

**Green Climate Fund**



# **Business Model Framework of the Green Climate Fund**



**GCF/B.01-13/11**

1 March 2013

**Meeting of the Board**

13-15 March 2013

Berlin, Germany

Agenda item 7

## Recommended action by the Board

It is recommended that the Board:

- a) Takes note of the information presented in document GCF/B.01-13/11 *Business Model Framework of the Green Climate Fund*; and
- b) Provides guidance on the way forward for the work on the business model framework by identifying the work that remains, the means by which it should be carried out and the resources this would require.

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## Business Model Framework of the Green Climate Fund

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### I. Introduction

1. At its second meeting in Songdo, Republic of Korea, in October 2012, the Board, in its decision B.02-12/03, established a team of six members to prepare documents on the business model framework of the Fund:

*DECISION B.02-12/03*

*“The Board:*

- (a) Agreed to take decisions with an aim to finalize the Fund’s business model and consider each related matter in detail as part of the Board’s work plan until the end of 2013;*
- (b) Agreed in principle to the elements of the Board’s work plan until the end of 2013, as set out in Annex IV to document GCF/B.02-12/03;*
- (c) Agreed to the indicative priority matters in the work plan until the end of 2013, as set out in Annex III to this report;*
- (d) Agreed to the indicative timeline for the Board’s work plan until the end of 2013, as set out in Annex IV to this report, noting that the Board will manage the timeline on a meeting-by-meeting basis;*
- (e) Agreed to the list of matters for consideration at its next meeting, as outlined in Annex V to this report;*
- (f) Requested the Interim Secretariat to prepare documents listed in Annex VI to this report for the first Board meeting in 2013;*
- (g) Requested the team of six Board members/alternate members to facilitate the preparation of the documents on business model framework. These Board members/alternate members are: Mr. Arnaud Buisse, Mr. Nick Dyer, Mr. Derek Gibbs, Mr. Kjetil Lund, Mr. Tosi Mpanu Mpanu and Ms. Adriana Soto.”*

2. The team, assisted by the Interim Secretariat, conducted a series of teleconferences and developed the terms of reference (ToR) for a consultancy on the business model framework (presented in the Annex to this document). The ToR was approved by the team, shared with the Co-Chairs and circulated to all Board members on 7 December 2012.

3. The team requested that an institutional contractor be engaged for the work and suggested a number of possible institutions to undertake the work. The team recommended to the Co-Chairs the application of a fast-track procurement process, which was subsequently authorized by the Co-Chairs. All Board members were informed of the fast-track procurement process on 5 December 2012.

4. The Interim Secretariat, following the United Nations procurement rules and processes, executed the fast-track procurement process to select a contractor. The two proposals received were evaluated by the Interim Secretariat based on standard United Nations Framework Convention on Climate Change (UNFCCC) procurement procedures and a recommendation was made to the team.

5. Given that the anticipated cost of the consultancy was higher than the overall consultancy budget presented to the Board at its second meeting, the Co-Chairs recommended

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that the work be divided in two stages and sought the approval of the Board on a no-objection basis to award the consultancy for the work associated with phase I on 21 December 2012.

6. The Co-Chairs subsequently received objections from two Board members. The Board was informed of the outcome on 11 January 2013.

7. In light of this outcome, the Co-Chairs asked the team to discuss the alternatives for the work that could be undertaken to support the Board's discussion on the business model framework at its meetings in Berlin, Germany, in March 2013. The team discussed various options and informed the Co-Chairs correspondingly.

8. The Board will discuss the business model framework twice in Berlin. The first meeting, on 12 March 2013, will take the form of an informal discussion of the Board. The second discussion, on 14 March 2013, will be part of the formal agenda. This document informs the second discussion on 14 March 2013. A separate information note from the Co-Chairs was distributed to inform the Board's informal discussion on 12 March 2013.

## II. Next steps on the business model framework

9. Following the discussions on the business model framework, the Board will be invited to provide guidance on how to take forward the remaining work.

10. Firstly, the Board may wish to clarify the remaining work that needs to be undertaken on the business model framework by identifying:

- (a) Elements of the business model framework on which there is Board agreement or convergence; and
- (b) Elements of the business model framework that require further analysis.

