Climate Funds Update

HEINRICH BÖLL STIFTUNG
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The Green Climate Fund

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Climate Finance Fundamentals 11

NOVEMBER 2020

The Green Climate Fund (GCF) became fully operational in 2015 as a dedicated fund to help developing countries shift to low-emission and climate-resilient development pathways. While the GCF is an operating entity of the Financial Mechanism of the United Nations Framework Convention on Climate Change (UNFCCC) and serves the Paris Agreement (UNFCCC, 2015), it remains a legally independent institution hosted by South Korea. The GCF has its own Secretariat with the World Bank as its Trustee. The 24 GCF Board members, with equal representation of developed and developing countries and support from the Secretariat, have been working to operationalise the Fund and implement its vision since their first meeting in August 2012.

In 2020 the GCF's long-overdue work to address gaps in essential policies and frameworks came largely to a halt due to the Covid-19 pandemic. The GCF Board could not agree on some of the more controversial policies via virtual meetings. However, the Secretariat moved ahead with efforts to speed up the development and approval of proposals and disbursement of approved funding. It also issued guidelines and improved operational procedures intended to drive up the overall quality of GCF projects and programmes, both approved and in the pipeline.

As of November 2020, the GCF had accredited 103 implementing entities as partners to deliver projects (with eight added since 2019), and had approved USD 7.2 billion for 159 projects. The 27th virtual meeting of the GCF Board in mid-November 2020 approved 16 of these project proposals worth USD 1.01 billion in GCF resources. Despite the disruptions caused by Covid-19, the GCF programmed more than USD 2.2 billion for 37 projects and programmes as well as readiness and preparatory support, with commitment authority under its first replenishment period (GCF-1, 2020–2023).

With close to three quarters of the USD 9.9 billion in pledges by 31 contributors confirmed as of November 2020, the GCF is thus on track to reach its annual programming goals set for GCF-1. An updated strategic plan, which was approved after much haggling in the final hours of the Board's 27th meeting, will guide the Fund's overall contribution to reaching the goals of the Paris Agreement.

The Fund's role in a post-2020 climate regime as the major finance channel under the UNFCCC, and as the largest multilateral climate fund, was confirmed by successful replenishment in 2019. However, its accessibility, efforts to leverage additional resources, as well as the speed, quality and scale of GCF funding disbursement and implementation require further improvement. This Climate Finance Fundamental (CFF) provides a snapshot of the operationalisation and functions of the GCF at the end of the first year under GCF-1. Past editions of this CFF further detail the design and initial operationalisation phases of the Fund.

Introduction

As an operating entity of the financial mechanism of the UNFCCC under Article 11 (UN, 1992), a role confirmed in the Paris Agreement, the GCF is "accountable to and function[s] under the guidance of the COP" (UNFCCC, 2011: 17). It is mandated to take a country-driven approach, a principle that is supposed to guide all GCF investment decisions. It is also intended to channel "a significant share of new multilateral funding for adaptation" (ibid.), with the aim to balance funding for mitigation and adaptation measures. The GCF further ring-fences support for the urgent needs of Least Developed Countries (LDCs), Small Island Developing States (SIDS), African countries and for local private sector actors.

A total of USD 9.9 billion has been pledged so far to the Fund by 31 contributors for GCF-1. This is almost as much as during its initial resource mobilisation (IRM) process in 2014, even though some developed countries – most prominently Australia and the United States (with the hope that this might change under a Biden Administration) – have not yet contributed to the Fund's new operational phase. Of the new pledges, USD 7.35 billion was formalised through contribution agreements by November 2020. With its commitment authority and funding uninterrupted moving from the IRM to GCF-1, the GCF continues to be the largest multilateral climate fund with the potential to channel even larger sums over time.

Contributions to the Fund are only accepted as grants, concessional loans and paid-in capital. With the exception of France and Canada, all contributions for GCF-1 are grants received in a multitude of currencies. The GCF then offers grants, concessional loans, equity investments and guarantees to developing countries using the executing and financial management capacities of partner organisations that work as implementing entities or intermediaries.

GCF implementation issues

The governing instrument of the GCF presents a broad framework and general direction that has given the Board substantial flexibility on how to operationalise the Fund. In exercising this discretion, however, the GCF Board members bear responsibility for decisions that secure the ambition of the Fund, and allow it to achieve its overriding objective of: "[i]n the context of sustainable development ... promot[ing] the paradigm shift towards low-emission and climate-resilient development pathways" (GCF, 2011: 2).

In 2020 the GCF's eighth Co-Chairs, Sue Szabo (Canada) and Nauman Bashir Bhatti (Pakistan), had intended for the Board to quickly finalise its strategic plan for the GCF-1 replenishment period – a left-over agenda item from the replenishment discourse in late 2019 – and then proceed with addressing often delayed policy gaps necessary for further development of the Fund. The co-chairs also wanted to press ahead with further reforms to Board governance. However, these intentions were quickly derailed by Covid-19, which, following an in-person Board meeting in Geneva in mid-March, forced the Board to conduct all proceedings virtually for the remainder of 2020. This attempted shift to deliberating and approving important policy reforms via remote sessions was met with reluctance by most developing-country Board members, who cited major connectivity and capacity constraints. These challenges extended to the Board committees too, and hampered progress in some of their ongoing policy formulation work. Instead, the Board focused on its operative and administrative core tasks, such as accreditation, the approval of proposals and disbursement of GCF funding, as well as issuing and considering required reports, administrative functions and budget approvals.

Although also challenged in its work arrangements by the pandemic, the Secretariat – under the leadership of GCF Executive Director Yannick Glemarec, who was only in his second year at the helm – was largely able to stay on track with programming targets set for 2020. Glemarec's selection by the Board at its 22nd meeting in February 2019 as the third GCF head came at an inopportune time following the surprise resignation of Howard Bamsey after only 18 months in the role and at a time when the first replenishment process had already started. Concurrently to securing a successful first replenishment, however, Glemarec immediately began to rationalise and reorganise operational procedures of the GCF under a still expanding Secretariat, to improve management of a growing portfolio of projects and programmes and rapidly growing disbursement of funds. This included the development and issuance of a number of operational handbooks and guidelines – including, for example, the ongoing participatory development of a comprehensive set of 11 sector guides across the Fund's eight results areas that is due to be completed by mid-2021 and is meant to guide and inform the development of high quality funding approvals. This work continued in 2020 with the added focus on adaptive management to deal with pandemic-related delays and challenges in portfolio implementation (see earlier CFF 11 from 2011 to 2019 for a more detailed elaboration of the GCF's operational development).

Updated strategic plan for GCF-1

Accompanying the process for the Fund's first replenishment, the focus in 2019 turned to the strategic vision for GCF-1 (2020–2023) and the programming directions the Fund should take. At the core of this was the update to the GCF's first strategic plan from 2016, which was expected to be approved at the 25th Board meeting in Geneva in March 2020, following in-depth discussions during an informal Board meeting in Liberia in February 2020. The updated strategic plan is supposed to lay out the GCF's unique added value in the global climate finance architecture, as well as the Board's views on the GCF's role in supporting the implementation of the Paris Agreement within an evolving climate finance landscape. The new strategy has been guided by an in-depth forward- and backward-looking performance review of the GCF released by the Independent Evaluation Unit (IEU) in mid-2019 (IEU, 2019). This laid out in detail the policy revisions, operational adjustments and priority investment areas that could support the Fund to deliver on its mission and support developing countries' climate actions by becoming "faster, better and smarter" (ibid.: xvii). The new strategy has further considered recommendations outlined by contributor countries to the GCF first replenishment in their summary report (GCF, 2019a).

Whether and to what extent to integrate the IEU and contributor-country recommendations into the new GCF-1 vision document proved highly contentious. Repeated attempts throughout 2020 to finalise the updated strategic plan failed as the differences between the visions of developed- and developing-country Board members for the Fund proved substantial. For example, contentious issues included if a finance leverage target should be set for the GCF, if a similar target should be set for GCF financing to be programmed through direct access entities, how much to scale up adaptation funding during GCF-1 versus the IRM, the ability of the GCF to act as equity investor, and how to increase the role of the private sector in GCF programming. Thus, with each new version of the strategic plan issued throughout the year, some specificity and ambition was lost in an effort to achieve necessary consensus (the voting rules of the Board in the absence of consensus according to the rules agreed in 2019 only apply to the approval of projects, not policies).

Consequently, approval of the updated strategic plan on the last day of the 27th Board meeting (GCF, 2020a) – and therefore at the end of the first year of the first replenishment period – was probably the single-most important decision taken by the Board in 2020. Its approval was a relief, especially for GCF-1 contributor countries under pressure at home to justify their financial engagement in the GCF by being able to detail the expected impact of its portfolio and operations until 2023.

Resource mobilisation, commitment authority and first formal replenishment

The GCF's IRM, which began in mid-2014, resulted in pledges by 45 contributing countries as well as several regions and cities and totalled USD 10.3 billion (for a detailed discussion see the 2014 CFF 11). The GCF achieved 'effectiveness', or the authority to make funding decisions, in May 2015 when 50% of the financing promises received during the November 2014 Pledging Conference in Berlin were fully paid in. During the IRM, 44 countries, three regions and the city of Paris had confirmed part or all of their pledges amounting to about USD 8.3 billion. While Peru never confirmed its IRM pledge, Colombia and the US only partially honoured theirs – after its formal withdrawal from the Paris Agreement under the Trump Administration, the US failed to confirm USD 2 billion of USD 3 billion initially pledged in 2014.

