

**Draft report of the Transitional Committee to the seventeenth session of  
the Conference of the Parties**

Note by the Co-Chairs and Vice-Chairs,  
based on consultations with the Co-Facilitators and members of the Transitional Committee,  
for discussion at the fourth and final meeting of the Transitional Committee

**COVER NOTE**

The draft report presented below by the Co-Chairs and Vice-Chairs, prepared in line with the roadmap agreed by the Transitional Committee (TC) at its third meeting (TC-3/3, Annex), is based on the entirety of work undertaken by the TC to date. It is notably based on TC members' submissions, discussions at TC meetings and takes forward the document presented by the Co-Chairs, Vice-Chairs and Co-Facilitators at the third meeting of the TC, including the discussion at the meeting itself and subsequent consultations and written comments received from TC members.

In the consultations, it emerged that there are many areas of convergence among TC members and this draft has sought to reflect these. However, there are also several areas where there is no convergence yet among TC members, and further discussion is needed at the fourth meeting of the TC. The present draft presents a synthesis that the Co-Chairs and Vice-Chairs consider as a good starting point for discussions. The main issues where the Co-Chairs and Vice-Chairs identified a divergence of views among TC members are highlighted through questions in italics in the text. Those questions are suggested as a basis for discussion at the fourth TC meeting in Cape Town.

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**Outline**

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**I. Background**

1. At the sixteenth session of the Conference of the Parties (COP), held in Cancun, Mexico, from 29 November to 10 December 2010, the COP adopted, as part of the Cancun Agreements, decision 1/CP.16 in which it (paragraphs 102-108):

(a) Decided to establish the Green Climate Fund (GCF), to be designated as an operating entity of the financial mechanism of the Convention under Article 11, with arrangements to be concluded between the COP and the GCF to ensure that it is accountable to and functions under the guidance of the COP, to support projects, programmes, policies and other activities in developing country Parties using thematic funding windows;

(b) Also decided that the Fund shall be governed by a Board of 24 members, comprising an equal number of members from developing and developed country Parties; representation from developing country Parties shall include representatives of relevant United Nations regional groupings and representatives of small island developing States and the least developed countries; each Board member shall have an alternate member; with alternate members entitled to participate in the meetings of the board only through the principal member, without the right to vote, unless they are serving as the member; during the absence of the member from all or part of a meeting of the Board, his or her alternate shall serve as the member;

(c) Further decided that the GCF shall have a trustee; the trustee for the GCF shall have the administrative competence to manage the financial assets of the GCF, maintain appropriate financial records and prepare financial statements and other reports required by the Board of the GCF, in accordance with internationally accepted fiduciary standards;

(d) Decided that the trustee shall administer the assets of the GCF only for the purpose of, and in accordance with, the relevant decisions of the GCF Board; the trustee shall hold the assets of the GCF separate and apart from the assets of the trustee, but may commingle them for administrative and investment purposes with other assets maintained by the trustee; and the trustee shall establish and maintain separate records and accounts to identify the assets of the GCF;

(e) Decided that the trustee shall be accountable to the GCF Board for the performance of its fiduciary responsibilities;

(f) Invited the World Bank to serve as the interim trustee for the GCF, subject to a review three years after operationalization of the Fund; and

(g) Decided that the operation of the Fund shall be supported by an independent secretariat.

## **II. Mandate of the Transitional Committee**

### **A. Terms of reference as given by the Cancun Agreements**

2. In its decision 1/CP.16, the COP also decided that the GCF shall be designed by a Transitional Committee (TC), in accordance with the terms of reference contained in appendix III to that decision. The TC comprises 40 members, with 15 members from developed country Parties and 25 members from developing country Parties, with members having the necessary experience and skills, notably in the areas of finance and climate change.

3. The COP requested the secretariat, in consultation with the President of the COP, to make arrangements enabling relevant United Nations agencies, international financial institutions and multilateral development banks, along with the secretariat and the Global Environment Facility, to second staff to support the work of the TC.

4. Through the terms of reference (1/CP.16, appendix III), the TC was tasked to develop and recommend for approval by the COP at its seventeenth session in Durban, South Africa, to be held from 28 November to 9 December 2011, operational documents for the GCF that address the issues outlined in the terms of reference. In the conduct of its work, the COP requested the TC to encourage input from all Parties and from relevant international organizations and observers, and to take into account findings contained in relevant reports.

