



**GREEN
CLIMATE
FUND**

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Strategic Plan for the Green Climate Fund (Progress Report)

Summary

This document informs on the status of the selection of Board members for the second term of Board Membership to the Green Climate Fund (GCF), following on Board decisions B.09/12 and B.10/16 according to mandates from paragraphs 9, 10, 11 and 12 of the Governing Instrument for the GCF on the composition of the Board, the selection of Board members, and the initial term of membership, as well as paragraphs 3, 4 and 6 of the Rules of Procedure of the Board.

At its tenth meeting, the Board requested the Secretariat to solicit reflections from members of the Board in preparation for the production of a strategic plan (decision B.10/14). This document reviews items that have been raised by recommendations from the Board, consultations with stakeholders, a review of peers and an overview of the strengths and challenges of the GCF. It attempts to provide a high-level overview of the strengths, weaknesses and opportunities of the GCF, and lessons learned from the experience of other funds in both the climate change and health sectors. Strategic questions have been identified to seek the Board's guidance and will form part of an effort to chart a critical path for the operations.

* The agenda item number will be determined when the final sequence of items in the provisional agenda is confirmed by the Co-Chairs.

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I. Introduction

1. At its tenth meeting, the Board of the Green Climate Fund (GCF) requested the Secretariat to solicit reflections from members of the Board in preparation for the production of a strategic plan (decision B.10/14):

The Board, having considered agenda item 26 "Strategic plan for the Fund" of document GCF/B.10/01/Rev.01 Agenda:

Invites members of the Board to send inputs to the Secretariat by 31 July 2015, in order for the Secretariat to produce a progress report on the strategic plan for consideration by the Board at its eleventh meeting.

2. The purpose of this document is to summarize inputs received from the Board on the strategic plan, review lessons learned from the operation of other funds, and propose options for the strategic direction of the GCF, for review and guidance by the Board.
3. Paragraphs 2, 3 and 58 of the Governing Instrument for the GCF provides specific guidance on objectives, results and performance indicators for the GCF:

The Fund will contribute to the achievement of the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC). In the context of sustainable development, the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change.

[...] The Fund 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 international and national levels. The Fund will pursue a country-driven approach and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders. The Fund will be scalable and flexible and will be a continuously learning institution guided by processes for monitoring and evaluation. The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender sensitive approach.

A results measurement framework with guidelines and appropriate performance indicators will be approved by the Board. Performance against these indicators will be reviewed periodically in order to support the continuous improvement of the Fund's impact, effectiveness and operational performance.

4. The GCF provides funding for both mitigation and adaptation activities through multiple access modalities and the use of financial instruments. It seeks to fund a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach (paragraph 3 of the Governing Instrument).
5. The GCF is committed to country ownership as a core principle of its business model and will invest in priority result areas in line with national strategies and plans (decision B.04/04).

II. Core principles

6. The core values listed below could frame the strategy of the GCF; they are drawn from previous Board decisions and the Governing Instrument.
7. Country ownership is an integral part of the ethos of the GCF. Investments should follow a country-driven approach, in which each country's national designated authority (NDA) plays a central role. Accordingly, the GCF is expected to support NDAs and countries through a wide range of readiness and preparatory support.
8. The GCF will leverage the reach and subject matter expertise of the existing financial, developmental and climate ecosystem by working through a balanced portfolio of accredited entities (AEs).
9. The GCF will seek to generate the maximum impact and paradigm shift, while maintaining a strategically balanced portfolio where adaptation represents 50 per cent of investments. In addition, half of adaptation investments should be made in small island developing States, the least developed countries and African States.
10. The GCF will seek to maximize engagement with the private sector so as to encourage new investments in climate change.

III. Recommendations from the Board

11. This document is further guided by the various submissions received from members of the Board (see Annex II). These submissions include those sent by representatives of the African States, Ecuador, Germany, Japan, small island developing States and the United Kingdom of Great Britain and Northern Ireland.
12. There were, among the submissions, the following common themes:
 - (a) Capacity-building for both public and private actors, including NDAs, and institutional capacity-building;
 - (b) Working within the context of existing national country-level plans and priorities;
 - (c) Identifying and addressing policy and operational gaps;
 - (d) Establishing a portfolio plan and/or rolling plans to guide and review the allocation of resources by the GCF; and
 - (e) Operating in a timely and efficient manner.
13. Other themes included the following:
 - (a) Engaging the local private sector;
 - (b) Setting targets for the number of accredited entities;
 - (c) Establishing a trigger for the first replenishment of the GCF;
 - (d) Establishing minimum benchmarks for each investment criteria; and
 - (e) Maintaining engagement with private sector organization and civil society organization stakeholders at the national level.

IV. National designated authority, civil society organization and private sector organization consultations

14. NDAs, civil society organizations and private sector organizations were also consulted when drafting this document. Key common themes were identified as follows:
- (a) Maintaining country ownership at the heart of the mission of the GCF;
 - (b) Capacity-building as an ongoing activity along a continuum rather than as a one-time activity;
 - (c) Working within the framework of existing national priorities and plans, rather than duplicating efforts by asking countries to establish another set of priorities and plans specifically for the GCF;
 - (d) Establishing a communication and knowledge-sharing platform between NDAs, countries, AEs and the GCF;
 - (e) Establishing clear guidelines on how investment criteria are evaluated;
 - (f) Operating in a timely, efficient and responsive manner;
 - (g) Balancing the need for transparency with the need to respect the confidential nature of information shared by the private sector;
 - (h) Assisting and prioritizing local public and private sector entities that seek accreditation;
 - (i) Prioritizing adaptation projects and the use of grants; and
 - (j) Making the NDA no-objection process more efficient when programmes/projects span more than one country.

V. Vision

15. As articulated in the Governing Instrument (paragraph. 1), the purpose of the GCF is to make a significant and ambitious contribution to the global effort towards attaining the goals set by the international community to combat climate change. It promotes country-driven plans and activities that encourage the paradigm shift towards low-emission and climate-resilient development pathways. It achieves this mandate by providing support to developing countries to limit or reduce their greenhouse gas emissions, and to adapt to the impacts of climate change. Given the urgency of climate change, and the size of the global investment needed, the GCF strives to maximize the impact of every United States dollar invested.

This document seeks ways of maximizing the impact of the GCF in its pursuit of this vision.

VI. Peer review

6.1 Climate finance

16. The following review of climate financing organizations was carried out based on a survey of literature. Given the short timelines involved in producing this review, there was not time to interact with or proactively engage the Secretariats of the Funds concerned.

6.1.1 Overview of the climate financing landscape

17. The architecture of climate financing is complex as it involves national climate funds, bilateral funds and multilateral funds together with implementing agencies worldwide (see the figure in Annex III).

18. For the purpose of comparison with the GCF, the scope of entities contemplated herein will be limited to multilateral institutions with a specific mandate on global climate change financing, namely:

- (a) The Global Environment Facility (GEF) and the Adaptation Fund (AF); which work under the United Nations Framework Convention on Climate Change; and
- (b) The Clean Technology Fund (CTF) and the Strategic Climate Fund, which together constitute the Climate Investment Funds (CIFs) and act under the supervision of the World Bank.

19. More detailed information regarding benchmarks of the operational and results frameworks of each entity can be found in Annex IV, together with a brief overview of the entities.

20. In general, the lessons learned revolve around accessibility, risk management, defining clear investment and performance criteria, monitoring and evaluation, country ownership, stakeholder involvement, and private sector engagement:

6.1.2 Accessibility and timeliness

21. All three funds focused on improving the timeliness with which they deal with funding proposals. They did so, in large part, by making between meetings approval decisions using e-mails/videoconferences; Board meetings focused on progress reports and difficult decisions. Also, CTF implemented a 30 per cent over programming strategy.

6.1.3 Clear investment criteria against which to monitor

22. Timely turnaround and effective approvals require clearly defined investment criteria, with associated calculations/measurement procedures. In so doing, there is a trade-off to be made between establishing quantitatively driven models, and relying on mature judgement largely guided by the varying and non-standardized methodologies used by AEs.

23. The greatest operational challenge for the GCF, as related to this topic, is that it works through AEs that each have their own internal evaluation methodologies that are not harmonized or standardized, making comparison between projects impracticable.

24. Establishing some basic quantitatively driven assessment models could benefit the GCF. It could provide some clearer guidance to AEs and allow for better comparisons between funding proposals. It would also allow for better monitoring and evaluation against indicators. Some examples of other climate change organizations work and challenges in monitoring and evaluation include:

- (a) All existing funds have encountered difficulties when reporting against indicators;
- (b) The GEF has worked towards standardizing its greenhouse gas calculations to allow for clearer comparison between projects. There is, however, a recognized need to strengthen the tools and guidelines for reporting against indicators and outcomes other than greenhouse gas emissions. The GEF has attempted to address this need by establishing definitions and calculations of additionality and incremental costs. However, the production and practical aspects of these calculations has been difficult.

- The concept of incremental costs is difficult to isolate as it is linked to both development activities and climate change activities;
- (c) The basis on which CTF concludes whether a plan was transformational or not has not always been clear (i.e. how replication and broader uptake can be achieved);
 - (d) The experience of the AF acts to demonstrate the need for guidance on how to report against indicators to reduce differing interpretations, and thus enable comparability/aggregation of results;¹ and
 - (e) CIFs developed a first results framework of 30 indicators in 2009, after several programming decisions had already been made. Issues related to opacity and difficulties in reporting against the 30 indicators were reported. In 2012, a new framework of five core indicators was elaborated. Issues related to data quality and lack of detailed guidance on how to apply the indicators were subsequently reported. Accounting of greenhouse gas emissions as well as leveraged funding has been difficult given that multilateral development banks have internal methodologies that need harmonization in order to be compared.