As the confirmed IRM contributions of USD 8.3 billion were received in a multitude of currencies and the overall results calculated according to a foreign exchange reference rate adopted for the Pledging Conference in November 2014, the actual overall funding amount available to the GCF during the IRM was closer to USD 7.2 billion. At the end of the IRM on 31 December 2019, about USD 454 million was left. These resources carried over to the first formal replenishment period (GCF-1), which began on 1 January 2020 and will run until the end of 2023.

The GCF's first replenishment was formally launched at the 21st Board meeting in Bahrain in October 2018 with the GCF's cumulative funding commitments having reached USD 5.5 billion and thus surpassing 60% of total contributions to the GCF Trust Fund received by November 2015. The Bahrain decision focused on the procedural aspects of the replenishment process, not the highly politicised questions regarding the length of the replenishment period, the envisioned scale, or the policies for contributions. These were determined through a series of replenishment consultation meetings with potential contributor countries, in which a delegation of the GCF Board also participated, convened in Bonn (November 2018), Oslo (April 2019) and Ottawa (August 2019), and culminating in a Pledging Conference in Paris in October 2019. The process was aided by the Co-Chair's appointment of Johannes Linn as a global facilitator.

In the past, the issue of contribution policies has been especially contentious. Developing-country Board members have wanted to avoid the earmarking of resources and the establishment of voting shares for decision-making by contribution. The policy for contributions for GCF-1 approved at the Paris Pledging Conference does not allow for earmarking: instead it sets caps for loan and capital contributions at 20% each of overall contributions received, and allows countries up to nine years to pay in their pledged contributions, with credits received for early fulfilment of contribution agreements.

At the Paris Pledging Conference, 27 countries pledged a combined USD 9.78 billion, of which 94% was committed as grants, with only 6% of the total pledged by France and Canada in the form of loans. Despite being major contributors to the IRM, the US and Australia did not participate in Paris. In the absence of the US, and in response to calls for increased contributions to the GCF, a number of developed European countries (such as Germany, France, the United Kingdom, Norway and Sweden) doubled their initial IRM contribution in local currencies, while others increased their contribution less substantially (such as the Netherlands, Italy and Spain) or not at all (most prominently Japan and Canada). South Korea also doubled its pledge and was the only developing country to pledge in Paris. Since then, Indonesia, Russia, Malta and the Belgian region of Wallonia have pledged for GCF-1, with several other countries (such as Austria and Liechtenstein) adding to their initial pledges.

As of November 2020, the GCF reported the equivalent of USD 9.9 billion in pledges for GCF-1 received from 31 contributors, which includes credit earned for early payment (Table 1). With contributions allowed on a rolling basis until the end of GCF-1 (end of 2023), there is an expectation that further countries might pledge at a later stage, notably, the incoming Biden Administration, which has already indicated that the US will rejoin the Paris Agreement, or more countries with pledges below expectations. Efforts towards the first replenishment in 2020 also focused on reaching out to non-traditional contributors, including from the private sector and philanthropic foundations, and the Qatar Fund for Development already announced in late Autumn of 2020 its intention to pledge USD 3 million for GCF-1.

Under the GCF-1 policy for contributions, the Fund was to reach its commitment authority once 25% of pledges made in Paris were converted into contribution agreements. This effectiveness threshold was surpassed in mid-December 2019, allowing the GCF to start allocating GCF-1 resources. By October 2020, a total of 21 countries had confirmed part or all of their pledges for the first replenishment, amounting to the equivalent of USD 7.35 billion or 75% of the nominal pledges (see Table 1). Going into the 27th Board meeting in November, the GCF had a commitment authority for USD 2.07 billion for funding decisions, based on cash in the GCF Trust Fund, deposited promissory notes and confirmed pledges. A further USD 535 million was available in projected additional cash for disbursement. At the 27th meeting, the Board made funding decisions based on confirmed pledges of USD 1.1 billion, thus starting 2021 with sufficient resources available to continue at the desired funding goals of between USD 1.8 to 2.2 billion in programming for 2021 and for each year of the GCF-1 cycle.

Table 2 provides an overview over the forecasted available commitment authority and additional resources available for disbursement during GCF-1 until the end of 2023.

Structure, organisation and staffing of the Fund's Independent Secretariat

In December 2013, an Independent Secretariat for the GCF, located in Songdo, South Korea, began its work with around 40 people. The number of staff has increased significantly since, reaching 100 positions at the end of 2016 and 140 by the end of 2017. Secretariat staff levels have already been set by the Board at up to 250 positions by 2050, but levels have stagnated below 220 for most of 2019 and 2020, which reflects staff turnover as well as efficiency gains in streamlining operational procedures. The Secretariat plans to accelerate its recruitment process to reach the full complement of 250 staff by the end of 2021. This recognises the growing workload of the Secretariat given an expanding portfolio under implementation, its complexity and the ambition of GCF-1 programming goals.

After an external evaluation of the Secretariat's structure and staffing needs in 2017, the Board approved a reorganisation of the Secretariat into five major divisions. These are: country programming, mitigation and adaptation, Private Sector Facility (PSF), support services, and external affairs, plus five offices for the General Counsel, governance affairs, internal audits, portfolio management, and risk management and compliance. It further expanded the office of the Executive Director to include a Deputy Executive Director and a focus on knowledge management and strategic outlook. Under Yannick Glemarec's

Table 1: Status of pledges and contributions for the GCF initial resource mobilisation (IRM) and for the GCF first replenishment (GCF-1) (as at 31 October 2020)[a]

	IRM (2014-2019)		GCF-1 (2020-2023)			
Contributors	**Nominal pledge in USD million eq.[a]**	**Confirmed pledge in USD million eq.[a]**	**Nominal pledge in USD million eq.[a]**	**Nominal pledge in USD million eq.[a] with credits[b]**	**Confirmed pledge in USD million eq.[a]**	**Unconfirmed pledges in USD million eq.[a]**
Australia	187.30	187.30	–	–	–	–
Austria	34.80	34.80	146.40	152.50	33.80	112.60
Belgium	66.90	66.90	112.60	117.20	22.50	90.10
Belgium – Brussels	4.80	4.80	–	–	–	–
Belgium – Flanders	19.70	19.70	–	–	–	–
Belgium – Wallonia	10.90	10.90	0.50	0.50	0.50	–
Bulgaria	0.10	0.10	–	–	–	–
Canada	277.00	277.00	225.50	229.10	37.60	187.90
Chile	0.30	0.30	–	–	–	–
Colombia	6.00	0.30	–	–	–	–
Cyprus	0.50	0.50	–	–	–	–
Czech Republic	5.30	5.30	–	–	–	–
Denmark	71.80	71.80	120.70	126.00	--	120.70
Estonia	1.30	1.30	–	–	–	–
Finland	107.00	107.00	112.60	116.70	–	112.60
France	1,035.50	1,035.50	1,743.40	1,794.10	173.10	1,570.30
France – City of Paris	1.30	1.30	–	–	–	–
Germany	1,003.30	1,003.30	1,689.30	1,689.80	1,689.30	–
Hungary	4.30	4.30	0.70	0.70	–	0.70
Iceland	1.00	1.00	2.00	2.10	2.00	–
Indonesia	0.30	0.30	0.50	0.50	–	0.50
Ireland	10.70	10.70	18.00	18.70	–	18.00
Italy	334.40	334.40	337.90	337.90	337.90	–
Japan	1,500.00	1,500.00	1,500.00	1,521.20	1,500.0	–
Latvia	0.50	0.50	–	–	–	–
Liechtenstein	0.10	0.10	0.10	0.10	0.05	0.05
Lithuania	0.10	0.10	–	–	–	–
Luxembourg	46.80	46.80	45.00	46.30	45.00	–
Malta	0.60	0.60	0.10	0.10	0.10	–
Mexico	10.00	10.00	–	–	–	–
Monaco	2.30	2.30	4.20	4.40	4.20	–
Mongolia	0.10	0.10	–	–	–	–
Netherlands	133.80	133.80	135.10	141.10	–	135.10
New Zealand	2.60	2.60	10.00	10.60	10.00	–
Norway	272.20	272.20	417.50	433.70	417.50	–
Panama	1.00	1.00	–	–	–	–
Peru	6.00	–	–	–	–	–
Poland	0.10	0.10	3.00	3.20	3.00	–
Portugal	2.70	2.70	1.10	1.20	1.10	–
Republic of Korea	100.00	100.00	200.00	200.00	200.00	–
Romania	0.10	0.10	–	–	–	–
Russia	3.00	3.00	10.00	10.50	–	10.00
Slovakia	2.00	2.00	2.30	2.40	–	2.30
Slovenia	–	–	1.10	1.20	1.10	–
Spain	160.50	160.50	168.90	176.50	168.90	–
Sweden	581.20	581.20	852.50	852.50	852.50	–
Switzerland	100.00	100.00	150.00	155.50	–	150.00
United Kingdom	1,211.00	1,211.00	1,851.90	1,851.90	1,851.90	–
United States	3,000.00	1,000.00	–	–	–	–
Viet Nam	1.00	1.00	–	–	–	–
TOTAL	**10,322.20**	**8,310.50**	**9,862.90**	**9,998.20**	**7,352.05**	**2,510.85**

Source: Status of Pledges (IRM and GCF-1), https://www.greenclimate.fund/sites/default/files/document/status-pledges-irm-gcf1_0.pdf

a. United States dollars equivalent (USD eq.), calculated on the basis of the reference exchange rates established for the High-level Pledging Conference for the IRM in Berlin in 2014 and for the High-level Pledging Conference for GCF-1 in Paris in 2019.

b. As per the Policy for Contributions for GCF-1, a notional credit is applied to the pledges made by contributors who have indicated that they would make payments in advance of the standard schedule (which allows for up to nine years for the fulfillment of pledges). A similar nominal credit was not offered for the IRM.