### **B. Work of the Transitional Committee**

5. The TC met four times between the sixteenth and the seventeenth sessions of the COP. The initial meeting of the TC was convened from 28 to 29 April 2011 in Mexico City, Mexico. The second meeting was held from 13 to 14 July 2011 in Tokyo, Japan. The third meeting was held from 11 to 13 September 2011 in Geneva, Switzerland. The fourth meeting took place from 16 to 18 October 2011 in Cape Town, South Africa.

6. The TC elected H.E. Mr. Ernesto Cordero Arroyo (Mexico), Mr. Kjetil Lund (Norway) and H.E. Mr. Trevor Manuel (South Africa) as the Co-Chairs of the TC. Mr. Ewen McDonald (Australia) and H.E. Mr. Burhan Gafoor (Singapore) were elected as the Vice-Chairs of the TC.

7. The TC developed its working arrangements on the basis of the direction given by the COP. The working arrangements set out the mode of operation of the TC and the arrangements for organizing, the TC's work during and between meetings including provisions on the adoption of conclusions by consensus and the application of principles of effectiveness, inclusiveness and transparency when implementing the workplan and when defining the roles and responsibilities of Co-Chairs, Vice-Chairs, Co-Facilitators, TC members, the Secretary and the Technical Support Unit (TSU). They also specify the arrangements for the work of the TC, such as those relating to the preparation for and organization of meetings of the TC, interaction among members, the role and the tasks of the TSU, participation of observers, procedures for public information and outreach.

8. In order to facilitate its work, the TC decided to cluster the relevant topics and organize the work into workstreams:

- Workstream I on scope, guiding principles and cross-cutting issues (co-facilitated by Mr. Derek Gibbs (Barbados) and Ms. Alicia Montalvo (Spain));
- Workstream II on governance and institutional arrangements (co-facilitated by Mr. Tosi Mpanu Mpanu (Democratic Republic of the Congo) and Mr. Bruno Oberle (Switzerland));
- Workstream III on operational modalities (co-facilitated by Mr. Ewen McDonald (Australia) and Mr. Farrukh Khan (Pakistan)); and

- Workstream IV on monitoring and evaluation (co-facilitated by Mr. Aparup Chowdhury (Bangladesh) and H.E. Mr. Jan Cedergren (Sweden)).

9. Three workshops were organized to allow for in-depth discussions on the issues central to the work of the TC and to involve other stakeholders and observers in advancing the work in the workstreams:

- Technical workshop in Königswinter, Germany, 30 May - 1 June 2011 to discuss the scope and focus of the four workstreams and hold consultations with observer organizations;
- Pre-meeting workshop in Tokyo, Japan, 12 July 2011 on lessons learned from relevant funds and institutions; and
- Pre-meeting workshop in Geneva, Switzerland, 11 September 2011 on the role of the Green Climate Fund in fostering transformational change, engaging civil society and leveraging the private sector.

10. In addition to procedural, organizational and substantive working documents of the TC, the TSU, under the guidance of the Co-Chairs, Vice-Chairs and the Co-Facilitators, prepared a number of documents to support the work of the TC. These included background notes, working papers, scoping papers and a survey reports. These documents were used to inform and support discussions at the meetings but were not adopted as such. They were prepared taking into account a large number of written submissions to the TC made by Committee members, observer Parties, intergovernmental organizations and civil society organizations. Submissions were posted on the website of the TC.

11. The TSU was established by the Executive Secretary of the UNFCCC in accordance with decision 1/CP.16. It consisted of the Secretary to the TC and a substantive team drawn from UNFCCC secretariat staff and staff seconded from relevant organizations to support the work of the TC. It supported the work of the TC by, inter alia, providing substantive technical input to the work of the TC, publishing and distributing documents for the meetings of the TC, preparing reports of the meetings of the TC, supporting the work of the workstreams established by the TC, providing support to the Co-Chairs, Vice-Chairs and Co-Facilitators during TC meetings and workshops, making arrangements for the meetings of the TC and providing the TC with logistic and administrative services as required.

12. At its second and third meetings, the TC agreed to the workplan and a roadmap outlining the schedule for its work in order to fulfil its mandate and to provide operational documents for adoption to COP 17. The Co-Chairs, Vice-Chairs and Co-Facilitators were entrusted with preparing the draft report of the TC to the COP at its seventeenth session, taking into account the discussions at the meetings and written submissions, and with the involvement of all TC members.

