

# The Green Climate Fund: how attractive is it to donor countries?

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Destined to channel a significant part of the US\$ 100 billion pledge made by developed countries under the United Nations Framework Convention on Climate Change (UNFCCC) the Green Climate Fund (GCF) is now ready to solicit funding. It is a fact that its institutional design is quite distinct from the very successful trust funds operating under the aegis of the World Bank. Doubts hence remain as to whether it will live up to its ambition of becoming the main global fund in climate finance. To explore to which extent the GCF is attractive to potential donors this paper attempts to capture the reasons that are at the centre of the massive growth in ‘multi-bi-financing’ and provides an overview of the most recent trends in ODA and climate finance. Based on this analysis it comes to the conclusion that some of the GCF’s design elements should be improved, notably with the view to enhancing value for money integrating actively civil society actors and leveraging effectively private finance.

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## I. Introduction

In the run-up to the climate summit in Copenhagen in 2009 one of the most salient issues of the negotiations within the ambit of the United Nations Framework Convention on Climate Change (UNFCCC) was climate finance. Developing countries required financial compensation from developed countries based on the latter's overwhelming contribution to the accumulation of cumulative greenhouse gases in the atmosphere, but developed countries refused to recognise a 'climate debt' based on the principle of historical responsibility. They nevertheless agreed one year later at the Conference of the Parties to the UNFCCC (COP) in Cancun to transfer US\$ 100 billion a year by 2020 to developing countries, from various sources both private and public, as well as to grant US\$ 30 billion as so-called "fast-start-finance" (FSF) between 2010 and 2012. The question of how much each country should contribute to meet this obligation, however, was left open.

Another moot point between developed and developing countries was through which institutions such funds would have to be channelled. Whereas developing countries pressed for the creation of a new institution that would disburse the pledged funds based on recipient country preferences, developed countries favoured the use of existing multilateral and bilateral aid institutions.<sup>1</sup> In Copenhagen, however, a consensus decision emerged on creating a new institution which would channel a significant part of climate finance, in particular for adaptation, i.e. funds destined to increase the resilience of developing countries to climate change. One year later, at COP 16, Parties formally took the decision to create the Green Climate Fund (GCF). The design of its governance structure was entrusted to a Transitional Committee (TC) that comprised a majority of representatives of developing countries.<sup>2</sup>

In Durban, at COP 17, Parties adopted the Governing Instrument (GI) of the GCF based on the proposal of the Transitional Committee. The seat of the new institution was designated as the city of Songdo in South Korea.<sup>3</sup> Since then the newly appointed Board of the GCF (the "Board") has met eight times<sup>4</sup> and in November 2014 the first high-level pledging conference was held.<sup>5</sup>

Since the start of its conception developing countries have constantly expressed the fear that the new fund would remain an empty shell. This concern is not unfounded. For instance, overall pledges for climate funds in 2013 were 71% lower than in 2012.<sup>6</sup> Also, official development assistance (ODA), which contributed to 80% of FSF<sup>7</sup> is, in most cases, channelled through bilateral aid institutions.<sup>8</sup> Finally, core funding for International Development Organisations (IDO), where donors' contributions are pooled and disbursed according to the priorities set at the level of the multilateral governing bodies, is stagnating whereas 'multi-bi-financing'<sup>9</sup>, which allows 'like-minded' donors to earmark voluntary contributions, has witnessed a massive increase.<sup>10</sup>

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1 Schalatek and Boell Stiftung (2011: 2).

2 CP 16/1, par. 95 ff. The Transitional Committee consisted of 40 members, of which 25 were representatives from developing countries and 15 from developed countries.

3 See <http://www.gcfund.org/home.html>.

4 See <http://us.boell.org/2014/11/18/success-more-just-one-big-figure>.

5 [http://www.gcfund.org/fileadmin/00\\_customer/documents/Meeting/Logistical\\_Information\\_Berlin.pdf](http://www.gcfund.org/fileadmin/00_customer/documents/Meeting/Logistical_Information_Berlin.pdf)

6 Climate Funds Update, 10 things to know about climate finance, see

<http://www.climatefundsupdate.org/global-trends/10-things-to-know-about-climate-finance-in-2013>

7 Nakhoda et al. (2013).

8 With 60% of overall ODA bilateral aid is the default type of aid. See OECD (2011. 2012).

9 Eichenauer and Reinsberg (2013).

10 See Reinsberg (2014).

In contrast, the GCF is designed as an IDO with quasi-universal participation and where the responsibility for funding decisions is shared equally between representatives of developed and developing countries.<sup>11</sup> The question therefore arises whether the GCF will play the leading role within the ambit of climate finance as expected.<sup>12</sup> This paper argues that unless the governance structure of the GCF is made sufficiently attractive for donors, the prospects that it will channel a significant part of climate finance will remain poor.

The paper follows a three-pronged approach. The first section explores recent trends in the ambit of ODA and climate finance and attempts to capture donors' underlying motivations.<sup>13</sup> Section two provides an overview of the governance structure of the GCF and analyses to what extent it is in line with donors' priorities. The third section makes some recommendations as to how the GCF could be made more attractive for donors. Section four concludes.

## **II. Recent trends in ODA and climate finance**

### **1. The concern about aid effectiveness**

One of the core issues of ODA is whether contributions really achieve the intended results.<sup>14</sup> The acknowledgement at the end of the last century that a lack of coordination among donors may contribute to make aid less effective led to the adoption of the Paris Declaration on Aid Effectiveness in 2005 within the ambit of the Organisation for Economic Co-operation and Development (OECD).<sup>15</sup> It advocates that ODA should follow five principles, intended to be mutually reinforcing: Country ownership of development strategies, donor alignment to country strategies and their delivery systems, harmonisation of processes and assessments across donors, management system for development results and mutual accountability of donors and recipients for the above.<sup>16</sup>

The Paris declaration was supplemented in 2008 by the Accra Agenda for Action, which refined the commitments agreed in Paris and engaged other key development stakeholders, in particular civil society organizations (CSOs) and the private sector. It proposed in particular to improve the autonomy of recipients of aid with regard to their development processes, to foster inclusive partnerships and place the focus of aid on real and measurable impact on development and capacity building.

Outside the scope of the OECD, "South–South cooperation" with countries such as China, India and Brazil and an increased involvement of private donors, has gained in scale and influence in the last two decades.<sup>17</sup> To address the issues arising from this changed context a new venue has been created: the Busan Global Partnership for Effective Development Cooperation, supported not only by the OECD, but by the entire United Nations system.<sup>18</sup> In terms of specific commitments, the Busan Partnership puts the emphasis on transparency, calling in particular for the adoption of a common standard for the publication of aid data.

