SEAN-CC NEGOTIATION BRIEFING PAPER

Green Climate Fund

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June, 2014

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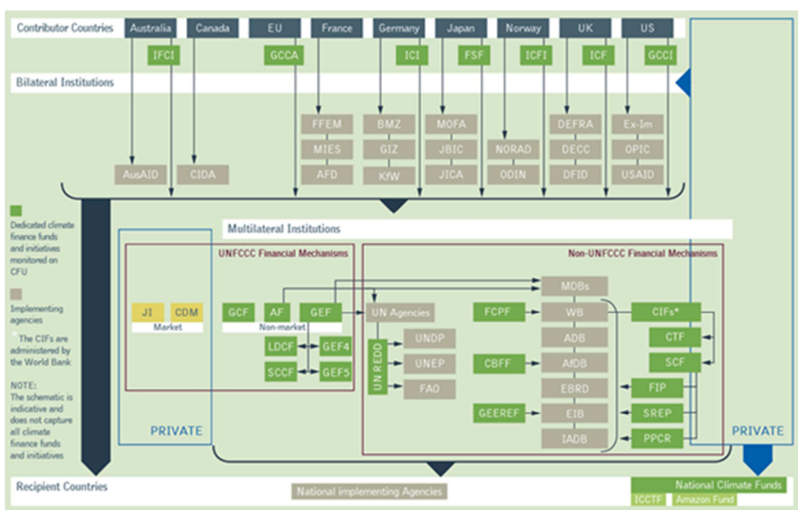
Green Climate Fund

Overview of the Green Climate Fund

The Green Climate Fund (GCF) was established under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC)[1] to channel finance towards climate change related activities in developing countries. The GCF is hosted by Songdo district, Incheon City, Republic of Korea; with its offices opening on the 4th December 2013. Its purpose is to promote a paradigm shift towards low-emission and climate-resilient development pathways [in developing countries]. Its current mandate is meeting the additional costs of climate change-related interventions through grants and concessional financing. The GCF is seen as the primary operating entity of the financial mechanism of the Convention, in accordance with Article 11 that called for a mechanism to provide "*financial resources on a grant or concessional basis, including for the transfer of technology*" (UNFCCC, 1992). The GCF is therefore accountable to and functions under the guidance of the Conference of the Parties (COP).

The GCF is one of a number of funds within the climate finance architecture which is greatly influenced by decision 7/CP.7 of the Marrakesh Accords agreed at COP-7 in 2001 (UNFCCC, 2002). This decision declared the delivery of climate finance under the Convention would be through: replenishment of the GEF, bilateral and multilateral sources, and three specially set-up funds: the Least Developed Country Fund (LDCF), the Special Climate Change Fund (SCCF), and the Kyoto Protocol Adaptation Fund. At COP16, Cancun, under decision 1/CP.16, the Green Climate Fund was added to this architecture and designated as an operating entity of the financial mechanism of the Convention under Article 11.



The architecture of the funds
Source: Climate Funds Update

Despite being only one of a number of designated funds, the GCF was conceived to be the main multilateral financing mechanism to support climate action in developing countries, handling a substantial share of finance committed under the Copenhagen Accords in 2009. This Accord agreed a goal to raise US$100 billion annually by 2020 from a wider variety of sources for enhanced action on adaptation, mitigation (including REDD-plus), technology

[1] Hence forth referred to as the UNFCCC or the Convention.

development and transfer (including carbon capture and storage), capacity-building and the preparation of national reports by developing countries (UNFCCC, 2011). Finance committed under the Convention is expected to rise from current levels after Annex-I countries were encouraged and urged respectively to continue mobilizing finance at increasing levels from fast-start finance levels (UNFCCC, 2013; 2014).

A major question yet to be answered is how its efforts will differ and be coordinated with other established financing mechanisms established under convention and protocol. Especially the LDCF which was set up to finance the creation and execution of National Adaptation Plans of Action (urgent adaptation needs in least developed countries), and the Adaptation Fund which finances 'concrete' adaptation activities with a strategic focus on giving special attention to the needs of the most vulnerable communities (UNFCCC 2009).

Organisational structure of the GCF

Overview of its relationship with the COP

Arrangements for the relationship between the GCF and COP were approved at the 5th Board meeting, and at COP 19 through decision 5/CP.19 (UNFCCC, 2013). Though the Board will retain full responsibility for funding decisions, it was agreed that the GCF will receive guidance and information requests from the COP after each session relating to policies, programme priorities and eligibility criteria; based on *inter alia* the annual report submitted by the GCF.

