

April 26, 2012

**THE GREEN CLIMATE FUND
UNDER THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE (UNFCCC):
REQUEST TO THE WORLD BANK TO ACT AS INTERIM TRUSTEE**

I. Introduction

1. The Conference of the Parties to the UNFCCC (COP) has invited the World Bank to serve as interim trustee for a new Green Climate Fund (GCF), a potentially large and important fund established by the COP to promote a “paradigm shift” and channel a significant share of future multilateral climate change finance. This document i) provides information to the Executive Directors on the COP’s invitation, ii) describes issues raised by the proposed Bank role as interim trustee, and iii) seeks approval on the Bank’s proposed approach and arrangements to serve as interim trustee.

2. Management believes it is important to respond positively to the COP’s invitation to serve as *interim trustee*, while recognizing that the broader design of the GCF would be driven by a political process over which the Bank has limited influence. The overall goals of the GCF are fully consistent with the Bank’s broader climate change agenda and reach, and the Bank has a strong interest in ensuring that the GCF meets its core objective of combating climate change.

3. The Bank has much to offer as interim trustee by lending its financial platform to the GCF, including its experience with financial management of global trust funds. By engaging promptly as interim trustee, the Bank can play a critical role in facilitating an early and effective start to the GCF, and can build goodwill among stakeholders through signaling Bank support to an important international initiative focused on a preeminent global public good. It should be noted that there would be repercussions if the Bank decided not to accept the invitation; establishment of the GCF would be delayed, the COP would need to select an alternative interim trustee, and the Bank could be perceived as undermining the efforts of the COP to make the GCF operational.

4. Overall, Management believes that the GCF interim trustee role offers an opportunity for constructive engagement by the Bank in an important new global climate change initiative, building on the Bank’s proactive role in the Climate Investment Funds (CIFs) and support to the Global Environment Facility (GEF); that risks associated with the interim trustee engagement can be managed; and that a prompt response is warranted.

5. It is proposed that the Bank respond to the COP’s invitation to serve as interim trustee by establishing a trust fund (Financial Intermediary Fund) at the Bank. A single, multi-purpose

Financial Intermediary Fund (FIF)¹ structure would provide a cost-effective, flexible mechanism for funding to support both the immediate and medium-term needs of the GCF. With respect to the Bank's future engagement with the GCF, the Bank expects to seek accreditation as an implementing entity of the GCF and, if so accredited by the GCF Board, to work with its client countries to access GCF resources. The Bank can add significant value as an implementing entity, drawing on its operational and technical expertise in project design and implementation and its experience in financing climate change activities. A decision on engagement in this capacity, however, is not requested at this time. Once the GCF Board agrees on the process of accrediting implementing entities, management will return to the Board with specifics if and when the Bank seeks to become an implementing entity.

6. As interim trustee, the Bank would enter into agreements with contributors to receive contributions into the FIF, hold and invest them, and transfer them for expenditures approved by the GCF Board. In a first phase, the FIF would facilitate transfers to cover the administrative costs of the GCF's interim governance structure (interim secretariat, Board and trustee). This will be Phase I of the interim trustee engagement. In a second phase, the FIF could facilitate the transfer of funds to support GCF-financed projects/programs, as needed (Phase II of the interim trustee engagement), once the GCF Board has approved projects/programs for funding and implementing entities have been accredited. During Phase II, it is expected that the GCF would be endowed with legal personality, and the necessary legal arrangements would be concluded between the Bank and GCF.

7. The term of the Bank's interim trustee engagement is expected to be three years from the operationalization of the GCF which may comprise both phases. It is worth noting that there is uncertainty around the trigger for "operationalization" as well as conclusion of the mandate, reflecting the negotiated nature of the COP decision. The decision "invites the [GCF] Board to select the trustee...through an open, transparent and competitive bidding process in a timely manner"² and states that "The World Bank will serve as interim trustee for the Fund, subject to review three years after operationalization of the Fund".³ Furthermore, the decision states that the GCF Board is to complete this process in a timely manner, to ensure there is no discontinuity in trustee services. It is therefore expected that, before the end of the Bank's interim trustee mandate, a permanent trustee will be selected by the GCF Board. It should be clarified that the Bank will determine at the appropriate time whether to compete for the permanent trustee mandate, and it will then seek approval from the Executive Directors to do so.

II. Strategic Context and Rationale

A. Sector Context

8. Addressing climate change is a preeminent global public good issue and a key pillar of the Bank's overall strategic directions. The World Bank Group's (WBG) Strategic Framework

¹ Financial Intermediary Funds (FIFs) are financial arrangements that typically mobilize a variety of public and private resources for global initiatives/partnership programs, and deliver these resources to recipients in the public and private sectors through a variety of channels. Additional background on FIFs and some of the strategic issues associated with the Bank's engagement in FIFs was provided in *Financial Intermediary Funds: An Information Note*, distributed to the Executive Directors in May 2011 (SecM2-011-0294, May 17, 2011).

² See para 16 of the COP Decision 3/CP.17, *Launching the Green Climate Fund* attached to this paper. The document includes a main section and, as an Annex, the Governing Instrument for the Green Climate Fund.

³ *ibid*, Annex, para 26.

for Development and Climate Change⁴ serves to guide and support the operational response of the WBG to new development challenges posed by global climate change. Unabated, climate change threatens to reverse hard-earned development gains. The poorest countries and communities will suffer the earliest and the most.

9. The WBG recognizes the very complex political process toward long-term cooperative action within the UNFCCC. Climate change demands unprecedented global cooperation involving concerted action by countries at different development stages supported by “measurable, reportable and verifiable” transfer of finance and technology from developed to developing countries. Trust of developing countries in the supporting institutions is critical for such cooperation to succeed.

10. The WBG strives to maintain the effectiveness of its core mission of supporting growth and overcoming poverty while recognizing added costs and risks of climate change and an evolving global climate policy. The WBG’s top priority in this context is to build collaborative relations with developing-country partners and provide them with customized, demand-driven support through its various instruments – from financing to technical assistance to policy dialogue. It is giving considerable attention to strengthening resilience of economies and communities to increasing climate risks and adaptation. Its economic work and research examines climate-related issues at the country and global level, through many different lenses.