6.1.4 Programmatic approach

25. Climate funds use both a project-by-project approach and a strategic programming approach. The GCF could benefit from approving programmes that aggregate several investments across countries that share similar needs, plans and strategies. However, care should be taken not to approve generic programmes which lack defined screening criteria and investment results; as this could compromise the impact of the GCF in the long term. Climate change organizations have engaged with the private sector in programmatic ways as follows:

- (a) The Strategic Climate Fund has three main programmes, the Forest Investment Programme, Scaling-up Renewable Energy Programme and Pilot Programme for Climate Resilience;²
- (b) CTF, relying on programmes proposed by multilateral development banks, started to develop partnership programmes with the private sector in 2013; and
- (c) The GEF, after its fourth and fifth replenishment cycles, started to develop public-private partnerships for specific areas.³

6.1.5 Guidelines for the financial instruments

26. The GCF would benefit from developing operational and risk guidelines on the use each financial instrument. For example, CTF still does not fully leverage the use of all financing instruments at its disposal, partly because of a lack of guidelines on how to use them (e.g. exiting from equity investments).

¹ S. Nakhoda. 2013. *The Effectiveness of Climate Finance: A Review of the Adaptation Fund*.

² Respectively, the Forest Investment Programme, the Scaling-up Renewable Energy Programme and the Pilot Programme for Climate Resilience.

³ S. Nakhoda. 2013. *The Effectiveness of Climate Finance: A Review of the Global Environment Facility*. (Examples include partnership with the African Development Bank to attract private investment in clean energy in sub-Saharan Africa, partnership with the European Bank for Reconstruction and Development to catalyse the creation of energy services companies in Egypt, Jordan, Morocco, Tunisia, etc.)

6.1.6 Internal financial and risk monitoring

27. The GCF could benefit from clear guidelines on financial monitoring and risk-related limits as they relate to the management of resources and the portfolio. These could be used as the baseline against which to provide periodic performance reports (e.g. annually) and updated as needed.

28. Detailed information, in an integrated form, on the amount of funding that has been disbursed to implementing entities and then to country partners has not as yet been made available by the GEF. Its financial statements report at an aggregate level on the amount of funding transferred to implementing entities.⁴

29. The AF and CIFs both have disbursement reporting systems. In the case of CIFs, given that part of its funding came from loans, it had to develop its own indicators to monitor its financial risk (e.g. liquidity reserve, possible loan loss rate scenarios, etc.).

6.1.7 Strengthened country-ownership mechanisms.

30. The GCF could consider further strengthening readiness programmes for the least developed countries/small island developing States/African States to enable countries to prepare programmes sooner. Furthermore, to prevent any geographic distortions in investment, portfolio monitoring could be used to help to ensure that there is no geographical imbalance and the Board could consider projects taking into account this factor on a de facto basis.

31. The GCF could also continue to engage local accredited entities as well as engage with relevant national ministries in each country to ensure a broad range of participation, capacity-building and understanding of the local environment.

32. Also, the GEF initiated a 2011 pilot programme to accredit new implementing partners, in order to reach developing country-based institutions. This was done because several stakeholders reported that:

- (a) Relying on international implementing entities had kept the GEF from working through national systems; and
- (b) An excessive reliance on international consultants had reduced the understanding of the local context.

33. AF resource attribution has been driven by the readiness of countries to submit credible proposals for approval, which translated to an allocation on a first come, first served basis.

6.1.8 Mobilized private sector

34. All three funds did not make engaging with the private sector a strategic priority. This is a differentiating factor for the GCF. The GCF is well positioned in this respect in that it has approved the use of the various instruments when dealing with the private sector. It has also started to accredit commercial banks, which as a group account for USD115 trillion of the USD 241 trillion pool of global assets as at 2013.

35. The Board may wish to consider positioning the Private Sector Facility as the world's leading green bond fund as bonds represent 45 per cent of the aforementioned USD 115 trillion in global assets.

⁴ As footnote 4 above.

6.2 Comparison with other global funds

6.2.1 Common points

36. The GCF is the largest global fund dedicated to climate change projects/programmes. Global funds themselves are not recent and have been used well in the health sector. This section will detail some of the lessons learned from global health funds and how they can be applied to the GCF.

37. The concept of a global fund is used to qualify a multilateral organization with a multi-stakeholder board, financially investing in one sector, at scale, to reach developing countries, and contribute towards the achievement of one or several Millennium/Sustainable Development Goals. Common challenges are encountered across global funds, including the GCF, which are independent of the sector covered and include the following:

- (a) Investing at scale in multiple heterogeneous countries at different stages of development;
- (b) Orchestrating the sometimes disjointed activities of multiple stakeholders such as private investors; multilateral, regional, and local institutions; technology providers and countries;
- (c) Getting effective results by addressing structural gaps (e.g. policies and regulatory framework, infrastructure, subsectoral activities/products, shallow local financial markets, distorted risk perception);
- (d) Ensuring the economic and commercial viability of investments, and their replicability; and
- (e) Transferring technology between developed and developing countries.

38. To draw lessons from the health sector, two successful global funds are analysed (Annex V): The GAVI Alliance and The Global Fund.

6.2.2 Analysed entities and programmes

39. The majority of international health aid is delivered for specific uses or programmes which is termed vertical funding. Vertical funding is implemented via programmes targeting a specific area of activity or product, organizing/coordinating each step of the process to achieve the targeted result. In the health sector for example, the GAVI Alliance and The Global Fund prepared programmes targeting types of diseases/vaccines and involving stakeholders at each level of the chain (e.g. preparation of country plans, production of vaccines, logistical delivery of vaccines, campaign of vaccination) to achieve a reduction in the diseases/reach a certain rate of vaccination. Vertical funding is used in opposition to the term horizontal funding which is used to qualify a programme with a general plan of action on multiple sectors of activities or products. In the health sector for example, horizontal funding is used for plans/projects aimed at improving the primary health-care system (i.e. building the minimum health infrastructure irrespective of the type of disease and vaccine).

40. Vertical programmes typically have separate funding proposals, allocation processes, delivery systems and budgets with varied structural, funding and operational integration in a country health system. Both the GAVI Alliance and The Global Fund are vertical funds (also called pooled financed mechanisms) which are innovative given that horizontal funding of the health sector had been the traditional method of targeting primary health care: the first major conference on health care in developing countries from 1978 concluded with the Alma-Ata Declaration stating the importance of a comprehensive primary health care system for all

nations and the required changes in the economic, social and political structures to establish an equitable access to health care. However, soon after it appeared this horizontal approach was criticized due to vague implementation strategies, huge costs and the need for a large trained staff. In response, vertical strategies were developed, focusing on defined areas of intervention with performance-driven financings.

41. The success of the vertical programmes of the GAVI Alliance/The Global Fund relied on several factors, including (but not limited to) the following:

- (a) Country-ownership whereby large-scale funding has been delivered on the basis of country-led programmes. Funds have been provided on a competitive basis from the assessment of countries' proposals, so that the process is demand-driven (having countries' proposals structured in the same way with a similar assessment grid allowed for a reasonably fair comparison between them);
- (b) Predictability of funds allowing:
 - (i) Countries to structure their programme more efficiently; and
 - (ii) Pharmaceutical companies to have visibility on their vaccine markets (development strategy, licensing arrangements, etc.); and
- (c) Engagement of the private sector. Vertical programmes attract private funds which are often business-oriented, applying private sector investment techniques to raise money (e.g. the International Finance Facility for Immunization programme). Those contributions give financing to achieve defined goals, monitor the results efficiently against quantitative targets, and revise their grants based on performance indicators. Monitoring systems in horizontal interventions are complex in comparison.

42. Vertical funds also faced challenges. A United Nations Educational, Scientific and Cultural Organization report⁵ indicates that vertical funds created:

- (a) **Health system distortion** (especially in fragile States). By focusing on certain types of diseases and vaccines, countries modified their national priorities to match the priorities set by the vertical programmes. It also impacted the health infrastructure development of these States, oriented towards building the infrastructure required from the vertical programmes without necessarily considering their wider needs;
- (b) **Sustainability issues**. As vertical programmes provide limited capacity-building, it takes a longer funding period for programmes to start being supported by countries. Many recipient countries, for example, do not have the financial means to sustain vaccine coverage and costs;
- (c) **Energy-intensive grant application processes**. Given that each vertical programme has its own process/funding requirement/reporting structure, the application process (and project implementation itself) mobilizes human resources at the country level that cannot be used on other national health plans/initiatives;
- (d) **Limited integration with general health services**. Vertical programmes do not necessarily seek integration in horizontal funding plans. Given they target a subactivity of the health sector, they can lead to fragmentation of the health systems and inefficiencies in health care delivery (e.g. infrastructure built only for some vaccine deliveries, etc.); and

⁵ D. Sridhar and T. Tamashiro, 2010. *Vertical Funds in the Health Sector: Lessons for Education from The Global Fund and GAVI*.

- (e) **Competition between programmes for resources and human capital.** One consequence of a limited pool of contributors with an increase in the number of actors and initiatives is competition among the various parties.

