December 2014

Interim Organisation Strategy:

Denmark's collaboration with the Green Climate Fund (2015-2016)

Indhold

I. Objective

This Interim Organisation Strategy for the cooperation between Denmark and The Green Climate Fund ("the GCF") forms the basis for the Danish contributions to the GCF. It is the central platform for Denmark's dialogue and partnership with the GCF. It sets up Danish priorities for the GCF's performance within the overall framework established by the GCF's priorities. It establishes Danish priorities for the GCF for the first phase two years (2015-2016) of the interim resource mobilization period until 2018 and outlines specific results that Denmark will pursue.

The Copenhagen Accord from the 15th Conference of the Parties (COP) of the UN Framework Convention on Climate Change (UNFCCC) in Copenhagen 2009 - mentions a "Climate Fund". The following year at COP16 it was decided to establish the "Green Climate Fund" (GCF). COP17 decided that the GCF would become an operating entity of the financial mechanism of the UNFCCC in accordance with Article 11 of the Convention. Arrangements have been concluded between the Conference of the Parties (COP) and the GCF to ensure that it is accountable to, and functions under the guidance of the COP. This foundation underpins the GCFs unparalleled legitimacy in the global landscape of climate financing initiatives.

The purpose of the GCF 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.

Subsequently, preparatory work was initiated by the UNFCCC to establish the GCF. A GCF Board was established comprising 12 members from developing countries and 12 members from developed countries. Representatives from the private sector and civil society participate in Board Meetings as observers. In the GCF Board's first term, which expires in 2015, Denmark shares a Board seat with the Netherlands. At the seventh GCF Board meeting it was decided that the essential requirements for its initial resource mobilization were achieved, and that capitalisation of the GCF could be initiated in the second half of 2014. This initial resource mobilization exercise will cover a four-year contribution period from January 2015 to end-December 2018. The Policies for Contribution were approved at the 8th GCF Board meeting in October 2014 paving the way for donor pledging to the GCF in November 2014.

Although the GCF is ready for capitalization, some of the operational policies and procedures of the GCF are not yet fully finalised. This organisational strategy will therefore be an interim organisational strategy, and it will be revised no later than 2016 when these policies and procedures are expected to be fully established, i.e. well before the end of the initial resource mobilization period in 2018. This strategy has furthermore been prepared with the expectation of a longer term Danish engagement, and it is guided by a number of intended medium-term results. These intended results are in line with those agreed by the GCF Board (see chapter IV).

II. The organisation

The Secretariat

After a competitive process among six candidate countries, Songdo City, Republic of Korea was selected to host the Secretariat of the GCF. The Secretariat's headquarters in Songdo was opened on December 4, 2013 with a temporary team of 30-35 senior advisers, experts and assistants. Recruitment to fill 48 positions as approved by the GCF Board began after the GCF Board meeting in October 2013. The GCF Secretariat is managed by an Executive Director, who took office in June 2013. Within a budget frame which has been approved by the GCF Board, the Executive Director is in the process of setting up the Secretariat The Secretariat will eventually consist of approximately 56 mostly professional staff with fund management expertise as well as relevant technical expertise on climate related issues. A full description of the functions of the positions in the Secretariat has been developed. Although a number of the posts remain to be filled, the Secretariat is able to provide the services needed at the moment to finalise the initial capitalisation process and support the GCF Board.

The GCF Board

The GCF is governed and supervised by the GCF Board that has full responsibility for funding decisions. The GCF Board has 24 members, composed of an equal number of members from developing and developed country Parties. Representation from developing country Parties includes the representatives of relevant United Nations regional groupings and representatives from small island developing states and least developed countries.

Each GCF Board member has an alternate 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 GCF Board, his or her alternate serves as the member. Until the 7th meeting Denmark's representative was member of the GCF Board while the Dutch representative was the alternate. After the 7th meeting held in May 2014 the Netherlands took over the seat while Denmark took the alternate post.

The members of the GCF Board and their alternates are selected by their respective constituency or regional group within a constituency. Members and alternate members serve for a term of three years and are eligible to serve additional terms as determined by their constituency.

According to the Governing Instrument of the GCF, two civil society and two private sector representatives, with each covering developing and developed countries, participate as active observers in the Board meetings.

Two Co-Chairs of the GCF Board are 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.

In their decisions, the GCF Board is supported by a number of committees/panels each with a predefined mandate.