11. Secondly, the Board may wish to consider and decide upon the means by which any further analysis that is required should be carried out, with options including:

- (a) Using a Board working group or groups to carry out some or all of the work;
- (b) Tasking the Interim Secretariat with specific parts of analysis or other work; and/or
- (c) Requesting the Interim Secretariat to work with a consultant or consultants and, in case of an institutional contractor, the procurement process that should be used to contract the consultant(s).

12. Finally, the Board may wish to consider and approve the resources required to take this work forward.

13. Following the informal discussion on 12 March 2013, the Co-Chairs will prepare and table a draft decision on the business model framework for consideration by the Board at its formal meeting on 14 March 2013.

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## Annex: Terms of reference for a consultancy on the business model framework of the Green Climate Fund

### I. Background

The Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) decided at its sixteenth session to establish the Green Climate Fund as an operating entity of the financial mechanism of the Convention, to support projects, programmes, policies and other activities in developing country Parties.<sup>1</sup> It further decided at its seventeenth session to approve the Governing Instrument for the Green Climate Fund, designate the Fund as an operating entity of the financial mechanism of the Convention in accordance with Article 11 of the Convention, and requested its Board to operationalize the Fund in an expedited manner.<sup>2</sup>

The Governing Instrument and decision 3/CP.17 of the UNFCCC COP set a number of parameters for the Fund's business model, including its objectives and guiding principles and other operative provisions. The Governing Instrument constitutes the key framework for the further design of the Fund.

At its second meeting on 18-20 October 2012 in Songdo, Republic of Korea, the Board agreed to take decisions with an aim to finalize the Fund's business model and agreed on a list of indicative priority matters in its work plan until the end of 2013, which include the necessary activities needed to operationalize the Fund.

The Board requested the Interim Secretariat to prepare the documents listed in Annex VI to the draft report of the meeting, for consideration by the Board at its first meeting in 2013 (March 2013). The Board defined the method for preparing the document on business model framework as follows:

*The committee/team of six Board members<sup>3</sup> will facilitate the preparation of the document on business model framework. Input from Board members could be solicited on specific matters/higher order questions. The Interim Secretariat will solicit input from consultants, experts and stakeholders, including private sector and civil society organizations on specific matters.*

### II. Objective

The objective of this consultancy is to develop the document that will provide key inputs and serve as a basis for Board's discussion on the decisions it needs to take with an aim to finalize the Fund's business model framework. The main aim of the document is to stimulate an open and informed debate to enable the Board to make decisions. The document should not seek to provide definitive answers but should present options and their implications for consideration by the Board. In order to foster a specific and decision-oriented conversation, the document should describe and visualize possible model(s) for the Fund. It is expected that the document will be based on extensive consultations and outreach activities to relevant stakeholders.

As outlined by the Board, the document will have four components (reflected in chapters, as follows):

- A first overarching component on the 'Structure and organization' of the Fund (chapter 1)

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<sup>1</sup> Decision 1/CP.16, contained in document FCCC/CP/2010/7/Add.1.

<sup>2</sup> Decision 3/CP.17, contained in document FCCC/CP/2010/9/Add.1.

<sup>3</sup> These Board members/alternate members are: Mr. Arnaud Buisse, Mr. Nick Dyer, Mr. Derek Gibbs, Mr. Kjetil Lund, Mr. Tosi Mpanu Mpanu and Ms. Adriana Soto (Chair of the Team).

- Three additional components addressing specific matters:
  - Private sector facility-related matters (chapter 2);
  - Access modalities (chapter 3);
  - Results management framework (chapter 4).

These are each described further below in light of the Board's decision and relevant provisions of the Governing Instrument, where appropriate.

### III. Responsibilities and deliverables required

Under the supervision of the Team and working closely with the Interim Secretariat, the consultant (a high-level expert or consulting firm) will be responsible for:

1. Analysis and review of business models and best practices from relevant funds and institutions, taking into account the work conducted by the Technical Support Unit of the Transitional Committee for the design of the Green Climate Fund;
2. Preparation of the business model framework document including chapters on each of its components as expressed above;
3. Soliciting, in cooperation with the Interim Secretariat, input from Board members on specific matters/higher order questions in accordance with the method agreed by the Board;
4. Undertaking, in cooperation with the Interim Secretariat, consultations and soliciting input from relevant experts and stakeholders, including private sector and civil society organizations on specific matters; and
5. Reporting regularly on progress made to the Interim Secretariat, which will then inform the Team. The Interim Secretariat will organize communication between the consultant and the Team, as appropriate.

