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# Report on the implementation of the initial Strategic Plan of the GCF: 2015–2018

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## **Summary**

In response to the Board's request under decision B.21/18, the Secretariat has prepared this comprehensive report on the implementation of the GCF initial Strategic Plan. The initial Strategic Plan was adopted by the Board at its twelfth meeting to cover the GCF initial resource mobilization period (2015–2018). The report serves in lieu of the annual report on the implementation of the Strategic Plan for 2018.

The report highlights the substantial progress made in delivering the initial Strategic Plan, alongside challenges, lessons learned and areas requiring further work or reform. The report also presents some reflections to inform the Board's development of an updated Strategic Plan for the first replenishment period. Finally, this report takes into account the understanding that progress in delivering on the initial Strategic Plan will also form part of the performance review that is currently being undertaken by the GCF Independent Evaluation Unit.

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## I. Introduction

### 1.1 Components of the initial Strategic Plan for the GCF

1. At its twelfth meeting, in March 2016, the Board endorsed an initial Strategic Plan for GCF to articulate to the world the vision and operational priorities of GCF, and to guide the Board in addressing policy gaps and programming GCF resources for the initial resource mobilization (IRM) period 2015–2018 in order to invest GCF resources in transformational climate actions in a country-driven manner.

2. Building on the mandate set out in the Governing Instrument for the GCF, the Strategic Plan outlined a long-term **Strategic Vision for GCF** as follows:

(a) Promoting the paradigm shift towards low-emission and climate-resilient development pathways in developing countries, including through the following:

- (i) Financing innovative and ambitious projects and programmes that can be scaled up, replicated and/or can lead to fundamental changes in behaviours and investment patterns;
- (ii) Programming resources at scale while seeking to maximize impact, balance allocation between mitigation and adaptation, and focus on support for the most vulnerable;
- (iii) Ensuring full country ownership;
- (iv) Ensuring transparent and inclusive procedures; and
- (v) Crowding in and maximizing the engagement of the private sector; and

(b) Supporting the implementation of the Paris Agreement within the evolving climate finance landscape, by building on the comparative advantages of GCF and operating in coherence with existing climate finance institutions.

3. The initial Strategic Plan delineated five core **Operational Priorities** to guide GCF operations for the 2015–2018 period, with a particular view to balancing the Board’s ambitions to get GCF off the ground and scaled up swiftly, without compromising ambition, transformation and country ownership:

- (a) Scaling up GCF investments;
- (b) Maximizing impact by employing GCF resources in scalable, replicable activities in the most efficient manner by, inter alia, catalysing national and international climate finance, including by maximizing private sector engagement;
- (c) Establishing an approach for programming and investing the full amount pledged for 2015–2018 while striving to maximize impact and achieve a balance between mitigation and adaptation;
- (d) Responding to developing countries’ needs and priorities, including by enhancing country programming and direct access; and
- (e) Communicating GCF ambitions and operational modalities to enhance predictability and facilitate access.

4. The initial Strategic Plan also included an **Action Plan** that set out the following five key strategic measures to implement the Strategic Vision and Operational Priorities, and to address policy gaps, and enable GCF to invest in transformational climate action in a country-driven manner:

- (a) Prioritizing the development of a pipeline of country-driven, high-impact projects and programmes, through enhanced readiness support and engaging national designated authorities (NDAs) and accredited entities (AEs);
- (b) Strengthening the proactive and strategic approach of GCF to programming;
- (c) Enhancing accessibility and predictability;
- (d) Maximizing the engagement of the private sector; and
- (e) Building adequate institutional capabilities.

5. While noting that the initial Strategic Plan did not provide a further definition of the concept of paradigm shift, the following additional components were highlighted as being important:

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

6. The Board endorsed the initial Strategic Plan as a living document, intended to guide GCF as a continuously learning institution. The Board also expressed its intention to review the Strategic Plan as part of each replenishment process, taking account of evolving priorities, including guidance of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC).

7. In conjunction with initiating the GCF first formal replenishment at its twenty-first meeting (B.21), the Board in decision B.21/18 requested the Secretariat to prepare a comprehensive report on the implementation of the initial Strategic Plan for consideration by the Board and the replenishment process. This report fulfils this request, and is, in addition, being presented in lieu of the annual report on the implementation of the Strategic Plan for 2018. The decision requesting this report also confirmed the Board's intent to review and update the Strategic Plan, following initial submissions from Board members by the end of November 2018.

8. This report is structured to present: (1) a summary of key findings; (2) reflections on overall progress in implementing the Strategic Vision set out in the initial Strategic Plan; and (3) reporting of progress against the Operational Priorities and action items, which in the light of interlinkages have been reported in the following clusters: (i) scaling up GCF investments, programming resources and prioritizing pipeline development (Operational Priorities 1 and 3, Action Plan item A); (ii) maximizing the GCF impact (Operational Priority 2); (iii) responding to developing country needs and deploying a proactive and strategic approach to programming (Operational Priority 4, Action Plan items A and B); (iv) enhancing accessibility and predictability (Operational Priority 5, Action Plan item C); (v) maximizing the engagement of the private sector

(Action Plan item D); and (vi) building adequate institutional capabilities (Action Plan item E). A one-page summary of the status of implementation of the Strategic Plan is included in the annex.

9. In addition, and taking into account the Board's stated intent to review and update the initial Strategic Plan, this document presents reflections on each issue area, which may support the Board in its efforts to develop an updated Strategic Plan for the first replenishment period.

10. In decision B.21/17, the Board requested the Independent Evaluation Unit (IEU) to undertake a forward-looking performance review of GCF which will include an assessment of "Progress made by the Green Climate Fund so far in delivering on its mandate as set out in the Governing Instrument for the Green Climate Fund as well as in terms of its core operational priorities and actions as outlined in the initial Strategic Plan".

## 1.2 Key findings

11. The Strategic Vision set out in the initial Strategic Plan is an **ambitious and far-reaching vision** to promote paradigm shift and support the implementation of the Paris Agreement. This is a long-term and durable vision that can continue to guide the GCF through its operational cycles. Over its four-year IRM, GCF has made a rapid start to set in place the institutional capabilities, processes and initial investments that will support this vision. But it is still too soon to conclude how effective GCF has been in delivering results against these long-term goals. Accordingly, this report focuses principally on the performance of GCF in implementing the nearer-term operational priorities and action plan set out in the Strategic Plan.

12. GCF has delivered strongly on the initial Strategic Plan priorities of **building institutional capabilities** and **scaling up investments**. At the end of 2018, GCF is a fully operational, professionally staffed institution that is capable of programming climate change investments at scale. GCF has consolidated its institutional capabilities with a Secretariat staff of 219, fully functioning independent units and a Board decision was adopted on the appointment of an ongoing Trustee. It has built a portfolio of USD 4.6 billion in project investments, with over USD 1 billion approved at both the nineteenth meeting of the Board (B.19) and B.21, while striking a balance between mitigation and adaptation investments and directing almost three quarters of adaptation funding to the most vulnerable countries.

13. Over 2015–2018, GCF has also committed substantial efforts to **building country ownership, enhancing strategic programming and direct access, and prioritizing pipeline development**. By directing support through its Readiness and Preparatory Support Programme (Readiness Programme), Project Preparation Facility (PPF), structured dialogues, technical guidance, and country and entity engagement, GCF has helped to build NDA and direct access entities institutional capabilities to engage with GCF and undertake investment programming. As a result, GCF ended 2018 with a pipeline of some USD 15 billion; substantially more when emerging project ideas from country and entity work programmes are taken into account. Its AE network numbers 75, with direct access entities making up 41 (over 50 per cent) of these, though direct access projects still only represent some 14 per cent of approved funding.

14. Experience and evaluations have shown where GCF can improve implementation and impact on the above-mentioned Strategic Plan priorities, and the positive trend line in that direction has been clear. In responding to the evaluation of the Readiness Programme, the Secretariat has designed Readiness 2.0, in which GCF is pursuing improved process efficiency, clearer guidance and more targeted interventions matched to country needs and impact. While support for country programming and national adaptation planning had a slower start during the IRM, related efforts are starting to bear results. Clearer incentives linking strategic work programming into the project and funding cycle would strengthen impact. And feedback shows that while it does take time, work to implement GCF standards, build coordination mechanisms and strengthen climate considerations in programming and project design is starting to drive institutional transformation, with "demonstration cases" revealing the successful approaches

being deployed by countries and entities. A key lesson learned has been that long-term results can be supported by patient investments and predictable funding for building the capabilities to integrate climate considerations into decision-making and plan transformational investments.