11. The Strategic Framework also provides guidance on what the WBG can do to facilitate global progress on climate change. While the WBG’s operations are in developing countries, a solution must be global. Recognizing the primacy of the UNFCCC and its principle of common but differentiated responsibilities, the WBG is working in partnership with the many international, regional, national, and local actors to increase its leverage and impact.

12. The COP decision to establish the GCF represents a major international initiative in this area. It is important to respond constructively to requests from the international community to address climate change and finance climate change activities, building on the Bank Group’s engagement with its clients in providing finance and policy guidance to address climate change and its current role in providing climate financing through such FIFs as the CIFs and the GEF.

B. Context for the Bank’s engagement as interim trustee

13. By engaging as interim trustee, the Bank can play a critical role in facilitating an early and effective start to the GCF, and signaling support to an important international initiative focused on a preeminent global public good. The Bank has much to offer as interim trustee by lending its financial platform to the GCF, including its experience with accounting and financial reporting gained through the provision of trustee services to some 20 FIFs (including CIFs, GEF, Adaptation Fund).

14. In view of the urgent need to combat climate change, the important role that the GCF can play in this context, and the support that the Bank can provide - as interim trustee - with the start-up of the GCF, the Bank needs to respond quickly. The date of the first GCF Board meeting is targeted for late April 2012 (members of the board are to be appointed by March 30), and financial support for the interim secretariat and GCF Board is needed. The interim trustee arrangement will enable interested donors to contribute to the administrative costs of the GCF Board and its Secretariat, both during the period of support to the interim secretariat provided by

⁴ DC2008-009, September 30, 2008.

the UNFCCC and GEF Secretariats, and upon establishment of the permanent independent secretariat. The short duration of the interim trusteeship further underscores the need for a prompt response from the Bank, absent which, the Bank could be viewed as seeking to delay the operationalization of the GCF.

III. Description of the Green Climate Fund

A. Purpose of the GCF

15. The purpose of the GCF is 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, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change.”⁵ Under the Cancun agreements that were adopted at the sixteenth meeting of the Conference of the Parties to the UNFCCC (COP), the Parties decided to establish the GCF, with arrangements to be concluded between the COP and the GCF to ensure that the GCF is accountable to, and functions under, the guidance of the COP. Further, the COP decided that a significant share of new multilateral funding for adaptation should flow through the GCF. The COP decisions describe the GCF as having a key role in channeling new, additional, adequate and predictable financial resources to developing countries. Finally, the GCF is to have “juridical personality” and “legal capacity”.⁶

B. Governance Structure and Operations

16. The Parties decided that the GCF would be governed by a Board of 24 members comprising an equal number of members from developing and developed country Parties. They decided that the GCF would have an independent, permanent secretariat. Finally, the COP decision noted that “the GCF shall have a trustee; the trustee for the GCF shall have the administrative competence to manage the financial assets of the GCF, maintain appropriate financial records and prepare financial statements and other reports required by the GCF Board, in accordance with internationally accepted fiduciary standards”,⁷ and invited the World Bank to serve as the interim trustee for the GCF. The interim trusteeship will be subject to a review three years after “operationalization”⁸ of the Fund. Prior to the end of the three year period, the GCF Board is to select a permanent trustee of the GCF through an “open, transparent and competitive bidding process” in a timely manner, to ensure there is no discontinuity in trustee services.⁹ The interim will be distinct from the permanent trustee (see Box 1).

17. Until a host country is identified and the permanent secretariat is established, an interim secretariat will operate as an “autonomous unit” within the UNFCCC secretariat premises in Bonn, Germany. The COP requested the UNFCCC Secretariat, jointly with the GEF Secretariat, to take the necessary administrative steps to set up the interim secretariat and decided that these interim arrangements are to expire no later than the end of December 2013.¹⁰ The GCF Board is

⁵ *Green Climate Fund – Report of the Transitional Committee*, Draft decision - /CP.17, Annex 2a.

⁶ Interpreted by the Bank as having the ability to contract, and to sue and be sued.

⁷ COP Decision 1/CP.16, paras 102,108.

⁸ COP Decision 3/CP.17, Annex para 26. “Operationalization” is not precisely defined, however if deemed to be the date of the Durban COP decision, the review would take place before the end of 2014.

⁹ COP Decision 3/CP.17, para 16.

¹⁰ The Report of the GCF Transitional Committee containing the draft Governing Instrument (FCCC/CP/2011/6) did not mention a role for the GEF Secretariat; this role was added during the negotiations among Parties at COP17 in Durban.

to appoint the head of the interim secretariat, and the interim secretariat is to be fully accountable to the Board and is to function under its guidance and authority.

Box 1: The Interim Trustee as distinct from the Permanent Trustee

The role of the Bank in the GCF would be, in the first instance, as interim trustee. A permanent trustee will be selected by the GCF Board at a later date. The Governing Instrument for the Green Climate Fund (the Fund) states, in paras 24-27:

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

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

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

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

18. Once established, the fully independent, permanent secretariat will service, and be accountable to, the GCF Board, and will execute the day-to-day operations of the Fund. It will be headed by an Executive Director who will be appointed by and be accountable to the GCF Board. The functions of the secretariat, in addition to all administrative, operational, monitoring and reporting functions, are to include preparation of financial agreements related to the specific financing instruments to be concluded with implementing entities, monitoring the financial risks of the outstanding portfolio, and supporting the Board in arranging replenishment processes. The role of the fully independent secretariat as described in the COP decision is a substantial one.¹¹

C. Access/disbursement modalities

19. All developing country Parties to the Convention will be eligible for funding.¹² The GCF will initially have funding windows to support both climate change adaptation and mitigation. Access to fund resources will be through sub-national, national, regional and international implementing entities accredited by the GCF Board. Recipient countries are to determine the mode of access and all modalities can be used simultaneously.

20. Recipient countries may access funds “directly”, meaning that funds will flow through sub-national, national and regional implementing entities nominated by a recipient country and accredited by the GCF Board to receive funding, as well as through “international” entities, meaning that funds will flow through accredited international entities, expected to include United Nations agencies, multilateral development banks, international financial institutions and regional institutions. The GCF Board is to develop, manage and oversee an *accreditation process* for all implementing entities based on specific criteria reflecting the Fund’s fiduciary principles and standards and environmental and social safeguards.

