SEAN-CC NEGOTIATION BRIEFING PAPER

Green Climate Fund

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I. Overview of the Green Climate Fund

The Green Climate Fund (GCF) is one of the climate funds within the climate finance architecture established under the United Nations Framework Convention on Climate Change (UNFCCC)[1] at COP16, Cancun, Mexico created under decision 1/CP.16 (UNFCCC, 2011). The purpose of the fund is to promote a paradigm shift towards low-emission and climate-resilient development pathways in developing countries. Its current mandate is meeting the additional costs of climate change-related interventions through grants and concessional financing.

It is seen as the primary operating entity of the financial mechanism of the Convention, in accordance with Article 11 that called for a mechanism to provide "*financial resources on a grant or concessional basis, including for the transfer of technology*" (UNFCCC, 1992). It is expected to handle a substantial share of finance committed by developed countries under the Copenhagen Accord in 2009. This Accord agreed a goal to mobilise US$100 billion annually by 2020 from a wider variety of sources for enhanced action on adaptation, mitigation (including REDD-plus), technology development and transfer (including carbon capture and storage), capacity-building and the preparation of national reports by developing countries (UNFCCC, 2010). However, it has not been established exactly how much of this finance is to be channelled through the GCF.

Another major issue yet to be clarified is how its efforts will differ and be coordinated with other mechanisms and climate flows established under the Convention through decision 7/CP.7 of the Marrakesh Accords, agreed at COP-7 in 2001 (UNFCCC, 2002). This decision declared the delivery of climate finance under the Convention would be through: replenishment of the Global Environment Facility, bilateral and multilateral sources, and three specially set-up funds: the Least Developed Country Fund[2], the Special Climate Change Fund, and the Kyoto Protocol Adaptation Fund[3].

In addition, its relationship to the Climate Investment Funds[4] (CIFs) is yet to be clarified[5]. Created in 2008 outside of the Convention - yet containing a significant amount of finance committed under the UNFCCC process - they were set up as an interim measure to provide climate finance to pilot projects in selected developing countries. Their creation contained a 'sunset' clause, which results in their operations being concluded once a new financial architecture is effective[6]. However, the CIFs have not clarified the point at which this occurs (ICF, 2014). The conditions required to operationalise the sunset clause for has resulted in ambiguity for all parties (ICF, 2014). During discussions on contributions at the 8th Board meeting, it was agreed that the Fund will be considered effective once contribution agreements have been signed for 50% of the contributions pledged in November. There exists a possibility for the continuation of the CIF operations "if the outcome of the UNFCCC negotiations so indicates" (ICF, 2014). It seems the CIFs believe they will continue as additional pilot countries have been approved and the design of a new enterprise risk management system is proceeding, despite the widely held acceptance that the GCF will be operational by 2015. (CIF, 2014).

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[1] Hence forth referred to as the UNFCCC or the Convention
[2] Set up to finance the creation and execution of National Adaptation Plans of Action (urgent adaptation needs in least developed countries)
[3] Commonly known as the Adaptation Fund, it finances 'concrete' adaptation activities with a strategic focus on giving special attention to the needs of the most vulnerable communities (UNFCCC 2009)
[4] Hosted by the World Bank
[5] The Climate Investment Funds comprise the Clean Technology Fund (CTF), the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and the Scaling up Renewable Energy Program for Low Income Countries (SREP).
[6] Governance Framework for the CTF, December 2011; Governance Framework for the SCF, December 2011.

II. Organisational structure of the GCF

Overview of its relationship with the COP

The GCF is accountable to and functions under the guidance of the Conference of Parties (COP) of the UNFCCC. Arrangements for the relationship between the GCF and COP have not changed since they were approved at the 5th Board meeting, and at COP19 through decision 5/CP.19[7] (UNFCCC, 2014). It is unclear whether paragraph 69 of the GCFs governing instrument, which mandates the GCF Board to establish an independent redress mechanism, has been met.

