

Workstream III: Operational Modalities
Sub-workstream III.2: Managing Finance
Background note: Thematic windows

I. Introduction

1. Decision 1/CP.16 Paragraph 102 decides that resources within the GCF will be delivered through “thematic funding windows”. At its first meeting (28-29 April 2011), the Transitional Committee (TC) discussed the organisation of its work into four workstreams, with thematic funding windows contained in workstream III (Operational Modalities). At the first technical workshop of the TC (30 May - 1 June 2011), the co-facilitators of workstream III proposed that a factual background note on thematic funding windows be prepared by the Technical Support Unit (TSU). The co-facilitators subsequently instructed the TSU to prepare this note for discussion at the second meeting of the Transitional Committee (13-14 July 2011).

II. Initial views

2. Although specific requests for submissions of views on thematic funding windows have not yet been circulated by the co-facilitators of workstream III, a significant number of members and observer organisations have submitted initial views in the context of other issues within workstream III. These views broadly indicate a variety of possible configurations for thematic windows under the GCF, but remain at a general level.

3. Submissions suggest a variety of forms of thematic funding windows. These fall into three main clusters: 1) those focussed on the thematic scope of issues under negotiation within the UNFCCC process; 2) those focussed on geography (either specific countries or countries with particular socio-economic characteristics); and 3) those with a particular access focus, such as direct access and the private sector.

4. A number of submissions note the possibility of focal areas or sub-windows being embedded within overarching windows. For example, one member notes the possibility of having a private sector focus embedded within a mitigation window.

5. As no formal request for submission of views on windows has been requested at this stage, this note does not synthesise views on the configuration of windows within the GCF. Instead this background note builds on these initial views by providing information on the characteristics of thematic funding windows used within existing climate, environment, and development funds. This information aims to provide the TC with background information with which to elaborate the details of proposed windows within the GCF (including definitions, governance arrangements, funding, and operational procedures).

III. Thematic funding windows: Definitions and forms

6. A thematic funding window is a sub-structure within a fund that allows for specialisation in and a focus on a particular sector, issue, or access modality. Among existing funds there are four broad categories of thematic funding windows:

- (a) Themed by scope (e.g. mitigation, adaptation)
 - These windows are defined by the substantive focus of activities under the window. or examples, these might be arranged as mitigation, adaptation, etc.
- (b) Themed by geography (e.g. particular countries or regions)
 - These windows are defined by the countries that are eligible to access them. These could be particular regions, such as Africa, or countries with particular

geographic characteristic (whether physical, such as SIDS, or socio-economic, such as LDCs).

- (c) Themed by instruments/modality (e.g. private sector, multilateral access, direct access, bilateral access)
 - Windows under this category would focus on particular financing instruments or access modalities. An instrument focus could, for example, be private sector instruments; an access modality focus could, for example, be direct access.
- (d) Hybrid Options
 - The three categories of windows above can be combined into various hybrid options. This could take the form of substantive windows (such as mitigation, adaptation, etc) in which there are specific funds ring-fenced based on geography or particular access modalities. Alternative, this could take the form of a single window with both a substantive and geographic focus.

IV. Examples of different models

7. This section outlines a variety of examples of the different forms of thematic funding windows. In particular, it aims to provide in-depth factual information on the specific characteristics of different forms of windows, in particular the 1) definition, 2) funding, 3) governance, and 4) operational procedures of windows.

A. Windows themed by scope

1. GEF Focal Areas

Definition of Windows

8. The six windows under the GEF are termed “focal areas”: climate change, biological diversity, land degradation (primarily desertification and deforestation), international waters, ozone layer depletion, and persistent organic pollutants.

9. The GEF organises itself in this manner to ensure it can meet its obligations to the various Conventions it services. The structure allows the GEF to report annually to each Convention on the funds it has programmed for that focal area.

10. The climate change focal area is not further divided into specific climate change themes, although the GEF Council has taken the decision not to fund adaptation through this window given the GEF manages two UNFCCC funds that also deliver adaptation finance: the Least Developed Countries Fund and the Special Climate Change Fund (SCCF) (see below).

