Appraisal Guidance

A comprehensive guide to the tools and due diligence processes used to review and assess concept notes and funding proposals

GCF GUIDEBOOK SERIES

Appraisal Guidance

This Guidebook is a living document and will be updated to reflect feedback, lessons learned, as well as policy and operational changes. For that reason, we encourage readers to use the online/electronic version of this document.

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Green Climate Fund
Songdo Business District
175 Art Center-daero
Yeonsu-gu, Incheon 22004
Republic of Korea

+82 (0)32-458-6039
countries@gcfund.org
greenclimate.fund

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ABBREVIATIONS AND ACRONYMS

ACRONYM	TERM	ENTITY*
AE	Accredited Entity	E
AG	Appraisal Guidance	
AMA	Accreditation Master Agreement	
AP	Accreditation Panel	Ind
CIC	Climate Investment Committee	I
CN	Concept Note	
C-NET	Climate Impact Assessment Network	I
CO_2e	Carbon Dioxide equivalent	
CP	Country Programme	
DAE	Direct Access Entity	E
DCP	Division of Country Programming	I
DMA	Division of Mitigation and Adaptation	I
DPM	Division of Portfolio Management	I
DSS	Division of Support Services	I
ED	Executive Director	I
EE	Executing Entity	E
EFA	Economic and Financial Analysis	
ESS	Environmental and Social Safeguards	
EWP	Entity Work Programme	
FAA	Funded Activity Agreement	
FP	Funding Proposal	
GCF	Green Climate Fund	
GEC	Grant Equivalent Calculator	
GHG	Greenhouse Gas	
IAE	International Access Entity	E
IAT	Innovation and Additionality Tool	
ICS	Investment Criteria Scorecard	
IE	Implementing Entity	E
IEU	Independent Evaluation Unit	Ind
IIU	Independent Integrity Unit	Ind

ACRONYM	TERM	ENTITY*
IPT	Interdivisional Project Team	I
IRM	Independent Redress Mechanism	Ind
IRMF	Integrated Results Management Framework	
iTAP	Independent Technical Advisory Panel	Ind
LOD	Line Of Defence	
NDA	National Designated Authority	E
NDC	Nationally Determined Contribution	
NOL	No-Objection Letter	
OED	Office of the Executive Director	I
OGC	Office of the General Counsel	I
ORMC	Office of Risk Management and Compliance	I
PAP	Project Approval Process	
PPF	Project Preparation Facility	
PRTP	Project Review and Tracking Platform	
PSF	Private Sector Facility	I
QA/QC	Quality Assurance/Quality Control	
RMC	Risk Management Committee	Ind
RMF	Risk Management Framework	
SAP	Simplified Approval Process	
SMT	Senior Management Team	I
Ts & Cs	Terms and Conditions	
TAP	Technical Advisory Panel	Ind
TM	Task Manager	I
ToC	Theory of Change	
ToR	Terms of Reference	
TS	Task Support	I
TT	Task Team	I
UNFCCC	United Nations Framework Convention on Climate Change	E

**Note:* I = internal GCF entity, Ind = independent entity reporting to GCF; E = entity external to GCF

GLOSSARY

Accreditation: Access to GCF resources is only granted to entities accredited by the Board (see Accredited Entity below) pursuant to paragraph 45 of the GCF Governing Instrument. Entities are assessed and approved by the Board to access GCF funding through an accreditation process. Accreditation defines the way in which an entity can access GCF resources ("the accreditation scope"), identifying the maximum limits of GCF financial support for which the entity can apply in a single funding proposal, the financing modality (e.g., for managing projects, awarding grants, on-lending, blending, undertaking equity investments and providing guarantees) and the environmental and social risk levels.

Accreditation Master Agreement (AMA): The Accreditation Master Agreement is a framework legal agreement entered into between GCF and the accredited entity (AE). The AMA marks the final stage of the accreditation of the AE. The AMA establishes the general terms and conditions that govern the relationship between GCF and the AE during the entire term of AE accreditation. The AMA also sets out the main roles and responsibilities of an AE throughout the GCF project cycle and reflects GCF policies and requirements that apply to implementation of funded activities.

Accredited Entity (AE): Once an institution or organization has been approved by GCF in the accreditation process it is called an Accredited Entity (AE). Only AEs can submit funding proposals to GCF for appraisal and approval. If their funding proposal is approved, AEs then oversee and monitor the management and implementation of projects and programmes that will be financed by GCF. There are two types of accreditation modalities: direct access and international access. This results in two types of accredited entities: Direct Access Entities (DAEs) and International Access Entities (IAEs).

Accredited Entity due diligence and appraisal: The AE is required to carry out all due diligence necessary in accordance with its own policies and procedures in addition to the requirements of the Accreditation Master Agreement when investing funds in relation to a concept note or funding proposal submitted to GCF. This applies to AE funds as well as to funds for which it has management or investment responsibility. In conducting appraisals and making investment decisions, GCF relies on this AE due diligence, and risk appraisal and assessment presented in the concept note or funding proposal. GCF does reserve the right to request additional information, clarification and documents from the AE.

Appraisal: In the context of the GCF project or programme activity cycle, appraisal is an analysis of a project's purpose, approach and intended impact as well as its alignment to the GCF investment criteria and strategic priorities. The appraisal also determines the risks that may impact the effectiveness, efficiency and sustainability of the project or programme, and the measures necessary to mitigate those risks. The appraisal is an assessment of the likelihood that a project or programme will achieve its stated impact and objectives.

Appraisal Areas: The ten Appraisal Areas presented in this Appraisal Guidance document are derived from the GCF Investment Framework and its six investment criteria and sub-criteria. The Appraisal Areas are central to the GCF Secretariat due diligence and appraisal process that aims to facilitate the development of a high-quality portfolio of projects and programmes.

Climate Investment Committee (CIC): The CIC is a committee of the GCF Secretariat that oversees the GCF project pipeline with respect to the development, management and financial planning of concept notes and funding proposals in alignment with GCF portfolio-level goals and Board decisions on financial planning.

Concept Note (CN): A document submitted to the GCF Secretariat providing basic information about a project or programme. An entity can use CNs to seek feedback from the Secretariat on whether their concept is aligned with GCF investment criteria and policies.

Direct access entity (DAE): Pursuant to paragraph 47 of the GCF Governing Instrument, DAEs are entities accredited under the direct access modality, including subnational, national or regional entities that have obtained a nomination from National Designated Authorities (NDAs). They may include ministries or government agencies, development banks, climate funds, commercial banks or other financial institutions, private foundations, and non-governmental organizations.

Due diligence: Due diligence, a risk management process, includes fact-based screening and is applied to a potential counterparty in order to ensure minimum standards of practice are carried out. The output of due diligence is a determination of the level of compliance with minimum standards.

Funding proposal (FP): A set of documents prepared by AEs using GCF standard templates (for the funding proposal and its annexes) that is submitted to GCF to formally request funding for a project.

Governing Instrument (GI): The GCF GI was approved by the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFPCCC) at its seventeenth session on 11 December 2011 and annexed to its decision 3/CP.17. The GI outlines GCF objectives and guiding principles, governance and institutional arrangements and operational guidelines. The GI also refers to an integrated approach for cross-cutting projects/programmes and for results-based payments.

Independent Technical Advisory Panel (Independent TAP, iTAP): The terms of reference of the Independent TAP were established under GCF decision B.09/09 and updated in B.BM-2018/09 in order to provide independent technical assessment of and advice on funding proposals for the Board. The Independent TAP conducts these assessments on proposals submitted through the Secretariat by AEs, using the GCF investment framework criteria, after the proposals have been endorsed by the Climate Investment Committee of the GCF Secretariat.

International access entities (IAEs): IAEs are AEs that are accredited under the international access modality. They operate across multiple regions and countries and include bilateral development agencies, multilateral development banks, United Nations organizations, intergovernmental organizations and private sector financial institutions.

Investment Criteria: As adopted by the Board in decision B.07/06, all GCF funding proposals must meet six criteria called the "Investment Criteria" to receive GCF funding. The criteria include coverage areas, activity-specific sub-criteria and indicative assessment factors further detailed by the Board.

Interdivisional Project Team (IPT): A team consisting of members from multiple divisions and offices of the GCF Secretariat assigned to review project or programme proposal elements.

Lines of Defence (LOD): The "Three Lines of Defence" risk management model was codified by the Chartered Institute of Internal Auditors in 2013 and was adopted by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in its Risk Management Framework.[1] The first Line of Defence (1LOD) in risk management is comprised of the roles and functions that own and manage risk within an organization. The second Line of Defence (2LOD) is comprised of the functions that provide the policies, frameworks, tools and support to enable the first Line of Defence to manage risk, and entails a challenge and monitoring function to assess how effective the first Line of Defence is. The third Line of Defence (3LOD) is comprised of the functions that provide independent assurance of the risk control environment, generally performed by the internal audit.

National Designated Authorities (NDAs): Authorities designated by a developing country Party to the United Nations Framework Convention on Climate Change pursuant to paragraph 46 of the GCF Governing Instrument that serve as the interface between each country and GCF. This NDA or focal point plays a key role throughout the project cycle in ensuring country ownership and a country-driven approach – core principles of the GCF business model. NDAs and focal points are listed on the GCF website.

Operations Manual: This internal document for staff of the GCF Secretariat was published in August 2020 and documents the operational procedures for the different stages in the life cycle of GCF programming modalities.

Programming Manual: This external document for external GCF stakeholders was published in July 2020. It outlines the roles of key stakeholders throughout the activity cycle for projects and programmes and provides guidance on how to prepare and submit a funding proposal that meets all GCF investment criteria.

Result Areas: GCF funds projects that fall under one or more of eight result areas divided into two categories:

[1] *Leveraging COSO Across the Three Lines of Defence, Committee of Sponsoring Organizations of the Treadway Commission, July 2015, https://www.coso.org/SitePages/Internal-Control.aspx?web=1*

mitigation and adaptation (four results areas for mitigation and four for adaptation), as approved by the GCF Board in decision B.07/04.

Risk Management Framework (RMF): The Risk Management Framework establishes the GCF risk appetite, sets out the principles for the sustainable financial viability for the Fund and enables the Fund to meet its mission of promoting paradigm shift towards low-emission and climate-resilient development pathways whilst striving to uphold the highest standards of integrity, ethics and transparency in the conduct and governance of all its activities. It comprises a series of policies and guidelines, including the risk guidelines for funding proposals, the investment risk policy, the compliance risk policy, and a risk register and risk dashboard. The RMF supports the Secretariat in its decision-making at an organizational level, including the appraisal of funding proposals.

Secretariat due diligence and appraisal: The GCF Secretariat due diligence and appraisal is a process undertaken by the GCF Secretariat to assess the details of a proposed funding opportunity to ensure its adherence to required assurances and fiduciary standards of care and to the GCF mandate. This part of the Appraisal Process also seeks to identify any relevant risks, including technical, financial, environmental, and social risks, and to ensure consistency with the relevant GCF policies and procedures. The Secretariat relies, for these purposes, on the due diligence and appraisal conducted by the AE, and may, at any stage of its own due diligence and appraisal process, request specific clarification, information and/or additional documents from the AE.

SECTION 1.
THE APPRAISAL GUIDANCE

1. Introduction
2. The Appraisal Process
3. Operationalising GCF's Appraisal Process
4. Review and Approval Process
5. Structure of Appraisal Guidance
6. Review of Appraisal Guidance

1. INTRODUCTION

The Green Climate Fund ("GCF" or "the Fund") is the only stand-alone multilateral financing entity whose sole mandate is to serve the United Nations Framework Convention on Climate Change (UNFCCC). GCF aims to deliver equal amounts of climate finance to mitigation and adaptation initiatives.

The Conference of the Parties (COP) to the UNFCCC established GCF to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development in developing countries and to help achieve the goal of keeping global temperature rise under 2º Celsius. GCF was given the mandate to make an "ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change".[2] GCF seeks to help developing countries limit or reduce their greenhouse gas emissions and adapt to the impacts of climate change. The Fund strives to maximize the impact of its funding for mitigation and adaptation objectives, seeking a balance between the two, while promoting environmental, social, economic and development co-benefits, taking a gender-responsive and gender transformative approach. To support the achievement of these goals, GCF contributes funding to an appropriate portfolio of projects and programmes in developing countries.

For the purposes of this Guidance document, AE due diligence and the related appraisal assessment, along with the due diligence and appraisal conducted by the GCF Secretariat in Stages 3 to 5 of the Programme Cycle as defined in the GCF Programming Manual, are collectively referred to as the "Appraisal Process".

1.1 CONTEXT

GCF is mandated to ensure the application of best practice fiduciary principles and standards as stipulated in its Governing Instrument[3] including in, with and towards the following relevant areas and entities:

- Financial management practices and financing agreements;
- GCF entities, implementing entities and all operations, projects and programmes financed by the Fund;
- Environmental and Social safeguards that shall be applied to all programmes and projects financed using the resources of the Fund.[4]

The ***COSO framework***[5] is the internal control framework for GCF. The COSO Framework sets out the rationale for the control environment as follows:

> Every organization has objectives it strives to achieve. In pursuit of these objectives, the organization will encounter events and circumstances which may threaten the achievement of these objectives. These potential events and circumstances create risks an organization must identify, analyze, define, and address. Some risks may be accepted (in whole or in part) and some may be fully or partially mitigated to a point where they are at a level acceptable to the organization. There are a number of

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[2] *Governing Instrument, Paragraph 1*

[3] *https://www.greenclimate.fund/document/governing-instrument*

[4] *Governing Instrument, Paragraph 56 - Financial management practices and financing agreements; Paragraph 63 — The Fund's entities, the trustee's function related to the Fund and to all operations; and Paragraph 65 — Environmental and social safeguards.*

[5] *Board decision B.BM-2015/06. From the COSO Framework: The Framework is: "a process effected by an entity's board of directors, management and other personnel designed to provide reasonable assurance of the achievement of objectives in the following categories: Operational Effectiveness and Efficiency; Financial Reporting Reliability; Applicable Laws and Regulations Compliance".*

ways to mitigate risks, with one key method being the design and implementation of effective internal control.[6]

The GCF Risk Management Framework (RMF), approved by the Board, establishes the risk appetite of GCF and covers several components, including the investment risk policy and the compliance risk policy.[7] While ensuring sustainable financial viability for the Fund, the RMF enables the Fund to meet its mission of promoting a paradigm shift towards low-emission and climate-resilient development pathways whilst striving to uphold the highest standards of integrity, ethics and transparency in the conduct and governance of all its activities. The RMF indicates the roles and responsibilities of units within the Secretariat in the process of review and appraisal of funding proposals in accordance with the principles of the COSO framework. These levels of review and appraisal and corresponding lines of defence are further elaborated below (see section 2).

1.2 THE PURPOSE OF THE APPRAISAL GUIDANCE

This Appraisal Guidance document is meant to ensure that the appropriate review and appraisal is conducted on each concept note and funding proposal effectively and efficiently and in a consistent and predictable manner to facilitate access to funding and to fulfil the Fund's catalytic objective. To this end, the Appraisal Guidance is available for use as a reference document for actors from within the GCF Secretariat as well as Accredited Entities (AEs) and other stakeholders at any stage of the development of the concept note and funding proposal and of the ensuing Appraisal Process.

This document sets out a transparent, methodical Appraisal Process incorporating criteria, checklists, and tools to assess the design of Concept Notes (CNs) and Funding Proposals (FPs), as well as their sustainability, intended impacts and alignment with the GCF mandate, Investment Framework and policies. The results of this Appraisal Process will provide information upon which the ultimate decision by the GCF Board regarding any particular FP will be based. Accordingly, it is imperative that each element of the Appraisal Process be completed prior to an FP being presented for consideration by the Board.

2. THE APPRAISAL PROCESS

GCF has a unique business model in which large and complex funding outlays are made through AEs across a range of diverse result areas and financial instruments. According to the Strategic Plan,[8] the GCF vision is to promote a paradigm shift towards low-emission, climate-resilient development and to support implementation of the UNFCCC and Paris Agreement in developing countries. Consequently, overall GCF due diligence and appraisal processes must be tailored to ensure that all GCF investments contribute to this mandate and at the same time align with the policies and frameworks (prudent standards of care, probity, and investigation) at GCF and all institutions involved in the business model.

Due diligence is a risk-management process wherein fact-based screening is applied to a potential counterparty in order to ensure that minimum standards of practice are carried out. This may cover environmental, social, legal, fiduciary and integrity-related matters (for example anti-money laundering, "Know Your Customer", administrative

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[6] *COSO*

[7] *Board decisions B. 17/11, B.19/04, and B.23/14*

[8] *Updated Strategic Plan for the GCF 2020–2023 adopted by the Board in decision B.27/06*

sanctions, etc.). The output of due diligence is a determination of the level of compliance with minimum standards.

GCF assesses the suitability of the potential AE internal due diligence processes and their capacity to implement them through the Accreditation process. The Accreditation Panel is responsible for advising the Board as to the capabilities of the implementing entities and intermediaries to GCF, with respect to fiduciary standards and Environmental and Social Safeguards (ESS), including gender considerations.[9]

Appraisal (or *assessment of the viability* of a project or programme) is a determination of the risks that may impact on the effectiveness, efficiency and sustainability of the project results, and the measures necessary to mitigate those risks. This is an assessment of the likelihood that a project or programme will achieve its objectives.

In the specific context of GCF, **Appraisal** is also *an analysis of the purpose and approach of a project* and its intended impact and its alignment to the GCF policies and strategy stipulated in the Investment Framework and GCF Strategic Plan.

The output of the appraisal process is an assessment of the extent to which a project can reasonably be expected to deliver the intended results within a determined level of risk tolerance. The appraisal is completed with the engagement of both the First and Second Lines of Defence within the GCF Secretariat (see **Figure 1**).

The due diligence and appraisal of proposed projects is therefore a matter of delegated responsibility. The GCF appraisal process includes two distinct levels of due diligence and appraisal within the project/programme activity cycle.

2.1 DUE DILIGENCE AND APPRAISAL: ACCREDITED ENTITIES

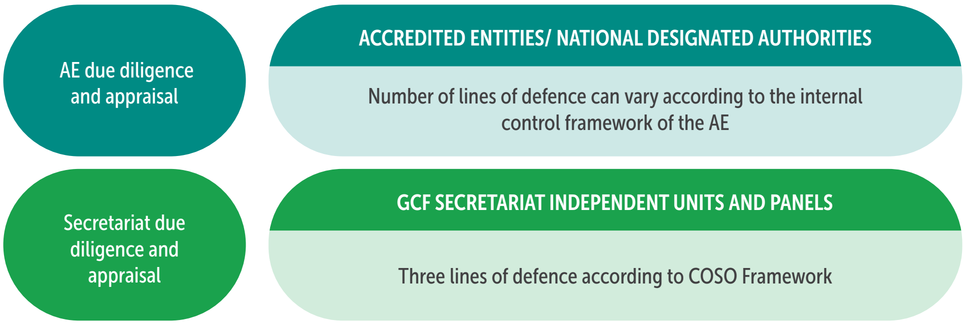
The initial due diligence and appraisal is conducted through an extensive process undertaken by the AEs (the originating organizations for funding proposals to GCF) to document, assess and verify the details of the investment or financing opportunity being proposed, including the capacities of Executing Entities (EEs) and other partners in the project or programme. As set out in the GCF Programming Manual, AEs are responsible for developing and initially appraising the concept note or funding proposal. The AE will conduct all necessary due diligence that it would apply to its own portfolio or when using or investing its own funds, or funds for which it has management or investment responsibility, pursuant to its policies and procedures. These obligations are set out in the Accreditation Master Agreement (AMA) signed between an AE and GCF (see 1.3.2 below for more details). The conclusions and recommendations of the AE due diligence, as it relates to the GCF investment criteria and sub-criteria, will inform the AE elaboration of concept notes and funding proposals.

The AE shall also consult National Designated Authorities (NDAs) and request no-objection letters (NOLs) from NDAs to ensure country ownership. The role of NDAs themselves in appraisal may go beyond the provision of NOLs. In particular, NDAs, on behalf of the government of the recipient country, may ensure that funding proposals are selected and prioritised in line with national development needs, policies, regulations and plans, including Nationally Determined Contributions (NDCs) to the

[9] *The Accreditation Panel (AP) was established by the Board in accordance with decision B.07/02, paragraph (g), as an independent technical panel to advise the Board on matters related to the accreditation of implementing entities and intermediaries to GCF. The AP is responsible for conducting the Stage II (Step 1) review of applications in the accreditation process in accordance with its terms of reference (TOR), contained in annex V to decision B.07/02, resulting in an assessment of how the entity meets the standards for accreditation and a recommendation on accreditation scope for the Board's consideration.*

Paris Agreement and other national plans related to climate change, including GCF Country Programmes.