15. Further work can be done to orient GCF operations more firmly toward the Strategic Plan priority of **maximizing impact**. As discussed above, work to drive impact through country programming and institutional transformation is maturing and will be an ongoing area of focus. The Secretariat is also undertaking work to help countries and entities to better articulate climate rationale, and to deliver sectoral guidance to aid the design of impactful interventions. But further work can be done to evolve the GCF approach to defining its impact and paradigm shift objectives, as well as assessing, measuring and accounting for impact, both in quantitative terms and through its effectiveness in promoting innovation, scale and transformation.

16. Continued evolution of policy frameworks, defining the GCF approach to investment, results and risk remain critical. GCF has in place an initial investment, results management and risk management frameworks. But as at the end of 2018 there were still substantial gaps in funding proposal policies, as well as in tools such as investment criteria and results indicators. Completing these, in tandem with a clearer articulation of strategic goals on impact, would better define the GCF approach to selecting projects and managing impact and results. There is also an opportunity for GCF to contribute to filling wider knowledge gaps in defining and measuring adaptation impact and paradigm shift, which will be key in enabling GCF to meet long-term impact objectives. Though not covered by the initial Strategic Plan, as the portfolio matures, managing **implementation and results** will of necessity become a key strategic priority area.

17. **Enhancing accessibility and predictability** is another Strategic Plan priority area in which GCF has made strides forward, but challenges remain. Continuous steps have been taken through the period to 2018 to issue clearer guidance, reduce changes in templates and procedures, provide technical support, lift response standards and improve website and communications. Significantly, the Board adopted a simplified approval process (SAP) with four proposals approved to date. GCF has also aimed to adhere to the highest standards for transparent and inclusive processes, through its Information Disclosure Policy, consultation procedures, Gender Policy and Indigenous Peoples Policy. It is starting to build knowledge management systems that will help it serve as a knowledge leader for climate investment.

18. On the other hand, experience shows the current accreditation model has been a real constraint on accessing GCF resources in areas where GCF hopes to spur innovation, impact and reach, such as through its requests for proposal (RFPs). There are, in many cases, good ideas for innovative projects and many entities willing to undertake those individual projects in a timely manner. However, the current need for project advocates to go through the entire, rigorous accreditation process makes the timely advancement and implementation of those projects nearly impossible. In addition, already accredited AEs have been reluctant to use their limited capacity to team with and advance the project proposals of others.

19. This highlights the need for accreditation reform, which could include adjustments to the existing framework, introduction of a fit for purpose project-specific assessment approach, or wholesale review of the accreditation model, including its relevance for the private sector. As contemplated in the Strategic Plan, there are also unrealized prospects for improving accessibility through delegation of funding approvals for certain types of decisions (e.g. SAP), and improved harmonization with other climate funds while also taking into account GCF standards and specificities. For any reform areas, balance between improved accessibility and maintenance of GCF standards will be a key consideration.

20. Predictability of resource programming is another area where there is work to be done. GCF did not programme resources to the rapid timetable envisioned in the Strategic Plan, owing to both a more gradual scale-up in capacity, and a much more extensive than expected need for GCF to engage in strengthening project design to meet the investment criteria. Towards the end of the IRM, GCF saw a tightening of resource supply versus demand and introduced a financial

planning approach. The ongoing predictable and equitable allocation of resources against a growing pipeline will be a key issue for future strategic planning. GCF governance has also had a bearing on accessibility and predictability over the period, highlighting the importance of Board decision-making modalities that are transparent, efficient and effective.

21. GCF has also advanced the Strategic Plan priority of **engaging with the private sector**. Work over the period to 2018 has seen substantial growth in the private sector portfolio to USD 1.8 billion or 40 per cent of the current portfolio, as well as the delivery, in conjunction with the Private Sector Advisory Group (PSAG), of work to understand barriers and develop a private sector outreach strategy. The Secretariat has also worked to develop a Private Sector Facility road map which it will be sharing with the Board at the twenty-third meeting of the Board. This has laid the basis for future efforts to advance GCF private sector engagement, which could include investment in establishing national green banks that can serve as financial intermediaries, more diversified use of instruments, improving access modalities, including through consideration of a direct investment approach, and addressing barriers such as local currency risk. Substantial further work is needed to action these areas of recommendation and maximize the impact of GCF private sector engagement.

22. A final reflection on the **use of the Strategic Plan** is that while it has set a broad framing for GCF activities for 2015–2018, its operational and action priorities have not generally been sufficiently concrete, or output/outcomes focused in a manner that would facilitate the active shaping of the Board’s policy or programming agenda on an ongoing basis. In developing an updated Strategic Plan, the Board may wish to give consideration to how it frames operational priorities and action items that are concrete enough to operationalize the GCF high-level vision through setting “intermediate goals” that will steer detailed annual work planning over a multi-year period.

## II. Implementation of operational priorities and action plan

### 2.1 Implementing the overall Strategic Vision of GCF

23. The initial Strategic Plan lays out an ambitious, long-term strategic vision for GCF. As an operating entity of the UNFCCC Financial Mechanism, and the world largest dedicated climate fund, GCF’s vision is to promote paradigm shift towards low-carbon climate-resilient development in developing countries, and as such support the implementation of the Paris Agreement, in complementarity with other institutions in the climate financing landscape. A summary of GCF work to date, detailed further below, has also been reported to COP through a GCF submission of the GCF contribution to pre-2020 ambition, as well as through annual reporting to COP.

24. Overall, since the initial Strategic Plan was adopted, GCF has progressed to a much more advanced and stable stage of operations. Through a rapid start-up phase, GCF has taken steps to lay the key pillars of its institutional foundation – both internally and with its network of country and entity partners – to support delivery of its ambitious strategic vision. Nevertheless, given the early stage of its funded activities it is difficult to report on outcomes relating to paradigm shift or Paris Agreement implementation at this stage. As such, this report focuses on reporting progress against the more specific and near-term Operational Priorities and Action Plan.

25. The Board intended the Strategic Plan to guide it in programming resources, as well as addressing policy gaps, and be the basis for successive annual Board and Secretariat workplans. However, an observation from the preparation of this report is that while the Strategic Plan has set a broad framing for GCF activities over 2015–2018, it has not been consistently used to direct annual workplan, programming or policy priorities. This may be because many of the priorities set out in the Strategic Plan are either quite high-level desired outcomes or quite detailed process-oriented actions. Going forward, the Board may wish to consider setting more concrete

“intermediate” output- and outcome-focused operational and action priorities, that set a working agenda for the next multi-year strategic plan period, and serve to link the high-level strategic vision to the annual work planning process.

#### **Summary of reflections for future strategic planning**

- More actively use the Strategic Plan to steer annual work programming, by setting clear “intermediate” outcome-focused Operational Priorities and Action Plan items for delivery over the next multi-year phase of operations.

## **2.2 Scaling up GCF investments, programming resources and prioritizing pipeline development**

### **2.2.1. Although the pipeline evolved more slowly than planned, GCF has now successfully scaled up its investments and has the capabilities to programme at scale**

26. The Strategic Plan set out a core Operational Priority and action item on scaling up GCF investment and prioritizing pipeline development, noting that GCF would develop a pipeline against the total amount of IRM pledges. One of its few specific targets anticipated that the GCF portfolio would reach USD 2.6 billion approved in funding proposals in 2016. In reality, GCF committed around USD 1.5 billion to funding proposals over four Board meetings in 2015–2016. This slower than expected start reflected the additional time needed to build the Secretariat’s programming capacity as well as the work required with entities to develop a pipeline of projects meeting the GCF investment criteria.

27. In the second half of the IRM, with growing operational capacity and a more established network of AEs, the portfolio reached USD 2.64 billion in 2017, and GCF closed 2018 with USD 4.6 billion in funding approved for 93 projects in 96 countries. These projects will attract USD 11.8 billion in co-financing and are expected to reduce 1.43 billion tonnes of carbon dioxide and reach 272 million beneficiaries. In particular, 2018 has seen GCF operate at a much larger scale in terms of funding approved, with over one billion approved at both B.19 and B.21. Per the Secretariat’s 2019 workplan, programming capacity is now expected to be USD 3.5–5 billion annually.

28. Pipeline development has also borne results, with GCF closing 2018 with a pipeline of around USD 14.7 billion in funding proposals and concept notes, an additional USD 17 billion from country work programmes and a 7 billion pipeline from entity work programmes.