Paragraph 69 of the governing instrument mandates the GCF Board to establish an independent redress mechanism. The mechanism will be open, transparent, accessible, and shall address *inter alia* reconsideration of funding decisions; with other modalities developed once the mechanism is operational. These arrangements will come into effect once produced and agreed by the GCF and COP.

The arrangements mean the GCF will report annually to the COP regarding the implementation of policies, programme priorities, and eligibility criteria provided by the COP, including information on the extent to which COP guidance has been adhered. The annual report will also synthesise all activities being implemented using GCF finance, list all activities approved, provide a financial report, and report on resource allocation between adaptation and mitigation. Additionally, the report will include information on the development and implementation of mechanisms to draw on appropriate expert and technical advice, including from the relevant thematic bodies established under the Convention, and any reports of the independent evaluation unit. It will also provide information on resource mobilisation, available financial resources, and replenishment processes.

Composition of the GCF Board.

The Board is comprised of 24 principle members with an equal number from developing and developed country Parties. Representation from developing country Parties includes the representatives of relevant United Nations regional groupings and representatives from Small Island developing States and Least Developed Countries. Each Board member has an alternate member whose responsibility is to serve in absence of the principle member. Two Co-Chairs of the Board are elected by the Board members to serve for one year, with equal membership from developed and developing country Parties. Currently, the Co-Chairs of the Board are Mr. Manfred Konukiewitz (Germany) and Mr. Jose Maria Clemente Sarte Salceda (Philippines).

How decisions are made

Decision making powers rest with the GCF Board while committees and panels provide recommendations. Board committees support decision making through facilitating effective functioning of the Board, enhancing oversight, providing advice, and making recommendations; though they have decision making powers if they are delegated to them by the Board. Panels support decision making by providing advice on strategic, policy or operational matters.

Committees comprise Board members and alternate members of even number from developing and developed countries appointed by the board. Panels can be comprised of any Board members and alternate members (to be appointed by the Board); as well as technical experts, civil society representatives, private sector organizations, academics, or other individuals as decided by the Board. Members of committees and panels serve for 18 months for a maximum of 2 consecutive terms. Each committee and panel appoints a Chair and Vice Chair in consultation with Co-Chairs. The committee Chair and Vice Chair cannot both be from developing or developed countries. Committee and panel Chairs and Vice Chairs convene, set agendas, facilitate meetings, and report back to the Board. A two-thirds majority of members must be present to constitute a quorum.

Observing the deliberations of the Green Climate Fund.

The GCF recognises three categories of observers: civil society organisations, private sector organisations, and international entities. An Independent Secretariat screens applications before submitting portfolios of application material to the Board. The Independent Secretariat then forwards its accreditation recommendations to the Co-Chairs for clearance, after which it sends its recommendations on accreditation to Board members for a decision on a no-objection basis.

At the June 2013 Board meeting, the CSO and PSO active observer representatives were Mr Brandon Wu, Action Aid International (CSO); Ms. Meenakhshi Raman, Third World Network (CSO); Mr. Abyd Karmali, Climate Markets and Investment Association (PSO); and Ms. Gwen Andrews, World Business Council for Sustainable Development (PSO).

Results management framework

Developing on progress made at the 5th and 6th Board meeting, the 7th Board meetings adopted the initial results management framework outlined previously at the 5th Boarding meeting. . Further work is required on developing guidelines, templates, toolkits; establishing a monitoring and evaluation policy and methodology; and developing a methodology for portfolio evaluation. It was stressed that as a continuously learning institution, the GCF will maintain flexibility to refine its results management framework. In designing its results management framework, the GCF will build on the experience of development banks and other relevant funds, including the alignment of their framework and indicators with existing best practice models.

At the 5th Board meeting the results management framework was decided so that it: aligned with its strategic goals; supported monitoring and evaluation efforts; and included indicators and systems to support operations such as how the GCF addresses economic, social and environmental development co-benefits and gender sensitivity. The key criteria for the results management were noted to be: potential for paradigm shift towards low-emission and climate-resilient development pathways; development co-benefits; global environmental co-benefits; potential leverage; replication and scalability; cost-effectiveness; and avoidance of lock-in to high-emission, low climate-resilient alternatives.