43. For these reasons, The Global Fund and the GAVI Alliance have sometimes been incentivized to expand the scope of their action. Overall it has been observed that back actions should be introduced on the horizontal level with some readiness and grant component to ensure the effectiveness of the programmatic approach in (a) fragile States and (b) all countries in the long term (sustainability). Vertical funds have demonstrated a willingness to incorporate horizontal funding programmes into their initiatives (e.g. GAVI Alliance programmes since 2007).

6.2.3 Lessons for the GCF

44. A vertical programmatic approach is successful in mobilizing various stakeholders around shared goals and tangible results in a given sector. The strategic plan of the GCF aims to provide options on how to engage each stakeholder and fund in the most effective way in order to maximize the impact per United States dollar invested. Pursuing a programmatic approach could be one aspect of the strategy of the GCF, while at the same time considering the specific conditions under which such an approach would be used. Vertical financing mechanisms can be applied in climate change projects that do not require large infrastructure/project-type financing. They are better suited in areas with high operational expenditure. For example, energy efficiency projects targeting the replacement of materials with new energy efficiency technology could be potential vertical programmes.

45. **Country-ownership to create a demand-driven process is key.** Projects/programmes need to be integrated in national strategies as there is no one-size-fits-all in a programmatic approach. This also renders necessary a readiness component and grants to build national capacity, framework/policies, and clear and concise application guidelines so that country programmes will be comparable even in vertical approaches. The GCF to this respect already started to build a readiness and country ownership framework. Health funds vertical programming experience also showed the importance of unified investment guidelines and reporting processes between programmes/projects to ensure the efficiency of the operations. On this topic, GCF-defined investment criteria and performance indicators will require standardization to allow for comparability of projects.

46. Road-mapping the missing technology and implementing a co-financing strategy will help to build the national industries and transfer the technologies. The health sector, for example, had double pricing of drugs and in some cases open licensing. The GCF has not defined a strategy or investment guideline on the transfer of technology as yet. In the area of climate change, different solutions could be sought: differential pricing, technology licensing financed through public resources, etc. Initiatives involving private and public-sector companies such as what took place in Brazil for the wind industry (and now for the solar industry) could be an angle of participation for the GCF in other countries. Also, replicating the Advance Market Commitment mechanism of the GAVI Alliance could help in technology production (e.g. the market for new crop varieties that resist extreme climate conditions). Upon examination of the International Finance Facility for Immunization of the GAVI Alliance, the GCF could also, at some point, monetize its contribution pledges to raise funds for definite programmes/technology development.

47. **Creating synergies with existing structures will ensure efficiency.** Climate programmes/projects should try to capitalize on existing agencies and seek synergies in the deployment of GCF funding with the existing capabilities of accredited entities (e.g. partnering with insurance experts, equity experts, etc.).

VII. GCF analysis

7.1 Challenges

Internal challenges
<ul style="list-style-type: none"> • Stressed governance; • The pressure to be all things to all people – this dilutes resources; • The scope of action is over-dimensioned when compared to the resources required to cover c. 150+ countries; • Risk investment guidelines and clear indicators against which to assess funding proposals need to be finalized. This would aid accredited entities in determining the information that the GCF seeks; • The decision-making cycle is lengthy due to a lack of a between meetings decision-making process; • There are no defined portfolio strategy or targets per region/sector/product. This too would aid accredited entities in determining the information that the GCF seeks; and • Balancing transparency and confidentiality of sensitive accredited entity and funding proposal information, including in the private sector
External challenges
<ul style="list-style-type: none"> • Climate is a niche topic. It is not a priority for the mainstream; • Climate language and metrics are inaccessible and sometimes incomprehensible; • There are no standards to define what a ‘green’ investment is. This includes accounting standards. Even monitoring and evaluation standards differ among accredited entities; • The market is fragmented and has too many climate funds. Accredited entities, countries and other players are looking at a crowded space that sometimes sends mixed signals due to the non-existence of a consolidating market leader; and • Adaptation is perceived as a problem and not an opportunity to create jobs and build robust economies

7.2 Strengths

Strengths
<ul style="list-style-type: none"> • The Board has international credibility given that it comprises equally members from developing and developed countries/strong market signaling; • The GCF has credibility given its designation as a United Nations Framework Convention on Climate Change operating entity under the Financial Mechanism; • The GCF has USD 10 billion of pledges of which USD 5.8 billion are executed; • It is country-ownership driven (more so with the direct access mode); and • It has a full range of financing instruments that can be made available with competitive terms
Opportunities
<ul style="list-style-type: none"> • Leveraging the in-country expertise of national designated authorities; • Engaging government, private sector accredited entities, chambers of commerce, civil society organizations and other stakeholders; • Attracting accredited entities with subject matter expertise and regional/national knowledge that complement the existing pool and that can assist in mainstreaming climate finance in line with national strategies; and • Green bonds (sovereign and corporate) is a nascent market in need of an advocate

VIII. Summary of key takeaways from recommendations from the Board, consultations, peer review and introspection

8.1 Key issues for consideration

48. The strategic plan should enable the GCF to leverage the aforementioned core strengths to take advantage of the above-mentioned opportunities, so as overcome two critical challenges:

- (a) The existing gap between its vision (and related scope of action) and its resources; and
- (b) The fact that climate is a niche area that needs to be mainstreamed.

49. The acid test for how the strategic plan fares will be if the GCF successfully triggers a much larger replenishment.

50. Below (paragraph. 51–54), this document clusters critical items that have been raised by recommendations from the Board, consultations with stakeholders, a review of peers, and an overview of the challenges to and strengths of the GCF. The Board may wish to consider holding an informal meeting of the Board in early 2016 to discuss the different strategic alternatives that can address and prioritize these issues and related questions. It is common for entities to hold strategic retreats so as to discuss various alternatives before laying out a strategy that sets the course for the entity.

51. Country ownership and working within the context of existing national plans and priorities is a mandate and an opportunity. This gives rise to some questions including the following:

- (a) How can the GCF build capacity across a continuum such that:
 - (i) Countries with limited capacity are able to bring forth plans, projects and programmes in a timely manner so that the GCF is not caught in a contradictory state of funding projects from those countries with a more robust capacity; and
 - (ii) Countries with more robust existing capacity can strengthen their institutions so that they are able to mobilize funds through a more varied set of structures and instruments? and
- (b) How can GCF work fully leverage each country's stakeholders (NDAs, government, potential AEs, civil society organizations, private sector, etc.) so as to identify and implement projects and programmes effectively?

52. Core items that need to be further developed to enable the GCF to operate within efficient turnaround times; and provide clear direction to all AEs, NDAs and stakeholders with respect to what constitutes a desired project for the GCF. Such items could include risk investment guidelines (to be developed as part of the risk management tools); and between meetings approval processes. Next what else should be addressed and in what order of priority should be decided.

53. Guidance on what comprises a balanced portfolio, both in terms of geography and in terms of thematic areas is required. The underlying study on which to base said guidance has already been completed in the form of document GCF/B.09/06 titled "Analysis of the expected role and impact of the Green Climate Fund", which could serve as a good basis on which to provide clear portfolio guidance over time. Additional unresolved questions that need to be addressed in the development of a balanced portfolio include:

- (a) How can this best be done without creating country caps, while sending clear guidance to accredited entities and NDAs so that they can bring forth those projects the Board seeks?

- (b) How can this best be done in the context of a country-driven approach, where the existing national plans and feedback of NDAs is considered? What role could INDCs play in this? and
- (c) How, if at all, can lessons learned from the health sector be incorporated?
54. Adaptation is a priority for the GCF. What role can the GCF play in positioning adaptation as a sound investment that will enhance national economic development and reduce its vulnerability and volatility?
55. Engaging the private sector is a strategic differentiator for the GCF. The following questions have yet to be determined.
- (a) What role can the GCF play in making adaptation a focus of investment for the private sector?
- (b) How can the GCF best account for the need of partners to safeguard confidential information, particularly in the private sector? and
- (c) What is the best way to mobilize funds at scale into climate finance? RFPs have been identified as a source. Should the GCF seize the opportunity to become the global leader in green bonds?
53. The GCF has a unique opportunity to act as a knowledge-sharing platform between countries, accredited entities and third-party investors.
- (a) How can this be done in a systemic manner?
- (b) Should the GCF consider moving strategically towards becoming a climate e-platform?
54. A programmatic approach may be a core strategic mechanism to commit resources at scale. To be successful, this needs to clearly define the focussed scope of each programme with detailed criteria and implementation requirements, not a loose general category. Questions that remain in the definition of the scope of programmes include:
- (a) What is expected from programmes?
- (b) What is the role of any one NDA non-objection in a multi-country programme? Is there a way of streamlining this process for such programmes? and
- (c) How can the GCF balance the ability of accredited entities to build programmes without compromising a clear view of how an accredited entity will invest funds and ensure the timeliness and quality of the investments?

8.2 Next steps

55. This document has provided a high-level overview of GCF strengths, weaknesses, opportunities and threats, and lessons learned from the experience of other funds both in the climate change and health sectors. Strategic questions have been identified and Board guidance on these will help form part of a critical path for the operations of the GCF. The following steps could be undertaken in the completion of a strategic plan document.
- (a) Board guidance from the eleventh meeting of the Board on the issues, questions and opportunities indicated;
- (b) A Board retreat in early 2016 to discuss in detail the strategic plan and direction; and
- (c) The presentation of a strategic plan at the twelfth meeting of the Board that includes the clarity gained from the above actions.

