

Annex I: Initial Strategic Plan for the GCF

1. Introduction

As an operating entity of the financial mechanism of the UNFCCC and of the Paris Agreement, and the largest multilateral climate fund, 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.

In line with its responsibilities, the GCF Board has taken many important policy and operational decisions pursuant to its mandate as articulated in the Governing Instrument, including the adoption of the essential requirements for the Initial Resource Mobilization, and accreditation of national, regional and international entities. The actions of the Board have instilled confidence in the Fund, which was manifested in pledges amounting to US\$10.3 billion for the Initial Resource Mobilization (IRM), which secures financing for the 2015-2018 programming period. This allowed the Board to establish three pilot programmes amounting to up to USD 900 million at its 10th meeting, and approve the first funding proposals amounting to USD 168 million at its 11th meeting.

After the GCF's rapid operationalization, valuable opportunities remain to be seized and policy gaps and challenges remain to be addressed that would leverage the GCF's full potential. In this initial phase of operations, core challenges and priorities include programming the GCF's resources at scale while ensuring the highest level of transformational ambition and a robust reflection of the GCF's guiding principles throughout its operations. Seizing these opportunities and addressing remaining policy gaps and challenges is expected to be a continuous learning process.

Consequently, the Board has decided to set out a strategic plan to guide the GCF as a continuously learning institution with a view to achieving its overarching objectives outlined in the Governing Instrument. In that sense, the strategic plan will be reflected in the development of the GCF's work plans.

Furthermore, the strategic plan seeks to articulate to the world the vision and operational priorities of the GCF, thereby making it more accessible to countries and strengthening its partnerships with national designated authorities/focal points and accredited entities.

The draft strategic plan sets out the Board's strategic vision for the GCF, which extends beyond the IRM period, as well as core operational priorities for the IRM period, which are substantiated by an action plan. The action plan is to be implemented over the course of the IRM period, with its expected time frame of 2016-2018. It serves to address policy gaps and to invest the Fund's resources in transformational climate action in a country-driven manner. The action plan will be reflected in the Board's annual work plans throughout the remainder of the IRM period.

The GCF Board intends to review the strategic plan as part of each replenishment process with a view to revising the strategic vision if and as needed and to update

the core operational priorities and underlying action plan for the coming replenishment cycle taking into account evolving priorities including COP guidance.

2. The Board's Strategic Vision for the GCF

a. Promoting the paradigm shift towards low-emission and climate-resilient development pathways

The GCF will support developing countries in the implementation of the ambitious Paris Agreement, whose aim is to enhance the implementation of the UNFCCC including by holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, enhancing adaptive capacity and fostering resilience, and making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. Based on its mandate defined in the Governing Instrument, the GCF will do so by promoting a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. The GCF is therefore challenged to turn this abstract vision into practice.

While this document doesn't strive to provide a further definition of the concept of paradigm shift, other than that already provided in the GCF's Initial Investment Framework, Board/Alternate members, in the Informal Board Dialogue, highlighted the following components as being important:

- financing **innovative projects and programmes**, inter alia supporting the application and dissemination of cutting-edge climate technologies, which are characterized by the **highest levels** of mitigation/adaptation ambition, that can be scaled-up and/or replicated or lead to fundamental changes in behaviors and/or investment patterns;
- **programming resources at scale** while seeking to maximize impact as well as achieve a **balanced allocation** between mitigation and adaptation activities and a particular focus on supporting those developing countries particularly vulnerable to the adverse impacts of climate change, including LDCs, SIDS and African States;
- ensuring **full country-ownership** through its operational modalities and by providing adequate support to build the required country capacity;
- ensuring **transparent and inclusive procedures** with respect to all GCF-related activities; and
- **crowding-in and maximizing the engagement of the private sector** in financing and implementing the paradigm shift towards low emission and climate resilient development pathways.

b. Supporting the implementation of the Paris Agreement within the evolving climate finance landscape

Developing countries' Intended Nationally Determined Contributions (INDCs) to the Paris Agreement are an important reference point for the Fund's programming, as are National Adaptation Plans of Action, National Action Plans, Technology Needs

Assessments and Nationally Appropriate Mitigation Actions. The Fund will provide support in terms of finance, capacity building and technology transfer. By taking a holistic approach and by offering countries a menu of choices both in terms of delivery channels and instruments, the Fund is well placed for this task.

