Summary of outstanding Essential Requirements for the GCF:

Summary Review Note for the 7th meeting of the Green Climate Fund (GCF)

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Introduction

Following the Sixth meeting of the Board of the Green Climate Fund (the Board) in February there are still a number of decisions outstanding that hover to derail the proposed timeline for the operationalization of the Fund.

Decisions were taken on gender-sensitive approach, readiness and policies for the initial allocation of Fund resources, but a number of the key issues remain open. Consequently, the upcoming Seventh meeting in Songdo in South Korea has been extended by an extra day to accommodate the large number of agenda items[1], and this meeting will be crucial in keeping the timetable on track. These issues will need to be resolved before donors can begin to pledge money to the coffers Green Climate Fund (GCF) which is expected in September at the United Nations Climate Summit in New York.

The outstanding essential requirements are:

1) Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund's fiduciary principles and standards and environmental and social safeguards;
2) Initial proposal approval process, including the criteria for programme and project funding;
3) Fund's financial risk management
4) Investment framework;
5) Initial results management framework of the Fund;
6) Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility
7) Structure of the Fund and the Secretariat;

The following paper offers a brief summary of the main issues pertaining to each of these essential, as set out in the Progress Reports that have been produced following the last meeting of the Board, and some points for consideration.

1) Guiding framework and procedures for Accreditation GCF/B.07/02

Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund's fiduciary principles and standards and environmental and social safeguards

The general objective of the guiding framework refers to the need to put all the necessary elements relating to the Fund's accreditation process within a logical and coherent operational context. The guiding framework includes (a) the fund's own Environment and Social Safeguards (ESS) and fiduciary principles and standards (b) the criteria and application procedures for the accreditation of intermediaries and Implementing Entities of the fund.
The guiding principles are intended to provide the strategic perspective for elaborating all the other elements of the guiding framework for the Fund's accreditation process which was presented in the 6th Board meeting in Bali:

i. **Best practices and continuous update:** ensuring standards and safeguards are in line with international best practices and standards, and that lessons are incorporated;
ii. **Accountability, transparency, fairness and professionalism:** governance system, procedures and

[1] Climate Finance Advisory Service, www.c-fas.net, Daily Briefing, 6th GCF Board Meeting, (18–21 February 2014, Bali) – available at https://germanwatch.org/en/download/8902.pdf

organizational approach will ensure accountability, transparency, fairness and adequate professionalism in the accreditation process and across operations;

iii. **Ensuring reliability and credibility while retaining flexibility:** rigorous, independent, objective and systematic assessment and review processes;

iv. **Striking a balance between robustness and institutional capacity:** enabling potential entities to increase their scope of activities as their capacity increases over time; and

v. **Readiness and effectiveness:** including additional criteria to enhance effectiveness, which may allow for readiness and preparatory support.

The framework explains follow key elements-

1) Operational understanding of Implementing Entities and Intermediaries

An improvement from the 6th BM progress report, the proposed report brings better clarity on the operational differentiation of roles between Implementing Entities (IEs) and Intermediaries (IIs) within this document.

- **Implementing Entities (IEs)** will act as programme managers of the fund within the country. They will be legal and accredited entities with full responsibility during the entire project cycle i.e. from preparation of funding proposal to implementation. They will be solely responsible for transferring 'grants' from the fund to the executing entities and can be entitled to a service fee.
- **Intermediaries** will have a broader scope of roles than IEs. These are accredited national, sub-national, regional or international entities with specialized abilities to perform both the role of IEs and Intermediaries. They will be expected to administer and intermediate both grants and loans (unlike the sole grant management responsibility of IEs) and also blend GCF funds with their own funds (if needed) and finally ensure that executing entities adhere to funds safeguards and fiduciary standards.

2) Fund's initial Fiduciary standards and principles

The Fund's fiduciary principles and standards apply to intermediaries and IEs that will need to comply with them to obtain accreditation. The Progress Report features an in-depth Annex (II) that elucidates on the purpose and scope of each of the fiduciary standards. Broadly speaking, there is a distinction drawn between basic and specialized fiduciary standards that will need to satisfy. These are defined as:

- **Basic fiduciary standards:** applied to all the entities seeking accreditation, referring to fundamental institutional capacities that need to be in place and fully functional;
- **Specialized fiduciary standards:** relate to specific institutional capacities and resources that are required by the Fund, according to the expected scope of responsibilities and roles.

