Outcome of the First and Second Meetings of Interested Contributors to the Initial Resource Mobilization Process of the Green Climate Fund

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Introduction

1. Pursuant to decision B.07/09, a process of collective engagement in the Fund's Initial Resource Mobilization (IRM) process was launched with potential contributors. The first IRM meeting was held on 30 June–1 July in Oslo, Norway, and a second technical IRM meeting on 8–9 September in Bonn, Germany.

2. Regarding the outcomes of the first and second IRM meetings of the interested contributors, the “Chair’s Cover Note” and “Chair’s Summary” of the two meetings and the “Programming Document” are included in the Annexes I, II, III and IV to this document as agreed by the interested contributors and without any changes or editing.

Annex I: Chair's Cover Note

Dear Members and Alternate Members of the Board,

Consistent with decision B.07/09, a process of collective engagement with potential contributors to the Fund's initial resource mobilization process was launched. The first meeting was held on June 30 to July 1 in Oslo, Norway, and a second meeting on September 8 to 9 in Bonn, Germany. The chair's summaries for both meetings respectively are enclosed herewith.

Upon completion of the Bonn meeting, interested contributors concluded a document titled "Proposal for the Policies for Contributions to the Green Climate Fund" and have recommended it to the Board for its consideration. The document is submitted to the Board as document GCF/B.08/16 *Policies for Contributions to the Green Climate Fund: Recommendations by Interested Contributors*.

Additionally, at its first meeting in Oslo, the participants in the initial resource mobilization process also considered the "Programming Document." The document has been revised to address comments received from participants and the revised version is included herewith for information.

The process of collective engagement with potential contributors to the Fund's initial resource mobilization is expected to conclude with a final high-level pledging session on November 20-21. A report on the outcome of this meeting and the collective engagement process will be submitted to the Board at its next meeting.

Yours sincerely,

Lennart Båge

Annex II: Chair's summary - First Meeting of Interested Contributors to the Initial Resource Mobilization Process of the Green Climate Fund

1. Interested contributors representing 24 developed and developing countries, along with observers, met in Oslo to begin the initial resource mobilization process (IRM) for the Green Climate Fund (the Fund).

2. Following the opening remarks from the Norwegian Government, the Co-Chairs of the Board of the Fund and the Executive Director of the Secretariat, meeting participants elected Mr. Henrik Harboe as Chair of the meeting and the agenda was adopted.

Agenda item 1: Opening of the meeting, adoption of the agenda; chairing arrangement for the meeting and rules of conduct

3. The Chair outlined his vision for the meeting and reminded participants that the overall purpose of the collective engagement is to mobilize substantial funds for the Fund. To that end the focus of this first meeting was to hear from interested contributors and in coming months to formulate and agree on recommendations from interested contributors to the Board of the Fund.

4. To ensure transparency and consistency with Board decisions, observers have been invited to the IRM process. These comprise: The Co-Chairs of the Board, four representatives of the Board (two developed/two developing), two active observers of the Board (one civil society/one private sector), as well as, the Executive Director of the Fund's Secretariat.

5. The Chair outlined the proposed rules of conduct which would include each agenda item being discussed with reference to relevant Board decisions, and then closed by the Chair with a summary of the deliberations, including emerging positions/consensus and any areas that require further work or discussion. These would be compiled into a written Chair meeting summary, which would be circulated amongst the participants shortly after the meeting.

6. Finally the Chair explained that meetings may be conducted in two forms of sessions: technical session and executive session. Technical sessions are open to contributors and observers. Meetings may be convened in executive session as decided by the contributors. Executive sessions will be open only to contributors and the Board Co-Chairs, who will participate as observers. Representatives of the Interim Trustee will be invited to attend sessions of such meetings in order to provide relevant support to the Secretariat.

7. Any decisions will be taken by consensus of the contributors.

Agenda item 2: Scope and Timeline of Collective Engagement Process

8. The Chair explained that the focus was on pledging in November which then drives the timeline in coming months with recommendations taken to the Fund Board in October. There was a consensus that all technical issues would be resolved before pledging. To this end it was decided to hold an additional technical meeting in September. There was some discussion on what outcomes were expected from this meeting.

9. The Chair summarized the discussion as follows:

(a) Participants agreed with the proposed scope and timeline. In addition to the following three documents presented for consideration by the Board, there may be a need for a separate document on those issues for decision by the Board, such as on the Trustee arrangement and on the link between contributions and voting:

(i) GCF/IRM.01/02 *Proposal for the Policies for Contributions to the Green Climate Fund;*

(ii) GCF/IRM.01/04 *Programming Document*; and

(iii) GCF/IRM.01/03 *Draft Legal Templates for Contributions)*.

(b) Participants noted that the communication with the Board would need to clearly distinguish between recommendations on such decisions to be taken by the Board, and simple information;

(c) Several participants recommended that the November pledging meeting be conducted at a higher level;

(d) Participants emphasized that additional prospective contributors are welcome at any time and should be informed about the timeline.

Agenda item 3: Policies for Contributions

10. The Chair led a discussion on each section of the pre-circulated document. He summarized the discussion after each one as follows:

A. Resource mobilization

(i) There should be a pragmatic approach to resource mobilization that considers experiences from other funds;

(ii) The table in the document on policies should be expanded and include potential input from innovative sources;

(iii) It was important to distinguish between the first round of ad hoc voluntary IRM contributions and the formal replenishment cycles. There would be a need to discuss what would trigger the formal replenishment process;

(iv) It should also be possible to make pledges after the November pledging session, but most think there should be an end date for IRM contributions.

B. Sources of funds

(v) Participants requested more clarification on how to engage the private sector whilst safeguarding against reputational risk.

C. Types of contributions

(vi) Participants agreed that the use of capital contributions should be restricted to non-grant uses, consistent with Board decisions to accept capital contributions. Participants requested more clarity on the concept of capital contributions, including on the notions of capital cushions and paid-in capital;

(vii) The Fund should maintain the flexibility to receive inputs from other sources (e.g. foundations and non-governmental potential contributions) at later dates.

D. Financial terms of contributions

(viii) With regards to targeting/earmarking of contributions, there was consensus on removing the suggested prohibition against targeting. Participants recognized the need to strike a careful balance and accommodate flexibility between maximizing contributions and excessive contribution conditionality, which would increase the Fund's resource management complexity and undermine country ownership;

(ix) Many Participants noted that some contribution targeting may be acceptable as long as contributors can demonstrate that a major share will not be targeted. Some participants noted that a major share could be targeted;

(x) It was recognized that private sector contributors may wish to target PSF. Targeting should be kept at the high level of Windows and PSF;

(xi) The Secretariat was asked to elaborate options for earmarking.

E. Policies for grant and capital contributions

(xii) Many interested contributors expressed a preference for more flexibility regarding payment periods, including a suggestion of a four-year cash contribution payment period. Several noted that providing 1/3 (or 1/4) of this in the first year may not be in line with the Fund's liquidity and programming needs;

(xiii) There was a consensus among participants that mechanisms need to be developed to provide assurances that pledges will be seen through, including as appropriate some legally binding instrument of commitment. There was consensus on the need to provide incentives for early encashment and other mechanisms for incentivizing following through with pledges;

(xiv) While most participants supported an effectiveness threshold, a few expressed questions about whether it should be required;

(xv) The encashment schedule, to the extent possible, should reflect the Fund's expected programming needs. There was a request to examine in the next paper other institutions' practices at the September technical meeting;

(xvi) Participants recognized the need to address the Trustee arrangements. Several participants pointed to the fact that current Fund Interim Trustee arrangements will expire in April 2015 and requested actionable options in the next paper. They added it must be clear who will hold contributions in trust and who will issue and countersign the related legal arrangements. In the ensuing discussion, the possibility to launch a competitive process by invitation procedure was mentioned, as was the possibility to extend current arrangements. Both would require a Board decision. The Interim Trustee informed participants that they would need about three months to formally respond to a possible Board request to extend current arrangements, and that their own Board would have to decide on participation in any competitive process. It was agreed to consider this issue at the next IRM technical meeting.

F. Policies for loan contributions

(xvii) Participants noted the importance of setting the prudential limit at the right level, with the likely need to make adjustments over time based on the Fund's experiences. A starting point of 20 per cent was mentioned;

(xviii) The capital cushion, which will be linked to the Fund's overall risk profile, should be between 10 and 20 per cent. Participants noted the need for more analysis to determine the right level. Some thought that the Fund should learn from recent experience by International Development Association and others, while others cautioned that the Fund was unique and needed to chart its own path.

G. Commitment authority

(xix) Participants emphasized that the Fund should determine its programming cycle to match its commitment authority. This will determine requirements for the format of pledges, legal commitments and use of cash and promissory notes;

(xx) They noted the need for further clarity concerning how funds would be prioritized in the event that there are insufficient resources in the Green Climate Fund Trust Fund to commit and/or transfer funds in respect of Board decisions;

(xxi) Some participants stressed the fundamental importance of this section of the document.

H. Liquidity risk management

(xxii) Many Participants stressed that non-receipt of contributions is a bigger risk than just liquidity risk, as it can also restrict the Fund's programming ability. They agreed that this issue needs to be explored further, stressing the importance of ensuring consistency with the Fund's financial risk management framework and capital cushion.

