

Green Climate Fund

Initial Modalities for the
Operation of the Fund's
Mitigation and Adaptation
Windows and its Private Sector
Facility

GCF/B.07/08

12 May 2014

Meeting of the Board

18-21 May 2014

Songdo, Republic of Korea

Agenda item 11

Recommended action by the Board

It is recommended that the Board:

- (a) Takes note of the information presented in document GCF/B.07/08 *Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility*; and
- (b) Adopts the draft decision presented in Annex I to this document.

Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility

I. Introduction

1. By its decision B.05/17, taken at its October 2013 meeting, the Board confirmed that one of the essential requirements for the Fund to receive, manage, programme and disburse financial resources is to finalize the initial modalities for the operation of the Fund's mitigation and adaptation windows and its Private Sector Facility.
2. At its February 2014 meeting, the Board also considered document GCF/B.06/02 on the *Initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility*.
3. Having considered the document, the Board decided that a conclusion on this issue can only be reached at the end of the May 2014 Board meeting, once the Board has completed its deliberations on the different elements that constitute the modalities. The Board also noted that modalities for the operation of the Fund's Private Sector Facility will be developed based on the recommendations of the Private Sector Advisory Group.
4. This document has been revised taking into account views expressed by the Board at its February 2014 meeting, by the Private Sector Advisory Group at its first meeting in April 2014, and by the Board's committees and team at virtual and in-person meetings since the February 2014 Board meeting. The initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility are based on the provisions of the Governing Instrument for the Fund¹, prior Board decisions and decisions of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC), and will also integrate decisions taken by the Board at its May 2014 meeting.
5. The starting point for preparing this document are the Operational Modalities of the Fund as described in chapter V of the Governing Instrument. The sections and sub-sections in the Governing Instrument have been used as the organizing framework for this document. Where necessary, other sections or sub-sections have been added that are relevant for explaining the initial operational modalities of the Fund.
6. Additionally, in decision B.06/07, the Board requested the Secretariat to integrate gender considerations in the preparation of draft policy documents and draft documents containing operational modalities, in line with the Governing Instrument, including those documents for consideration by the Board at its seventh meeting. Where relevant, gender considerations have been included in this document.

II. Complementarity and coherence

7. As the Fund is one among other Funds and institutions with a similar objective, the Fund will operate within 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 outside the Fund.²

¹ Annex to decision 3/CP.17 of the Conference of the Parties to the United Nations Framework Convention on Climate Change.

² Governing instrument, paragraph 33.

8. The Board is also expected to develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions, to better mobilize the full range of financial and technical capacities. The Fund is expected to promote coherence in its programming at the national level through appropriate mechanisms, and also initiate discussions on coherence in climate finance delivery with other relevant multilateral entities.³

III. Eligibility

9. All developing country Parties to the Convention are eligible to receive resources from the Fund.⁴ The Fund will support them in pursuing project-based and programmatic approaches in accordance with climate change strategies and plans, such as low-emission development strategies or plans, nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs) and other related activities.⁵

IV. Funding windows and funding structure

10. The Fund will have thematic funding windows for mitigation and adaptation, and it will also have a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels.⁶

11. While the Fund will initially only have windows for adaptation and mitigation, and a private sector facility, the Board will consider the need for additional windows in future. They have the authority to add additional windows and substructures or facilities as appropriate, as well as modify and remove existing ones.⁷

4.1 Adaptation and mitigation windows

12. Access to the Fund's adaptation and mitigation windows is expected to remain the same initially. The processes for access and accreditation is explained further in the section below on access modalities and accreditation.

13. Considerations on allocation of the Fund's resources for adaptation differ somewhat from the allocation of its resources for mitigation due to the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States. These differences are explained in the section on allocation below.

14. The programming and approval process for funding from the Fund's adaptation and mitigation is explained in the programming and approval process section below. The initial result areas of the Fund adopted by the Board defines the scope of the areas within which the Fund will accept proposals initially. The Fund will also use an integrated approach to funding mitigation and adaptation to allow projects and programmes that cut across both themes.⁸

15. The financial instruments used to fund adaptation and mitigation projects and programmes are also expected to be the same for the initial phase of the Fund's operations. The balance in the type of instruments used, as well as their terms and conditions, will be responsive to the needs identified by projects and programmes during the proposal approval

³ Governing instrument, paragraph 34.