13. The annex to this draft report presents the core results of the work of the TC: a draft governing instrument for the Green Climate Fund. This draft covers all items of the TC's terms of reference as summarized in the table below:

<b>TC terms of reference (Appendix III to 1/CP.16)</b>	<b>Draft governing instrument of the GCF (Annex to draft report of the TC)</b>
Paragraph 1(a): The legal and institutional arrangements for the establishment and operationalization of the GCF	Section 2 (Governance and Institutional Arrangements)
Paragraph 1(b): The rules of procedure of the GCF Board and other governance issues related to the Board	Section 2 (Governance and Institutional Arrangements)
Paragraph 1(c): Methods to manage the large scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including direct access, with the objective of achieving a balanced allocation between adaptation and mitigation	Section 4 (Financial Inputs) Section 5 (Operational Modalities)
Paragraph 1(d): The financial instruments that the Fund can use to achieve its priorities	Section 6 (Financial Instruments)
Paragraph 1(e): Methods to enhance complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions	Section 5 (Operational Modalities)
Paragraph 1(f): The role of the Fund's secretariat and the procedure for selecting and/or establishing the secretariat	Section 2 (Governance and Institutional Arrangements)
Paragraph 1(g): A mechanism to ensure periodic independent evaluation of the Fund's performance	Section 7 (Monitoring) Section 8 (Evaluation)
Paragraph 1(h): Mechanisms to ensure financial accountability and to evaluate the performance of activities supported by the Fund, in order to ensure the application of environmental and social safeguards as well as internationally accepted fiduciary standards and sound financial management of the Fund's activities	Section 9 (Fiduciary Standards) Section 10 (Environmental and Social Safeguards) Section 11 (Accountability Mechanism)
Paragraph 1(i): Mechanisms to ensure the provision of appropriate expert and technical advice, including from relevant thematic bodies established under the Convention	Section 12 (Expert and technical advice, including from relevant thematic bodies established under the Convention)
Paragraph 1(j): Mechanisms to ensure stakeholder input and participation	Section 13 (Stakeholder Input and Participation)

14. [To be completed: Adoption of the report]

### **III. Recommendations by the Transitional Committee to the Conference of the Parties at its seventeenth session**

[This chapter will be completed in light of the discussions at the fourth meeting of the TC and may cover the following possible elements of a draft decision recommended to COP 17 for adoption:

- Approval of the governing instrument for the Green Climate Fund (Annex I);
- Decision on the international legal personality and legal capacity for the GCF;
- Decision on the host country for the GCF or on an open and transparent process to select a host country;
- Request to the GCF Board and to the host country to develop the legal and administrative arrangements for hosting the GCF, if appropriate;
- Decision on arrangements to provide support to the Board during the transitional phase until the independent secretariat of the GCF is fully operational, if appropriate;
- Invitation to host the operations of the GCF during a transitional period, if appropriate;
- Arrangements for administrative support during the transitional period, if appropriate;
- Arrangements for the nomination of Board members;
- Arrangements for convening the first Board meeting;
- Reference to a process for initial contributions to the GCF;
- Other elements of the recommendations by the TC. ]

## Annex

### Draft governing instrument for the Green Climate Fund

The Green Climate Fund (hereinafter the “Fund”) is hereby established and will operate in accordance with the following provisions:

#### 1. Objectives and guiding principles

1. The Fund will contribute to the objective of the United Nations Framework Convention on Climate Change (UNFCCC), and to a shift to sustainable, low-emission and climate-resilient development pathways by providing support to developing countries to adapt to the impacts of climate change and limit or reduce their greenhouse gas emissions. To this end, and to enhance the implementation of the Convention, the Fund will channel new, additional and predictable financial resources to developing countries and will leverage additional public and private finance.

2. The Fund will be guided by the relevant principles and provisions of the Convention, including the principle of common but differentiated responsibilities and respective capabilities, and by the principles of efficiency and effectiveness, and will operate in a transparent and accountable manner. The Fund will ensure a country-driven approach and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders. The Fund will be scalable and flexible, and will be a continuously learning institution guided by processes for monitoring and evaluation. The Fund will achieve a balance between adaptation and mitigation, maximise environmental, social, economic and development co-benefits and take a gender-sensitive approach.

#### 2. Governance and institutional arrangements

##### 2.1 Membership

3. All Parties to the UNFCCC will be members of the Fund.

##### 2.2 Relationship to the Conference of the Parties

*How can the different perspectives on the relationship between the COP and the Board be reconciled? In particular:*

- i. How to organize the reporting by the Board to the COP?*
- ii. What are the criteria for nominations of Board members and the selection of the head of the secretariat?*
- iii. Could the COP commission an independent evaluation of the GCF?*
- iv. How can the relationship between the COP and the GCF be codified?*

*Does the draft text below reflect a possible middle ground between the different perspectives?*

4. The Fund will be designated as an operating entity of the financial mechanism under Article 11 of the Convention and will be accountable to and function under the guidance of the Conference of the Parties (COP).