The only change regarding the relationship of the GCF to the COP at the 8th Board meeting[8], was that the Secretariat was mandated to represent the GCF in relevant activities and events with thematic bodies and relevant subsidiary bodies of the UNFCCC. Most notably, bodies like the Standing Committee on Finance, Adaptation Committee, Least Developed Countries Expert Group, Technology Mechanism, Warsaw International Mechanism for Loss and Damage, and the Ad Hoc Working Group on the Durban Platform for Enhanced Action. The Secretariat intends to build partnerships and achieve institutional synergies.

The GCF Board

The Board is the main decision making body of the GCF. It is comprised of 24 principle board members with an equal number from developing and developed-country Parties to ensure a balance of power. Currently, the Co-Chairs of the Board are Mr. Manfred Konukiewitz (Germany) and Mr. Jose Maria Clemente Sarte Salceda (Philippines). The Board designated Mr. Gabriel Quijandría from Peru and Mr. Henrik Harboe from Norway as its new Co-Chairs for 2015. The structure of the Board has not changed since the 7th Board meeting, nor has the structure of committees and panels (including the Private Sector Advisory Group) which provide recommendations to the Board[9].

At the 8th Board meeting[10], a methodology was adopted for making decisions between meetings. In this methodology, the Secretariat – upon obtaining approval of co-Chairs – can propose draft decisions to Board members with an invitation to approve the decision within a prescribed period. The prescribed period cannot be less than one week, and will require explanation of urgency when less than 21 days.

Consensus was reaffirmed as the preferred principle for decision-making[11]. In the case of consensus not being reached, no set procedures were developed. The Board requested the Secretariat to develop procedures for the first Board meeting in 2015. The principles that should constitute this procedure included voting rights linked to contributions – a key area of conflict between developing and developed countries.

Results management framework

Building on progress made at the previous three Board meetings, the 8th Board meeting[12] resulted in a draft decision which adopted proposed mitigation and adaptation performance measurement frameworks, and an initial approach to monitoring and evaluation policy. However, there was

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[7] As a result they are not covered in this policy brief in order to save space for recent changes.
[8] GCF/B.08/34
[9] As a result they are not covered in this policy brief in order to save space for recent changes.
[10] GCF/B.08/29
[11] GCF/B.08/17
[12] GCF/B.08/07

agreement among Board members that the current version required improvement. Consequently it was noted that the Secretariat will continue to identify and develop definitions and methodologies of indicators over time on the basis of experience gained. Particular calls were made for more qualitative measures, gender disaggregation, and for the framework to remain simple and manageable (Climate Finance Advisory Service, 2014). It is important to agree on an initial results management framework soon, so that this can be integrated into proposals for mitigation and adaptation projects/programmes. The other three issues under consideration remain undecided. The Secretariat was requested to collect views from Board members in order to be developed further at the 9th Board meeting.

Capacity of the GCF

An important issue which has received very little discussion is the need for the GCF to drastically increase its capacity. At the end of the year, the GCF will only have 48 full-time employees which will have to increase quickly in order for the GCF to have the capacity to manage the US$10-15 billion in pledges it hopes to receive (Petherick, 2014). According to Ciplet et al., (2010), the key metric to attain in order to properly manage development work is 25 staff per US$100 million. According to this metric, the GCF will need to increase staff levels to 833-1250 in order to manage the US$10-15 billion it hopes to mobilise[13].

At the 8th Board meeting[14], the Board decided to create a Human Resources Unit, an External Relations and Partnerships Unit, a Finance Unit, an Accreditation Unit and, as relevant to the needs of the Board, technical advisory groups to support the Secretariat. During the initial phase of the GCF, the Secretariat will perform the functions of the legal, resource mobilization and strategy, policy and procedures functions, as well as the functions of the Independent Evaluation Unit and the Independent Integrity Unit. Separate units are to be formed over time as required. Finally, a mix of permanent and ad hoc committees of the Board will be created that either have delegated decision-making authority or will pre-review matters in order to recommend decisions to the Board.

