Introduction

The Green Climate Fund (GCF) is the newest financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC)\(^1\). Under the scope of Article 112 of the UNFCCC, the GCF was established at the 16th Conference of the Parties\(^3\) (COP 16) with an aim to achieve overriding objective of: ‘….promoting the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development’ (UNFCCC 2010).

As per decision 1/CP of COP 16, the Fund is made accountable to and function\[s\] under the guidance of the COP.

Over the years, since COP 16 in 2010, the GCF has evolved as an independent institution with its own governance mechanism, institutional structure, secretariat and fund pledges both from the developed and developing countries. As of December 2014, 31 countries put their fund pledges and the amount already reached very near to USD 10.2 billion equivalents (GCF IRM 2015). Meantime, the GCF board agreed on fund operation and management policies and framework; developed fund access modalities and established Independent Accountability Units. The Board set a target to make the Fund fully operational with the approval of projects and programmes no later than its 3rd meeting in 2015 (GCF/ B.08/07, 2014).

Though the Fund intends to provide direct accessibility and flexible opportunities to the climate vulnerable countries but the recipient countries have to meet certain requirements, primarily to ensure transparency and fiduciary standards set by the Fund board.

This briefing paper analyses background of the Fund establishment, its operation and access modalities and briefly focuses on the readiness of Bangladesh to access and programme GCF finance effectively.

Establishment of the Fund

The establishment of GCF was first discussed at the 15th Conference of the Parties (COP 15) of the UNFCCC held in Copenhagen in 2009. Copenhagen Accord, the political outcome of COP 15, took note on the establishment of ‘Copenhagen Green Climate Fund’ with a goal of jointly mobilizing USD 100 billion annually by 2020.

As mentioned in Paragraph 10 of the Copenhagen Accord, the Copenhagen Green Climate Fund aims to serve as an operating entity of the financial mechanism of the Convention to support projects, programmes, policies and other activities in developing countries related to mitigation including REDD-plus, adaptation, capacity-building, technology development and transfer (UNFCCC 2009).

In accordance with the decision of Copenhagen Accord, COP 16 held in Cancun in 2010 decided to establish the Green Climate Fund (decision 1/CP.16). The COP also established a Transitional Committee (TC) to develop and recommend operational documents for the GCF to be approved at the 17th Conference of the Parties (COP 17). However, the Fund was formally established at COP 17 held in Durban in 2011 by a decision ‘3.CP/17’. The Governing Instrument of the Fund also was decided at COP 17 and annexed to decision ‘3.CP/17’ and presented in UNFCCC document FCCC/CP/2011/9/Add1.

The GCF, compared to other financing mechanisms of the UNFCCC, provides some unique features; a) The Fund Board with equal representation from developing and developed country Parties, including LDCs and SIDS, b) Criteria based investment decision, c) Balanced allocation between adaptation and mitigation d) A separate allocation, initially 10% of the total, particularly to the vulnerable countries e.g. LDCs\(^4\), SIDS\(^5\) and African States.
Meantime, the Fund has been evolved as an independent financial mechanism and was expected to be fully operationalized by the end of 2014 but yet to be; hence the Fund board has decided to start taking decisions on the approval of projects and programmes no later than its 3rd meeting in 2015.  

**Scope of the GCF**

The GCF is to promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to the developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change. The Fund will finance fully agreed and incremental costs for activities in order to enable and support enhanced action on adaptation, mitigation, technology development and transfer, capacity building and the preparation of national communications by the developing countries. The Fund also includes a private sector facility (PSF) to finance private sector directly or indirectly on adaptation and mitigation activities in national, regional and international level. There were extensive deliberations on the windows of funding. For instance, COP 17 decided that the Fund would ‘initially have windows for adaptation and mitigation’; but would likewise ‘ensure adequate resources for capacity-building and technology development and trade’ as well as ‘consider for additional windows’ (Decision 3.CP / 17). In line with the COP decision, the Sixth meeting of the GCF Board held in Bali in February 2014 decided to start Fund operations with a two-tier allocation system (GCF 2014), they are:

1. The first tier will set allocation targets relative to available resources for two themes (mitigation and adaptation) (Figure 1) and one modality (the PSF)

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### Table 1: Evolution of Green Climate Fund (Information Source: UNFCCC 2014b)

<table>
<thead>
<tr>
<th>Year and Event</th>
<th>Decision and Achievement</th>
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<tbody>
<tr>
<td>2007, COP 13, Bali, Indonesia</td>
<td>Decided to provide scaled-up, new and additional, predictable and adequate funding to the developing countries, taking into account of those particularly vulnerable, through a variety of sources, including public and private sources.</td>
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<td>2009, COP 15, Copenhagen, Denmark</td>
<td>The ‘Copenhagen Accord’ took note on the establishment of a Multilateral Climate Fund termed as ‘Copenhagen Green Climate Fund’ as an operating entity of the financial mechanism to support projects, programmes, policies and other activities in the developing countries regarding mitigation and adaptation measures.</td>
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<td>2010, COP 16, Cancun, Mexico</td>
<td>‘Cancun Climate Agreements’ established the Green Climate Fund and agreed to mobilize $100 billion annually by 2020. The COP established a Transitional Committee (TC) to develop and recommend operational documents for the GCF to be approved at the 17th Conference of the Parties (COP 17).</td>
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<td>2011, COP 17, Durban, South Africa</td>
<td>Parties welcomed the Transitional Committee report and approved the governing instrument for the GCF. Parties agreed on the requirement of ‘National Adaptation Plans’ from the developing countries as a country strategy to access to the Fund.</td>
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<tr>
<td>2012, COP 18, Doha, Qatar</td>
<td>Endorsed the consensus decision of the GCF Board to select Songdo, Incheon, Republic of Korea as host of the GCF.</td>
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<tr>
<td>2013, COP 19, Warsaw, Poland</td>
<td>The GCF Board established an independent secretariat of the Fund and appointed an Executive Director. Parties emphasized on the full operationalization of the GCF.</td>
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<tr>
<td>2014, COP 20 Lima, Peru</td>
<td>Parties welcomed the resource mobilization of USD 10.2 billion (December, 2014) to the GCF; requested the Fund board to accelerate its full operationalization including 2015 work plan. Parties also invited the developing countries to expedite their National Designated Authority (NDA) and nominate Focal Point to the fund along with their selection of national and sub national entities sooner to facilitate engagement with GCF.</td>
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*The Fund was expected to be fully operationalized by the end of 2014 but yet to be, hence the Fund board has decided to start taking decisions on the approval of projects and programmes no later than its 3rd meeting in 2015.*
Additionally, a minimum floor target will be set for country groups identified as being particularly vulnerable to the adverse effects of climate change: LDCs, SIDS and African States; and,

(b) The second tier will allocate available resources to proposed activities. In the second tier, there will be an element of competition for the use of Fund’s resources both for the private and the public sectors. Proposals will be evaluated against their potential contribution to a paradigm shift and on their potential mitigation and/or adaptation benefits.

Besides, countries will also be supported in the pursuit of project Based and programmatic approaches in accordance with strategies and plans; such as low emission and climate resilient development strategies which includes Nationally Appropriate Mitigation Actions (NAMA), National Adaptation Programme of Action (NAPA), and National Adaptation Plan (NAP) etc.

On the distribution of first tier resources, the Board decided to allocate 20% of GCF’s total cumulative commitments through the Private Sector Facility (PSF) for both mitigation and adaptation. This is an initial allocation which will be revised and increased, provided the private sectors show a strong result. The Board also decided a separate allocation, initially 10% of the total, particularly to the countries vulnerable to the impacts of climate change. The Board, having reviewed Policies and Procedures for the Initial Allocation of Fund Resources (GCF/B.06/05, 2014), decided to allocate adaptation resources on the basis of urgent and immediate needs of the vulnerable countries, in particular LDCs, SIDS and African States.

The Board decided to allocate 20% of GCF’s total cumulative commitments through the Private Sector Facility (PSF) for both mitigation and adaptation. On the issue of balancing allocation between adaptation and mitigation and according to Paragraph 506 of the Governing Instrument of GCF, the Board recommended adopting 50/50 as the medium-term allocation target between mitigation and adaptation.

