



**GREEN
CLIMATE
FUND**

Meeting of the Board
28 - 30 June 2016
Songdo, Incheon, Republic of Korea
Provisional agenda Item 12(g)

GCF/B.13/18

20 June 2016

Programmatic approach to funding proposals

Summary

This document builds on GCF's the initial proposal approval process by elaborating the programmatic approach to funding proposals. It corresponds to one of the sub-agenda items underneath the agenda item of "funding proposals".

Table of Contents

I.	Introduction	1
II.	Definition of a programme	1
III.	Submission of a programme and its sub-projects	2
IV.	Approval of a programme and its sub-projects	3
V.	Other considerations	4
	Annex I: Draft decision of the Board	6
	Annex II: Initial guidelines for the programmatic approach	7

I. Introduction

1. This paper provides guidance on the programmatic approach of the Green Climate Fund (GCF or Fund) to funding proposals, including the definition and principles of a programme, the requirements for submission of a programmatic funding proposal and its sub-projects, and process-related aspects for submission and approval. Guidance will help stakeholders including accredited entities, national designated authorities (NDAs) and focal points, the Secretariat, the independent Technical Advisory Panel (TAP) in developing and assessing high-quality and impactful programmes which provide scale to the pipeline.
2. Paragraph 36 of GCF's Governing Instrument (GI) makes explicit mention of the programmatic approach: "The Fund will support developing countries in pursuing project-based and programmatic approaches in accordance with climate change strategies and plans, such as low-emission development strategies or plans, nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs) and other related activities."
3. Additionally, in decision B.07/03, paragraph (e), the Board noted convergence on the need to consider, among other items, the initial proposal approval process for regional programmes and projects.
4. This document aims to respond to the above requests by providing initial guidelines on the definition, principles and processes for programmatic funding proposals.
5. Beyond programmatic funding proposals, there also exists broader interpretations of the programmatic approach. For example, the GCF's Enhancing Direct Access (EDA) modality can be seen as an important way of implementing the programmatic approach. The stakeholders' desire for further guidance on the EDA modality is well recognized.
6. Similarly, developing a country programme or investment plan may also be considered a programmatic approach by some stakeholders. From this document's perspective, there is a clear distinction between country programming and a programmatic approach to funding proposals. Country programming in the GCF context involves country coordination and stakeholder engagement, which may lead to a country programme that identifies priority investments. These priority investment opportunities can then be turned into concrete project or programme concepts or proposals.
7. This document will focus on the programmatic approach in relation to funding proposals. Broader interpretations and implementation of the programmatic approach, including the EDA modality and developing a country programme or investment plan, will be addressed in the future.
8. This document takes into account the GCF's initial proposal approval process, the programmatic proposals approved by the Board in Zambia at the eleventh meeting, the practices of other climate funds with regard to programmatic funding proposals, and the relevant inputs received under the review of the initial proposal approval process.

II. Definition of a programme

9. A critically important first step toward the programmatic approach is to clearly define what constitutes a programme for GCF, recognizing that a "programmatic approach" can be interpreted differently across different contexts.
10. A GCF programme could be defined as a set of interlinked individual sub-projects or phases, unified by an overarching vision, common objectives and contribution to strategic goals, which will deliver sustained climate results and impact in the GCF result areas efficiently, effectively and at scale.

11. Any programme developed and submitted for GCF consideration, including the individual projects within that programme (referred to hereafter as “sub-projects”), should contribute to GCF’s ultimate objectives as defined in the Governing Instrument, including the promotion of a paradigm shift towards low-emission and climate-resilient development pathways.

12. A programme should achieve climate outcomes beyond what stand-alone sub-projects may achieve. The strategic goals of a programme may be oriented around a particular theme or geography, though these approaches are not mutually exclusive. For instance, a programme may be developed to address specific forestry and land use needs within a country. Individual sub-projects would build around that vision, which have clear ties to the country’s existing climate strategies and plans. In this example, a country may have already identified forest preservation as a top climate priority, and the programme would then contribute to the execution of this vision.