Each of the chapters prepared as part of the document will identify key policy choices and implications for decision by the Board. The document is meant to provide a basis for substantive discussions among Board members, facilitating streamlined decision-making to ensure the Fund's adequate operationalization.

A set of guiding questions aimed at facilitating the preparation of the document was prepared by the Team and is presented in the Appendix below.

#### Chapter 1. Structure and organization of the Fund (approx. 20 pages)

This overarching component will build on the provisions of the Governing Instrument and the guidance received from the COP. As the central piece of the overall document, this first chapter will provide an overarching view on the main structural options relating to the business purpose and model of the Fund and will include a description and visualization of the business model of the Fund to promote the paradigm shift towards low emission and climate-resilient development pathways, and the parameters highlighted by the second Board meeting:

- (a) Structural options for the business model;
- (b) Models for the delivery of the Fund's resources (direct and indirect/wholesale and retail) for enhanced access;
- (c) Structural options and financial instruments in terms of its leveraging potential of additional public and private sector finance, at national and international levels in the context of funding windows and facilities; and

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- (d) Complementarity of the Fund with other channels of climate finance and linkages with thematic bodies of the Convention.

The document will undertake an analysis of current provision in each of these areas, by identifying best practices and the added value that the Fund can provide while also including suggestions for next steps (e.g. further analytical work may be required). The document will present options and key policy choices on various design elements of the business model for consideration and discussion by the Board. Specific questions that provide further guidance are listed in the Appendix.

Attention will be given to developing the other three chapters described below in coherence with the overarching piece described in the first chapter.

## Chapter 2. Private sector facility-related matters (approx. 15 pages)

The Fund is being designed in such a way as to utilize both public and private capital to drive low-carbon, climate-resilient development in developing countries. As part of this mandate, the Fund includes a Private Sector Facility (PSF). The Governing Instrument refers to a private sector facility in the following terms:

41. The Fund will have a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels.
42. The operation of the facility will be consistent with a country-driven approach.
43. The facility will promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs.
44. The Board will develop the necessary arrangements, including access modalities, to operationalize the facility.

This document will propose options available to the Board in fulfilling its responsibility to develop the necessary arrangements, including access modalities, to operationalize the facility, and respecting country-drivenness and national priorities.

As agreed by the Board, the document will include the following matters:

- (a) An assessment and implications of various institutional models for the PSF, including governance structure;
- (b) An assessment and implications of models for the delivery of the PSF resources, including direct, indirect or a combination; and
- (c) Complementarity of the PSF with other channels of climate finance.

Specific questions that provide further guidance are listed in the Appendix.

## Chapter 3. Access modalities (approx. 15 pages)

The Governing Instrument includes provisions on access modalities and provides that:

45. Access to Fund resources will be through national, regional and international implementing entities accredited by the Board. Recipient countries will determine the mode of access and both modalities can be used simultaneously.
46. Recipient countries may designate a national authority. This national designated authority will recommend to the Board funding proposals in the context of national

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climate strategies and plans, including through consultation processes. The national designated authorities will be consulted on other funding proposals for consideration prior to submission to the Fund, to ensure consistency with national climate strategies and plans.

It also sets out requirements relating to direct access, international access, strengthening capacities and accreditation.

Based on the provisions in the Governing Instrument that the Fund will provide access to resources through sub-national, national, regional and international implementing entities, this chapter should analyse various models of delivery mechanisms and access modalities. As agreed by the Board at its second meeting, the document on access modalities should include the following:

- (a) Eligibility for accessing resources from the Fund; and
- (b) Range of access modalities, including enhanced access modalities and their availability across different funding programmes.

Specific questions that provide further guidance are listed in the Appendix.

## Chapter 4. Results management framework (approx. 15 pages)

As stated in the Governing Instrument, programmes and projects, as well as other activities funded, will be regularly monitored for impact, efficiency and effectiveness, in line with rules and procedures established by the Board. The use of participatory monitoring involving stakeholders will be encouraged (paragraph 57).

