Climate Funds Update

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The Green Climate Fund

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The Green Climate Fund (GCF) is the newest actor in the multilateral climate finance architecture and became fully operational in 2015. Since then, it has approved USD 2,634 million for 54 projects. The GCF is an operating entity of the Financial Mechanism of the UNFCCC. A legally independent institution hosted by South Korea, it has its own secretariat and the World Bank as its interim trustee. It functions under the guidance of, and is accountable to, the UNFCCC COP. The 24 GCF Board members, with equal representation of developed and developing countries with support from the secretariat, have been working to operationalise the Fund since their first meeting in August 2012. This year, the GCF focused on addressing policy gaps in essential policies and frameworks to receive and manage finance as well as policy reforms to speed up proposal approval and disbursement of approved funding. By October, it also accredited a total of 59 implementing entities. The initial resource mobilisation effort that began in June 2014, raised USD 10.3 billion from 43 contributing countries (including eight developing countries) as well as a handful of regions and cities. By September 2017, USD 10.1 billion of pledged finance was formalised through contribution agreements. Heading into COP 23 in Bonn under a Fiji COP presidency, this Climate Finance Fundamental provides a snapshot of the operationalisation and functions of the Fund. While the Fund's role in a post-2020 climate regime as the major finance channel under the Convention was confirmed, the scale of its resourcing remains to be clarified post-Paris. Past editions of this Climate Finance Fundamental detail the design and initial operationalisation phases of the Fund.

Introduction

At its three Board meetings in March, July and October 2017, the GCF Board made important decisions, including on 19 project and program proposals for USD 1,148 million in GCF funding. These decisions further advance the GCF towards full operationalisation and clear hurdles to ramp up funding by the GCF in 2018. The GCF offers grants, concessional loans, equity investments and guarantees using the executing and financial management capacities of partner organisations that work as implementing entities or intermediaries. The interim criteria for accrediting GCF implementing and intermediation agencies were set in 2014, allowing for a "fit-for-purpose" graduated approach and considering comparable principles and standards of entities already accredited at other finance institutions. These are now being reviewed. Contributions to the Fund are only accepted as grants, concessional loans and paid-in capital. GCF allocation aims to balance funding for mitigation and adaptation measures, and ring fences support for the urgent needs of Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African countries and for local private sector actors.

As an operating entity of the Financial Mechanism of the Convention under Article 11, a role confirmed in the Paris Agreement, the GCF is "accountable to and function[s] under the guidance of the COP". It is mandated to take a country-driven approach, a principle that is supposed to guide all GCF investment decisions. It is also intended to channel "a significant share of new multilateral funding for adaptation". A total of USD 10.3 billion was pledged to the Fund during its initial resource mobilisation process by 43 contributing countries, with USD 10.1 billion already formalised through signed contribution agreements (although this has been undermined by the US announcing its intention to withdraw from the Paris Agreement and cease its contributions to the GCF). Eight developing countries including host country Korea, Mexico Peru, Colombia, Panama, Mongolia and Indonesia are amongst the contributors to the Fund. With the exception of France and Canada, most contributions are grants. The GCF is thus the largest multilateral climate fund, and could potentially channel even larger sums of finance over time.

GCF implementation issues

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

As the GCF's fifth co-chairs in 2017, Ayman Shasly (Saudi Arabia) and Ewen McDonald (Australia) focused on finalising strategic operational components for the further development of the fund while increasing efforts to ramp up approval of quality proposals and disbursement of GCF funding.

In 2017, progress continued unevenly reflecting persistent differences between developed and developing countries, but also increasingly between Board members and a growing Secretariat under a new leadership on visions and best operating procedures for the Fund (see earlier CFF 11 from 2011 to 2016 for a more detailed elaboration). In 2017, the Board and Secretariat focused on addressing persistent hurdles to the full operationalisation of the fund and increasing and facilitating fund disbursement , including by addressing policy gaps and reviewing and improving existing processes. Below we summarise some of the key decisions taken in 2017.

Strategic Vision: During 2017, the GCF Board and Secretariat regularly checked progress in strengthening and upgrading GCF procedures and policies against the GCF strategic plan, which the Board endorsed at its 12th meeting in March 2016. The strategic plan lays out the strategic vision for the GCF 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 strategic plan will be reviewed in 2018 as part of the GCF replenishment process by taking into account evolving priorities including COP guidance.