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11 GCF, GI, par. 47.

12 See on the climate finance landscape Buchner et al. (2013):

13 The analysis is based on a multidisciplinary research project on the proliferation of multilateral funds. See [http://www.snis.ch/call-projects-2012\\_3682\\_proliferation-multilateral-funds](http://www.snis.ch/call-projects-2012_3682_proliferation-multilateral-funds)

14 OECD and UNEP (2014).

15 Roberts (2009).

16 See <http://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>.

17 <http://www.dochas.ie/Shared/Files/2/bn-busan-nutshell-global-partnership-021012-en.pdf>.

18 Rogerson (2011).

All the above mentioned declarations place country ownership at the centre of the debate. This principle reflects the overall consensus that aid is to be conceived as a partnership rather than a paternalistic relationship between donors and recipients and grew out of the insight that development depends primarily on efforts at the country level, and that it should therefore facilitate and not try to replace them.<sup>19</sup>

Although country ownership is crucial for aid effectiveness, it is less clear whether it should be achieved primarily by enhancing and supporting national governments. Indeed, so-called government ownership does not necessarily lead to country ownership, particularly if governments privilege clientelistic strategies over long-term development goals. In fact, especially in countries with low democratic legitimation, public policies are still largely driven by short-run political considerations and do not focus on the delivery of public goods required for economic and social transformation.<sup>20</sup>

Leading aid agencies, are becoming increasingly sensitive to that argument. At a time of shrinking aid budgets and greater public scrutiny of the results achieved by aid, they tend to call into question the notion of the recipient state setting the agenda and controlling the flow of money.<sup>21</sup> As a result, general or sectoral budget support,<sup>22</sup> which is one of the most visible manifestations of country ownership, has dropped sharply.<sup>23</sup>

Instead of the principles of country ownership, ‘value-for-money’ is appearing with increasing frequency in the aid vocabulary. Although the concept lacks an authoritative definition, it stands for results-oriented aid management, aimed at keeping administrative processes lean and efficient and monitoring results closely.<sup>24</sup> Overall, a special focus is placed on the necessity to foster local initiatives and to cooperate actively with both the private sector and civil society.<sup>25</sup> Moreover, the changing landscape of aid, which reflects an enhanced involvement of private actors, contributes to setting new priorities within the aid community. Finally, in a context of stronger competition from emerging powers, traditional aid agencies in the OECD are increasingly failing to gain the support of their domestic constituencies, in particular business actors who view the Paris principles critically.<sup>26</sup>

More generally, the desire to make sure that funds are used efficiently and achieve verifiable results, while respecting certain social and environmental minimum criteria, has become a major preoccupation of donors.<sup>27</sup> This trend leads to the formulation of more stringent requirements regarding the achievement of results, the financial management of projects, and protection against environmental and social harm.<sup>28</sup> Strict fiduciary criteria are set up to ensure that funded activities are financially sound and projects are regularly evaluated to monitor progress and promote accountability for results.<sup>29</sup> Finally, tight reporting and

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19 Booth (2012)

20 Booth (2012)

21 See Tavakoli and Hedger eds. (2012), European Commission, COM(2011) 638 final.

22 Budget support focuses on non-earmarked contributions to the government budget. Whereas general budget support focuses on overall policy and budget priorities, sectoral budget support focuses on sector-specific concerns. See Ronsholt et al. (2014).

23 See on the internet under <http://www.theguardian.com/global-development/poverty-matters/2013/jul/24/donors-global-south-development-aid> and [http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/index\\_en.htm](http://ec.europa.eu/europeaid/how/delivering-aid/budget-support/index_en.htm).

24 See Jackson (2012); Klingebiel, S., & Janus, H. (2014).

25 See the report of the French government at:

[http://www.diplomatie.gouv.fr/fr/IMG/pdf/Faber\\_RapportComplet\\_FR\\_cle865fc1.pdf](http://www.diplomatie.gouv.fr/fr/IMG/pdf/Faber_RapportComplet_FR_cle865fc1.pdf)

26 Geddes (2011)

27 See DFID (2011).

28 Brown et al. (2013: 1).

29 Brown et al. (2013: 9).

transparency requirements are formulated and regular audits are carried out to learn lessons from past experiences and correct mistakes.<sup>30</sup>

Within the ambit of climate finance, the paradigm change from pure government support to a greater recognition of the role of the private sector and civil society is even more prominent. Unlocking private sector capital and encouraging private investment in low-carbon, climate-resilient development is perceived as absolutely essential given the sheer size of the investment required to support action capable of limiting the global rise in temperature to below two degrees Celsius.<sup>31</sup> Even more than poverty alleviation, which is the main goal of ODA, the challenge of climate change entails a fundamental transformation of economic systems that requires the contribution of all stakeholders of civil society. Even though developing countries have made great strides in mainstreaming climate change concerns in their overall policy, a clear commitment to a low carbon development path is still lacking in many countries. To increase bottom-up involvement, aid agencies within the ambit of climate finance are increasingly looking for innovative modes of cooperation between public agencies, private actors and civil society, challenging the principle of country ownership understood as a purely government-driven approach.<sup>32</sup>

## 2. Institutional channels of ODA

Aid can be channelled to recipients in different ways. So far most ODA<sup>33</sup> is given bilaterally.<sup>34</sup> The reasons for providing bilateral rather than multilateral aid are manifold. First, it is generally considered that bilateral aid is more closely tied to donors' interests.<sup>35</sup> Second, in many countries, specific ceilings exist with respect to multilateral aid and funding lines are controlled by different line ministries. Third, bilateral aid provides the opportunity to circumvent sometimes sluggish multilateral processes, increases the visibility of the contributions, and generally provides more financial flexibility to donors.<sup>36</sup>

Multilateral aid, on the other hand, is the preferred form of aid if a country cannot achieve particular goals when working alone.<sup>37</sup> Multilateral institutions make the achievement of certain goals easier by reducing transaction costs, pooling information and monitoring the recipients of aid more effectively.<sup>38</sup> They are also usually considered better at providing information, are seen as being less politicised and as maximizing donors' influence by providing a united front to recipients.<sup>39</sup> Third, multilateral aid institutions allow burden-sharing and can be used to pool resources for the provision of public goods or the prevention of public bads.<sup>40</sup>

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30 Sridhar and Woods (2013: 15)