III. The Accreditation Process

At the 7th Board meeting, an initial guiding framework for the GCF's accreditation process was adopted. It is guided by five groups of principles: best practices and continuous update; accountability, transparency, fairness and professionalism; a dynamic process that is reliable, credible and flexible; coherence and integration with other relevant provisions of the Fund; and readiness and effectiveness.

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

[13] Assuming this finance is spread over the endorsed programming period of the initial resource mobilisation (2015-2018).
[14] GCF/B.04/08

At the 8th Board meeting[15], guidelines for the operationalization of the fit-for-purpose accreditation approach to be used by the GCF were adopted. The objectives of the guidelines were to: reach impact through working via a range of entities at all scales (including private sector entities); recognition of the different institutional context and compliance parameters of entities; and finally to avoid unnecessarily long and burdensome accreditation processes for entities that will expose the Fund to little or no financial, environmental, and social risks.

An applicant entity's conformity with the Fund's fiduciary standards will be assessed to consider the nature of the fiduciary risk, the scale of intended activities, and type of entity. The nature of the fiduciary risk relates to issues such as project management, grant award and/or funding allocation, and on-lending and/or blending. Four scales were identified using the same framework used to categorise project/programme scales: micro-scale activities totalled up to US$1 million, small scale activities totalled between US$1-10 million, medium scale activities totalled between US$10-50 million, and large scale activities totalled above US$50 million. Fees were also decided for each group, with fees waived for implementing entities from LDCs, small-island developing states, and African states and for all micro entities from developing countries.

Implementing entities who have already gain accreditation under the Global Environment Facility, Adaptation Fund, and the European Commission's 'Directorate-General Development and Cooperation– EuropeAid' at the time of the decision will be eligible for the fast-track accreditation process for the GCF, subject to ensuring fiduciary gaps have been fulfilled.

IV. Allocation of finance

Allocation between mitigation and adaptation

The GCF has decided to manage access to resources to achieve geographical balance and a reasonable and fair allocation across a broad range of countries. Allocation will also aim to maximise the scale and transformational impact of mitigation and adaptation activities, for which there is an explicit aim to achieve a 50:50 split over time. This was a key demand from many developing countries. However, the timeframe to achieve this 50:50 split has not been made explicit.

Allocation to the private sector

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

[15] GCF/B.08/02

Fair allocation between beneficiary countries

Project screening and trade-off balancing needs to be developed so projects are chosen which deliver the most benefits in terms of reducing GHGs and enhancing climate resilience (Polycarp et al., 2014). Additionally, at national level it must be ensured that all countries can access finance in a fair way that does not discriminate against least developed countries who have limited capacity constraints. At the 6th Board meeting, an initial proposal to introduce a maximum limit of 5% going to any one country - which some LDCs favoured but some emerging countries such as India and China challenged (see Rai, 2014) – resulted in an agreement for guidelines rather than targets and a cautionary decision to ensure fair resource allocation (Ibid). The 7th and 8th Board meetings have yet to yield these guidelines.

V. Accessing finance under the GCF

Country ownership

At the 6th Board meeting in 2013, the GCF decided it will only finance activities in countries via a 'no-objection procedure' which will ensure consistency with national climate strategies, a country-driven approach, and effective financing by the GCF[16]. This procedure has been unsuccessfully contested by developed countries. The procedure was successfully defended by developing countries meaning that projects funded by the GCF will require a "no objection" confirmation from the government of the country in which the project is to be based. Under this process, if an active 'no objection' is not provided within 30 days then the project is suspended. This is seen as key in ensuring that developing countries maintain ownership and that funding intermediaries will not be able to impose their own conditionalities and programmes (Biron, 2014).

Readiness

At the 8th Board meeting, the board elaborated a revised detailed programme of work on readiness. Support for 'readiness' will help developing countries prepare to access GCF resources. This included details on activities to be undertaken based on requests for support; a delivery plan for the implementation of these readiness activities (including a timeline and implementation modalities); and options for entering into partnerships with existing initiatives in order to implement readiness activities. The objectives of the programme were to maximize the effectiveness of the GCF, and ensure developing countries are in control of programming its resources.