FIGURE 1. LEVELS OF DUE DILIGENCE AND APPRAISAL



AEs and NDAs may have their own internal control and risk-management frameworks that may or may not be consistent with the COSO framework and within which the number of lines of defence can vary based on government regulations and/or their individual frameworks. The main output of AE due diligence and appraisal is a funding proposal package including relevant annexes. Accordingly, considerable reliance is placed on the work of the AE in developing the concept and conducting due diligence and appraisal related to a particular FP. The Accreditation Panel of GCF has a role in AE due diligence and appraisal by virtue of its assessment of the capacity of the AE, during the GCF accreditation process, to carry out its due diligence responsibilities effectively with regard to fiduciary standards, ESS and gender.

2.2 DUE DILIGENCE AND APPRAISAL: GCF SECRETARIAT

The process of due diligence and appraisal undertaken by the GCF Secretariat is required in order to assess the details of a proposed funding opportunity and to ensure adherence to the GCF mandate and to required assurances and fiduciary standards of care. This part of the Appraisal Process also seeks to identify any relevant risks, including technical, financial, environmental, and social risks, and to ensure consistency with the relevant GCF policies and procedures. As a result of this assessment, GCF may request specific additional clarification, information and documentation from the AE. The tools, decisions and processes within the Secretariat due diligence and appraisal process are the focus of this Appraisal Guidance.

3. OPERATIONALISING THE GCF APPRAISAL PROCESS

3.1 INVESTMENT CRITERIA, SUB-CRITERIA, AND APPRAISAL AREAS

The GCF Initial Investment Framework was approved by the GCF Board in decision B.07/06 and further guidance was provided in decision B.27/06 to translate the Fund's overall objectives into clear guidance for individual investment decisions by GCF. The Appraisal Guidance will ensure that the GCF Secretariat has the information it needs for the purposes of making assessments relating to the Initial Investment Framework.[10] To assist with this, the GCF Secretariat will focus its appraisal process on ten appraisal areas. These ten appraisal areas are central to the development and assessment of high-quality funding proposals meeting the GCF mandate and strategic objectives (see section 2).

3.2 ROLE OF ACCREDITED ENTITIES IN THE APPRAISAL PROCESS

GCF resources are available to Board-accredited entities (AEs).[11] The Accreditation Panel of the Board assesses and approves entities to access GCF funding. The Accreditation Master Agreement (AMA) defines the way in which an entity can access GCF resources ("the accreditation scope"), identifying the maximum limits of GCF financial support for which the entity can apply in a single funding proposal, the financing modality, and the environmental and social risk levels. The AMA is a legally binding framework between GCF and AE that establishes the general terms and conditions that govern the relationship between GCF and AE during the entire term of the accreditation. The AMA also sets out the roles and responsibilities of an AE throughout the GCF project cycle and reflects GCF policies and requirements that apply to implementation of funded activities. Furthermore, GCF policies that impact funded activities that become effective after the AMA is substantially agreed with the AE, will be incorporated into the Funded Activity Agreements (FAAs) between the AE and GCF for any projects and programmes that are subsequently approved by the Board.

In addition to certain specific compliance requirements[12] the AE is required to perform due diligence and appraisal of each project in accordance with its own policies and procedures and the requirements of the AMA when investing funds (its own funds or funds for which it has management or investment responsibility). AE due diligence includes, but is not limited to: (i) technical, engineering, economic, financial, risk, legal and commercial viability; (ii) compliance with standards in accordance with AMA clause 13.01; (iii) developmental, climate change mitigation and/or adaptation impacts; (iv) administrative and regulatory requirements; and (v) any business or company searches to ascertain the solvency or financial health of an Executing Entity as well as other recipients or beneficiaries of the funding and parties to the transaction set out in the relevant funding proposal. Based on the outcomes of this due diligence, the AE is expected to appraise their CNs and FPs prior to submitting them to the GCF Secretariat.

GCF relies on AE representations and warranties as to the accuracy of the information and projections that it provides as part of the FP, which may include information resulting from the AE due diligence and appraisal.

3.3 LINKAGES OF THIS APPRAISAL GUIDANCE DOCUMENT TO THE GCF OPERATIONS MANUAL AND THE PROGRAMMING MANUAL

This Appraisal Guidance document builds on two important manuals already developed by the GCF Secretariat: the Operations Manual and the Programming Manual.

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[10] The Board adopted initial activity-specific sub-criteria and indicative assessment factors in decision B.09/05, which further breaks down the six investment criteria into sub-criteria and additional indicative assessment factors to facilitate how each criterion can be described in proposals.

[11] Paragraph 45 of the Governing Instrument.

[12] Due diligence requirements include minimum fiduciary standards, and standards and policies for: the Protection of Whistle-blowers and Witnesses; Anti-Money Laundering and Countering the Financing of Terrorism; Prohibited Practices; Environmental and Social Safeguards; Information Disclosure; Gender; and environmental and social information disclosures.

The Operations Manual, an internal document for GCF Secretariat staff published in August 2020, documents the operational procedures for the different stages in the life cycle of GCF programming modalities. The Appraisal Guidance describes the key operational procedures specifically related to appraisal to better inform external stakeholders. As such, this publication aims to support Board Decision B.28/03 requesting the Secretariat to develop a transparent and consistent approach to the review of funding proposals. The Operations Manual also contains internal procedures for the information of Secretariat staff including details of the internal allocation of roles and responsibilities to specific Divisions and Units.

The Programming Manual, a document for external stakeholders of GCF published in July 2020, outlines the roles of key stakeholders throughout the entire cycle of the approval process for projects and programmes. It provides guidance on how to prepare and submit a funding proposal that meets all GCF investment criteria.

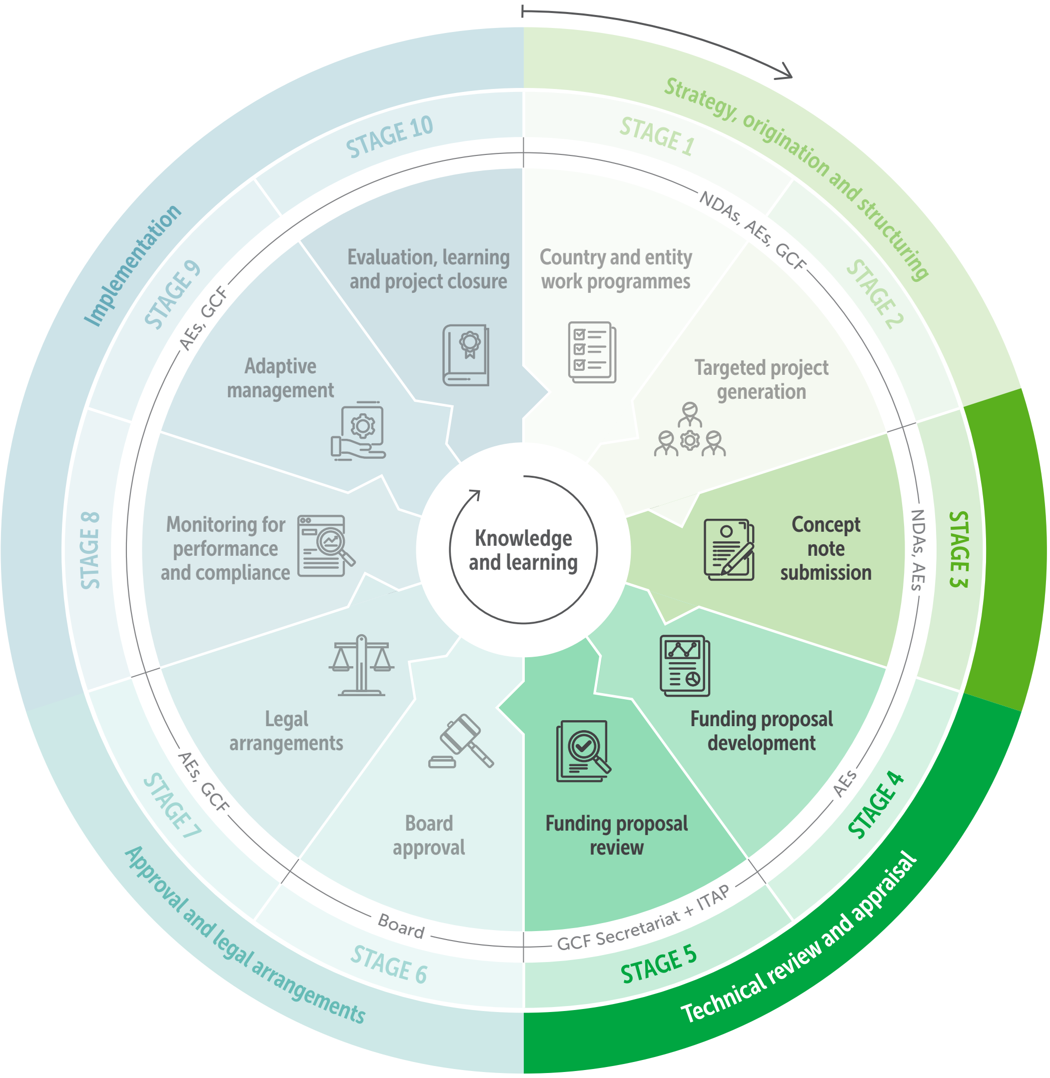
Both manuals provide a basis for comprehensive risk assessments for funding processes. The Appraisal Guidance covers Stages 3, 4 and 5 of the Programming Cycle as defined in the Programming Manual (see **Figure 2**) and provides further clarity on the following:

- The levels of due diligence and appraisal among GCF stakeholders and lines of defence within the Secretariat;
- The links between the investment criteria and the key areas of appraisal that AEs are expected to address in proposals;
- The uses and functions of the tools[13] employed by the Secretariat throughout the appraisal process; and
- The flow of decision making within the Secretariat as a proposal proceeds through the Appraisal Process, including the requirements for a "recommendation to proceed" from one step to the next, where necessary.

The Appraisal Guidance, the Operations Manual and the Programming Manual are all living documents subject to periodic reviews and updates to maintain coherence and consistency, and to ensure alignment with Board-mandated Decisions and Policies. On the publication of this Appraisal Guidance document, the Operations and Programming manuals will be updated to ensure that they are aligned with the due diligence and appraisal processes described in this document. Thereafter, the processes and approaches outlined in the most recently updated of the three documents will prevail.

[13] *At time of publication of this Appraisal Guidance (May 2022), not all tools described in the Appraisal Guidance document are in full operational use. Relevant information and details will be added to future updates of the Appraisal Guidance as tools become operational.*

FIGURE 2. APPRAISAL GUIDANCE COVERS STAGES 3, 4 AND 5 OF THE PROJECT/PROGRAMME ACTIVITY CYCLES



4. REVIEW AND APPROVAL PROCESSES

4.1 CLIMATE INVESTMENT COMMITTEE REVIEWS

The Climate Investment Committee (CIC) plays a key role in the due diligence and appraisal process within the Secretariat. The CIC, a committee within the GCF Secretariat comprised of some Senior Management Team (SMT) members or their alternates, oversees the development, management and financial planning of the pipeline of concept notes and funding proposals in alignment with the Strategic Plan, policies, GCF portfolio-level goals and Board decisions on financial planning. The CIC convenes, as necessary, to review the appraisals conducted by relevant divisions, to review the results of the due diligence and the appraisal processes, and to take decisions pursuant to a funding proposal's progress through the stages of the Appraisal Process.

4.2 BOARD LEVEL REVIEW AND APPROVAL

Additional review processes are conducted by independent units and panels that are accountable and report directly to the Board, including the Accreditation Panel (AP) and the independent Technical Advisory Panel (iTAP or Independent TAP). The Independent TAP has a critical role in the overall appraisal process with the provision of an independent assessment of, and advice on, the performance of a funding proposal against the activity-specific criteria forming part of the Investment Framework. Information about this additional review is not within the scope of this Appraisal Guidance document. The Board retains the accountability and responsibility for approving each funding proposal.

5. APPRAISAL GUIDANCE STRUCTURE

This document sets out information on each element of the due diligence and appraisal process to be conducted by the GCF Secretariat including:

i. The order in which each element needs to be conducted and completed;

ii. A description of each element to be conducted, together with reference to GCF tools associated with the element;[14] and

iii. General description of the Three Lines of Defence within the GCF Secretariat as noted in the Investment Risk Policy. (Further details of inter-divisional responsibilities within the Secretariat are contained in the Operations Manual).

6. REVIEW OF APPRAISAL GUIDANCE

This document will undergo regular reviews and be updated to ensure that it reflects lessons learned, policy and operational changes and emerging trends and practices in due diligence. This continual review aims to ensure that the Board has the information required to make informed decisions on funding proposals.

In addition, the implementation and operation of this Appraisal Guidance document will be the subject of regular assessments by Internal Audit or an appropriate external party to ensure that it is being utilized as intended and that its benefits are being fully realized. Any such audit will be carried out in line with, and as part of, standard processes as set out by the Office of Internal Audit (OIA) of the Secretariat.

[14] *see section 3 and annexes I-VII for full descriptions of key tools*

SECTION 2.
THE APPRAISAL PROCESS

1. The GCF Investment Framework
2. Operationalising investment policies
3. Ten Appraisal Areas
4. Committees and review processes

1. THE GCF INVESTMENT FRAMEWORK

The GCF Investment Framework is comprised of Investment Policies, Investment Criteria, an Investment Strategy and Portfolio Targets that are informed by the Fund's four-year strategic planning[15] and programming process. The investment policies set out principles that govern the approach to all grants, concessional loans, and other financial instruments (such as guarantees). The investment guidelines establish the six criteria for assessing programme/project proposals[16] to ensure GCF invests in the most impactful projects and programmes that are in line with the GCF mandate, using clear, measurable and predictable processes for the individual investment decisions made by GCF.[17]

1.1 INVESTMENT STRATEGY AND PORTFOLIO TARGETS

Decision B.27/06 updated the Fund's Initial Investment Framework and Investment Strategy for allocation parameters and portfolio targets as outlined in **Table 1**.

TABLE 1. PORTFOLIO TARGETS FOR THE GCF FIRST REPLENISHMENT PERIOD (GCF-1)[18]

GCF-1 ALLOCATION PARAMETERS	GCF-1 PORTFOLIO TARGETS
Balance between mitigation and adaptation, and portfolio impact	50/50 distribution between adaptation and mitigation (over time), while seeking to deliver portfolio-level mitigation and adaptation outcomes that exceed average Initial Resource Mobilisation outcomes (see note a)
Allocate for Adaptation for vulnerable countries including the Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African States taking account of their urgent and immediate needs	Floor of 50 per cent of adaptation allocation, while aiming to build on Initial Resource Mobilisation outcomes (see note b)
Support developing country mitigation activities	Support mitigation activities that respond to the urgency of action to hold the increase in global average temperature to well below 2 °C and pursue efforts to limit it to 1.5 °C
Balance allocation geographically	Appropriate geographical balance
Channel funding through Direct Access Entities (DAEs)	Significantly increase relative to the Initial Resource Mobilisation (see note c)
Engage with the private sector	Maximize fund-wide engagement with the private sector, including micro-, small- and medium- size enterprises, ensuring that the allocation to the Private Sector Facility exceeds 20 per cent

[15] *Updated 2020 – 2023 GCF Strategic Plan, adopted by the Board in decision B.27/06*

[16] *Investment Framework, adopted by the Board and contained in annex XIV to decision B.07/06, paragraph (a), and updated by the Board in decision B.27/06, paragraph (k)*

[17] *To date, portfolio targets have been set for GCF 1 (the first replenishment period, 2020 – 2023)*

[18] *Adopted by the Board and contained in annex XIV to decision B.07/06, paragraph (a), and updated by the Board in decision B.27/06, paragraph (k) to reflect GCF first replenishment allocation parameters and portfolio targets.*

GCF-1 ALLOCATION PARAMETERS	GCF-1 PORTFOLIO TARGETS
Mobilize private sector finance at the portfolio level	Significantly increase relative to the IRM (see note d)
Readiness and preparatory support	Support readiness and preparatory activities associated with the above

Notes to Table 1:

a. Initial Resource Mobilization period outcomes on 31 December 2019: 460 million tCO_2e reduced/avoided for each USD 1 billion invested in mitigation; and 166 million beneficiaries with increased resilience for each USD 1 billion invested in adaptation.

b. Initial Resource Mobilization outcome on 31 December 2019: 69 per cent finance for adaptation (in grant equivalent terms) allocated to LDCs, SIDS and African States.

c. Initial Resource Mobilization outcome on 31 December 2019: 11 per cent of funding (in grant equivalent terms) allocated to DAEs.

d. Initial Resource Mobilization outcome on 31 December 2019: Ratio of GCF finance to private sector co-financing 1:3. Mobilized private finance will be reported when data becomes available.

1.2 INVESTMENT POLICIES

The Fund's set of investment policies cover all financial resources extended by the Fund, as follows:

a. The Fund will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development in accordance with the Fund's initial results management framework, its initial result areas, and subsequent decisions on additional result areas for adaptation and integrated results management framework (IRMF),[19] consistent with a country-driven approach;[20]

b. The Fund's receipt and extension of funding will be accounted for in grant-equivalent terms based on a standard methodology to be developed by the Fund based on best international practices to provide an accurate comparison of funding amounts between financial instruments;[21]

c. The Fund will provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable. Concessional funding is understood as funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme;[22]

d. Financing provided by the Fund to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes;[23]

e. The Fund will not "crowd out" potential financing from other public and private sources;[24] and

f. Only revenue-generating activities that are intrinsically sound from a financial point of view will be supported through loans by the Fund.[25]

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[19] *Board decision B.29/12 — Integrated Results Management Framework*

[20] *Board decision B.05/03 — Initial result areas*

[21] *GCF Grant equivalent calculator*

[22] *Board decision B.09/04 — Financial terms and conditions of the Fund's instrument*

[23] *Board decision B.05/07 — Business model framework: Financial instruments*

[24] *Board decision B.07/06 — Initial Investment Framework*

[25] *Board decision B.07/06 — Initial Investment Framework*

1.3 INVESTMENT GUIDELINES

The Fund's investment guidelines are activity-based and composed of the six criteria and 24 sub-criteria shown in **Table 2**.

TABLE 2. SIX INVESTMENT CRITERIA AND 24 SUB-CRITERIA FOR ASSESSING PROJECT OR PROGRAMME PROPOSALS

CRITERION	DEFINITION	SUB-CRITERIA
Impact potential	Potential of the project/ programme to contribute to the achievement of the Fund's objectives and result areas	• Mitigation impact • Adaptation impact
Paradigm shift potential	Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment	• Potential for scaling-up, replication and overall contribution to global low-carbon development pathways consistent with a temperature increase of less than 2 °C • Potential for knowledge and learning • Contribution to the creation of an enabling environment • Contribution to the regulatory framework and policies • Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans
Sustainable development potential	Wider benefits and priorities	• Environmental co-benefits • Social co-benefits • Economic co-benefits • Gender-transformative development impact
Needs of the recipient	Vulnerability and financing needs of the beneficiary country and population	• Vulnerability of the country • Vulnerable groups and gender aspects • Level of economic and social development of the country and the affected population • Absence of alternative sources of financing • Need for strengthening institutions and implementation capacity
Country ownership	Beneficiary country ownership of and capacity to implement a funded project/programme (policies, climate strategies and institutions)	• Existence of a national climate strategy • Coherence with existing policies • Capacity of implementing entities, intermediaries or executing entities to deliver • Engagement with civil society organizations and other relevant stakeholders
Efficiency and effectiveness	Economic and, if appropriate, financial soundness of the programme/project	• Cost-effectiveness and efficiency regarding financial and non-financial aspects • Amount of co-financing • Programme/project financial viability and other financial indicators • Industry best practices

The activity-specific sub-criteria presented in **Table 2** were elaborated in annex 3 of Decision B.09/05 along with indicative assessment factors, which in turn elaborate the Investment Guidelines and how they should be applied.[26]

2. OPERATIONALISING INVESTMENT POLICES

As mandated by the Board, the GCF Secretariat assesses proposals submitted by AEs and NDAs/focal points against the Investment Framework, its six investment criteria and 24 sub-criteria. The AEs must elaborate on these criteria and the relevant sub-criteria within the concept notes and funding proposals submitted to GCF. The GCF Investment Framework translates the Fund's overall objectives into clear, measurable and predictable guidelines for AEs to ensure that individual investment decisions by GCF follow a logical, transparent process for assessing CNs and FPs. The Secretariat focuses its appraisal process on ten appraisal areas that are directly linked to the Investment Framework and its investment criteria and sub-criteria (see **Figure 3**). These appraisal areas are those that have been determined to be central to the development of high-quality funding proposals, and at the same time meet the GCF mandate and strategic objectives.