Annex I: References

- Bretton Woods Project. A faulty model? What the Green Climate Fund can learn from the Climate Investment Funds. 2011
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Annex II: Recommendations from the Board for the strategic update

Table 1. Recommendations from the Board

	SIDs	Ecuador	UK	Japan	Germany	Africa
Business planning	Specific actions for meeting objectives	Allocation of resources	Investment allocation and triggering of first replenishment			Resource planning, operationalization of NDAs/FPs
Policy issues		What has not been implemented from the Governing Instrument for the GCF				Decide policy issues that need to be addressed
Implementation	Implement existing NAMAs, NAPs, low carbon development plans, INDCs and other strategies	Country-level information and plans should drive the strategy of the GCF		Do not connect work to the replenishment process - focus on the work we can do now	No quota system for the GCF	Project forecast
Timelines		Time frame for future actions				Operations of the GCF, policies and procedures, portfolio, and performance
Accredited entities	Targets for the number of accredited entities	Balance between public and private entities in accordance with country needs			Transparency between NDAs, accredited entities and the GCF	Targets and goals for adding accredited entities

	SIDS	Ecuador	UK	Japan	Germany	Africa
Country support	Enhance country ownership with time, assistance and support	Operations of the GCF should generate institutional capacity-building for countries			Strengthening the role of NDAs/FPs in prioritizing and designing projects is key, engagement of PSO and CSO stakeholders at the national level	Goals to help developing countries to prepare their plans
Private sector	Engage the private sector in developing countries					
Portfolio and management	Balance between mitigation and adaptation	Balance geographic allocation	Shape of the investment portfolio	View the portfolio through review of what has been approved	Strengthen the initial results management framework	
Operations	Targets for GCF responsiveness			Management and operational structure of the GCF to be reviewed	Greater assessment transparency	

Abbreviations used in this table include:

CSO – Civil society organizations

FPs – Country Focal Points

INDCs – Intended Nationally Determined Contributions

NAMAs – Nationally Appropriate Mitigation Actions

NAPs – National Adaptation Plans

NDAs – National Designated Authority

PSO – Private sector organization

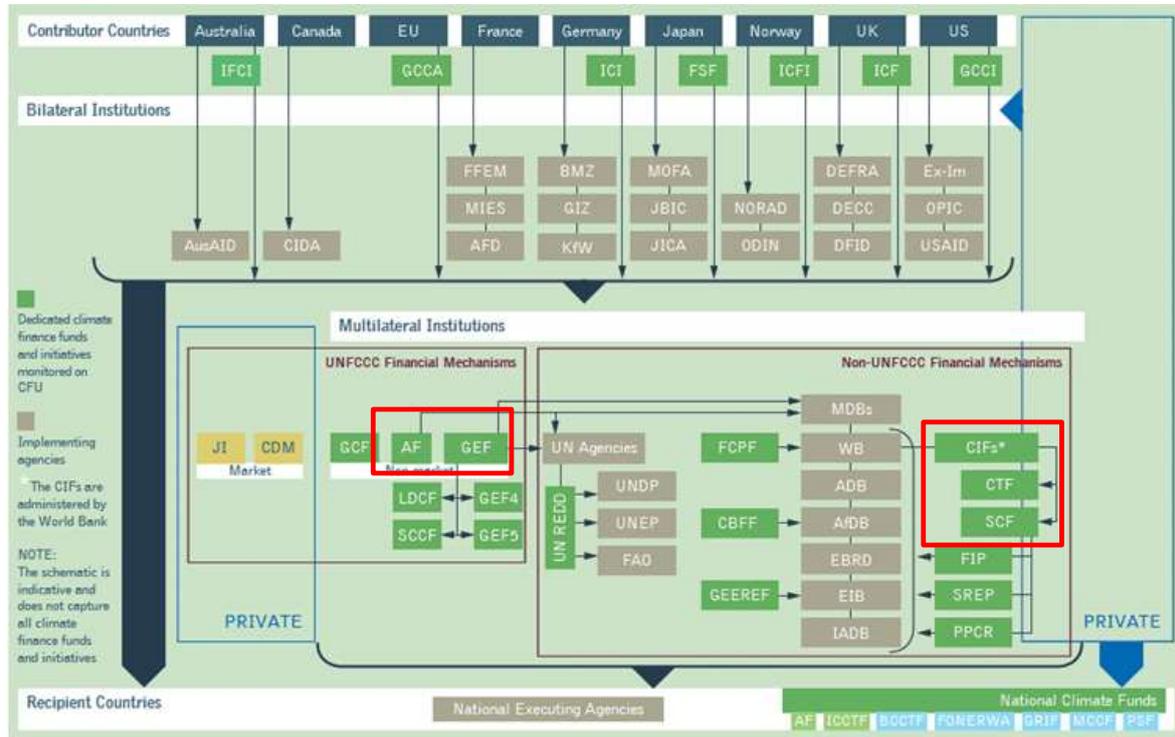
SIDS – Small Island Developing States

UK – United Kingdom



Annex III: Global climate finance architecture

Figure 1. Donors and institutions in the climate finance architecture



Implementing agencies	
AFDB	African Development Bank
AFD	French Development Agency
ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BZM	Federal Ministry of Economic Cooperation and Development
CIDA	Canadian International Development Agency
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
Ex-Im	Export-Import Bank of the United States
FAO	Food and Agriculture Organisation
FFEM	French Global Environment Facility
GIZ	German Technical Cooperation
IADB	Inter American Development Bank
JBIC	Japan Bank of International Cooperation
JICA	Japan International Cooperation Agency
KfW	German Development Bank
MIES	Inter-ministerial Taskforce on Climate Change
MOFA	Ministry of Foreign Affairs
NORAD	Norwegian Agency for Development Cooperation
ODIN	Ministry of Foreign Affairs
OPIC	Overseas Private Investment Corporation
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USAID	US Agency for International Development
WB	World Bank

Multilateral Funds and Initiatives	
AF	Adaptation Fund (GEF acts as secretariat and WB as trustee)
CBFF	Gange Basin Forest Fund (hosted by ADB)
CDM	Clean Development Mechanism (implemented under the Kyoto Protocol)
CIF	Climate Investment Funds (implemented through WB, ADB, AfDB, EBRD, and IADB)
CTF	Clean Technology Fund (implemented through WB, ADB, AfDB, EBRD, and IADB)
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program (implemented through WB, ADB, AfDB, EBRD, and IADB)
GCCA	Global Climate Change Alliance
GCF	Green Climate Fund
GEF	Global Environment Facility
GEF4	GEF Trust Fund Fourth Replenishment
GEF5	GEF Trust Fund Fifth Replenishment
GEEREF	Global Energy Efficiency and Renewable Energy Fund (hosted by EIB)
JI	Joint Implementation (implemented under the Kyoto Protocol)
LDGF	Least Developed Countries Fund (hosted by the GEF)
PPCR	Pilot Program on Climate Resilience (implemented through WB, ADB, AfDB, EBRD, and IADB)
SCCF	Special Climate Change Fund (hosted by the GEF)
SCF	Strategic Climate Fund (implemented through WB, ADB, AfDB, EBRD, and IADB)
SREP	Scaling Up Renewable Energy Program (implemented through WB, ADB, AfDB, EBRD, and IADB)
UNREDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation

Bilateral Funds and Initiatives	
FSF	Fast Start Finance (Japan)
GCCI	Global Climate Change Initiative (US)
ICF	International Climate Fund (UK)
ICFI	International Climate Forest Initiative (Norway)
ICI	International Climate Initiative (Germany)
IPCI	International Forest Carbon Initiative (Australia)

National Climate Funds	
AF	Amazon Fund*
BCCTF	Bangladesh Climate Change Trust Fund
FOWERWA	Rwanda National Climate and Environment Fund
GRIP	Guyana REDD+ Investment Fund
ICCTF	Indonesia Climate Change Trust Fund*
MDCF	Mexico Climate Change Fund
PSF	Philippines People's Survival Fund

Acronyms not included in the legend below:

- EU – European Union
- MDBs – Multilateral Development Banks
- UK – United Kingdom
- UNFCCC – United Nations Framework Convention on Climate Change
- US – United States of America

Acronyms which are different in the figure (listed first) and the legend (listed second):

- BMZ – BZM
- CIFs – CIF
- GEF4 – GEF 4
- GEF5 – GEF 5

Annex IV: Analysis of operational and results frameworks¹

Table 2. Overview of climate funds

Item	GEF	AF	CIFs
Operational year	1991	2009	2008
Objective	Financing the incremental or additional costs of delivering global environmental benefits	Financing concrete adaptation projects in developing countries, at the local and national levels	Providing financing to complement existing bilateral/multilateral financing with the goal of supporting transformational projects in mitigation and adaptation
Positioning in climate finance	The GEF was established as a USD 1 billion pilot programme. The United Nations Development Programme, the United Nations Environment Programme, and the World Bank were the three initial partners implementing GEF projects. Today GEF works with 18 implementing entities	Instrument of the Kyoto Protocol. It differs from the traditional structure of climate funds in the sense that it gives developing countries the possibility of financing directly via their own national institutions instead of relying only on MDBs and United Nations agencies	Interim funds pending the effectiveness of a new UNFCCC operating entity under the financing mechanism of the GCF; CIFs comprise the mitigation focused Clean Technology Fund (CTF) and the Strategic Climate Fund which encompasses the Pilot Programme for Climate Resilience (PPCR), the Forest Investment Programme and the Scaling-up Renewable Energy Programme; CIFs operate through five MDBs

¹ This annex was produced through a desk review of the following references, which were used in the development of this assessment. Given timing constraints it was not possible to seek the views of the Secretariats of the Funds here mentioned. Bretton Woods Project. 2011. *A Faulty Model? What the Green Climate Fund Can Learn from the Climate Investment Funds*; CTF-SCF Trust Committees. 2011. *Climate Investments: Lessons Learned from Private Sector Interventions through MDB Intermediaries*; IFC International. 2014. *Independent Evaluation of the Climate Investment Funds*. Washington DC: World Bank; R. Lattanzio. 2013. *Congressional Research Service. International Environmental Financing: The Global Environmental Facility*; S. Nakhooda and N. Trujillo. 2013. *The Effectiveness of Climate Finance: A Review of the Adaptation Fund*; S. Nakhooda and N. Trujillo. 2013. *The Effectiveness of Climate Finance: A Review of the Clean Technology Fund*; S. Nakhooda and N. Trujillo. 2013. *The Effectiveness of Climate Finance: A Review of the Global Environment Facility*; and S. Whitley, E. Chiofalo, and S. Barnard. 2014. *The Role of Multilateral Climate Funds in Mobilising Private Investment*.

