GCF/16-12-2015

16 December 2015

Compilation of submissions for the strategic plan for the Green Climate Fund

Table of Contents

I. Introduction

1. At its eleventh meeting, the Board took decision B.11/03 relating to the strategic plan for the GCF. In paragraph (g) of the decision, the Board invited "members of the Board/alternate members of the Board, active observers and observer organizations to make submissions to the Secretariat on the elements contained in paragraph (c) [of decision B.11/03] … by 1 December 2015".

2. A total of 24 submissions were received in response to this invitation. These submissions were received from:

(a) Board members:

(i) Mr. Omar El-Arini, Board member from Egypt and Mr. Zaheer Fakir, Board member from South Africa, on behalf of the African Board constituency

(ii) Mr. Henrik Harboe, Board Member from Norway

(iii) Ms. Andrea Ledward, Board Member from the United Kingdom

(iv) Mr. Leonardo Martinez-Diaz and Mr. Ricardo Nogueira, Board and alternate members from the United States of America

(v) Mr. Ewen Mcdonald, Board Member from Australia

(vi) Mr. Karsten Sach, Board Member from Germany

(vii) Mr. Stefan Marco Schwager, Board member from Switzerland, on behalf of the Constituency of Finland, Hungary and Switzerland

(viii) Mr. Anders Wallberg, Board Member from Sweden

(ix) Mr. Jacob Waslander, Board member from The Netherlands and Mr. Morten Elkjær, alternate member from Denmark, on behalf of the Dutch-Danish-Luxembourg BoardActive observer organizations:

(b) Active observer organizations:

(i) Ms. Gwen Andrews and Mr. Abyd Karmali, on behalf of private sector observers;

(c) Observer organizations:

(i) Action Aid;

(ii) African Development Bank;

(iii) Agence française de développement;

(iv) Association pour l'Intégration et le Développement Durable au Burundi

(v) Center for Clean Air Policy;

(vi) DIFFER;

(vii) Heinrich Böll Stiftung North America;

(viii) Indigenous peoples organizations;

(ix) Interamerican Association for Environmental Defense;

(x) Oxford Climate Policy;

(xi) Swiss Federation of Small and Medium Enterprises;

(xii) United Nations Industrial Development Organization;

(xiii) World Bioenergy Association; and

(xiv) World Resources Institute.

3. This compilation contains all of these submissions, presented as received, without formal editing.

Mr. Omar El-Arini Board member from Egypt and Mr. Zaheer Fakir, Board member from South Africa, on behalf of the African Board constituency

Submission on the Strategic Plan of the Fund

This submission is presented in response to Board Decision B.11/03. This submission adds to, and should be read in conjunction with, the previous submission made by Egypt and South Africa on behalf of the African Board constituency. A further submission will be made following the conclusion of COP21.

A key outcome of the Strategic Plan of the Fund is to significantly advance the Fund's approach to country programming with the dual focus of strengthening national institutions from the public and private sectors to access the fund via the accreditation process and the building of high impact programmes and pipelines at scale that can be financed.

One core reason for a strategic approach to the development of the GCF's pipeline, as well as the corresponding country pipelines, and work programmes of accredited entities, is to ensure the Board is delivering and operationalizing the objectives of the Fund as articulated in the Governing Instrument. This is further required to ensure that the Board is approving country driven and owned, high impact proposals on a meeting-by-meeting basis in order to trigger the first replenishment no later than June 2017.

The African members welcome the Board's decision to set an approvals target for 2016 at US$ 2.5 billion. We believe a core elements of the Plan would be that the Board is able to, at a minimum, adopt approaches and policies that would see a trebling of the Fund's pipeline no later than June 2017.

In order for the Board to meet the 2016 approvals target, the Board on a meeting-by-meeting basis would need to approve proposals for the 3 meetings in the range of approximately US$850-930 per meeting.

Further, if we assume that the 60% trigger for the replenishment is based on the total pledged amount of US$10.2 billion and that the target date is still June 2017 (set out in Decision B08/13), between GCFB12-GCFB16 (5 meetings) the Board would need to approve more than a billion dollars per meeting in the five meetings B12 - B16, or an increase of more than US$ 800 million over the inaugural approvals in Zambia. If the Board decides that the trigger would be based on the current status of contributions agreements at B.11 of US$ 5.8 billion, the Board would need to approve US$ 3.48 billion at approximately US$ 680 million per meeting during the same period.

Even at the low end of programming the Fund would need a significant increase to its current pipeline of 29 projects, of which 4 are at Stage 2 (Second Level Due Diligence by the Secretariat, and 1 private sector project is at Stage 3 (Independent Assessment by ITAP). The 24 remaining proposals are at Stage I (Funding proposal receipt and completeness check). It is not clear at this stage how far the pipeline can be stretched to meet either the meeting-by-meeting approvals or the annual spending target for 2016.

The African Members welcome the Board's approval of decision on country programming and the Accreditation strategy. The ethos of the Fund is developing country ownership and country programming. In this regard utilizing the direct access modality at scale with dedicated grant support to proposal is critical. In terms of the agenda on country ownership, there is some concern from developing country members that the importance of coherence and substantive country programming approaches has not been addressed by the Board in a holistic manner.

In particular, there is a view that the Board requires a more coherent approach to the operationalization of Focal Points/ National Designated Authorities, including the consideration of funding for the sustainability of their activities. But also the need for a standardized approach to the preparation of low emission and climate resilient development strategies/plans based on a standard template.

In terms of accreditation process to date, the Fund has accredited 20 entities, of which 5 are National Entities, 4 Regional Entities and 11 International entities. However, of the 6 national entities 4 can only do projects to a maximum of US$ 10 million, 1 can do up to a maximum of US$ 50 million and only 1 can do above the maximum of US$ 250 million. Furthermore, the risk profile of accredited entities is yet to be assessed based on their capacities to implement multiple proposals. Hence large International Commercial and Development Banks will dominate the Fund and its resources. This needs to be rectified. The Strategic Plan needs to increase the volume of funds national entities can access so as to give the direct access its true meaning.

The Strategic Plan needs to reinforce the uniqueness of the GCF to promote direct access and ensure not only a greater number of National Entities are accredited but also accredited to access a greater volume of resources than at present. Furthermore, the fact that we are accrediting so many international commercial and development banks would translate to a higher amount of loan instruments being utilized. We need to further strengthen Focal Points/NDAs in their role of ensuring country ownership and driveness of all GCF engagements within their countries.

In relation to the above information, a set of core targets and goals for approvals process will need to be adopted to substantially increase the volume of the Fund ‘spipeline. In order to achieve this, we sugget the following measures be considered:

i) **Enhanced Country Programming:** The plan could include a focus strategy for engaging the NDA/FPs in strengthening the country pipelines by encouraging NDAs/FPs to submit project concept notes and/or investment plans that could be approved by the Board. It is critical that we initiate this now to ensure the scaling-up of the Fund’s pipeline prior to the first replenishment period.

ii) **Regional Programmes and Prioritization:** Another consideration is for the Fund to initiate high-level consultations with NDAs and Accredited Entities related to identification of regional priorities and programmes. For example, African Heads of State and Government have endorsed two high level regional programmes addressing renewable energy and adaptation and loss and damage finance. There is also a high-level work programme on climate action in `Africa which was adopted by African Heads of State in January 2015. All these programmes can be further developed and utilized to access resources in consultations with NDA and accredited entities.

Submission from Henrik Harboe, Board Member for Norway

Relating to **DECISION B.11/03** of the Board of the Green Climate Fund, inviting members of the Board to make submissions to the Secretariat by 1 December 2015, in order for the Secretariat, under the direction and guidance of the ad hoc group of members, to present a strategic plan for the Green Climate Fund for consideration and possible approval by the Board at its twelfth session.

Comments on the process

For the strategy process to be good, enough time should be allowed for writing a good draft, for consultations and for thorough board-consideration. There will be limited time between the informal board meeting and the March-meeting, and therefore in all likelyhood insifficient time to write a high-quality board document on GCF's strategy. The timeline for the process therefore needs to be discussed.

Since GCF is here to serve developing countries with a strong emphasis on country ownership, it will also be important to involve client countries directly in the strategy process to get their perspectives and feedback. We need to discuss ways of involving them in the strategy process.

General considerations for the strategy

The approval of the first set of projects and programs during B 11 also meant the first coming together of the institutional arrangements and the operational modalities of the GCF. With this, the fund reached a new stage, and the Secretariat and the Board gained valuable experience and insight.

This insight provides us with a foundation on which to assess institutional arrangements and the operational modalities and formulate a strategy for the GCF: **A strategy that *clearly articulate to the world the vision and operational priorities of the GCF thereby making it more accessible to countries and strengthening its partnerships with NDAs/FP and accredited entities.***

Norway believes Decision B.11/03, points (b) and (c) gives a good summary of what the strategy should address and include, and hereby reiterate its support of these points.

We do however have a few additions, or perhaps specifications, we would like to add to this.

Specific Considerations

1. **PILLARS OF THE STRATEGY**

   In our view, the following represent the objectives and guiding principles of the GCF, which the GCF should be measured against:

   Finance:

   a. Make an ambitious contribution towards combating climate change;
   b. Catalyse public and private climate finance at the international and national levels;

   Operations:

   c. Promote the paradigm shift towards low-emission and climate resilient development pathways;
   d. Pursuing a country-driven approach;

e. Maximize the impact of its funding;
f. Being a continuous learning institution.
g. Inclusiveness and transparency,

Geographically:

h. Particular focus on supporting those developing countries particularly vulnerable to the adverse impacts of climate change, including LDCs, SIDS and African States;

These should therefore be clearly reflected throughout the strategic vision, and guide the further development of the Fund's operating modalities and institutional arrangements.

That implies, for the operating modalities, encouraging and facilitating engagement with both public and private sector, to fully develop its wide range of financial products and to advance the Funds capacity to bear significant climate risks.

We therefore also strongly advise against the introduction of any sort of quota system in the operating modalities. This would prematurely micromanage the future development of the fund, and essentially limit the funds ability to deal with challenges in an appropriate and balanced manner while simultaneously maximizing the impact of its funding towards the much needed paradigm shift. Furthermore, a quota system would also in effect transfer decisions from the country level to the GCF Board and Secretariat, and as such reduce country ownership.

Another implication is that risk appetite, being reputational or financial, should reflect the aspiration to advance transformational change, and therefore be open to testing new approaches to low-carbon and climate-resilient development.

Scaling up of global efforts also have to guide the further development of the **Fund's institutional arrangements**. That means that the function, capacity and competence of the Secretariat and the Board, as well as the Committees, the Technical Advisory Panel, the Private Sector Advisory Group and the National Designated Authorities, have to be so that it advances a scaling up of global efforts in the way prescribed.

2. CLIMATE AND MORE TRADITIONAL DEVELOPMENT ASSISTANCE

The GCF is a climate fund with the objective to support climate change adaptation and mitigation activities in developing countries. While there is an overlap between climate and more traditional development assistance, and perhaps especially so between climate change adaptation and disaster risk reduction. The strategy has to address this and clearly define GCF's role within this broader landscape, to guide both its partners and the Secretariat and the Board in its operationalisation of the Fund.

3. THE GCF IN THE CLIMATE ARCHITECTURE

It is important that the formulation of a new strategy is carried out with a stronger awareness of what other institutions and mechanism are doing. This is important both in order to bring clarity to where the GCF has its comparative advantage, and to maximize complementarity and coherence with other institutions and mechanisms. The latter is also crucial to encourage e.g. sharing of practises and learning.

One such example: We observe that only few countries have submitted country-programming document, which would guide the development of a project or programme pipeline. Before we

ask the Secretariat to propose measures, it could be helpful to have a closer look at what other climate finance institutions and their clients have developed. This to avoid duplication and see if there is something that can be used directly, or further developed.

Furthermore, and to avoid the GCF duplicating other funds, the GCF needs to develop in its own way, differently from other climate funds and from funds financing sustainable development in general. One area not covered by many other funds is results-based financing (se point 6 below). We propose this as an area of focus for the GCF.

We also, based on the arguments above; urge inclusion of other climate institutions and mechanisms in the strategy process.

4. NATIONAL OWNERSHIP IS CRITICAL

As we look at the GCF in the global climate architecture, we should also look at the role of national ownership in general, and the NDA in particular, within the national climate architecture.

As we scale up national efforts, there is a need to ensure the right selection and prioritization of projects and programmes, and avoid duplication and ensure coherence so that operations reinforce one another. This can only take place at the national level, and if it includes <u>all</u> climate operations.

We therefore encourage the process to look at national ownership more broadly, e.g. the role of Ministries of Planning and Finance, first, and secondly on what the role of the NDA specifically should be.

In our view, a wider look at national ownership also bears relevance to the Fund's aspiration of being holistic, transformative and initiating a paradigm shift. We believe the before mentioned Ministries of Planning and Finance has an important role to play in this regard, and they should be included in the outreach that will be done as part of this process.

5. INCLUSIVENESS AND TRANSPARENCY

We believe that the Fund's disclosure policy must be revised to improve the transparency of the proceedings of the Secretariat. It should allow the Secretariat to publish on the Fund's website a list of all entities which have applied for accreditation, including information on which phase of the accreditation process they are in.

Transparency will also have to be improved in the initial proposal approval process, especially in concept development. NDAs/focal points should be fully informed about the discussions between Secretariat and implementing entity.

Finally yet importantly, transparency will have to be ensured in project implementation by making comprehensive information available in a timely manner in order to ensure effective engagement of stakeholders, including civil society, in monitoring ongoing projects.

With this degree of transparency, transparency will also become a tool for inclusiveness. We hope to see this reflected in the strategy, as well as in the further development of the Fund.

6. ALLOCATION OF RESOURCES AND RESULT BASED FINANCING

The Initial Investment Framework, particularly the GCF's investment criteria, subcriteria and assessment factors does not sufficiently ensure that the projects and programmes suggested to the Board serve to maximize the impact of GCF funding.

From our point of view, **improved transparency** throughout the accreditation process as well as the project development and decision process, would be one of several measures that would help increase the overall scrutiny of proposals, and as such lead to increased ambition and incentivize the selection of the most ambitious and transformational proposals.

We also believe the Fund has to develop result-based financing (RBF) further, for several reasons, among them the issue of maximum impact and project selection.

RBF is already acknowledged as an instrument applicable to the GCF. Paragraph 55 in the Governing Instrument states that ”The Fund may employ results-ased financing approaches, including, in particular for incentivizing mitigation actions, payment for verified results, where appropriate.” Moreover, at GCF’s fourth Board Meeting, “performance-based payments” was included as one of several instruments for providing financing (Business Model Framework: Financial Instruments (B04/06), item 37-39). The eight Board meeting adopted the initial logic model for REDD+ results-based payments and the performance measurement framework (PMF) for REDD+ results-based payments.

Furthermore, RBF is already widely and successfully used in the financing of energy projects in many parts of the world. We se significant benefits of RBF in financing energy efficiency and renewable generation capacity projects.

In our view, RBF is particularly interesting for the GCF for the following reasons:

- **Achieves scale and transformational change.** RBF is particularly suited to catalyse private funding flows, stimulate innovation and drive cost effective solutions. RBF has the ability to enable transformational change, through the development of functioning markets that will continue to replicate activities also after the funding period. For instance, the direct access projects that potentially run through the Private Sector Facility are good candidates for RBF-funding.
- **Increases country ownership**. RBF is a well-tested financing instrument used to stimulate domestic, private funding, to increase focus on key results and to appropriately allocate the responsibility for delivery of results, and payment for results, between implementer and contributor/financier, respectively. Hence, through implementation of RBF-financed projects, the countries’ ownership to the mitigation actions are increased
- **It is not picking winners upfront, but giving everyone a chance, based on results, and not reputations.** An RBF mechanism is not giving a competitive advantage to a selected well known few, but rather gives all eligible players the chance to achieve results and thereby get access to financing from GCF.
- **Is administratively easier for the Board and the Secretariat**. GCF has a limited capital base and must apply mechanisms that ensure a good cost/benefit where appropriate. RBF can reduce the challenges of selecting and prioritising between projects and reduce the administrative burden of the Board and the Secretariat.
- **Implies lower risk for GCF**. Payment for results implies per definition capital spending at a low risk.

- **Stimulates the engagement of commercial capital**. A stated ambition of the GCF is to "catalyse private funding flows, bringing public and private sources together to maximise their transformative impact". RBF has the potential to become a strategically important mechanism as it is suited to stimulate multiple implementers simultaneously with the same financing structure, enabling rapid replicability and scale.

On the other hand, RBF can only be used when the conditions for doing so are right, and it is clearly not appropriate in all projects funded by GCF:

- Payments should be made contingent on delivery of pre-agreed and measurable results being subject to independent verification.
- RBF should be considered when it subsidises the output in the market by addressing positive externalities, and it might be preferred to conventional approaches when it is important to effectively mitigate or manage the delivery risk and financial risks of projects.
- Sufficient financial resources to cover upfront costs prior to delivery of results should be available. With a guarantee from GCF that the project will get "rewards" for achievement of verified results, capital providers (e.g. commercial banks), who are experts in assessing the risk of not recovering their money from loan-takers, will be able to finance the projects that they find fundable within their risk profile.
- A system for measuring, reporting and verifying must be in place.
- The main risks should be within the control of the entity producing the results.

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Submission by the UK Board member on the Strategic Plan for the Green Climate Fund

Introduction

This submission responds to GCF Board Decision B 11/03 which calls for the development of a Strategic Plan for the GCF. The GCF Governing Instrument sets out a long-term vision for the GCF and the role we expect it to play in driving transformational change and in delivering climate finance at scale.

Until the 11th Board meeting, the Fund has been focused on achieving the "operational requisites", that is, completion of the operational modalities that enable the Fund to receive, appraise and approve funding proposals. The design framework for the GCF – such as the Investment Framework and the Results Management Framework - is now established, and the GCF processes- including the Accreditation and ITAP have now all been tested for the first time.

The Green Climate Fund is now moving into a new phase of operation, requiring a shift in focus and priority.

Purpose of a Strategic Plan for the GCF

The GCF is the largest dedicated climate fund and is set apart from other climate finance funds and institutions because of its:

- Ability to operate at scale and deliver a high volume of finance;
- Ambition to deliver a paradigm shift including through innovation and an appetite for higher-risk, high-reward approaches;
- Offer on access to finance through different routes and with the full range of financial instruments and terms;
- Unique focus on working with and through the private sector; and
- Underlying principle of country ownership, building the capacity of national institutions to manage and oversee climate finance flows.

We suggest that the Strategic Plan should not attempt to redefine the long-term vision or unique role for the GCF, but should focus on identifying priorities for the shorter timeframe of the Initial Resource Mobilisation (IRM) period.

The articulation of a clear set of priorities for the IRM period through the Strategic Plan will help to improve the performance of the GCF by:

- improving the efficiency of the decision-making by the Board, helping to streamline the operations of the Fund;
- building confidence in the GCF by providing a clearer indication of the Fund's focus and direction;
- enabling partners to develop appropriate funding proposals, improving and accelerating the development of a strong pipeline of proposals;

- giving the Secretariat a clearer signal of where their efforts and resources should be concentrated.

Elements of the Strategic Plan

The Strategic Plan should focus on the identification of a very small number of key objectives, which should aim to strike a balance between the desire to accelerate the flow of funding from the GCF to developing countries; and building the foundations on which the longer term vision for the GCF can be achieved. The Plan would also need to include proposals for achieving those objectives, and the key trade-offs that the Board will need to consider and resolve as part of that process.

Key objectives

1. The Plan needs to set out an approach to deploying the $10bn currently pledged to the GCF. With the adoption of an aspirational target for investment of $2.5bn for 2016 (through decision B.11/11), the Plan will also need to consider how to accelerate the deployment of GCF resources. This will require attention to be paid to both the demand and supply sides of the proposal development process in order to identify bottlenecks and gaps.

2. The Plan could include a suggested spend profile, indicating the Board's aspiration for the pace and volume of approvals over the remaining years of the IRM. This would need to be in line with previous decisions on allocation, and to be cognisant that funding decisions will ultimately depend on the quantity and quality of project proposals being developed.

3. The Plan could also describe the desired shape of the GCF's investment portfolio, along the lines introduced in the 'Expected Role and Impact' paper in B.09. In terms of allocation, the Plan could set out how we aim to achieve the balanced portfolio, with a significant allocation to the private sector, over the course of the IRM. This would help the Board understand what we are aiming for, whether we are on track, and to help us make decisions if we're not. It should also set out how the portfolio will be monitored and reviewed against the resource allocation decisions.

4. The Plan could set out the Board's view of its role in identifying opportunities to steer the fund's resources to gain maximum impact and leverage (as set out in the B.09 Impacts paper), including opportunities where the Board could play a role in encouraging the participation of the private sector. The plan could aim to identify the optimal balance between opportunities identified by the Board, and spontaneous proposals submitted by accredited entities, to ensure the Fund is on track to achieve its identified objectives.

5. The Plan should look at how to stimulate demand for GCF resources, including consideration of the effectiveness and impact of the readiness and preparatory support programme. It would be helpful to include a

broader focus on capacity issues throughout the proposal development chain, from NDAs all the way through to Accredited Entities. In considering capacity issues, special consideration should be given to engagement with the private sector and building coherence across the wider international ecosystem which is strengthening international, regional, national and sub-national institutions in development countries.

Implementation, Monitoring and Review

6. The Strategic Plan should identify what the measures of success for the IRM could be, and a process by which progress towards those success measures can be tracked and monitored, to allow the Board to take corrective action where necessary.

7. Once the Strategic Plan has been agreed, plans for communication and implementation of the Strategy, including any institutional implications, would need to be developed.

Andrea Ledward
UK Board Member
3 December 2015

This submission responds to GCF Board Decision B.11/03, which calls for the development of a strategic plan for the GCF. The submission seeks to provide some initial reflections on how a this discussion on the strategic plan could be framed, with a view to the U.S. Board and alternate members participating actively in a constructive informal meeting of the Board in early 2016, which we hope will lead to the development of a strong strategy.

INTRODUCTION

The Green Climate Fund (GCF) is now the largest dedicated climate fund. At its core the GCF is intended to promote a paradigm shift towards low-emission and climate resilient development. It is a major hub of climate finance, sitting within an ecosystem of international, regional, and national institutions engaged in mobilizing climate finance and related development support. It is therefore imperative that the GCF develop a clear strategy that signals to governments, civil society, the private sector, and other stakeholders what they can expect from the Fund. A clear strategy will generate more certainty and stabilize expectations, which in turn will facilitate planning by accredited entities (AEs) and enable those seeking funding from the GCF to better focus their proposals. A clear strategy will also help with accountability, helping the Board determine whether the GCF has met its transformative, paradigm-shifting aspirations.

The GCF's strategic plan should more clearly define the GCF's role within the institutional ecosystem and then identify the institutional and policy changes needed to execute that role and thus effectively work towards GCF's ultimate objective and aims as set out in the Governing Instrument. Most importantly, the strategic plan should focus the GCF even more intensely on how to bring about transformational impact in climate mitigation and adaptation by: **unleashing markets**, **enabling policy change**, and **strengthening institutions**.