A results measurement framework with guidelines and appropriate performance indicators will be approved by the Board. Performance against these indicators will be reviewed periodically in order to support the continuous improvement of the Fund's impact, effectiveness and operational performance. As agreed by the Board at its second meeting, the document on results management framework should include the following:

- (a) Key elements of the results management framework;
- (b) Modalities for monitoring and evaluation;
- (c) Results-based approaches for resource allocation; and
- (d) Performance indicators for measuring performance at project and programme level and for overall performance of the funded activities.

The consultancy will also include a final report covering methodologies used for collecting inputs and for reaching out to stakeholders, results of analysis and key decisions, after incorporating comments from Board members, experts and key stakeholders

Specific questions that provide further guidance are listed in Appendix.

## IV. Process/preparation of documents

*Quality:* Given the importance of getting the design of the Fund right, the document should be of the highest quality and based on extensive outreach activities, ensuring that relevant perspectives are taken on board.

*Accountability and coherence:* Given the complexity of the task, the limited time frame and the need to ensure quality and coherence of the documents, it is proposed that one institution/consultancy firm is made responsible for the production process and accountable to the Team. In undertaking this task, the chosen institution/consultancy firm is expected to work



closely with the Interim Secretariat, and report to it on a regular basis. This will also ensure that we end up with a single, coherent product. The Interim Secretariat will then inform the Team and arrange the communications with the consultant as appropriate. The regular reports to the Interim Secretariat can include the following:

- (a) Activities completed;
- (b) Activities still to be completed;
- (c) Delays experience and reasons why;
- (d) Challenges and possible solutions.

## V. Timeline

The consultant is expected to begin work by the end of November 2012 and deliver the final documents by the third week of February 2013.

The consultancy work should be undertaken in such a manner as to comply with the following indicative dates for the process of producing the background documents for the third Board meeting:

	<b>Task</b>	<b>Date</b>
1	Commissioning of consultants' work	Early Dec-12
2	Inputs from Board members, experts, and relevant stakeholders	Dec-12/Jan-13
3	First drafts of the chapters	31-Jan-13
4	Review and comments by the Team	11-Feb-13
5	Final draft of document	20-Feb-13
6	Finalization of preparations for Board discussion	5 Mar-13
7	First Board meeting in 2013	12-15 Mar-13

## VI. Qualifications and experience

The consultant(s) or consultant team should possess a Master's Degree or Degrees in the fields of Business Administration, Finance, Development Economics, or Management Sciences, with a specialization in finance and/or capital markets. Additional desired qualifications include:

- Experience developing, researching or establishing funds in government and/or corporate sector;
- Extensive knowledge of climate finance mechanisms, such as UNFCCC and related conventions;
- Experience working with government, private sector and/or research institutions in the area directly relevant to climate finance and international financial mechanisms and/or capital markets, including in developing countries;
- Solid understanding of both global and local matters relevant to climate finance, as well as climate change mitigation and adaptation;

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- Significant experience conducting multi-stakeholder consultations and synthesizing participant inputs;
  - International mobility and cross-cultural experience;
  - Fluent in English with excellent writing and research skills;
  - Excellent computing skills, including MS Word, Excel, Power-Point and other skills.

## **VII. Requirements for submission of brief proposals/concept note**

The consultant(s) or consultant team will be required to submit their overall qualifications (and in the case of a team as well as their individual members' CVs) along with a 4-6 page concept note covering relevant experience, approach/proposed methodology for the study and indicative amount of the consultancy fee in lump-sum, including travel expenses (if involved) for the assignment.

## **VIII. Budget and delivery of payment schedule**

*[The Interim Secretariat will provide ranges of costs of consultants]*

## Appendix: Guiding questions aimed at facilitating the preparation of the business model framework document

The members of the Team in charge of facilitating the preparation of the document have worked on identifying some guiding questions that could contribute to the work to be carried on by the selected consultant.<sup>1</sup> These inputs reflect the different views and priorities of Board members. This indicative list is meant solely as an orientation to the work, and not to constraint or limit the analysis.