13. Programmes may also be oriented around a particular theme in wider geographies. GEF frames geographic programmes as being within “a particular geography (landscape, ecosystem, district, province(s), country, etc.) and may focus on particular sectors in this broader context.”¹ For instance, a geographic programme could address an emerging transboundary issue, such as an emerging cycle of flooding and drought in a basin across multiple countries. The programme, developed holistically, could be structured to address specific adaptation needs across the entire basin, rather than a single country in this example. Regional programmes that address the specific climate finance needs of a region could notably fall into this category of programmes.

14. A programmatic approach may not be appropriate for all types of proposals. Some projects may instead be better designed as standalone projects and presented as individual funding proposals. It is therefore useful to consider a few defining principles for GCF programmes. These principles, defined in the guidelines in Annex II to this document, are as follows:

- (a) Common and specific objective.
- (b) Coherence among sub-projects or phases.
- (c) Value of a programme versus a project (or series of projects).
- (d) Alignment with GCF’s policies.

15. The initial guidelines for the programmatic approach will remain under review due to the close linkages with other GCF policies currently under development or review, including the enhanced direct access pilot, environmental and social management system and the initial proposal approval process review. As these other policies are further developed or refined, there may be a need to update or refine the initial guidelines presented in Annex II.

III. Submission of a programme and its sub-projects

16. Following the definition and set of principles for a programmatic proposal in Section II, this section lays out the process and key considerations for submitting a GCF programme.

17. When submitting a GCF programme, an accredited entity will have identified a specific issue or opportunity that is best addressed through a programme rather than a series of one-off projects. It will also have identified one or multiple sub-projects that show coherence and alignment with GCF’s investment framework. However, it is unlikely that a programme has all of

¹ GEF council document, GEF. C47/07, Annex 3, Paragraph 4.

the projects underneath the programme sufficiently advanced for consideration at the time of the approval.

18. Each sub-project need not be fully developed or advanced at the time of programme submission. Indeed, this is consistent with the practice of other climate funds and international financial institutions taking a programmatic approach.²

19. While each sub-project need not be fully developed or advanced at the time of programme submission, the accredited entity should identify a list of future sub-projects or a description of future phases to be funded. While there is flexibility for the accredited entity in how later sub-projects will be identified and developed typically within two to three years, sub-projects must work within the context of the principles that define a programme (e.g. common and specific objective, coherence among sub-projects or phases, etc.).

20. Under this recommended approach, the Board would consider the programme's initial sub-projects or phases and may consider the allocation of GCF funding to future sub-projects or phases. The predictability of resources will enable accredited entities to bring forward the programme's fully appraised sub-projects and continue to identify and develop future sub-projects or phases in parallel. It also allows accredited entities to avoid scenarios under which delays in specific sub-projects (perhaps as a result of feasibility studies, stakeholder consultations, etc.) delay the other sub-projects or possibly cause the entire programme to fall through.

21. GCF's Board has already approved a similar programmatic funding proposal, Energy Efficiency Green Bond in Latin America and the Caribbean, which serves as an example of the proposed programmatic approach. As part of the programme funding decision, funding was approved for a pilot phase in Mexico along with a programme development grant to expand the programme in future phases to Colombia, the Dominican Republic and Jamaica. The decision also included a funding allocation for the next phases of the programme, subject to Board approval, over the next five years.

22. A specific question has been raised about the implementation of no-objection procedures with regard to the programmatic approach: whether all no-objection letters are needed up-front in order to take a funding decision on the programme, including for programmes involving multiple countries. Alternatively, the programme could be approved with the no-objection letters for the sub-projects already appraised, with the no-objection letters for future sub-projects to be secured during later appraisals. Board guidance is requested on how to implement the no-objection procedures for programmatic funding proposals in an efficient and effective manner, recognizing the importance of country ownership and active country engagement. This matter will be addressed in future Board deliberations on GCF's approach to country ownership.

IV. Approval of a programme and its sub-projects

23. Under the proposed programmatic approach, there remains a question of how to approach funding decisions for future sub-projects as part of a programme. At the time future sub-projects are brought forward, a decision would already be taken on one or multiple initial sub-projects. A funding allocation decision may also be taken. It is important that funding allocation decisions are time-bound for each programme, so that later sub-projects or phases are brought forward in a timely manner and funding allocations will expire if unused. It is suggested that, under normal circumstances, a funding allocation will be in effect for two to three years from the date of programme approval and allocation. The specific timeframe for funding allocation effectiveness should be proposed by the accredited entity in the

² For example, the Asian Development Bank: <http://www.adb.org/sites/default/files/institutional-document/31483/omd14.pdf>.

programmatic funding proposal and will be considered by the Board on a case-by-case basis. Upon the expiration of the pre-defined timeframe, the allocation will no longer be effective.