The paper for the 7th board meeting also suggests accreditation based on a scaled-risk based differentiation approach where fiduciary standards may be differentiated based on criteria such as sector, theme, and scale of intended activities or categories of environmental and social risks.

3) Fund's interim environmental and social safeguards (ESS):

In addition to the principles and fiduciary standards, there were also a number of environmental and social safeguards detailed for final elaboration by the Board at the Seventh meeting. The Report presents a number of possible best practice safeguards from a range of institutions. These include The Global Environment Facility, The Adaptation Fund, the World Bank safeguard policies, United Nations Collaborative Programme in Reducing Emissions from Deforestation and Forest Degradation in Developing Counties (UN-REDD Programme) and the IFC performance standards. Each of these are assessed with pros and cons highlighted, as is the possible development of the Fund's own set of minimum safeguards.

The paper for the 7th Board meeting concludes that IFC performance standards are the most comprehensive and best practice safeguards and therefore such recognized ESS standards of IFC shall be used as interim ESS until the fund's own ESS are established. In future, a review should be taken to see how far the fund has advanced in developing its own ESS standards and changes shall be suggested thereafter. A scale risk based approach will be used to apply the environment and social safeguards, with a potential to apply a tiered accreditation process based on the risk categories.

4) **The accreditation process:** comprises of three stages:

Stage 1: No objection and readiness: Application once submitted will be categorized under two different tracks. **One,** direct access tracks (for subnational, national and regional applicant entities) where applicants would need to go through 2 mandatory steps (a) No objection (b) institutional assessment and completeness check. A readiness check will be optional. **Second,** International access track (for international entities, UN agencies, MDBs, etc.) will only be required to comply with the institutional assessment and completeness check.
Stage 2: Accreditation review will be conducted by the accreditation panel of the fund and **decision** by the decision board will be made based on the recommendations of the accreditation panel.
Stage 3: Final validation and developing formal arrangements for accreditation.

5) **Building complementarity between GCF and the accreditation process of other funds**: The paper proposes ways to develop a dynamic and an ongoing arrangement to bring complementarity with accreditation process of other funds.

Comments / Considerations

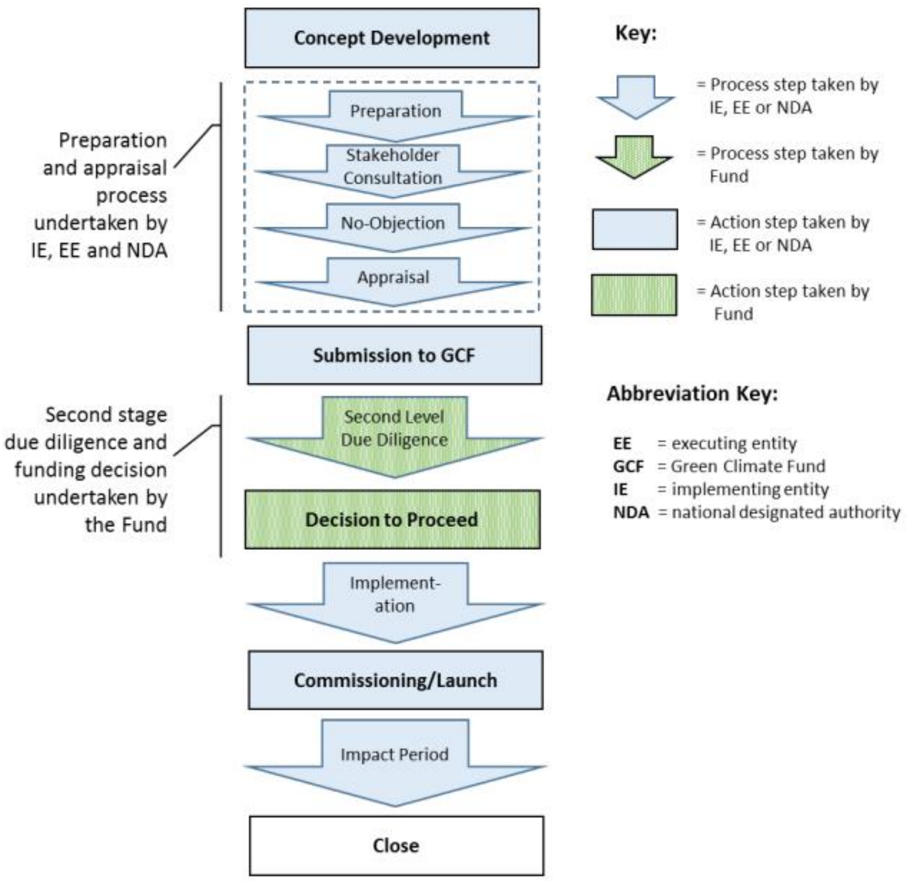
- Inclusion **of gender safeguards –** notable by its absence from the guiding principles is gender safeguards. The Board could consider amending the text of '**Best practices and continuous update'** in particular to include gender safeguards in addition to environmental and social safeguards.
- **Accreditation should include a broad range of stakeholders when taking into account 'readiness and effectiveness' –** the GCF should make more provision for consultation and participation with a range of stakeholders (including the ultimate beneficiaries) in readiness and preparatory support. Additionally, there should be more detailed provision in this guiding principle for **country-specific accreditation support**. This would be tailored support based firmly on the precise needs of that country.
- **It is unclear if the GCF will recognize the accredited (National Implementing Agencies (NIEs) under the Adaptations Fund -** the accredited NIEs under the Adaptation Fund have already demonstrated relevant capacities and competence, and as such have been granted direct access to resources under the Adaptation Fund. It should therefore reasonably follow that their qualification be recognized and accepted by the GCF.
- **Fiduciary standards should not represent an insurmountable obstacle to accreditation -** the full set of IFC performance standards would most like probably impose an impossibly stringent conditions for a number of the least developed countries to meet. A tiered accreditation process as proposed should therefore incorporate a degree of flexibility based on a number of factors.
- **Transparency and accountability should take account of oversight capacity of IE/intermediary** – this will extend to environmental and social safeguards, and not just financial mismanagement and other forms of malpractices. It would also be worthwhile to further elucidate on requirements for 'code of ethics', as the current provision in the Progress Report is rather opaque
- **Commitment beyond accreditation should be factored in-** the capacity and commitment of any entity that seeks accreditation should thoroughly assessed to determine its ability to apply the requisite safeguards, as well as monitoring intermediaries and IEs to ensure ongoing commitment. This would