Resource Mobilisation: COP 22 guidance urged a speedy conversion of all remaining pledges for the GCF in the initial resource mobilisation process (IRM), which began in mid-2014 (for a detailed discussion see the 2014 CFF 11) into signed contribution agreements. By September 2017, 43 contributing countries, as well as several regions and cities, had pledged USD 10.3 billion. The GCF achieved "effectiveness", or the authority to make funding decisions, in May 2015 when 50% of the financing promises received during the November 2014 pledging conference in Berlin were fully paid in. By the 18th Board meeting in October 2017, USD 10.1. billion of the USD 10.3 billion in pledges for the GCF had been converted to signed contributions.

As the Board failed to discuss replenishment policies at its 16th and 18th Board meetings, sorting out the first formal replenishment for the GCF will have to be a Board priority for 2018. In the past, this item has been contentious, as developing country Board members want to avoid earmarking of resources as well as establishing voting shares for decision-making by contribution. Efforts are also likely to focus on reaching out to non-traditional contributors, including from the private sector and philanthropic foundations. It remains to be confirmed that the GCF replenishment will be triggered once 60% of total contributions to the GCF Trust Fund received by the 11th Board meeting have been approved for projects and programmes. Further, the announcement of the withdrawal of the United States from the Paris Agreement in June 2017 makes it unlikely that the remaining unpaid USD 2 billion of the signed US contribution agreement of USD 3 billion will be forthcoming during the Trump Administration. This further complicates agreement around the trigger for GCF replenishment. The start of the formal replenishment process is also hampered by the failure of the Board in 2017 to make progress in determining the competitive process for the selection of the Fund's permanent Trustee. An ad-hoc Board Trustee Selection Committee established at the 16th Board meeting failed to reach consensus on the way forward at the Cairo meeting. The World Bank is currently holding the position as the Interim Trustee until the end of April 2018.

New Executive Director: After an initial three-year term, Hela Cheikhrouhou, the first Executive Director of the Fund, who presided over the establishment of the independent Secretariat and managed the initial resource mobilisation process, stepped down in September 2016. A Board-driven search for a successor concluded at the 15th Board Meeting in December 2016 with the confirmation of Howard Bamsey, who has considerable experience with the UNFCCC as the former chief climate negotiator for Australia, and briefly led the Global Green Growth Institute (GGGI). Bamsey started his position in January 2017 and focused the first year of his tenure on increasing staff capacity and halting staff turnover at the Secretariat as well as tackling an important blockage in finalising the legal master agreements between the GCF and key implementing partners. This was a major cause for the delay in disbursing GCF funding for approved projects and programmes.

Structure, Organisation and Staffing of the Fund Independent Secretariat: In December 2013, an Independent Secretariat located in Songdo, South Korea began its work with around 40 people. The number of staff has increased since, recognising the growing workload of the Secretariat and its complexity. In early 2016, the goal was set to reach 100 filled positions by December 2016 and to further increase staff to 140 by the end of 2017. While staff attrition with the loss of some senior managers added to the recruitment pressure, as of October 2017, the Secretariat has reached its goal, adding significant staff capacity for portfolio development and management and country and accredited entity relationship and readiness support as well as risk management and legal support. A proposed reorganisation of the secretariat structure stalled in 2016. The Secretariat is currently structured in four units, namely country programming, mitigation and adaptation, Private Sector Facility (PSF), and support services, with four offices for the General Counsel, GCF Risk Manager, Secretary to the Board and Internal Auditor. Following an external evaluation of the current and future structure and staffing needs of the Secretariat and recommendations by the Executive Director, the Board at its 18th Meeting in Cairo approved a reorganisation of the Secretariat structure. It will add an external affairs division and expand the office of the Executive Director to include a Deputy Executive Director and a focus on knowledge management and strategic outlook. The Board also approved a further increase in Secretariat staff levels to 250 by the end of 2018. As a consequence, the GCF administrative budget for 2018 approved in Cairo in October 2017 grew to USD 65.6 million, a 36% increase over the 2017 figures.

