portfolio" in early initiatives. In the medium to long term, the PSAG sees the Fund as developing its own investment grade credit rating, allowing it to raise capital in the form of its own green bonds, and as directly supporting equity and credit private sector funds.

Responding to the presentations of the Secretariat and PSAG recommendations, Board members reacted with comments and requests for clarifications. Several Board members, including from the UK, the Netherlands and Germany, welcomed the suggestions of the Secretariat paper overall, but felt that it did not yet provide a business plan for the PSF and did not give a clear picture of what the PSF will look like. While the American Board member lauded the multiplier effects of the mobilization options discussed, the Board members from the Philippines, Cuba, Zambia and Switzerland cautioned that the paper should not just applaud the advantages of financial structures and products discussed but also clearly delineate risk and concerns. For example, the Board member from the DRC worried that the issuance of commercial papers might not be consistent with the Fund's country ownership principle and that the interest of pension funds as institutional investors to avoid risk was incompatible with the need of the GCF and the PSF to do "risky business" to affect the paradigm shift. His Swiss colleague reminded the Board that the focus has to be "not just on the far away investors" but instead on the ownership of the domestic private sector and local intermediaries. The Board member from Egypt questioned if a competitive process to select an intermediary based on its ability to attract third party funding into a project was only working for turn-key projects but not for proposals looking for incremental funding. He and other Board members suggested postponing decision-making on this issue pending further work from the Secretariat on a business plan for the PSF, which would detail its structure, capacity and plans, possible to be considered at the next Board meeting.

Fund-Wide Gender-Sensitive Approach

The Governing Instrument mandates in para. 3 that the GCF take a gender-sensitive approach in order to maximize the impact of its funding for adaptation and mitigation, and thus defines gender-sensitivity as a cross-cutting issue for operationalizing the Fund. However, the first few GCF Board meetings failed to address gender at all. At the 4th GCF Board meeting in Songdo in June 2013, the Danish/Dutch GCF Board seat represented a non-paper on *"Operationalizing the Gender-Sensitive Approach in the Green Climate Fund"*[74] with a set of recommendations on how the gender dimension could be addressed and integrated in operational modalities and policies of the Fund. At the 5th Board meeting in Paris, absent a Board document for Board consideration and decision, gender was addressed under "other business." With a large number of Board member urging action, a surprise Board decision in Paris reaffirmed the Fund's commitment to a gender-sensitive approach and requested the Secretariat to present for the Board's consideration an options paper[75] at the 6th Board meeting. In the Board discussion in Bali, members unanimously welcomed the paper and adopted a decision which urged the Secretariat to ensure that gender is integrated into upcoming policy documents, including those for the decision at the 7th Board meeting. Bali Decision B.06/07 also mandated the development of a gender policy and action plan, including through consultations with observers. A draft was to be discussed at the Songdo meeting to be revised and finalized at the 8th Board meeting in October.

Due to the decision by the Co-Chairs to focus the 7th Board meeting only on the completion of the outstanding six operational modalities considered essential requirements for the Fund' initial resource mobilization, a discussion on a draft gender action plan and policy was postponed. However, the mandate from GCF Decision B.06/07 to integrate gender considerations into Board documents for decision in Songdo did apply unrestricted to the work of the Board and the Secretariat. Songdo Board decisions on the Fund's guiding framework on accreditation, its investment framework, its results management framework, its proposal approval process, as well as on the structure of the Fund and the modalities of its funding windows and the PSF did contain gender references or acknowledged the future gender policy as informing the Fund's operational approaches in some of these areas. An in-depth analysis of the status of mainstreaming gender into the GCF after the 7th GCF Board meeting identified some critical next steps, including, probably most importantly, the development of gender-responsive indicators. These have to go beyond a narrow focus on just gender-disaggregating data but need to include also a qualitative assessment of Fund activities' contribution to gender equality as a way for more efficient and effective mitigation and adaptation action.[76] Such gender-informed quantitative and qualitative measurement is crucial for both the results management framework and the investment framework. The 8th Board meeting in Barbados took up the performance measurement frameworks for adaptation and mitigation and acknowledged in decision B.08/07 the need for the further development of a gender-sensitive approach to GCF performance measurement. This further work will likely be addressed at the 10th or 11th Board meeting. The development of indicators for the Fund's investment criteria was not taken up at the 8th Board meeting, but will likely be addressed at the Board's March 2015 meeting.

A discussion on the draft gender policy and gender action plan was on the agenda for the 8th Board meeting. A Board document[77], drawing on lessons learned from other climate funding instruments and on stakeholder consultations, proposed to anchor the GCF's Gender Policy on six fundamental principles: 1) **commitment** to gender equality and equity; 2) **inclusiveness** *i*n terms of applicability to all Fund activities; 3) **accountability** for gender and climate change results and impacts; 4) **country ownership** in terms of alignment with national policies and priorities and inclusive stakeholder participation; 5) **competencies** throughout the Fund's institutional framework; and 6) **equitable resource allocation** to ensure that women and men benefit equitably from the Fund's activities. A proposed draft Gender Action Plan to structure the implementation of the Fund's new Gender Policy in a verifiable and time-bound manner focused on the six priority areas, namely the Fund's governance and institutional structure, including in reaching out to recipient countries; the development of administrative and operational guidelines; capacity-building both within the Funds and among the Fund's partners; outputs, outcomes and impact monitoring and reporting; resource allocation and budgeting; and lastly, knowledge generation and communication. (Annex II provides some civil society comments on the draft gender policy).

In Barbados, gender as an agenda item only came up on the fourth day of the meeting late in the evening. The Australian Board member speaking on behalf of a large group of countries, including Spain, Norway, the United States, Korea, the DRC, Barbados, Argentina and others, felt a shortened discourse late at night did not do justice to the importance of the issue and suggested for Board members to send in comments with a view to deal with the issue intersessionally. However, several other Board members including from India, Zambia, South Africa, Cuba and the Philippines felt that the discussion on such an important issue should be held fact-to-face in the full Board, "receiving the proper attention that it deserves" and not addressed in-between meetings only via written comments and confirmed by no-objection. A compromise proposal was then made by the Australian Board member to discuss both the gender policy and the gender action plan at the 9th Board meeting and prioritize such a discussion by putting it early on the meeting agenda. His Board colleagues agreed with this proposal and the Co-Chair noted it as the way forward. Adopting a Fund’s gender policy and developing an updated gender action plan conjointly with a further elaboration of the initial operational essential modalities and the Board’s work plan for 2015 will be crucial for the full operationalization of the GCF’s gender-sensitive approach.

Update on Structure and Staffing of the Secretariat

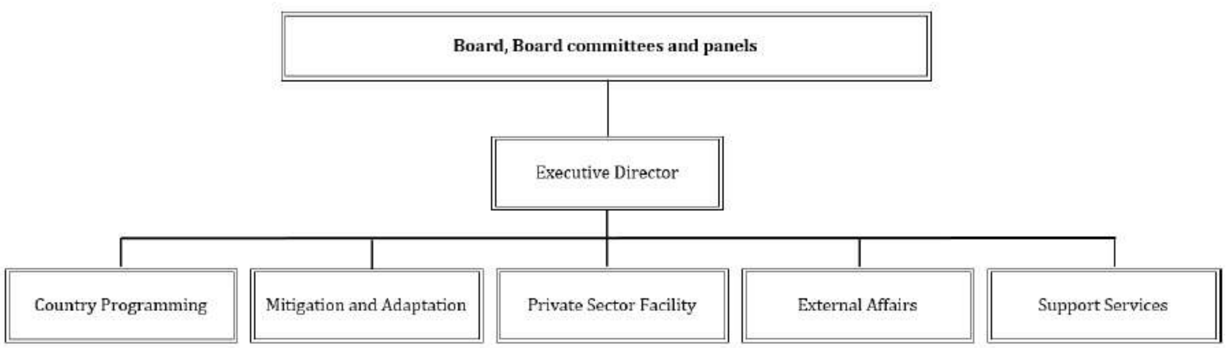
At its 4th Board meeting in Songdo in June 2013, the GCF Board in Decision B.04/09 outlined that the initial structure and organization of both the Fund and the Secretariat should be thematic, with a Private Sector Facility (PSF), a strong country and programmatic focus, as well as “internal coherence and linkages, and the flexibility to evolve over time.” At the next Board meeting in Paris in October 2013, the Board then decided the initial structure of the Secretariat with the flexibility to evolve over time but starting out with five divisions, focusing on country programming; mitigation and adaptation; the PSF; support services; and external affairs respectively and each headed by a director reporting to the Executive Director, who was given the authority to recruit staff according to an indicative staffing goal of 48 persons total with 38 specialist positions and 10 support staff (Decision B.05/10). Paris Board decisions also set up a number of Board committees and panels (Decisions B.05/12-13) and formally established the Independent Secretariat by terminating the interim arrangements and formalizing the Secretariat’s move to Songdo, South Korea (decision B.05/11).

The structure of the Fund was one of the eight essential policy requirements for the initial resource mobilization. At its 6th meeting In Bali, the Board only discussed a progress report by the Secretariat[78] on the structure of the Fund with a revised report presented to the Board at its 7th meeting in Songdo.[79] It provided an overview over the evolving structure of the Fund and detailed indicative staffing allocation and key responsibilities of the initial Secretariat staff of 48. A number of developing country Board members at the 7th Board meeting urged the Executive Director to ensure geographical balance and diversity of experiences of Secretariat staff in her hiring, specifically through an improved representation of nationals from developing countries with first-hand on the ground experiences, fearing that Secretariat staff and consultants with prior MDB experience were overrepresented in the current composition. Songdo decision B.07/07 mandates a review of the structure of the Fund and the Secretariat no later than three years after the initial resource mobilization of the Fund in early 2018.

For the Barbados Board meeting, the Secretariat prepared a Board document[80] which gives an update on the structure and staffing of the Secretariat one year after Paris. The Board took note of the update provided in the Secretariat’s report, which is to be submitted to the Board from now on annually. Some of the Board’s decisions during that year necessitated adjustments to the initial staffing plan. For example, the Board approved initial risk management framework (decision B.07/07) requires that the Secretariat’s Risk Manager and General Counsel report directly to the Executive Director, but also that they can provide advice directly to both the Executive Director and the Board. In recruiting for some 20 positions the Secretariat was also faced with the need to reconsider some job descriptions and seniority levels of originally proposed staff positions. The report also proposed the creation of several additional positions, including specifically a Social and Gender Expert as requested under a draft gender policy for Board consideration and decision at the 9th GCF Board meeting. Under an updated new structure proposed by the Secretariat (see Table10) there will now be four divisions and three offices, with several staff positions reframed or upgraded and moved to different offices and divisions.

