Climate Funds Update

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The Green Climate Fund (GCF) became fully operational in 2015. While the GCF is an operating entity of the Financial Mechanism of the UNFCCC and under the Paris Agreement, it remains a legally independent institution hosted by South Korea. It has its own secretariat and 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 since their first meeting in August 2012. This year, the GCF continued to work on addressing policy gaps in essential policies and frameworks to speed up proposal approval and disbursement of approved funding, as well as to improve the overall quality of GCF approved proposals and those in the pipeline. By October 2018, it had accredited a total of 75 implementing entities acting as delivery partners for projects and had approved a total of USD 4,605 million for 93 projects. The 21st meeting of the Board in Bahrain in late 2018 approved 19 of these project proposals worth USD 1 billion in GCF resources, triggering the 60 per cent threshold value (of fully executed initial resource mobilisation contributions) and so kicking off the first formal replenishment of the Fund. Heading into COP 24 in Katowice under a Polish 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 is confirmed, the scale of its first formal replenishment will be a contentious issue. Past editions of this Climate Finance Fundamental detail the design and initial operationalisation phases of the Fund.

Introduction

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", aiming to balance funding for mitigation and adaptation measures. It further 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.

A total of USD 10.3 billion was pledged to the Fund during its initial resource mobilisation process in 2014 making the GCF the largest multilateral climate fund with the potential to channel even larger sums over time. There were 43 contributing countries (eight developing countries including host country Korea, Mexico Peru, Colombia, Panama, Mongolia and Indonesia are amongst the contributors to the Fund) as well as a handful of regions and cities. USD 10.2 billion has been already formalised through signed contribution agreements. Current available funding is significantly less than these amounts, however, due to non-payment of the remainder of the US contribution and foreign exchange fluctuations. Contributions to the Fund are only accepted as grants, concessional loans and paid-in capital. With the exception of France and Canada, most contributions are grants received in a multitude of currencies. The GCF then 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.

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 sixth co-chairs in 2018, Paul Oquist (Nicaragua) and Lennart Båge (Sweden) initially focused on finalising strategic operational components and addressing policy gaps for the further development of the Fund while increasing efforts to ramp up approval of quality proposals and disbursement of GCF funding. These efforts were overshadowed by some governance and leadership crises in the GCF Board and Secretariat, especially at and after the 20th GCF Board meeting in July 2018 when the Fund's Executive Director stepped down.

In 2018, progress continued unevenly. This reflects persistent differences between developed and developing countries (and even within Board member constituencies), but also increasingly between Board members and a rapidly growing Secretariat under a new leadership on visions and best operating procedures for the Fund (see earlier CFF 11 from 2011 to 2017 for a more detailed elaboration).

Strategic Vision and GCF Performance Review: During 2018, the GCF Board and Secretariat only spot-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 implementation of the strategic plan over the initial resource mobilisation's timeframe 2015-2018 will be reviewed in 2019 as part of the GCF replenishment process by taking into account evolving strategic programming scenarios in line with ambitious mitigation and adaptation actions and priorities including COP guidance. It will be complemented by a forward-and-backward-looking formal performance review of the GCF during the initial resource mobilisation to be conducted by the Independent Evaluation Unit by mid-2019.

Resource Mobilisation, Remaining Commitment Authority and First Formal Replenishment: The GCF's initial resource mobilisation, which began in mid-2014 (for a detailed discussion see the 2014 CFF 11) resulted in pledges by 43 contributing countries, as well as several regions and cities, of USD 10.3 billion. The GCF achieved "effectiveness", or the authority to make funding decisions, in May 2015 when 50 per cent of the financing promises received during the November 2014 pledging conference in Berlin were fully paid in. By the 21st Board meeting in October 2018, USD 10.2 billion of the USD 10.3 billion in pledges for the GCF had been converted to signed contributions.

With the announcement of the intended withdrawal of the United States from the Paris Agreement in June 2017, it became clear that the remaining unpaid USD 2 billion of the signed US contribution agreement of USD 3 billion will not be forthcoming under a Trump Administration. Furthermore, country contributions to the initial resource mobilisation were received in a multitude of currencies and the overall results calculated according to a foreign exchange reference rate adopted for the High-Level Pledging Conference in November 2014. Significant exchange rate fluctuations since then have reduced the actual overall funding amount available to the GCF. The actual value of the initial resource mobilisation at today's exchange rates, in light of the US not fulfilling its pledge, could be just USD 7.1 billion.

