



GREEN
CLIMATE
FUND

INSIGHT

GREEN CLIMATE FUND

IN- SIGHT

AN INTRODUCTION TO GCF

2016

Green
Climate
Fund —
a financial
partner
to propel
climate
change
solutions

**PRE-
FACE**

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The science reported by the Intergovernmental Panel on Climate Change (IPCC) is irrefutable: dangerous greenhouse gas (GHG) emissions continue to rise, making the universally agreed target of keeping the global temperature increase below 2°C more and more difficult to achieve.

We are already seeing the devastating impacts of climate change first hand through rising sea levels, receding Arctic glaciers, increasing desertification, extreme weather events, and land degradation. The impacts on humans are also severe, with threats to low-lying coastal populations, and to those vulnerable to hurricanes, floods, and drought. Beyond this, the welfare and livelihoods of millions are likely to be affected by food, water, and energy insecurity.

We need global solutions to respond to this challenge, and the groundbreaking Paris Agreement has shown that it is possible to bring countries together to find a collective solution. The political will to tackle climate change is there, and to reach the ambitions of Paris we need to unlock the finances to support developing countries on the path to low-carbon, climate-resilient development.

As part of the United Nations Framework Convention on Climate Change (UNFCCC)'s financial mechanism, the Green Climate Fund will help implement the Paris Agreement. Created as an equitable partnership between all states party to the UNFCCC, our ambition is high. The Fund works directly with national stakeholders, including CSOs, to ensure strong country ownership of GCF projects and programmes. We aim to catalyse a global flow of climate finance to the developing world, in particular through direct access entities. Our innovation is to use public investment to stimulate private finance to open new markets and support the international community's efforts to respond to climate change.

Our investments support paradigm shifts in the developing world, helping countries to adapt to the impacts of climate change and reduce its severity by mitigating their carbon emissions. We have already started making funding decisions, committing GCF resources to mitigation and adaptation projects around the planet.

The Fund has made great strides so far. This brochure explains who we are, how we work, and how we are making change happen.

We hope you will join with us in partnership to achieve our common and shared goals.

Hela Cheikhrouhou

Executive Director
Green Climate Fund

GCF is a new global fund created to respond to climate change by investing in low-emission and climate-resilient development.

The Fund was established by the United Nations Framework Convention on Climate Change (UNFCCC) with a mission **to support the goal of keeping climate change below 2 degrees Celsius.**

Responding to the climate challenge requires collective action from all countries – by actors in both public and private sectors. Among these concerted efforts, advanced economies have agreed to jointly mobilize significant financial resources, from a variety of sources, to address the pressing mitigation and adaptation needs of developing countries.

The Fund provides support to developing countries to help limit or reduce their greenhouse gas (GHG) emissions and adapt to climate change. It seeks to promote a paradigm shift to low-emission and climate-resilient development, taking into account the needs of developing countries that are particularly vulnerable to the impacts of climate change.

GCF is an operating entity under the financial mechanism of the UNFCCC.

It is the only stand-alone multilateral financing entity whose sole mandate is to serve the Convention and that aims to deliver equal amounts of funding to mitigation and adaptation. The Fund is guided by the principles and provisions of the Convention.

OUR MISSION

OUR HISTORY



OUR VISION

GCF is a central mechanism for catalysing climate finance at international and national levels. It seeks to play a key role in the global response to climate change and to promote sustainable development.

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- 2009 **The general concept for GCF is first proposed at the Conference of the Parties (COP) to the UNFCCC in Copenhagen, Denmark (COP 15).**
- 2010 **The COP in Cancun, Mexico (COP 16), decides to establish GCF.**
- 2011 **GCF's Governing Instrument is adopted in Durban, South Africa (COP 17), where it is given the mandate to make "an ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change."**
- 2012 **GCF's governing Board holds its first meetings. The Board is equally balanced with members from both developed and developing countries.**
- 2013 **GCF's Executive Director Hla Cheikhrouhou is appointed, leading the Fund's senior management team.** The Fund establishes its permanent headquarters in Songdo, Republic of Korea, in December 2013.
- 2014 **Following the establishment of its operational principles and guidelines, GCF successfully commences its initial resource mobilization (IRM), raising over USD 10 billion equivalent by the end of the year.** IRM lasts until 2018, and the Fund remains open for further contributions during this time from both public and private sources.
- 2015 **The first investment decisions are taken, including both mitigation and adaptation projects, meeting the target set by the UNFCCC in advance of the Paris COP.**
195 countries agree to the historic Paris Agreement that will be served by the Fund as a financial mechanism of the Convention.