Box 1: GCF committees and panels

Structure of the Board's committees and panels Board's committee/panel	Purpose of the Board's committee/panel
Risk Management Committee	Oversee and review strategic risks across Fund, at portfolio and Fund-wide levels
Investment Committee	Oversee development of an investment strategy for the Fund. Set decision criteria for funding decisions. Review portfolio outcomes of funding decisions
Ethics and Audit Committee	Oversee development and implementation of Board policy on ethics and conflict of interest relating to Board members Review and make recommendations to the Board with regards to external audit
Private Sector Advisory Group	Provide advice on Fund engagement with the private sector
Accreditation Committee	Provide guidance on the development of policies and procedures for the Fund's guiding framework for the accreditation process; facilitate the Board's interaction with recipient countries; provide policy guidance to the Accreditation Panel
Accreditation Panel	Independent technical panel. Responsibilities include the accreditation review process and advice to the Board on applications for accreditation.

Other committees and panels may be established to support the GCF Board.

Interim Trustee

The World Bank is serving as the Interim Trustee of the GCF, subject to a review three years after the operationalization of the GCF. The Trustee manages the financial assets of the GCF in accordance with decisions by the GCF Board. It maintains appropriate financial records and prepares financial statements and other reports required by the GCF Board. The GCF Board decided at the 8th Board meeting to extend the services of the Interim Trustee until 2018. .

Mandate and mission of the GCF

As set out in the GCF's Governing Instrument, the purpose of the GCF 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.

The GCF 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 GCF 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.

The Governing Instrument states that the GCF 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 GCF 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 GCF 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.

Decision –making

The GCF Board operates by consensus. The Governing Instrument of the GCF explicitly states that the GCF Board will develop procedures for adopting decisions in the event that all efforts at reaching consensus have been exhausted. The GCF Board have yet to agree on such procedures. Discussions on this issue are scheduled to resume at the GCF Board meeting in March 2015.

Financial situation

The GCF will receive financial inputs from developed country parties to the UNFCCC and may also receive financial inputs from a variety of other sources, public and private, including alternative sources. These provisions imply that the GCF can also receive financial inputs from developing countries. The GCF aims to mobilize funds at scale from, inter alia, philanthropic funds, institutional investors, such as pension funds and sovereign wealth funds, and modalities will be designed for this purpose. A number of countries have already contributed to the GCF's budget and/or announced pledges for the GCF's initial resource mobilization. At the first ever pledging event for the GCF, held in Berlin on 20 November 2014, 21 countries, including both developed and developing countries, pledged a total of approx. 9.3 bn. USD to the Green Climate Fund.

The GCF seeks to maximize grant contributions, taking into account its theme-based allocation, and it is foreseen that grant contributions must significantly exceed loan amounts. There will be no cross-subsidization between providers of grants and providers of loans. The GCF will initially provide grants and loans through implementing entities (IEs) and intermediaries as per financial terms and conditions to be approved. Intermediaries will be permitted to blend grants and loans received from the GCF with their own sources of financing or with third-party financing.

Operational focus

The GCF will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the GCF Board. According to the Governing Instrument, all developing country Parties to the convention are eligible recipients and they will access the GCF's resources through national, regional and international implementing entities accredited by the GCF Board.

In accordance with the GCF Governing Instrument, the GCF has thematic funding windows for mitigation and adaptation. It will also have a Private Sector Facility that will allow it to directly and indirectly finance private sector mitigation and adaptation activities. While the GCF initially only has windows for adaptation and mitigation and a Private Sector Facility, the GCF Board will consider the need for additional windows in the future. The GCF Board has the authority to add additional windows and substructures or facilities as appropriate, as well as modify and remove existing ones.

The GCF Board has decided to aim for the following portfolio targets:

- a 50/50 funding balance between adaptation and mitigation over time (the amount of time is unspecified)
- a floor of fifty percent of adaptation allocation for vulnerable countries in order to ensure sufficient allocation of adaptation funding for vulnerable countries (including the least developed countries (LDCs), small island developing States (SIDS) and African States)
- reasonable and fair allocation across a broad range of countries in order to ensure geographic balance of funding;

- maximize fund-wide engagement with the private sector, including through significant allocation to the Private Sector Facility;
- sufficient support for readiness and preparatory project development associated with the above.

Allocation is intended to be results-based. Reports based on the GCFs initial results management framework are foreseen to inform the GCF Board and the Secretariat about the mitigation and adaptation results attributable to the GCF's financing. A review of the initial allocation parameters and guidelines, including of concentration risks, subject to the size of the GCF, will be undertaken no later than two years from the start of allocation of resources.

The GCF will direct funding to a total of 14 initial result areas selected by the GCF Board based on the Secretariat's assessment of best options with respect to both project and programme levels, including feasibility and appropriateness and the need for immediate results as well as long-term transformative impact, which could lead to low-emission and climate-resilient pathways. The 14 initial result areas are shown below in box 2. Countries will identify their priority result areas in line with their national strategies and plans in order to ensure country ownership.