¹¹ COP Decision 3/CP.17, Annex para 23.

¹² This includes countries that are not members of the Bank.

D. Fiduciary standards

21. The COP decision states that the GCF Board will agree on, adopt, and ensure the application of best practice fiduciary principles and standards to the Fund's entities, the trustee's function related to the Fund, and to all operations, projects/programs financed by the Fund, including the implementing entities.¹³

E. Funding

22. The COP decision provides few details on the source of GCF funding, other than "The Fund will receive financial inputs from developed country Parties to the Convention" and "The Fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources."¹⁴ The COP decided at its Sixteenth session that a significant share of new multilateral funding for climate change adaptation should flow through the GCF¹⁵. Developed country parties to the UNFCCC have committed, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries. This funding is expected to come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.

IV. Approach to the Proposed Interim Trustee Engagement

23. To respond to the interim trustee request, it is proposed that the Bank establish a FIF trust fund. In this context, a single, FIF structure would provide a cost-effective, flexible mechanism for funding to support both immediate and medium-term needs of the GCF.¹⁶

A. Phased Approach

24. The COP decision states that the Board of the GCF will enter into legal and administrative arrangements with the trustee.¹⁷ However, until such time as the GCF obtains juridical personality, it will be necessary for the Bank as interim trustee to enter into agreements directly with GCF contributors to carry out its mandate, in a phased approach, as further described below. There will be two distinct phases for the Bank's involvement as interim trustee:

25. **Phase I:** In the first phase, the FIF would facilitate cash transfers to cover the administrative costs of the GCF's interim governance structure. In this phase, the Bank, as interim trustee, would enter into agreements directly with GCF contributors to receive contributions into the FIF, hold and invest them, and make cash transfers to cover the

¹³ COP Decision 3/CP.17, Annex para 63.

¹⁴ COP Decision 3/CP.17, Annex paras 29, 30.

¹⁵ COP Decision 1/CP.16, para 100.

¹⁶ Two alternatives to this approach were considered, but rejected: One, to await the establishment of the GCF Board and instructions from the Board prior to proceeding with establishment of a trust fund; however, this would not allow for facilitation of financial support to setting up of the GCF's interim governance structure. Two, to establish an administrative (Bank-executed) trust fund within the GEF Secretariat that could be used to fund GEF Secretariat's support to the GCF interim secretariat costs; however, this would be less efficient and contribute to further trust fund proliferation. Funding UNFCCC Secretariat expenses would be cumbersome under this approach.

¹⁷ COP Decision 3/CP.17, Annex para 18.

administrative costs approved by the GCF Board of the interim secretariat, Board and interim trustee. The contribution agreements are expected to provide authority to the interim trustee to make funds available to the GEF and UNFCCC Secretariats, and to the Bank as interim trustee, based on the allocation of funds approved by the GCF Board.

26. **Phase II (beginning with GCF providing finance to support operations, to end of interim trustee mandate):** In the second phase, the FIF would facilitate cash transfers to GCF-financed projects/programs. This phase would commence only after the GCF Board has established the operational policies and procedures described above (and detailed in the Governing Instrument), including the approval of funding for projects/programs and the accreditation of implementing entities based on criteria that reflect the GCF's fiduciary principles and standards and environmental and social safeguards. During this phase, it is expected that the GCF would be endowed with juridical personality, and the necessary legal arrangements for the Bank's role as interim trustee would be concluded between the Bank and GCF once the GCF has juridical personality and the capacity to enter into legal agreements. This can only occur after the host country has been selected (COP decision establishes a target of end-2012 to select the host country and the host country takes the necessary steps to provide juridical personality to the GCF in conformity with its national laws).

27. Initially under Phase II, and until such time as the GCF has been endowed with legal personality, the interim trustee may be asked to make transfers, following the approval of the GCF Board, to accredited implementing entities, mainly for technical assistance and other 'readiness' activities in countries expecting to receive GCF funding for larger projects/programs. To enable such transfers, it is expected that the Bank, as interim trustee, would enter into transfer agreements with accredited implementing entities; these agreements would establish the procedures for funds transfers to the accredited implementing entities and for the administration of the funds by such entities. The contribution agreements and transfer agreements would provide that the Bank would not have any responsibility for the use of the funds once transferred. The oversight and fiduciary responsibility would rest with the accredited implementing entities and they would be accountable to contributors and the GCF Board for the use of GCF funds disbursed to recipients.¹⁸

28. Once the GCF has been endowed with legal personality, it is expected it would enter into direct agreements with accredited implementing entities. The Bank, as interim trustee, would make cash transfers to such entities at the instruction of the GCF (Secretariat or Board acting on its behalf), similar to the arrangement between the Bank and the Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund"). Under this arrangement, the Bank would *not* enter into agreements with the implementing entities. The implementing entities would be directly responsible to the GCF, with juridical personality, for the use of funds.

29. Under none of the above arrangements would the Bank, as interim trustee, have any responsibility or accountability for the use of the funds after they are transferred by the Bank to the accredited implementing entities. The Bank would not expect to be involved in any action seeking to enforce the return of any misused funds from implementing entities; this will be specified in the agreements the Bank enters into with contributors, implementing entities and the GCF.

¹⁸ This structure is consistent with the GEF's direct access pilot, now under development. The GEF's implementing/executing agencies have traditionally been international agencies; however, under the GEF's recently approved direct access pilot sub-national and national implementing agencies may be included.

30. It is expected that initial contributions to the trust fund (FIF) will be made by interested contributors to fund the administrative costs of the interim secretariat, GCF Board, and interim trustee, as well as the operational uses described during Phase II.¹⁹ These contributions could be subsequently used to fund costs of the permanent secretariat or other purposes as determined by the GCF Board if, after that date, the legal agreement with GCF itself has been concluded. It is expected that any undisbursed funds remaining at the time that the GCF is endowed with legal personality would be made available for allocation by the GCF Board, subject to the terms of the contribution agreements.

31. The FIF structure proposed above offers a flexible, cost-effective mechanism that allows the Bank to help facilitate the operationalization of the GCF and its Board. It would enable the Bank to provide an entry vehicle for contributions, while steps are being undertaken to formally establish a legal entity and detailed operational policies and procedures.