29. A key learning from this period has been that rather than receiving a “ready-made” high-quality project pipeline, GCF is having to make substantial investments with countries and entities in strengthening climate rationale and project design to ensure projects fully meet GCF investment criteria and standards. This has extended the time required to process funding proposals and also put a higher premium on the Secretariat’s role in supporting proposals through the approval process, rather than simply performing a due diligence function. Feedback from countries shows that there is still room to improve in delivering tailored and consistent guidance to help countries and entities to navigate the GCF project approval process. These lessons can be more fully reflected in GCF processes and strategy moving forward.

### **2.2.2. GCF has delivered on its strategic resource allocation objectives**

30. The Strategic Plan includes reference to the Board’s objectives to pursue balanced allocation of funding between mitigation and adaptation activities and a particular focus on supporting developing countries most vulnerable to the adverse impacts of climate change. The distribution of the portfolio shows that GCF is meeting these resource allocation goals with i) 56



per cent of funding having been allocated for adaptation and 44 per cent for mitigation;<sup>1</sup> ii) 70 per cent of adaptation funding going to LDCs, SIDs and African States, exceeding the 50 per cent target; iii) wide geographic coverage, with GCF-funded projects to reach and benefit 96 countries; iv) USD 2.8 billion allocated to public sector projects and USD 1.8 billion to the private sector; and v) USD 147 million in total resources being approved for readiness activities (USD 133.3 million for country proposals) and USD 10.8 million for project preparation.

### **2.2.3. GCF has evolved its funding windows and used requests for proposal as a tool for pipeline development, but with mixed results**

31. In conjunction with the Action Plan item on prioritizing pipeline development, the Strategic Plan foreshadowed deployment of various modalities for developing innovative and impactful funding proposals. Over the period 2015–2018 GCF has implemented a series of operational modalities to support strategic pipeline development.

32. A dedicated PPF has been fully operationalized following endorsement at the thirteenth meeting of the Board of recommended operational guidelines and approval of a USD 40 million budget for the pilot phase. To date, only one project has been approved after having accessed project preparation support. But over the course of the IRM the PPF pipeline has been rising: 38 active requests<sup>2</sup> have so far been submitted to the Secretariat with letters of no-objection, 16 approved and 6 under implementation. And technical support is now being offered to help to strengthen PPF concept notes and increase the rate of PPF approvals. It is expected that as PPF activities near completion, the results of GCF project preparation support will materialize in the pipeline during the first replenishment period.

33. GCF has also issued four RFPs, which remained active during the period 2015–2018: (i) an initial allocation of USD 200 million for at least 10 pilots on enhanced direct access, under which two projects worth USD 30 million in GCF funding have been approved; (ii) an initial allocation of USD 200 million for phase I of a pilot for micro-, small and medium-sized enterprises (MSMEs), under which two proposals have been approved worth USD 40 million; (iii) an initial allocation of USD 500 million targeted to mobilizing resources at scale, which attracted over 300 concept notes with a total value of USD 17 billion, with first funding proposals anticipated in 2019; and (iv) as specifically referenced in the Action Plan, an allocation of up to USD 500 million for REDD-plus results-based payments, with the first fund proposals expected at the twenty-second meeting of the Board (B.22).

34. While the Strategic Plan envisaged use of RFPs as a path to target innovation and demonstrate a viable pathway to accreditation, in reality their effectiveness for this purpose has been limited. Successful funding proposals have been brought by already accredited entities, with the accreditation framework posing a real barrier to new entrants with innovative proposals. The RFPs have contributed to broadening the GCF pipeline and focusing attention on key impact areas, but experience suggests that more upfront research on areas of demand and uptake potential, as well as more targeted design for impact, could help to make RFPs a more useful strategic programming tool for the future. Work has not commenced, as flagged in the Strategic Plan, on assessing the applicability of results-based payments to other sectors.

### **2.2.4. The full amount of initial resource mobilization resources will be invested over the course of 2019**

35. The Operational Priorities in the Strategic Plan included an expected approach to programming that would see the investment reach 2.6 billion in 2016 and replenishment

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<sup>1</sup> In grant equivalency terms; in nominal terms 40 per cent of funding is for adaptation and 60 per cent for mitigation.

<sup>2</sup> In addition, there are 22 inactive PPF requests, including those withdrawn by the NDA or AE, and no response from the AE over six months.

triggered by the end of June 2017. Full programming over 2015–2018 was not achieved partly because of the steadier scale-up of programming capabilities, and then through the deliberate introduction of financial planning for 2018 and 2019, given the later triggering of replenishment in October 2018. The current financial planning approach envisions the full programming of available IRM resources over the course of 2019.

#### **2.2.5. Priority is shifting from scaling up investments to predictable, equitable programming**

36. Since the adoption of the initial Strategic Plan, a critical change in the GCF operating context has been a shift in the supply-demand balance, toward a new, but likely to be ongoing state of project demand outstripping available GCF resources. This suggests a shift in strategic priorities moving forward, from scaling up investments to ensuring predictable and equitable investment programming. The introduction of a financial planning approach in late 2018, including programming set-aside resources to facilitate additional projects being developed through the already agreed RFPs, provides a possible basis on which to move forward and generate greater visibility for stakeholders on the use of resources by GCF.

37. More deliberate programming, pipeline management and financial planning will become important to ensuring predictability of resources and more focused engagement with countries and entities. With greater clarity on the GCF annual programming capacity, upcoming strategic plans could deliver more concrete guidance on programming of resources over the next investment period. This would be further aided by a higher degree of clarity on the conditions for triggering subsequent replenishments, for example by triggering replenishment at a predetermined time rather than linked to a percentage of funding allocated.

#### **2.2.6. An operational framework on complementarity and coherence has laid the ground for more coordinated programming with other climate financing institutions**

38. The Strategic Plan anticipated that GCF would identify opportunities to add value by co-financing projects and programmes together with the Global Environment Facility (GEF), the Adaptation Fund or multilateral development banks (MDBs) as a means to scale up operations and capitalize on their lessons learned. GCF has advanced regular dialogues with both financing channels under the convention and multilateral development banks.

39. An operational framework on complementarity and coherence was mandated by the Board at its thirteenth meeting and adopted at its seventeenth meeting (B.17), built around four pillars of enhancing complementarity at board to board level through fund arrangements, at the activity level, at the national programming level and at the delivery level. A series of exchanges has brought together focal points across climate funds with a view to identifying the procedures needed to promote joint programming, parallel financing and scaling up, as well as cooperation on enabling activities. A number of funding proposals approved by the GCF to date have built on projects conducted by GEF, Climate Investment Funds (CIFs) and the Adaptation Fund, though not through deliberate efforts of the funds. Going forward, a group of countries have expressed interest in joining a pilot with GEF on joint programming and further work will be done with CIFs consistent with Decision B.20/05.

40. With the MDBs, discussions have occurred through both periodic strategic engagement and projects coming to GCF. In the absence of a GCF co-financing policy, co-financing has been implemented on a project by project basis. Efforts towards enhanced relationship management with AEs has involved targeted earlier stage engagement in project development, seeking to identify common priority investment areas by matching GCF country programming processes with the country operational frameworks of MDBs and focusing on climate impact.

41. Fund to fund cooperation will continue to promote dialogue bringing together relevant national focal points and entities, with a view to identifying opportunities for scaling up and

parallel funding, and investigating the potential to better harmonize GCF processes and tools. Knowledge-sharing is also a key pillar of these efforts, which would be supported by reflecting more concrete goals on complementarity and coherence in an updated Strategic Plan.

### **Summary of reflections for future strategic planning**

Consideration could be given to:

- Shifting the current strategic priority of scaling up GCF investments to a priority of supporting predictable and equitable investment programming
- Strategic goals for programming the full use of resources for the first replenishment period, and defining a date for commencing the subsequent replenishment
- Maintaining a strategic focus on quality pipeline development, expressly capturing the role of GCF in strengthening stakeholders' ability to demonstrate a strong climate rationale and significant climate impact in project design
- Redeploying RFPs as programming tool focused on areas where there is known demand from countries and AEs, rather than as a tool for experimentation
- Reforming the accreditation framework to allow targeted use of RFPs or other tools for innovative pipeline development in the future
- Including a greater focus, and more specific goals, on working with other funds to drive scale, complementarity in programming and knowledge-sharing

## **2.3 Maximizing GCF impact**

### **2.3.1 Maximizing impact is clearly prioritized in the Strategic Plan but not fully defined or operationalized**

42. The Strategic Plan includes a specific Operational Priority on maximizing impact. It makes reference to GCF supporting projects and programmes that are scalable, replicable and employ GCF resources in the most efficient manner, catalysing climate finance at the international and the national level. It also emphasizes that the Board's ambition to get GCF off the ground should not compromise the ambition to promote cutting-edge innovation and real transformation towards the low-emission, climate-resilient future to which the global community committed itself in the Paris Agreement. In the Action Plan, the impact goal is operationalized mainly through the strategic and proactive approach to programming, as discussed above.