Table 1: Requirements breakdown for readiness support

Activity	2015	2016
Supporting NDAs	7,500,000	8,625,000
Developing country work programmes	5,125,000	6,150,000
Selection of intermediaries or implementing entities	10,125,000	12,656,250
Initial pipelines of programme and project proposals	20,000,000	27,200,000
Learning, outreach and experience exchange	2,900,000	

Source: GCF/B.08/10

An interim funding allocation system was adopted for readiness support, with the majority of readiness support funding (75%) being allocated to SIDS, LDCs and African States. The remaining 25% will be allocated to other eligible developing member countries. Contributions of support will be capped at US$1 million per calendar year and documented biannually in readiness reports. The

[16] GCF/B.06/07

interim system will be reviewed in 2015 and 2016 in order to progress to a system of country-based system of allocating support.

Total readiness costs are estimated at US45 million in 2015 and US$55 million in 2016 (see Table 1). An estimated US$10 million (about 15 per cent of projected readiness expenditure) is expected to be spent on readiness activities that mobilize the private sector. However, currently only US$30 million has been made available to the Fund to support early readiness activities.

Thus far, 54 countries have designated a National Designated Authority (NDA), and 21 countries have requested readiness support. Up to US$300,000 is available to support NDAs in engaging with national/sub-national government agencies, civil society and the private sector in national priorities for engagement with the Green Climate Fund (GCF, 2014a).

Finance is available for development of country work programmes intended to facilitate the identification and prioritisation amongst interventions that align with national needs and the Fund's initial investment, allocation, and results management frameworks.

Activities will be financed in order to facilitate the selection of intermediaries or implementing entities. Activities will include information-sharing on emerging Fund requirements and exchange of experiences; development of diagnostic tools and support for self-assessments of capacities and needs; and targeted institutional strengthening activities, which will begin in 2015.

Finally, readiness support will be available for learning, outreach and experience exchange e.g. regional workshops; tool dissemination through tools such as webinars; compilations of practical information on key elements of effective low-emission and climate-resilient development financing; and periodic exchanges of experiences.

Development of access modalities

At the 8th Board meeting, it was repeated that the access modalities were to occur through three levels. The international access level allows for access through accredited entities such as United Nations agencies, multilateral development banks, international financial institutions and regional institutions. The direct access level allows for access through sub-national, national and regional entities. Another level exists for the Private Sector Facility, through which local and private financial intermediaries can access finance. Countries accessing finance from the fund would be able to choose which level through which they would obtain finance.

However, the 8th Board meeting did not finalise the development of access modalities. A pilot phase was instead agreed upon on modalities that further enhance direct access including through funding entities. The first stage will aim to incentivize programme-based funding proposals under the Fund's mitigation and adaptation windows, from entities which have gained accreditation regarding fiduciary standards. The Secretariat is to prepare terms of reference (TOR) for the operationalization of the pilot phase at the 9th Board meeting. The preparation of the TOR will occur under the guidance of the Accreditation Committee, Investment Committee, and in consultation with the Risk Management Committee.

Particular considerations for the operationalization the pilot phase were listed to be: measures to incentivize and operationalize frameworks of activities; scope and eligibility for participation; linkages to the readiness work programme; oversight and mitigation of relevant operational and

financial risks; and accommodating different needs, capacities and circumstances in recipient countries.

VI. Finance under the GCF

Initial investment framework

At the 8th Board meeting[17], the GCF Board adopted initial activity-specific sub-criteria covering the issues of impact potential, paradigm shift potential, sustainable development potential, the needs of the recipient, country ownership, and finally efficiency and effectiveness. These criteria took into account; *inter alia*, the initial investment framework, initial result areas, and the initial results management framework of the GCF. These initial activity-specific sub-criteria were not considered to be final and are expected to be improved upon over time as experiences are gained, lessons learnt, and best practices develop. Moving forwards, the Secretariat was requested to progressively and flexibly develop and implement benchmarks and methodologies where relevant and feasible. Currently the initial investment framework remains difficult to operationalise as no indicators or metrics have been identified which enable assessment into whether criteria are being met.