As of September 30th, 2014, some 20 senior and specialist positions, the ED included, were filled, among them the positions of four division directors as well as that of the general counsel. The Governing Instrument gives the Secretariat the mandate to consider gender and geographical balance in its staffing (para. 21). An overview of the distribution among staff appointed by September 30, 2014 showed that of a total of 26 positions, 14 were filled with staff from developed and 12 from developing countries, with 14 of them men and 12 women. However, this seeming numerical balance tells only half of the story: of the higher level 19 staff positions filled by end of September, 14 were filled with nationals from developed countries, but only five with experts from developing countries. Almost three times as many of these high level professional positions were men (14) then women (only 5). Conversely, seven lower paid administrative support staff position were filled with nationals from developing countries, all of them women. Several developing country Board members (including from Cuba and India) urged an improvement of the gender and geographical balance in filling remaining professional positions, not just in the Secretariat, but also in expert panels and advisory groups to the Board (the issue came also up regarding the composition of the newly appointed Accreditation Panel). They pointed out that the Secretariat needed to be more pro-active in ensuring an adequate balance as the current search process approach “does not yield the balances we are seeking” and asked for relevant language also to be included in the human resources guidelines of the Fund.

Figure 4: Updated Structure of the GCF Secretariat



Source: Board document GCF/B.08/Inf.05 “Annual Update on the Structure and Staffing of the Secretariat” (as of September 20, 2014), Table 2, p.2.

Administrative Guidelines on Human Resources

At its 6th meeting in Bali in February 2014, the Board approved the administrative policies of the Fund (decision B.06/18) based on the practices of the Asian Development Bank covering human resources, the administrative budget, procurement and asset management, information and communication technologies as well as audit and internal controls; this decision also set the Secretariat’s staff salary structures. In Barbados, the Secretariat highlighted the necessity for the Board to approve the Human Resources (HR) guidelines for the GCF in order to fill a vacuum of staff recruitment in the absence of adopted guidelines and safeguard the Fund against legal challenges. A 150+ page document was circulated to the Board in limited distribution in advance of the Barbados meeting. A number of Board members submitted comments to the Secretariat in writing, including on the salary scale and application of salaries at recruitment; regarding cost-of-living adjustments and housing allowances; on issues related to staff retirement and severance provisions; as well as asking questions concerning maternity leave and sexual orientation of staff.

In a brief Board discussion, the Board member from India urged to include a passage in the HR guidelines that would strengthen the mandate for adequate geographical and gender balance of Secretariat staff. Responding to that suggestion, the Dutch Board member highlighted a provision in the employment policy under the HR guidelines stating that staff recruitment and appointment would be made without discrimination and that the Fund in committing to a policy of equal employment opportunity for women would take “affirmative action in recruitment, selection and appointment to ensure a gender balanced work force at all levels.”[81] Several developed country Board members, including from the UK, the Netherlands, Germany and the United States, felt that on the one hand more time was needed to reflect their comments and concerns, which they had forwarded to the Secretariat in written submissions, in the HR guidelines, while on the other hand they were mindful of the urgent need to move forward with the approval of the HR guidelines. The Board member from the Netherlands, supported by the Board members from the US, Japan, Germany and the UK, therefore proposed to adopt the draft administrative guidelines on human resources for a year only, while allowing Board member to provide further written comments on the guidelines until the end of 2014. At the next Board meeting, the Secretariat is to present an information note detailing those changes, which will have to be incorporated into the guidelines on the basis of the comments by Board members. The Board will then review the guidelines, based on the Secretariat's information note, at the last GCF Board meeting in 2015. This suggestion was endorsed by the Board, which approved the administrative guidelines on human resources of the GCF with decision B.08/17 until the end of 2015.

Administrative Guidelines on Procurement

Procurement by the GCF of consultants and of good and services is part of the administrative policies of the GCF, which were approved at the 6th Board meeting in Bali (decision B.06/18) and which are based on practices used by the Asian Development Bank in line with prior GCF Board decisions. As with human resources management, the management of GCF procurement of consultants and goods and services necessitated an elaboration of administrative guidelines on procurement. At the 8th Board meeting in Barbados, the Board was asked to approve a Board document detailing in annexes two sets of corporate procurement guidelines for the GCF, namely one on the use of consultants (covering their selection, contracting, monitoring as well as the evaluation of their conduct) as well as one for goods and services.[82] A number of Board members indicated that they had either already submitted comments that they felt needed addressing (for example the Filipino Board member wanted new wording to address a perceived possible bias of procurement guidelines for consultant against developing country domestic consultants and in favor of international consultants from developed countries) or that more time for a more thorough review was needed. The Board member from Germany agreed with a proposal of his Indian colleague to follow the example set in the Board deliberations dealing with the HR guidelines and to adopt the administrative guidelines on procurement likewise only for a year until the end of 2015 while allowing for further comments by Board members until the end of 2014. The Board members from the United States and Cuba supported this proposal.

With decision B.08/21 the Board approved the current text of the administrative guidelines for one year and requests the Secretariat to present an information at the second Board meeting of 2015 in June, which will detail suggested changes based on Board members' written comments to be incorporated into the guidelines. The Board will review the guidelines then based on the information note at its last Board meeting in 2015.

Status of Resources (before IRM) and Administrative Budgets for 2014 and 2015

The Board only took note, but did not discuss a report that the World Bank as Interim Trustee prepared for the Barbados Board meeting on the financial resources available in the GCF Trust Fund[83]. It shows that as of June 30, 2014 (thus, before the start of the Initial Resource Mobilization process for the Fund), the GCF Trust Fund received pledges and contributions from 15 countries (Australia, the Czech Republic, Denmark, Finland, France, Germany, Indonesia, Italy, Japan, Korea, Netherlands, Norway, Sweden, Switzerland and the UK) totaling US$ 56.25 million, with contributions received from 13 countries totaling US$ 51.41 million. Since the last status report, the GCF Trust Fund received US$ 14.73 million in additional contributions from Korea (which paid in US$ 11 million, primarily for readiness activities), the UK and Switzerland. Cumulative pledges from Indonesia, Italy, France and Sweden for the administrative budget of US$ 3.78 million were still outstanding.

As of June 30, 2014, there were no resources available to support new GCF funding decisions, which by then already amounted to US$ 55.82 million (of which US$ 4.3 million were subject to the availability of new resources). However, with the initial resource mobilization process (IRM) started in early July 2014 (which culminated in the pledge conference of November 20, 2014 in Berlin) the GCF Trust Fund will grow exponentially, provided that countries which committed resources during the IRM are following through quickly with their first contribution payments of what are in most cases multi-year pledges.

Table 11: Status of Pledges & Contributions to the GCF Trust Fund, as of June 30, 2014

Country	Pledges (US$ '000s)	Deposited (US$ '000s)
Australia	513	513
Czech Republic	300	300
Denmark	1,261	1,261
Finland	648	648
France	1,691	326
Germany	24,330	24,330
Indonesia	250	--
Italy	683	--
Japan	1,500	1,500
Korea	14,158	14,158
Netherlands	966	966
Norway	1,402	1,402
Sweden	2,998	1,511
Switzerland	562	562
United Kingdom	4,988	3,935
TOTAL	**56,250**	**51,412**

Source: Document GCF/B.08/Inf.03, September 25, 2014, "Green Climate Fund Trust Fund Status of Resources as at 30 June 2014"

The Board also took note of a report on the status of execution of the administrative budget of the Fund from January 1 to August 31, 2014.[84] At its meeting in October 2013 in Paris, the Board approved an administrative budget for the year 2014 of up to US$ 18.82 million based on funds available in the GCF Trust Fund. The Board also approved from resources available or to be made available in the GCF Trust Fund the budget cost of Secretariat staff salaries and entitlement for a three year contract period projected to be US$ 12.04 million for 2015, US$ 12.4 million for 2016 and US$ 3.13 million for 2017.

In the first eight months of 2014, the total expenditures of the Fund amounted to US$ 4,827,386, which was significantly lower than originally projected. The main reasons for the savings were that the government of Indonesia as host of the 6th GCF Board meeting absorbed the cost for the venue and related logistical services for that event. In contrast, the costs for the 7th GCF Board meeting, which was held in Songdo, South Korea, were covered mainly from the administrative budget of the Fund. However, the biggest reason for the actual underspending was the seven months delay in filling GCF Secretariat staff positions and relying instead on part- and full-time consultants, many of whom worked remotely. The expenditures in the administrative budget of the Fund are projected to increase significantly as from August 1, 2014 onwards 23 professional staff joined the Secretariat. However, as table 12 below details, overall projected expenditures for the administrative budget of the GCF for the year 2014 are with US4 10.17 million roughly US$ 8.65 million lower than originally budget and approved at the 5th GCF Board meeting.

The Board approved the GCF administrative budget for 2015 following a number of questions and comments by Board members, including requests for more detail and granularity in presenting financial data (from the Board members from Italy and the UK) as well as clarification request by the Indonesian Board member on budgeted investment management costs for the World Bank as the Interim Trustee. The World Bank receives 3.5 basis points (0.035 percent) of the average annual undisbursed balance in the GCF Trust Fund (amounting to US$ 175,000 for an assumed average balance of US$ 500 million in calendar year 2015). The approved 2015 budget covers the projected expenditures for the activities of the Board, the Secretariat and the Interim Trustee (against funds available in the GCF Trust Fund) for a total of US$ 19,266,866, with the biggest expenditure going to the Secretariat, particularly the projected expenditures of US$ 9,893,101 for full-time staff (Board decision B.08/16).

As of the Barbados Board meeting, the Secretariat staff was comprised of 23 professional specialists and 10 general support staff. The recruitment process for additional 15 specialist staff positions is currently underway. This is commensurate with decision B.05/10 from the Paris Board meeting in October 2013, which set the initial structure and staffing of the Secretariat at a total of 48 staff (38 specialists and 10 general support staff members). In Paris, the Board already approved budget costs and salaries for GCF

Secretariat staff for a three year period with decision B.05/20, thereby allocating US$ 12,042,101 for 2015. In Barbados, the Board approved an additional allocation of US$ 7,224,765 for non-staff costs (including for Board travel, committee and panel meetings, Interim Trustee services and general operating costs, contractual services and information technology costs) for the total 2015 GCF administrative budget. This budget will be revised according to actual incurred expenditures.