Results Management Frameworks and Performance Indicators: Since 2014, the GCF Board and Secretariat have worked to finalise a results management framework with performance measurement matrices against which the impact, effectiveness and efficiency of its funding will be assessed. The results framework defines the elements of a paradigm shift towards low-emission and climate resilient country-driven development pathways within individual countries, and aggregated across Fund activities. The focus areas for mitigation include: low-emission transport, low emission energy access and power generation at all scales; reduced emissions from buildings, cities, industries and appliances; and sustainable land and forest management (including REDD+ implementation) for mitigation. The core metric is that of greenhouse gas (GHG) emission reductions in tons of carbon dioxide equivalents. For adaptation focus areas include: increased resilience of health, food and water systems; infrastructure; ecosystems; and enhanced livelihoods of vulnerable people, communities and regions. In this context, the indicators also commit to assess the resulting development, social, economic and environment co-benefits and gender-sensitivity of GCF investments at the Fund-level, thereby including both quantitative and qualitative measures. The Board approved a separate performance measurement framework for REDD+ activities, for results-based payments. However, work on further refining initial performance indicators for adaptation and mitigation, aimed at capturing both outcomes of projects and programmes funded, as well as the transformative impact of the Fund's aggregate activities, stalled in 2017 as did efforts to advance accounting methodologies. Work continued in 2017 in the Board's Investment Committee to identify quantitative and qualitative benchmarks to inform the investment framework of the Fund and to support the review and assessment of project proposals alongside efforts to monitor implementation. A decision on a pilot approach is expected in early 2018.

Investment Framework and Initial Approval Process: At its 11th Board meeting in Zambia in November 2015, the Board for the first time decided on project proposals that have been evaluated against a set of six agreed investment criteria focusing on 1) impact (contribution to the GCF results areas); 2) paradigm shift potential; 3) sustainable development potential; 4) needs of the recipient countries and populations; 5) coherence with a country's existing policies or climate strategies; and 6) the effectiveness and efficiency of the proposed intervention, including its ability to leverage additional funding (in the case of mitigation) as well as a list of activity-specific sub-criteria and indicators agreed to earlier in 2015. Evaluation of medium and large-size funding proposals is aided by a pilot scoring approach, ranking proposals as low, medium or high against the investment criteria. The Board still has to decide on methodologies to compare proposals "in comparable circumstances" (for example by country groupings or sectors), thereby adding an element of competiveness to the approval process, but balancing it with equity considerations aimed to ensure fairness for proposals from LDCs, SIDS and African states. The Board's decision-making is informed by recommendations on individual funding proposals provided by an Independent Technical Advisory Panel (ITAP), which was formed in 2015 and whose effectiveness and capacity was reviewed in 2017. The Board will discuss possible changes to the mandate and structure of the ITAP in 2018.

Project Pipeline and Initial Approval Process: By September 2017, the GCF project pipeline was comprised of 74 funding proposals (61 public sector and 13 private sector ones) requesting USD 3.8. billion in GCF support and worth USD 13.9 billion in total; 55% of these requested funding for projects and programmes in LDCs, SIDS and African states. If implemented, some 29% of total requested GCF funding would be for adaptation efforts, with 33% for mitigation and a full 38% for cross-cutting proposals. There are also 109 early-stage proposals in the form of concept notes in the pipeline that together would require USD 8.1 billion in GCF funding support. Over the course of 2018, the Secretariat expects up to 59 proposals totalling USD 2.7 billion in GCF funding to come to the Board. The Secretariat in the summer of 2016 also issued two targeted requests for proposals (RFPs) for specific pilot programmes approved by the Board in 2015 on Enhanced Direct Access (EDA) and micro, small and medium-sized enterprises (MSMEs) and expects to bring six EDA proposals and five MSME proposals to the Board in 2018. A private-sector focused RFP for mobilizing funding at scale under a USD 500 million pilot programme which closed by September 2017, received 350 concept notes and could see up to seven proposals approved in 2018. Lastly, at its 18th meeting in Cairo, the Board approved an RFP under its USD 500 million REDD-plus results-based payments pilot programme. In 2018, up to four proposals under this pilot could be among the proposals considered by the Board.