Table 2: Projected available commitment authority and additional resources available for disbursement during GCF-1 to end of 2023[a] (as at 30 September 2020, in USD millions eq.[b])

Calendar year	2020	2021	2022	2023
Starting commitment authority	1,684	–	–	–
Cash contributions[c]	11	208[d]	194	203
Promissory note deposits[c]	375	1,381	1,375	1,491
Loans	–	–	–	–
Total projected commitment authority for the year	**2,070**	**1,589**	**1,569**	**1,694**
Additional cash available from the IRM for disbursement	**190**	**403**	**980**	**644**
IRM cash contributions[c]	–	31	–	–
IRM promissory note encashment[c]	190	372	980	644
Additional cash available from GCF-1 for disbursement	**345**	**600**	**857**	**873**
GCF-1 cash contributions[c]	11	177	194	203
GCF-1 promissory note encashmentc	334	423	663	670
Total additional cash available for disbursement (IRM and GCF-1)	**535**	**1,003**	**1,837**	**1,517**

Source: Document GCF/B.27/Inf.01, Status of the Green Climate Fund Resources, Tables 3–6; https://www.greenclimate.fund/sites/default/files/document/gcf-b27-inf01.pdf

a. Projections are based on the signed contribution agreements/arrangements as at 30 September 2020, and do not include cash available at 30 September, cushions or newly signed agreements after this date. Also, the promissory note encashment schedule for several countries is under negotiation, thus their promissory note encashment amounts are not reflected in the overview.

b. USD equivalent (eq.) is based on the initial resource mobilisation and the GCF first replenishment reference exchange rates established for the respective High-level Pledging Conferences in 2014 and 2019.

c. Under both the IRM and GCF-1, contributor countries are able to fulfil their pledges over a nine-year payment schedule, resulting in IRM payments cashed until 2023 and GCF-1 payments until 2028.

d. Projections include IRM contributions from Italy (EUR 23 million for 2021).

leadership since 2019, the Secretariat structure has been further fine-tuned to more clearly separate functions and related reporting lines throughout the project cycle, with programming divisions now reporting to the Deputy Executive Director and second-level due diligence and compliance overseen by the Executive Director. Further efforts in 2020 focused on strengthening workplace culture and internal grievance and dispute resolution measures.

The GCF's overall administrative budget for 2021 (which includes expenditures for the Secretariat, the Board, the Trustee and the three Independent Units), approved in November 2020, has grown to USD 83.5 million from USD 78.4 million, a 6.7% increase over the 2020 figure. The budget for the Secretariat has grown from USD 71.6 million in 2020 to USD 75 million in 2021, a 4.8% increase. This includes USD 1.5 million for the Secretariat as a contingency budget to deal with unexpected costs due to Covid-19, following a precedent set by the Board at its 25th meeting when an additional 2% of the Secretariat's existing budget for 2020 was approved to cover the costs of alternative and remote working arrangements during the ongoing pandemic.

Results management frameworks and performance indicators

Since 2014, the GCF Board and Secretariat have worked to finalise an initial results management framework with performance measurement matrices against which the impact, effectiveness and efficiency of its funding will be assessed. The initial results framework defines the elements of a paradigm shift towards low-emission and climate resilient country-driven development pathways within individual countries and aggregated across Fund activities. The focus areas for mitigation include: low-emission transport; low-emission energy access and power generation at all scales; reduced emissions from buildings, cities, industries and appliances; and sustainable land and forest management (including REDD+ implementation)[1] for mitigation. The core metric is that of greenhouse gas (GHG) emission reductions in tons of carbon dioxide equivalents. For adaptation, focus areas include: increased resilience of health, food and water systems; infrastructure; ecosystems; and enhanced livelihoods of vulnerable people, communities and regions, with the core metrics being the number of beneficiaries. In this context, the indicators also commit to assess the resulting developmental, social, economic and environmental co-benefits and gender-sensitivity of GCF investments at the Fund level, thereby including both quantitative and qualitative measures. The Board approved a separate performance measurement framework for REDD+ activities, for results-based payments.

Work on further refining the initial performance indicators for adaptation and to better capture both the outcomes of projects and programmes funded, as well as the transformative impact of the Fund's aggregate activities and efforts to advance accounting methodologies, stalled for several years. The significant shortcomings of the GCF's initial results and performance frameworks were noted in an independent evaluation prepared by the IEU in 2018 and considered by the Board at its 22nd meeting in February 2019, which mandated a thorough revision (IEU, 2019). Since 2019, the Secretariat has worked through a consultancy to address some of the recognised short-comings, particularly in its results measurement of adaptation, as well as in developing methodologies to measure the paradigm shift potential of the Fund's approved portfolio. The goal of an improved results management framework is also to align better with the Fund's investment framework and integrate a resource management approach in ensuring that Fund resources can achieve maximum outcomes and impacts in contributing to the GCF's overall strategic objectives and the goals of the Paris Agreement. A draft integrated results management framework (IRMF) with a proposed results tracking tool (RTT) was presented to the Board at the 27th meeting in November 2020. The IRMF is expected to be approved in March 2021.

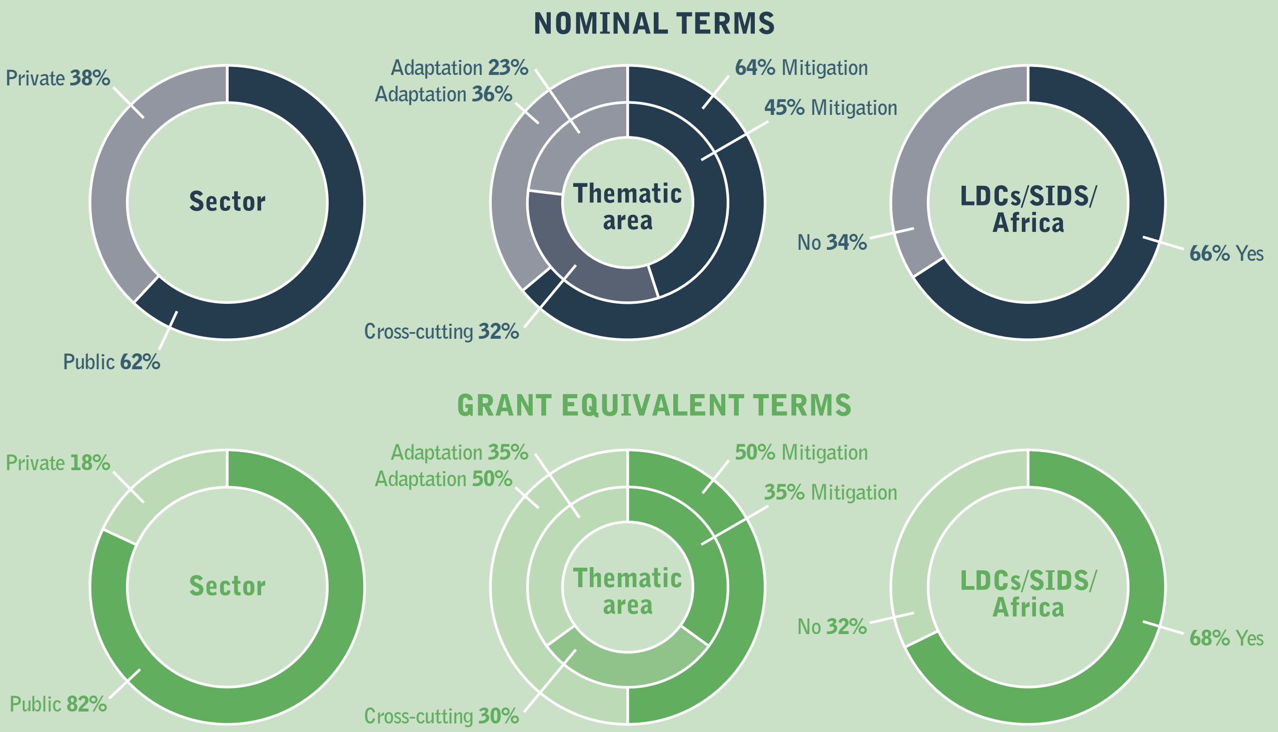
Investment framework

At its 11th Board meeting in Zambia in November 2015, the Board decided project proposals would be evaluated against a set of six agreed investment criteria focusing on: 1) impact (contribution to the GCF results areas); 2) paradigm shift potential; 3) sustainable development potential; 4) needs of recipient countries and populations; 5) coherence with a country's existing policies or climate strategies; and 6) the effectiveness and efficiency of the proposed intervention, including its ability to leverage additional funding (in the case of mitigation) as well as a list of activity-specific sub-criteria and indicators agreed in 2015. Evaluation of medium- and large-size funding proposals is aided by a pilot scoring approach, ranking proposals as low, medium or high against the investment criteria. The Board still has to decide on methodologies to compare proposals 'in comparable circumstances' (for example by country groupings or sectors), thereby adding an element of competitiveness to the approval process, but balancing it with equity considerations aimed to ensure fairness for proposals from LDCs, SIDS and African states.