Table 12: Total Actual GCF Administrative Budget Expenditures from November 1, 2012 until August 31, 2014 and Total Projected Expenditure for 2014

Proposed GCF Administrative Budget for January 1 to December 31, 2015

	Actual expenditures (11/1/2012 – 12/31/2013)	Approved Budget (1/1/2014 – 12/31/2014)	Actual expenditures (1/1/2014 – 8/31/2014)	Estimated expenditures (9/1/2014 – 12/31/2014)	Total projected expenditures (1/1/2014 – 12/1/2014)	Proposed budget (1/1/2015 – 12/31/2015)
1.Board						
1.1.Board Meetings	286,614	1,052,000	664,946	405,176	1,070,122	1,132,000
1.2 Board Ctes, panels &working groups	0	170,000	21,120	9,976	31,096	266,000
1.3 Co-Chairs & Board representative travel	n/a	22,500	15,550	10,000	25,550	22,500
Sub-total Board	***286,614***	***1,244,500***	***701,616***	***425,152***	***1,126,768***	***1,420,500***
2. Secretariat						
2.1. Total salaries, wages & consultancies -- *Sub-Total*	*3,516,435*	*11,806,666*	*3,107,737*	*3,257,399*	*6,365,136*	*12,042,101*
2.1.1. Full time staff	n/a	8,744,960	856,162	1,669,707	2,525,869	9,893,101
2.1.2. Temporary support staff	n/a	556,706	641,200	172,000	813,200	250,000
2.1.3. Consultancies	n/a	1,575,000	1,245,931	740,692	1,986,623	1,522,000
2.1.4. Staff interview travel and appraisal	n/a	217,500	155,918	135,000	290,918	72,000
2.1.5. Relocation benefits & allowances	n/a	712,500	208,526	540,000	748,526	305,000
2.2. Travel (Board Meetings & consultations)	417,217	450,000	142,268	307,500	449,768	985,000
2.3. General operating & IT costs & contractual services	256,200	4,874,000	559,742	1,103,800	1,663,542	4,103,065
Sub-total Independent Secretariat	***4,189,852***	***17,130,666***	***3,809,747***	***4,668,699***	***8,478,446***	***17,130,666***
3. Interim Trustee						
3.1. Financial & program management	n/a	260,400	n/a	n/a	392,279	346,600
3.2. Investment management	n/a	35,000	n/a	n/a	24,388	175,000
3.3. Accounting & reporting	n/a	31,300	n/a	n/a	5,235	41,100
3.4 Legal Services	n/a	115,700	n/a	n/a	141,727	153,000
Sub-total Interim Trustee	***294,959***	***442,400***	***316,023***	***247,600***	***563,629***	***715,700***
GRAND TOTAL	**4,771,425**	**18,817,566**	**4,827,386**	**5,341,451**	**10,168,843**	**19,266,866**

Sources: Document GCF/B.01-13/Inf.02 "Status of Resources" (as of February 24, 2013); Document GCF/B.05/Inf.03 "Status of Resources" (as of September 17, 2013); Document GCF/B.06/Inf.03 "Status of Resources (as of February 14, 2014); Document GCF/B.07/Inf.03 "Report of the Administrative Budget of the Fund for 1 January to 31 March 2014" (as of May 8, 2014); Document GCF/B.08/Inf.04 "Status of Execution of the Administrative Budget of the Green Climate Fund and its Readiness Programme for 1 January to 31 August 2014" (as of October 5, 2014); and Document GCF/B.08/24 "Administrative Budget of the Fund for 2015" (as of September 29, 2014).

Initial Resource Mobilization Process

The Governing Instrument stipulates that the Fund will "receive financial inputs from developed country Parties to the Convention" and that it "may also receive financial inputs from a variety of other sources, public and private, including alternative sources" (paras. 29 and 30). In Paris, the Board adopted decision B.05/17 on resource mobilization, which mandated that the GCF's initial resource mobilization process would commence as soon as possible, but no later than three months after a set of eight operational modalities considered by the Board to be essential requirements for the Fund to receive, manage, program and disburse financial resources had been met. Those eight essential requirements included the six operational policies that were decided at the 7th GCF Board meeting in Songdo (namely the initial frameworks for accreditation, risk management, investment and results management as well as the proposal approval process, the structure of the Fund and the modalities for GCF's adaptation and mitigation windows and the PSF), as well as the two decisions taken at the 6th Board meeting in Bali in February 2014 on the allocation framework and the terms of reference for the Fund's three independent accountability mechanisms.

At the 7th Board meeting, Songdo decision B.07/09 confirmed that the eight essential requirements were met. It kickstarted the initial resource mobilization process through a collective engagement of potential contributors via one or more meetings with a first contributor meeting to take place by the end of June 2014. Contributors at this meeting were to recommend policies for contributions to be formally decided by the GCF Board, with the World Bank as Interim Trustee preparing a template for legal arrangements for contributions to the Fund. The meetings were to be organized as technical sessions, open to potential contributors and including the Board's Co-Chairs, four Board members (two developed/two developing), the Secretariat's Executive Director as well as one active observer each from civil society and private sector, but also convened as executive sessions in which only the contributors and the Board Co-Chairs were allowed with technical support by the Interim Trustee. The Fund's Interim Information Disclosure Practice decided at the Paris Board meeting (decision B.05/15, Annex XX) governed the disclosure of information and documents regarding the initial resource mobilization process, with para.17 of that annex specifying that "[i]nformation and documents regarding the initial resource mobilization for the Fund and the Fund replenishments will be disclosed on the Fund's website, including the timing of the replenishment, discussion documents for contributors meetings and the final contributors report", although not necessarily all relevant financial information.[85] These documents, however, have so far not been made publicly available on the GCF website.

At its 8th meeting in Barbados, the Board took note of the outcome of the first and second meeting of interested contributors to the GCF IRM, with Board members from the Philippines and Cuba welcoming the contributions already made, urging to keep the momentum and reminding developed countries of their responsibility under the UNFCCC to contribute to the GCF as the first dedicated climate fund under the convention. The Board members from France and Germany, whose countries had already made their pledges at this point, hoping for good results in filling the Fund before the Lima COP. The outcome document[86] was presented to the Board by the chair of the IRM process, Ambassador Lennart Båge from Sweden, a former president of the International Fund for Agricultural Development (IFAD), who had been approached to facilitate the IRM after the first meeting in Oslo, Norway.

First and Second Meetings of Interested IRM Contributors

A first meeting of interested contributors took place from June 30 to July 1 in Oslo, Norway, attended by senior government officials from 24 developed and developing countries interested in contributing to the Fund, as well as one private sector and one civil society observer each, and chaired by the Norwegian GCF Board member as host. The GCF Board was represented by the Co-Chairs from the Philippines and Germany, as well as by the Board members from Chile and India from developing countries. Several developed country Board members were also present as delegates for their respective governments, including from France, Germany, the UK, Japan, and Sweden. Developing country delegates from Mexico, Peru, Indonesia and South Africa also participated. They were joined by the Fund's Executive Director.

Repeating a key demand from the discussion on commencing the initial resource mobilization (IRM) at the 7th GCF Board meeting in Songdo, developing country representatives as well as the civil society observer urged to come out of the Oslo meeting with a clear goal of achieving an ambitious scale for the IRM commensurate with the challenges developing countries face in addressing climate change domestically. Such an ambitious capitalization goal would confirm the GCF as the main channel for the long-term climate finance commitment of US$ 100 billion per year by 2020 and as the cornerstone of 2015 climate agreement in Paris. In contrast, developed country representatives saw the Oslo meeting solely as a technical session addressing policies and the template for legal agreements for contributions, but not yet as the place and time for concrete numbers and pledges.

In Oslo, participants discussed the proposal for the policies for contributions (which was not publicly released), in which a number of issues were elaborated, including, the types of contributions and their financial terms as well as how to deal with foreign exchange risk and liquidity risk of the Fund to repay possible loan contributions. Other issues discussed in Oslo dealt also with the possibility of a limited form of earmarking – the GCF Board so far had clearly expressed a rejection of earmarking – and the uncertainty about the permanent trustee of the GCF, as the mandate of the World Bank as Interim Trustee would end in April 2015 without further action. In the meeting, the issue of fair burden sharing and the possibility of developing a voting procedure for the GCF Board in the absence of consensus that would tie voting to contributions by developed countries into the GCF Trust Fund also came up. It also discussed a programming document summarizing the role and the governance procedures of the GCF for potential contributors. Technical documents were sent back to the GCF Secretariat for revision.

The second IRM technical meeting took place in Bonn on September 8-9 with interested contributors from 22 countries along with observes attending, among them representatives from Peru, Columbia, Mexico and South Korea for Non-Annex I countries and the GCF Board developing country Board members from Zambia and Cuba. The meeting was chaired by Ambassador Båge. It continued the discourse about the policies for contribution began at the first meeting based on an updated document (not publicly released), which formally addressed the issues of GCF Board decision-making, trustee arrangements and targeting as matters for urgent clarification and Board decision. Most interested contributor countries felt that some limited targeting of funding, specifically for the windows or the Private Sector Facility of the Fund, should be allowed and the mandate of the Interim Trustee extended for the duration of the IRM period (from 2015 – 2018) to ensure the confidence of the contributors. Potential contributors, including some from developing countries, also recommended that the GCF Board address the principles and procedures for decision-making in the Board in the absence of Board member consensus. Meeting participants also considered the policies that need to govern loan contributions to the Fund, such as prudential debt limits or financial cushion. Discussions addressed the questions of how to determine an effectiveness date for the IRM and when to trigger a formal GCF replenishment process. While the issue regarding a financial target and related time-scale for the Fund was added to the agenda, no formal recommendations were agreed upon; however, a number of potential contributors indicated that some pledges could be made in the context of the UN Secretary General's Climate Summit just a few weeks later. Instead the Secretariat suggested that after the completion of the contributor meetings, the Board could request the Secretariat to do further work on how to maximize GCF resources. A formal pledging conference, tentatively scheduled for November 20, was confirmed as a final contributor meeting.

During the meeting, the issue of whether the GCF Board needed to approve the recommended contribution policies which the two technical IRM meetings had finalized for the contribution policies to take effect was debated with some participants questioning the need for Board approval, which the Secretariat's legal counsel did confirm. This meant that the Board at its October meeting had to formally adopt the recommendations from the IRM meetings before the pledging conference.

Policies for Contributions

The recommendations from the two IRM contributor technical meetings were submitted to the Board at the Barbados meeting and presented there by the IRM facilitator, Ambassador Båge, with the request for the Board to endorse the policies.[87] The document outlined the IRM as following a voluntary, ad hoc approach, noting that a variety of existing funds use different approaches, including formal funding cycles and replenishment and that the GCF's ad hoc approach now does not preclude a formal replenishment approach later. While contributors are asked to pledge at a formal pledge meeting, additional contributions can be received on an ongoing basis throughout the IRM period, which is defined as the four year period from 2015 to 2018. The Fund will be ready to formally commit funding when for 50 percent of contributions pledged by the November 2014 pledging session fully executed contribution arrangements have been received by the Secretariat no later than April 30, 2015. A formal replenishment process is then triggered once the Fund approved funding for more than 60 percent of the total contribution received during the IRM, which is expected to occur by the middle of 2017.