31 Buchner et al. (2014: 1).

32 See the report of the French government at:

[http://www.diplomatie.gouv.fr/IMG/pdf/Faber\\_RapportComplet\\_FR\\_cle865fc1.pdf](http://www.diplomatie.gouv.fr/IMG/pdf/Faber_RapportComplet_FR_cle865fc1.pdf)

33 ODA refers according to the Development Co-operation Directorate of the OECD (DAC) to financial flows provided by official agencies, including state and local governments, directed to countries and multilateral institutions, with the principal aim to promote economic development and welfare of developing countries. It is concessional in character and conveys a grant element of at least 25 per cent. See

<http://www.oecd.org/dac/stats/officialdevelopmentassistanceandcoverage.htm>

34 Schneider and Tobin (2011).

35 Balogh 1967; Neumayer 2003; OECD 2011-

36 Michaelowa, Reinsberg, and Schneider (2013); Reinsberg, Michaelowa, and Knack (2014).

37 Sridhar and Woods (2013).

38 Hawkins et al. (2006); Rodrik (1995); see also OECD (2011, 2012).

39 Schneider and Tobin (2011).

40 Schneider and Tobin (2011).

In the past two decades, multilateral aid institutions have witnessed a massive growth in voluntary contributions that are earmarked to support specific development priorities, a particular sector, region or country.<sup>41</sup> This new trend has been labelled ‘multi-bi aid’ because donors have recourse to multilateral institutions while the aid remains under the tight control of donors like it would in a bilateral context.<sup>42</sup> Between 1995 and 2011, so-called ‘non-core’ resources at the United Nations grew by 350 per cent, accounting for about 72 per cent of total resources, while the regular UN budget did not increase.<sup>43</sup> Similarly, single- and multi-donor trust funds of the World Bank have been on the increase, amounting currently to more than one thousand, with a total value of around USD 30 billion managed by the World Bank.<sup>44</sup>

The reasons why multilateral aid institutions receive mostly ‘multi-bi aid’ are not always easy to identify. More generally, earmarking allows donors to reap the benefits of delegation while limiting the disadvantages associated with it.<sup>45</sup> They can use the expertise of multilateral aid institutions without renouncing the ability to specify the goals that have to be achieved and thereby to ensure that aid is closely aligned with their preferences.

According to Michaelowa, Reinsberg, and Schneider (2013), the alignment with donor preferences is particularly relevant when a donor is a multilateral agent like the EU, which has to give due consideration to many actors with potentially diverging interests.<sup>46</sup> They argue that if the EU cannot ensure that the member states’ preferences are duly considered by its aid programme, their willingness to contribute further to it diminishes accordingly.<sup>47</sup> The desire to keep control of the use of funds by donors is also closely tied to the necessity to ensure aid effectiveness. Some authors argue that the competition between numerous trust funds within the ambit of the World Bank has fostered innovation and increased value for money while also contributing to reduce information, coordination and administrative costs.<sup>48</sup> Furthermore, trust funds are considered to be less captured by geopolitics, thus serving more need-based purposes.<sup>49</sup> Finally, smaller funds with a well specified goal are considered to have more expertise due to their limited mandate and to be less slow-moving and more likely to take advantage of new windows of opportunity.<sup>50</sup>

The new cooperation pattern has been most prominent in the health sector, where so-called ‘vertical funds’<sup>51</sup> are proliferating.<sup>52</sup> These funds, in particular the Global Fund and the Global Alliance for Vaccines and Immunizations (GAVI) differ from traditional multilateral institutions in many ways.<sup>53</sup> The fact that the contributions to these two funds are voluntary has allowed governments to enhance control by rewarding actions they favour and by sanctioning those they disapprove of. Overall, the new institutions have allowed donors to track results more easily, to have a greater say over the use made of their contributions and to raise the visibility of their contributions in the eyes of domestic constituencies.

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41 Reinsberg (2014), OECD (2012).

42 Milner and Tingley (2013).

43 UN 2011. (It is not our data we are using there)

44 Leipziger et al. (2012).

45 OECD 2011: 29. (Again this would be a better source)

46 Michaelowa et al. (2013); Schneider and Tobin (2013).

47 Michaelowa et al. (2013).

48 IEG (2011). (This is in the WB report)

49 Sridhar and Woods (2013).

50 Eichenauer and Hug (2013).

51 Vertical funds are multi-stakeholder programs that give earmarked funding for specific purposes. See <http://www.ifpri.org/publication/learning-experience-vertical-funds>.

52 Sridhar and Woods (2013).

53 Sridhar and Woods (2013).

Of course, the new trend of favouring multi-bi-financing over multilateral aid has also raised concerns. Some authors fear that powerful actors may use them to impose their priorities on poor countries, encourage short-term over long-term results<sup>54</sup> and, more generally, erode the capacity of IDOs<sup>55</sup> to effectively monitor and disseminate information, which requires institutions with a sufficient degree of independence.<sup>56</sup> Competition between many funds may lead to duplication and fragmentation as well as adding another layer to the overall complexity of the multilateral system.<sup>57</sup> Multi-bi financing further entails administrative duties due to specific donor exigencies, additional reporting and fiduciary controls as well as separate account-keeping<sup>58</sup>. Finally, it exacerbates the difficulty of long-term planning as IDOs depend on voluntary funds that cannot be relied upon.

### III. The GCF: how attractive is it to donor countries?

The GCF has been set up<sup>59</sup> with the aim to promote “the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change”.<sup>60</sup> Its current design reflects a subtle compromise between key concerns of developing and developed countries. Initially developing countries had pressed for the creation of a financial entity under close guidance of the COP whose principal task would be to allocate the US\$ 100 billion pledge made by developed countries in Cancun based on recipient country preferences.<sup>61</sup> In contrast, developed countries favoured the setup of a fund with loose ties to the UNFCCC, where limited public finances would primarily be used to deliver results-based payments and leverage private sector investments assisting developing countries to steer their economies on to a low-emission pathway.<sup>62</sup>

If the GCF is to succeed in raising sufficient resources to combat climate change and in investing these resources effectively, it will need to be perceived as legitimate by donors.<sup>63</sup> Although it is clear that ultimately a fair balance will have to be struck between contributors’ and recipients’ interests, there is a risk that the new institution will remain under-funded for a long time if the concerns and interests of donors are not sufficiently taken into account. Indeed, although Parties stressed the importance in Durban of having an “early and adequate replenishment process”, based on voluntary contributions, the long-term capitalisation of the fund remains uncertain.<sup>64</sup>

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54 See Reinsberg (2014) for a summary of widespread concerns on the implications of multi-bi financing.