During 2018, work by the Board's Investment Committee and the Secretariat further progressed the identification of quantitative and qualitative benchmarks. These inform the investment framework of the Fund and support the review and assessment of project proposals alongside efforts to monitor implementation. Based on this work, the Board at its 22nd meeting in February 2019 approved a set of investment criteria indicators for a one-year pilot, although it was unable to review the pilot in 2020. The Board in 2019 also considered separate policies, which, if eventually approved, will require Accredited Entities (AEs) to more clearly elaborate the climate rationale of funding proposals as well as to justify the level of concessionality requested and apply incremental cost calculation methodologies. With the Board unable to decide on these in 2019, and policy work stalled in 2020 due to the Board's reduced work programme during the pandemic, revised draft policies will be a priority for the Board's work plan for 2021. The Board has yet to consider and approve guidelines for programmatic approaches; this too will be taken up with some urgency in 2021, given that the Board in 2020 went ahead with the approval of several large-scale funding programmes in the absence of a joint understanding of rules and regulations needed to guide their implementation and accountability.

The Board's investment decision-making is also informed by recommendations on individual funding proposals provided by an Independent Technical Advisory Panel (ITAP). ITAP was formed in 2015 and its effectiveness and capacity were reviewed in 2017. The Board, having failed to make a formal decision on ITAP's mandate and structure since this review, is expected to reconsider the mandate, structure and expert composition of the ITAP in early 2021 (as part of an ongoing comprehensive review of the work of committees, expert groups and panels). In 2020, the Board's Investment Committee continued work on preparing the proposed changes. These include better aligning proposal review schedules between the Secretariat and the ITAP by conducting the ITAP reviews on a rolling basis, establishing smaller peer review teams within ITAP instead of requiring consensus among all ITAP members for clearing proposals for Board consideration, as well as deepening engagement with the AEs on project/programme proposals under review for proposed Board consideration. In recognition of the increase in the ITAP's workload with the number of funding proposals – including under the Simplified Approval Process (SAP) – steadily growing, the Board in 2020 confirmed the nomination of four additional ITAP members to start their work in 2021, selected with a view to further broaden the range of expertise represented on the panel.

Figure 1: GCF funding by sector, thematic area and adaptation allocation for LDCs/SIDS/African states in nominal and grant equivalent terms (%)



Source: Document GCF/B.27/02/Trb.03, Figure 11; https://www.greenclimate.fund/sites/default/files/document/gcf-b27-02-rev03.pdf.

Allocation

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

After the 27th GCF Board meeting, the portfolio of 159 approved and active projects and programmes reflected an allocation in grant equivalent terms of 50% (USD 3.6 billion) dedicated to mitigation projects and 50% (USD 3.6 billion) dedicated to adaptation projects and programmes. Cross-cutting projects and programmes (USD 2.160 billion) accounted for 30% of the total, disaggregated into 15% attributed each to mitigation and adaptation (USD 1.080 billion). In nominal terms, the picture for the portfolio of 159 projects and programmes looks quite different. Of the USD 7.2 billion in funding approved, 45% (USD 3.240 billion) is for mitigation, 23% is for adaptation (USD 1.656 billion) and 32% (USD 2.304 billion) is for cross-cutting issues (although the criteria the Secretariat uses for allocating funding under cross-cutting proposals to either adaptation or mitigation and for calculation of the overall balance remains unclear). If the cross-cutting share is disaggregated and attributed towards mitigation and adaptation respectively, then mitigation receives 64% (USD 4.608 billion) of approved GCF funding in nominal terms versus 36% (USD 2.592 billion) for adaptation (see Figure 1). Thus, over the past year, the imbalance in the portfolio has shifted further towards mitigation. Despite calls by the IEU in its forward-looking performance review to increase the share of adaptation by striving towards a balanced allocation in nominal terms for GCF-1, contributors and the Secretariat have committed only to maintain the efforts towards balance in grant equivalent terms, which was also confirmed by the Board at its 27th meeting as a goal under the now approved updated strategic plan for GCF-1.

The regional distribution in nominal terms shows 38% (USD 2.714 billion) for Africa, 36% (USD 2.588 billion) for Asia Pacific, 21% (USD 1.539 billion) for Latin America and the Caribbean, and only 5% (USD 388 million) for Eastern Europe. Some 101 projects and programmes target SIDS, LDCs and African states either wholly or partly, accounting for 56% (USD 4 billion) of the allocations so far, while 44% (USD 3.2 billion) of approved GCF funding goes to all other developing countries.

Project pipeline and initial approval process

By October 2020, the GCF project pipeline comprised 102 funding proposals (72 public sector and 30 private sector), requesting USD 6.2 billion in GCF support and worth USD 25.8 billion in total. Some 52% of these proposals have requested funding for projects and programmes in LDCs, SIDS and African states. Among regions, most pipeline proposals target Asia-Pacific (38.1%), followed by Africa (36.1%), and Latin America and the Caribbean (22.3%). Just 3.4% of pipeline funding has been requested for project and programmes in Eastern Europe. Of all pipeline proposals, 35 (34.3%) are from direct access entities, but they account for only 21% of requested funding. If implemented, only 15.6% of total requested GCF funding in terms of nominal value – and thus significantly less than in previous years – is for adaptation efforts, with 55.1% for mitigation and 29.3% for cross-cutting proposals.

There are also 343 (249 public sector and 94 private sector) early-stage proposals in the form of concept notes in the pipeline that together require USD 15.8 billion in GCF funding support; 113 of these (32.8%) are from direct access entities, with only 23% of the required funding. While the number of direct access project/programme proposals and concept notes in the pipeline has further grown over the past year, it is still significantly lower than that for international access proposals and concept notes, especially when looking at the funding amounts requested for those proposals and concept notes.

Since 2016, the Secretariat has issued four targeted requests for proposals (RfPs) under five pilot programmes. Approved by the Board in 2015, specific pilot programmes on Enhanced Direct Access (EDA) and micro-, small and medium-sized enterprises (MSMEs) were launched in 2016. In 2017, at its 16th meeting, the Board approved a USD 500 million private sector-focused pilot programme that led to an RfP for mobilising funding at scale (MFS) in the same year. At its 18th meeting in Cairo in 2017, the Board approved an RfP under its USD 500 million REDD+ results-based payments pilot programme. An USD 80 million pilot scheme for a SAP for micro- and small-size low-risk projects gained Board support in 2017 after many delays, accepting proposals on an ongoing basis.

- Only two projects worth USD 30 million have been approved under the EDA pilot so far. The programme's future pipeline looks challenged with only five funding proposals and eight EDA concept notes worth USD 240.8 million in the pipeline. A review of the EDA pilot approach is expected in 2021.
- For the MSME pilot programme, 30 concept notes were initially received, with seven shortlisted for further development. Of these, four were submitted and approved, but only three MSME projects (worth USD 60 million) are still at an active stage, with one having lapsed.
- The private sector-focused RfP for MFS received 350 concept notes, of which 30 were shortlisted. It saw its first proposal approved at the 23rd Board meeting in July 2019, with two more proposals approved each at the 25th and 27th Board meetings in 2020 for a total worth of USD 263 million.
- Under its USD 500 million REDD+ results-based payments pilot programme, four projects worth USD 228.7 million in Brazil, Ecuador, Paraguay and Chile were approved in 2019. Four more projects in Indonesia, Colombia, Argentina and Costa Rica worth USD 268.2 million were approved in 2020, thus exhausting the funding envelope for the pilot programme with three concept notes from Papua New Guinea, Viet Nam and Lao PDR still in the pipeline. A review followed by a likely expansion of the REDD+ results-based payment pilot approach is planned for 2021.
- Since its launch in late 2017, the SAP pilot scheme saw the approval of four projects in 2018, added another eight approved projects in 2019 and seven more in 2020, for a total of USD 170.7 million approved across

19 SAP projects. Of these, however, only six are from direct access entities and only two from the private sector. The demand for SAP, which is under review by the Board, is high with another 95 funding proposals and concept notes (81 from the public sector and 14 from the private sector) in the pipeline worth almost USD 870 million. Next year could see the approval of up to eleven additional SAP funding proposals.

The Secretariat conducts due diligence on all proposals submitted to ensure compliance with the Fund's interim environmental and social safeguards, its gender policy, and financial and other relevant policies. It also assesses proposals against the GCF investment framework as well as specific additional scorecards in the case of targeted RfPs. Only funding proposals that have received a no-objection clearance by a National Designated Authority (NDA) or a country's focal point can be submitted. Throughout 2020, Board discussions and Secretariat efforts continued to centre on steps to improve the quality of proposals, including by better elaborating their climate rationale, and to increase the number coming from direct access entities. As in previous years, in 2020 efforts stalled to develop a two-step approval process agreed at the Board's 17th meeting that would make concept notes and their publication and prior approval mandatory. The Board approved at its 22nd meeting in February 2019 a policy outlining requirements for cancellation and restructuring of approved projects, however. Already utilised during 2019, the Board saw an uptick in restructuring requests in 2020 for already approved projects due to implementation delays from the pandemic. This included extending timelines and changing financial terms of the projects under implementation, several of which were approved in 2020.

A project preparation facility (PPF) further ramped up its activities in 2020, including by setting up a roster of consultancy firms that can directly provide project preparation services especially to direct access entities at their request. Established following a Board decision at its 11th meeting in Zambia in 2015, USD 40 million was approved by the Board at its 13th meeting for the initial phase of the PPF. Targeted at small-scale activities and for direct access partners (although it is open to request from all accredited entities), 51 PPF applications have been received and are active, of which 34 have been approved for USD 21.6 million with USD 14.3 million disbursed. Direct access entities made up 33 of these applications (65%), of which 23 were approved (68%).