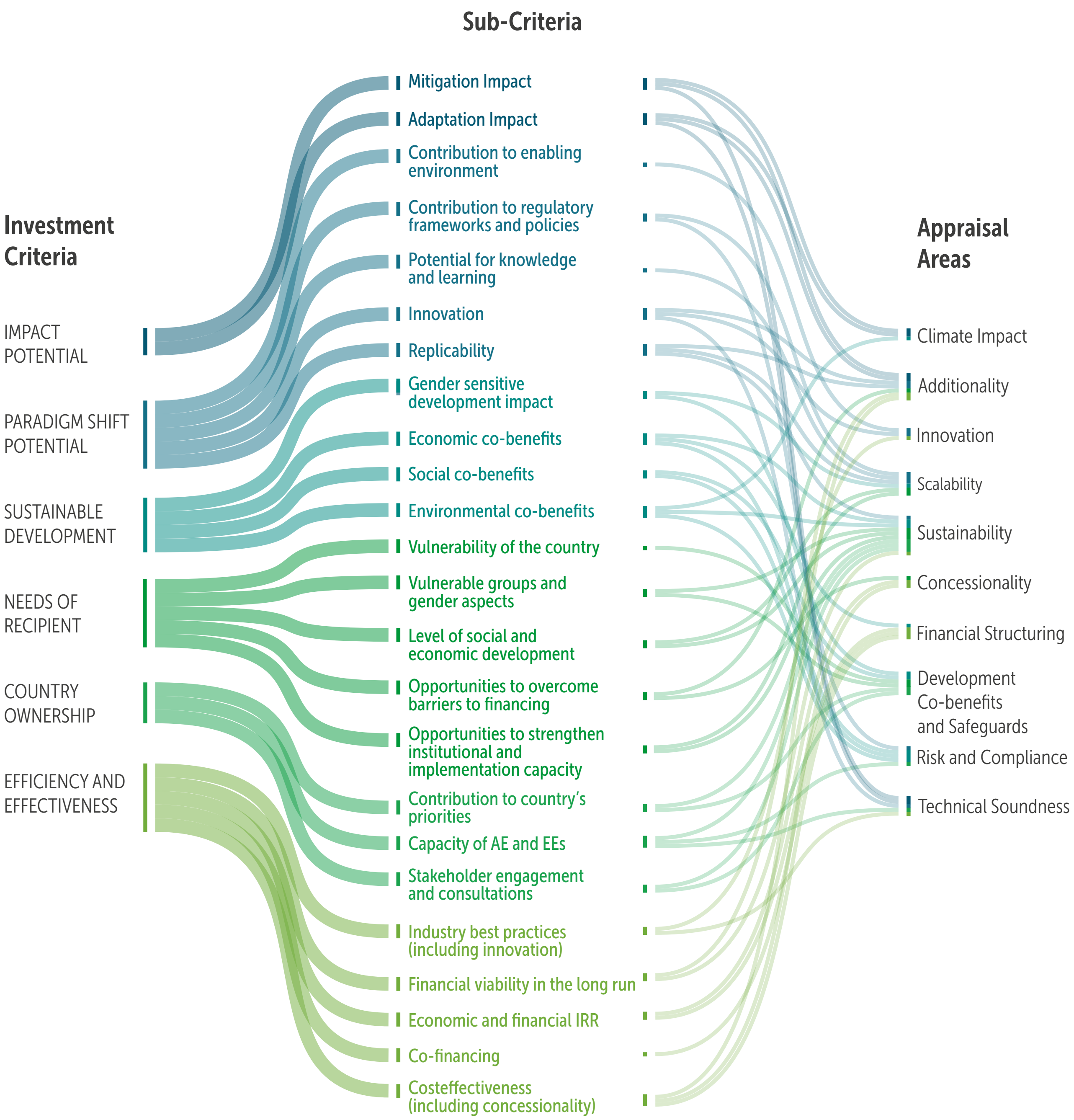
These appraisal areas constitute the methodology by which the six investment criteria and 24 sub-criteria will be assessed (see **Figure 3**). Note that the identification of these ten appraisal areas does not imply that other factors are excluded from consideration during the Appraisal Process. These ten appraisal areas form the core of the analysis performed throughout the Process. The mapping of investment criteria to appraisal areas facilitates the conciseness and efficiency of the GCF Appraisal Process.[27]

Fundamental to the focus on these appraisal areas is the requirement to ensure clear, transparent processes that are in line with the mandate to support developing countries in their move towards low-emission and climate-resilient development pathways. The ten appraisal areas facilitate the elaboration of determinate and predictable guidelines for the individual investment decisions made by GCF and facilitate access to funding.

[26] *Decision B.09/05, Annex III "Further development of the initial investment framework: Sub-criteria and methodology"*

[27] *Such a mapping is one of the key attributes of factor criteria models. See: "Factors in Exploratory Factor Analysis: A Model Selection Perspective", Preacher; Zhang; Kim; Mels, 2013. Multivariate Behavioral Research, 48:28–56, http://quantpsy.org/pubs/preacher_zhang_kim_mels_2013.pdf*

FIGURE 3. SIX INVESTMENT CRITERIA AND 24 SUB-CRITERIA AND THE APPRAISAL AREAS



2.1 THE REVIEW PROCESSES IN PROGRAMME ACTIVITY CYCLE STAGES

The full appraisal process covers Stages 3, 4 and 5 of the Project/Programme Activity Cycle (see **Figure 2**). The intention is to align the appropriate tools with the elements of the Appraisal Process, the analysis and assessment required, and the decisions to be made, including at CIC meetings. This document does not cover the Country Programme (CP) development and Entity Work Programmes (EWPs) (Stage 1 of the Programme Cycle) nor the Targeted programme development (Stage 2).

With respect to Stage 1, the Division of Country Programming (DCP) is responsible for leading the coordination and review of CPs and EWPs and the project idea development phase in close collaboration with the sectoral and financial experts of the GCF Division of Mitigation and Adaptation (DMA) and the GCF Private Sector Facility (PSF) with support from specialists from other GCF offices and divisions as required. The CIC1 meeting reviews country programmes and entity work programmes recommended by the Division of Country Programming and determines whether to endorse them for further development into concept notes or to recommend that they be revised (by NDAs and AEs) for possible resubmission (to CIC1).

Stage 2 of the Programme Cycle refers to projects and programmes that are pursued by way of specific Board-approved terms of reference and financing windows through Requests for Proposals and other project origination platforms or initiatives besides CPs and EWPs. This is not considered a separate step in the context of the Appraisal Process.

The DMA is responsible for leading the 1LOD and inter-divisional concept note and funding proposal review process for all public sector projects and programmes (Stages 3, 4 and 5). Sector experts from DMA may also provide technical inputs to facilitate the review of private sector projects and programmes. The PSF leads the 1LOD and inter-divisional review process for all private sector concept notes and funding proposals. In addition, PSF also provides inputs on public sector projects where there are reflows, non-grant instruments and complex financial structures. Further inter-divisional roles and responsibilities within the Secretariat are described in the Operations Manual.

2.2 THE GCF RISK MANAGEMENT FRAMEWORK AND THE THREE LINES OF DEFENCE

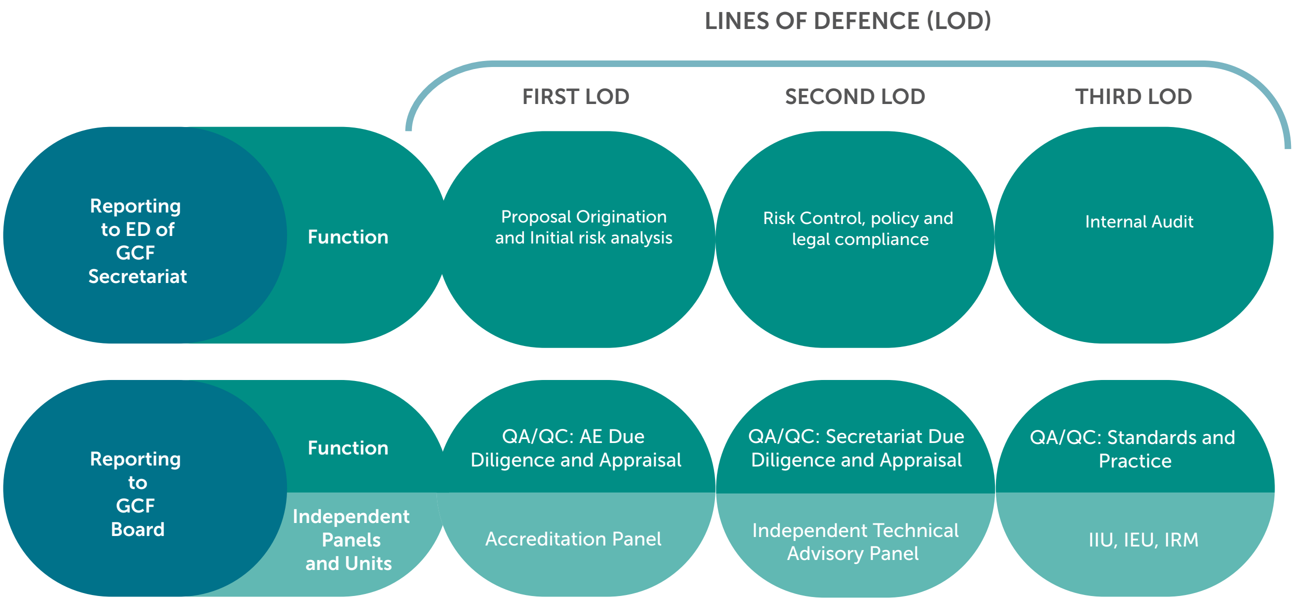
Core to the GCF control environment is the adoption of the COSO Integrated Internal Control Framework – the ***COSO Framework***. In pursuit of its objectives, GCF and the projects and programmes it finances will encounter events and circumstances that may threaten the achievement of these objectives. These create potential risks to the GCF business model that must therefore be identified, analysed, defined, and addressed. Some risks may be accepted (in whole or in part) and some may be fully or partially mitigated to a point where they are tolerated by the organization. The COSO Framework outlines the components, principles, and factors necessary for an organization to effectively manage its risks through the implementation of internal controls. However, it is largely silent on responsibilities for specific duties outlined in the COSO Framework. The COSO "Three Lines of Defence" (3LOD) model addresses how specific duties related to risk and control can be assigned and coordinated within an organization, regardless of its size or complexity. "This control structure should identify the roles and responsibilities of these accountabilities and duties, and how they should be optimally assigned for the organization to have an increased likelihood of achieving its objectives." The COSO Framework makes clear that the 3LOD model is flexible and needs to be adapted to the needs and context of the organization.[28]

[28] *COSO*

As explained in section 1 and **Figure 1**, the due diligence and appraisal processes are conducted at two distinct levels in the context of CNs and FPs; the level conducted by AEs themselves, and the level conducted through the GCF Secretariat and Independent Panels and Units. The role of the independent panels and units in this process is primarily to provide Quality Assurance and Quality Control (QA/QC) on behalf of the GCF Board. In the context of the Secretariat level of due diligence and appraisal, **Figure 4** illustrates how the COSO Framework 3LOD model is applied for FP development (as is further elaborated in the Risk Management Framework).

The Three Lines of Defence are part of the GCF risk control environment and should not be confused with levels of due diligence. Whereas in the context of the appraisal process, the AE and the GCF Secretariat both conduct due diligence respectively with regard to the same funding proposal, both organizations are understood to contain their own internal risk control environment, entirely distinct from each other. Neither the AE, nor any part thereof can serve as one of the GCF Secretariat's Three Lines of Defence.

FIGURE 4. DUE DILIGENCE AND APPRAISAL: ROLES OF GCF SECRETARIAT AND INDEPENDENT PANELS AND UNITS



2.3 ROLES AND RESPONSIBILITIES IN THE THREE LINES OF DEFENCE

Table 3 describes the specific roles and responsibilities and respective accountabilities of each line of defence in onboarding and managing risk across the GCF Secretariat insofar as they relate to the appraisal of concept notes and funding proposals.

TABLE 3. ROLES AND RESPONSIBILITIES OF THE THREE LOD IN THE APPRAISAL PROCESS WITHIN THE GCF SECRETARIAT

THREE LINES OF DEFENCE	
1LOD	**RISK OWNER**
IDENTIFY, ANALYSE, MONITOR AND ADDRESS	• Own, identify, manage, measure, and monitor current and emerging risks in concept note (CN) and funding proposal (FP) development. • Review the sufficiency of measures to mitigate risks in CN and FP development and assess the operating effectiveness of those measures. • Monitor and report on risk profile so that FPs are within GCF risk appetite and policies. • Recommend risk-based approval processes for all submissions. • Escalate risk issues (e.g. capacity constraints of AEs in due diligence) and develop and implement action plans in a timely manner. • Implement training, tools, and advice to address risk in FP development. • Promote a strong risk-management culture.
2LOD	**RISK OVERSIGHT**
CONTROL, SET STANDARDS AND CONSTRUCTIVELY CHALLENGE	• Establish and communicate risk control strategies and frameworks for FP development within the Secretariat • Provide oversight and independent challenge to First LOD through an effective, objective assessment that is evidenced and documented, including: » Challenge the quality and sufficiency of the First LOD's risk activities; » Identify and assess current and emerging risks and controls, using a risk-based approach; » Monitor the adequacy and effectiveness of internal control activities; » Review and discuss assumptions, material risk decisions and outcomes; » Aggregate and share results across business lines (e.g. DMA, PSF) and risk categories to identify similar events, patterns, or broad trends; » Identify, assess, and communicate the relevance and impact of changes to the GCF internal regulatory framework on the FP appraisal process; » Develop and implement risk measurement tools (risk register) to ensure alignment of FP development practice with the GCF RMF; » Monitor and report on compliance with GCF RMF and policies; and » Escalate risk issues in a timely manner. • Report on the risks of the Fund on an enterprise-wide and disaggregated level to the Board and/or senior management independently of the business lines or operational management. • Design and deliver training, tools, and advice to support the First LOD in carrying out its duties. • Promote a strong risk-management culture.
3LOD	**INTERNAL AUDIT**
INDEPENDENT ASSURANCE	• Verify independently that the GCF RMF and appraisal process is designed and operated effectively. • Validate the effectiveness of the First and Second LODs in fulfilling their mandates and managing risk.

2.4 THE APPRAISAL PROCESS DECISION FLOW

The process to be followed for all submissions to GCF related to the development of funding proposals, from receipt of CN until submission to the independent TAP is illustrated below (see **Figure 5**). Note that for concept notes and funding proposals submitted through the Simplified Approval Process (SAP), in accordance with Board mandate B.18/06, the Secretariat will review to a standard commensurate with their level of risk. SAP concept notes and funding proposals will be reviewed in a streamlined manner in accordance with the guidance provided in the SAP Review Toolkit (annex VII).

A CN is a document that provides basic information about a proposed project or programme to GCF in order for the submitting entity to receive feedback from the GCF Secretariat on its alignment with the Fund's mandate, objectives, policies and investment criteria. The CN gives AEs a chance to further develop and strengthen the project or programme idea based on the feedback received before committing the time and resources necessary to develop the full FP package. The CN checklist (annex II) has been developed by the Secretariat to assist AEs in performing their due diligence on CN documents before submission and to facilitate efficiency and consistency in the Secretariat's initial review of submitted CNs.

A Task Team (TT) is assigned to a CN once it has been officially submitted by an AE or NDA to the Secretariat. The TT comprises a Task Manager (TM) and a project officer/associate acting as Task Support (TS). The TT may be assisted by any other relevant technical expert within the Secretariat, depending on the technical and financial scope and complexity of the project or programme.

On receipt of a Concept Note, the appraisal focuses on the following key question: Does this proposed project or programme have the potential to fully meet GCF investment criteria, with particular reference to climate impact, paradigm shift potential, country ownership and strategic fit with GCF portfolio-level goals?

To answer this question, the review of a CN by the TT focuses firstly on Climate Impact. This review determines whether the project or programme is designed to contribute primarily to low-emission and climate resilient development pathways, and whether it can demonstrate, with confidence, that it will provide measurable mitigation and/or adaptation results. The review also covers the proposal's Theory of Change and examines whether proposed interventions directly address identified climate risks and vulnerabilities.

This initial review also focuses on the appraisal areas of Additionality and Innovation. Having already confirmed that the concept note demonstrates potential climate impact, and will thus potentially contribute to the objectives of the Paris Agreement and to the GCF mandate, the review seeks to confirm that the project/programme, in particular its innovative aspects, ***will not occur without the GCF financial contribution***. The TT within the GCF Secretariat conducts this step of assessment with the support of the Innovation and Additionality Tool (IAT) (see annex IV).

A CN that does not address either the Climate Impact or the Additionality appraisal area effectively is not ready for a more detailed review. In such cases, the TT within the Secretariat reverts to the AEs, informing them that the Secretariat will take no further action on the CN unless it can be revised so that both Climate Impact and Additionality can be clearly demonstrated.

AEs may refer to the Secretariat's Climate Guidance for mitigation and adaptation proposals available in this document (section 3 and sub-section 3.2 and annex III) and the IAT (section 3, sub-section 3.3 and annex IV). Both tools are available to external parties in order to facilitate AE due diligence and appraisal and thus ensure that AEs submit CNs only when they are confident that they are compliant with the Climate Impact and Additionality appraisal areas.

A CN submitted to the Secretariat that clearly satisfies the Climate Impact and Additionality appraisal areas may proceed to further review.

Task teams in the Secretariat confer with other relevant units and internal expertise to supplement their own expert analysis and screening through the IAT and to initiate review of the appraisal areas of Scalability and Sustainability. Financial expertise will also be applied, facilitated by the internal Financial Structuring and Concessionality tools (see sections 3.4 and 3.7 respectively) to support this screening.

A CN that clearly satisfies the Climate Impact and Additionality appraisal areas can be presented by the Task Team to CIC2 for endorsement, supported by the results of the IAT, Financial Structuring and Concessionality tools, and other relevant supporting information made available through the AE due diligence and appraisal. For CNs that do not clearly satisfy the Secretariat's assessments through the internal review processes as outlined above, the Task Teams revert to the AE with relevant feedback and advice, supporting AE revision and improvement of the CN and its subsequent resubmission.

