



## **BACKGROUND**

Climate change disproportionately affects the world's poorest regions where capacity to adapt is weakest. It is in response to this that the global community agreed to establish the Green Climate Fund (GCF) - a global fund that seeks to support developing countries address adaptation and mitigation through climate resilient and low-emissions development. It is also the first Fund to explicitly mandate the integration of gender-based perspectives by adopting a gender-sensitive approach.<sup>1</sup>

The GCF was first conceived in 2009 during the United Nations Climate Change Conference in Copenhagen and was intended to become the primary multilateral funding mechanism capable of managing the vast majority of international climate flows. The decision to establish the GCF as an "operating entity of the financial mechanism of the Convention under Article 11"<sup>2</sup> was taken during COP16; and during the seventeenth session of the UNFCCC's COP in Durban, South Africa, the adoption of the governing instrument for the GCF was agreed upon.

It is envisaged that the Fund will bring together new and additional sources of finance from the public and private sectors; and channel this money in a transparent and accountable manner to developing countries. The Fund will adopt a country-driven approach by privileging direct access modalities and seek to strengthen long-term engagement across a number of levels by mobilizing relevant stakeholders and institutions.

Whilst current climate financing is primarily focused on mitigation finance, the GCF will aim to achieve a balanced allocation of funding across two primary thematic funding windows: mitigation and adaptation. These two funding windows however are not static, and other windows such as REDD+/forests are likely to make-up this new landscape. It is hoped that after the operationalization of the Fund in late 2014, better coordination and harmonization between existing climate funds will occur, with some-CIFs ceasing to exist altogether.

Over the coming months, the process of designing this Fund will significantly reshape the global climate change financial architecture and provide a far more substantial source of funding with the capacity of raising resources to US\$100 billion/year by 2020. However, whilst its mandate, scope and operational architecture are still under discussion, it was stressed during the Durban decision that the GCF "establish the necessary policies and procedures to enable an early and adequate replenishment process,"<sup>3</sup> a key component if this Fund is ever to live up to its lofty goals of providing open and simple climate finance on a global scale.

<sup>1</sup> Green Climate Fund Website. Accessed in September 2013: [www.gcfund.net](http://www.gcfund.net)

<sup>2</sup> United Nations Framework Convention on Climate Change (UNFCCC) (2011) Report of the Conference of the Parties on its sixteenth session, held in Cancun from 29 November to 10 December 2010. p.17. Accessed September 22, 2013: <http://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf#page=17>

<sup>3</sup> United Nations Framework Convention on Climate Change (UNFCCC) 2012. Green Climate Fund. Accessed September 2013

[http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/green\\_climate\\_fund/items/5869.php](http://unfccc.int/cooperation_and_support/financial_mechanism/green_climate_fund/items/5869.php)



## **ACCESS MODALITIES FOR DEVELOPING COUNTRIES**

The Transitional Committee, which is made up of 40 members-15 developed country representatives and 25 developing country representatives-has been tasked with the responsibility of designing the GCF, and thus setting out the scope, mandate and operational requirements of this new Fund. It became quite clear from the outset however, that the committee did not share a homogenous vision for the ways in which the Fund should function.

On the one hand, developing countries put forward the notion that direct access should become a fundamental tenet of the Fund, be fully accountable to the UNFCCC, and draw out much of the finance from public sector contributions in developed countries; whilst developed countries felt that a number of access modalities, much like the Adaptation Fund, should be put in place, only hold a loose relationship to the UNFCCC, and garner its finance essentially from the private sector.<sup>4</sup>

These divergences over form and function of the Fund plagued much of the discussions that were held across 2012 and it was not until March 2013 during the 3<sup>rd</sup> GCF Board meeting that was held in Berlin that access modalities and the ways in which to apply for them finally garnered momentum.<sup>5</sup> It was agreed that “a country-driven approach” should be understood as “a core principle to building the business model of the Fund.”<sup>6</sup> And lessons learned from the Adaptation Fund and Global Environment Facility should inform the design process of the GCF, with particular attention paid to the direct access modalities. In any case, the type of business model that is adopted will have sizeable implications for the overall management and size of the GCF Secretariat. In other words, the GCF will need to decide whether it becomes a conduit whereby it channels money to other agencies; or whether it becomes the manager of its own Fund by directly disbursing finances.<sup>7</sup>

It has been stressed by a number of developing country representatives that direct access and enhanced direct access should be prioritized. Under direct access, national governments will be able to access and receive the international climate funds and disburse them to the related projects or programmes. Under this modality countries will still be required to operate under the