### Component on structure and organization of the Fund (Chapter 1)

#### Parameters

1. The Governing Instrument for the Fund defines the basic elements of the business model of the Fund. It guides and mandates the Board to further elaborate the features of the Fund to promote a paradigm shift towards low-carbon and climate resilient development pathways, and to become the main global fund for climate change finance in channelling adequate financial resources to developing countries and catalysing climate finance, both public and private, and at the international and national levels. The Governing Instrument stipulates that the Fund will be scalable and flexible and will be a continuously learning institution.
2. A number of other parameters regarding the scope and functions of the Fund were highlighted at the second Board meeting (under the component 'Structure and organization of the Fund').
3. The authors of the overarching piece on the business model framework will need to take all of the above into account, as well as all the provisions of the Governing Instrument, and the guidance that the COP may give to the Fund.

In addition, the authors of the overarching piece on the business model framework could usefully be guided by three basic principles:

1. Form follows function – i.e. we need to know *what* we are aiming to achieve before we can work out *how* best to organize the Fund. The Governing Instrument defines purpose and guiding principles of the Fund - we need to build on these to achieve further detail.
2. Need for the Fund to add value – i.e. we need to ensure that the Fund does not just replicate existing climate finance arrangements.
3. Development of the Fund can be phased among other available options – i.e. to enable to get the Fund up and running (and thereby maintain the trajectory of finance) whilst allowing for greater sophistication and innovation in later phases.

### Guiding questions for the component on structure and organization of the Fund (Chapter 1)

#### Operational objectives

- (a) What does it mean, in practice, to promote a paradigm shift towards low-emission and climate-resilient development pathways?
- (b) What results will the Fund be supporting to contribute to this paradigm shift? For example, for mitigation, are we only interested in tons of CO<sub>2</sub> equivalent, or do we want tons of CO<sub>2</sub> equivalent plus some measure of transformational (e.g. some demonstration of fit of activity with national strategy/innovation/fiscal effort)?

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<sup>1</sup> In accordance with decision B.02-12/02, paragraph (f).

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- (c) What are the specific priority results that the Fund wants to promote to achieve its overarching objectives?

Financial instruments:

- (a) What mix of instruments should the Fund offer to achieve the desired results, and on what terms? How do we achieve maximum climate impact at least cost to the Fund?
- (b) Will funding be primarily limited to grants and concessional lending?
- (c) What role should guarantees, equity investments, performance-based payments play?
- (d) Could funding be blended with other sources of funding?

Financial input:

- (a) What form of contributions (e.g. grants, concessional loans and capital contributions) should the Fund be open to? What impact will different forms of contribution have on the Fund's operations?
- (b) How will the Fund mobilize significant amounts of funding from other sources, and what innovative financial mechanisms or incentives be considered?

Access:

- (a) What are the options for providing access to resources through sub-national, national, regional and international implementing and funding entities?
- (b) How do access modalities relate to different types of financial instrument, types of activities and types of countries?
- (c) How can the Fund strengthen country ownership and mutual accountability?

Allocation:

- (a) Will there be an ex-ante allocation of funds to countries? If so, what would be suggested the criteria for such allocations?
- (b) Will allocations be agreed in bulk or on programme/project basis?
- (c) The Governing Instrument refers to "balance" between mitigation and adaptation. What is understood by the term "balance"? Should balance be in terms of monetary size, policy priority or spatial parameters? Other criteria?
- (d) Will there be different allocation criteria for mitigation and adaptation funding?

Results management framework:

- (a) What are the key elements of an effective results management framework?
- (b) What type of modalities for monitoring and evaluation (M&E) will the Fund need? Where, and how, will M&E feed into planning and decision-making?
- (c) How can the Fund best manage its portfolio for results (e.g. scope for results-based financing)?
- (d) What type of performance indicators will the Fund need for measuring performance at project and programme level, and for measuring overall performance of the funded activities?

Basic structure and organization of the Fund:

- (a) What is the optimal structure for the Fund? What structure of, secretariat, windows, implementers, etc. will enable developing countries to link the best product to the task at hand, and thereby achieve the objectives set out in the governing instrument? Should

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different windows of the Fund have different operational policies and/or different governance structures?

- (b) In light of the Fund as a continuous learning institution, should the Fund employ a “phased approach” to build its business model?
- (c) Could the business model of the Fund be organized around financial instruments (e.g. grant facility, concessional lending facility in addition to the private sector facility foreseen in the Governing Instrument)?

Role and functions of the Board:

- (a) What process recommendations and decision-making processes are suggested to ensure agile and objective decisions and Fund allocations?
- (b) How should the Board prevent conflicts of interest among Board members in the approval of specific projects?
- (c) How will key Fund activities be communicated to the Board? What reporting guidelines should be adopted?
- (d) How should key risks and pitfalls be addressed, as well as emergency situations that may require immediate Fund allocations?