PROPOSED FRAMEWORK

To assist the Board in thinking about the strategic plan, we suggest the following framework, composed of several basic questions. These questions should be considered in sequence, as each question builds on the one that precedes it.

1. Objective: What is the GCF's mission?

This should be the starting point of any strategic discussion. It is clearly stated in the Governing Instrument: "In the context of sustainable development, the Fund will promote the paradigm shift towards low-carbon 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."

2. Approaches: How will the GCF achieve its mission?

Using the GCF's objective as a starting point, it is useful to focus on a key element of that objective: *promoting the paradigm shift towards low-carbon and climate-resilient development pathways*. We propose a discussion about the meaning of that phrase and

suggest that to be truly transformational, the Fund should focus, among other things, on three areas of action. These areas are strongly reflected in the Fund's Investment Framework and Results Management Framework. They are:

- **Unleashing markets** – Unlocking the power of markets to enable innovation and transformation requires policy change, but it also requires addressing finance bottlenecks so that finance flows to climate-friendly investments. That means lowering the cost of capital for green investments, increasing the risk-taking capacity of the private sector, and supporting projects that crowd-in other funding.

- **Enabling policy change** – Transformational change requires not just "real sector" projects and programs, but also a policy and regulatory environment that helps generate incentives, change expectations, and drive behavior of all types of stakeholders in a way that supports adaptation and mitigation.

- **Strengthening institutions** – Ensuring that GCF's and all other climate finance resources are used for maximum impact means helping the institutions that will be intermediating this finance at all levels (international, regional, national, and sub-national) to grow more capable of designing proposals, implementing projects, abiding by high standards and safeguards, assessing impact, and evaluating their own performance.

3. Tools/asssets: What tools and assets does the Fund have at its disposal to advance its objective? Are there any tools missing? How should they be made available?

Any strategic plan must have a clear sense of the tools and assets available to pursue the objective. In the case of the GCF, these include concessional/risk-taking finance, technical assistance, a strong network of accredited entities, the GCF "brand," and convening power.

4. Alignment: Which tools/assets will help us advance which approaches?

Once approaches and tools/assets have been defined, it is critical to align the two. That is, we must identify the set of tools that is most appropriate to unleash markets, enable policy change, and strengthen institutions, respectively.

5. Institutional requirements: What features and capabilities must the Fund possess in order to deploy the tools effectively to advance the approaches and meet the objective? What is present already and what is missing? How can the GCF establish itself as a reliable business partner? How do we fill in the institutional gaps?

Finally, we will be in a position to ask what about the features and capabilities that the Fund needs to fulfill 1-4 above. Only at this point will we be able to have a focused discussion on the policy gaps that need to be filled and to consider institutional matters.

As we engage in this strategic exercise, it should be clear that all of the above approaches and tools must be implemented in a manner that aligns with the core principles of the GCF. These include country ownership, scalability and flexibility, and maximizing impact.

Also, we should recognize that the GCF is not operating in a vacuum, but in the context of a rich institutional ecosystem. All of GCF's activities should be optimized in the context of the broader ecosystem of institutions engaged in climate finance. The institutional ecosystem includes institutions at all levels, public and private, that either provide climate finance or otherwise help direct finance to flow towards low-emission and resilient activity. That includes the other funds under the Convention, the multilateral development banks, national climate funds, national ministries, regional financial institutions, entities for regional cooperation, etc. Importantly, since the mission of GCF relates to development pathways, institutions focused on development should also be considered as part of the broader ecosystem within which the GCF functions. As a new institution, the GCF needs to establish itself as a reliable partner who can provide high quality services to the countries and institutions that it works with in this institutional ecosystem.

APPLYING THE FRAMEWORK: ILLUSTRATIONS

To start to apply this framework to the strategic plan discussion, this section makes an initial attempt to sketch out alignment between the GCF's tools and approaches, followed by implications for institutional requirements. The below is a draft, non-exhaustive collection of approaches, tools, and institutional features; we would expect the discussion of the strategic plan to continue developing the substance provided here.

Approach 1	**What tools/assets can advance that approach?**	**What institutional features and capabilities are needed? How do we fill those gaps?**
Unleashing markets	• <u>Risk-taking finance</u> – GCF can use finance to improve the risk-return profile of innovative or ingenious interventions for which real or perceived risks have so far created a barrier to more climate finance flowing. • <u>Broker/advisor role</u> – With such strong and growing network of Accredited Entities, NDAs, other interested organizations, and other sources of finance, the GCF can help bring partners together to develop new interventions. • <u>Pilots</u> – GCF can take a risk and finance pilot projects to demonstrate a concept works. • <u>RFPs</u> – Using RFPs, GCF can draw innovative ideas from organizations with which it may not ordinarily partner. • <u>Standardized products</u> – GCF should develop a small set of standardized products that can be rolled out quickly in	• The GCF needs strong capabilities to <u>measure, monitor, and manage risk;</u> strong risk management guidelines are needed, as well as adequate staff to measure, monitor, and manage risk. • The GCF should have the ability to allow organizations that may not want long-term accreditation from the GCF to <u>participate in RFPs or otherwise bring forward innovative ideas</u> (e.g., matchmaking with AEs, or developing a form of one-off/project-specific accreditation). • The Fund needs to retain its capacity to be a <u>trusted partner for the private sector</u>; the GCF must have a dedicated interphase

	multiple countries (e.g., green bonds, green bank "startup kit," climate data diagnostics, etc).	to engage with the private sector and an ability to protect business-confidential information. The Fund should have the capacity to ramp up human resources to help it <u>process RFP proposals</u> in a timely basis. • The GCF should have an ability to prioritize proposals that <u>leverage the most resources</u> and have the most potential for transformational impact.

Approach 2	**What tools/assets can advance that approach?**	**What institutional features and capabilities are needed? How to fill those gaps?**
Enabling policy change	• <u>Finance</u> – As was the case with the Bangladesh project on mainstreaming resilient infrastructure approved in B.11, financing can help promote institutional policy change. • <u>Technical assistance</u> – TA can help support policymakers seeking policy reform by providing them with useful analytics and policy design. • <u>Sectoral partnerships</u> – This is a potential tool the Fund could develop. By partnering with stakeholders in a single sector (e.g., agriculture, off-grid renewables, etc.), the Fund can support efforts of policymakers to promote new rules in the sector.	• The GCF should be able to mobilize sufficient <u>technical expertise</u> and implementation tools to support governments in promoting policy change. • The Fund should retain a <u>repository of knowledge</u> about the policy-change experiences and enabling environments of different countries and sectors and use that repository to promote learning. • The Fund should have a capacity to promote <u>regional programs</u> with policy components; these can be especially useful for groups of smaller countries. • We should ensure that the Investment Framework and other <u>policies are sensitive to and fully supportive of policy change</u> proposals and initiatives.

Approach 3	**What tools/assets can advance that approach?**	**What institutional features and capabilities are needed? How to fill those gaps?**
Strengthening institutions	• Readiness funds – The readiness program builds capacity of developing country institutions that engage directly with GCF. • Strong standards – By helping accredited institutions meet the standards and safeguards of the GCF, the Fund will enable those institutions to increase the quality of their operations and make better use of *all* of its resources. • Network of partners/AEs – The GCF can leverage its network to bring partners together that can complement each others' capabilities and develop together GCF and other proposals. • Learning/Knowledge Management/Evaluations – As the GCF's monitoring, evaluation, and knowledge management functions mature, they will generate useful data, knowledge, and lessons learned, which will help improve GCF project and may have broader relevance for other stakeholders in the institutional ecosystem.	• The Fund should have capabilities to track readiness funds and measure their impact and results. • The GCF should have a process to evaluate and strengthen the readiness program as lessons are learned over time. • The GCF should have clear procedures for implementing the project preparation facility • The Fund needs to ensure that its fiduciary standards remain strong and that all gaps are closed. • The Fund should look for ways to promote more climate-friendly action by accredited entities and recipients outside and beyond GCF-financed activities. • The Fund should have a capacity to support platforms of information exchange and learning, with a key aim to cross-fertilize successful ideas in the area of institutional strengthening.

CONCLUSION

Strengthening the GCF's strategic vision with a plan for implementation is a priority we fully support. To make this a productive effort, the Boards's deliberations should be well-structured and follow a sensible framework that allows the strategic plan to connect the Fund's objective with its approaches for bringing that objective about, with the tools (potentially) available to the GCF, and with the institutional features and capabilities necessary. Only then will the Board be able to put forward an integrated vision of what the Fund should do in the coming years. We believe that the framework proposed here could be a very useful starting point and look forward to working with our colleagues in this important process.

Strategic Plan for the Green Climate Fund
Submission from Australia

The decisions made at the eleventh Board Meeting marked the end of the GCF's launch phase and began the flow of climate finance through the Fund. Implementing the GCF's ambitious investment mandate must be at the centre of the Strategic Plan for 2016-18. The GCF must seek to integrate its governance structures, institutional arrangements, and operations with objectives, actions and enablers to sustain the gains and provide direction and predictability to future decisions. The Strategic Plan should outline how it will enhance operational efficiency and initial resource mobilisation. The Strategic Plan should also articulate the GCF's operational priorities and inform the Fund's **Communications Strategy**.

2. The most practical way of ensuring implementation of such a strategy would be through a rolling strategic plan for every programming period, linked to annual work plans.

Purpose

3. The GCF Strategic Plan should define the Fund's indicative spending targets within the initial resource mobilisation phase, the period 2016-2018. During 2016-2018, we must seek to **scale up the Fund's actions and approvals to match its ambitions**. Accordingly, the Strategic Plan should go beyond reiterating and integrating existing elements and high-level principles contained in the Governing Instrument for the GCF and provide clear and coherent direction.

4. The strategic plan should ultimately direct the GCF towards **enhancing operational modalities** that will advance the scaling up of the Fund's actions and project approvals; in particular the Strategic Plan should:

a) Reconcile the current project pipeline with the aspirational spending target the Board agreed at B.11. There should be a strategic focus on scaling up investments and maximising impact of funding (as highlighted in decision B.11/03(vi)), as well as addressing the gap between the existing project approvals and available finance.

b) Consider whether the current approach to funding proposals is amicable to efficient and effective pipeline development. The current single-track approach to proposals may be a burden on some of the Fund's diverse partners. The strategic plan should identify barriers faced by accredited entities, and how to enable a large number of transformative projects and programmes considered by the Board.

c) Address gaps in the operational modalities that prevent distinctly transformational, high-impact, country-owned projects operating at scale. The Strategy needs to provide predictability and incentives to innovate within operational modalities. In particular, the Strategy should refer to Requests for Proposal as an example tool the Fund may use to set pipeline priorities.

Structure

5. The Strategic Plan should contain two components. The first component should state what the GCF aims to achieve. This includes articulating the Fund's vision and guiding principles, as well as the goals, strategic objectives and targets to which the Strategy will contribute. The Strategic Plan should contain three to five high-level strategic objectives that outline what the fund wants to achieve in the 2016-2018 programming period.

> a) **Objectives** should be guided by the Governing Instrument and seek to promote the GCF as ambitious, innovative and paradigm shifting. Objectives could include: achieving a balance in fund allocation between adaptation and mitigation; promoting ambition and innovative investments; enhancing country ownership; and allocating significant resources to the private sector, including through the Private Sector Facility.

6. The second component should outline how the GCF will go about achieving its aspirations through strategic actions and enablers. This second section forms the operative component of the Strategic Plan and would guide annual work plans to operationalise the targets identified. The second component should contain two to five strategic actions per objective, and be complemented by core strategic enablers.

> a) **Actions** should seek to provide the operational guidance to inform annual work plans over the programming period. Each objective should outline two to five strategic actions. These could include: balancing fund allocation between mitigation and adaptation financing and geographic disbursement; focusing on high-impact countries, interventions, projects and programmes; and seeking partnerships with the private sector in developing countries, including micro and small enterprises.
>
> b) **Enablers** are the fundamental practices that create an operating environment capable of delivering results. Enablers are additional actions that permit and support the realisation of the objectives. Enablers will make the GCF administratively and foundationally stronger and generate success in objectives and actions. They facilitate, sustain and multiply the successful implementation of the strategic objectives and actions. The efficient and effective delivery of the enablers should underpin the success of all strategic objectives and actions. These could include enhancing partnerships, streamlining the accreditation of entities, and finalising the operational aspects of the Fund.

1 December 2015

Submission from Karsten Sach

Deputy Director General, European and International Policy, German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety

Board Member for Germany

Responding to **Decision GCF/B.11/03** inviting Board/Alternate members, active observers and observer organizations to make submissions to the Secretariat on the elements of a strategic plan by 1 December 2015.

Building on the submission made by Ingrid-Gabriela Hoven in response to **Decision GCF/B.10/14**.

Introduction

1. In its governing instrument, the GCF has set itself the **ambitious objective** not only to support climate change adaptation and mitigation activities in developing countries, **but to promote the paradigm shift towards low-emission and climate-resilient development pathways**. When considering the fact that limiting global warming to below 2°C requires us to fully decarbonize the global economy over the course of this century and to adapt to the nevertheless unavoidable and substantial adverse impacts of climate change, it is evident that nothing less than this paradigm shift, this global transformation, is needed.
2. To enable the Fund to live up to this challenging mandate, developed and developing countries have pledged to contribute over **10.2 billion USD** to the initial capitalization of the GCF, thus **making it the largest dedicated climate fund at this early stage of operations**.
3. Promoting the necessary paradigm shift, however, requires much more than large sums of money. Hence, the GCF Board and Secretariat have worked hard over the past years to set up operational modalities **aiming to make the GCF an institution which sets itself apart from existing funds** by addressing climate change in both a **transformational, holistic and country driven manner**.
4. This process has been **driven by the urgency of operationalizing the GCF** to allow it to start catalysing ambitious climate action on the ground as soon as possible.
5. As a result, the Board was able to **select first projects and programmes** for funding at its 11th meeting. Simultaneously, the Board has decided that this cornerstone of entering the phase of operations is an **opportune moment to take a step back, reassess and connect the dots between the GCF's overarching goals and previous decisions by launching a strategy process**. This process needs to address remaining policy gaps and find ways of dealing with challenges and tensions resulting from the constant balancing act between its ambitious and in many ways still abstract mandate and the need for a pragmatic approach to get the Fund off the ground and up to scale.
6. We strongly welcome this discussion and would like to take this opportunity to hereby submit our suggestions on the scope, structure and substance of the strategic plan.
7. The submission comprises (**A**) a proposal for the purpose and structure of the strategic plan including suggested procedures for reviewing and updating the strategic plan as a living document, (**B**) the overarching objectives of the GCF as the proposed long-term vision of the strategic plan and (**C**) our assessment of opportunities, policy gaps and challenges in meeting these objectives. This assessment serves to derive operational priorities to be pursued by the

Board and the Secretariat in the short to medium term with accompanying proposed action points for implementing the operational priorities.

(A) PROPOSED PURPOSE AND STRUCTURE OF THE STRATEGIC PLAN INCLUDING PROCEDURES FOR REVIEWING AND UPDATING THE STRATEGIC PLAN AS A LIVING DOCUMENT

8. Given its self-conception as a continuously learning institution, we believe that the GCF is in a good position to find appropriate and balanced responses to the challenges it faces. The strategic plan should be a **tool to guide and structure this learning process**. As such, the ongoing strategy process should provide orientation to **the GCF as a continuously learning institution** for achieving its objectives and fully operationalizing the guiding principles laid out in the Governing Instrument and bring the GCF up to speed and scale.

9. As any learning process, the GCF's learning process towards becoming a more mature and increasingly transformational and impactful institution will require some trial and error, and flexible and responsible management by the Board and the Secretariat. Against this background, the GCF will need sufficient flexibility and needs to avoid straightjackets in its planning system.

10. Instead, the strategic plan should lay out the **overall objectives of the GCF as a long term vision** along with **operational priorities pursued by the Board and the Secretariat in the short-to medium term**, which contribute to operationalizing the long-term vision. Furthermore, the strategic plan should include an **action plan which serves to implement the operational priorities in the short to medium term**.

11. To be able to agree on a strategic plan by the 12th meeting, however, it will be important to **build this strategy around convergence and not seek to solve all issues at once**.

12. The **operational priorities as well as the action plan should be updated on a regular basis** as determined by the Board. This update should be based

    - on **regular updates** from the Secretariat on the implementation of the action plan and the realization of the operational priorities,
    - on an **ongoing strategy process within the Board**, which continuously draws and reflects on lessons learned and identifies new challenges to be addressed and opportunities to be leveraged, and
    - on **broad stakeholder consultations** and – as appropriate and determined by the Board – **external independent evaluations**.

13. In addition to providing strategic guidance to the GCF as a continuously learning institution, the strategic plan should serve as a **communication tool by clearly articulating to the outside world the GCF's vision and operational priorities** with a view to facilitating effective engagement of actors outside of the GCF Board, including NDAs/FPs, accredited entities, private sector and civil society actors, thus strengthening the GCF's partnerships. At this point, the GCF's overarching goals, modalities and processes are scattered across Board decisions and Annexes hardly accessible and comprehensible for outsiders or newcomers to the GCF. The strategic plan should consolidate the strategic guidance contained in existing decisions, identify missing elements on policies and operational procedures and include an action plan on how to address them.

14. **In sum, the strategic plan should fulfil the double purpose of providing both inward and outward-looking guidance.**

(B) Overarching objectives of the GCF as the proposed long-term vision of the Strategic Plan

15. As laid of above, the strategic plan should serve as a tool to guide and structure the GCF's learning process. Any learning process must keep in mind the overarching long-term vision and objectives, which it must be working towards. Hence, the **overarching objective of the GCF as set out in the Governing Instrument should be reiterated in the strategic plan**.

16. This **overarching objective** is to contribute to the achievement of the ultimate objective of the UNFCCC by making a **significant and ambitious contribution towards** reaching internationally agreed goals of **combatting climate change**[1], thus promoting the **paradigm shift** towards low-emission and climate-resilient development pathways.[2]

17. Additionally, the strategic plan should reiterate **the guiding principles** as included in the Governing Instrument as prerequisites for achieving this overarching objective, which must be reflected throughout all levels of the GCF's operations including the accredited entities' operations. These include the GCF's

    a) particular **focus** on supporting those developing countries **particularly vulnerable to the adverse impacts of climate change**[3], including LDCs, SIDS and African States.

    b) aim to **catalyse public and private** climate finance at the **international and national levels**.[4]

    c) ambition to **maximize the impact** of its funding for adaptation and mitigation.[5]

    d) self-conception of a **continuously learning institution**.[6]

    e) goal to operate in a **transparent and accountable** manner guided by efficiency and effectiveness.[7]

    f) determination to pursue a **country-driven approach**.[8]

    g) aim to promote the input and **participation of stakeholders**, including private-sector actors, civil society organizations, vulnerable groups, women and indigenous peoples.[9]

(C) Operational Priorities: Identified Opportunities, Policy Gaps and Challenges and Proposed Elements of an Action Plan

18. As decided by the Board in Decision B.11/03, the strategic plan should **build on the progress already made through previous Board decisions**. Previous Board decisions already provide a strong foundation for achieving the GCF's objectives and operationalizing the guiding principles laid out in the Governing Instrument. They also include many innovative features making the GCF unique within the international climate finance landscape.

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[1] Governing Instrument, para 1.

[2] Governing Instrument, para 2.

[3] Governing Instrument, para 2.

[4] Governing Instrument, para 3.

[5] Governing Instrument, para 3.

[6] Governing Instrument, para. 3.

[7] Governing Instrument, para 3

[8] Governing Instrument, para 31.

[9] Governing Instrument, para 71.

19. In our view, the operational priorities, which the Board and the Secretariat should draw particular attention to in the short to medium term with a view to working towards its long-term objective, include (**I**) the further development of the initial investment framework, (**II**) the further development and addressing of policy gaps of the proposal approval process, (**III**) getting the GCF up to scale in a country-driven manner, (**IV**) improving transparency throughout the Fund's operations, (**V**) leveraging the Fund's partnerships and (**VI**) facilitating access to the Fund through strategic communication.

I. Further developing the initial investment framework

20. As the centre piece of the GCF's overall architecture, the investment framework must **ensure that the GCF exclusively funds the kinds of projects and programmes that it was set-up to fund and thus to maximize its impact**. Furthermore, a stringent investment framework provides the additional opportunity of **providing guidance, transparency, accountability and predictability for NDAs/FP and accredited entities when developing funding proposals**. In sum, a stringent investment framework is **key to operationalizing a multitude of guiding principles laid out in the Governing Instrument**.

21. In our view, the **initial investment framework** of the GCF is already a particularly strong feature**, which clearly sets the GCF apart from existing climate funds**. It does so (1) by including investment criteria, subcriteria and assessment factors, which clearly reflect and operationalize the GCF's objective of promoting a paradigm shift towards low-emission and climate-resilient development pathways in line with the 2°C limit, by anchoring its determination to pursue a country-driven approach and by giving due consideration to countries' needs and priorities, and (2) by including a methodology aiming to allow for a competitive, merit-based selection of projects and programmes.

22. In order to leverage its full potential, however, the GCF's initial **investment framework should be strengthened** to give recipient countries, NDAs/FPs, accredited implementing entities, the Secretariat, the ITAP and finally the Board the necessary orientation for project and program identification, preparation, assessment and decision making on funding. In the absence of minimum benchmarks, a lack of guidance on how the scale is applied, and with scaling only being applied to a subset of projects, the assessment methodology does not sufficiently ensure that the projects and programmes suggested to the Board serve to maximize the impact of the GCF. From our point of view, the best fix would be to improve the rigor and transparency of the assessment to incentivize the selection of the most ambitious and transformational proposals. Such a "race to the most ambitious" will be key to operationalize the objectives of the Convention with the investment framework.

ACTION POINT 1. As agreed by the Board in Decision B.09/05, **minimum benchmarks** must be developed for each criterion. The adoption of stringent and ambitious minimum benchmarks by the Board at its thirteenth meeting is a key priority for us as they will serve to safeguard the high level of ambition in the GCF's portfolio. In developing the benchmarks, we **encourage the Secretariat to benefit from the large body of current research on how to align individual investments and investment portfolios with the objective of limiting global warming to below 2°C and achieving climate resilience.** Basing the development of minimum benchmarks on this research can ensure that they are set at the right level to truly safeguard the GCF's level of ambition. Furthermore, we encourage the Secretariat to work with external experts, who have put much thought into these issues.

ACTION POINT 2. To allow for a **transparent and merit-based selection process**, the assessment methodology should be strengthened. Most importantly,

assessing the relative merit of different funding proposals requires guidance on the application of the assessment scale. This guidance should differentiate between different result areas of the Fund and specify indicator-specific benchmarks for the measures and impacts that qualify as low, medium or high. The development of guidance was mandated by the Board in Decision B09/05 requesting "the Secretariat in the development of the operations manual and appraisal toolkit to include guidance to accredited entities and NDAs on the application of the proposal approval process, including indicative minimum benchmarks and assessment scale. The inputs of NDAs will be taken into consideration in the development of the guidance." The action plan should request the Secretariat to develop and communicate this initial guidance as a matter of urgency. Furthermore, such guidance should be continuously enhanced based on experience gained over time.