Trustee	World Bank	World Bank	World Bank
Funding mechanism for	United Nations Convention on Biological Diversity, the UNFCCC, the Stockholm Convention on Persistent Organic Pollutants, the United Nations Convention to Combat Desertification and the Minamata Convention on Mercury	The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol	CIFs operate outside the guidance of the UNFCCC
Governance	Governing council of developed/developing countries with a secretariat hosted by the World Bank, an evaluation office and a science and technology advisory panel	Supervised by a board and a secretariat hosted by the GEF	CTF and SCF shares a Trustee, MDB committee and Administrative Unit. Each fund also has its own Trust Fund committee and SCF has subcommittees to govern each of the targeted programmes
Initial pledge amount	USD 1.0 billion	USD 0.3 billion	USD 6.0 billion
Current pledge amount	USD 4.43 billion pledged for GEF-6 covering 1 July 2014 to 30 June 2018	USD 0.3 billion	USD 8.1 billion
Instruments provided	Grants and limited non-grant instruments on a pilot basis	Grants	Grants, concessional loans, and private sector instruments.
Investment area	Biodiversity, climate change, international waters, land degradation, ozone layer and organic pollutants	Adaptation projects with visible and tangible results on the ground	Investment through four funding windows: clean technology (CTF), forest investment (FIP), adaptation and climate resilience (PPCR), and renewable energy solutions for the poor (SREP)

Abbreviations used in this table include:

AF – Adaptation Fund

CIFs – Climate Investment Funds

FIP – Forest Investment Program

GEF – Global Environmental Fund

MDBs – Multilateral Development Banks

SCF – Strategic Climate Fund

SREP – Scaling Up Renewable Energy in Low Income Countries Program

UNFCCC – United Nations Framework Convention on Climate Change

Benchmark of the operational frameworks

Table 3. Review of the operational framework of the Global Environment Facility

Item	GEF practice	Comments
1. Resources mobilization and governance		
Funding	<ul style="list-style-type: none"> Funded by donor countries and replenished every four years 	<ul style="list-style-type: none"> Seen as a catalyst for additional financing the GEF received a low-level of funding which may have limited its overall impact as a global fund
Financing tools	<ul style="list-style-type: none"> Grant-based instruments and non-grant instruments on a pilot basis 	<ul style="list-style-type: none"> Offering only grants may have limited the level of co-financing in projects and the involvement in some projects
Administration	<ul style="list-style-type: none"> A Council of 32 members acts as governing board. It meets twice a year to take stock of the progress made and provide guidance on the way forward. The 32 members are split between 16 from developing countries, 14 from developed countries and 2 from economies in transition; The GEF Assembly is composed of representatives from all member countries and meets every three years. It reviews policy for operations, membership and funding; The GEF secretariat reports to the Council and the Assembly, formulates the work programme and oversees its implementation; The GEF has established an accreditation panel to review applications in its accreditation process; and It has also established the GEF Scientific and Technical Advisory Panel (STAP) made up of six expert advisers to guide the GEF technical approach and provide input to the Council and Assembly as needed 	<ul style="list-style-type: none"> The two-layer approval system (by the GEF and relevant GEF agencies) has sometimes been seen as lengthy; The multiple lines of accountability of the GEF to its Governing Council, to its Assembly, to its implementing partners and wider stakeholders present a complex challenge for its operation; The GEF approval process has been complex; a 2006 internal report found a 66-month lapse between the entry of a concept into the project pipeline and its initiation. Efforts have been made so that it was reduced to 16 to 22 months. Bureaucratic structures, work programme frequencies, Council deliberations and consensus politics were the main factors behind the length of the process; and The main challenge for the GEF will be to keep its bureaucracy as efficient as possible

2. Investment strategy and allocation		
Investment criteria	<ul style="list-style-type: none"> ▪ Six areas of projects and programmes; ▪ Key investment criteria are the additionality and incremental costs of a project/programme; and ▪ Initially, there was a project-by-project approach to allocating funds. In 2006, the approach was changed to a strategic and programmatic approach 	<ul style="list-style-type: none"> ▪ The exact definitions and calculations of additionality and incremental costs have been produced with difficulty in practice. The concept of incremental costs is difficult to isolate as it is linked to both development activities and climate change activities; and ▪ 95 per cent of pledges have been allocated to individual countries and less than 5 per cent have been set aside for regional or global programmes. Large scale environmental projects/programmes may also require some strategic and programmatic funding modalities due to the change in GEF approach in 2006
3. Investment process		
Country ownership	<ul style="list-style-type: none"> ▪ In 2006, the GEF implemented a resource allocation framework (RAF). Country allocations were to be determined with two indices. A benefit index (potential to generate global environmental benefits for climate change and biodiversity) and a performance index (measuring country capacity to successfully implement programmes). Seventy-five per cent of resources would go to the highest ranked countries and the remainder would be placed in groups with collective indicative allocations; and ▪ In order to improve the RAF, the GEF replaced it with the System for Transparent Allocation of Resources (STAR). It complemented the two indicators of the RAF with a social and economic index based on gross domestic product. STAR established: (i) a floor of US\$4 M for each country so that SIDs access enough funding, and (ii) a maximum allocation per country of 11 per cent, to prevent any monopolizing of the portfolio 	<ul style="list-style-type: none"> ▪ The content of the two RAF indicators and amount of resources to be allocated to high-ranking countries have been vividly debated. The RAF system did not reflect UNFCCC guidance which emphasized the importance of universal access to finance; ▪ STAR seems to have improved the predictability of providing funds to recipient countries; ▪ Recommendations to the GEF after a performance review in 2010 were (i) reforming in-country corporate programmes to enhance stakeholder coordination, (ii) developing a more flexible and transparent resource allocation framework and (iii) broadening access to the GEF partnership to include national development agencies in developing countries; and ▪ It has been observed more generally that there is a case to strengthen processes in country engagement and partnership in selecting projects to be funded to ensure their strategic impact and value
Implementing entity involvement	<ul style="list-style-type: none"> ▪ The GEF partners with 10 agencies and 8 project agencies. The 10 agencies are WB, UNDP, UNEP, FAO, UNIDO, ADB, the Asian Development Bank, EBRD, IDB and the International Fund for Agricultural Development. The eight project agencies are CIC, CAF, DBSA, FECO, FUNBIO, IUNC, BOAD and WWF-US 	<ul style="list-style-type: none"> ▪ A new commitment of the GEF was to expand the range of institutions through which it works. In 2011, a pilot programme to accredit new implementing partners was initiated. The key step to accreditation was to demonstrate compliance with the GEF environmental and social safeguard policy requirements

<p>Secondary level DD and internal investment approval</p>	<ul style="list-style-type: none"> ▪ UNEP provides the secretariat of STAP and the remaining agencies contribute to the management and delivery of projects; and ▪ Approval takes place at the concept note level. Second level due diligence takes place at the secretariat level and then only requires CEO approval 	<ul style="list-style-type: none"> ▪ Long process between entry of a project into the pipeline and its initiation (66 months, now reduced to 16–22 months)
<p>Private sector involvement</p>	<ul style="list-style-type: none"> ▪ The GEF did not have specific modalities to involve the private sector until 2007 when it initiated a pilot PPP called the “Earth Fund”. In addition, the GEF-UNIDO Global Cleantech Innovation Programme aims to encourage innovation in small and medium-sized enterprises through a competition and incubation pilot 	<ul style="list-style-type: none"> ▪ The GEF has been trying to develop its efforts towards the private sector (see the results framework section)

Abbreviations in this table include:

ADB – Asian Development Bank
 BOAD – West African Development Bank
 CAF – Climate Action Fund
 CEO – Chief Executive Officer
 CIC – Climate Innovation Center
 DBSA – Development Bank of Southern Africa
 EBRD – European Bank for Reconstruction and Development
 FAO – Food and Agriculture Organization of the United Nations
 FECO – Foreign Economic Cooperation Office
 FUNBIO – Brazilian Biodiversity Fund
 GEF – Global Environmental Fund
 IDB – Inter-American Development Bank
 IUNC – International Union for Conservation of Nature
 PPP – Public-Private Partnership
 SIDS – Small Island Developing States
 UNDP – United Nations Development Programme
 UNEP – United Nations Environment Programme
 UNIDO – United Nations Industrial Development Organization
 US – United States of America
 WB – World Bank
 WWF-US – World Wildlife Fund, United States of America