Box 2: Initial result areas

1. Design and planning of cities to support mitigation and adaptation*;
2. Energy efficiency of buildings and appliances;
3. Energy efficiency of industrial processes;
4. Low-emission transport;
5. Low-emission energy access;
6. Small-, medium- and large-scale low-emission power generation;
7. Sustainable land use management to support mitigation and adaptation*;
8. Sustainable forest management to support mitigation and adaptation including afforestation and reduction of forest degradation*;
9. REDD+ implementation*;
10. Adaptation activities to reduce climate-related vulnerabilities;
11. Selected "flagship" activities cutting across adaptation result areas;
12. Readiness and capacity building for adaptation and mitigation activities*;
13. Scaling up of effective community-based adaptation (CBA) actions; and
14. Supporting the coordination of public goods such as "knowledge hubs"

*: Initial result area that cuts across adaptation and mitigation

Project cycle

The GCF project cycle consist of application/proposals, approval, implementation, reporting, monitoring, review/evaluation and audit.

The GCF has established an initial proposal approval process, which will enable the GCF to identify and provide finance for programmes and projects that best achieve its objectives, and will enable timely disbursement of resources. Programme or project funding proposals will be generated through calls for proposals or spontaneous submissions to the Secretariat. Funding proposals will be submitted by national designated authorities (NDAs), Implementing Entities (IEs) or intermediaries in accordance with the GCF's no-objection procedure to promote country ownership.

Voluntary concept notes may be submitted to the Secretariat for feedback and recommendations prior to the submission of a full funding proposal. The Secretariat will carry out due diligence of funding proposals and assess compliance with interim environmental and social safeguards, gender policy and financial policies. In addition, it will assess projected proposals' performance against the criteria for programme and project funding and provide a recommendation to the GCF Board.

The GCF Board will develop simplified processes for the approval of proposals for certain activities, in particular small-scale activities, and will consider an initial proposal approval process for regional programmes and projects. The Secretariat will further elaborate the methodologies for the selection of funding proposals to ensure that the programmes and projects that best achieve the GCF's objectives are funded.

The assessment of programme/project proposals will be guided by the investment framework, which includes six criteria and 24 coverage areas to be applied in the initial proposal approval process (see Box 3 Investment Framework below). These criteria were developed under the oversight of the Investment Committee and operationalize the GCF's investment policies and strategies. Activity-specific sub-criteria and activity-specific indicators; minimum benchmarks for each criterion to be used to assess funding proposals; and methodologies that enable the Secretariat to assess the relative quality and innovativeness of comparable proposals in comparable circumstances is to be considered by the Board at its first meeting in 2015.

Box 3: Investment framework

Criterion	**Coverage area**
Impact potential. (Potential of the programme or project to contribute to the achievement of the Fund's objectives and result areas)	Mitigation impact, adaptation impact
Paradigm shift potential (Degree to which the proposed	Potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a

activity can catalyse impact beyond a one-off programme or project investment)	temperature increase of less than 2 degrees; potential for knowledge and learning ; contribution to the creation of an enabling environment ; contribution to the regulatory framework and policies; overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans
Sustainable development potential (The prospect for the proposed activity to generate wider benefits and support a range of sustainable development priorities)	Environmental co-benefits; social co-benefits ; economic co-benefits; gender-sensitive development impact
Needs of the recipient (Vulnerability and financing needs of the beneficiary country and population)	Vulnerability of the country, vulnerable groups and gender aspects, economic and social development level of the country and the affected population, absence of alternative sources of financing, need for strengthening institutions and implementation capacity
Country ownership (Beneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions))	Existence of a national climate strategy, coherence with existing policies, capacity of implementing entities, intermediaries or executing entities to deliver, engagement with civil society organizations and other relevant stakeholders
Efficiency and effectiveness (Economic and, if appropriate, financial soundness of the programme or project)	cost-effectiveness and efficiency regarding financial and non-financial aspects, amount of co-financing, programme/project financial viability and other financial indicators, industry best practices

The GCF will implement its funding decisions through accredited national as well as international entities. The accreditation process will include and be conducted, implemented and supported by the following 1) The GCF Board, 2) The Secretariat, 3) The Accreditation Committee, 4) The Accreditation Panel, and 5) External technical experts.

The GCFs investment framework stipulates that the GCF will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development and provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable1. The GCF will not "crowd out" potential financing from other public and private sources, and only revenue-generating activities that are intrinsically sound from a financial point of view will be supported through loans by the GCF.