By mid-November 2020, after 14 rounds of project considerations since late 2015, the Board approved USD 7.2 billion for 159 GCF-supported projects and programmes. This includes 34 private sector projects/programmes and 35 to be implemented by direct access entities, as well as two projects under the EDA, three under the MSME, eight under the REDD+ and five under the MFS pilot programmes. In 2020, 37 project and programme proposals were approved for USD 2.06 billion in GCF funding. Implementation significantly ramped up after a slow start and funding disbursements doubled within a year. As of October 2020, 108 approved projects and programmes worth USD 4.635 billion were under implementation, with USD 1.369 billion disbursed for 88 projects and programmes. Disbursement could reach up to USD 2.1 billion by the end of 2021.

Financial instruments, concessionality and co-financing

The Fund has used financial instruments beyond grants and concessional loans in support of its 159 approved projects and programmes so far, although equity investments and risk guarantees – with 6% and 1% respectively – still make up a minor percentage of overall GCF funding (44% of approved financing is committed in the form of grants and 42% in the form of concessional loans). Results-based payments, such as the funding paid for eight REDD+ projects, now takes up 7% of approved funding. Over time, the Fund may also offer an even broader suite of financial instruments. For example, the PSF has started to involve the Fund as a direct equity investor in some GCF projects and is floating the idea of establishing a co-investment platform. Some developing-country Board members remain concerned that more complex financial instruments would move the Fund towards a bank structure, thus undercutting the core mandate of the GCF as an operating entity of the financial mechanism of the UNFCCC, which focuses on meeting the additional costs of climate change-related interventions through concessional financing.

At its 13th meeting in 2016, the Board proposed interim risk and investment guidelines for one year. These were differentiated for the public and private sector and based on principles such as maximising leverage and only seeking the minimum required level of concessionality. The guidelines stipulated that while public sector projects could receive 100% GCF grant funding, for private sector investments the grant component would be capped at 5% of total costs. Four years later, however, the Fund is still operating on a case-by-case approach, as a standard set of terms for even public sector lending is not yet elaborated. In 2019, a review of the financial terms and conditions recommended a uniform approach to measuring the level of concessionality needed to make GCF funding proposals viable, but the review confirmed the case-by-case approach for private sector proposals.

At its 24th meeting the Board approved a policy on co-financing. While not establishing a co-financing requirement to access GCF funding, the new policy nevertheless outlines such an expectation and details AE reporting requirements on co-financing. Board efforts that began in 2019 to consider separate policies on concessionality and incremental cost methodologies stalled in 2020 and will need to be taken up again in 2021.

Risk management

To balance inputs into the Fund (currently only in the form of grants from the public and private sector, paid-in public capital contributions and concessional public loans) with the risks and concessionality of finance that the GCF is to offer, the Fund established safeguards such as capital cushions to maintain the ability of the GCF to deliver a significant portion of its funding as grants. The implementation of its initial financial risk management framework (approved by the Board at its 7th meeting in 2014), as well as the implementation of a comprehensive risk management framework (approved by the Board at its 17th meeting and which includes the GCF's risk appetite statement) is overseen by the Board's standing Risk Management Committee working with the Secretariat's Office of Risk Management and Compliance. A detailed risk register – that also addresses non-financial risks such as reputational or compliance risk that the Fund faces as part of this framework – is complemented by a preliminary risk dashboard. This was further refined in 2018 and is updated quarterly for every Board meeting. Several components of the GCF risk management framework were approved in 2018, specifically an investor risk policy, a non-financial risk policy covering disasters or cyber-attacks, and a funding risk policy dealing with liquidity or foreign exchange risks. At its 23rd meeting in July 2019, the Board approved one of the last missing policy pieces in the risk management framework – a compliance policy. In 2020, the Secretariat and Risk Management Committee jointly reviewed the initial financial risk management framework, proposing only minor changes. The Secretariat in 2020 continued to work on updates to the legal risk management and risk-rating models, and provided further analysis of the currency risk of non-USD contributions to the GCF.

Country ownership

The Board has repeatedly confirmed country ownership and a country-driven approach as core principles of the Fund. An NDA or a focal point acts as the main point of contact for the Fund, develops and proposes individual country work programmes for GCF consideration, and ensures the consistency of all funding proposals that the Secretariat receives with national climate and development plans and preferences. By November 2019, 147 countries had designated an NDA or focal point. Countries' engagement with the GCF is highlighted on individual country pages on the GCF website. Countries have flexibility on the structure, operation and governance of NDAs.

At its 17th meeting the Board approved updated and more detailed country ownership guidelines, including guidance on country coordination functions and stakeholder engagement, which will be reviewed at minimum every two years. Any proposal needs to be accompanied by a formal letter of no-objection to the Secretariat from the NDA or focal point in order for it to be considered by the GCF. For regional proposals, each country in which the project/programme is to be implemented needs to issue a no-objection letter. This is intended to ensure recipient-country ownership of funding for projects, particularly those that are not implemented by governments (for example through the private sector).

By the end of 2019, and with it the end of the IRM, 24 official country programmes detailing GCF funding priorities had been submitted in final form; a further 33 countries had shared draft versions of their country programmes. In 2020, only one additional country programme could be finalised. Country programmes that are nationally consulted and coordinated with the work programmes of accredited entities are seen as the basis for improved programming during GCF-1. Therefore, the Secretariat hopes to receive 30 additional country programmes with such coordinated investment plans in 2021, as a result of scaled-up technical assistance via readiness support, by familiarising AEs with country programming guidelines that the Secretariat developed further in 2020, and through active match-making.

Access modalities

The GCF works through a diverse range of partners. Like the Kyoto Protocol's Adaptation Fund, the GCF gives recipient countries direct access to funding through accredited national, sub-national and regional implementing entities and intermediaries. These may include government ministries, non-governmental organisations (NGOs), national development banks, and other domestic or regional organisations that can meet the standards of the Fund. As previously mentioned, a letter of no objection by the country's NDA or focal point is also necessary under the country-ownership principle to allow for the accreditation of a direct access entity to proceed. Countries can also access funding through accredited international and regional entities (such as multilateral and regional development banks and UN agencies) under international access, and private sector entities can be accredited as implementing entities or intermediaries too.

Developing countries have also been keen to explore modalities for enhanced direct access (EDA), under which developing country-based accredited institutions make their own decisions about how to programme resources under an allocation of GCF resources. Under a USD 200 million EDA pilot programme, a July 2016 request for EDA proposals netted 12 concept notes, but few have come to fruition. At its 14th meeting, the GCF Board approved its first EDA project for a small grants programme in Namibia. After the Board failed at its 18th meeting in Cairo to approve an EDA proposal from Argentina, in 2018 only one more EDA proposal from Antigua and Barbuda was approved. Although no new EDA proposal was considered in 2020, the EDA pipeline has increased by one EDA submission, and now consists of a total of 13 EDA proposals for public sector projects worth USD 240.83 million in GCF support. In 2020, the Secretariat also established a new EDA team tasked to draft specific guidelines, and increased its outreach to direct access entities on how to develop EDA proposals as an innovative approach to promote more locally led climate actions.

Accreditation framework with fiduciary standards and environmental and social safeguards

In 2014, the Board agreed on a broad accreditation framework with a three-step accreditation process. Implementing entities and intermediaries from both the public and the private sector need to have in place best practice social and environmental safeguards and meet strong fiduciary standards to ensure good financial management. Additional specialised fiduciary standards are required for financial intermediation and programme management. GCF AEs also have to show their ability to comply with the GCF gender policy. In June 2014, the Board adopted the performance standards of the International Finance Corporation (IFC), the private sector arm of the World Bank Group, as the Fund's interim environmental and social safeguards (ESS). While the Fund was supposed to develop its own ESS within three years with inclusive multi-stakeholder participation, this process has been significantly delayed and was only taken up in 2019. This followed the adoption of a forward-looking, human-rights based Environmental and Social Policy (ESP) at the 19th Board meeting in 2018 as a core building block towards completion of the Fund's own Environmental and Social Management System (ESMS). At its 23rd meeting in July 2019, the Board finally approved the process for developing the Fund's own ESS through a comprehensive multi-stakeholder participation process. As progress on this work stalled in 2020, it is now expected to be completed only by mid-2022.

Under a 'fit-for-purpose' accreditation approach – in which the application of fiduciary standards and ESS are categorised and matched to the risk level, complexity and size of the project or programme that will be implemented – applicant entities choose which category of accreditation they seek and whether they want to be accredited to provide additional intermediating functions.[2] A six-member Accreditation Panel, last evaluated and adjusted in expert composition and membership as a result of an in-depth performance evaluation in the fall of 2020 for its 2021-2024 term, reviews applicants' documentation and recommends to the Board whether an entity shall be granted accreditation, indicating further conditions where applicable. The initial accreditation period is for five years, after which time an entity needs to reapply. An entity can also seek to upgrade its accreditation to a higher risk, size, or complexity level, with eight such upgrades so far approved by the Board. According to a decision taken at the 23rd Board meeting, accreditation is considered effective once an AE has signed its Accreditation Master Agreement (AMA). With the accreditation of the first GCF implementing entities effective since spring of 2015, the Board at its 24th Board meeting approved a review process for re-accreditation. In 2020 eight AEs were originally scheduled to apply for re-accreditation, although in a decision at its 26th meeting the Board allowed for a one-time request for a six-month extension to the accreditation term due to Covid-19. In 2021, 13 more AEs will have to apply for re-accreditation or request the one-time extension.