43. The current Strategic Plan does not further detail Action Plan goals relating to the measurement or management of impact and results. Presently, GCF assesses potential impact on a project by project basis on the basis of its six investment criteria. Under its results management framework, GCF reports the expected portfolio-level impact of activities against core indicators. Further indicators are established for project-level reporting. That said, GCF has not fully elaborated these policies or the links between them. For example, while the adoption of minimum benchmarks was referenced in the Strategic Plan, and a related proposal has been endorsed by the Investment Committee and put to the Board, the proposal has yet to be fully considered at any Board meeting. Similarly, indicators for project results reporting have yet to be agreed. As concluded in the recent review by IEU of the results management framework, more clarity is needed on the applicability of and interaction between the results management and investment frameworks in relation to impact measurement and management. Further, there is also scope for a more comprehensive framework of reporting of total administrative and project management cost versus funds allocated for the project. GCF also presently has no specific portfolio-level impact goals.

### 2.3.2. Transformational impact is still being defined globally

44. Paradigm shift and catalytic investment are at the heart of the GCF mandate. The Strategic Plan specifically refers to the GCF funding projects that can be scaled up, replicated or lead to fundamental changes in behaviour and/or investment partners. However, a key challenge GCF faces in managing and maximizing impact is the still-evolving state of global knowledge on how to define, articulate and evaluate paradigm shift and transformation, in particular for adaptation. Another underdeveloped issue is how the project-focused results management framework established for GCF might dovetail with tracking towards broader country-level ambitions for climate action expressed under the Paris Agreement.

45. Given the lessons that can be captured from its growing portfolio, under an updated Strategic Plan GCF could seek to position itself to lead global knowledge development in these areas moving ahead. Efforts under a future strategic plan could be directed to solidifying a full-cycle programming process directed towards maximizing impact, starting from country-driven identification of opportunities for transformation, to a results management framework designed with the ambition-enhancing goals of the Paris Agreement in mind.

### 2.3.3. There are still substantial gaps in GCF policies which are on the Board agenda

46. The GCF policy frameworks have an important bearing in orienting operations towards the goal of maximizing impact. GCF adopted, at an early stage, an initial investment framework, results management framework and risk management framework, which define the GCF investment criteria, risk appetite and key results indicators. GCF concludes the IRM with the same investment framework as defined at the start of the Strategic Plan and the same adaptation and mitigation logic models.

47. A number of policy issues identified at the time of adoption of the Strategic Plan have evolved over the past three years, but have not been resolved and continue to remain on the Board's agenda. An integrated policy framework for funding proposals (including guidance on concessionality, co-financing, incremental and full cost, scope of adaptation, etc.) is still under Board consideration. Elements of the risk management framework and results management framework are also still to be completed. Each of these key operational frameworks also has an inbuilt review, which it may become timely to consider as part of the GCF replenishment.

48. Completing the GCF policies, in tandem with efforts to develop clearer and more transparent approaches and guidance to the application of GCF standards and criteria, would better enable stakeholders to work with GCF to develop high-quality projects that maximize climate and paradigm shift impact. The Secretariat is now leading work, in partnership with the World Meteorological Organization, to help countries and entities to define and use climate rationale in their programming. The Secretariat is also seeking to better define second-level due diligence processes and develop investment criteria scoring to improve consistency of funding proposal assessments, as well as issuing sectoral guidance to highlight opportunities for transformational action and good project design practices. These steps would be reinforced by a strengthened policy focus on impact and results at the portfolio level in an updated Strategic Plan.

### 2.3.4. With a growing portfolio under implementation, performance and results will be a clear strategic priority for the future

49. As at the end of 2018, GCF had moved from a stage of scaling up its initial project investments to managing a substantial portfolio of project and readiness activities under implementation. At the end of 2016, one project was under implementation, at a value of USD 5.49 million. By the end of 2017 this had grown to 18 projects, and at the close of 2018, 40 projects valued at USD 1.76 billion were under implementation. In 2018 GCF reviewed its first round of project-specific annual performance reports and compiled the first-ever portfolio performance report.

50. The timeliness of GCF processes, including the execution of relevant implementing arrangements and disbursements, rates of utilization and troubleshooting in project implementation, and management of performance and results are emerging as priority issues for stakeholders alongside initial pipeline development and securing funding approvals. These will represent key strategic areas of accountability for GCF in the future.

51. While the initial Strategic Plan included no specific priorities or goals related to implementation, the maturing of the GCF operations will necessitate realignment of priorities in an updated strategic plan to introduce a greater focus on effective portfolio management, risk management, performance and results. It will also be important for these objectives to capture the critical role of monitoring and evaluations, lessons capture and knowledge dissemination in underpinning continuous learning for GCF and its stakeholders, and allowing for recalibration of business practices where needed.

### 2.3.5. The GCF appetite for innovation and risk could be more fully defined

52. The Strategic Plan includes a number of references to innovation, including pursuing financing for innovative projects and programmes, and supporting the application and dissemination of cutting-edge technologies. The Strategic Plan also makes reference to GCF taking on risks that other funds/institutions are not able or willing to take, including risks associated with deploying innovative climate technologies.

53. Through its portfolio GCF is seeing a suite of actions relating to new technologies and innovative approaches, including for renewable energy, water and irrigation management and climate-resilient crops. These innovations have so far emerged at the project level and not through a road map or programming strategy for driving technology and innovation. RFPs have been deployed as a tool to promote innovation, but have been curtailed in their reach by the accreditation framework as discussed above. A dedicated RFP on technology incubators and accelerators is also currently being developed in cooperation with the Technology Executive Committee and the Climate Technology Centre and Network.

54. Given the experience of prior RFPs, there is a need to consider how well the current GCF frameworks and processes facilitate innovative approaches and investment in new technologies, and whether new types of funding or access modalities may be required to realize GCF ambitions in this area. For example, consideration of multi-country investment may need to be addressed if GCF aims to invest in technology and innovation generally. In an updated Strategic Plan, further thought might be given to articulating the GCF appetite for innovation and risk, and implementing reforms necessary to realize this.

#### **Summary of reflections for future strategic planning**

Consideration could be given to:

- Maintaining strategic focus on maximizing impact, setting clearer action priorities to focus operationalization (e.g. referencing required policies/tools, considering portfolio impact goals, further guidance on what projects GCF will fund, etc.)
- Signalling the potential of GCF to contribute to global knowledge development on defining and measuring paradigm shift and transformational adaptation
- Setting strategic priorities relating to implementation, performance and results
- Setting strategic priorities relating to evaluations and knowledge management, allowing lessons to be absorbed and rolled out in evolving GCF operations and policy frameworks
- Further defining a GCF approach to innovation and technology, including risk appetite, to assist with bringing relevant proposals for GCF investment and mobilizing the private sector
- Articulating links between GCF-level results management and country-level reporting under the Paris Agreement

## 2.4 Responding to developing country needs and deploying a proactive and strategic approach to programming

### 2.4.1. Readiness support is being used to underpin country-driven GCF engagement, including direct access

55. A core principle of the GCF Strategic Plan is ensuring full country ownership through its operational modalities and by providing adequate support to build required country capacity. The Action Plan specifically highlights the critical role of readiness support in preparing countries to engage with GCF and develop a pipeline of country-driven and impactful projects that reflect country needs and ambitions, and meet the transformational ambitions of GCF. The Action Plan sets out a specific list of actions relating to enhancing readiness support.

56. Over the IRM period, 121 countries have accessed readiness support, with USD 133.4 million in funding approved. Resources are being deployed across a range of activities supporting national institutions and coordination mechanisms, initiating country programming activities, increasing the capacity of direct access entities and kick-starting national adaptation planning processes. The greatest concentration has been on NDA strengthening, country programming and strategic frameworks, and direct access support. As called for in the Action Plan, the Secretariat has organized a series of regional structured dialogues to guide countries in identifying priorities for GCF engagement and create a marketplace for project ideas with AEs, private sector and other partners; and also engaged numerous countries through high-level bilateral consultations. Work to strengthen the capabilities of direct access entities through both pre- and post-accreditation support has been another key focus area.

