



# GREEN CLIMATE FUND

## THE BASICS

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### » **WHAT IS THE GREEN CLIMATE FUND?**

The impacts of climate change are already being felt by many millions of people and communities around the world – but the burden weighs most heavily on the poor and marginalised in developing countries.

That's why 195 countries came together to create the Green Climate Fund (GCF) under the United Nations Framework Convention on Climate Change (UNFCCC). The GCF is expected to play a central role in financing efforts to combat climate change (mitigation) and to help developing countries cope with its effects (adaptation).

The GCF agreed on eight initial funding proposals in November 2015, following a five year process to establish the Fund. It has been promised US\$10.3 billion over its first four years of operation, mostly from developed countries.

Half of the GCF's funding is supposed to go for adaptation, and half of that is to be spent on adaptation in particularly vulnerable countries, including least development countries (LDCs), African states and small island developing states (SIDS). These countries have so far received only a minor share of international public climate funding.

The GCF could be one of the most significant public funders of climate projects and programmes globally, but it represents a tiny proportion of the US\$100 billion per year that developed countries are meant to supply to help meet developing countries' climate change needs by 2020.



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### » **WHY WAS THE GCF SET UP?**

The world is awash with climate funding mechanisms set up by the World Bank and other multilateral development banks (MDBs) and bilateral institutions, but very few of them are accountable to developing countries, let alone to the people who are most vulnerable to the effects of climate change.

The GCF is supposed to be different. It was set up according to the principles of the UNFCCC, with a constitution (called the "Governing Instrument") that promises a "country-driven approach" accountable to the institutions and people in the developing countries in which the Fund operates.

The GCF promotes a gender-sensitive approach to its funding – the first climate fund to do so from the outset of its activities. Decision-making power is evenly split between developed and developing countries. While the UNFCCC has also set up a handful of other funds – notably, the Adaptation Fund – the GCF has promised to deliver billions, not millions, of dollars every year.

The GCF approved its first docket of proposals in November 2015, and early signs are mixed. If the GCF hits its target of allocating half of its financing for adaptation, that would be a successful break from the current norm of mitigation-dominated climate finance.



**THE GCF COULD BE ONE OF THE MOST SIGNIFICANT PUBLIC FUNDERS OF CLIMATE PROJECTS, BUT AMOUNTS TO A SMALL PROPORTION OF THE US\$100 BILLION ANNUALLY PLEDGED BY DEVELOPED TO DEVELOPING COUNTRIES.**

The GCF also allows direct access, which means funding can flow directly to developing countries rather than passing through the usual multilateral development banks (MDBs). This represents an effort to advance country ownership and do things differently (so far, only the Adaptation Fund has allowed such direct access). A pilot programme of US\$200 million created to “enhance direct access” is supposed to carry this innovation even further and give developing countries significantly more control over decisions on how money will be spent.

At the same time, there is mounting evidence that the GCF could repeat the mistakes of the MDBs and other climate funds. In fact, most of its funding could end up flowing through MDBs and UN agencies. This is because the GCF has adopted a structure that outsources the running of activities to other partners, with institutions like the World Bank, Asian Development Bank and UN Development Programme likely to play a key role (see “accredited entities”, below). As almost all of those international organizations are accredited to undertake large projects and programmes (over US\$250 million), there is a risk they could crowd out direct access from organizations based in developing countries. The GCF Secretariat anticipates that around 90 per cent (by value) of the activities that will be considered for funding in 2016 will be proposed and managed by international entities.

GCF staff and consultants have repeatedly approached the task of setting up the Fund by asking “what would MDBs do”, and what would most appeal to the private sector, rather than seeking more innovative solutions. For example, the Fund adopted on an interim basis the environmental and social safeguards of the International Finance Corporation, the private sector arm of the

World Bank, instead of writing its own from the outset.

Concerns have also been raised about the Fund’s willingness to turn a new leaf in meaningfully engaging communities in advance of approving funding. For example, the very first GCF project to be approved was criticised for failing to attain the Free, Prior and Informed Consent of affected Indigenous Peoples.

## » **HOW WILL IT WORK?**

The GCF will partner with other institutions to run and manage activities, rather than funding projects directly. These partners are known as “accredited entities” because they undergo an accreditation process that

is supposed to test their ability to manage funds, implement projects and apply safeguards. The process is meant to ensure that funding is not given to activities that harm people or the environment, and that GCF-funded activities support gender equality in compliance with the Fund’s gender policy.