necessitate the development of systems to assess commitment. Conversely, there could be the option that disincentives could be integrated into the standards for under/ non-performance.

- **No objection** within the accreditation process is only mandatory for national applicants and not for the international applicants such as MDBs and UN agencies. It should be further explained why the mandatory requirements differ for both.

2) Initial proposal approval process, including the criteria for programme and project funding - GCF/B.07/03

The approval process and criteria for funding for GCF projects/programmes will direct how funds will be disbursed. A proposal has been put forward for this process, including a project/programme approval cycle, the generation of project/ programme proposals, decision-making, and the criteria for funding, as well as outlined next steps. The approval cycle is outlined in the diagram below:



The decision-making criteria for funding activities will be clustered under six categories:

1) **Impact Potential** - Potential to contribute to the achievement of a fund's objectives and result area.
2) **Transformational Potential** - Degree to which a fund can achieve impact beyond a one-off project/programme investment through Replicability and scalability.
3) **Needs of the Beneficiary** - Degree to which a beneficiary needs the finance more than others, or is relatively less capable than others to fulfil this need through other funding sources.
4) **Institutional Capacity** - Beneficiary's capacity to implement a funded project/programme.

5) **Economic Efficiency** - Benefit-cost balance of activity.
6) **Financial viability** - Activity is financially sound.

Comments and considerations:

- **Greater opportunity for monitoring, lesson learning and evidence gathering in the programme cycle –**Activity outcomes are to be monitored and evaluated, and reported upon as part of the Fund's results management framework. Monitoring of the financial and economic performance is also to be undertaken. However, there is still the opportunity for specific provision for the gathering of lessons from experience, in addition to these activities, in order to make constant improvements in GCF funding effectiveness. For example, the activity cycle described in page 4 of the document GCF B.07/03 mentions 'impact period' as a process step taken by IE, EE or NDA. The document does not mention how learning during different activity stages will feed in effective decision making in an ongoing manner.

- **How to ensure effective stakeholder engagement? – As** can be seen by the steps outlined above, stakeholder consultations will take place in the appraisal and project preparation stages of the programme/project approval cycle. This is a particular point that has been mandated in the GCF Governing Instrument; however, to operationalise this point it will be important that stakeholder involvement is not only limited to information dissemination. The approval process should develop clear mechanisms to systematically seek their suggestions and take them on board. Wider stakeholders such as sub national entities or broader community based organised should also have the opportunities to put a no- objection to proposals or submit alternative proposals, without placing unnecessary delays in the process.