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<sup>4</sup> Schlatak, L (2012) The Green Climate Fund – Climate Finance Fundamentals. Accessed September 2013: <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7918.pdf>

<sup>5</sup> CDKN (2013) Enhancing Direct Access to the Green Climate Fund. Accessed September 2013: <http://cdkn.org/2013/06/report-enhancing-direct-access-to-the-green-climate-fund/>

<sup>6</sup> Green Climate Fund Website. Accessed in September 2013: [www.gcfund.net](http://www.gcfund.net)

<sup>7</sup> Schlatak, L (2012) The Green Climate Fund – Climate Finance Fundamentals. Accessed September 2013: <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7918.pdf>

guidance of international frameworks and protocols.<sup>8</sup> However, if enhanced direct access becomes an accepted channel then both management and funding decisions would now also sit within the country at the national level. This would indicate a much stronger level of devolution and ultimately require a dramatic shift in the way that the current climate financial architecture operates.

### **PREPARING FOR DIRECT ACCESS**

Direct access has become a prominent and relatively new financial arrangement in delivering climate finance and allowing recipient countries to directly access the financial resources. Under the Adaptation Fund and Global Environment Facility such a modality exists, although processes have typically been slow and challenging; and with the level of funding expected to be disbursed by the GCF it is questionable whether such a modality will be easily and readily accessible.

A number of barriers that have prevented developing countries from accessing climate finance in the past will once again plague the process unless stringent fiduciary standards are met, institutional capacity exists, and extensive capacity building in this area is achieved.<sup>9</sup> Ensuring that lessons learned from the Global Environment Facility and Adaptation Fund are comprehensively integrated within the GCF process is paramount.

In addition to taking into account lessons learned, developing countries will need to initiate a number of readiness activities. In this case, readiness refers to the ability of a country to attract investments in climate friendly projects and/or technologies. Developing countries will need to create an environment that is attractive or conducive for climate investments and has created an environment that encourages both the private and public sectors to investing in projects such as climate smart agriculture, low-carbon transport, wind, and solar. For example developing countries may need to, “develop a policy to promote energy efficiency in industry; pass a law that gives a new or existing institution the mandate to promote renewable energy; or conduct an assessment of a country’s wind energy resources.”<sup>10</sup> As discussions continue regarding the framework of the GCF, an understanding of how the GCF can better support the enabling conditions for attracting investments will need to be better elucidated and confirmed. “By fostering the right enabling environments for investment, the GCF could be catalytic in putting developing countries firmly on the path to a sustainable, low-carbon, and climate-resilient future.”<sup>11</sup>

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<sup>8</sup> CDKN (2013) Enhancing Direct Access to the Green Climate Fund. Accessed September 2013: <http://cdkn.org/2013/06/report-enhancing-direct-access-to-the-green-climate-fund/>

<sup>9</sup> CDKN (2013) Enhancing Direct Access to the Green Climate Fund. Accessed September 2013: <http://cdkn.org/2013/06/report-enhancing-direct-access-to-the-green-climate-fund/>

<sup>10</sup> WRI Insights (2013) 4 Ways the Green Climate Fund can Support Readiness for Climate Finance. Accessed September 2013: <http://insights.wri.org/news/2013/03/4-ways-green-climate-fund-can-support-readiness-climate-finance>

<sup>11</sup> Ibid.

In the context of the GEF, recipient countries are able to access up to \$30,000 for the preparation of a plan explaining how they will manage the larger sum of money should their initial proposal be accepted. The country will then need to assign a national agency that will be approved by the World Bank. If they are approved then the GEF CEO can sign a grant agreement directly with the country. The GEF however, does require high fiduciary standards, environmental and social safeguards, and experience in managing the funds in their process for accrediting national entities. In the case of the GCF, the components for eligibility are likely to be similar when accessing these grants or concessional loans, thus countries will need to have a proven track record of managing vast and complex budgets, and developing and implementing programs.

Table 1. Minimum Fiduciary Standards of the Adaptation Fund\*

Audit, financial management and control framework	Project/Activity processes and oversight	Transparency and self-investigative power
<ul style="list-style-type: none"> <li>○ External financial audit</li> <li>○ Financial management and control frameworks</li> <li>○ Financial disclosure</li> <li>○ Code of Ethics</li> <li>○ Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>○ Project appraisal standards</li> <li>○ Procurement process</li> <li>○ Monitoring and project-at-risk systems</li> <li>○ Evaluation function</li> </ul>	<ul style="list-style-type: none"> <li>○ Investigative function</li> <li>○ Hotline and whistleblower protection</li> </ul>

\* Source: Adaptation Fund Board, 2009.