To achieve maximum impact, the GCF should build on its comparative advantages and operate in coherence with the existing climate finance institutions. These include its ability to:

- programme and manage financing at scale;
- engage in partnerships with both public and private actors at various levels;
- take on risks that other funds/institutions are not able or willing to take, including risks associated with deploying innovative climate technologies;
- pilot and potentially scale-up and replicate innovative approaches;
- deploy the full range of financial instruments at its disposal;
- leverage additional financial inputs from innovative and alternative sources; and
- leverage its status as an operating entity of the financial mechanism of the UNFCCC to set new standards with regard to country ownership, direct access and level of ambition impacting the global practice of climate finance beyond its immediate engagement.

3. Operational Priorities

After only its initial capitalization, the GCF is the largest dedicated multilateral climate fund with pledges amounting to US\$10.3 billion for the 2015-2018 programming period. Consequently, the Board has set an aspirational approval target of US\$2.5 billion for 2016. Furthermore, the Board has decided that it will initiate a formal replenishment process once the Fund's cumulative funding approvals exceed 60 per cent of the total contributions, confirmed by fully executed contribution agreements/arrangements, received during the IRM. The Board envisages that it is likely to occur by end-June 2017. These numbers exemplify the Fund's ambition and potential to support ambitious climate mitigation and adaptation action in developing countries at unprecedented scale. What is crucial, however, is that the Board's ambition to get the Fund off the ground and up to scale swiftly does not compromise on its ambition to promote cutting-edge innovation and real transformation towards the low-emission and climate-resilient future that the global community committed itself to in the Paris Agreement. Only by setting the highest standards in terms of ambition and country ownership, and by ensuring that the Fund's unique guiding principles are ingrained throughout its processes – including those within its accredited entities – from the very beginning, can the Fund make the strongest possible contribution.

Hence, core operational priorities particularly for the IRM period will be:

- (1) allowing the GCF to scale up its investments in developing countries with the objective of tapping its full potential to promote urgent and ambitious actions

enhancing climate change adaptation and mitigation in the context of sustainable development;

- (2) maximizing its impact by supporting projects and programmes that are scalable, replicable and employ GCF resources in the most efficient manner by, inter alia, catalyzing climate finance at the international and national level, including by maximizing private sector engagement;
- (3) setting out the approach of the GCF to programming and investing the full amount pledged for the 2015-2018 programming period, while striving to maximize the impact of its funding for adaptation and mitigation, and to seek a balance between the two;
- (4) ensuring that the GCF is responsive to developing countries' needs and priorities including by enhancing country programming and direct access e.g. through enhanced support for accreditation of NIEs, ensuring fast disbursement, implementing a gender-sensitive approach, supporting multi-stakeholder engagement, ensuring the effective use of funds and enhancing transparency;
- (5) proactively communicating the GCF's ambition in terms of both scale and impact as well as its operational modalities with a view to enhancing predictability and facilitating access.

4. Action Plan

The action plan lists key strategic measures that the Board intends to promote. These serve to implement the operational priorities identified above¹. Most measures contribute to the achievement of more than one operational priority.

A. Prioritizing Pipeline Development

Consistent with Board Decision B.08/13 (Annex XIX, Para 27), the Fund will develop a pipeline against the total amount of pledges. Prioritizing the development of a pipeline of country-driven, high-impact projects and programmes has the potential to (1) scale up investment to achieve this goal and meet the aspirational goal of committing USD 2.5 billion in 2016, (2) allow for a more strategic approach to programming the Fund's financial resources to meet, among other things, the strategic objectives of the GCF as well as the replenishment trigger of committing 60 per cent of the total contributions, confirmed by fully executed contribution agreements/arrangements, received during the IRM and (3) enhance responsiveness to countries' needs and country ownership².