Table 4. Review of the operational framework of the Adaptation Fund

Item	AF practice	Comments
1. Resources mobilization and governance		
Funding	<ul style="list-style-type: none"> ▪ AF is financed in part by (i) governments and private donors, and (ii) from a 2 per cent share of proceeds of certified emission reductions (CERs) issued under the clean development mechanism (CDM) projects; and ▪ Sixty per cent of total funding comes from CDM revenues 	<ul style="list-style-type: none"> ▪ An innovative funding mechanism meant to release the AF from the uncertainties linked to voluntary contributions from developed countries; and ▪ However, low carbon prices and the volatility observed led to funding at the lower range of the expected amount, which also created an uncertainty on the predictability of revenues for the next years
Financing tools	<ul style="list-style-type: none"> ▪ Grants; and ▪ Funds can be transferred directly to national institutions (“direct access mode”) 	<ul style="list-style-type: none"> ▪ The direct access investing mode has been well received and enables countries to better align projects with national strategies
Administration	<ul style="list-style-type: none"> ▪ Supervised and managed by the Adaptation Fund Board (AFB) of 16 members, of which 69 per cent are from developing countries. The AFB meets regularly (at least twice a year) and takes decisions intersessionally by e-mail and videoconference; ▪ A secretariat (provided by the GEF on an interim basis) provides research, advisory and administration services to the AFB; and ▪ The AFB takes responsibility for accrediting entities (Accreditation Panel), for reviewing and approving projects (Project and Programme Review Committee) and good practices through an Ethics and Finance Committee 	<ul style="list-style-type: none"> ▪ Taking decisions intersessionally via e-mail and videoconference proved to be efficient to move forward in the daily operations of the AF
2. Investment strategy and allocation		
Investment criteria	<ul style="list-style-type: none"> ▪ Projects must have specific objectives with outputs that can be measured, monitored and verified. The principal and explicit aim of the projects is adaptation and increasing climate resilience 	<ul style="list-style-type: none"> ▪ Efforts were made to agree on a set of criteria to ensure a focus on the needs of the most vulnerable given there are 149 countries to the Kyoto Protocol (and AF funding is limited). It has been pointed out that the criteria were difficult to apply as there was no exact definition on which factors made countries vulnerable

3. Investment process		
Country ownership	<ul style="list-style-type: none"> ▪ National governments must appoint designated authorities which must be consulted and approve any proposals for funding related to their country; ▪ Stakeholder consultations for project development have been enhanced and must now be documented in project proposals; and ▪ Under the direct access mode, the AF has allowed accredited institutions based in developing countries and regional institutions to access funding directly 	<ul style="list-style-type: none"> ▪ Resource distribution was driven by the readiness of countries to submit credible proposals for approval. The amount of funding that a country can receive was capped at USD 10 million; and ▪ The direct access mode was well perceived as it enabled a strong national and regional involvement with entities having a good appreciation of the national context
Implementing entity involvement	<ul style="list-style-type: none"> ▪ There are 37 implementing entities in total: 20 national implementing entities, 5 regional implementing entities and 12 multilateral implementing entities; and ▪ Implementing entities bear all financial, monitoring and reporting responsibilities. They have to demonstrate financial integrity and management, institutional capacity and transparency/self-investigative powers 	<ul style="list-style-type: none"> ▪ The early stage of the accreditation process was challenging but clearer processes and systems have helped to increase the number of accredited entities. Indeed, the AF provided expertise in workshops to help entities to meet accreditation standards; and ▪ Accredited entities did not have to demonstrate that they have safeguards for the environmental and social impact of the projects, which created a potential risk in the implementation of the project/programmes (see the results framework section)
Secondary level DD and internal investment approval	<ul style="list-style-type: none"> ▪ The secretariat conducts an initial screening within 15 working days of receiving a proposal and gives the implementing entity 10 days to respond with any clarifications. Screened projects are then submitted to the Project and Program Review Committee which makes a recommendation to the AFB about the project approval based on whether it meets agreed criteria or contains required information 	<ul style="list-style-type: none"> ▪ Significant efforts have been performed to make the cycle as efficient as possible. In 2012, the average time from submission to approval for projects that go through the two steps was 12.8 months
Private sector involvement	<ul style="list-style-type: none"> ▪ The AF does not have a focus on engaging the private sector 	<ul style="list-style-type: none"> ▪ While a diversity of government agencies have been included in project preparation as well as local government institutions and civil society organizations, there has been less emphasis on private sector engagement in programme design

Abbreviations used in this table include:

AF – Adaptation Fund

GEF – Global Environmental Fund

Table 5. Review of the operational framework of the Climate Investment Funds

Item	CIFs Practice	Comments
1. Resources mobilization and governance		
Funding	<ul style="list-style-type: none"> ▪ Among the CIFs, CTF has USD 5.3 billion in pledges, FIP has USD 785 million, PPCR has USD 1.2 billion and SREP has USD796 million; and ▪ Fourteen countries contribute to the fund 	<ul style="list-style-type: none"> ▪ CTF is the largest multilateral climate fund for mitigation; ▪ The fact that CTF is capitalized through loans and grants affects how much risk it is able to take on through its instruments; and ▪ CIFs have a sunset clause foreseeing the close of CIFs once the new operating entity under the financial mechanism of the UNFCCC for climate change (GCF) becomes operational. Any remaining funds may be transferred to “another fund that has a similar objective” (CTF 2009)
Financing tools	<ul style="list-style-type: none"> ▪ Grants, concessional loans, guarantees and equity; ▪ MDB co-financing is necessary for any CTF investment, and the need for concessional finance must be justified. CTF loans are required to be on an equal footing with MDB loans; ▪ In addition to concessional loans, CTF funds can be used through loans, guarantees and equity instruments; ▪ In the private sector, terms and conditions of CTF financing are determined on a case by case basis; and ▪ In the case of the public sector, there are uniform financing terms (increasing or decreasing the proportion of CTF concessional financing blended in the overall financing plan would calibrate the grant element to the country, sector and project contexts) 	<ul style="list-style-type: none"> ▪ Overall, not all financing instruments at the disposal of the CTF have been used, partly because of a lack of procedure on how to use those instruments (e.g. exiting from equity investments) and the limited risk appetite of MDBs for some instruments; ▪ Project preparation grants were initially set up at USD 3 M per plan but this amount was found insufficient and higher levels are now being programmed; and ▪ Undefined terms and conditions allowed it to maximize the leverage of private sector investment, and avoid over-subsidizing private investors. There remain internal safeguards as MDB credit committees and CTF Trust Fund committee examine each project structure
Administration	<ul style="list-style-type: none"> ▪ CIFs have an administrative unit, an MDB committee and two Trust fund committees, CTF and SCF each have their own, with equal representation from contributor and recipient countries; ▪ Decisions are taken on a consensus basis; and ▪ The Trust Fund committee meets twice a year. Intersessional decisions, including funding approvals, are taken by e-mail and comments are made public 	<ul style="list-style-type: none"> ▪ Governance efficiency was sometimes hindered by CIFs complex architecture, including two funds and the establishment of six separate governing bodies. The consensus rule together with the lack of a secretariat with a strong executive function may have led to less effective decision-making

2. Investment strategy and allocation		
Investment criteria	<ul style="list-style-type: none"> ▪ Work in 63 countries: ODA eligible countries with a high level of CO₂ emissions in which MDBs have a developed network; ▪ CIFs support transformational projects and have a programmatic approach; and ▪ CTF has six specific investment criteria for evaluating projects: <ul style="list-style-type: none"> ▪ Potential for GHG emissions savings; ▪ Cost-effectiveness; ▪ Demonstration potential at scale; ▪ Development impact; ▪ Implementation potential; and ▪ Additional costs and risk premium 	<ul style="list-style-type: none"> ▪ The basis for projects/programmes was to be transformational but in practice, the method to conclude whether a plan was transformational or not was not always clear (i.e. how replication and broader uptake can be achieved); and ▪ CIFs could have used additional guidance on assigning relative importance between all its climate and development benefits/objectives
3. Investment process		
Country ownership	<ul style="list-style-type: none"> ▪ Recipient countries assisted by MDBs develop investment plans describing potential projects, as well as the strategic national or regional context of the projects 	<ul style="list-style-type: none"> ▪ Funding was made on a first come, first serve basis. The process has sometimes been seen as opaque and it appears that in a rush to seek resources, these programmes may have sometimes not reflected national needs and circumstances; and ▪ The MDB committee proposed an emphasis on the investment plans adequacy with CTF objectives. Two options were suggested: (i) develop a criteria and then rely on experts to screen expressions of interest from prospective countries in a rigorous fashion, potentially using a score card to justify conclusions or (ii) invite countries to develop a preliminary 'light' touch investment plan which could then be assessed with agreed criteria in mind
Implementing entity involvement	<ul style="list-style-type: none"> ▪ CIFs operates in partnership with five MDBs (AfDB, ADB, EBRD, IDB, WB Group) 	<ul style="list-style-type: none"> ▪ CIFs light touch approach relied on MDBs for supervision, quality control, etc. The result was an approval process that did not always guarantee consistency with guidelines. There were tensions between trusting MDB systems and ensuring accountability at the CIFs level