Guiding principles for determining terms of financial instruments

Terms of financial instruments were adopted at the 8th Board meeting, after previous disagreements at the 6th Board meeting regarding interest rates for loans. Some considered rates too close to market terms and developed countries pushed for the use of other instruments besides grants and loans. See Table 2 for the terms and conditions of outgoing grants and concessional loans.

Table 2: Terms and conditions of outgoing grants and concessional loans

	Currency	Service fee	Commitment fee	Interest rate	Maturity	Grace period
Grants	Major convertible currency	0.50 per cent of grant amount up front	Up to 0.75 per cent on undisbursed balances	Grants without repayment contingency: no reimbursement required Grants with repayment contingency: terms adapted to the required concessionality of the project or programme		
Highly concessional loans	Major convertible currency	0.50 per cent annually on disbursed amounts	Up to 0.75 per cent annually on undisbursed amounts	Based on cost-of-borrowing terms of loan-type contributions received plus a margin that covers credit risk	Up to 40 years	Up to 10 years
Moderately concessional loans	Major convertible currency	0.50 per cent annually on disbursed amounts	Up to 0.75 per cent annually on undisbursed amounts	Based on cost-of-borrowing terms of loan-type contributions received plus a margin that covers credit risk	Up to 25 years	Up to 5 years

Source: GCF/B.08/11

At the 8th Board meeting[18], it was decided that grants will be provided both with and without repayment contingency. Repayment contingency is provided to maximise effectiveness and efficiency of resources and avoid the risk of distortive subsidies. It is also provided to tailor resources to cover any agreed full or incremental costs of the investment to make projects viable. Instances whereby repayment contingency is provided apply mostly to grants to the private sector and will be determined on a case-by-case basis.

[17] GCF/B.08/20
[18] GCF/B.08/11

It was also decided that loans will be provided with either high or moderate consessionality. The terms of loans will be based upon the terms of incoming loan-contributions to the GCF with an additional margin to cover credit risk, in accordance with the GCFs financial risk policies. The maturity, grace period, and interest rate of repayable grants and loans will be tailored to meet the needs of each project or programme. Repayable grants and loans for private sector projects will generally be less concessional than public sector projects.

Regarding the use of 'Other Financial Instruments', at the 8th Board meeting it was decided that grants will be used to provide guarantees and equity, in addition to their typical use. The potential losses from doing this will be limited to the grant amount. It was also decided that it will take risk exposure to climate programmes and projects through accredited intermediaries to benefit from their due-diligence processes and local knowledge. A review of the lessons learnt from this approach will be undertaken by the Secretariat after 24 months under the oversight of the Risk Management Committee.

Approval process for proposals

At the 8th Board meeting[19], processes for awarding finance to potential projects and programmes was decided using the same scales identified for the accreditation of implementing entities. Funding proposals will be generated through 'calls for proposals' or spontaneous submission by NDAs, implementing entities or intermediaries to the Secretariat. Proposals are submitted in accordance with the no-objection procedure to ensure country ownership. Voluntary concept notes can be submitted for prior feedback.

A streamlined process for approval has been created learning from the experiences of the Climate Investment Funds, the Global Environment Facility, the Adaptation Fund, and the African Development Bank. Large size proposals, i.e. proposals above US$50 million for either a loan or grant, are discussed at Board meetings.

Approval of medium size proposals, i.e. proposals between US$10-50 million for either a loan or grant, is delegated to the Investment Committee of the Board[20]. Recommendations are provided by the Secretariat based upon assessment against activity-specific criteria and due diligence. The independent Technical Advisory Panel[21] may also conduct a technical assessment of funding proposals by accredited entities and provide technical advice to the Investment Committee. Issues with proposals are either resolved or discussed in plenary in subsequent Board meetings.