In addition to the criteria established by the Investment Framework, the GCF is guided by a number of principles relevant for GCFs governance and the funding decision to be made by the GCF. These are principles of transparency and accountability, and efficiency and effectiveness. The GCF will promote environmental, social, economic and development co-benefits and take a gender-sensitive approach. The GCF will pursue a country-driven approach, base its activities on such an approach and will promote and strengthen engagement at the country level. It will encourage the involvement of relevant stakeholders, including vulnerable groups and address gender aspects. It will provide simplified and improved access to funding, including through direct access to sub-national, national and regional entities. The GCF's operations will evolve with the GCF's scale and maturity over time and the GCF is expected to become a highly important global fund for climate change finance. The GCF will be scalable and flexible and will be a continuously learning institution guided by processes for monitoring and evaluation.

A gender policy is scheduled to be discussed by the GCF Board at its 9th Meeting in early 2015. A comprehensive report based on experience from national and international institutions will provide the background for the discussion.

The GCF's initial fiduciary principles and standards consist of both basic and specialized fiduciary criteria. These guidelines include principles regarding key administrative and financial capacities, i.e. financial management and accounting, internal and external audit, transparency and accountability etc., and specialized fiduciary standards relating to project management.

The GCF has developed an initial financial risk management framework to enable the GCF to exert due diligence and manage its risks prudently. This framework approved by the GCF Board consists of:

1) The GCF's initial financial risk policies
2) GCF's risk monitoring and reporting management systems
3) An overview of the roles and responsibilities related to the Fund's financial risk governance.

The risk monitoring and reporting management systems will be operationalized before the GCF approves funding proposals. As part of its work programme, the GCF's Risk Management Committee will expand its analysis beyond financial risks to address other risks

[1] Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme.

that may be encountered. An analysis of the GCF's potential risk appetite under different key assumptions will be undertaken in 2015, including through a survey of methodologies used by relevant institutions to define and determine their risk appetite to be considered by the GCF Board at its first meeting in 2015. The initial financial risk management framework will be reviewed annually and an in-depth review will be undertaken no later than three years after the initial capitalization.

Furthermore a Technical Advisory Panel (to be established) will independently assess projected performance of the project or programme against activity-specific criteria and provide advice to the GCF Board and the Secretariat. The GCF Board or the Secretariat depending of the size and nature of the requested support will then make decisions on whether or not to approve funding proposals, or to provide conditional approval, based on the aforementioned recommendations and assessment by the Secretariat and the Technical Advisory Panel. Legal arrangements will be made for approved proposals.

Once the GCF has built up a track record of experience and lessons learned, an in-depth review will be conducted, including benchmarking against recently updated regional bank standards, the updated World Bank Safeguards and experience in implementing the Adaptation Fund principles.

The initial results management framework and initial core performance indicators have been established to enable effective monitoring and evaluation of the outputs, outcomes and impacts of the GCF's investments, and the GCF's effectiveness and efficiency. The key part of the initial results management framework is the logic model which demonstrates how inputs and activities are converted to changes in the form of results achieved in terms of (a) Paradigm shift objective; (b) Impacts; (c) Project/Programme outcomes; (d) Project/Programme outputs; (e) Activities; and (f) Inputs. Inputs, activities, and outputs will be defined for each project/programme on a case-by-case basis. The Secretariat will further develop the results management framework, engaging international experts as required.

The GCF will have an Independent Evaluation Unit (IEU), an Independent Integrity Unit (IIU), and an independent redress mechanism as part of its core structure. The IEU will carry out evaluations to inform GCF Board decision-making and will identify and disseminate lessons learned. The IIU will work with the Secretariat to investigate allegations of fraud and corruption in coordination with relevant counterpart authorities. The independent redress mechanism (IRM) will receive complaints related to the operation of the GCF, evaluate them, and make recommendations.

III. Key strategic opportunities, challenges and risks

Relevance and Justification of Danish Support

Denmark plans to support the GCF primarily through the Climate Envelope. The Climate Envelope was established before COP13 in Bali 2007. The Danish Government decided to establish the Climate Envelope, an integral part of the Danish ODA, in support of mitigation and adaptation activities in developing countries. The selection of activities to be funded by the Climate Envelope is based on achieving a balance between adaptation and mitigation, while there should also be a balance between bilateral and multilateral activities. A number of diverse multilateral and bilateral interventions have been supported through the Climate Envelope and other Danish climate change funding modalities, for example the Global Environment Facility (GEF), Climate Investment Funds (CIF), the Least Developed Countries Fund (LCDF) and bilateral programmes in Bangladesh, Indonesia, Kenya, Maldives, Mexico, South Africa, Uganda and Vietnam.

