WORLD RESOURCES INSTITUTE

Key Policy Issues in the Green Climate Fund

A Guide for the Perplexed

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Why We Wrote This Guide

The Green Climate Fund (GCF) is the world's biggest multilateral climate fund. It was established in 2010 through the United Nations Framework Convention on Climate Change (UNFCCC), which is the founding international agreement on climate change. The Fund is one of the main channels of finance for developing countries to take actions to address climate change and is accountable to the Parties to the UNFCCC. The GCF also serves the Paris Agreement on climate change and must ensure that it is country-driven and responds to the needs of developing countries. The GCF seeks to mobilize both public and private finance to support a paradigm shift toward low-emissions and climate-resilient development, balance funding between mitigation and adaptation, achieve a broad array of benefits, and promote gender-responsive policies and activities. For all these reasons, anyone who cares about the future of climate finance and of the Paris Agreement must also care about the future of the GCF.

We wrote this guide because, although the GCF is a highly transparent organization, it is also hard for newcomers (and sometimes even the veteran!) to navigate. As in any large organization in the climate finance space, the issues the GCF deals with are complex and often interconnected. Important information is scattered across dozens of documents, reports, and annexes. GCF decisions build on each other over time, so that only those who have followed an issue over time understand the full picture well. And because decisions are the product of intense negotiations, they are often written in technical language that is difficult to grasp quickly.

Yet it is essential that all GCF stakeholders, especially those who are part of the governance of the institution, fully understand the Fund's policy direction and all the critical details of the decisions considered by the Board. The more informed GCF stakeholders are, the more likely it is that the Board will take good decisions and that the Fund will fulfill its important mandate. Several critical policy issues that are important for the Fund's operational effectiveness remain undecided or in early stages of development. Decisions on those issues will have important implications for the GCF's mission and for those who receive or seek to receive support from the Fund.

We reviewed hundreds of pages of GCF decisions and distilled them into this compact document, which covers 14 policy areas. We tried our best to present each issue in clear, nontechnical language while remaining accurate and faithful to the official texts. The guide explains each issue, why it matters, what the current policy and practice is, what policy questions remain to be decided, and how the issue is linked to other policy areas covered. We do not offer policy prescriptions or recommendations—we stick to what has been agreed already and what has been proposed by the Board through its documents and webcasts of its meetings, as well as what the GCF Secretariat has proposed in its own documents. We hope this document will be a useful reference tool, and that we can work with others in the future to keep it updated.

How We Chose What to Focus On

To determine which issues to include in this guide, we analyzed Board meeting agendas and work plans for the past two years and conducted consultations with GCF stakeholders, including Board members and advisors, Secretariat staff, accredited entities, and representatives of civil society and the private sector. We analyzed the action items that appeared on the agendas of each Board meeting over the past two years (the 16th through 21st meetings, in 2017 and 2018) and noted which issues were on the agendas, at which meetings they were discussed, and how many times each issue was included as an action item.

66 policy issues appeared as action items on the agendas for the GCF Board meetings during this period. To identify the issues that are most likely to remain central to Board discussions in the future, we took a three-tiered approach to narrowing this list. First, we grouped similar action items together. For example, we categorized different items related to the replenishment process as one issue. After applying this filter, we narrowed the list down to 50 issues in total. Second, we ranked all the issues based on the frequency with which they appeared on the agendas and did not include items that appeared only once. This ranking resulted in a total of 36 issues. Third, we excluded administrative items (e.g., staffing or status updates) and items that are no longer outstanding because the Board has issued a decision on them (i.e., the Indigenous Peoples Policy, the selection of a trustee, and the Simplified Approval Process). We also excluded policies on the Fund's replenishment because WRI is addressing this through other work streams. This allowed us to shorten the list to 14 issues.

Analysis of 2017–2019 Board work plans and consultations with nearly 30 stakeholders largely confirmed that the 14 issues identified above are likely to be central going forward. However, they also highlighted some issues that are either outstanding or emerging that should be included in the guide, even though they do not fit the criteria described above.

How to Use This Guide

This guide is designed to be used by stakeholders as an educational tool, an introduction to key issues, and a reference guide. We hope readers will read through the whole guide at least once. Newcomers to the GCF can use this document to get a "crash course," and even veteran GCF followers may find this guide informative. We also organized the guide so it can serve as an easy reference manual. For each topic, we describe what it is, why it matters, the current policy and practice, and the questions left to be decided. Last, we list the links to other policy issues covered in this guide, which can help readers understand other sections they may want to read to get a better appreciation of the interconnectedness between many policy areas. Readers can skip back and forth between sections to quickly identify the issues of greatest interest, especially if they are considering a particular issue and need to get a quick introduction or quickly refresh their information. The guide occasionally reproduces, from the many pages we looked at, decisions, key tables, or diagrams that we thought were most helpful for those trying to understand an issue.

The guide is organized around four categories of questions that are fundamental for GCF stakeholders (see Figure 1):

- Questions about what to fund
- Questions about how the GCF funds and on what terms
- Questions of institutional governance
- Questions about how to access GCF funding

Figure 1 | **Categorization of Policy Issues**

WHAT TO FUND	HOW TO FUND AND ON WHAT TERMS	INSTITUTIONAL GOVERNANCE	HOW TO ACCESS FUNDING
Initial Investment Framework	Financial terms and conditions	Strategic Plan	Accreditation Framework and direct access
Results Management Framework	Concessionality	Results Management Framework	Proposal approval process
Programmatic approach	Co-finance	Decision-making procedures between meetings	Private sector engagement
	Incremental and full costs	Gender Policy & Action Plan	

Source: WRI.

Outstanding and Emerging Issues

Responding to stakeholder comments to identify upcoming issues, we analyzed the 2019 Board work plan for additional critical policy issues that the Board will have to address. We identified five such issues:

- Environmental and Social Management System: environmental and social safeguards
- Information disclosure
- Country ownership
- Approach to adaptation
- Review of observer participation guidelines

To ensure the guide remains accurate and relevant beyond its publication date, we include a brief discussion of these issues and explain why they are important to the operations of the GCF. These issues do not have the record of discussion and debate among Board members that would enable us to discuss these issues in the same level of detail as the other 14 issues in the guide.

We hope you will find this guide a useful public good and that it will help improve the quality of the debate, the decisions, the policies, and ultimately the effectiveness of the Green Climate Fund.

Note on References

Most of the references used in this guide refer to GCF Board documents or Board decisions.

Board documents use the format GCF/B.##/XX, where the first two digits identify the Board meeting by its number and the following characters refer to the document.

Board decisions use the format B.##/##, where the first two digits identify the Board meeting by its number and the following two digits specify the decision by its number.

Board documents and Board decisions are readily available on the GCF's website (https://www.greenclimate.fund) by searching using the full meeting and document or decision number.

There are also references to the GCF's founding document (Governing Instrument) and the Board's Rules of Procedure. References to these documents include specific paragraph numbers.

The Governing Instrument can be found here: https://www.greenclimate.fund/documents/20182/1246728/Governing_Instrument.pdf.

The Rules of Procedure can be found here: https://www.greenclimate.fund/documents/20182/1246728/Rules_of_Procedure.pdf.

References to approved projects and programs use the format FP###, where the numbers denote the unique funding proposal number. All approved projects and programs can be found here: https://www.greenclimate.fund/what-we-do/projects-programmes.

We also refer to articles of the UNFCCC, which is available here: https://unfccc.int/resource/docs/convkp/conveng.pdf.

SECTION 1

What to Fund

What projects and programs should the Green Climate Fund (GCF) fund? This is, of course, a fundamental question. Under its mandate, the GCF must fund adaptation projects, mitigation projects, and cross-cutting projects that address both mitigation and adaptation.[1] The Board can add additional funding areas, and modify or remove them, but has not yet done so.[2] To provide more direction on what to fund, the Board has adopted initial Investment and Results Management Frameworks; some of these policies should be updated or further elaborated. The Board is also considering how to formalize its approach to programmatic proposals that finance several activities together. The Board has mandated that the Fund develop an approach to adaptation; this issue is covered under "Other Outstanding Issues." Some elements of the approach to adaptation are also addressed in this section (see "Results Management Framework") and in Section 2 (see "Full and Incremental Costs").

Initial Investment Framework

What is it?

The GCF's initial Investment Framework has three components and is designed to translate the Fund's overall mandate and objectives into clear guidelines on what to fund:

- **Investment policies** set overall guiding principles, such as achieving a paradigm shift toward low-emission and climate-resilient development pathways.
- **Investment strategy and portfolio targets** set theme-based funding objectives, such as the aim to have a 50/50 balance between mitigation and adaptation funding and a floor of 50 percent of adaptation funding going to vulnerable countries, including Least Developed Countries (LDCs), Small Island Developing States (SIDS), and African states.
- **Investment guidelines** consist of six activity-specific investment criteria to guide day-to-day funding decisions: impact potential, paradigm shift, sustainable development potential, needs of the recipient, country ownership, and efficiency and effectiveness.

To help guide funding decisions, the Board mandated that the Secretariat develop indicators—qualitative and quantitative metrics—to help assess how well a funding proposal meets the six investment criteria.[3]

Why does it matter?

The GCF uses the Investment Framework to decide what to finance. Having well-defined and measurable investment criteria indicators can enhance the quality of funding proposals. Clear indicators can guide accredited entities on what information to include in funding proposals and how to structure an intervention so it performs well in terms of the Fund's objectives. Consistent and transparent indicators can also help the Secretariat and technical experts (particularly members of the independent Technical Advisory Panel [iTAP]) decide which proposals to put forward for Board consideration, and then help the Board decide which proposals to approve.[4] The indicators also allow the Board, Secretariat, and the Independent Evaluation Unit (IEU) to track how the Fund is making progress against its objectives and enable stakeholders to compare the GCF with other institutions.

Current policy and practice

The Board adopted its investment policy, investment strategy and portfolio targets, and six investment criteria, at its seventh meeting.[5] The Board also noted a need for indicators to assess whether funding proposals are meeting the Fund's investment criteria. At its ninth meeting, the Board instructed the Secretariat and iTAP to use a scale of low–medium–high when assessing the expected performance of a funding proposal against the investment criteria, and adopted a set of "indicative assessment factors" for 31 activity-specific sub-criteria.[6] These assessment factors were approved by the Board as illustrative, not exhaustive, and voluntary. This means that when an accredited entity submits a funding proposal, it may choose which, if any, of these indicative assessment factors to include. In practice, reporting on reduced or avoided emissions and the number of beneficiaries is expected to be included in all mitigation and adaptation proposals, respectively. The Secretariat encourages project proponents to report on other assessment factors, but their use has been ad hoc and, ultimately, up to the project proponents.

At the 22nd Board meeting, the Investment Committee submitted a set of 11 permanent indicators to the Board (Table 1).[7] These were meant to create a set of consistent metrics that would be required to be included in all funding proposals to assess whether the funding proposals were meeting the Fund's investment criteria. The Board adopted them for a pilot period of one year, to be applied initially to projects under implementation.[8] The Secretariat also agreed to create guidelines for accredited entities to implement the indicators and to update the funding proposal template to incorporate the required indicator data.[9] It is not clear what will happen to the previous indicative assessment factors, which covered a broader range of indicators.

Policy questions left to be decided

The fundamental question for investment criteria indicators is how to guide the GCF on funding high-quality and impactful projects without unfairly restricting the flow of finance to eligible countries. The Board faces three specific policy questions regarding investment criteria indicators:

Are the indicators being piloted the right ones? Are the indicators agreed at the 23rd Board meeting working well, or do they need amending at the end of the pilot period? Although some investment criteria are more amenable to clear metrics, others, such as country ownership and needs of the recipient, are more difficult to measure with clear qualitative and/or quantitative metrics. The Board will have to consider whether the current indicators are suitable and applicable to the diverse array of funding proposals the

GCF receives. It will be important to ensure that the choice of indicators does not lead to unintended outcomes, such as penalizing countries that have less capacity or prioritizing easily measurable but low-impact actions over more transformative interventions.