57. In line with the Action Plan goal of speeding up disbursements of approved readiness funds, GCF had steadily picked up the rate of disbursement through 2018. To the end of the year, 108 countries had received disbursements of USD 44.04 million, of which USD 25.5 million are reaching SIDS, LDCs or African States. A total of 23 proposals worth USD 62 million have been approved for national adaptation plans (NAPs), of which 19 are disbursed valued at USD 10.8 million. Disbursement rates have also been influenced by preparedness on the country/delivery partner side, with information showing that utilization is progressing somewhat slower than expected. The overall shift in readiness activities from approval to implementation phase will require an accompanying shift in focus onto results management, including ongoing monitoring of utilization and impact.

58. Both the Secretariat and IEU have conducted reviews of the Readiness Programme. While noting that it remains too early to speak to Readiness Programme results, both reviews identified clear areas of improvement relating to targeting, efficiency and impact. In designing “Readiness 2.0” for Board consideration in early 2019, GCF hopes to better respond to the Action Plan recommendation to diagnose and target countries’ specific readiness needs, by delivering a clearer theory of change, more fit for purpose support, lower transaction costs, improved process efficiency and enhanced knowledge exchange and peer-to-peer learning.

59. The Action Plan also called for allocation of sufficient resources to the Readiness Programme and the respective activity areas. Over the IRM period, financial resources have been allocated to the Readiness Programme on an ongoing though ad hoc basis, with an additional USD 50 million allocated for 2017 at the fifteenth meeting of the Board, USD 50 million made available at the eighteenth meeting of the Board (B.18) for supporting national adaptation planning requests and USD 60 million allocated at B.19 for 2018 following the initial Secretariat review and presentation of a revised work programme. The current budget is expected to be fully allocated by early 2019, when a further resource allocation will be urgently required. Going forward, the Board may wish to consider using the Strategic Plan to set up more stable long-term funding goals for readiness, which would help countries to forward plan support to match needs.

#### **2.4.2. Readiness is helping to drive institutional transformation, but this is a long-term endeavour**

60. The Strategic Plan includes an ambition for GCF to leverage its status as an operating entity of the UNFCCC Financial Mechanism to set new standards with regard to country ownership, direct access and level of ambition impacting the global practice of climate finance beyond its immediate engagement. An emerging lesson of GCF initial readiness activities is that GCF's engagement with countries and AEs, particularly direct access entities, is helping to drive institutional transformation – but this is a long-term endeavour that requires substantial investment on both sides in implementing standards and human capacity.

61. Over the last couple of years in particular, significant progress has been made in socializing GCF, raising awareness of GCF criteria and standards, and options to access GCF. Related templates, guidelines and documentation have been revised and simplified, and are starting to be translated into multiple languages. While progress has certainly been uneven across countries, a number of NDAs have solidified engagement with GCF, bringing forward “demonstration cases” of building multi-stakeholder national consultation and coordination mechanisms that are able to internalize climate and GCF investment criteria considerations into pipeline planning, and attracting resources to national priority action areas.

62. Similarly, feedback from direct access entities suggests that while the process of GCF accreditation and standard-building has required substantial investment of time and human capacity, the results are strengthened institutions able to manage not only GCF funding, but also financing from a range of other sources. A number of direct access entities have succeeded in building multi-project portfolios with GCF, enabling them to serve as key channels aggregating international and national sources of finance towards countries' climate priorities.

63. Transformational climate programming, in tandem with a continuing enhancement of ambition under the Paris Agreement, is likely to require ongoing investment in the capacity to integrate climate analysis into cross-government development planning, investment decisions and policymaking, as well as strengthened public–private sector engagement. An updated Strategic Plan may wish to reflect this broader, ambitious potential for GCF readiness to support institutional transformation underpinning country-driven, paradigm-shifting climate action.

#### **2.4.3. Support for proactive and strategic programming is starting to show results**

64. The Strategic Plan envisaged proactive and strategic work programming as the critical link between countries and entities that are ready to engage with GCF, and a country-driven and high impact pipeline of funding proposals that responds to developing countries needs.

65. Immediately after the adoption of the initial Strategic Plan, the Secretariat started working with countries on the development of their national plans and strategies for GCF, including anticipated pipelines. Structured dialogues, direct access events and bilateral consultations have been used to gather information on and shape country and entity work programmes, at the draft stage. Readiness support has also been widely accessed to support country programming processes. Ongoing dialogue has been informed by the adoption of country ownership guidelines at the fourteenth meeting of the Board. In addition, per the Strategic Plan, the Secretariat developed a country programme template and draft guidelines to aid countries in national programming.

66. While, as presented to the Board in regular updates, the programming process has been slower in maturing than hoped for, as at the end of 2018 an increasing number of country work programmes were being finalized. To date 18 official and completed country programmes have been delivered. Starting in 2018 efforts commenced to contract and deploy expert technical support to countries to bring robust climate analytics into country programming, focused on helping countries to develop a full understanding of mitigation potential and climate vulnerabilities to identify highest impact interventions. Emerging country programmes are

identifying prospective pipelines for GCF funding; however, translation of ideas into the active concept note and funding proposal pipeline remains at an early stage and will remain a key work area for the next phase of GCF operations.

67. Progress on national adaptation planning has also advanced in parallel to the country programming process. Submitted NAP proposals see the identification of sectoral priorities that will be addressed at the implementation stage and which are likely to generate ideas and pipelines for GCF. The later stages of the adaptation planning processes are also likely to lead to better reviews of financing country needs and opportunities as well as costing of adaptation options.

68. The Action Plan also requested all AEs to submit annual or multi-annual work programmes, prepared in consultation with NDAs. Entity work programming has been advanced over the IRM period by similar means as country programming, through structured dialogues, strategic entity engagement and direct access events. Entity work programmes are now updated twice per year. Entity engagement has increasingly focused on building strategic partnerships beyond project-specific engagement. Particular focus has been placed on supporting direct access entities, which represent the majority of the AE network (41 of 75) but require ongoing support to strengthen representation in the pipeline and portfolio. This may be an area featured more expressly in an updated Strategic Plan.

#### **2.4.4. The Strategic Plan can strengthen incentives for proactive and strategic programming**

69. Although the still maturing state of work programming makes it a little early to draw conclusions as to influence on the GCF pipeline and portfolio, one evident constraint is that country work programming remains voluntary with no clear incentives or express links to the project and funding approval process. Secretariat analysis has shown that to date, the overlap between projects identified in country and entity work programming remains at about 10 per cent, showing that there is more work to be done to build alignment between the entity pipeline and country priorities. Going forward, to incentivize regular country programming that targets the most transformational opportunities for action, future strategic plans may wish to draw a more explicit connection between country programming and the programming of resources.

70. The Action Plan also noted the opportunity for GCF to evolve its own understanding of where it can add value through programming, identifying key priorities, approaches and themes. It called for GCF to look at developing replicable approaches and potentially standardized products that would allow proven approaches to be rapidly rolled out in new locations. It also noted the value of undertaking surveys to understand financing needs, as well as successes and innovative ideas that could be built upon. These are areas in which limited work has been done to date. Moving into the first replenishment, there is opportunity for GCF to reflect on its experience and portfolio development to date, and consult with countries, to develop a programming strategy under which GCF itself could more proactively guide funding toward high impact areas aligned with country need.

#### **Summary of reflections for future strategic planning**

Consideration could be given to:

- Maintaining core strategic focus on country ownership linked to the implementation of countries' nationally determined contributions and NAPs, setting clear action priorities on desired readiness and country engagement outcomes (e.g. better understanding barriers, building capabilities for transformational planning, enabling environments, sharing best practice)
- Articulating the strategic potential of GCF to drive institutional transformation underpinning paradigm shift, including setting more concrete goals on direct access



- Signalling greater predictability of readiness funding to underpin long-term institutional capacity
- More specifically defining the role of country work programming in a country-driven project origination process, with clearer incentives linking programming to project funding
- Considering a more proactive role for GCF itself in programming for themes or products where there is identified alignment of impact and country need
- Articulating strategic links between readiness, GCF programming and cycles of nationally determined contributions and adaptation planning under the Paris Agreement

## 2.5 Enhancing accessibility and predictability

### 2.5.1. **GCF has made substantial progress in building understanding of its mandate and processes, and establishing convening power at the national level**

71. The Strategic Plan called for GCF, as a new institution, to proactively communicate its ambition as well as its operational modalities with a view to enhancing predictability and facilitating access. Specifically, a section of the Action Plan is dedicated to accessibility and predictability which directs GCF to engage with a wide range of stakeholders, better understand barriers to engagement, maintain visibility in international forums, minimize the transaction costs of dealing with GCF, and signal more clearly what kinds of projects and programmes GCF is looking to finance through improved and coherent guidance.