Balance between mitigation and adaptation in the allocation of climate funds is always a critical concern of the developing countries. Currently, there is neither any allocation formula nor any clear definition of the term ‘balancing’ (Lattanzio, R.K, 2013). At present, a significant majority of climate finance worldwide goes to mitigation measures rather than to adaptation activities. Given the context, it’s the first time within the UNFCCC process that the balance between adaptation and mitigation has been explicitly specified as 50 percent, and exceeds expectations compared to an initial draft that had put the adaptation target as low as 30 percent. Such a target would ensure a sustained focus on increasing the share of resources committed to adaptation in the developing countries.

**Fund Governance and Administration**

The governance mechanism of the Fund comprises of:

(a) The Board, (b) The Secretariat, (c) The Trustee, and (d) Independent Accountability Units.

The fund Board comprises of 24 members, with equal representation from developing and developed country Parties, with representation from relevant United Nations groupings including the SIDS and LDCs (UNFCCC 2012). The governing instrument includes two civil society and two private sector representatives as active observers to all the Board Meetings. However, they will not be able to vote on decisions.

According to paragraph 5 of the GCF’s Governing Instrument, “The Fund will be governed and supervised by a Board which will bear full responsibility for funding decisions”. Decisions of the Board are taken...
under consensus of the Board members, and two-thirds majority of the Board members must present at the meeting to constitute a quorum (Governing Instrument, Paragraph 14 and 15).

According to paragraph 19 of the Governing Instrument, the Board established a Secretariat of the Fund at its fifth meeting in October 2013. The Secretariat is headed by an Executive Director who is appointed by and accountable to the Board. The Secretariat is fully independent, in terms of providing services and of accountability to the Board. The Fund has established its secretariat in Songdo, Republic of Korea with required office space, provided by the Government of the Republic of Korea.

The Trustee of the Fund is responsible for maintaining appropriate financial records and preparing financial statements. It also requires the Board to produce reports in accordance with internationally accepted fiduciary standards (Governing Instrument, paragraph 24). As per 1/CP.16 decision of the 16th Conference of the Parties (COP 16), the World Bank serves as the interim trustee for the Fund, subject to a review three years after operationalization of the Fund. A permanent trustee will then be selected in an open and competitive process.

The Fund also has three independent accountability units (a) The Independent Evaluation Unit; (b) The Independent Integrity Unit; and (c) The Independent Redress Mechanism.

The World Bank will serve as the interim trustee for the Fund for three years. A permanent trustee will then be selected in an open and competitive process.

As described in the Governing Instrument of the Fund (Paragraph 68, 69), the Independent Evaluation Unit will periodically evaluate the performance of the Fund, the Independent Integrity Unit will work with the Secretariat to investigate allegations of fraud and corruption in coordination with relevant counterpart authorities, and the Independent Redress Mechanism will receive complaints related to the operation of the Fund, evaluate them, and make recommendations.

Access to Fund

The GCF aims to provide simplified and improved access to climate finance including through direct access. In this regard, Article 31 of the Governing Instrument of the GCF provides “simplified and improved access to funding, including direct access” through a “country-driven approach”. Again, Article 47 calls for enhancing direct access through funding entities: recipient countries will nominate competent sub-national, national and regional implementing entities for accreditation to receive funding.

Hence, to facilitate direct access to the Fund the GCF Board made a requirement for the recipient countries to appoint a National Designated Authority (NDA) or mandate a focal point to operate the Fund, and flexibly decide on its location, structure, operation and governance (Governing Instrument, paragraph 46, which was later agreed at the meeting GCF/B.04/05, 2013).

The NDA or focal point will nominate a National Implementing Entity (NIE) and will facilitate communication of the nominations of Entity to the Fund. Funds can be directly accessed through NIEs as long as they fulfill certain fiduciary standards. The NDA will recommend funding proposals to the Board in the context of national climate change strategies and plans, including through consultation processes. The GCF funds can also be accessed through multilateral implementing entities-termed as ‘intermediaries’ - such as accredited multilateral development banks and UN agencies. However, the board would require a ‘no-objection’ letter from NDA or focal point as a mandatory condition for all the funding proposals submitted either by intermediaries or by implementing entities to ensure consistency with the respective national strategies & country driven approaches (GCF/B.08/10, 2014).