<p>Secondary level DD and internal investment approval</p>	<ul style="list-style-type: none"> ▪ Overprogramming of the CTF pipeline (up to 30 per cent) is allowed: a rolling system enables projects ready for implementation to be brought up before the committee for approval as long as funding is available; and ▪ A traffic-light system has been installed to indicate whether projects are on track for approval, slightly delayed or substantially delayed. If a project is delayed by more than 18 months from the date of original committee approval (nine months in the case of financial institution oriented programmes), the investment may be revisited 	<ul style="list-style-type: none"> ▪ Overprogramming has accelerated project approval and implementation; and ▪ The traffic-light report enabled implementing entities to offer an explanation for delays that may be incurred
<p>Private sector involvement</p>	<ul style="list-style-type: none"> ▪ Engaging the private sector is a goal of CIFs; ▪ Given that private sector involvement was not deep enough, in 2013, the CTF launched a call for proposal for USD 150 M. MDBs presented four proposals (utility scale renewable energy, risk capital to address regulatory risks for renewable energy, climate finance equity investments, and renewable energy mini-grids and distributed power generation); and ▪ The Dedicated Private Sector Programme has the objective of financing projects that can deliver scale and speed while maintaining a strong link to country priorities 	<ul style="list-style-type: none"> ▪ Not all financial instruments at the disposal of CIFs were used (see above) which limited opportunities and leverage with the private sector

Abbreviations used in this table include:

CIF – Climate Investment Funds
 CSP – Climate Service Partnership
 CTF – Clean Technology Fund
 GHG – greenhouse gas
 MDBs – Multilateral Development Banks
 PPP – Public-Private Partnership
 SMEs – Small and Medium Enterprises
 WB – World Bank

Benchmark of the result frameworks

Table 6. Review of the result framework of the Global Environment Facility

Item	GEF practice	Comments
1. Monitoring and evaluation		
Monitoring and learning	<ul style="list-style-type: none"> ▪ Annual monitoring and performance reports; ▪ Overall performance study every four years in advance of replenishment rounds; and ▪ The GEF invested in standardized Microsoft Excel-based tools and templates for reporting on GHG emission reductions 	<ul style="list-style-type: none"> ▪ Detailed information about the amount of funding that has been actually disbursed to implementing entities has not yet been made available in an integrated form.; and ▪ The standardization of GHG calculation allowed for a relatively good comparison. However, a need to strengthen the calculation/measuring of indicators other than GHG emissions has been pointed out, particularly in the areas of policy reform, market change and energy efficiency
Transparency	<ul style="list-style-type: none"> ▪ The GEF has over 400 accredited NGOs. Observers can provide written inputs and regional representatives invited to participate in council meetings; and ▪ In 2013, the GEF became a signatory to the International Aid Transparency Initiative and will begin to report on its operations in accordance with this standard 	<ul style="list-style-type: none"> ▪ The GEF operates with a relatively high degree of transparency, making most documentation on operations and decisions publicly available on its website
2. Impacts		
Scale	<ul style="list-style-type: none"> ▪ Since its inception the GEF has allocated USD 11.5 billion for more than 3,200 projects in over 165 countries; and ▪ The GEF has expressly been designed to support projects of diverse sizes. A particular approach has been to support a Small Grants Programme (SGP) for grassroots and community-level projects. 	<ul style="list-style-type: none"> ▪ Due to a low level of funding, the GEF was unable to tackle the challenges it sought to address on a global scale; ▪ In the past decade, policies on climate change have broadened the scope of intervention to energy and infrastructure issues, mixing climate change policies with sustainable growth and development strategies. Critics contend that current climate funds do not have the experience and set-up to manage investments of this scale; and ▪ A 2008 study concluded that SGP had been generally successful but that it needed an enhanced coherence and monitoring with GEF core programmes

National ownership	<ul style="list-style-type: none"> ▪ To be considered, projects need to have a support letter from the country operational focal point; and ▪ The GEF organizes national dialogues to facilitate stakeholder consultation, helping to identify country priorities 	<ul style="list-style-type: none"> ▪ GEF projects are well aligned with national priorities; and ▪ Many stakeholders, however, had the perception that relying on international implementing agencies had sometimes kept the GEF from working through national systems and an excessive reliance on international consultants had reduced the consideration of local context
Enabling environments	<ul style="list-style-type: none"> ▪ The GEF targeted the policies and regulatory barriers to mitigation. In addition, the latest GEF objectives placed an emphasis on expanding markets for renewable energy and energy efficiency 	<ul style="list-style-type: none"> ▪ The GEF has made a significant effort to help to improve policies, regulatory procedures and governance related to mitigation in developing countries.
Private sector mobilization	<ul style="list-style-type: none"> ▪ The GEF has some history of working with the private sector but not at the scale expected of the GCF; and ▪ New private sector strategies include (i) working with MDBs on PPP, (ii) fostering the use of non-grant instruments and (iii) fostering innovation in SMEs 	<ul style="list-style-type: none"> ▪ A lack of adequate financing instruments to attract the private sector; ▪ The timescale and uncertainty inherent to the GEF project cycle seemed to make participation therein less attractive to the private sector; and ▪ Independent reports mention that STAR may have reduced space for GEF engagement with the private sector as national governments saw a potential trade-off between access to funding for public sector projects and delivering financing to the private sector
Innovation	<ul style="list-style-type: none"> ▪ The GEF had a strong focus on supporting innovative technology deployment. First on technology demonstration and then on technology transfer; and ▪ The GEF together with UNDP and UNEP established a programme to help developing countries to assess their technology needs (TNA process) 	<ul style="list-style-type: none"> ▪ The GEF helped create investments in technologies, thereby accelerating the pace of their commercialization albeit in a limited number of countries; and ▪ The TNA process may have benefitted from the use of more systematic approaches/methodologies, and from a more active involvement by key domestic stakeholders (government and private sector)

Abbreviations used in this table include:

GEF – Global Environmental Fund

GHG – greenhouse gas

MDBs – Multilateral Development Banks

NGOs – Non-governmental Organizations

PPP – Public-Private Partnership

SMEs – Small and Medium Enterprises

TNA – Technology Needs Assessment

UNDP – United Nations Development Programme

UNEP – United Nations Environment Programme

Table 7. Review of results Framework of the Adaptation Fund

Item	AF practice	Comments
1. Monitoring and evaluation		
Monitoring and learning	<ul style="list-style-type: none"> ▪ An effort of the AF was to establish prior to the approval of its first project, a framework of strategic results against which AF impacts and achievements would be assessed. There are currently seven expected outcomes and associated indicators (not all projects need to address them all); and ▪ Implementing entities complete annual performance reports 	<ul style="list-style-type: none"> ▪ It showed the need for additional guidance on how to report against indicators to reduce differing interpretations and ensure comparability and aggregation of results; and ▪ The template for reporting required entities to inform, in real time, the changes in approach or delays, which led to real-time learning experiences
Transparency	<ul style="list-style-type: none"> ▪ The AF was the first climate fund to join the International Aid Transparency Index; ▪ Information on board meetings was published on the website and broadcast live; ▪ An Adaptation Fund NGO network hosted by Germanwatch has been established and coordinates NGO inputs on the AF; ▪ Independent audits of the AF are completed on a periodic basis and the AF reports on its performance to the AFB through an agreed performance framework 	<ul style="list-style-type: none"> ▪ The AF has demonstrated a significant level of transparency; and ▪ Disbursement reports are available. Implementing entities are also required to report on disbursement of funding to executing entities: reports on implementation at the country level were only available for four countries and suggested that disbursement beyond implementing entities to executing entities had been quite low. With time (as projects are quite new), a further study on the disbursements will be necessary
2. Impacts		
Scale	<ul style="list-style-type: none"> ▪ Since 2010, the AF committed USD 318 M in 50 countries for climate adaptation and resilience activities; ▪ The AF can fund projects and programmes at the community, national, regional and transboundary levels; and ▪ All approved programmes include both national components as well as subnationally focused elements. The average size for small projects is USD 6.7 M and projects range from USD 4 M to USD 10 M 	<ul style="list-style-type: none"> ▪ The limited funding of the AF constrained its ability to support programmes. Its capitalization makes it one of the smallest multilateral climate funds; and ▪ Overall, the local level was targeted as it is seen as the most appropriate for adaptation activities. Early project performance reporting suggests however that the implementation of these smaller-scale programmes has sometimes been complex
National ownership	<ul style="list-style-type: none"> ▪ All the AF projects must document how they build on existing development and climate change policies and programmes 	<ul style="list-style-type: none"> ▪ Direct access is an important innovation promoting the national ownership of projects and programmes. There is a need to ensure that accredited entities are able to help to support a coordinated approach

Enabling environments	<ul style="list-style-type: none"> ▪ Most projects have at least one component focused on strengthening legal and policy frameworks relevant to the project/programme, and must incorporate climate change into sectoral policies and approaches; and ▪ Efforts have been conducted to strengthen the capacity of institutions through training, awareness raising and direct support to the new institutional structure 	<ul style="list-style-type: none"> ▪ Most projects are in their early stages so it is difficult to provide insight into their effects on the frameworks/policies. The first four progress reports suggest that there has been some substantial progress in some cases (e.g. development of a law and the Environmental Code in Senegal)
Private sector mobilization	<ul style="list-style-type: none"> ▪ Mobilizing private investment is not a particular focus of the AF and applicants do not need to demonstrate that they will mobilize co-finance or foster private sector action 	<ul style="list-style-type: none"> ▪ Despite the lack of focus on the private sector, it has been observed in practice that several programmes had engaged the private sector (private companies as stakeholders in the implementation of the programmes)
Innovation	<ul style="list-style-type: none"> ▪ By its focus on adaptation activities, projects/programmes have introduced new technologies in the country (e.g. technology in disaster reduction, enhanced food security projects, etc.); and ▪ Several programmes also seek to partner with local research and technical institutions which can bring technical expertise 	<ul style="list-style-type: none"> ▪ The introduction of new technologies seems to have been the basis for several projects. However given the newness of projects, further study at the country level is necessary in order to evaluate the action of the AF in supporting innovation