The GCF sets itself apart from other funds since it is widely expected to become a highly important global fund for channelling climate finance and to operate at a larger scale than other climate funds. The GCF will also set itself apart by: explicitly focusing on achieving a paradigm shift; placing equal emphasis on the allocation of resources for adaptation and mitigation; making the best investments viable with minimum concessionality; extending its reach by accrediting and providing readiness support to a wide range of sub-national, national, regional and international implementing entities and intermediaries; mobilizing private sector investments; and finally, by maximizing the GCF's impact of its funding by investing in activities that best realize its expected results. As such, the GCF is generally expected to add value to the existing climate finance architecture. The GCFs relation to other existing climate financing instruments is being discussed with a view to incorporate lessons learned, e.g. from the Adaptation Fund and a recent evaluation of the Climate Investments Funds (CIFs). It is also an issue whether other funds should be closed down or integrated in the GCF structure in due course.

Among the strengths of GCF is that it enjoys a high degree of legitimacy, as it was established by the UNFCCC with an equal number of developed and developing country seats in the GCF Board. Other strengths include the GCF's explicit focus on achieving a paradigm shift and expected engagement with the private sector. Denmark is therefore contributing a significant share of its climate funding to the GCF.

In addition, the GCF is generally considered an important prerequisite for the global climate agreement that is to be adopted at the 21st Conference of the Parties (COP21) in December

2015. The GCF has received significant political attention, including from the UN Secretary-General who at COP19 called for an operationalization of the GCF.

In the climate change negotiations and the GCF Board, Denmark has worked actively to set up a multilateral climate finance mechanism that can mobilize resources – public as well as private – for mitigation and adaptation activities in developing countries and contribute to transformational change, while respecting the cornerstones in Denmark's cooperation with developing countries regarding social and economic safeguards.

Danish support to the GCF reflects the Danish government platform, which states that Denmark will work actively for an ambitious and binding international climate agreement and ensure that Denmark lives up to its responsibility for mitigation, technology transfer and climate finance. While some operational issues remain to be addressed, the existing business model and overriding objective of the GCF are fully in line with the Strategy for Denmark's Development Cooperation, "The Right to a Better Life" (2012). This includes the promotion of green growth, resource-efficient production, contribution to increasing developing countries' and access to sustainable energy.

The Danish Strategic Framework for Natural Resources, Energy, and Climate Change, "A Greener World for All" (2013) explicitly notes that design and implementation of national low-carbon development strategies and appropriate mitigation actions (NAMAs) and adaptation actions (NAPAs) will be supported primarily "through Danish funding for the GCF, once operationalized." Therefore a substantial contribution to the GCF is foreseen.

Challenges and risks

The creation of a new fund such as the GCF is connected with challenges and risks. The main strategic challenges and risks of the GCF relates to its effectiveness, in particular mobilization of resources, and its full operationalization.

Operational challenges to the GCF

The main immediate challenge is that some decisions remain to be taken by the GCF Board before the GCF will be ready to disburse funds. A few of these issues are technical operational issues related to operations of the GCF. However, most of the remaining issues have been raised by potential contributors, as being relevant for their funding decisions. Hence, these challenges could be turned into risks if they are not addressed.

The first operational challenge relates to needed decisions concerning *the investment framework's sub-criteria and indicators, benchmarks and methodologies*. The GCF Board will have to take decisions regarding the fund's investment framework before the GCF can fund concrete activities.

Operationalization of the Private Sector Facility is seen as a second operational challenge. While a Private Sector Facility has been established and a number of relevant decisions have been taken by the GCF Board, some decisions are needed to determine how the Facility will operate in practice and in relation to the GCF's mitigation and adaptation windows.

In addition, potential contributors ability to contribute may be negatively affected , if the GCF Board does not adopt procedures for decision-making in the event that all efforts at reaching consensus have been exhausted, or if contributors cannot target or earmark funding.

The consensus decision by the GCF Board in June 2014 that essential requirements for a resource mobilization have been met reflects a determination to get the GCF started even if there are still outstanding questions to be solved. This determination was confirmed by the first GCF pledging event on 20 November 2014 where 21 countries, including both developed and developing countries, pledged a total of approx. 9.3 bn. USD to the GCF. Denmark is showing its full commitment to the GCF as reflected by the resources allocated to the GCF.

Risks related to the GCF not meeting its objectives and risks related to the Danish contribution

The following programmatic and institutional risks are highlighted as the potential impacts are considered major or significant.[2]

Decision-making procedures are seen as a potential programmatic risk. The GCF Board currently operates with consensus decision-making, but the rules of procedure state that the GCF Board will develop procedures for adopting decisions in the event that all efforts to reach consensus have been exhausted. So far, however, the GCF Board has not been able to agree on new voting procedures. Difficult GCF Board discussions are foreseen as interested contributors, including Denmark, see the need for decision-making modalities in order to ensure smooth and effective working arrangements for the GCF Board when it is expected to handle a large number of issues and applications. Inability to agree on decision-making procedures could negatively affect the GCF's resource mobilization, delay its full operationalization, and hamper effective decision-making.