The Secretariat conducts due-diligence on proposals submitted to ensure compliance with the Fund's interim environmental and social safeguards, its gender policy, financial and other relevant policies and assesses proposals against the GCF investment framework 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 2017, Board discussions centred on steps to improve the quality of proposals and increase the number coming from direct access entities. These discussions focused on reviewing and refining the proposal approval process, including by addressing the post-approval stages of the GCF project and programme funding cycle. At its 17th meeting in July 2017, the Board decided to explore a two-step proposal approval process, which would make concept notes and their publication and prior approval mandatory. The Board is to take up the issue at its 19th meeting in early 2018. After more than a year's delay, the Board at its 18th meeting in Cairo in October, also approved an USD 80 million pilot scheme for a simplified approval processes for micro- and small-size low-risk projects.

A project preparation facility (PPF), set up after a Board decision at its 11th meeting in Zambia in 2015, is expected to ramp up its activities in 2018. Some USD 40 million were approved by the Board at its 13th meeting for the initial phase of the PPF which is targeted at small-scale activities and for direct access partners, although open to request from all accredited entities.

The Secretariat expects to approve up to 40 PPF funding decisions with a limit of USD 1.5 million in grant support per preparation request in 2018.

After six rounds of project considerations since late 2015, by October 2017 the Board approved USD 2,634 million for 54 GCF-supported projects, which include 14 private sector projects/programmes, and 14 to be implemented by direct access entities, including one under the EDA and three under the MSME pilot programmes. With fund disbursement in October 2017 at just over USD 100 million, however, the challenge is to see the operationalisation of Board approved funding.

Financial Instruments and Risk Management: The Fund has used financial instruments beyond grants and concessional loans in support of its 54 approved projects and programmes so far, although equity investments and risk guarantees still make up a minor percentage of overall GCF funding. At its 13th meeting, the Board proposed interim risk and investment guidelines for one year differentiated for the public and private sector. These stipulated that while public sector projects can receive 100% GCF grant funding, for private sector investments the grant component is to be capped at 5% of total costs. For loans, co-financing should be sought whenever feasible. However, the Fund is still operating on a case-by-case approach, as a standard set of terms for even public sector lending is not yet elaborated. Over time the Fund may also offer an even broader suite of financial instruments directly. Some developing country Board members remain concerned that more complex financial instruments would move the Fund towards a bank structure, thus undercutting the core mandate of the GCF as an operating entity of the Financial Mechanism of the UNFCCC, which focuses on meeting the additional costs of climate change-related interventions through concessional financing. In order to balance inputs into the Fund (currently only in form of grants from the public and private sector, paid-in public capital contributions and concessional public loans) with the risks and concessionality of finance that the GCF is to offer, the Fund established safeguards such as capital cushions. These are to ensure that grant inputs would not need to be drawn on to pay for non-performing loan outputs, and to maintain the ability of the GCF to deliver a significant portion of its funding in the form of grants. The level of the capital cushion will need to be adjusted to match the risk profile and the risk appetite of the Fund, which the Board detailed and approved as part of a comprehensive risk management framework at its 17th meeting in July 2017. The GCF's risk appetite statement professes the GCF's intent to take considerable financial investment risks that other institutions or funds are not willing or able to take. This approach will require careful oversight by the Board's standing Risk Management Committee working with the Secretariat's risk manager. A detailed risk register, already approved in 2016 and revised mid-2017, which also addresses non-financial risks such as reputational or compliance risk that the Fund faces as part of this framework, is now complemented by a preliminary risk dashboard to be updated quarterly for every Board meeting. Further components of the GCF risk management framework will be considered by the Board in early 2018.

Allocation: The GCF is supposed to "balance" spending between mitigation and adaptation. In 2014, the Board approved an allocation framework which clarified that the GCF is to spend 50% of its funding on adaptation, of which 50% is to be spent in LDCs, SIDs and African States. Allocations will be tracked in grant equivalents. While there is no maximum allocation cap for individual countries, the Board has stressed the need for geographic balance (see the 2014 CFF 11 for further details on the GCF allocation approach). As of October 2017, USD 2,634 million in funding approved by the Board for 54 projects allocated 40% to mitigation, 31% to adaption and 29% to cross-cutting issues (although the criteria the Secretariat uses for allocating funding under cross-cutting proposals to either adaptation or mitigation for calculation of the overall balance remain unclear with cross-cutting proposals generally spending more on mitigation than adaptation). The regional distribution shows 42% for Africa, 34% for Asia-Pacific, 20% for Latin America and the Caribbean, and 4% going to Eastern Europe. SIDS, LDCs and African states receive 77 % of the allocations so far, while 23% of approved GCF funding goes to all other developing countries.