How should the indicators be used? Some Board members originally expressed interest in having the indicators be a set of minimum benchmarks that proposals would be required to meet to be considered for funding. For example, the benchmarks might stipulate that a project must meet a minimum amount of emissions reductions or maximum cost per tonne of carbon dioxide equivalent reduction. However, given the difficulty of applying universal benchmarks across such diverse countries and activities, the Board has moved away from this approach to focus on measuring a proposal's delivery against investment criteria in a consistent and transparent way. The pilot indicators are not used as a pass/fail threshold to screen out proposals, but instead examined as a group, taking into account the country context. With Secretariat guidelines for implementation still forthcoming, it is not yet clear how the indicators will be used, including how they will inform the use of the low–medium–high rating scale used by the Secretariat and iTAP when assessing proposals against the investment criteria. The Board could provide guidance on the specific parameters that should be used for each indicator, on how differences in country circumstances are reflected in these indicators, and how to weigh the importance of each indicator.

What should be the relationship between investment criteria indicators and the existing Investment Framework? The indicators could provide concrete ways to realize the investment principles and measure progress toward funding objectives. But, at the moment, it is unclear how the proposed indicators will affect or push changes in the Framework. Specifically, would these indicators replace the indicative assessment factors? Or would the indicative assessment factors be consolidated so that they complement the investment criteria?

LINKS TO OTHER POLICIES

Results Management Framework, Financial Terms and Conditions, Concessionality, Co-Finance, Strategic Plan, Risk Management Framework, Gender Policy and Action Plan, Proposal Approval Process, Private Sector Engagement, Country ownership and Approach to adaptation (under Other Outstanding Issues)

Table 1: **Pilot Indicators for Investment Criteria**

<table>
<tr><th>CRITERIA</th><th>INDICATORS FOR INVESTMENT CRITERIA</th><th>DEFINITION</th></tr>
<tr><td rowspan="2">Impact potential</td><td>Mitigation impact indicator</td><td>1. Proposals should describe the expected reductions in project lifetime emissions resulting from the GCF intervention (in tonnes of carbon dioxide equivalent).</td></tr>
<tr><td>Adaptation impact indicator</td><td>2. Proposals should describe the expected change in loss of lives, value of physical assets, livelihoods and/or environmental and social losses due to the impact of extreme climate-related disasters and climate change in the geographical area of the GCF intervention and number of direct and indirect beneficiaries of the project.</td></tr>
<tr><td>Paradigm shift</td><td>Necessary conditions indicator</td><td>3. Proposals should identify a vision for paradigm shift as it relates to the subject of the project. The vision for paradigm shift should outline how the proposed project can catalyze impact beyond a one-off investment. This vision should be accompanied by a robust and convincing theory of change for replication and/or scaling up the project results, including the long-term sustainability of the project, or by a description of the most binding constraint(s) to change and how it/they will be addressed through the project.</td></tr>
<tr><td>Sustainable development potential</td><td>Co-benefits indicator</td><td>4. Proposals must identify at least one positive co-benefit – with an associated indicator, baseline and target values, disaggregated for men and women if disaggregated data are available domestically – in at least 2 of the 4 following areas:
a) Economic co-benefits, such as the creation of jobs, poverty alleviation and enhancement of income and financial inclusion
b) Social co-benefits, such as improvements in health and safety, access to education, cultural preservation, improved access to energy, social inclusion, improved sanitation facilities, and improved quality of and access to other public utilities such as water supply
c) Environmental co-benefits, including increased air, water and soil quality, conservation, and biodiversity
d) Gender empowerment co-benefits outlining how the project will reduce gender inequalities
5. Where appropriate, proposals should reference the ability of the project to enable the achievement of one or more of the Sustainable Development Goals.</td></tr>
</table>

Table 1: Pilot Indicators for Investment Criteria

CRITERIA	INDICATORS FOR INVESTMENT CRITERIA	DEFINITION
Needs of the recipient	Barriers to climate-related finance indicator	6. Proposals should describe the country's financial, economic, social and institutional needs and the barriers to accessing domestic (public), private and other international sources of climate-related finance. The proposal should outline how the proposed intervention will address the identified needs and barriers.
Country ownership	Alignment with nationally determined contributions (NDCs), relevant national plans indicator, and/or enabling policy and institutional frameworks	7. Proposals should clearly describe how the proposed activities align with the country's NDC and other relevant national plans, and how the funding proposal will help to achieve the NDC or these plans by making progress against specific targets defined in national plans and strategies. Proposals should also outline how the project will help to achieve national development goals and/or climate change policies. Proposals should also reference the degree to which the project is supported by a country's enabling policy and institutional framework or includes policy or institutional changes.
	Explanation of engagement with relevant stakeholders indicator	8. Proposals should outline how they were developed in consultation with relevant stakeholders. Engagement with national designated authorities is required.
Efficiency and effectiveness	Cost per tonne of carbon dioxide equivalent (mitigation proposals)	9. Projects should give the cost per tonne of carbon dioxide equivalent of the GCF intervention.
	Ratio of co-financing (mitigation proposals)	10. As appropriate, projects should indicate the ratio of co-financing mobilized relative to the GCF contribution to the total project.
	Expected rate of return (mitigation proposals)	11. As appropriate, projects should provide an estimate of the expected economic internal rate of return and/or financial internal rate of return, depending on the needs of the project.
	Application of best practices	12. Projects should describe how the proposal applies and builds on the best practices in the sector.

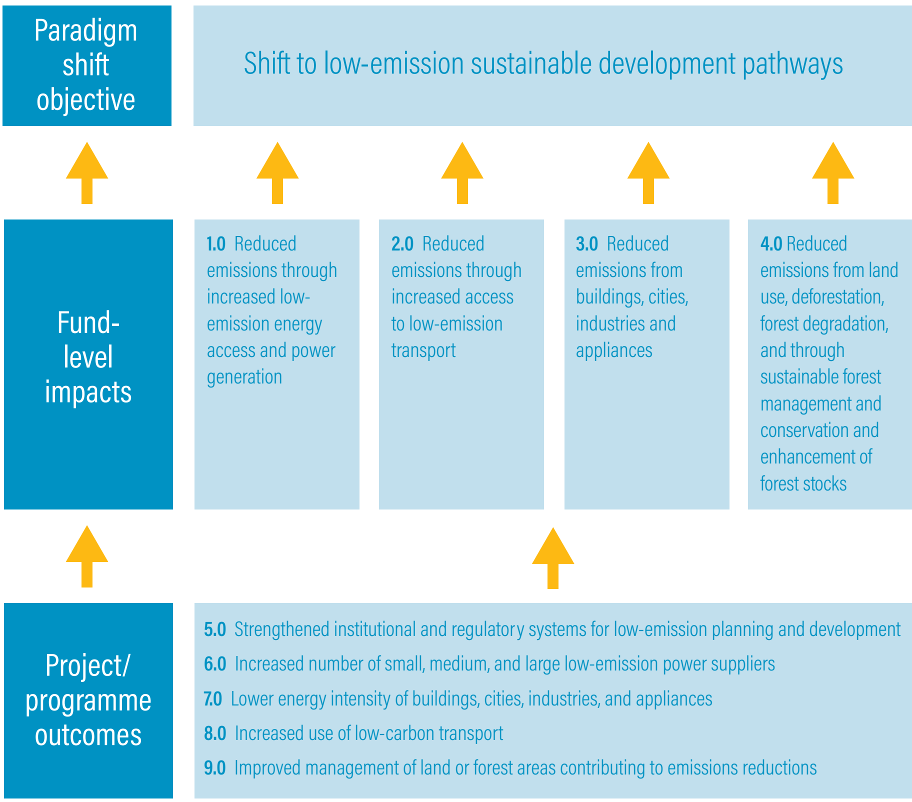
Note: NDC means nationally determined contribution.
Source: Based on GCF Board Decision B.22/15, modified by WRI.

Results Management Framework

What is it?

The Results Management Framework (RMF) establishes the guidelines and performance indicators that can be used to assess the GCF's impact, effectiveness, and operational performance.[10] The RMF is designed to provide monitoring and accountability after projects are approved, while the Investment Framework is considered before approving

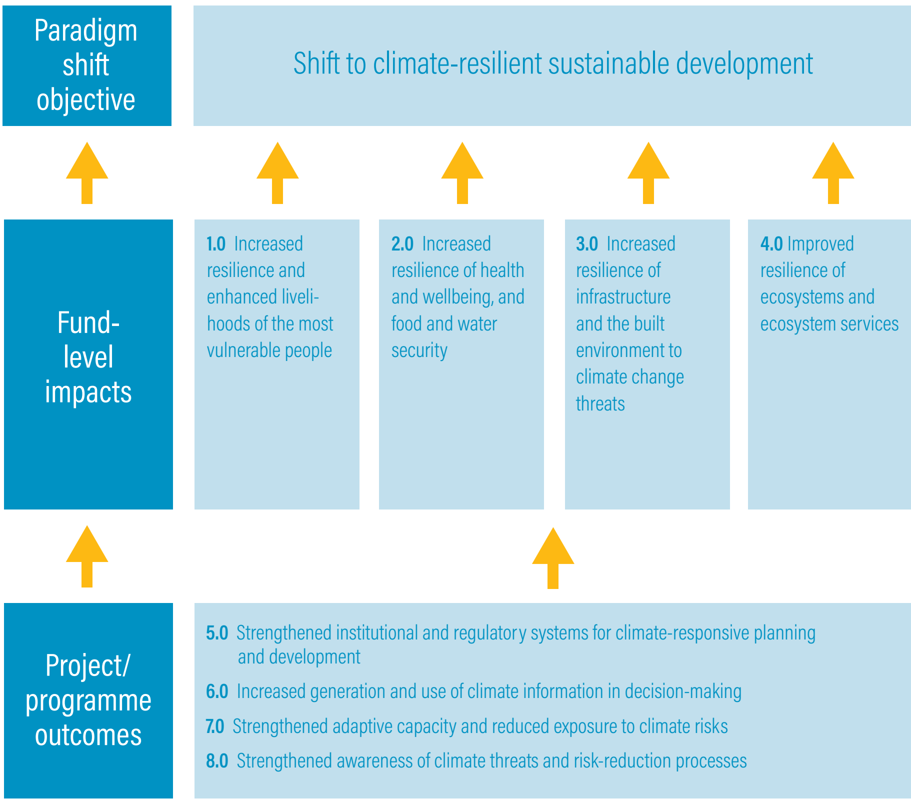
Figure 2 | **Mitigation Logic Model of the RMF**



Source: Based on Document GCF/B.07/04 and Board Decision B.07/04, modified by WRI..

projects. The RMF includes a set of eight strategic results areas for the Fund, split evenly between mitigation and adaptation. The mitigation results areas are to reduce emissions from energy generation and access; transport; buildings, cities, industries, and appliances; and forests or land use (see Figure 2). The adaptation results areas are to promote increased resilience of health, food, and water security; livelihoods of people and communities; ecosystems and ecosystem services; and infrastructure or the built environment (see Figure 3).

Figure 3 | **Adaptation Logic Model of the RMF**



Source: Based on Document GCF/B.07/04 and Board Decision B.07/04, modified by WRI.

Why does it matter?

The RMF is used to assess whether the GCF is delivering results according to its mandate. It is therefore an important accountability tool at the portfolio level. The RMF can help project proponents to structure their funding proposals in a way that better expresses how they plan to achieve change with GCF funding. It can also help to establish metrics to measure whether these changes have occurred, and to ensure that the Fund is learning and improving over time. The RMF will likely evolve to reflect the experiences and knowledge accumulated as the GCF becomes more established.

The logic model underpinning the RMF identifies core performance indicators for mitigation and adaptation that also appear in other measurement mechanisms of the Fund, including the Investment Framework. In this way, the indicators set in the RMF both assess performance over time and inform decisions about how the GCF should allocate its resources.