23. As rightly noted by the ITAP, the GCF is currently lacking a clear **theory of change**, which lays out its **logic of intervention** – of how GCF funding towards individual activities is expected to make a significant and ambitious contribution towards reaching internationally agreed goals of combatting climate change and thus contribute to the paradigm shift towards low-carbon and climate-resilient development pathways. **A well-defined theory of change can support the GCF's operations in several ways.** It provides an analytical tool for linking individual activities with the GCF's overarching and abstract mandate. By doing so, it can guide partner countries, NDAs/FPs and accredited entities in developing funding proposals, which include concrete activities that are clearly related to climate mitigation and adaptation. Furthermore, it could serve as an analytical framework for the Secretariat and ITAP when evaluating the funding proposals and to the Board in making funding decisions.

ACTION POINT 3. The Secretariat, ITAP and Investment Committee should develop a proposal for a **theory of change for the GCF** for approval by the Board. This theory of change should be clear – with the GCF being a dedicated climate fund – that **any GCF funded activity must have climate mitigation or adaptation at the very centre of its heart thus making a direct contribution to the GCF's overall objective**. It should also sketch out how the GCF intends to bring about transformational change through deriving and reflecting on lessons learned, managing and dispersing knowledge and building a community of best practice. In developing this theory of change, the Secretariat, ITAP and Investment Committee could draw inspiration from the theory of change elaborated by the NAMA Facility, which was developed under the guidance of the NAMA Facility Board and with the support of external experts and which is included in Annex I to this submission.

II. Further developing and addressing policy gaps in the proposal approval process

24. As noted in Board Decision B11/11 policy gaps remain around the **proposal approval process**. These should be addressed in order to allow for a clearer, more transparent and efficient proposal development and approval process.

ACTION POINT 4. The GCF needs to approve clear guidelines on how to engage at scale in more transformative programmes including through **programmatic approaches**.

ACTION POINT 5. The GCF needs to agree on a process for determining **financing conditions for public sector projects**. Currently, there is a lack of transparency in the

rules and procedures applied by the Secretariat. This can be a prohibiting factor when it comes to encouraging accredited entities and NDAs/FPs to bring funding proposals to the GCF. Hence, we believe that providing more clarity in this regard through clear guiding criteria at the twelfth meeting (as agreed by the Board at its tenth meeting) is of crucial importance. In substance, the terms and conditions should be tailored **to ensure that GCF resources address barriers in a way to provide for economic viability for transformational projects, thus maximizing the impact of the funding provided by the GCF**. In this regard the objective of generating reflows would be misleading. Given the large diversity of potential project and programme activities, we deem it important to avoid straightjackets for accredited entities in determining the financial instruments used and the conditions at which accredited entities request funds from the GCF as well as the conditions at which these funds are passed on to final recipients. The project documentation should justify why the project proponent deems these conditions to be appropriate and include the Secretariat's and ITAP's assessment thereof. This would then allow the NDAs (asked to issue a no-objection letter) and the Board (asked to approve the project) to make informed decisions. In our view, following a case by case approach based on economic viability is more efficient compared to defining project eligibility criteria beyond the current investment criteria and general rules for how to calculate incremental costs. Determining project eligibility criteria and incremental costs for the large variety of activities which countries might want to include in their country programmes seems close to impossible.

ACTION POINT 6. The **funding proposal template should be revised and streamlined**. It should request more explicit information on (1) how the proposed activities are embedded in existing climate strategies and policies of the respective country and serve to enhance ambition, (2) how the project makes an ambitious contribution to climate change mitigation or adaptation and how this impact is at the very heart of the project, (3) to what extent stakeholders are affected by the proposed activities, how the proponent is planning on mitigating or avoiding negative impacts and to what extent the broad variety of stakeholders has been consulted and with what results, (4) how the sustainability of impacts will be ensured beyond the duration of the project, (5) what efforts are being taken to ensure that women and girls are equally involved in and benefit from the project activities, (6) to what extent the proposed project or programme does not only have the potential for replication or scale-up but through what mechanisms this might actually happen.

ACTION POINT 7. The **revised proposal approval process** – including the new project preparation facility established through B.11/11, the strengthened role of NDAs and the enhanced role of the ITAP – should be **clearly sketched out**, actively communicated and published on the Fund's website.

ACTION POINT 8. The transparency of the Board's **decision-making process on funding proposals** should be clearly sketched out. It should include a transparent process allowing Board/Alternate members, civil society and private sector observers and other stakeholder to submit comments and questions with regard to the funding proposals in advance of the Board meeting.

III. Getting to scale: a two track approach

25. Another strong feature of the GCF is the fact that it was endowed with sufficient resources allowing it to **operate at scale** after only the initial capitalization. With an initial capitalization of over 10.2 billion USD, the GCF is the largest dedicated multilateral climate fund. The urgent need for ambitious climate action on the ground calls us to invest these funds in transformational projects and programmes as quickly as possible. This requires a **strong pipeline of transformational funding proposals** ready for implementation as well as **sufficient capacity** for evaluating proposals, implementing the envisaged measures in a sustainable manner, monitoring operations, evaluating projects and programmes and drawing lessons from them. The GCF's determination to pursue a **country-driven approach** demands for the pipeline of transformational funding proposals to be developed by, or with their close involvement and in line with the needs and priorities of developing countries and it requires building the required capacity for project development, implementation and evaluation at the country level.

26. Having kick-started its **Readiness Programme**, the GCF is already making an important contribution to strengthening capacity in countries, both within NDAs as well as within NIEs. Furthermore, through its readiness programme, the GCF is supporting developing countries in elaborating country programmes and funding proposals. Despite these efforts, however, we must acknowledge that many developing countries are still in the early stages of establishing and strengthening the capacity of NDAs, accrediting NIEs and developing country programming documents.

27. We encourage the Board to pursue a **two-track approach** in getting up to scale. This should be anchored in the strategic plan: We encourage the GCF Board to acknowledge that in this early stage of operations, getting up to scale and triggering the first formal replenishment by end-June 2017 might require us to **disproportionally leveraging the capacities of international access entities in the short term**. We understand the sensitivities around this issue and the fear of such an approach might create "customary right" and risk side-lining NIEs in the medium to long term. Hence such an acknowledgement could be accompanied by an **explicit understanding within the Board that this would not set precedence for the future**. This understanding could be **underlined by concrete measures** ensuring that (1) the **accreditation of NIEs will continue to be advanced and as a matter of urgency** and (2) the **disproportionate engagement of international access entities particularly in the early stages of operations does not compromise on the principle of country ownership** which also entails the effective participation of civil society, the private sector and other relevant stakeholders.

ACTION POINT 9. The GCF should **explicitly and pro-actively encourage NDAs and accredited entities, to think bold and to think big and to bring funding proposals to the GCF that are both transformational and yield an impact at scale**. The need is there and we believe that a reasonable pipeline is, too.

ACTION POINT 10. To allow the GCF to operate at scale while adhering to the principle of country ownership, the GCF should **enhance its Readiness Programme**. This should build on an analysis of readiness needs in developing countries and an analysis and replication of best practice and lessons learned from current readiness activities and encourage peer to peer learning.

ACTION POINT 11. The Readiness Programme should continue to do the groundwork and build a solid foundation for strong country ownership by building capacity from the ground up. Nevertheless, we need to acknowledge that much of the groundwork will only pay off in the medium to long term. Strengthening the GCF's pipeline of transformational funding proposals ready for implementation and in line with country's priorities in the short term, however, requires openness to **increase support for the development of concrete funding proposals as part of the Readiness Programme**.

ACTION POINT 12. The Readiness Programme should promote a more **inclusive approach with regard to local civil society and private sector actors** in the development of country programme throughout the GCF's operations. Moreover it should strengthen NDAs, support the accreditation of national entities and enhance the development of a strong project pipeline.

ACTION POINT 13. Hence, enhancing the Readiness Programme requires more direct engagement and readiness support on the ground. We would like to see a proposal from the Secretariat on how this could be implemented.

ACTION POINT 14. Strengthening **complementarity and coherence and leveraging synergies with readiness initiatives other than the GCF's readiness programme** – including national, bilateral and multilateral initiatives for developing low-emission development strategies, nationally appropriate mitigation actions, national adaptation plans, and technology needs assessments – should also be pursued as a way of strengthening the GCF's pipeline of transformational funding proposals ready for implementation. The GCF Secretariat should coordinate such efforts.

ACTION POINT 15. The **operationalization of the GCF's project preparation facility** as established through B.11/11 should be pursued as a matter of urgency in order to increase the scale and quality of the GCF's operations in the short term. This requires clarifying the processes and requirements around accessing project development funds. These should be clearly and transparently sketched out and pro-actively communicated by the Secretariat. In substance, we would suggest a fast and efficient process for Board approval, e.g. decisions between meetings.

28. Next to the limited project pipeline and limited capacity in countries, limited **capacity in the Secretariat** and the **ITAP** is one major bottle neck for the GCF to get up to scale.

ACTION POINT 16. In Decision B.11/08, the Board requested the Secretariat to present **a revised staff structure of the Secretariat and budget proposal** for the Fund that responds to the Strategic Plan for the Green Climate Fund for consideration by the Board at its thirteenth session. To accelerate this process and allow the Secretariat to strengthening its capacity as quickly as possible in order to be prepared for the swift implementation of the strategic plan, we would welcome if this revised staff structure and budget proposal could be provided to the Board for approval ahead of the thirteenth meeting.

ACTION POINT 17. The **capacity and expertise of ITAP** should be leveraged to the maximum extent with a view to enhancing the efficiency and effectiveness of the proposal review process. As indicated in decision B11/11 (j) (iv), the ITAP should be involved in the review of concept notes. The recruitment of the remaining ITAP members must be pursued as a matter of urgency; the possibility of increasing the number of ITAP members should be dealt with in line with decision B.10/09.

29. Allowing the GCF to operate at scale and promote the paradigm shift towards low-carbon climate resilient development also requires the GCF to **maximize private sector engagement at the national, regional and global level for both mitigation and adaptation**. The determination to decarbonize our economies and societies is now increasingly voiced by world leaders; the resulting debate on opportunities and financial risks associated with climate change or climate

action or a potentially disruptive transformation has brought climate considerations to the mainstream of institutional and private investors. Thus the GCF is well positioned to incentivize a shift in private investments towards low carbon and climate resilient private sector development. Hence, this is an opportune moment for the GCF to take a leading role in giving guidance to these investors, many of whom still seem at a loss regarding the consequences they should draw from these insights. Against this background, effective and large-scale private sector engagement requires the Board and the Secretariat to follow more proactive approaches to enhance the impact of the Private Sector Facility.

ACTION POINT 18. The GCF must **sketch out and actively communicate a clear narrative of what its Private Sector Facility has to offer**. It should offer examples of how the GCF could contribute to reducing risks for investors or lowering the cost of capital thus making climate investments viable. Such a narrative could be developed by PSAG potentially with the support of further external experts for approval by the Board.

ACTION POINT 19. To further strengthen the Private Sector Facility, it is of great importance to **get the "MSME pilot programme" and the "mobilizing resources at scale pilot programme" anchored in DECISION B.10/11 off the ground in 2016** and to potentially scale-up and replicate the pilots as soon as possible.

ACTION POINT 20. In parallel, the Private Sector Facility should **build on cutting-edge private sector approaches**, some of which are currently being demonstrated by the Global Innovation Lab for Climate Finance (‚Lab') or are amongst the first badge of funding proposals (including equity funds and green bonds). **Once such approaches have proven to work, many of them can be developed into standardized products to be rolled out in all interested countries.**

IV. Improving transparency throughout the Fund's operations.

30. The strategic plan must include measures aiming at **improving transparency throughout the Fund's operations**.

ACTION POINT 21. The **Fund's disclosure policy needs to be revised as a matter of urgency** with a view to improving transparency throughout the Fund's operations.

ACTION POINT 22. As established in DECISION B.11/11, an **update of the pipeline portfolio** should be provided to the Board as part of the documentation submitted for every Board meeting. In our view, this should not only be provided to Board/Alternate members and Advisors but publicly accessible on the Fund's website along with the other Board documents.

ACTION POINT 23. As further established in DECISION B.11/11, the **ITAP's assessment of each funding proposal** should be included in the documentation published on the Fund's website. In our view, this should also include the **Secretariat's assessment** and other supporting documentation, including feasibility studies.

ACTION POINT 24. Similarly, **concept notes requesting funding for project preparation**, which are submitted to the Board, should be published on the Fund's website along with the Secretariat's and ITAP's assessment.

ACTION POINT 25. The documents published on the Fund's website with the recommendations of the Accreditation Panel should include all **names of entities recommended for accreditation**.

ACTION POINT 26. An **update of the pipeline of institutions having applied for accreditation** should be published on the Fund's website as part of the documentation provided for every Board meeting. This should also serve to provide applicants with clarity on how far they have come with the accreditation process.

ACTION POINT 27. The transparency of the **initial proposal approval process** should be improved, especially in the concept development stage. **NDAs should be informed about discussions on concept notes between the Secretariat and the accredited entity in order to ensure country-ownership**. Before such discussions proceed to an advanced level, a letter of no-objection must have been issued by at least one of the target countries.

ACTION POINT 28. To ensure **transparency during the project implementation phase**, progress reports should be made available on the Fund's website in a timely manner in order to provide also for effective engagement of stakeholders, including civil society, in monitoring ongoing projects.

V. Leveraging the GCF's partnerships

31. While being the largest dedicated multilateral climate fund, the **GCF is one of many actors in the international climate finance landscape** and it is the **new kid on the block**. In the process of establishing itself in this ecosystem, building, strengthening and leveraging its partnerships with both public and private sector actors, stakeholders and other funds is crucially important. Through that, the GCF can build a network of peers, build on the experience of others and sharpen its conception of respective strengths and areas in which it can make the biggest impact.

32. Having accredited 20 entities within less than a year is an unprecedented success. However, scaling-up the GCF's operations requires further broadening the **GCF's partnership with accredited entities, which have the potential to deliver on the GCF's objectives**. The current policies for accreditation serve this purpose. In our view, a strategy for accreditation going beyond current policies would need to provide added value beyond the current accreditation procedures once they have taken root and well-informed lessons can be drawn from previous experience.

ACTION POINT 29. The strategic plan could acknowledge that strengthening the GCF's partnerships with accredited entities of all sizes and at all levels (local, national, regional, international) is necessary to promote the required transformation in a holistic manner; to mobilize actors on the ground and to redirect global financial flows. Hence it could reiterate that NDAs/focal points should continue to have the right to choose the implementing entity they deem most suitable in terms of expertise, performance, and track record in development and climate projects. It should not foresee any caps or quotas with regard to accrediting additional entities. Instead it should focus on how to accelerate the accreditation of NIEs (see ACTION POINTS on Readiness) through the readiness programme and by streamlining modalities for fast-tracking the accreditation of NIEs using third party assessments as requested in DECISION B.11/11.

ACTION POINT 30. The strategic plan should elaborate on how to operationalize transformational change within its partnerships and how the GCF can ensure that its guiding principles are mainstreamed across the accredited entities' operations. This includes further encouraging accredited entities to continuously align their overall investment portfolio with the objectives of

the GCF in line with the policy for re-accreditation included in the monitoring and accountability framework for accredited entities adopted through decision B.11/10.

33. Many of the above suggested action points, particularly on enhancing transparency, also contribute to operationalizing the guiding principle of promoting the **input and participation of stakeholders**, including private-sector actors, civil society organizations, vulnerable groups, women and indigenous peoples. However, additional, clearly elaborated guidelines for stakeholder engagement are necessary.

ACTION POINT 31. The GCF should develop **guidelines clearly outlining how effective stakeholder input and participation will be ensured throughout the Fund's operations**. These should clearly sketch out how stakeholders will be given the opportunity to submit written comments to Board documents, be involved in project and programme development, implementation and evaluation.

VI. Facilitating access to the Fund through strategic communication

34. **Strategic communication is an important tool to inform about and facilitate access to and engagement with the Fund.** The strategic plan itself can contribute to this by clearly articulating to the outside world the GCF's vision and operational priorities with a view to facilitating and strengthening the GCF's partnership with actors outside of the GCF Board, including NDAs/FPs, accredited entities, private sector and civil society actors. For this purpose, the strategic plan should be published on the GCF's website and include easy-to-understand visualizations summarizing the most important elements. A well-defined theory of change is an important element of this.

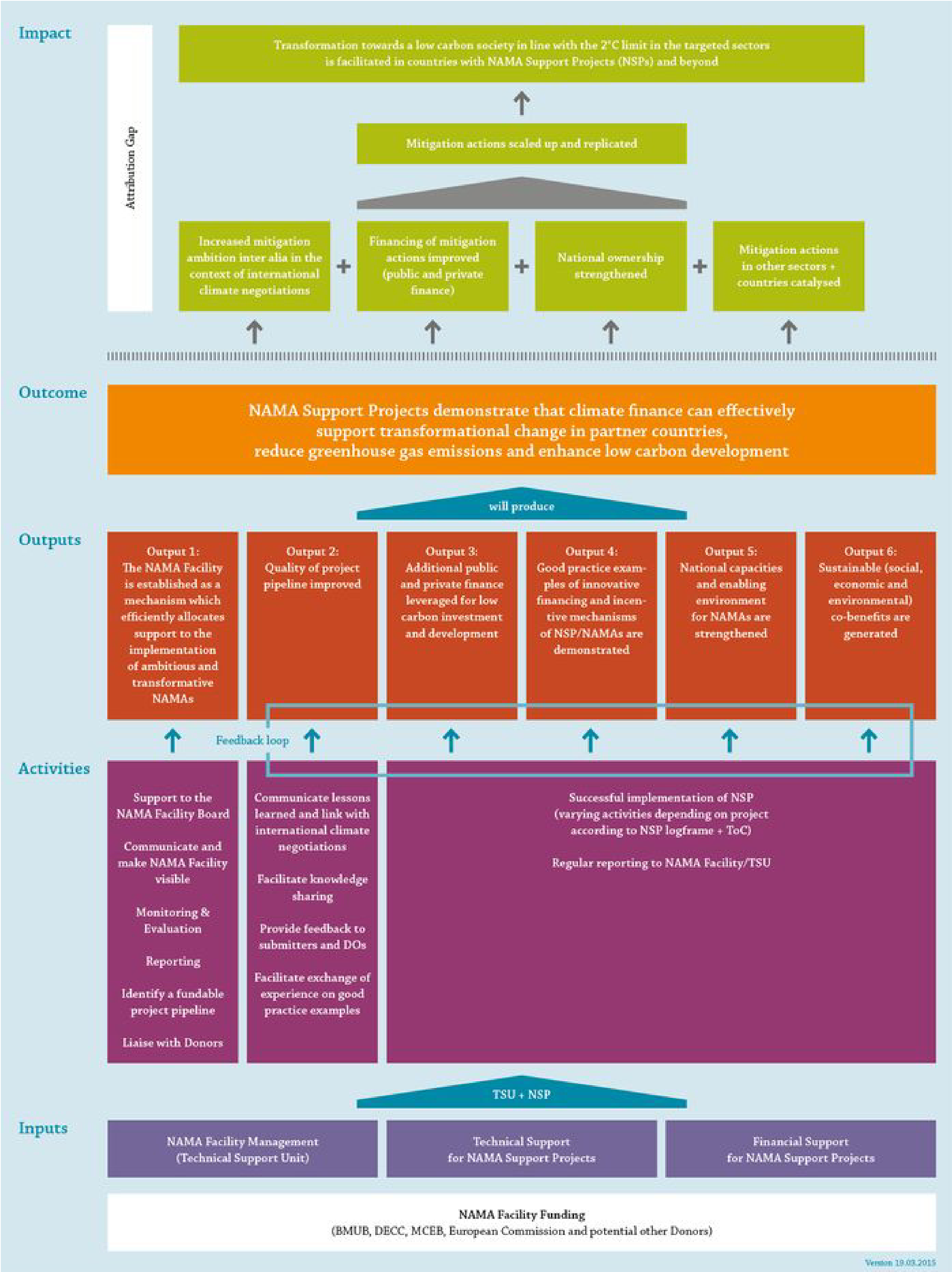
35. In addition to this, the strategic plan should include the further **development of a communications strategy, which aims to support the implementation of the strategic plan**.

ACTION POINT 32. The communications strategy to be approved by the Board must serve to **establish the Fund as an effective, transparent, accessible institution and to strengthen and maintain support to the Fund and its objectives**. In this initial phase of operations, the **focus must be on communicating the Fund's overall vision and theory of change along with factual information on the Fund's processes and funding criteria**. Given the fact that so much misinformation and confusion exists out there about how the Fund works, the Fund must **develop and share toolkits, manuals and other knowledge products that would assist countries in engaging with the Fund in an optimal manner**.

ACTION POINT 33. **Once the Fund has produced first results and demonstrated its impact, the communications strategy should integration the communication of successes and lessons learned which can then contribute to ensuring successful future replenishments.** Also, it will enhance understanding of what transformational change can mean in practice and thus further facilitate engagement with the Fund.

Annex I: Theory of Chance of the NAMA Facility

(http://www.nama-facility.org/conceptandapproach/theoryofchange.html)



1 December 2015

Strategic plan for the Green Climate Fund (GCF)

Submission made by Switzerland on behalf of the Constituency of Finland, Hungary and Switzerland

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"Never tell people how to do things.
Tell them what to do and they will surprise you with their ingenuity."

Following-up on the discussions at the 11th Board Meeting in Livingstone, Zambia, and in accordance with decision B.11/03, the Constituency of Finland, Hungary and Switzerland is pleased to submit its views with regard to the strategic plan for the Green Climate Fund (GCF).

Process of developing a strategic plan

In our understanding, the nature and purpose of a strategic plan is to deal with sequencing and timing of strategically important issues. Greater clarity in this respect is urgently needed, considering that the GCF Board had an overloaded agenda at all its meetings and regularly ended up deferring decisions and carrying over important items.

We therefore welcome the development and discussion of a strategic plan for the GCF, while this must not lead to lose focus of the main deliverables of the GCF, i.e. swift support to developing countries in their efforts to combat climate change through high-quality and high-impact investments. As per its nature, the strategic plan should be a living document, positioning the GCF within the evolving international climate finance architecture. Its revision could be part of the replenishment negotiation process and the revised strategic plan part of the replenishment decision. Thus, the strategic plan would be reviewed regularly based on the replenishment cycle (to be agreed upon; rather four than three years) and potential other cycles as decided by the COP. Such revisions of the strategic plan should be informed by periodic assessments of the GCF's achievements and results.

Strategic groundwork in place

Since its inception, the GCF has made substantial progress in putting in place the policies and procedures needed to ensure the full operation of the Fund while building a growing global network of accredited partners. The milestones achieved thus far provide the GCF with both the institutional foundation and the financial capacity to gradually ramp up climate investment over the coming years.