Governments, organizations and companies seeking GCF funding must either apply to become accredited entities, or team up with accredited entities that would channel funds to them - subject to various checks and administration fees.

The GCF can provide funds in the form of grants, concessional loans, equity investments and guarantees. (The first activities are mostly grant funded, although equity, guarantees and loan funding were also approved and allocated.) Some implementing entities serve as financial intermediaries and must meet special financial management criteria. They are then able to package (i.e. “blend”) GCF funds with commercial loans, offer guarantees on other loans, take equity stakes in companies and investment funds or just pass GCF funding on in grant form.

This level of flexibility can help overcome barriers to investment – for example, reducing the risk and increasing the likelihood of local banks or international investors supporting off-grid renewable energy. But it

can also be used to fuel financial speculation, or simply to subsidise actions that transnational corporations would have undertaken anyway.

» There is also a danger that too great a focus on financial instruments that return profits back to the GCF could distort the Fund's priorities, especially given that adaptation is rarely revenue-generating. A key part of the GCF's value lies in its ability to support impactful projects and programmes that commercial lenders would not touch.

## **WHICH ARE THE GCF “ACCREDITED ENTITIES”?**

The GCF has so far accredited 33 entities, including several MDBs, UN agencies, developed country bilateral aid agencies, regional and national environment centres,

national ministries, three large international commercial banks, a private social impact investment fund and an international non-governmental organization. An additional 58 have applied.

» The accreditation of Deutsche Bank, HSBC and Cr dit Agricole caused particular controversy. These are among the world's largest private financiers of coal, and have been implicated to varying degrees in human rights violations and market manipulation. If GCF accreditation is focussed on MDBs and developed country bilateral aid agencies, as well as international commercial banks, that could compromise the mission of the GCF to support direct access for local organizations and national bodies.

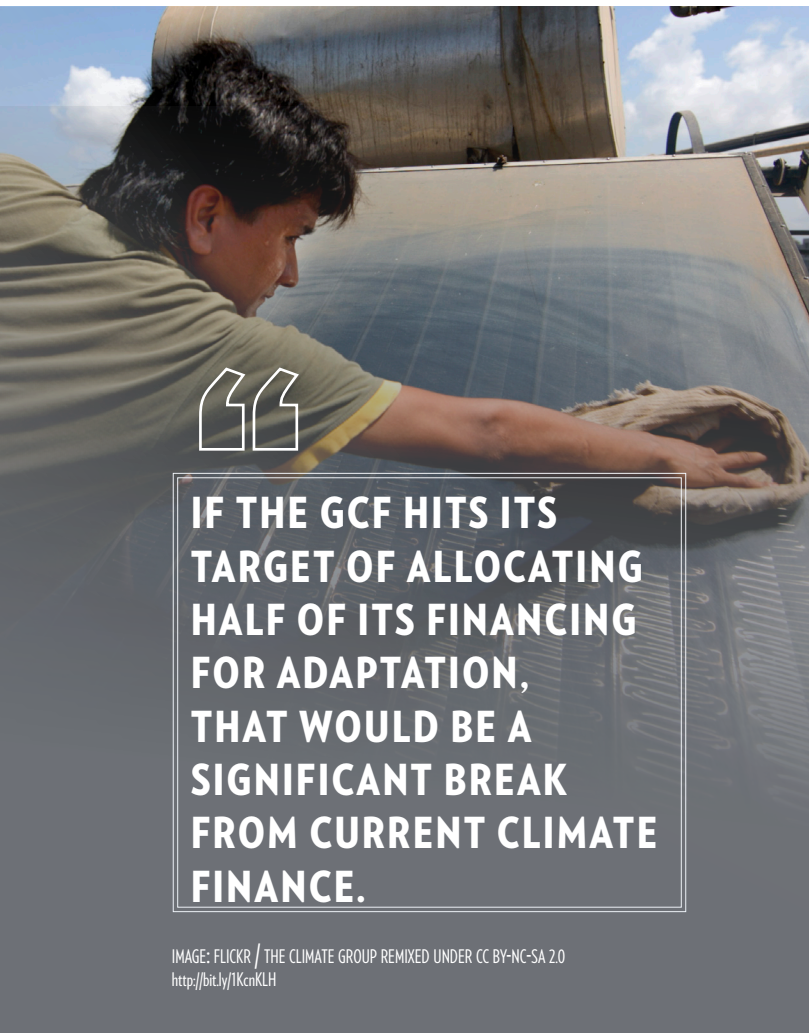
## **WHAT ACCOUNTABILITY IS THERE TO COMMUNITIES OR NATIONAL AUTHORITIES?**

Projects and programmes can only take place in a country with the approval of the National Designated Authority (NDA) or, alternatively, an in-country “focal point”. NDAs are typically housed in government ministries, while a focal point can be a single government official.