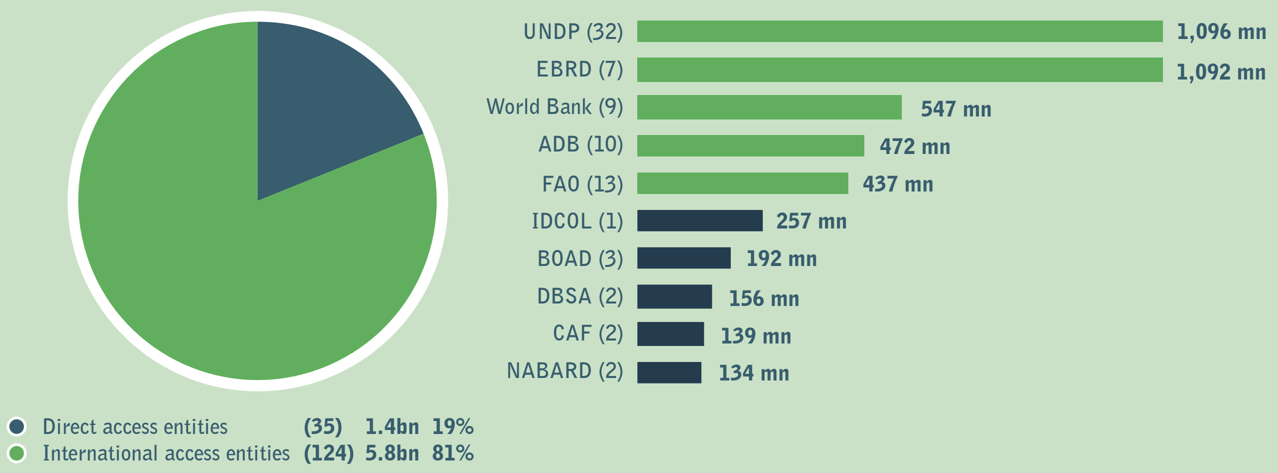
Accredited implementing entities of the Fund

Since the call for accreditation applications was opened in November 2014, the interest in partnering with the GCF has remained high. As of October 2020, there were 116 entities in the pipeline seeking accreditation that have yet to submit their applications, with 101 that had submitted applications under review, including 50 from direct access entities and 23 from the private sector (four of these were approved at the 27th Board meeting). The GCF Board has approved the accreditation of applicant entities since its 9th Board meeting in March 2015 in fourteen batches for a total of now 103 AEs, although it did not consider accreditation proposals at its 11th, 16th, 19th and 20th meetings. Of those, 41 are international access entities and 62 direct access entities (49 national and 13 regional), with 24 from the private sector. However, less than 40% of these have so far programmed projects with the GCF. Over the past two years, significant strides have been made in executing the AMAs of 82 of the now 103 AEs, the last legal step in fully operationalising their engagement with the GCF and thus overcoming a worrisome legal backlog.

The current GCF accreditation process has sparked concerns with some stakeholders, including with respect to the length and complexity of the application process, its transparency and thoroughness, and the diversity and balance of the GCF's AE. Independent third-party views on the track record of applicant entities are still not part of the Accreditation Panel review process and there is a lack of transparency of who is in the accreditation pipeline. While the number of direct access AEs continues to grow faster than international access ones (233 direct access entities had been nominated by 97 countries by October 2020), without additional efforts to prioritise the accreditation of national and regional institutions and the upgrade of current direct access AEs for financial intermediation and larger and higher risk project categories, the existing imbalance in who accesses GCF funding will continue. The latest round of 16 project/programme proposals approved at the Board's 27th meeting in November 2020 means that 81% of approved GCF funding (USD 5.8 billion) is channelled through international access entities, and only 19% (USD 1.4 billion) through direct access entities, a share that has not grown significantly over the past year. As just a few international entities capture a disproportionate share of GCF approved funding, this raises the issue of concentration risk.

The United Nations Development Programme (UNDP) is the entity with the largest share of GCF approved funding with a total of USD 1.096 billion or 15.2% of the GCF funding portfolio. It is also implementing by far the largest number of individual GCF projects and programmes, at 32.

Figure 2: Total GCF funding by access modality of accredited entities, including top five recipients (in USD), after the 27th GCF Board meeting



Source: Authors' own calculations, based on Board document GCF/B.27/Inf.03, figure 10, p.7 (https://www.greenclimate.fund/sites/default/files/document/gcf-b27-inf03.pdf), and updated to reflect project/programme approvals at B.27)

Notes: Number of approved projects is given in parentheses against each entity. *Abbreviations*: ADB = Asian Development Bank; BOAD = *Banque Ouest Africaine de Développement* (West African Development Bank); CAF = *Corporación Andina de Fomento*; DBSA = Development Bank of Southern Africa; EBRD = European Bank for Reconstruction and Development; FAO = Food and Agriculture Organization of the United Nations; IDCOL = Infrastructure Development Company Limited; NABARD = National Bank for Agriculture and Rural Development; UNDP = United Nations Development Programme.

The European Bank for Reconstruction and Development (EBRD) follows closely with USD 1.092 billion or 15.1% for seven large-scale programmes and financing facilities. The World Bank is third with USD 547 million for nine projects or 7.6%, the Asian Development Bank (ADB) is next with 472 million (6.6%) for 10 projects and the Food and Agriculture Organization (FAO) has 437 million (6.1%) for 13 projects and rounds up the top five recipients. A similar concentration among a few recipients – although at decidedly lower levels – is also happening among direct access entities. The top five receive USD 878 million for 11 projects, and thus with 12.2% of the approved GCF funding, the lion's share of approved funding flowing through direct access entities (Figure 2). The Secretariat, in its 2021 workplan, laid out a multi-pronged direct access entity (DAE) strategy that will span both pre-accreditation and post-accreditation stages in order to bring more DAEs online and enable DAE work to account for a greater share of projects and GCF funding. It foresees a programming goal for 2021 of at least 12 DAE projects for between USD 250 and USD 340 million.

The Board, at its 18th meeting, also mandated the Secretariat to consider a revision of the accreditation framework to include other modalities for institutions to work with the GCF, such as a project-specific assessment approach (PSAA). While the Board approved the PSAA in principle at its 23rd meeting in July 2019, an elaboration of its procedure stalled in 2020 and will have to be brought to a Board decision in 2021. The PSAA is included as a core feature of the updated strategic plan that was approved at the 27th Board meeting in November 2020, and is considered a necessity to move forward with concept notes submitted by non-accredited entities from the private sector under its MFS pilot programme.

Lastly, a long-overdue accreditation strategy (first requested by the Board at its 10th meeting in July 2015) will have to be tackled in 2021. This must clarify how accreditation fits into the overall GCF vision and examine the capabilities of the growing existing AE network against both the mandate and the updated strategy of the GCF, as well as the needs of developing countries. It must also guide prioritisation in the accreditation and re-accreditation of AEs.

Monitoring and accountability

The GCF governing instrument foresees three separate accountability mechanisms, namely the IEU reporting to the Board, an Independent Integrity Unit (IIU) and an Independent Redress Mechanism (IRM).[3] In Songdo in June 2014, the Board decided on the terms of reference for all three mechanisms, specifying, for example, that the Independent Redress Mechanism will receive complaints by affected people related to Fund operations as well as recipient-country complaints about Board funding decisions. As of 2017, all three units had started their work, with the Independent Redress Mechanism gaining approval for a revised terms of reference in 2017.

Since 2018, all three units have submitted ambitious yearly work programmes with growing budgets and staff. In 2019, the Board approved standards for the implementation of a policy on anti-money laundering and countering the financing of terrorism (AML/CFT), as well as policies drafted by the IIU on prohibited practices and protection against sexual exploitation, abuse and harassment (SEAH). While already operational for GCF personnel, some revisions to the SEAH policy's application to GCF implementing partners were still under discussion in 2020, delaying the policy's full implementation to 2021. The Board also approved at its 22nd meeting guidelines and complaint procedures for the Independent Redress Mechanism, which in 2020 received three formal project-related complaints and continued with one self-initiated inquiry.

With the IEU's work ramping up, the Board took note of three in-depth independent evaluations performed by the IEU in 2019, namely of the GCF's readiness and preparatory support programme, its results management frameworks, as well as its forward-looking performance review of the GCF in the context of the replenishment. In early 2021 the Board will have to consider the IEU's evaluation of country ownership (although already completed in late 2019), plus new IEU evaluations completed in 2020 on the GCF's environmental and social safeguards, and the relevance and effectiveness of GCF investments in SIDS. Board reviews of two further IEU assessments on the GCF accreditation function and the SAP are also outstanding. Additionally, the IEU is conducting an ongoing evaluation of the GCF's adaptation portfolio and approach. The backlog in considering the IEU's output comes at the same time as a pushback by some developing-country Board members against the IEU's growing mandate. As the Board considers a new head for the IEU in 2021, a review of the IEU's terms of reference is also possible.

At its 11th meeting, the Board also approved an initial monitoring and accountability (M&A) framework for GCF AEs, which is a key part of the broader M&A system of the GCF. It sets the incentives and remedial actions to ensure compliance by the AEs with GCF safeguards, standards and its policies on gender and Indigenous Peoples. The framework relies primarily on regular mandatory self-reporting by AEs on both annual project implementation progress as well as continued compliance with relevant GCF standards and policies with only spot checks by the Secretariat. However, it also highlights an oversight role for NDAs and local stakeholders through participatory monitoring approaches for project implementation.