Current policy and practice

The GCF's Governing Instrument mandated that the Board approve an RMF with guidelines and appropriate performance indicators.[11] At its seventh meeting, the Board approved an initial RMF, which includes logic models that set out the causal relationships between the different components of the RMF, for both mitigation and adaptation (see Figures 2 and 3). The logic models include the overall paradigm shift objective, Fund-level impacts, and both outcomes and outputs at the project or program level. The Fund-level impacts focus on long-term impacts, four each for adaptation and mitigation. The project or program level outcomes focus on medium to long-term aggregate changes and specify five outcomes for mitigation and four outcomes for adaptation. The project or program level outputs cover the short-term changes that are the result of the project or program. These are left to be defined by executing entities. The Board also approved core indicators to track the Fund's performance (three for mitigation and one for adaptation), and later noted a number of other performance indicators that could be used to track progress across the logic model.[12]

The Board asked the Secretariat to further develop both indicators and operational guidance to strengthen the RMF. This includes specific indicators on gender, indicators on mitigation and adaptation, and on methodologies, data sources, frequency, and processes for reporting on the RMF. The development of these frameworks and policies, however, has been deferred on several occasions during Board meetings.

In the Fund's risk appetite statement (see "Risk Management Framework" in Section 3), the Board decided that no more than half of available funding should go into a single results area.[13] Although no results area is approaching its risk appetite limit, a Secretariat analysis shows that of the projects approved up to December 2017, GCF investments are more concentrated in projects to promote energy access and generation, energy efficiency, and infrastructure resilience; meanwhile, projects in the transport and health results areas are much less common.[14] A review of the RMF by the GCF's Independent Evaluation Unit (IEU) found that the lack of guidance on how the Framework should be defined, measured, and utilized is undermining its usefulness and effectiveness.[15]

Policy questions left to be decided

The key policy questions pertain to how to address the challenges highlighted by the IEU's review:

What guidance is needed to ensure indicators in the RMF are defined, measured, and reported on? There is currently no guidance on how the indicators in the RMF are defined and measured, and GCF projects lack provisions to ensure credible results reporting. For example, the IEU's report found that an estimated 50 percent of approved projects do not plan to collect baseline data and 70 percent have planned and budgeted insufficiently to monitor and evaluate results.[16] The GCF was designed to be a learning institution, but to understand what works and what does not, the RMF must be implemented and tracked.

How should the RMF be changed, updated to reflect new policies, and revised so that it becomes the single, unifying document that the GCF can use to monitor the results of its investments? Other GCF frameworks (such as the Investment Framework and the Risk Management Framework) have been given more attention by the Secretariat. The IEU's report found that the RMF has not been well reflected in other decisions and strategies adopted by the Board; for example, the Investment Framework and RMF indicators could be better aligned.[17] This has undermined the RMF's intended role as the single, coherent, and consistent framework that staff can use to manage the results of the Fund. The Board will need to consider how to ensure coherence between the RMF and the Investment Framework.

What guidance needs to be given to the Secretariat to ensure RMF policies and standards are applied consistently? The IEU's report found that different parts of the Secretariat have interpreted and implemented RMF policies inconsistently, meaning that not all accredited entities and proposals are held to the same standard.[18] To address this finding, the Board will have to consider the types of guidance that will allow the RMF to be applied consistently to funding proposals and seek an approach that brings that guidance into alignment within the Secretariat itself.

How should the RMF ensure GCF investments target areas with the most impact? GCF investments are not spread evenly across the eight results areas,[19] and some Board members have expressed concern that there is less funding (in absolute value) going to adaptation. The IEU's report also found that there is insufficient guidance on how, in the long run, project outcomes are expected to contribute to a paradigm shift toward low-emission and climate-resilient development pathways.[20]

LINKS TO OTHER POLICIES

Initial Investment Framework, Strategic Plan, Risk Management Framework, Gender Policy and Action Plan, Approach to adaptation (under Other Outstanding Issues)

Programmatic Approach

What is it?

The GCF has not yet defined what constitutes a program. So far, a programmatic approach loosely refers to funding a proposal that contains multiple projects that address a variety of linked activities and/or work across multiple countries. An example of a project is a GCF concessional loan to help build one solar plant in Mongolia.[21] An example of a program is the KawiSafi Venture Fund, which invests in a series of small businesses that provide decentralized solar energy in Kenya and Rwanda.[22] Another example of a program is an initiative to improve climate information services in five Pacific Island countries.[23]

Why does it matter?

Proponents of programmatic approaches believe that funding one project at a time is too slow and ineffective, and that supporting groups of similar projects with larger, more sustained finance is more likely to be transformational. Programmatic approaches could also be a way to enhance country ownership since they allow a country to present a set of connected activities that reflect national priorities for longer-term funding, rather than seeking out financing for each individual intervention. Having a portfolio of activities in the same sector or across several countries can provide more certainty about sustained funding flows, greater scale, and diversification. This can make programs more attractive to private investors than a single project in one country.

Current policy and practice

The Governing Instrument says that the GCF will support programmatic approaches in addition to one-off project proposals.[24] The Board has approved 24 programs on a case-by-case basis (as of its 22nd meeting), but does not yet have a policy that governs programs (or even one that formally defines what they are). This raises questions as to whether programmatic approaches are treated consistently across the GCF portfolio.[25]

The Board started discussions on programmatic approaches in 2016 with a view to adopting a policy by the end of that year.[26] However, the agenda item did not resurface until 2018, at the 20th and 21st meetings. Both times the Board ran out of time to open the agenda item.[27] Before the 23rd meeting, the Secretariat held consultations with Board members to inform their most recent policy proposal.[28]

Policy questions left to be decided

What is a program and what principles should be applied to them? The GCF has not defined what a program is. To improve consistency, the GCF Secretariat has proposed a set of principles that would apply to all programs: a common and specific objective; clear linkages across the activities within the program; significant value of pursuing a programmatic approach relative to a series of one-off projects; alignment with the policies and needs of the country and recipients; and alignment of the program and all sub-projects with GCF policies, including environmental and social safeguards, the Gender Policy and Action Plan, and the Indigenous Peoples Policy.[29]

How should sub-projects be approved? A defining feature of a programmatic approach is that it includes sub-projects. In some cases, these sub-projects may be defined when the programmatic proposal is submitted and the Board can approve them when approving the program. However, in many cases, some or all of the sub-projects are not identified when the programmatic proposal is presented, which raises the question of how to approve these sub-projects. In those cases, one option identified by the Secretariat in Board documents is to require sub-projects within a program to come back to the Board for subsequent approval, but this could be burdensome (for both the Fund and the accredited entity) and could reduce country ownership by limiting discretion to select sub-projects.

Another option is to delegate sub-project approval to the accredited entity. In such cases, the Secretariat proposed setting clear and transparent eligibility criteria that would hold these sub-projects to standard GCF requirements.[30] Nevertheless, this approach could reduce transparency as well as GCF oversight and accountability, particularly if it is not clear how information disclosure standards will apply to sub-projects. The Board could also set different requirements based on the risk level (e.g. financial, environmental, and social) or the size of sub-projects within a programmatic proposal. For example, larger or high-risk sub-projects would be required to come back to the Board for approval but smaller and low-risk sub-projects could be selected by the accredited entity.[31]

What kind of oversight (monitoring and evaluation) is needed for programmatic approaches? The Secretariat has proposed additional program-level reporting requirements (when applicable) on lessons learned in design and implementation, as well as the impact of the program beyond what individual projects would have achieved.[32] Additional reporting requirements could also help address the accountability and oversight concerns if the Board allows delegation of sub-project approvals to accredited entities. This would be particularly important if the GCF approves a project-specific assessment approach that would allow entities to access funding without going through formal accreditation.

What is the relationship between country programs and programmatic approaches? Some Board members have also raised the need to clarify how GCF country programs relate to programs brought to the Board for funding consideration. In the GCF context, country programming involves building on national strategies combined with coordination and stakeholder engagement to identify a set of priority investments for a specific country. These priorities could then form the basis for developing any kind of proposal to the GCF for consideration.

LINKS TO OTHER POLICIES

Decision-Making Procedures Between Meetings, Accreditation Framework and Direct Access, Country ownership (under Other Outstanding Issues)

SECTION 2

How to Fund and On What Terms

The GCF has a few broad rules for allocating money. The Fund aims for a 50/50 balance of funding, in grant equivalent terms, between mitigation and adaptation. The Board requires that at least half of all adaptation funding go to particularly vulnerable countries in the LDCs, SIDS, and African states;[33] that no more than 50 percent of all funding can go to a single results area; and that no more than 10 percent of all funding go into a single proposal.[34] The amount of funding an accredited entity can access also depends on its level of accreditation.[35] Besides these, the GCF does not set specific limits on how much funding it can provide to a given country, sector, project, or program, although this question is being considered in discussions on concentration risk in the Risk Management Framework. That said, there are outstanding questions about the specific financial terms and types of instruments the Fund should use in different circumstances. To date, guidance on these questions is limited.

Financial Terms and Conditions

What is it?

"Financial terms and conditions" refers to the terms and conditions attached to the provision of finance by the GCF. It includes currencies, interest rates, fees, and repayment terms for different financial instruments, as applicable.

Why does it matter?

Financial terms and conditions set the parameters within which the GCF can offer financing. These parameters affect the flexibility that developing countries have to invest in climate activities, the level of risk the Fund can assume, the attractiveness and competitiveness of GCF funding compared with other funding, the rate at which loans will be repaid to the Fund (and thus potentially available for further use), and the currencies in which the GCF can offer financing.

Current policy and practice

The GCF's current financial terms and conditions specify:[36]

- **Exchange rates:** The Fund will provide financing only in major convertible currencies, such as U.S. dollars and Euros. So the accredited entity bears the currency exchange risk.
- **Provision of grants:** The Fund can provide grants with and without repayment contingency. Repayment contingency is where a grant is reimbursed if the project achieves its objectives, and can only be used for private sector projects, with terms determined on a case-by-case basis. The GCF issued a $100 million reimbursable grant to a program to develop renewable energy projects in Africa and Indonesia.[37] Notwithstanding the policy, the Board has also approved reimbursable grants for two public sector projects in the geothermal sector.[38]
- **Terms for concessionality:** The Fund can use fixed interest rates, fees, and repayment schedules for high and low concessionality loans to public sector projects. The Board has not yet agreed on comprehensive guidance on how to apply high and low concessionality terms, so these are determined on a case-by-case basis (see "Concessionality," below).

- **Terms for private sector entities:** Terms for other non-grant instruments (such as equity and guarantees) to the public sector and all non-grant instruments for the private sector are decided on a case-by-case basis. The Secretariat provided guidelines on the application of the case-by-case provisions.[39]
- **Revision:** The financial terms and conditions are reviewed every year. The most recent review was conducted in September 2018.[40]

Policy questions left to be decided

The central question about financial terms and conditions is whether to have fixed guidelines for determining terms and conditions, applied consistently to all projects and all eligible countries, or whether to continue determining conditions on a case-by-case basis. Specifically:

Should the GCF develop a rules-based methodology for setting terms and conditions, or continue using a case-by-case approach? Fixed rules could provide more consistency and clarity, while overly rigid rules may disadvantage certain types of countries or projects. If a rules-based methodology were to be adopted, the Board would need to consider which country- or project-specific criteria could be used to underpin the rules. The Board will also have to take steps to ensure that countries can still fairly access funding, as stipulated in the Governing Instrument.

Should terms and conditions be assessed for each project component or for the project as a whole? Projects may have different components that are suited to different types of financing. For example, an early phase of a project to pilot a renewable energy installation may benefit from more concessional financing, compared with a latter phase of the project where the approach is scaled up. Differentiating terms and conditions by component may therefore be useful, but would take more time and is not always straightforward. The accredited entity's fiduciary capacity is also relevant here because some are only accredited to manage grants and would not be able to differentiate between instruments.

What guidance should the Board offer on when to apply high and low concessionality terms to public sector proposals? Although there are broad parameters for concessionality, the Board has not yet adopted more detailed guidance, so in practice concessionality is determined on a case-by-case basis.[41]

LINKS TO OTHER POLICIES

Initial Investment Framework, Concessionality, Co-Finance, Full and Incremental Costs, Risk Management Framework, Private Sector Engagement

Concessionality

What is it?

Concessional finance refers to funding that is offered on terms and conditions that are more attractive than those available in the market. There are different types of concessional finance, ranging from grants to loans with easier terms of repayment.

Why does it matter?