## THE OPERATIONALIZATION STATUS OF THE GCF

The Fund is governed by the GCF Board and has been tasked with having to make some highly ambitious decisions regarding the operating system within which this Fund will function. Thus far, the Board has met four times with a recent meeting taking place in Songdo, South Korea from June 25-28<sup>th</sup> 2013. Up until now the Board has struggled to define a Business Model Framework for the Fund as fundamental divisions regarding the vision for and purpose of the Fund continue to **mar** ongoing discussions. Decisions around “the constituent building blocks of policies, guidelines, and organizational structure of facilities, windows and units to operationalize the Fund”<sup>12</sup> continued to play center stage across the three day meeting.

Despite the inability to achieve some level of consensus around what are essentially the primary characteristics of the Fund, the June meeting did however yield the following results:<sup>13</sup>

- Decided by consensus to elect **Ms. Heda Cheikhrouhou** of the African Development Bank as the new **Executive Director of the Fund’s Independent Secretariat**. She commenced her new role in September and has been tasked with heading up the transition of the Fund Secretariat from Bonn to its permanent home in Songdo, and ensuring that the Secretariat is adequately staffed with permanent members and administrative procedures are finalized and set in place by end of 2013. As *Fundraiser in Chief* she will be tasked with

<sup>12</sup> Schlateck, L (2013) Difficult decisions deferred-the 4<sup>th</sup> Green Climate Fund Board Meeting wrestles with the Fund’s Business Model and selects its new Executive Director

<sup>13</sup> Green Climate Fund Website. Accessed in September 2013: [www.gcfund.net](http://www.gcfund.net)

the delicate role of building relationships with a number of stakeholders, particularly developed country Governments, to ensure rapid mobilization of the Fund's initial resources.<sup>14</sup>

- **Country Ownership:** The Board reaffirmed "that country ownership and a country driven approach are core principles of the Fund,"<sup>15</sup> and agreed that recipient countries should designate a national designated authority (NDA) or focal point. The NDAs will be charged with program oversight, the implementation of no-objection procedure, ensure coherence and consistency across funding proposals and act as focal points for Fund communication.

The following points of discussion did not however yield concrete conclusions but did result in the elaboration of a number of processes/pathways to be considered in the lead up to the next meeting. The discord across these issues demonstrates the fundamental disagreements regarding the vision and scope of the Fund and continues to typify discussions.

- **Business Model Framework:** The Board will "consider the core performance indicators to be employed by the Fund to measure performance against the objectives of the Fund and the mitigation and adaptation results" and "consider the expected impacts and role of the Fund in the initial result areas at its second meeting in 2014"<sup>16</sup>
- **Access Modalities:** The Board will address, "interim accreditation procedures, including best practice fiduciary principles and standards and environmental and social safeguards and any other relevant criteria to enhance transparency, effectiveness and efficiency, used by other relevant funds; the elaboration of criteria for the accreditation of sub national, national, regional and international intermediaries and implementing entities; and an assessment, against the criteria, of existing accredited national, regional and international intermediaries and implementing entities by other relevant funds, with a view to agreeing whether or not those intermediaries and implementing entities should be provided with interim accreditation."<sup>17</sup>

Very few decisions relating to the operationalization of the Fund were made during the Songdo meeting; with the bulk of the decision-making deferred to the Paris meeting in October. It is unlikely that substantive advancements regarding the overarching Business Model Framework will be made, thus potentially further pushing back the operationalization of the GCF. That said, as the COP and end of year nears, the Board and its Chair members will prioritize the development of a basic structure for this Business Model to demonstrate that the GCF is on a pathway to becoming a viable financial institution with a credible framework for delivering finance.

## TOTAL FUNDS PLEDGED BY COUNTRIES

<sup>14</sup> Schlateck, L (2013) Difficult decisions deferred-the 4<sup>th</sup> Green Climate Fund Board Meeting wrestles with the Fund's Business Model and selects its new Executive Director

<sup>15</sup> Green Climate Fund Website. Accessed in September 2013: [www.gcfund.net](http://www.gcfund.net)

<sup>16</sup> Green Climate Fund Website. Accessed in September 2013: [www.gcfund.net](http://www.gcfund.net)