It was decided that micro and small funding proposals by NDAs, i.e. proposals for funding up to a threshold of US$10 million for either a loan or grant, are eligible for a simplified no-objection procedure. Through this procedure, approval is granted by the Executive Director of the Secretariat, upon receiving recommendation to do so by the Investment and Risk working groups, who in turn base their decision against defined criteria and due diligence. Conditional approval can be granted upon modifications to design and the availability of funding. The Board is merely informed of approvals ex post on a quarterly basis.

There is no indication of how the resources of the GCF will be allocated towards micro, small, medium, and large proposals across each thematic window. A decision on this would seem vital

[19] GCF/B.08/22
[20] Established under decision B.05/13.
[21] A panel of experts established under decision B.07/03

considering the key criteria of the results management framework; replication and scalability, cost-effectiveness, and most notably the potential for paradigm shift towards low-emission and climate-resilient development pathways which may favour large-scale proposals. If the balance is not set properly then this will pre-determine the extent to which different organisations can obtain finance from the fund. For instance if not enough finance has been set-aside for small or micro scale projects, then local organisations – who operate at the scale at which adaptation mostly occurs – will find it difficult to access finance. However, on the other side it is also important that sufficient finance goes to large-scale proposals such as NAMAs that can undertake transformative change by mainstreaming mitigation and adaptation into development planning.

VII. Capitalisation of the GCF

Current status

At COP-19, Warsaw, it was decided the amount of funding necessary and available to implement the convention will be periodically assessed and reviewed, which will help inform resource mobilisation of the GCF (UNFCCC, 2014[22]). The GCF will accept and maintain flexibility to receive finance on an on-going basis from public and private sector grants, paid-in public capital contributions, and concessional public loans.

At the 7th Board meeting[23], it was decided that the eight essential requirements for the commencement of the initial resource mobilization (IRM) process had been met. It was decided to commence the IRM process; and a request to the Secretariat to make arrangements with interested contributors was reaffirmed. Since the 7th Board meeting two IRM meetings have taken place. The first meeting was held on 30 June–1 July in Oslo, Norway, and a second technical meeting on 8–9 September in Bonn, Germany[24].

According to accounts, as of 30th June 2014, the vast majority of previous pledges had been deposited (US$56.25 million versus US$51.41 million). Pledges from Indonesia, Italy, France and Sweden were outstanding. However, relevant legal agreements have been prepared and are under consideration by the contributors (World Bank, 2014). As of 30th June, there were no resources available to support new funding decisions. If pending pledges are deposited (totalling US$3.78 million), the GCF Trust Fund would only have US$0.5 million to support additional funding decisions (World Bank, 2014).

Current mobilisation efforts

One attempt at establishing fair shares of contributions required to meet the initial target of US$15 billion places the vast majority of the responsibility on the US, EU, and Japan (see Table 3). Since commencing its IRM, developing and developed countries have clashed on three key proposals which were ultimately removed from the suggested decision. Firstly, Board members from developing countries voice concerns that pledges not yet received will be made conditional on decision-making procedures which favour contributors, i.e. developed countries. Secondly,

Table 3: Suggestions for fair shares of contributions in the IRM

Contributor	Indicative share (US$)
United States	4.8 billion
European Union	6.0 billion
Japan	2.3 billion
Canada	600 million
Australia	407 million
Others	893 million

Source: (Petherick, 2014).

[22] FCCC/CP/2013/10/Add.1
[23] GCF/B.07/09
[24] GCF/B.08/15

developing countries hold concerns regarding the potential continued status of the World Bank as the GCFs interim trustee. At the 8th Board meeting, the Board endorsed the view that the World Bank continue as interim trustee, subjected to a review three years after the operationalization of the Fund[25,26]. The other area of concern is whether contributors will earmark contributions to specific areas according to preference (Ramen, 2014[27])

Importantly, the GCF's original hope for an initial mobilisation of US$15 billion in June was been downscaled by 33% to US$10 billion in September (King, 2014[28]). This downscaling in ambitions comes at a time when pledges to climate funds by developed countries have seen a drastic reduction. In 2013 pledges were 71% lower than they were in 2012 (ODI, 2013), and fears remain regarding the level of public finance to be pledged by developed countries.