Window Funding within Fund

11. Donors cannot earmark to a particular focal area in the GEF. Instead, as part of the four-yearly GEF replenishment negotiations, replenishment participants allocate the pool of replenishment funds amongst the focal areas. The allocation decision is taken on the basis of need, Convention priorities and, ultimately, the priorities of replenishment participants (which included, for the first time in GEF-5, representatives of recipient countries). The allocation decision is taken prior to donors finalising their pledges to the replenishment, meaning donors are aware of how their individual contributions will be divided amongst the focal areas before they pledge.

12. Each GEF focal area is framed by a set of objectives. As well as determining the allocation of resources across focal areas, replenishment participants allocate resources to each objective within a particular focal area.

Window Governance

13. The GEF Council is the overarching governing body that determines policies and procedures across and within all six focal areas. There are no subsidiary governing bodies specific to each focal area. The GEF Council actively seeks to maximise synergies and co-benefits across the focal areas.

Window Operations

14. The bulk of the GEF's policies and procedures are common across the focal areas, including those related to institutional reform, the project cycle and monitoring and evaluation.

15. Each focal area has its own programming strategy, agreed as part of the replenishment negotiations. The strategies address the particular Convention obligations that each focal area is trying to meet.

2. Special Climate Change Fund (SCCF)

Definition of Windows

16. The SCCF was established by Decision 7/CP.7 under the Convention in 2001 with four thematic funding windows:

- (a) Adaptation;
- (b) Transfer of technologies;
- (c) Energy, transport, industry, agriculture, forestry and waste management; and

(d) Activities to assist developing country Parties referred to under Convention Article 4, paragraph 8(h), in diversifying their economies.

Window Funding within Fund

17. Donors may earmark funding to a particular window. Decision 5/CP.9 gave "top priority" to the adaptation window of the SCCF, and also identified technology transfer as an essential area for funding. To date, donors have only contributed funding towards the adaptation and technology transfer windows, thus these are the only two of the four windows that are active.

Window Governance

18. SCCF windows do not each have their own governing bodies; all are governed by the overarching body, the LDCF/SCCF Council.

Window Operations

19. The GEF's policies and procedures (fiduciary standards, streamlined project cycle, results-based frameworks, and monitoring and evaluation practices, among others) apply to the SCCF, unless the LDCF/SCCF Council decides it is necessary to modify such policies and procedures to be responsive to the guidance of the UNFCCC COP. These are applied consistently across the SCCF's windows unless otherwise requested by the COP.

3. Climate Investment Funds (CIFs)

Definition of Windows

20. The CIFs are funds that are held in trust by the World Bank and can be used to finance adaptation and mitigation programmes implemented by the multilateral development banks. They comprise two trust funds, the Strategic Climate Fund (SCF) and the Clean Technology Fund (CTF). The SCF comprises three separate thematic windows. Together, therefore, there are four main funding windows (“programmes”) within the CIFs, each with a specific substantive focus:

- (a) Clean Technology Fund;
- (b) Scaling-up Renewable Energy in Low-income Countries Programme (SREP);
- (c) Pilot Programme for Climate Resilience (PPCR);
- (d) Forest Investment Programme (FIP).

21. Each of these windows has specific criteria for activities that can be included.

22. The SREP window is limited not just by scope but also by group of recipient countries in order to prevent duplication with the CTF and target development benefits. This window delivers financing in Low-income Countries only.

Window Funding with Fund

23. Donor governments are able to pledge funds directly to windows within the CIFs. Each window required a minimum threshold of funding to become operational.

Window Governance

24. There are several levels of decision-making within the CIFs. The CTF and SCF each have a committee, and then each window/programme within the SCF has a sub-committee. A number of functions are delegated by the SCF committee to the individual window/programme sub-committees.

25. The country allocation of CTF funds is decided by the CTF Trust Fund Committee, based on investment plans submitted by the country. CTF funding for projects and programs under the plans is approved by the CTF Trust Fund Committee, based on project/program documents.

26. The SCF Trust Fund Committee approves the administrative budget for the SCF, whereas the FIP, PPCR and SREP Sub-Committees approve the allocation of resources for pilot countries and regions. Projects and programs supported under an investment plan (strategic framework using a programmatic approach) are approved by the respective Sub-Committee. To take decisions and ensure coherence across the entire CIFs, the SCF and CTF Trust Fund Committees also regularly meet in joint session.