Abbreviations used in this table include:

AF – Adaptation Fund

AFB – Asian Development Bank

NGO – Non-governmental organization

Table 8. Review of Climate Investment Funds results framework

Item	CIFs practice	Comments
1. Monitoring and evaluation		
Monitoring and learning	<ul style="list-style-type: none"> ▪ In 2009, a first results framework of 30 indicators was implemented; ▪ In 2012, a new framework with five core indicators was elaborated; and ▪ The MDBs have been working on joint approaches to determine the calculation of GHG emission reductions from their portfolios 	<ul style="list-style-type: none"> ▪ The first results framework was developed after several programming decisions had already been taken which cast opacity on the programming preparation. Parties reporting against its many indicators also found it difficult to deal with; ▪ The principle behind the new framework of indicators for “what we need to know, rather than what is nice to know” (CIFs 2013) allowed CIF to focus on clear immediate term climate results. However, an interim report evaluating the CIFs noted there was no detailed guidance on how to apply these indicators and ensure good data quality; ▪ Accounting of GHG emissions has been difficult given that MDBs have all internal methodologies that cannot be adapted. Similarly, different approaches to calculating funding “leveraged” can result in substantial differences. Clarity on methodologies for key indicators was required to ensure an effective monitoring; and ▪ Investment criteria for grants did not necessarily prompt attention to issues related to institutional readiness for programme implementation. In April 2013, CTF proposed to support a WB initiative to research the key indicators that could be used to report on the enabling environment for green investments
Transparency	<ul style="list-style-type: none"> ▪ Disbursement is reported at aggregate level for CTF as a whole and at the country level; ▪ Most investment and meeting documents are now made publicly available via a website; and ▪ Starting in late 2013, CTF started reporting in a format consistent with the International Aid Transparency Initiative 	<ul style="list-style-type: none"> ▪ CTF reporting on disbursement has improved substantially over the years. There is now public sector project level reporting but there is still no private sector project level reporting for business confidentiality reasons; and ▪ While programme approval was quick, implementation and disbursement of CTF was slower. Only 27 per cent of approved funding has been disbursed as at September 2013

2. Impacts		
Scale	<ul style="list-style-type: none"> CTF can operate at any level on par with the MDBs. For public sector investments, this means lending to national governments, lending to national governments for on-lending to subnational entities or directly lending to subnational entities 	<ul style="list-style-type: none"> Initially, the effort of CTF to invest in transformational projects led to moving large volumes of funding to large-scale investments. It missed some energy efficiency projects that were at a smaller scale; and To address this issue, the MDBs proposed programmes to channel funds through local banks to reach SMEs. As projects are still at an early stage, further study will be required
National ownership	<ul style="list-style-type: none"> Recipient countries assisted by MDBs develop investment plans describing potential projects, as well as the strategic national or regional context of projects 	<ul style="list-style-type: none"> It was pointed out that there was a need to deepen the involvement of civil society and private sector stakeholders; MDBs and partner governments indicated that some investment plans that had been approved did not fit the national country context and implementation framework; and In general investment built on existing MDB programmes for policy reform and institutional strengthening were progressing faster than in cases where there were limited or no existing MDB programmes of support in that area. It reinforces the need to invest in institutional capacity and readiness to implement the transformational programmes
Enabling environments	<ul style="list-style-type: none"> In some countries where CTF is involved policies, regulations and governance that would drive the investment are evolving and are not yet established 	<ul style="list-style-type: none"> CIFs has been engaging directly with Ministries of Finance, Planning and Energy which play a lead role in economic planning (in contrast with other funds which worked with Ministries of the Environment); Critics report that plans could have strengthened the strategic engagement on regulations to address the underlying pricing/subsidy regimes that foster business engagement; and Reports also mention that the level of institutional readiness was sometimes overestimated which led to substantial delays at the implementation stage

<p>Private sector mobilization</p>	<ul style="list-style-type: none"> ▪ One purpose of CTF was to engage the private sector; ▪ In practice, many of its programmes have supported private sector actors indirectly through public sector operations; and ▪ In response, CTF invested in a growing number of PPPs and a USD 150 M programme (see operational framework above) 	<ul style="list-style-type: none"> ▪ Programmes with the private sector integrated lessons learned from past experiences, clarifying the goals and objectives, and likely outcomes that proposed subprogrammes would fund. It is important throughout to ensure a link between those programmes and the country programming going under way. Complementarity should be sought also through a balance between the public and private sectors; and ▪ A large share of private sector programmes has been funded through financial intermediaries. MDBs started to develop impact assessments of their financial intermediary programmes. One piece of feedback was that the reporting and processing requirements of accessing CTF resources may have complicated efforts to develop such programmes
<p>Innovation</p>	<ul style="list-style-type: none"> ▪ Funding has been used to accelerate near commercial technologies 	<ul style="list-style-type: none"> ▪ While CTF has not been focused on the local innovative capacity, its experience emphasizes the importance of working with capable national institutions which can bring the innovation process to a larger scale

Abbreviations used in this table include:

CIFs – Climate Investment Funds
 CSP – Climate Services Partnership
 CTF – Clean Technology Fund
 GHG – greenhouse gas
 MDBs – Multilateral Development Banks
 PPP – Public-Private Partnership
 SMEs – Small and Medium Enterprises
 WB – World Bank

Annex V: GAVI Alliance and the Global Fund overview

1. This annex was produced through a desk review of literature (see Annex I for complete references), which were used in the development of this assessment. Given timing constraints it was not possible to seek the views of the Funds here mentioned.
2. The **GAVI Alliance** was created in 2000 as a public-private partnership to foster access to vaccines and immunization technologies in developing countries, with the goal of reducing the mortality rate in children under five. It involves donor governments, recipient countries, philanthropic trusts, the World Health Organization, the United Nations Children's Fund, multilateral organizations such as the World Bank, health research institutes and the vaccine industry.
3. The GAVI Alliance is well-known for two innovative financial mechanisms, the Advance Market Commitment and the International Finance Facility for Immunization.
4. **Advance Market Commitment:** a financial mechanism in which donor countries commit to provide financing to guarantee the vaccines under development (provided they meet pre-agreed criteria on effectiveness, cost and availability). This mechanism benefits both parties:
 - (a) It gives vaccine manufacturers the certainty of a viable market once the vaccine is developed; and
 - (b) It subsidizes the price of vaccines for developing countries.
5. A pilot Advance Market Commitment was launched in 2009 to create affordable vaccines. The governments of Canada, Italy, Norway, Russia and the United Kingdom of Great Britain and Northern Ireland, and the Bill and Melinda Gates Foundation committed USD 1.5 billion to the first Advance Market Commitment targeting a pneumococcal disease.
6. **International Finance Facility for Immunization:** this facility monetizes the long-term pledges from donor governments (over 10–20 years) in the capital markets. Since 2008, the GAVI Alliance raised USD 3.8 billion through this facility. It gives a long-term guarantee to recipient countries and vaccine manufacturers, enabling the GAVI Alliance to negotiate lower prices.
7. The GAVI Alliance provides funding to national governments based on the country's income (gross national income per capita below USD 1,000), so that 72 countries are currently being supported. The GAVI secretariat is responsible for mobilizing resources to fund programmes, coordinating programme approvals and disbursements, and managing legal and financial issues. An Independent Review Committee (with public health and technical knowledge on vaccines/immunization) reviews the countries proposals before grants are sent for approval. The Board of the GAVI Alliance establishes all policies, oversees operations and monitors programme implementation. Action of the GAVI Alliance experienced two phases: from 2000 to 2007, there were rapid fund disbursements to countries towards five-year programmes targeting three underused vaccines (the expectation being that after five years, countries would have developed their own immunization programmes). After 2007, the GAVI Alliance reviewed its strategy to improve country health systems (for sustainable health services) and develop co-financing strategies to help countries to develop immunization programmes (i.e. co-financing of new vaccines to increase the country share of vaccine costs, and co-financing of existing vaccines after the first five years).
8. **The Global Fund** was created in 2001 with a focus on three diseases (AIDS, tuberculosis and malaria). It receives administrative support from the World Health Organization and the World Bank as Trustee. The World Bank disburses funds to principal recipients upon instruction of The Global Fund secretariat. Since 2002, The Global Fund committed over USD 14.9 billion in more than 140 countries, in the form of grant approvals.

9. The Global Fund was created to address three diseases with the goal of country allocations being demand-driven. Indeed, proposals are submitted through a country coordinating mechanism, which are country-level partnerships that develop and submit grant proposals based on national priorities. For each grant, the country coordinating mechanism nominates one or two organizations to serve as principal recipient. The oversight and responsibility for the grant is allocated to the principal recipient. The Global Fund does not work directly in countries but serves as a financial instrument, disbursing resources after analysis from its independent Technical Review Panel and from defined eligibility criteria. The Board of The Global Fund is responsible for its overall governance, development of new policies and approval of grants. The Global Fund operates transparently and employs a rapid grant-making process, with grants being awarded through “rounds of funding” which ensures a predictability of funds for countries, thus easing the national programming. Principal recipients also work with The Global Fund secretariat on two-year grant agreements to set programme goals to be achieved over time, based on which local auditors (e.g. PWC, KPMG) assess the capacity of the principal recipient to administer the grants. Continued funding is then contingent on a positive evaluation from local auditors.