24. A critical area for Board consideration is how later sub-projects are decided and by whom. As a default scenario, each future sub-project in the programme will be considered and decided by the Board. Alternatively, the Board may wish to consider potential delegated authority for later sub-projects.

25. The Board may wish to consider delegation based on project size and risk profile of future sub-projects. Future sub-projects that meet certain project size and risk profile parameters can be delegated; for example, a micro-scale (total project cost smaller than USD 10 million) sub-project that has low or no environmental and social risk (category C/I-3) could be delegated in one of the above two ways.

26. Delegating funding decision authority to the accredited entity may increase flexibility and efficiency, but also carries a potential operational risk. Such execution risk would be mitigated by the well-defined periodic reporting requirements (quarterly/semi-annually) that accredited entities have to follow to report back to the Fund. Any material divergence observed in the implementation of a programme (e.g. application of the eligibility criteria) could be considered as a contractual breach of the accredited entities' obligations under the accreditation master agreement (AMA)³ and funded activity agreement (FAA) for which appropriate remedies by GCF would be possible.

V. Other considerations

27. In some circumstances, programmes may necessitate a more tailored approach for the submission and approval process. For instance, programmes in the form of investment funds or financing facilities (e.g. equity funds, debt funds, revolving facilities, warehousing lines, grant facilities, guarantee facilities, etc.) have key features that distinguish them from other types of programmes.

28. Key features of these investment funds or financing facilities include the homogeneity of sub-projects, high number and/or small size of sub-projects, and/or the time-sensitivity of sub-project approvals.

29. FP005 by Acumen, a programme approved by the Board at the B.11 meeting, serves as a helpful example of this type of programme. The programme aims to support a high number of similar small-scale equity investments in clean energy companies in East Africa. Such equity fund programmes need upfront investor commitment, including from GCF. The time sensitivity of the equity investment is critical, as there is a limited time window during which the equity fund brings in investors. This example demonstrates why GCF's programmatic approach needs flexibility for certain types of programmes.

30. For these types of programmes, it is recommended that the funding for all of the sub-projects be approved upfront along with the programme (rather than approving individual sub-projects as they are submitted later).

31. The following process and requirements would then apply for these types of programmes:

- (a) The accredited entity would set up a governance structure⁴ (typically a committee) at the programme level to ensure: the imposition of the accredited entity's obligations

³ During recent AMA discussions, there has been certain reluctance by some AEs to take such level of responsibility.

⁴ Such governance structure would be subject to legal due diligence.

- under the AMA, FAA and Board's approval on the programme; and, the impartial, free and fair decision making on the selection of sub-projects;
- (b) The funding proposal would define a set of clear eligibility criteria covering the technical aspects of each programme (i.e ESS, gender, M&E, risk, fiduciary, legal) and GCF's investment criteria, with the objective of setting a standard level of quality for the sub-projects. Examples of indicative eligibility criteria could be as follows:
- (i) Impact potential: minimum expected impact per subproject;
 - (ii) Sustainable development potential: minimum expected socio-economic benefits of each subproject;
 - (iii) Efficiency & effectiveness: minimum expected ratio of CO₂/USD invested for each subproject, minimum co-financing ratio of each subproject.
 - (iv) ESS: type of ESS category of the subprojects to be financed;
 - (v) Gender: minimum gender target for each subproject to be financed;
 - (vi) Risk: indicative pipeline of subprojects, credit category of the direct recipient of GCF's financing, portfolio concentration limits;
 - (vii) Legal: type of legal structure of an eligible investee;
- (c) Following GCF Board approval, the accredited entity would seek approval from the governance structure (committee) on the sub-projects eligible to receive financing from the programme based on the eligibility criteria approved by GCF's Board (as part of the funding proposal package);
- (d) The accredited entity would regularly report on the progress of programme implementation and the predefined reporting requirements in addition to the requirements set out in the AMA; and
- (e) Any material deviation from the eligibility criteria would require a prior Board approval.
32. Through this approach, each programme would remain consistent with GCF's policies and safeguards by complying with the same monitoring, reporting and due diligence requirements as the standalone projects.
33. Annex II to this document presents GCF's initial guidelines for the programmatic approach for the Board's consideration. It is recommended that GCF takes a case-by-case approach to delegate funding decision authority, which reflects the unique circumstances of each programmatic funding proposal. Annex II reflects this recommendation accordingly.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.13/18 titled “Programmatic approach to funding proposals”:

- (a) Adopts the initial guidelines for the programmatic approach contained in Annex II; and
- (b) Decides to keep under review the initial guidelines contained in Annex II and take action as necessary.