I. Foreign exchange risk management

(xxiii) Participants requested the Secretariat to prepare an overview of how other funds manage foreign exchange risk, which would be discussed at the next IRM technical meeting.

J. Other issues

(xxiv) Several Participants stressed the need to address how contributions and the Fund's governance structure will be linked, in particular, the need to clarify the relationship between contributions and votes. They requested information on how other relevant institutions and funds handle these issues. The Secretariat would prepare a note on this for consideration before a recommendation is presented to the Board.

Agenda item 4: Template for Legal Agreement of Contributions

11. Chair discussion summary:

(a) There was acknowledgement that the legal templates need to reflect policies for contributions and that the draft template for grant contribution agreements is sufficient to receive grant contributions;

(b) There was broad consensus that the contribution agreements should be standardized to the greatest extent possible, but that some modest country-specific customization of the templates may be required to address different legislative systems;

(c) Participants noted the need to clarify a number of issues in the template for loan contribution agreements upon the conclusion of the policies for contributions, including the non-performing loans (NPLs), the legal character of the documents, dispute settlement arrangements, instalment in tranches, use of promissory notes, and payment schedule being in line with the Fund's liquidity needs;

(d) Participants stressed the objective of not delaying the pledging process. The ambition is to have the templates for contribution agreements ready at a stage where pledging can take place in November, even if the templates are not necessarily approved;

(e) It was highlighted that recommendations on the policies for contributions to the Board should be provided after the IRM meeting in September.

Agenda item 5: Programming Document

12. Chair discussion summary:

(a) Participants agreed that the document is very helpful in positioning the Fund, including its value-added, within the broader climate finance architecture, potentially serving as a "prospectus" for mobilizing contributions to the Fund;

(b) There were several suggestions for further strengthening the document, including:

  (i) Emphasizing the Fund's role in supporting a paradigm shift towards low-emission economies;

  (ii) The role of developing countries as key partners;

  (iii) Streamlining gender issues;

  (iv) The emphasis on co-benefits;

  (v) The centrality of country ownership; and

  (vi) The Fund's balance between adaptation and mitigation;

(c) Consensus was not reached among Participants as to whether funding scenarios should be included in the document. Some participants argued the need for precision on the Fund's scale and size, including how this relates to the $100bn commitments at Copenhagen and Cancun. Several others noted that the technical IRM process could not override the political agenda. The Chair noted the specificity of this ad-hoc mobilization process as opposed to the regular replenishment process where "needs scenarios" will be more relevant.

Agenda item 6: Outreach to Other Potential Contributors

13. Chair discussion summary:

(a) There was strong consensus on the need to include non-traditional contributors in the IRM process, including developing country donors, philanthropic institutions and the private sector;

(b) Participants agreed that engagement with the private sector should be well planned and considered, including the development of specific value propositions;

(c) It was agreed that it is politically important that non-traditional contributors are engaged, but it was highlighted that demonstrated leadership by traditional contributors is very important;

(d) Participants requested that all Parties to the Convention should again be invited to the next meeting through existing and new channels of communication, and the main outcomes of the first meeting should be shared with them;

(e) There should be a strategic approach to engagement with the private sector and foundations, and it was suggested to have an engagement plan. Different bodies including the Private Sector Advisory Group should be used to advise on engagement with these actors. Foundations may need education about the Fund, and seminars were suggested as one avenue of communication.

Agenda item 7: Next steps

14. Chair discussion summary:

(a) There was consensus on the need for a facilitation arrangement to help bring all outstanding technical issues to conclusion by the planned November pledging session. Participants expressed a strong desire for the facilitator to begin this important work, as soon as possible, after the Oslo meeting, and then chair the next IRM technical meeting;

(b) There also was consensus on the need for an eminent person to champion the Fund globally at the political level;

(c) Participants agreed that Mr. Lennart Båge and Mr. Kofi Annan would be excellent candidates for the facilitator and eminent person roles respectively. It was agreed that both should be approached immediately after the Oslo meeting;

(d) The terms of reference for the Facilitator and Eminent Person were read out by the Chair, with broad support for each position's key role and responsibilities.

15. There was provisional agreement that the next IRM technical meeting would take place on 8 to 9 September 2014, and that the pledging session would take place either the week of 10 November or 17 November 2014. Venues will be determined in due course.

Agenda item 8: Closure of the meeting

16. Chair discussion summary:

(a) The Chair underlined the strong collective engagement throughout the meeting for an ambitious IRM;

(b) Participants requested that the Secretariat revise the documents to reflect the aforementioned issues, suggestions, and concerns. In turn, the Chair requested that interested contributors would be asked to quickly provide any additional written input to the Secretariat for due consideration;

(c) Participants expressed their sincere appreciation to the Government of Norway for hosting the meeting. They asked the Chair to continue to assist the Secretariat in the interim period until the facilitator is recruited.

Annex III: Chair's summary - Second Meeting of Interested Contributors to the Initial Resource Mobilization Process of the Green Climate Fund

1. Interested contributors from 22 governments along with observers, met in Bonn, Germany, for the second initial resource mobilization (IRM) meeting of the Green Climate Fund (the Fund).

2. As with the first IRM meeting, to ensure transparency and consistency with Board decisions, observers had been invited as follows: the Co-Chairs of the Board, four representatives of the Board (two developed/two developing), two active observers of the Board (one civil society/one private sector), as well as the Executive Director of the Fund's Secretariat. It was noted that the developing country Board Co-Chair, Mr. Jose Ma. Clemente Sarte Salceda, had sent apologies as he was unable to attend for personal reasons.

3. Following the opening remarks from Ms. Christiana Figueres, Executive Secretary of the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), the Chair of the first IRM meeting, Mr. Henrik Harboe, introduced H.E. Ambassador Lennart Båge, as the Facilitator for the IRM process and Chair of the second meeting, as decided by participants at the first IRM meeting in Oslo.

4. The Chair outlined several substantive issues to be discussed arising from the Proposal for the Policies for Contributions to the Green Climate Fund (GCF/ IRM.02/02) in addition to others which may be raised by participants. It was also proposed to provide time for an update from interested contributors on plans for pledging. It was stated that the discussions at the meeting would be summarized in a Chair's Summary to be issued after the meeting.

5. The provisional agenda (GCF/IRM.02/01) was adopted with an additional request that setting a financial target for the Fund be added.

Policies for Contributions

I. Decision making

6. Interested contributors agreed that decision-making is key to the ability of the Fund to mobilize resources and to function in an efficient manner. There was agreement that consensus should remain the preferred principle for decision-making.

7. Participants recognized that, in the event that all efforts at reaching a consensus have been exhausted, it is matter for the Board to develop procedures for adopting decisions. At the same time interested contributors expressed a clear interest in expressing views on the decision-making system as these decision-making procedures have not been specified and this uncertainty impacts pledging.

8. Interested contributors stressed that there needs to be a link between contributions and decision-making in order to incentivize more countries, including developing countries, to contribute more to the Fund.

9. However, some observers expressed reservations about linking decision-making and contributions.

10. Interested contributors recommended that the Board should ensure that any decision-making procedure reflects a balanced partnership between developing and developed countries taking into account the following principles:

- Each Board Member will participate in voting;
- Link with contributions; and
- Qualified majorities depending on the type of decision.

11. Interested contributors furthermore recommended that the Board should decide the principles of decision-making in the absence of consensus at its eighth Board meeting and to decide on the decision-making procedures at the first Board meeting in 2015.

12. With regards to the link with contributions, some observers recommended to add the word 'some' or a similar qualifier before the word 'developing' to reflect the fact that there were only a small number of developing countries present.

II. Trustee arrangements

13. Interested contributors agreed on an urgent and critical need for clarity and certainty on the continuity in the provision of current trustee services to the Fund during the IRM period to ensure its success. They recognized that the Board has the mandate to decide on the trustee arrangements for the Fund, as provided in the Governing Instrument.

14. Moreover they recommended that the Board decide at its eighth meeting to extend the current interim trustee arrangements. It is for the Board to decide for how long interim trustee arrangements should be extended.

15. In the context of the Governing Instrument's provision that *the World Bank will serve as interim trustee for the Fund, subject to a review three years after the operationalization of the Fund,* it was highlighted that only the Board can decide when the Fund becomes operational. Interested contributors recommended that the Board define when the Fund is deemed to be operational at its eighth meeting.

III. Targeting

16. Interested contributors recognized the importance of striking a balance between maximizing the amount of contributions and not over-burdening or complicating the management of funds, or undermining the decisions or discussions of the Board. The majority were opposed to targeting whilst recognizing the realities some contributors have to take into account in order to mobilize resources for the Fund. Thus, they felt that a limited and flexible targeting will help to increase contributions. Some observers stated that they could not support targeting and that this is an issue for the Board.

17. Interested contributors recommended to the Board that contributors may request that their contributions be targeted to the Fund's two windows (mitigation and adaption) and the Private Sector Facility. They also recommended that the aggregate volume of targeted contributions not exceed 20 per cent of the total confirmed contributions to the Fund (excluding the cushion amount provided by loan contributors), without prejudice to future replenishments. It was further recommended that the implementation of such targeting would be monitored and reported by the Secretariat.