The Green Climate Fund is to make a significant and ambitious contribution to global efforts towards attaining the goals set by the international community to respond to climate change. The Fund promotes a paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their GHG emissions and adapt to the impacts of climate change. It takes into account the needs of those developing countries that are particularly vulnerable to the adverse effects of climate change. GCF is driven by innovation and targets its investments for transformational impact. It seeks to create new models for climate finance, channelling investment from both the public and private sector.

CATALYTIC CLIMATE FINANCE. The Fund is unique in its ability to engage directly with both the public and private sector in transformational climate-sensitive investments. As part of its innovative framework, the Fund has the capacity to bear significant climate-related risk, allowing it to leverage and crowd in additional financing. It offers a wide range of financial products, enabling it to match project needs and adapt to specific investment contexts, including using its funding to overcome market barriers for private finance.

BALANCED PORTFOLIO. The Fund's investments are aimed at achieving maximum impact in the developing world, supporting paradigm shifts in both spheres of mitigation and adaptation. The Fund aims for a 50:50 balance between mitigation and adaptation investments over time. It also aims for a floor of 50% of the adaptation allocation for particularly vulnerable countries, including Least Developed Countries (LDCs), Small Island Developing States (SIDS), and African States.

COUNTRY OWNERSHIP. The Green Climate Fund recognizes the need to ensure that developing country partners exercise ownership of climate change funding and integrate it within their own national action plans. Every developing country therefore appointed a National Designated Authority (NDA) that acts as the interface between its government and the Fund. This country-driven approach ensures program coherence and stakeholder coordination at the national level.



A NEW FORM OF GOVERNANCE



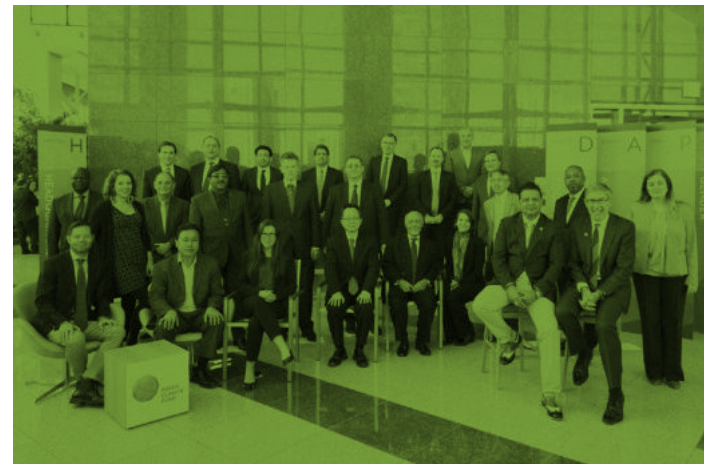
EQUITABLE GOVERNANCE. GCF embodies a new and equitable form of global governance to respond to the global challenge of climate change. It was established by 196 parties to the UNFCCC and is guided by the COP to the Convention. At the Fund's heart is a balanced governance structure that ensures consensus-based decisions between developed and developing countries.

THE BOARD. The Fund is governed by a Board of 24 members, equally drawn from developed and developing countries. Representation from developing countries includes representatives of relevant UN regional groupings and representatives from LDCs and SIDS.

Each Board member has an alternate member. Board members and their alternates are selected by their respective constituency or regional group within a constituency. They serve for a term of three years and are eligible to serve additional terms as determined by their constituency. The board is led by two Co-Chairs – one from a developed country and one from a developing country – who are elected to annual terms. The Board receives guidance from the COP and reaches decisions by consensus.

THE FUND'S MANAGEMENT. The Green Climate Fund is headed by an Executive Director who is responsible for managing the independent Secretariat of the Fund. Supported by a team of senior directors, the Executive Director oversees day-to-day operations and provides leadership to a diverse group of staff members representing 40+ nationalities. The Executive Director is appointed by, and accountable to the GCF Board. In June 2013, Ms. HÉla Cheikhrouhou of Tunisia was selected as the Fund's first Executive Director for a three-year term.