Concessional finance aims to lower the cost of capital and/or lengthen the time over which a loan must be repaid. This is particularly important for poorer and more vulnerable communities, with less capacity, which face bigger barriers to accessing finance on reasonable terms. Concessional finance also allows investors to participate in projects that would otherwise be too risky for them. Clear guidance on how the GCF allocates concessional resources is critical for those seeking funding, but such guidance does not currently exist.

Current policy

The level of concessional finance is determined on a case-by-case basis and provided through grants or loans with easier terms of repayment.[42] In each funding proposal that comes to the GCF, the accredited entity provides an indication of the funding terms it would like to receive. The Secretariat evaluates the financial terms of the proposal and then, guided by several Board-approved principles, decides how much, and which type of, concessional finance to offer. The Investment Framework states that the Fund will provide the minimum amount of concessional funding necessary to make a project or program viable.[43] The Board adopted guiding principles for the Secretariat to use in determining concessionality. These guiding principles include:[44]

- Concessional finance should be designed to maximize leverage of further funding without displacing investments from other public and private sources that would otherwise have happened.
- Concessional finance should take into account the recipient's existing level of indebtedness so as not to encourage excessive indebtedness (this is not defined).
- The level of concessionality should aim to promote the long-term financial sustainability of the intervention.
- A robust due diligence process that assesses the risk of the investment shall be applied.

In addition, the Secretariat also considers the following factors: the concessionality of the financial contributions to the GCF (because this will affect the amount of concessional finance the Fund can offer); the expertise and capacity of the accredited entities and other implementing actors of the project; and risk-sharing between public and private investors, so that the GCF does not take on all the risk in projects involving private actors.[45]

The GCF currently uses terms for concessional loans to public entities that are roughly similar to the terms offered by other multilateral institutions, such as the World Bank's International Development Association (see Table 2).[46]

The current case-by-case approach does not include clear operational guidance on how the Secretariat makes proposals to the Board on project-level concessionality. At its 19th meeting, the Board requested the Secretariat develop an integrated approach to address concessionality, incremental and full costs, and co-financing.[47] At the 21st Board meeting, the Secretariat proposed a policy on concessionality that restates the guiding principles and provides guidelines for how concessionality will be determined for different types of funding proposals, but no decision was taken by the Board.[48] At the 23rd Board meeting, an updated policy on concessionality that included additional guidelines was proposed by the Secretariat, but the item was not opened for discussion during the meeting.[49]

Table 2: Terms and Conditions of Outgoing Concessional Loans to the Public Sector

	HIGH CONCESSIONALITY	LOW CONCESSIONALITY
Maturity (years)	40	20
Grace period (years)	10	5
Annual principal repayment	2% (years 11–20), 4% (years 21–40)	6.7% (years 6–20)
Interest	0.00%	0.75%
Service fee (per annum)	0.25%	0.50%
Commitment fee (per annum)	Up to 0.50%	Up to 0.75%

Source: Based on GCF Board Decision B.09/04, modified by WRI.

Policy questions left to be decided

How can concessional finance be used most effectively? A key unresolved question is how the GCF should use concessional resources to support projects and activities that achieve the paradigm shift objectives of the Fund and support communities with the greatest need.

How should project viability be defined for the purpose of assessing "the minimum concessional finance needed to make a project viable?" This is to ensure that GCF funding is additional and does not substitute for investments that would have been made anyway. The proposed policy sets out a variety of approaches, including assessing the availability of other sources of finance, calculating internal rates of return with and without GCF concessionality, sensitivity analyses using different scenarios, and analysis of both financial and nonfinancial benefits of the project.[50]

Should the Fund apply different approaches to concessionality between pilot, scale up, and one-off funding proposals? It may be appropriate to offer higher concessionality for more risky pilot projects (such as those that use new technologies, financial structures, or other novel approaches) compared with projects designed to scale up proven approaches. Some Board members have also suggested that some countries, such as LDCs and SIDS, may require higher concessionality than others.

How should the GCF approach concessional finance for private sector projects? Because private sector entities are profit-driven, different principles or rules may be necessary to ensure that the GCF's public resources are used prudently and are not providing unnecessary subsidies. The Secretariat may also need flexibility to negotiate the best deal for the Fund. The question of how the GCF should determine and report on concessionality in private sector transactions is further complicated when private entities and/or the Secretariat do not to divulge financing terms because of business confidentiality.

LINKS TO OTHER POLICIES

Initial Investment Framework, Financial Terms and Conditions, Co-Finance, Full and Incremental Costs, Risk Management Framework, Private Sector Engagement

Co-Finance

What is it?

Direct co-finance refers to non-GCF financial resources—both public and private—that come from or flow through the accredited entity alongside the finance provided by the GCF. Mobilized finance refers to all financial resources from third parties, except those channeled through the accredited entity, that flow into a project or program and can reasonably be assumed to have resulted from the financing provided by the GCF.[51] Co-finance is sometimes loosely used to refer to both direct co-finance and mobilized finance.

Why does it matter?

Although the Governing Instrument does not refer to it, co-finance is identified in several GCF guiding documents (the Strategic Plan, Operational Framework, and Investment Framework) as one way for the Fund to maximize its effectiveness. Co-finance draws additional investment into GCF-backed projects and thus enables the Fund to increase its impact. Having co-financiers can also bring in different kinds of expertise and provide a vote of confidence in the projects. Co-financing enables the GCF to build partnerships with other organizations, building awareness of and confidence in the Fund. Furthermore, co-finance can spread the risks and costs of financing a project among several organizations, reducing the financial risks borne by each entity.

Current policy and practice

Although the amount of co-financing is one of the sub-criteria in the initial Investment Framework that funding proposals can include,[52] reporting on this is not mandatory and there is no explicit requirement that projects include co-finance. There is also no overarching policy or operational guidance on co-finance, meaning that the Secretariat evaluates each funding proposal on a case-by-case basis and decides how much of the project should be covered by the GCF's own resources and how much should be backed with co-finance.

In practice, however, there is an expectation by some Board members that the GCF will not be the only funder of funding proposals. For example, there is typically an expectation for private sector projects to demonstrate co-financing by at least the accredited entity; projects implemented by nongovernmental organizations do not face the same expectation.

At its 19th meeting, the Board requested the Secretariat to develop an integrated approach to address concessionality, incremental and full costs, and co-financing.[53]

As part of this integrated approach, the Secretariat proposed a co-financing policy for Board consideration at its 20th meeting that would establish guiding principles for determining the appropriate level of co-financing.[54] The principles would be:

- project proposals should seek to incorporate appropriate levels of co-finance to maximize the impact of GCF resources;
- the GCF should avoid using co-financing metrics as stand-alone targets;
- co-finance should cover non-climate-related costs if the GCF covers the incremental costs; and
- resources counted as co-finance are tracked and consistent with the objectives of the GCF.

The proposal defined key terms; laid out a methodology for all accredited entities to determine, track, and report on the amounts of co-finance that occur during project implementation; and described how the Secretariat will report on co-finance. When the policy came back to the Board at its 21st meeting, it was deferred due to lack of time.[55] At the 23rd Board meeting, the Secretariat presented an updated proposed policy. The updated proposal aligned definitions of co-finance and mobilized finance with those used by other climate finance entities, differentiated the reporting requirements for co-financing and mobilized finance, and included a new proposal: when the GCF works with other UNFCCC funds in sequenced or parallel financing, this could be counted as co-financing.[56] However, the item was not opened by the Board and was thus deferred to its 24th meeting.

Policy questions left to be decided

Should the GCF have co-financing requirements? If it does, what is the appropriate level of co-financing for different types of proposals? The lack of an overarching policy and operational guidance on co-finance can lead to inconsistencies and confusion across funding proposals and among stakeholders about the level and type of non-GCF finance to include in a GCF project.[57] A key question for the Board is whether co-financing expectations should be set at all. Some Board members note that co-financing is not required in the Governing Instrument and should be applied only on a case-by-case basis. Others note that mobilizing other finance is critical and there should be clear rules. To allow for some flexibility, there could be different expectations for different actors (for example, projects from the private sector compared with those implemented by nonprofit organizations), different recipient country characteristics (for example, more flexibility for LDCs, SIDS, and African states), or different types of projects (such as no, or less stringent, co-financing requirements for adaptation compared with mitigation proposals).

What is the relationship between co-financing, concessionality, and incremental cost policies? The approach used to determine incremental or full cost financing will have a bearing on what parts of a project will be funded by the GCF and what parts may be expected to be covered by co-financing. The concessionality of GCF funding affects the amounts and types of co-financing a project is able to attract.

Should co-financing be used as an indicator of effectiveness? The co-financing ratio (the amount of GCF funding to the amount of projected co-financing) was adopted as a pilot investment criteria indicator for assessing the efficiency and effectiveness of mitigation projects (Table 1).[58] Some Board members argue that there is a need for public finance to mobilize private investment to address climate change, and so tracking the GCF's ability to mobilize other resources is an important measure of effectiveness. However, others have noted that co-finance cannot be expected in all situations for all types of entities. Further, there is a difference between direct co-finance and mobilized finance. Too much emphasis on tracking direct co-finance could reduce incentives to fund more risky, innovative approaches that may result in higher overall mobilization but which have difficulty attracting other investors.[59]

Should co-financing be used as an indicator of country ownership? In some instances, as in its technical assessments of project proposals, iTAP has cited co-finance from entities within the recipient country as an indicator of country ownership. The Secretariat has noted that public co-financing by host country institutions may play a role in ensuring country ownership.[60] Co-financing is not currently a formal metric for assessing ownership, and some Board members and developing countries in UNFCCC negotiations have raised concerns that using co-financing as a proxy for country ownership penalizes poorer countries and runs counter to principles of the UNFCCC and the GCF Governing Instrument. There may be other metrics that better determine country ownership.

LINKS TO OTHER POLICIES

Initial Investment Framework, Concessionality, Full and Incremental Costs, Risk Management Framework, Private Sector Engagement, Country ownership and Approach to adaptation (in "Other Outstanding Issues")

Full and Incremental Costs

What is it?

Full and incremental costs in climate finance refer to the part of a project to be financed using climate funds as opposed to other sources of finance (such as development finance).[61] The concept of full and incremental costs arose for the first time in the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer, and was subsequently used in the 1992 UNFCCC to discuss developed country obligations to support developing countries in undertaking commitments under the Convention, including through financing entities such as the Global Environment Facility.[62] Covering full cost would mean that climate funding is used for the entire activity or project. Incremental cost is typically defined as the amount needed to adjust a business-as-usual approach to make it climate compatible. An example of incremental cost approach in mitigation would be the difference between what a new gas-fired power plant would have cost and what a new solar plant would cost. An example for adaptation would be the extra funding needed to build wider road culverts in response to increased rainfall because of climate change.

Why does it matter?

It is important for climate funds to have clarity about the kinds of costs they cover in different situations. This is to ensure that funds are spent for climate-related activities. The definition of incremental cost determines the volume of funds that projects can receive; it also sends a signal about what the GCF thinks climate action should be about, particularly for adaptation. Because efforts to address climate change can benefit development, and vice versa, it can be difficult to separate out the climate-specific from broader development benefits of an intervention. Therefore, the GCF should be clear about its approach to costs.

Current policy

The Governing Instrument states that the GCF can cover full and incremental costs for all actions it funds.[63] It does not provide further detail about when a given approach should be used.

At present, the Secretariat uses a case-by-case approach to deciding what costing approach to negotiate with accredited entities, in some cases covering most of the project cost and in others applying an incremental cost approach.[64] There is a lack of clear guidance to the Secretariat on when to apply an incremental versus a full cost approach, and on how to calculate incremental costs. Several funding proposals submitted to the GCF have run into problems while being considered by the Board because the approach to costs was not clear, and entities have had to make last-minute budget changes to accommodate Board recommendations. Incremental cost is closely linked to policies on concessionality and financial terms and conditions, since the amount of a project's costs financed and the means of financing them are interlinked.

