
Comments and Analysis:

GCFs Initial Approval Process, Including the Criteria for Programming and Project Funding: GCF/B.07/03

Review Note for the 7th meeting of the Green Climate Fund (GCF)

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Introduction

The approval process and the criteria for funding for the Green Climate Fund (GCF) projects and programmes is a crucial factor as it will dictate how funds will be disbursed. It originally envisaged that the GCF would have a streamlined programming and approval process to enable timely disbursement. It was then left in the hands of the Green Climate Fund Board (the Board) to develop a simplified process for the approval of proposals for certain activities, in particular small-scale activities¹.

Following on from the meeting of the Board in Bali February 2014, the progress report outlines a proposal for this process including a project and programme approval cycle, the generation of project/programme proposals, decision-making, and the criteria for funding, as well as outlined next steps. The decision on proposal will be taken at the Board meeting in May, and the following paper will highlight each of the main elements, and offer considerations/comment on each.

1.0 Project and programme approval cycle

1.1 Overview

The initial step is a voluntary one involving the preparation of concept note by an accredited implementing entity (IE) or intermediary, or the executing entity (EE) (such as project/programme² sponsor) in order to validate whether the project/programme concept is aligned with Fund objectives. The Secretariat (copying the national designated authority (NDA) or focal point) will then endorse the note, to ensure that the concept is aligned with the Fund's investment framework, results management framework and other Fund criteria and to provide a recommendation to the Board. The Board will then endorse the proposal.

This is followed by the **preparation and appraisal stage**. This will involve the EE preparing feasibility studies, as well as fiscal analyses, and environmental, social and gender assessments to determine if the programme/projects is aligned with the Fund's approval criteria and the country's climate change strategy. The preparation of funding proposals will require effective **consultation with stakeholders at this stage**. The NDAs will communicate its **no-objection** to ensure the proposed projects are aligned with national priorities. The Implementing Entity or Intermediary will then appraise the projects considering their social, environmental and climate viability. These studies will then be reviewed by the IE or intermediary, and submitted to The Secretariat. The Board (or the Secretariat under delegated or streamlined procedure, if this option is retained) will subsequently review the IE's or intermediary's appraisal documentation of the project or programme, and the Secretariat's due diligence and make a **decision to proceed**. This step will only kick in once the no-objection procedure has been implemented.

¹ Para, 53, Governing Instrument of the Green Climate Fund, page 13

² The progress report makes a clear distinction between programmes and projects; a project is a time-bound arrangement established to deliver specific (often tangible) outputs in line with predefined time, cost and quality constraints. A programme on the other hand is essentially a bundle of projects i.e. a portfolio comprised of multiple projects that are managed and coordinated as one unit with the objective of achieving (often intangible) outcomes and benefits. A programme is typically less apt to be time-bound than a project.

The **implementation** will then involve project/programme development, during which funds will be disbursed by the Trustee to the IE or intermediary against the criteria contained in the grant or loan agreement. The **Commissioning/launch** is when the project/programme becomes effective. The **impact period** is the period during which the activity will make an impact on climate change will vary according to the type of activity. Activity outcomes would be monitored and evaluated on a case-by-case basis as part of the Fund's results management framework and reported to the Board at the portfolio level. Monitoring of the financial and economic performance of the activity would be undertaken by the IE or intermediary and reported to the Secretariat on a regular basis, based on requirements contained in the grant/loan agreements and/or implementation agreements.

1.2 Comments / Considerations:

- **Greater opportunity for lesson learning & evidence gathering in the programme cycle** –Activity outcomes are to be monitored and evaluated, and reported upon as part of the Fund's results management framework. Monitoring of the financial and economic performance is also to be undertaken. However, there is still the opportunity for specific provision for the gathering of lessons from experience, in addition to these activities, in order to make constant improvements in GCF funding effectiveness. For example, the activity cycle described in page 4 of the document GCF B.07/03 mentions 'impact period' as a process step taken by IE, EE or NDA. The document does not mention how learning during different activity stages will feed in effective decision making in an ongoing manner.
- **How to ensure effective stakeholder engagement?** –As can be seen by the steps outlined above, stakeholder consultations will take place in the appraisal and project preparation stages of the programme/project approval cycle. This is a particular point that has been mandated in the GCF Governing Instrument; however, to operationalise this point it will be important that stakeholder involvement is not only limited to information dissemination. The approval process should develop clear mechanisms to systematically seek their suggestions and take them on board. Wider stakeholders such as sub national entities or broader community based organised should also have the opportunities to put a no- objection to proposals or submit alternative proposals, without placing unnecessary delays in the process.