<sup>17</sup> Ibid

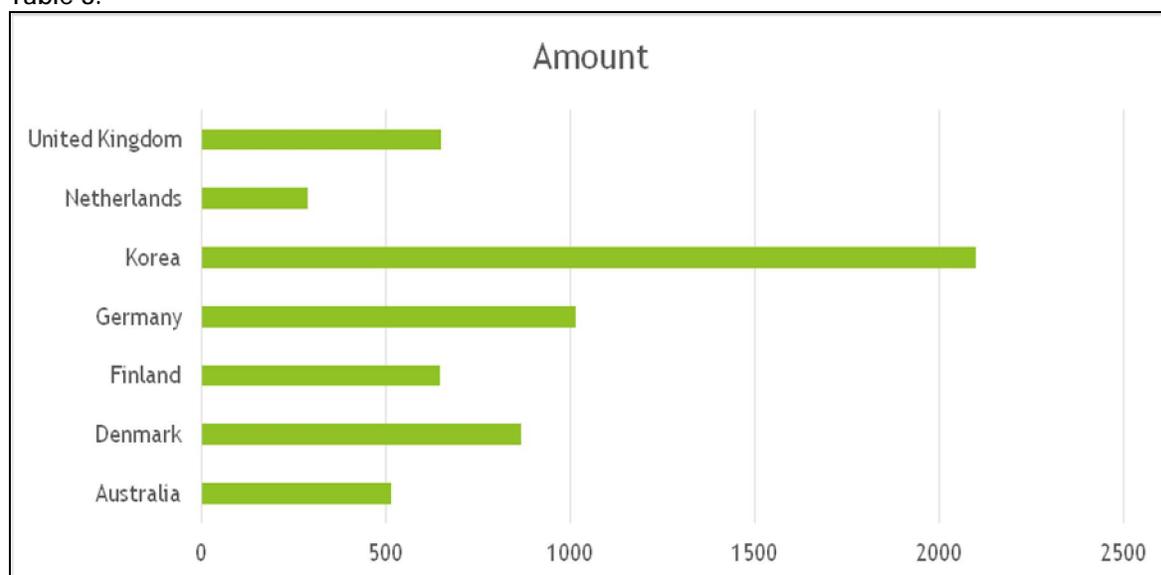


Current funding pledges and deposits of the GCF are as follows:

Table 2.

Current Finances of the GCF (US\$ millions)			
Contributor	Country	Pledged*	Deposited*
Australia	Australia	513	513
Denmark	Denmark	867	0
Finland	Finland	646	0
Germany	Germany	1,014	0
Korea	Korea	2,099	2,099
Netherlands	Netherlands	286	286
United Kingdom	United Kingdom	648	0
United States of America	United States of America	0	0
<b>TOTAL</b>		<b>6,073</b>	<b>2,898</b>

Table 3.



\*All figures are in US\$ millions.

Source: Climate Funds Update Website. Accessed in September 2013:

[www.climatefundsupdate.org](http://www.climatefundsupdate.org)

## LOOKING FORWARD

The next Board meeting will take place from October 7-10 in Paris, France and will spend the majority of its time addressing those issues that were deferred during the last Board meeting in Songdo. The Board will struggle to effectively discuss and address the estimated 20 agenda items that are currently under consideration. Furthermore, the complexity of the issues compounded with the very short time frames within which they will need to work will significantly challenge the Board.

Issues will need to be prioritized if any decisions are to be made ahead of the COP19 in Warsaw. And importantly decisions around the basic structure of the Business Model Framework will need to be agreed upon if the Fund is to have a chance of becoming fully operational by the end of 2014.

The following points offer an overview of the main items that are up for consideration at the upcoming GCF Board Meeting in Paris:

- **Business Model Framework:** Objectives and desired results of the Fund based on performance indicators
- **Country Ownership:** Addressing current best practice in ensuring country-ownership of the Fund
- **Access Modalities:** Assessment of best practice access modalities, including direct and international access, and drawing on multilateral funds in informing the organization of the Fund; Consideration of an assessment of national, regional international intermediaries and implementing entities that are accredited by other relevant funds *with a view to agreeing* on whether or not they should be provided with interim accreditation to the GCF
- **Financial Instruments:** Assessing the advantages and disadvantages of financial instruments that can be used by the Fund; Assessing existing multilateral instruments and how these can inform the design process of the Fund; Experiences of other funds (pros, cons) and their inputs to the Fund
- **Private Sector Facility:** Understanding the role played by the Private Sector Facility (PSF)
- **Resource Mobilization:** Development and implementation of a resource mobilization approach strategy for the Fund
- **Results-Management Framework:** Utilizing a results-based approach of other multilateral funds, addressing their pros/cons and applicability to the Fund; Modalities for monitoring and evaluation
- **The Relationship between the Fund and the COP:** Addressing what the relationship of the Fund as an operating entity of the financial mechanism of the UNFCCC is to the COP.

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