The Green Climate Fund Board embodies a new and equitable form of global governance.



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The GCF Board is comprised of 12 members from developing countries and 12 from developed countries.



CIVIL SOCIETY STAKEHOLDERS. GCF has generated significant interest from civil society around the world. Civil society organizations (CSOs) play a key role in contributing to the development of the Fund and in raising awareness about its role. CSOs and private sector groupings have been particularly active in shaping the debate around the evolution of the Fund and its principles and policies.

GCF's Board accredits civil society, private sector, and international organizations as observers to its meetings. These are important partners, and organizations are invited to apply to join the list of accredited observers. In addition, two civil society representatives are invited to participate as active observers of these meetings.

ENSURING EFFECTIVENESS. GCF's Board has established rigorous fiduciary principles and standards as well as environmental and social safeguards to govern all of the Fund's activities. It has also adopted policies which guide the Fund's financial risk management and investments. GCF measures its impact through an initial results management framework, which sets targets for all investments. The World Bank currently serves as the interim trustee to manage the financial assets of the Fund.

More details on the Fund's fiduciary standards are available online.

www.greenclimate.fund

GREEN CLIMATE FUND





MOBILIZING RESOURCES

Developing countries need long-term, predictable flows of climate finance to aid their transformation to low-emission and climate-resilient economies. Significant climate finance is also needed to build the trust necessary for an ambitious global climate settlement.

To respond to this, industrialized countries have committed to mobilize significant climate financing from a variety of resources. GCF is expected to play a distinctive role in channelling these climate investments. The Fund's initial resource mobilization period lasts from 2015 to 2018. At the beginning of 2016, the Fund had raised over USD 10 billion equivalent in pledges from 48 state, regional, and city governments, and further contributions are invited on an ongoing basis.

Scale is essential for GCF to deliver on its ambitious mandate, and the Fund expects to draw upon resources from public, private, and philanthropic sources.



Home planet.

Today.

Tomorrow.



INVESTING FOR CHANGE

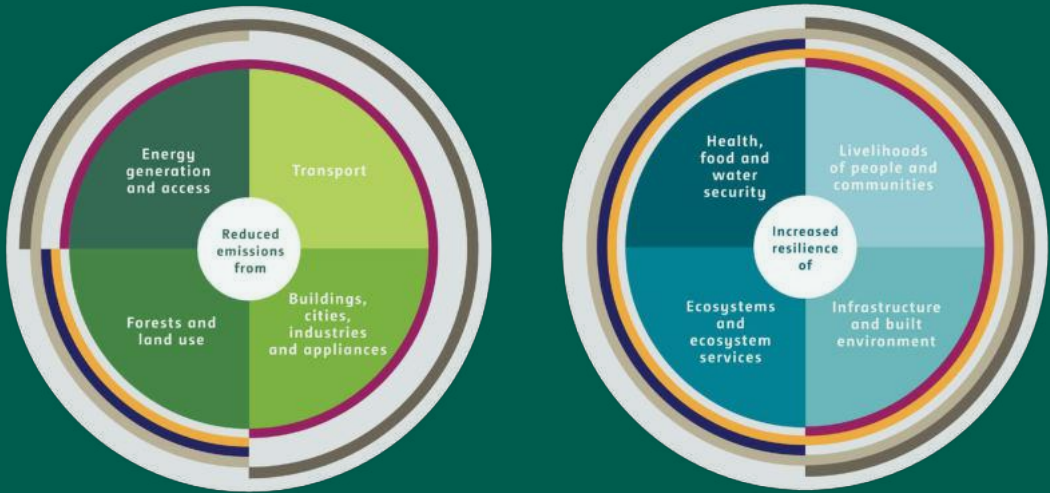
The Green Climate Fund targets its investments to achieve a paradigm shift towards low-emission, climate-resilient development. To achieve maximum impact, GCF seeks to catalyse funds, multiplying the effect of its initial financing by opening markets to new investments. By doing so, the Fund achieves benefits for the climate and for sustainable economic and social development in developing countries.