IV. Policies for loan contributions

18. **Prudential debt limit:** There was a general consensus that the prudential debt limit for the IRM period can be set at 20 per cent of the total nominal amount of pledged contributions (excluding the cushion amount provided by loan contributors), especially with a cushion in place to cover the risks. It was also agreed that the limit of contributions would be managed on both an aggregate and individual basis, where the nominal value of the loan contribution of an individual contributor should be no higher than 40 per cent of their total contribution, excluding the cushion amount.

19. **Initial cushion:** It was recommended that the initial cushion be 20 per cent of the nominal amount of loan contributions.

20. **Discount rate:** It was recommended that a discount rate of 2.65 per cent be used for the calculation of grant equivalence of loan contributions.

21. **Others:** It was stressed that, consistent with Board-approved risk management policies, there would be no cross-subsidization between loan and grant or capital contributions. Further, it was noted by one of the observers that as the conditions of out-going loans need to be more concessional than loans provided by existing institutions, contributors need to consider this for the conditions of loan contributions.

V. Effectiveness Date

22. Interested contributors recommended that the IRM period should become effective when at least 50 per cent of contributions pledged by the November 2014 pledging session are reflected in fully executed contribution agreements or arrangements received by the Secretariat, but no later than April 30, 2015.

VI. Trigger for formal replenishment process

23. Interested contributors recommended that once the Fund's cumulative funding approvals exceed 60 per cent of the total contributions pledged during the IRM period, the Fund will initiate a formal replenishment process. The IRM envisages that this is likely to occur by end-June 2017.

VII. Policies for capital contributions

24. It was recommended to the Board that aggregate capital contributions do not exceed 20 per cent of the total nominal amount of pledged contributions. This limit may be reviewed within the context of the Fund Financial Risk Management framework upon further analysis of the risk appetite of the Fund. This would ensure that grants should significantly exceed loans in accordance with the Fund's financial policy. The UK representative expressed concern about this figure but agreed to accept the figure of 15 per cent "ad referendum".

VIII. Foreign Exchange Risk management

25. There was a concern that contributors would be unable to cover the foreign exchange risk arising from loan contributions received in currencies other than USD and that the Fund should bear that risk.

26. There was a consensus among interested contributors that loan contributions may be made in any major, freely convertible currency and that foreign exchange risk relating to loan contributions may be managed by matching currencies of loan contributions in aggregate to the currencies of the Fund's commitments to IEs and intermediaries. In practical terms this approach means that the Fund could have multiple holding currencies. It was agreed that the ability to accept multiple currencies would enable the Fund to better adapt to the needs of those implementing entities and intermediaries seeking to use currencies other than US dollars.

27. It was agreed that this would form part of the Fund's Financial Risk Management Framework and manage foreign exchange risk to acceptable levels (as set by the Board on recommendations by the Risk Management Committee).

28. The Secretariat revised the document to reflect the views expressed by participants.

IX. Reports on pledging plans

29. Interested contributors from 16 countries gave updates on the status of their pledging plans. Many wished to record their appreciation to the Republic of Germany for its leadership. Summarizing the round table, the Chair expressed appreciation for the hard work in many capitals to ensure pledges at the United Nations Secretary General's Climate Summit in New York or the formal pledging conference in November. It was noted that interested contributors were working on good numbers, largely focused on grants, multi-years and un-targeted. In addition, the involvement of developing countries in the process was greatly welcomed.

30. A developing country Board member observer acknowledged significant efforts in many capitals and thank developing countries including those not represented in the meeting for their efforts.

X. Fund financial target

31. Several observers expressed a desire to see an ambitious target and timescale set for the Fund to raise resources. It was stressed that predictability and certainty in funds are critical for developing countries.

32. The Secretariat explained that the Fund had the capacity to absorb and programme whatever level of funds are made available. It was stated that once the collective engagement process had been completed, the Board could decide if further work is needed by the Secretariat in an effort to maximize resources.

33. Other participants noted that there is a commitment to the US$ 100 billion per year by 2020. What share of that will be borne by the Fund is not determined.

XI. Other matters

34. Interested contributors raised a number of other matters:

(a) **Policies for contributions of non-governmental actors**: There is a need to develop as soon as possible a Policy for Contributions for non-Governmental actors**;**

(b) **Accelerated cash payments or encashments of grant and capital contributions**: Interested contributors agreed that contributions paid in advance should be recognized through a credit to be added to the contributor's nominal pledge amount. For the purposes of comparing contributions with different cash payment or encashment schedules, an indicative standard encashment schedule was agreed. It was recommended that the discount rate to be used for the purposes of calculating the present value of cash payments and any resulting credit for early payment be 1.5 per cent per annum. The indicative standard encashment schedule is solely for the purposes of establishing a baseline to calculate the credit for acceleration of cash payments, and will in no way prejudice the operation of the Fund in terms of its programmatic decisions and disbursement profile; and

(c) **Withdrawal of contributions**: There is a need to clarify how contributions could be withdrawn in the event of major Fund difficulties. The Secretariat said that this would depend on the type of issue involved and would either be handled within the provisions of legal agreements themselves, or handled at Board level.

XII. Next steps

35. **Policies for Contributions:** The question of whether the Board needs to approve the Policies for Contributions for the Green Climate Fund was addressed. According to the legal opinion issued by the Acting General Counsel which had been included as an Annex to the first draft document, Board approval is required. The developed country Board Co-Chair observer stated that the current formal status of the Proposal for the Policies for Contributions was that of a recommendation and it would only become policy of the Fund if the Board so decides. Some participants wished to record that they did not agree with the conclusion of the legal opinion.

36. The Chair confirmed that the Proposal for the Policies for Contributions to the Green Climate Fund document would be edited and distributed to participants by the Secretariat on 10 September 2014 and requested that participants send any comments by 16 September. The document would then be presented to the eighth Board meeting in Barbados.

37. **IRM report to Board**: The Chair confirmed that the Chair's Summary of each of the two IRM meetings would be sent to the Board with a cover note. The Programming document discussed at the first meeting would be sent as an attachment for information.

38. Participants were informed that the Board meeting had been extended, and it was recommended that under IRM the following be considered:

(a) Outcome of the first and second meeting;

(b) Policies for Contributions; and

(c) Legal arrangements for contributions.

39. The developed country Board Co-Chair observer confirmed that other questions regarding the agenda were still under discussion including decision-making.

(a) **Pledging conference**: The Republic of Korea reminded the participants that it was ready to host the conference as a solution of last resort. In addition, the Representative of Republic of Zambia noted that there may be a possibility of hosting the conference.

(b) **Eminent Person**: The Secretariat explained that the Board member advisor from South Africa had informed a few days earlier that no successful contact had been established with Mr. Kofi Annan, and so the Secretariat has started to work on it. Participants requested that the Secretariat keep them informed about this.

(c) **Resource Mobilization Outreach**: Participants requested clarification on the process for reaching out to other potential contributors and the Secretariat stressed that it would be valuable if interested contributors could use their networks to reach out to other potential contributors. 192 countries had requested the formation of the Green

Climate Fund but just over 20 had engaged with the IRM meetings. It was noted that the Green Climate Fund must communicate effectively through well formulated brochures which could be used by participants to inform their relevant authorities about the Fund.

XIII. Closure of meeting

40. In concluding the meeting the Chair stressed the importance of a sustained effort to reach a level for IRM that is significant and that much hard work remains to achieve that. Following thanks to participants, staff, and the UNFCCC for excellent hosting of the meeting and the government of the Republic of Germany, the Chair closed the meeting.

Annex IV: Programming document

Executive summary

1. Climate change is one of the greatest challenges of our time. According to the Intergovernmental Panel on Climate Change (IPCC), long-term changes in the Earth's climate system are significant and occurring more rapidly than in the past. The atmosphere and oceans have warmed and are getting warmer, the amounts of snow and ice cover have diminished and are melting faster, and sea levels have risen and continue to rise each year.[1] These changes affect the lives and livelihoods of the poor in particular, who depend on the natural environment for their day-to-day needs. Continued emissions of greenhouse gases will cause further warming and changes in all components of the climate system, thereby increasing the likelihood of severe, pervasive, and irreversible impacts.[2] Thus, minimizing the adverse impacts of climate change will require substantial and sustained reductions of greenhouse gas emissions to keep global temperature increases to below 2° Celsius, and significant adaptation efforts to contend with impacts that will likely occur anyway.

2. Responding to this challenge will require collective action by all countries, and significant investments in mitigation and adaptation activities. In 2013, the World Economic Forum estimated that nearly US$ 5 trillion will be invested in infrastructure globally in 2020. They further estimate that greening these investments would require an additional US$ 700 billion annually by 2020 globally with a majority of the resources to be invested in developing countries. In 2014, the Intergovernmental Panel on Climate Change (IPCC) estimated that average additional investment needed in key mitigation sectors would be around US$ 350 billion per annum until 2029 and that addressing adaptation would require additional financing on the order of US$ 70-100 billion per annum by 2050.