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56 Sridhar and Woods (2013)

57 Weinlich (2010).

58 Reinsberg (2014).

59 In decision 1/CP.16, the COP established the GCF as an operating entity of the financial mechanism of the Convention under Article 11. Its assets will be administered by a trustee in accordance with decisions of the GCF Board and its design was entrusted to a transitional committee. At COP 17, held in Durban, the COP adopted decision 3/CP.17, in which Parties welcomed the report of the transitional committee and approved the governing instrument for the GCF. At COP 18, in Doha, Parties confirmed that the provisions contained in Article 11 par. 3 UNFCCC, decision 3/CP.17 and the governing instrument of the GCF contained in the annex to 3/CP.17 form the basis for the arrangements between the COP and the GCF. At COP 19, Parties accepted the arrangements between the COP and the GCF regarding the accountability of the GCF. See [http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/green\\_climate\\_fund/items/5869.php](http://unfccc.int/cooperation_and_support/financial_mechanism/green_climate_fund/items/5869.php)

60 <http://www.gcfund.org/about-the-fund/mandate-and-governance.html>.

61 Schalatek (2011).

62 Schalatek (2011).

63 Ballesteros et al. (2010).

64 COP decision 2/CP.1

While there is an abundant literature on how the GCF may increase recipient legitimacy,<sup>65</sup> less attention has so far been paid to the question whether its current governance provides a clear added value in the eyes of donors. While it is clear that the attractiveness of the GCF in the future will very much depend on its performance we posit that an analysis of its governance structure may provide useful insights regarding its future role in the ambit of climate finance.

We thus start by providing an overview of the main design elements of the GCF and explore to what extent its current governance structure is in line with current ODA trends. Based on this analysis we will formulate some recommendations as to how the GCF may be made more attractive for donors.

## 1. The building blocks of the GCF

The basic objectives and key features of the GCF are laid down in its Governing Instrument (GI).<sup>66</sup> The GI sets out the basic framework for action but confers broad powers to the Board. Although many pieces of the final puzzle are still missing, the Board has, in eight meetings,<sup>67</sup> reached agreement on all the essential requirements to enable the fund to solicit funding from potential donors.<sup>68</sup>

### a. Governance and institutional arrangements

The GCF is an operating entity of the financial mechanism<sup>69</sup> of the UNFCCC.<sup>70</sup> Its key role will be to catalyse climate finance for developing countries and maximise the impact of its funding for climate change adaptation and mitigation, while promoting environmental, social, economic and development co-benefits at both the international and national levels.<sup>71</sup> It is accountable to the COP and functions under its guidance.<sup>72</sup> In order to operate effectively, the GCF possesses juridical personality and enjoys the necessary privileges and immunities for the fulfilment of its purposes.<sup>73</sup> A Standing Committee on Finance assists the COP in exercising its oversight functions.<sup>74</sup>

The GCF is governed and supervised by a Board which is composed of an equal number of members from developed and developing countries, including notably representatives from small island developing states and least developed countries. The Board, which takes decisions based on consensus,<sup>75</sup> has full responsibility for funding decisions.<sup>76</sup> Day-to-day

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65 See the contributions made on the GCF by Benito Müller at: <http://www.oxfordenergy.org/author/benito-muller/>

66 Harmeling et al. (2013).

67 See <http://www.gcfund.org/meetings.html>

68 Among the decisions taken were the rules on accreditation; the Fund's initial approval processes for funding; a results management framework; financial risk management and investment frameworks; the structure of the Fund; and initial modalities for the Fund's mitigation and adaptation windows. See

<http://www.gcfund.org/home.html>

69 Art. 11 UNFCCC.

70 It will contribute to the achievement of the ultimate objective of the Convention and will be guided by its principles and provisions. GCF, GI, par. 1.

71 GCF, GI, par. 2.

72 GCF, GI, par. 6.

73 GCF, GI, par. 7.

74 The task of the Standing Committee on Finance is to improve the coherence and coordination in the delivery of climate change financing, the mobilization of financial resources and the measurement as well as the reporting and verification of the support provided to developing country Parties. See

[http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/items/6877.php](http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/6877.php).

75 GCF, GI, par. 5.

76 GCF, GI, par. 9 ff.

operations are devolved to the GCF's secretariat, which is headed by an executive director and has at its disposal a professional staff with relevant experience. The World Bank will manage the financial assets of the fund as a trustee on an interim basis.<sup>77</sup> Initially the GCF will act exclusively as a fund and not as a bank. Its resources will come exclusively from grants, paid-in public capital contributions and concessional public loans. The bulk of its financial inputs will be delivered by developed countries, but other sources, public and private, may also provide financing.<sup>78</sup>

## **b. Operational modalities**

The GCF provides for simplified and improved access to funding, follows a country-driven approach and encourages “the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects”. The GCF shall co-operate with other existing funds established under the UNFCCC as well as with other institutional channels.<sup>79</sup> All developing country Parties to the Convention are eligible to receive resources. They will be supported by the GCF in pursuing project-based and programmatic approaches in accordance with their climate change strategies and plans.<sup>80</sup>

### **i. Funding windows and fund structure**

A key issue when establishing the GCF was how it would allocate the funds it receives. The Cancun Agreements stated<sup>81</sup> that it will support “projects, programmes, policies and other activities in developing country Parties *using thematic funding windows*”. In a background note<sup>82</sup> for the Transitional Committee the latter was defined as “a sub-structure within a fund that allows for specialisation in and a focus on a particular sector, issue, or access modality”.<sup>83</sup> The note, however, did not clarify whether donors would be able to earmark their contributions by selecting a particular window or whether windows were to be used exclusively to ring-fence certain assets. In Durban, Parties decided to grant the Board full responsibility for funding decisions.<sup>84</sup> By refusing to let donors earmark their contributions Parties wanted to make sure that the current imbalances in the overall climate finance regime, be they thematic or geographical, could be rectified, and the creation of “donor ‘darlings’ and ‘orphans’” avoided.<sup>85</sup> Initially, the GCF will have only two windows, i.e. one for adaptation and one for mitigation. The Board has, however, the authority to “add, modify and remove additional windows and substructures”.<sup>86</sup>

### **ii. The Private Sector Facility**

The establishment of a Private Sector Facility (PSF)<sup>87</sup> was one of the key requests of developed countries which see the mobilization of the private sector as essential if the GCF is to have a “transformational” impact.<sup>88</sup> The PSF will operate under the guidance of the Board

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77 GCF, GI, par. 25.