Initial resource mobilisation policies trigger the GCF's first replenishment when 60 per cent of total contributions to the GCF Trust Fund received by the 11th Board meeting have been approved for projects and programmes. Approval of 19 projects and programmes worth USD 1 billion in October 2018 at its Bahrain meeting, led the Board to decide that the USD 5.5 billion now made in cumulative funding commitments (including administrative costs over the Fund's lifetime, readiness support and the USD 4,605 million in project approvals) fulfilled the trigger requirement and so formally launched the GCF's first replenishment process. This decision focused only on the procedural aspects of the replenishment process, not the highly politicized questions regarding the length of the replenishment period (anywhere from 3-5 years), the envisioned scale, or the policies for contributions, all of which will have to be determined in 2019. Efforts are also likely to focus on reaching out to non-traditional contributors, including from the private sector and philanthropic foundations.

In the past, the issue of contribution policies has been especially contentious as developing country Board members want to avoid earmarking of resources as well as establishing voting shares for decision-making by contribution. One key obstacle which could have hampered the start of the formal replenishment process was resolved at the Board's 21st meeting with the confirmation that the World Bank, having acted as Interim Trustee for the Fund thus far, would hold the position as confirmed Trustee for the foreseeable future. A competitive bidding and outreach process for the selection of the Fund's permanent Trustee conducted over the past 18 months under an An ad-hoc Board Trustee Selection Committee established at the 16th Board found no other international financial institution than the World Bank had indicated interest to take on this function.

An indicative time-line foresees the conclusion of the GCF replenishment process by October 2019. It will include an initial organizational meeting open to potential contributors, two replenishment consultation meetings and culmination in a high-level pledging conference, thus mirroring the initial resource mobilisation. The process is to be helped by the Co-Chair's appointment of a global facilitator for the process. Pledges could be finalized into commitments as early as Spring 2020. In the meantime, the GCF Secretariat and Board will have to carefully manage the remaining funding available to approve new proposals, for ongoing commitments for readiness and project preparations and, for the operations of the Secretariat, Board and the Fund's independent units. By all accounts, this commitment authority during the three Board meetings scheduled in 2019 will be USD 1.3 - 1.4 billion. Of this, USD 600 million is to be ring-fenced for proposals under already issued request for proposals (RFPs) (for mobilizing private sector engagement and REDD+), as well as for pilot programmes (for simplified approval and enhanced direct access and micro-, small- and medium-size enterprises (MSMEs)).

Search for a new Executive Director: With the sudden resignation by Howard Bamsey at the 20th GCF Board meeting in July 2018, for purported personal reasons, effective immediately, the GCF finds itself initiating the third search process for an executive director in five years. After a 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. Howard Bamsey, whom the Board selected at the 15th Board Meeting in December 2016, arrived with considerable experience of the UNFCCC as the former chief climate negotiator for Australia, and briefly led the Global Green Growth Institute (GGGI). During his 18-month tenure, Bamsey focused on increasing staff capacity and halting staff turnover at the Secretariat as well as tackling blockages in finalising the legal master agreements between the GCF and key implementing partners; a major cause for the delay in disbursing GCF funding for approved projects and programmes.

Addressing the vacuum at the top of the Secretariat is now a core issue for the Board in early 2019. The selection process for a new Executive Director will run concurrent to the start of the replenishment process in which the Secretariat plays a key organizational role. Largely following the selection procedures used in the two previous instances, an eight-member Ad hoc Board Selection Committee appointed in Bahrain will provide oversight and select and interview a final set of candidates, to be helped by an independent executive search firm. Applications received by mid-December 2018 are to be whittled down by the Ad hoc Selection Committee in various rounds from an initial first cut of 20-25 candidates to a short list of six to be interviewed, with at least three considered for the final list. The full Board will vote in closed session as early as at the 22nd Board meeting in late February 2019 on the final selection of short-listed and interviewed candidates, before publicly announcing the successor chosen by consensus. Until then, the Deputy Executive Director Javier Manzanares, as confirmed by the Board in Bahrain, will act as Interim Executive Director.

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 significantly, reaching 100 positions at the end of 2016 and 140 by the end of 2017, recognising the growing workload of the Secretariat and its complexity. After an external evaluation of the Secretariat's structure and staffing needs the Board approved a reorganisation of the Secretariat structure in 2017 into five major divisions. These are country programming, mitigation and adaptation, Private Sector Facility (PSF), finance and support services, and external affairs, with five offices for the General Counsel, governance affairs, internal audits, portfolio management, and risk management and compliance. It further adds an external affairs division and expands the office of the Executive Director to include a Deputy Executive Director and a focus on knowledge management and strategic outlook. Reflecting this, Secretariat staff levels will reach 230 by the end of 2018 and the target 250 by mid-2019. As a consequence, the GCF administrative budget for 2019 approved in Bahrain in October 2018 grew to USD 72.6 million, a 14 per cent increase over the 2018 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 and for results-based payments.