3. The heads of state of several developed countries responded to the investment challenge at the Copenhagen Summit in 2009 through a political commitment to jointly mobilize US$ 100 billion per year by 2020 from a variety of sources to address the adaptation and mitigation needs of developing countries. The following year, under the Cancun Agreements, the Conference of the Parties (COP) to the UNFCCC reiterated this commitment and also established the Green Climate Fund (the Fund) to support projects, programmes, policies and other activities in developing countries that address climate change. They also agreed that that a significant share of new multilateral funding for adaptation should flow through the Fund.[3]

4. The purpose of the Green Climate Fund is to make a significant and ambitious contribution to combating climate change by promoting a paradigm shift towards low-emission and climate-resilient development pathways. It aims to become the main global fund for climate change finance. With a balanced governance structure of developed and developing countries, it will play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyse climate finance, both public and private, and at the national, regional and international levels.

5. The Fund will provide strategic and demonstrable added value within the current climate finance architecture in five key ways, operating in a manner that seeks to ensure that recipient countries are a key partner and have full ownership of activities supported by the Fund:

[1] IPCC, 2013: Summary for Policymakers. In: Climate Change 2013: The Physical Science Basis, page 4.
[2] IPCC, 2013: Summary for Policymakers. In: Climate Change 2013: The Physical Science Basis, page 19.
IPCC, 2014: Summary for policymakers. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability, page 14.
[3] Cancun Agreements, Decision 1/CP.16

(a) **Maximize its impact**: The Fund has carefully selected eight strategic goals to orient its resources in a manner that maximizes its climate change impact. These goals cover emission reductions from and enhancing resilience of infrastructure including buildings, energy and transport; ecosystems including land, forests and water as well as food, livelihoods and industries. These goals will be consistent with national development priorities of recipient countries.

(b) **Balance adaptation and mitigation**: The Fund is placing equal emphasis on allocating its resources for reducing emissions and strengthening resilience. It will ensure that at least half its resources for adapting to the impacts of climate change are spent or invested in countries such as the small island developing states (SIDS), the least developed ones (LDCs) and those in Africa that are vulnerable to these impacts.

(c) **Make best investments viable with minimum concessionality**: The Fund will finance public and private sector programmes and projects that best achieve the Fund's objectives. It will carefully tailor the concessionality of its funding and the financial instruments used to make programmes and projects viable. It will do so in a manner that minimizes the concessionality provided by the Fund, while maximizing its impact.

(d) **Extending its reach**: The Fund will partner closely with developing countries to fulfil its objectives, channelling its resources through a range of sub-national, national, regional and international institutions that meet its standards. These standards will be designed in a manner that are suitable to the nature and scale of activities supported to allow a wide range of institutions to access the Fund. It will also provide financial support for developing country institutions to reach these standards in order to ensure that developing countries are key partners with the Fund in its operations.

(e) **Mobilizing private sector investments**: The Fund also aims to scale up private sector investments in low-emission, climate-resilient activities. It will allocate a significant share of its resources to finance private sector activities, and will proactively work with local private sector, including small- to medium-sized enterprises (SMEs), in developing countries.

6. Through these unique approaches, the Fund will set itself apart and catalyse a paradigm shift in the development pathways of its recipient countries. It will put them on a trajectory more compatible with a changing climate, and make them more resilient and responsive to it.

7. This document maps out the current climate finance flows, and future global investments that are necessary in order to address climate change. It articulates where and how the Fund fits into the global climate finance landscape and how the Fund can add value. It furthermore describes the Fund's core mission, guiding principles, and strategic priorities, before outlining how the Fund will operate. It explains how and through which institutions the Fund will channel resources, how it will achieve its results, and how it will ensure that fiduciary standards and environmental and social safeguards are properly implemented. Additionally, it outlines the Fund's mechanisms for monitoring and evaluation, and accountability.

I. Green Climate Fund in the climate finance landscape

8. Climate change is one of the greatest challenges of our time. In 1992, in response to this challenge, countries joined an international treaty, the UNFCCC, to collectively limit average global temperature increases and the resulting climate change, and to cope with the inevitable impacts of climate change.[4] In 2010, they agreed to set a specific target of reducing global temperature increases to below 2^0 Celsius.[5] The call to action was reiterated by heads of state at

[4] United Nations Framework Convention on Climate Change, 1992.
[5] Decision 1/CP.16.

the 2012 United Nations Conference on Sustainable Development in Rio de Janeiro – the twentieth anniversary of the original Rio Summit where the UNFCCC was created – where they called for the widest possible cooperation by all for an effective and appropriate international response.[6]

9. In recent years, as a part of this response, governments have also increasingly been committing to and providing finance to address this challenge. This can be seen in the role that several funds and financial institutions are playing in financing climate change activities. In addition, governments have been taking actions to shift investments, particularly by the private sector, towards low-emission and climate-resilient activities. Furthermore, under the UNFCCC, developed countries have been increasingly committed to providing finance for developing countries: under the Copenhagen Accord in 2009, developed country heads of state agreed to mobilize jointly US$ 100 billion dollars a year by 2020 to address the needs of developing countries,[7] and under the Cancun Agreements the following year, Parties to the Convention formally committed to meeting this goal through a variety of sources.[8]

10. However, while efforts thus far have helped to redirect some financing towards low-emission and climate-resilient activities, there is not yet the scale of climate finance needed to achieve the necessary accelerated response to climate change. In addition, while there is not yet an agreed definition of climate finance, there is sufficient agreement that concessional public funds will be essential to assist developing countries and their private sector transition towards low-emission, climate-resilient development pathways.

11. The UNFCCC's highest decision-making body, the COP, agreed to create the Fund to play precisely this role and it is foreseen to become the main global fund for climate change finance.[9]

1.2 Global climate finance needs

12. In 2013, the World Economic Forum synthesized various studies to estimate that nearly US$ 5 trillion would be invested in infrastructure globally in 2020, much of which is likely to be in developing countries.[10] In order to achieve the goal of reducing global temperature increases to below 2^0 Celsius, the same infrastructure would cost an additional US$ 700 billion annually (see figure 1).

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[6] United Nations, 2012. "Report of the United Nations Conference on Sustainable Development", Rio de Janeiro, Brazil, A/CONF.216/16, page 37.
[7] Copenhagen Accord, Decision 2/CP.15.
[8] Cancun Agreements, Decision 1/CP.16.
[9] Cancun Agreements, Decision 1/CP.16; Governing Instrument, paragraph 32.
[10] World Economic Forum, 2013. "The Green Investment Report: The ways and means to unlock private finance for green growth", A Report of the Green Growth Action Alliance, page 7.

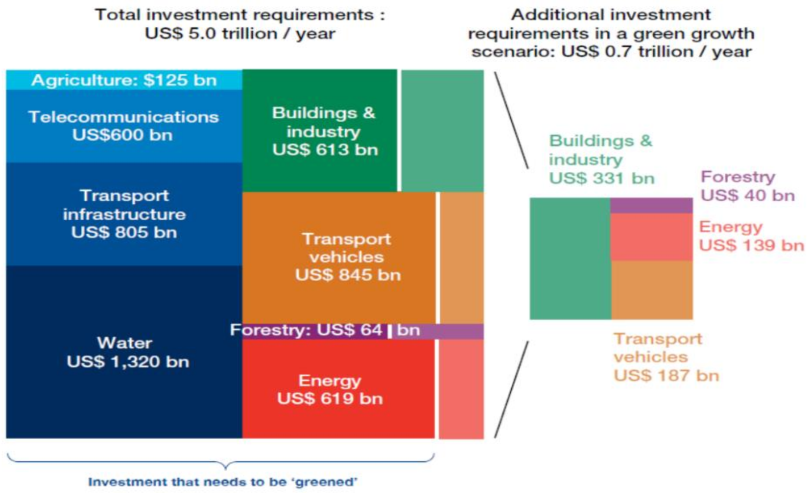

Figure 1: Total estimated investment requirements under business as usual and estimated additional costs under a 2°C scenario to 2020

13. The IPCC estimated in 2013 that in order to keep carbon dioxide equivalent (CO_2 eq) concentration in the atmosphere in the 430-530 ppm range until 2100, also consistent with a 2^0 Celsius pathway, average incremental investment needed in key mitigation sectors would be around US$ 350 billion per annum from 2010 until 2029 (see table 1 in Annex V).[11] Furthermore, it cites the World Bank's 2010 estimate of global adaptation financing needs of US$ 70-100 billion per annum by 2050 as the most recent and most comprehensive.[12] It also notes that global adaptation financing needs are significantly greater than current adaptation funding and investments, particularly in developing countries.[13]

14. The estimates above and those from other sources vary depending on the underlying assumptions. Nonetheless, they range from a couple of hundred billion US dollars to around a trillion US dollars per annum, thus pointing to the need for significant amounts of additional financing from a wide variety of public and private sources.

1.3 Global climate finance flows

15. The IPCC estimates that public climate finance that flowed internationally from developed to developing countries totalled approximately US$ 50 billion annually, and private finance was between US$ 10-70 billion annually between 2008 and 2012.[14] The Climate Policy Initiative (CPI) estimated global climate finance flows to be roughly US$ 350 billion in 2012 divided equally between developed and developing countries.[15] A significant share of the public finance that flowed to climate change activities in developing countries was channelled through bilateral and multilateral financial institutions, while governments and climate funds accounted for relatively smaller amounts (see tables 2 and 3 in Annex V). National institutions, including

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[11] IPCC, 2014: Chapter 16: Cross-cutting Investment and Finance Issues. In: Climate Change 2014, Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change Gupta, S., et al. A report accepted by Working Group III of the IPCC but not approved in detail, page 3.