Complementarity:

- (a) How will the Fund fit with the existing architecture?
- (b) Where will the Fund add value over and above existing funds?
- (c) Is there scope for the Fund to take on the functions of any existing funds?

A decision by the Board on all these matters is not required at this stage. However, Board discussion would provide guidance for the preparation of detailed Board documents on respective strategic and operational policies and procedures.

### **Chapters on the other three components of the business model framework of the Fund (Chapters 2, 3 and 4)**

#### **Private sector facility (Chapter 2)**

The ambition of the Fund is to become the main global fund for climate change finance and to catalyze additional public and private finance at the international and national levels. The operationalization of a private sector facility (PSF) of the Fund could offer a key opportunity to bring private sector initiatives into the scope of international cooperation on climate change and to catalyse additional and complementary finance.

The operation of the facility should be consistent with a country-driven approach and to provide for effective direct and indirect public and private sector financing<sup>1</sup>. The facility will promote the participation and coordination of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries. The facility will also support activities to enable private sector and capital markets involvement.

In developing the institutional model and access modalities of the PSF, the Board may need to examine two distinct but possibly complementary approaches to this matter, the first being to mobilize private finance alongside funding at an operational level by providing funding directly or indirectly to private sector entities; and the second, directly sourcing private financing into the Fund, such as investments from institutional investor- pension funds and others. Discussion of the matters outlined below and other related matters highlighted by the Board would provide

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<sup>1</sup> As stated in COP decision 3/CP.17.

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guidance for preparation of detailed Board documents on the institutional model, operational policies and procedures of the PSF.

Gap analysis:

- (a) What does a comprehensive analysis of existing provision (i.e. best practice, pitfalls and lessons learnt) tell us?
- (b) Which products/interventions have worked well, where and why? Where are the key gaps?
- (c) What institutional models (direct, indirect or a combination of both) have worked well, where and why?

Implications for PSF product offer:

- (a) Where can the PSF best add value, e.g. in terms of its product offer, the sectors it focuses on, and interventions along the innovation chain (e.g. from start-ups to commercially proven technology)?
- (b) What potential is there for the PSF to scale up existing success stories? What gaps could the PSF fill?
- (c) What kind of technology and financial loss risk will the PSF be prepared to take?
- (d) How will the PSF articulate with the other financing modalities of the Fund for funding mitigation and adaptation activities?
- (e) An analysis and proposals of low transaction cost engagement strategies for each of the various providers of capital and financial intermediaries, including:
  - 1. Equity or debt or commodity based finance as has been the case with the carbon markets;
  - 2. Market facilitators, including insurance providers, financial intermediaries offering advisory, hedging, and liquidity services all of which are critical to risk mitigation, rating agencies and data providers, both of which are key for market transparency; and
  - 3. Project developers, including the owners of low-carbon technology, capital providers, or engineering and construction companies.
- (f) What flexible financial instruments will the PSF employ (concessional lending, non-concessional lending, equity, guarantees) for providing direct and indirect funding to private sector players?
- (g) How would the PSF be more effective at mobilizing national private sector actors in developing countries?
- (h) How will the Fund support the enabling environment and preparatory environment for the private sector in areas such as capacity building and technical assistance?
- (i) What would the project cycle look like? How would the PSF policies and procedures be different from public sector operations?

Implications for PSF institutional model:

- (a) Should the PSF be organized as a specialized unit in the Fund, or a separate institutional structure organized as one or several investment vehicle(s)?
- (b) What are the implications of each different approach in terms of staffing, skillset required and costs?

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- (c) Will the PSF take a phased approach with indirect funding through financial intermediaries initially and then direct funding to private sector in future?
  - (d) Would financial draws to the PSF include public finance in line with a Fund allocation system or should the PSF have a separate financial input?
  - (e) What legal and financial capacities, as well as operational strengths, will the PSF/the Fund need to carry out the instruments and conduct adequate reporting on execution?
  - (f) How will the PSF manage information disclosure and conflict of interest issues as it relates to private investments?
  - (g) How will country ownership and transaction costs be addressed for PSF supported activities? What will be the fit between PSF supported activities and country planning processes?