The Fund can receive funds in form of grants, paid-in capital contributions and concessional loans. The latter two can only come from public sources (primarily developed country Parties to the UNFCCC), while grants can be contributed by private sector entities, other non-public actors, philanthropic foundations or alternative sources. Policies for the contribution of these non-public and alternative sources still have to be developed. The two IRM meetings had focused only on Parties to the Convention. The policies recommend to maximize the grant contribution and establish a prudential debt limit of 20 percent, meaning in a conservative approach only up to 20 percent of all IRM contributions can be received in the form of grants. Loan and capital contributions will be required to include an additional grant element of at least 10 percent of the pledged loan or capital contribution. These would be used for non-reimbursable expenditures such as the Fund's administrative budget or fees charged by implementing entities and intermediaries. Aggregate capital contributions are likewise not to exceed 20 percent.

With the acceptance of repayable loans as contributions, for the financial sustainability of the Fund and in order to avoid the cross-subsidization of loan repayments by the providers of grants, as established under the initial Financial Risk Management Framework (Songdo decision B.07/05), all loan contributors have to provide a cushion of 20 percent of the face value of the loan contribution in the form of a grant. This is meant as a protection against losses from non-performing loans, which could occur depending on how much risk the Fund is willing to take in its loan funding approach. Loans contributions to the Fund can be either more concessional (40 year maturity with 10 year grace period and zero or 1 percent p.a. interest rate) or less concessional (25 year maturity with only 5 year grace period), with a grant equivalence of between 43.44 percent for the most concessional and 19.7 percent for the least concessional options.

Contributions will be legally confirmed through contribution agreements between the Fund, the contributor and the Interim Trustee. Payments can be made in cash or via promissory notes with an encashment period of no longer than nine years according to a set encashment schedule to allow for the comparison of contributions in real time. The risk of non-payment of contributions can be primarily managed through "moral suasion" or "ongoing lobbying of contributors." The paper also listed the option of reducing voting shares by the amounts of contributors in arrears as a way to manage risk. Foreign exchange risk of loan contributions lastly is to be managed by matching currencies of loan contributions in the aggregate to the currencies of the Fund's commitments to IEs and intermediaries; this also allows the GCF to lend to recipient countries in other currencies than US dollars.

The recommendations from potential contributors to the IRM also included some sections on decision-making, trustee arrangements, and the targeting of contributions. On decision-making, the document had highlighted that interested contributors saw decision-making procedures for the GCF Board as key to the ability to mobilize resources by incentivizing higher pledges. The Barbados document asked the Board to agree on principles for voting, which included a link of voting to contributions. On trustee arrangements, the interested contributors stressed the need for "clarity and certainty on the continuity in the provision of current trustee services to the Fund during the IRM period" and asked for an extension of the current arrangements. Lastly, on targeting of contributions, the policies document suggested to allow contributors to target their contributions to the Fund's two windows and the PSF in line with the Bali allocation decision B.06/06 by limiting the aggregate volume of targeted contributions to the Fund to 20 percent of the total confirmed contributions to the Fund. These three recommendations were very controversial, leading to heated discussions in the Board over several days, with a number of developing country Board members stating their unwillingness to endorse the policies for contributions if these paragraphs remained in the text.

While the voting issue as well as the trustee arrangements were to be discussed as separate agenda items, and separate Board documents had been prepared on these issues, the Board members from Cuba, China, Egypt and Zambia stated that they could not prejudge future decisions by the Board by endorsing recommendations that contain elements of a future decision on voting procedures which had not yet been discussed. The Board member from Egypt also questioned the process and felt that the Secretariat had overstepped its authority by preparing the document on contributor policies in its current form. He suggested treating the document as background information only. In contrast, developed Board members from the United Kingdom, Norway, France and the United States felt that the document fulfilled exactly the mandate by the Board for the IRM meetings, namely to come back with those recommendations to the Board which contributors deem to be crucial to keep the momentum in the GCF. Board members from the UK and France suggested focusing on discussing the substance and asking the Board to just take note of the recommendations. This was met with some skepticism by the Secretariat’s legal counsel who warned of that a solid policy to accept funding was needed. The Board member from China suggested, and the US Board member concurred with the suggestion to remove those paragraphs in the text that dealt with the issue of decision-making and the trustee arrangements.

The Saudi Arabian Board members, speaking as a member of the developing country constituency, then asked to also remove any references to earmarking, as he felt that it would undermine the Board’s power to decide GCF funding priorities. The explanation by IRM facilitator Båge that the proposed targeting in the IRM would not create a precedent and was in no way taking away the decision-making power of the Board, was rejected by the Cuban Board member, who felt that targeting was just a soft word for earmarking. The South African Board member than suggested some language changes to the paragraph on targeting. Such changes were opposed by the German and Norwegian Board representatives who stressed that the policies paper was a carefully put together document. The Secretariat’s legal counsel indicated that under the current Trust Fund agreement only contributions in forms of grants were feasible. The Board then argued over whether without an endorsement of the policies for contribution potential contributors could enter into contribution agreements with the Executive Director signing on behalf of the Fund. The Norwegian Board member warned that a non-endorsement of the policies by the Board might introduce uncertainty and could lead to the attachment of conditionalities by individual contributors to their pledges. The Board members from Zambia, Egypt, China and South Africa questioned this argumentation, with the South African Board member rejecting any efforts to enforce earmarking through the contribution policies and reminding his colleagues that the Copenhagen Accord on long-term climate finance commitments was silent about earmarking and that a contributor arrangement is possible without any reference to earmarking. The Board member from Zambia felt reminded of the politics of power of conditionalities and structural adjustment and warned “we will tell the world that we will not deal with climate change because the donors insisted on targeting.” In the end, and despite the insistence of the American Board that “any change to the carefully crafted language will put into jeopardy our ability to pledge to the Fund” the Board agreed to drop the paragraphs mentioning targeting in the policies for contributions that then received the GCF Board’s endorsement with decision B.08/13.

Decision-Making in the Absence of Consensus

The Governing Instrument lists decision-making by Board member consensus as the primary decision-making procedure in the Board, but mandates the Board to develop procedures for adopting decisions in cases “that all efforts at reaching consensus have been exhausted” (para.14). The adoption of such procedures, however, will require consensus in the GCF Board, which has been so far elusive on that matter.

The Board discussed voting procedures for the Board in the absence of consensus for the first time at the 3rd Board meeting in Berlin in March 2013 in the context of agreeing on additional rules of procedure for the Board. It looked then at various weighted voting options, but could not agree on the preferred option. The issue than made a re-appearance at the 4th Board meeting in Songdo in June 2013, with a Board paper GCF/B.04/12 (in limited distribution then and not available online) looking at options that included a **“double majority, weighted majority”** approach (majority of Board members and majority of weighted votes on the basis of financial contributions to the Fund using basic and proportional votes similar to the Board representation in the Bretton Woods Institutions or at the GEF) and a “**double majority, one-member one vote”** approach (with a majority of Board members required for Board members from the developed and developing country constituency respectively) or a **“simple majority** (for example used by UNEP) or “**two thirds majority**” approach (as the Adaptation Fund and the GAVI Alliance uses). In Songdo, the Board only took note of the options, indicating further consideration in the future. The issue came up again informally in the Paris Board discussion in October 2013 in the context of Board deliberations on financial inputs to the Fund, with several Board members requesting clarification and assurances – to be reflected in the meeting report – that the Board and Board documents were not suggesting a link between capital contributions and preferential terms or voting rights for contributors to the Fund.[88]

Decision-making in the GCF Board via voting procedures then was brought up again in the discussions of potential contributors (predominantly developed countries with an interest in a burden-sharing approach within their constituency and in increasing their cloud in the Board) in the two technical IRM meetings in July and September 2014. In advance of the second IRM meeting in Oslo in September, the Secretariat at the request of interested contributors prepared a concept note on voting (not available online on the GCF website) that looked at four double-weighted voting options, including an option similar to the current GEF practice in which a formal vote by the Board would require the support of 15 Board members as well those from countries representing a 60 percent majority of the total contributions to the Fund. Another option would increase both required majorities to 18 Board members and 75 percent majority of contributions to the Fund. The exchange of interested contributors on these and other options for voting resulted in a set of recommendations by the participants for contribution policies to the Fund (discussed further above). They prominently included the request to the Board to look at voting as a "measure of last resort" based on three core principles which included besides the **participation of all Board members in the voting procedure** and the request for **"qualified majorities depending on the type of decisions**" an explicit **link with contributions.**[89] In a brief paper for Board consideration in Barbados, the Secretariat elaborated that using these three recommended principles in a balanced partnership approach between developed and developing country Board members would necessitate the development of a "unique approach to voting." A draft decision requests the Secretariat to attempt to develop such a procedure based on the Board's acceptance of these three principles.[90]

In a heated Board discussion in Barbados, the Board members from Cuba, Egypt and the Philippines angrily questioned the authority and the appropriateness of the Secretariat's preparation of the IRM concept note and the Board document on decision-making, arguing that once the Secretariat introduces a document it becomes a Board document and that the Board had not mandated the concept note and Board paper. These members also reminded their colleagues and the Secretariat of the design process for the GCF in the Transitional Committee, which had been unable to agree on voting rules. Board members from China, India and South Africa rejected any link of a future GCF voting structure to contributions, underscoring that "GCF votes are not for sale" and that such a link would undermine the balanced partnership between developed and developing countries by establishing a plutocracy in which "power and money talk". The Board member from Barbados underscored that for the GCF to be an ethical organization and to move beyond business-as-usual a link to voting was inappropriate, likening it to his personal experience where "at home, I make 75 percent of the income, but do not have 75 percent of the vote", saying "this would be unethical". The Board member from Zambia proposed instead "to link decision-making to vulnerablility," thus giving those countries most affected an added weight, if weighted voting is considered at all.

For developed countries, the members from Norway, the United States, the United Kingdom and Switzerland argued that voting was needed to increase the speed and effectiveness of decision-making in the Board, with the British Board member arguing that the GEF example shows that just the introduction of a voting structure is enough to induce discipline. The American and Norwegian Board members denied any attempt to introduce a Bretton Woods style voting system, saying that decision-making in the Board would not solely be based on contributions and that such an approach provided a great incentive to increase inputs into the Fund. The Board members from Sweden and France agreed and emphasized that the IRM was tasked to mobilize inputs to the Fund and that a weighted voting approach also considering a link to contributions was a way to do it.