Through its Readiness Programme and direct engagement with NDAs and AEs, the GCF has undertaken efforts towards further developing its pipeline. Additionally,

¹ Note that many of these strategic items will be linked with other items on the Work Plan for 2016, and will be referenced throughout. The strategic plan will also be closely linked with the Accreditation Strategy and the Communications Strategy, both of which are scheduled for consideration at B.12, B.13 and B.14

² Approval of country ownership guidelines are scheduled for consideration at B.12

once the project preparation facility agreed upon at B.11 is fully operational, Accredited Entities will be able to apply for funding of up to 10% of requested GCF funding and a maximum of US\$1.5 million for feasibility studies etc.

However, to meet its strategic goals and address the associated operational challenges, the GCF needs to significantly step-up its efforts and accelerate its pace to ensure that the pipeline meets the transformational ambition of the GCF. In this regard, the current GCF readiness support for developing countries must be significantly enhanced to establish and strengthen the capacity of their NDAs and NIEs and to prepare their country programmes. Against this background, supporting the development of a Fund-wide pipeline of transformational projects and programmes that meet the Fund's investment criteria and allow the GCF to scale up its investment commensurate with the resources available for the IRM period is of utmost importance. Hence, the Board intends to prioritize pipeline development by:

- providing enhanced readiness support³ by
 - building on an analysis of (a) the shortcomings or bottlenecks of the current readiness activities, (b) readiness needs in developing countries and (c) best practice and lessons learned from current readiness activities to encourage peer to peer learning;
 - following a focus strategy to engage and support NDAs/FPs in developing country programmes, concept notes and funding proposals that have the potential to yield an impact at scale and contribute to the implementation of countries' priorities as identified in INDCs or other national strategies and plans.
 - facilitating and supporting a structured dialogue involving the Secretariat, NDAs, relevant AEs, and other country stakeholders, including the private sector, to develop country programmes and determine which priorities identified by country strategies (INDCs, LEDS, NAPAs, NAMAs, etc.) are the best match for GCF support. The structured dialogue will aim to help NDAs to identify the best AE and other partners and help them design programming that meets the investment criteria of the GCF.
 - offering NDAs a standardized template with questions guiding the development of country programmes;
 - allocating sufficient resources for the Readiness Programme and the respective Activity Areas; and
 - speeding up the disbursement of funds already approved under the Readiness Programme irrespective of the status of agreements with regard to P&I for GCF staff.
- proactively engaging in high-level consultations with NDAs/FPs and AEs related to the identification of national or regional priorities and programmes that meet the Fund's investment criteria;

³ Presentation of simplified process for readiness requests and review of the readiness allocation system are scheduled for consideration at B.12

- identifying opportunities for the GCF to add value by co-financing projects and programmes together with the GEF, the Adaptation Fund or Multilateral Development Banks. Particularly in the early stages of operations, this might be a way of scaling up quickly and capitalizing on and learning from the knowledge and experience of these institutions;
- making increased use of simplified RFPs aimed at the public and private sector in consultation with the NDAs/FPs targeting promising and innovative approaches ensuring that successful RFP proposals can demonstrate a viable path to accreditation and plan to ensure country ownership;
- developing replicable approaches and potentially standardized products that would allow proven approaches to be rapidly rolled out in new locations where they match priorities identified in consultation with NDAs/FPs; and
- operationalizing results-based payments for REDD+ in line with COP guidance and the Governing Instrument, evaluating the implementation of results-based payments, and assessing its applicability to other sectors within the purview of the GCF.

B. Strengthening the Fund's Proactive and Strategic Approach to Programming

Strengthening its proactive and strategic approach to programming is key to delivering country-driven and country-owned, high impact public and private sector proposals at scale on a meeting-by-meeting basis. In order to be able to do so, the Board and the Secretariat must gain a better understanding of the objectives of and funding requests from developing countries, the project and programme pipelines that NDAs/FPs and AEs are planning on submitting to the Fund, and remaining gaps that the Fund needs to address pro-actively.