27. Currently, all CIF governing bodies have equal number of representation from the contributor countries and eligible recipient countries. For the SCF Sub-Committees, pilot countries are given priority for being a member on the Committees and geographical considerations are part of the criteria agreed to by the recipient country to guide the identification of member countries.

28. All CIF governance bodies include CSOs and private sector representatives as observers. In addition, the SCF programs include Indigenous Peoples representatives as observers.

Window Operations

29. A variety of financing instruments are available under each of the windows/programmes of the CIFs, including grants, loans, and private sector instruments. The policies and procedures of

the implementing multilateral development bank are used for each of the activities under the windows/programmes within the framework of agreed MDB-wide processes and approaches laid out in the CIF operational manuals.

B. Windows themed by geography

1. Africa Enterprise Challenge Fund (AECF)¹

Definitions of Windows

30. The AECF has a number of funding windows, some defined by substantive theme, others by country. In particular, there are windows targeting Fragile States in Africa (such as DRC and South Sudan), as well as Zimbabwe, in addition to many country-specific windows, such as for Tanzania.

Window Funding within Fund

31. Donor governments pledge funds directly to individual funding windows.

Window Governance

32. Specific geographic windows within the AECF do not have their own governance body. Instead, the Fund Manager (KPMG Development Services Limited) shortlists the best applications and forwards them to the AECF's independent Investment Committee (IC). The IC then conducts further analysis of proposals and selects programmes for funding.

Window Operations

33. Geographic windows within the AECF have specific financing instruments available within them. For example, the Tanzania window within the Fund offers only grants and repayable grants up to US\$1m. However, the Zimbabwe window within the Fund offers both grants and repayable grants up to US\$1.5m, but also provides both debt and equity on negotiable rates.

2. Expanded delivering as one funding window (EFW) for achievement of the MDGs²

Definition of Windows

34. The expanded delivering as one funding window (EFW) exists as a part of the wider One UN funding window under the MDG Achievement Fund specifically for One UN pilot countries. Although it is financially and administratively autonomous from the umbrella fund, it is defined as a window under the MDG Achievement Fund.

Window Funding within Fund

35. EFW Funds are held in a separate trust fund from the One-UN window in the wider MDG Achievement Fund and donors pledge money directly to it. In this sense it is more financially independent than other windows.

Window Governance

¹ The Africa Enterprise Challenge Fund provides grants and interest free loans to businesses who wish to implement innovative, commercial viable, high impact projects in Africa. The Fund has a number of funding windows based on both geography and substantive themes.

² The EFW provides un-earmarked funding to UN country programmes that adopt a Delivering as One (DaO) approach. The concept evolved from the MDG Achievement Fund, which included a window for funding the One UN pilot countries. The UK, Norway and the Netherlands worked with Spain, UNDP and the UN Development Operations Coordination Office (UNDOCO) to expand the One UN window into a separate pooled multi-donor financing mechanism.

36. The EFW Steering Committee provides overall leadership, strategic direction and decision-making, including the allocation of EFW resources within the window. Governed by its Terms of Reference, the EFW Steering Committee is directed by the Vice Chair of the UNDG, and is comprised of director-level officials from all UN organizations that are members of the UNDG Advisory Group. The Steering Committee has overall responsibility for the EFW and sets its strategic direction. The EFW exists within the context of the governing body of the MDG Achievement Fund and the original One UN window under its jurisdiction.

Window Operations

37. The Operational Document for the Expanded Delivering as One Funding Window is a framework document that articulates the principles of the funding window, processes and procedures to be followed, and roles and responsibilities of the various actors within the agreed governance mechanism, whereas the EFW Guidance Note for Country Teams provides details on eligibility, application and allocation processes and procedures. The funding window provides only grant finance. Policies and procedures are specifically developed for the EFW; however, they are harmonized with the procedures that are in use for the original and other One UN windows within the MDG Achievement Fund.

C. Windows themed by instrument/modality

1. Private sector window in the global agriculture and Food Security Programme³

Definition of Windows

38. GAFSP is organised into two funding windows--one public sector and one private sector. The private sector window aims to provide innovative financing aimed at increasing the commercial potential of small and medium-sized agri-businesses and farmers by connecting them with local, national, and global value chains. Activities supported include increasing agricultural productivity, improving market access, supporting innovation, and reducing risks through first loss cover and insurance.