Although the GCF has no comprehensive overarching strategy as of yet, the Governing Instrument (GI), several documents that the Board has already approved, and the guidance by the UNFCCC COP provide essential strategic elements. Consequently, the strategic plan the GCF should draw on these elements.

Priority areas of intervention in a first phase of a strategic plan

Building on the aforementioned existing strategic references and mindful of the current structure and functioning of the GCF, we propose the following priority areas of intervention in a first phase of a strategic plan over four years:

1. **Delivery of projects and programs**
    - Speed, effectiveness and impact of high-quality projects and programs
    - Align GCF-supported projects with the objectives of international climate policy and ground them in INDCs or in national climate change plans/strategies (key for sustainability of projects)
    - Address barriers such as market failures, inadequate capacity, and lack of awareness, especially in order to attract private investments
    - Develop a strategic approach to engaging with the private sector
    - Define risk appetite, especially regarding private sector operations

- Swift roll out of project preparation facility (as agreed upon at B.11), emphasizing a country-driven approach, expediting action to mobilize resources at scale within a clear timeline
- Develop appropriate instruments and procedures to foster small-scale operations
- Meaningful yet manageable monitoring and evaluation system to track results/performance on the ground (important for the GCF as a continuously learning institution to further complement and adjust its policy framework as operations unfold)
- Develop the gender-sensitive approach within the GCF framework into a gender-responsive approach
- Keep high environmental and social standards and fiduciary principles

2. Focus on comparative advantages and use of synergies

- The GCF enters a climate finance landscape with a plethora of existing institutions at the multilateral level (MDBs, CIFs, GEF, LDCF/SCCF, Adaptation Fund, etc.) and many others at the regional, national and sub-national levels. To achieve maximum impact, the GCF should thus build on its comparative advantages when designing and implementing its activities while harnessing synergies with other climate finance funds. Amongst the main comparative advantages of the GCF we see in particular its ability:
  - to program and manage large amounts of financing
  - to engage in partnerships with both public and private actors at various levels
  - to take on risks that other funds/institutions are not able or willing to take
  - to pilot innovative approaches with the potential for scaling-up/replication
  - to deploy the full range/diversity of financial instruments at its disposal
  - to leverage additional financial inputs from non-traditional donors and alternative sources
- Prepare modalities for the first replenishment of the GCF, including by developing the provisions to broaden the financial base of the GCF beyond the current contributing countries

3. Implementation of the direct access modality

- Direct access as prerequisite for achieving transformational impact and country ownership, entails also responsibility of the accredited entity to interact with NDA and other stakeholders at the domestic level → ensure alignment of project with national climate-relevant plans/strategies and involve sub-national entities, CSO and private sector

4. Accreditation

- No fix number of accredited entities, but strive toward diversity and complementarity
- Consider eligibility to fast-track accreditation
- Consider other ways (than accreditation) of engagement with the Fund (cf. Small Grants Program under GEF)

5. Transparency and openness of the Fund's operations

- Make iTAP reviews and assessments publicly accessible
- Develop appropriate instruments and procedures to increase transparency of the project pipeline over the different stages of the project cycle

6. Performance-oriented structure of the Fund

- Establish a conducive division of labor between the Board, its Committees and Panels, and the Secretariat (including delegation of competence for certain funding decisions)
- Assess the current structure of the GCF including frequency and duration of Board meetings, the reliance on external consultancy, and centralized vs. decentralized Secretariat services

7. Communication and knowledge management

- Decide on the cornerstones of a communication and knowledge management strategy
- Share lessons from best practice public and private sector investment approaches, including the development of deal flows, the use of instruments, and public sector procurement approaches

Submission from

Anders Wallberg

Deputy Director

Department for Multilateral Development Cooperation,

Section for Global Environment and Climate Change

Board Member for Sweden

Relating to **Decision B.11/03 on the strategic plan** of the Board of the Green Climate Fund, requesting Board members/alternate members, active observers and observer organizations and active observers to make submissions to the Secretariat by 1 December.

Overall comments

The strategy should cover the remaining period of the initial resource mobilization 2016 to 2018 and be revised/updated thereafter.

The strategy should be guided by the agreed objectives and guiding principles of the fund, contained in the GCF's Governing Instrument, as well as decisions taken by the Board so far.

There is a need to further develop these objectives and guidelines and to make sure that clear guidelines are included into the investment framework and the results management framework. Operational guidelines should follow from this exercise.

These guidelines should ensure that the GCF's investment portfolio reaches its desired shape of contributing to a paradigm shift and transformative effects. Sweden would like to stress the importance of financing projects with a transformative impact. Selection of project proposals ought to be guided by the following criteria: climate impact (contribution towards low-emission and climate-resilient development pathways), innovation, replication, financing at scale and maximized co-financing ratio.

The strategy should also define existing gaps on guiding principles and objectives and come up with proposals that can bridge these gaps.

The strategy should address **how** already agreed objectives (e.g. the 50/50 balance between mitigation and adaptation as well as geographical priorities) and possible new objectives/targets can be achieved.

On climate financing architecture

The strategy should result in a clear definition of the future role of the GCF in the evolving international climate financing architecture and the GCF's relation to other climate financing funds in order to avoid overlapping mandates and to make sure that they can support each other in the best possible way.

Sweden would like the GCF to develop into an institution with a lean and efficient structure. The strategy should therefore address the need of devolving decision making to the most appropriate level. Furthermore GCFs responsiveness to developing countries needs and priorities, country ownership and

direct access should be enhanced. Ultimately the GCF should outsource “retail” activities, that is micro and small scale projects and only keep “wholesale” projects to be administered in-house.

On accreditation

With the increasing number institutions applying for accreditation, Sweden would like to propose a new approach to accreditation. An analysis should be carried out of the shortcomings of the geographical or thematic coverage or administrative purposes of currently accredited entities. Instead of a first come first take approach, future accreditations should be guided by identified gaps that may result from such an analysis.

There is also a need to analyze the capacities of direct access institutions and international institutions to carry out projects in order to find an appropriate mix of various entities that can meet the fund’s objectives.

The strategy should also reflect upon whether there is a trade-off between efficiency and participation. Should there be a limit to how many organizations that can be accredited?

Sweden would also like to see the new strategy reflect on how GCF can contribute to ensure that accredited organizations adopt the best climate policies around in their sector at large.

On private sector involvement

The private sector will only invest when the risk/return profiles are attractive. To mitigate some of the risk, key issues to address within the strategic plan would be to analyse how to ensure credibility and predictable conditions to attract such investments. Hence, a crucial issue for the work forward would be to decide upon procedures for board decisions in absence of consensus. Other important issues would be to agree on clear transparent investment- and risk frameworks that, in addition to provide decision support for project investments, also give investors and other stakeholders important signals on the Fund's ambition.

Sweden would like to see an analysis on how GCF could be the most effective catalyst for external capital in general but especially for private capital, and potential consequences for the funds risk appetite (RA). Even if some issues may be rather premature for 2020, they could require preventive measures in this strategic plan. One illustrative example of an issue to analyse could be that private capital can be catalysed by co-financing the Fund's outgoing funds but potentially also by investing directly in the GCF through green bonds. For GCF to raise capital by issuing bonds there is need for an investment grade credit rating. Would that restrict the Funds risk appetite in co-financing on project level or not? If there is a trade-off, how should this be considered in the way forward?

Sweden would also like to see an analysis on investment barriers for the private sector in adaptation projects and how this could be considered in the work with the strategic plan.

Finally we would ask for PSAG to submit inputs to the board on how PSF could develop within the strategic plan.

On results

In regards to mitigation projects, the strategy should explore possibilities to introduce result-based financing.

On gender

Sweden would like to see that the new strategy for the GCF reflects upon how the GCF cannot only be gender sensitive (doing no harm) but to a larger extend become gender responsive, that is promoting women empowerment through its interventions.

Mr. Jacob Waslander, Board member from The Netherlands and Mr. Morten Elkjær, alternate member from Denmark, on behalf of the Dutch-Danish-Luxembourg Board seat

Submission from Board member Mr. Jacob Waslander (The Netherlands) and alternate Board member Mr. Morten Elkjær (Denmark) on behalf of the Dutch-Danish-Luxembourg Board seat

30 November 2015

Strategic Plan for the Green Climate Fund

Introduction
This submission relates to Decision B.11/03, inviting members of the Board/alternate members of the Board, active observers and observer organizations to make submissions to the Secretariat on the strategic plan for the Fund. As Decision B.11/03 notes, the strategic plan for the Fund should be guided by the Governing Instrument. The suggestions below are structured around the key considerations of the Governing Instrument, keeping in mind the purpose of the Fund, which 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[i]. Our two key recommendations are:

- Promoting the paradigm shift by:
    - Aiming for maximum impact by enhancing competitive selection of project proposals and enhancing project pipeline development.
    - Aiming for a balanced investment portfolio and set of accredited entities over time ensuring access to finance for inter alia Least Developed Countries, African States and Small Island Developing States.
- Improving efficiency and effectiveness throughout all governance structures of the Fund.

1. Shaping the investment portfolio to promote the paradigm shift
The Governing Instrument states that the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways. The strategic plan should therefore provide guidance on how to realise this objective. Focus on impact, variety and balance are essential in this respect.

Impact

- The GCF should focus on selecting projects and programmes that will generate a high impact and have significant paradigm shift potential. There are two areas that need substantial improvement in order to realise this objective:
    - The application of key policies such as the investment- and results management framework need to be further strengthened. The selection of projects would for example benefit from the introduction of minimum benchmarks and scaling applicable to all projects. Furthermore, the lessons learned from the first funding decisions need to be applied strictly.
    - Competitive selection can only be effective if there are sufficient numbers of high quality proposals, including from (sub)national entities. Readiness and preparatory support should become more focused on building a strong project pipeline in developing countries. The project preparation facility (Decision B.11/11) is interesting in this regard. Better adjusting readiness and preparatory support to developing countries' needs is mainly a learning-by-doing process. The strategic plan could therefore outline suggestions for a process that ensures that lessons learned in these areas are incorporated in future policies.

Variety and balance

- As a continuously learning institution[ii], the GCF should be guided by the outcomes of monitoring and evaluation. Those outcomes should be the basis of GCF decisions, e.g. in decisions on potential focus areas in the future.
- However, the GCF is currently at an early stage of development. It is therefore too early to draw any conclusions on a specific focus with respect to projects/programmes and/or accredited entities.
- Variety and balance are key in portfolio development in the coming years to reach the ambitious goals of impact, scale and paradigm shift. Variety provides a broad range of projects/programmes to choose from, increasing the likelihood of selecting high quality proposals. Balance is required for a fair geographical division of resources and impact.
- Variety can be reached through broad access possibilities, which has a number of additional advantages:

  - It enhances competition, which leads to better results.
  - Openness to a broad set projects/programmes and accredited entities (to be) may strengthen country ownership, as it gives countries the opportunity to choose those entities el that best address their specific needs.
  - A full range of financial and technical instruments and capacities is needed to scale up climate finance.
- Variety and balance should emerge over time (including the 50:50 balance between mitigation and adaptation), not at each individual decision point as this will highly diminish the effectiveness of funding.
- Furthermore, diversity and balance in projects starts with diversity and balance in accredited entities:
  - <u>(Sub)national entities</u>**:** As expected in this start-up phase of the GCF, more progress has been made in accrediting larger international and regional entities, than in national and subnational entities. The strategic plan should build on the analysis and suggestions set out in the Strategy on Accreditation (GCF/B.11.Inf.08) to ensure that national entities (public and private) catch up.
  - <u>Private sector entities</u>**:** Working closely with the private sector will enable the GCF to leverage its resources significantly, using all of the financial instruments at its disposal. Accrediting a wide range of private sector entities is a crucial first step in reaching this goal. The two Requests for Proposals (RFPs), to be launched in 2016, will furthermore be an important instrument to engage the private sector. In order to get a wide range of private sector organisations interested in doing business with the GCF, the GCF should be, and build a reputation as, a reliable, effective and efficient partner. This is addressed is the following section on governance.

2. Enhancing effective and efficient governance

The Governing Instrument states that the Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness. The strategic plan should provide guidance on how to enhance and institutionalise efficiency, effectiveness and transparency within all governance structures of the GCF, as important steps still need to be taken in this respect. Given the (scaling) ambitions of the Fund, this is an important and urgent matter.

Governance bodies

- With regard to the Secretariat, staffing is an immediate issue. The strategic plan should therefore outline options for durable solutions, such as a gradual multiannual plan for the staffing and operations of the Fund, including efficiency considerations.
- With regard to the Board, one example of an area in which its efficiency and effectiveness needs to be improved is decision making. In the situation that the Board cannot agree by consensus, it should have a procedure in place to decide by (qualified) majority of votes.

Policies and processes

- As a continuously learning institution, the GCF should monitor and evaluate regularly how its policies can be improved and processes streamlined (for example the assessment of accreditation applications and funding proposals), including with those of the countries and organisations it works with.
- The strategic plan should recognize the importance of a gender sensitive approach in the effectiveness of its policies, and should provide guidance on how to further strengthen and stricter apply the gender policy in the coming years. Men and women are affected differently by climate change. Therefore, climate projects/programmes become more effective if they tailor their solutions to the specific circumstances of men and women in the respective project/programme area. Furthermore, a gender sensitive approach can make better use of, and strengthen the role of, women as agents of change.

Climate finance architecture

- The strategic plan should give consideration to the efficiency and effectiveness of the climate finance architecture of which it is part. It should e.g. provide an analysis of synergies between the GCF and the overall climate finance architecture. In this regard specific attention should be paid to the synergies with the CIFs and the GEF. The analysis should include a discussion on the advantages and disadvantages of possible streamlining approaches over time.

Transparency

- An important means to realise efficiency and effectiveness is transparency. Especially throughout the accreditation and project approval process, it allows all relevant stakeholders to engage from the beginning in dialogues around important decisions, enabling them to improve the quality of these decisions. It is also important during the implementation phase, where it can improve e.g. accountability and learning.
- At the same time, it should be kept in mind that in order to keep transparency effective, a balance is required between the needs of applicants and the needs of stakeholders.
- Particularly important is openness in the accreditation process and proposal approval process (especially in relation to the assessments by the Independent Technical Advisory Panel). The strategic plan should estimate the optimum point of transparency that does not deter applicants (especially the private sector). It is recognised that finding this point may also be a learning-by-doing process.
- Criteria for prioritization in the accreditation process should be established and made public. Furthermore, for each accreditation round an explanation should be provided on how these criteria have been applied.

[i] Governing Instrument Paragraph 1

[ii] Governing Instrument Paragraph 3

Private Sector Submission on a Strategic Plan for the Green Climate Fund

This submission is made on behalf of a number of private sector observers who have been involved with the development of the Green Climate Fund, and is signed by the first two Active Private Sector Observers to the Fund, Mr Abyd Karmali and Ms Gwen Andrews. It focuses on the role of the Fund in catalysing private sector financing to address challenges posed by climate change in developing countries.

We thank the Board for providing this opportunity to input to the development of a strategic plan for the Fund for the period 2016 through 2018.

Governing Instrument of the Green Climate Fund

The Governing Instrument establishes ambitious objectives for the Fund, including promoting a paradigm shift towards low-emission and climate resilient development pathways for developing countries. In order to do this, the fund will channel additional resources into developing countries and catalyse climate finance, both public and private, in support of the task. It is to seek a balance between mitigation and adaptation funding, and promote a country driven approach. We support these objectives, and believe that the Strategic Plan represents a crucial opportunity to further them.

Key messages

Our views have been formulated as we watched the deliberations of the Board over the past two and a half years. Our key messages are as follows:

. While the Fund's Board has accepted in principle the need to engage private finance in the critical task of promoting a paradigm shift towards low emission and climate resilient development, it has not yet put in place sufficient incentives to achieve this goal.

. Although some progress has been made, there is still too much emphasis on arrangements between governments and insufficient focus on building the infrastructure and processes that will attract private finance.

. Without a considerable contribution from private finance, the Fund's overarching objective cannot be reached; there is simply not enough public money available.

. Within the context of the proposed Strategic Plan, the GCF must focus strongly on issues and activities that will build engagement with the private sector.

The clear intention to integrate public and private financing across as many initiatives as possible, and to undertake activities that will make it easier for the private sector to invest in projects and programmes in developing countries, has been a differentiating factor of the Fund from its beginning. Failure to operationalise these elements quickly will result in loss of interest on the part of the private sector, which will be very difficult to regain. This applies to the broad range of private sector players, including financial institutions, insurers, investors, project developers, technology providers, micro small and medium enterprises, service providers and others.

Progress to date

Over the past two years, in the process of reaching effectiveness, the Board has taken a number of decisions that assist in providing a framework for private sector participation in its activities. These include:

. Establishment and staffing of the Private Sector Facility within the Secretariat

. Approval for a range of financial instruments, including guarantees and equities as well as loans and grants, and for approaches that permit the Fund to provide subordinated debt

. Rapid establishment of accreditation principles and procedures, and inclusion of private sector financial institutions in decisions on accredited entities

. Development of key frameworks on investment and results management

. Affirmation of the principle of country ownership, and establishment of procedures that support it

. Adoption of financial, environmental and social safeguards policies

. Adoption of and strong support for a gender equitable approach

Key deliverables for the Strategic Plan

In our view, the Fund needs to focus on certain critical issues in the early part of the Strategic Plan period, in order to attract and retain private sector support and participation. These include:

. Improving the Fund's decision making processes. Timeliness is of the essence in terms of dealing with private sector proposals. The Fund must address means by which it can delegate decision making to accredited entities and the Secretariat, and via direct access mechanisms. This can be done on the basis of Board no objection procedures, if necessary. The Board must also address the issue of voting rights in the case of non-consensus. As this is clearly a difficult area, it may want to consider retaining consensus for policy decisions and adopting voting rules for project and programme approvals.

. The Fund should finalise its statement of risk appetite as quickly as possible. This statement will set the tone for its dealing with the private sector, and should make it clear that the GCF has been established with a mandate to manage more risk than existing development institutions. This is critical to explaining to the private sector how the fund differs from other existing institutions.

. Mobilising funds at scale: If the potential of private sector engagement is to be achieved, approaches that mobilise funds at scale are required. The Private Sector Advisory Group (PSAG) provided recommendations with regard to how this could be done, and the Board has approved a Request for Proposals. That RFP should be developed in full consultation with PSAG and private sector representatives.

. Involving MSMEs: Similarly, the design of a RFP for programmes that involve micro, small and medium enterprises in developing countries has been mandated. This should also be prepared expeditiously, and in consultation with PSAG and private sector representatives.

. Establishing policies for contributions from alternative sources: There are many private sector charities, foundations, businesses and individuals interested in contributing to the task of combatting climate change. The Board has yet to consider policies that will allow these actors to contribute either generally to the Fund, or to specific projects and programmes supported by the Fund. It is our impression that this task is being held hostage to political negotiations on the size of public sector contributions, which are actually the smaller portion of the financial equation. These policies should be put in place in 2016.

. Searching out adaptation projects that the private sector can participate in: We are not convinced that there are no profit possibilities in adaptation. If they can be identified, there is the potential for increased resources to be put into this critically important area. In particular, adaptation in agricultural practices has a high potential for positive cash flow.

. Outreach to the private sector: This is an area in which the Fund has been insufficiently active. Knowledge of the GCF's activities is not widespread amongst the private sector. The Fund's communications function needs to include a strong focus on private sector outreach, as does the readiness programme within countries. Chambers of Commerce and Industry within countries should be targeted for partnerships, as they often provide communication lines and support to MSMEs in particular There also need to be clearly delineated contact points for the private sector both within the GCF Secretariat, and within accredited entities and NDAs. And in conducting outreach, the Fund will have to tailor its messages to the differing needs and interests of private sector players (eg, investors vs project developers).

. Monitoring: In order to monitor the success of its efforts to engage the private sector in pursuit of its objectives, the Fund should develop specific performance indicators. These could include amount of private funding leveraged through GCF investments, number of accredited entities that are private sector institutions, amount of funding mobilised through RFPs, evidence of the involvement of MSMEs at country level, and others.

Governance and Structure

In our submission to the Fund in March 2013, we argued that the Private Sector Facility should be as independent as possible, preferably with its own board. The Board did not accept this position.

In a paper to the Board meeting in November 2015, the Secretariat proposed restructuring its functions so that the Private Sector Facility and the Mitigation and Adaptation Division disappear, to be replaced by a Portfolio Development and Investment devision and a Portfolio Management and Operations division. The Board has yet to rule on this proposal.

There is an unavoidable tension between recognising the specificity of the private sector function within the Fund and ensuring its integration with the entirety of the Fund's operations. We are not convinced that the current compromise structure - a separate Private Sector Facility and a Private Sector Advisory Group to the Board - is working effectively to overcome this tension. The role of the PSF has not been clearly delineated and its activities are not particularly transparent, and the PSAG has not been used to its full capacity to advise either the Board or the Secretariat.

For these reasons, we are willing now to support the proposal by the Secretariat for a restructure that better reflects the operational nature of what is in fact a significantly sized financial fund. Development/Investment and Management/Operations are two functions that clearly apply across all the activities of the Fund, and this structure is close to how the task would be approached by the private sector.

However, we have two caveats on this support:

. It should be made clear, through the Communications function and via the appointment of private sector contact points/account managers, that the disappearance of the PSF does not imply a downgrading of the Fund's interest in private sector engagement. To the contrary, it demonstrates a will to integrate private and public sector financing across all of the Fund's activities.

. The Private Sector Advisory Group should meet more regularly, with defined mandates from the Board, and should be integrated more closely into the work being carried out by the Secretariat.

Finally, we believe that the GCF has matured to a point where its operations can and should become more sophisticated. In the March 2013 submission, we identified three financial models which could become part of the Fund's development: the wholesale model, the retail model and the assets model. It is clear that the wholesale model is well underway, with the accreditation of 20 financial entities to date. The assets model is under development with the proposed RFPs for mobilising funds at scale, involving MSMEs and direct access pilots. The retail model can probably await the establishment of more widespread carbon pricing approaches, at which point the Fund may want to manage auctions for projects providing emissions reductions in developing countries. The Board should be aware of these separate and complementary approaches, and integrate them into the development of the Fund via the Strategic Plan.

We congratulate the Board and the Secretariat on the Fund's progress to date, and look forward to our concerns being addressed in the upcoming Strategic Plan.

Abyd Karmali
Active Private Sector Observer
Developed Countries

Gwen Andrews
Active Private Sector Observer
Developing Countries

Strategic Plan for the Green Climate Fund: Inputs from ActionAid

Primary contact: Brandon Wu, Senior Policy Analyst, brandon.wu@actionaid.org
Submitted 1 December 2015

Decision GCF/B.11/03 specifies several primary objectives of a strategic plan for the Green Climate Fund, including:

(iii) Clearly articulate to the world the vision and operational priorities of the GCF thereby making it more accessible to countries and strengthening its partnerships with NDAs/FP and accredited entities;
(iv) Identify opportunities, policy gaps and challenges in operationalizing these objectives and guiding principles;
(v) Present an action plan for the implementation of strategic measures to address these opportunities, gaps and challenges in order to strengthen the GCF as the distinctly transformational, high-impact, country- owned, dedicated climate fund, operating at scale;

In this submission, we respond directly to the first two elements of this mandate by presenting our vision for the GCF, and then the key policy opportunities, gaps and challenges we have identified as the GCF currently stands, with the Governing Instrument and various policy decisions taken over the course of eleven Board meetings.