Country Ownership: The Board has repeatedly confirmed country ownership and a country-driven approach as core principles of the Fund. A National Designated Authority (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 October 2017, 144 countries had designated an NDA or focal point. Countries have flexibility on the structure, operation and governance of NDAs. At its 17th meeting the Board approved updated country ownership guidelines with more detailed guidance, including on country coordination functions and stakeholder engagement, which will be reviewed at minimum every two years. Any proposal needs to be accompanied with a formal letter of no-objection to the Secretariat from the NDA or focal point in order for it to be considered by the GCF. For regional proposals, each country in which the project/program is to be implemented needs to issue a no-objection letter. This is intended to ensure recipient country ownership of funding for projects, particularly those that are not implemented by governments (for example through the private sector). As of October 2017, two official country programmes detailing GCF funding priorities have been submitted in final form. A further 105 countries have submitted initial country program briefs to the Secretariat.

Access Modalities: The GCF works through a diverse range of partners. Like the Kyoto Protocol's Adaptation Fund, the GCF gives recipient countries direct access to funding through accredited national, sub-national and regional implementing entities and intermediaries. These may include government ministries, NGOs, national development banks, and other domestic or regional organisations that can meet the standards of the Fund. A letter of no-objection by the country's NDA or focal point is also necessary under the country-ownership principle to allow for the accreditation of a direct access entity to proceed. Countries can also access funding through accredited international and regional entities (such as multilateral and regional development banks and UN agencies) under international access. Private sector entities can also be accredited as implementing entities or intermediaries. Developing countries have also been keen to explore modalities for enhanced direct access (EDA), under which developing country-based accredited institutions make their own decisions about how to programme resources under an allocation of GCF resources. Under a USD 200 million EDA pilot program, a July 2016 request for EDA proposals netted 12 concept notes. At its 14th meeting, the GCF Board approved its first EDA project for a small grants programme in Namibia. However, after the Board failed at its 18th meeting in Cairo to approve an EDA proposal from Argentina, there is concern that the EDA momentum could be halted.

Accreditation Framework with Fiduciary Standards and Environmental and Social Safeguards. In 2014, the Board agreed on a broad accreditation framework with a three-step accreditation process. Implementing entities and intermediaries from both the public and the private sector need to have in place best practice social and environmental safeguards and meet strong fiduciary standards to ensure good financial management, with additional specialised fiduciary standards required for financial intermediation and program management. GCF accredited entities (AEs) also have to show their ability to comply with the GCF gender policy adopted in March 2015. In June 2014, the Board adopted the performance standards of the International Finance Corporation (IFC), the private sector arm of the World Bank Group, as the Fund's interim environmental and social safeguards (ESS) while it is supposed to develop its own ESS over three years with inclusive multi-stakeholder participation. The GCF safeguards development process has been significantly delayed with no further progress in 2017. The GCF is also behind in completing its own Environmental and Social Management System (ESMS) and approving an Environmental and Social Policy (ESP). This will need to be tackled as a priority in early 2018.

Under a "fit-for-purpose" accreditation approach, in which the application of fiduciary standards and ESS are categorised and matched to the risk level, complexity and size of the project or program that will be implemented, applicant entities choose which category of accreditation they seek and whether they want to be accredited to provide additional intermediating functions.[1] A six-member Accreditation Panel, whose work will be evaluated in early 2018, reviews applicants' documentation and recommends to the Board whether an entity shall be granted accreditation and indicates further conditions where applicable. The initial accreditation period is for five years, after which time an entity needs to reapply.