Several Board members, including from South Africa, Cuba and Germany felt that this discussion should be continued in 2015 as there was no immediate need to act (and the IRM can proceed without such voting rules established), with the Secretariat tasked to further develop options for decision making that would seek to support a balanced partnership with equality between developed and developing countries (such an option could be for example a two-thirds double majority of developed and developing country Board members each). The suggestion by the American Board members to make reference to the practice of relevant funds and institutions in such an exploration (which would invariably bring up a voting linked to contributions) was modified by the Indian Board member, who asked to look at relevant public funds only without trying to put a monetary value on voting in a repeat of the reality of the Bretton Woods Institutions. Barbados decision B.08/17 reaffirms para. 14 of the Governing Instrument and then tasks the Secretariat to develop voting options based on a Non-Paper by the Co-Chairs on voting procedures (GCF/B.08/44), which is not available via the GCF website and was only distributed among the Board, but not to observers.[91]

Legal Arrangements for Contributions and Trustee Arrangements

The World Bank is currently serving as the interim trustee for the Fund with its mandate, without extension, running out on April 30, 2015. According to COP Decision 3/CP.17 from Cancun, the permanent trustee is to be decided in a transparent and open selection process, which the GCF Board would have to have started no later than at the 8th Board meeting in order to avoid, as requested by the Durban decision and in COP guidance since then, an interruption in the provision of trustee services. Such a process would have fallen squarely into the time-frame for the initial resource mobilization process. In the IRM technical meetings, potential contributors citing their desire for stability therefore had recommended to extent the current interim trustee arrangements for the duration of the IRM until 2018. The technical IRM meetings in recommending policies for contributions also stipulated that capital contributions and loans could be received as inputs into the GCF Trust Fund in addition to grants. In order to implement these contribution policies, it was thus necessary to amend and restate the current agreement between the Fund and the World Bank on the terms and conditions for the administration of the GCF Trust Fund, as the agreement in its old form only allowed for grant contributions (such as those received up to now for the administrative budget of the Secretariat and the Fund's readiness activities).

In Barbados, the Board formally considered two agenda items on the issues, dealing on the one hand with the legal arrangements for contributions as part of its IRM discourse as proposed in a document produced by the Secretariat[92], while also considering the extension of the World Bank's mandate as Interim Trustee and the set-up for procedures to review the work of the interim trustee and to select the permanent trustee in a separate document.[93] The Board adopted decision B.08/15 on the legal arrangements for contributions without Board discussion. It approved the amended and restated Interim GCF Trust Fund Agreement and authorizes the Executive Director to finalize with the Interim Trustee the templates for the contribution arrangements reflecting policies of contributions as endorsed by the Board in Barbados. The ED also executes on behalf of the Fund any contribution agreements to be entered into with the Interim Trustee and a contributor to the GCF Trust Fund.[94]

On the Trustee arrangements, the Board in Barbados discussed the key issue on how long to extend the World Bank's services as Interim Trustee and when the review of the performance of the Interim Trustee as well as the process for selecting a permanent trustee were to start. Cancun decision 1/CP.16 invited "the World Bank to serve as the interim trustee for the Green Climate Fund, subject to a review three years after operationalization of the Fund." In the IRM meetings, potential contributors had asked for the Board to extend the services of the Interim Trustee throughout the IRM and to decide at the Barbados meeting at what point the Fund would be considered operational. During the process of drafting the paper for Board consideration and approval, the two Board Co-Chairs, as reflected in an exchange of letters[95], hard sharply differed on the focus of the proposed draft decision and specifically whether the several dates suggested by the Secretariat as the date for the operationalization of the Fund were appropriate or even necessary. The dates proposed by the Secretariat for Board consideration were:

1) The date of confirmation of the completion of the essential requirements (at the 7th GCF Board meeting on May 21, 2014);
2) The date of the GCF Pledging Conference (November 20, 2014); or
3) The effectiveness date for the Fund's authority to commit funding, which is reached when 50 percent of contributions pledged by the Pledging Conference received by the Secretariat in the form of fully executed contribution agreements (meaning the legal arrangements are concluded, but not implying the funds to be transferred – expected by the end of April 2015).

In the Board discussion in Barbados, developed country members from Japan, the UK, the United States, Germany and Italy repeated their position from the IRM technical meetings that contributor countries needed clarity and certainty on the continuity of the trustee arrangements and asked for the services of the Interim Trustee to be extended until 2018, with the American Board member suggesting that the effectiveness date of April 30, 2015 should be considered as date of the operationalization of the GCF.

The Swiss Board member concurred with the need to set the operationalization date, stating that while the GCF Board has held eight meetings, the Fund has still no accredited institutions, projects or pipelines. From developing country side, and circulated through the office of Co-Chair Salceda, a second draft decision text was introduced proposing that the Interim Trustee's mandate would be extended only for another year without setting the start date for the operationalization. The Board member from the DRC, acknowledging the tension between principles and practicality reflected in the two decision drafts, felt that there could be some flexibility in using a date – either 2016 or 2018 – for the extension of Interim Trustee provisions, instead of referring to the period of extension as "three years after operationalization of the Fund." The Board member from Barbados supported a clear reference to an extension of Interim Trustee services until 2018 to ensure speedy delivery of funding, while his Peruvian colleague felt sufficient certainty could be achieved by referring to an extension of the World Bank's service by "up to three years" while simultaneously starting the selection process for the permanent trustee. The Board member from Egypt then suggested deleting the paragraph in the decision that would set the operationalization date and instead focusing on setting in motion the process for the selection of the permanent trustee in earnest. The Board member from Zambia agreed, but also suggested that the possibility should be explored of the GCF acting as its own a trustee.

Barbados Board decision B.08/22 does not set a date for operationalization of the Fund but it effectively extends the services of the Interim Trustee until April 2018. The decision invites the World Bank to continue its service as the Interim Trustee "until a permanent Trustee is appointed" with the process for such an appointed completed by the end of 2017. The permanent Trustee is then to assume its tasks "no later than April 2018". The Secretariat is requested to draw up draft terms of reference for the review of the Interim Trustee and a methodology for an open, transparent and competitive bidding process to select a permanent Trustee by the 11th Board meeting in October. It is also asked to examine the option for the Fund to provide its own permanent Trustee services. The Secretariat is mandated to develop a list of institutions and organizations that could serve as the GCF's permanent Trustee.[96]

Pledging to the GCF

Following the formal start of the IRM with the GCF Board's adoption of the essential requirements in Songdo in May 2015 (decision B.07/09), expectations for how much it could secure ranged widely. UNFCCC Executive Secretary Christiana Figueres on the sideline of the climate talks in Bonn in early June 2014 stated that the initial capitalization of the GCF "should be at least 10 billion USD"[97]. GCF Executive Director Hela Cheikhrouhou in a media interview shortly thereafter expressed confidence that the IRM process could raise "between $10 and $15 billion," to be "easily deployed within three years."[98] Representatives from developing countries and civil society publicly demanded a minimum of US$ 15 billion in new and additional public funding alone for the Fund's IRM, with some indicating that replicating the fast-start finance efforts for the GCF initial contribution, namely US$ 30 billion over three years, was more appropriate.

The first important contribution toward the Fund's IRM came on July 14th on the sideline of the Petersberg climate dialogue by German chancellor Angela Merkel, who committed "up to € 750 million" or close to US$ 1 billion to the GCF.[99] Eight additional pledges were made during the UN Secretary General's Climate Summit on September 23rd in New York, among them France's commitment for US$ 1 billion, the Korean and Swiss pledge of US$ 100 million each and a Danish promise for US$ 70 million, with six other countries committing to allocating funding in November (such as the United States, Japan, Finland and the Netherlands). Just days before the pledging conference, on the sidelines of the G20 Summit in Australia the United States and Japan promised to contribute up to US$ 3 billion and US$ 1.5 billion respectively. The Berlin pledging conference on November 20th then saw 21 countries either re-iterate or upgrade previous commitments or make new funding promises, yielding a combined US$ 9.3 billion equivalent according to an official count by the GCF Secretariat, and thus coming close to the minimum US$ 10 billion widely acknowledged at this point to be the mark of a successful GCF IRM. Post-Berlin, further pledges were made by Canada and Spain, with additional commitments being announced during the COP 20 in Lima, Peru. Among the countries making new or upgraded announcements there – and thereby officially putting the GCF pledge process over the US$10 billion mark – were Norway, Australia, Belgium, Peru, Austria and Columbia. The official tally at the end of COP 20 in mid-December 2014 stood at close to US$10.2 billion from 29 contributing countries.

Table 13: Reported Pledges to the GCF (as of the end of COP 20, December 12, 2014)

Country	GCF pledges in country currency (as of 12/15/2015)	Pledges in USD Millions	Conditions and caveats
Australia	200 million AUD	165.7	*Over four years; announced at COP 20 in Lima*
Austria	25 million USD	25.0	*For period 2015-2018; possibility that this amount could be doubled in 2015; announced at COP 20*
Belgium	51.6 million EUR	63.7	*Announced at COP 20*
Canada	300 million CAD	264.7	*Present at pledge meeting; announced just hours after end of pledge meeting*
Columbia	6 million USD	6.0	*Present at pledge meeting; announced at COP 20*
Czech Republic	100 Mio CZK	4.5	*Announced at UNSG Climate Summit*
Denmark	71.6 million USD	71.6	*Announced at UNSG Climate Summit*
France	774 million EUR	971.4	*Announced at UNSG Climate Summit; 489 million EUR in grants 2015-2018; 285 million EUR in loans*
Finland	80 million EUR	100.3	
Germany	750 million EUR	940.0	*First country to pledge in June 2014; all funding as grants. Will provide p to full amount, depending on fair burden-sharing among contributors.*
Indonesia	250,000 USD	0.25	*Announced at 6th Board meeting in Bali as support for administrative budget*
Italy	250 million EUR	313.4	*All grants*
Japan	154 billion JPY	1,311.5	*Up to full amount, all in grants, but not more than 15% of total IRM by the end of COP20; further conditions to be specified*
Luxembourg	5 million EUR	6.3	*As initial grant; announced at UNSG Climate Summit*
Mexico	10 million USD	10.0	
Monaco	250,000 EUR	0.4	
Mongolia	90 million MNT	0.05	
Netherlands	100 million EUR	125.0	*Pledge announced at the Berlin meeting was USD 134 million; currency to be clarified*
New Zealand	3 million USD	3.0	*To be made at end of 2015; further funding promised at later date*
Norway	800 million NOK 800 million NOK	118.3 113.5	*Grants for 2015-2018 period; first pledge announced in Berlin; an additional 800 million NOK for a total of 1.6 billion NOK were announced on Dec. 5th*
Panama	1 million USD	1.0	
Peru	6 million USD	6.0	
Poland			*Present at Berlin pledge meeting; announced there that contribution would be forthcoming*
South Korea	100 million USD	100.0	*Grants for 2015-2018 period; includes USD 40 million previously pledged (including USD 10 million for readiness activities.*
Spain	120 million EUR	150.0	*Pledged 13 million EUR initially at Berlin meeting, but raised pledge to a multi-year grant of 120 million EUR on November 28th.*
Sweden	4 billion SEK	541.3	*Grants for 2015-2018 period; announced at UNSG Climate Summit*
Switzerland	100 million USD	100.0	*Grants, paid out in annual tranches 2015, 2016, 2017*
United Kingdom	720 million GBP	1,126.3	*No more than 12% of GCF IRM up to 720 million GBP; on the expectation that the Board agrees soon on Private Sector Facility & the investment criteria*
United States	3 billion USD	3,000.0	*Up to full amount over four years, but no more than 30% of IRM. "Significant portion" to support the GCF Private Sector Facility*
TOTAL		**9,639.2**	***The choice of exchange rates likely explains the discrepancy with the GCF Secretariat's report of total pledge volumes***

Sources: GCF Secretariat Press Releases (http://www.gcfund.org/press/releases.html); ODI/HBF, Climate Finance Fundamentals 11: The Green Climate Fund, December 2014 (http://www.climatefundsupdate.org); author's own research.