At the 5th Board meeting it was decided that the same impact indicators will be used for all proposals in a result area to allow consistency in measuring results across projects and programmes, and to enable aggregation of results. Additionally, it was decided that the logical framework for results management will capture strategic improvements at a country and global Fund levels, and will include indicators of outputs, outcomes, impacts, paradigm shift and expected results or targets. At the 6th Board meeting a simplified results framework and funding for improving monitoring and evaluation capacity was suggested by developing countries with no final decision made (Rai, 2014).

Initial Result Areas
• Energy efficiency of buildings and appliances; • Energy efficiency of industrial processes; • Low-emission transport; • Low-emission energy access; • Large-scale low-emission power generation; • Agriculture and related land use management; • REDD+ implementation; • Sustainable forest management to support mitigation and adaptation; • Design and planning of cities to support mitigation and adaptation; • Support for result areas relating to climate hazards; • Support for selected themes cutting across adaptation result areas ("flagships"); • Facilitating capacity for programmatic and transformative adaptation activities; • Facilitating scaling up of effective community-based adaptation (CBA) actions; • Supporting coordination of public goods such as "knowledge hubs".

The initial results management framework contains a logical model, and objectives accompanied by strategic level impacts and project level outcomes for both mitigation and adaptation. The initial results management framework does not have a performance measurement framework, with the 7th Board meeting only taking note of a proposed framework. This framework uses the objectives and outcomes of the initial results management framework as expected results and outlines indicators, data sources, and responsibilities. The tools required to gather the required data rely on quantitative tools and data to be collected before, during, and after projects/programmes by the Fund Secretariat, implementing entities and executing entities. Specific tools suggested were baselines supplied using the CRED methodology, surveys, secondary data (e.g. hospital records), score cards, and remote sensing data.

The main themes of the initial results management framework are the two objectives of a shift to low-emission sustainable development pathways, and increased climate resilient sustainable development. The expected results for mitigation are: increased low-emission energy access and power generation, increased access to low-emission transport, increased energy efficiency from cities and industry, and sustainable land use and forest management including REDD+. Strategic level impacts for adaptation were: Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions; Increased resilience of health and well-being, and food and water security; increased resilience of infrastructure and the built environment to climate change threats; and improved resilience of ecosystems. Specific project and programme level outcomes that were listed were: strengthened government institutional and regulatory systems for climate-responsive development planning; increased generation and use of climate information in decision-making; strengthened adaptive capacity and reduced exposure to climate risks; strengthened awareness of climate threats and risk-reduction processes.

An initial 2-step proposal process for private and public adaptation and mitigation projects and programmes was developed at the 7th Board meeting. At this meeting the Secretariat was requested to develop and implement guidelines on the operationalization of the initial proposal approval process. The initial proposal approval process will be reviewed no later than three years after the initial resource mobilisation of the fund.

Access and allocation under of the Green Climate Fund

Allocation of funding under the GCF will follow a theme/activity-based approach that will initially allocate finance to adaptation, mitigation, and the Private Sector Facility (PSF). Resources will be allocated according to the ability of the proposed activity to promote a paradigm shift towards low-emission and climate-resilient, but also reflect the urgent adaptation needs of vulnerable countries. The allocation system will be under constant review so that it can be improved over time. At the 6th Board Meeting, the Secretariat developed and presented an initial resource allocation system to facilitate: cross-cutting proposals, a results-based approach, a country-driven approach, a geographically balanced approach, and private sector mitigation and adaptation activities at the national, regional and international levels.

Maintaining balance

The GCF has decided to manage access to resources to achieve geographical balance and a reasonable and fair allocation across a broad range of countries. Allocation will also aim to maximise the scale and transformational impact of mitigation and adaptation activities, for which there is an explicit aim to achieve a 50:50 split over time. Resources assigned to adaptation will be allocated based on the ability of proposals to demonstrate its potential for adaptation as well as an aim to channel half of adaptation finance to meet the urgent and immediate needs of vulnerable countries most notable LDCs, SIDS, and African States. Resources assigned to mitigation will be allocated based on its potential to limit and reduce GHGs.

The 6th Board meeting made no definitive agreement on the proportion of funding that would be channelled to the PSF. All that was stated was that resources will be allocated based on its ability to promote a paradigm shift; as well as its ability to directly and indirectly finance mitigation and adaptation activities, and promote the participation of private sector actors (Rai, 2014). Some developed countries believed an initial proposal of 20% was too low and more ambitious signalling was required for private sector buy-in. Others felt the undefined scope of the PSF means setting targets makes little sense. The natural tendency for the private sector to seek out profitable mitigation activities rather than novel adaptation activities was also raised; as was the concerns that public finance should not be substituted for private finance (Ibid).