32. Details of the services to be provided by the interim trustee will need to be discussed with the GCF Board (once it is constituted). It is expected that the services provided by the Bank as interim trustee will include: contributions management, investment management, commitment recording and cash transfers, accounting, and financial reporting (see Box 2). Roles and responsibilities of the various Bank departments involved will also be established.

33. **Cost recovery:** Consistent with the Bank policy to recover its full costs for FIF trustee services, the Bank will require that it be fully reimbursed for costs incurred in the provision of interim trustee services, including risk management and communications, in accordance with FIF customized fee arrangements. Costs would be recovered from contributions to the FIF, subject to end-of-year adjustments. Costs of approximately USD 1 million (including the Bank's start-up costs) are estimated up to end-June 2013.

Box 2. Interim Trustee Services

The following describes the broad set of 'trustee' services provided by the Bank for FIFs; these are typically customized based on the particular needs of each FIF and would be defined further as the requirements of the GCF become clearer:

- **Contributions management:** facilitating financial contributions to the trust fund; converting currency of inflows as required.
- **Investment management:** investing funds based on an investment strategy; and allocating investment income to the trust fund.
- **Commitment recording and cash transfers:** financial commitments made against the trust fund are recorded in the Bank's finance and accounting systems. Cash transfers are then made in accordance with the FIF legal arrangements. The Bank provides the financial controls over the resources while they are held in the trust fund(s).
- **Accounting and financial reporting:** The Bank maintains accounting records and financial data on the trust fund(s); provides financial reports; prepares annual financial statements of the trust fund and has them audited; and monitors the quality and consistency of financial reporting. As in other FIFs, the Bank, as (interim) trustee, has no role in reporting on the operational aspects or on use of funds by the implementing or other entities to which the cash is transferred by the Bank.

¹⁹ The COP decided the interim arrangements for the GCF Secretariat would expire at the end of 2013, but that the Bank serve as interim trustee "subject to a review three years after operationalization of the Fund."

B. Other Considerations

34. ***Transfers to non-members of the Bank:*** It is possible that some countries that are Parties to the UNFCCC but are not members of the Bank will be eligible to receive resources from the GCF. Of the 195 Parties to the UNFCCC, 188 are Bank members and seven are non-members.²⁰ The Bank as interim trustee may therefore be required to make transfers of GCF resources for projects/programs in countries that are not Bank members. The Bank may, in exceptional cases, provide assistance to non-members if there is a determination by the Executive Directors that the proposed activities would benefit the Bank's members.²¹ In this case, Management believes that activities of the Bank, as interim trustee for the GCF, would be for the general benefit of the members of the Bank, given the role of the GCF as a global means to combat climate change.

V. Risks and Mitigation Measures

35. The Bank as interim trustee of the GCF would not have a role in the governance, design and operations of the GCF. Nevertheless the Bank, by association with the GCF as its interim trustee, could be exposed to potential risk, particularly during the second phase of the interim trustee engagement. The main sources of risk to the Bank as interim trustee, and how they will be managed, are outlined below. Key elements of risk management will include ensuring clarity on the Bank's roles and responsibilities, dealing with expectations, and a continuous communication strategy that can anticipate risks and adjust proactively to future developments.

A. Uncertainty around the GCF's governance and operational details and financing plan

36. The Bank will discharge its interim trustee mandate drawing on its knowledge and expertise in this area and based on sound financial management principles applicable to trusteeship practice. Nevertheless, there is a potential for risk arising from the Bank's association with a Fund for which the governance, operational and financing arrangements have yet to be established. The Bank could be perceived as being responsible for delays associated with the accreditation process; there could also be perceptions that the process was somehow a Bank requirement. Such risk will be managed by clearly defining the Bank's roles and responsibilities as interim trustee, and by communicating to the various stakeholders and the public at large that, as interim trustee, the Bank has no responsibility or accountability for the GCF's governance, policies, operation or fundraising. The Bank will carry out, and make public, a review of the effectiveness of its interim trustee engagement, according to the performance indicators identified (see Annex 1). Exit provisions will be included in legal arrangements. These will include a sunset clause provision establishing that the interim trustee mandate of the Bank would expire automatically three years after the establishment of the FIF, unless otherwise agreed between the

²⁰ Cook Islands, Cuba, Democratic People's Republic of Korea, Liechtenstein, Monaco, Nauru, Niue. The European Union is also a Party to the Protocol.

²¹ There are several precedents where the Bank has administered trust funds that provide assistance to non-members in cases where the Executive Directors have determined that such assistance benefits the membership of the Bank as a whole (See Legal memorandum by the Acting Vice President and General Counsel, entitled "World Bank Assistance to East Timor," SecM99-666, September 30, 1999). The precedents include the Bank's support to the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Adaptation Fund under the Kyoto Protocol to the UNFCCC. (See, e.g. "The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) Progress to Date and Proposal on the Trustee Role for the World Bank," R2002-009, May 21, 2002).

GCF and the Bank. Approval of Executive Directors would be sought for any extension of the mandate at that time.

B. Potential multiple roles

37. The COP decision included a request that the GEF Secretariat work jointly with the UNFCCC Secretariat to establish the interim secretariat of the GCF at the UNFCCC premises in Germany, and this work has begun. While the role for GEF Secretariat is a temporary one - and it is a functionally independent unit of the Bank - this distinction may not be easily drawn outside the Bank. The GEF Secretariat's involvement could be perceived as an additional linkage of the Bank (beyond the interim trustee role) to the GCF, creating scope for confusion around the Bank's role in the GCF. Potential perceptions of conflict will be handled by clearly communicating to stakeholders and the public the genesis of the GEF Secretariat's involvement with the GCF and the intended limited scope of its support in establishing the GCF's interim secretariat,²² and by clarifying that the GCF's interim secretariat will be an autonomous unit outside the Bank.