NOTE: The exchange rate from which pledges are converted from their stated currency to USD is uncertain. The table uses exchange rates as per the date of the pledge, which leads to a discrepancy with the GCF reported total pledge volume. Exchange rates as of date of pledge are as follows for 11/20/2014 (Berlin Pledge Meeting): 1 EUR – 1.25 USD; 1 GBP = 1.56 USD; 100 JPY = 0.85 USD; 100 SEK = 13.53 USD; 1 CAD = 0.88 USD; 100 NOK = 14.79 USD; 100 CZK = 4.52 USD; 1000 MNT = 0.53 USD. For 11/28/2014: 1 EUR = 1.25 USD. For 12/5/2014: 100 NOK = 14.18 USD. For 12/10/2015: 1 EUR = 1.25 USD; 1 AUD = 0.87 USD

While the pledges received over the last several months have made the GCF the largest public climate fund, many observers, including from civil society, have pointed that with the IRM lasting from 2015 to 2018 this translates to roughly US 2.5 billion per year for the Fund, still far away from making the GCF the most significant channel for the Copenhagen promise for US$100 in long-term finance per year by 2020 from a variety of sources.

The table above provides an overview of the individual country pledges to the GCF and the terms and conditions of these commitments to the extent that they are known. As a significant number of these pledges were made and will be paid in countries' own currencies (and it is not known which exchange rate the Secretariat used in calculating the aggregate tally), the total pledge reflected here appears lower due to the uncertainty of currency exchange rates.

Report for the Conference of the Parties (COP), including the Response to Guidance Provided by COP 19

The GCF is an operating entity of the financial mechanism under Article 11 of the UN Framework Convention on Climate Change (UNFCCC). The Governing Instrument in para. 4 stipulates that the Fund "will be accountable to and function under the guidance of the Conference of the Parties (COP)." In Durban in 2011, COP 17 with decision 3/CP.17[100] approved the Governing Instrument; the COP also decided to provide guidance to the GCF related to policies and program priorities and concretely stipulated for example the development of a transparent no-objection procedure to be conducted through national designated authorities and the selection of the permanent trustee for the GCF "through an open, transparent and competitive bidding process in a timely manner". COP 19 then agreed on the arrangements between the COP and the Fund approved by the Board in the fall 2013, which detail the provision of an annual report of the GCF to the COP (decision 5/CP.19), and provided initial and additional guidance to the GCF with decision 4/CP.19.

At the Barbados meeting, the Board was asked to review a draft report of the GCF to the COP.[101] It was the first report since the establishment of the independent Secretariat (altogether, it constituted the third annual report of the GCF) and the first to report on the implementation of the arrangements between the COP and the Fund. The elements to be covered in the report include for example information on the implementation of COP guidance on policies, program information and eligibility criteria. One key task in 2014 was the completion of the eight essential requirements for the start of the initial resource mobilization. Among those, the allocation parameters, specifically the decision to consider a 50:50 balance between mitigation and adaptation over time, follow explicit COP 19 guidance. The GCF annual report to the COP includes also a synthesis of different Fund activities under implementation. While the report for COP 20 detailed only the implementation progress on US$ 1 million committed initially under the readiness program during the summer of 2014, it is expected that the 2015 report to COP 21 in Paris will have significantly more to report.

As noted by some Board members, including the member from the Philippines, and acknowledged in the report to the COP itself, the GCF was not able to present its annual report to the COP within the requested time period of no less than 12 weeks prior to the session of the COP, a lapse that is bound to be repeated as the last Board meeting of the year, which normally considers this report, takes only place in September/October. Due to the time-pressures of an overlong agenda, the Board in Barbados did not at length discuss the report. However, the Board member from the Philippines underlined the importance of the GCF report to the COP for the developing countries, particularly the report's task to detail how previous guidance of the COP to the GCF has been implemented. She stated that the GCF has been lacking in particular in responding to requests by the COP to link the GCF with the UNFCCC Adaptation and Technology Committees, which she felt could have provided much needed expertise for ongoing GCF decision-making. The Board authorized the outgoing Co-Chairs with the assistance of the Secretariat to finalize the draft report after the Barbados meeting (decision B.08/23).

COP 20 Guidance to the GCF

The COP 20 in Lima, while noting and welcoming "with appreciation" progress made toward the full operationalization of the GCF and "the successful and timely initial resource mobilization process of the Green Climate Fund that led to the mobilization of USD 10.2 billion to date by contributing Parties", gave the Fund also a long "to-do-list"[102] thereby underlining that the COP pays close attention to the work of the GCF Board and Secretariat. Some of the key asks from the COP 20 guidance include demands for the acceleration in the operationalization of the mitigation and adaptation windows (para.8) and the private sector facility (para.9) of the Fund, but also requests to further increase the transparency of GCF proceedings (para.11) and to further enhance the collaboration of the GCF with existing funds under the Convention (para. 16) as well as the participation of all stakeholders in the GCF in line with the Governing Instrument's para. 71 (which gives private sector actors, civil society organizations, vulnerable groups, women and indigenous peoples a role "in the design, development and implementation of the strategies and activities to be financed by the Fund.").

Institutional Linkage between the United Nations and the Green Climate Fund

The GCF Governing Instrument details that the Fund will have juridical personality and legal capacity to exercise its functions and protect its interest and that it therefore requires privileges and immunities applicable to both the Fund as a legal entity and Fund officials in the exercise of official Fund business (paras. 7 and 8). With Paris decision B.05/11, the Board in October 2013 had requested that the Secretariat seek the legal opinion of the UN Office of Legal affairs to clarify whether, and if so under what circumstances the Fund could be institutionally linked to the United Nations and if the UN's Laissez Passer privileges and immunities could be extended through a relationship agreement to Fund officials. Such an institutional linkage does currently exist between the UN and the UNFCCC for example.

Legal discourses between the GCF Secretariat and the UN Office of Legal Affairs during the first half of 2014 however cast doubt on whether in light of the GCF's use of hybrid procedures for its administrative framework (which based its policies for human resources, procurement and travel policies on the practices of the Asian Development Bank) such a linkage could be extended analogue to that between the UN and the UNFCCC. Instead the UN Office of Legal Affairs advised that it would be a matter for the General Assembly of the United Nations and the COP of the UNFCCC to decide. These recommendations and an analysis of the necessary scope and terms of an institutional linkage between the GCF and the United Nations were included in a Board document presented for consideration and decision in Barbados.[103] The Board was asked to approve specific language to be included in the report of the Board to the COP, in which the COP would be asked to initiate a request to the UN General Assembly to consider an institutional linkage between the UN and the GCF.

In a brief Board discussion, all speakers highlighted that for the speedy full operationalization of the Fund the protection through privileges and immunities of the Fund and the persons associated with it is essential. However, there was some unclarity and concern whether seeking institutional linkage to the United Nations, while providing an effective framework for the collaboration of the Fund with the United Nations, would subject the GCF to the rules and regulations and the overall authority of the United Nations; in the case of the institutional linkage between the UNFCCC and the UN, the UN Secretary General appoints the Executive Director of the UNFCCC Secretariat for example. The Board member from the United States specifically asked for addition of language to a draft decision on exploring institutional linkage that would carefully recognize the independence of the Fund, although as the Board member from the Philippines reminded him, the Fund is part of the UNFCCC process already. He suggested that the Secretariat should also work on a bilateral solution concurrently, in which the Fund Secretariat would need to prepare bilateral agreements with all the Parties to the UNFCCC where it is operating to ensure that the Fund, its officials and operations are covered by privileges and immunities.

Board decision B.08/24 asks the COP to consider recommending to the UN General Assembly the possibility of an institutional linkage between the UN and the GCF "that is consistent with the status of the Fund and the powers vested in the Board and a Secretariat that is fully independent and accountable to the Board, as stated in the Fund's Governing Instrument, as approved by the COP in decision 3/CP.17." The decision also clarifies the Board's understanding "that such institutional linkage will not affect the powers of the Board to appoint the Executive Director and to adopt rules, policies and guidelines for the effective administration of the Fund, and the powers vested in the Executive Director as the head of the Secretariat."[104] The Secretariat is in addition requested to develop immediately a template for a bilateral agreement that would provide to the Fund and its operations, its staff, members of the Board, consultants and other persons affiliated with the Fund privileges and immunities in the countries in which the GCF operates.

In its guidance to the GCF, COP 20 took note of this decision and requested the Board of the GCF to continue further deliberations on privileges and immunities and report back to COP21 on this matter. It also urged UNFCCC Parties to enter into bilateral agreements with the GCF to provide privileges and immunities. The Board from COP 21 onward on a biennial basis is asked to report on the status of existing privileges and immunities with regard to GCF operational activities.[105]

Election of Co-Chairs and Board Membership

The mandate of the Board Co-Chairs Manfred Konukiewitz from Germany and Jose Ma. Clemente Sarte Salceda from the Philippines ended after one year formally with the conclusion of the 8th GCF Board meeting. As new co-chairs overseeing and directing the work of the Board at a time when the financial future of the Fund looks secure for the next few years, but the political pressures are immense to have the GCF funding machine in full gear before the COP 21 in Paris in December, the Board's developing country and developed country constituency chose Gabriel Quijandria from Peru and Henrik Harboe from Norway. The membership of the Board is also undergoing continuous changes, with the mandate of several developing country Board members, who are sharing the seat in a grouping with several countries, ending in 2014. The regional groupings from Asia-Pacific and Latin America and the Caribbean are rotating their chairs on an annual basis during the three-year term of membership. Among developing countries, only the African regional group confirmed their members and alternates within rotation for a full term. In some developed country Board seats, where two countries are sharing the seat, there are likewise rotations scheduled, with some former alternate members now assuming the principal seat and vice versa. The Board convening for its 9th meeting in Songdo from March 24-26, 2015 will therefore look quite changed. Over the course of the past year, the Board has also lost some of its members who have been involved in the GCF from its design beginnings in the Transitional Committee, such as Germany's Manfred Konukiewitz, and with it bits and pieces of its institutional memory. The context and the history of Board decisions, however, remain important for new Board members to understand as the GCF is more and more coming into its own.