The question of costs has been particularly difficult in adaptation projects, largely because existing socioeconomic vulnerabilities are exacerbated by climate-related changes, and neither the underlying vulnerabilities nor the climate impacts can be addressed in isolation.[65] This complicates calculations of incremental costs for adaptation; the issue has rarely come up in considerations of mitigation-only projects. The Board has requested that the Secretariat propose recommendations on how to approach costing for adaptation actions.[66]

At its 19th meeting, the Board requested the Secretariat to develop an integrated approach to address concessionality, incremental and full costs, and co-financing.[67] At the Board's 20th meeting, the Secretariat presented a proposal for incremental and full cost calculation methodologies that set out guiding principles and suggested a phased approach to applying them.[68] The item was not opened and a revised proposal was brought to the 21st meeting that set out the process for determining costs when developing funding proposals, along with qualitative and quantitative methodologies for doing so.[69] However, the item was again not opened for discussion. At the 23rd meeting, a further revised proposal was brought to the Board, with significant changes to the principles and definitions of full and incremental costs.[70] Again, the item was not opened for consideration, but it was discussed informally by the Board prior to the meeting.

Policy questions left to be decided

The current case-by-case approach does not include clear operational guidance as to how the GCF should approach costs. Key undecided issues include:

Should the GCF specify when it will use a full cost versus an incremental cost approach? When would a full cost approach be appropriate? Some Board members have stated that the GCF's main approach should be an incremental cost approach, noting that as a climate fund it should focus only on funding the climate-specific portion of an activity. Others note that this is too challenging to calculate and is not appropriate for all types of activities the GCF supports, particularly adaptation actions in poor and marginalized countries and communities. Further, some Board members pointed out that the UNFCCC calls for adaptation actions in developing countries to be funded at full cost.[71] Others have drawn on the "polluter pays" principle, which states that contributors to environmental harm are responsible for bearing the costs of addressing it.

What methodologies should the GCF use to calculate incremental cost, without making the process too complicated? Calculating incremental costs can be technically complex and time consuming, including questions of business-as-usual assumptions, whether and how to account for co-benefits, and the time horizon used. In an increasing number of cases, the cost of climate-positive actions can be lower than business-as-usual, so the incremental cost would be negative over the longer term. Yet there may still be a need for higher upfront investment or other types of support in the short term, which may not be captured in a traditional incremental cost calculation.

For adaptation actions, is there a need for a more qualitative approach given the difficulties in determining business-as-usual baselines? Given that good development practice recognizes the importance of taking account of projected climate impacts and integrating resilience, it can be difficult to separate out the proportion of a project's costs that is adaptation. A strict incremental cost approach may be impractical in many situations. Qualitative approaches to determining costs, using climate rationale as a basis, may be more appropriate.

LINKS TO OTHER POLICIES

Financial Terms and Conditions, Concessionality, Co-Finance, Approach to adaptation (under Other Outstanding Issues)

SECTION 3

Institutional Governance

The GCF functions under the guidance of the UNFCCC's Conference of the Parties, and is governed by a Board comprising 12 developing country and 12 developed country representatives who are responsible for setting policies, accrediting entities, and approving funding, among other tasks.[72] An independent Secretariat, accountable to the Board, is responsible for the day-to-day operations of the Fund.[73] While the GCF's Governing Instrument and Rules of Procedure for the Board address much of the Fund's institutional governance, some significant policy gaps remain, including the completion of the Risk Management Framework, updates to the Strategic Plan and the Gender Policy, and finalizing decision-making processes for the Board between meetings.

Strategic Plan (Update)

What is it?

The GCF's Strategic Plan communicates the Board's vision and priorities for the Fund.[74] The need for a Strategic Plan is not mentioned in the GCF's Governing Instrument, but the plan was developed at the request of Board members.[75] The plan sets the core operational priorities for the Fund and an action plan for achieving them. It is meant to be a living and learning document, to be revised and updated during each replenishment cycle.[76]

Why does it matter?

The Strategic Plan allows the Board to be intentional, proactive, and forward-looking in guiding the GCF. The plan is also an important signaling instrument to accredited entities, countries, and other stakeholders about the GCF's priorities. As such, it can help stakeholders plan how they will engage with the Fund, ideally improving access and strengthening partnerships. The Strategic Plan also plays an accountability role, allowing Board members and stakeholders to determine whether and to what extent the GCF has delivered on its strategy and objectives.

Current policy and practice

The initial GCF Strategic Plan covered the years 2015 to 2018. Its strategic vision is to promote the paradigm shift toward low-emission and climate-resilient development pathways (the Fund's mandate set out in the Governing Instrument) and support the implementation of the Paris Agreement within the evolving climate finance landscape.[77] The Strategic Plan established five operational priorities for the GCF:

- Allowing the GCF to scale up its investments in developing countries;
- Maximizing its impact by supporting projects and programs that are scalable, replicable, and employing GCF resources in the most efficient manner;
- Setting out an approach for the GCF to program and invest the full amount pledged for 2015–2018;
- Ensuring that the GCF is responsive to developing countries' needs and priorities by enhancing country programming and direct access; and
- Communicating proactively the GCF's ambition in terms of scale and impact, plus its operational modalities with a view to enhancing predictability and facilitating access.

These priorities are implemented through five measures in the action plan: prioritizing proposal development, strengthening the Fund's proactive and strategic approach to programming, enhancing accessibility and predictability, maximizing the engagement of the private sector, and building adequate institutional capabilities. The Board's annual work plans reflect the issues identified in the action plan to ensure these operational priorities are implemented.

In adopting the initial Strategic Plan, the Board decided to review and update it as part of each replenishment process.[78] As such, there have been parallel discussions in Board meetings and replenishment consultation meetings about the updated Strategic Plan. By early 2019, Board members submitted their inputs on an update to the Strategic Plan,[79] and a public call for submissions was also made, allowing other stakeholders to have input. The Board has requested that the Secretariat present an update to the initial Strategic Plan in October 2019.[80]

Policy questions left to be decided

The Board faces several key questions regarding the revision of the Strategic Plan:

What is the role of the Strategic Plan in relation to other documents? There is a need to determine how the plan relates to the Fund's operations, including accreditation, investment decisions, implementation, results monitoring, and governance. These have all been raised by some Board members as potential areas for the Strategic Plan to tackle, but others have questioned whether this would be within scope. The Board should clarify the role of the Strategic Plan in relation to issues covered by other documents, like the Investment Framework.

How can the Board measure progress in implementing the Strategic Plan? Suitable metrics and criteria are necessary to enable the Board to monitor progress toward implementing the Strategic Plan. Metrics and criteria can help the Secretariat and Board make decisions about which investments are of high quality.

How detailed and specific should the Strategic Plan be? The Strategic Plan should find a balance between being specific enough to deliver the Fund's strategic vision and retaining flexibility to accommodate country ownership. The Secretariat has suggested setting "intermediate goals" that will steer detailed annual work planning.[81]

What, if any, changes should be made to the strategic vision contained in the Strategic Plan, and what updates should be made to the operational priorities of the GCF? The Board will need to decide whether to revise the strategic vision. Some Board members have suggested updates in light of the latest scientific findings that increased action is necessary to meet the Paris Agreement's temperature goals.[82] The Board will also need to decide what changes should be made to the operational priorities. In doing so, it needs to consider how these operational priorities can help ensure future GCF investments are of high quality.

How should revisions be made to the Strategic Plan? Several decisions have to be made to clarify the process for revising the Strategic Plan to incorporate recommendations and guidance from other entities. For example, these include deciding whether the Strategic Plan should incorporate recommendations from the GCF forward-looking performance review by the IEU released in June 2019, inputs from stakeholders, findings from the Intergovernmental Panel on Climate Change, and decisions of the Conference of the Parties to the UNFCCC.[83] The updated Strategic Plan is currently being discussed in parallel processes in both Board meetings and replenishment consultations. Thus, the Board will need to decide how to reconcile other related outputs, such as the Strategic Programming document requested by the Board to inform the replenishment consultations.[84]

LINKS TO OTHER POLICIES

Initial Investment Framework, Results Management Framework, Risk Management Framework, Gender Policy and Action Plan, Accreditation Framework and Direct Access, Private Sector Engagement

Risk Management Framework

What is it?

Funding activities come with a certain level of risk, and one responsibility of the Board is to weigh a variety of risks when deciding which projects to fund. Such risks could include

- financial risks (losing returns on investment)
- reputational risks (damage to the Fund's reputation)
- environmental and social risks (harm to people or the environment from GCF-funded activities)
- compliance risks (failure of the GCF or partners to follow GCF policies)

The GCF has a Risk Management Framework to help identify and manage risks. The Framework has three key functions: clarifying risks inherent to GCF operations; identifying the Board's views on those risks, on the kinds of risk the Fund should be taking, and on how to manage them; and explaining how funding proposals should discuss and address the relevant risks that could arise.

Why does it matter?

The Risk Management Framework is important to ensure the GCF is taking smart and strategic risks, avoiding unnecessary risks, and actively managing and monitoring the risks it has incurred. The Risk Management Framework can help identify investments and practices where a higher level of financial risk can be acceptable because doing so yields higher potential benefits. A clear Framework promotes consistency in the Fund's activities and enables the Board to make more informed and efficient decisions.

Current policy and practice

The Governing Instrument only refers to risk in terms of financial risk.[85] However, the Risk Management Framework has evolved to recognize other types of risks, such as environmental and social risks that arise from accreditation processes and funding project proposals.

The following policies currently capture the GCF's approach to risk:

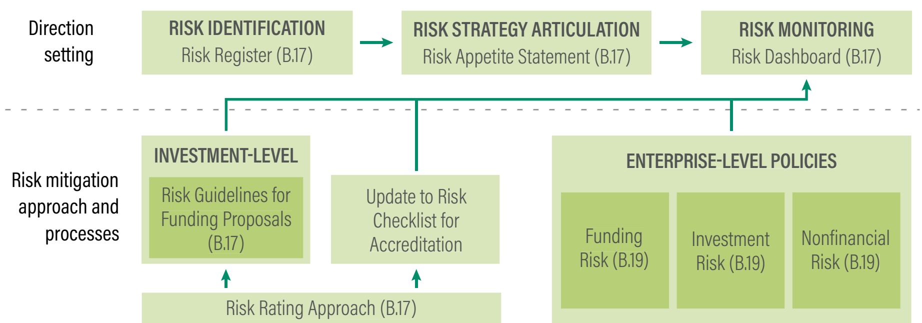
- The *risk appetite statement* articulates the level of risks in different areas that the Fund is willing to take.[86]
- The *risk guidelines for funding proposals* help inform project proponents on how they should design funding proposals to align with the Fund's risk appetite and guide the Secretariat when assessing which proposals to take to the Board.[87]

- The *funding risk policy* covers risks to the GCF's resources caused by liquidity problems (e.g., a timing mismatch between cash inflows and outflows), the failure of contributors to convert pledges into contributions, foreign exchange fluctuations, or losses of funds held in trust.[88]
- The *investment risk policy* defines requirements to manage risks of projects failing to deliver their expected impacts, or risks of delays or shortfalls in reflows for non-grant projects.[89]
- The *nonfinancial risk policy* addresses the potential for losses (both financial and otherwise) caused by a failure of people, processes, or technology, or to the impacts of external events such as disasters.[90]
- The *compliance risk management policy* lays out responsibilities within the Secretariat and the independent units to identify and manage risks and ensure that all institutions and personnel who interact with the GCF comply with its policies.[91]

In terms of tools, there is a *risk register* that identifies and defines the types of risks that concern the GCF.[92] There is also a *risk dashboard* that provides regular snapshots of the Fund's exposure to different types of risks.[93] The interactions between different components of the Risk Management Framework are illustrated in Figure 4.

The Board created a Risk Management Committee to oversee the Risk Management Framework.[94] The Secretariat's Office of Risk Management and Compliance is responsible for implementing the Framework. The Committee and Secretariat work together to track risks and identify when to update the risk appetite and risk management practices.

Figure 4 | Adaptation Logic Model of the RMF



Source: Based on diagram from GCF Board decision B.19/04, modified by WRI. Numbers in brackets denote Board meeting where policy was adopted.

While much of the Risk Management Framework is in place, the GCF does not yet have a risk checklist to use when accrediting entities.