⁴ Governing instrument, paragraph 35.

⁵ Governing instrument, paragraph 36.

⁶ Governing instrument, paragraphs 37 and 41.

⁷ Governing instrument, paragraph 39.

⁸ Governing instrument, paragraph 37.

process. The types of financial instruments the Fund will use is discussed further in the section below on financial inputs and financial instruments.

16. The results frameworks for monitoring and evaluating the Fund's adaptation and mitigation impacts will differ, and these differences are explained in the section on monitoring and evaluation below.

4.2 Private sector

17. As noted above, the Fund will have a private sector facility (PSF). The PSF will enable the Fund to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels.⁹

18. At its fourth meeting, the Board decided that the PSF will address barriers to private sector investment in adaptation and mitigation activities, such as market failures, insufficient capacity and lack of awareness, in order to mobilize private capital and expertise at scale.¹⁰ It is expected to do so in accordance with national plans and priorities, which includes facilitating and enhancing the participation of national, regional and international private sector actors in developing countries.

19. The facility will also promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries, and will also support activities to enable private sector involvement in SIDS and LDCs.¹¹

20. The PSF will also operate consistent with a country-driven approach.¹² At its fourth meeting, the Board also decided that the PSF will operate as an integral component of the Fund including in relation to the Fund result areas and specific core performance indicators.¹³ It further decided that the PSF would operate efficiently and effectively under the guidance and authority of the Board.

21. In order for the PSF to operate as an integral part of the Fund, initially it will be governed largely by the same operational policies and procedures as those of the Fund's adaptation and mitigation windows, explained in the sections below. Any differences in the policies or procedures as they may relate to the PSF are discussed further in the sections on access modalities and accreditation, allocation, and programming and approval process.

22. At its fourth meeting, the Board also decided to establish a Private Sector Advisory Group (PSAG) composed of Board members as well as representatives from the private sector and civil society, to make recommendations to the Board on Fund-wide engagement with the private sector and modalities to that end.¹⁴ The composition, role and functions of the PSAG is included in the document *Structure of the Fund and the Secretariat* (GCF/B.07/07).

23. Following its launch, the PSAG held a two-day meeting in Geneva in April 2014 to provide input for this document as well as the documents *Investment Framework* and *Financial Risk Management Framework* (GCF/B.07/06 and GCF/B.07/05, respectively), and to begin preparing its work programme. In future meetings, the PSAG will consider developing the operating modalities of the PSF further and develop such recommendations for the Board to consider.

⁹ Governing instrument, paragraph 41.

¹⁰ Decision B.04/08, paragraph (b).

¹¹ Governing instrument, paragraph 43.

¹² Governing instrument, paragraph 42.

¹³ Decision B.04/08, paragraph (a).

¹⁴ Decision B.04/08, paragraph (i).

4.3 Readiness and preparatory support

24. 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, and NAPAs.¹⁵

25. It will also provide resources for in-country Fund-related institutional strengthening, including the strengthening of capacities for country coordination and multi-stakeholder consultation mechanisms, as it relates to the establishment and operation of national designated authorities and country focal points.¹⁶

26. It will also provide resources to enable implementing entities and intermediaries to meet fiduciary principles and standards and environmental and social safeguards, in order to enable countries to directly access the Fund.¹⁷ The Secretariat may also develop as needed appraisal toolkits that outline best practice in appraisal preparation to guide IEs and intermediaries. The Board requested the Secretariat to initiate urgently work and activities to support readiness for accreditation in interested sub-national, national, regional and international intermediaries and implementing entities, in the context of the Fund's programme of work on readiness and preparatory support.¹⁸

27. The Board also decided to reflect the urgent need to provide readiness and preparatory support in the administrative budget and staffing of the Secretariat.¹⁹

28. At the request of the Board, the Secretariat is in the process of elaborating a revised detailed programme of work for consideration by the Board, which includes the readiness activities to be undertaken and a delivery plan for the implementation of these activities.²⁰