For the 27th Board meeting, the Secretariat submitted its third annual GCF portfolio performance report (PPR), aggregating the individual annual performance reports (APRs) submitted by the AEs for the 74 projects and programmes under implementation as well as for the 366 readiness grants with funding dispersed by the end of 2019. The 2019 PPR highlighted, for example, continued challenges in engaging stakeholders comprehensively in implementation, as well as deficits of AEs in fully complying with the mandates of GCF policies on gender and Indigenous Peoples. In 2020, for the first time, the Accreditation Panel also formally reviewed and analysed the required mid-term review reports that had to be formally submitted by 24 AEs that had reached the mid-term of their accreditation period.

The M&A framework also importantly includes a provision to monitor the shift of the entire portfolio of AEs – not just the GCF-funded portion – away from fossil fuels as a condition for re-accreditation after five years. Further work on setting a baseline for the consideration of the AE portfolio had stalled in 2019, after a draft methodology submitted for the 21st Board meeting in October 2018 was not considered. Instead, the Accreditation Panel, together with the Secretariat, developed a light-touch version of a baseline indicator tool for a pilot phase that is now under implementation with a sample of 15 AEs. The sample includes those AEs seeking re-accreditation in 2020 and 2021 in line with the approved process for re-accreditation.

Readiness and preparatory support

LDCs, SIDS and some developed countries on the GCF Board made a strong case for early support for 'readiness activities' that would build country capacity to access and programme GCF finance effectively. Germany and South Korea provided early resources for this purpose before the IRM. By September 2017, the Board approved a total of USD 80 million for readiness activities, of which 50% was slated to support vulnerable countries including SIDS, LDCs and African states. The Board approved an additional USD 50 million at its 18th meeting and a further USD 60 million at its 19th meeting to deal with the growing number of funding requests. In July 2019, at its 22nd meeting, the Board committed another USD 122.5 million for the GCF's Readiness and Preparatory Support Programme (RPSP). This was followed by the Board approving an additional USD 162.4 million at its 26th meeting in August 2020 for the 2020–2021 work programme of the RPSP, thus increasing the overall readiness financing approved by the Board to USD 474.9 million. For the period 2020–2021, in light of the Covid-19 pandemic, readiness support in pipeline development and programming will also focus on assisting developing countries in planning for a climate-resilient recovery.

Supporting national, sub-national and regional implementing entities and intermediaries to meet GCF accreditation standards has been identified as a priority of the programme. This is intended to ensure that these standards do not become a barrier to direct access to the GCF. The Fund also provides readiness support to strengthen the institutional capacities in recipient countries for country coordination and multi-stakeholder consultation mechanisms as needed, as well as to prepare country programmes and project pipelines. At its 13th meeting, the Board also revised the list of activities that it can support to now also include up to USD 3 million per country for the formulation of National Adaptation Plans (NAPs) and other adaptation planning processes. Since then, requests for NAPs support have steadily increased. At the national level, the NDA or focal point plays a lead role in deploying readiness and preparatory support funding, and the GCF is one of the few international funds to give NDAs direct access to funding for institutional activities and the development of country programmes.

As of June 2020, the GCF Secretariat had engaged with 144 countries on 519 readiness requests worth USD 422.85 million. And by October 2020, the GCF had approved 386 proposals from 138 countries, with readiness support worth USD 268 million (with about 60% of the approved funding for SIDS, LDCs and African states). Of these 386 projects, 51 have been completed, 315 are under implementation, and 20 have not started implementation.

In 2016, the Board took steps to simplify readiness grant agreements, including through framework agreements with readiness providers such as UNDP or *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ, German corporation for international cooperation) which operate in many countries. It has now more than 115 readiness delivery partners, including NDAs, with 70% from developing countries. As a result, funding disbursed by October 2020 for the 315 readiness projects under implementation totalled USD 132 million.

In 2018, the Fund's RPSP was reviewed extensively by the GCF's IEU, its first independent review (IEU, 2019). The Board discussed the IEU's recommendations and made necessary adjustments in a revised readiness strategy for 2019–2021 that was adopted at its 22nd Board meeting. 'Readiness 2.0' now allows NDAs and focal points to request multi-year grants of up to USD 3 million for three years, replacing the previous one-year grants capped at USD 1 million.

Private sector operations

The GCF's outreach to, and engagement with, the private sector is seen as a key defining element of the Fund. Originally set up as a separate Private Sector Facility (PSF), the Fund has now sought to make private sector operations a cross-cutting aspect of all GCF operations, including in accreditation, portfolio development and management and with a special focus on enabling domestic private investment in low-carbon and climate resilient approaches. As a result, by November 2020, 38% of the portfolio's nominal value (USD 2.7 billion) had been allocated to the private sector.

A 14-member Private Sector Advisory Group (PSAG) – composed of eight private sector representatives (four each from developed and developing countries) in addition to two civil society experts (one from developed and one from developing countries) and four Board members (two each from developed and developing countries) – is tasked to provide strategic guidance on GCF engagement with private sector actors. The PSAG works closely with the Secretariat as well as the Board Investment and Risk Management Committees. Since its formation, the PSAG has met several times and elaborated broad principles as well as targeted recommendations to the Board for Fund-wide engagement options and opportunities with the private sector. This includes, for example, recommendations on mobilising funding at scale or working with local entities, particularly MSMEs.

Following core recommendations by the PSAG, the Board approved a USD 200 million MSME pilot programme and a USD 500 million pilot programme for MFS at its 10th meeting in July 2015. The RfP for the MSME pilot, which opened in summer 2016, resulted in three approved MSME pilot proposals with no further proposal approved in 2020, but several in the pipeline. The RfP for MFS closed by September 2017 and netted 350 concept notes. Of these, 30 were shortlisted, with one approved by the Board at its 23rd meeting in July 2019, one initially submitted for and then withdrawn at its 24th meeting, and two more approved respectively at the 25th and the 27th Board meetings. The use of both RfPs is scheduled to be reviewed by the IEU in 2021.

The PSAG held no meeting in 2020, the second year in a row that it did not convene, casting doubts about its future as the mandate of its current members has since expired. However, its earlier recommendations on private sector engagement in REDD+, adaptation and in the SIDS were largely integrated in the update of the GCF's strategic plan approved in November 2020. This update also incorporated recommendations from a new private sector strategy shared with the Board in 2019, such as a stronger focus on private equity investments and facilitating the partnership of private sector actors with the Fund through a PSAA instead of full-fledged accreditation.

Gender

All GCF funding needs to take a gender-responsive approach, as elaborated in a *Gender policy and gender action plan* for the Fund, approved at the 9th Board meeting in March 2015 (GCF, 2015). This has been under a mandated review, however, and efforts to significantly strengthen both – including by elaborating responsibilities of all GCF partners, clear priority actions and success indicators, as well as staff and budget requirements – stalled in 2018 and early 2019 due to strong objections from some developing-country Board members who felt that the policy added too much burden to recipient countries.

The logjam was finally broken with the adoption of an updated gender policy and gender action plan 2020–2023 at the Board's 24th meeting in November 2019, following assurances around strengthened technical assistance and readiness support for the implementation of the gender mandate, as well as weakened provisions (GCF, 2019b). The latter, for example, contextualises the implementation of the GCF gender mandate in national practices and cultural understandings, thus potentially weakening the universal principle of women's rights as unalienable human rights. The updated policy applies to all funding areas and funding decisions of the GCF and makes a gender and social assessment accompanied by a project-specific gender action plan mandatory for each funding proposal.

In addition to the GCF gender policy update, gender considerations are mainstreamed into key operational policies and guidelines such as results management and investment decisions, as well as in accreditation procedures and stakeholder engagement processes. However, additional improvements are needed. While the GCF is the first dedicated climate fund to have a gender mainstreaming approach in place at the beginning of its funding operations, it could stand to lose this best practice leadership position without further efforts around gender integration. For example, the GCF annual portfolio reports for 2018 and 2019 for projects under implementation note failures of AEs to report against their submitted gender action plans and that, in some cases, this is missing entirely (GCF, 2019c; GCF, 2020b). Also, they suggest that projects several years into implementation are insufficiently treating the gender assessments and mandatory action plans as 'living documents' that are in need of updating and review by refining targets and indicators and tracking sex-disaggregated data consistently. Many projects under implementation also still lack a sufficient focus on transformative actions that address gender-biased power relations, equal access to resources, and joint decision-making (see also CFF10 2020 on gender and climate finance for further details).

The Board will have to address other gender provisions in the governing instrument, particularly the need for gender balance among the Secretariat staff – women are still underrepresented among its international staff and overrepresented in administrative function, although the Secretariat filled four senior management positions with women in 2020 and further increased its staff diversity. The same applies to the 24-person GCF Board, which in November 2020 included six female Board members and ten female alternate Board members, the same number as a year ago. Gender balance, as well as sufficient gender expertise of its members, is also crucial for the various committees and expert advisory bodies, including the PSAG, the ITAP and the Accreditation Panel.

Indigenous Peoples

After years of continued engagement and lobbying by Indigenous Peoples' groups, the Board, at its 15th meeting in Samoa in December 2016, requested the Secretariat to prepare a Fund-wide Indigenous Peoples policy for it to consider. Working with Indigenous Peoples' representatives as part of an internal coordination group, the Secretariat managed a public submission process in the summer of 2017, inviting broad stakeholder input into the development of such a policy. The GCF's *Indigenous Peoples Policy* was approved at the 19th Board meeting, taking a strong rights-based approach by focusing on the self-determination of Indigenous Peoples and their right to free, prior and informed consent (FPIC) throughout the GCF project cycle (GCF, 2018). The Fund-wide policy is to be complemented by implementation guidelines developed by the Secretariat in 2019. A separate Indigenous Peoples Advisory Group (IPAG), originally expected to start its work in 2020, has yet to be convened.