The GCF will not have the capacity to fund every proposal due to a lack of available finance and the need to ensure progress towards internationally agreed outcomes e.g. the target to limit warming to 2^{o}C. Consequently project screening and trade-off balancing needs to be developed so projects deliver the most benefits in terms of reducing GHGs and enhancing climate resilience are chosen (Polycarp et al., 2014). Additionally, at the national level it must be ensured that all countries can access finance in a fair way that does not discriminate against least developed countries who have limited capacity constraints. An initial proposal to introduce a 5% country limit by the Board was met positively by LDCs who feel fair allocation cannot be achieved without a cap, believe they should not have to compete with middle income countries, and believe there is a need to prevent a concentration of resources (Rai, 2014). However, this was challenged by emerging economies such as India and China who felt a 5% cap would not be suffice to initiate a paradigm shift in their economies, and that ensuring a geographical balance is too prescriptive for the GCF whose purpose is to address climate related needs rather than act as a 'general development fund' (Ibid). Negotiations resulted in the agreement for guidelines rather than targets and a cautionary decision to ensure fair resource allocation (Ibid). Polycarp et al., (2014) highlight a need to ensure flexibility so that countries can take advantage of unforeseen circumstances such as re-building after a climate hazard.

Country ownership

At the 6th Board meeting, the GCF decided it will only finance activities in countries via a 'no-objection procedure'; designed to ensure consistency with national climate strategies, a country-driven approach, and effective financing by the GCF (see GCF/B.06/07). However, there were calls from civil society for going beyond the no objection procedure and strengthening the national entities and multi-stakeholder involvements in funding, implementing and monitoring (Pers Com, 2014). Other decisions made were to request special provisions regarding simplified procedures for special types of projects; and the endorsement of initial best-practice guidelines for establishing national designated authorities and focal points, and options for country coordination and multi-stakeholder engagement.

Readiness

The GCF has set aside an initial US$30 million to support developing countries achieve readiness, with the Executive Director authorized to commit and disburse available funds (GCF/B.06/14). At the 6th Board meeting a readiness program was discussed based loosely around four areas: preparing frameworks to align GCF support to strategic country priorities, identifying national agencies to coordinate country engagement with the GCF, identifying and preparing institutions to meet requirements for direct access, creating project and program proposals now in anticipation of full GCF operationalization. By adopting this approach the GCF ensured limited readiness funding addressed the most urgent needs, but it should be remembered that there are other areas of concern such as tracking, training, and creating incentives for climate-friendly development Additionally, the GCF will need to decide interim ways in which developing countries can access funds while institutions attain accreditation for direct access status (Brown and Terpstra, 2014). .

Board members agreed that readiness programmes need to be harnessed to avoid duplication (Rai, 2014). It was emphasised that locally-based institutions should be engaged to deliver readiness support, but this was dispute by the USA citing international procurement rules; after discussions had finished it was agreed that the GCF will provide procurement guidelines as a next step (Ibid).

Development of access modalities to be used by the GCF.

At the 5th Board meeting the development of additional modalities that further enhance direct access were also not officially on the agenda; however, they will be overseen by four Board members/alternate members (two from developing countries, two from developed countries) plus four senior international experts (nominated by the Executive Director); by no later than the 7th Board meeting. It appears likely from the 5th Board meeting that the GCF will adopt a typical 'in-house' multilateral funding model. Though this does not exclude enhanced access, it more problematic as it creates a potential conflict of interest for the Secretariat with regards to whether funding decisions should be kept in-house or devolved (Müller 2013). At the 6th Board meeting a progress report was discussed wand a decision was made to consider alongside the one on accreditation of entities to access funds. Some parties called for direct access as a starting point and keep enhanced direct access for a later stage (Pers Com, 2014).

Establishing accreditation criteria and processes

At the 7th Board Meeting, an initial guiding framework for the GCF's accreditation process was adopted. The process of developing accreditation criteria and procedures was overseen by four Board members/alternate members plus four senior international experts (nominated by the Executive Director). To aid the development of fiduciary standards, best-practices of related entities such as the GEF and Adaptation Fund were used as the basis for developing the Fund's own criteria and standards. It is guided by five principles: best practices and continuous update; accountability, transparency, fairness and professionalism; a dynamic process that is reliable, credible and flexible; coherence and integration with other relevant provisions of the Fund; and readiness and effectiveness.