To make the fund directly accessible by the recipient countries, especially by the LDCs and SIDS, the GCF board undertook a detailed work programme for readiness and preparatory support. Under readiness support programme USD 29 million has been made available while “a floor of 50%” is for most vulnerable countries including SIDS, LDCs and African States (GCF/B.08/10, 2014). This support is intended to enable the countries in establishing national, sub-national and regional implementing entities and intermediaries through meeting GCF accreditation standards, also to support strengthening of institutional capacities and coordination mechanism with relevant agencies and stakeholders. An individual developing country is allowed to have maximum USD 1 million readiness fund, which would be reviewed in 2016. The scope of the readiness support of the GCF include a) Establishing and Strengthening NDAs/Focal point, b) Developing Strategic Framework, c) Accrediting Entities, d) Developing Pipeline and e) Sharing Information, Experiences.

To expedite the process of operationalizing GCF, the Board made some important decisions at its eighth meeting held in Barbados in October 2014.
Under readiness support programme USD 29 million has been made available while “a floor of 50%” is for most vulnerable countries including SIDS, LDCs and African States.

The interim criteria for accrediting GCF implementing and intermediary agencies was set, allowing a ‘fit to purpose’ (GCF/B.08/02) and ‘fast track’ (GCF/B.08/03) accreditation approach in line with its fiduciary standards (Basic standards including financial and administrative capacities, transparency & accountability; and Specialized standards) and Environment & Social Safeguards (ESS). This is to mention that the Fund board already adopted the performance standard of the International Finance Corporation (IFC) as the Fund’s interim environmental and social safeguards (ESS) while it will develop its own ESS through multi-stakeholder consultation process over three years (CFU 2014b).

As per ‘fit to purpose’ accreditation approach the application of fiduciary standards and ESS are categorized and matched to the risk level, complexity and size of the project to be implemented. The implementing entities are free to choose the category of accreditation.

The international financial institutions (IFIs) as well as bilateral development agencies will have comparative advantage over national ones to be accredited on priority basis.

Under ‘fast track’ consideration, the Fund Board decided to consider already existing entities accredited with Global Environmental Facility (GEF) mechanism e.g. the Adaptation Fund and the development aid programme of the European Commission, as well as institutions with a track record of engaging with private sector while meeting identified gaps in adherence with GEF standards and safeguards. Hence, the international financial institutions (IFIs) as well as bilateral development agencies will have comparative advantage over national ones to be accredited on priority basis.

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**Figure 2:** Accreditation and access modalities of the Green Climate Fund (Developed by the authors)
Once NIE/NIEs are selected on the basis of fiduciary standards, they will ask ‘Executing Entities-EEs’ to prepare funding proposal (projects/programmes) which should meet six investment criteria (Box 1). The funding proposals should require endorsement from the NDA and then forwarding them to the Fund Board through NIE. The NIE would oversee the development and approval of the projects/programmes and monitor their results while EE will be responsible for carrying out project/programme activities.

**Box 1: Investment Criteria**

The GCF board agreed on an Investment Framework and Initial Approval process. According to GCF investment decision, a set of six investment criteria will be considered in the process of fund approval, the criteria include:

- Contribution to GCF result areas e.g. contribution to low-carbon and/or climate resilient development
- Paradigm shift potential
- Sustainable development potential
- Needs of the recipient countries and population
- Coherence with the country’s existing policies and climate strategies, and
- The effectiveness and efficiency of the proposed intervention, including its ability to leverage additional funding

**Resources to the GCF**

The sum of pledges to the GCF has already crossed ‘USD 10 billion goal’ set in its ever first pledging meeting held in Berlin on 20 November, 2014 (GCF Press release, November 2014). Though the Berlin meeting set USD 10 billion goal, but the developing countries had requested as least USD 15 billion public contribution to the fund by end of 2014.