Once the GCF is fully operationalized two particular risks have been identified as follows:

Inability to absorb funding is considered a programmatic risk. While the GCF Executive Director has publicly stated that the GCF could easily deploy between USD 10 billion and USD

[2] Programmatic risks cover the risks of not meeting the intended objectives or causing harm trough the interventions. Institutional risks cover risks to the donor in terms of reputational damage, fiduciary risks or domestic political damage etc. Danida Guidelines for Risk Management. http://amg.um.dk/en/technical-guidelines/guidelines-for-risk-management/

15 billion within three years, the GCF has to accredit the intermediaries through which the GCF will operate and develop the details of its investment framework. High expectations, large demand for support for activities, and an emphasis on 'direct access to the GCF's resources may produce an overwhelming number of applications. The GCF Board and Secretariat may not have the capacity to process these within a reasonable timeframe. Accordingly, there is a risk that some of the funds committed to the GCF cannot immediately be channeled to activities. This is also the reason why Danish funds are to be allocated in tranches, with 100 million DKK in initial disbursement, and the remaining funds when the GCF is ready to disburse funds to concrete funding applications, including readiness.

Disbursement of funding is a potential programmatic risk. Uncertainty remains about the time horizon for the GCF to begin its project selection and disbursement of funds. The GCF Board is still to adopt some of the needed modalities. Moreover, the Secretariat has still to reach full capacity and its ongoing recruitment of staff happens on a background where some of the administrative policies are to be adopted by the GCF Board. Project selection is unlikely to begin before the end of 2015. Denmark will continue to work actively in the GCF Board meetings, and between if needed, to ensure that transparent and reasonable administrative policies are applied by the Secretariat.

Political influence of the UNFCCC Conference of the Parties (COP) is considered a potential programmatic risk. Developing countries have generally favored greater COP involvement whereas developed countries have generally preferred greater autonomy for the GCF Board. Decisions at COP19 ensured a high degree of autonomy by effectively limiting the opportunity for the COP to turn over GCF Board decisions. This has been appreciated by the private sector as it increases predictability and thus reduces the risks associated with GCF financed activities. The COP, however, can still provide guidance to the GCF Board and it cannot be ruled out that some parties will attempt to use this as a means to influence the GCF Board decisions. There are high expectations for the initial resource mobilization, particularly from developing countries who have suggested a mobilization target of 15 billion dollars. The initial resource mobilization will also likely affect the prospects for COP20 and an ambitious 2015-agreement at COP21. Developed countries have so far rejected a specific mobilization target or funding scenarios for the initial resource mobilization. This discussion may have a negative spill-over effect to the GCF.

Distribution of seat and weighted voting is considered an institutional risk to the Danish engagement with the GCF. The first term of the GCF Board expires in 2015 and a potential redistribution of seats has yet to be discussed. While there would probably be no discussion of the present governance model with 24 seats equally distributed between developed and developing countries, there will possibly be a redistribution of seats within the developed country group. Potentially, seats as well as voting rights could be distributed based on contributions made to the GCF, in which case the Danish contribution would directly affect the prospect for continued Danish influence.

Corruption or mismanagement in the GCF is considered an important institutional risk with potential devastating impacts for contributors such as Denmark. However, the likelihood is low considering the administrative checks and balances and the arrangement with the World Banks as an Interim Trustee.

Denmark's active participation in the Board is seen as a way of addressing the challenges and risks. In terms of representation to the GCF Board, Central Bank Governor Per Callesen and Deputy Permanent Secretary in the Ministry of Finance Peder Lundquist have served as Danish GCF Board Member and Alternate respectively. In terms of personnel, a team consisting of staff from the Danish Ministry of Finance, Ministry of Climate, Energy and Buildings/Danish Energy Agency and the Ministry of Foreign Affairs advices the Danish representative on the GCF Board and seeks to influence the further development of the GCF with the Secretariat and in the GCF Board as well as through dialogue and interaction with e.g. relevant civil society organisations. Dialogue with development partners both globally and in developing countries with Danish embassies will be pursued to establish common ground on difficult issues.

IV. Priority results to be achieved

Denmark is an active member of the GCF Board in collaboration with the Netherlands. A number of issues have been identified and pursued before the GCF was ready for capitalization. Denmark and the Netherlands have put particular emphasis on the following priorities:

- Maximization of the GCF's mitigation and adaptation impact;
- Enhancement of enabling environments, including regulatory frameworks and policies;
- Establishment of the Private Sector Facility (PSF), including use of innovative financial instruments;
- Gender mainstreaming;
- Transparent and cost-efficient administrative policies.