78 GCF, GI, par. 29–30.

79 GCF, GI, par. 31–32.

80 GCF, GI, par. 36.

81CP16/1, par. 102

82 UNFCCC (2011).

83 Müller (2011).

84 GCF, GI par. 18 d).

85 Müller (2011).

86 GCF, GI para 37–39.

87 See Sierra (2012).

88 To achieve this goal, the International Energy Agency estimates that the incremental investment necessary in the energy sector alone will have to reach approximately USD 1 trillion each year from 2012 to 2050. See Buchner et al. (2014: 4).

and provide both direct and indirect funding to private actors. To operationalise the PSF the Board will allocate it a significant proportion of its initial funding.<sup>89</sup> To exert due diligence and manage its risks prudently the Board has decided that an appropriate risk management framework will be developed.<sup>90</sup> For this purpose, the Board decided also to establish a Risk Management Committee and an Investment Committee that will review investment proposals and instruments.

Initially, the focus will be on grants and concessional lending.<sup>91</sup> In line with the spirit of the principle of country ownership, recipient countries will be able to review proposed private sector projects on a “no objections” basis and thereby ensure that business activities are consistent with national priorities. A Private Sector Advisory Group (PSAG), composed of four private sector representatives, civil society experts and members of the Board will assist the Board in its decisions.<sup>92</sup>

### *iii. Access modalities and accreditation*

To ensure that climate finance is disbursed in an accountable manner, donors have so far tried to retain considerable control over the allocation of funds and the institutions they are channelled through.<sup>93</sup> Wary of weak accountability systems, high levels of corruption and little political will to reform political systems, the majority of IDOs has so far preferred to ensure accountability by entrusting funding decisions and the implementation of projects to bilateral or multilateral entities.

In contrast to the prevalent practice of most IDOs, access to fund resources under the GCF may be provided through both national and international entities. Recipient countries are free to determine what mode of access they prefer, or may choose both simultaneously.<sup>94</sup> In addition to ‘direct access’, which means that “subnational, national and regional implementing entities” may be accredited to manage funded projects,<sup>95</sup> the Board will consider additional modalities that further enhance direct access. This includes a stronger devolution of decision-making to the extent that not only management but also funding decisions may take place at the level of intermediaries.<sup>96</sup>

Strong country-driven procedures cannot be implemented effectively if they are not matched by appropriate accountability standards to ensure that projects live up to strict fiduciary criteria regarding their financial management and integrity and that they respect social and environmental standards. The Board has thus recently adopted a guiding framework for the accreditation of national and international entities, comprising the Fund’s fiduciary principles and standards as well as environmental and social safeguards (ESS).<sup>97</sup> All entities seeking accreditation have to establish that they meet the fiduciary standards and social and environmental safeguards as agreed by the Board. As yet no fund-specific safeguards have been agreed; the International Finance Corporation performance standards will apply on an interim basis.

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89 GCF/B.07/08

90 GCF/B.07/05

91 GCF/B.04/07

92 Schalatek (2013).

93 Brown et al. (2013).

94 GCF, GI, para 45–48.

95 GCF, GI, par. 47.

96 Müller (2014).

97 GCF/B.07/02, GCF/B.08/1-6

#### *iv. Allocation of funds*

The extent of the GCF's contribution to climate change goals depends in large part on how its resources are allocated.<sup>98</sup> The GI lays out basic principles on how the GCF should allocate its resources.<sup>99</sup> Based on these provisions the Board decided recently that a 50:50 balance with respect to adaptation and mitigation should be achieved and that resources will be allocated "with a view to seeking geographical balance and a reasonable and fair allocation across a broad range of countries".<sup>100</sup> It further agreed that no less than half of the money for adaptation will be allocated to the countries that are most vulnerable to the impacts of climate change.

The GI posits further that an important criterion for the allocation of resources will be "results-based approaches".<sup>101</sup> The Board decided to opt for a theme/activity-based approach, starting with a two-tier allocation system.<sup>102</sup> The first tier will set allocation targets for two themes (mitigation and adaptation) and one modality (the PSF) as well as a minimum floor for country groups identified as being particularly vulnerable. The second tier will allocate resources on a competitive basis, which means that grant proposals under this tier will be evaluated against their potential to contribute to a paradigm shift.<sup>103</sup>

#### *v. Process for the approval of projects and programmes*

The GI provides for the development of streamlined programming and approval processes to enable timely disbursement, including simplified processes for the approval of certain activities, notably small-scale ones.<sup>104</sup> In accordance with this mandate the Board recently agreed on an initial proposal approval process,<sup>105</sup> which defines the key stages in the project and programme activity cycle and sets out an initial set of criteria for programme and project funding.<sup>106</sup> It further established an independent technical advisory panel (TAG) whose task is to provide advice to the Board on funding proposals.

In the initial stages of the operation of the GCF, all proponents must submit project and programme funding proposals through an accredited implementing agency or intermediary.<sup>107</sup> The proposal may be prepared spontaneously or based on a call initiated by the GCF. To ensure the consistency of funding proposals with national climate and development plans, each project or programme will have to be approved by a National Designated Authority (NDA) or a focal point to ensure recipient country ownership of funding for programmes that are not implemented by governments.

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<sup>98</sup> Polycarp et al. (2013).

<sup>99</sup> GCF, GI, para 50 and 52.

<sup>100</sup> See Thomson Reuters Foundation at <http://www.trust.org/item/20140224125627-ej6y>.

<sup>101</sup> GCF, GI, par. 51.

<sup>102</sup> GCF/B.06/05.

<sup>103</sup> Müller (2014: 2).

<sup>104</sup> GCF, GI, par. 58.

<sup>105</sup> GCF/B.07/03; GCF/B.08/21-22.

<sup>106</sup> A proposal approval process will generally cover the following steps: country work programmes; calls for funding proposals by the GCF; concept development; no-objection and proposal submission; analyses and recommendations to the Board by the Technical Advisory Panel (TAP); the Board's decision; and legal arrangements. See GCF/B. 07/03.

<sup>107</sup> GCF/B.07/03.

## **vi. Monitoring**

All activities funded by the Fund have to be regularly monitored for their impact, efficiency and effectiveness.<sup>108</sup> To operationalise this provision the Board has approved an initial results measurement framework (RMF) which sets out guidelines and appropriate performance indicators.<sup>109</sup> The latter describe the elements of a paradigm shift towards low-emission and climate resilient country-driven development pathways, both with respect to individual countries and at an aggregate level. Furthermore the Board has defined initial performance indicators to capture outputs as well as the transformative impact of activities.<sup>110</sup> Moreover, a set of criteria regarding development and environment co-benefits has been developed. To establish the overall level of financial risk the Board is willing to assume and to ensure that the risks assumed lie below the approved ceiling the Board adopted a financial risk management framework.<sup>111</sup> A Risk Management Committee assists the Board in this task.