Work on further refining initial performance indicators for adaptation and mitigation has stalled over the past two years. This aimed at capturing both outcomes of projects and programmes funded, as well as the transformative impact of the Fund's aggregate activities. As have efforts to advance accounting methodologies. This was noted as a significant shortcoming in an independent evaluation of the GCF's Results Management Framework prepared by the Independent Evaluation Unit (that the Board has yet to consider). Work by the Board's Investment Committee and the Secretariat, however, has progressed 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 2019.

Investment Framework: At its 11th Board meeting in Zambia in November 2015, the Board 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), formed in 2015 and whose effectiveness and capacity was reviewed in 2017. The Board, having failed to make a formal decision in 2018, is expected to reaffirm the mandate, structure, and expert composition of the ITAP in early 2019. This must acknowledge the need to work toward better aligning proposal review schedules between the Secretariat and the ITAP, as well as monitoring the likely increase in work load as the number of funding proposals, including under the Simplified Approval Process (SAP), for the ITAP to evaluate steadily grows.

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 per cent of its funding on adaptation, of which 50 per cent is to be spent in LDCs, SIDs and African States. Allocations are supposed 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). Going into the 21st GCF Board meeting, the portfolio of approved and active 74 projects reflected an allocation in grant equivalent terms of 38 per cent (USD 816 million) dedicated to mitigation projects while 62 per cent (USD 1.3 billion) is dedicated to adaptation projects. Cross-cutting projects (USD 408 million) accounted for 19 per cent of the total and are disaggregated into mitigation (USD 247 million) and adaptation (USD 161 million). In nominal terms, the picture for the portfolio of now 93 projects and programmes looks quite different. Of the USD 4,605 million in funding approved, in nominal terms 39 per cent is for mitigation, 25 per cent for adaption and a growing share (36 per cent) 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 remains unclear). The regional distribution in nominal terms shows 32 per cent for Asia Pacific, 25 per cent for Africa, 17 per cent for Latin America and the Caribbean, and less than 2 per cent going to Eastern Europe, with 27 per cent of funding approved for multi-region projects and programmes. SIDS, LDCs and African states receive 39 per cent of the allocations so far directly, with an additional 24 per cent through multi-region projects and programmes, while 37 per cent of approved GCF funding goes to all other developing countries.

Project Pipeline and Initial Approval Process: By September 2018, the GCF project pipeline was comprised of 103 funding proposals (77 public sector and 26 private sector ones) requesting USD 6.3 billion in GCF support and worth USD 25.9 billion in total. Some 43.6 per cent of these requested funding for projects and programmes in LDCs, SIDS and African states, with another 10.6 per cent providing partial funding for those countries. Of those funding proposals, 27 or 26.5 per cent are from direct access entities. If implemented, only some 16 per cent of total requested GCF funding in nominal value would be for adaptation efforts, with 39 per cent for mitigation and a full 45 per cent for cross-cutting proposals. There are also 192 early-stage proposals in the form of concept notes in the pipeline that together would require USD 10.2 billion in GCF funding support; 41 of those, or just 22 per cent, are from direct access entities.

The Secretariat in the summer of 2016 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). With only two projects approved under EDA so far, the programme's future pipeline looks challenged as six EDA concept notes have essentially stalled. Of the three approved MSME proposals, only two are still active stage, with 30 concept notes awaiting further development. 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, of which 30 were shortlisted. It could see its first proposals presented in

February 2019. At its 18th meeting in Cairo, the Board approved an RFP under its USD 500 million REDD+ results-based payments pilot programme. In early 2019, several proposals under this pilot could be among the proposals considered by the Board, including two "spin-off" private sector proposals. 2018 already saw the approval of four projects under an USD 80 million pilot scheme for a simplified approval process for micro- and small-size low-risk projects, which after many delays gained Board support just a year ago, with several more in the pipeline for 2019.

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 2018, 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, especially through a Board commitment since its 17th meeting to further develop 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 22nd meeting in early 2019.

A project preparation facility (PPF), set up after a Board decision at its 11th meeting in Zambia in 2015, has significantly ramped up its activities in 2018 with 37 PPF applications of which 12 were approved for USD 8.8 million; 22 of these, or 60 per cent, are from direct access entities. 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.