38. If, in the future, the Bank were to serve as an accredited implementing entity, this also could generate perceptions of conflict of interest with the interim trustee role. A clear separation of functions within the Bank, and the fact that, as interim trustee, the Bank has no role in funding allocation, commitment and cash transfer decisions (these are made by the independent GCF Board), or in the supervision of GCF funds, would largely mitigate any real conflicts of interest. The Bank's trustee services are provided by the Concessional Finance and Partnerships Vice-Presidency, with support from Legal, Controllers, Treasury and other central units. The Bank's role as potential international implementing entity would be played by Regional or Network Vice-Presidencies. In advance of the Bank's becoming an accredited implementing entity, we will clearly communicate to stakeholders and the public these distinctions in order to minimize the potential for perceived conflicts of interest.

39. Potential perceptions of conflict will be reduced as much as possible by clearly defining responsibilities, through legal arrangements, and by the clear communication to stakeholders and the public of the Bank's roles described above. As noted earlier, this will require close collaboration with EXT, significant resources, and a coordinated effort across the Bank Group to execute effectively and to ensure accurate messaging on the Bank's GCF engagement. This messaging will be coordinated with the Bank's broader strategy on climate change, already considered and approved by the Executive Directors.

C. Direct Access

40. The GCF design includes a provision for "direct access", wherein the interim trustee may be required to transfer resources to sub-national, national and regional implementing entities accredited by the GCF Board, under two modalities:

- (i) *Prior to the GCF having legal personality*, the interim trustee may need to transfer resources to accredited sub-national, national or regional implementing entities, under transfer agreements between the Bank and such entities, which would bear full responsibility for the use of GCF funds. It is expected that these transfers would be mainly for technical assistance and other 'readiness' activities in countries expecting to receive GCF funding for larger projects/programs.

²² COP Decision 3/CP.17, para 18.

- (ii) *Once the GCF has legal personality*, it is anticipated that the GCF itself would enter into the funding agreements with sub-national, national and regional implementing entities. The interim trustee would then need to transfer funds to such entities on instructions provided under the authority of the GCF itself, which would be responsible for the use of funds.

41. In principle, the direct access provision permits a desired level of autonomy to developing countries to make use of GCF funds in the way they see most critical to their own needs. However, in practice, direct access poses some risks for the Bank, as interim trustee. Even though the Bank, as interim trustee, would not be responsible or accountable for the end use of GCF resources, its reputation could suffer if the funds so transferred were misused. The Bank's experience with other FIF trusteeships suggests that such risk arises largely from misplaced perceptions or expectations among stakeholders or the public at large that the Bank, as trustee, is somehow responsible for the use of funds.

42. Potential risk associated with the use of funds transferred under the direct access route would be reduced once the GCF has legal personality with a right of recourse, as it is expected that the Bank would then not be a party to any agreements with the implementing entities. A robust accreditation process for implementing entities (as required by the COP) will also help mitigate such risk. Furthermore, the Bank will ensure that the legal agreements clearly specify that, as interim trustee, the Bank is not responsible or accountable for the use of the funds it transfers²³, and that this is clearly communicated. The legal arrangements would include clear exit provisions for the Bank.

43. The approach to direct access described in the GCF Governing Instrument has already been employed in the Adaptation Fund. It is expected that the GCF Board in designing its procedures will be informed by the Adaptation Fund's experience as well as by the experience of the Global Fund and the GEF's direct access pilot, now under development.

VI. Conclusion and Next Steps

44. While recognizing that the broader design of the GCF would be driven by a process over which the Bank has limited influence, it is important that the Bank respond positively to the COP's invitation to serve as interim trustee. The Bank has a strong interest in ensuring that the GCF meets its core objectives. The interim trustee role offers an opportunity for the Bank to provide its knowledge and expertise in trusteeship financial management by lending its trustee financial platform to the GCF.

45. Management's proposed approach is to proceed with the interim trustee engagement by establishing a single, multi-purpose FIF structure that would provide a cost-effective, flexible mechanism for funding to support both immediate and medium-term needs. The FIF would initially, in a first phase, facilitate transfers to cover the administrative costs of setting up the

²³ Contribution agreements between the Bank and contributors will clearly state that the Bank has no responsibility for use of funds once transferred by the Bank to implementing entities. Transfer agreements between the Bank and implementing entities will clearly state that the implementing entities are accountable to the GCF, and that the Bank has no responsibility for use of funds once transferred at the request of the GCF Board. The GCF will be expected to enter into an arrangement with the implementing entities governing the use of funds transferred by the trustee. This arrangement could take the form of a Memorandum of Understanding until such time as the GCF has juridical personality, at which point the GCF would enter into a contract or other legally binding agreement.

GCF's interim governance structure. In a second phase, the FIF could facilitate the transfer of funds for GCF-financed projects/ programs.

46. Potential risks associated with the interim trustee engagement will be addressed by clearly delineating the Bank's roles and responsibilities, based on sound financial management principles, and putting in place a continuous communication strategy that can anticipate risks and adjust proactively to future developments. Additionally, to reduce potential risks associated with transfers for GCF-financed projects/programs (under the second phase), such transfers will be made only after the GCF Board has approved projects/programs for funding and accredited implementing entities based on appropriate criteria that reflect the GCF's fiduciary principles and standards and environmental and social safeguards.

47. The Executive Directors will be kept informed of the arrangements between the Bank and GCF as the interim trustee role evolves, the interim trustee is required to make transfers for GCF-financed projects/programs, and the Bank negotiates the terms of the arrangement with the GCF, when the latter has legal capacity. The Executive Directors will also be asked to approve any eventual proposal for the Bank to act as implementing entity for the GCF, and as permanent trustee, if and when the Bank seeks to engage in these roles.

Annexes:

1. Performance Indicators
2. COP Decision 3/CP.17 Launching the Green Climate Fund

Annex 1: Performance indicators for the Bank’s interim trustee engagement

The performance of the Bank as interim trustee will be reviewed by the GCF Board within three years, prior to the selection of the permanent trustee. Additionally, performance in the provision of interim trustee services will be assessed by the Bank according to the criteria relevant to the specific functions of the Bank as interim trustee. Some potential criteria and indicators, which will be further specified upon discussion with the GCF Board, could include:

- i. ***Financial and program management:***
 - GCF trust fund established as a Financial Intermediary Fund in a timely manner
 - contributions processed accurately and efficiently into the GCF trust fund
 - procedures established for recording GCF Board allocations and commitments in a timely and efficient manner
 - cash transfers made from GCF trust fund in accordance with GCF Board and contributors’ instructions and guidance

- ii. ***Investment management:***
 - undisbursed balances invested according to Bank policies and procedures for investment management
 - investment returns consistent with benchmarks reflecting the disbursement and risk profile of the GCF trust fund

- iii. ***Accounting and reporting:***
 - appropriate records and accounts maintained for contributions and other receipts and GCF trust fund liabilities
 - annual audit and financial reports prepared

- iv. ***Legal services:***
 - Quality and timeliness of contribution and other arrangements prepared for contributors
 - Quality and timeliness of agreement between the interim trustee and GCF Board

- v. ***Cost effectiveness:***
 - Costs contained and competitive with others²⁴

²⁴ While there are few comparators for global FIF trustee services, costs may be compared with services provided by the Bank to other FIFs.