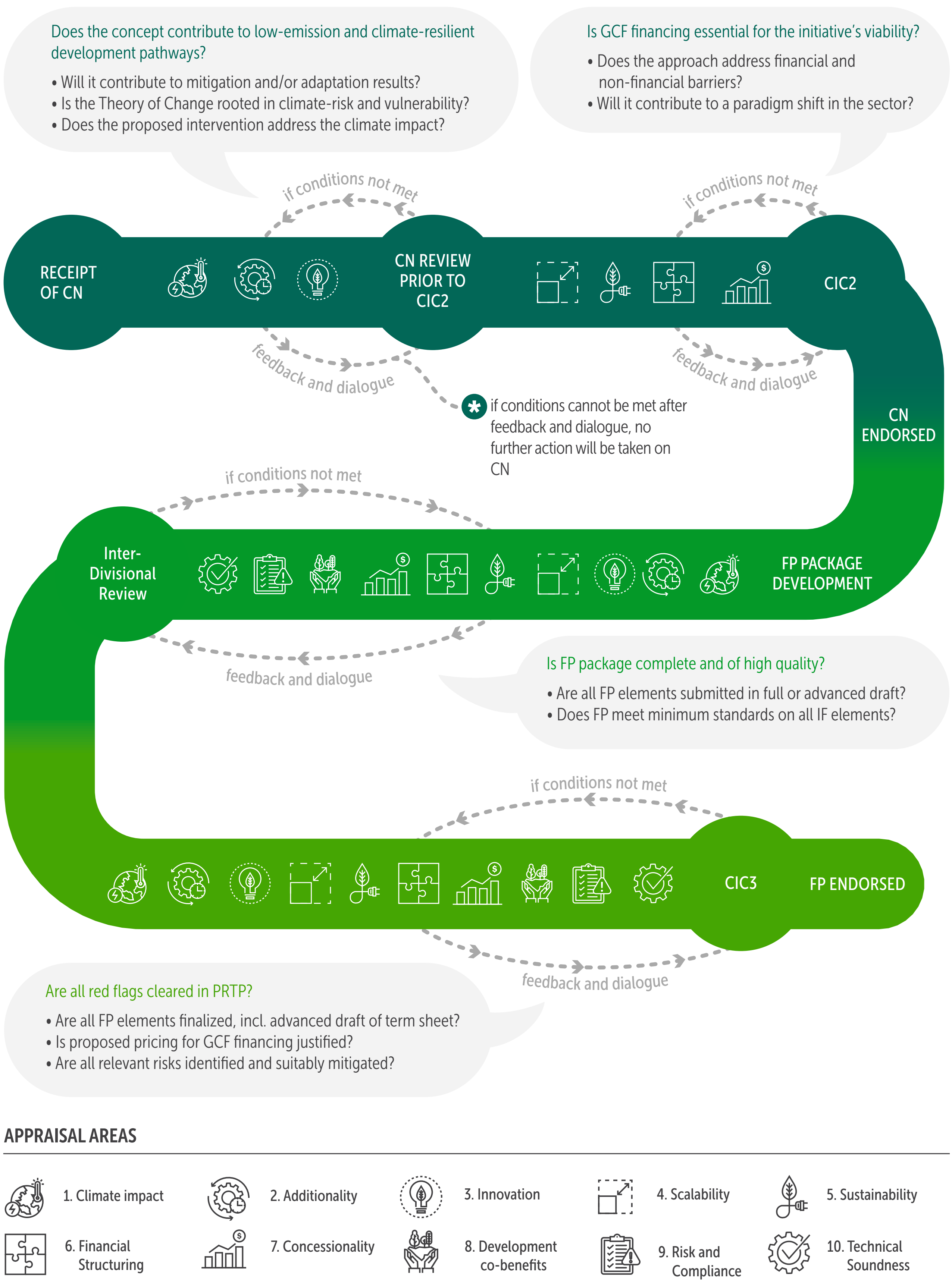
The Secretariat conducts broader analysis of the CNs submitted by AEs to determine when to bring a CN for consideration at CIC2. This concerns the strategic fit of a CN in the context of the GCF Strategic Plan and includes:

a. Strategic programming, which considers the potential impact of the approval of a project or programme on the strategic objectives of the Fund (e.g. distribution of investment between regions, between public and private sector, between mitigation and adaptation result areas, etc.); and
b. Financial planning, including tracking of portfolio-level goals and any decisions made on the financial planning authority given to the Secretariat; and the provision of relevant advice for action.

The Secretariat reserves the right to ask AEs for additional analysis and evidence as necessary and in line with the Investment Criteria (see **Table 4** in section 2.4.1 for further details of CIC2 operation and decision processes and annex IX for the key discussion points covered by CIC2). Endorsement of a CN at CIC2 is communicated to the AE, which is then advised to proceed with the development of a full FP and associated annexes.[29]

[29] In case the AE submits a full FP package to the GCF Secretariat without first submitting a Concept Note for review and appraisal (thus omitting the voluntary Stage 3 in the GCF Programming Cycle), the FP must still be reviewed by CIC2 before proceeding for finalisation and inter-divisional review. In this case, the Innovation and Additionality Tool (IAT) and the Investment and Criteria Scorecard (ICS) will both be applied to the full FP, and AEs are advised to self-appraise the FP with both tools prior to submission. As with CNs, if the outcome of the IAT application indicates that the project or programme does not demonstrate 'GCF Additionality', the AE will be advised to revise the package further before proceeding to CIC2.

FIGURE 5. APPRAISAL PROCESS DECISION FLOW[30]



30 *Please refer to* **Table 5** *on page 47 for the appraisal tools and guidance.*

The Secretariat's guidance to partners starts during the Country Programme and Entity Work Programme (CP/EWP) processes, including upstream information and advisory services on project/programme eligibility and structuring. The Secretariat's review and feedback processes after a CN has been endorsed at CIC2 become more formalized. This CIC2 endorsement implies that GCF expects the CN to develop into a FP package that will meet all Investment Framework criteria and will be suitable for presentation to the GCF Board for its approval, provided that the AE and its partners in FP development fully implement their due diligence and appraisal responsibilities and draw on their technical, financial and institutional capacities set out in the Accreditation Master Agreement (AMA) signed with GCF.

Subsequent to CIC2 endorsement, the composition of the TT formed for the CN stage is expanded or enhanced as necessary and is then available for consultation and advice to AEs during the development of the full FP package. The TT will carry out a completeness check of the package when it is formally submitted by the AE to the Secretariat.

The TT makes use of the Investment Criteria Scorecard (ICS) to support their initial review of the FP package. Like the IAT, with which it is fully compatible, this tool is available to AEs (see section 3, sub-section 3.6, and annex I). The ICS allows for assessment of FPs against all criteria of the initial Investment Framework (see **Table 2** and **Figure 3**). The ICS can therefore be used to help assess the degree to which an FP aligns with GCF Investment Criteria and overall mandate. It contributes to all ten of the appraisal areas outlined in part 3 of this section. The ICS is made available to external partners so that it can be applied at any stage of AE due diligence and appraisal, including before the first submission of a CN. Though at the early stage of the appraisal process there will be insufficient information to complete all sections of the tool, the results will allow AEs to set a benchmark to track progress through the appraisal process, and to indicate which elements of the proposal require further work.

AEs are encouraged to check the completeness and consistency of their FPs with the GCF initial Investment Framework by applying the ICS before formal submission of the full FP package. The TT in the GCF Secretariat will use the ICS to conduct their initial review of the FP. This review, and relevant technical expertise of the TT may indicate areas of the package that are incomplete, internally inconsistent, or that require substantial improvement before the FP can proceed for further review. The TT will not initiate interdivisional review if the FP package is not complete. In such cases, the TT can advise the AE to carry out any necessary improvements and resubmit the package in the Secretariat's online system.

Once the initial review by the TT has been completed satisfactorily, the FP package proceeds to the Interdivisional Project Team (IPT), for review by its members from relevant divisions and units across the Secretariat. Note that the IPT review is triggered via an inter-divisional kick-off meeting only once the initial review by the TT has been completed. The results of the TT use of the ICS can be shared with IPT members to indicate the relative strengths of the FP package with respect to the various Investment Framework sub-criteria, and the areas of the FP package that require particular attention.

The IPT is responsible for conducting a thorough review of all elements of the FP package, including technical soundness and best practices in the areas of Environmental and Social Safeguards (ESS), Greenhouse Gas (GHG) calculations, economic and financial analysis, detailed budget and sources of co-finance and other sources of secured or potential mobilized finance. The IPT will also review whether the project or programme has been designed in accordance with the logic elaborated in the Theory of Change. Further information on the approaches employed by the IPT in the appraisal process is included in the description of the ten appraisal areas in part 3 of this section.

Members of the IPT submit their comments and requests for feedback from the AE through the online Project Review and Tracking Platform (PRTP) maintained by the Secretariat. Each member of the IPT indicates the degree to which they consider the FP package to be complete and ready to proceed to CIC3 with a red/yellow/green flag system in the PRTP. Red and yellow flags are accompanied by comments and feedback from the respective units in the Secretariat. The TT uses the PRTP to compile feedback to pass on to the AE. The AE is advised to resubmit the FP package, indicating to the TT how they have addressed the comments and feedback. IPT members who indicate green flags in the PRTP system may also provide feedback on the positive aspects of the proposal that can be communicated to the AE. The cycle repeats until no red flags remain in the PRTP.

Important to note during the IPT review:

- During this part of the appraisal process, all FP annexes, including an advanced draft of the term sheet, must be completed and all comments from the TT addressed by the AE.
- The AE should respond to comments and questions from the IPT and refine the proposal to address information gaps to advance the FP to the next stage. This may involve several exchanges between the AE and the Secretariat for revisions and resubmissions of proposals as deemed necessary.
- The AE should provide a complete analysis of the risks that may affect achievement of the project or programme's anticipated impacts, how they have incorporated measures to mitigate these risks, and the sensitivity of project effectiveness to changes in frame conditions during the implementation period.
- The TT compiles comments from the IPT process into the Secretariat assessment findings, which forms part of the FP package sent to the Board.

In the process of providing feedback to the AEs during this process, the TT may request IPT members to join calls or meetings with the AE to explain their comments and support the revision process.

Funding proposals that have completed the Secretariat's technical review through the IPT and that have no red flags remaining in the PRTP, proceed to consideration at CIC3. The meeting of CIC3 decides whether or not to endorse the FP package on behalf of the Secretariat, and to send it for review by the independent TAP. FPs that are not endorsed by CIC3 are returned to the AE for further review and resubmission through the IPT and PRTP process.

3. TEN APPRAISAL AREAS

The ten appraisal areas are detailed below. They appear in the order in which they are first considered in the appraisal process decision flow (see **Figure 5**). For complete descriptions of the tools listed within each appraisal area, see section 3 and annexes I–VII.

3.1 CLIMATE IMPACT

For this appraisal area, the project or programme is assessed for its potential contribution to the achievement of the Fund's strategic objectives with respect to mitigation and adaptation.[31]

Mitigation

Contributions to mitigation indicate the extent to which a project or programme aids the shift to low-emission sustainable development pathways. Appraisal for this area focuses on an estimation of baseline emissions and the projections for the reduction or avoidance of net emissions as a result of the proposed interventions. Information provided must be supported by robust evidence. Estimates must be conservative, with detailed information provided on the methodologies and assumptions used for their calculation along with references. A monitoring plan to measure the achieved emission reductions during implementation should also be described.

Mitigation impact indicator: the reduction in project lifetime emissions in tonnes of carbon dioxide equivalent (tCO_2e). Project proposals should describe the expected reductions in emissions resulting from the GCF intervention.

Adaptation

Climate impact, in terms of adaptation, is assessed as the expected contribution of a programme or project to climate-resilient sustainable development, measured in number of individuals directly and indirectly affected by the programme and in terms of additional indicators according to the IRMF. Appraisal for this area focuses on vulnerability assessments and linkages of these vulnerabilities with the proposed interventions. Sufficient information must be provided to generate confidence that the proposed intervention will address the vulnerabilities and contribute to the wellbeing of the affected populations.

Adaptation impact indicators: Project proposals should describe the expected reduction in loss of lives, maintenance of the value of physical assets, livelihoods, and/or reductions in environmental or social losses otherwise arising from the impact of extreme climate-related disasters and climate change in the geographical area of the GCF intervention. Proposals should also refer to the number of direct and indirect beneficiaries of the project, taking into account the needs of developing countries that are particularly vulnerable to the adverse effects of climate change.

[31] The Governing Instrument requires that the Fund strive to maximize the impact of its funding for mitigation and adaptation and seek a balance between the two.

GCF Secretariat appraisal of climate impact:

1LOD:

- Review impact calculation methodologies for mitigation and adaptation
- Review completeness of relevant FP sections and annexures; coherence of proposal design with estimated impacts and reasonableness of assumptions
- Establish potential and provision for monitoring and evaluation of the estimated impact

2LOD:

- Confirm coherence between proposed interventions and estimated impacts and sector-specific assumptions underlying impact calculations

Tools for appraising climate impact:

Climate guidance/mitigation and adaptation guides include:

- External references on appropriate methodologies for GHG calculations for mitigation; and
- External references on credible models and databases for climate information for adaptation.

Investment Criteria Scorecard

- *Sub-criterion 1:* Mitigation impact (Impact Potential)
- *Sub-criterion 2:* Adaptation impact (Impact Potential)

Strategic guidance and relevant frameworks for appraising climate impact:

Governing Instrument Para 3. The Fund will strive to maximize the impact of its funding for adaptation and mitigation and seek a balance between the two.

Initial Investment Framework

Impact Potential: Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas covering mitigation and adaptation impact

Initial activity-specific sub-criteria and indicative assessment factors

- Contribution to the shift to low-emission sustainable development pathways
- Contribution to increased climate-resilient sustainable development

Investment Criteria Indicators

Mitigation impact indicator: Project lifetime emission reductions (in tonnes of carbon dioxide equivalent). Project proposals should describe the expected reductions in emissions resulting from the GCF intervention.

Adaptation impact indicator: Project proposals should describe the expected adaptation to the impact of extreme climate-related disasters and climate change in the geographical area of the GCF intervention: fewer lives lost, decreased losses in terms of the value of physical assets, livelihoods, and/or environmental or social goods. Proposals should also refer to the number of direct and indirect project beneficiaries, taking into account the needs of developing countries that are particularly vulnerable to the adverse effects of climate change.

Integrated Results Management Framework

Reduced emissions and increased resilience

Core indicator 1: GHG emissions reduced, avoided or removed/sequestered
Thematic area: Mitigation
Unit: Tonnes of carbon dioxide equivalent (tCO_2e)
Disaggregation: Results area

Core indicator 2: Direct and indirect beneficiaries reached
Thematic area: Adaptation

Unit: Number of individuals
Disaggregation: Sex (female and male)

Core indicator 3: Value of physical assets made more resilient to the effects of climate change and/or more able to reduce GHG emissions
Thematic area: Mitigation or adaptation
Unit: Value of assets in USD
Disaggregation: Type of physical assets and results area

Core indicator 4: Hectares of natural resource areas brought under improved low emission and/or climate-resilient management practices
Thematic area: Adaptation
Unit: Hectares
Disaggregation: Type of natural resource area and results area

3.2 ADDITIONALITY

The proposal demonstrates "additionality" if it can be shown that certain interventions would not occur without the funding provided through GCF.[32] This requires the clear identification of both financial and non-financial barriers that prevent the interventions from being otherwise implemented, as well as any alternatives to the intervention that would potentially achieve the same climate impact. Such a proposal would illustrate the rationale for the proposed intervention to be preferred. Moreover, an assessment of the rationale for the GCF funding request, based on the existence of a clear climate rationale for the proposed interventions, and whether the project/programme would occur without GCF resources, is required.

Where technical, financial or business innovation is being introduced into the market, the case for additionality should be made by presenting an analysis of regulatory/policy barriers that creates an absence of alternative sources of financing. In this context, "GCF Additionality" is understood in a broader sense than additionality in the context of the Clean Development Mechanism (CDM) and Voluntary Carbon Markets or in the context of financial additionality. As well as building on the assessment of Climate Impact, GCF Additionality is considered to be closely linked to the appraisal areas of Innovation, Scalability, Sustainability and Concessionality, as indicated in the description and application of the Innovation and Additionality Tool (IAT) (see Annex IV).

[32] *Governing Instrument, par 54: "Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable."*

GCF Secretariat appraisal for additionality:

1LOD:

- Review justification for GCF investment
- Assessment of financial and non-financial barrier analyses and risks relevant to addressing these barriers

2LOD:

- Confirm justification for GCF investment and 1LOD assessment of barrier analyses and financial models

Tools for appraising additionality:

Innovation and Additionality Tool: Dimensions 1, 2, 3

Investment Criteria Scorecard

- *Sub-criterion 3:* Innovation (Paradigm shift potential)
- *Sub-criterion 9:* Market development and transformation (Paradigm shift potential)
- *Sub-criterion 20:* Opportunities for fund to overcome specific barriers to financing (Needs of recipient)

Strategic guidance and relevant frameworks for appraising additionality:

Governing Instrument Para 54. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable.

Initial Investment Framework

- **Impact Potential:** Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas covering mitigation and adaptation impact
- **Paradigm shift potential:** Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment
- **Needs of recipient:** Vulnerability and financing needs of the beneficiary country and population

Initial activity-specific sub-criteria and indicative assessment factors

- Contribution to the shift to low-emission sustainable development pathways
- Contribution to increased climate-resilient sustainable development
- Contribution to the creation of an enabling environment: market development and transformation
- Absence of alternative sources of financing: Opportunities for the Fund to overcome specific barriers to financing: Explanation of the existing barriers to alternative sources of financing and how they will be addressed

Investment Criteria Indicators

Mitigation and adaptation indicator: barriers to climate-related finance. Project proposals should describe the country's financial, economic, social and institutional needs and the barriers to accessing domestic (public), private and other international sources of climate-related finance. The proposal should outline how the proposed intervention will address the identified needs and barriers.

Integrated Results Management Framework

Reduced emissions and increased resilience

Core indicator 1: GHG emissions reduced, avoided or removed/sequestered

Core indicator 2: Direct and indirect beneficiaries reached

Core indicator 3: Value of physical assets made more resilient to the effects of climate change and/or more able to reduce GHG emissions

Core indicator 4: Hectares of natural resource areas brought under improved low emission and/or climate-resilient management practices

Core indicator 7: Degree to which GCF investments contribute to market development/transformation at the sectoral, local or national level

3.3 INNOVATION

As an appraisal area for GCF, "Innovation" is an assessment of whether new technical or business innovations, governance, legislative or planning systems will be created and/or adopted through the proposed intervention to address mitigation and/or adaptation needs, or whether the proposal describes the scaling up, adaptation or replication of existing tools, systems or approaches in ways that are specifically prompted by the climate context and the needs of the countries.

"Technical innovation or improvements" are defined as the adoption of new unproven technologies, new processes, or modal shifts in the context of the country, region or sector concerned. The proposal should provide evidence that the proposed innovation did not previously exist in the region or market and that it addresses the mitigation and adaptation needs that cannot be met, or are less effectively met, by alternative available options at similar costs in the target region or market.

Business innovation or improvements refers to the adoption of new financial instruments, financial mechanisms, financial processes or new business models that address existing investment gaps or barriers in the market that have not yet been addressed, or that address investment gaps or barriers for a new area of demand, or for a new class of investors.

Confirmation of technical or business innovation is specific to the country and sector context. Innovation also has links to technical soundness and financial structuring as well as concessionality, additionality, and climate impact. For example, where an innovation is being introduced, there may be a trade-off between sustainability and concessionality depending on the level of concessionality provided.

GCF Secretariat appraisal of innovation:

1LOD:

- Confirm innovation link to climate rationale
- Review and confirm presence of innovative components in the proposal and justification for claims to innovation

2LOD:

- Confirm innovative nature of the interventions; assess viability and sustainability of the innovation, from technical, institutional and financial perspectives

Tools for appraising innovation:

Innovation and Additionality Tool: (Dimension 4)

Investment Criteria Scorecard

- *Sub-criterion 3:* Innovation (Paradigm shift potential)
- *Sub-criterion 31:* Application of best practices and degree of innovation (Efficiency and Effectiveness)

Strategic guidance and relevant frameworks for appraising innovation:

Governing Instrument Para 38. The Board shall also ensure adequate resources for capacity-building and technology development and transfer. The Fund will also provide resources for innovative and replicable approaches.

Initial Investment Framework

- **Paradigm shift potential:** Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment
- **Efficiency and effectiveness:** Economic soundness and, if appropriate, financial soundness of the programme/project

Initial activity-specific sub-criteria and indicative assessment factors

- **Innovation:** Opportunities for targeting innovative solutions, new market segments, developing or adopting new technologies, business models, modal shifts and/or processes
- **Industry best practices:** Application of best practices and degree of innovation: If applicable, the proposal specifies the innovations or modifications/adjustments made based on industry best practices

Integrated Results Management Framework

- **Enabling environment Core indicator 6:** Degree to which GCF investments contribute to technology deployment, dissemination, development or transfer and innovation

3.4 SCALABILITY

This appraisal area, "scalability", is an assessment of the potential for expanding the scale and impact of the proposed programme or project. This area must be supported by a strong theory of change as well as evidence of the existence of market demand for the sector targeted for scaling up, with reference to existing studies, surveys and literature, both within and outside the project or programme target locations and communities where the same climate rationale applies.