After eight rounds of project considerations since late 2015, by October 2018 the Board approved USD 4,605 million for 93 GCF-supported projects, which include 21 private sector projects/programmes, and 23 to be implemented by direct access entities, including two under the EDA and three under the MSME pilot programmes. In 2018 alone, 42 project and programme proposals were approved for USD 2,132 million in GCF funding. Going into the 21st Board meeting in October 2018, 31 projects worth USD 1.4 billion were under implementation, with USD 372 million disbursed. Disbursement is expected to grow to around USD 700 million by the end of 2018, and could reach up to USD 1.4 billion by the end of 2019.

Financial Instruments and Risk Management: The Fund has used financial instruments beyond grants and concessional loans in support of its 93 approved projects and programmes so far, although equity investments and risk guarantees – with 9 per cent and 2 per cent respectively – still make up a minor percentage of overall GCF funding (47 per cent of approved financing is committed in the form of grants and 42 per cent in the form of concessional loans). 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 per cent GCF grant funding, for private sector investments the grant component is to be capped at 5 per cent 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. For example, the Private Sector Facility has floated the idea of acting as a direct equity investor in GCF projects. 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 to maintain the ability of the GCF to deliver a significant portion of its funding in the form of grants. The implementation of a comprehensive risk management framework, approved by the Board at its 17th meeting, including 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 now complemented by a preliminary risk dashboard, which was further refined in 2018 and is to be updated quarterly for every Board meeting. In 2018, the Board approved further components of the GCF risk management framework, including 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. One of the last missing policy pieces in the risk management framework, a compliance policy will be considered by the Board in early 2019.

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 2018, 147 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/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). As of October 2018, only eight official country programmes detailing GCF funding priorities have been submitted in final form. The Secretariat hopes to raise that number to at least 50 by the end of 2019.

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 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, while a number of EDA concept notes have not progressed any further, leading to growing concern that the EDA momentum could be halted and an important opportunity to pilot an innovative approach lost.

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 programme 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 over the past two years. It is now on the agenda for early 2019. However, the GCF succeeded in adopting a forward-looking, human-rights based Environmental and Social Policy (ESP) at its 19th Board meeting as a core building block toward completion of its own Environmental and Social Management System (ESMS).

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.[1] A six-member Accreditation Panel, whose work was evaluated in 2018 leading to a changed expert composition, 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. With the first GCF implementing entities approved in the Spring of 2015, in 2019 the review process for re-accreditation will have to be outlined and decided.

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 grown. There are currently 223 entities seeking accreditation, of which 115 have submitted applications, including 50 from direct access entities and 34 from the private sector (16 of these were approved at the 21st Board meeting). The GCF Board has approved the accreditation of applicant entities since its 9th Board meeting in March 2015 in eight batches for a total of now 75 accredited entities (AEs), although it did not consider accreditation proposals at its 11th,16th, 19th and 20th meetings. Of those, 34 are international access entities and 41 direct access entities (30 national and 11 regional) with eleven from the private sector (see: http://www.climatefundsupdate.org/listing/green-climate-fund for an overview of GCF accredited entities). The current GCF process has sparked concerns with some stakeholders, including with respect to the length of the application process, its transparency and thoroughness as well as the diversity and balance of the GCF's accredited entities. 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 accredited entities continues to grow faster than international access ones (221 direct access entities had been nominated by 87 countries by September 2018), without additional efforts to prioritize 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 19 project/programme proposals means that 86 per cent of approved GCF funding is channelled through MIEs, and only 14 per cent through direct access entities. As just a few international entities capture a disproportionate share of GCF approved funding, this raises the issue of concentration risk. EBRD is the entity with the largest share of GCF approved funding with a total of USD 831 million or nearly 18 per cent of the GCF funding portfolio, UNDP follows with USD 604 million or 13 per cent and is implementing by far the largest number of individual GCF projects and programmes. The World Bank with USD 577 million or 12 per cent is a close third. In 2018, the Board continued its effort to agree on 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, such as a project-specific accreditation, which was not considered by the Board in 2018. Both issues will have to be brought to a Board decision in 2019.

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. As of 2017, all three units had started their work, with the IRM gaining approval of revised terms of reference in 2017. All three units elaborated ambitious work programmes and budgets for 2018. Work included the development of draft complaint procedures and guidelines by the IRM, elaboration of draft policies on whistle-blower protection and prohibited practices by the IIU, as well as two in-depth independent evaluations of the GCF's readiness and preparatory support programme and its results management frameworks by the IEU. However, none of these received formal approval by the Board in 2018 and will be considered in early 2019.