A Vision for the GCF's Transformational Power – Focus on Process, Not Just Projects

Civil society has long held that the value added of the Green Climate Fund is that it can better serve people and communities who are overlooked by existing climate finance institutions – women and men who tend to be the world's poorest and most vulnerable to climate impacts, and thus most in need of climate finance. From experience, we also know that such people and communities are not just passive recipients, but are active in shaping their own lives and have considerable knowledge about what interventions are most appropriate and effective for their contexts. We believe the GCF's value added is also in learning lessons from existing climate and development finance institutions about giving decision-making power to people and institutions as close to the local level as possible, rather than allowing such power to be retained primarily by contributors, who are far removed from realities on the ground.

To this end, we believe that it is not only important to consider *what* the GCF funds, but also *how* the GCF funds. It is clear that a key part of the GCF's role in facilitating a transformation to a new, sustainable, clean, just economy is its investment framework – the types of projects and programmes it supports. For example, the investment framework should clearly point the GCF in the direction of decentralized renewable energy rather than marginally cleaner fossil fuels, or agro-ecological approaches rather than marginally cleaner industrial agriculture. But just as important as *which* activities are funded is *how* these activities are funded – that is, the processes by which they are designed, implemented, monitored and evaluated.

There is a long history in development finance of well-intentioned interventions that have zero impact after external funding disappears – or worse, that lock in dependency on outside actors

and funders rather than building internal resilience or institutional capacity. NGOs are complicit in this as well, as we have historically taken on roles that are government responsibilities (most notably the delivery of basic public services), instead of doing the more difficult long-term capacity-building and advocacy needed to enable governments to better take on those roles.

The Green Climate Fund can be truly transformational by implementing processes that build country capacity, country ownership, and broad and inclusive stakeholder buy-in. Full support from countries and communities, and their deep engagement at all levels of GCF processes, will ensure that the projects and programmes funded by the GCF will continue to have sustained impact long after GCF funding is going.

This is our transformational vision for the GCF: a fund that is truly responsive to the needs of recipients because it places a great deal of agency in the hands of those very recipients. We hold that if the GCF fully embraces this vision, good process will inevitably lead to good projects – good projects that are sustainable and impactful well after GCF funding is completed.

Climate Finance Principles, and How the Green Climate Fund Stacks Up

In order to identify key policy gaps, opportunities and challenges for the GCF in light of the vision presented above, we refer to a principles framework that ActionAid developed in 2009. In our report *Equitable Adaptation Finance*, we laid out five principles to guide effective and equitable adaptation funding. While the report was obviously focused on adaptation finance in particular, these principles are clearly applicable as well to public mitigation finance, and all are applicable to the design of GCF processes that, as described above, are key to its transformational mandate.

The five principles, and our view of how well the GCF stacks up to each of them as of November 2015, are summarized in the table below.

Principle	Description	Status of GCF Policy
1. Representative Governance	Equitable representation of developed and developing countries in decision-making bodies, without weighting according to financial contributions; full accountability to the UNFCCC COP	**Good** – there is equal (if not equitable; the Board is a regression from the Transitional Committee structure) representation of developed and developing countries on the Board; and thus far the Board has explicitly rejected any link between contributions and decision-making authority.[1]
2. Participation of Affected Communities	Engagement of communities and local civil society stakeholders, especially women and women's organizations, should be seen as a key aspect of country ownership and must be central to fund	**Fair** – some strong language around multi-stakeholder engagement, country coordination, and participatory monitoring in the GI and a variety of Board decisions;[2] gender policy adopted;[3] however, stakeholder engagement guidelines are almost entirely

[1] See Governing Instrument, paragraphs 9 and 14; decision B.08/14.
[2] See Governing Instrument, paragraphs 3, 31, 57, and 71.
[3] See decision B.09/11 and Annexes XIII and XIV of document GCF/B.09/23.

	operations at project concept, design, implementation, monitoring and evaluation stages as well as at the decision-making level	non-mandatory aside from requirements in safeguard mechanisms;[4] existing (short) track record of NDA selection and project creation shows distinct lack of broad engagement in most cases; Independent Redress Mechanism yet to be operationalized.
3. Sustainable, Compensatory Funding	Funding should be predictable, new and additional, and – especially for adaptation – grant-based	**Poor** – while the predictability, and to a lesser extent, the nature of inputs into the GCF are not directly under the control of the Fund, accredited entities may use a variety of non-grant instruments to disburse GCF funds, and these may be prioritized over grants.[5]
4. Absence of Economic Policy Conditionality	No undue policy influence should be given to contributors outside the domestic political process of recipient countries; climate finance should not be contingent on economic or other reforms such as privatization, deregulation or trade liberalization	**Good** – the GCF does not provide any direct leverage for contributors over policies in recipient countries, and the country ownership principle should in theory prevent this from happening; however, as the GCF uses international intermediaries, those intermediaries could conceivably impose certain conditions, though these are unlikely to be broad, sweeping reforms beyond the scope of the specific projects or programs in question.
5. Streamlined Access	Quick, easy, direct access to finance for developing country entities should be emphasized	**Fair** – the GI's emphasis on direct and enhanced direct access,[6] the pilot programme for enhanced direct access,[7] the mandate for streamlined processes,[8] and the approval of some national accredited entities are all a step in the right direction; however, a heavy weight on international accredited entities, especially when taking into account size of projects for which various entities are able to implement, currently points too much towards a business-as-usual fund.

These five principles are as relevant today as when we wrote the original report. Civil society has been supportive of the GCF to date in large part because we hold great hope that it will abide by these five principles more closely than any other climate fund. On paper, GCF policies in the Governing Instrument and in previous Board decisions stand up to scrutiny reasonably well, as shown in the table above. That said, "on paper" is an important qualifier and it is clear that the GCF is now at a crossroads. There is sufficient ambiguity in the Governing Instrument and in prior Board decisions that, as the Fund moves into an operational phase, how closely it sticks to these core principles is very much an open question.

[4] See decision B.08/10 and Annexes XIII and XIV of document GCF/B.08/45.
[5] See decisions B.08/12 and B.09/04; also see item C.2(b) of the GCF Concept Note Template which requires a "detailed economic and financial justification" for any proposal requesting grant funding.
[6] See Governing Instrument, paragraphs 31 and 47.
[7] See decision B.10/04.
[8] See Governing Instrument, paragraph 53.

Gaps and Opportunities for the GCF: From Principles to Plan to Practice

Even on paper, compared to other multilateral funds, it is arguable that the three principles that would most set the GCF apart are also those on which it is currently weakest: participation of affected communities, sustainable and compensatory finance, and streamlined direct access. These, then, would be appropriate issues for a strategic plan to focus on – they are gaps in the sense that there is a great deal of room for improvement.

Yet they are also an opportunity: fully meeting these three principles would make the GCF stand out from all other multilateral climate funds in existence, and begin to fulfill the vision for the fund that we presented above. This would prove the GCF's value added, improve upon existing institutions, and justify the original thinking that the GCF be the primary channel for extremely large sums of climate finance in the near future. Subparagraph (c)(vi)(3) of decision B.11/03 on the strategic plan, which states that the plan should "place a particular focus on" the following, supports this:

> *Ensuring that the GCF is responsive to developing country needs and priorities, while ensuring country ownership, enhancing direct access, ensuring fast disbursement, implementing a gender-sensitive approach, supporting multi-stakeholder engagement, ensuring the effective use of funds and enhancing transparency.*

This text speaks to each of the three priority principles – engagement of communities and streamlined direct access are explicitly alluded to, while no fund can hope to be truly responsive to recipient country needs without having access to predictable finance. With this in mind, a strategic plan that seeks to improve GCF performance with respect to the three priority principles should include:

- A vision statement reiterating that the GCF is a fund for developing countries, and that in all its operations it will keep in mind first and foremost the needs and priorities of those countries, their citizens, and affected communities.
- A detailed outline of the implications of this vision in terms of policies and operational processes, including, *inter alia*:
    - The need to guarantee robust multi-stakeholder engagement, including active efforts to engage women and women's organizations, to ensure that all funded activities respond to actual needs using locally appropriate solutions and with full buy-in from affected communities, therefore maximizing the Fund's effectiveness and mitigating strategic and reputational risk.
    - The urgent need to develop best-practice (or better) environmental and social safeguards, further elaborate the monitoring and accountability framework to ensure that safeguards are fully implemented, and operationalize the Independent Redress Mechanism, to ensure that the rights of affected people are respected and that recourse exists if they are violated.
    - The need to build capacity in recipient countries to conduct robust multi-stakeholder engagement, meet high standards and safeguards, and strengthen the appropriate

institutions to ensure that climate finance reaches those who need it the most. This gives a crucial role to the readiness and preparatory support programme – which should be seen as an ongoing process rather than a series of one-shot interventions made by external consultants – and also has implications for enhancing direct access.[9]
    - Explicit guidance to redouble the Fund's efforts to emphasize or prioritize the accreditation of direct access entities, and provide the necessary readiness support to ensure that possible entities are able to meet the Fund's accreditation standards, including its environmental and social safeguards and gender policy.
    - A recognition that many transformational projects and programmes, in both mitigation and adaptation, require grant finance, and that any bias towards non-grant instruments needs to be reconsidered as the Green Climate Fund should be delivering public funds for public goods that would not be financed otherwise – including many crucial activities in the poorest and most vulnerable communities.
    - A recognition that transformational change in recipient countries will require predictable financing and that the Fund requires a formal replenishment process in order to guarantee the predictability needed to maximize its effectiveness.
- Concrete guidance to the Secretariat regarding the implementation of the strategic plan, the vision, and the policies and processes implied by the plan and vision.

Conclusion

At the current juncture, the Green Climate Fund does not look like the fund that civil society organizations had in mind when we fought so hard for its creation. The predominance of large international institutions in the list of GCF accredited entities, the emphasis on mobilizing private sector finance and delivering non-grant financial instruments rather than focusing on meeting the needs of recipient countries and communities, the slow delivery of readiness finance and the lack of actual capacity-building in recipient countries, the adoption of the IFC Performance Standards rather than best-practice environmental and social safeguards, the lack of mandatory stakeholder engagement policies, and more – all of these flawed process aspects of the GCF are deeply problematic. To date, civil society organization have been among the GCF's greatest champions in the public sphere, yet this support is waning with every decision taken that does not clearly have the best interests of affected people and developing countries in mind.

All that said, a strategic plan that seeks to strengthen GCF policies and processes with regards to the three priority principles identified in this document and based on the vision statement above will go a long way towards making the GCF the fund that so many civil society groups have fought for. We see the strategy plan process as a crucial tool to ground the GCF in the needs of poor countries and communities. If that is done, and taken seriously, the GCF's unique value-added will become much clearer, and its high profile on the international scene will be justified substantively as well as politically.

[9] For an in-depth study examining the country-level institutions and capacities needed to deliver climate finance to the poorest and most vulnerable in Bangladesh, see ActionAid's 2012 report *Financing Local Adaptation: Ensuring Access for the Climate Vulnerable in Bangladesh*. http://www.actionaid.org/bangladesh/publications/financing-local-adaptation-ensuring-access-climate-vulnerable-bangladesh

ADB

Manila, 1 December 2015

ADB SUBMISSION TO THE GCF CONTAINING OBSERVER INPUT FOR THE STRATEGIC PLAN FOR THE FUND

1. This document is in response to the invitation of the Green Climate Fund (GCF) Board to make submissions to the Secretariat on elements contained in the envisaged Strategic Plan for the Fund, as contained in Decision B.11/03. The Asian Development Bank (ADB), an accredited entity and observer to the Green Climate Fund, appreciates the opportunity to share some of our views on how to strengthen the operalization of GCF's vision, facilitate a scaling up of investments, and continue building strong partnerships with accredited entities like the ADB. We take pride in having been among the first entities accredited to the GCF and one of the first to receive Board approval for a funding proposal.

2. Countries in Asia Pacific are among the most vulnerable to climate change, and they also present vast opportunities to mitigate greenhouse gases. Most countries do not yet enjoy direct access to the GCF, and ADB already receives a large number of requests from developing member countries that want to work with us to develop innovative climate finance projects and access the GCF resources. The following suggestions for two of the broader areas mentioned in the decision are grounded in ADB's vast experience of working with co-funders and other climate finance sources in particular. Addressing the issues of programming as well as process efficiencies in the strategic plan for the GCF can help align the project cycles of both institutions, leverage our respective resources to a higher extent, and enable us to better respond to country needs in Asia Pacific.

Approach to programming and investing

3. The GCF aims to catalyse climate finance beyond its own funding. It relies on leveraging the creativity and intimate knowledge that accredited entities have of beneficiary country needs and circumstances, as well as additional financing sources and financing models. National designated authorities and accredited entities, together with the fund need to ensure that a robust pipeline is developed that reflects the vision of the GCF. To justify the efforts they expend in developing funding proposals, accredited entities as well as recipient countries need a higher level of assurance that these proposals can lead to investments on the ground.

4. It is suggested that accredited entities and countries each develop revolving multi-year as well as annual business plans containing projects and programmes planned for submission to the fund. These business plans should be synchronized, and in aggregate

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they can represent an indicative investment pipeline of the GCF. Annual business plans should contain project or programme information at the level of concept notes, without requiring them to be investment-ready at this stage.

5. Endorsement of the business plans by the GCF board—following their detailed discussion with recipient countries, as well as the GCF board and secretariat—does not guarantee that subsequent funding proposals will be approved. However it gives accredited entities and recipient countries a better level of certainty that their plans fit the vision of the GCF, and that projects or programmes will be positively considered, especially if the board gives additional guidance or conditions. Increasing the level of certainty at an earlier stage significantly reduces risk and associated cost of developing climate change projects for the GCF. Programmes in particular, which greatly reduce transaction costs and lead to transformational changes, can only be meaningfully developed in this way. Engagement of the private sector in particular may also be greatly enhanced if the GCF can move towards becoming a provider of patient capital in this manner.

6. Beyond giving some level of assurance to accredited entities and recipient countries, the business plan approach to programming and investing will also increase the quality of projects and programmes, as it allows the board to guide the secretariat to focus its attention on proposals with the highest prospects. Readiness support for countries can also be better targeted to the needs of the business plans. The aggregate pipeline furthermore allows the board to assess whether the fund as a whole moves in the right direction with regards to allocations between mitigation and adaptation, between countries, between direct access and international access entities, for private sector activities. Consequently it may be the basis for issuing calls for proposals.

7. Last but not least, business plans can enable accredited entities and countries to present programmatic, longer-term approaches to programming and investing the fund's resources, better synchronize their processing cycles with the GCF, and fully leverage their creativity and financing potential, in order to realize the paradigm shift that the GCF strives for.

Scaling up investments – clarification of the project approval process

8. Efficiency and effectiveness are the keys to scaling up investments and achieving impact. The fund needs to avoid doubling of work between the accredited entities, its own bodies, as well as national designated authorities and focal points. The GCF should therefore consistently apply the subsidiarity principle, relying on the most directly involved competent authority to carry out the necessary work. This also ensures that the Fund is responsive to country needs.

9. Following the fit-for-purpose accreditation process, accredited entities have been vetted in a rigorous exercise to ensure that their processes and standards enable them to comply with GCF safeguards and standards. Accredited entities are therefore the most directly involved competent authority for developing projects that conform to GCF standards. The checks that the GCF secretariat conducts regarding completeness and secondary due diligence can consequently be limited to assessing whether standards and processes have been applied and whether the information provided is appropriate and sufficient to allow appraisal according to the GCF investment framework. The Independent Technical Advisory Panel has been established to be the competent authority that provides assessment of and advice regarding the performance of the project or programme against the GCF investment framework. Giving no-objection is the prerogative of the national designated authority or focal point of the beneficiary country. It should therefore be seen as the assessment of the needs of the recipient, and a definitive expression of country ownership. The GCF board is the only competent authority to judge at the higher level if a proposed activity falls within the mandate of the fund and adheres to its visions. Any doubling of work between the aforementioned entities not only leads to inefficiencies, but also undermines the authority of the entities concerned in case of a disagreement.

10. A proposed mitigation or adaptation activity may be part of a larger investment project or programme of the accredited entity and possibly further co-funders. It may also be an additional, valuable climate finance element of an already approved project or programme. Completeness checks, secondary due diligence and performance assessment against activity-specific criteria of the fund, and no-objection can only be limited to the climate change part of the project for which a funding application has been submitted, because GCF bodies are neither directly involved in nor competent to assess the wider investment project or programme.

Green Climate Fund - Information note on the Strategic paper - AFD (Agence Française de Développement)

At its eleventh meeting, and by its decision B.11/03, paragraph (g), the Board requested its members, alternate members and observers to submit suggestions to the Secretariat in the framework of the elaboration of Strategic Plan of the Green Climate Fund.

As an observer, the AFD (Agence Française de Développement) proposes the following contribution in that respect, which draws notably upon some of the objectives already stated in the Governing Instrument document. The idea is to focus on both operational and strategic aspects in policies and bring forward some proposal for adjustment of some of the present practices of the Fund that could allow for increased efficiency.

1. Project cycle

- During the eleventh meeting of the Board, both the independent technical panel (ITAP) and the Secretariat provided an assessment based on the six investment criteria. A suggestion in order to facilitate the process could be to have only one project assessment, presented to the Board by ITAP. Under this acceptation, the role of the Secretariat would focus on the checking of completeness of the funding proposal and the respect of the board's policies. An alternative could be that ITAP provide an assessment restricted to the three main investment criteria, i.e. Climate impact, Transformative effect, and Value added of the fund's financial participation. The Secretariat would on its side provide an assessment on the other mainstream development investment criteria: environmental and social risk, gender policies, sustainability, and ownership.

- Another suggestion would be to allow discussion and exchanges before the board meeting between the Secretariat, ITAP and the Accredited Entity presenting the project , and let the accredited entities know about the ITAP and the Secretariat's positions in order to prepare and send its explanations and views. It could seem also important that the Accredited Entity have the opportunity to discuss about the potential conditions for disbursement and recommendations before the board meeting.

- To-date neither the Accredited Entity, nor the beneficiary country, have the possibility to present the funding proposal or answer the questions of the Board. As it happens in other multilateral funds, it would seem very useful that an Accredited Entity proposing the project to the GCF have the ability to directly present it and defend its contents. We would suggest that Accredited Entities be able to (i) present the Funding proposal during the Board meeting and (ii) be allowed to respond to questions.

- In our view, this change should also be extended to include the final beneficiary of the project. It is of particular interest as one of the six criteria for the project assessment is country ownership. Thus, it seems paradoxical that the recipient of the project is not able to contribute during its presentation to the Board. This probably implies to modify the conflict

of interest policy, with a view to recognize the value of the expression to the Board of recipient countries' views on the projects they benefit from.

- At the 11th meeting, the Board made two proposals that we totally support: (i) simplification of the funding proposal and concept note templates in consultation with the ITAP, National Designated Authority and Accredited Entities and (ii) the simplified processes for approval of proposals for small-scale activities. Both proposals contribute to the improvement of the GCF efficiency.

2. Policies

There is a recognized need for guidance on adaptation. Yet, one must also recognize that adaptation tracking and characterization have remained under discussion between IFIs for quite some time. In this context, a practical way to improve guidance in the short term would avoid the elaboration of a strict adaptation framework –which would inevitably be subject to debates-, and concentrate efforts on preparing a typology of adaptation projects the Green Climate would like to prioritize. The "adaptation policy" would materialize faster and in a more practical way if it takes the form of a guide for investors.

It is also reckoned there is a need to better define the six investment criteria and prioritize them.

- The Governing Instrument clearly states that the projects the GCF will finance have to focus their impact on fighting climate change: "*The Fund will contribute to the achievement of the ultimate objective of the UNFCCC. In the context of sustainable development, the Fund will promote shift towards low-emission and climate resilient development pathways by providing support to developing countries to limit or reduce 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*." However, the project evaluation does not, to-date, seem to weight differently the six investment criteria. In order to avoid the financing by the Green Climate Fund of "business as usual" development projects, it seems crucial to put emphasis on Climate impact, transformative effect, so as to ensure the added value of the financial participation of the Fund to the project. Thus, the first and fourth criteria, "Impact potential" and "Paradigm shift potential" should be prioritized compared to other indicators. The entities entitled to present projects to the Board have been assessed against several standards, in particular environmental, social and gender policies. Thus, it should be considered that to a large extend the accreditation ensures the inclusion of sustainable development concerns in the projects supported by the Accredited entities. Moreover, as per the decision GCF/B11/10, the accredited entities are assessed each year against their environmental, social and gender policies. This would appear sufficient in order to ensure that the assessment of these dimensions is already carried out by the accredited entities for each project and justify a focus on the above-mentioned criteria.

- During the Board's session, the Secretariat and the ITAP made their assessment by rating each investment criteria: "high", medium"," low". In order to render more precise the assessment and make it more transparent, it seems crucial to clarify the definition of each

grade. For instance, the “paradigm” criterion, that is defined in the document GCF/B09/23, as “the degree to which the proposed activity can catalyze impact beyond a one-off project or programme investment“, seemed during the eleventh Board to be considered in light of an “innovative” dimension. In order to maximize the impact of its funding, it would seem very important that the Green Climate Fund seek through this criterion to ensure a middle and long term effect on country policies, strategies or to initiate a virtuous cycle on a given economic sector. Likewise, “the efficiency and effectiveness” criterion could be more concentrated on the financial adequacy and appropriateness of concessionality aspects in order to highlight the added value of the GCF.

3. Financial instruments

The Governing Instrument states that “the Fund will be scalable and flexible and will be a continuously learning institutions”. During the eleventh meeting, the Board approved to fund projects with equity and guarantee instruments. It is a positive message to Accredited entities, giving them the opportunity to propose a wide range of financial instruments beyond grants or loans, in order to respond to the diverse financial needs and maximize transformational impacts on economies.

AFD would furthermore propose to the Green Climate Fund to consider two additional financial tools that allow quick and large scale effects to catalyze financial flows: blending mechanisms and climate change program loans.

Blending mechanism

The objectives of blending mechanisms are to bring complementary financing resources (through grants) to all relevant financing actors (national, international, public and private) in order to allow them to better answer the countries' demands. They aim at, inter alia: (i) financing projects that would otherwise not be financed thanks to the pooling of resources and the complementary use of grants and loans, (ii) ensuring a high leverage effect on limited grants resources.

Those mechanisms fully correspond in many ways to the evolution that can be noticed in the development aid policy.

- Thanks to their focusing on fiduciary aspects and to the wide range of actors that can have access to those mechanisms, they can contribute to a strong leverage effect on financial flows.
- These mechanisms ensure the possibility of a quick and effective implementation of financing of programs and policies as they are an operational mechanism that assigns funds to a program not necessitating any special purpose vehicle
- They add real value to the actions of existing institutions, contributing to enlarging the range of available financial instruments and activities (providing diverse financial instruments dovetailed to the nature of the investment) and optimizing the use of grants resources (efficiency).
- They can be based on principles and experiences that already exist and have proven their efficiency (like the Africa infrastructure trust fund or the neighborhood investment facility).