Table 4: Pledges made towards IRM

Country	Pledged (US$)
USA	3,000,000,000
Japan	1,500,000,000
United Kingdom	1,130,000,000
France	1,000,000,000
Germany	938,000,000
Sweden	541,400,000
Italy	313,000,000
Canada	265,000,000
Norway	133,000,000
Netherlands	125,000,000
Norway	113,000,000
South Korea	100,000,000
Finland	100,000,000
Switzerland	100,000,000
Denmark	70,000,000
Spain	16,000,000
Mexico	10,000,000
Luxemburg	6,300,000
Czech Republic	5,500,000
New Zealand	3,000,000
Panama	1,000,000
Monaco	300,000
Indonesia	250,000
Mongolia	50,000
Source: compiled from various sources.	

Discussions around capitalisation of the GCF cannot be removed from discussions on scaling-up climate finance more generally as it was always envisaged that the GCF, as the Convention's main mechanism, would handle a substantial share of finance mobilised under the UNFCCC process. Despite this vision, it is not yet explicit how much of finance mobilised under the UNFCCC process that the GCF will handle, nor whether the sunset clauses of the Climate Investment Funds of the World Bank will be exercised and their operations folded into the GCF.

Currently, approximately US$9.4 billion has been raised in pledges (see Table 4). Individual amounts in USD may vary due to changes in the exchange rate. Pledges were made by 21 countries, including contributions from four developing countries. One notable exception was Australia who did not pledge. The total pledged amount will also fluctuate due to changes in currency values. The total amount pledged is below both the initial mobilisation target and below the revised target. Furthermore, the amount raised (to finance projects over the next four years) will represent an overall reduction in climate finance provided by Annex-I countries compared to fast-start finance contributions unless contributions are made outside of the GCF.

Scaling-up finance

It is also not yet clear how contributions to the GCF will be scaled-up in a timely and predictable manner moving forwards into the future. At COP-19 in Warsaw, it was decided that developed countries would submit 'updated strategies and approaches' every two years on climate finance in the context of the US$100 billion mobilisation goal. The first iteration of these updated strategies and approaches was due 24 September 2014. However, only New Zealand and Italy (and the

[25] GCF/B.08/16

[26] The Secretariat was also requested to develop, by the 11th Board meeting a proposal for selecting a trustee including a list of potential trustees including the possibility that it could be its own trustee.

[27] http://www.rtcc.org/2014/09/12/finance-finally-on-horizon-for-uns-green-climate-fund/

[28] http://www.rtcc.org/2014/09/10/green-climate-fund-lowers-cash-demands-to-10bn/

European Commission on behalf of the European Union and its Member States) have currently submitted[29]. Explanation should be sought on why this is the case, as some see the delay as a negotiation tactic.

Climate finance is expected to grow following negotiations at COP-19 in Warsaw, where Annex-I countries were urged to continue to mobilize additional climate finance from current levels to reach the US$100 billion level that was agreed to be mobilised annually by 2020 under the Copenhagen Accords using "a wide variety of sources, public and private, bilateral and multilateral, including alternative sources" (UNFCCC, 2011; 2014). However, this statement said nothing regarding the mix of grants and loans. At the 7th Board meeting it was commented that grant contributions must significantly exceed loan amounts[30].