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 policies on gender and Indigenous Peoples. 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. For the 21st Board meeting, the Secretariat submitted the first GCF portfolio performance report, aggregating the individual annual performance reports (APRs) submitted by the accredited entities for the 19 projects under implementation as well as for the 67 readiness grants with funding dispersed by the end of 2017, highlighting for example continued challenges in engaging stakeholders comprehensively in implementation. 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. Work on setting a baseline for the consideration of the AE portfolio shift moved ahead in 2018, however a draft methodology submitted for the 21st Board meeting was not yet considered. This will be an urgent priority for 2019 as a process for re-accreditation needs to be established to be operative for 2020, when the first AEs seek 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 initial resource mobilization. By September 2017, the Board approved a total of USD 80 million for readiness activities, of which 50 per cent were slated to support vulnerable countries including SIDS, LDCs and African states. The Board approved an additional USD 50 million at its 18th and a further USD 60 million at its 19th meeting to deal with the growing number of funding requests. As of October 2018, a total of USD 190 million was available in overall readiness financing.

Supporting national, sub-national and regional implementing entities and intermediaries to meet GCF accreditation standards was identified as a priority of the programme. This is intended to ensure that these standards do not become a barrier to direct access to the GCF. The Fund also provides readiness support to strengthen the institutional capacities in recipient countries for country coordination and multi-stakeholder consultation mechanisms as needed, as well as to prepare country programmes and project pipelines. 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, which is currently capped at USD 1 million per 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 October 2018, the GCF Secretariat has received over 297 readiness support proposals worth close to USD 250 million and approved 200 proposals from 114 countries (with two thirds of the proposals coming from LDCs, SIDS and African states) with readiness support worth USD 114 million. 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 40.3 million for 176 activities in 105 countries and is expected to reach USD 50 million by end of 2018. In 2018, the Fund's Readiness and Preparatory Support Programme was reviewed extensively by the GCF's Independent Evaluation Unit, its first independent review. The Board will discuss recommendations and necessary adjustments to the programme early 2019.

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. As a result, by October 2018 40 per cent of the portfolio's nominal value (USD 1,842 million) has been allocated to the private sector.

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, a second tranche of the pilot programme might be authorized in 2018. The request for proposals to mobilise resources at scale closed by September 2017 and netted 350 concept notes, of which 30 were shortlisted, but none yet brought to the Board as fully developed proposal in 2018. The Board is expected to consider further proposals under both pilot programmes in 2019. In its meetings in 2018, the PSAG focused on private sector engagement in REDD+, 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 a mandated review, however, 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 due to strong objections from some developing country Board members. Thus, the principles-based interim gender policy continues to apply 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. Independent of a GCF gender policy update, gender considerations are already mainstreamed into key operational policies and guidelines such as results management, investment decisions as well as in accreditation procedures and stakeholder engagement processes although 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 will lose its best practice leadership position without further gender integration efforts. 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 overrepresented in administrative function) and in the 24 person GCF Board (which in October 2018 included only four women, and four female alternate Board members, a new low). 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. The GCF's IP policy was approved at the 19th Board meeting taking a strong rights-based approach by focusing on the selfdetermination of IPs and their right to free, prior and informed consent (FPIC) throughout the GCF project cycle. The fund-wide IP policy is to be complemented by implementation guidelines under development by the Secretariat and the set-up of an Indigenous Peoples Advisory Group expected in 2019.

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 2018, the GCF Board, in following COP guidance, further developed frameworks to forge stronger complementarity and coherence among various climate funding institutions. In responding to COP guidance, it also launched the first replenishment process and secured the continuation of GCF Trustee services; the Board in 2018 was unable to conclude action on a number of COP requests, including the review of the accreditation framework or the development of a communication strategy.

Stakeholder and Observer Input and Participation: The GCF governing instrument anticipates extensive stakeholder participation in the design, development and implementation of the strategies and activities financed by the GCF. Stakeholders are broadly defined as "private sector-actors, civil society organisations, vulnerable groups, women and indigenous peoples." These mandates are currently operationalised primarily in the context of arrangements for country-ownership and programming for the Fund, and in accreditation criteria for implementing entities and intermediaries. GCF readiness support also supports the gender-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. 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 2018 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. 2018 saw some challenges in the application of these requirements, triggering also the first ever complaint filed by civil society under the Information Appeals Panel (IAP) of the GCF. 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). 2018 saw the establishment of an external relations division in the Secretariat with more dedicated staffing support and aided by a continuously updated and expanded website for the Fund, which now includes, for example, individual country pages. Outreach activities will likely intensify in 2019 in connection with the GCF's first replenishment in order to build global awareness and support for continued and scaled up funding for the GCF.