In addition to triggering pipeline development, a proactive and strategic approach to programming also requires the Fund to retain capacity to identify key priorities, approaches, and themes, as it evolves and better understands where it can add value. In this regard, the GCF plans to:

- request all accredited entities to submit annual or multi-annual work programmes, prepared in consultation with NDAs/FPs. Accredited entities are encouraged to actively participate in the structured dialogues described in Section 4 (A) with a view to preparing future work programmes. These work programmes should be prepared based on a standard template to be provided by the Secretariat. They should identify and describe the projects, programmes and other activities, their indicative costs, and how they would be a good fit for the GCF, for each of the countries that the respective AE intends to assist. The Secretariat will then consolidate the annual work programmes into one document to be submitted to the Board for information and discussion. The Board will take this input into account for planning purposes. As these work programmes are non-conclusive, AEs may submit proposals, including in response to RFPs, which are not included in their work programmes.

- carry out a market survey of what is needed to support climate action (e.g., an analysis of those country priorities in which countries have the most difficulty attracting finance) and successes or innovative ideas that could be built upon. This would help identify areas where countries have struggled to mobilize finance and figure out how the GCF could address the relevant barriers, and how to develop its policies and expertise to do so. The survey could also help define GCF RFPs and replicable approaches/standard products in the future.

C. Enhancing Accessibility and Predictability⁴

For those seeking GCF support for climate action in line with countries' needs and priorities as well as the Fund's investment framework, the Fund's resources should be accessible at reasonable up-front cost and low risk. In that sense, enhancing accessibility and predictability can make an important contribution to engaging a wide variety of stakeholders and to scale up investment.

Thus far, the GCF has made efforts to enhance predictability and accessibility through direct engagement with a wide range of stakeholders and broad presence and visibility in international fora, particularly the UNFCCC negotiations. Additionally, the Secretariat has directly engaged with NDAs and AEs with a view to further developing concept notes and funding proposals in line with the Fund's investment criteria. Furthermore, the GCF has taken steps to enhance stakeholders' understanding of the GCF's operations and processes through its updates to its website and by publishing the Elements booklet. Despite these efforts, the GCF's current pipeline demonstrates that many stakeholders are still hesitant to engage with the Fund. Thus, the GCF intends to

- strengthen its proactive and strategic approach to programming, thus enhancing predictability through a more transparent planning of its financial resources (cf. Section B).
- survey stakeholders including NDAs, AEs, other delivery organizations, PSOs and CSOs with a view to gain a better understanding of what the barriers for engagement are.
- signal more clearly what kinds of projects and programmes it is looking to finance. This requires providing improved and coherent guidance on the Fund's investment criteria, risk appetite, standards and processes to be published on the website and communicated through the Fund's communication channels and the Readiness Programme. Finalizing minimum benchmarks in line with decision B.09/05 can further serve to enhance predictability and accessibility to the Fund's resources.⁵
- streamline and, wherever appropriate, simplify its processes and templates particularly for micro-scale activities in LDCs and SIDS.

⁴ Approvals Process Review are scheduled for consideration at B.12 and B.13, and the further development of the initial proposal approval process are scheduled for consideration at B.13

⁵ Indicative minimum benchmarks are scheduled for consideration at B.13

- revise the proposal approval process based on the review decided in B.11/11 and simplify proposal approval procedures as appropriate.

D. Maximizing the Engagement of the Private Sector

To date, the GCF has established the Private Sector Facility, has accredited three private sector entities, decided to establish a MSME Pilot Programme worth up to US\$200m and a Private Sector focused Pilot Programme for Mobilizing Funds at Scale worth up to US\$500m, and it has approved two private sector proposals with a GCF funding volume of US\$ 47.