The primary task of NDAs and focal points is to ensure that funding proposals are consistent with national laws, climate strategies and development plans. That happens through the issuance of a “no objection” letter, which provides a country's endorsement for a proposal.

Regrettably, the GCF has not set any common benchmarks or minimum standards for the composition, mandate or practices of NDAs. Each country can largely decide for itself what its NDA will do. This means that, though there are recommendations, there are no actual minimum requirements of NDAs for multi-stakeholder engagement, including consultation with affected communities and civil society. It also means that there is no requirement to implement Free, Prior and Informed Consent for Indigenous Peoples.

The GCF will have a redress mechanism for affected communities harmed by failure to implement its safeguards when projects are carried out, though the details of this mechanism have yet to be fleshed out. An independent integrity unit will also be formed to investigate fraud and corruption.



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## » WHO RUNS THE GCF?

### **Board**

GCF decisions are taken by a 24-member Board (with a further 24 “alternate” members), composed of an equal number of members from developing and developed countries.

The Board decides which activities the Fund will support, as well as accrediting the “entities” that will administer its projects and programmes. The Board also sets the Fund’s rules and strategic direction, signs off on budget and staffing requirements and appoints an Executive Director who oversees the work of the Fund’s staff. The Board usually meets three times per year.

### **Secretariat**

The GCF Secretariat is responsible for the Fund’s day-to-day operations. The First Executive Director is H la Cheikhrouhou, formerly of the African Development Bank, but she will step down in September 2016. She heads a team of around 56 staff in the Fund’s headquarters in Songdo (Incheon), South Korea. This staff is expected to grow to around 140 by the end of 2017, in response to complaints of under-staffing (by way of comparison, the World Bank employs around 9,000 people, and the African Development Bank employs 2,000). The Fund also employs 62 consultants around the world, and is supported in its work by a growing number of expert panels whose tasks include evaluating proposals for funding and accreditation.

Some Board members and civil society groups have pointed out that recruitment is biased in favour of former staff of big development banks. While staffing is intended to be diverse in terms of region and gender, it is notable that a majority of senior staff are men from developed countries.

### **Trustee**

The World Bank serves as the interim trustee, meaning that it is tasked with administering any money currently raised.



**THE GCF PROMOTES  
A GENDER-SENSITIVE  
APPROACH TO ITS  
FUNDING - THE FIRST  
CLIMATE FUND TO DO SO  
FROM THE OUTSET OF ITS  
ACTIVITIES.**

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## Observers

Civil society groups and the private sector have no formal role in running the GCF, but are consulted on a broad range of issues. Two “active observers” from civil society and two from the private sector can make interventions and raise concerns at GCF Board meetings.

## UNFCCC

The GCF is ultimately accountable to the 195 countries in the UNFCCC Conference of Parties, which approved the Governing Instrument, according to which the Fund is run. The parties to the UNFCCC can also provide “guidance” to the GCF once a year and follow up annually on how their recommendations have been implemented.

## » WHERE DOES THE GCF GET ITS MONEY?

The GCF can receive funds from developed and developing countries, as well as philanthropic foundations and private sector companies. (Not all of this would be “climate finance” in a strict sense, which refers to public funds from developed countries.) The initial US\$10.3 billion in pledges mostly come from developed countries.

As it grows, the GCF is likely to receive considerable “reflows” – loan repayments and profits from funded projects and programmes that are not grant-based. At best, these could result from a responsible model of investing in activities, such as enhancing energy efficiency, that struggle to attract private money but that reduce costs for users while at the same time lowering emissions. But concerns have already been expressed that the Secretariat is aggressively advocating that GCF-supported activities put



**THE GCF IS ULTIMATELY ACCOUNTABLE TO THE 195 COUNTRIES IN THE UN FRAMEWORK CONVENTION ON CLIMATE CHANGE.**

money back into the Fund (including in the case of adaptation projects). Too hard a push for profitable investments could see the GCF rule out support for essential but non-commercial activities in some of the world’s poorest countries. This would undermine its core goal of helping the people most affected by climate change.