5. The Fund will be governed by a Board that will supervise and manage the Fund, and that will have full responsibility for funding decisions, such as funding and disbursement modalities.

6. Arrangements will be concluded between the COP and the Fund, consistent with Article 11 of the Convention, to ensure that the Fund is accountable to and functions under the guidance of the COP.

7. In order to ensure accountability to the COP, the Board will:

- (a) Submit annual reports to the COP for its consideration, including on matters related to policies, programme priorities and eligibility criteria and matters related thereto;
  - (b) Receive guidance from the COP; and
  - (c) Take action in response to the guidance received, as appropriate.
8. The COP may commission an independent evaluation of the overall performance of the Fund.

### **2.3 Legal status**

*How can the different perspectives on the legal attributes of the GCF be reconciled? In particular:*

- i. What kind of legal personality or capacities are required?*
- ii. How should such legal personality and capacities be conferred in an expeditious manner?*

*Does the draft text below reflect a possible middle ground between the different perspectives?*

9. The Fund will possess international juridical personality and will enjoy such legal capacity as is necessary for the exercise of its functions and the protection of its interests.
10. The Fund will enjoy such privileges and immunities as are necessary for the fulfilment of its purposes. The officials of the Fund will similarly enjoy such privileges and immunities as are necessary for the independent exercise of their official functions in connection with the Fund.
11. Each member of the Fund will take such action as is necessary under its national laws for the purpose of making effective paragraphs 9 and 10 above and will inform the Board of the detailed action that it has taken.

### **2.4 Rules of procedure of the Board**

#### **A. Composition**

12. The Board will have 24 members, composed of an equal number of members from developing and developed country Parties. Representation from developing country Parties will include representatives of relevant United Nations regional groupings and representatives from small island developing States (SIDS) and the least developed countries (LDCs).
13. Each Board member will have an alternate member; with alternate members entitled to participate in the meetings of the Board only through the principal member, without the right to vote, unless they are serving as the member. During the absence of the member from all or part of a meeting of the Board, his or her alternate will serve as the member.

#### **B. Selection of Board members**

14. The members of the Board and their alternates will be selected by their respective constituency or regional group within a constituency. Members of the Board will be high-ranking and will have the necessary experience and skills, notably in the areas of finance, climate change and development; due consideration will be given to gender balance.

#### **C. Term of membership**

15. Half of the members, and their alternate members, will serve for an initial term of three years, and half of the members, and their alternate members, will serve for an initial term of two years. Thereafter, all members and alternate members will serve for a term of three years and be eligible to serve for a maximum of two consecutive terms.

**D. Chairmanship**

16. Two Co-Chairs of the Board will be elected by the Board members from within their membership to serve for a period of one year, with one being a member from a developed country Party and the other being a member from a developing country Party.

**E. Decision-making**

17. Decisions of the Board will be taken by consensus of the Board members. If all efforts at reaching consensus have been exhausted and no agreement has been reached, decisions will be taken by a two-thirds majority of the Board members present and voting, representing a two-thirds majority of Board members from developed country Parties and a two-thirds majority of Board members from developing country Parties.

**F. Quorum**

18. A simple majority of Board members from developed country Parties and a simple majority of Board members from developing country Parties must be present at a meeting to constitute a quorum.

**G. Role and functions**

19. The Board of the Fund will:

- (a) Provide supervision and strategic direction in the management of the Fund;
- (b) Oversee the operation of all relevant components of the Fund, including the trustee, secretariat, windows and substructures/facilities, Board sub-committees, implementing entities, and expert, advisory and evaluation panels;
- (c) Approve operational modalities, access modalities and funding structures;
- (d) Approve specific operational policies and guidelines, including programming, project cycle, administration, and financial management;
- (e) Oversee the Fund's replenishment processes;
- (f) Approve funding in line with the Fund's principles, criteria, modalities, policies and programmes;
- (g) Develop environmental and social safeguards and fiduciary principles and standards that are internationally accepted;
- (h) Develop criteria and application processes for the accreditation of implementing entities of the Fund;
- (i) Accredite implementing entities and withdraw such accreditation;
- (j) Establish sub-committees and panels and define their terms of reference, as appropriate;
- (k) Establish additional thematic windows and/or sub-structures to address specific activities, as appropriate;
- (l) Establish a framework for the monitoring and evaluation of performance and the financial accountability of activities supported by the Fund and for financial performance and external audits of the secretariat and of the implementing entities with regard to activities supported by the Fund;
- (m) Review and approve the administrative budget of the Fund and arrange for performance reviews and audits;
- (n) Appoint the head of the secretariat, the head of the evaluation unit, and the head of all accountability units;
- (o) Prepare annual reports to the COP on its activities, and receive guidance and take action in response to any guidance from the COP;