2.0 Generation of project or programme proposals

2.1 Overview

The initial project/programme applications are proposed through either calls for proposals initiated by the Secretariat, or via unsolicited submissions from sub-national, national, regional or international IEs or intermediaries. It is envisaged that eventually most funding proposals will come voluntary directly from IEs and intermediaries. In its initial phase however, the Fund would use calls for proposals through IEs and intermediaries to seek valid proposals from its potential beneficiaries. This will be particularly important to accomplish the Fund's objective of achieving a balance of funding between mitigation and adaptation, as it is likely that more mitigation proposals are likely to be spontaneously proposed by IEs and intermediaries.

To enable a comparison of unsolicited proposals, the Fund would establish regular cycles, e.g. monthly or quarterly (depending on the volume of pipeline flow), during which all proposals (both generated through calls for proposals and unsolicited) would be considered, to ensure that the Fund selects the best proposals for funding.

2.2 Comments / Considerations

Capacity building should be further considered: consideration is needed regarding capacity building for least developed countries that may require assistance in putting together proposals that are likely to be successful. There is the opportunity for this to tie in with the Readiness and Preparatory Support programme that was agreed upon by the Board in October 2013³.

For example, in many countries, some executing entities or line ministries may have previous experience of submitting project proposals but many others at sub national or ministerial levels may lack knowledge of putting together a successful proposal. To ensure wider representation of project priorities from the country it would be important to capacitate various potential executing entities in proposal development, so that national priorities are not defined by one or two entities that are well versed and experienced in such processes.

Kenya's County Adaptation Fund⁴ (CAF) has set one such example, where capacity building at the local ward committees and local governance level has empowered devolved decision making and submission of project proposals that represent bottom up interests. The funding model satisfies various fiduciary standards and safeguards through institutionalised County Adaptation Planning Committees (CAPC) and Ward Adaptation Planning Committees (WAPC). The CAF approach is now also being tested at sub-national level in other countries such as Tanzania.

3.0 Decision-making

3.1 Overview

The decision to proceed is the most critical step in terms of outcomes for the activity and the Fund. The way this decision is taken will have a significant impact on the efficiency and effectiveness of the Fund's operations as well as on the Fund's governance.

To strike the correct balance between efficiency, speed of decisions and strong governance, it is proposed that the Board's will focus on developing the overall strategic frameworks and parameters, including the investment framework, and on large or highly innovative funding requests.

Specific funding operations may be grouped into two categories according to certain criteria with regard to the decision to proceed:

- Activities with large funding amounts, or that are highly innovative, where Board approval would be needed; and
- Activities that are standard and require limited funding amounts, where the specific funding decision would be either delegated or made through a streamlined approval process.

In the case that the Board decides to delegate a subset of activities to the Secretariat for funding approval, the investment framework would lay out the criteria that would distinguish these two categories of activities with regard to the approval process.

3.2 Comments / Considerations

There needs to be clarity on the issue of delegation –the issue of delegation to the Secretariat needs to be more closely defined, and the reasons and the circumstances that will lead to potential

³ Decision B.05/14, Decisions of the Board – Fifth Meeting of the Board, 8-10 October 2013

⁴ Hesse, C. & Pattison, J. (2013). Ensuring devolution supports adaptation and climate resilient growth in Kenya . <http://pubs.iied.org/17161IIED.htm>

delegation needs to be elucidated. If the GCF achieves an ambitious level of funding and programming, the Board will need to determine criteria and processes for delegation of authority over decision-making. The GCF Board meets every quarter and has no resident Board, leaving them will little capacity to make inter sessional decisions or approvals. It is entirely foreseeable that the Board will have a relatively high volume of proposals, may need to delegate decision-making authority to the Secretariat or some other body, which needs to be clarified. Funding thresholds does appear to have been considered as a potential criteria for delegation in criteria ii), but this will need to be fully clarified.