## » WHAT ACTIVITIES WILL BE FUNDED BY THE GCF?

### Mitigation and Adaptation

All developing countries are eligible to receive GCF funds. Several “priority” areas have been identified by its Board, but these are very broadly defined. Eligible mitigation activities include actions to reduce greenhouse gas emissions from power generation, transport, buildings, cities, industries, land use and deforestation. Its adaptation funding is intended to support programmes and projects that increase the resilience of vulnerable communities, target food and water security (amongst other forms of well-being) and improve the resilience of infrastructure and ecosystems in the face of climate change threats.

The GCF has promised that it will try to dedicate half of its funds to adaptation, although this is an aspiration to be achieved “over time” rather than a binding limit. Its first round of funding met this goal, but it is far too early to predict what will happen longer term, and past precedents are poor. For example, in their 2010-2012 “fast-start” climate finance commitments, developed countries promised to balance mitigation and adaptation. Yet less than a fifth of that money was spent on adaptation.

The GCF can support a broad range of efforts, from the purchase or deployment of new equipment (such as updated weather forecasting systems, or off-grid solar panels) to community efforts to preserve water and improve farming practices. Public education, new policy measures and institutional “capacity building” are all amongst the types of activities that could be funded.

The GCF aims to achieve “geographic balance” in

its funding, with close attention paid to “particularly vulnerable” countries (a contested definition), including least developed countries (LDCs), small island developing states (SIDS) and African states.

The goal of targeting the most vulnerable may be in tension with the Fund’s aim of giving a “significant” share of its funding to private sector activities, however. Private investors are focused on finding the most profitable and least risky investments, which tend to be concentrated in a handful of (relatively) wealthier countries and backed by larger, often multinational, companies.

### **Special initiatives**

In addition to the US\$168 million to finance the GCF’s first funding proposals, the GCF has allocated resources for a number of other initiatives. Up to US\$500 million will be dedicated to chasing funding from large investors in the financial sector, as part of a pilot programme that could include a foreign exchange facility to manage investor risk or see the GCF participating in investment funds for renewable energy and energy efficiency.

US\$200 million is allocated for another pilot programme targeted at supporting micro, small and medium-sized enterprises (MSMEs) in developing countries. A further US\$200 million will attempt to encourage “enhanced direct access” to GCF funds from national and local developing country institutions through up to 10 pilot projects.

### **Readiness**

The GCF has also allocated a total of US\$53 million for “readiness” funds, with any country eligible to receive up to US\$1 million. These funds are meant

to build a country’s capacity to engage with the GCF.

## » **WILL THE GCF FUND FOSSIL FUELS?**

Common sense says that financing any fossil fuels or environmentally harmful energy through the GCF is at odds with its purpose of helping to achieve clean, climate-friendly development. It is totally inconsistent with what climate scientists say we need to do if we want to avoid runaway climate disruption. But GCF rules do not explicitly prevent it from funding fossil fuels.

Some of the investment guidelines already adopted by the GCF could be interpreted as steering funding away from fossil fuels, if they are applied strictly. These include a measure of the “degree to which an activity avoids lock-in of long-lived, high-emission infrastructure” and its “overall contribution to global low-carbon development pathways being consistent with a temperature increase of less than 2 degrees Celsius.” But this advice is not binding, and there is a reasonable chance that Board decisions would put political considerations first in choosing how to interpret these rules.

In response, civil society groups have continually pressured the GCF to clarify its position on energy financing, and have pushed for an exclusion list that clearly says no to fossil fuels and other dirty energy projects.

Fossil fuels aside, close scrutiny and pressure from civil society will be necessary to try to prevent the GCF from funding false solutions like so-called “climate smart” agriculture, biofuels, waste incineration, nuclear energy and big dams. Because these activities are much more easily greenwashed than oil, coal or gas projects, there is arguably more risk of the GCF financing them. Whether or not such false solutions get funded will largely depend on what happens at the national and sub-national levels, making national advocacy key to keeping the GCF truly green and climate friendly.

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