There is high demand for financial support; so, to make investment decisions, GCF's Board has developed a set of investment criteria to evaluate where the Fund can make the most effective investments.

The Fund's six investment criteria are:

- **Impact potential**
- **Paradigm shift potential**
- **Sustainable development potential**
- **Country ownership**
- **Efficiency and effectiveness**
- **Needs of the recipient**

Based upon those investment criteria, the Fund has developed a cross-cutting matrix to guide its funding decisions.



This matrix identifies five investment priorities that cut across GCF’s eight results areas. The results areas are specific contexts where we believe the Fund can deliver major mitigation or adaptation benefits. The identified priorities that can deliver these results are:

- Climate-compatible cities
- Low-emission and climate-resilient agriculture
- Scaling up finance for forests and climate change
- Enhancing resilience in SIDS
- Transforming energy generation and access

This approach cuts across action in relation to both mitigation and adaptation, and also touches upon multiple results areas, providing the opportunity for the Fund to invest for maximum impact. These priority areas are cross-sectoral and relevant across many areas of the world. In working with this framework, the Fund can ensure coherence in its investments, focusing on scalable projects that will help deliver paradigm changes across the developing world and make a real difference to the climate and the lives of millions.

The shift towards greater urbanization is a major trend around the planet. Currently, around half of the earth's population live in cities. This figure is set to grow rapidly, so that by 2050 it is anticipated that 66% of the planet's population will be living in an urban environment.

This demographic trend also has impacts on the climate. Cities are responsible for 75% of all emissions. They consume more than 75% of the planet's natural resources and use 60-80% of the our energy. Reducing emissions from cities can therefore make a major contribution to global mitigation efforts.

However, cities are also likely to be highly vulnerable to the impacts of climate change; so, action to help them build climate resilience is also a priority.

Many cities are situated in low-lying coastal areas and are therefore at threat from rising sea levels as well as increasing extreme weather events. There are also many informal settlements inhabited by poor communities, which are at high risk from extreme weather. Other risk factors for cities include heat stress, flooding, drought, water scarcity, and air pollution. These all pose risks to people's livelihoods and health, as well as to ecosystems and local and national economies.

GCF has the opportunity to change the paradigms of the modern urban environment by investing in climate-resilient, low-emission cities. Buildings have the largest potential for abatement, whether through increased energy efficiency or use of renewables. Urban transport also ranks highly. Other opportunities include energy consumption, building use, waste management, and better urban planning.

1. Climate- Compatible Cities

An estimated 10% to 12% of global emissions come from agriculture, and emissions are expected to rise by 1% annually until 2030.

Alongside this climate challenge, we would need to increase food production by over 50% to feed the projected 2050 global population of 9 billion people. Meeting this target is challenged by the effects of climate change, which is likely to threaten water supplies for crops and livestock as well as reduce fish stocks.

Mitigation efforts can reduce the impact of agriculture on climate change, while adaptation measures can increase the resilience of food systems and strengthen food security.

Low-emission, climate-resilient agriculture can also have benefits to the improvement of livelihoods through the safeguarding of water access and strengthening of resilience of ecosystems, including by reducing pressures on forests.

There is a major opportunity for the Fund to invest in low-emission, climate-resilient agriculture, since many efforts to date from climate funds have focused mainly on adaptation. The Fund is particularly seeking to involve local communities and the private sector in developing sustainable agriculture. Supporting smallholder farmers in particular has the potential to improve the livelihoods of communities, particularly women. Supporting changes made by larger producers can have positive impacts on mitigation as well as food security benefits.

2. Low-Emission and Climate-Resilient sustainable agriculture

Forests are often described as the planet's lungs. Their carbon absorption mitigates the impact of carbon emissions; but net loss of forests exceeds 7 million hectares per year. Deforestation and degradation of forests pose risks to the climate as well as risks to the ecosystem and the food, water security, and livelihoods of many.

Protecting forests before they are lost or damaged is the best way to realize the mitigation potential from forestry – and is comparatively low-cost. Avoided deforestation can also support adaptation efforts by protecting soil and offering flood defence, while forests also support livelihoods. An estimated 14 million people are employed in the forest sector, and new investments could create even more jobs, further supporting the Fund's livelihood objectives.