72. In sharp contrast to the status quo at the outset of the IRM, and as a result of growing GCF operations, regular structured dialogues, and country and entity engagement, there is now a much greater understanding of GCF processes and operations. Ongoing engagement by GCF in regional structured dialogues and national dialogues and consultations has enabled multiple country representatives to gain familiarity with GCF processes and build priorities for engagement. In 2018 GCF convened the first global NDA conference as well as the first private investment for climate conference. Feedback from stakeholders has acknowledged the benefits of the convening power of GCF in driving collaboration in support of country climate priorities. Dialogues have also helped to support national efforts to identify appropriate AEs, encourage and support the efforts of direct access entities to become accredited, and build the GCF's understanding of country needs. GCF's distance from many of its stakeholders remains a challenge, with countries and entities continuously communicating the need for more regular GCF regional presence. In that regard, the Secretariat will report during 2019 on its initial experiment on regional deployment of secretariat staff, with a view to assessing the potential for an expanded effort.

73. GCF has also considerably grown its global presence over the course of 2017 and 2018 with active participation in international summits and events (Global Climate Action Summit, NY Climate Week, multilateral, regional and bilateral meetings, annual participation at the COP sessions and the meetings of the UNFCCC thematic bodies) to the build the profile of GCF, and broaden understanding of its mandate, approach and performance to date.

### 2.5.2. **Ongoing efforts have been made to generate guidance and targeted communications materials, and promote knowledge-sharing**

74. Based on feedback from stakeholders, continuous steps are being taken to issue clearer guidance on GCF policies and processes (including translation into different languages), reduce the number of changes in templates and procedures, provide technical support for access, lift response standards and improve website and communications.

75. Some of the actions taken include the development of a simplified concept note template, update to the Readiness Guidebook and issuance of streamlined procedures, production of an

operations manual, launch of a manual on mainstreaming gender in GCF projects, and publication of the print and online “GCF 101”. Continuous efforts have been made to improve the GCF website, including launching dedicated country and entity portals providing easy to access information on the status of engagement with GCF. The Secretariat also helped to establish a prototype knowledge-sharing and volunteering platform, the Direct Climate Action Platform, to enhance peer exchange.

76. GCF is also starting to build a knowledge management system which will capture lessons from GCF’s growing experience, enabling active exchange of best practices among its stakeholders, and positioning GCF to engage in knowledge collaboration with other climate financing institutions.

77. Throughout 2018 efforts have also advanced to establish and formalize communities of practice, seeking to draw from top global expertise to inform GCF operations, decision-making and standard development. This is anticipated to guide GCF investments based on best practice and evolving global knowledge on maximizing mitigation and adaptation impact.

#### **2.5.3. A simplified approvals process has been adopted and is being implemented**

78. As called for in the Action Plan, the Board has taken steps to simplify processes and templates, particularly for micro-scale activities, with the adoption of SAP at B.18. Targeted trainings and materials were developed explaining the modality, and to date, four proposals have been approved over the course of one year. Initial experience suggests that there is scope for further simplifying the process to increase uptake, as well as considering the types of activities which may be most suitable for this window, including with regard to the potential replicability of the activity.

79. At B.17 the Board, as called for in the Action Plan, also adopted a revised proposal approval process which has increased the predictability and efficiency of Secretariat and independent Technical Advisory Panel (TAP) reviews of funding proposals.

#### **2.5.4. GCF has sought to apply the highest standards of transparency and inclusiveness**

80. Consistent with the Strategic Plan, GCF has aimed to ensure the highest standards for transparent and inclusive procedures with respect to all GCF-related activities, including through the application of its Information Disclosure Policy, Gender Policy and Indigenous Peoples Policy, and formalizing consultation procedures. The Gender Policy and Indigenous Peoples Policy were developed following extensive consultation with stakeholders.

81. Since the adoption of the GCF Gender Policy and Action Plan in 2015 the Secretariat has put in place processes and systems to ensure the mainstreaming of gender internally and externally. Externally the Secretariat has been able to ensure the development of gender assessments and action plans in almost all of its funded activities. Noting the existence of capacity gaps with its partners, the Secretariat has developed, disseminated and posted on the GCF website manuals and toolkits to support and clarify the GCF requirement on the mainstreaming of gender issues in funding proposals. The various structured dialogues conducted over the years have been used as forums to create and raise the profile of the issue as well as the awareness of NDAs and AEs of the Gender Policy and the specific requirements thereof. In line with IEU evaluations of the Readiness Programme and the results management framework, efforts will also be strengthened to increase support for the integration of gender equality considerations into readiness and PPF support, along with further strengthening and integrating key gender elements for monitoring into the results management framework.

82. At B.19, the Board adopted the GCF-wide Indigenous Peoples Policy, which will assist GCF in incorporating considerations related to indigenous peoples into its decision-making and operations. The policy, together with the environmental and social safeguards, guides the design of projects, including readiness support, to ensure that indigenous peoples benefit from GCF

activities and projects in a culturally appropriate manner and do not suffer harm or adverse effects from the design and implementation of GCF-financed activities. The implementation of the policy will be supported by an Indigenous Peoples Advisory Group, which will be constituted in 2019 and guided by the policy's implementing guidelines.

83. The Fund's Environmental and Social Management System and the Environmental and Social Policy adopted by the Board at B.19 further promote inclusiveness by ensuring effective and meaningful consultations that are guided by the principles of transparency, inclusiveness, non-discrimination and accountability in all the GCF-financed activities. Guidance on stakeholder engagement in projects was developed by the Secretariat in 2018.

84. To increase transparency, GCF began online publication of concept notes and Secretariat and TAP reviews of funding proposals and made them accessible to countries and entities through online portals.

85. Following requests from AEs, GCF has also started consulting AEs on all policies affecting them directly, allowing time for comments to be taken on board at the development stage. Nearing the end of the IRM, GCF has also sought to actively communicate to AEs and countries its approach to financial planning to support greater predictability of programming. Going forward, a further defined approach to the programming of resources and clearer policy settings are likely to bear significant contributions to improving the transparency of the GCF portfolio development process.

#### **2.5.5. GCF has a growing and diverse network of partners serving as the channels for access to GCF resources**

86. Under the GCF business model, partners are key to accessing GCF resources. The IRM has seen the GCF network expand to 75 AEs, of which 40 per cent are national, 15 per cent regional and 40 per cent international. This diverse network spans MDBs, national government agencies, international and local banks, equity funds, non-governmental organizations and regional organizations. Direct access entities, representing 41 of the 75 AEs, have been a particular focus of GCF's work on accessibility, having the potential to play a key role in linking national priorities to international and national finance and mainstream climate action nationally. GCF is also continuously expanding the network of delivery partners serving to implement its Readiness Programme.

87. To manage this network of partners, GCF is implementing an entity relationship management approach, guiding work towards joint strategic identification of priorities for engagement and more rapid troubleshooting of implementation challenges.

88. As the GCF network of AEs grows, a potential challenge will be GCF's ability to engage meaningfully with a growing AE pool, some of which are less active in developing project pipelines. GCF has not yet evaluated critically, with countries, the question of which mix of AEs may be best suited to delivering the types of projects being prioritized in country-driven pipelines. The review of the accreditation framework and reaccreditation process, in conjunction with the update of the Strategic Plan, may be an opportune time to evaluate the performance of the GCF partnerships approach, including considering whether the accreditation pool should remain open-ended.

#### **2.5.6. Further expanding accessibility will require a rethink of existing access modalities**

89. Within its current business model – working through others for implementation, a lean Secretariat and virtually no regional presence – GCF is likely to remain under pressure to meet expectations on access. GCF's experience and reliance upon the programmes presented by AEs does constrain its potential to respond to country needs and maximize impact. GCF's experience with RFPs (described above), engagement with countries and global conversations with leaders and innovators in the climate finance space have highlighted substantial interest in engaging with

GCF, but with access constrained by GCF's exclusive reliance on the accreditation modality for project funding.