Outlook for 2019

As the portfolio of accredited entities and approved projects/programmes for the GCF further grew in 2018, 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. With the end of the Initial Resource Mobilization period, the GCF must strike an appropriate balance between moving quickly to demonstrate operational competence and delivering a deliberate and impactful portfolio with scaled-up disbursements while managing its remaining limited commitment authority for 2019 carefully. The review of the Fund's performance during the IRM period and its forward looking adjustment of its strategic vision and mid-term planning will be crucial to position the GCF for the future as it aims to finalize an ambitious first formal replenishment process by October 2019. 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 the abrupt departure of Executive Director Howard Bamsey in July 2018, the Ad hoc Selection Executive Director Committee set up at its 21st Board meeting in early 2019 is tasked with accelerating the search for a successor ready to provide visionary leadership to inspire an ambitious replenishment and a steady management hand for a growing Secretariat. The Board at the same time is also experiencing a significant make-over as the extended terms of several Board members, who have accompanied the Fund since its Transitional Committee days, ends with 2018. This will be both a chance and challenge, as part of the GCF's institutional memory leaves with them. A new Board begins its three-year term and will be tasked with tackling many inherited outstanding policy issues in three Board meetings planned in 2019 (likely in February, July and October). Their aim must be to ensure that the Fund attracts and invests in transformative and innovative projects and programmes while articulating and adjusting its vision and strategy for the future. Both the Secretariat and the new Board will need adequate expertise, competence and capacity to deliver on this important mandate. With a heavy work agenda remaining to be completed, and many policy issues quite contentious, the Board will need to urgently address its governance challenges and improve Board decision-making for decisions in-between meetings and find an agreement on voting procedures in the absence of consensus. Problems in moving the GCF Board agenda forward in 2018 have brought this issue, which has been raised many times in the past, to the forefront of the Board's agenda. In addition, in early 2019 new co-chairs are to be elected by the Board constituencies. They will need to work with a new 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.

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

- **Clean energy project preparation facilities: mapping the global landscape**. Darius Nassiry, Sam Pickard, Shelagh Whitely and Andrew Scott from ODI provide a comprehensive mapping of the project preparation facility global landscape. The results cover 150 project preparation facilities and form the most comprehensive study of its kind to date. Available at: **https://bit.ly/2RcGuQc**
- **"Back to the Future" for GCF After Recent Bahrain Board Meeting**. Liane Schalatek from Heinrich Böll Stiftung North America goes "Back to the Future" reporting on the October 2018 Green Climate Fund board meeting and its implications. Available at: **https://bit.ly/2r5dTkj**
- **Local actors ready to act: Six proposals to improve their access to the Green Climate Fund**. Menno Bosma, Maaike de Hon, Annelieke Douma, Daan Robben, Raju Pandit Chhetri, Titi Soentoro and Liane Schalatek, bring together Both ENDS; Heinrich Böll Sitftung North America; Aksi! for gender, social and ecological justice; and the Prakriti Resources Centre to describe six specific proposals to stimulate more and deeper debate on the crucial role local actors play in the transformative change needed to deal with global climate change. Available at: **https://bit.ly/2SdV2PH**
- **Not a Silver Bullet**. Julie-Anne Richards and Liane Schalatek look at whether insurance is fulfilling its promise and argue that in many instances it can serve as a distraction from alternative financing solutions for loss and damage. A Heinrich Böll Stiftung North America product. Available at: **https://bit.ly/2PW3aYr**
- **Financing Loss and Damage: A Look at Governance and Implementation Options**. Julie-Anne Richards and Liane Schalatek discuss categorisations of loss and damage approaches, financing options and whether existing climate funds could channel loss and damage financing. A Heinrich Böll Stiftung North America product. Available at: **https://bit.ly/2nT55wa**
- Radical Realism for Climate Justice. A Civil Society Response to the Challenge of Limiting Global Warming to 1.5°C. Heinrich Böll Stiftung Berlin. Available at: **https://bit.ly/2PYfGqs**

Visit our website for more information and to contact us: **ClimateFundsUpdate.org**

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End Notes

1. 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.

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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