### **c. The involvement of stakeholders**

The Board is invited to develop mechanisms to promote the input and participation of stakeholders in the design, development and the implementation phase.<sup>112</sup> Their participation is further encouraged in the monitoring process.<sup>113</sup> So far, two civil society and two private sector representatives have been granted the right to act as active observers within the Board. They are however not invited to suggest agenda items for Board meetings, or request expert input to the Board's discussions.<sup>114</sup> Unless specifically invited, they cannot participate in committees and panels of the Board.

### **d. The creation of evaluation mechanisms**

An independent evaluation unit will periodically scrutinise the work of the GCF.<sup>115</sup> It will report directly to the Board and share its findings with the COP. Moreover, several accountability mechanisms, including an independent fraud unit and an independent redress mechanism<sup>116</sup> that allows people to challenge funding decisions that may negatively affect them, have been established. The COP will be entitled to commission an independent assessment of the GCF to evaluate its overall performance, as well as the adequacy of its resources.

## **2. The assessment of the GCF in the light of donors' preferences**

The delivery of ODA has undergone important changes over the past two decades. Notably, the past decade has witnessed a massive increase of multi-bi-financing and more recently the focus has been placed on value for money<sup>117</sup>, the leverage of private funds and the involvement of local as well as civil society actors. In this section we will assess to what extent the GCF is in line with these trends.

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<sup>108</sup> GCF, GI, paras 57–58.

<sup>109</sup> Among the 14 initial focus results areas figure, in particular, low-emission transport and energy access, sustainable land and forest management, low-emission power generation and support for public goods such as “knowledge hubs”. See GCF/B.07/04.

<sup>110</sup> Three core indicators for mitigation were defined, namely the quantity of reduced emissions, the cost of these reductions and the volume of public and private finance leveraged by it. See GCF/B.07/04; BCF/B. 8/20.

<sup>111</sup> GCF/B.07/05.

<sup>112</sup> Stakeholders are broadly defined as “private sector actors, civil society organizations, vulnerable groups, women and indigenous peoples.” See GCF, GI, par. 71.

<sup>113</sup> GCF, GI, par. 57.

<sup>114</sup> Schalatek (2013).

<sup>115</sup> GCF, GI, par. 60.

<sup>116</sup> GCF.GI, par. 69.

<sup>117</sup> Palemer (2012).

### a. The GCF and the trend for ‘multi-bi-financing’

Following the model of large IDOs the GCF differs in many respects from the numerous trust funds established under the umbrella of the World Bank and/or the ‘vertical funds’ proliferating in international health governance (hereafter ‘multi-bi-funds’).<sup>118</sup> One of the most striking differences is the composition of its membership. In contrast to many ‘multi-bi-funds’ which have usually a very limited number of ‘like-minded’ donors that allow an alignment of the fund’s goals with donor interests, the GCF has a quasi-universal membership where developing countries have an equal say. Its consensus-based decision-making rules and the large number of members with widely diverging interests make it very difficult for individual donors to shape funding decisions.

On the one hand donors may try to wield their influence through the representative of their constituency. The representative’s right of veto will however have to be used cautiously, as its overuse can have an antagonising effect and diminishes the overall capacity of the Board to find consensus. On the other hand, donors may use their bargaining power in the context of replenishment negotiations. Overall, however, the capacity of individual donors to align contributions with their own interests remains very limited. As no earmarking of funds is allowed, donors cannot provide any directions on how contributions should be spent.

Another difference of multi-bi-funds is the scope of their purpose. Whereas the GCF has a very broadly defined mandate, encompassing both mitigation and adaptation, the goals of multi-bi-funds are often more narrowly defined, as is the case for the Global Fund whose mandate is problem-focused, i.e. it addresses the prevention and cure of certain diseases, for instance HIV/AIDS, tuberculosis and malaria.<sup>119</sup> In the realm of climate finance, the main multilateral funds are two World Bank trust funds, i.e. the Climate Investment Funds (CIFs), which are divided into two separate funds: a Clean Technology Fund (CTF) and a Strategic Climate Fund (SCF). The latter has three sub-funds, i.e. the Forest Investment Program, the Pilot Program for Climate Resilience, and the Scaling-up Renewable Energy Program. As a result, donors may earmark their contributions to be used for a specific task or goal aligned with their interests. Moreover, the fact that the mandates are more narrowly defined facilitates the tracking of results and the showcasing of successful projects or programmes to domestic constituencies. This makes it easier for donors to raise new funds in the future.

The very successful multi-bi-funds in the area of global health also differ from the GCF as regards the composition of their boards. Whereas the GCF is a state-centric institution,<sup>120</sup> whose Board is composed exclusively of representatives of Parties to the UNFCCC, the boards of many vertical funds comprise a wide variety of stakeholders, in particular, representatives from civil society and the private sector who can fully take part in the decision-making processes.<sup>121</sup> This distinguishing feature makes them very different from the GCF, where stakeholders play only an observer role, which may be explained by the mainly member-driven process of the UNFCCC. Overall, this analysis shows that the GCF falls short of many of the drivers that are at the centre of the success of many multi-bi-funds. By placing the principle of country ownership at the core of its governance structure, the GCF has clearly increased its legitimacy with developing country governments, it has failed, however, to create effective incentives for donors. As a result, leading aid contributors like the EU, which are accountable to their member states for the use made of the funds received, will most likely face an uphill struggle in raising funds from their member states for the GCF.

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<sup>118</sup> Toma et al. (2012).

<sup>119</sup> See Sridhar and Woods (2013).

<sup>120</sup> See Abbott and Gartner (2013).

<sup>121</sup> See Abbott and Gartner (2013).

## **b. The GCF and the focus of donors on value for money**

Value for money is the latest ‘mantra’ in ODA as illustrated by the recent review of UK multilateral aid entitled “Ensuring maximum value for money for UK aid through multilateral organisations”.<sup>122</sup> Value for money stands for the need to make the best use of taxpayers’ scarce resources. It is a notion that originally comes from public procurement where it is defined as “using resources effectively, economically, and without waste, with due regard for the total costs and benefits of an arrangement”.<sup>123</sup>

Whereas value for money in public procurement processes is achieved through a competitive allocation process, the most relevant criteria for the assessment of IDOs is whether they have efficient decision-making processes, apply results-based allocation criteria and include a competitive element in the project approval processes. In climate finance, furthermore, a special focus is placed on their potential to leverage private capital and to mobilise stakeholders from civil society.