For instance, blending mechanism could be used in the following cases:

- The business plan of a high performance mitigation project financed by a pool of actors needs a reduction of its financial cost in order to be economically viable. The GCF would then provide the grant element needed to subsidize the interest rates of the loans.
- An innovative project/technology able to have a transformational effect on an economic sector needs incentive to be fostered. The GCF would provide part of that incentive by subsidizing the financial plan.

Climate Change budget support

AFD promotes public budgetary instruments to accompany countries in the definition and setting up of ‘climate’ policies with high potential structural effects on investments and financial flows. In the past few years, several operations providing budget support to promote the implementation of nationally driven climate change policies and action plans have been developed by AFD and other donors around the world. The long term objective of such operations is to accompany and support a country on the path towards long term sustainable growth by integrating climate change (both GHG emissions and vulnerability to future impacts of climate change) into its development strategies.

The general principles of a climate change program loan include:

- a contribution to the national budget by international donors,
- linked to a policy matrix, i.e. a set of key evolutions brought to the national regulatory framework
- and accompanied by capacity building and cooperation programmes financed with grants.

The policy matrix is country-driven and reflects the national priorities to tackle climate change. It forms the basis for building a strong partnership between the country and donors, and fosters cooperation between them.

The technical cooperation aims at: (i) developing the appropriate institutional setup for defining efficient national plans; (ii) supporting technical or economic sector-specific studies to help the definition of a climate change strategy.

Climate change program loans can be powerful tools to support developing economies in their effort to set up efficient frameworks to address climate change, while fostering private sector investments. Budget support is indeed sometimes likely to achieve what projects (financed on a loan or grant basis) could not for the following reasons:

- All ministries and in particular the ministries of finance or those in charge of economic planning are closely involved in the management of budget supports. Since those ministries play a central role in the allocation of the national budget and the development of the private sector, their commitment alongside such Climate programs is critical to ensure the availability of the necessary resources that will for instance support the emerging of independent power producers of renewable energy. Budget support can also be leveraged by line ministries to make sure that the ministry of finance will indeed allocate the necessary resources to fund a policy reflected in the policy matrix of the program.

- The large amounts involved are more inclined to get the attention of officials at higher levels where decisions need to be made. The central government is thus also provided with a stronger incentive to implement its climate change agenda and invest the time required to design and implement a regulatory framework favourable to the development of the private sector.
- The visibility of those operations, given their amount and the number of stakeholders involved, is likely to provide a positive signal to private investors on the country's willingness to address climate change in the longer term. Such a signal, reducing the regulatory uncertainties for the future, is indeed often lacking, although it represents a prerequisite for any private stakeholder to invest.

Annex 1: Blending mechanisms- Example: the EU-Africa infrastructure trust fund (ITF)

The EU-Africa Infrastructure Trust Fund (ITF) is an instrument of the wider EU-Africa Infrastructure Partnership. The ITF became operational in June 2007. Its aim is to increase EU investment in regional infrastructure in Africa, working together with other initiatives, actors and instruments, and on the basis of African ownership. The Trust Fund combines grant resources from the European Commission and EU Member States with the technical and lending capacity of EU development financiers, in partnership with the African Development Bank (AfDB).

- The total project cost (TPC) of all Grant Operations approved and cleared in principle for the funding of projects in the investment phase is currently estimated at €1.38 billion at year end 2009.
- Each euro in approved ITF grants is expected to generate over fourteen euros in total investments (leverage effect or multiplier of 14:1)

Four sectors are eligible for support: (i) energy; (ii) transport (rail, road, air, maritime and inland waterways); (iii) water; and (iv) information technology, including telecommunications infrastructure where projects financed provide access to a service of general economic interest. Eligible infrastructure projects must respect the guiding principles of African ownership and long-term project sustainability. Funding support for eligible projects can take four different forms:

- Interest Rate Subsidies: the provision of a lump-sum amount to a participating lender (i.e. the financiers appointed by the Donors) to enable that lender to make long-term loan finance available at reduced interest rates. The subsidies are granted so as to avoid market distortions;
- Technical Assistance: includes funding preparatory work for eligible projects, such as environmental impact assessments, project supervision and targeted capacity-building (e.g. reinforcing the technical and administrative capacity of local staff in Africa);
- Direct Grants: for project components which have substantial, demonstrable social or environmental benefits or which can mitigate negative environmental or social impacts;
- Insurance Premia: initial-stage funding of insurance coverage necessary to launch infrastructure projects.

(c) Also notes convergence that the strategic plan should:

(i) **It is better to think a new mechanism for to involve the indigenous peoples in the participation for implementation of GCF program;**

(ii) Be a living document to be reviewed and updated on a regular basis, as determined by the Board;

(iii) **Making also the accessibility to the indigenous peoples NGO in supporting for their projects and to promote the capacity for this population to manage the traditional knowledge in climate change;**

(iv) **Making the Enquiries for identifying the needs of the indigenous peoples about security food, the impact of climate on their health, economic and in the global development;**

(v) , **Present an action plan for the implementation of strategic measures to address the indigenous peoples issues in the climate**

(vi) These measures should place a particular focus on:

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, and to maximize the engagement with the private sector;

2. Setting out the approach of the GCF to programming and investing the Initial Resource Mobilization resources, while striving to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two;

3. Ensuring that the GCF is responsive to developing country needs and priorities, while ensuring country ownership, enhancing direct access, ensuring fast disbursement, implementing a gender- sensitive approach, supporting multi-stakeholder engagement, ensuring the effective use of funds and enhancing transparency.

CCAP
CENTER FOR CLEAN AIR POLICY

Submission on the Strategic Plan for the Green Climate Fund

December 1, 2015

The Center for Clean Air Policy (CCAP) is pleased to respond to the Secretariat's call for submissions on the Strategic Plan for the Green Climate Fund (GCF).

CCAP welcomes the decisions taken by the Board at 11th GCF Board meeting in November 2015 in Zambia, including the approval of the first eight funding proposals, and the establishment of a dedicated project preparation facility and enhanced readiness program, which can help strengthen the pipeline of high-quality, country-owned projects to ensure a sufficient demand for transformational funding at scale.

CCAP also welcomes the Board's decision to move forward on the preparation of a strategic plan for how the Fund will achieve its overall paradigm shift objective. At a policy lunch hosted by CCAP in Zambia, Board members exchanged views on the Fund's strategic objectives and discussed specific issues raised in Board member submissions and in the progress report prepared by the Secretariat in advance of the 11th Board meeting. These discussions strengthened the consensus around the need to enhance support for project preparation to ensure country-driven implementation of ambitious action and to build a pipeline of projects that can fulfill the promise of the GCF and its ambitious funding pledges. There was also broad agreement among participants that such support should respond to the goals and planned actions laid out in countries' INDCs.

This discussion forms part of CCAP's larger efforts to build a shared understanding of the process of converting INDC goals into implementable policies and finance-ready investment strategies after Paris. In our recently released discussion paper, "Converting INDCs into Action," we take stock of the current state of play in converting INDCs by examining INDCs from key developing country Parties, with a view to understand the types of support countries need to take conversion forward and how the provision of such support from the GCF and other sources might be enhanced.

The following recommendations on the Strategic Plan draw on the policy lunch and our ongoing engagement with Board members, as well as our discussion paper and work on INDC conversion.

Elements of the Strategic Plan

Promoting a paradigm shift to low-carbon and resilient development is the overarching objective of the GCF, and what distinguishes it from other climate funds. CCAP recommends that the Strategic Plan articulate strategic goals in line with this objective, and consistent with the high-level principles included in the Governing Instrument and decisions taken by the Board to date.

A short list of strategic goals should be accompanied by concrete measures to achieve these objectives, as well as indicators to measure progress. The Strategic Plan adopted in 2016 should cover the remainder of the initial resource mobilization period, and be revisited ahead of every subsequent replenishment.

Recommended strategic goals, measures and indicators

1. Promote INDC conversion and implementation

The operationalization of the Fund coincides with an unprecedented showing of commitment to climate action by developing countries ahead of Paris. Many developing countries Parties indicate they need support to achieve greater ambition than they can achieve on their own. The Fund should respond to these commitments by helping countries to convert their INDC targets into specific policies, measures and finance-ready investment strategies, and by supporting the implementation of projects and programs anchored in countries' INDC targets and planned actions.

Measures to achieve this strategic goal could include:

Enhancing readiness and project preparation support

Providing support for INDC conversion through the project preparation facility and readiness program can help enhance global ambition and build a strong pipeline of country-driven proposals to the GCF.

The Board should ensure the project preparation facility is well-funded and fully operational in 2016 in order to accelerate this work soon after Paris. Currently slated to target small-scale activities (> $50 million in total project size), the Board may wish to consider extending support to medium ($50 - $250 million) and larger-scale activities (> $250 million) in order to catalyze transformational action at the scale needed to meet INDC goals.

The Fund should ensure support for both the preparation of specific program proposals, as well as broader support for the design and development of programmatic approaches that establish policy frameworks and long-term infrastructure plans that go beyond one-off projects to mobilize public and private investment.

In the case of the readiness program, the Board should consider committing additional funds beyond the current $29 million and increasing the level of support available per country to allow countries to pursue a broader scope of work.

Adequate readiness support should be made available for the development of comprehensive GCF country programs that identify priorities for GCF support and concrete actions to achieve them, building on the INDC and other national strategies and plans. All countries should have the opportunity to prepare GCF country programs that will help the Board prioritize funding.

Using INDCs and country strategies in GCF programming decisions

To promote ambitious action anchored in a country's INDCs and broader domestic sustainable development agenda, GCF country programs should serve as a primary driver of Fund programming, and an appropriate link should be made between GCF programming and INDC implementation. In the evaluation of proposals, the Board

should be advised by the Secretariat on how projects and programs align with country strategies, and contribute to transformational outcomes consistent with countries' INDCs.

Potential indicators:

Indicators for this strategic goal could include the number of projects and programs with clear links to country strategies and INDCs that are supported by GCF project preparation or readiness funding (concept notes and full proposals), the number or share of these that ultimately receive implementation support from the GCF or other public or private sources, as well as the volume of project preparation and readiness support disbursed for these projects and programs. The GCF could also track the number of countries that submit GCF country programs to the Secretariat.

2. Mobilize private finance at scale

The GCF should quickly take action to capitalize on the growing interest of many private sector investors who are ready to make investments that will affect the transition to a low-carbon global economy.

Measures to achieve this strategic goal could include:

Building country capacity to catalyze private finance

An immediate focus of GCF readiness and project preparation support should aim to build the project pipeline and structure high-impact investments that provide opportunities for financing at scale. To this end, the Fund should place a priority on assisting countries in designing financial mechanisms within country projects and programs that target the barriers to low-carbon investment and create a stream of commercial investment opportunities. In the short term, these opportunities will be greater in countries that are already far along in the process of converting INDCs into investment strategies and have robust domestic institutions and enabling environments. Encouraging this process in these "finance-ready" countries can help build the global market for private, climate-friendly investment flows and encourage replication.

At the same time, ongoing and longer-term efforts should focus on helping a broader set of countries to put in place enabling environments that promote private investment and building the capacity of domestic public and private commercially-oriented institutions.

Potential indicators:

Indicators for this strategic goal could measure the number of projects and programs and the volume of preparatory and readiness support delivered to activities which demonstrate a strong private sector element, and the number or share of these that are ultimately selected for funding by the Private Sector Facility or other public or private funders. Consideration should be given to indicators that could measure the impact in terms of market transformation such as replication of projects by entities not using GCF support and trends in the cost of financing projects in the sector relative to overall interest rate movements.

3. Strengthen transparency and streamline operations

With the Fund now "open for business", increasing transparency and information flows to Board members and other stakeholders, as well as streamlining Fund policies and procedures, can enhance operational efficiency, provide clear guidance to countries and institutions looking to partner with the Fund, and send a strong positive signal to the private sector and contributing governments. More than just a practical concern, CCAP views addressing issues of transparency and Fund operations as a strategic consideration, and paramount to the long-term success of the Fund.

Measures to achieve this strategic goal could include:

Comprehensive reporting on the GCF pipeline

At the 11th GCF Board meeting, the Board decided that the Secretariat should publish information on the project pipeline ahead of each Board meeting. This report should contain information on projects at various stages of development, as well as a compilation of the indicative projects and programs included in GCF country programs. Information should be made available in a timely fashion to allow for adequate consideration by Board members, civil society, and other stakeholders ahead of Board meetings.

Information on the project pipeline can help the Board monitor the Fund's portfolio and ensure funds are directed strategically to transformational projects and programs, and should not be used to pre-judge the approval of any specific projects.

Addressing current policy gaps and consideration of key policy issues in advance of each replenishment process

The Secretariat, in consultation with the Board, should compile a comprehensive list of critical policy gaps to be addressed by the Board in the coming year, and a timeline for addressing them. Now and at the start of each replenishment period, the Secretariat should prepare an overview of Board decisions taken to date and remaining policy and procedural issues to be addressed over the programming period, including timeframes for future decisions and policy review as mandated by previous Board decisions.

In the coming year, immediate attention should be given to streamlining and simplifying the proposal approval process and increasing the transparency of assessments by the Secretariat and the iTAP. This can enhance the credibility of Funding decisions, and encourage the development of proposals that are well-aligned with the investment priorities of the Fund. In addition, comprehensive guidance on Fund policies and procedures should be developed, compiled and periodically updated, and this information should be made accessible to Board members, accredited entities, countries and other stakeholders.

Potential indicators:

While quantitative indicators for this strategic goal may not be practical, progress could be measured based on whether information is disseminated on a consistent and timely basis, including the report on the project pipeline, the overview of past and future Board decisions, and guidance on policies and procedures. These tasks should

form a key part of the Secretariat's responsibility, and be reflected in the evaluation of the Secretariat and the executive team.

Going forward, CCAP will continue to engage with GCF Board members and the Secretariat to facilitate constructive discussion and provide concrete policy recommendations on the Strategic Plan ahead of the informal Board meeting in early 2016 and leading up to the 12th GCF Board meeting in March.

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Spearheading the scale-up of small-scale carbon reductions

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1 Dec 2015

Green Climate Fund
Secretariat

Submission for the Strategic Plan of the Green Climate Fund

With reference to the Decision B11/03 at the last Board meeting, Differ will hereby submit suggestions to the ongoing strategic plan process of the GCF.

Differ is a private investment and advisory company working particularly on implementing sustainable energy household solutions in developing countries. We are focusing on distributed, small-scale energy solutions, e.g. on stand-alone Solar Home Systems and on improved biomass cook stoves. Through this we have extensive experience with investing in and venturing companies offering energy services to the energy poor. Both as an advisor and as an investor, Differ has assessed business plans and investment proposals from a wide range of business developers and technology providers targeting the rural and energy poor regions and populations in Asia and Africa. Differ has worked with the e.g. Norwegian Ministry of Foreign Affairs, Norwegian Ministry of Climate and Environment, NORAD, GIZ and SNV on Result based financing (RBF) designs within energy and energy efficiency, and with a focus on off-grid and BOP households.

Based on this experience and as a true private actor in developing countries in the core fields of GCF, we will in this submission focus on what we think is critical to include in GCF's ongoing strategy process so that private companies have a better chance to succeed in implementing sustainable energy solutions. We will argue that including RBF as one (of several) financial instruments to be employed by GCF, particularly for mitigation projects within the energy sector, should be considered in the ongoing strategy process.

RBF is not a new financing concept and it is already widely used in energy projects worldwide, for instance in the form of feed-in-tariffs/Power Purchase Agreements with payment per kilowatt-hour in Germany, Uganda (GetFiT) and South-Africa to stimulate the introduction of renewable energy sources (e.g. solar and wind power). There are many reasons why we think RBF is appropriate for GCF:

1. **Level playing field.** As business developer of and investor in one of the many ambitious Pay-As-You-Go SHS companies and a growing clean cookstoves company, we see it as crucial that the GCF does not distort the competition in these areas. Although up-front grant support from GCF would reduce the financial risk of our companies, we would strongly request the GCF to implement rights-based RBF mechanisms for distributed energy solutions, rather than awarding up-front grants.

2. **Leverage ratio.** With a reliable, right-based RBF solution, a whole range of players can approach commercial capital sources and get financing for their companies and projects. Up-front grants benefits only a few winners. The grants increase these winners' chances of raising the rest of the financing, but the overall leverage ratio will likely be much higher in an RBF

scheme – even if only counting the successful ones. This also reduces the risk of GCF since paying upfront to those not succeeding is avoided.

3. **Saved efforts in developing comprehensive applications**: Winning grants is quite a beauty contest. As can be seen from many aid and grant programs, the actual results systematically undercut budgets. In order to get up-front grant financing, there is a requirement to budget with a high degree of success, as you either win the grant or not. In an RBF world, you get half the money if you deliver half of the results. A situation where we can focus on delivering results, and know what kind of result-based finance we would get for the results achieved would save us a lot of effort in terms of developing comprehensive grant applications.

4. **Transformative and private sector engagement.** With the guarantee from GCF that a project will get "rewards" for the results achieved, the commercial capital providers (e.g. commercial banks), who are experts in assessing the risks of not getting their money back from loan-takers, will be able to finance the projects that they find fundable within their risk profile. Projects assessed to be good, will have a better chance of obtaining project financing than less good projects. The commercial banks rather than the GCF Board conduct the detailed project due diligence. The private sector, both through its assessment and potential financing, is directly engaged in the activities that GCF wishes to fund, which is fully aligned with one overall ambition of GCF; to attract private capital.

The points above suggest that performance based payments have many advantages to upfront payments based on plans and budgets. Differ will therefore support and acknowledge any inclusion of RBF in the on-going strategy process so that this becomes one financial instruments to be employed by GCF going forward, particularly on mitigation projects within the energy sector. It will reduce the risk of GCF and it will to a larger extent engage private sector. That would have been transformative.

Differ is available to answer any questions or request based on this submission.

With the best regards,

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Moving Beyond Business as Usual: Inclusive Country Ownership, (Enhanced) Direct Access and Gender-Responsiveness as Key Elements of a GCF Strategic Plan

*Submission by the Heinrich Böll Stiftung North America**

At its 11th meeting in Zambia in early November, the GCF Board with decision B.11/03, requested Board members/alternate members and observers to make submissions to the Secretariat by December 1, 2015 regarding some key elements of a strategic plan for the GCF and its implementation as well as identified opportunities, policy gaps and challenges in operationalizing key objectives and guiding principles of the GCF Governing Instrument, including COP arrangements as well as prior decisions in furtherance of such a strategic vision for the GCF. This submission by the Heinrich Böll Stiftung North America, an accredited civil society observer organization, responds to this request.

Need for a Strategic Plan

1. The Governing Instrument already lays out the mission and vision of the GCF in its section on objectives and guiding principles (paras. 2 and 3). Thus, the constituent elements of a GCF strategic plan and its multi-year implementation schedule should be centered on the further operationalization of these core objectives and guidance principles, namely:

- Contributing to "**the achievement of the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC)**";
- promoting "the **paradigm shift** towards low-emission and climate-resilient development pathways" in the **context of sustainable development**:
- being "**guided by the principles and provisions of the Convention**";
- operating "in **a transparent and accountable manner** ;
- being guided by **efficiency and effectiveness;**"
- pursuing "**a country-driven approach**";
- promoting and strengthening "**engagement at the country level through effective involvement of relevant institutions and stakeholders**";
- being a **flexible and scalable** institution;
- **committed to continuous learning** and "guided by processes for monitoring and evaluation,"
- striving "to **maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two**;
- "**promoting environmental, social, economic and development co-benefits";** and
- "**taking a gender-sensitive approach**."

2. Such a strategic plan is needed to define and **elaborate the priorities and ambitions of the GCF** and to communicate them clearly to accredited implementation partners and developing country partners. It will also serve as **an accord for a more unified GCF Board and for a partnership of trust between the GCF Board and Secretariat**. The ambitions and priorities for the GCF in a strategic plan should reflect the objective of the UNFCCC and any agreed long-term goals as well as the Convention's principles. That means that the GCF in all its operations should **support efforts to limit global warming to below 1.5 degrees while delivering adequate and predictable support for adaptation**. This requires a partnership with GCF accredited entities that focuses on shifting their policies and whole investment portfolios towards compatibility with this goal. **Funding support for**

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fossil fuel technologies is thus incompatible with the GCF's strategic outlook and vision and has no place in a GCF action plan.

Equity and fairness must be considered no less important to the GCF vision and the implementation of its strategic plan than effectiveness and efficiency, which themselves have to be understood much broader than a narrow accounting of financial costs as their measure.

3. A strategic plan provides a key opportunity to highlight those approaches and elements that will allow the GCF to **move "beyond business as usual" investment practices** and to prioritize their implementation as the key to a shift in global climate investments with lasting impacts. These are also **the elements and approaches that are the core building blocks of a paradigm shift and contribute to the value added by the GCF** to the global climate finance architecture because they identify and tackle existing shortcomings and neglects in the way climate finance is provided and scale-up, amplify and further develop innovative approaches and best practices often not given the necessary scale of funding support in the past.

4. The strategic plan as an implementation guide to fulfill the mission and vision of the GCF in the longer term must be complemented by programs for priority actions for the more immediate timeframe – **annual working plans** for both the GCF Board and the GCF Secretariat and **multi-year action or operation plans** to correspond to the initial resource mobilization and subsequent replenishment periods. The latter 3-4 year time-frames also provide the opportunity for thoroughly evaluating how far the GCF has progressed toward the fulfillment of its strategic vision. A regular review timed to coincide with the replenishment schedule will also allow for a shifting and re-alignment of priorities and policies and funding approaches in support of the GCF strategic plan.

Key Approaches and Elements of a GCF Strategic Plan

5. In Zambia, the Board considered Board document GCF/B.11/Inf.07, which attempted to provide a peer review of existing multilateral funds from the climate and the health sectors, identifying some good practices and experiences and highlighting some challenges and opportunities for the GCF. The progress report was developed following a request by the Board at its 10th meeting. This request in turn was prompted by the dissatisfaction of several Board members with document GCF/B.09/06 titled "Analysis of the expected role and impact of the Green Climate Fund", which largely equated the strategic vision of the Fund to elaborated portfolio guidance, an approach that was not endorsed by the Board and was criticized by civil society observers.

6. Indeed **an undue focus on portfolio composition** (especially if coupled with specific allocation targets) with a few priority investment sectors and geographic regions, as document GCF/B.09/06 seemed to encourage, must be avoided. It could very well run counter to **strengthening country ownership** as a key element of any GCF Strategic Plan as it could artificially narrow the range of activities and investments within the GCF impact areas already identified in prior Board decisions (namely B.05/03 and B.07/04) that a recipient country is encouraged to pursue. This would undermine a country-driven process of identifying a recipient country's own needs and priorities for GCF funding in support of lasting sustainable development.