- **Capacity building should be further considered**: consideration is needed regarding capacity building for least developed countries that may requires assistance in putting together proposals that are likely to be successful. There is the opportunity for this to tie in with the Readiness and Preparatory Support programme that was agreed upon by the Board in October 2013[2]. For example, in many countries, some executing entities or line ministries may have previous experience of submitting project proposals but many others at sub national or ministerial levels may lack knowledge of putting together a successful proposal. To ensure wider representation of project priorities from the country it would be important to capacitate various potential executing entities in proposal development, so that national priorities are not defined by one or two entities that are well versed and experienced in such processes. Kenya's County Adaptation Fund[3] (CAF) has set one such example, where capacity building at the local ward committees and local governance level has empowered devolved decision making and submission of project proposals that represent bottom up interests. The funding model satisfies various fiduciary standards and safeguards through institutionalised County Adaptation Planning Committees (CAPC) and Ward Adaptation Planning Committees (WAPC). The CAF approach is now also being tested at sub-national level in other countries such Tanzania.

- **There needs to be clarity on the issue of delegation** –the issue of delegation to the Secretariat needs to be more closely defined, and the reasons and the circumstances that will lead to potential delegation needs to be elucidated. If the GCF achieves an ambitious level of funding and programming, the Board will need to determine criteria and processes for delegation of authority over decision-making. The GCF Board meets every quarter and has no resident Board, leaving

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[2] Decision B.05/14, Decisions of the Board – Fifth Meeting of the Board, 8-10 October 2013
3 Hesse, C. & Pattison, J. (2013). Ensuring devolution supports adaptation and climate resilient growth in Kenya . http://pubs.iied.org/17161IIED.htm

them will little capacity to make inter sessional decisions or approvals. It is entirely foreseeable that the Board will have a relatively high volume of proposals, may need to delegate decision-making authority to the Secretariat or some other body, which needs to be clarified. Funding thresholds does appear to have been considered as a potential criteria for delegation in criteria ii), but this will need to be fully clarified.

- **Preference in decision-making given to the most vulnerable –** There could potentially be an opportunity to use favourable weighting systems to give preference to LDCs/SIDS/African states. This could fall under criteria category 'Transformational Potential', and could take account of particular country vulnerabilities. Indeed, for adaptation funding the GCF Governing Instrument offers guidance in this respect with allocation to take account of the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, using minimum allocation floors for these countries as appropriate. The Board is to aim for appropriate geographical balance[4]. This could be reflected in the criteria.

- **Better criteria for 'Transformational Potential' –** transformational impact of activities should be measured beyond just GHG emissions and should include additional (co-)benefits so as to be reflective of the broader development context of the country. Decision criteria for approval of investment proposals by the Fund that focus narrowly on only the economic efficiency of emissions reductions, but take not into account the sustainable development context and the gender-sensitive approach in which GCF funding is to take place. One possible approach is to include policy interventions and coherence with national low-carbon development and mitigation strategies as sub-elements of the 'Transformational Potential' criteria category. This will look to align GCF's investment with the development strategies. (However, it is essential that the money not be double-counted as finance merely for development.)

- **Country ownership as possible criteria** - country ownership could be included as one of the funding approval criteria.

3) Risk management framework of the Fund - GCF/B.07/05

The risk management framework provides guidance on the fund's "risk appetite" which will be considered for investment decisions made under the Fund. This essentially sets out the overall level of financial risk the Board is willing to assume for the Fund in pursuit of its objectives, and that will be reflected in the Fund's investment framework.

The risk management framework document proposes that GCF should identify the right balance of risk while funding investments. This right level implies striking a balance between a high level of risk appetite, and a more conservative risk appetite that doesn't undermine long-term viability. It is suggested that determining this right balance of risk and sustainability will be done iteratively overtime using regular monitoring.

The fund assumes financial risks at three levels: (a) asset-side risk; (b) liability-side risk; (c) asset-liability mismatch risk. The **asset side risk** comprise of risks associated with the asset portfolio of the Fund comprising of financial instruments such as grants and loans that will be allocated based on Board approvals and finally through accredited IEs and intermediaries. **Liability-side risk** constitutes risks when contributing countries could fail to honour the pledges or when countries experience currency risk. **Asset-liability mismatch risk** means a mismatch between assets and liabilities or grants

[4] Supra Note 1, Para. 52

offered vs grants received from contributing countries. The asset-side risk will be managed through IEs and Intermediaries, as stated within the point 5.1 (para 10a (ii) of the proposed framework. This approach requires that the respective IEs and intermediaries have sufficient risk controls in place and also institutionalised covenants communicated to the secretariat and the executing entities.