(p) Develop working and coordination arrangements with, and provide information to, other relevant bodies under the Convention and other relevant international institutions;

(q) Select, appoint and enter into legal and administrative arrangements with the trustee;

(r) Exercise such other functions as may be appropriate to fulfil the purposes of the Fund.

#### **H. Observers**

20. The Board will make arrangements, including developing and operating accreditation processes, to allow for effective participation by accredited observers in its meetings and other activities as appropriate. It may also set up advisory committees of private sector and civil society representatives to provide input on the operations of the Fund.

#### **I. Compensation**

21. The full costs of travel and daily subsistence allowance at the United Nations standard rate of eligible members and alternates to attend meetings of the Board, or any ancillary meetings decided by the Board, shall be provided from the budgets of the Board and the Fund secretariat. Travel shall be arranged in accordance with standard United Nations rules.

22. The costs of travel and daily subsistence allowance of the Co-Chairs of the Board, irrespective of the group of Parties they represent, shall be provided from the budget of the Board and the Fund secretariat, when travelling on business of the Fund, subject to authorization by the Board.

#### **J. Additional rules of procedure**

23. Additional rules of procedures will be developed by the Board.

### **2.5 Secretariat**

#### **A. Establishment of the secretariat**

24. The Fund will establish a secretariat, which will be fully independent, including from its implementing entities, the trustee, the UNFCCC secretariat, and any other financial institutions. The secretariat will service and be accountable to the Board. It will have effective management capabilities to execute the day-to-day operations of the Fund.

25. The secretariat will be headed by an Executive Director with the necessary experiences and skills, who will be appointed by and be accountable to the Board. The Board will approve the job description and qualifications for the Executive Director. The Executive Director will be selected through a merit-based, open, and transparent process.

26. The secretariat will be staffed with professional staff with experience in finance (including risk assessment), climate change, management, administration, accounting, development, including knowledge of sustainable development and poverty eradication, and other relevant fields. The staff selection will be managed by the Executive Director and will be open, transparent and based on merit, taking into account geographical and gender balance.

27. The selection of the host country of the Fund will be an open and transparent process.

#### **B. Functions**

28. The secretariat will be responsible for the day-to-day operations of the Fund, providing administrative, legal and financial expertise. In particular, the secretariat will:

(a) Organize and execute all administrative duties related to the Board meetings and that of Board sub-committees and panels, where relevant;

- (b) Report information on the Fund's activities to the Board and the public, ensuring transparency of the Fund's operations by reporting and publishing financial information, approved programme and project methodologies, and other information relevant to stakeholders;
- (c) Liaise with members, implementing entities, and cooperating bilateral and multilateral institutions and agencies;
- (d) Prepare performance reports on the implementation of activities under the Fund for review by the Board;
- (e) Develop the work programme and annual administrative budget of the secretariat and trustee and submit them for approval by the Board;
- (f) Operationalize the project and programme cycle, including the following processes:
  - (i) Screening for eligibility, financial due diligence and technical review of proposals by developing countries to be presented to the Board for approval;
  - (ii) Assessing and, where appropriate, offering recommendations to the Board regarding country programmes and funding plans developed by the recipient countries;
  - (iii) Managing the portfolio of current and pipeline projects and programmes, and maintaining and distributing periodically a current inventory of activities.
- (g) Prepare grant, loan, guarantee agreements or any other arrangements and agreements related to the specific financing instrument to be concluded with an implementing entity;
- (h) Monitor the financial risks of the outstanding portfolio (loans, guarantees, equity investments, etc.);
- (i) Work with the trustee to support the Board to enable it to carry out its responsibilities;
- (j) Carry out monitoring and evaluation functions;
- (k) Support the Board in arranging replenishment processes;
- (l) Establish and run effective knowledge management practices;
- (m) Manage the cooperation with international and multilateral institutions and entities;
- (n) Perform any other functions assigned by the Board.

