

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

*Submission by the Heinrich Böll Stiftung North America**

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

Need for a Strategic Plan

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

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

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

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

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

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

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

Key Approaches and Elements of a GCF Strategic Plan

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

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

Multiple Benefits Approach

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

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

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

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

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

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

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

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

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

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

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

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

Gender-Responsiveness

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

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

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

(Enhanced) Direct Access as a Strategic Priority

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

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

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

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

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

Inclusive Country Ownership with Democratic Multi-Stakeholder Engagement

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

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

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

^{††} See for example <http://oxfordclimatepolicy.com/blog/a-momentous-event/>.

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

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

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

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

⁺⁺ For an overview and further information see <http://www.ohchr.org/EN/ProfessionalInterest/Pages/CoreInstruments.aspx>

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

Visionary Allocation Approach

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

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

Outlook

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

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