Policy questions left to be decided

How should the Risk Management Framework be completed? The Secretariat has identified the need for a risk checklist for accreditation that would provide guidelines to ensure the Secretariat is consistent in assessing risks associated with prospective accredited entities.

How can metrics for risk management be improved? Given the diverse range of risks now included in the Risk Management Framework, it is difficult to measure and manage all these risks. Clearer metrics can help the Fund to assess and manage risks.

What is the relationship between risk management and operational and/or portfolio decisions? If the Risk Management Framework notices risks are building up in certain areas, how should this influence operational decisions? For example, what steps should the Board, Secretariat, Accreditation Panel, or iTAP take if there is a growing risk exposure to a certain sector in approved funding proposals, a concentration risk of one or two accredited entities receiving a large share of approved resources, or a recurring type of compliance failure among accredited entities?

How can responsibilities and liabilities for risk management be clarified? A key unresolved question is who is liable for decision-making and failures in compliance. It is unclear whether Board members from some countries could be personally liable for compliance failures, and this has made it difficult for the Risk Management Committee to recruit Board members with relevant background and skills. Better defining risk management responsibilities between the Secretariat and the Board, such as when the Secretariat should bring emerging risks to the Board, could clarify lines of responsibility and accountability.

Is the Fund taking the right risks? Being able to take strategic risks is essential for the Fund to deliver on its mandate to promote a paradigm shift to low-emissions and climate-resilient development. Is the Fund being true to its risk appetite over time? Is it taking more or less risks than necessary? Is there a process for the Fund to update its approach to risk over time?

LINKS TO OTHER POLICIES

Initial Investment Framework, Results Management Framework, Financial Terms and Conditions, Concessionality, Strategic Plan, Accreditation Framework and Direct Access

Decision-Making Procedures Between Meetings

What is it?

The GCF Board, in some situations, can take decisions outside formal Board meetings. Board members and alternates engage in this kind of decision-making remotely. There are specific rules for how the Board takes such decisions.

Why does it matter?

The GCF Board is responsible for governing and managing the Fund.[95] Taking decisions in a timely manner is essential to meeting these responsibilities; if decisions are delayed or not clear, it can cause significant problems in the Fund's effective operations and increase exposure to financial or other risks. Decisions between meetings are not meant to be the norm, but some time-sensitive and procedural issues have come to the Board between meetings by necessity. For example, to avoid a project lapsing, the Board has had to issue extensions for projects to fulfill conditions. Similarly, to ensure full operation of the GCF as an institution, some members of independent expert panels, such as the Accreditation Panel and independent Technical Advisory Panel, have had to be appointed between meetings. These kinds of decisions are important if the GCF is to operate smoothly. The Board is also expected to adopt guidelines on when to take decisions between meetings.[96]

Current policy and practice

The GCF Rules of Procedure allow for decisions between meetings if the co-chairs decide that a decision cannot wait until the next Board meeting.[97] Such decisions are meant to be rare; they currently happen on a case-by-case basis and will continue to do so until the Board approves guidelines for when to request decisions between meetings. In practice, these decisions have been limited to procedural matters except for the Policy to Protect Whistleblowers and Witnesses, which was adopted between meetings in 2019.

If the co-chairs determine a decision is needed between meetings, the Secretariat sends the proposed decision to Board members and alternates to approve on a no-objection basis. This means that if no Board member objects within a time limit set by the co-chairs—generally between 7 and 21 days—the decision is considered to be adopted.[98] Copies of the proposed decision must be sent to active observers unless the Board decides otherwise.

If a Board member objects, the co-chairs work with the member to resolve his or her concerns. If the objection cannot be resolved, then the decision is considered at the next Board meeting. The Secretariat shares all written comments and objections with all Board members, including the alternates, and informs them of the status of the decision.

The lack of clarity on decisions between meetings and on how to handle objections has led to delays in appointments and the inability to extend some projects that were about to lapse for varying reasons. Some Board members have also noted the difficulty in participating without advisors and in light of technological challenges, such as poor internet connections. The no-objection procedure has also worked as an effective veto. In 2018 and 2019, the issue has been under consideration as part of co-chair consultations.

Policy questions left to be decided

What types of decisions should be taken between meetings? The preferred working mode of the Board is to take decisions in person, where issues can be debated and resolved collectively. It is often harder to engage remotely when members have other job responsibilities. However, there are time-sensitive issues that crop up between meetings or cannot be addressed during meetings because of time constraints. Several Board members have noted the need to clarify the kinds of procedural decisions that can be taken between meetings to avoid unnecessary delays. There are diverging views on the Board as to whether it should delegate more decisions, such as approval of smaller-sized projects, to between meetings.

What constitutes an objection? The underlying issue here is that it is unclear whether any question raised by a Board member about the proposed decision constitutes an objection. Clarity about the difference between a clarification on a decision and an objection to the decision could help the co-chairs manage the process more efficiently.

What are the steps for working through an objection? In practice, there has been considerable confusion about how objections are resolved, and what happens if an objection is resolved after the time limit.

What is the role of alternate Board members? Although alternates are informed of proposed decisions and can make comments, only a Board member can raise an objection. If a decision is taken at a Board meeting and a Board member is not present, his or her alternate can step in and assume a decision-making role. If a decision is taken between meetings, there is no comparable process. Should there be a comparable process?

How to ensure transparency? Currently, there is little engagement from non-Board stakeholders. Although active observers are supposed to receive proposed decisions, this only started to happen recently (between the 22nd and 23rd meetings). This is in stark contrast to normal Board meetings, where decisions to come before the Board must be made public 21 days before the meeting.

LINKS TO OTHER POLICIES

Proposal Approval Process, Programmatic Approach, Review of observer participation guidelines (in Other Outstanding Issues)

Gender Policy and Action Plan (Update)

What is it?

Taking a gender-sensitive approach is a guiding principle of the GCF.[99] The Fund's interim Gender Policy and Action Plan are both intended to ensure that all GCF operations are responsive to the gender dimensions of climate change. Gender sensitivity and gender responsiveness refer to understanding how people think about gender and the social and cultural factors that drive gender inequality, as well as how existing gender inequalities may be addressed.[100]

Why does it matter?

There is mounting evidence that climate actions that incorporate gender equality and women's empowerment have greater impact and are more sustainable.[101] For GCF projects and programs to be successful, they must be gender-responsive.

Climate change also affects men and women differently. This holds true for both mitigation and adaptation. For example, women's traditional role in caring for the basic needs of families by securing food and water is negatively affected by climate changes that are making those resources more difficult to secure and access in many developing countries. Climate-induced natural disasters can reduce income for families, which means there is less money for food, housing, and education. As a result, some families could end up prioritizing boys' education, as they are perceived to have more potential to earn money in the future than girls. Studies also show both higher death rates among girls and lower health or educational outcomes for girls in the face of climate change. Women and men also have different energy needs and different access to (clean) energy sources. For example, food in many countries is cooked by women on stoves fueled by biomass instead of clean energy, with corresponding health and climate impacts. Thus, a gender-responsive approach helps ensure that GCF-funded activities do not exacerbate existing inequalities and promotes equitable treatment of men and women.

Current policy and practice

The Governing Instrument requires the GCF to be gender-sensitive; it also lists women as GCF stakeholders and calls for gender balance among Board members and Secretariat staff.[102] After starting to develop a policy in late 2013, the Board adopted an interim Gender Policy and Action Plan in early 2015. The policy and action plan are two distinct documents with different functions.

The Gender Policy contains the objectives and principles necessary for the GCF to take gender into account in all of its operations. It commits to building resilience of men and women equally, to help reduce gender inequalities, and to be responsive to gender differences in addressing climate change in its internal and external activities. The Gender Action Plan (2015–2017) lays out how the Gender Policy will be implemented over three years. It states how the policy applies to the Fund itself, to accredited entities and countries, to projects and programs, and to capacity building.

These documents represented a compromise. For some Board members, the proposed approach went too far; for other Board members and civil society, the documents were too weak. So, in 2015 the Board adopted both documents with the agreement to update them within one year, after further consultation. At the 19th meeting, a significantly updated and strengthened Gender Equality and Social Inclusion Policy, following a call for public input, was proposed for Board consideration. Because of objections from some Board members, the Board has failed to make significant progress.

In practice, there has been some success in operationalizing the existing Gender Policy both through the accreditation process and funding proposal development. Several applicant entities had first to develop gender policies and prove institutional gender competencies to become accredited to the GCF. Although this has proven difficult for some entities, readiness financing is available to support building the gender-sensitivity capacity of the GCF's implementing partners.

Policy questions left to be decided

How much flexibility should there be for different national practices and perspectives on gender? Some Board members argue that the GCF must accommodate national circumstances and allow deviation from the policy. Others argue that the GCF should reflect international norms and promote a more contemporary understanding of gender.

How to fulfil the Governing Instrument mandate for gender balance in the Board and Secretariat? There are also other operational issues that remain unaddressed, including how to ensure gender balance in the Board and the Secretariat, and incorporating gender indicators into results to enable portfolio-level information on gender.

LINKS TO OTHER POLICIES

Initial Investment Framework, Results Management Framework, Strategic Plan, Accreditation Framework and Direct Access, Proposal Approval Process, Private Sector Engagement, Environmental and Social Management System (under Other Outstanding Issues)

SECTION 4

Accessing the GCF

To receive finance from the GCF, prospective recipients must work through an accredited entity and get a funding proposal approved by the Board. This is a complex process that could be standardized and streamlined if further policy guidance were adopted. The Fund’s Governing Instrument also emphasizes the importance of working with the private sector to implement activities and mobilize funding, and there is a need for policies to set out how the Fund should go about this engagement.

Accreditation Framework and Direct Access

What is it?

The GCF does not implement projects directly, but rather it works with partners who are responsible for implementing activities. In line with the GCF's Governing Instrument, the GCF Board has set standards for responsible financial management, management of environmental and social risks (interim safeguards), gender responsiveness, and engaging Indigenous peoples.[103] These policies help make sure that GCF funds are spent as intended, and in ways that benefit the environment and people, especially vulnerable groups.

Accreditation is the process of becoming an implementing partner of the GCF. The process requires the Fund to check that a potential partner has the systems and capacity to both comply with relevant GCF policies and to execute the kinds of activities they hope to carry out.

The GCF can accredit a wide range of institutions (public, private, nonprofit, national, and international). A feature of the GCF is the ability for developing country institutions to get direct access to funding. Direct access means that these institutions can access money from the GCF without going through an international partner (such as the World Bank or the United Nations Development Programme), and can promote greater country ownership of climate finance.

Why does it matter?

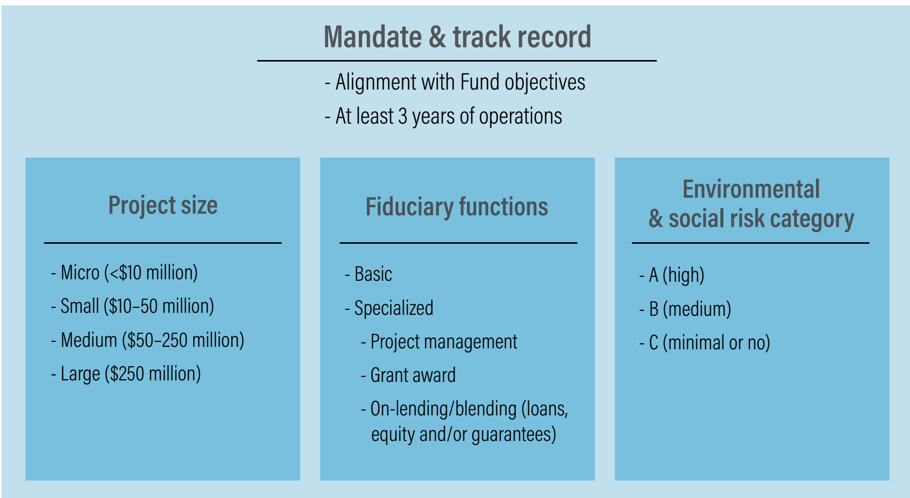
Any institution that wishes to access GCF funding must first become accredited. Accreditation allows the GCF to ensure implementing and intermediating partners have systems to meet its standards and gives partners an opportunity to improve their own institutional processes. Direct access is an important way to build the capacity of developing country institutions in planning and implementing climate projects. Project management fees going to developing country institutions also become an investment in the domestic institution and its staff.