Decision 3/CP.17

Launching the Green Climate Fund

The Conference of the Parties,

Recalling decision 1/CP.16,

1. *Welcomes* the report of the Transitional Committee (FCCC/CP/2011/6 and Add.1), taking note with appreciation of the work of the Transitional Committee in responding to its mandate given in decision 1/CP.16, paragraph 109;
2. *Approves* the governing instrument for the Green Climate Fund annexed to this decision;
3. *Decides* to designate the Green Climate Fund as an operating entity of the financial mechanism of the Convention, in accordance with Article 11 of the Convention, with arrangements to be concluded between the Conference of the Parties and the Fund at the eighteenth session of the Conference of the Parties to ensure that it is accountable to and functions under the guidance of the Conference of the Parties to support projects, programmes, policies and other activities in developing country Parties;
4. *Notes* that the Green Climate Fund will be guided by the principles and provisions of the Convention;
5. *Decides* to provide guidance to the Board of the Green Climate Fund, including on matters related to policies, programme priorities and eligibility criteria and matters related thereto, taking into account the Board's annual reports to the Conference of the Parties on its activities;
6. *Requests* the Board to operationalize the Fund in an expedited manner;
7. *Also requests* the Board to develop a transparent no-objection procedure to be conducted through national designated authorities referred to in paragraph 46 of the governing instrument annexed to this decision, in order to ensure consistency with national climate strategies and plans and a country driven approach and to provide for effective direct and indirect public and private sector financing by the Green Climate Fund. Further requests the Board to determine this procedure prior to approval of funding proposals by the Fund;
8. *Requests* the Board to balance the allocation of the Green Climate Fund resources between adaptation and mitigation activities;
9. *Stresses* the need to secure funding for the Green Climate Fund, taking into account paragraphs 29 and 30 of the governing instrument, to facilitate its expeditious operationalization, and requests the Board to establish the necessary policies and procedures, which will enable an early and adequate replenishment process;
10. *Invites* Parties, through their regional groupings and constituencies, to submit their nominations for the members of the Board to the interim secretariat by 31 March 2012, in accordance with paragraph 11 of the governing instrument for the Green Climate Fund, with the 12 seats for developing country Parties to be distributed as follows:
 - (a) Three members and alternate members from the Asia-Pacific States;
 - (b) Three members and alternate members from the African States;
 - (c) Three members and alternate members from the Latin American and the Caribbean States;

- (d) One member and alternate member from small island developing States;
 - (e) One member and alternate member from least developed country Parties;
 - (f) One member from developing country Parties not included in the regional groups and constituencies above and one alternate member to rotate between developing country Parties included in the groups and constituencies listed above;
11. *Decides* that the Green Climate Fund be conferred juridical personality and legal capacity and shall enjoy such privileges and immunities related to the discharge and fulfilment of its functions, in accordance with paragraphs 7 and 8 of the governing instrument;
12. *Invites* Parties, in line with the objectives set forth in paragraph 12 above, to submit to the Board expressions of interest for hosting the Green Climate Fund by 15 April 2012, based on the following criteria:
- (a) The ability to confer and/or recognize juridical personality and legal capacity to the Fund for the protection of its interests and the exercise of its functions, to give effect to paragraphs 7 and 8 of the governing instrument, including but not limited to the ability to contract, acquire and dispose of immovable and movable property, and to institute legal proceedings;
 - (b) The ability to provide privileges and immunities to the Fund as are necessary for the fulfilment of its purposes, and to the officials of the Fund as are necessary for the independent exercise of their official functions in connection with the Fund;
 - (c) Financial arrangements, administrative and logistical support to the Fund;
 - (d) Any other information that the host country wishes to provide;
13. *Requests* the Board, following the receipt of expressions of interest, to conduct an open and transparent process for the selection of the host country, and to decide on a host country for endorsement by the Conference of the Parties at its eighteenth session, in accordance with paragraph 22 of the governing instrument;
14. *Also requests* the Board and the host country of the Green Climate Fund to develop, in accordance with paragraphs 7 and 8 of the governing instrument, the legal and administrative arrangements for hosting the Fund, and to ensure that juridical personality and legal capacity are conferred to the Fund, and privileges and immunities as are necessary are granted to the Fund and its officials in an expeditious manner;
15. *Further requests* the Board to establish the independent secretariat of the Green Climate Fund in the host country in an expedited manner as soon as possible, in accordance with paragraph 19 of the governing instrument;
16. *Invites* the Board to select the trustee of the Green Climate Fund through an open, transparent and competitive bidding process in a timely manner to ensure that there is no discontinuity in trustee services;
17. *Requests* the Board to initiate a process to collaborate with the Adaptation Committee and the Technology Executive Committee, as well as other relevant thematic bodies under the Convention, to define linkages between the Fund and these bodies, as appropriate;
18. *Recognizes* the need to facilitate the immediate functioning of the Green Climate Fund and ensure its independence, requests the UNFCCC secretariat jointly with the Global Environment Facility secretariat to take the necessary administrative steps to set up the interim secretariat of the Green Climate Fund as an autonomous unit within the UNFCCC secretariat premises without undue delay after the seventeenth session of the Conference of

the Parties so that the interim secretariat can provide technical, administrative and logistical support to the Board until the independent secretariat of the Green Climate Fund is established;

19. *Decides* that the interim arrangements should terminate no later than the nineteenth session of the Conference of the Parties;

20. *Also decides* that the interim secretariat shall be fully accountable to the Board and shall function under its guidance and authority, and that its head shall report to the Board;

21. *Urges* the Board to move promptly to appoint the head of the interim secretariat;

22. *Decides* that the criteria for the selection of the head of the interim secretariat shall include, inter alia, expertise in the design or management of funds, relevant administrative and management experience, experience in or working with developing countries, and policy expertise;

23. *Requests* the interim secretariat to make arrangements for convening the first Board meeting by 30 April 2012;

24. *Welcomes* the offers made by Switzerland and the Republic of Korea to host the first and second meetings of the Board respectively, and invites Parties to host subsequent meetings;

25. *Invites* Parties to make financial contributions for the start-up of the Green Climate Fund, including administrative costs of the Board and its interim secretariat;

26. *Welcomes* the generous offers of the Republic of Korea, Germany and Denmark to contribute to the start-up cost of the Green Climate Fund.