The large forest areas in the tropics account for an estimated 65% of mitigation potential in the forest sector, and half of this potential can be realized through avoided deforestation. There are large tracts of intact tropical forest, holding the largest mitigation potential in Latin America (the Amazon) followed by Asia (notably Indonesia) and finally Africa. Commitments have been made by governments under Reducing Emissions from Deforestation and Forest Degradation (REDD+), but the lack of financing for forestry has hampered efforts.

GCF can deliver urgently needed action on forests. It can create new incentives to support the REDD+ commitments, protecting forests through results-based financing that will reduce forest loss and degradation.

3. Scaling Up Finance for Forests and Climate Change

Many Small Island Developing States (SIDS) have their very existence threatened by climate change. Cost-effective adaptation measures can help them avoid up to 90% of potential damage; but, historically, SIDS have had great difficulty in accessing finance for such measures, often because of their small size.

GCF can give SIDS access to climate finance, assisting them to transition to lower emission energy systems while building more climate resilience. In fact, by supporting the move to low-emission energy, the Fund can help SIDS free up budgets for adaptation measures, which are currently taken by expensive conventional energy costs – a win-win situation for mitigation and adaptation.

Adaptation measures are essential to maintain the viability of these islands in the face of devastating climate change. Measures that can be supported by the Fund include coastal protection, stronger freshwater management systems, and infrastructure. The main target of mitigation efforts is low-emission energy generation, but there are also opportunities in energy efficiency of buildings and industry.

4. Enhancing Resilience in Small Island Developing States

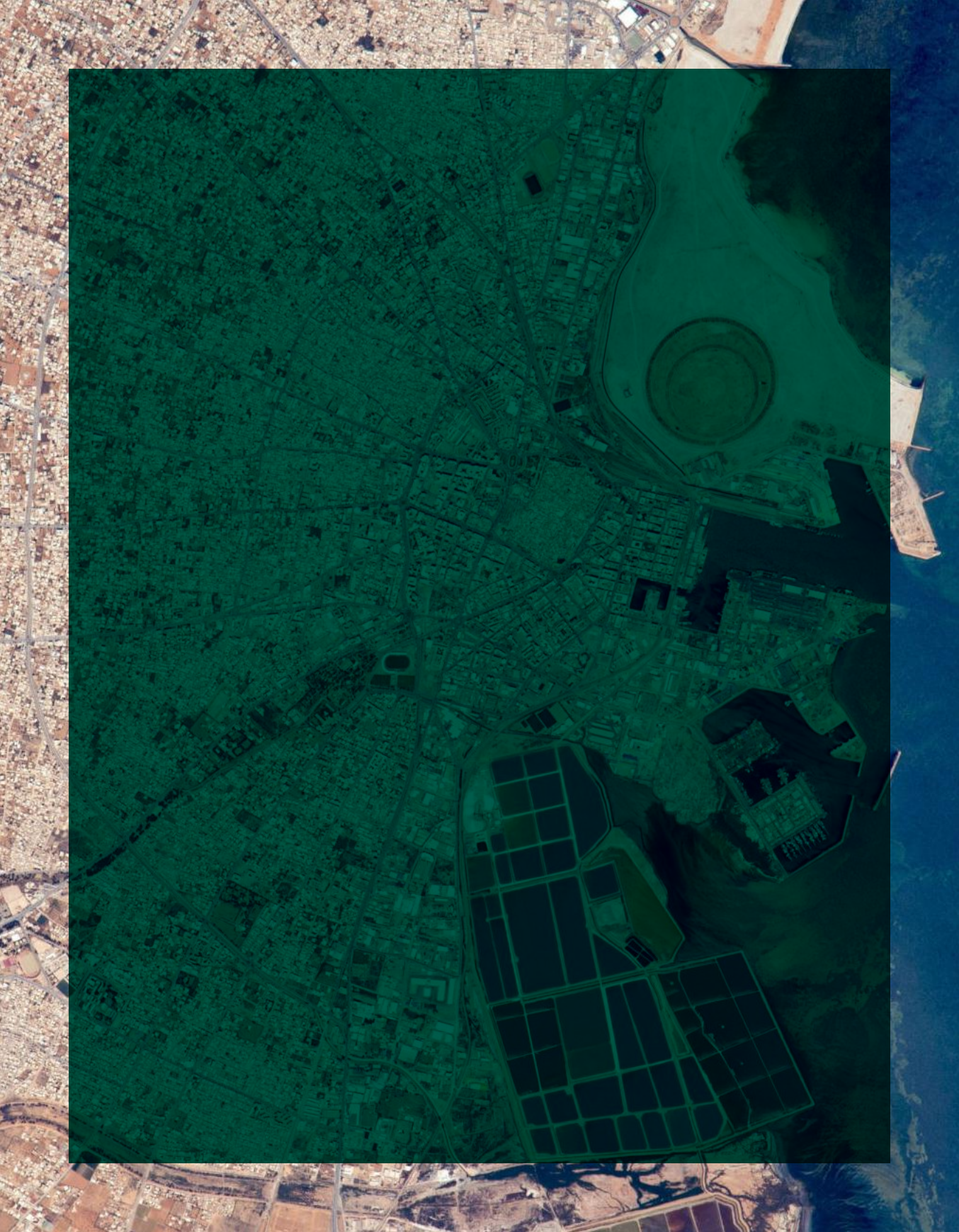
Transitioning to low and zero-emission energy generation is central to climate change mitigation. If we are to keep within the 2 degree Celsius target identified by the IPCC, a rapid and global transformation is needed to accelerate the switch to renewable energy.