## **2.6 Trustee**

### **A. Role and functions of the trustee**

29. The Fund will have a trustee with administrative competence to manage the financial assets of the Fund. The trustee will maintain appropriate financial records and will prepare financial statements and other reports required by the Board, in accordance with internationally accepted fiduciary standards.

30. The trustee will administer the assets of the Fund only for the purpose of, and in accordance with, the relevant decisions of the Board. The trustee will hold the assets of the Fund separate and apart from the assets of the trustee, but may commingle them for administrative and investment purposes with other assets maintained by the trustee. The trustee will establish and maintain separate records and accounts in order to identify the assets of the Fund.

**B. Selection**

31. The World Bank will serve as interim trustee for the Fund subject to a review three years after the operationalization of the Fund.

32. The Board will select and appoint the trustee through an open and transparent process.

**C. Relationship with the Board**

33. The trustee will be accountable to the Board for the performance of its responsibilities as trustee for the Fund.

**3. Administrative costs**

34. Once the Fund is fully operational, the operating costs of the Board, secretariat and trustee will be covered by investment income from undisbursed funds; and/or with support from the host country; and/or will be taken off the top of the Fund's resources.

**4. Financial inputs**

35. The Fund will receive financial inputs from a variety of sources, public and private, including alternative sources.

36. Financial inputs by governments from developed country Parties to the Convention will be provided through a multi-year replenishment process. Such processes will be informed of the results of evaluation processes, as appropriate.

37. Other financial inputs to the Fund, including further government financial inputs, can be received at any time. Inputs can be accepted in a variety of forms.

**5. Operational modalities**

38. The Fund will provide simplified, improved and direct access to funding by developing countries, basing its activities on a country-driven approach with recipient countries involved in the identification, formulation and implementation of programmes, projects and other climate change-related activities, ensuring transparency and accountability, and will encourage the involvement of relevant stakeholders.

39. The Board will steer the Fund's operations so that they evolve with the Fund's scale and maturity and will exercise flexibility to allow the Fund to evolve over time and become the main global fund for climate change finance.

**5.1 Complementarity and coherence**

40. The Fund shall operate in the context of appropriate arrangements between itself and other existing funds under the Convention, and between itself and other funds, entities, and channels of climate change financing that are being undertaken outside the framework of the financial mechanism.

41. The Board will consider methods to enhance complementarity and coherence with other relevant bilateral, regional and global funding mechanisms and institutions, including through collaborative arrangements and by discussing with the governing bodies of other funds options for integrating their operations into the Fund.

42. Recipient countries will enhance coherence in programming at the national level through appropriate mechanisms. Country programmes and funding plans submitted to the Board will demonstrate measures to enhance complementarity and coherence with other relevant funding sources.

**5.2 Eligibility**

43. All developing country Parties to the Convention are eligible to receive resources from the Fund. The Fund will finance full and incremental costs, as determined by the

Board, for activities to enable and support 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.

44. The Fund will support developing countries in pursuing programmatic approaches in accordance with national climate change planning tools, such as low-emission development strategies or plans, nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs) and to other related activities.

### **5.3 Funding windows and fund structure**

45. The Fund will have thematic funding windows. Initially the Fund will have windows for adaptation and mitigation. An integrated approach to funding mitigation and adaptation will be used to allow for cross-cutting projects and programmes.

46. Resources for capacity building, technology development and transfer, and initiatives to promote innovation, as cross-cutting themes, will be provided across all thematic funding windows and substructures/facilities.

47. The Board will have the authority to add and remove additional windows and substructures / facilities as appropriate.

#### *Readiness and Preparatory Support*

48. The Fund will provide resources for readiness and preparatory activities and technical assistance, such as the preparation or strengthening of low-emission development strategies or plans, NAMAs, NAPs, NAPAs and for in-country institutional strengthening, including the strengthening of capacities for country coordination and to meet fiduciary principles and standards and environmental and social safeguards, in order to enable countries to directly access the Fund and to better raise financial resources.

#### *Private Sector*

*How can the different perspectives on how to engage the private sector through the GCF's operations be reconciled? In particular:*

- i. Should there be a specific thematic funding window for private sector related operations?*
- ii. Should private sector activities only take place through other thematic funding windows?*

*Does the draft text below reflect a possible middle ground between the different perspectives?*

49. The Fund will have a private sector facility that enables the Fund to directly and indirectly finance private sector mitigation and adaptation investments.