Annex

Governing instrument for the Green Climate Fund

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

I. Objectives and guiding principles

1. Given the urgency and seriousness of climate change, the purpose of the Fund is to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change.

2. The Fund will contribute to the achievement of the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC). In the context of sustainable development, the Fund will 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, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change.

3. The Fund will be guided by the principles and provisions of the Convention. The Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness. The Fund will play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyse climate finance, both public and private, and at the international and national levels. The Fund will pursue a country-driven approach and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders. The Fund will be scalable and flexible and will be a continuously learning institution guided by processes for monitoring and evaluation. The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach.

II. Governance and institutional arrangements

A. Relationship to the Conference of the Parties

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

5. The Fund will be governed and supervised by a Board that will have full responsibility for funding decisions.

6. Arrangements will be concluded between the COP and the Fund, consistent with Article 11 of the Convention, to ensure that the Fund is accountable to and functions under the guidance of the COP. In order to ensure accountability to the COP, pursuant to Article 11, paragraph 3, the Board will:

(a) Receive guidance from the COP, including on matters related to policies, programme priorities and eligibility criteria, and matters related thereto;

- (b) Take appropriate action in response to the guidance received;
- (c) Submit annual reports to the COP for its consideration and receive further guidance.

B. Legal status

7. In order to operate effectively internationally, the Fund will possess juridical personality and will have such legal capacity as is necessary for the exercise of its functions and the protection of its interests.

8. The Fund will enjoy such privileges and immunities as are necessary for the fulfilment of its purposes. The officials of the Fund will similarly enjoy such privileges and immunities as are necessary for the independent exercise of their official functions in connection with the Fund.

C. Rules of procedure of the Board

1. Composition

9. The Board will have 24 members, composed of an equal number of members from developing and developed country Parties. Representation from developing country Parties will include representatives of relevant United Nations regional groupings and representatives from small island developing States (SIDS) and least developed countries (LDCs).

10. Each Board member will have an alternate member, with alternate members entitled to participate in the meetings of the Board only through the principal member, without the right to vote, unless they are serving as the member. During the absence of the member from all or part of a meeting of the Board, his or her alternate will serve as the member.

2. Selection of Board members

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

3. Term of membership

12. Members and alternate members will serve for a term of three years and be eligible to serve additional terms as determined by their constituency.

4. Chairmanship

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

5. Decision-making

14. Decisions of the Board will be taken by consensus of the Board members. The Board will develop procedures for adopting decisions in the event that all efforts at reaching consensus have been exhausted.

6. Quorum

15. A two-thirds majority of Board members must be present at a meeting to constitute a quorum.

7. Observers

16. The Board will make arrangements, including developing and operating accreditation processes, to allow for effective participation by accredited observers in its meetings. The Board will invite, to participate as active observers: two civil society representatives, one each from developing and developed countries, and two private sector representatives, one each from developing and developed countries.

8. Additional rules of procedure

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

D. Role and functions of the Board

18. The Board of the Fund will:

- (a) Oversee the operation of all relevant components of the Fund;
- (b) Approve operational modalities, access modalities and funding structures;
- (c) Approve specific operational policies and guidelines, including for programming, project cycle, administration, and financial management;
- (d) Approve funding in line with the Fund's principles, criteria, modalities, policies and programmes;
- (e) Develop environmental and social safeguards and fiduciary principles and standards that are internationally accepted;
- (f) Develop criteria and application processes for the accreditation of implementing entities of the Fund and accredit implementing entities and withdraw such accreditation;
- (g) Establish subcommittees and panels and define their terms of reference, as appropriate;
- (h) Establish additional thematic windows and/or substructures to address specific activities, as appropriate;
- (i) Establish a framework for the monitoring and evaluation of performance and the financial accountability of activities supported by the Fund and any necessary external audits;
- (j) Review and approve the administrative budget of the Fund and arrange for performance reviews and audits;
- (k) Appoint the Executive Director of the secretariat;
- (l) Appoint the head of the evaluation unit and the heads of all accountability units;
- (m) Receive guidance and take action in response to any guidance from the COP and prepare annual reports to the COP on its activities;
- (n) Develop working and coordination arrangements with other relevant bodies under the Convention and other relevant international institutions;

- (o) Select, appoint and enter into legal and administrative arrangements with the trustee;
- (p) Exercise such other functions as may be appropriate to fulfil the objectives of the Fund.

E. Secretariat

1. Establishment of the secretariat

19. The Fund will establish a secretariat, which will be fully independent. The secretariat will service and be accountable to the Board. It will have effective management capabilities to execute the day-to-day operations of the Fund.
20. The secretariat will be headed by an Executive Director with the necessary experiences and skills, who will be appointed by and be accountable to the Board. The Board will approve the job description and qualifications for the Executive Director. The Executive Director will be selected through a merit-based, open and transparent process.
21. The secretariat will be staffed with professional staff with relevant experience. The staff selection will be managed by the Executive Director and will be open, transparent and based on merit, taking into account geographical and gender balance.
22. The selection of the host country of the Fund will be an open and transparent process. The selection of the host country will be endorsed by the COP.