29. The delivery plan will include modalities for implementation of readiness activities developed in consultation with countries and existing initiatives, and options for entering into partnerships with existing readiness initiatives in order to implement the readiness activities supported by the Fund.²¹ The delivery modalities thus developed will be subject to review once the Fund's accreditation and allocation policies are approved with a view to ensuring consistency with the operational modalities of the Fund.²²

V. Access modalities and accreditation

30. Eligible recipient countries will access the Fund's resources through national, regional and international implementing entities accredited by the Board. Recipient countries will determine the mode through which they will access Fund's resources, and may use both modalities – direct and international – simultaneously.²³

31. The Board is also expected to develop access modalities to operationalize the PSF.²⁴ At its fourth meeting, the Board decided that the PSF will commence its operations through accredited national, regional and international implementing entities and intermediaries, and

¹⁵ Governing instrument, paragraph 40.

¹⁶ Governing instrument, paragraph 40 and Decision B.05/14, paragraph (b)(ii).

¹⁷ Governing instrument, paragraph 40 and Decision B.05/14, paragraph (b)(iii).

¹⁸ Decision B.05/08, paragraph (i).

¹⁹ Decision B.05/14, paragraph (h).

²⁰ Decision B.06/11, paragraph (b)(i) and (ii).

²¹ Decision B.06/11, paragraph (b)(iii).

²² Decision B.06/11, paragraph (e).

²³ Governing instrument, paragraph 45.

²⁴ Governing instrument, paragraph 44.

that it may work directly with private sector adaptation and mitigation actors at national, regional and international levels in a phased manner.²⁵

5.1 Direct access

32. In the context of the direct access modality, recipient countries will nominate competent subnational, national and regional implementing entities for accreditation to receive funding. The Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.²⁶ At its third meeting, the Board converged that the Fund would also operate through accredited national and regional intermediaries.²⁷

5.2 International access

33. In the context of the international access modality, recipient countries will also be able to access the Fund through accredited international entities, including United Nations agencies, multilateral development banks, international financial institutions and regional institutions.²⁸ At its third meeting, the Board converged that the Fund would also operate through accredited international intermediaries.²⁹

5.3 Accreditation

34. The Board is required to 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.³⁰

35. At its fourth meeting, the Board converged on the need to create, in a phased manner, the fund's own access modalities, including its accreditation procedures, best-practice fiduciary standards, and environmental and social safeguards, and to use the modalities of other relevant funds.³¹ The Board also decided to consider a process for transitioning from the interim accreditation procedures to the Fund's own accreditation procedures at its second meeting in 2014.

36. At its fifth meeting, the Board converged on the need to develop a guiding framework and procedures for the Fund's accreditation process.³² The framework and procedures should enhance country ownership, and accommodate the different capacities and capabilities of countries. It should also define the Fund's own fiduciary principles and standards and environmental and social safeguards, and accredit entities in a transparent, objective and credible manner, in line with the Fund's objectives, results and guiding principles.

37. At its fifth meeting, the Board also requested a team of four Board members/alternate members to oversee the development of the guiding framework for the Fund's accreditation process by the Secretariat.³³ The composition, role and functions of the Board team on accreditation is included in the document *Structure of the Fund and the Secretariat*

²⁵ Decision B.04/08, paragraph (l).

²⁶ Governing instrument, paragraph 47.

²⁷ Decision B.01-13/06, paragraph (c)(ii).

²⁸ Governing instrument, paragraph 48.

²⁹ Decision B.01-13/06, paragraph (c)(ii) .

³⁰ Governing instrument, paragraph 49.

³¹ Decision B.04/06, paragraphs (c) and (d).

³² Decision B.05/08, paragraph (a).

³³ Decision B.05/08, paragraph (d).

(GCF/B.07/07). The team met several times in person at the margins of the February 2014 Board meeting, and also met virtually prior to the February and May 2014 Board meetings.

38. At its seventh meeting, the Board will consider proposals on the operationalization of the Fund's initial accreditation process in the document *Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards* (GCF/B.07/02).

