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Subject: IUCN input to the Strategic Plan of the Green Climate Fund

Dear Mr. Glemarec,

Thank you for the opportunity to provide input to update the Strategic Plan for the Green Climate Fund, for consideration by the Board at its Twenty-Fourth Meeting in October 2019. Please find herewith our inputs for this update.

The Strategic Vision set out in the initial Strategic Plan is an ambitious and far-reaching vision and would still stay relevant in the successive replenishment period. Indeed, the GCF has progressed in its support to the implementation of the Paris Agreement. For the next replenishment period of the GCF, we see the continued relevance of the initial Strategic Plan while simultaneously considering if there are additional ways for the GCF to bring the *ambitious* and *far-reaching* change promised in its vision. Key questions to consider in this context are:

- Is the GCF's strategic plan enabling the creation of the conditions needed to mobilize, at the pace needed, the engagement of not only the banking sector but also institutional investors such as pension funds for new asset classes of investment that promote adaptation and mitigation but have yet to become mainstream? For instance, can the GCF offer a differentiated approach to promote the uses of its debt and de-risking instruments for new asset classes for investment such as those relating to nature-based solutions for adaptation and mitigation in comparison to more mature asset classes such as renewable energy?

- There are banks and institutional investors willing to invest in large bankable projects but there is a dearth of large-scale bankable projects. Can the GCF help create the space for catalysing the development of larger magnitude bankable projects especially in the field of nature-based solutions for adaptation and mitigation than is currently the case?

- Is the GCF strategic plan supporting transformation towards sustainable financial systems in terms of the regulatory environment created by Central Banks that could promote investments key for adaptation and mitigation?

- Is the GCF's strategic plan creating conditions that could harbour the interest of a much broader breadth of off-takers than that which currently exists for climate resilient supply chains, especially for agricultural produce, including livestock and fisheries?

- How can the GCF strategic plan better create the space for engagement of players such as in the digital information and digital finance space to help incentivize opportunities for vulnerable smallholders to learn and benefit from climate resilient practices, and secure space in markets that are interested in more resilient supply chains?

- Is the GCF strategic plan securing the engagement of the insurance sector for insurance in areas such as crop and livestock insurance, disaster or catastrophe related insurance, in a way that can incentivize climate resilience? For instance, catalysing connections between insurance actors and farmers and pastoralist communities, or coastal communities, that can promote climate resilience, reduce risks, and generate innovative financing if adapted in the right ways. Alternatively, reducing risk profiles of ventures that are more climate-proof. This would enable insurance opportunities to become a tool that reduces risk profiles with climate resilience measures.

- Is the GCF strategic plan enabling innovation that either increases the pace or widens the innovation for new types of long-term financing or investment vehicles? For instance, increasing the pace in the green (or blue) bond markets for markets promoting resilience but that are not yet mainstream, or innovations with new types of bonds, such as Resilience Bonds. In addition, is the GCF able to catalyse the growth of private finance for REDD+?

There may need to be a window created within the GCF to finance ambitious game changing interventions such as those that could be promulgated from the questions above, which would create innovative ways for enhancing the pace and uptake of new or scaled up investment opportunities.

While investments in renewables and energy efficiency are becoming more mainstream, the *paradigm-shifting* actions to drive towards low-emission and climate-resilient development from a nature-based solutions perspective have not yet reached their full potential. The next GCF Strategic Plan could well drive towards this result. A landscape approach to the planning and management of large areas of land and sea has the potential to create this paradigm shift by bringing different sectors together to address multiple, competing needs that enable countries to move to low-emission, climate resilient development. Planning and managing production landscapes and conservation areas in an integrated manner whether on land or sea, would result in large areas brought under improved management and restored to bring greater resilience to climate change. IUCN is engaging with actors interested in market opportunities arising from this work and with the finance and banking sectors, the insurance sector, and those in the digital information and finance space, to transform these areas in ways that incentivize climate resilience.

121 countries (75 of which IUCN supported) have established *land degradation neutrality* (LDN) targets. 45 countries have made larger *Bonn Challenge* pledges than the restoration-related content of their Nationally Determined Contributions (NDCs) under the UNFCCC. IUCN has supported countries in carrying out assessments of landscape restoration opportunities (applying the *Restoration Opportunities Assessment Methodology ROAM*[1]) over 450 million hectares. 58 countries and private entities have made restoration pledges of more than 170 million hectares. Governments have committed to 2020-2030 as the *UN Decade on Ecosystem Restoration*. This provides an important foundation for the GCF to enable countries to propel forward in their use of nature-based solutions that enhance their resilience to climate change while also mitigating greenhouse gas emissions.