Multiple Benefits Approach

Instead, the strategic plan must support operational policies, including strengthening existing ones, that prioritize GCF investments in climate actions with **multiple benefits and with cross-cutting approaches** over investments that pursue narrowly defined climate benefits (such as the cost-efficiency of emission reductions) to the detriment of a broader set of sustainable development objectives (many of which have been recently elaborated and agreed on globally in the SDG process). A further refinement of the GCF project approval process; the readiness support for country coordination, stakeholder involvement and pipeline development; guidance on project development for accredited entities and NDAs/focal points; and the elaboration of the GCF

performance measurement frameworks in line with a multiple benefit approach provide opportunities to that effect.

GCF investments can only be **effective, efficient and equitable in line with Convention principles if they are not at cross-purposes with those wider sustainable development objectives and parallel international processes** and driven by a recipient country's needs determined through participatory and inclusive country coordination processes with multi-stakeholder engagement

Qualitative Approach in Support of a Paradigm Shift Beyond Scalability/Replicability

7. A central part of any GCF strategic plan is **how the paradigm shift that the GCF seeks to support will be defined** and what elements are seen as driving such a paradigm shift. While scalability/replicability (a quantitative focus primarily on aggregate size) is one crucial element, the GCF must **avoid a narrow focus on scale** as the key determinant of a paradigm shift. A scaled up or replicated bad investment approach is still a bad investment approach, even if it is capable of deploying large sums of GCF resources fast.

Indeed, for hbs North America and other CSO observer organizations at the GCF, the **qualitative elements of GCF-supported climate actions** are as much part of the supported paradigm-shift as the tens of billions in financing that the GCF can eventually provide. These qualitative parameters of a paradigm shift include how well GCF investments are conceived and implemented and what signal they send internationally. They are determined in particular by the GCF **setting new best international practice in transparency and information disclosure** across all of its operational levels (Board, Secretariat, recipient countries). GCF CSO observers have submitted important recommendations with respect to improving the interim information disclosure policy of the GCF to a best practice one, an urgent priority for early 2016.[†]

8. A qualitative approach to defining the paradigm shift the GCF seeks to support also includes an acknowledgement and incorporation of a **rights-based approach** to all GCF funding. This includes recipient countries' **right to development** that is low-carbon and climate-resilient (country driveness) in a way that respects and supports **the human rights of individuals and societal groups,** including women and Indigenous Peoples. **Gender equality** and **Free Prior and Informed Consent** (FPIC) are not just a safeguard issue and cannot be narrowed down to a due diligence safeguard approach with a mitigation plan and some redress options in cases of harm done (although these remedial actions remain of course important, if not sufficient). A **human rights-based approach** as part of the GCF strategic vision means that the GCF sends the clear signal that **GCF-funded climate actions have to conceived and implemented differently** than what is the standard practice of many development and climate actors, including GCF accredited entities such as the MDBs and some private sector actors. Many of these do currently not apply a human rights-based approach and in the past have implemented projects and programs that have contributed to human right violations.

This also means that the GCF will not fund a number of climate actions, including those involving fossil-fuel or nuclear power technologies, large-scale hydro-power, or GMO or large-scale biofuel approaches. Having a human rights contextualization as part of the GCF's strategic approach will result in a **de facto exclusion list** of some mitigation technologies for example in favor of **leapfrogging low-carbon technologies with a focus of addressing energy poverty** through support for the transfer of appropriate technologies and delivery systems, often off-grid or mini-grid, in response to recipients' needs.

As part of the risk management approach of the GCF and in order to avoid significant reputational risk, the strategic plan needs to send **a clear signal to prospective GCF implementation partners that not just their specific interaction with the GCF but their whole investment portfolio as well as their human rights track record is a matter of public review for compatibility with the strategic vision of the Fund**. The recent Board

[†] A joint CSO submission is available at: https://us.boell.org/sites/default/files/uploads/2012/10/cso_note_gcf-draft_informationdisclosurepolicy_november2015.pdf

decision on the initial monitoring and accountability framework for accredited entities (B.11/10) in Annex I, para. 35 makes a determination of progress toward a lasting portfolio shift of any AE within the its 5-year accreditation period with the GCF a review criterion for re-accreditation.

An **accreditation strategy as part of the strategic plan** of the GCF must expand this approach already to the initial accreditation decision. Where due diligence review of applicants indicates some prior problems (such as large-scale fossil fuel financing or human rights violations), accreditation should be postponed or at least be conditional, for example by relegating the applicant entity to a lower risk category and smaller project size. This is especially important for those financial intermediary with problematic track record (such as Deutsche Bank or HSBC), which seek accreditation for the GCF's largest project and highest risk categories.

Gender-Responsiveness

8. The GCF is the first multilateral climate fund with a **mandate for a gender-sensitive approach** in its founding charter, the Governing Instrument, from the outset of its operations. It has put in place a principles-based gender policy and a time-bound gender action plan before the start of its funding operations and has integrated gender considerations in a number of key operational policies, as the Board and the GCF Secretariat have acknowledged support for gender equality as a cross-cutting operative imperative for the GCF. This gives the GCF **the opportunity to set international new best practice and further develop gender responsiveness of GCF operations** as a key component of the paradigm shift that the Fund supports.

Improving the gender-responsiveness of GCF operations provides a **useful lens and testing ground** for the kind **of different climate actions, designed and implemented with innovative approaches and a focus on the most vulnerable segments of societies as beneficiaries, their roles as change agents in communities and their rights and capabilities when empowered and supported** that will allow the GCF to set itself apart from other Funds.

There are many opportunities to improve the gender-responsive implementation of GCF projects and programs as a strategic priority of the GCF.[‡] These include for example a strategic focus on tackling some of the **access to finance challenges** that are prominent to many women in developing countries, but by no means limited to them. Gender-responsive finance provision through the GCF will for example ensure that concessionality and reduction of financial risks via guarantees received by GCF intermediaries such as commercial banks is passed on in the form of small grants or via green credit lines of small-scale, patient, highly concessional loans to community groups and micro-, small- and medium-sized enterprises (MSMEs), in which women in the developing world are disproportionally engaged, including through preferential conditions and risk transfer arrangements if needed to ensure support of gender equality. **Board-approved GCF pilot programs under the Enhanced Direct Access Modality (EDA) and for MSMEs under the Private Sector Facility provide concrete action opportunities to operationalize the gender-responsiveness of GCF financing** in a way that is in line with a multiple benefits approach and supportive of human rights, but also scalable and replicable.

(Enhanced) Direct Access as a Strategic Priority

9. Country-ownership is a key guiding principle of the GCF and a core part of the GCF strategic vision. Therefore, the **strengthening of country ownership must be a priority of the GCF strategic plan**. A primary focus should be on **increasing the number of sub-national, national and regional implementing entities from developing countries accredited with the GCF for direct access.** While the Adaptation Fund has pioneered direct access, the GCF has the opportunity to scale up direct access and make it the **primary access modality** to its funding. This is clearly an approach that sets the GCF apart from other existing climate funds and directly

[‡] See for a detailed elaboration: Schalatek, Liane (2015). *From Innovative Mandate to Meaningful Implementation: Ensuring Gender-Responsive Green Climate Fund (GCF) Projects and Programs*, hbs North America, https://us.boell.org/sites/default/files/gcf-genderintegration-hbs_egm.pdf.

addresses existing shortcomings of decades of development and finance interventions with the help of **readiness support understood as an ongoing, iterative process** (not a one-time finance provision with a country cap), and a core component of realizing a strategic vision for the GCF. Without a GCF commitment to the ongoing empowerment of national institutions and processes, there can be no lasting impact of GCF funding. This is also why the GCF Board required accredited multilateral implementing entities (MIEs) with decision B.08/03, para. (j) to provide support to national entities in helping them get accredited with the GCF. The fulfillment of mandate should be watched very closely by the Accreditation Committee and Panel and publicly reported. The mandated approach should also be broadened to require MIEs and international intermediaries to **rely on national executing entities (NEEs) whenever possible** as this likewise builds country ownership and national capacity to implement.

10. With two rounds of accreditation completed and a third round pending, it is clear that **a strategic plan for the GCF needs to incorporate an accreditation strategy in support of direct access entities**, focusing not just on the number of direct access entities and their geographic balance, but also on **improving their capacity to access GCF funding at scale**. Seven out of the nine current NIEs and RIEs are only accredited for micro (4) and small (3) GCF projects under the fit-for-purpose accreditation approach. In contrast, ten of the eleven current MIEs and international intermediaries are accredited for the medium (2) or large (8) project category. MIE and international intermediaries could therefore receive a disproportionate share of GCF funding. Some civil society observers, including hbs, in a recent letter to the GCF Board[§] have asked to prioritize the accreditation of direct access entities and to adopt a floor of at least 50% direct access to all of the GCF's resources by the end of the Initial Resource Mobilization period (2018), with the aim of further increasing this to 75% of new project/ program financing by the end of 2020, facilitated by sufficient readiness and capacity-building support.[**]

11. The GCF is set apart from other climate funds by its mandate to consider modalities that "further enhance direct access" (GI, para. 47) as a way to improve the country-ownership and country-driveness of GCF funding through the devolution of decision-making to the country level. Indeed, as many have argued and the GCF Board discussed in prior meetings when agreeing on a pilot program approach, **Enhanced Direct Access (EDA) has the potential to become the signature modality of the Fund**.[††] It can **provide programmatic funding at scale** and can be implemented with the help of national steering committees involved in decision-making and oversight in a way that showcases inclusive country-ownership with broad national stakeholder engagement as well as gender-responsiveness. For example, **a priority strategic target for the GCF could be the replication of national small-grant facilities or national private sector MSME programs** in any developing country that requests such a program, with sufficient GCF funding strategically set aside for that purpose (for a multitude of the current allocation for the pilot programs on EDA and MSMEs). Small grant or small loan EDA approaches (for the public and the private sector) could be developed by the GCF as a standardized product of the Fund (the development of such standardized products was suggested by some Board members during the discussion of a GCF strategic plan during the 11th Board meeting).

Inclusive Country Ownership with Democratic Multi-Stakeholder Engagement

12. Strengthening of country-ownership in a GCF strategic plan also requires the GCF Board and Secretariat to work with recipient countries to operationalize an understanding of country ownership that goes beyond the current narrow focus on the National Designated Authorities (NDAs) and focal points to one of **democratic inclusion of a much broader society of national stakeholders,** based on the democratic understanding of

[§] See civil society letter sent to the GCF Board, October 14, 2015, http://webiva-downton.s3.amazonaws.com/877/db/0/6896/10-14-15_accreditation_lett.pdf

[**] See civil society letter sent to GCF Board, March 13, 2015, http://webiva-downton.s3.amazonaws.com/877/44/a/6606/3-15_GCF_direct_access_MSMEs.pdf.

[††] See for example http://oxfordclimatepolicy.com/blog/a-momentous-event/.

citizen's right to demand transparency, accountability of government actions and participation in decision-making**.** Such a democratic and inclusive broadening of the concept of country ownership is not only a requirement under a human-rights based approach to GCF investments (with the right to economic, social and political inclusion part of the human rights covenants[‡‡] that the majority of UNFCCC signatories have also agreed to), but also a precondition for the sustainability of GCF investments after the GCF project/program ends and the lasting change required for a paradigm shift in recipient countries.

A GCF strategic plan must therefore focus on a set of actions to **improve current GCF guidance on country coordination and multi-stakeholder engagement**, including by providing opportunities (access to funding, participation in policy-formulation and decision-making) to recipient country stakeholder groups both on the country-level (in cooperation with NDAs and focal points, especially through a faster disbursing readiness and preparatory support program) and on the Secretariat level (financial and capacity support for the participation of national stakeholders in policy-development, related consultations and Board meetings). Special consideration must be given to civil society groups, in particular community organizations, women's groups and Indigenous Peoples groups, since they usually are more resource constraint and often more politically marginalized than private sector actors. For example, funding support under the readiness and preparatory support program could include some dedicated financial set aside for CSO participation in country programme development. Likewise, the GCF Secretariat in its administrative budget should include dedicated resource for the engagement of local developing country CSO and community representatives with the GCF Board (at Board meetings for example) and the GCF Secretariat (f.ex. in consultation meetings and processes), whose engagement with the GCF processes is currently largely self-funded.

13. While the GCF Governing Instruments in para. 71 mandates the development of inclusive stakeholder engagement mechanisms by the Fund, the Board and Secretariat have not yet **made improvement of stakeholder participation at the Fund and at the country level a priority** of its work. This has to be urgently remedied. The **meaningful and fully participatory consultation and engagement of stakeholders in a culturally appropriate way**[§§] from civil society and communities, in particular women and Indigenous Peoples, has to be a key component of the strategic vision for the GCF and the **development of clearly elaborated guidelines for such stakeholder engagement** an urgent action item for implementation under the GCF strategic plan.

14. Meaningful and fully participatory stakeholder engagement under the GCF includes the **further development, including through detailed GCF guidance for accredited entities, of the participatory monitoring approach** that the Governing Instrument in para. 57 mandates. The initial monitoring and accountability framework for accredited entities, which the Board approved at its 11th meeting in decision B.11/10, does include some elaboration on elements of a participatory monitoring approach in the GCF in Annex I, para. 15, but more detail and depth is needed. Participatory monitoring involving local communities and civil society groups is not only strengthening inclusive country-ownership, it also is an **empowerment strategy for local implementation**, because it **serves as a de facto capacity-building and readiness support program for local groups to eventually take on the role as national executing entities (NEEs)** in partnership with direct access entities.

[‡‡] For an overview and further information see http://www.ohchr.org/EN/ProfessionalInterest/Pages/CoreInstruments.aspx
[§§] For guidance, see the following definition of "meaningful consultation" provided by the ADB (http://www.adb.org/sites/default/files/institutional-document/32056/safeguard-policy-statement-june2009.pdf): "A process that (i) begins early in the project preparation stage and is carried out on an ongoing basis throughout the project cycle; (ii) provides timely disclosure of relevant and adequate information that is understandable and readily accessible to affected people; (iii) is undertaken in an atmosphere free of intimidation or coercion; (iv) is gender inclusive and responsive, and tailored to the needs of disadvantaged and vulnerable groups; and (v) enables the incorporation of all relevant views of affected people and other stakeholders into decision making, such as project design, mitigation measures, the sharing of development benefits and opportunities, and implementation issues."

Visionary Allocation Approach

15. The GCF moved decisively "beyond business as usual" with the Board's visionary decision B.06/06 on a Fund allocation approach that aims to balance spending for mitigation and adaptation 50:50 "over time" and ring fences half of GCF adaptation funding for Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African states. This directly addresses significant shortcomings in the global climate finance architecture, such as a historic underfunding of adaptation approaches in the most vulnerable countries. A GCF strategic plan has to make clear that "**over time" means within the first few years of the Fund's operation, f.ex. the end of the initial resource mobilization period in 2018**. It also should clarify that adaptation funding for public investments needs to be **largely grant-financed and that it covers not just the agreed incremental costs but also the agreed full costs of adaptation investments**, such as in the Adaptation Fund and in line with the mandate of the Governing Instrument in para. 35. The inclusion of a full-cost grant financing approach to adaptation in a strategic vision of the Fund is the more important as the first GCF projects approved have already indicated that in many instances the line between development and adaptation approaches cannot be clearly drawn, a matter that the iTAP technical expert review and Board members struggled with in Zambia.

16. Such a visionary allocation approach has of course **implications for future replenishment of GCF resources**. The **ability of the GCF to take risks by implementing innovative and programmatic approaches such as EDA** is strengthened through grant inputs in the GCF Trust Fund that are not dependent on reflows and thus can afford to prioritize investment in the public good and on behalf of the most vulnerable communities over opportunities for private sector actors to maximize return on investment. **For the GCF to be a Fund operating at scale, input of public grant funding at scale is indispensable.** A strategic plan for the GCF should therefore underscore that public grant funding most be the core of any GCF replenishment, with mobilized funding at scale from private sector and alternative sources, such as philanthropic foundations, considered to be a welcome supplementary input. The strategic plan should also reiterate a renewed focus on securing GCF resources through innovative financing mechanisms, such as a an financial transaction tax (FTT).

Outlook

17. A strategic plan for the GCF provides an important opportunity for the Board to agree on the priorities for the Fund in support of the paradigm shift in recipient countries and to highlight the approaches and elements that ensure the value added of the GCF within the global climate finance architecture. **The GCF has already taken on some of these approaches that allow it to go "beyond business as usual" in its funding by learning from the experiences of other existing climate funds.** A balanced approach to its allocation, the direct access modality with a pilot program approach to enhanced direct access, a comprehensive readiness and preparatory support program and a gender-sensitive approach as a mandate from the outset of GCF funding operations are examples showing that the GCF is already on the way to establish itself as a continuously learning institution. A commitment to the upgrade and further elaboration of existing policies, the urgent tackling of missing policies and operational guidelines, as well as the revision of interim approaches and the regular review of processes and policies in light of monitoring and evaluation, including independent and third party evaluations, are elements of this learning approach that need to be anchored in the GCF strategic plan.

18. The **development of the strategic plan for the GCF by its Board is lastly an important opportunity to show that meaningful and participatory stakeholder engagement are part of the vision of the Fund**. We therefore welcome this opportunity for GCF observers from civil society to provide input in the process to develop the GCF strategic plan in accordance with decision B.11/03 para. (g) and the inclusion of active observers in the informal Board meeting in early 2016 (in accordance with decision B.11/03, para. (i)). It would be useful to supplement the call for submissions with further consultations with stakeholders in developing countries and an opportunity of civil society observers to the Fund to engage with the ad hoc group of Board members preparing an initial draft of the strategic plan and guiding questions for Board discussion at the informal Board meeting before the 12th GCF Board meeting.

SUBMISSION FROM INDIGENOUS PEOPLES ORGANIZATIONS ON STRATEGIC PLAN TO THE GREEN CLIMATE FUND

Indigenous Peoples organizations and representatives of the Indigenous Peoples Forum on Climate Change, following and participating in Green Climate Fund board meetings wish to bring to the attention of the Board the following key requests for consideration in the text of the Strategic Plan.

1 The Strategic Plan of the GCF should include a separate paragraph on Indigenous Peoples, referencing their special situations and vulnerability to Climate Change. Historical marginalization and vulnerability of indigenous peoples the world over, often associated to their overreliance on nature-based livelihoods systems, make them more susceptible to the impacts of Climate change than any other single social group or sector within their respective nation states. (Decision b.11/03 para c)

2 Secondly, The Strategic Plan should recognize Indigenous Peoples' positive contribution to mitigation and adaptation efforts through their traditional and indigenous knowledge systems, which is an accepted fact by the recent IPCC AR5 and a number of UNFCCC COP decisions, including Cancun and Warsaw decisions and the Outcome document of the World Conference on Indigenous Peoples Issues (WCIP).

3 The Strategic Plan is calling for the identification of policy gaps, opportunities and challenges in operationalizing the GCF guidelines. We want to highlight that one of our key requests for the GCF is the development and adoption of the Indigenous Peoples' policy, that would contain provisions and criteria aimed at the implementation of international human rights standard and obligations such as the ILO 169 and UNDRIP. We are asking for inclusion of the commitment and the timeline for development and adoption of this important document in the text of the Strategic Plan. We see that the absence of an IP policy at present is a major gap at the GCF. However, we also would want to underscore that this is an opportunity for the GCF to create one and be guided in relating with indigenous peoples.

4 The present Observers space, multi-stakeholder engagement and country ownership under Readiness of the GCF, and the draft Strategic plan document, for example do not mention, least of all provide meaningful avenues for engagement of indigenous peoples, despite the reality that a significant portion of climate change intervention projects to be supported by the GCF will be undertaken within IPs' territories. Therefore, it is crucial that the GCF board: a. includes a consideration in the Strategic Plan a discussion and a potential decision to allocate an Active Observer status for Indigenous Peoples representatives; b. includes a language that further develops clearly elaborated guidelines and criteria to ensure the effective engagement and participation of indigenous peoples and their Free Prior and Informed consent on projects that would affect them, both in the GCF activities and at country and regional level (such as with the Nationally Designated Authority and the Implementing Entities);

For further Information and clarification kindly Contact:
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AIDA

Inputs on the Strategic Plan of the Green Climate Fund

December 2015

Submitted by:

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This submission fulfills a request made by the Board for public input on elements being addressed within the Fund's Strategic Plan. This submission has been undertaken in a limited timeframe. It is therefore based on a desk review of GCF and other relevant documents from international institutions. The input below is provided on behalf of the Interamerican Association for Environmental Defense.

Introduction

The suggested input focuses on ways in which the GCF can be responsive to the needs and priorities of developing countries, while simultaneously ensuring country ownership, supporting multi-stakeholder engagement, ensuring the effective use of funds and enhancing transparency.

1. Enhancing transparency and supporting stakeholder engagement

Transparency is a fundamental principle for the effective operations of the Green Climate Fund. The Governing Instrument states that the GCF will operate in a transparent and accountable manner, guided by efficiency and effectiveness. Despite this clear commitment to working towards transparency, Board members, observers and independent experts have often brought up issues surrounding its lack, indicating a need for immediate action.

The Strategic Plan offers a good opportunity to further strengthen GCF operations and make them more transparent. This will both enhance legitimacy and elevate the belief that the GCF is not only an institution that delivers effective projects and programs, but one with which financial institutions will want to work.

Some concrete ways to enhance transparency within the Strategic Plan include:

- Adopting a robust information disclosure policy by the 12th meeting of the Board. The GCF should apply a presumption in favour of disclosure for all information and documents relating to the GCF and its funding activities. The policy should establish minimum requirements for information that the GCF must make available on a proactive basis. For example, proposals that are submitted for consideration to the Independent Technical Advisory Panel (ITAP) should be made publically available at the time they are submitted. This will allow for public input into ITAP's assessment. In addition, environmental and social reports, including the required socioeconomic and gender assessments, should be disclosed early enough in the project cycle to allow for meaningful public engagement. For projects and programs with higher risk category, access to information should come earlier.

- Revising the existing decision on webcasting. With no financial support to widen stakeholder participation at board meetings, it is essential for the GCF to open up the possibility of accessing information through online systems. Making recordings of meetings accessible at a later stage is not sufficient, as information needs to flow simultaneously. This will both further enhance understanding of the how the institution works and enhance engagement with relevant stakeholders.

- Making accreditation applications publically available when they are filed. The identity of applicants under consideration by the Board should be disclosed when other Board documents are released, along with supplemental information provided during the application process. This is in line with requests made by board members.

- Enabling transparency within the operations of the GCF Secretariat. The GCF Secretariat must make information available concerning readiness support. The current practice is to make readiness support agreements available once signed by the Executive Director, but not before their approval. Early engagement between the Secretariat, National Designated Authorities and other stakeholders is crucial for the design of projects and programs that are responsive to the needs and priorities of countries, which will then be more widely supported by communities on the ground.

- Allowing access to early information on GCF-Country engagement is fundamental to strengthening relationships amongst relevant stakeholders. This will, in turn, strengthen ownership and legitimacy of GCF operations in developing countries.
  With the recent approval of 8 project and program proposals, the GCF is required to make relevant information available to ensure stakeholders at the national level are aware of the existence of these projects, how they will work, and the possibilities for engagement and follow up. Relying on accredited entities to solemnly do this task will not be enough to guarantee effective stakeholder engagement and access to information.