39. The decision to be considered by the Board includes a proposal for a guiding framework for the Fund's initial accreditation process and its initial fiduciary principles and standards. It also includes a proposal for the Fund's environmental and social safeguards, including on gender, which will, on an interim basis, be the Performance Standards of the International Finance Corporation (IFC), whose use and implementation will be supported by the IFC's guidance notes. It furthermore includes a proposal to establish an Accreditation Panel, whose scope and composition is included in the document. The Panel will guide the Secretariat in further developing the Fund's initial specialized fiduciary standards and an Environmental and Social Management System of the Fund.

VI. Allocation

40. At its fifth meeting, having considered three approaches for allocating its resources, the Board decided to adopt a theme- and activity-based approach in order to meet the Fund's objectives.³⁴ In this theme- and activity-based approach, the Board would first make allocations to themes – adaptation and mitigation – and then to proposed activities and programmes.³⁵

41. The Board requested the Secretariat to develop a resource allocation system based on this theme- and activity-based approach included in its decision.³⁶ The Board also decided that all the allocation parameters it sets should be determined in grant-equivalent terms and that the allocation system would remain under review with the intention of improving it over time.³⁷ It requested the Secretariat to report annually on the status of resources in respect of the allocation parameters.³⁸

6.1 Theme-based allocation

42. Under the theme-based allocation component of the resource allocation system, the Board is required to balance the allocation of resources between adaptation and mitigation activities under the Fund and ensure appropriate allocation of resources for other activities.³⁹ In responding to this mandate, at its sixth meeting, the Board decided to aim for a 50:50 balance between adaptation and mitigation during the initial phase of the Fund.⁴⁰ This balance will be achieved over time.

43. Although not a theme per se, at its fifth meeting, the Board decided that in addition to the allocation of resources for adaptation and mitigation, the Fund would initially make

³⁴ Decision B.05/05, paragraph (a).

³⁵ GCF/B.05/05, paragraph 46.

³⁶ Decision B.05/05, paragraph (g).

³⁷ Decisions B.06/06, paragraph (a)(vi) and B.05/05, paragraph (c).

³⁸ Decision B.06/06, paragraph (b).

³⁹ Governing instrument, paragraph 50.

⁴⁰ Decision B.06/06, paragraph (a)(i).

allocations to the Private Sector Facility.⁴¹ At its sixth meeting, it decided to do so through a significant allocation to the PSF to maximize its engagement with the private sector.⁴²

44. The Board also decided to provide sufficient resources for readiness and preparatory support.⁴³ The Board made an initial allocation of US\$ 1 million to the Secretariat for the preparation of a detailed programme of work on readiness and preparatory support.⁴⁴

45. The Board is also required to ensure adequate resources for capacity-building and technology development and transfer, as well as resources for innovative and replicable approaches.⁴⁵ However, it has made no further decisions in this regard.

6.2 Activity-based allocation

46. As noted above, the resource allocation system involves making allocations to proposed activities and programmes. The Board adopted 14 initial result areas for funding and countries will identify their priority result areas at their discretion in line with their national strategies and plans.⁴⁶

47. In relation to adaptation, the Board decided that resources would be allocated to activities that have the ability to demonstrate their potential to adapt to the impacts of climate change in the context of promoting sustainable development and a paradigm shift.⁴⁷

48. In relation to mitigation, the Board decided that the Fund's resources will be allocated to those activities that have the ability to demonstrate their potential to limit and reduce greenhouse gas emissions in the context of promoting a paradigm shift.⁴⁸

49. In relation to the PSF, the Board decided that the Fund's resources will be allocated to those activities that contribute towards promoting a paradigm shift, and to directly and indirectly finance private sector mitigation to limit and reduce greenhouse gas emissions and adaptation to the impacts of climate change activities.⁴⁹

50. In further developing the Fund's activity-based allocation, at its seventh meeting, the Board will consider a proposal for adopting the Fund initial investment framework in Annex II of the document *Investment Framework* (GCF/B.07/06). The third component of the proposed initial investment framework includes investment guidelines, which represents the activity-based component of the Fund's resource allocation system as well as the criteria for programme and project funding.