In order to tap the full potential of its unique features including the Private Sector Facility, the Board aims to crowd-in and maximize the engagement of the private sector at the national, regional and international level in financing and implementing the paradigm shift towards low emission and climate-resilient development pathways in line with developing country's needs and priorities. To this end, the GCF intends to:

- analyse barriers to crowding-in and maximizing the engagement of the private sector, including based on a survey amongst private sectors actors. Contingent on the findings of this analysis, the GCF intends to develop a private sector outreach plan.
- reconsider the extensive recommendations already provided by the PSAG, pertaining inter alia to the need to undertake actions to enhance the capacity within the Secretariat, to assess the accreditation procedures for private sector entities, to enhance private sector involvement within the readiness programme and to spell out the GCF's ability to reduce currency risks.

E. Building Adequate Institutional Capabilities

In order to achieve its operational priorities, the GCF has to ensure adequate institutional capabilities. In this regard, the Board intends to

- further build and maintain a well-staffed Secretariat⁶ that can deliver all of its functions as provided in the GI, including risk management, monitoring and accountability⁷, readiness, managing RFPs, and the project preparation facility⁸. The GCF will strive to attract and retain the high levels of expertise required to carry out GCF operations and retain institutional knowledge over time;
- improve the efficiency of the Board's processes, including decision-making related to funding proposals. Considerations include the implementation of simplified procedures for approvals or the delegation of funding-decisions for

⁶ Approval of updated administrative budget and staffing as a decision in between meetings (B.11-B.12)

⁷ Further development of some indicators in the PMF are scheduled for consideration at B.12 and Adopt ToR for the independent evaluation of the Readiness and Preparatory Support Programme are scheduled for consideration at B.14

⁸ Review of the Project Preparation Facility are scheduled for consideration at B.14

certain kinds of proposals, as well as by mandating a committee to present recommendations on funding proposals to the Board;

- finalize the operationalization of the three independent accountability units, including providing sufficient staff and resources to carry out their duties⁹;
- review the role and structure of panels and groups that provide independent advice to the Board to ensure that they remain complementary to the role of the Secretariat, while also ensuring that Panels and Groups have the necessary resources and expertise to complete their duties to the highest level¹⁰;
- strengthen the role of NDAs by providing sustained support through the Readiness Programme and facilitate the dialogue between NDAs and AEs by more closely defining their respective roles (including vis-à-vis the Fund) and by offering a platform for knowledge sharing and a marketplace for ideas; and
- assess whether the role of the interim trustee should be enhanced to facilitate the administrative execution of funding decisions.

5. Process for the implementation/further development/revision/update of the Strategic Plan

The strategic plan for the GCF is a living document, which the Board intends to review as part of each replenishment process taking into account evolving priorities including COP guidance. The strategic plan will be reflected in the GCF Work Plans by providing high level strategic guidance on how individual items can better contribute to the overall objectives of the GCF, and on whether any course corrections are needed.

Hence, to ensure the successful implementation of the strategic plan, the Board intends to consider the operational priorities and action plan included in this document when considering the related agenda items included in the Work Plan for 2016, and subsequent Work Plans. Linkages between the strategic plan and the 2016 Work Plan are referenced in footnotes throughout this document and include the accreditation and communications strategy, the Readiness Programme, the approvals process, the investment framework, the risk management framework, independent accountability units, GCF groups and panels, and staffing.

As the strategic plan, particularly the operational priorities, is further updated and revised based on operational experience, new elements may need to be considered by the Board. The strategic plan will be used as a tool to identify such elements, to enable their inclusion in the relevant annual Work Plan.

⁹ Appointment of the Heads of the Independent Accountability Units including performance based Contracts are scheduled for consideration at B.12 (progress report) and B.13, and Interim Redress Mechanism are scheduled for consideration at B.12 and B.14

¹⁰ Approve ToR for the Review of ITAP are scheduled for consideration at B.13 and Review of ITAP are scheduled for consideration at B.14, Approval of ToR for the Budget Committee, and election of members are scheduled for consideration at B.12, and Adopt ToRs and initiate the review of the Committees and Groups are scheduled for consideration at B.14