This transition is underway, and the Fund's role is to support this radical transformation by scaling up climate finance and deploying solutions on a large scale by making them cost effective.

Investments need to be shifted away from fossil fuels to renewables. Access to energy needs to be extended around the planet; 68% of Africa's population currently lives without access to electricity, and energy demand is rising fast in both Africa and Asia. The Fund's investments can help ensure that growing energy consumption is not driven by fossil fuel use.

GCF can also help to overcome deployment barriers to existing renewables solutions such as solar and wind. While there is much renewable energy technology already on the market, there is scope for the Fund to invest into new technologies related to powering the African continent, such as concentrated solar power. Alongside new technologies, investment in simple solutions, such as cleaner cooking stoves for Africa, can have an enormous climate and social impact, delivered in conjunction with partnerships that can bundle small- and micro-programmes together to channel funding where it is needed. Storage technologies and smarter grid technology are also areas of opportunity, particularly in supporting their integration into renewable energy solutions.

5. Transforming Energy Generation and Access



UNLOCKING CLIMATE INVESTMENTS

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THE PRIVATE SECTOR FACILITY

**GCF is unique
in its ability to
engage with both
the public and
private sector in
transformational
climate-sensitive
investments.**

The Fund needs bold and consistent financial commitments from governments to help achieve a real paradigm shift towards a low-emission, climate-resilient planet. Yet it is also essential to shift an estimated USD 200 trillion of global financial assets towards low-emission and climate-resilient development, unlocking the potential of the private sector to drive change.

While climate change is a collective global challenge, it is also an opportunity for investors to be first movers in catalysing sustainable and profitable economic growth in developing countries. The potential return on investment in climate mitigation and adaptation projects is greater in the developing world than anywhere else.

There are over USD 2 trillion of essential long-term investments in developing countries that are taking place every year, and one of the first challenges is to ensure that these investments promote low emissions and climate resilience.

GCF has set up its Private Sector Facility (PSF) to take on this challenge. The PSF targets international businesses and capital markets. Yet it aims to unleash the potential of local private sectors in developing countries for climate-related activity, including small and medium sized enterprises (SMEs). The aim of PSF is to catalyse clean investments, unleashing the innovation we know the private sector can deliver. The Fund uses public funding to catalyse these funding flows, bringing public and private sources together to maximize their transformative impact.

There will be a significant allocation of funds to the PSF to provide incentives that encourage a paradigm shift to low-carbon development. The PSF will scale up investment in low-emission development and also unlock private sector investments in adaptation, taking into account in each case different country needs and capital availability.