2. GCF Environmental and Social Safeguards and the Independent Redress Mechanism

When it began, the GCF board adopted the social and environmental safeguards of the IFC on an interim basis. It also decided that within three years of becoming operational, it would develop its own framework for safeguards. To date, we have seen no progress on the

development of this the process. With the decision to approve 8 proposals, and many more to come, the Strategic Plan should establish a process to design a framework for GCF safeguards. The process must include consultation with relevant stakeholders from developing countries in which the GCF will operate, best practices from other international institutions, and lessons learned. This will help the GCF to provide the best possible standards for effective results.

Regarding accountability mechanisms, the GCF decided to establish an Independent Redress Mechanism with two main purposes: first, to provide redress to countries whose project/program proposals were rejected; and second, to provide redress to those communities who could potentially be affected by GCF-funded activities. Before funding was made available for project and program proposals, the Independent Redress Mechanism should have been operational. The Strategic Plan must address this outstanding issue as soon as possible.

oxford climate policy

ecbi

Strategic Divisions of Labour

Submission to the Green Climate Fund Board

Decision B.11/03 invites observer organizations to make submissions to the GCF Secretariat on the elements contained in paragraph (c) by 1 December 2015. This submission is in response to the element of this paragraph stipulating that the measures to be considered in the GCF Strategic Plan should *inter alia* focus on '*ensuring that the GCF is responsive to developing country needs and priorities, while ensuring country ownership,* [and] *enhancing direct access* […]'. With respect to this element, we believe certain 'architectural' considerations are absolutely key, in particular the issue of what is to be administered 'in-house' and what is to be left to others, or 'outsourced'.

We have for some time supported the view that the GCF should ultimately outsource all 'retail' activities – that is, to use the GCF terminology, micro projects (less than $10 million) – and only keep 'wholesale' programmes to be administered in-house, so as to avoid the scenario that the Economic Council in post war West Germany wished to avoid when establishing KfW in 1948, namely to create: '*a large institution entrenching itself with a huge bureaucracy and encroaching on the territory of the established banks. The KfW is to be a small and unbureaucratic body with a small management board, a capital distribution agency that passes on capital from domestic sources, from international sources or from counterpart funds as quickly as possible*.'

Outsourcing could be to national implementing entities under the (enhanced) direct access modality, or to international implementing entities as part of international access. A common concern in this context is that outsourcing is regarded to be inefficient, because it is seen to merely add additional administrative layers which 'all want their cut'. This can indeed be a danger, but it is not inevitable: It really depends on how the outsourcing is structured. Proper outsourcing means delegating responsibilities which should then no longer be catered for in-house. If it were otherwise, i.e. if outsourcing was necessarily less efficient than in-house management, why would so many private sector firms outsource a large variety of activities?

Decentralization and devolution of decision making is as essential to achieving paradigm shifts as is finding the right type of projects and programmes to fund. These retail decisions must be outsourced, and they should predominately be outsourced to in-recipient-country institutions through the GCF 'signature access modality' of Enhanced Direct Access. As mentioned above, we believe that no retail activities should be managed and approved in-house by the GCF Secretariat or Board. However, as there will be a demand for internationally funded micro projects for many years to come, this means that such projects will need to be catered for by an international division of labour, either through outsourcing or through some form of explicit or implicit understanding between the GCF and other international funders, such as the Adaptation Fund, which has a proven track record not only in funding concrete micro adaptation projects, but also in pioneering the direct access modality and managing an innovative finance resource and could very well become the GCF's specialized retail agent for this sort of retail activities.

Dachorganisation der Schweizer KMU
Organisation faîtière des PME suisses
Organizzazione mantello delle PMI svizzere
Umbrella organization of Swiss SME

Green Climate Fund
Secretariat / Secretary to the Board
secretarytotheboard@gcfund.org

Berne, November 27th 2015 sgv-Sc

Submission to the Strategic Plan of the Green Climate Fund

Dear Sir or Madam

The Swiss Federation of Small and Medium Enterprises sgv is the largest umbrella organization in the Swiss economy. With its 250 member associations, the sgv represents around 300'000 businesses which voluntarily joined this body of representation. The federation believes in a global and efficient climate-policy which addresses challenges with business-friendly means. The sgv especially endorses mechanisms based on carbon markets, facilitation of result-driven investments and cooperative (bottom up) approaches.

The following submission of the sgv for the strategic plan of the Green Climate Fund reflects our beliefs and commitments. On operative level, however, the sgv wants to direct the attention to the piloting character of the whole GCF. This – aligned with the goal to be an agent on the longer-term – calls for a certain prudence in the allocation of operations, means and specific investments. The GCF should balance the following goals, at least equally:

- Constructive advancement aligned with the strategic objectives of international climate policy;
- Expectations of donors, recipients, partners and the broad public;
- Development of rules and methodologies in order to make investments and allocation decisions more stringent, (climate-)relevant and (cost-)effective;
- Strengthening the GCF's own governance.

In order to do so, the sgv considers a three phased approach for the GCF's strategic plan as best suited:

1. In a first, initial phase, with the possible duration of 3 to 5 years, the GCF should allocate some means in few high impact, high visibility investments while at the same time developing criteria of allocation based on the experiences made with these few pilots. Ideally, during this phase, two-thirds of the GCF's efforts should be directed towards rules, governance, criteria development, criteria evaluation and monitoring. At the end of this phase, the GCF should be able to present an already active, climate-relevant portfolio and at the same time stringent and (cost-) effective criteria for the enlargement of this portfolio.

2. In a second phase, with the possible duration of 2 to 3 years, the continuing upscaling of the GCF's portfolio will be set in motion and closely monitored. While in this phase the criteria and governance related work is still important, the efforts concerning them should not amount to more than one third of the GCF's operative efforts. At the end of this phase, the GCF's portfolio would be considerably expanded and all criteria and rules should be complete.

Schweizerischer Gewerbeverband Union suisse des arts et métiers Unione svizzera delle arti e mestieri
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3. Onward, in a third and open-ended phase, the GCF would allocate its means via the developed criteria adhering to the rules of governance. In this phase, methodology-related efforts should be minimal.

At all times, the strategic plan must include elements that identify responsibilities of the fund's components, goals and approaches for their achievements, time frame and resource planning. The following suggestions concentrate on the first, initial, phase of the fund's operations:

- Aiming at allocating means to and realizing high impact, high visibility investments, the fund should provide general guidance on which types of investments in which countries fulfilling which criteria it pursues. During the first phase, it needs to improve the rigor and transparency of the assessment to incentivize the selection of the most ambitious and transformational proposals. Also, the specific targets of these high impact, high visibility projects should be clearly defined.
- Quotas, on the other hand, are not fruitful as a methodology. Quotas contradict the principles of ambition, high-impact and viability.
- The sgv believes in strengthening the roles of NDAs/focal points in prioritizing and designing projects. The current modalities are in line with this guiding principle, but further support would enable them to better perform their functions. On the other hand, only few countries have accredited national implementing entities. Similarly, only few countries have submitted country- programming documents, which would guide the development of a project or program pipeline.
- NDAs/focal points should also continue to have the right to choose the implementing entity they deem most suitable in terms of expertise, performance, and track record in development and climate projects.
- Most importantly, the GCF should focus its efforts on developing methodologies, investment criteria and its own governance for the future. Therefore, GCF's disclosure policy should improve the transparency of the proceedings of the Secretariat disclosing more transparently information to the broad public. Transparency is also needed in project implementation by making comprehensive information available in a timely manner in order to ensure effective engagement of stakeholders, including civil society, in monitoring ongoing projects.

Yours Faithfully

Schweizerischer Gewerbeverband sgv
Swiss Federation of Small and Medium Enterprises sgv

Hans-Ulrich Bigler	Henrique Schneider
CEO	Chief Economist

Decision B.11/03 – Strategic plan for the Green Climate Fund

As per request of GCF Secretariat, and based on the decision B.11/03, UNIDO has made following suggestions to be taken into consideration for inclusion into the strategic plan:

- Strategic plan should be a living document to be reviewed and updated on a regular basis based on the evaluations conducted at the project and portfolio level, as determined by the Board

- Additionally, the recommendation is made that the measures for operationalization of the GCF strategic plan should place a particular focus on:

  - Setting out the approach of the GCF to programming and investing the Initial Resource Mobilization resources, while striving to maximize the generated benefits

  - An approach that is sensitive to the most vulnerable groups, including ethnic minorities, disabled people, isolated elderly people, woman and children, among others

  - Identifying the priority interventions, consistent with scientific knowledge to reduce global environmental risks

  - Identifying gaps in the GCF portfolio and niches for innovation that need to be explored

  - Enhancing the overall environmental and social integrity, giving due considerations to potential impacts on local and transboundary environment and livelihood of local community, and sufficiently acknowledging additional environmental and social co-benefits brought by its investment

  - Giving due consideration for social inclusion of the most vulnerable groups, including ethnic minorities, disabled people, isolated elderly people, woman and children, among others

  - Ensuring the improvement of overall climate resilience through holistic (e.g. sector-wide) and integrated approaches that addresses multiple sources of GHG emissions and points of impacts

2015-11-18

Comments from the World Bioenergy Association on the call for comments from NGO:

In reference to c). v). - the WBA suggest that for the greatest effectiveness of the GCF funds allocation, that assessment of projects or programs should be based on empirically-based criteria, including:

- Most-cost-effective real avoidance of GHG emissions (where 'real avoidance' means - actual real displacement of fossil fuel use, thus allowing retirement of these systems, whether they are producing electricity, heat, cooling or providing transport of people, goods or services. This retirement may be achieved by some combination of a number of complementary low emission renewable energy sources (i.e., hydro/wind or biomass/solar), or by those renewable energy sources that are available on-demand).

In reference to vi). 1. the criteria for funding needs to recognise that systems that are cost effective in reducing real GHG emissions will include those that are not energy production processes but are GHG emission reduction processes. These include

- reduction of free browsing by ruminants, so allowing reforestation to be more effective
- dissemination of improved cook stove technology variants. These result in lower use of scarce forest resources (including charcoal), and result in lower production of black carbon
- the use of livestock manure and other putrescible wastes for production of biogas for cooking, which not only removes a potential source of free methane emission, but also reduces demands for charcoal and the emission of black carbon, as well as providing a more healthy work environment for women.

In reference to vi). 3. The provision of assistance to developing countries should include dissemination of prescriptive information in the country language. This information may include the array of information on what particularly effective programs of GHG emission reduction either directly or indirectly that are being done in countries around the world.
This particularly needs to include information on such items of relevance to developing countries as: effective rollout of clean or improved cookstoves, household scale biogas systems, revegetation and reforestation of overcleared or degraded lands and woodlands, reduction in use of unsustainably-produced charcoal, etc.

GCF:
Develpoing countries like Sub Saharan Africa need regional integrated projects. In this regions more than 50% of the population are living in rural areas, the majority of them without electricity and using wood fuel for cooking. GCF should finance in these regions regional integrated projects based on biomass/biogas, wind and PV with the aim to get electricity to the villages for light, information, mechanical work partly for cooking based on RE sources such as biogas, wood, PV and wind and

hydro and in the same time and the same time finance reforestation programs and efficient cooking solutions to stop the deforestation of Africa as example.

So far a few comments

At its eleventh meeting, and by its decision B.11/03, paragraph (g), the Board requested Board members/alternate members and observers to make submissions to the Secretariat on the elements in paragraph (c) of that same decision below:

(c) Also notes convergence that the strategic plan should:

(iv) Identify opportunities, policy gaps and challenges in operationalizing these objectives and guiding principles;

(v) Present an action plan for the implementation of strategic measures to address these opportunities, gaps and challenges in order to strengthen the GCF as the distinctly transformational, high-impact, country- owned, dedicated climate fund, operating at scale;

(vi) These measures should place a particular focus on:

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, and to maximize the engagement with the private sector;

2. Setting out the approach of the GCF to programming and investing the Initial Resource Mobilization resources, while striving to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two;

3. Ensuring that the GCF is responsive to developing country needs and priorities, while ensuring country ownership, enhancing direct access, ensuring fast disbursement, implementing a gender-sensitive approach, supporting multi-stakeholder engagement, ensuring the effective use of funds and enhancing transparency.

The GCF secretariat would like to kindly invite you, in accordance with the above-mentioned decision to submit your inputs preferred as a single word document by Tuesday, 1 December 2015, to the following email address:

secretarytotheboard@gcfund.org with the subject **'Submission for the Strategic Plan of the Green Climate Fund'**.

Response to Green Climate Fund "Call for Public Input: Strategic Plan"

Submitted by World Resources Institute

Contact: Niranjali Amerasinghe

Email: namerasinghe@wri.org

December 1, 2015

This submission is in response to the call for public input on the Strategic Plan of the Green Climate Fund, contained in GCF Board Decision B.11/03, and circulated by the GCF Secretariat on November 16, 2015. We focus on identifying the value of a strategic plan, the opportunities it provides for strategic programming, and key questions that the GCF Board needs to consider as it develops a strategic plan. It is worth noting, however, that due to the timing of the call for inputs (which closed during the UNFCCC negotiations), the Board may not receive submissions from a wide range of stakeholders. Thus, it will be important for the Board to ensure that there are further opportunities for public engagement as it proceeds with developing a strategic plan.

Achieving Transformational Change – Defining a Role for the Green Climate Fund?

The Green Climate Fund (GCF) is an important cornerstone of the global financial response to climate change. Limiting global warming to below 2 degrees Celsius, the current goal adopted by the UN Framework Convention on Climate Change, will require a fundamental transformation of political, economic, and social systems. One of the objectives of the GCF is to promote a "paradigm shift towards low emission and climate resilient development pathways"[i] in the context of sustainable development. The GCF defines paradigm shift potential as the degree to which the proposed activity can catalyze impact beyond a one-off project or program investment.[ii] The GCF has also committed to pursuing a country-driven approach that strengthens engagement of institutions and stakeholders at the country level.[iii] To date, the GCF has developed a number of policies to guide its operations, accredited 20 institutions (including five national institutions), and approved its first eight projects. As the Fund is gaining these early experiences, it is particularly timely for the Board to develop a strategic vision for achieving its objectives.

Why a Strategic Plan? What can it Contribute?

As the primary global fund channeling climate finance, the GCF must have a coherent vision for its work to support countries and entities in delivering a low carbon, climate resilient future. A strategic plan offers the Board the opportunity to present a clear direction for the Fund that is guided by existing national and regional priorities, while at same time remaining flexible to emerging priorities and lessons from early experiences.

Done well, a strategic plan can have several benefits, including: i) identifying priority investment areas; ii) developing a distinctive contribution relative to other development

partners and climate funds; iii) increasing the effectiveness of existing programmes; iv) ensuring that funded activities have a positive impact on people and the environment; v) providing direction to readiness activities and strategic programming/pipeline development; and vi) identifying institutional adjustments that may be needed to increase the Fund's effectiveness.

Other funds can provide useful examples of the kind of direction a strategic plan could provide for a multilateral fund. For example, the Global Environment Facility has a programming strategy for adaptation in the Least Developed Countries Fund and the Special Climate Change Fund.[iv] In this strategy, the GEF identifies two strategic programming pillars that it will focus on from 2014-18 (integrating adaptation into policies, plans, program, and decision-making processes; and expanding synergies with other GEF focal areas). It also pays special attention to gender mainstreaming, sets thematic programming priorities, and identifies emerging areas for innovation.

Strategic Programming Considerations

The GCF has created a number of useful documents that help direct the institution and its recipients. However, there are some important gaps that could potentially be filled by a strategic framework.

Supporting a Paradigm Shift

One such gap is a more detailed definition of paradigm shifting initiatives. To be more effective, the GCF would benefit from identifying what transformation it seeks to achieve in different sectors or contexts; this would go beyond indicators and criteria currently in the results management framework and investment framework. In a forthcoming publication on transformational climate finance, WRI examines the characteristics of transformation in a low carbon energy context and the factors that facilitate such a transformation. The lessons could be informative in considering how to programme in a given sector.

> *Excerpt: Transformation in a low carbon energy context typically involves activities that have a large magnitude impact, effect non-linear change, and can be sustained and long-term. In addition, transformation is not the result of a single project, but the aggregating effect of a portfolio of projects over long periods of time that brings about change. Case studies also show that national ownership, stakeholder engagement and participation, establishment of a stable enabling environment for investment, alignment of financial incentives to address market distortions, strategic use of public resources to mobilize investment, investment in technology and innovation, use of innovative financial instruments and arrangements to catalyze investments, and continuous learning and improvement are key factors in low carbon transformation.*

An important issue for the Board to consider for programming is how to address scale, given the Board's aspiration to disburse $2.5 billion in 2016. It may be useful for the Board to articulate what its theory of change is for scaling a given investment, and there is

significant value in exploring a definition of scalability that goes beyond the size or replicability of the precise activity. For instance, there can be inherent scale in focusing at some level on policy-based interventions.[v] WRI's recent paper on "Scaling Success"[vi] highlights lessons for scaling adaptation based on an analysis of case studies in rainfed India. It shows that factors for scaling adaptation activities include the potential for institutional partnerships (both public and private) and catalyzing additional investments, availability of human and technical resources, existence of effective knowledge management systems to share experiences more broadly, and the extent to which activities embrace community ownership and participation.

Setting Priorities

Setting global or regional priorities that are responsive to country needs and emerging trends is an important part of strategic programming. There are a variety of ways in which the Board could approach this issue; we present one possible approach below, based on recent unpublished research. A basic premise of the research was that climate activities cannot be considered in isolation, addressing climate change requires a holistic understanding of climate, development, economic, and investment trends in developing countries. The type of assessment described below could be provided by countries, based on existing climate plans and country experiences, and the GCF could synthesize and aggregate data to provide an initial sense of where the GCF could prioritize investments.

Explore trends in development (health and education, inclusive and just growth, resources and infrastructure), economic (economic growth differentials and trends relating to trade and other investment flows), climate risk, investment hotspots (sub regions and sectors that are currently attracting investors and likely to do so in the foreseeable future), and capacity (diverse climate responses in the region, maturity of financial systems). Synthesizing data sets in terms of potential for high emissions or vulnerability to climate events can highlight potential investment priorities.

Identify where funds are currently being deployed and which areas are critically underfunded areas as well as where the GCF can play a catalytic role in financing, where it can invest in shifting behavior, and where complementary actions will make the difference in achieving transformation.

Consult with stakeholders, including technical experts, civil society and investors (both public and private institutions) to "test" desktop analysis, develop an understanding of "grass root challenges and opportunities" and identify more granular recommendations for programmes and financial instruments.

In addition, WRI's working paper "Sum of Parts"[vii] provides insights into how the GCF could approach resource allocation depending on the goals the fund wishes to prioritize. There is no "one-size-fits-all" model for determining funding allocation decisions at any level – across countries, sectors, or activities. Nevertheless, new funds can draw on the lessons

learned from comparing the allocation mechanisms of 15 existing funds. These lessons include:

- Identify allocation priorities bottom-up; calibrate for global outcomes top-down.
- Prioritize allocations for activities that deliver long-term impacts.
- Address equity in the allocation outcome; focus on impacts in the allocation approach.
- Provide flexibility to be responsive, but not at the expense of predictability.

Developing a Strategic Plan - Key Questions for the GCF Board

As the Board moves forward with developing a strategic plan, it will be important to separate out strategic questions (e.g. priority-setting, strategy for accreditation) from operational, work plan-related matters (outstanding mandates or policies), and to resolve strategic questions as early as possible so that it informs sequencing of operational issues. The process should also have opportunities for public engagement through regional consultations and calls for input on a draft strategic plan.

The following are questions that the Board should consider as it deliberates a strategic plan:

- Should the GCF establish programming priorities? If so, how should these be determined? And should they be based on sectors (e.g. energy, agriculture), regions/sub regions (e.g. Africa, South Asia), or a combination?
- How should the GCF address questions of scale? Can the Fund do so in such a way that it does not disadvantage smaller-scale projects/programmes implemented by national institutions?
- Can the GCF create a plan to more easily ensure adherence to prior commitments, such as 50/50 funding for adaptation and mitigation? Are there adjustments that can be made to the initial investment criteria to help realize broader priorities?
- Should the GCF further clarify its role in supporting transformation? What is its value-added relative to other funds? Should it play a catalytic role (creating proactive opportunities for areas that currently lack funding), shift behavior (work with countries to create conditions for an effective climate response), or be a complementary investor (co-financing and scaling up existing investments)? Could it be a combination of these depending on the context?
- What is the GCF's strategy for accreditation? Based on priorities and value-added, how can the GCF realize its mandate to provide direct access to national institutions in a more robust way?
- What is the risk appetite of the GCF? What parameters should there be for higher risk activities? Are there improvements that need to be made to due diligence and/or monitoring arrangements to ensure compliance with fiduciary standards, environmental and social safeguards, and the gender policy?
- What is the longer-term vision for readiness and country ownership? Should the readiness programme be continued indefinitely? What is the relationship between

the readiness program and the project preparation facility created at the 11th Board Meeting (B.11/11(l))?

- What are the essential elements of knowledge management for the GCF to be a learning institution? What improvements need to be made to monitoring and evaluation policies to assess ground-level impacts and generate feedback loops that result in changes to policies and operations? How do the accountability units factor in?
- What are the transparency gaps that need to be addressed? Can these be dealt with through the information disclosure policy or are other steps needed?
- What skills and capacities are needed within the Secretariat to implement the strategic vision? Are there structural issues in GCF governance that need to be addressed?

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[i] GCF Governing Instrument, para 2.
[ii] GCF Board Decision B.09/05, Annex III.
[iii] GCF Governing Instrument, para 3. Other principles include those in the UN Framework Convention on Climate Change, transparency and accountability, efficiency and effectiveness, scalability and flexibility, continuous learning, and maximizing impact while balancing adaptation and mitigation, promoting environmental, social, economic and development co-benefits, and taking a gender-sensitive approach.
[iv] GEF Programming Strategy for Adaptation to Climate Change for the LDCF and SCCF, https://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.LDCF_.SCCF_.16.03,%20Programming%20Strategy%20on%20Adaptation%20to%20Climate%20Change%20for%20the%20LDCF%20and%20the%20SCCF,%205-20-14.pdf
[v] ICF International. 2014. Independent Evaluation of the Climate Investment Funds. Washington, DC: World Bank.XIV, http://ieg.worldbank.org/Data/reports/cif_eval_final.pdf (noting that removing policy barriers can help achieve transformation).
[vi] Appadurai, Chaudhury, Dinshaw, Ginoya, McGray, Rangwala and Srivatsa, Scaling Success: Lessons from Adaptation Pilots in the Rainfed Regions of India (2015), http://www.wri.org/sites/default/files/scalingsuccess_report.pdf.
[vii] Polycarp, Doukas, Bird, and Birjandi-Feriz, Sum of Parts: Making the Green Climate Fund's Allocations Add up to its Ambition, http://www.wri.org/publication/green-climate-fund-allocation.