2. Functions

23. The secretariat will be responsible for the day-to-day operations of the Fund, providing administrative, legal and financial expertise. In particular, the secretariat will:
- (a) Organize and execute all administrative duties;
 - (b) Report information on the Fund's activities;
 - (c) Liaise with members, implementing entities, and cooperating bilateral and multilateral institutions and agencies;
 - (d) Prepare performance reports on the implementation of activities under the Fund;
 - (e) Develop the work programme and annual administrative budget of the secretariat and trustee and submit them for approval by the Board;
 - (f) Operationalize the project and programme cycle processes;
 - (g) Prepare financial agreements related to the specific financing instrument to be concluded with an implementing entity;
 - (h) Monitor the financial risks of the outstanding portfolio;
 - (i) Work with the trustee to support the Board to enable it to carry out its responsibilities;
 - (j) Carry out monitoring and evaluation functions;
 - (k) Support the Board in arranging replenishment processes;
 - (l) Establish and run effective knowledge management practices;
 - (m) Perform any other functions assigned by the Board.

F. Trustee

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

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

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

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

III. Administrative costs

28. The Fund will finance the operating costs of the Board, secretariat and trustee.

IV. Financial inputs

29. The Fund will receive financial inputs from developed country Parties to the Convention.

30. The Fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources.

V. Operational modalities

31. The Fund will provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach and will encourage the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects.

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

A. Complementarity and coherence

33. The Fund shall operate in the context of appropriate arrangements between itself and other existing funds under the Convention, and between itself and other funds, entities, and channels of climate change financing outside the Fund.

34. The Board will develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions, to better mobilize the full range of financial and technical capacities. The Fund will promote coherence in programming at the national level through

appropriate mechanisms. The Fund will also initiate discussions on coherence in climate finance delivery with other relevant multilateral entities.

B. Eligibility

35. All developing country Parties to the Convention are eligible to receive resources from the Fund. The Fund will finance agreed full and agreed incremental costs for activities to enable and support enhanced action on adaptation, mitigation (including REDD-plus),¹ technology development and transfer (including carbon capture and storage), capacity-building and the preparation of national reports by developing countries.

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

C. Funding windows and fund structure

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

38. The Board shall also ensure adequate resources for capacity-building and technology development and transfer. The Fund will also provide resources for innovative and replicable approaches.

39. The Board will consider the need for additional windows. The Board will have the authority to add, modify and remove additional windows and substructures or facilities as appropriate.

1. Readiness and preparatory support

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

2. Private sector

41. The Fund will have a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels.

42. The operation of the facility will be consistent with a country-driven approach.

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

¹ Reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

44. The Board will develop the necessary arrangements, including access modalities, to operationalize the facility.

D. Access modalities and accreditation

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

46. Recipient countries may designate a national authority. This national designated authority will recommend to the Board funding proposals in the context of national climate strategies and plans, including through consultation processes. The national designated authorities will be consulted on other funding proposals for consideration prior to submission to the Fund, to ensure consistency with national climate strategies and plans.

1. Direct access

47. Recipient countries will nominate competent subnational, national and regional implementing entities for accreditation to receive funding. The Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.

2. International access

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

3. Accreditation

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

E. Allocation

50. The Board will balance the allocation of resources between adaptation and mitigation activities under the Fund and ensure appropriate allocation of resources for other activities.

51. A results-based approach will be an important criterion for allocating resources.

52. In allocating resources for adaptation, the Board will take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, using minimum allocation floors for these countries as appropriate. The Board will aim for appropriate geographical balance.

F. Programming and approval processes

53. The Fund will have a streamlined programming and approval process to enable timely disbursement. The Board will develop simplified processes for the approval of proposals for certain activities, in particular small-scale activities.

VI. Financial instruments

54. The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels.

55. The Fund may employ results-based financing approaches, including, in particular for incentivizing mitigation actions, payment for verified results, where appropriate.

56. Financial management practices and financing agreements will be in keeping with the Fund's fiduciary principles and standards and environmental and social safeguards to be adopted by the Board. The Board will develop an appropriate risk management policy for funding and financial instruments.

VII. Monitoring

57. The programmes and projects, as well as other activities, funded by the Fund will be regularly monitored for impact, efficiency and effectiveness in line with rules and procedures established by the Board. The use of participatory monitoring involving stakeholders will be encouraged.

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

VIII. Evaluation

59. There will be periodic independent evaluations of the performance of the Fund in order to provide an objective assessment of the results of the Fund, including its funded activities and its effectiveness and efficiency. The purpose of these independent evaluations is to inform decision-making by the Board and to identify and disseminate lessons learned. The results of the periodic evaluations will be published.

60. To this end, the Board will establish an operationally independent evaluation unit as part of the core structure of the Fund. The head of the unit will be selected by, and will report to, the Board. The frequency and types of evaluation to be conducted will be specified by the unit in agreement with the Board.

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

62. The COP may commission an independent assessment of the overall performance of the Fund, including Board performance.

IX. Fiduciary standards

63. The Board will agree on, adopt, and ensure the application of best practice fiduciary principles and standards to the Fund's entities, the trustee's function related to the Fund, and to all operations, projects and programmes financed by the Fund, including the implementing entities.

64. The Fund will support the strengthening of capacities in recipient countries, where needed, to be able to meet the Fund's fiduciary principles and standards, based on modalities that will be established by the Board.

X. Environmental and social safeguards

65. The Board will agree on and adopt best practice environmental and social safeguards, which shall be applied to all programmes and projects financed using the resources of the Fund.

66. The Fund will support the strengthening of capacities in recipient countries, where needed, to enable them to meet the Fund's environmental and social safeguards, based on modalities that shall be developed by the Board.

XI. Accountability mechanisms

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

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

69. The Board will establish an independent redress mechanism that will report to the Board. The mechanism will receive complaints related to the operation of the Fund and will evaluate and make recommendations.

XII. Expert and technical advice

70. In carrying out its functions the Board will develop mechanisms to draw on appropriate expert and technical advice, including from the relevant thematic bodies established under the Convention, as appropriate.

XIII. Stakeholder input and participation

71. The Board will develop mechanisms to promote the input and participation of stakeholders, including private-sector actors, civil society organizations, vulnerable groups, women and indigenous peoples, in the design, development and implementation of the strategies and activities to be financed by the Fund.

XIV. Termination of the Fund

72. Termination of the Fund will be approved by the COP based on a recommendation of the Board.

*10th plenary meeting
11 December 2011*