[12] IPCC, 2014, Chapter 17: Economics of Adaptation In: Climate Change 2014: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. Chambwera, M. et al., Final Draft, page 15.

[13] Ibid, page 3.

[14] IPCC 2014, WGIII, Chapter 16, page 9. Such a wide range is attributable to the lack of consistent and reliable data on private financial flows to address climate change.

[15] Buchner, Barbara et al. 2013. "The Global Landscape of Climate Finance 2013" Climate Policy Initiative, page 1. Of the US$ 350 billion, CPI estimated that three-quarters originated and was deployed domestically.

domestic development banks, also play a central role in financing activities to address climate change.[16]

16. Not all of the financial flows referred to above are comparable as there is not a standard definition of climate finance. For example, the CPI estimates are comparable to total rather than additional investments needed. In many cases, the highly concessional resources from governments and climate funds have made it possible for bilateral and multilateral financial institutions to make viable their investments in projects and programmes to address climate change. Therefore, in order to scale up investments by these financial institutions, the availability of concessional resources, such as the Fund, will be essential.

1.4 Role of the Green Climate Fund

17. With the goal of becoming the main global fund for climate change, the Fund is expected to play a significant role in channelling concessional climate finance. It is intended to operate at a larger scale than other climate funds and to promote the paradigm shift towards low-emission and climate-resilient development pathways. It will have a risk appetite that is consistent with its mandate of promoting a paradigm shift in the financing of new investments by governments and private sector in developing countries. It will also operate in a manner that seeks to ensure that countries have full ownership of the activities supported by the Fund. There are five points in particular that will set the Fund apart from its peers:

(a) **Maximize its impact**: The Fund will maximize the impact of its funding for adaptation and mitigation by investing in programmes, projects and policies that best realise its aims. It will do so in a manner consistent with national development priorities of recipient countries thus promoting co-benefits. It will also ensure that environmental and social safeguards, including on gender, are met. To achieve its aims, the Fund has selected eight goals that to orient its resources in a manner that maximizes its climate change impact. This includes enhancing the resilience of:

    (i) People's livelihoods;

    (ii) Their health, educational outcomes, and well-being;

    (iii) Infrastructure and the built environment; and

    (iv) Ecosystems and the services they provide.

    It also includes reducing emissions through:

    (v) Access to low-emission energy sources;

    (vi) Access to low-emission modes of transport;

    (vii) Improvements in the energy intensity of buildings, cities, industries and appliances; and

    (viii) Sustainable land use and forest management.

(b) **Balance adaptation and mitigation**: Responding to the mandate in the Copenhagen Accord, decisions taken under the Climate Change Convention and in its Governing Instrument, the Fund is placing equal emphasis on allocating its resources for adaptation as it is for mitigation.[17] It will furthermore ensure that at least half of its resources for adaptation are spent or invested in vulnerable countries, particularly the small island developing states (SIDS), the least developed countries (LDCs) and in African countries;

[16] Buchner et al. 2013, page 6; for example, in 2012 nearly 60 per cent of total public investments in renewable energy were financed by national development banks (NDBs).
[17] Decision B.06/06.

(c) **Make best investments viable with minimum concessionality**: The Fund will select, including through competitive processes, those public and private programmes and projects that best achieve the Fund's objectives. It will carefully tailor the concessionality of its funding and the financial instruments used to make programmes and projects viable. It will do so in a manner that minimizes the concessionality provided by the Fund, while maximizing its impact. In some cases, this may entail funding the full cost of a project or programme. This approach will enable the Fund to carefully tailor its support and also maximize the capacities of its accredited implementing entities and intermediaries.

(d) **Extending its reach**: The Fund will partner closely with developing countries to fulfil its objectives. It will ensure that a wide range of sub-national, national, regional and international implementing entities and intermediaries will be able to channel resources to countries. This will be achieved through a system of accreditation of these entities that is fit-for-purpose and relative to the nature and scale of activities they undertake so as to ensure that they meet the most robust fiduciary standards and safeguards. Uniquely, the Fund will provide necessary readiness and preparatory support to sub-national, national and regional public and private institutions that seek to channel the Fund's resources through its direct access modality. This will help to ensure that its developing country partners meet the Fund's standards and generate a pipeline of programmes and projects of the highest quality.

(e) **Mobilizing private sector investments**: Viable risk-adjusted returns are necessary to change investment behaviour within the private sector. The Fund has a dedicated facility that aims to scale up private sector investments in low-emission and climate-resilient activities through bridging the viability gap for such activities, including through the promotion of enabling environments and the reduction of risk to the private investor, both real and perceived. To achieve this, the Fund will allocate a significant share of its resources to finance private sector activities, both directly and indirectly, as well as proactively promote the participation of local private sector actors, including small- to medium-sized enterprises (SMEs).

II. Governance and institutional arrangements

2.1 Conference of the Parties (COP)

18. The Fund was established by a decision of the COP to the UNFCCC. It was designated as an operating entity of the UNFCCC's financial mechanism, which is ultimately accountable to, and functions under the guidance of, the COP.[18] The COP provides guidance to the Board, including on matters related to policies, programme priorities and eligibility criteria.[19] The Board takes appropriate actions in response to this guidance and reports to the COP annually.[20] The COP has confirmed that all developing country Parties to the Convention are eligible to receive resources from the Fund.[21]

[18] Governing Instrument, paragraph 4.
[19] Governing Instrument, paragraph 6 (a) and decision 5/CP.19, Annex.
[20] Governing Instrument, paragraph 6 (b) and (c).
[21] Decision 4/CP.19, paragraph 10 and Governing Instrument paragraph 35.

2.2 Institutional structure of the Fund

19. The institutional structure of the Fund comprises the Board, the Secretariat, the Trustee and the independent accountability units.

2.2.1 The Board

20. The Board governs and supervises the Fund and has full responsibility for funding decisions.[22] It oversees the operation of all relevant components of the Fund. The Board's functions include *inter alia* overseeing the operation of all relevant components of the Fund, approving specific operational policies and guidelines, and approving funding for projects and programmes.[23]

21. The Board is composed of 24 members, and 24 alternate members with equal representation from developing and developed country Parties.[24] Developing country members include representatives from relevant United Nations regional groupings, SIDS and LDCs. Due consideration will be given to gender balance.[25] The Board has two Co-Chairs, one from a developed country and one from a developing country, who are responsible for *inter alia* chairing meetings of the Board, guiding the Secretariat in making all arrangements for meetings of the Board, approving the preparation and distribution of the provisional agenda for each meeting, seeking support for the Fund and the work of the Board, and representing the Board at external meetings.[26] Two civil society and two private sector representatives, one each from developing and developed countries, participate as active observers in the Board's meetings.[27]

22. There are a number of committees, consisting of Board members, that assist the Board in its decision-making,[28] as well as technical and expert panels that assist it in the performance of its functions. Technical or expert panels include but are not limited to Board members and alternate members.[29]

23. The Fund's committees and panels are as follows:

(a) Risk Management Committee;

(b) Investment Committee;

(c) Ethics and Audit Committee;

(d) Accreditation Committee;

(e) Private Sector Advisory Group (as a panel); and

(f) Accreditation Panel.

2.2.2 **The Secretariat**

24. The Secretariat is fully independent, in service of and accountable to the Board, and executes the day-to-day operations of the Fund.[30] Its functions include, *inter alia*:

(a) Operationalizing the project and programme cycle processes;

[22] Governing Instrument, paragraph 5.
[23] Governing Instrument, paragraph 18.
[24] Governing Instrument, paragraphs 9–10.
[25] Governing Instrument, paragraphs 9 and 11.
[26] Decision B.01-13/01, paragraph (d), (e) and (g).
[27] Governing Instrument, paragraph 16.
[28] Rules of procedure, paragraph 31.
[29] Rules of procedure, paragraph 32.
[30] Governing Instrument, paragraph 19.

(b) Working with the Trustee to support the Board's responsibilities preparing the Fund's performance reports;

(c) Preparing agreements related to the specific financing instrument to be concluded with an implementing entity;

(d) Monitoring the financial risks of the outstanding portfolio; and

(e) Carrying out monitoring and evaluation functions; and supporting the Board in arranging replenishment processes.[31]

2.2.3 The Trustee

25. The Trustee manages the financial assets of the Fund in accordance with decisions by the Board.[32] It maintains appropriate financial records and prepares financial statements and other reports required by the Board.[33] The World Bank is serving as the Interim Trustee of the Fund, subject to a review three years after the operationalization of the Fund.[34]

2.2.4 Independent accountability units

26. The Fund will have an Independent Evaluation Unit (IEU), an Independent Integrity Unit (IIU), and an independent redress mechanism (IRM) as part of its core structure.[35] The IEU will carry out evaluations to inform Board decision-making and will identify and disseminate lessons learned.[36] The IIU will work with the Secretariat to investigate allegations of fraud and corruption in coordination with relevant counterpart authorities.[37] The IRM will receive complaints related to the operation of the Fund, evaluate them, and make recommendations.[38] These are described in further detail in section 4.3.

2.3 Institutional relations

27. The Fund is in the process of establishing institutional relations with national designated authorities or focal points, and will soon open its doors for implementing entities and intermediaries wishing to be accredited by the Fund.