Accredited Implementing Entities of the Fund: Since the call for accreditation applications was opened in November 2014, the Secretariat has received 146 applications, including 67 from direct access entities and 27 from the private sector. The GCF Board has approved the accreditation of applicant entities since its 9th Board meeting in March 2015 in seven batches for a total of now 59 accredited entities (AEs), although it did not consider accreditation proposals at its 11th and 16th meetings. Of those, 27 are international access entities and 32 direct access entities (21 national and 11 regional) with eight from the private sector (see: www.climatefundsupdate.org/listing/green-climate-fund for an overview of GCF accredited entities). The current GCF process has been relatively efficient, but has sparked concerns with some stakeholders, including with respect to its transparency and thoroughness as well as the diversity and balance of the GCF's accredited entities. Initially, applicant identities were only revealed after Board approval. After CSO protests and critical media coverage, the GCF, following the practice of other funds such as the Adaptation Fund now reveals the identity of applicants after a recommendation by the accreditation panel for approval by the Board, generally weeks before the actual decision. However, independent third-party views on the track record of applicant entities are still not part of the Accreditation Panel review process and there is a lack of transparency of who is in the accreditation pipeline. With the approval of a batch of five direct access applicant entities at the 18th Board meeting in Cairo, the number of direct access accredited entities exceeds that of international access ones (32 to 27) for the first time. However, developing country Board members and civil society remain concerned that the preponderance of GCF funding continues to be approved for multilateral and bilateral development agencies and financing organisations, with currently UNDP implementing by far the largest number of individual GCF projects and programmes while the EBRD programmes the largest share of GCF approved funding. They have urged additional support for, and continued prioritisation of, the accreditation of national and regional institutions. Such support includes efforts to allow for the review and upgrading for current direct access AEs for financial intermediation and larger and higher risk project categories (159 direct access entities had been nominated by 81 countries by September 2017). In 2017, the Board continued its effort to agree an accreditation strategy, which could exclude certain categories of entities, for example Export Credit Agencies, entirely. Further work on this is needed. The Board at its 18th meeting also mandated the Secretariat to consider the revision of the accreditation framework to include other modalities for institutions to work with the GCF. Both issues will be taken up again in early 2018.

Monitoring and Accountability: The GCF governing instrument foresees three separate accountability mechanisms, namely an independent evaluation unit (IEU) reporting to the Board, an independent integrity unit (IIU) and an independent redress mechanism (IRM). In Songdo in June 2014, the Board decided on the terms of reference for all three mechanisms, specifying for example that the IRM will receive complaints by affected people related to Fund operations as well as recipient country complaints about Board funding decisions. A Board appointment committee established in 2015 oversaw the ongoing recruitment and selection process for the leadership of these independent GCF accountability mechanisms. As of 2017, all three units had started their work, with the IRM gaining approval of revised terms of reference in 2017 and the IIU preparing a whistleblower protection policy. All three units also elaborated work programmes and budgets for 2018. At its 11th meeting, the Board also approved an initial monitoring and accountability (M&A) framework for GCF accredited entities, which is a key part of the broader monitoring and accountability framework of the GCF. It sets the incentives and remedial actions to ensure compliance by the accredited entities with GCF safeguards, standards and its gender policy. The framework relies primarily on regular mandatory self-reporting by accredited entities with only spot checks by the Secretariat, but also highlights an oversight role for NDAs and local stakeholders through participatory monitoring approaches. First annual compliance reporting for approved GCF projects will commence in 2018. It also importantly includes a provision to monitor the shift of the entire portfolio of AEs, not just the GCF-funded portion, away from fossil fuels as a condition for re-accreditation after five years. With work on setting a baseline for the consideration of the AE portfolio shift stalled in 2017, urgent progress is needed for 2018.

Readiness and Preparatory Support: LDCs, SIDS and some developed countries on the GCF Board have made a strong case for early support for "readiness activities" that would build country capacity to access and program GCF finance effectively. Germany and South Korea provided early resources for this purpose. By September 2017, the Board approved a total of USD 80 million for readiness activities, of which 50% will support vulnerable countries including SIDS, LDCs and African states.

Supporting national, sub-national and regional implementing entities and intermediaries to meet GCF accreditation standards was identified as a priority of the program. This is intended to ensure that these standards do not become a barrier to direct access to the GCF. The Fund also provides readiness support to strengthen the institutional capacities in recipient countries for country coordination and multi-stakeholder consultation mechanisms as needed, as well as to prepare country programmes and project pipelines. At the national level, the NDA or focal point plays a lead role in deploying readiness and preparatory support funding, which is currently capped at USD 1 million per individual country per year. The GCF is one of the few international funds to give NDAs direct access to funding for institutional activities, and the development of country programmes.