The current document provides a holistic overview of the categorisation of risk (Annex 3, page number 12) under the table titled, the 'Fund's financial risk categorization and management'. However, the table currently leaves many unanswered questions. For examples what will be the dimensions for evaluation? How will the risks be measured: by calculating probability, impact and priority? And, what kind of risk mitigation instruments can be suggested?

Comments and considerations:

- **Higher risk appetite for investment in LDCs:** The Board members should also consider having a higher risk appetite for investments in least developed countries. For example, while setting the initial values for key risk parameters (e.g. ceilings for Non-Performing Loans (NPLs)) the delay risks, stakeholder risks, country risks could be higher in some countries over others, and therefore country-needs factored in to performance. If country need and performance are linked, the tolerance level for the proportion of NPLs should be accepted as higher in Least Developed Countries, where return on investments will take longer.
- **Management of asset-side risks by IEs and intermediaries:** At present, multilateral agencies such as IFC, WB, etc. are some key institutions which have their own risk controls in place. Apart from that, national institutions, particularly in least developed countries, may not have sufficient mechanisms in place. In cases where controls are not in place, technical assistance for readiness support would be needed to enhance capacities for risk measurement. The guiding framework on accreditation of NIEs, etc., lists these aspects in the specialised fiduciary standards needed for the NIEs where project risk management capabilities will be important to acquire accreditation that meets specialised fiduciary standards. However, some countries are taking some initial steps to enable national MDAs (Ministries, Departments and Agencies) to integrate financial, environmental and climate risks within their national project approval processes. The Climate Fiscal Framework[5] is one such initiative in Bangladesh and Nepal, whereby implementing entities are expected to consider financial and climate risks within at their project proposal stage. An analysis of such innovations will offer interesting lessons to draw from.
  Although some evidence shows that even if institutions have strong risk measurement standards, compliance and implementation of risk management measures are not always at its best, especially if we look beyond financial risks (e.g. social and environmental risks). For example, the IFC is presented as an international best practise benchmark for financial risk and performance standards. However, according to a recent audit report the IFC struggles to monitor risks adequately on the ground, due to inadequate oversight of application of standards. Even if the qualities of standards are good, their oversight and application is important. An emphasis on building the capacities for monitoring and oversight could be one area for further readiness support during the accreditation process.
- **Innovative risk mitigation instruments:** Countries will also require innovative risk mitigation instruments to address high-risk challenges, such as those faced by least developed and small island countries. For example, the Scaling-up Renewable Energy Programme (SREP) funded by the Climate Investment Funds (CIFs) is using specific risk hedging financial instruments to address "delay risk" and "foreign exchange risks" through SREPs foreign exchange risk support. It is also not immediately clear how risk is going to be measured and evaluated. An indicative risk register and preliminary examples of how risks will be measured could be useful. The weights given for risk

[5] MoF, Climate Fiscal Framework, Ministry of Finance, Bangladesh.

assessment and the instruments suggested for risk mitigation will need to be tailored to different categories of countries (Developing, LDC, SIDs).

4) Initial results management framework of the Fund - GCF/B.07/04

At the 5th Board meeting, there were fourteen results areas proposed[6], but there was no decision made at the 6th meeting in February. This particular topic has proven to be a difficult one to resolve, underlining the difficulties in evaluating the various results mandated by the Governing Instrument[7].

In the form of a logic model, the Progress Report sets out how inputs and activities lead to results achieved at the project/programme, country, strategic impact and paradigm shift levels. The table below describes each level of the logic model and indicates the estimated time required to achieve the relevant results from the time of project inception:

Level	Description	Time required
Input level	Fund grants/concessional loans and human effort	start of intervention
Activity level	Direct services provided through Fund investments	short-term
Project/programme output level	Changes achieved as a result of project/programme outputs	short-term
Project/programme outcome level (country level)	Aggregate changes identified in country policy/planning documents	medium to long-term
Impact level (strategic level)	Aggregate changes achieved in the Fund's key strategic result areas	long term
Paradigm shift objective level	Changes achieved, i.e. all facets of society are demanding and integrating low-emission and climate-resilient approaches to sustainable development	long term (15 yrs+)