2.3.1 National designated authorities or focal points

28. Countries may designate a national authority or mandate a focal point to interact with the Fund.[39] The national designated authority (NDA) or focal point's functions are to *inter alia* recommend to the Board funding proposals, facilitate the communication of nominations of implementing entities and intermediaries to the Fund, seek to ensure consistency of funding proposals with national plans and strategies, and implement the transparent no-objection procedure to ensure consistency with national climate strategies and plans and a country-driven approach.[40] As of 14 August 2014, forty-six countries have nominated an NDA or a focal point.

2.3.2 Accredited implementing entities and intermediaries

[31] Governing Instrument, paragraph 23.
[32] Governing Instrument, paragraphs 24, 25.
[33] Governing Instrument, paragraph 24.
[34] Governing Instrument, paragraph 26
[35] Governing Instrument, paragraph 60, 68 & 69.
[36] Governing Instrument, paragraphs 59 and 60.
[37] Governing Instrument, paragraph 68.
[38] Governing Instrument, paragraph 69.
[39] Governing Instrument, paragraph 46; Decision B.04/05.
[40] Governing Instrument paragraph 46; Decision B.04/05; and Decision 3/CP.17, paragraph 7.

29. The Fund will channel its resources through accredited subnational, national, regional and international implementing entities and intermediaries.[41] Recipient countries will determine the mode of access – direct (subnational, national or regional) or international. Both modalities can be used simultaneously.[42] In the context of direct access, recipient countries will nominate competent subnational, national and regional implementing entities and intermediaries for accreditation.[43] The Board will also consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.[44] International entities include United Nations agencies, multilateral development banks, international financial institutions and regional institutions.[45]

30. At its seventh meeting, the Board adopted the Fund's initial fiduciary principles and standards, and on an interims basis, the Performance Standards of the International Finance Corporation (IFC).[46] The Fund's own environmental and social safeguards will be developed within three years after the Fund becomes operational. The Fund will also use a fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities to the application of the initial fiduciary standards and the interim safeguards.

2.4 Thematic funding windows for mitigation and adaptation and the Private Sector Facility

31. In accordance with the Governing Instrument, the Fund has thematic funding windows for mitigation and adaptation. It also has a Private Sector Facility (PSF) that will allow it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels.[47] While the Fund initially only has windows for adaptation and mitigation and a PSF, the Board will consider the need for additional windows in future. They have the authority to add additional windows and substructures or facilities as appropriate, as well as modify and remove existing ones.[48] The bodies mentioned in sections 2.2 and 2.3 above are anticipated to serve as the institutional framework for the Fund's mitigation and adaptation windows, the PSF, as well as any additional windows, facilities or substructures that the Board may add in future, unless decided otherwise by the Board.

III. Strategic and programme priorities

3.1 Results

32. The Fund will maximize the impact of its adaptation and mitigation funding based on its results management framework. Furthermore, the Fund will promote environmental, social, economic, and development co-benefits and take a gender-sensitive approach.[49]

33. In summary, the Fund will seek to achieve eight strategic impacts that help to shift developing countries towards low-emission and climate-resilient development pathways:[50]

[41] Governing Instrument, paragraphs 45, 47 & 48; decision B.01-13/06, paragraph (c) (ii).
[42] Governing Instrument, paragraphs 45.
[43] Governing Instrument, paragraphs 47.
[44] Governing Instrument, paragraphs 47.
[45] Governing Instrument, paragraph 48.
[46] Decision B.07/02.
[47] Governing instrument, paragraphs 37 and 41.
[48] Governing instrument, paragraph 39.
[49] Governing Instrument, paragraph 3.
[50] Decision B.07/04, paragraphs (b)(ii)(2) and (b)(iii)(2).

(a) Increase resilience and enhance the livelihoods of people, communities, and regions most vulnerable to the impacts of climate change;

(b) Make the health and well-being of people more resilient, and provide them food and water security;

(c) Make infrastructure and the built environment more resilient to threats from climate change;

(d) Improve the resilience of ecosystems and the services they provide;

(e) Reduce emissions by expanding access to low-emission energy and by generating low-emission electricity at various scales;

(f) Reduce emissions by expanding access to low-emission modes of transport;

(g) Reduce emissions by lowering the energy intensity from buildings, cities, industries and appliances through efficiency measures; and

(h) Reduce emissions from land use and forests and improve their resilience by reducing deforestation and forest degradation, by sustainably managing forests and other land, by supporting afforestation, and by conserving and enhancing forest carbon stocks.

34. At the project/programme level, the Fund will also achieve its low-emission and climate resilient development objectives by: [51]

(a) Strengthening institutional and regulatory systems for low-emission and climate-responsive planning and development;

(b) Increasing the generation and use of climate information in decision-making;

(c) Strengthening the adaptive capacity of people and systems, and reducing their exposure to climate risks;

(d) Strengthening awareness of climate threats and risk-reduction processes;

(e) Strengthening institutional and regulatory systems for low-emission planning and development;

(f) Increasing the number of small, medium and large low-emission power suppliers;

(g) Decreasing the energy intensity of buildings, cities, industries, and appliances;

(h) Increasing the use of low-carbon transport;

(i) Improving management of land or forest areas contributing to emissions reductions.

35. In order to ensure country ownership of programmes and projects, countries will identify their priority result areas in line with their national strategies and plans.[52]

36. The Fund is in the process of developing additional result areas for adaptation activities and a performance measurement framework to be considered by the Board at its eighth meeting in October 2014.

3.2 Thematic and group priorities and targets

37. The Fund will allocate resources in order to achieve its core mission and objectives. The Fund will therefore aim for the following portfolio targets, as contained in the Fund's investment framework:[53]

[51] Decision B.07/04, paragraphs (b)(ii)(3) and (b)(iii)(3).
[52] Decision B.04/04, paragraph (b).

(a) A 50/50 funding balance between adaptation and mitigation over time;

(b) A floor of fifty per cent of the allocated adaptation funding to be channelled to vulnerable countries, including the least developed countries (LDCs), small island developing States (SIDS) and African states;

(c) A reasonable and fair allocation across a broad range of countries in order to ensure geographic balance of funding;

(d) To maximize fund-wide engagement with the private sector, including through significant allocation to the PSF; and

(e) To provide sufficient support for readiness and preparatory activities associated with all of the above.

38. The Fund's resources will thus be allocated initially to support its strategic and project/programme level impacts referred to in section 3.1.

3.3 Private sector engagement

39. The Fund has established a Private Sector Advisory Group (PSAG) to make recommendations to the Board on Fund-wide engagement with the private sector and modalities to that end.[54] This group met for the first time in Geneva on 14-15 April 2014 and will meet again to develop recommendations on the modalities of the PSF for the Board to consider at its eighth meeting in October 2014.

3.3.1 Private sector actors

40. The PSF will engage with local actors, including small- and medium-sized enterprises (SMEs) and local financial intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs[55], and will pay specific attention to Africa and to adaptation activities[56] The Fund aims to mobilize funds at scale from, inter alia, institutional investors, and will design modalities for this purpose.[57]

3.3.2 Operation

41. Private sector investment generally relies on readiness and enabling environments, which the Fund will aim to support,[58] including through its readiness and preparatory support.[59] The PSF will address barriers to private sector investment in adaptation and mitigation activities, such as: market failures, insufficient capacity and lack of awareness.[60] Furthermore, it will seek efficient solutions that minimize market distortions and moral hazard in the use of the Fund's resources by relying upon competitive processes.[61] The PSF will begin its operations through accredited implementing entities and intermediaries. However, it may work directly with private sector adaptation and mitigation actors over time at the national, regional and international levels.[62]

[53] Decision B.06/06, Decision B.07/06.
[54] Decision B.05/13 (Annex XIX, paragraph 1).
[55] Governing Instrument, paragraph 43.
[56] Decision B.04/08 (e).
[57] Decision B.04/08, paragraph (f).
[58] Decision B.04/08, paragraph (d).
[59] Decision B.05/14, paragraph (d)(ii).
[60] Decision B.04/08, paragraph (b).
[61] Decision B.04/08, paragraph (g).
[62] Decision B.04/08 paragraph (l).

42. The operation of the PSF will be consistent with a country-driven approach.[63] Initially, it will primarily focus on grants and concessional lending, but will also draw on a broad range of other financial instruments to achieve its objectives.[64] The Board will develop modalities for mobilizing private sector resources at scale along with the use of other financial instruments, such as guarantees and equity investments.[65]

3.4 Other areas of special emphasis

3.4.1 Readiness and preparatory support

43. Fund-related readiness and preparatory support is a strategic priority as a mechanism that will help ensure that programing is effective and nationally owned.[66] In particular, the Fund will provide support to countries to help them establish national designated authorities or focal points, develop low-emission, climate-resilient development strategies or plans, strengthen country arrangements to engage with the Fund, put forward institutions to become accredited by the Fund, and build pipelines of programme and project proposals.[67]

44. Readiness and preparatory support will be available for all countries and priorities will be tailored to address countries' specific circumstances.[68] The allocation of related resources will take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse impacts of climate change, including LDCs, SIDS and African states.[69]

45. The Secretariat is engaging with existing readiness initiatives and programmes at international, national and regional levels to enhance learning and ensure coherence. It is actively working with other organisations to this end, and fostering information sharing.[70] The Secretariat has reached out directly to more than 120 countries via letter inviting them to engage with the Fund in nominating a national designated authority (NDA) or focal point.