GCF relationship to the UNFCCC and the Conference of the Parties (COP)

The GCF is an operating entity of the UNFCCC's financial mechanism. It is to be "accountable to and function under the guidance of the COP" (UNFCCC, 2011: 17). The GCF Board sought to define the arrangements between the COP and the GCF with a decision in October 2013 that reaffirmed its full responsibility for funding decisions, which the Warsaw COP approved (UNFCCC, 2014). The Standing Committee on Finance (SCF), a complementary UNFCCC body aimed at taking stock and ensuring accountability in the global climate finance architecture, has also developed recommendations to this end.

The GCF Board prepares an annual report on its programmes, policies and priorities and status of resources and responds to feedback and guidance received in reaction from the COP, with its ninth report to the COP approved at its 27th meeting in November 2020. In addition, the COP has the authority to commission an independent assessment of the GCF to evaluate overall Fund performance, including that of its Board and the adequacy of its resources, in connection with periodic reviews of the UNFCCC financial mechanism. In 2020, following COP guidance, the GCF worked on converting pledges received under its first replenishment process into signed contribution agreements; the Secretariat also succeeded in speeding up funding disbursements. However, due to constraints as a result of the pandemic, the GCF Board was unable to address policy gaps in 2020, including those related to decision-making by the Board, further streamlining and facilitating access to GCF funding and refining project/programme eligibility criteria or concluding the review of the accreditation framework. Likewise, there was little progress in extending the number of countries providing the Fund and its personnel with the privileges and immunities it needs through bilateral agreements to safely operate in recipient countries.

Stakeholder and observer input and participation

The GCF governing instrument anticipates extensive stakeholder participation in the design, development and implementation of the strategies and activities financed by the GCF. Stakeholders are broadly defined as "private-sector actors, civil society organizations, vulnerable groups, women and indigenous peoples" (GCF, 2019a: 17). These mandates are currently operationalised primarily in the context of arrangements for country ownership and programming for the Fund, and in accreditation criteria for implementing entities and intermediaries. GCF readiness support also facilitates the gender-responsive engagement of national and sub-national stakeholders in the GCF programming process, although the IEU review in 2018 highlighted how lacklustre this engagement currently is (IEU, 2019). Following the 6th Board meeting in 2014, the Secretariat improved efforts to consult observers intersessionally via carefully managed requests for written input. However, the Secretariat still needs to elaborate stakeholder engagement guidelines to improve comprehensive outreach and involvement of stakeholders and observers in the GCF.

There is also a provision for stakeholders to observe the deliberations of the Fund, and for two active observers each from the private sector and civil society to provide input at Board meetings. In 2016 the Board initiated a participatory review of observer participation in Board proceedings with the goal of addressing existing weaknesses, such as the lack of financial support for the participation of observers from developing-country civil society organisations (CSOs) or the lack of direct representation for Indigenous Peoples. This review stalled in 2018 but was started up again in 2019 with a new submission process for public inputs. While it should have been concluded years ago in order to strengthen the role of observers in conjunction with a growing workload and mandate for the Fund's Board and Secretariat, the review is now scheduled to be considered in 2021 according to the Board's four-year work plan approved in 2020, although further delays are possible.

Information disclosure and communication strategy

At its 12th meeting, the GCF Board approved a revised comprehensive Information Disclosure Policy (IDP), which operates under a 'presumption to disclose' (GCF, 2016). Board meeting documents are posted on the GCF website[4] at the same time they are sent to Board members, advisors and active observers. Under the disclosure policy, documents are supposed to be kept confidential only on an exceptional basis under special circumstances (a 'negative list approach'), although information related to any private sector engagement is considered as proprietary. The Fund's Information Disclosure Policy also allowed webcasting of Board meetings on a test basis, enabling stakeholders worldwide since the 13th Board meeting in 2016 to take advantage of this relatively low-cost way of increasing transparency and public awareness of the Fund's decision-making process. At its 18th meeting, the Board decided to continue webcasting until the end of 2019 and at its 24th meeting in 2019 webcasting was extended indefinitely. This has proved crucial for the deliberations of the Board in 2020, which have been conducted primarily in a virtual setting.

The IDP also sets the time frame for the public disclosure of project-related environmental and social assessments at 120 days for the highest-risk projects (Cat. A) and 30 days prior disclosure for medium-risk projects (Cat. B), following global established practice. However, 2018 saw some challenges in the application of these requirements, triggering the first ever complaint filed by civil society under the Information Appeals Panel (IAP) of the GCF. A further civil society challenge to require earlier and more detailed public information disclosure on proposals in the project pipelines followed in 2020. Since the 24th Board meeting, all relevant annexes of public funding proposals are made publicly available, although those of private sector proposals are not yet. Additionally, 2020 saw the first-time disclosure of select APRs for verification of progress in project implementation.

A detailed communication strategy for the Fund to set parameters for sharing information with the public is yet to be developed (despite being on the Board's work plan for several years). However, an external relations division in the Secretariat was established in 2018 and dedicated support staff added. External communication efforts are also aided by a continuously updated and expanded website for the Fund, which includes, for example, individual country pages and project implementation pages. Outreach activities intensified in 2019 in connection with the GCF's first replenishment process, and these continued in 2020 in light of Covid-19 with a strengthened focus on virtual engagements, allowing new stakeholders to engage with the Fund.

Outlook for 2021

The portfolio of AEs and approved projects/programmes for the GCF further grew in 2020, despite many challenges to the normal operations of the Board and Secretariat and to implementation of the Fund's portfolio due to the impacts of the pandemic. However, the Fund has continued to struggle to address a number of important operational decisions accompanying policies and frameworks for project development, approval and ongoing project oversight, and management. This is even though it was able to smoothly transition from the IRM period through to the first year of its four-year first replenishment period (GCF-1).

In 2021, the GCF is tasked with operationalising its updated strategic plan that was approved in November 2020. This includes considering and applying the recommendations of a number of IEU evaluations of its procedures, policies and frameworks yet to be discussed by the Board, particularly those on country ownership, the Fund's adaptation approach and its environmental and social management system. As part of the implementation of the approved updated strategic plan, the Fund will have to work on improving its funding predictability, as well as the scale, impact and effectiveness of its financing through a stronger reliance on strategic work programme development by countries and AEs.

A set of eleven sectoral guidelines to be developed by mid-2021 will further help articulate priority impact areas for GCF investment until 2023. Possible areas include supporting GCF funding proposals that address the nexus of health, biodiversity and climate change, which has increased in saliency in the wake of Covid-19. Readiness and preparatory support, including quick release funding, will also aid developing countries' effort for a climate-resilient recovery from the impacts of the pandemic.

In order to realise the GCF's newly articulated theory of change, vital operational functions need to be revised and upgraded without further delays. Priorities include: (i) sharpened articulation of the GCF's general investment guidelines with detailed terms and conditions for GCF public and private sector grants, loans, equity investments and risk guarantees to address concessionality and incremental and full cost approaches; (ii) finalising a revised GCF accreditation and partnership strategy; (iii) guidelines for a programmatic funding approach; (iv) finalising an ESMS for the Fund through the development of the GCF's own environmental and social safeguards; and (v) finalising an integrated results management framework adjusting and integrating existing results management and performance measurement frameworks with indicators, results tracking tools and methodologies for accounting for paradigm-shifting adaptation and mitigation results.

The Fund is also still struggling with important administrative policies, including securing the privileges and immunities that will allow Fund staff and appointed personnel to operate in countries receiving GCF funding, as well as upgrading its human resource and compensation policies to attract and retain staff with first-grade expertise and to slow down the rate of staff turnover (which has been aggravated by the pandemic in 2020). After successfully leading the Secretariat through a challenging year, in 2021 Executive Director Yannick Glemarec can work to consolidate and deepen the implementation of substantive procedural and operational improvements initiated over the past 18 months. At the same time, the Board, coming out of a challenging year which in many ways saw it having to abandon the implementation goals for 2020 outlined in its approved four-year work plan, will have to recoup and get back on track in 2021.

With a heavy work agenda remaining to be completed, and many policy issues quite contentious, the Board will need to continue to address its governance challenges and improve Board decision-making in between meetings. In 2020, it has shown already in several instances that it can successfully apply new voting procedures in the absence of consensus for project approval. New procedures for decision-making between meetings will help the Board to facilitate a number of policy decisions, for which the voting procedures in the absence of consensus do not apply. However, the competence and capacity of specialised Board committees will have to be further strengthened to tackle the backlog of issues that could not be dealt with in 2020. In late November, Brenda Ciuk (Mexico) and Jean-Christophe Donnellier (France) where elected by the Board constituencies to serve as their new co-chairs for 2021. They will need to work closely with the Executive Director of the Fund and a still-expanding Secretariat to develop a shared approach to tackle these challenges and to operationalise the promise of a Fund created to support developing countries to realise low-carbon and climate resilient development. With the ongoing revision of countries' NDCs in the lead up to COP26 in Glasgow, UK, in 2021 and with countries struggling to achieve a green and resilient recovery from Covid-19, the role of the GCF in providing financial assurance and technical assistance to developing countries will be more important than ever.

Footnotes

1. REDD+ is reducing emissions from deforestation and forest degradation, plus the sustainable management of forests and the conservation and enhancement of forest carbon stocks.
2. Entities already accredited with the GEF, the Adaptation Fund and the development aid programme of the European Commission (EU DEVCO), as well as institutions with a track record of engaging with the private sector, can apply for fast-track accreditation, provided any identified gaps in adherence with GCF standards and safeguards are addressed.
3. Not to be confused with IRM, initial resource mobilisation.
4. www.greenclimate.fund

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

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