50. The facility will leverage private finance at national, regional, and international levels, including by promoting the participation of local private sector actors in developing countries, including small and medium-sized enterprises and local financial intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs.

51. The Board will develop appropriate arrangements for the facility, including its funding, governance, access modalities and approval procedures, ensuring consistency with a country-driven approach.

### **5.4 Access modalities and accreditation**

52. Access to Fund resources will be both directly through national implementing entities accredited by the Board and through international entities accredited by the Board. Recipient countries will determine the mode of access and both modalities can be used simultaneously.

53. Recipient countries will designate a national designated authority that will be responsible for considering and if appropriate endorsing programme and project proposals.

This authority will coordinate funding proposals for the Fund in the context of national climate plans and strategies, including through consultation processes.

*Direct Access*

54. Recipient countries will nominate competent sub-national, national and regional implementing entities for accreditation to receive funding. Once accredited, an entity may then enter into agreements with multiple executing agencies, consistent with internationally accepted fiduciary principles and standards and environmental and social safeguards developed by the Board, at the regional, national and/or sub-national level, for the implementation of particular activities.

*International Access*

55. Recipient countries will be able to access the Fund through accredited international entities, including United Nations agencies, multilateral development banks, and regional institutions.

*Accreditation*

56. The Board will develop, manage, and oversee an accreditation process for all implementing entities based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards.

57. The Board may develop different levels of accreditation, with differentiation for types of activities or entities as may be deemed appropriate and necessary to achieve the objective and principles of the Fund, while maintaining consistency with the Fund's fiduciary principles and standards and environmental and social safeguards.

*Financing agreement with implementing entities*

58. The Fund will enter into financing agreements with the implementing entities and will oversee compliance with those agreements. Accredited implementing entities will be liable to the Fund for finance from the Fund that they manage.

**5.5 Allocation**

59. The Board will balance the allocation of resources between adaptation and mitigation activities under the Fund and will ensure appropriate geographic balance. The Board will also allocate resources for capacity-building, national reporting, readiness and preparatory activities, technology development and transfer, initiatives to promote innovation, private sector and civil society engagement at the national level, and other cross-cutting issues as appropriate.

60. A results-based approach will be an important criterion for allocating funding for mitigation.

61. In allocating resources for adaptation, the Board will take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and Africa.

62. Taking into account expert and technical advice, the Board will develop a system for allocating resources among recipient countries and regions based on the following criteria:

- (a) Vulnerability and mitigation potential;
- (b) A minimum floor for LDCs, SIDS and Africa;
- (c) Result-based approaches; and/or
- (d) Other criteria developed by the Board.

**5.6 Programming processes and approvals**

*Programming processes*

63. The Fund's programming strategy will build on country programmes and the funding plans of recipient countries. Country programmes will form the basis for funding proposals for programmes, projects and other climate change-related activities to be submitted by a country over several years. Funding plans submitted for approval will include proposals for funding programmes, projects, readiness and preparatory activities, technical assistance and other climate change-related activities.

64. Country programme proposals and funding plans will be prepared and processed based on guidelines to be approved by the Board and linked with the country's development and climate change strategies and planning tools (including low-emission development strategies or plans, NAMAs, NAPAs, and NAPs, as appropriate).

65. Individual programme and project proposals for funding, consistent with a country programme or funding plans, will be prepared following guidelines to be established by the Board and will demonstrate the technical and economic feasibility of the proposal, with the financing plan, and will clearly delineate the climate benefits and impacts and other elements as defined in the guidelines. Proposals will be submitted for consideration by the Board, following coordination processes and consultations among all relevant stakeholders at the national, sub-national and/or regional levels as appropriate, including vulnerable groups and addressing gender aspects.

*Submissions and approvals*

66. Proposals will be submitted by the recipient countries to the Board for approval. In the case of proposals from a group of countries, accredited national and international entities may submit proposals following endorsement from the relevant national designated authorities.

67. The Fund will have a streamlined approval process to enable effective disbursement. The Board may develop simplified processes for the approval of proposals for particular activities, in particular small-scale activities.

**6. Financial instruments**

68. The Fund will provide financing in the form of grants and concessional lending, and through such other modalities, instruments or facilities as may be approved by the Board, including guarantees, equity and other relevant financial instruments. Financing will provide a grant element tailored to cover at least the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to leverage and mobilize additional public and private finance through its activities at the national and international levels through its activities.

69. The Fund may employ results-based financing approaches, including, in particular for supporting mitigation actions, payment for verified results.