46. Outreach efforts on readiness and preparatory support have been initiated with institutions and organizations already providing support to developing countries on readiness activities. Similar efforts were made with the UNFCCC to explore how readiness for mitigation and adaptation can be relevant in the context of nationally appropriate mitigation actions (NAMAs) and national adaptation plans (NAPs) respectively.

47. The Secretariat is in the process of developing a detailed programme of work on readiness and preparatory support based on its engagement with countries and institutions involved in readiness-related activities.

[63] GI, para 42.
[64] Decision B.04/08 paragraph (h).
[65] Decision B.07/08 paragraph (e),(i).
[66] Decision B.05/14.
[67] Decision B.06/11.
[68] Decision B.05/14, paragraph (d)(i).
[69] Decision B.05/14, paragraph (d)(iii).
[70] Decision B.05/14, paragraph (c).

IV. Operating modalities

4.1 Country-driven and competitive programme and project approval processes, including results-based approval criteria

48. The Fund's initial proposal approval process will enable the Fund to identify and provide finance for programmes and projects that best achieve its objectives[71] and will enable timely disbursement of resources.[72] This initial proposal approval process will utilize six criteria for programme and project funding, as contained in the investment framework. These criteria were developed under the oversight of the Investment Committee, and operationalize the Fund's investment policies (contained in Annex VI) and strategies. The six criteria are outlined in table 1 below.[73]

Table 1: Initial criteria for assessing programme/project proposals

Criterion	Definition	Coverage area
Impact potential	Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas	• Mitigation impact • Adaptation impact
Paradigm shift potential	Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment	• Potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than 2 degrees • Potential for knowledge and learning • Contribution to the creation of an enabling environment • Contribution to the regulatory framework and policies • Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans
Sustainable development potential	Wider benefits and priorities	• Environmental co-benefits • Social co-benefits • Economic co-benefits • Gender-sensitive development impact
Needs of the recipient	Vulnerability and financing needs of the beneficiary country and population	• Vulnerability of the country • Vulnerable groups and gender aspects • Economic and social development level of the country and the affected population • Absence of alternative sources of financing • Need for strengthening institutions and implementation capacity
Country ownership	Beneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions)	• Existence of a national climate strategy • Coherence with existing policies • Capacity of implementing entities, intermediaries or executing entities to deliver

[71] Decision B.07/03.
[72] Governing instrument, paragraph 53.
[73] Decision B.07/06.

Criterion	Definition	Coverage area
		• Engagement with civil society organizations and other relevant stakeholders
Efficiency and effectiveness	Economic and, if appropriate, financial soundness of the programme/project	• Cost-effectiveness and efficiency regarding financial and non-financial aspects • Amount of co-financing • Programme/project financial viability and other financial indicators • Industry best practices

49. Programme or project funding proposals will be generated through calls for proposals or spontaneous submission to the Secretariat. Funding proposals will submitted by NDAs, IEs or intermediaries in accordance with the Fund's transparent no-objection procedure to ensure country ownership. Voluntary concept notes may be submitted to the Secretariat for feedback and recommendations prior to the submission of a full funding proposal.

50. The Secretariat will carry out due diligence of funding proposals and assess compliance with interim environmental and social safeguards, gender policy and financial policies. In addition, it will assess projected proposals' performance against the criteria for programme and project funding and provides a recommendation to the Board. Furthermore a technical advisory panel (to be established) will independently assess projected performance of the project or programme against activity-specific criteria and provides advice to the Board.

51. The Board will make decisions on whether or not to approve funding proposals, or to provide conditional approval, based on the aforementioned recommendations and assessment by the Secretariat and technical advisory panel. Legal arrangements will be made for approved proposals.[74]

52. The Board will develop simplified processes for the approval of proposals for certain activities, in particular small-scale activities,[75] and will consider an initial proposal approval process for regional programmes and projects.[76] The Secretariat will develop methodologies for the selection process of funding proposals that will ensure programmes and projects that best achieve the Fund's objectives are funded.[77] The Investment Committee will develop activity-specific sub-criteria and activity-specific indicators. These will be minimum benchmarks for each criterion to be used to assess funding proposals.[78]

4.2 Arrangements with implementing entities and intermediaries

4.2.1 Accreditation process

53. The Fund's accreditation process will be fit-for-purpose in order to take into account the scale and risks of proposed activities by implementing entities and intermediaries.[79] It applies to both public and private sector entities.[80] The Fund's initial fiduciary principles and standards consist of both basic and specialized fiduciary criteria.[81] The Fund will use as its environmental and social safeguards (ESS), on an interim basis, the Performance Standards of the International

[74] Decision B.07/03.
[75] Governing instrument, paragraph 53.
[76] Decision B.07/03, paragraph (e).
[77] Decision B.07/03, paragraph (b).
[78] Decision B.07/06 paragraph (c).
[79] Decision B.07/02, paragraph (j).
[80] Decision B.07/02, paragraph (a).
[81] Decision B.07/02, paragraph (b).

Finance Corporation (IFC).[82] These will be implemented in a risk-based manner and will ensure that low- to no-risk projects are not slowed down or overburdened.

54. The accreditation process will consist of three main stages:

(a) *Stage I: No-objection and readiness*: It will be determined whether applicant entities show sufficient preparedness and institutional capabilities to progress to stage II. Furthermore, readiness and preparatory support will be provided to strengthen the capacity of applicant entities;

(b) *Stage II: Accreditation review and decision*: A review of the applications for accreditation by interested entities will be conducted in order to determine their suitability. This will consist of two main steps:

(i) Step 1: Review of the application for accreditation to be conducted by the Fund's Accreditation Panel to ascertain whether applicant entities:

- Meet the Fund's applicable initial basic fiduciary standards and applicable initial specialized fiduciary standards; and
- Have the capacity to manage relevant environmental and social risks in line with the Fund's interim ESS and scaled risk-based approach.

(ii) Step 2: Decision on the application to be made by the Board on the basis of the outcome of the review and recommendation of the Accreditation Panel;

(c) *Stage III: Final arrangements*: Conclusion of the process through the validation and finalization of formal arrangements between the applicant entity and the Fund.

55. The Accreditation Committee will provide policy recommendations to the Board on the Fund's evolving guiding framework for the accreditation process,[83] and the Accreditation Panel will advise the Board on matters related to the accreditation of implementing entities (IEs) and intermediaries to the Fund.[84]

56. Guidelines for the operationalization of the fit-for-purpose accreditation approach,[85] the Fund's own environmental and social safeguards (ESS),[86] an environmental and social management system for the Fund,[87] and additional specialized fiduciary standards to accommodate all institutional capacities required in IEs and intermediaries will be developed.[88] A call for submissions of accreditation applications from IEs and intermediaries will be opened after the Board's eighth meeting.[89]

57. A gap analysis of institutions accredited by other relevant funds is currently being undertaken by the Accreditation Panel, and recommendations on the potential accreditation or fast-tracking of institutions will be presented to the Board at its eighth meeting.[90]

[82] Decision B.07/02, paragraph (c).
[83] Decision B.07/02, paragraph (e).
[84] Decision B.07/02, paragraph (g).
[85] Decision B.07/02, paragraph (k),(i).
[86] Decision B.07/02, paragraph (d).
[87] Decision B.07/02, paragraph (m).
[88] Decision B.07/02, paragraph (q).
[89] Decision B.07/02, paragraph (r).
[90] Decision B.07/02, paragraph (l),(i).

4.3 Oversight of and accountability in the use the Fund's resources

4.3.1 Monitoring and evaluation

A. Results management framework

58. The Fund's initial results management framework will enable effective monitoring and evaluation of the outputs, outcomes and impacts of the Funds' investments, and will ensure effectiveness and efficiency of the Fund's operations. [91] The Fund's initial results management framework consists of: a logic model; the Fund's paradigm shift objectives; Fund-level impacts and project/programme level outcomes, for both adaptation and mitigation;[92] and core indicators for mitigation and adaptation.[93] The Fund also has a set of initial performance indicators.[94]

59. Performance against the Fund's indicators will be reviewed periodically in order to support the continuous improvement of the Fund's impact, effectiveness and operational performance.[95] In order to ensure country ownership, national and sector-wide indicators will be used only at the discretion of the recipient country.[96] Inputs, activities, and outputs will be defined for each project/programme on a case-by-case basis.[97] The Secretariat will further develop the mitigation and adaptation performance measurement frameworks of the Fund including an approach to gender, indicators on mitigation and adaptation, and methodologies, data sources, frequency, and responsibilities for reporting, which will also form part of the Fund's initial results management framework. [98] In doing so, the Secretariat will build on the indicators as agreed in previous decisions. The use of national and sector-wide indicators will be at the discretion of recipient countries as such indicators capturing country-driven policies could enhance country ownership and access to Fund resources.[99]

B. Independent Evaluation Unit

60. The Independent Evaluation Unit will periodically evaluate the performance of the Fund in order to provide an objective assessment of the results of the Fund, including its funded activities and its effectiveness and efficiency. [100] The frequency and types of evaluation to be conducted will be specified by the unit in agreement with the Board,[101] but may include country portfolio evaluations, thematic evaluations, and evaluations of project-based and programmatic approaches.[102] Reports of the Fund's Independent Evaluation Unit will be provided to the COP for purposes of periodic reviews of the financial mechanism of the Convention. The COP may commission an independent assessment of the overall performance of the Fund, including Board performance.[103]

4.3.2 Financial risk management

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[91] Decision B.05/03, paragraph (g).
[92] Decision B.07/04 paragraph (b).
[93] Decision B.07/04 paragraphs (c),(d).
[94] Decision B.05/03, paragraph (f).
[95] Governing instrument paragraph 58.
[96] Decision B.05/03, paragraph (j).
[97] Decision B.07/04, paragraph (f).
[98] Decision B.07/04, paragraph (j).
[99] Decision B.05/03, paragraph (c) and decision B.07/04, paragraph (h).
[100] Decision B.06/09, paragraph (a).
[101] Governing Instrument, paragraphs 59 and 60.
[102] Document GCF/B.06/18, Annex III, paragraphs 13, 14 and 15.
[103] Governing Instrument, paragraphs 61 and 62.