Inherent in the assessment of scalability is the replicability of the interventions supported through the project or programme, taking into account the complexity of the interventions and the technical capacities required to replicate them and to create the supporting infrastructure (e.g. extension, service and monitoring). It will also consider the economies of scale involved in expanding the scope and impact of the interventions, assessing to what extent the unit costs may be reduced as well as the implications for improved employment, business opportunities and livelihoods.

This appraisal area is also related to the areas of sustainability, additionality and concessionality and should be assessed using similar approaches. It will cover the extent to which the interventions are limited to the specific geographical, environmental, social and governance contexts of the project or programme target countries and locations.

GCF Secretariat appraisal of scalability:

1LOD:

- Review of information related to scalability contained within the FP package
- Potential for application of project or programme approaches in the target countries beyond the specified geographical or thematic scope, or in other country contexts

2LOD:

- Assessment of potential relevance of project/programme approach beyond target locations; necessary frame conditions for replicability

Tools for appraising scalability:

Innovation and Additionality Tool: (Dimension 4)

Investment Criteria Scorecard

- *Sub-criterion 5:* Scalability (Paradigm Shift Potential)

Strategic guidance and relevant frameworks for appraising scalability:

Initial Investment Framework

- **Paradigm shift potential:** Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment

Initial activity-specific sub-criteria and indicative assessment factors

- **Scalability** or the potential for expanding the scale and impact of the proposed programme or project: A theory of change for scaling up the scope and impact of the intended project or programme without proportionally increasing the total costs of implementation
- **Replicability** or the potential for exporting key structural elements of the proposed project or programme elsewhere within the same sector as well as to other sectors, regions or countries: A theory of change for replication of the proposed activities in the project or programme in other sectors, institutions, geographical areas or regions, communities or countries

Integrated Results Management Framework

- **Replicability:** Degree to which the GCF investments exported key structural elements of the proposed programme or project elsewhere within the same sector as well as to other sectors, regions or countries
- **Scalability:** Degree to which there has been a significant increase in quantifiable results within and beyond the scope of the intervention

3.5 SUSTAINABILITY

This appraisal area is an assessment of the sustainability of outcomes and results beyond the completion of the intervention. Reviews of this appraisal area will focus on the details of the funding proposal that provide evidence and confidence for the long-term continuation of relevant outcomes and, as necessary, key relevant activities initiated through the project or programme beyond the implementation period and the project or programme lifetime.

Sustainability is dependent in the first place on country ownership, and the assurance that a funding proposal is aligned with the national strategic, policy and development goals of the country or countries concerned, particularly in relation to climate change and the targeted sectors including GCF Country Programmes (CPs), if they have been developed, and to NDCs, National Adaptation Plans (NAPs) and other relevant strategies or legislation.

According to the Initial Investment Framework, the assessment of sustainability covers the financial viability of the interventions, which depends on (a) the existence of a business model and strategy to phase out GCF capital investment; (b) the financial strength and credit rating of the EEs, and their technical and institutional capacity to continue activities and interventions without GCF capital after the implementation period; and (c) deployment of effective risk-mitigating instruments that will be operational after the implementation period.

In addition to assessment of financial sustainability, this appraisal area also covers the policy, governance, technical and institutional contexts, and whether the project or programme will ensure the changes to these contexts during the implementation period that will be necessary to sustain results. Sustainability should also consider the potential rate of uptake of technology (for example, of improved fuel-efficient cookstoves in poor households where cultural and social context may entail barriers to uptake in addition to financial barriers).

This appraisal area is also related to the areas of technical soundness, scalability, concessionality, financial structuring and risk and compliance.

GCF Secretariat appraisal of sustainability:

1LOD:

- Review and confirm completeness of exit strategy, sensitivity analyses
- Review of economic and financial analysis
- EWP and CP development and alignment; EE capacity and institutional analysis

2LOD:

- Financial risk assessment; technical and institutional feasibility of exit strategy; confirm assumptions underpinning exit strategy

Tools for appraising sustainability:

Innovation and Additionality Tool: Dimensions 2 and 3

Investment Criteria Scorecard

- *Sub-criterion 8:* Sustainability of outcomes and results beyond completion of intervention (Paradigm Shift Potential)
- *Sub-criterion 22:* Objectives are in line with the priorities in the country's national climate strategy (Country Ownership)
- *Sub-criterion 30:* Financial viability in the long run (Efficiency and Effectiveness)

Project Success Rating Scorecard

Strategic guidance and relevant frameworks for appraising sustainability:

Initial Investment Framework

- **Paradigm shift potential:** Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment
- **Country ownership:** Beneficiary country ownership of, and capacity to implement, a funded project or programme (policies, climate strategies and institutions)
- **Efficiency and effectiveness:** Economic soundness and, if appropriate, financial soundness of the project or programme

Initial activity-specific sub-criteria and indicative assessment factors

- **Contribution to the creation of an enabling environment:** Sustainability of outcomes and results beyond completion of the intervention. Arrangements that provide for long-term and financially sustainable continuation of relevant outcomes and key relevant activities derived from the project or programme beyond the completion of the intervention

- **Objectives are in line with priorities in the country's national climate strategy:** Project or programme contributes to country's priorities for low-emission and climate-resilient development as identified in national climate strategies or plans, such as nationally appropriate mitigation actions (NAMAs), national adaptation plans (NAPs) or equivalent, and demonstrates alignment with technology needs assessments (TNAs), as appropriate
- **Proposed activity is designed in cognizance of other country policies:** Degree to which the activity is supported by a country's enabling policy and institutional framework, or includes policy or institutional changes
- **Financial viability in the long run:** Description of financial soundness in the long term (beyond the Fund's intervention)

Integrated Results Management Framework

- **Sustainability:** Degree to which there has been a significant increase in quantifiable results within and beyond the scope of the intervention

Risk guidelines for funding proposals (Component IV)

- **Financial viability:** (a) The proposal should be assessed against the Fund's investment policies and guidelines; (b) The proposal should include financial and cash flow analyses, including stress analyses. Depending on the characteristics of a particular proposal, the specific areas that should be covered include: market conditions analysis; sensitivity of the asset value and liquidity to economic cycles; debt service financial ratios; repayment schedule; off-take risk; and GCF control over reflows (including expropriation risk).

3.6 FINANCIAL STRUCTURING

This appraisal area is an assessment of the soundness of the financial structure including the choice of financial instruments, justification for the GCF funding amount, co-financing, pricing, and subordination, and includes any factor or scenario stress testing that is required.

The assessment of the structure shall take account of the context (including country context) of the proposed projects and programmes (including the selection criteria and selection process for sub-projects), as well as the source and type of co-financing, and the potential for leveraged finance. A sound financial structure can strengthen the viability of the project while adhering to the principle of minimum concessionality.

The assessment of financial structure shall consider the flow of funds from GCF to AE, to EE, to intermediary (if applicable) and to the end recipient of the funds. The FP shall provide information on, and justification for, the proposed financial instruments, the amounts and relative proportions of GCF funding and co-financing, the terms of GCF funding, the key terms of co-financing at the project and (in the context of programmatic approaches) sub-project level, and the potential for leveraged finance, if applicable.

This appraisal area is closely linked to the areas of concessionality, sustainability and risk and compliance, and falls directly under the efficiency and effectiveness criterion of the investment framework.

GCF Secretariat appraisal of financial structuring:

1LOD:

- Review of financial structure of the project or programme; economic and financial analysis
- Assessment of the relevance and effectiveness of proposed financial instruments

2LOD:

- Assessment of financial and investment risk; confirmation of financial structure of the project or programme; review of economic and financial analysis

Tools for appraising financial structuring:

Investment Criteria Scorecard

- *Sub-criterion 26:* Financial adequacy and appropriateness of concessionality (Efficiency and Effectiveness)

Innovation and Additionality Tool: Dimensions 3 and 4: Financial barriers and Innovation
Grant Equivalent Calculator
Financial Structuring Tool
Concessionality Tool

Strategic guidance and relevant frameworks for appraising financial structuring:

Governing Instrument Para 54. The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels.

Initial Investment Framework

- **Mobilized private sector finance at the portfolio level:** Significantly increase relative to the IRM with private sector co-financing ratio of 1:3
- **Efficiency and effectiveness:** Economic and, if appropriate, financial soundness of the programme or project

Initial activity-specific sub-criteria and indicative assessment factors

- **Cost-effectiveness and efficiency regarding financial and non-financial aspects:** Financial adequacy and appropriateness of concessionality: Demonstration that the proposed financial structure provides the least concessionality needed to make the proposal viable Demonstration that the Fund's support for the programme or project will not crowd out private and other public investment

Investment Criteria Indicators

- **Mitigation efficiency and effectiveness indicator:** ratio of co-financing. As appropriate. projects should indicate the ratio of co-financing mobilized relative to the GCF contribution to the total project.
- **Mitigation indicator:** expected rate of return. As appropriate, projects should provide an estimate of the expected economic internal rate of return and/or financial internal rate of return, depending on the needs of the project.

Business Model Framework: Guiding principles and factors for determining terms of financial instruments (Decision B.07/05)

Financial terms and conditions of grants and concessional loans (Decision B.09/04)

Risk guidelines for funding proposals (Component IV)

Risk guidelines for setting funding terms and conditions

3.7 CONCESSIONALITY

This appraisal area is an assessment of the level of concessionality proposed for the funding requested from GCF, which should be the minimum amount necessary to make a proposal viable and help to achieve GCF climate impact and paradigm shift objectives.

Concessionality is required when the economic benefits to the public of mitigation and adaptation interventions are under-priced in investment decisions, due to financial or non-financial barriers. GCF offers concessionality (funding with below-market terms and conditions) in order to align financial incentives with economic benefits, and thus facilitate a high-impact climate action that would otherwise not take place. The appropriate level of concessional funding is therefore the amount (and the terms) that achieves this objective and no more.[33]

The assessment of concessionality should validate the potential of the project or programme to successfully achieve its objectives while also ensuring that the level of concessional financing — besides being minimal yet sufficient for financial viability — is not crowding out any private or public investment.

Currently determined on a case-by-case basis, contributing factors include, for example, the potential for reflows and rate of return, opportunities for overcoming barriers, and the potential for catalysed or leveraged investments.

Steps to determining the appropriate level of concessionality for a funding proposal include:

- *Assessment of eligibility and level of preparation:* Does the funding proposal fit the GCF mandate and contain sufficient information for an assessment?
- *Type of funding requested:* Which parts of the project require concessional finance in order to make the proposal viable, and which financial instruments are appropriate for these parts?
- *Co-financing:* For which parts of the project is co-financing identified, and what terms and instruments will be employed?

The Concessionality Tool will consider factors such as country and project context, market failures, provision of public goods, co-financing size and instruments, revenue potential and level of uncertainty related to the revenue potential. It will assess the consistency of AE accreditation status and capacity with the financial instruments required for the proposed project or programme.

This appraisal area is closely linked with the areas of financial structuring and additionality, and directly falls under the efficiency and effectiveness criterion of the investment framework. Levels of concessionality also involve trade-offs with other appraisal areas including innovation and scalability.

GCF Secretariat appraisal of concessionality:

1LOD:

- Review of financial structure of the project or programme; economic and financial analysis
- Review of the calculations and rationale underpinning the funding request

[33] *Investment Framework, Section I, d.: "Financing provided by the Fund to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes"; and section e. "The Fund will not 'crowd out' potential financing from other public and private sources."*

2LOD:

- Assessment of financial and investment risk; confirmation of financial structure of the project or programme; review of economic and financial analysis

Tools for appraising concessionality:

Innovation and Additionality Tool: Dimensions 2, 3 and 4: Non-financial and financial barriers and innovation

Investment Criteria Scorecard

- *Sub-criterion 20:* Opportunities for fund to overcome specific barriers to financing (Needs of recipient)
- *Sub-criterion 26:* Financial adequacy and appropriateness of concessionality (Efficiency and Effectiveness)

Concessionality Tool

Strategic guidance and relevant frameworks for appraising concessionality:

Governing Instrument Para 35: The Fund will provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable. Concessional funding is understood as funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme.

Initial Investment Framework

- **Mobilized private sector finance at the portfolio level:** Significantly increase relative to the IRM with private sector co-financing ratio of 1:3
- **Needs of recipient:** Vulnerability and financing needs of the beneficiary country and population
- **Efficiency and effectiveness:** Economic and, if appropriate, financial soundness of the programme or project

Initial activity-specific sub-criteria and indicative assessment factors

- **Absence of alternative sources of financing:** Opportunities for the Fund to overcome specific barriers to financing: Explanation of the existing barriers that create absence of alternative sources of financing and how they will be addressed
- **Cost-effectiveness and efficiency regarding financial and non-financial aspects:** Financial adequacy and appropriateness of concessionality; demonstration that the proposed financial structure provides the least concessionality needed to make the proposal viable; demonstration that the Fund’s support for the programme or project will not crowd out private and other public investment

Investment Criteria Indicators

- **Mitigation efficiency and effectiveness indicator:** Ratio of co-financing. As appropriate, projects should indicate the ratio of co-financing mobilized relative to the GCF contribution to the total project
- **Mitigation indicator:** Expected rate of return. As appropriate, projects should provide an estimate of the expected economic internal rate of return and/or financial internal rate of return, depending on the needs of the project.

Business Model Framework: Guiding principles and factors for determining terms of financial instruments (Decision B.07/05)

Financial terms and conditions of grants and concessional loans (Decision B.09/04)

3.8 DEVELOPMENT CO-BENEFITS AND SAFEGUARDS

This appraisal area will cover the wider benefits that the proposed project activity may achieve including environmental, social, economic and development co-benefits, and will consider a gender-responsive and gender-transformative approach. This assessment complements the appraisal area of risk and compliance by covering the social, environmental and governance-related risks inherent in the project or programme, the recognition of those risks in the FP package, and the incorporation of mitigation measures in the FP design, results framework and budget that are necessary to address these risks.

This appraisal area is directly linked to the investment criterion of sustainable development potential and the description is derived from the Initial Investment Framework. It is also relevant to the investment criteria of country ownership and needs of the recipient. It can be broken down into four broad categories,[34] as follows:

Environmental: Expected positive environmental impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral level, as appropriate. Examples of such co-benefits could include positive impacts of climate change adaptation, mitigation and cross-cutting projects or programmes on soil-, water- and air-quality; biodiversity; and increase in native species. Recognition of the potential for adverse environmental risks and/or impacts as a result of projects or programme interventions, and incorporation of mitigation measures.

Social: Expected positive social impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral levels, as appropriate. Examples of such co-benefits could be positive impacts of climate change adaptation, mitigation and cross-cutting projects or programmes on human respiratory health, recognition of indigenous rights/knowledge, fairer labour practices, the protection of cultural heritage etc. Recognition of the potential for adverse social risks (including sexual exploitation, sexual abuse) and/or governance risks and/or impacts as a result of project or programme interventions, and incorporation of mitigation measures.

Economic: Expected positive economic impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral level, as appropriate. Recognition of potential for adverse livelihood impacts, particularly on targeted beneficiaries and marginalised communities, and incorporation of mitigation measures.

Gender-responsive and gender-transformative development impact: Recognition of gender-related aspects and impacts of activities and interventions under the project or programme. Examples of gender co-benefits could include reduced gender inequalities, the empowerment of women, equal participation by women's groups in contributing to expected outcomes, etc. Impacts of the project or programme on gender-related aspects of human respiratory health, fairer labour practices, the protection of cultural heritage, etc.

[34] *Investment Framework, activity-specific sub-criteria and indicative assessment factors, "Sustainable development potential: wider benefits and priorities; Environmental co-benefits; social co-benefits; economic co-benefits; gender-sensitive development impact."*

GCF Secretariat appraisal of the development co-benefits and safeguards:

1LOD:

- Preliminary assessment of environmental and social risk category; completeness of environmental and social safeguards instruments (e.g. ESIA, ESMF, ESMS, environmental and social audits, etc.) and GAP within the FP package. Review of adherence to AE's own safeguards policies, and to relevant GCF policies

2LOD:

- Review and verification of environmental and social risk category; review of environmental and social safeguards instruments (e.g. ESIA, ESMP, ESMF, ESMS, environmental and social audits, etc.) and the project/programme's compliance to various GCF policy requirements/review of GAP; review of whether the FP package meets the GCF Indigenous Peoples Policy

Tools for appraising development co-benefits and safeguards:

Investment Criteria Scorecard

- *Sub-criterion 13:* Environmental co-benefits
- *Sub-criterion 14:* Social and health co-benefits
- *Sub-criterion 15:* Economic co-benefits
- *Sub-criterion 16:* Gender-sensitive development impact

Strategic guidance and relevant frameworks for appraising development co-benefits and safeguards:

Governing Instrument Para 65. The Board will agree on and adopt best practice environmental and social safeguards, which shall be applied to all programmes and projects financed using the resources of the Fund.

Initial Investment Framework: Sustainable development potential: wider benefits and priorities

Initial activity-specific sub-criteria and indicative assessment factors

Environmental and Social Policy (revised)[35]

Indigenous Peoples Policy

Gender Policy

[35] *B.BM-2021/18 https://www.greenclimate.fund/document/revised-environmental-and-social-policy*

3.9. RISK AND COMPLIANCE

This appraisal area is an assessment of four types of risk:

- Risks of project/programme failure to deliver its target impact (closely linked with sustainability);
- Risks across diverse funding structures and terms (linked with concessionality and financial structuring);
- Alignment with GCF portfolio level risk limits; and
- Alignment with GCF Compliance Risk Policy.

The risk guidelines adopted by the Board elaborate on how these four types of risk are assessed in funding proposals.[36] This covers AE and EE technical and institutional capabilities to implement the project, project-specific execution risks, and financial viability as applicable.

In addition, GCF expects all individuals and entities involved in GCF-related activities to observe the highest standards of ethics and integrity and to take appropriate measures to prevent and combat prohibited practices in line with the Policy on Prohibited Practices and the Anti-Money Laundering & Countering the Financing of Terrorism Policy (AML/CFT Policy).

Therefore, the appraisal of funding proposals includes the evaluation of whether the AE has assessed and appropriately designed controls to mitigate the following types of risk:

- Anti-Money Laundering and Counter-Terrorist Financing
- Other forms of Prohibited Practices
- United Nations Security Council Resolutions (Financial Sanctions)

In addition, due diligence should also consider whether the funding proposal clearly demonstrates (where applicable) that the EEs and all other parties involved:

- Observe the rules and policies around AML/CFT and prohibited practices;
- Have the appropriate systems and processes in place to ensure this capability; and
- Structure the funding proposal appropriately to prevent illicit use of funds with a particular focus on anti-money-laundering and countering the financing of terrorism.

This appraisal area is related to many other appraisal areas, but particularly to sustainability, concessionality and financial structuring, and is a cross-cutting consideration for all criteria under the investment framework.

[36] *"Risk guidelines for Funding Proposals", adopted by the Board in decision B.17/11. It was sent to the Board for consideration at B.17 in document GCF/B.17/12 titled "GCF Risk Management Framework Risk Management Committee proposal".*

GCF Secretariat appraisal of risk and compliance:

1LOD:

- Review of completeness and accuracy of Risk Matrix and Barrier Analysis in FP package and to fill counterparty due diligence gaps if necessary
- Review of project/programme management structure and implementation arrangements including flows of funds relating to ML/FT, UN Security Resolution related sanctions, and Prohibited Practices

2LOD:

- Comprehensive risk assessment and verification of FP risk matrix; Compliance analysis and review of relevant sections in FP

Tools for appraising risk and compliance:

Risk

- Risk guidelines for funding proposals (Component IV)
- Investment Risk Policy (Component V)

Compliance

- Anti-money Laundering and Countering the Financing of Terrorism Policy
- Standards on the Implementation of the Anti-money Laundering and Countering the Financing of Terrorism Policy
- Policy on Prohibited Practices
- Compliance Risk Policy (Component VIII)

Strategic guidance and relevant frameworks for appraising risk and compliance:

Risk

Risk guidelines for funding proposals (Component IV)

Investment risk policy (Component V)

Compliance

Anti-Money Laundering and Countering the Financing of Terrorism Policy

Standards on the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy

Policy on Prohibited Practices

Compliance Risk Policy (Component VIII)

3.10 TECHNICAL SOUNDNESS

This appraisal area focuses on the sector-specific feasibility of a proposed intervention. This is a cross-cutting area of appraisal that encompasses aspects of most other appraisal areas including, in particular, climate impact, innovation, sustainability, and financial structuring.