### ***i. Decision-making processes of the GCF***

So far, all funding decisions in the GCF have been taken by the Board. For instance, no decision-making power has been conferred upon sub-entities such as the PSF. Given the widely diverging interests of Board members and the consensus-driven process, it can be expected that decision-making will be relatively slow. The devolution of day-to-day operations to a well-staffed secretariat does however provide some guarantee that the decision-making process will not be hampered too much by micromanagement. Also, during the initial stages of its operation, the GCF will rely on a so-called “wholesale” model, which means that large amounts of funding will be managed by existing funds and agencies. This may help the Board to speed up decision-making and allow it to concentrate on strategic issues.

### ***ii. Results-based management***

The GCF is committed to results-driven approaches and to this effect it has adopted a results management framework<sup>124</sup> as well as an investment framework for the assessment of funding proposals.<sup>125</sup> It has done so by drawing on the best practices followed in other climate funds, in particular through the adoption of indicators, measurement tools and reporting procedures to ensure an effective outcome for the benefit of a wide variety of stakeholders. The indicators are “designed to be gender-sensitive, balancing quantitative with qualitative measures as appropriate”. Moreover it has created an Investment Committee which is responsible for policy, strategy and guidance.

These decisions lay the groundwork for results-driven approaches within the GCF. Although they offer a good starting point, they do not by themselves guarantee value for money. Reviews of other climate funds, notably the CIFs, show that the effectiveness of results-driven frameworks crucially depends on how priorities are balanced and trade-offs addressed.<sup>126</sup> For

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<sup>122</sup> Notably the UK assessed whether they displayed “the organisational values and behaviours that support lasting progress towards development and humanitarian objectives”, including “good partnership behaviour, transparency and accountability, cost and value consciousness, and strong financial resource and strategic and performance management”. See DFID (2011).

<sup>123</sup> See <http://www.aid.govt.nz/sites/default/files/Value%20for%20Money%20Guideline.pdf>.

<sup>124</sup> GCF/B.07/04.

<sup>125</sup> Among the indicators are impact potential, paradigm shift potential, sustainable development potential, needs of the recipient, country ownership, efficiency and effectiveness.

<sup>126</sup> See Climate Investment Funds (2014).

instance, with respect to mitigation, care will have to be taken to ensure that indicators do not primarily focus on quantifying greenhouse gas emission reductions but follow the logic of demonstration effect, barrier removal, or mechanisms for replication.<sup>127</sup> Moreover, while it is clear that decision-support tools and expert opinions provide a degree of transparency and objectivity to allocation decisions, it should be kept in mind that the distributional implications of any allocation criteria, whether they are determined ex-ante by theme, country, or sector, or realised through decisions on an activity-by-activity basis, make that any final decisions will remain inherently political.<sup>128</sup> This will be all the more true within the GCF as funding decisions will most likely be the result of hard bargaining processes among the members of the Board.

### *iii. The leverage of private funds*

The involvement of the private sector was one of the key requests of developed countries. The decision to allocate the PSF a significant part of the initial allocation provides a good starting point to unlock the potential of private investments in low-carbon and climate-resilient development. Although the PSF is ready for use, a number of key issues need further specification, including the question of the role actors from the private sector will play and of how much power will be delegated to intermediaries.<sup>129</sup>

### **c. The involvement of local and civil society actors**

The input and buy-in of civil society, especially at the local level, is crucial for both adaptation and mitigation.<sup>130</sup> This is increasingly acknowledged by developed countries which advocate for a stronger sense of civil society ownership, including in particular also local actors.

Acknowledging these concerns, many multi-bi-funds in the area of global health governance have found innovative ways of structuring their relations with recipients. For instance, project proposals for the Global Fund rely on “Country Coordinating Mechanisms” (CCMs),<sup>131</sup> which in addition to government representatives also include “non-governmental organizations, academic institutions, private businesses and people living with the diseases”. The latter are hence directly involved in the development and submission of project proposals as well as their implementation <sup>132</sup>

By contrast, the GCF has not yet moved beyond consultative procedures. Notably it has failed to establish “country-level multi-stakeholder partnerships” as is the case under the Global Fund. Concentrating on government ownership as opposed to local ownership and participatory decision-making,<sup>133</sup> it follows the “monopoly of states” approach that also characterises the two other operating entities of the UNFCCC, i.e. the Global Environmental Facility (GEF) and the Adaptation Fund (AF) that have failed to open a space for the direct participation of civil society stakeholders in its decision-making processes.

## **IV. Recommendations to make the GCF attractive to donors**

The attractiveness of the GCF to donors will crucially depend on whether it will be able to provide sufficient added-value compared to existing institutional channels. The expected scale

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<sup>127</sup> See CLIMATE INVESTMENT FUNDS (2014).

<sup>128</sup> Brown et al. (2013).

<sup>129</sup> Buchner et al. (2014).

<sup>130</sup> Abbott and Gartner (2011).

<sup>131</sup> See in particular <http://www.theglobalfund.org/en/ccm/>

<sup>132</sup> Sridhar and Woods (2013).

<sup>133</sup> Abbott and Gartner (2013).

of operations should, in principle, enable it to deliver specialist technical advice as well other knowledge services at lower costs.<sup>134</sup> It may also give countries the opportunity to test and share insights about what works and why. Finally, its leadership and co-ordination function should contribute to increasing the coherence of climate finance by filling the gaps left by current institutions.

The PSF is probably the element that, in the eyes of donors, potentially provides the highest added-value. Wary that the PSF would not be able to work at the speed the private sector is used to, many developed countries had advocated the creation of a separate governance structure to ensure more efficient decision-making and to keep bureaucracy to a minimum. These proposals, however, have received insufficient backing from the members of the Board.

The question therefore arises whether and how the design of the PSF can be improved to speed up decision-making and the delivery of aid. A consensus has emerged that the PSF should start its operations “through accredited national, regional and international implementing entities and intermediaries” and may “over time work directly with private sector adaptation and mitigation actors”. In other words, the PSF should start with a wholesale model but aim at becoming a full service provider in its own right in the medium to long term.<sup>135</sup>

The crucial issue at this stage is: who will be the intermediaries that will have ‘direct access’ or even ‘enhanced direct access’ and what their role will be. Possible options include multilateral, bilateral, and regional finance institutions as well as private financial institutions. In the eyes of developed countries’ representatives ideally only institutions that fulfil strict accreditation criteria, in particular multilateral development banks and private financial entities, should be considered and possibly benefit from a fast-track accreditation process.<sup>136</sup> As strong accreditation criteria reduce the need for additional layers of assessment at the level of the PSF, this would help the GCF to get up to speed.