90. GCF has undertaken a review of the accreditation framework, which identified options for reform, including a fit for purpose, project-specific assessment approach which is currently before the Board for consideration. There may also be wider options for reform, including more direct investment modalities for GCF. As contemplated in the Strategic Plan, there are also unrealized prospects for improving accessibility through delegation of funding approvals for certain types of decisions (e.g. SAP), increasing the defined use of an agreed programmatic approach, and improved harmonization with other climate funds. Within any of these areas, maintaining the balance between application of Fund standards and improved accessibility will remain a key consideration.

#### **2.5.7. Improving predictability of resource allocation will also be a key priority moving ahead, informed by resource planning and governance considerations**

91. As discussed in section 2.2 above, as GCF moves into its first replenishment under what is expected to be an updated Strategic Plan, a key consideration will be improving the predictability of programming to ensure the equitable management of resources and help stakeholders to plan their own investment pipelines. Throughout the first four years of full operations, there has often been considerable uncertainty as to the amounts being allocated through the GCF investment windows, owing to the lack of guidance on what types of projects GCF wanted to see, the related undirected nature of the initial pipeline of proposals, the initial build-up of programming capacity, the unevenness in Board decision-making on both projects and related policies and, towards the end of the IRM, the depletion of resources in anticipation of the GCF first replenishment.

92. A successful and ambitious replenishment is a foundational step towards funding predictability as GCF moves into its next phase of operations. However, real predictability will require further work on country and entity work programming, policies for investment and results management, and strategic planning setting out an expected resource management approach. Governance of GCF has also regularly had a bearing on accessibility and predictability, highlighting the equal importance of concluding Board decision-making modalities that operate in an efficient and effective manner, to improve GCF performance in these areas.

#### **Summary of reflections for future strategic planning**

Consideration could be given to:

- Maintaining strategic focus on enhancing accessibility and predictability, and defining action priorities which target identified bottlenecks (e.g. work level standards, widening translation services)
- Prioritizing a role for GCF in global knowledge leadership and peer to peer exchange
- Establishing GCF regional presence to respond to growing demand for country engagement and engagement with direct access entities
- Targeting further simplification of GCF processes, where possible, including delegated funding approvals for certain projects and improved coherence with other funds
- Setting a strategic vision for building GCF's accreditation network, incorporating considerations of critical mass and best fit for project pipelines
- Rethinking the business model to widen access modalities while maintaining GCF standards, to evolve the reach, impact and potential of GCF to pursue innovation
- Improving predictability through establishing a resource allocation strategy and improving the efficiency and effectiveness of governance and decision-making

- Striving for global leadership on gender, indigenous peoples and safeguards, including through increased investments towards addressing capacity gaps related to gender, indigenous peoples and safeguards in countries and entities, particularly direct access, and integration of gender and indigenous peoples issues into the results management framework

## 2.6 Maximizing the engagement of the private sector

### 2.6.1. GCF has built a substantial private sector portfolio

93. A full section of the Strategic Plan's Action Plan is dedicated to the role of the Private Sector Facility and the goal of crowding-in and maximizing the engagement of the private sector at the national, regional and international level in line with developing countries' needs and priorities. At the time of its drafting GCF had approved two private sector projects for GCF funding of USD 47 million. As at the end of 2018, this had grown to a private sector portfolio of 20 projects committing GCF funding of USD 1.8 billion and leveraging USD 5.2 billion in co-financing.

94. These projects have so far been relatively focused in the energy results area, including market-opening investments in renewables and access to finance for clean energy businesses. There is emerging potential for private sector investment in areas such as forests, transport and adaptation services, as well as yet-untapped potential to attract greater institutional investment into climate action.

### 2.6.2. GCF has strengthened its understanding of barriers to and means to widen private sector involvement across operations

95. A key focus of the initial Action Plan was building understanding of barriers to crowding-in and maximising private sector engagement and development of a private sector outreach plan. In line with this, PSAG conducted an analysis on barriers, based on a survey amongst private sector actors. On this basis, PSAG put forward recommendations around supporting national governments to establish adequate regulatory frameworks, actively deploying fit for purpose instruments and putting in place mechanisms for facilitating technology and knowledge transfers.

96. PSAG also developed suggestions to enhance opportunities to engage the private sector in adaptation and explored barriers to private sector engagement in LDCs and SIDs. These highlighted the important role of readiness in closing information gaps and risk perceptions, the value of deploying risk-transfer products and establishing public-private structures to address market failures. Activities targeting the private sector are increasingly being considered under the Readiness Programme, including dedicated work to foster the establishment of national green banks and facilities.

97. Over 2018, the Secretariat contracted a consultant to gather input from country, entity and private sector stakeholders and to undertake further analysis of barriers to and perceptions of the private sector in terms of engagement with climate finance and GCF. This work, with the preceding PSAG analysis, is informing the development of a private sector strategy to be presented to the Board in mid-2019. It is anticipated that it will include concrete recommendations for future private sector engagement, including identifying reforms and new initiatives that will help GCF to better unlock its potential for engaging the private sector in country-driven climate action.

### 2.6.3. Business model reform is needed to more fully realize GCF's potential for mobilizing the private sector

98. Work on developing a private sector strategy has revealed significant potential for GCF to expand its private sector engagement and impact, including through LDCs and SIDS, capital market transition, insurance, funds' mobilization, and country-specific and region-specific programmatic lending. However, the use of the AE model has not been well suited to realizing this impact potential.

99. As outlined in section 2.2 above, RFPs were intended under the initial Strategic Plan to serve as a key channel for generating innovative private sector engagement with GCF. However, the success of these RFPs has been limited by current access modalities.

100. The mobilizing funds at scale RFP attracted over 300 concept notes from the private sector with a total value of USD 17 billion. Following the Secretariat's review, a focused shortlist of 30 concepts was drawn up, many from non-accredited entities. Efforts were made to link project proponents to AEs, but uptake by existing AEs of these new proposals has been limited with further room to consider ways to incentivize such partnerships. The first mobilizing funds at scale funding proposals, from current AEs, are due to be presented to the Board in early 2019.

101. Under the MSME RFP, two proposals have been approved worth USD 40 million and coming from entities which had a focus on small and medium-sized enterprises. The success of the MSME pilot has been constrained by an initially limited pool of AEs oriented towards working with small and medium-sized enterprises, though the number of entities able to work in this area has grown over the course of the IRM.

102. Beyond RFPs, reaching the potential of GCF to maximize private sector mobilization requires country-level engagement, deployment of the right mix of instruments and effective access modalities. As discussed above, to date the GCF accreditation modality has been a real constraint on expanding GCF private sector engagement and capturing innovative investments. A rethink of these access modalities, in tandem with a consideration of effective instruments, could form part of an updated Strategic Plan directed to more impactful private sector engagement. This is also consistent with the early PSAG recommendations captured in the initial Strategic Plan.

103. Modalities that would allow GCF to act more proactively as a risk-inclined and impact-oriented institution could include financing in local currencies, funding incubators or taking direct equity investments or implementing a risk-based provisioning approach to guarantees. Beyond changes to the accreditation model, this could involve reforms in the programme and project cycle and modalities for operationalizing the remit in the Governing Instrument for the Private Sector Facility to directly finance or partner other funders. An updated Strategic Plan could focus in on priorities for reform.

#### Summary of reflections for future strategic planning

Consideration could be given to:

- Maintaining strategic focus on maximizing private sector engagement, including through enhanced readiness support to such endeavours, and updating operational and action priorities to reflect key actions arising from the private sector strategy
- Reconsidering access modalities for the private sector, as part of wider reform of access modalities and the accreditation framework
- Continuing to appraise opportunities for utilizing a diversity of instruments and operational modalities to realize GCF potential for broader mobilization of the private sector (e.g. readiness for green banks, local currency facility, more efficient guarantee), including in non-traditional sectors (e.g. adaptation)

## 2.7 Building adequate institutional capabilities

### 2.7.1 GCF has consolidated its institutional capabilities

104. The final section of the initial Strategic Plan's Action Plan is dedicated to ensuring that GCF has adequate institutional capabilities to achieve its operational priorities. It identifies building a well-staffed Secretariat, finalizing the operationalization of the three independent accountability units, and assessing the role of the interim Trustee as particular objectives.