Assessments of technical soundness focus primarily on the feasibility of the interventions proposed, both in terms of the potential for the approaches described in the funding proposal to be implemented successfully in the prevailing national and local contexts, and of the potential for the interventions to achieve the estimated mitigation and adaptation impacts.

An effective review of technical soundness will also examine, for example, the alternative technical options to those proposed, and the rationale behind the selected approach compared to these alternatives; the appropriateness and completeness of references to past examples or experiences relevant to the project or programme;

the accuracy and justification of assumptions used in estimating the effectiveness of the interventions in achieving the anticipated results and the climate impacts; the technical capacities and infrastructure required to support the project or programme and the incorporation of these elements into the design and budget; the technical competencies required of the AE and EEs and their demonstration and description within the FP package; and the completeness of the technical feasibility studies required in order to justify the funding of the project or programme.

GCF Secretariat appraisal of technical soundness:

1LOD:

- Technical capacities and appropriate mandate of AE/EEs; review of interventions

2LOD:

- Comprehensive sector-specific assessment and review

Tools for appraising technical soundness:

- Sector guides
- Sector-specific checklists for second LOD

Strategic guidance and relevant frameworks for appraising financial structuring:

- Investment Framework (Impact Potential, Paradigm Shift Potential, Needs of Recipient)
- Integrated Results Management Framework
- Risk Management Framework

4. COMMITTEES AND REVIEW PROCESSES

4.1 CLIMATE INVESTMENT COMMITTEE (CIC)

The Climate Investment Committee (CIC) within the Secretariat oversees the development, management and financial planning of the pipeline of concept notes and funding proposals in alignment with GCF portfolio-level goals and Board decisions on financial planning. The CIC convenes, as necessary, to review and validate the appraisals conducted by relevant divisions and to take decisions pursuant to a funding proposal's progress through the stages of appraisal.

The CIC has three distinct functions depending on the stage of the programming cycle (see **Table 4**). The CIC meetings at different moments of the process are called CIC1, CIC2 and CIC3.

All concept notes (and funding proposals that have not been previously submitted as concept notes) are required to undergo review at CIC2.[37] The CIC is responsible for providing strategic guidance on concept notes and funding proposals and clearance for further development and interdivisional review.

[37] *Refer to Administrative Instruction AI/OED/2019/001*

TABLE 4. THE CLIMATE INVESTMENT COMMITTEE

	MAIN QUESTION	EXPECTED INPUTS FROM TEAMS/DIVISIONS	EXPECTED OUTPUTS FROM CIC
CIC1	Will this CP or EWP lead to a pipeline of high-impact projects for GCF?	CPs and EWPs, with a focus on a memo or presentation prepared by the Task Team seeking a CIC decision that includes: • Impact potential · • Paradigm shift potential • Country ownership • Opportunity to promote complementarity and coherence	CIC decides whether to: • Endorse CPs and EWPs, including pipelines, for further development into CNs and funding proposals; or • Return them to NDAs and AEs for revision and a possible resubmission
CIC2	Does this proposed project or programme have the potential to fully meet GCF investment criteria?	CNs, with a focus on a memo or presentation prepared by the Task Team seeking a CIC decision that includes: • Project description • Theory of change • Preliminary assessment of fit with six investment criteria • Climate Impact appraisal area, according to Climate Guidance • Innovation and Additionality appraisal areas, according to IAT • Concessionality and Financial Structuring appraisal areas, according to corresponding tools • Paradigm shift potential, including sustainability and scalability • Country ownership • Fit with GCF portfolio-level goals **or** FPs, with a memo prepared by Task Team addressing specific issues highlighted by CIC2 at CN stage, seeking clearance for opening IPT review **or** FPs that have not previously been submitted as CNs, with a memo prepared by Task Team, focusing on above parameters, seeking clearance for opening IPT review	CIC decides whether to: • Endorse the CN for further development of the funding proposal • Recommend for further refinement or improvement, including Project Preparation Facility (PPF) • Endorse the CN for FP development, noting specific issues that require FP package to come back to CIC2 before opening IPT review • Return the CN to the AE for revision and potential resubmission • CIC2 provides guidance on issues that need to be addressed before CIC3 • Inform the AE that no further action will be taken on the CN **or** • Endorse the FP for proceeding to IPT review • Return the FP to AE for revision and potential resubmission to CIC2 • Inform the AE that no further action will be taken on the FP
CIC3	Is this funding proposal ready for review by the independent TAP and approval by the Board?	Funding proposals, with a focus on a memo/ presentation prepared by the Task Team seeking a CIC decision that includes: • Comments from CIC2 and how they have been addressed • Pricing and fees, including grant equivalence, based on an advanced draft of the term sheet • Evaluation against investment criteria, based on the draft assessment against all 10 appraisal areas by the Secretariat, with the help of the Investment Criteria Scorecard and other tools as indicated in section 3	CIC decides whether to: • Approve the financial terms and conditions for inclusion in the term sheet; • Endorse the final funding proposal package, including the advanced draft of the term sheet and the interim draft of the assessment by the Secretariat, to be presented to the Board; and • Endorse the funding proposal to proceed to the independent TAP; or • Return the funding proposal to the AE for revision and resubmission

The Task Manager, under the guidance of the Director responsible for project and programme origination (DMA or PSF) in consultation with technical experts from other Secretariat divisions as required, is responsible for deciding when a concept note (or funding proposal) will be brought for consideration at CIC2 and for leading the ensuing discussion. A concept note should be brought for CIC2 consideration when there is sufficient information (using the Climate Guidance, IAT and other tools as indicators) to have an informed discussion on the overall concept, which usually requires some interaction with the AE, according to the pre-CIC2 screening processes as outlined in **Figure 5** and the associated text above. Task Managers may bring concept notes to CIC2 for guidance on how to proceed in case of unique challenges or considerations. Only concept notes endorsed by CIC2 can proceed with applications for funds under the Project Preparation Facility (PPF) to support specific studies and activities necessary to prepare the full FP package.

The task team should provide the following information to the CIC2 meeting (in slides or supporting documents):

- Ratings of the CN against the Dimensions of the GCF Innovation and Additionality Tool and, optionally, against the ICS;
- An assessment of the proposal's impact potential, based on a climate assessment by the Climate Specialist and/or through the task team's application of the GCF Climate Guidance; and
- An assessment of Country Ownership.

Every proposal needs to be cleared by CIC2, either as a CN or as a FP, before the associated FP package can be submitted for review by the IPT. For projects or programmes that are cleared by CIC2 as CNs, the resulting FP package may proceed directly to the IPT review without returning for review by the CIC, unless the decision of the CIC2 meeting specifically indicated that it should do so, in order to assess specific issues of concern highlighted at that meeting. Refer to annex IX for details of the key discussion points considered by CIC2.

Without first being endorsed by a CIC3 meeting within the Secretariat, FP packages cannot proceed to review by the independent TAP, and thence potentially for Board consideration. As indicated in the decision flow in **Figure 5** and associated text, prior to submission to CIC3, the Task Team (TT) assigned by the Secretariat for a particular FP package undertakes an initial review of the proposal, verifies its completeness and screens for alignment with Investment Framework criteria using the ICS. The TT subsequently advises the AE to revise and resubmit, if necessary, on the basis of that screening. Once the TT has launched the IPT process, through an interdivisional kick-off meeting and by entering the FP package in the PRTP, several cycles of IPT review, feedback to AE, revision and resubmission may ensue. The FP package should not be submitted by the TT to CIC3 until and unless all IPT members have withdrawn their red flags from the PRTP.

CIC3 then decides whether the funding proposal should be sent to the Independent TAP and eventually the Board or returned to the AE for revisions and potential resubmission. The Board has authorized the Secretariat, through CIC3, to submit for its consideration only those FP packages that it recommends for approval by the Board.[38] Information provided to CIC3 to support this decision-making process includes:

- Changes and improvements to the project design and how comments from CIC2 have been addressed;

[38] *Board decision B.17/18, annex I*

- Performance of the FP against all six investment criteria, as assessed by the IPT using the Investment Criteria Scorecard and elaborated in the interim draft of the Secretariat Assessment;
- Financial terms and conditions, including instruments, interest rates, tenor, grace period, commitment fee, service charge, AE fee and project management costs;
- Results of other tools applied during the IPT review process, including the Grant Equivalent Calculator (GEC), Concessionality and Financial Structuring tools;
- Result of the Project Success Rating (PSR) Scorecard, indicating the risk factors that will require close monitoring during the implementation phase if the FP package is approved by the Board;

As part of the full FP package, the TT is expected to submit an advanced draft of the term sheet for the CIC3 review. The advanced draft should include the following key elements:

- **Project/programme activity information** including name, description and objectives;
- **Implementation arrangements** identifying the AE, EE(s) by component, output, sub-component or activity;
- **Total amount to be disbursed by the Fund** listing the form of financing (grant, loan, equity, guarantee) and the amount to be disbursed by GCF for the project/programme in reference to each financial instrument;
- **Components and financing** (by source), listing the breakdown of the costs and financiers including GCF and co-financiers for each of the components/outputs/activities of the project/programme;
- **Cost/budget breakdown** (using the appropriate template);
- **Disbursement plan**, indicating the number of disbursements and indicative amount of each disbursement that the AE would like to receive from GCF during the project/programme implementation period;
- **AE fee**, expressed as a percentage of the GCF Proceeds, supported by a fee budget in the GCF template and reviewed by the IPT;
- **Reporting period**, specifying the Effective Date and Completion Date for the Funded Activity;
- **Key financial terms and conditions for GCF Proceeds**, including downstream financial terms and conditions;
- **Conditions to be met** prior to FAA execution, FAA effectiveness, and disbursements;
- **GCF holding currency of disbursements;**
- **Financial reporting and accounting currency;**
- **Covenants;** and
- **For Programmes only: Selection criteria for sub-projects or investments**, as appropriate.

Note that as the term sheet negotiation continues between the Secretariat and the AE, the Task Manager continues to lead and facilitate the term sheet negotiations with the AE, with the participation of the GCF Secretariat's Office of the General Counsel (OGC). The negotiation can be conducted via email, conference calls or any other appropriate means.

If any provisions of the final term sheet differ from the advanced draft term sheet endorsed by CIC3 and result in the equivalent of a major change under the Policy on Restructuring and Cancellation, such changes must be submitted to CIC3 for endorsement.

4.2 THE INDEPENDENT TECHNICAL ADVISORY PANEL (TAP)

The independent TAP reviews the funding proposal package. There may be a visit to the Secretariat for internal discussions and consultation with the Task Team and other Secretariat staff if required. In many cases, a conference call will be organized with the AE.

The independent TAP records a written assessment of their decision on the quality of the funding proposal based on the documents, discussions and interaction with the AE. This independent TAP assessment is included in the FP package compiled by the Task Support.

As an independent body, the TAP develops its own review procedure, and is not governed by the Secretariat processes outlined in this document , nor does it make use of the tools described herein. The independent TAP review procedure is designed to assess a FP against the Investment Framework and, in so doing, will inherently address each of the ten appraisal areas. Decision 28/03 requests the Secretariat to develop a consistent approach to FP assessment "...in close consultation with the independent TAP...". The Secretariat thus consults with the independent TAP to facilitate mutual understanding of Secretariat and TAP respective procedures and confirm that they are consistent in scope and objective. The full and updated review procedure of the independent TAP is reproduced in annex VIII of this document.

SECTION 3.
TOOLS AND GUIDANCE

1. Concept Note Checklist
2. Climate guidance (mitigation and adaptation guides)
3. Innovation and Additionality Tool (IAT)
4. Financial Structuring Tool
5. Economic and Financial Analysis Guidance
6. Investment Criteria Scorecard (ICS)
7. Concessionality Tool
8. Sector Guides and SAP Technical Guidance
9. Grant Equivalent Calculator
10. SAP review Toolkit
11. Project Success Rating (PSR) Scorecard

TABLE 5. USE OF TOOLS AND GUIDANCE IN THE DUE DILIGENCE AND APPRAISAL PROCESS

		PRIOR TO CN SUBMISSION	GCF PROG. CYCLE STAGE 3 CN SUBMISSION AND REVIEW		GCF PROG. CYCLE STAGE 4 FP DEVELOPMENT		GCF PROG. CYCLE STAGE 5 FP REVIEW	
		AE	AE	SEC'T*	AE	SEC'T*	AE	SEC'T*
TOOLS	CN Checklist/ Review							
	IAT							
	Financial Structuring							
	Concessionality							
	ICS							
	GEC							
	PSR							
	SAP review toolkit							
GUIDANCE	EFA							
	Climate							
	Sector guides							

Note: * Secretariat

This section includes summaries of key tools and guidance that the GCF Secretariat has developed or is developing, to facilitate a consistent, transparent appraisal process for concept notes and funding proposals. **Table 5** above shows the recommended application of tools and guidance by AEs during their due diligence processes, and of their intended application by the GCF Secretariat in the context of the GCF Programming cycle. **Table 5** indicates that AEs are recommended to apply several tools and guidance documents prior to the first submission of a CN (or FP) to the GCF Secretariat, in order to self-appraise the quality of their submission and to expedite the appraisal process within the Secretariat. Please refer to **Figure 5** on page 21 for the Decision flow of the appraisal process.

The Financial Structuring Tool, Concessionality Tool, and Project Success Rating Scorecard are internal tools used by the Secretariat. The other tools and guidance documents are publicly available through hyperlinks in this section and as Annexes I-VII to this Appraisal Guidance document.

DOWNLOAD

1. CONCEPT NOTE CHECKLIST

USERS:	AEs Secretariat 1LOD
STAGE OF APPLICATION:	AEs: Prior to CN submission Secretariat: On receipt of a first version of a CN
OUTCOME OF APPLICATION:	Submission of a complete CN
PURPOSE:	This checklist was developed to support AEs, Delivery Partners and NDAs in their development and first submission of a CN. This checklist can also ensure consistency and efficiency in the initial review of CNs by the GCF Secretariat. The CN checklist capitalizes on the review process and feedback provided by the Secretariat Task Teams to AEs at the CN submission stage. The checklist supports AEs/NDAs and Delivery Partners in completing basic aspects of the CN with targeted questions in each section of the CN template. This checklist also provides basic recommendations and comments aimed at enhancing the completeness of the CN at first submission. The use of the CN checklist prior to CN submission is also expected to result in an increase in the quality of CNs at the time of first submission to the GCF Secretariat, and a decrease in the average time between first CN submission and CN presentation by Task Teams to CIC2.
SCOPE:	The CN checklist is an optional tool for all CNs at first submission and first review. The checklist is a simple and straightforward tool that does not require additional training or new credentials for external partners and Secretariat reviewers. The tool is adaptable and is expected to be further updated based on the integration of feedback provided by the Secretariat to AEs, Delivery Partners and NDAs when reviewing CNs. It can be updated regularly. This tool will ultimately support the transition of the CN template from a Word document to an online facility.
STATUS:	The CN checklist has been completed and is available for use by AEs and their partners; it is available in annex II of this document.

2. CLIMATE GUIDANCE (MITIGATION AND ADAPTATION GUIDES)

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	On first submission of a draft CN
OUTCOME OF APPLICATION:	CN continues to be assessed by the Secretariat, with a potential presentation to CIC2 **or** No further action taken on CN
PURPOSE:	GCF Climate Guidance focuses on the Climate Impact appraisal area and serves as the first screening within the decision flow of the Appraisal Process. If the draft CN is not relevant to mitigation or adaptation objectives, no further screening is possible. If the CN does not fall under the GCF mandate, the Appraisal Process ends here. Otherwise, the AE can revise the CN to incorporate Climate Impact according to the GCF Climate Guidance. Clear and consistent guidance on establishing climate impact potential will promote preparation of more complete funding proposals and a more consistent approach to reviews, allowing developing countries to more effectively access the Fund's resources by expediting funding proposal review and approval. This will enhance the Fund's ability to contribute to the objectives of the UNFCCC and the Paris Agreement and to make investment decisions that maximize opportunities for the climate actions of each country. The mitigation and adaptation guides are proposed to provide non-prescriptive guidance for developing proposals for mitigation and adaptation activities.
SCOPE:	The mitigation guide shall include external references on appropriate methodologies for GHG calculations. The adaptation guide shall include external references on credible models and databases for climate information.
STATUS:	Guides are in development, in parallel with the drafting of Board document "Steps to enhance the climate rationale of GCF-supported activities" and will be finalised on the endorsement of this paper by the Board. See annex III for GCF-WMO climate guidance and two examples.

In the context of climate impact, the GCF Board has provided decisions setting out how resources should be deployed to support mitigation and adaptation activities in developing countries. For adaptation, resources will be allocated based on: (1) the ability of a proposed activity to demonstrate its potential to adapt to the impacts of climate change in the context of promoting sustainable development and a paradigm shift; (2) the urgent and immediate needs of vulnerable countries, in particular least developed countries (LDCs), small island developing States (SIDS) and African States (B.05/05, paragraph d). For mitigation, resources will be allocated based on the ability of a proposed activity to demonstrate its potential to limit and reduce GHG emissions in the context of promoting a paradigm shift (see decision B.05/05, paragraph e).

The climate impact of a GCF funding proposal is assessed under the Impact Potential criterion of the GCF Investment Criteria. Mitigation impact is assessed in terms of the contribution of a project to the shift towards low-emission, sustainable development pathways. Adaptation impact is assessed in terms of the contribution of a project to increased climate-resilient sustainable development for the most vulnerable people and communities. The guidance referred to in this document should be seen in the context of enhancing the clarity of how funding proposals meet these existing investment criteria. The guidance is encapsulated in the paper "Steps to enhance the climate rationale of GCF-supported activities", which is scheduled for discussion by the GCF Board in 2022.

Formal guidance for both mitigation and adaptation will be described in two separate papers and follows a principles-based approach in both cases, identifying key elements for demonstrating a funding proposal's impact potential. The high-level guidance is supported by an evolving set of online resources that list and direct proposal developers towards a non-prescriptive set of tools, methodologies and climate data platforms that can help countries and accredited entities describe these elements. Proposal developers are encouraged to draw upon all relevant, available data and the tools or methodologies most appropriate to their specific proposal and context, recognizing that there are significant differences in data availability and capacities between countries.

Assessment of adaptation proposals (including the adaptation component of cross-cutting proposals)

For adaptation actions, impact potential is established by providing analysis and explanation that shows that a proposal is presenting an appropriate response to the threat of an ongoing and/or projected climate change hazard. Climate change adaptation aims to reduce the risks or vulnerabilities caused by climate change and to increase resilience to climate change. Clearly establishing climate impact requires a diverse range of information unique to each proposal. Proposals should use all relevant and available data. The significant variation in data availability across countries is recognised. Adaptation proposals are more complex since they will often seek to mainstream climate change knowledge into government policy and private sector activities, and directly address risks due to specific climate change hazards.

Adaptation proposals must demonstrate alignment with country priorities. They must also show that the proposed activity would not have occurred without GCF funding. Establishing the climate impact potential for an adaptation proposal involves several key components, as follows:

1. Proposals should identify the vulnerability of the region or country to climate change, describing who and what is at risk and what climate change hazard is in play. They should demonstrate an explicit connection between the climate change being experienced, or projected to be experienced, and the climate change impact for which an intervention is being proposed. Proposals should also consider non-climatic factors that may be causing the impact and describe the interactions between climate change and non-climatic drivers where possible. This overall analysis could draw on previously commissioned studies and existing country documents such as national adaptation plans (NAPs), national adaptation programmes of action (NAPAs), national and climate change strategies as well as peer-reviewed scientific literature.
2. Adaptation proposals should show how climate change has led (or will lead) to the specific impacts for which the proposed adaptation action is considered necessary. This would normally involve the presentation of both historic and future projected

climate data to present an assessment of how climate change is affecting, and/or will affect, the country or region. Defining the climate hazard and exposure involves gathering the best available data, which can include project-specific observational data, other historical climate data, other records (e.g. for non-climatic factors), and projected future changes to climate. This process should recognize the significant variation in data availability and should make use of the best available existing data and/or peer-reviewed scientific literature considering the proposal context and the capacities for a specific country or region.

3. A range of community tools and information platforms exist to assist in the retrieval and analysis of suitable observational data, gridded global datasets, atmospheric re-analyses, and Intergovernmental Panel on Climate Change (IPCC) climate model projections. Since these platforms and available data are constantly evolving, there is no prescription for which to choose. Proposal developers should use the tools, information platforms and climate data that are most relevant to the risks and hazards specific to their proposal and should seek consensus amongst different information sources where possible. Proposal developers may develop their own, proposal-specific tools, if necessary, and where they have the technical capacity to do so.