The accreditation process will be conducted implemented, and supported by the Board, Secretariat, Independent Technical Advisory Function of the Secretariat, external technical experts, and assessment and review teams. However the Board remains the ultimate decision-making body. The guiding framework for the accreditation process was develop so that it enhances country-ownership, accommodates different capacities and capabilities of countries, defines the Fund's own fiduciary principles and standards and environmental and social safeguards, and accredits entities in a transparent, objective and credible manner, in line with the Fund's objectives and guiding principles.

The GCF will adopt on an interim basis the environmental and social performance standards of the IFC until the GCF has developed its own. It will be adopted using a risk-based approach rather than a 'one-size fits all' manner. To develop its own standards, the GCF will learn from the experiences of regional banks, the World Bank and the Adaptation Fund. This will commence when the pipeline of funding proposals indicates anticipated environmental and social risks and impacts; opportunities to be encountered; and sufficient funding proposals have been implemented so that lessons may be learned.

Guiding principles for determining terms of financial instruments.

At its 5th Board meeting the GCF adopted guiding principles applicable to public and private sector operations, shown below. Additionally, basic criteria and indicative parameters were adopted and it was agreed that cross-subsidization will be considered in the development of terms of conditions for grants and concessional loans. At the 6th Board meeting the Board disagreed on interest rates for loans. Some considered rates too close to market terms and developed countries pushed for the use of other instruments besides grants and loans (Pers Com, 2014). This item will be reconsidered at the next board meeting. The 7th Board meeting will discuss the modalities the GCF can use to attract alternative sources of financial inputs

Guiding principles and factors for determining terms of financial instruments	
Guiding principles applicable to public sector operations:	(i) Grant elements should be tailored to incremental cost or the risk premium required to make the investment viable; (ii) Concessional terms should not displace investments that would otherwise have occurred, including for private sector investment; (iii) Overall levels of public debt in the recipient country should be taken into account so as not to encourage excessive indebtedness.
(b) Guiding principles applicable to private sector operations:	(i) Structure terms on a case-by-case basis to address specific barriers; (ii) Minimize concessional terms by assessing needs, market conditions and other factors; (iii) Avoid distortion and crowding out commercial financing; (iv) Maximize leveraging of other financing, including public and private financing; (v) Promote long-term financial sustainability; and (vi) Apply due diligence to assess the risk to the investment.
(c) When determining terms of financial instruments applicable to both public and private operations, the following factors will need to be taken into account:	(i) The average concessionality or grant element of the financial inputs to the Fund and the average concessionality or grant element of financial instruments of the Fund; (ii) The grant element of concessional finance will be tailored to provide the appropriate incentive to facilitate the implementation of mitigation and adaptation activities; (iii) Concessional forms of finance will be designed to minimize market distortions and potential disincentives to private investment; and (iv) The expertise and capacity of financial intermediaries and implementing entities.

Capitalisation status of the Green Climate Fund

At COP-19, Warsaw, it was decided that the amount of funding necessary and available to implement the convention will be periodically assessed and reviewed, which will help inform resource mobilisation of the GCF (UNFCCC, 2013 FCCC/CP/2013/10/Add.1). The GCF will accept and maintain flexibility to receive finance on an on-going basis from public and private sector grants, paid-in public capital contributions, and concessional public loans.

At the 5th Board meeting the Secretariat was asked to discuss with its Interim Trustee, the World Bank, arrangements for receiving inputs from its Financial Intermediary Fund (FIF) trust fund, otherwise known as the "GCF Trust Fund". The financial report of the Green Climate Fund Trust Fund stated that at the end of 2013, the cumulative resources received amounted to US$33.83 million.

According to accounts, as of 31st December 2013 the GCF had contributions of US$33.8 million. Funds held in its account equalled US$28.1 million due to Interim Secretariat and Trustee costs (World Bank, 2014).

The majority of pledges have come from Annex I parties and have been for the maintenance for the Fund, rather than to finance any project or programme. Germany has thus far contributed approximately two-thirds of deposited finance, with other minor deposits from (US$ million) Norway (US$0.70), Sweden (US$1.50), Australia (US$0.51), Denmark (US$0.61), United Kingdom (US$0.77), Germany (US$1.05), France (US$0.29), Japan (US$0.50), Finland (US$0.65), Netherlands (US$0.33), Italy (US$0.5), Indonesia (US$0.25) (CAN 2014; Climate Funds Update 2014). The most significant pledge to date has been South Korea which pledged US$40 million. It is important to note that the Indonesia pledge pf support mentions the possibility of "capacity building programs under the South-South Cooperation that replicate the success stories of climate change programmes in other countries" (GCF, 2014). Müller (2014) builds on this statement to propose the establishment of Southern Solidarity Fund operating under the GCF using an enhanced direct access modality. The Southern Solidarity Fund would be led by a Board consisting of developing country members to receive voluntary contributions from developing countries for South-South cooperation.