The Report then goes on to outline the steps required to create a shift towards low-emission development pathways, and increased climate-resilient sustainable development. (Elaborated in the Report's Annexes II for Mitigation& III for Adaptation). Strategic areas are outline for each theme include;

- **Mitigation –**
    - i. Increased low-emission energy access and power generation;
    - ii. Increased access to low-emission transport;
    - iii. Increased energy-efficiency in buildings, cities and industries; and
    - iv. Sustainable land use and forest management, including REDD+
- **Adaptation –**
    - i. Increased resilience and enhanced livelihoods of the most vulnerable people, communities and regions;
    - ii. Increased resilience of health and well-being, and food and water security;
    - iii. Increased resilience of infrastructure and the built environment to climate change threats; and
    - iv. Improved resilience of ecosystems.

The Performance Measurement Framework (PMF) is also presented which seeks to measure both

[6] See Business Model Framework Results Management Framework, B.05/03, Paras.(a) – (n) – available at http://gcfund.net/fileadmin/00_customer/documents/MOB201406-7th/GCF_B07_04_Initial_Results_Management_Framework__fin_20140509.pdf

[7] See the Governing Instrument for the Green Climate Fund, paras. 2, 3, 57 & 58

mitigation and adaptation interventions. For mitigation there are three core indicators, and further four that will be selected based on the scope of the intervention. It is envisaged that the information gathered will contribute to the development of a global marginal abatement curve (MAC). A global MAC could provide useful guidance regarding cost-effective approaches to greenhouse gas (GHG) emission reduction.

The proposed PMF for adaptation presents indicators that were developed following consultation with key performance measurement staff at Climate Investment Funds (CIFs), the Global Environment Facility (GEF), and the Adaptation Fund. Given both the expanded financial and geographical scale of the GCF, the indicators have been designed to accommodate this wider scope of intervention. It is proposed that qualitative and quantitative adaptation indicators be included in the PMF. These will be indicators that that have been successfully measured (e.g. the Pilot Program for Climate Resilience (PPCR) government policy and capacity indicators) or indicators that have been recently redesigned based on measurement experience (e.g. Adaptation Fund indicators and the GEF's proposed changes awaiting imminent approval by its Board). It is proposed that the Fund also explore using the Independent Evaluation Unit (IEU) to do the same for the Fund investments.

The indicators (in the Logical Framework in Annex IV & V of the Report) omit technology transfer. For the adaptation indicators there is an indicator to measure the degree of mainstreaming of climate change in national and sector planning, but overall there is a heavy leaning towards the aggregation of project-level activities, and less on changes in policy. For both mitigation and adaptation, there is a heavy bias towards quantitative indicators as well, which leaves little room for the inclusion of narratives. There is also limited scope for the inclusion of co-benefits in the indicators; here is the provision that mitigation interventions funded by the Fund report on at least one co-benefit, and it is assumed that all adaptation interventions will contribute to foster socioeconomic development, and such there is no indicator to measure this.

The performance measurement process will be the responsibility of the Secretariat, and the accredited IEs and intermediaries, and EEs. But, acknowledging that there may be gaps in capacity for reporting, and as such support for capacity-building on results measurement will b to ensure the reliability of performance measurement data, support for capacity-building is suggested as part of the GCF activities to help endure reliability of performance measurement data, support for capacity building on results. It is also proposed that knowledge-sharing should take place that draws for on-the-ground success cases and experiences.

As stated above, the decision to proceed is a crucial step in the approval process, and the PMF is an important tool for results-based or performance-based allocation. The Report further recognizes that the PMF cannot by itself provide the basis for allocation decisions. It is proposed that the Fund's resource allocation process should evolve over the course of the first few years of operation, drawing on its experience in generating results and its lessons learned. There are three major points in time for the collection of result information that could inform allocation decisions:

i. **Regular performance measurement** - using PMF to generate timely feedback on project progress for reporting and to enhance management decision-making;
ii. **Impact assessment** - at the end of a project/ programme; and
iii. **Evaluation covering multiple project or programme results** - assessing the level of results achievement, while also addressing broader contextual matters, such as relevance, coherence, country context and efficiency of implementation over a longer timeframe

Comments and consideration:

- **Better definition of high-level paradigm shift objectives –** for both the initial mitigation and the adaptation logic models the top-level objective is detailed as a 'paradigm shift', yet there is still further elaboration of the term required. Definitional issues will have a potential impact on the measurement of activities, and deeper understanding of ambitious results will be needed. A 'paradigm shift' can also be construed as rather ambitious objective, and will therefore require both adequate financing and ample time to ensure that activities achieve such an aspiring objective. The required performance to achieve a paradigm shift may prove challenging for the Least Developed Countries (LDCs) and Small Island Developing States (SIDSs), and the Board may wish to consider that the 'paradigm shift' object and the allotted time bound horizon indicated in the logic model may be incongruous.
- **Use of a Theory of Change –** a proposed causal pathway for the achievement of results is indeed presented, but there is still further opportunity for the logic models to incorporate a full theory of change approach. As the logic models currently stand, they are likely to lead to more of results based approach that has a relatively narrow focus on inputs and outputs, without the use of narratives, which is less useful for learning purposes. The linkages between different levels of results – indicative activities, outputs, outcomes -are not made clear for the project/programmes. These relationships are important to determine attribution of achieved outcomes with GCF inputs.
- **Closer alignment of approval criteria and the logic models -** project proposal approvals are to be agreed by the Board (or the Secretariat) based on the fulfilment of certain criteria. The future funding for these projects/programmes will be founded on the outcomes. As such, it follows that the evaluation of a project/programme should be on the same set criteria in order to determine that the intervention achieved the intended results.
- **Explicit inclusion of poverty reduction in adaptation logic model –** the strategic level impacts omits a specific reference to poverty reduction (although there is an express mention of improved livelihoods.)
- **Recipient countries should determine their own adaptation options -** the adaptation logic model is silent on the types of adaptation, for example deficit, incremental and transformative. Developing countries should be given the opportunity demarcate their own adaptation objectives.
- **Better integration of learning –** whilst it is encouraging to see that the importance of learning is acknowledged in GCF/B.07/04, this is not reflected in the initial logic models (or indeed in the set of indicators for either mitigation or adaptation), which seems to suggest that learning would be more of a by-product of the RMF as opposed to be being clearly defined mechanism. Whilst there is a knowledge sharing section in the Report that goes some way in outlining how a system may look, there is room for further elaboration and closer integration to ensure to lessons are incorporated from monitoring and evaluation into decisions that can then improve Fund effectiveness. (Knowledge sharing is also framed from a 'projectised' perspective, and does not appear to take account of a more programmatic approach.)
- **Incorporate adaptation indicators already being measured by countries-** specific vulnerability indicators that are already being measured within the national systems of some countries could be used instead of a set of pre-formulated indicators. This will allow for a more flexible and targeted approach to the monitoring and evaluating that is country driven.
- **Climate resilient development should be measured** - There is an indicator to measure the degree of mainstreaming of climate change in national and sector planning, but overall there is a heavy leaning towards the aggregation of project-level activities, and less on changes in policy. For both mitigation and adaptation, there is a heavy bias towards quantitative indicators as well, which leaves little room for the inclusion of narratives. Climate resilient development could be measured by tracking progress within the national systems in mainstreaming climate risk management. The RMF could also seek to measure how effective it is in financing the transition to climate resilient green economies.
- **Further elaboration is needed of roles and responsibilities or measuring and evaluation activities –** whilst it is stated in GCF/B.07/04 that the roles and responsibilities will be clearly delineated, there is no practical direction on how the monitoring and evaluation processes at the different

results level will be brought together to assess impacts at a higher level. This could be an area that is discussed at the 7th Board meeting and integrated into any decisions.

- **Improved scope to measure co-benefits is needed -** There is also limited scope for the inclusion of co-benefits in the indicators; there is the provision that mitigation interventions funded by the Fund report on at least one co-benefit, and it is assumed that all adaptation interventions will contribute to foster socioeconomic development, and such there is no indicator to measure this.
- **Results-based allocation may undermine the intended paradigm shift** – the Board should be mindful that this results-based allocation might encourage a 'project-centric' approach, with a focus on relatively straightforward adaptation measures that are easy to measure. This may discourage a more transformative approach to adaptation.

5) Structure of the Fund, and the Secretariat

One of the essential requirements for the Fund to receive, manage, programme and disburse financial resources is to finalize the initial Structure of the Fund and the Secretariat, and Progress Report GCF/B.07/07 outlines this proposed structure, but more importantly the delineation of roles and responsibilities, for finalization at the 7th meeting of the Board. The structure of the GCF can be considered the 'linchpin' of many of the other outstanding issues, as the governance will to a large degree dictate how much of the decision-making takes place.