The Fund can act very innovatively to boost private sector involvement in adaptation projects, which until now have suffered from a lack of private capital. There is tremendous potential for private sector investment in this area. There are opportunities in agriculture, forestry, and water management. Projects could include:

- **Diversifying crop and seed varieties**
- **Farming forests and combating deforestation**
- **Extending irrigation and making it efficient**
- **Harvesting rainwater**
- **Diversifying water sources**

The PSF's mandate is to fully engage private sector investors, developers, entrepreneurs, corporations, and small and medium sized enterprises in climate-sensitive and resilient projects throughout the developing world. It aims to mobilize at scale private funding flows from local, regional, and international commercial banks and institutional investors (i.e. insurance companies, pension funds, and private equity funds).

GCF uses debt, equity, or guarantees to tailor financing solutions that support:

- **Diffusion of climate-related technologies into developing countries**
- **Involvement of local financial actors, investors, and SMEs into climate-sensitive projects**
- **Creation of large-scale investment opportunities and the mobilization of capital markets, e.g. by aggregating groups of projects into single investment vehicles**

BUSINESS OPPORTUNITIES

Climate change is a megatrend that is creating new business opportunities and operational risks that need to be addressed.

There are over USD 2 trillion in essential long-term investments taking place in developing countries every year. All of these should be climate-resilient and sensitive to ensure sustainable economic development.

The PSF's unique mandate is to mainstream climate finance and redirect a material portion of the USD 115 trillion of financial assets held by commercial banks towards green projects.

The PSF targets renewable energy, transportation, energy efficiency, agriculture and water efficiency, forestry and land use, waste management, and urban planning.

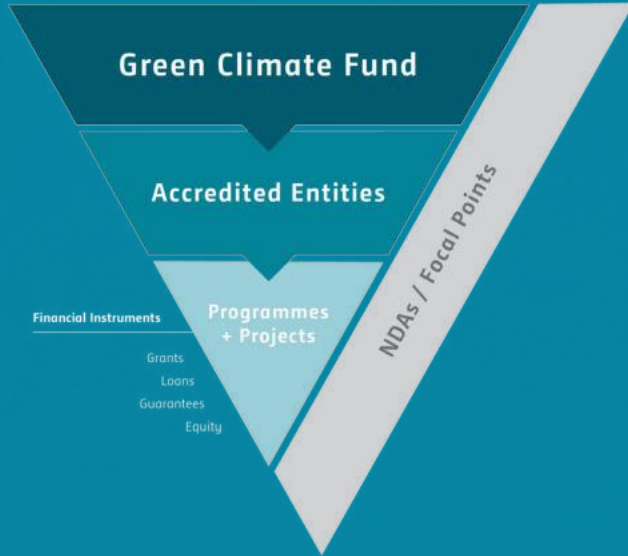




The Green Climate Fund takes innovation as one of its watchwords. From the flexible use of financial instruments to working with developing countries and implementing partners, its working methods are aligned towards one aim: to respond to climate change.

HOW WE WORK

GCF Architecture



FINANCIAL INSTRUMENTS

GCF is able to use a variety of financial instruments including concessional loans, subordinated debt, equity, guarantees, and grants.

These financial tools allow the Fund the flexibility to tailor its support to the project needs of public, private, and nongovernmental entities.

This is particularly useful for those developing countries in which climate action requires the full flexibility of financial instruments and counterpart risk-taking, beyond fiscally constrained central governments.

COUNTRY OWNERSHIP AND NATIONAL DESIGNATED AUTHORITIES

GCF recognizes the need to ensure that developing country partners exercise ownership of climate change funding and integrate it within their own national action plans. The Governing Instrument of the Fund makes clear that it will adopt a country-driven approach and strengthen programme coherence and stakeholder coordination at the national level. That's why developing countries are invited to nominate a National Designated Authority (NDA) who will act as the interface to the Fund. These focal points communicate the country's strategic priorities for financing low-emission and climate-resilient development across its economy. They also provide broad strategic oversight of GCF's activities in a country and serve as the point of communication with the Fund.

Over 140 countries have selected NDAs to play this role. Funding proposals are submitted through these NDAs, ensuring that investments are aligned with local needs and existing climate change planning.