As of September 2017, the GCF Secretariat has received 215 readiness support proposals and approved 123 proposals from 88 countries (84 of the proposals coming from LDCs, SIDS and African states) with readiness support worth USD 39.5. million. The majority of this funding (USD 24.7 million) will go to support NDAs or focal points and the preparation of country programmes. In 2016, the Board took steps to simplify readiness grant agreements, including through framework agreements with readiness providers such as UNDP or GIZ which operate in many countries. As a result, funding disbursed has now reached USD 10.3 million for 73 activities and is expected to reach USD 55 million by end of 2018. At its 13th meeting, the Board also revised the list of activities that it can support to now also include up to USD 2 million per country for the formulation of National Adaptation Plans (NAPs) and other adaptation planning processes. As the request for NAPs support has grown significantly in 2017, the Board at its 18th meeting approved an addition USD 50 million to address the immediate requests. The need for additional readiness support financing projected by the Secretariat to reach USD 140 million by end of 2018 is to be addressed after a review of the Fund's Readiness and Preparatory Support Programme in early 2018. This will be the first independent review the GCF's Independent Evaluation Office takes on.

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

A 20-member Private Sector Advisory Group (PSAG) composed of eight private sector representatives, four each from developed and developing countries, in addition to two civil society experts and three Board members each from developed and developing countries, is tasked to provide strategic guidance on GCF engagement with private sector actors. The PSAG works closely with the Secretariat as well as the Board Investment and Risk Management Committees. Since its formation, the PSAG has met several times and elaborated broad principles as well as targeted recommendations to the Board for Fund-wide engagement options and opportunities with the private sector, for example on mobilising funding at scale or working with local entities, particularly micro, small and medium-sized enterprises (MSMEs). Following core recommendations by the PSAG, the Board at its 10th meeting in July 2015 approved a USD 200 million MSME pilot programme and a USD 500 million pilot programme for mobilising resources at scale. The request for proposal for the MSME pilot, which opened in summer 2016, has resulted in three approved MSME pilot proposals. The request for proposals to mobilise resources at scale closed by September 2017 and netted 350 concept notes. The Board is expected to consider further proposals under both pilot programmes in 2018. For 2018, the PSAG's focus will be on private sector engagement in REDD-plus, adaptation and SIDS as well as an outreach strategy to the private sector.

Gender: All GCF funding needs to take a gender-responsive approach as elaborated in a gender policy and a gender action plan for the Fund, approved at the 9th Board meeting in March 2015. Both are currently under review and are to be significantly strengthened when the Board reconsiders them in early 2018, including by elaborating responsibilities of all GCF partners, clear priority actions and success indicators as well as staff and budget requirements. The gender policy is principles-based and applies to all funding areas and funding decisions of the GCF, making for example, a gender and social assessment mandatory for each funding proposal and asking as well for a project-specific gender action plan. Gender considerations are also mainstreamed into key operational policies and guidelines such as results management, investment decisions as well as in accreditation procedures and stakeholder engagement processes. The GCF is the first dedicated climate fund to have a gender mainstreaming approach in place at the beginning of its funding operations. The Board will have to address other gender provisions in the governing instrument, particularly the need for gender balance among the Secretariat staff (were women are underrepresented among its international staff) and in the 24 person GCF Board (which in September 2017 included six women, and eight female alternate Board members). Gender balance and expertise are also crucial for the various committees and expert advisory bodies, including the PSAG, the ITAP and the accreditation panel.

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 for the consideration of the Board a Fund-wide Indigenous Peoples' (IP) policy. Working with Indigenous Peoples' representatives as part of an internal coordination group, the Secretariat in the summer of 2017 managed a public submission process, inviting broad stakeholder input into the development of such an IP policy. A draft policy shared for comments indicated that the GCF policy would take a strong rights-based approach, focusing on the self-determination of IPs and their right to free, prior and informed consent (FPIC) throughout the GCF project cycle. The consideration and approval of the Fund-wide IP policy is expected at the 19th GCF Board meeting in late February 2018.