A Danish-Dutch reflection note was prepared before the 7th meeting of the GCF Board in May 2014. The reflection note established as a main Danish-Dutch priority to place additional focus on the GCF's ability to catalyse changes in policy and regulatory frameworks in order to ensure that this was integrated into the investment framework, the initial approval process, the initial results management framework as well as highlighting its synergies with country ownership and enhanced direct access.

It is the assessment that collaboration with the Netherlands has been an effective platform for pursuing Danish policy priorities due to the concurrence of priorities between the two countries. Denmark and the Netherlands significant contribution to the development of principles for the Private Sector Facility and transparent and reasonable administrative policies are among the specific examples. These common priorities will continue to be guiding the work with the GCF in the coming years.

During to the two-year duration of this organisational strategy, the GCF is only expected to make limited climate impact on the ground. The Danish pledge made at the UN Secretary-General's Climate Summit in September 2014 and the expected subsequent commitments to GCF in 2014 and 2015 will ensure that Denmark delivers its fair share to the GCF. It should also contribute to the momentum of the initial capitalization of the GCF.

The expected results of the Danish commitments are that the contribution will enable the Secretariat to continue its start-up activities, and that it will provide a positive momentum for the GCF Board to make the final needed decisions to fully operationalize the GCF as early as possible, preferably in the first half of 2015. Furthermore, it is expected that the final design and modalities of the GCF will reflect a focus on effectiveness and efficiency, including maximum impact in terms of mitigation and adaptation. In the context of country ownership, the GCF will support not only individual projects but also activities that enhance enabling environments, including policy and regulatory frameworks, in order to catalyse low-carbon investments and promote a paradigm shift towards low-emission and climate-resilient development pathways. This can contribute to the effectiveness and added-value of the fund. Finally, the GCF will catalyse additional climate finance, both public and private, at the international and national levels, including through its Private Sector Facility.

Based on the expected results, the first indicator for the Danish support is that significant pledges to the GCF will be announced before the end of 2014 as part of the initial resource mobilization process. Significant pledges will give the GCF positive momentum, which in turn may have a positive effect on the climate negotiations leading up to Paris in December 2015.

A second indicator is that the outstanding operational issues will be settled in 2015 to enable the GCF to accommodate the first applications for implementation from 2016. Denmark will focus in particular on the development of GCF's:

1. Investment framework

- The GCF should have a complete investment framework.

- The investment framework should be designed to ensure effectiveness and efficiency, including maximum impact in terms of mitigation and adaptation.

- The investment framework should be designed to support activities that enhance paradigm shift and/or enabling environments, including policy and regulatory frameworks.

2. Results management framework

- The GCF should have a complete quantifiable results management framework

- The results management framework should be designed to measure results that reflect Danish priorities for the fund, including mitigation and adaptation impact and enhancement of enabling environments.

3. Private Sector Facility

- The Private Sector Facility should become operational

- The Private Sector Facility should be designed to effectively engage the private sector, including through the use of relevant instruments

- The Private Sector Facility should be integrated in GCF activities where relevant

A third indicator is that the GCF should have been able to fund applications for concrete adaptation and mitigation interventions in at least half of the 14 initial results areas before the end of 2016, ref. Box 1 above.

Concurrently, Denmark will continue to focus on the implementation of the agreed transparent and cost-efficient administrative policies, including the efforts to combat corruption and misuse of funds. A fourth indicator is that these policies should not be weakened.

Consistent with these expected results and priorities, the intended medium term results of Danish support is reduction or limitation of greenhouse gas emissions (mitigation), increased climate-resilience (adaptation) and private sector engagement, including through the enhancement of enabling environments, regulatory frameworks and policies. Based on the GCF's objectives, investment framework and the initial results management framework, the specific intended results of Danish support in the medium-term include.

- Reduced emissions of carbon dioxide equivalent (tCO_2eq)
- Leveraging of finance for mitigation and adaptation
- Direct and indirect benefits to vulnerable groups in terms of adaptation
- Contribution to enhancement of enabling environments, including regulatory framework and policies
- Environmental co-benefits, social co-benefits, economic co-benefits and gender-sensitive development impact

It is a fifth indicator that quantifiable targets have been set commensurate with the level of funding received.

V. Budget and contributions

The GCF Secretariat's operating budget for 2015 and 2016 is approximately mio. 19 USD/yearly. Staff costs are approximately mio. 12 USD/yearly.

Denmark has so far contributed 7.3 million DKK to the GCF. This amount was a core contribution to the operational budget of the GCF.

The initial capitalization of the GCF will take place in the form of voluntary contributions. The initial capitalization will be for a four year period from 2015-2018. Consistent with other international funds, funded project and programmes may have a duration for up to approximately nine years starting from 2015.