The capitalisation of the GCF comes at a time when pledges to climate funds by developed countries have drastically reduced. In 2013 pledges were 71 per cent lower than they were in 2012 (ODI, 2013), and fears remain regarding the level of public finance to be pledged by developed countries moving forwards. The quick and sufficient capitalisation of the GCF should be a top concern as it is scheduled to start operating by the end of 2014.

Fund	Pledged	Deposited	Approved	Disbursed
Adaptation Fund (AF)	151.32	151.32	189.72	58.33
GEF Trust Fund (GEF 5)	1077.4	776.77	582.59	31.13
Least Developed Countries Fund (LDCF)	604.74	585.51	504.38	133.18
Pilot Program for Climate Resilience (PPCR)	1155	919	413.2	13.2
Special Climate Change Fund (SCCF)	258.58	239.97	179.28	111.13
Note: Figures correct as of January 2014				

Problems associated with accepting private forms of finance for capitalisation

Developed countries argue much of the money to fulfil the US$100 billion pledge will come from the private sector, with the public sector limited to leverage larger amounts from the private sector. While logic and opportunity exists to direct private investment flows from developed to developing countries, this only holds true for mitigation investments in the larger developing countries such as Brazil, China, India, South Africa and a few others. Furthermore, while some opportunities exist for private sector investments in adaptation (e.g. insurance sector) these are extremely limited (Huq and Smith, 2014). The smallest and most vulnerable countries will always need public funds to help them adapt to the adverse impacts of climate change, rather than investment to reduce their (already small) greenhouse gas emissions. The vast proportion of funds allocated for adaptation in the poorest and most vulnerable developing countries will have to rely on public-sector sources from the governments of the developed world. The issue of where the public funds will come from to meet the $100 billion target has to be resolved at the UN Climate Summit in September, and this will determine levels of private investment (Ibid).

Resource mobilisation.

At the 5th meeting it was agreed that GCF will soon commence an initial resource mobilization process and transition subsequently to a formal replenishment process. Informal resource mobilisation would start with an initial activities pledging meeting for priority areas such as readiness and preparatory support. Resource mobilisation would take place after certain requirements had been met:

- The Fund's initial result areas, core performance indicators and results management framework;

- The Fund's and Secretariat's structure and administrative policies that enable the Fund to receive, manage and disburse financial resources;
- The Fund's own best-practice fiduciary principles and standards, and environmental and social safeguards;
- The Fund's own policies and procedures for accrediting national, regional and international implementing entities and intermediaries;
- Best-practice procedures for the Fund's National Designated Authorities or focal points to conduct multi-stakeholder engagement in the context of developing funding proposals;
- The Fund's risk management framework;
- The terms of reference of the Fund's Independent Evaluation Unit, the Independent Integrity Unit and the independent redress mechanism;
- Modalities for the Fund's Private Sector Facility;
- Terms and criteria for the Fund's financial instruments; and
- Policies and procedures for the allocation of Fund resources, including results based approaches.

At the 7th Board meeting, it was decided that the eight essential requirements for the commencement of the initial resource mobilisation process have been met, and that mobilisation of resources should commence. The World Bank, in its role as Interim Trustee, was requested to provide support on the development of policies, procedures, and a template for legal arrangements for contributions to the GCF Trust Fund.

The Board also endorsed arrangements for the collective engagement of all interested contributors. In summary these arrangements were that the first meeting should take place before July 2014, that interested public contributors who have expressed at least US$5 million can participate, and that the Secretariat will prepare a document summarising the decisions taken by the Board.

Substantial initial capitalisation is required if the GCF is to have a major role in facilitating developing countries to build resilience against climate change and green their economies. Christiana Figueres, UNFCCC Executive Secretary, commented that initial capitalisation should be "at least USD$10 billion" (UNFCCC, 2014). Others such as the Climate Action Network believe that USD$10-15 billion is required over three years.

However, this still leaves many issues. An important consideration is the timeline for depositing finance, for instance USD$10 billion right away or spread over three years. Additionally, there is the need to consider replenishment arrangements. Another potential consideration is the role of Non-annex I parties, many of whom have contributed to the Global Environmental Facility Trust Fund.

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