### **Access modalities (Chapter 3)**

The Board needs to address key matters such as oversight, accountability and in-country capacity support in designing and implementing the Fund's access modality(ies). The Board may wish to draw on early lessons from the modalities of direct access employed by other funds and institutions like Adaptation Fund (AF) under the Kyoto Protocol, the Global Fund to fight HIV/AIDS, Malaria, and TB (the Global Fund), and the Global Alliance for Vaccination and Immunization (GAVI). The Board could also build on the experience of general budget support approaches, which could be considered a form of direct access, as it has some similar characteristics. There are also established streamlined models of direct access, including the Global Environment Facility's (GEF) direct access modality for enabling activities, which could be explored.

Elaboration of these key questions and other related matters highlighted by the Board would provide guidance for preparation of detailed Board documents on operational policies for various access modality options.

#### Gap analysis:

- (a) What does a comprehensive analysis of current experience of direct access (climate and non-climate) tell us, e.g. best practice, pitfalls, lessons learnt?
- (b) What are the key elements of an effective accreditation process?

#### Implications for the Fund:

- (a) How will direct access under the Fund be defined and operationalized? Will there be one definition or will there be a range of ways for countries to access finance?
- (b) How should the Fund guarantee effective access to the most vulnerable populations?
- (c) What is the range of options for providing access to resources (e.g. through sub-national, national, regional and international implementing entities)?
- (d) How do access modalities relate to different types of financial instrument, types of activities and types of countries?
- (e) What should be the key elements of the Fund accreditation process for each type of implementing entity (e.g. sub-national, national, regional, international)?
- (f) Could the requirements for fiduciary standards and environmental and social safeguard for accreditation of implementing entities be differentiated based on type of project, scale of funding and financial instruments employed?
- (g) What kind of national institutions are needed to facilitate national implementation and execution? What would be the minimum qualifications of institutions to the Fund to access recipient funds?

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- (h) What strategies are required to ensure country ownership, mutual accountability, prioritising the most vulnerable, and harmonisation with existing mechanisms?
  - (i) Whether the Fund or the national entities will be directly responsible for oversight, monitoring and reporting of grant and/or concessional lending?
  - (j) If funding were provided by the Fund directly to developing country government institutions, how would recipients be accountable to the Fund? Would the Fund enter into agreements with the recipients?
  - (k) Will the funding be made available to assist countries in the process of establishing national implementing entities and to assist in the accreditation process?

#### **Results management framework (Chapter 4)**

The Board will need to define the results management framework including performance indicators that will be the basis for measuring the impacts of the Fund's activities and its effective contribution to the paradigm shift towards low-emission and climate-resilient development pathways. In doing so, the Board may wish to consider the results-based management framework adopted by the GEF and the Global Fund and evaluate their adequateness and usefulness, defining which of their elements can serve or should be improved in order to create an appropriate results-management framework for the Fund. In addition, the analysis should explore results management framework options developed for various financial mechanisms and climate finance interventions.

Some of the following key questions may help steer the discussion on this matter and drive the Board's discussions towards key decisions on the topic:

#### Gap analysis:

- (a) What does a comprehensive analysis of existing frameworks, best practice, pitfalls and lessons learnt from other large funds (climate and non-climate) results' approaches tell us?
- (b) What are the key elements of an effective results management framework?
- (c) What level and scope of centralisation is most appropriate? What is the best process for agreeing targets?

#### Implications for the Fund:

- (a) What modalities do we need for monitoring and evaluation (M&E)? Where and how will M&E feed into planning and decision-making? What institutional processes are required to achieve this? How do we ensure the most cost-effective and harmonised M&E schemes, and their flexible response to varying national and local contexts?
  - (b) How can we manage the Fund's portfolio management for results? Should the Fund consider results-based approaches for resource allocation? What, if any, linkages should there be between results and programme management? What scope is there for application of results-based financing?
  - (c) What type of performance indicators will the Fund need for measuring performance at project and programme level and for overall performance of the funded activities, taking into account relevance and flexibility at the local and national levels as well as climate-effectiveness and cost-effectiveness?
  - (d) Will there be a need for a separate set of performance indicators for mitigation and adaptation activities?
  - (e) Who will be responsible for monitoring the application of performance indicators and how will they be assessed?
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