Work Plan in 2015 and Setting Priorities for the 9th GCF Board Meeting

The Board is still trying to catch up on work originally scheduled work for the 2014 work plan, which was postponed because of the deliberate concentration of the 7th GCF Board meeting on completing the then six outstanding essential requirements, thereby allowing the initial resource mobilization process to go forward as planned and culminating in the successful Berlin pledge meeting on November 2014. This however means that the work plan of the Board for 2015 has to address quite of a bit of issue backlog. For example, the gender policy of the Fund (already postponed twice), its communication strategy as well as important next steps for the three accountability units of the Fund (the Independent Evaluation Unit, the Independent Integrity Unit and an Independent Redress Mechanism) will have to be tackled in one of the three scheduled Board meetings for 2015 and sooner rather than later. This comes on top of plenty of further work needed to define the approach and shape of the Private Sector Facility, which is an urgent priority for some of the main contributors to the Fund (with the UK and the US even making explicit references on linking the fulfillment of their pledges to a satisfactory business plan for the PSF). The further elaboration of the Fund's investment framework, more work on the initial approval process and addressing the need to simplify approval procedures for small-scale activities to allow the Board – which is not a sitting one – to deal with the expected future work load of decision-making on project and activities proposals, as well as the terms and conditions of a now expanded palette of financial instruments all were scheduled for Barbados, but then had to be deferred. And of course, every single decision taken in Barbados created its own need for follow through in the form of added future decisions.

It is thus not surprising that the Board could not finalize its work plan for 2015 in Barbados. An informal two-day exchange among Board members and alternates convened in The Hague January 19-20, 2015, which was attended by the representatives from some 30 countries tried to tackle this framing task as the Fund is expected to specify its vision. Attendants were asked to discuss in an open and informal conversation what they see as the key objectives for the Fund in 2015; what structures and policies need to be in place to make the first financing decisions in 2015; what members’ vision was for the programming of the roughly US$10 billion the GCF received in pledges for the funding period until 2018; and how respectively the Board and the GCF Secretariat could improve their functioning and efficiency as well as their joint collaboration. The GCF Secretariat starts out 2015 much closer to its target staff of 48, bringing new faces (many without a deep understanding of the Fund’s context or the UNFCCC) and a heightened confidence to their interactions with the Board, which has seen some of its most experienced members leave and which is plagued by the limits the three three-day Board meetings per year impose. This increases the role (and power) of standing Board Committees, and advisory panels and groups as the Board will have to agree on how much delegation of decision-making power it is comfortable with.

The informal Board exchange in The Hague despite the cordial spirit of the conversations could not agree on the work plan for 2015; it was even rumored that from some of the developing countries a “counter work plan” was brought into circulation. The issue of the 2015 work plan might only be resolved at the first Board meeting of this year from March 24-26 in Songdo. Differing approaches to work prioritization for the year – and the emergence of an alternative work plan – reflect the growing concern of some developing countries for example in Africa that without their intervention now the GCF in 2015 might just prioritize the known – MDBs and developed countries’ bilateral DFIs as implementers, with some project and activities’ proposals for the GCF ready in their drawers – in the name of politically motivated expediency. The expectations of the outside world are high and tied to a fully functioning GCF acting as the key to unlocking the new climate agreement in Paris. In this sense, the Board’s work in 2015 despite its technical appearance will really be about the soul of the GCF (now that the body largely stands) and whether it will be able to boldly go where no existing climate fund has gone before.

ENDNOTES:

Meeting documents for the 8th GCF Board meeting (in the version submitted to the Board pre-Barbados, with some updated newer versions of some documents) are posted on the GCF website (http://www.gcfund.org/documents/board-meeting-documents.html).

The summary report of the decisions taken in Barbados was posted in early December on the GCF website (http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_45_Compendium_fin_20141203.pdf). The recordings of the Songdo proceedings are available upon registration and request (http://www.gcfund.org/meetings/protected-area/videos/barbados-october-2014.html).

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[16] The four senior international expert appointed in Bali to help with the guiding framework for accreditation are: **Mr. Peter Richard Carter from the United Kingdom** (with a background as head of sustainable development at the European Investment Bank, EIB), **Mr. Gonzalo Castro de la Mata**, Peru (with a background as chair of Ecosystem Services in offset and REDD credit trading, and also recently appointed to the World Bank's Inspection Panel), **Mr. Wolfgang Diernhofer**, Austria (with a background working as with an Austrian Consulting firm and managing his country's Joint Implementation/Clean Development Mechanism program), and **Ms. Isna Marifa**, Indonesia (with a background as a consultant for USAID, the Indonesian government, and Mobil Oil Indonesia).
[17] Bali Board Document GCF/B.06/09, "Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards (Progress Report)"; available at: http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_B06_09_Guiding_Framework_for_Accreditation_fin_20140211.pdf.

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[32] The four senior international expert appointed to help with the guiding framework for accreditation are: **Mr. Peter Richard Carter from the United Kingdom** (with a background as head of sustainable development at the European Investment Bank, EIB), **Mr. Gonzalo Castro de la Mata**, Peru (with a background as chair of Ecosystem Services in offset and REDD credit trading, and also recently appointed to the World Bank's Inspection Panel), **Mr. Wolfgang Diernhofer**, Austria (with a background working with an Austrian Consulting firm and managing his country's Joint Implementation/Clean Development Mechanism program), and **Ms. Isna Marifa**, Indonesia (with a background as a consultant for USAID, the Indonesian government, and Mobil Oil Indonesia).
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[94] Document GCF/B.08/45, "Decisions of the Board –Eighth Meeting of the Board, 14 – 17 October 2014 (as of December 3, 2014), p.16; available at: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_45_Compendium_fin_20141203.pdf.

[95] Barbados Board Document GCF/B.08/33/Add.01, "Trustee Arrangements, Including the Review of the Interim Trustee and the Initiation of a Process to Select the Trustee of the Fund -- Addendum"; available at: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_33_Add.01_Cover_Note_fin_20141016.pdf.

[96] Document GCF/B.08/45, "Decisions of the Board –Eighth Meeting of the Board, 14 – 17 October 2014 (as of December 3, 2014), p.16; available at: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_45_Compendium_fin_20141203.pdf

[97] The formal statement of UNFCCC Executive Secretary Christiana Figueres is available at: http://unfccc.int/files/press/press_releases_advisories/application/pdf/ma20142105_cf_gcf.pdf.

[98] An article in Bloomberg online news quoting ED Cheikhrouhou is available at: http://www.bloomberg.com/news/2014-06-04/green-climate-fund-chief-seeks-as-much-as-15-billion.html.

[99] The text of Chancellor Merkel's speech at the Petersberg climate dialogue (in German) is available at: http://www.bundeskanzlerin.de/Content/DE/Rede/2014/07/2014-07-15-merkel-petersburg.html;jsessionid=0F528300150F594D7626F7E317CE97B6.s4t1. A short summary of the speech in English is available at: http://www.bundeskanzlerin.de/Content/EN/Artikel/2014/07_en/2014-07-14-petersberg-klimadialog-merkel_en.html.

[100] UNFCCC Decision 3/CP17, "Launching of the Green Climate Fund", available at: http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf#page=55.

[101] Barbados Board Document GCF/B.08/35, "Draft Report of the Green Climate Fund to the Conference of the Parties to the United Nations Framework Convention on Climate Change"; available at: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_35_Report_to_the_COP_fin_20141008.pdf.

[102] UNFCCC Decision -/CP.20 (advanced unedited edition), "Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund"; available at: http://unfccc.int/files/meetings/lima_dec_2014/decisions/application/pdf/auv_cop20_gcf.pdf.

[103] Barbados Board Document GCF/B.08/39, "Options for an Institutional Linkage between the United Nations and the Fund"; available at: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_39_Options_Institutional_Linkage_fin_20141009.pdf.

[104] Document GCF/B.08/45, "Decisions of the Board –Eighth Meeting of the Board, 14 – 17 October 2014 (as of December 3, 2014), p.22; available at: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_45_Compendium_fin_20141203.pdf.

[105] UNFCCC Decision -/CP.20 (advanced unedited edition), "Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund," paras. 20-22; available at: http://unfccc.int/files/meetings/lima_dec_2014/decisions/application/pdf/auv_cop20_gcf.pdf

ANNEX I

Members of the Board of the Green Climate Fund (as of October 2014)

Seat No.	Member/ Alternate Member (AM)	Country	Regional Group
1	Mr. Christian N. Adovelande	Benin	Africa
1	Mr. Tosi Mpanu Mpanu (AM)	DR Congo	Africa
2	Mr. Omar El-Arini	Egypt	Africa
2	Mr. Newai Gebre-ab (AM)	Ethiopia	Africa
3	Mr. Zaheer Fakir	South Africa	Africa
3	Mr. Paulo Gomes (AM)	Guinea Bissau	Africa
4	Mr. Yingming Yang	China	Asia-Pacific
4	Mr. In-chang Song (AM)	South Korea	Asia Pacific
5	**Mr. Ayman Shasly**	Saudi Arabia	Asia-Pacific
5	**Mr. Jose Ma. Clemente Sarte Salceda (AM)**	Philippines	Asia-Pacific
6	**Mr. Nauman Bashir Bhatti**	Pakistan	Asia-Pacific
6	**Mr. Shri Dipak Dasgupta (AM)**	India	Asia-Pacific
7	**Mr. Jorge Ferrer Rodriguez**	Cuba	Latin America/ Caribbean
7	**Ms. Audrey Joy Grant (AM)**	Belize	Latin America/ Caribbean
8	**Ms. Mariana Ines Micozzi**	Argentina	Latin America/ Caribbean
8	Mr. Christian Salas (AM**)**	Chile	Latin America/ Caribbean
9	**Mr. Gabriel Quijandria**	Peru	Latin America/Caribbean
9	**Mr. Angel Valverde Gallardo**	Ecuador	Latin America/ Caribbean
10	Mr. David Kaluba	Zambia	LDCs
10	Mr. Nojibur Rahman (AM)	Bangladesh	LDCs
11	Mr. Patrick McCaskie	Barbados	SIDS
11	Mr. Ali'ioaigi Feturi Elisaia (AM)	Samoa	SIDS
12	Mr. George Zedginidze	Georgia	Floating seat, developing countries
12	**Mr. Irfa Ampri (AM)**	Indonesia	Floating seat, developing countries
13	Mr. Ewen McDonald	Australia	Australia/ New Zealand
13	Mr. Rod Hilton (AM)	Australia	Australia/ New Zealand
14	Mr. Jacob Waslander	Netherlands	Denmark/ the Netherlands
14	Mr. Peder Lundquist	Denmark	Denmark/the Netherlands
15	Mr. Arnaud Buisse	France	France
15	Mr. Frederic Glanois (AM)	France	France
16	Ms. Ingrid-Gabriela Hoven	Germany	Germany
16	Mr. Norbert Gorissen (AM)	Germany	Germany
17	Mr. Shuichi Hosada	Japan	Japan
17	Mr. Tomonori Nakamura (AM)	Japan	Japan
18	Mr. Henrik Harboe	Norway	Norway/ Czech Republic
18	Mr. Petr Kalas (AM)	Czech Republic	Norway/ Czech Republic
19	Mr. Adam Kirchknopf	Hungary	Poland/ Hungary
19	Mr. Marcin Korolec (AM)	Poland	Poland/ Hungary
20	Ms. Ludovia Soderini	Italy	Spain/ Italy
20	Ms. Ana Fornells de Frutos (AM)	Spain	Spain/ Italy
21	Mr. Stefan Schwager	Switzerland	Russia/ Switzerland
21	Mr. Andrey Bokarev (AM)	Russia	Russia/ Switzerland
22	Mr. Jan Cedergren	Sweden	Sweden/ Belgium
22	Mr. Jozef Buys (AM)	Belgium	Sweden/ Belgium
23	Ms. Andrea Ledward	United Kingdom	United Kingdom
23	Mr. Josceline Wheatley (AM)	United Kingdom	United Kingdom
24	Mr. Leonardo Martinez-Diaz	United States	United States
24	Mr. C. Alexander Severens (AM)	Unites States	United States