As of December 2014, the current fund pledges from 31 countries reached very close to USD 10.2 billion equivalents (GCF IRM 2015). The major contributing countries (see figure 4) includes the United States who pledged an amount of US$ 3bn, Japan US$ 1.5bn while Germany, France and United Kingdom have promised around US$ 1bn each. Along with these big contributors, pledges equivalent or over 100m USD made by Sweden (581.19m), Italy (334.43m), Canada (277.02m), Norway (257.86m), Australia (186.94m), Spain (160.53m), the Netherlands (133.77m), Republic of Korea (100m), Switzerland (100m), Finland (107.02m). Smaller amounts (below 100m USD) has been offered by countries including Denmark (71.78m), Belgium (69.03m), Austria (25m), Mexico (10m) and others (below 10m). Among the developing countries, Indonesia USD 0.25m, Peru 6m, Mongolia 0.05m, Panama 1m and Columbia pledged 6m to the Fund.

**Bangladesh’s Readiness**

To access to the GCF the recipient countries have to ready themselves by meeting certain criteria and standards. Necessarily countries have to appoint a National Designated Authority (NDA) to operate the Fund and criteria based NIE/MIE to access to the Fund.

As of 6th February 2015, the GCF has received 96 initial NDAs or Focal Point Designations (GCF 2015), where Bangladesh has nominated its Economic Relations Division (ERD) of the Ministry of Finance as NDA or Focal Point, the apex body to facilitate access to the Fund.

**Figure 4:** Major pledges made by the countries to GCF (GCF IRM 2015)
Meantime, the NDA in Bangladesh launched an inclusive consultation process and short-listed 14 national institutions considering them potential of being NIE/NIEs while meeting basic and specialized standards set by the GCF. The NDA also completed a ‘self-assessment’ process to identify strengths, gaps of the prioritized institutions. To help out the selection process Bangladesh Government, in close partnership with GIZ, appointed an international consultant who meantime completed ‘one to one’ meeting sessions with the potential institutions (UNDP Press release; 2015).

Following the self-assessment process, during 28-29 January 2015, country’s NDA focal point, (Senior Secretary of Economic Relations Division of the Ministry of Finance) organized a consultation workshop titled “NIE Accreditation Process: Getting Bangladesh Ready for the Green Climate Fund”. The workshop deliberately discussed the outcomes of the self-assessment process; discussed capacity/eligibility gaps of the positional institutions and explored required technical assistance to make Bangladesh ready for gaining access to GCF (The News Today, 2015).

In fact, the requirement of establishing of NIE comes whenever the concept of direct access comes. While multilateral institutions (e.g., intermediaries) do play a major role in implementing other climate funds (e.g., Least Developed Countries Fund, Special Climate Change Fund) the GCF put significant concern to channel fund directly to the eligible countries. Hence, it is crucial for the country to “expedite the process” of selecting its national entity or entities and facilitate their engagement with the GCF.

End Notes

1. An international environmental treaty is aimed at stabilizing GHG concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference. The Convention entered into force on 21 March 1994.

2. According to Article 11 of the UFCCCC ‘The developed country Parties may also provide and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels’

3. The supreme decision-making body of the Convention. All States that are Parties to the Convention are represented at the COP that is responsible for keeping international efforts to address climate change on track.

4. A country that exhibits the lowest indicators of socioeconomic development with the lowest human development index ratings of all countries in the world. Poverty, human resource weakness and economic vulnerability is the responsible criteria to classified a country as a LDC.

5. Small Island Developing States (SIDS) are a distinct group of developing countries facing specific social, economic and environmental vulnerabilities. Fifty two countries and territories are presently classified as SIDS by the United Nations OHRLSS.

6. Paragraph 50 of GCF governing instrument requires the Board balancing of allocation of resources between adaptation and mitigation activities

7. The member States of the United Nations are unofficially divided into five geopolitical regional groups; the African Group, with 54 member states; the Asia-Pacific Group, with 53 member states; the Eastern European Group, with 23 member states; the Latin American and Caribbean Group (GRULAC), with 33 member states; the Western European and Others Group (WEOG), with 28 member states, plus 1 member state as observer

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