70. Financial management practices and financing agreements will be in keeping with internationally accepted fiduciary principles and standards to be adopted by the Board. The Board will develop an appropriate risk policy for funding and financial instruments, including risk-sharing arrangements with implementing entities, with a view to minimising risk taken by the Fund. Each implementing entity will be responsible for returning to the Fund, through the trustee, any reflow of funds from a financial instrument provided using Fund resources and/or repayments of loans received by it, in accordance with the approval of the Board.

## **7. Monitoring**

71. The programmes and projects funded by the Fund will be regularly monitored for efficiency and effectiveness in line with rules and procedures established by the Board. The use of participatory monitoring will be encouraged.

72. Implementing entities will submit annual status reports on projects and programmes under implementation or as otherwise decided by the Board. For national implementing entities these reports will be channelled through the respective national designated authority. These will serve as inputs into the annual report to the COP on the overall status of programmes and projects that will be provided by the Board, with the support of the secretariat.

73. A results measurement framework with guidelines and appropriate performance indicators will be approved by the Board. Performance against these indicators will be reviewed periodically in order to support the continuous improvement of the Fund's impact, effectiveness and operational performance.

## **8. Evaluation**

74. There will be periodic independent evaluations of the overall performance of the Fund in order to provide an objective assessment of the results of the Fund and its effectiveness and efficiency and to identify and disseminate lessons learned and make recommendations to the Board. The results of the periodic evaluations will be published. To this end, the Board will establish an independent evaluation unit as part of the core structure of the Fund in order to inform decision-making by the Board. The head of the unit will be selected by, and report to, the Board. The frequency and types of evaluation to be conducted will be specified by the Board.

75. Reports of the Fund's independent evaluation unit will be provided to the COP for purposes of periodic reviews of the financial mechanism of the Convention.

## **9. Fiduciary standards**

76. The Board will develop and ensure the application of internationally accepted fiduciary principles and standards that will be applied centrally, including to the trustee's function related to the Fund, and to all operations, projects and programmes financed by the Fund.

77. The Board will establish a process for supporting and strengthening institutional capacities in recipient countries, where needed, with respect to the Fund's fiduciary principles and standards.

## **10. Environmental and social safeguards**

78. The Board will develop and adopt environmental and social safeguards in line with the objectives and principles of the Fund and internationally agreed conventions to be applied to programmes and projects financed using the resources of the Fund.

79. The Fund will provide resources to enhance institutional capacities in recipient countries, where needed, to enable them to meet the Fund's environmental and social safeguards.

## **11. Accountability mechanism**

80. The Fund's operations will be subject to an information disclosure policy that will be developed by the Board.

81. The Board will establish an independent integrity unit, to work with the secretariat and report to the Board, to investigate allegations of fraud and corruption in coordination with relevant counter-part authorities.

82. The Board will establish a redress mechanism that will report to the Board. The mechanism will receive complaints and will evaluate and make recommendations on the implementation of the Fund's social and environmental safeguards by implementing entities.

**12. Expert and technical advice**

83. In carrying out its functions the Board will develop mechanisms to ensure that it draws on appropriate expert and technical advice, including from the relevant thematic bodies established under the Convention.

**13. Stakeholder input and participation**

84. The Board will develop mechanisms to ensure the input and participation of private sector actors in order to mobilize and leverage private sector investment to scale up funding for mitigation, adaptation, technology development and transfer, capacity building and institutional development.

85. The Board will develop mechanisms to enhance the transparency of the Fund's actions and to ensure that governance, financial decisions and Fund operations take into account in the design, development and implementation of the strategies and activities to be financed by the Fund the views and experience of civil society organizations and other relevant stakeholders, including vulnerable groups, women, and indigenous peoples.

**14. Closing provisions**

**14.1 Amendments to the governing instrument**

86. Amendments to this instrument will be approved by the COP based on a recommendation of the Board, and will become effective in accordance with the provisions contained in the decision of the COP approving such amendments.

**14.2 Interpretation of the governing instrument**

87. The Board may refer any matter concerning interpretation of this instrument to the COP for consideration.

**14.3 Termination of the Fund**

88. Termination of the Fund will be approved by the COP based on a recommendation of the Board, and will become effective in accordance with the provisions contained in the decision of the COP approving such termination. The recommendation for approval by the COP will include provisions for, inter alia, concluding the affairs of the Fund, for meeting the commitments already made by the Fund, and for the transfer of any remaining funds, assets and receipts of the Fund in an expeditious manner.