51. The investment guidelines are composed of 6 criteria and 15 sub-criteria. These criteria will provide the basis by which programmes or projects are evaluated during the Fund's initial proposal approval process, as explained in the section on programming and approval process below.

52. As a results-based approach is required to be an important criterion for allocating resources,⁵⁰ the first criterion – impact/result potential – will be used to assess the potential of a

⁴¹ Decision B.05/05, paragraph (c).

⁴² Decision B.06/06, paragraph (a)(iv).

⁴³ Decision B.06/06, paragraph (a)(v).

⁴⁴ Decision B.06/11, paragraph (c).

⁴⁵ Governing instrument, paragraph 38.

⁴⁶ Decision B.05/03, paragraph (e).

⁴⁷ Decision B.05/05, paragraph (d)(i).

⁴⁸ Decision B.05/05, paragraph (e).

⁴⁹ Decision B.05/05, paragraph (f)(i).

⁵⁰ Governing instrument, paragraph 51.

programme or a project to contribute to the achievement of the Fund's objectives and result areas.

53. The Fund is also required to finance agreed full and agreed incremental costs 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.⁵¹ The need for the Fund's resources will be assessed under the third criterion – Needs of the beneficiary country/ alternative funding sources – whereby the specific financing needs of the beneficiary country for a programme or project will be assessed.

54. Upon adoption of the investment framework including the investment guidelines, the Board will also consider a proposal to request the Investment Committee to present definitions for the sub-criteria and a set of activity-specific indicators, as well as benchmarks for each criterion, taking into account gender and other considerations. The committee would receive technical support from the Secretariat and other stakeholders, and take into account recommendations from the PSAG. This work would need to be completed before the Fund approves funding proposals.

6.3 Geographical considerations

55. The Board is also required to aim for appropriate geographical balance.⁵² To do so, the Board decided that it would manage access to the resources of the Fund to achieve geographical balance, as well as a reasonable and fair allocation across a broad range of countries.⁵³ It also decided that it would do this with a view to maximizing the scale and transformational impact of the mitigation and adaptation activities of the Fund.

56. In allocating resources for adaptation, the Board is required to 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 African States, using minimum allocation floors for these countries as appropriate.⁵⁴ The Board decided to aim to achieve a floor of 50 per cent of the adaptation allocation for these countries.⁵⁵

VII. Programming and approval processes

57. The Fund will have a streamlined programming and approval process to enable timely disbursement.⁵⁶ For this, the Board is required to approve specific operational policies and guidelines for the programming and project cycle.⁵⁷ The Secretariat is required to operationalize project and programme cycle processes.⁵⁸

58. At its seventh meeting, the Board will consider a proposal to approve the project and programme activity cycle of the Fund which includes 10 stages and 28 steps explained in annex II of the document *Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding* (GCF/B.07/03). The document also outlines the actors who will be responsible for executing each step of the process, and their specific responsibilities and tasks.

⁵¹ Governing instrument, paragraph 35.

⁵² Governing instrument, paragraph 52.

⁵³ Decision B.06/06, paragraph (a)(iii).

⁵⁴ Governing instrument, paragraph 52.

⁵⁵ Decision B.06/06, paragraph (a)(ii).

⁵⁶ Governing instrument, paragraph 53.

⁵⁷ Governing instrument, paragraph 18 (d).

⁵⁸ Governing instrument, paragraph 23 (f).

59. The national designated authorities (NDAs) or focal points of each country will recommend to the Board funding proposals in the context of national climate strategies and plans, and be consulted, through a no-objection procedure, on all proposals prior to their submission Fund to ensure consistency with these strategies and plans.⁵⁹ The role and functions of the NDAs or focal points are outlined in the document *Structure of the Fund and the Secretariat* (GCF/B.07/07). The Board will further develop their role, including in relation to the conduct of the no-objection procedure, when it considers a decision on Country Ownership. The project and programme activity cycle to be considered by the Board in annex II of the document *Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding* (GCF/B.07/03) provides for the NDA or focal point to conduct the no objection procedure in the early stages of the cycle (stage III, step 7).