Current policy

Overall, the accreditation system allows the GCF to operate with lower overhead while allowing entities to strengthen their own systems in line with GCF policies. The GCF has a "fit for purpose" approach to accreditation (see Figure 5).[104] This means that partners need to comply with policy requirements that vary depending on the size of the project, level of environmental and social risk, and type of financial management an entity plans to undertake. For instance, if an entity wants to implement low-risk projects, such as capacity building, then the requirements are simpler than if an entity is launching an investment fund that will support several organizations to manage forests in Indigenous peoples' territories. To become accredited, all partners have to demonstrate that they can implement fiduciary standards, environmental and social safeguards, the Monitoring and Accountability Framework, the Gender Policy and Action Plan, and the Indigenous Peoples Policy. The GCF accredits entities for five-year periods. If a partner decides to renew accreditation after five years, it would go through another check and must show how its overall portfolio is aligning with the objectives of the GCF.[105]

As of July 2019, the GCF had accredited 88 entities. Just over half are either national or regional direct access entities. The rest are accredited as international entities. The GCF prioritizes certain types of applicants in the accreditation process, including national direct access entities of countries that have yet to have a direct access entity, private sector organizations, and entities that have responded to the various GCF requests for proposals. Accreditation applications are typically processed on a first-come, first-served basis, though the GCF can fast-track entities that are already partners of the Adaptation Fund, Global Environment Facility, or the European Union's Development and Cooperation Directorate, depending on the consistency of standards between each organization and the GCF.[106]

Figure 5 | **The GCF's Fit for Purpose Approach to Accreditation**



Source: Based on diagram from GCF (2017) Accreditation to the Green Climate Fund, modified by WRI. Available at: https://www.greenclimate.fund/documents/20182/818273/1.3_-_GCF_Accreditation_Introduction_February_2017.pdf.

There are three stages to the accreditation after an entity applies: an institutional assessment and completeness check by the Secretariat; a technical evaluation of the applicant's capacities and track record against GCF accreditation standards by an independent Accreditation Panel and subsequent approval by the Board; and finalization of a legal agreement between the entity and the GCF. Direct access entities must also get approval from the relevant developing country when they apply, and they can request funding to prepare for accreditation.

The Accreditation Committee of the Board oversees the Accreditation Framework. Working with the accreditation team in the Secretariat, they guide the development of accreditation-related policies, monitor the process of accreditation, and suggest improvements for the Board's consideration. For instance, a gap analysis in 2017 showed that the GCF has relatively few direct access entities, private sector entities, and entities that can work in the Asia-Pacific region.[107] As a result, the Board asked the Secretariat to prioritize accrediting those entities, resulting in better balance among accredited entities.[108] The Board is also reviewing the overall Accreditation Framework to improve it.[109]

Despite this progress, three critical issues remain that make accreditation a resource-intensive process and mean many direct access entities face difficulties getting accredited. First, there is a significant backlog of applications coupled with capacity constraints in the Secretariat.[110] Second, there can also be duplication between the assessment of standards for accreditation and for funding proposals, which leads to inefficiencies. Finally, some entities, despite being accredited for more than a year, have yet to propose projects.

Policy questions left to be decided

How does the GCF manage an increasing number of partners? Unlike peer institutions, the GCF has no limits on the number of institutions it can accredit. There are currently 217 institutions in the pipeline for accreditation. There are concerns about the capacity of the GCF to manage relationships with a growing number of partners and to ensure that all accredited entities can get projects funded. There is little desire to set specific limits so far, but the Board is considering new approaches to accreditation.

Should the GCF develop other ways of accessing funding, besides institutional accreditation? An independent review of the Accreditation Framework found that institutional accreditation can be too cumbersome for some entities, especially private sector and local entities.[111] Based on this review, the Board asked the Secretariat to develop an approach for project-specific accreditation.[112] This would provide more flexibility and attract more institutions to the GCF, particularly from developing countries and the private sector. It has also raised concerns about how to ensure such entities have the capacity to comply with GCF standards and about setting wrong incentives for a partnership with the GCF.

What is the best way to ensure a good balance of national entities? Roughly 43 percent of accredited entities are national institutions from developing countries. Some developing countries, such as Bangladesh, have more than one direct access entity accredited; others have none. Most institutions in the pipeline stage of the accreditation process are direct access entities. The Board has adopted decisions to prioritize national direct access entities from countries that do not yet have a direct access entity. But it is unclear how to handle countries that might prefer to work with a regional direct access entity.

How can the GCF increase proposals from direct access entities? Despite national entities constituting 40 percent of accredited entities, these entities account for only 15 percent of approved funding proposals. The Board has recognized the need to increase the number of proposals from direct access entities.[113] The Secretariat presented recommendations to the Board in 2018, including setting indicative portfolio targets for funding proposals from direct access entities. However, the Board has yet to make a decision.[114]

LINKS TO OTHER POLICIES

Programmatic Approach, Strategic Plan, Risk Management Framework, Gender Policy and Action Plan, Proposal Approval Process, Private Sector Engagement

Proposal Approval Process

What is it?

The project approval process refers to the steps and procedures a project must go through to be approved for funding. The process allows the GCF to assess whether the project meets all the relevant funding requirements.

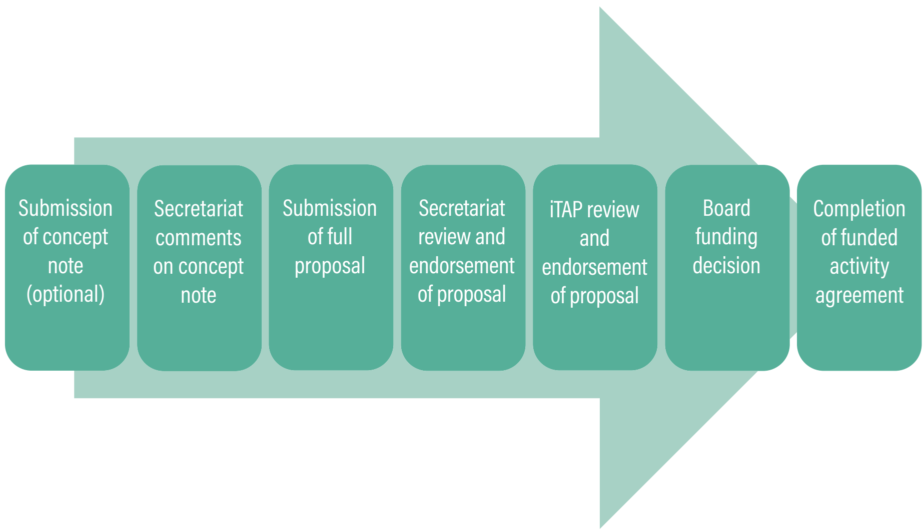
Why does it matter?

The project approval process allows projects to be approved for funding. It is essential to ensuring that all funded activities will advance the GCF's objectives, and that the Board is sufficiently informed about the use of funds. The process also guides accredited entities, project developers, and other relevant stakeholders on what steps must be taken to access GCF funding. A strong approval process will allow the GCF to conduct a sufficiently thorough review of proposals to ensure project quality, while also encouraging efficiency by avoiding unnecessary hurdles. Readiness support to ensure that developing countries can meet requirements is essential.

Current policy

Under the current project approval process, the GCF Secretariat, independent Technical Advisory Panel (iTAP), and Board all play a role in reviewing and deciding on a funding request (see Figure 6). Project proponents can first submit a concept note and receive comments from the Secretariat, or they can go straight to the submission of a full proposal. Either way, the accredited entity must provide a no objection letter from the relevant country's (or countries') nationally designated authority before a project can move forward. Once a full proposal is submitted, the Secretariat conducts due diligence to ensure the proposal is complete, and then forwards the proposal to iTAP for review, sometimes with conditions. The iTAP recommends whether the Board should approve the project as proposed, approve the project with conditions, or reject the proposal. If iTAP recommends approval (with or without conditions), the proposal goes to the Board for a funding decision. The Board reviews all submitted funding proposals and decides whether to follow iTAP's recommendation or to suggest a different approach, such as including additional conditions.[115]

Figure 6 | **GCF Proposal Approval Process**



Source: Based on Board decision B.17/09, modified by WRI.

If the project is approved with conditions but does not meet these within the stated timeframe, the project will be cancelled. To avoid cancellation, the accredited entity can request an extension of the deadline from the GCF's executive director. Any major changes in the project must be approved by the Board.[116]

Applicants submit concept notes and proposals using templates provided by the GCF. Requirements vary based on the size and risk level of the proposed project. For example, projects with high environmental or social risks must include an environmental and social impact assessment, while projects of less than $10 million with zero or minimal environmental and social risks can use simplified concept note and project proposal templates (through the so-called Simplified Approval Process).[117] The Secretariat has modified the templates from time to time to reflect updated policies or Board discussions.

To assist with the formulation of project proposals, the GCF has a Project Preparation Facility (PPF) that can allocate additional funding of up to 10 percent of requested GCF funding with a maximum of $1.5 million to help accredited entities develop and submit funding proposals to the GCF. The accredited entity must submit a separate proposal to access this funding, which is reviewed and approved by the Secretariat.[118]

Policy questions left to be decided

Should a two-step project approval process become mandatory? Requiring project proponents to submit a concept note before developing a full proposal could help the GCF and its stakeholders avoid investing significant time and resources into developing a full project proposal that is not a good fit for the GCF. It could also increase transparency and opportunities for stakeholder input. Such a process will only be effective if a concept note alone is informative enough to provide applicants with clear and accurate guidance on whether the project is likely to be funded. This might require the Board, and not just the Secretariat, to weigh in at the concept note stage. This could overburden the Board and cause further delays. The Secretariat has proposed a draft policy for a mandatory two-step approval process for funding proposals of a certain size (medium and large, i.e., more than $50 million), but the Board has yet to make a decision on it.[119]

Should the Board devolve some project approval decisions? There has been some discussion as to whether the full Board needs to review all projects, or whether the approval of small, low-risk proposals could be delegated. Options include delegating these approvals to a special Board committee, or to the Secretariat and iTAP. Delegation would reduce the burden on the full Board and could lead to a quicker approval of smaller proposals. However, this would reduce the degree to which the full Board has an understanding and oversight of the GCF's funding activities and also potentially reduce transparency.

Does iTAP need to be expanded? The Secretariat conducted a review of iTAP in 2018 and recommended solutions to help ensure that the iTAP consistently provides high-quality and timely reviews.[120] The recommendations included a change to the iTAP's processes to allow for continuous review of projects (rather than only before Board meetings, as is current practice), an expansion of the iTAP to include additional thematic areas of expertise, and additional steps to ensure that the iTAP receives regular feedback from the Board.[121] The Board has not yet acted on these recommendations.

Should private sector proposals be treated differently? The private sector often operates with more condensed financing timelines than the GCF is currently able to accommodate. Some have therefore raised the question of whether special procedures should be put in place for the private sector. On the other hand, others have expressed concern that special rules for private actors would result in a system that unfairly penalizes the public sector.

Can the PPF be made more effective? There may be further solutions to help ensure that PPF funding is used to support projects that stand a good chance of receiving funding and that direct access entities receive the support they need. This could potentially include linking PPF funding to approved concept notes, if such notes are made mandatory. Some entities may require financial support to develop a sound concept note.

LINKS TO OTHER POLICIES

Initial Investment Framework, Decision-Making Procedures Between Meetings, Gender Policy and Action Plan, Accreditation Framework and Direct Access, Private Sector Engagement

Private Sector Engagement

What is it?

The GCF has a commitment to engage the private sector while respecting developing country ownership. The Governing Instrument calls for a Private Sector Facility (PSF) to promote the participation of private sector actors. A combination of policies and processes exists to implement this mandate.

Why does it matter?

Public finance alone will not be enough to deliver the paradigm shift that the GCF calls for. Most of the world's climate finance is from private sources and the private sector is an important source of investment to drive the transformation to low-emission and climate-resilient economies.