Window Funding within Fund

39. Contributing governments are able to pledge directly to the public and private sector windows.

Window Governance

40. The GAFSP has a dual-layer governance structure. Under the GAFSP Steering Committee, the private sector window has a Project Investment Committee (PIC). Each year the GAFSP SC approves a private sector investment strategy, which is then programmed by the PIC through a call for proposals process. Prior to PIC consideration, projects must be first shortlisted by the International Finance Corporation (IFC), which is charged with managing the private sector window application process. The IFC also puts together the annual investment strategy for the private sector window that is considered by the Steering Committee.

41. In addition, the private sector window has its own Consultative Board of relevant stakeholders. This Board provides technical advice to the PIC.

Window Operations

³ The Global Agriculture and Food Security Program (GAFSP) is a multilateral mechanism to assist in the implementation of pledges made by the G8++ at the L'Aquila Summit in July 2009 and was set up in response to a request from the G20 in Pittsburgh in September 2009. The objective is to address the underfunding of country and regional agriculture and food security strategic investment plans already being developed by countries in consultation with donors and other stakeholders at the country-level.

42. The private sector window offers a variety of financing instruments, including long and short-term loans, equity capital, first loss cover, advisory services. Private firms and financial institutions doing business in eligible countries can apply for loans, credit guarantees or equity investments. Firms outside of IDA-only countries with a compelling case may be considered for funding in consultation with donors.

43. The private sector window has its own eligibility criteria for projects within countries.

2. Forest Carbon Partnership Facility (FCPF)

Definition of Windows

44. The FCPF is structured around two windows, each defined by particular modalities:

(a) A Readiness Mechanism, which assists developing tropical and sub-tropical countries prepare themselves to participate in a future, large-scale system of positive incentives for REDD;

(b) A Carbon Finance Mechanism, which supports a few countries that will have successfully participated in the Readiness Mechanism to join, on a voluntary basis, a second mechanism through which the Facility will test and evaluate incentive payments for REDD programs.

45. Each window has its own trust fund, allowing different financing instruments and access modalities to be used within each.

46. Unlike other funds in this note, the FCPF windows operate in a sequential manner, whereby countries participate first in the readiness mechanism and then, pending approval, in the carbon finance mechanism.

Window Funding within Fund

47. Contributions are made directly to one of the two funding windows. Each window had a minimum level of contributions required before it became operational (USD20m for the Readiness mechanism and USD40 for the Carbon Finance mechanism).

Window Governance

48. During the design phase of FCPF a Steering Committee was constituted. However, after initial setup, a longer-term governance structure was established. This is comprised of the Participants Assembly, which includes all eligible countries, stakeholders, and observers in an open forum setting. A Participants Committee is then formed from this constituency, with donors, recipients, and observers all participating. This is the main decision-making body of the FCPF across both windows/mechanisms. In addition, there is a Carbon Fund Participants Committee, specifically for the Carbon Finance mechanism; this body takes decisions on specific carbon transactions under the guidance of the Participants Committee.

49. Ad hoc technical advisory panels can be established by the Participants Committee or management team of the FCPF at any time.

Window Operations

50. The FCPF operates in selected pilot countries only. These were selected through a process of application via a Readiness Plan Idea Note (R-PIN), which then reviewed by the Steering Committee and now Participants Committee. Only countries in tropical or sub-tropical areas are eligible. Once approved under the Readiness Mechanism, countries will then be assessed based on activities undertaken as to whether they are eligible to move into the Carbon Finance mechanism. This is done through an Emissions Reduction Plan (ERP)

51. Each window/mechanism within the FCPF has its own operational guidelines within the FCPF charter. However, common safeguards and fiduciary standards are applied across both windows. This is significant for future the accreditation of future implementing agencies at different scales.

V. Common features among examples

52. This section briefly highlights some common features and trends among the different types of windows reviewed in section III, as summarised in Annex 1. This is intended only as background information to support TC members in their discussions.

Definition of Windows

- There are a wide variety of definitions of “thematic funding windows” in use within climate and environmental finance. Most are focussed on one of 1) scope, 2) geography, or 3) instrument/access modality. However, many are also in some way a hybrid approach with sub-windows within larger windows (e.g. country windows within particular areas of scope under the AECF).
- Some examples have windows as separate trust funds under the overall umbrella of a single fund.