The structure and roles as envisaged in GCF/B.07/07 are set out as the following:

- **The Board-** the 24 person Board – comprising an equal split of developed and developing country members, and two civil society who act as observers – is chaired by co-chairs. Again, one each from a developed and developing countries. Decisions are taken by consensus, and a two-thirds majority must be present at a meeting to constitute a quorum. Consensus exists when no objection is stated by any member. Decision-making can be delegated to the Secretariat too, but as noted above, the circumstances for this situation requires further elaboration. The Board conducts much of its business via a number of committees and panels on Risk Management, Investments, Ethics & Audit, the Private Sector Advisory Group (PSAG) (which is to exist for a period of three years). The PSG is charged with making recommendations to the Board on how the Fund, including its Private Sector Facility, should engage the private sector in order to catalyze, mobilize and leverage flows of private climate finance in developing countries and make best use of the knowledge on best available technologies. The PSAG has indicated that the structure of the Fund will not in itself prove an impediment to investment by the private sector, but rather well-defined rules, removal of bureaucracy, and strong investment will determine the degree to which the private sector engages with the GCF. Additionally, the Board may need to also weigh up the fact that approaches taken in working with public sector-based finance will bot necessarily be the same as those for the private sector. At the upcoming meeting, the Board will consider a proposal to establish an Accreditation Panel, which will be in charge of conducting the accreditation process for intermediaries and IEs. The Board will also consider a proposal to adopt the Fund's initial financial risk management framework, and the governance arrangement for roles and responsibilities relating to the Fund's financial risk governance.

- **The Secretariat –**the Secretariat independent, but accountable to the Board. It is responsible for the day-to-day operations of the Fund, which will include operationalize the project/programme cycle processes, and monitoring and evaluation. It is also to perform any other functions assigned by the Board, which may mean it will be required to act in a decision-making capacity on the allocation of GCF funds. As part of the Secretariat there is a Private Sector Facility division.

- **The Trustee -** The Trustee of the Fund will manage the financial assets of the Fund. It will maintain appropriate financial records and prepare financial statements and other reports required by the Board.

The Trustee is accountable to the Board for the performance of its responsibilities.

- **Independent Accountability Units –** there are three of these units;

  i. The Independent Evaluation Unit – to evaluate the performance of the Fund in order to provide an objective assessment of the results of the Fund, including its funded activities and its effectiveness and efficiency;

  ii. The Independent Integrity Unit - will work with the Secretariat to investigate allegations of fraud and corruption in coordination with relevant counterpart authorities; and

  iii. The independent redress mechanism - will receive complaints related to the operation of the Fund, evaluate them, and make recommendations.

- **National designated authorities and focal points -** recipient countries may appoint a national designated authority (NDA) or mandate a focal point to interact with the Fund. The Secretariat has inviting 120 countries to designate an NDA or a focal point, and develop their readiness and preparedness to access the Fund.

6) Initial modalities for the operation of the Fund’s mitigation and adaptation windows and its Private Sector Facility

- The Governing Instrument of the GCF states that the Fund will provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach and will encourage the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects. This is the bedrock for the document GCF/B.07/08, but this particular document can best be described as a collection of the various matters that have already been discussed above, and is an attempt to collect the issues in one place in one place to demonstrate how they fit together in a coherent fashion. This document should be viewed more as an overview.

- One key topic contained in GCF/B.07/08 is that of the private sector facility (PSF). The PSF will enable the Fund to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels. The PSF is to tackle barriers to private sector investment in adaptation and mitigation activities, including market failures, insufficient capacity and lack of awareness. This is with a view mobilizing private capital and expertise at scale. The Board has decided that the PSF will operate as an integral component of the Fund including in relation to the Fund result areas and specific core performance indicators. This particular element however, will require further explanation as to how this will actually take place, and how it will work when operational.

- As per its mandate, the PSAG met in April 2014, and devised a number of recommendations to the GCF Board for engaging with the private sector. With specific regard to the PSF, it was recommended that the Board identify specific gaps for private sector finance that the Fund wishes to bridge, as well as ascertaining what additional mechanisms the Fund will require to make an impact and meet its results. These topics will need to be resolved before the PSF can start making a meaningful contribution to the Fund’s activities.