105. Over the course of the IRM, and specifically within 2017 and 2018, the Secretariat has seen a rapid growth in its staffing and operational capacity. Following the 2017 review of Secretariat capacity by the Dalberg Global Development Advisors a proposal was put together for Board consideration for an increased staffing level of 250 staff and a revised structure to efficiently carry out the Secretariat's expected workload. This staffing level and structure was approved at B.18 and it is expected that the staff target will be reached in early 2019.

106. Dedicated teams have been established around key functions in line with operational developments, namely for project preparation, NAP funding and SAP. There have also been divisional developments with an Office of Portfolio Management established as a separate unit to provide monitoring and performance reporting on funded activities, and a new Division of External Affairs to lead on strategic outreach, communications activities and, most recently, replenishment. After an initial focus on recruitment increased work is now also being done within the Secretariat to invest in staff training and development, cultivate management skills and evolve organizational culture and values.

107. The three GCF independent units, the Independent Integrity Unit, IEU and the independent Redress Mechanism, have been operationalized. Their respective workplans and budgets were approved for 2017, 2018 and 2019.

108. IEU has completed reviews of the Readiness Programme, currently informing the programme's redesign, the results management framework as well as impact assessments of a sample of GCF projects focused on climate information services, REDD-plus and adaptation with a view to screening implementation modalities and impact. IEU is also scheduled to carry a number of key reviews into 2019, including of the GCF country ownership principle, its environmental and social safeguards standards as well as a forward-looking GCF review which will assess the overall success of GCF in reaching the objectives in the initial Strategic Plan and the objectives laid out in the Governing Instrument. A draft evaluation policy has also been developed with a view to it being presented to the Board in 2019.

109. The Independent Redress Mechanism is fully staffed, and processed one complaint, one reconsideration request and one self-initiated investigation. It also conducted numerous outreach and in-reach events and provided advice to the Secretariat on a number of matters. Additionally, draft procedures and guidelines have also been developed for the independent Redress Mechanism and are currently at the consultation stage. Supportive operational procedures have also been drafted and are being pilot tested. A case management system is being developed and a new more user-friendly website has been launched.

110. The Board has approved a number of policy documents put forward by IIU, including an Anti-Money Laundering and Countering the Financing of Terrorism Policy, and a Policy for the Protection of Whistle-blowers and Witnesses. IEU also implements the GCF policies on ethics and conflict of interest, and the Interim Policy on Prohibited Practices, as part of the GCF initial fiduciary principles and standards.

111. Following a multi-stage selection process, the Board at B.21 took a decision on appointing the GCF's ongoing Trustee.

**2.7.2. Steps have been taken towards increasing the efficiency of overall GCF decision-making processes, but continued improvement is needed**

112. The Action Plan also identifies as a priority the need to improve the efficiency of the Board's processes, including decision-making related to funding proposals. It also calls for a review of the role and structure of panels and groups providing independent advice to the Board, to ensure that they remain complementary to the Secretariat.

113. To support Board decision-making processes, at B.17 the project approval process was updated. Recommendations in the Action Plan relating to establishing a committee to give recommendations on funding proposals or delegate funding approvals for certain kinds of proposals have not been taken up. A proposal on a two-stage approval process has been developed but is still awaiting consideration by the Board. In collaboration between the Co-Chairs and Secretariat, steps were also taken to formalize pre-Board consultation on proposed policy documents, and an online review system was introduced to facilitate this.

114. A policy on decision-making in the absence of consensus was initially developed for the first meetings of the Board and most recently re-considered at B.21, but without a decision.

115. A proposal on the terms of reference for carrying out a review of panels and groups was presented and adopted at B.21, and an external service provider has been procured to carry out the required analysis. It is expected that findings will be presented to the Board at B.22.

**Summary of reflections for future strategic planning**

- Reframe institutional strategic priorities to focus on essential areas of reform that will improve the efficiency and effectiveness of GCF performance overall
- Complete mandated review processes and utilize these to adopt improvements and amendments to GCF structures to streamline and simplify operations (e.g. decision-making, use of panels and groups)
- Undertake a full review of GCF operational capacity and resourcing in the light of updated strategic directions

**III. Recommended action by the Board**

116. The Board is requested to take note of the information represented in this document, including reflections for future strategic planning. The Board may wish to draw on these reflections in developing an updated Strategic Plan for the first replenishment period.

117. It is noted that this document has also been prepared for consideration by the GCF's first replenishment process.



## Annex I: Summary of progress against the initial Strategic Plan: operational priorities and action plan

Strategic vision	Operational priorities	Action Plan	Progress on Action Plan
	Promoting paradigm-shift & Supporting implementation of the Paris Agreement	<b>Scaling up investments</b> – GCF has developed an initial portfolio of mitigation and adaptation investments responding to developing country needs	<b>Prioritizing pipeline development</b>
Enhance readiness based on an understanding of needs/bottlenecks and speed up disbursements – <i>Readiness reaching over 200 countries, evaluation completed, improvement ongoing</i>			
Focus strategy to support countries with programming, including standard templates – <i>Standard template and 18 country programmes delivered, support ongoing</i>			
Facilitate structured dialogues and high-level national dialogues – <i>Structured dialogues and events facilitated</i>			
Allocate sufficient resources for readiness – <i>USD 190 million allocated on an ad hoc basis</i>			
Co-finance projects and programmes together the Global Environment Facility, the Adaptation Fund or multilateral development banks – <i>Number of projects co-financed with opportunity for more deliberate cooperation</i>			
<b>Programming and investing the full amount pledged for 2015-2018</b> – pledged amount will be fully programmed in 2019		<b>Strengthening a proactive and strategic approach to programming</b>	Make increased use of requests for proposal (RFPs) for innovative approaches – <i>RFP deployed with mixed results</i>
			Develop replicable approaches and potentially standardized products – <i>Not delivered</i>
			Operationalize results-based REDD-plus – <i>RFP launched and first proposals expected in 2019</i>
			Request accredited entities to submit work programmes containing information on anticipated pipeline and amount targeted for GCF support – <i>accredited entity work programmes developed</i>
		Carry out a market survey of what is needed to support climate action and which country priorities have most difficulty attracting finance to inform RFPs and replicable approaches – <i>Surveys done through several policy/strategy processes, market analysis could be deepened</i>	
		Enhance accessibility and predictability through more transparent planning of financial resources – <i>Financial planning approach adopted for 2019</i>	
		Survey stakeholders on barriers for engagement – <i>Undertaken through policy/strategy processes</i>	

	<p><b>Ensuring responsiveness to developing countries' needs</b> – support for readiness, direct access and country programming is being continuously strengthened</p>	<p><b>Enhancing accessibility and predictability</b></p>	<p>Signal the types of projects GCF is seeking to invest and finalize minimum benchmarks – <i>Further guidance developed; minimum benchmarks not delivered and policy gaps remain</i></p>	
			<p>Streamline and simplify processes particularly for the least developed countries and small island developing States – <i>SAP adopted and implemented</i></p>	
			<p>Revise the proposal approval process – <i>Revised and updated at the seventeenth meeting of the Board</i></p>	
			<p><b>Maximizing private sector engagement</b></p>	<p>Analyse barriers to crowding-in and maximizing the engagement of the private sector, including based on a survey amongst private sectors actors, to develop a private sector outreach plan – <i>Analysis done and private sector strategy developed for Board consideration in 2019</i></p>
				<p>Reconsider the extensive Private Sector Advisory Group recommendations on: enhancing Secretariat capacity, readiness for private sector, accreditation modalities and options to reduce currency risks – <i>Ongoing as part of private sector strategy</i></p>
	<p><b>Proactively communicating GCF ambition and operational modalities</b> – range of steps taken to improve guidance and communications, with room to keep improving</p>		<p><b>Building adequate institutional capabilities</b></p>	<p>Build and maintain a well-staffed Secretariat – <i>Secretariat strengthened to over 200</i></p>
				<p>Improve efficiency of Board decision-making processes, including considering delegation of funding decisions or use of committee – <i>Still under consideration</i></p>
				<p>Operationalize the three independent accountability units – <i>independent units operationalized</i></p>
				<p>Review role and structure of panels and groups providing advice to the Board – <i>Ongoing</i></p>
				<p>Strengthen role of national designated authorities through readiness, dialogue and knowledge-sharing platform – <i>Delivered</i></p>
				<p>Assess enhancing the role of the interim Trustee – <i>Trustee selected and appointed</i></p>