GCF Relationship to the UNFCCC and the COP: The GCF is an operating entity of the UNFCCC's Financial Mechanism. It is to be "accountable to and function under the guidance of the COP". The GCF Board has sought to define the arrangements between the COP and the GCF with a decision in October 2013 that reaffirmed its full responsibility for funding decisions, which the Warsaw COP approved. The Standing Committee on Finance (SCF), a complementary UNFCCC body aimed at taking stock and ensuring accountability in the global climate finance architecture, has also developed recommendations to this end. The GCF Board prepares an annual report on its programmes, policies and priorities and status of resources and responds to feedback and guidance received in reaction from the COP. In addition, the COP 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 2017, the GCF Board, in following COP guidance discussed frameworks to increase the collaboration of the GCF with UNFCCC bodies and entities, such as the Technology Executive Committee and technology collaboration more broadly as well as to forge stronger complementarity and coherence among various climate funding institutions. In responding to COP guidance, it also concluded its work on a request for a proposal for REDD-plus results-based payments, and agreed on a pilot phase for a simplified approval process.

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

There is also a provision for stakeholders to observe the deliberations of the Fund, and for two active observers each from the private sector and civil society to provide input at Board meetings. In 2016, the Board initiated a participatory review of observer participation in Board proceedings with the goal of addressing existing weaknesses, such as the lack of financial support for the participation of developing country CSO observers or the lack of direct representation for Indigenous Peoples. This review stalled in 2017 and needs to be urgently concluded in order to strengthen the role of observers in conjunction with a growing work load and mandate for the Fund's Board and Secretariat.

Information Disclosure and Communication Strategy: At its 12th meeting, the GCF Board approved a revised comprehensive information disclosure policy, which operates under a "presumption to disclose". Board meeting documents are posted on the GCF website at the same time they are send to Board members, advisors and active observers (www.greenclimate.fund). Under the 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 to take advantage of this relatively low cost way to increase 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. The policy also set the time-frame for the public disclosure of project-related environmental and social assessments at 120 days for the highest risk projects (Cat. A), with 30 days prior disclosure for medium-risk projects (Cat.B), following global established practice. A 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). The establishment of an external relations division in the Secretariat with more dedicated staffing support– aided by a continuously updated and expanded website for the Fund – will likely intensify its outreach activities as part of mandated policies to build global awareness and support for the GCF.

Outlook for 2018

As the portfolio of accredited entities and approved projects/programmes for the GCF further grew in 2017, the Fund 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. Striking an appropriate balance between moving quickly to demonstrate operational competence and delivering a deliberate and impactful portfolio with scaled-up disbursements remains an overriding challenge for the Fund. This becomes more important as the Fund will start its first formal replenishment process in 2018. Vital operational functions need to be developed without further delays by prioritising (i) 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; (ii) the development of a two-step proposal approval process; (iii) the finalisation of an environmental and social management system (ESMS) for the Fund as well as the start of the process to develop the GCF's own environmental and social safeguards and (iv) further elaborating the performance measurement framework with indicators and methodologies for accounting for adaptation and mitigation results and REDD+ results-based finance. The Fund is also still struggling with important administrative policies, including securing the privileges and immunities that will allow Fund staff and appointed personnel to operate in countries receiving GCF funding. Lastly, after an Ad-hoc Trustee Selection Committee set up by the Board at its 16th meeting could not agree on a way forward over the course of 2017, the Board in early 2018 will have to take up the selection of a permanent trustee to replace the interim position held by the World Bank as a matter of urgency. Three Board meetings planned in 2018 (likely in February, June and October) must tackle these outstanding policy issues and ensure that the Fund attracts and invests in transformative and innovative projects and programmes. Both the Secretariat and the Board will need adequate expertise, competence and capacity to deliver on this important mandate. With a heavy work agenda remaining to be completed, better systems for inter-sessional decision-making will be needed, which may require an agreement on voting procedures in the absence of consensus. This issue has been raised many times, but was not considered by the Board in 2017. In addition, in early 2018 new co-chairs are to be elected by the Board constituencies. They will need to work with the Executive Director of the Fund and an expanding Secretariat to develop a shared approach to tackling these challenges, and realising the promise of a fund created to support a paradigm shift towards low carbon and climate resilient development.

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End Notes

1. Entities already accredited with the GEF, the Adaptation Fund and the development aid program 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.

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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