60. The project and programme activity cycle also includes a two-step initial approval process:

- (i) An analysis and recommendation to the Board; and
- (ii) The decision to proceed.

61. The steps involved in the initial approval process, the actors responsible for executing them, and their specific responsibilities and tasks are outlined in stages IV and V of the project and programme activity cycle. Gender considerations would be assessed during the preparation and appraisal of funding proposals (stage III).

62. The project and programme activity cycle also includes a step on monitoring and evaluation (step 23) in impact period (stage VIII). Programmes and projects, as well as other activities, funded by the Fund will be regularly monitored for impact, efficiency and effectiveness, including through the use of participatory monitoring involving stakeholders.⁶⁰

63. At its seventh meeting, the Board will consider a proposal to adopt the Fund's initial adaptation and mitigation results management framework included in Annex I of the document *Initial Results Management Framework of the Fund* (GCF/B.07/04). It also includes a proposal to request the Secretariat to develop the Fund's performance measurement framework for the Board to consider at its first meeting following the completion of the initial resource mobilization process. Such a performance measurement framework will include guidelines and appropriate performance indicators. Performance against these indicators will be reviewed periodically in order to support the continuous improvement of the Fund's impact, effectiveness and operational performance.⁶¹

64. In the initial phase of the Fund's operations, the Board will consider at its seventh meeting a proposal is to use the same project and programme activity cycle for both adaptation and mitigation projects and programmes proposed by both the public and the private sectors.

65. The Board will also consider a proposal to request the Secretariat to develop and implement guidelines on the operationalization of the initial proposal approval process for project and programme funding.

66. The Board is mandated by the Governing Instrument to develop simplified processes for the approval of proposals for certain activities, in particular small-scale activities.⁶² Such processes may be developed together with the guidelines on the operationalization of the initial proposal approval process for project and programme funding should the Board so request.

⁵⁹ Governing instrument, paragraph 46; decision B.04/05, paragraph (e)(i); and decision 3/CP.17, paragraph 7.

⁶⁰ Governing instrument, paragraph 57.

⁶¹ Governing instrument, paragraph 58.

⁶² Governing instrument, paragraph 53.

67. At its fourth meeting, the Board decided that the PSF will seek efficient solutions that minimize market distortions and moral hazard in the use of the Fund's resources by using, inter alia, competitive processes.⁶³ As part of its initial work programme, the PSAG has already commenced its reflection on how best to operationalize this Board requirement. The Board may request the Secretariat to develop such competitive processes for the private sector activities when developing guidelines on the operationalization of the initial proposal approval process for project and programme funding with guidance from the PSAG.

VIII. Financial inputs and financial instruments

68. On an ongoing basis, the Fund will receive financial inputs from developed country Parties to the Convention, and it may also receive financial inputs from a variety of other sources, public and private, including alternative sources.⁶⁴ The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board.⁶⁵

8.1 Financial inputs

69. At its fifth meeting, the Board decided that the Fund will receive grants from public and private sources, and paid-in capital contributions and concessional loans from public sources.⁶⁶ The Board also agreed to decide, at a later stage, the additional types of inputs that the Fund may receive, and requested the Secretariat to prepare a document for understanding and defining alternative sources of financial inputs for the Board's consideration.⁶⁷

70. At its seventh meeting, in the document *Confirmation of the Completion of the Essential Requirements and the Commencement of the Initial Resource Mobilization Process* (GCF/B.07/09), the Board will consider a proposal whereby interested contributors collectively engaging in the initial resource mobilization process will develop and recommend policies for the Board to consider. The Board will also consider a proposal to request the Secretariat and the interim trustee to prepare a template for legal arrangements between contributors and the Fund based on the recommended contribution policies for the Board to consider.

8.2 Financial instruments

71. The Board converged that it would focus initially on grants and concessional lending, and later employ additional financing instruments as necessary to achieve the Fund's objectives.⁶⁸ In addition, the Board also decided that the PSF will similarly focus on grants and concessional lending initially, and left open the possibility for the PSF to draw on a broad range of other financial instruments and modalities to achieve its objectives.⁶⁹

72. For the initial operationalization of the Fund, the Board also decided to adopt the principles and factors for the terms and conditions of grants and concessional loans, as contained in Annex III to GCF/B.05/23, and requested the Secretariat to develop terms and

⁶³ Decision B.04/08.