It remains a question if other international funds such as the Adaptation Fund or the Climate Investment Funds (CIF) may want to add to the resources of the GCF (or cooperate in another way).

Types of contributions: The contributions will be in the form of grants, paid-in capital and loans. The contributions will be measured in "grant equivalents". Contributions should preferentially be in the form of grants and must significantly exceed the loan amount. Non-revolving loan capital shall be supported with a grant contribution (the size of which is expected to be 10-20 per cent) to cushion potential losses.

At the UN Secretary General's Climate Summit in September 2014, the Danish Government announced its intention to contribute 400 mio. DKK. to the GCF. The commitments will consist of the following elements: Denmark will contribute 100 mio. DKK from the "Climate Envelope 2014" in the financial year 2014 - in line with the pledge Denmark gave at the COP in Durban 2011 - and an additional 50 mill. DKK from the Finance Act account "Other environmental contributions." It is intended to disburse the 100 mio. DKK in 2014 while the remaining amount of 50 mill. DKK is foreseen to be disbursed as soon as the GCF needs liquidity and is ready to fund concrete project applications. Hence a total amount of 150 mio. DKK to the GCF will be presented for appropriation in the financial year 2014.

In 2015, 200 mill. DKK will be committed from the "Climate Envelope 2015"– this amount will be equally shared between the Climate Envelope's Global Frame and the Poverty Frame. Further, Denmark will commit an amount of 50 mill. DKK in 2015 from the account "Other Environmental Contributions".

At the first Pledging Conference for the GCF, held in Berlin on 20 November 2014, a total of 9.3 bn. USD was pledged to the Green Climate Fund by 21 countries, including both developed and developing countries.

Annex: Important decisions establishing the GCF

At the sixteenth session of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC), held in Cancun, Mexico, from 29 November to 10 December 2010, the Parties **decided to establish the Green Climate Fund (decision 1/CP.16).**

By the same decision, the COP decided that the GCF would be designed by a **Transitional Committee**. The Transitional Committee comprised of 40 members (15 members from developed country Parties and 25 members from developing country Parties). It met four times in the course of 2011 and, in accordance with its terms of reference (Annex III of decision 1/CP.16), submitted to the COP at its 17th session in Durban, South Africa, from 28 November to 9 December 2011, the report for its consideration and approval.

The **GCF was launched** at the seventeenth session of the Conference of the Parties (COP) in Durban, South Africa, by **decision 3/CP.17**, which approved the **Governing instrument** for the GCF annexed to that decision.

Recognizing the need to facilitate the immediate functioning of the GCF and ensure its independence, the COP, by its **decision 3/CP.17**, requested the UNFCCC Secretariat jointly with the Global Environment Facility (GEF) Secretariat to take the necessary administrative steps to set up the **Interim Secretariat of the GCF** as an autonomous unit within the UNFCCC secretariat premises after the seventeenth session of the COP so that the Interim Secretariat, fully accountable to the GCF Board and functioning under its guidance and authority, could provide technical, administrative and logistical support to the GCF Board until the independent Secretariat of the GCF was established.

The first meeting of the GCF Board took place in Geneva on 23 – 25 August 2012, and it adopted, inter alia, additional rules and procedures of GCF Board. The Report of the first meeting of the GCF Board, 23-25 August 2012 is **decision B.01-12/10.**

At its second meeting of the GCF Board held in Songdo, Republic of Korea, on 18 – 20 October 2012, the GCF Board took a consensus decision to select **Songdo, Incheon City, Republic of Korea as the host city** of the GCF. In accordance with paragraph 22 of the Governing Instrument, this decision was endorsed by **decision 6/CP.18** of the Conference of the Parties (COP) at its eighteenth session in Doha, Qatar, in December 2012.

At its fourth meeting of the GCF Board held in Songdo, Rebublic of Korea on 26 - 28 June 2013, the GCF Board selected by **decision B.04/17** Ms. Héla Cheikhrouhou as the GCF's inaugural **Executive Director**.

In line with COP decision 6/CP.18, the interim arrangements terminated before the nineteenth session of the COP, as the GCF Board, by its **decision B.05/10** from the fifth meeting of the GCF Board held in Paris from 8 – 10 October 2013, approved the **establishment of the GCF Secretariat** with immediate effect, as the fully independent Secretariat foreseen in paragraph 19 of the Governing Instrument.

At its seventh meeting of the GCF Board held in Songdo from 18 – 21 may 2014, it was decided that the eight **essential requirements for the GCF to receive, manage, programme and disburse financial resources, as listed in Annex XXII of the decision B.05/17, have been met**; which was reflected in decision B.07/09.