An open question is whether the selected intermediaries should be able to approve and evaluate projects and programmes on their own. More broadly, this issue amounts to the question whether and which intermediaries should have ‘enhanced direct access’. When considering the devolvement of funding decisions to intermediaries, a staged approach is likely to be the most appropriate. For instance, the modalities of access could be made dependent on reaching certain thresholds. For example, only intermediaries that reach a certain size and fulfil stringent accreditation criteria could apply for enhanced direct access. Moreover, the degree of devolution could be differentiated with respect to project size and funding caps. Accordingly, smaller intermediaries that do not meet strict accreditation criteria would have a more limited scope of action than larger institutions with better credentials.

Another question relates to the type of financial instrument that should be used. Clearly, instruments that maximise the leverage of private funds such as guarantees should receive prominent attention. By providing a guarantee to a project developer the riskiness of its project is reduced and the likelihood that a loan will be granted by private lending institutions at more favourable conditions is enhanced. In this context, however, due regard will have to be given to risks of moral hazard and adverse selection.

Finally, when assessing the opportunities of the GCF to involve private actors, it should be kept in mind that interaction with the private sector is not the exclusive domain of the PSF.

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<sup>134</sup> DFID (2011).

<sup>135</sup> Buchner et al. (2014).

<sup>136</sup> See <http://www.twinside.org.sg/title2/climate/info.service/2014/cc140506.htm>.

For instance, National Designated Authorities (NDAs) will have to play an important role in engaging the private sector.<sup>137</sup> The adaptation and mitigation windows could for instance enhance the involvement of the private sector by supporting the creation of policy environments that foster private investments. Moreover, at the more strategic level, the GCF could consider the reduction of investment risks as one of its overarching objectives, which would be conducive to shaping a comprehensive risk management approach.

## V. Conclusions

Destined to channel a significant part of the US\$ 100 billion pledge made by developed countries under the UNFCCC the GCF has been set up with the ambition of becoming the main global fund in the area of climate finance. Its creation corresponds to a pressing request from developing countries which, wary of the overriding influence wielded by donors over existing IDOs, wished to set up a new institution that would grant them greater ownership over climate finance decisions.

The broad framework of its institutional structure was defined at COP 16 in Durban, where the Parties agreed that the GCF will be governed by a Board, that it shall have a trustee and will be supported by an independent secretariat. Tasked with operationalising the fund in an expeditious manner the newly established Board has since then laid down all the essential requirements necessary for soliciting funding from potential donors.

In June 2014 the initial resource mobilisation process<sup>138</sup> for the GCF started. It is as yet unclear whether the GCF will be able to attract sufficient funding to fulfil its mandate. At COP20 in Lima the pledges reached US\$ 10,2 billion.<sup>139</sup> Also, the GCF will not replace overnight, if it does so at all, the existing bilateral and multilateral channels that are delivering climate finance outside and inside the UNFCCC, such as the International Development Association (IDA)<sup>140</sup>, the GEF, the AF and the CIFs. Although the latter have a so-called “sunset clause”, which requires the termination of their operation once a new financial architecture is effective, a sufficient transitional period will be necessary to avoid the disruption of projects that have already been approved.

It is furthermore obvious that eventually the success of the GCF will hinge on the fact that its funds come from a broad pool of donors and a variety of sources. The rapidly changing international landscape both with respect to the responsibility of countries for climate change and to the redistribution of wealth clearly justifies that next to traditional donors emerging developing countries such as China, South Korea and Singapore, or countries with large revenues from fossil fuels such as Qatar and Saudi Arabia participate in the effort. If these countries were to make a significant pledge to the GCF, this could furthermore provide a positive signal to traditional donor countries and put pressure on them to increase their own share of contributions.

This being said the institutional structure of the GCF will have to become more attractive to donors. Set up as an IDO with quasi-universal membership and full funding decisions vested with a Board where developing countries have an equal weight, the design of the GCF falls short of meeting many of current donors’ preferences. Unlike many very successful multi-bi-

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137 Buchner et al. (2014).

138 GCF/B.07/09.

139 See <http://newsroom.unfccc.int/financial-flows/green-climate-fund-exceeds-10billion/>

140 IDA has a long-term commitment to climate action: mitigation support in IDA amounted to about \$2.3 billion in 2013 while adaptation support was \$2.1 billion. See <http://www.worldbank.org/en/topic/climatefinance/overview>

funds which allow ‘like-minded’ donors to align the funds’ goals with their interests, the GCF makes it impossible for individual donors to wield a direct influence over funding decisions. This is seen as problematic by many donors that are not willing to give up all control over the use of their contributions. As no clear earmarking of funds is possible, the visibility of donors’ contributions to their domestic constituencies is reduced, which makes it more difficult for donors to raise funds. Finally, by placing the focus on recipient country-driven processes, the GCF falls short of actively integrating other stakeholders, in particular private and local actors in its decision-making processes

Clearly, the PSF will be a crucial piece of the puzzle if the GCF is to become an attractive financial vehicle for future donors. As yet, there is however a clear risk that its consensus-driven decision-making processes will not work at the speed the private sector is used to. It will have to be sufficiently streamlined so that the Board is not hampered by the need to do micromanagement, but can concentrate on strategic issues. Also, enhanced direct access can and should be seriously considered as a means to alleviate its management burden. Strict accountability criteria, including the guarantee of social and environmental standards, will however have to be met by intermediaries to avoid the reputational risks of badly managed programmes and projects. This does not mean that the accreditation criteria could and should not be differentiated: thresholds and funding caps could be used to provide a tailor-made accreditation system that takes into account differentiated levels of accountability standards.

More generally, the attractiveness of the GCF for donors will depend on whether it responds quickly to the needs on the ground, uses its resources efficiently and develops new initiatives that deliver mitigation and adaptation more effectively and at scale. Overall, it can be expected that these goals will not be achieved overnight but will require a lengthy learning process. It is to be hoped that the actors in the field will remain open to innovative approaches and will not merely reproduce the usual divides that have for a long time characterised the relations between developed and developing countries within the ambit of the UNFCCC.

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