Window Funding within Funds

- Generally most examples allow some form of earmarking of contributions to particular windows; however, the precise procedure for this varies among funds. Some allow direct pledging to windows within the fund (e.g. CIFs, SCCF), while others engage in general pledging at the level of the fund as a whole and then work with donors and recipients to allocate money to particular windows or themes (e.g. GEF).

Windows Governance

- Separate governance body: There is no clear trend among the surveyed examples on governance. Some examples have a high degree of decentralisation, where each window has its own governance body, where as others are more centralised, with a single layer of governance provided by a fund-level governing body.
- Role in Approval: Among those examples that do have individual governance bodies at the level of windows, these bodies are usually engaged in project review and approval rather than just an advisory role. For other examples, programme/project approval is conducted at the Fund level.
- Expert and External Input: Among those examples with governance bodies at the level of windows there was usually stakeholder representation and even a dedicated advisory panel connected to the window governance body.

Window Operations

- Most examples have separate procedures and strategies for each funding window. These often articulate particular financing instruments or access modalities that can or cannot be used within a specific window, as well as eligibility and allocation criteria for activities within the window. These are often in the context of much broader, fund-level strategic criteria that guide operational decisions at the windows level.

- It is not common among examples for whole windows to be delegated to or embedded within other institutions for management and operations. Instead, there are usually multiple implementing institutions under each window.

VI. Questions to facilitate discussion on windows

- What thematic funding windows should be initially included within the GCF?
- Should the TC determine the initial relative size of the windows? (e.g. To contribute towards the achievement of balance between adaptation and mitigation.)
- Should donors be able to earmark their contributions to particular thematic windows? If there is a centrally collected source of GCF funding, how will this be allocated to windows? Based on demand/need, based on agreed eligibility and prioritisation criteria, by ring-fencing certain money for particular activities, another mechanism, or some combination of these?
- How should windows be governed? Should there be a governing body for each window, in addition to the overarching GCF Board? If yes, what would be the relative responsibilities of the GCF Board and the window governing bodies?
- Which policies, procedures and modalities will apply across the GCF, and which will be specific to each thematic window? (E.g. financing modalities, allocation priorities, project and programme applications and approvals, disbursement (including direct access), monitoring and evaluation and results management.)
- Will the composition of windows need to evolve over time? If so, how will this review process function?

Links to other design questions outside sub-workstream III.2

- How would possible window governance structures link to the overall GCF governance system? (workstream II)
- What financing instruments and access modalities will be associated with each window? (workstream III.3)
- Will monitoring and evaluation be conducted at the level of windows, Fund level, or activity level? (workstream IV)

Annex I
Summary Table of Examples of Thematic Funding Windows

Fund	Type of fund		Definition of windows			Window funding		Window governance		Window operations		
	Environment	Climate change	Development	Scope	Geographic	Access modality	Earmarking to windows	Centrally collected, then allocated to windows	Governance at window level	Governance at fund level	Determined at window level	Determined at fund level
GEF	Yes	Yes		Yes	Based on the Conventions serviced by the GEF		Yes	Yes	Yes	GEF Council	Yes	Bulk of policies and procedures common across all windows
SCCF	Yes	Yes		Yes	Determined by the COP		Yes		Yes	LDCF/SCCF Council	Yes	Bulk of policies and procedures common across all windows
CIFs	Yes	Yes		Yes	One of the scope windows is also limited to LDCs		Yes		Yes	Overarching Trust Fund Committees for each SCF window (SCF and CTF)	Yes	
AECF			Yes	Yes	Yes		Yes		Yes		Yes	Specific windows have specific financing instruments available
MDG Achievement Fund - EFW			Yes	Yes	Yes		Yes	Donors can earmark to the EFW	Yes	? Also an overarching governing body for the wider MDG Achievement Fund?	Yes	Also overarching operational documents for the MDG Achievement Fund
GAFSP			Yes	Yes	Public sector and private sector windows		Yes	Private sector window Project Investment Committee	Yes	GAFSP Steering Committee	Yes	
FCPF	Yes	Yes		Yes	Readiness and Carbon Finance windows		Yes	Carbon Finance Participants Committee only	Yes	FCPF Participants Committee	Yes	Safeguards and fiduciary standards