4.0 Decision-making criteria

4.1 Overview

It was established at the fifth Board meeting in Paris that GCF is to use a two-tiered allocation process⁵; for tier one is money will be allocated to themes - adaptation, mitigation, or the Private Sector Facility. For the second tier money will be apportioned to actual activities. This Progress Report elaborated the criteria for allocation for tier two.

It is proposed that criteria will be clustered under six categories as indicated in the table below:

Criteria Category	Definition	Example of Criterion
1 Impact Potential	Potential to contribute to the achievement of a fund's objectives and result areas	Expected reductions in greenhouse gas emissions
2 Transformational Potential	Degree to which a fund can achieve impact beyond a one-off project or programme investment through Replicability and scalability	Transformational potential
3 Needs of the Beneficiary	Degree to which a beneficiary needs the finance more than others, or is relatively less capable than others to fulfill this need through other funding sources	Relative vulnerability of a population to climate change impacts (e.g. populations living in low-lying flood-prone areas)
4 Institutional Capacity	Beneficiary's capacity to implement a funded project or programme (policies, regulations and institutions)	Supportive country policy and institutional framework (both ambition and outcome)
5 Economic Efficiency	Benefit-cost balance of activity: impact per US dollar delivered by a fund	Avoided deforestation or forest degradation
6 Financial viability (for revenue	Activity is financially sound	Funded activity covers its costs net of grants over

⁵ Decision N B.05/05, Decisions of the Board – Fifth Meeting of the Board, 8-10 October 2013

generating activities)

lifetime of project

The degree to which each proposed activity performs with respect to these decision criteria is to be assessed in the appraisal report of the funding request, by the IE or intermediary. This assessment will provide essential input when the decision whether or not to proceed with funding is taken by the Board (or possibly delegated to the Secretariat).

It is proposed that a project/programme that meets all the criteria will receive funding i.e. a first come first served basis. However, if project/programme proposals exceed available funding, competition will be introduced through a regular funding cycle (quarterly or monthly depending on deal flow) with the most attractive (in the sense of the Fund's criteria) being retained for funding.

In this second scenario, portfolio-level criteria, notably contained in the investment framework (e.g. balance between mitigation and adaptation) would be taken into account as well. The Secretariat's assessment could draw on a technical advisory panel if the Board decides to establish such a panel when discussing the matter in October 2014.

The activity cycle covers proposals of both public and private projects/programmes, and as such the approval process will apply to both public and private projects/programmes. It is envisioned that IEs and intermediaries will play a key role as sub-national, national, regional and international facilitators dealing directly with the eligible EEs or project/programme sponsors in both the public and private sectors.

4.2 Comments / Considerations

- **Preference in decision-making given to the most vulnerable** – There could potentially be an opportunity to use favourable weighting systems to give preference to LDCs/SIDS/African states. This could fall under criteria category 'Transformational Potential', and could take account of particular country vulnerabilities. Indeed, for adaptation funding the GCF Governing Instrument offers guidance in this respect with allocation to take account of the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, using minimum allocation floors for these countries as appropriate. The Board is to aim for appropriate geographical balance⁶. This could be reflected in the criteria.
- **Better criteria for 'Transformational Potential'** – transformational impact of activities should be measured beyond just GHG emissions and should include additional (co-)benefits so as to be reflective of the broader development context of the country. Decision criteria for approval of investment proposals by the Fund that focus narrowly on only the economic efficiency of emissions reductions, but take not into account the sustainable development context and the gender-sensitive approach in which GCF funding is to take place. One possible approach is to include policy interventions and coherence with national low-carbon development and mitigation strategies as sub-elements of the 'Transformational Potential' criteria category. This will look to align GCF's investment with the development strategies. (However, it is essential that the money not be double-counted as finance merely for development.)
- **Country ownership as possible criteria** - country ownership could be included as one of the funding approval criteria.

⁶ Supra Note 1, Para. 52