COUNTRY READINESS SUPPORT

It is crucial that developing countries are able to effectively access and deploy resources from the Fund. That is why GCF provides early support for readiness and preparatory activities to enhance country ownership and access. This “country readiness” funding is a dedicated and cross-cutting programme that maximizes the effectiveness of the Fund by empowering developing countries. These readiness and preparatory support activities are not one-off measures, but are part of an ongoing process to strengthen a country’s engagement with the Fund. GCF focuses its readiness support on particularly vulnerable countries, including LDCs, SIDS, and African States - a minimum of 50% of country readiness funding is targeted at supporting these countries.

GETTING PROJECTS DONE: THE ROLE OF ACCREDITED ENTITIES

GCF works with a network of Accredited Entities (AEs) and intermediaries to implement its activities on the ground. These bodies are responsible for deploying the Fund’s resources into climate projects at local, regional, national, and international levels. This is a growing network of well-established, trusted partners working closely with the Fund.

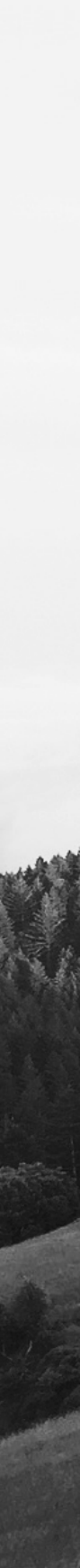
These partners may be international, regional, national, or subnational. They can also be public, private, or non-governmental in nature. The key is their ability to effectively and efficiently deploy funding to support the Fund’s objectives.

GCF ensures this through a rigorous accreditation system. Applications are made via an online accreditation system and are then reviewed by a panel on an ongoing basis.

Recipient countries are allowed direct access through accredited sub-national, national, and regional entities they propose and set up, as long as such these entities fulfil certain fiduciary standards.

AEs have a responsibility to:

- Develop and submit funding proposals for projects and programmes;
- Oversee management and implementation of projects and programmes; and
- Deploy a range of financial instruments within their respective capacities (grants, concessional loans, equity, and guarantees).



FUNDING PROPOSALS

Proposals can come from a variety of sponsors within a country, including public, private, and not-for-profit entities. Proposal sponsors work with an AE to develop proposals.

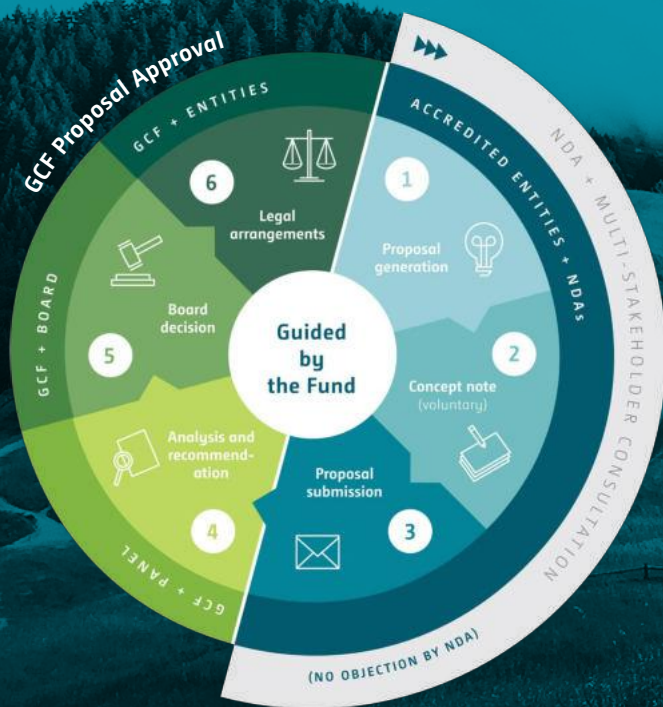
The AE then carries out a funding proposal appraisal to assess the entire project's or programme's viability, assessing a variety of considerations including climate change, environmental, social, gender, economic, and financial factors.

The objective of the assessment is to ensure alignment with the Fund's criteria for funding, as specified for different activity areas.

Following the initial proposal approval process, a two-step process is followed – the first being an analysis and recommendation from GCF Headquarters, followed by a Board decision as to whether to approve the proposal.

Proposals must contribute towards at least one of the Fund's eight thematic results areas (**page 17**).

GCF is committed to balancing its allocation of resources between mitigation and adaptation over time.



NOTES



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