Annex II: Initial guidelines for the programmatic approach

I. Definition of a programme

1. A programme is defined as a set of interlinked individual sub-projects or phases, unified by an overarching vision, common objectives and contribution to strategic goals, which will deliver sustained climate results and impact in the GCF result areas efficiently, effectively and at scale.
2. The following principles will apply to all programmes and their respective sub-projects or phases:
 - (a) *Common and specific objective.* A programme addresses a specific issue or opportunity in the climate context. Programmes that have broad coverage and spread across multiple sectors and/or countries should have a clear rationale in response to a specific issue or opportunity. There must be clearly defined measurable outcomes that unite all the sub-projects or phases. There should be a strong support from key stakeholders for taking a programmatic approach.
 - (b) *Coherence among sub-projects or phases.* A programme has a clear linkage, synergy and interdependence among its sub-projects or phases, and each sub-project should contribute to the common and specific objective of the programme. Sub-projects complement and/or reinforce each other to achieve outcome beyond what could be achieved by standalone one-off projects. Sub-projects also maintain coherence in their implementation; for regional programmes, the accredited entity should actively lead and manage the implementation of sub-projects to ensure coherence among activities in different countries. A programme may be structured so that initial sub-projects can be piloted for replication or scaling up through future sub-projects.
 - (c) *Value of a programme versus a project (or series of projects).* A programme should add significant value relative to a series of one-off projects, and the benefit(s) of taking the programmatic approach should be evident. There should be a strong rationale that a programmatic approach will enhance outcomes of the GCF investments relative to the project-based approach. The programme thereby takes on value greater than the sum of its parts (sub-projects). The programme's added value could be in the form of increased cost efficiency, higher implementation effectiveness, greater impact, deeper integration across sectors or countries, or other measures. The programmatic approach should demonstrate a greater likelihood to promote a paradigm shift, compared to single projects. It should also have additional benefits in terms of learning and knowledge generation, which can be captured in the programme's monitoring, reporting and evaluation arrangements.
 - (d) *Alignment with GCF's policies.* A programme, as well as its sub-projects, aligns with GCF's policies and requirements, including the policies for environmental and social safeguards, gender, and others. The programme and sub-projects demonstrate alignment with GCF's initial investment framework, including the investment criteria, sub-criteria and indicative assessment factors.
3. The initial guidelines for the programmatic approach will remain under review due to the close linkages with other GCF policies currently under development or review, including the enhanced direct access pilot, environmental and social management system and the initial proposal approval process review. As these other policies are further developed or refined, there may be a need to update or refine the initial guidelines presented here.

II. Submission of a programme and its sub-projects

4. For a few programmes, all sub-projects are fully developed upon submission, with a one-time funding decision taken on all of the sub-projects under the programme. For many other programmes, one or multiple sub-projects are ready for Board consideration at the time of programme submission while additional sub-projects or phases will be fully developed and submitted in the future.
5. In the latter case, the following guidelines will apply:
 - (a) A programme proposal will be submitted with one or multiple initial sub-project(s) that are fully developed and appraised. These sub-projects are expected to have a signed no-objection letter and have completed the preparation work including required studies and analysis and provided all required documentation, including the feasibility study, environmental and social reports, logic framework, and others, as applicable.
 - (b) When a programme proposal is submitted with one or multiple fully appraised initial sub-project(s), it can request approval of funding based on the one or multiple fully appraised initial sub-project(s). The requirements for these initial sub-project(s) are the same as the ones for the standalone project proposal.
 - (c) A programme proposal may also request an allocation of funding resources for the future sub-projects provided that sufficient information is made available by the accredited entity in the programme proposal. The requested allocation amount should be based on a list of future sub-projects being developed or to be developed. The funding allocation will be time-bound based on programme specifics taking into account the timeframe and complexity of developing the future sub-projects or phases. Under normal circumstances, a funding allocation will be in effect for two to three years from the date of programme approval and funding allocation. The specific timeframe for funding allocation effectiveness should be proposed by the accredited entity in the programmatic funding proposal and will be considered by the Board on a case-by-case basis. Upon the expiration of the pre-defined timeframe, the allocation will no longer be effective.
6. Beyond the standard reporting requirements for a standalone project, a programme should also include additional programme-level reporting. For example, the accredited entity may report on experience gained and lessons learned from the design and implementation of the programme and how well the programme is achieving added value beyond what a collection of standalone projects would have achieved.