4. Adaptation proposals should link the climate change problem to risk to a particular sector, or section of the population by examining the vulnerability of that sector or group to the specific climate change hazard. This assessment may examine socio-economic mechanisms that exacerbate climate change impacts and can also provide the information required to ensure that the proposed activity will not lead to maladaptation.[39,40,41] Whilst top-down assessments of physical conditions that lead to climate impact drivers (points 2 and 3 above) are necessary, an understanding of the factors that make people vulnerable to climate change risks is equally necessary. These are often locally generated and require bottom-up analysis. Factors at the national and regional levels also determine vulnerabilities. Recent guidelines[42] propose a non-prescriptive, country-driven, gender-responsive, participatory action, taking into consideration vulnerable groups, communities, and ecosystems.

5. Proposals should demonstrate how the specific adaptation activities aim to reduce the stated vulnerability. Proposals should apply a methodological approach for the quantification of the number of people expected to benefit from the activities. They should also consider any barriers (i.e. technical, social, institutional or regulatory barriers) to the implementation of the chosen action and describe how the project would overcome those barriers.

6. Adaptation proposals should confirm alignment of the proposed activities with the participating countries' national plans and climate strategies (including their NAPs, NAPAs, long-term climate strategies, adaptation communications and NDCs, as applicable).

7. Proposals should include a description of the monitoring and reporting system that will be used to assess the climate impact of the proposed activity. During implementation, this will facilitate the assessment of whether the funded activity generated the proposed climate impact.

To assist in the development and assessment of adaptation proposals, the climate guidance includes a framework of online resources that lists and provides links to a

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[39] *Avoiding maladaptation means that the proposed actions taken to avoid or reduce vulnerability to climate change will not: i) have adverse impacts on, or increases the vulnerability of other systems, sectors or social groups or ii) lead to the emergence of negative impacts in the medium to long term.*

[40] *Barnett, J. and S. O'Neill, 2010: Maladaptation. Global Environmental Change, 20(2), 211-213.*

[41] *Working Group II Contribution to the Fifth Assessment Report of the IPCC section 7.5.1.4. Facilitating Adaptation and Avoiding Maladaptation.*

[42] *https://environmentalmigration.iom.int/national-adaptation-plans-technical-guidelines-national-adaptation-plan-process*

comprehensive suite of climate data platforms, methodologies, and community best practices. This will provide a dynamic portal to climate information platforms (e.g. the GCF/WMO Climate Information platform, the IPCC Working Group I Interactive Atlas, and other similar platforms) that provide user-friendly tools for describing both historic and future climate change in a country or region. This will also contain country profiles of climate hazards for which there is scientific consensus for both current trends and future projections of particular climate indicators. These profiles will identify incontrovertible climate change hazards and associated impacts where there is high consensus and known adaptation measures for these hazards and impacts.

Assessment of mitigation proposals (including the mitigation component of cross-cutting proposals)

For mitigation actions to prove impact potential they should demonstrate that a projected level of emission reductions will occur, and that these emission reductions would not have happened without the GCF-funded intervention. The climate guidance is based on the experience of other climate finance mechanisms, as well as GCF experience in assessing the mitigation impact of its investments, and it will be updated periodically to reflect the most recent developments related to mitigation impact assessment.

The mitigation guidance summarizes the approach recommended by GCF in relation to the assessment of GHG emission reductions or removal of GHG emissions by sinks (also referred to as "mitigation impact") in GCF mitigation and cross-cutting funded activities. For GCF, the mitigation impact is defined as tonnes of CO_2 equivalent reductions (tCO_2e). Establishing the impact potential for a mitigation proposal involves several key components, as follows:

1. The proposal should confirm alignment of the proposed activities with country priorities, including nationally determined contributions (NDC) or other national and long-term climate strategies. This helps ensure the integration of country ownership into the proposal and the targeting of the national areas of highest potential impact and need by interventions.
2. The additionality of the funded activity should be demonstrated. In the context of a mitigation project, an activity is considered "additional" if it can be shown that the GHG emission reductions would not occur in the absence of GCF funding.
3. A methodological approach for the quantification of the activity's mitigation impact and its monitoring needs should be selected and implemented. GCF does not prescribe any specific methodologies, but strongly encourages accredited entities to utilize the many tools and methodologies developed for the quantification and monitoring of mitigation impact. Since the adoption of the Kyoto Protocol and the Paris Agreement, significant work has gone into establishing methodologies for mitigation activities. Examples of suitable methods include the Clean Development Mechanism (CDM), and the Joint Implementation (JI) mechanism under the Kyoto Protocol, which have established methodologies for quantifying mitigation impact for projects. Multilateral development banks and bilateral donors have also developed their own approaches towards establishing the mitigation impact potential of projects. Proposal developers should use mitigation methodologies that are most relevant to the activities in their proposal. Proposal developers may develop their own, proposal-specific methodologies if no other existing methodologies are suitable and if they have the technical capacity to do so, but they are nonetheless expected to follow mitigation guidance (under development).
4. The quantification of mitigation impact should also use consistent assumptions (e.g. emission factors) to those made in national GHG reporting as this will allow for the

accurate quantification of the support provided to countries in meeting their goals under the Paris Agreement.

5. The proposal should describe the establishment of a monitoring and reporting system for the mitigation impact of the proposed activity. During implementation, this will facilitate the assessment of whether the funded activity has generated the projected mitigation impact. This will in turn enable the Fund, accredited entities, and host countries to increase the impact of future mitigation activities.

When developing proposals to GCF for mitigation and for cross-cutting projects, accredited entities are required to submit **Annex 22** that details how the mitigation calculations were undertaken — this mandatory component for funding proposal submissions consists of two parts. The first part is a narrative describing the individual mitigation activities, the selection of the methodology for assessing the impact of mitigation actions (the mitigation methodology), and the demonstration of additionality as per the chosen mitigation methodologies. The second part of **Annex 22** consists of an Excel spreadsheet that provides all calculations of the emission reductions in a way that facilitates verification and transparency.

DOWNLOAD

3. INNOVATION AND ADDITIONALITY TOOL (IAT)

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	On completion of CN
OUTCOME OF APPLICATION:	CN continues to be assessed by the GCF Secretariat, with a potential presentation to CIC2 **or** No further action taken on CN
PURPOSE:	The Innovation and Additionality Tool (IAT) has been developed specifically to address the concept of "GCF Additionality" according to the following definition: "A project would be considered additional if the project (and its resulting positive climate impact) would not have occurred in the absence of GCF funding." The IAT is also designed to assess the degree to which the proposed project or programme is innovative. Along with Climate Guidance, the IAT is applied at the first stage of screening within the decision flow of the Appraisal Process and is independent and supplementary to the additionality requirements demonstrated under the mitigation methodologies for Annex 22 (see previous section). Only CNs that have already been confirmed as consistent with Climate Guidance will need to be screened using the IAT. Confirmation of GCF Additionality through this tool implies that the CN has clearly defined barriers to investment, has described how those barriers will be addressed, and has demonstrated that other sources of funding and support would not address these barriers as effectively. Confirmation of Innovation implies that the CN incorporates innovative approaches as outlined in the description of the Innovation appraisal area in Section 2. The tool thus serves as confirmation that the concept falls within the GCF mandate and justifies investment from the AE to develop a full proposal package. The results of the tool can inform the presentation of the Task Team to CIC2.
SCOPE:	The IAT covers not only the appraisal areas of Additionality and Innovation, but also includes parameters relevant to the areas of Scalability, Sustainability and Concessionality, in order to confirm fit with the GCF mandate. The tool will assess projects and programmes against the following dimensions: • Baseline investment context and alternatives to proposed activities • Non-financial barriers to the proposed activities • Financial barriers to the proposed activities Innovation: AEs should provide clear descriptions of the current practice in the relevant country and sector, identify past or existing initiatives active in the sector and illustrate how the proposed intervention achieves climate impact that existing practice or other initiatives cannot achieve.
STATUS:	The IAT in Excel format has been finalized, along with a user manual (annex IV in this document). The tool is undergoing piloting within the Secretariat prior to full rollout and is also available for external use by AEs.

Following the introduction of the ICS and its successful application in the appraisal of full Funding Proposal packages, the GCF Secretariat recognised the need for a standardised approach for appraisal at the Concept Note stage. At the same time, the need for a dedicated Additionality Tool was also identified in order to provide a deeper assessment of the appraisal area of Additionality than the ICS provides. During the development of the Appraisal Guidance, the potential for combining these two deliverables and explicitly incorporating the appraisal area of Innovation was identified. The elements identified for inclusion in the Dimensions of the IAT correspond closely to the appraisal areas that need to be addressed at the early stages of the decision flow of the Appraisal Process.

The IAT has been designed to have full complementarity and inter-compatibility with the ICS. Relevant elements of a completed ICS can be imported directly into the IAT score sheet to avoid duplication of effort. This functionality will be reciprocated in future revisions of the ICS.

In case the AE submits a full FP package to the GCF Secretariat without first submitting a Concept Note for review and appraisal (thus omitting the voluntary Stage 3 in the GCF Programming Cycle), the FP must still be reviewed by CIC2 before proceeding for finalisation and inter-divisional review. In this case, the IAT will be applied to the full FP. Accordingly, the tool has been designed to be compatible with both CNs and FPs. As with CNs, if the outcome of the IAT application indicates that the project or programme does not demonstrate "GCF Additionality", the AE will be advised that the Secretariat will take no further action on the FP.

Subsequent to confirmation of the potential of the proposed project or programme to achieve Climate Impact through application of the Climate Guidance, the IAT focuses on the information necessary to confirm that the AE has conceived and designed the initiative in such a way that this potential can be realised. GCF expects the technical and institutional competence of the AE, as determined through the Accreditation process, to be applied in the development of the full FP, and that the AE will invest their resources, as necessary, in this development supplemented by financial and technical support through the Project Preparation Facility (PPF), if necessary. Appraisal of detailed technical, financial and operational information can be conducted only when this investment has been made. At the CN stage, therefore, before the AE has committed resources to the FP development, the IAT must focus specifically on the conceptual framework of the initiative, ensuring that AE investment in FP development, and thereafter GCF investment in FP implementation, will ultimately contribute to fulfilling the GCF mandate.

To this end, the four Dimensions of the IAT can be summarised as follows:

- **Dimension 1:** *A well-defined investment baseline and alternatives to project activities.* Projects should deliver impact outcomes that perform well against a clear investment baseline, and clearly explain how the proposed activities are better than available alternatives.[43]
- **Dimensions 2 and 3:** *Addressing market barriers [non-financial (2) and financial (3)].* There should be market failures and/or excessive risks and uncertainties presenting barriers to commercial investment, and GCF investment should address them in order to make the envisioned project possible/viable. The IAT seeks information on which barriers are addressed, how and to what extent GCF support facilitates this, and evidence that these barriers are not addressed by other instruments available in

[43] *https://ghginstitute.org/wp-content/uploads/2015/04/AdditionalityPaper_Part-1ver3FINAL.pdf*

the market. These dimensions also account for the socio-economic vulnerability of the country context and ease of access to finance.[44,45]

- **Dimension 4:** *Advancing Innovation and accounting for second order effects of the intervention:* Projects should contribute to a sustainable paradigm shift in the market of the implementation country through characteristics including but not limited to technological innovation and business model or regulatory innovation in comparison to previous interventions.

Scoring methodology: The scoring methodology for the IAT is designed to be sufficiently flexible to recognize particularly robust instances of additionality when they are present.

The indicators used to construct scores along each of the four dimensions follow a mathematical formula. Indicators are combined to arrive at the score for each dimension. Within dimensions, indicators are weighted according to the sector of application, type of entity applying for funding, and whether a project (or sub-project in the case of programmes) is mitigation- or adaptation-focused (see annex IV for details). Once scores for each dimension are calculated, the IAT score is calculated as the average of the scores across all four dimensions.

4. FINANCIAL STRUCTURING TOOL

USERS:	Secretariat 1LOD and 2LOD
STAGE OF APPLICATION:	CIC2
OUTCOME OF APPLICATION:	Financial instruments proposed in CN are confirmed to be appropriate to the initiative **or** Advise AE to revise financial structure
PURPOSE:	The Financial Structuring tool and associated guidance will help AEs and the GCF Secretariat to identify the suitable financial instrument for GCF funding to a project or programme. The appropriate financial instrument shall support the viability of the project and promote long-term sustainability of the project activities.
SCOPE:	The selection will consider factors such as country and project context, market failures, provision of public goods, co-financing size and instruments, revenue potential and level of uncertainty related to revenue potential. The tool will ensure consistency of AE accreditation status and capacity with the financial instruments required for the proposed project or programme.
STATUS:	Discussions of tool design initiated within the Secretariat in 2021. Development anticipated in 2022.

[44] *https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf*

[45] *https://lawreview.vermontlaw.edu/wp-content/uploads/2015/05/39-2-07_Greenglass.pdf*

With the range of financial instruments available to GCF, there is the potential for considerably greater efficiency in terms of return on investment than would be possible for a fund limited to grant-based finance only. However, this flexibility is limited depending on the AEs concerned. The financial structure of Funding Proposals should therefore be aligned with the accreditation status of AEs.

The Financial Structuring tool is conceived in recognition of the fact that AEs with different accreditation status are suited to the development of different types of GCF projects and programmes, particularly with respect to the financial instruments. AEs and national institutions that have only implemented grant-financed projects may not be familiar with the relative benefits of debt, equity and guarantee instruments, and the circumstances for which they are suited.

The Financial Structuring tool will be applied at an early stage of the decision flow in the Appraisal Process in order to ensure that AEs do not invest significant time and resources into initiatives for which alternative financial instruments are better suited, particularly if their accreditation status does not extend to these instruments. It is therefore proposed that the tool be applied prior to the presentation of CNs at CIC2, thus providing AEs and NDAs with the opportunity to:

a. Redesign CNs to ensure they match the AE accreditation status and are therefore suited to the financial instruments that the AE can administer.
b. In case the initiative requires the use of financial instruments that are beyond the AE accreditation status and cannot feasibly be redesigned, identify appropriate partnerships and implementation arrangements to ensure that the appropriate instruments can be used, including, if necessary, the identification of an alternative AE.

The Financial Structuring tool will be developed to be inter-compatible with the Concessionality Tool (see section 3.7 below). As well as being employed prior to CIC2, it will be used in parallel with the IPT review to confirm the appropriate composition of the full FP package prior to submission to CIC3.

5. ECONOMIC AND FINANCIAL ANALYSIS GUIDANCE

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	• On first submission of a draft FP • Optional on first submission of a CN • Optional on first submission of a SAP FP
OUTCOME OF APPLICATION:	Confirm FP for presentation to CIC3 **or** Advise AE to revise FP, Improve project Efficiency and Effectiveness
PURPOSE:	GCF Economic and Financial Analysis (EFA) Guidance aims at helping AEs develop an economic and financial analysis that successfully inform the GCF Efficiency and Effectiveness investment criteria assessment. The EFA is a tool that enables an evidence-based approach to maximizing projects' efficient use of concessionality when implementing activities; as well as the effectiveness of the project in achieving mitigation and adaptation outcomes.
SCOPE:	EFA Guidance discusses technical considerations of EFA scope and objectives. It provides sector-level suggestions to AE for economic analysis with a focus on delivering a technically sound and relevant analysis. It also discusses the use of financial analysis to demonstrate the role of GCF concessionality in project financial viability. The EFA Guidance further discusses the contribution of EFA to the other GCF investment criteria as well the way the EFA Annex (Annex 3 of the complete submission of the FP package) should be considered in relation to the FP, the project budget, the feasibility study, and GHG emissions/beneficiary calculations.
STATUS:	The EFA Guidance document was reviewed by an inter-divisional group and by external consultants. The final version is available for use by the Secretariat and AEs and is attached to this document as annex VI.

Accredited Entities are required to submit an Economic and Financial Analysis (EFA) as part of the Funding Proposal submission package during the Proposal Approval Process (PAP). The EFA is the key source of information used by the GCF Secretariat when assessing the Efficiency and Effectiveness of FPs. The EFA guidance has been developed to facilitate consistency in EFA submissions by AEs, and thus to allow the assessment of project efficiency and effectiveness based on comparable scope and methodologies.

The EFA guidance will help AEs to develop a standardized analysis that best informs the Secretariat assessment. The Secretariat is focused on providing guidance on five areas: the structure of an EFA, assumptions, scope considerations, the interpretation of the results, and the positioning of the EFA in relation to the rest of the submission package.

The EFA guidance was designed specifically in response to the challenges observed by the GCF Secretariat during the development of the EFA annex 3 as part of the full FP package, and is therefore envisaged as a key tool for AEs to use at stage 4 of the programming cycle, and will be used by the Secretariat as a means to review EFA submissions in the IPT review process prior to CIC3. However, it is also recommended that AEs review the EFA guidance to inform the development of CNs. The EFA guidance is complementary to the Innovation and Additionality Tool and can be used by AEs to address issues under Dimension 3 of the IAT, in particular. Both the Financial Structuring Tool and the Concessionality Tool will also support the consistent implementation of the EFA guidance.

The GCF PAP annex 3 makes a distinction between the two components of an EFA, the economic analysis and the financial analysis. The economic analysis is an assessment of the project's returns at the level of the entire economy. It encompasses positive and negative externalities and aims at assessing the effectiveness of projects in achieving mitigation and adaptation outcomes. The financial analysis is performed at a project or beneficiary level. It aims at assessing the efficiency of the FP's use of concessionality with a focus on understanding the role of concessionality within the GCF context, in particular regarding the project's financial viability. The combined output of the economic and financial analysis provides a full picture for the assessment of the efficiency and effectiveness investment criterion. As well as contributing directly to the appraisal area of Concessionality, the EFA guidance also relates to the Financial Structuring and Additionality appraisal areas.

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6. INVESTMENT CRITERIA SCORECARD (ICS)

USERS:	AEs Secretariat 1LOD
STAGE OF APPLICATION:	AEs: Flexible – at any point in their due diligence and appraisal process Secretariat: On receipt of complete FP package and prior to the initiation of IPT review
OUTCOME OF APPLICATION:	Launch of inter-divisional review on the Project Review and Tracking Platform (PRTP)
PURPOSE AND APPLICABILITY:	The ICS tool aims to support the GCF Secretariat's objective appraisal of funding proposals against the GCF investment criteria, thus encouraging their development into high quality and complete funding proposals for submission to the Board. The ICS is part of an established framework to support GCF operations. It enables GCF to maximize positive climate impacts and minimize risks of adverse impacts. Alongside the IAT and Climate Guidance, the ICS aims to improve transparency, discipline, and the objectivity of the appraisal process in line with Board decision B.28/03. The AE, with support from the task team, should use the ICS to self-assess their FP package and indicate to the Secretariat their readiness for IPT review. The task team, after applying the ICS to the complete FP package, shares the full results of the tool (including explanatory notes as necessary) with the IPT at the same time as the PRTP is launched. The results of the ICS may thereafter prompt in-depth analysis of the components of the package and dialogue of IPT members with the AE to address gaps and weaknesses. The ICS may be applied again towards the end of the IPT review to update the results of the tool and to prepare for presentation at the CIC3 meeting.
SCOPE:	ICS version 2 covers the following: • Six investment criteria from Decision B.07/06 of the Initial Investment Framework • 24 sub-criteria from Decision B.09/07 on Further development of sub-criteria and methodology for the Initial Investment Framework • 31 indicators including a mix of quantitative indicators based on benchmarking of project and related data entries against project and country-level data evidence and qualitative indicators based on yes/no checklists to objectively validate specific, carefully described scenarios/circumstances based on information in the funding proposal.
STATUS:	Version 2 of the ICS was completed in 2020 and has been implemented since its completion. It is currently used by Task Teams in DMA and PSF. Results are presented at CIC3. The current ICS is included in annex I of this document. An update is being considered to expand the ICS tool to ensure a full coverage of the indicators under the Investment Framework and for the use of the tool both to facilitate DMA and PSF identification of key areas for improvement of FPs and discussion with AEs, and as a means for justifying the opening of inter-divisional review via PRTP. The IAT has been designed to be inter-compatible with the ICS, and a further update of the ICS tool may be required to ensure that this inter-compatibility is reciprocal.