GCF's Accredited Entity network numbers 75. It is not so much a question of how many Accredited Entities is the optimal one but rather how best to harness the expertise to bring transformation change from such a novel partnership. How can the expertise of a diverse range of Accredited Entities, the private sector and other partners be better harnessed? The current path shows each entity bringing forward initiatives within its main domain of expertise, but truly game changing initiatives would require very different skill sets from multiple players to come together. In the next period, the GCF Strategic Plan could have a window that creates the incentives for partnership among entities that would not traditionally have worked together. As noted above, IUCN is engaging with partners in the insurance sector, the digital information and digital finance space, off takers and finance and banking partners that can bring in expertise to complement its own in improving planning, management and restoration of land and seascapes in ways that bring investments and further incentives for climate resilience. A major challenge is that the GCF strategic plan does not allow more than one Accredited Entity to come together to present joint initiatives, thus reducing the opportunities for the GCF's 75+ Accredited Entity network to work in more innovative ways to maximize impact. An update to the Strategic Plan should strengthen incentives for proactive and strategic programming that harnesses more collective actions of the Accredited Entity network.

In this context, the Private Sector Facility can also be key. However, some key barriers hinder the Facility from fully harnessing the collective strength of Accredited Entities that may wish to work together. For instance, the Facility's requirement that grants cannot exceed five percent of the total debt financing means that new asset areas for investment such as in the nature-based solutions space cannot receive as much technical assistance than might be required. Both proven asset classes of investment and 'not yet mainstream' asset classes are treated the same, when likely the latter will require much more technical assistance and hence grant financing alongside debt financing. This may be why by the end of 2018, the GCF's private sector portfolio of 20 projects committing GCF funding of USD 1.8 billion and

[1] Restoration Opportunities Assessment Methodology: https://www.iucn.org/theme/forests/our-work/forest-landscape-restoration/restoration-opportunities-assessment-methodology-roam

leveraging USD 5.2 billion in co-financing largely focused in the energy results area while nature-based solutions for adaptation and mitigation remained in a much smaller space of the investment.

Strengthening country ownership and integrating efforts to meet country-specific circumstances will mean that the 41 direct access entities cannot only be securing some 14 per cent of approved funding. While the GCF's initial strategic plan focuses in the right direction of increasing accessibility and capacity of the direct access entities to engage, one consideration is to create the incentives for Accredited Entities to use their capacities to bring on board direct access entities with more pace than current efforts. Over time, with Direct Access Entities then having more hands-on experience in the design and implementation of a part of the initiatives of collaborating Accredited Entities, there is likely to be more capacity for Direct Access Entities to engage directly.

If the GCF partnership is to achieve the vision set out in the strategic plan, it must also be efficient. Some actions take far too long on the operational side. For instance, while the GCF has a rigorous accreditation process, an equally as-rigorous process to develop Funded Activity Agreements for every project endorsed by the Board seems a duplication of what Accredited Entities already committed to in the accreditation process. Following a commitment of terms to which Accredited Entities are bound upon accreditation and then again negotiating binding terms in Funded Activity Agreements for every project makes the makes the timely advancement of projects endorsed by the Board difficult. This highlights the need for either accreditation reform or, alternatively, a streamlining of the project cycle to ensure it is expedited.

A project preparation facility (PPF) has been fully operationalized but not open to all Accredited Entities. Drawing from the Global Environment Facility, the GCF may wish to see how the pace for project design is more expedited as a stable funding source to address the funds' requirements means project proposals are often better thought through than when preparation relies on resources needing to be drawn from a range of sources. The updating of the Strategic Plan could benefit from the costs and benefits of project preparation financing for all than for a limited range of accredited entities.

As the GCF's numbers of Accredited and Direct Access Entities grows, the GCF will need to shift its approach to enable the more rapid timetable envisioned in the Strategic Plan. The updates to the strategic plan will need to cater for how the GCF does not become a bottleneck for realizing impact in the scenario of a large network of accredited entities. For entities that have a proven track record in the GCF, the GCF's procedures could use the Streamlined Approval Process, the programmatic approach, and other innovations of this nature to enable faster processing and more delegation to such entities to enable resources to be programmed at higher scales. The current process sees the GCF engaging at the same level of intensity no matter the capability of the accredited partner. As more and more of the portfolio moves to implementation and the GCF's attention will need to increase in that space, it will be increasingly difficult for the GCF to engage in the current model. The GCF could for instance draw from the Global Environment Facility where the emphasis of the GCF

Secretariat lies in ensuring quality of project supervision and quality of evaluation offices and evaluations rather than reviewing every single individual project monitoring report.

In conclusion, the updating of the strategic plan would benefit from the GCF transitioning from the administration of every part of the plan with equal intensity to one that harnesses the capability of its GCF partnership. IUCN stands ready to support this next transition.

Sincerely,

Inger Andersen
Director General