NOTE: Names of GCF Board Members in bold indicate a change in the arrangements during the three-year term of membership.

ANNEX II

Heinrich Böll Foundation North America Commentary on GCF/B.08/19: "Gender Policy and Gender Action Plan"

(Contact: Liane Schalatek, liane.schalatek@us.boell.org)

In Bali, Board decision B.06/07 requested the Secretariat to prepare a draft gender policy and action plan. It also mandated the Secretariat to integrate gender considerations into draft policy documents and documents containing operational modalities on an ongoing basis.

While the consideration of a draft gender policy and action plan had to be delayed due to the focus on the essential policy requirements for initial resource mobilization at the 7th GCF Board meeting, some important Board decisions in Songdo considered gender. This included implicitly, in some Annexes, the decisions on accreditation (decision B.07/02) and on the approval process (decision B.07/03) and explicit references in the decision texts of the results management framework (decision B.07/04) and the investment framework (decision B.07/06).

In Barbados, the Board is to consider and adopt the GCF's Gender Policy and request the finalization of a GCF Gender Action Plan for consideration at its 9th meeting (GCF/B.08/19). It is also asked to adopt further operational modalities on accreditation (GCF/B.08/2-6), the performance measurement frameworks (GCF/B.08/07), the investment framework (GCF/B.08/20), the simplified approval process (GCF/B.08/22) and private sector work with local private sector entities, including MSMEs (GCF/B.08/14 and 40), which are likewise of crucial importance for a gender mainstreaming approach in the GCF, even if not the focus of this commentary.

Gender Policy and Action Plan (GCF/B.08/19)

The paper is very helpful in laying out the experience of other climate funds and development institutions in implementing gender mandates and policies, having clearly benefitted from a broader consultation process since April 2014. It premises the Gender Policy on six fundamental principles. These however, while important, are not taken up explicitly in Annex II, the actual gender policy to be approved. This should be remedied.

Likewise, many of the useful elaborations – and commitments – in the document in six identified priority areas, for example the important recommendation that in the project selection and project approval process additional weight should be given to projects with well-designed gender elements (section 5.5., para. 26), are not taken up in the actual policy in Annex II. These recommendations will therefore just be "taken note" of, but will not have the force of a decision.

It is therefore crucial that the draft gender action plan, which will be only finalized and considered for decision at the 9th GCF Board meeting and should be further elaborated and refined through a consultative process

- Establishes clear mandates and accountability for specific actions necessary for the implementation of Fund's Gender Policy; and
- Does so in conjunction with the Board's Work Plan for 2015 and by ensuring that gender considerations are mainstreamed into its operational activities and policy guidance, such as the development of specific guidelines and toolkits.

On the draft gender policy specifically (Annex II, GCF/B.08/19), there are a few issues that need some correction and revision (see the section further below for recommendations of textual edits). Specifically:

- A focus in the main objectives of the gender policy on "efficiency" (Annex II, para. 5(a)) is misguided and should be replaced with a reference to the effectiveness and sustainability of outcomes. Many of the actions that the Fund will pursue in efforts to address gender equality could be smaller scale, with disproportionally higher transaction and administration costs, but more effective in contributing to sustainable gender-responsive climate actions.

- The policy is correctly focused on the often disproportionally higher adaptation needs of women (addressing vulnerabilities and building resilience), but neglects to highlight in its objectives and commitment sections their crucial capabilities to contribute to climate actions in addressing climate change (the mitigation focus). Women are not just victims of climate change, but important change agents in the fight against it. This has to be reflected particularly also in the Fund's investment and performance measurement frameworks.
- The policy uses the moniker "climate change-induced vulnerabilities" repeatedly. This formulation is confusing and seems to imply that the Fund can only address gender inequalities for which a causal link with climate change can be established. In fact, underlying structural gender inequalities (regarding access to power or resources for example) exist independent of climate change, but aggravate women's vulnerabilities to climate change and restrict their abilities to address it. This term should be stricken and replaced in some instances by "exacerbated by climate change" instead.
- The policy's section dealing with accountability focuses on gender indicators in the results and performance measurement framework (= specific Fund aggregate indicators for gender, as suggested in section 5.4 of the main document, which however only looks at *ex ante* intent), but too little on "gender-sensitive" indicators in specific mitigation and adaptation impact and outcome areas. Here a mainstreaming focus is needed to ensure that not the actions itself, but the outcomes and gender equality impacts of the portfolio of Fund actions are counted.
- Lastly, on its sections on accountability (section 4.3) and competencies (section 4.5), the policy must make a clear commitment that the implementation of the gender policy is a core responsibility of the Secretariat that cannot be outsourced. While the appointment of a senior staff/manager with competencies on gender and climate change (Annex II, para.15) is an important first step, one person will not be able to ensure due diligence oversight on gender integration over project proposals, without corresponding expertise and staff support in other Secretariat divisions. Recruitment of future staff should focus on selecting applicants who combine specific technical expertise, for example on financial instruments and private sector engagement with social and gender competence.

The text excerpts below of Annex II: Green Climate Fund Gender Policy, reflect the suggested text changes in section II on "Rationale", section III on "Objectives" and in the actual text of the "Gender Action Policy" in section IV.

Annex II: Green Climate Fund Gender Policy

[…]

II. Rationale

5. There are three compelling reasons for the Fund's mandate on gender sensitivity:

(a) Women as well as men significantly contribute to combating climate change. Shifting the paradigm towards low-emission and climate-resilient development pathways, which is the Fund's mandate, requires a large number of individual and collective decisions by women and men. A gender-sensitive approach is therefore part of a paradigm shift;

(b) Climate change impacts women and men differently, to the detriment of women, and existing gender inequalities are likely to be exacerbated by climate change[15]; and

(c) ~~Climate change-induced G~~Ggender inequality, exacerbated by climate change, is linked, as in other development areas, to vulnerability and risks[16]. Women's greater vulnerability to climate change stems from gender norms and discrimination that result in imbalanced division of labour, lower income, and lesser livelihood opportunities; less access and control over land and other productive assets; fewer legal rights; lesser mobility and less political and professional representation[17].

III. Objectives

5. The Fund's gender policy has five main objectives:

(a) Ensure that by adopting a gender-sensitive approach, the Fund will achieve greater and more sustainable and effective climate change results, outcomes and impacts~~, in an efficient manner~~;

(b) Ensure that women and men will have an equal say in and equally benefit from activities supported by the Fund;

(c) Address assessed potential project/programme risks on women and men associated with adaptation and mitigation activities financed by the Fund;

(d) Contribute to reducing the gender gap of ~~climate change-induced~~ social, economic and environmental vulnerabilities exacerbated by climate change; and

(e) Build women and men's resilience and ability ~~-~~to address climate change.

IV. Gender Action Policy

6. The Fund's Gender Action Policy consists of the following elements:

4.1 Commitment

(a) By adopting a gender-sensitive approach in its mandate on climate change, the Fund commits to contribute to gender equality, as enshrined in international and national constitutions and other human rights agreements[18].

7. The Fund thereby also commits to:

- Understand the socio-cultural factors underlying ~~climate change-related~~ gender inequality, which is exacerbated by climate change, and the potential contribution of women and men to societal changes to build climate resilience and address climate change;
- Adopt methods and tools to promote gender equality and reduce gender disparities; and
- Measure the outcomes and impacts of its activities on women and men's resilience and ability to address climate change[19].

4.2 Comprehensiveness, in scope and coverage*:*

8. The Fund applies its gender policy ~~in principle~~ to all its activities, whether implemented by public institutions, non-governmental organizations or the private sector. The policy is applicable to all countries, while taking into account different national realities, capacities and levels of development and respecting national policies and priorities and mindful of international human and women's rights obligations.

4.3 Accountability

9. The Fund accounts to its Board for gender and climate change results and outcomes, and reports annually in a transparent manner. Qualitative and quantitative~~-~~ gender indicators as well as gender-sensitive impact and outcome indicators are included in the results management and performance measurement frameworks (GCF/B.08/07).

[…]

4.5. Competencies:

15. The Fund strives to reach gender balance in the appointments of its Board members and Secretariat management and staff. The Secretariat appoints a senior staff/manager with competencies on gender and climate change to lead the implementation of the policy; the senior staff will report to the Director of Country Programmes. This is to be expanded to a gender focal point in each of the Secretariat's divisions. The Secretariat also strives for the relevant gender and climate change competencies to be included in the Accreditation Panel, Investment Committee, Risk Management Committee and Private Sector Committees, as well as amongst technical advisers.

[…]

4.6. Resource allocation

19. The Fund's resource allocation for adaptation and mitigation projects and programmes contributes to gender equality. The Fund seeks to ensure that its projects and programmes support initiatives addressing the inequity of climate change impacts and provide gender- sensitive solutions to climate change mitigation, adaptation or readiness. When necessary to correct for ~~climate change-induced~~ gender inequality to the detriment of women, the Fund will target funds to support women's climate change adaptation and mitigation initiatives. The Fund's readiness and preparatory support work-programmes enable NDAs, IEs and EEs to meet the Fund's gender policy.

[…]