In the Appraisal Process, the tool is applied as the first comprehensive screening of a full proposal package. It is intended as an aid to both the AE and the task teams in the GCF Secretariat to ensure that proposals are complete and meet all Investment Framework criteria.

The tool is designed to provide objective assessments against each of the six Investment Framework criteria and, in so doing, includes questions that address all of the ten appraisal areas introduced in this document. The ICS is publicly available and can potentially be used by an AE at any time during the appraisal process to assess a CN or FP package against the Investment Framework criteria and appraisal areas.

The ICS should be completed prior to the launch of the review by the inter-divisional project team (IPT). It does not provide a benchmark or threshold that FPs must reach before PRTP is opened, but instead facilitates the work of the IPT by indicating the areas or components of the package that require more information from AEs, and thus the degree of attention required from respective IPT members.

The release of the ICS as a tool for use by AEs, along with the IAT and Climate Guidance, serves to increase the transparency of the GCF appraisal process and to further clarify to AEs and other stakeholders involved in proposal development the key parameters that the Secretariat looks for in order to confirm a proposal's fit with the GCF mandate. It is important to note, however, that the ICS provides an indicative overview of the quality of a proposal according to the sub-criteria of the Investment Framework. It does not provide an in-depth, comprehensive assessment of the FP package, and will not be used in isolation to justify the endorsement of an FP by the Secretariat at CIC3 or other stages in the appraisal process. AEs are expected to demonstrate that they have applied their own due diligence throughout the various elements of the FP package.

The full list of questions covered by the ICS, categorised by the six Investment Criteria and 24 coverage areas (sub-criteria), along with the indicators and methodologies used to assess each coverage area, are described in detail in annex I.

7. CONCESSIONALITY TOOL

USERS:	Secretariat 1LOD and 2LOD
STAGE OF APPLICATION:	• On completion of CN, prior to CIC2 • On submission of full FP package, prior to CIC3
OUTCOME OF APPLICATION:	Confirmation that the project or programme budget is in the appropriate range **or** Advise AE to revisit and adjust budget and financial breakdown of project or programme
PURPOSE AND APPLICABILITY:	A concessionality tool can provide the indicative price that GCF should charge to make a project financially viable in order to achieve the climate impact. Such a calculation can be based on expected project financial returns, and the quantum and pricing of the co-financers. Such a tool can incorporate benchmarks such as a sovereign yield curve in order to double check the pricing suggested by co-financers. The tool can be used to demonstrate the active risk-bearing nature of GCF investments by measuring the extent to which GCF accepts below-market financial rates of return that would normally be necessary to make projects viable. The final output of the tool may be the range of pricing that GCF should charge or apply to achieve a range of returns.
SCOPE:	The scope of the Concessionality Tool will be focused on the calculation of the minimum level of GCF financing required to make a project or programme viable based on the appropriate financial instruments.
STATUS:	Discussions of tool design initiated within the Secretariat in 2021. Development anticipated in 2022.

Recognising the importance of GCF's mandate to facilitate high-impact climate action that would otherwise not take place, through support to both public and private operations, the Concessionality Tool is designed to provide a consistent and systematic approach to the selection of the most appropriate financial instrument and the relevant level of concessionality for funding proposals submitted to the Board.

The Concessionality Tool is internal to the GCF Secretariat and will be applied at an early stage of the decision flow in the Appraisal Process to assess the suitability of the type and level of concessionality proposed by the AE.

Currently determined on a case-by-case basis, contributing factors in determining concessionality include, for example, the potential for reflows and rate of return, opportunities for overcoming barriers, and the potential for catalysed or leveraged investments. Equally important, concessional forms of financing, while supporting financial viability, should not crowd out any private or public investment and should minimize market distortions and potential disincentives to private investment.

The Concessionality Tool will provide an indication of the price required to make a project or programme financially viable with a view to achieving the climate impact. It will incorporate a financial analysis that calculates the internal rates of return with and without GCF concessionality, and benchmarks such as a sovereign yield curve to validate the pricing suggested by co-financiers.

The Concessionality Tool will be developed to be inter-compatible with the Financial Structuring Tool. As well as being employed prior to CIC2, it will be used in parallel with the IPT review to confirm the appropriate composition of the full FP package prior to submission to CIC3.

8. SECTOR GUIDES AND SAP TECHNICAL GUIDANCE

USERS:	AEs Secretariat 1LOD
STAGE OF APPLICATION:	Throughout CN and FP development and appraisal process
OUTCOME OF APPLICATION:	FP contributes to paradigm-shifting pathways with respect to the relevant sector or sectors.
PURPOSE:	The Sector Guides focus on how GCF can support developing countries in their transition to low-emission and climate-resilient pathways according to the priorities elaborated in their NDCs. It supports the progressive work programme approved for 2020–2023 as part of the updated Strategic Plan, providing evidence-based information for impactful projects in priority investment areas and giving further momentum to making GCF operations more efficient and more effective. There are eight result areas that GCF has targeted because of their potential to deliver a substantial impact on mitigation and adaptation in response to climate change. Result areas provide the reference points that guide GCF and its stakeholders to ensure a strategic approach when developing programmes and projects, while respecting the needs and priorities of individual countries. The Sector Guides outline pathways in each respective result area for achieving a paradigm shift. The Sector Guides are intended for use by AEs and development partners to facilitate the conceptualization of initiatives that are aligned with innovative, climate-relevant paradigm shifting pathways. They are expected to enhance the ability of AEs to ensure that CNs and FPs are consistent with the appraisal areas of Innovation and Technical Soundness. An additional series of technical guidance documents have been developed specifically to assist GCF AEs and NDAs in their development of concept notes and funding proposals for the SAP. More concise than the Sector Guides, these SAP technical guidance documents also cover topics across the eight GCF result areas, focusing on the potential application of the SAP modality within each of the sectors addressed.

SCOPE:	Each Sector Guide provides an overview of the respective sector within the global context of climate action, highlights the typical barriers and opportunities to achieving a paradigm shift in each sector and provides an overview of financing trends and models to catalyse public and private investments. In addition, country experiences are described and specific guidance for the development of impactful projects and programmes in relation to GCF investment criteria are provided. The following Sector Guides have been drafted and will be available for use by AEs within 2022: • Agriculture and Food Security • Cities, Buildings and Urban Systems • Ecosystems and Ecosystem Services • Forest and Land Use • Energy Generation and Access • Climate Information and Early Warning Systems • Health and Well-being • Water Security • Low Emission Transport • Energy Efficiency The SAP technical guidance documents, in addition to providing a concise summary of the technical information and paradigm shifting pathways provided in the Sector Guides, include a section with project scenarios that outline specific examples of potential SAP interventions for GCF funding. They provide general clarifications on what activities are deemed to be applicable for the SAP that would typically be considered to have minimal or no environmental and social risks and impacts in the specific sectoral contexts. The following SAP technical guidance have been developed and are available in the compendium: • Agriculture and Food Security • Ecosystems and Ecosystem Services • Water Security • Cities, Buildings and Urban Systems • Energy Efficiency for industries and appliances • Forest and Land Use • REDD+ • Renewable Energy • Transport
STATUS:	**Final Draft Sector Guides available on GCF website:** • **Agriculture and Food Security** • **Ecosystems and Ecosystem Services** • **Cities, Buildings and Urban Systems** • **Forests and Land Use** • Supplemental guidance, in the form of annexes, checklists or other guidance documents will be developed in specific areas as needed. • **SAP technical guidance documents** are all available on GCF website as part of the SAP Compendium. • The SAP Toolkit is Included in annex VII of this document.

9. GRANT EQUIVALENT CALCULATOR

DOWNLOAD

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	Prior to CIC3, as part of the inter-divisional review
OUTCOME OF APPLICATION:	Objective measure of concessionality of FP
PURPOSE:	The GEC was developed to measure the concessionality of funding proposals submitted to GCF and to enable consistent comparison of concessionality across all funding proposals. The GEC is a transparent, publicly available calculation **tool** that allows both the Secretariat and AEs to confirm the appropriate level of financing for a funding proposal according to the financial instruments used and thence to identify the amount of grant funding that would have been necessary to finance the same interventions. Though primarily developed for use by the Secretariat to conduct appraisal in the area of Concessionality and for regular reporting to the Board against targets in Grant Equivalent terms, it is also advisable for AEs to use the tool independently to ensure that their funding requests in their CNs and FPs are at the appropriate scale.
SCOPE:	The GEC covers all financial instruments in use by GCF.
STATUS:	The GEC was completed in 2017. Implementation is ongoing, conducted by origination teams (DMA and PSF) for presentation at CIC3, and is also employed by OED for monitoring and reporting against Fund-level targets. The Grant Equivalent Calculator is included in annex V of this document.

The full instruction manual for use of the GEC is included in this document in annex V. The general logic of the tool is as follows:

- Overall formula: Grant equivalent = Present Value of funding under market conditions (estimated) ***minus*** Present Value of reflows to GCF (based on proposal term sheets).
- Grant Equivalent (GE) is a standardised measurement to evaluate the concessionality of a funding project.
- GE is presented in either portion of the overall GCF funding size (percentage) or absolute terms (displayed as USD, but can be treated as any currency).
- Higher GE means higher concessionality of the project.
- Present Value of reflows and principal may include interest and principal repayment received from the borrower of loans, dividend received from the project, fees charged by GCF, etc.
- If the user inputs conditions that are outside the acceptable limits (e.g. grace period longer than tenor), an error message is displayed.
- The user is encouraged to follow parameters stated in the term sheets, as they are within the acceptable limits.
- If a term sheet consists of multiple non-grant financial instruments (e.g. grant + loan + equity), the user should treat them separately.

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10. SAP REVIEW TOOLKIT

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	• On submission of full SAP CN, prior to CIC2 • On submission of full SAP FP package, prior to CIC3
OUTCOME OF APPLICATION:	• SAP FPs cleared by IPT for submission to CIC • SAP CNs are cleared to progress to FP stage
PURPOSE:	The SAP review toolkit responds to multiple Board mandates including the original SAP decision, B.18/06, which asked the Secretariat to reduce the time and effort needed for the review of SAPs, and decision B.28/03, where the Board requested the Secretariat, in consultation with the Independent TAP, to develop a transparent and consistent approach to their assessment of funding proposals. Further to Board decisions, the SAP review toolkit also responds to the IEU Rapid Assessment of the SAP that recommended that the Secretariat enhance the clarity of guidance on the review criteria used by the Secretariat and Independent TAP and should provide one consolidated set of comments on each CN and FP. The SAP review checklist is used to confirm the completeness of the SAP proposals while guiding the appraisals of the Secretariat staff and consultants towards a streamlined process and providing clarity to the AEs of the type and quality of information that is expected in each section of the SAP CN/FP and annexes.
SCOPE:	The SAP Review Toolkit is intended for application against all concept notes and funding proposals submitted through the SAP modality and covers all six IF criteria and ten appraisal areas.
STATUS:	Following extensive consultations with all GCF divisions and the independent TAP, the SAP tool was completed in November 2021. Following SMT endorsement in January 2022, the SAP team updated the toolkit to be consistent with new templates. The toolkit will be rolled out within the Secretariat and shared with external reviewers during 2022. The SAP procedures are described in Annex VII.

In line with Board decision B.32/05, the Simplified Approval Process (SAP) is designed to expedite the progress of low-risk, smaller investments (up to USD 25m GCF financing) through the GCF Secretariat's Programming Cycle. The SAP should maintain the appropriate levels of due diligence by both AE and the Secretariat, while recognizing that gains in efficiency are to be made by reducing the amount of time spent by Secretariat personnel in the review and appraisal of these proposals, in comparison to large, higher-risk and more complex investments.

The SAP Review Toolkit was therefore developed to cover a comprehensive set of all key parameters and variables considered in the appraisal of low-risk proposals, ensuring consistency in the Secretariat's CN and FP review with regard to SAPs. Regular application of this toolkit by Task Teams is expected to reduce the number of revision and resubmission cycles for SAPs, and thus substantially reduce the feedback cycles to AEs and ensuring SAP target review times for CNs and FPs are met.

The use of the SAP review toolkit for review of CNs and FPs does not replace the use of the other tools described in this Appraisal Guidance document. The SAP review toolkit complements other tools to facilitate a quicker progression through the Secretariat's

CN and FP review process for SAP proposals, provided that the AE has conducted their own Due Diligence and Appraisal functions comprehensively.

The Secretariat has developed an SAP FP preparation guidance and e-learning package to provide AEs with a thorough overview of what is expected of an SAP FP and to aid reviewers of SAP FPs within the Secretariat and external firms or consultants engaged for this purpose by the Secretariat. The SAP FP Guideline and SAP e-learning provide section-by-section guidance on what should be included in an SAP FP. This document and e-learning provide general clarifications on the indicative content expected in an SAP funding proposal.

The SAP FP Guidance is available on the GCF website, and the SAP e-learning module is available on the GCF ilearn platform with links available on the GCF website.

Following the adoption of the IRMF, the SAP FP Guidance and e-learning are being updated to reflect the changes to the SAP FP template. The guideline and e-learning refer to policies approved by the Board and will be further updated as necessary to be consistent with new and updated policies.

11. PROJECT SUCCESS RATING (PSR) SCORECARD

USERS:	Secretariat 2LOD
STAGE OF APPLICATION:	Prior to CIC3 or after completion of term sheet
PURPOSE AND APPLICABILITY:	As part of the Board's support for the continuous development of risk policies and guidelines and considering its focus on climate change, the Secretariat initiated the development of the Project Success Rating (PSR) scorecard, which is a customized rating tool for estimating the likelihood of the project or programme achieving its envisaged climate impact using a range of qualitative and quantitative criteria.[46] The development of the PSR is expected to improve the transparency of the risk assessment. Its objective is similar to various scorecards and rating models used by public sector and private sector institutions to support decision-making processes for project financing. The PSR scorecard is applicable to all projects and programmes, whether operating in a single country or regional/multiple country context, across result areas and irrespective of financial instrument. The PSR scorecard can be used as an assessment tool during pre-approval stages and during the implementation stage of a project or programme for monitoring and portfolio analysis purposes.
SCOPE:	Factors assessing PSR are grouped across three major sections, as presented below: 1. AE & EE factors a. AE Experience and Involvement b. EE Management and Experience 2. Macro factors a. Global Competitive Index (GCI) - World Economic Forum b. ND-Gain Index Factors 3. Project-specific factors a. Environment & Social Risk b. Technology Risk c. External Risk d. Affordability e. FX and Cost Stability f. Project Fund Certainty g. CRR rating
STATUS:	The tool has been completed and pilot testing has been done. The tool will be fully implemented in 2022.

The PSR utilizes information available in FP packages, including the Term Sheet. It is applicable to all projects and programmes, whether operating in a single country or multiple countries, across all result areas and irrespective of financial instrument. It is intended for use as an assessment support tool prior to Board submission and approval,

[46] *During B.17 the Secretariat presented to the Board an approach to risk rating models as a component of RMF; the Board took note of the approach. At B.24, the Board requested the Secretariat to develop the appropriate risk-rating models with the proviso to bring back any recommendations requiring Board attention.*

to be applied as part of the 2LOD function within GCF Secretariat's Due Diligence and Appraisal process. The PSR is not intended to be used as the basis for decision-making by CIC, or for endorsement of FPs by the Secretariat or other bodies, but to provide an objective summary of the risks that are relevant to the achievement of objectives and impact, based on the information available in the FP and on the prevailing macroeconomic and socio-political context. It may therefore indicate which projects and programmes require closer oversight during the implementation stage, and thus allow for prioritization of monitoring and evaluation resources by the relevant units (including DPM) within the Secretariat.

The current version of the tool was completed in 2020 and pilot testing was carried out in 2021. The PSR will be used by units involved in the 2LOD risk control function (including ORMC) as a complement to the reporting provided to CIC3.

The PSR scorecard manifests in a numerical score from 0-100 and in 5 categories, or "buckets", correlating with the degree of likelihood of achieving intended impact. Score criteria for the rating of project success are as follows:

BUCKET	CATEGORY	SCORE RANGE
1	HIGH POSSIBILITY	X > 75
2	HIGH TO MEDIUM POSSIBILITY	65 > X < 75
3	MEDIUM POSSIBILITY	55 > X < 65
4	MEDIUM TO LOW POSSIBILITY	45 > X < 55
5	LOW POSSIBILITY	<45

The factors assessing project success are grouped across three major sections, as presented below:

1. Accredited Entity & Executing Entity factors

a. AE Experience and Involvement

This section consists of three factors: (i) AE experience in climate projects, (ii) Programme/project location in one of its member nations or if the AE is an International Financial Institution, and (iii) AE co-financing. These factors help assess the capability of the AE to implement the project based on their experience in climate projects in the country or region, the support of the Government in leveraging resources, and the effectiveness of Technical Assistance. Previous experience of AE and/or EE is expected to reflect a higher level of competence in structuring, implementing, and monitoring the project or programme. In addition, financial commitment from the AE acts as an additional direct incentive to successfully implement the project.

b. EE Management and Experience

This section captures two factors: (i) quality of management of EE in climate projects, and (ii) EE experience in the country or region. Management competence of EEs can be crucial in aligning the project or programme with national policies and strategic objectives. Relevant experience of EEs can facilitate the resolution of issues that may arise during construction or operational phases of the project or programme, and the need for EEs to receive technical assistance as part of the funded activity is an indication of the degree to which the lack of such experience may affect project success.

2. **Macro factors**

   a. Global Competitive Index (GCI) – World Economic Forum

   b. ND-Gain Index Factors – Readiness and Vulnerability

These factors are quantitative and aim to evaluate the operational, business, and economic viability of the project with respect to the context of the country (or countries) in which it is implemented. The score relies on external data; the Global Competitive Index (GCI) of the World Economic Forum and the readiness and vulnerability scores of the Notre Dame Global Adaptation Initiative (ND-Gain) Index. The GCI measures a country's macroeconomic and business environment based on over 110 variables. A low score indicates less competitiveness. The ND-Gain Readiness score captures a country's economic, governance and social readiness to measure its ability to leverage investments for adaptation. A low score indicates low readiness. The ND-Gain Vulnerability score captures a country's overall vulnerability through six sectors — food, water, health, ecosystem services, human habitat, and infrastructure. A high score indicates high vulnerability to the impacts of climate change.

3. **Project-specific factors**

Project-specific factors have the largest weighting in the calculation of the final PSR score. They are based on the risks that impact operational details and outcome expectations of the project or programme but are sector-agnostic in the current version of the PSR model.

   a. Environment & Social Risk
   Includes two factors that capture the social and environmental impact of the project: transition to long-term management/ownership, and ESS score. Project sustainability can be ensured if the AE and EEs are able to transfer the operational and management functions of the project to local entities, who continue to ensure the delivery of climate impact. The factors also include an ESS score that is derived from the environmental and social risk assessment.

   b. Technological Risk
   This factor covers the risks associated with technological innovation. Proven technology, already applied under the specific conditions of the country or region, carries less risk of failing to deliver the anticipated impacts.

   c. External Risk
   External risk refers to factors outside the scope of project planning and beyond the influence of AE or EEs, which can materially affect the success of the project or programme and the extent to which risk mitigation measures are in place to address them.

   d. Affordability
   The affordability factor assesses the potential for project outputs to be incorporated into the local economy in the long term, based on the level of demand for these outputs and the need to secure predictable and consistent flows of resources to cover continuous operations beyond the project or programme lifetime.

e. FX and Cost Stability

This includes two factors covering the degree of certainty of project operational cost estimates, and exposure to currency risk and interest rate risk. Volatile operational costs endanger the project's sustainability and thus the potential to deliver the envisioned impact. Similarly, large exposure to currency and interest rate fluctuations can affect the adequacy of funds due to cashflow mismatch.

f. Project Fund Certainty

This factor covers co-financing risks when the success or completion of the project or programme is dependent on funding from other contributors and investors besides GCF. Insufficiency or uncertainty of such funding can materially impact the implementation of the project and consequently its climate impact.

g. Credit rating

This factor is applicable only to projects where financing is through debt proposed to be repaid from project cash flows and takes into account the creditworthiness of the project or programme.

Expert notching: The PSR includes the option of "expert notching", which allows the reviewer to adjust the final score either up or down for one bucket, based on their professional opinion.

NOTES

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