61. The Fund's financial risk management framework will enable the Fund to exert due diligence and manage its risks prudently.[104] The initial financial risk management framework was developed under the oversight of the Risk Management Committee[105] It consists of the Fund's comprehensive initial financial risk policies (contained in Annex VI), the Fund's risk monitoring and reporting management systems, and an overview of the roles and responsibilities related to the Fund's financial risk governance.[106] The risk monitoring and reporting management systems will be operationalized before the Fund approves funding proposals.[107]

62. An analysis of the Fund's potential risk appetite under different key assumptions will be undertaken in 2015.[108] Furthermore, a risk management framework that considers other types of risks will be developed under the oversight of the Risk Management Committee.[109]

4.3.3 Accountability

63. Two mechanisms will further ensure accountability of the Fund's operations: the Independent Integrity Unit (IIU)[110] and the independent redress mechanism (IRM).[111]

A. Independent Integrity Unit

64. The IIU will investigate allegations of fraud and corruption and other prohibited practices (coercive and collusive practices, abuse, conflict of interest and retaliation against whistle-blowers) in line with best international practices and in close coordination or cooperation with relevant counterpart authorities.

65. The IIU will work with the Secretariat and report to Ethics and Audit Committee and to the Board.[112] The IIU will establish close relationships with the integrity units of the intermediaries and implementing entities. However, the IIU will not be precluded from conducting its own investigations.[113]

B. Independent redress mechanism

66. The IRM will receive complaints related to the operation of the Fund and will evaluate and make recommendations.[114] It will be open, transparent and easily accessible.[115] In particular, the IRM will address:

(a) The reconsideration of funding decisions; and

(b) Grievances and complaints by communities and people who have been directly affected by adverse impacts of the Fund's programmes and projects.[116]

67. The modalities for the reconsideration of funding decisions will be developed once the independent redress mechanism is operational.[117]

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104 Decision B.04/08, paragraph (j).
105 Decision B.05/13 (Annex XVI, paragraph 1 and 2).
106 Decision B.07/05, paragraph (b).
107 Decision B.07/05, paragraph (d).
108 Decision B.07/05, paragraph (e).
109 Decision B.05/13 (Annex XVI, paragraph 2).
110 Decision B.06/09, paragraph (b).
111 Decision B.06/09, paragraph (c).
112 Document GCF/B.06/18, Annex IV, paragraph 1.
113 Document GCF/B.06/18, Annex IV, paragraph 4.
114 Governing instrument, paragraph 69.
115 Decision 5/CP.19, Annex, paragraph 8.
116 Document GCF/B.06/18, Annex V, paragraph 2.
117 Decision 5/CP.19, Annex paragraph 10.

Annex V: Global climate finance feeds and flows

Table 1: Average incremental annual investment needed in key mitigation sectors per annum between 2010-2029[1]

Sector	Areas considered/mitigation measures	Lower Bound	Average	Upper Bound
Low-emission power sector	Low-emissions generation technologies including renewable, nuclear and fossil fuels with carbon capture and storage (CSS)	31	147	360
Fossil fuel sector	Fossil-fired power plans without CSS	-2	-30	-166
	Fossil fuel extraction	8	-116	-369
Building, transport and industry sectors	Energy efficiency	1	336	641
Forestry	Reduce deforestation against current trends by 50%	21		35
Total			**337**	

Table 2: Estimates of public international finance for activities addressing climate change in 2012[2]

	Lower Bound Estimate (US$ billion)	Upper Bound Estimate (US$ billion)
Bilateral Finance Institutions	US$ 14	
Multilateral Development Banks	US$ 15	US$ 22
Government Bodies	US$ 4	US$ 11
Climate Funds	US$ 1.4	

[1] IPCC 2014, page 3.
[2] Buchner et al. 2013, page 15.

Table 3: Finance channeled through dedicated climate finance funds in 2012[3]

Fund	Amount (US$ million)
Adaptation Fund	69
Clean Technology Fund	413
Congo Basin Forest Fund	21
Forest Carbon Partnership - Readiness Fund	7
Forest Investment Program	18
Global Environment Fund Trust Fund (GEF 5)	238
Global Climate Change Alliance	48
Global Energy Efficiency and Renewable Energy Fund	13
Least Developed Countries Fund	167
Millennium Development Goals Achievement Fund	4
Multilateral Fund of the Montreal Protocol	118
Pilot Program for Climate Resilience	192
Scaling Up Renewable Energy Program	28
Special Climate Change Fund	41
UN-REDD[4]	12
Amazon Fund	89
Guyana REDD Investment Fund	12
Bangladesh Climate Change Resilience Fund	54
Indonesia Climate Change Trust Fund	0
Bangladesh Climate Change Trust Fund	66
Climate funds total	**1610**

[3] Buchner et al. 2013, page 51.
[4] Reducing Emissions from Deforestation and Forest Degradation.

Annex VI: The Fund's Financial Policies

1. The Fund's financial policies consist of the initial financial risk management policies and the initial investment policies.

I. Initial financial risk management policies

2. The Fund's initial financial risk policies are:

(a) The Fund will in aggregate seek to maximize grant contributions, taking into account its theme-based allocation. It is foreseen that grant contributions must significantly exceed loan amounts;

(b) The Fund will initially provide grants and loans through implementing entities (IEs) and intermediaries as per the financial terms and conditions to be approved. Intermediaries will be permitted to blend grants and loans received from the Fund with their own sources of financing or with third-party financing;

(c) There will be no cross-subsidization between providers of grants and providers of loans. To this end, the Fund, with support from the Trustee, will monitor incoming and outgoing flows and incorporate a conservative hypothesis with respect to possible financial losses in order to ensure that actual reflows from outgoing loans will always exceed repayments due to contributors. The modalities of loan contributions will be defined, both at the collective and at the individual contributor level, in terms of concessionality and other modalities (including the possibility of associated grant or capital provision and appropriate arrangements with contributors regarding the possible write-down of loan contributions), to ensure that loan contributions do not entail any risk in this respect. Overall, these provisions will ensure that that the average concessionality level of outgoing loans will be less than the average concessionality level of incoming contributions with a sufficient margin to cover credit risk;

(d) To further avoid cross-subsidization between providers of grants and providers of loans, future financial losses will be borne by all contributors, which will require that one of the following arrangements (preferably the same) be taken with each loan contributor:

   (i) Appropriate arrangements with contributors regarding the possible write-down of loan contributions; or

   (ii) The associated provision of a grant or capital contribution by the contributor to the Fund;

(e) The grant or capital contribution to be made by loan contributors to cushion against credit risk should be calculated on the basis of a realistic assessment of the risks the Fund is expected to take. If, despite all reasonable efforts to maintain the risk profile of the portfolio of the Fund in line with this realistic assessment, the capital cushion proves inadequate, loan contributors will then be expected to contribute additional grant or capital contributions;

(f) While maximizing effectiveness, the Fund will seek diversity in its asset portfolio on the basis of the Board-determined allocation criteria, geography, results areas, and accredited entities, keeping in mind prudent risk limits from a portfolio diversification perspective where relevant for loans and instruments that entail possible losses;

(g) The Fund shall take a zero tolerance approach to fraud and shall seek to minimize the risk of moral hazard with respect to intermediaries, consistent with the initial fiduciary principles and standards of the Fund.

II. Initial investment policies

3. The Fund's initial set of investment policies covers all grants, concessional loans and other financial instruments extended by the Fund. They are as follows:

(a) The Fund will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development, in accordance with the Fund's initial results management framework, its initial result areas, as laid out in decision B.05/03, and subsequent decisions on additional result areas for adaptation, and consistent with a country-driven approach;

(b) Funding received and extended by the Fund will be accounted for in grant-equivalent terms based on a standard methodology, to be developed by the Fund based on best international practices, to provide an accurate comparison of funding amounts between financial instruments;

(c) The Fund will provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable. Concessional funding is understood as funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme;[1]

(d) Financing provided by the Fund to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes;

(e) The Fund will not "crowd out" potential financing from other public and private sources; and

(f) Only revenue-generating activities that are intrinsically sound from a financial point of view will be supported through loans by the Fund.

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[1] Governing Instrument, paragraph 35.