⁶⁴ Governing instrument, paragraphs 29 and 30, and decision B.05/04, paragraph (c).

⁶⁵ Governing instrument, paragraph 54.

⁶⁶ Decision B.05/04, paragraph (d).

⁶⁷ Decision B.05/04, paragraphs (d) and (f).

⁶⁸ Decision B.01-13/06, paragraph (c)(iii).

⁶⁹ Decision B.04/08, paragraph (h).

conditions of grants and concessional loans guided by these principles and factors for the Board to consider.⁷⁰

73. In deploying its financing instruments, the Fund's financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable, and it will also seek to catalyse additional public and private finance through its activities at national and international levels.⁷¹ Consistent with the Governing Instrument, the investment policies in the document *Investment Framework* (GCF/B.07/06) for consideration by the Board at its seventh meeting propose that the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme.

74. Both the Investment Committee and the PSAG have it within their mandate to review and make recommendations to the Board on the use of financial instruments by the Fund.⁷²

8.3 Financial risk management

75. The Board has established the Risk Management Committee, a standing committee, to ensure the development of an appropriate risk management framework for the Fund, enabling the Fund to exert due diligence and manage its risks prudently.⁷³ The composition, role and functions of the Risk Management Committee is included in the document *Structure of the Fund and the Secretariat* (GCF/B.07/07).

76. Among its functions, the Risk Management Committee was tasked with overseeing the development and implementation of a financial risk management framework by the Secretariat.⁷⁴ At its seventh meeting, the Board will consider a proposal to adopt the Fund's initial financial risk management framework contained in Annex II to the document *Financial Risk Management Framework* (GCF/B.07/05). The framework includes the Fund's initial financial risk policies, the tools to monitor and report the Fund's financial risks, and an overview of the roles and responsibilities related to the Fund's financial risk governance. The Board will also consider a proposal to make operational the tools to monitor and report the Fund's financial risks before the Fund approves funding proposals.

77. The Board will also consider a proposal to request the Secretariat, in consultation with the Risk Management Committee, to prepare an analysis of the Fund's potential risk appetite scenarios and undertake a stress test for these scenarios under different key risk assumptions, for consideration by the Board at its second meeting of 2015.

⁷⁰ Decision B.05/07, paragraphs (a) and (c).

⁷¹ Governing instrument, paragraph 54.

⁷² Decision B.05/13, paragraphs (d) and (i).

⁷³ Decision B.05/13, paragraphs (a) and (b).

⁷⁴ Decision B.05/13, paragraph (b).

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.07/08 *Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility*:

- (a) Takes note of the document GCF/B.07/08 Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility;
- (b) Affirms the Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility as reflected in the Governing Instrument, and the decisions of the Board and the COP listed in Annex II;
- (c) Decides to undertake a review of the Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility, no later than three years after the initial resource mobilization of the Fund.

Annex II: Governing Instrument, and Decisions of the Board and the COP reflecting the Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility

Governing Instrument for the Green Climate Fund

Decision 3/CP.17: Launching the Green Climate Fund

Decision 4/CP.19: Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund

Decision 5/CP.19: Arrangements between the Conference of the Parties and the Green Climate Fund

Decision B.01-13/06: Business model framework

Decision B.04/05: Business model framework – Country Ownership

Decision B.04/06: Business model framework – Access

Decision B.04/08: Business model framework – Private Sector Facility

Decision B.05/03: Business model framework – Objectives, results and performance indicators and Results Management Framework

Decision B.05/04: Business model framework – Financial Inputs

Decision B.05/05: Business model framework – Allocation

Decision B.05/07: Business model framework – Financial Instruments

Decision B.05/08: Business model framework – Access

Decision B.05/14: Readiness and preparatory support

Decision B.06/06: Policies and procedures for the initial allocation of Fund resources

Decision B.06/07: Options for a Fund-wide gender-sensitive approach

Decision B.06/11: Detailed programme of work on readiness and preparatory support