The UN's High-Level Advisory Group on Climate Change Financing (AGF) has suggested various innovative sources to scale-up climate finance including Financial Transaction Tax (FTTs), Special Drawing Rights (SDRs), and a levy on Maritime or Aviation Bunker Fuels (AGF, 2010). One other alternative source of finance outlined in Fenton et al., (2014) is the idea of using debt-servicing payments on long-term bilateral debt owed by developing to developed countries to finance adaptation and mitigation efforts in developing countries. Debt relief is a viable option for fulfilling climate finance commitments under the UNFCCC, and has already been used by Italy and the US in fulfilling their fast-start finance commitments (Nakhooda et al., 2013). Payments to service long-term bilateral debts in developing countries were greater than US$90.7 billion during the period 2010–2012, triple the fast-start finance goal of the Copenhagen Accord.

South-South Cooperation

Another idea which is growing is the potential for South-South cooperation within the GCF. Indeed, Indonesia's pledge of support mentions the possibility of "capacity building programs under the South-South Cooperation that replicate the success stories of climate change programmes in other countries" (GCF, 2014). Müller (2014) builds on this statement to propose the establishment of Southern Solidarity Fund (SSF) operating under the GCF. The Southern Solidarity Fund would be led by a Board consisting of developing country members to receive voluntary contributions from developing countries for South-South cooperation. Streck and Rossati (2014) examine the legal possibilities of achieving this. They find that such a fund could only exist as part of the GCF if there is a COP decision to establish such a fund alongside the GCF and a request is made to the GCF Board to administer the new fund.

Problems associated with accepting private forms of finance for capitalisation

Developed countries argue much of the money to fulfil the US$100 billion pledge will come from the private sector, with the public sector limited to leverage larger amounts from the private sector. While logic and opportunity exists to direct private investment flows from developed to developing countries, this only holds true for mitigation investments in emerging markets such as Brazil, China, India, South Africa and a few others. Furthermore, while some opportunities exist for private sector investments in adaptation (e.g. insurance sector) these are extremely limited (Huq and Smith, 2014). The smallest and most vulnerable countries will always need public funds to help them adapt to the adverse impacts of climate change, rather than investment to reduce their (already small)

[29] http://www4.unfccc.int/submissions/SitePages/sessions.aspx?showOnlyCurrentCalls=1&populateData=1&expectedsubmissionfrom=Parties&focalBodies=COP
[30] Decision B.07/05 (Annex XI, paragraph 2(a)).

greenhouse gas emissions. The vast proportion of funds allocated for adaptation in the poorest and most vulnerable developing countries will have to rely on public-sector sources from the governments of the developed world. The issue of where the public funds will come from to meet the US$100 billion target has to be resolved, and this will determine levels of private investment (Ibid).

VIII. Looking ahead

Three Board meetings are proposed for 2015. The 9th, 10th, and 11th meeting of the Board will take place in March, June, and October respectively[31]. The 9th meeting of the Board is due to discuss operational activities and reporting, policy guidance, various institutional matters, and resource mobilisation. Particular agenda items of note are the establishment of an initial proposal approval process, a revised programme of work on readiness and preparatory support, accreditation matters, development of the initial risk management framework, a discussion of alternative sources of finance and instruments; and importantly the policies, procedures and documents necessary to trigger the first formal replenishment. Currently, the first formal replenishment is expected to take place mid-2017 once cumulative funding approvals exceed 60 per cent of the total contributions[32]. In addition, decisions postponed at the 8th meeting, most notably regarding the Private Sector Facility, and the Fund's gender policy are to be discussed at the 9th Board meeting.

The 10th meeting of the Board is due to discuss operational activities and reporting, policy guidance, and various institutional matters. Particular agenda items of note will be the consideration of funding proposals, allocation of funding, consideration of applications for accreditation, and reporting on the status of resources. The 11th meeting of the Board, is also due to discuss operational activities and reporting, policy guidance, and various institutional matters. Particular agenda items of note will once again be the consideration of funding proposals, allocation of funding, consideration of applications for accreditation, and reporting on the status of resources. In addition, there will be a report to the COP including a response to guidance provided by the COP at its twentieth session; and a report from the Executive Director on activities undertaken related to readiness including joint activities with existing initiatives, and progress made towards committing and disbursing available funds.

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[31] GCF/B.08/28
[32] GCF/B.08/16

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