III. Approval of a programme and its sub-projects

7. When a programme proposal is submitted with one or multiple fully appraised initial sub-project(s), a funding decision will be made by the Board for the programme proposal based on the one or multiple initial sub-project(s). In addition, the Board may decide to allocate funding for the future sub-projects, as indicated in the programme proposal.
8. Future sub-projects or phases will be submitted to the Board for a funding decision as they are fully developed and ready for Board consideration. Sub-projects are held to the same standard GCF requirements whether they are submitted as part of the initial programme proposal or they are submitted after programme approval.
9. The accredited entity may request delegated funding decision authority from the Board for future sub-projects based on the following project size and risk profile parameters:
 - (a) Micro-scale (total project size smaller than USD 10 million); and

- (b) Low or no environmental and social risk (category C/I-3).
- 10. In order for the accredited entity to make this request, the programme will specify clear and transparent eligibility criteria for the approval of sub-projects. The programme will also define periodic reporting requirements (quarterly/semi-annually) that accredited entities will follow to report back to the Secretariat.
- 11. The Board will consider these requests on a case-by-case basis.

IV. Other considerations

- 12. In some circumstances, a programme's features may require a more tailored approach for the submission and approval process. For instance, programmes in the form of investment funds or financing facilities (e.g. equity funds, debt funds, revolving facilities, warehousing lines, grant facilities, guarantee facilities, etc.) have key features that distinguish them from other types of programmes.
- 13. Key features of these investment funds or financing facilities include the homogeneity of sub-projects, high number and/or small size of sub-projects, and/or the time-sensitivity of sub-project approvals.
- 14. For these types of programmes, funding for all of the sub-projects will be approved upfront along with the programme (rather than approving individual sub-projects as they are submitted later).
- 15. The following process and requirements would then apply for these types of programmes:
 - (a) The accredited entity would set up a governance structure (typically a committee) at the programme level to ensure: the imposition of the accredited entity's obligations under the accreditation master agreement (AMA), funded activity agreement and Board's approval on the programme; and, the impartial, free and fair decision making on the selection of sub-projects;
 - (b) The funding proposal would define a set of clear eligibility criteria covering the technical aspects of each programme (i.e. environmental and social safeguards (ESS), gender, monitoring and evaluation, risk, fiduciary, and legal) and GCF's investment criteria, with the objective of setting a standard level of quality for the sub-projects. Examples of indicative eligibility criteria could be as follows:
 - (i) Impact potential: minimum expected impact per subproject;
 - (ii) Sustainable development potential: minimum expected socio-economic benefits of each subproject;
 - (iii) Efficiency & effectiveness: minimum expected ratio of CO₂/USD invested for each subproject, minimum co-financing ratio of each subproject.
 - (iv) ESS: type of ESS category of the subprojects to be financed;
 - (v) Gender: minimum gender target for each subproject to be financed;
 - (vi) Risk: indicative pipeline of subprojects, credit category of the direct recipient of GCF's financing, portfolio concentration limits;
 - (vii) Legal: type of legal structure of an eligible investee;
 - (c) Following GCF Board approval, the accredited entity would seek approval from the governance structure (committee) on the sub-projects eligible to receive financing from the programme based on the eligibility criteria approved by GCF's Board (as part of the funding proposal package);



-
- (d) The accredited entity would regularly report on the progress of the programme implementation and the pre-defined reporting requirements in addition to the requirements set out in the AMA; and
 - (e) Any material deviation from the eligibility criteria would require a prior Board approval.
- _____