Current policy and practice

The GCF Governing Instrument emphasizes the importance of engaging local private actors, particularly small- and medium-sized enterprises and local financial intermediaries, and of enabling private sector engagement in LDCs and SIDS. The PSF is currently a separate department within the Secretariat, but not a separate funding window. PSF staff receive and process funding proposals from accredited private sector actors or public sector projects that target the private sector, and final decisions about approval are made by the Board.

As of July 2019, 17 private sector entities have been accredited[122] and received approval for 28 projects, accounting for 41 percent of approved funding.[123] At its 13th meeting, in 2016, to proactively encourage proposals from the private sector, the Board created a request for proposal (RFP) for its pilot program for micro-, small-, and medium-sized enterprises, with up to $100 million in funding allocated.[124] At its 16th meeting, the Board approved a further RFP for its pilot program for mobilizing private finance at scale, with up to $500 million in funding allocated.[125] The GCF can also deploy an array of financial instruments, such as concessional loans, equity, and guarantees, that are suitable for private actors.

The Board also created a 14-member Private Sector Advisory Group (PSAG), comprising four developed and four developing country private sector experts, two developed and two developing country Board members, and two civil society participants, with a mandate to make recommendations to the Board on how the Fund should engage with the private sector.[126] Additionally, two private sector representatives, one from a developed country and one from a developing country, serve as active observers to the Board, providing input throughout Board meetings.

Overall, engagement with the private sector is done on an ad hoc basis in response to developing the portfolio and implementing specific Board decisions. The Board requested the Secretariat to undertake a review of the modalities of the PSF,[127] which was presented at the 23rd Board meeting. This review covered private sector strategy, strengthening private sector engagement in SIDS and LDCs, the two RFP pilot programs, and how the private sector can support the forests results area of the GCF.[128]

Policy questions left to be decided

What is the GCF's strategy for the private sector? There is little clarity on where the GCF thinks the private sector can add the most value. In 2018, the PSAG presented recommendations on a private sector outreach plan to the Board.[129] The Secretariat has prepared recommendations for the private sector strategy; these were presented to the Board but not adopted.

Are RFPs an effective way to engage the private sector? Although the two RFPs have generated considerable interest from the private sector, they had resulted in only four approved funding proposals as of July 2019.[130] Time frames for institutional accreditation and proposal approval are often too long to attract private sector actors, which could be a barrier to the success of the RFPs.

Should the GCF adopt a fast-track or altered accreditation process for private sector entities? Some GCF processes, particularly accreditation, are seen as overly time consuming and uncertain for many private sector actors.[131] The key issue is whether simplification can happen without compromising on key policies and standards, such as fiduciary and environmental and social policies (see "Accreditation Framework and Direct Access"). A further complication is that simplification might provide an unfair advantage to newer entities over those who have already gone through the accreditation process.

What are basic terms and conditions the GCF should use for private sector partners? Currently, all funding instruments for the private sector are decided on a case-by-case basis, which adds to uncertainty for private sector entities seeking to access GCF funding. Because the GCF has a mandate to support the creation of enabling environments that could catalyze private sector growth, some have pushed for the GCF to issue concessional finance to private sector entities. But, because private sector entities are profit-driven, different principles or rules may be necessary to ensure the GCF's public resources are used prudently and avoid over-subsidization. The Secretariat may also need flexibility to negotiate the best deal for the Fund. This question is further complicated by business confidentiality requirements (see "Financial Terms and Conditions").

Is the PSAG delivering on its role? The PSAG has made recommendations on several issues, including an outreach plan, barriers to engaging the private sector, enabling the private sector in LDCs and SIDS, and the private sector in adaptation. It is unclear, however, to what extent its work is guiding the GCF's engagement with the private sector. Has the PSAG been a good mechanism to get feedback from private sector experts? Is it the most effective institutional form? In the past, there has been debate about whether PSAG should be turned into a Board committee, but there is no resolution on this yet.

LINKS TO OTHER POLICIES

Initial Investment Framework, Financial Terms and Conditions, Concessionality, Co-Finance, Strategic Plan, Gender Policy and Action Plan, Accreditation Framework and Direct Access, Proposal Approval Process

Other Outstanding Issues

In addition to the above issues, the 2019 Board work plan identifies other critical policy issues that the Board will have to address. These have not, so far, had sufficient Board discussion and debate to discuss in detail, but we include a brief summary of them and explain why they are important to the operations of the Fund.

ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

The system includes a set of policies to ensure that GCF-funded activities do not cause harm to people and the environment. These policies are the Environment and Social Policy,[132] Environmental and Social Safeguards (which in the interim are currently the World Bank's International Finance Corporation's [IFC] Performance Standards),[133] the Indigenous Peoples Policy,[134] and the Gender Policy and Action Plan.[135] Relevant rules apply to both the accreditation process and the proposal approval process. When the GCF Board decided to apply the IFC's Performance Standards to stand in as the GCF's interim safeguards in the Fund's early years, they agreed to develop the GCF's own standards within three years of becoming operational. It has now been at least four years since the GCF became operational. After several consultations, the GCF's new environmental and social safeguards will be up for Board consideration in 2021. The Independent Evaluation Unit is currently doing an assessment of the GCF's interim safeguards.

INFORMATION DISCLOSURE POLICY

The current policy governs how transparent the GCF is with its stakeholders.[136] There is a presumption that the GCF will disclose information to the public, except in certain circumstances, such as sensitive business information. There are also rules about when the GCF must make information about funding proposals and related assessments available to the public. There have been challenges in implementing aspects of this policy, particularly with respect to disclosing impact assessments of proposed projects. The policy is coming up for review in 2019 (except for the review of environmental and social reports disclosure, which will be triggered on the completion of the GCF Environmental and Social Management System).

COUNTRY OWNERSHIP

This embodies the principle that developing countries should be in control of climate actions taking place in their countries. There are several ways the GCF enacts this principle, including through direct access, government endorsement of projects (no-objection procedures), readiness support for domestic institutions, and conducting multistakeholder consultations. In 2015, the Board approved a pilot program for enhanced direct access and issued a request for proposals for up to $200 million for at least 10 pilots.[137] In 2017, the Board adopted guidelines for enhanced country ownership, which are to be reviewed and updated at least every two years.[138] The Independent Evaluation Unit is currently doing an assessment of the GCF's approach to country ownership.

APPROACH TO ADAPTATION

In 2017, the Board asked the Secretariat to develop an approach to adaptation.[139] In previous years, both iTAP and Board members had raised concerns about adaptation projects and related costs, mainly focused on whether they were "adaptation" or "development" projects. This issue is central for the GCF and relates to several issues already covered in the guide (Results Management Framework, Full and Incremental Costs, Co-Finance, and so on). However, it has been postponed several times. The proposed approach is slated to be on the agenda in 2019.

REVIEW OF OBSERVER PARTICIPATION GUIDELINES

The Governing Instrument highlights the importance of observer participation in all GCF operations. In 2012, the GCF adopted a set of guidelines and agreed to do a comprehensive review within two years.[140] Despite being on the Board work plan, this review has not been taken up during Board meetings for several years. A comprehensive set of guidelines for participation is still missing.

SECTION 1 ENDNOTES

1. Governing Instrument, paragraph 37.
2 Governing Instrument, paragraph 39.
3 Decision B.07/06.
4 Document GCF/B.22/05.
5 Decision B.07/06.
6 Decision B.09/05.
7. Document GCF/B.22/05.
8. Decision B.22/15, Annex VII.
9. Decision B.22/15, Annex VIII.
10. Decision B.07/04.
11. Governing Instrument, paragraph 58.
12. Decision B.07/04; Decision B.08/07.
13. Decision B.17/11.
14. Document GCF/B.19/37.
15. Document GCF/B.22/07.
16. Document GCF/B.22/07.
17. Document GCF/B.22/07.
18. Document GCF/B.22/07.
19. Document GCF/B.19/37.
20. Document GCF/B.22/07.
21. Project FP046.
22. Project FP005.
23. Project FP035.
24. Governing Instrument, paragraph 36.
25. Document GCF/B.23/17.
26. Document GCF/B.13/18; Decision B.14/07.
27. Document GCF/B.20/26.
28. Document GCF/B.23/17.
29. Document GCF/B.23/17.
30. Document GCF/B.23/17.
31. Document GCF/B.13/18.
32. Document GCF/B.23/17.

SECTION 2 ENDNOTES

33. Decision B.06/06.
34. Decision B.17/11.
35. Decision B.08/02.
36. Decision B.09/04.
37. Project FP099.
38. Projects FP020 and FP083.
39. Document GCF/B.10/Inf.10.
40. Document GCF/B.21/05/Add.01.
41. Decisions B.09/04, B.10/03, B.12/17, B.15/05.
42. Decision B.09/04.
43. Decision B.07/06.
44. Decision B.05/07.
45. Decision B.05/07.
46. Document GCF/B.09/08.
47. Decision B.19/06.
48. Document GCF/B.21/24.
49. Document GCF/B.23/19.
50. Document GCF/B.23/19.
51. Document GCF/B.23/19.
52. Decision B.09/05.
53. Decision B.19/06.
54. Document GCF/B.20/19.
55. Document GCF/B.21/29/Rev.01.
56. Document GCF/B.23/19.
57. Document GCF/B.20/19.
58. Decision B.22/15.
59. Document GCF/B.23/19.
60. Document GCF/B.23/19.
61. Document GCF/B.21/03.
62. UNFCCC, Article 4.3.
63. Governing Instrument, paragraph 35.
64. Document GCF/B.21/03.
65. Document GCF/B.21/Inf.03/Add.01.
66. Decision B.17/10.
67. Decision B.19/06.
68. Document GCF/B.20/19.
69. Document GCF/B.21/03.
70. Document GCF/B.23/19.
71. UNFCCC, Article 4.4.

SECTION 3 ENDNOTES

72. Governing Instrument, paragraphs 4 and 18.
73. Governing Instrument, paragraph 19.
74. Decision B.12/20.
75. Decision B.11/03.
76. Decision B.12/20.
77. Decision B.12/20.
78. Decision B.12/20.
79. Document GCF/B.22/17.
80. Decision B.22/06.
81. Document GCF/B.22/Inf.13.
82. Document GCF/B.22/17.
83. Document GCF/B.22/17.
84. Document GCF/B.22/Inf.12 and Document RC-1/2.
85. Governing Instrument, paragraphs 23, 56.
86. Decision B.17/11.
87. Decision B.17/11.
88. Decision B.19/04.
89. Decision B.19/04.
90. Decision B.19/04.
91. Decision B.23/14.
92. Decision B.17/11.
93. Decision B.17/11.
94. Decision B.05/13.
95. Governing Instrument, paragraph 18.
96. Rules of Procedure, paragraph 42.
97. Rules of Procedure, paragraph 41.
98. Rules of Procedure, paragraph 41–44.
99. Governing Instrument, paragraph 3.
100. Decision B.09/11.
101. Document GCF/B.22/06.
102. Governing Instrument, paragraphs 3, 11, 71, and 72.

SECTION 4 ENDNOTES

103. Governing Instrument paragraphs 3, 18, and 71.
104. Decision B.08/02.
105. Decision B.11/10, para 35.
106. Decision B.08/03.
107. Decision B.14/08.
108. Decisions B.14/08, B.18/04, B.19/13, B.21/16, and B.23/11.
109. Decision B.18/04.
110. Document GCF/B.22/02.
111. Decision B.22.
112. Decisions B.19/13 and B.22/16.
113. Decision B.18/02.
114. Document GCF/B.20/04.
115. Decisions B.07/03 and B.17/09.
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140. Decision B.01-13/03.

ABBREVIATIONS

B.##	##th meeting of the Green Climate Fund Board
GCF	Green Climate Fund
IEU	Independent Evaluation Unit
IFC	International Finance Corporation
iTAP	independent Technical Advisory Panel
LDCs	Least Developed Countries
NDC	nationally determined contribution
PPF	Project Preparation Facility
PSAG	Private Sector Advisory Group
PSF	Private Sector Facility
RFP	request for proposal
RMF	Results Management Framework
SIDS	Small Island Developing States
UNFCCC	United Nations Framework Convention on Climate Change
WRI	World Resources Institute

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