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Review of the initial proposal approval process

Summary

This document presents a review of the GCF proposal approval process, taking into account lessons learned from its initial application. Based on this review, a revised process is proposed.

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I.   Introduction

1.   The Board, in decision B.11/11, paragraph (j), decided to review the GCF initial proposal approval process, which was approved by the Board in decision B.07/03.

2.   In decision B.11/11, paragraph (k), the Board requested the Secretariat to undertake this review based on the experience gathered from the proposals already submitted for consideration of the Board, with a view to:

(a)   Strengthening and scaling up the GCF pipeline, including the country programme pipeline;

(b)   Streamlining and improving the transparency of the proposal approval process;

(c)   Defining further decision-making options, including deferral of proposal approvals;

(d)   Reviewing how concept notes should work within the project cycle, facilitating the feedback of the independent Technical Advisory Panel (TAP) on concept notes and facilitating contact of the TAP with accredited entities (AEs) as useful and necessary;

(e)   Supporting the Board to make decisions regarding funding proposals;

(f)   Strengthening project/programme eligibility criteria, including categories of incremental cost eligible for funding; and

(g)   Developing interim procedures for redress pending the recruitment of the Head of the Independent Redress Mechanism.

3.   Furthermore, decision B.11/11 mandates that the review also include:

(a)   Policy gaps including project eligibility criteria, calculation of incremental costs and risk investment criteria; and

(b)   Common areas in which projects could provide a better demonstration of how they meet existing GCF policies, including:

(i)   The linkage between climate actions and how they enable economic development to proceed in a sustainable manner;

(ii)   How the project/programme incorporates potential innovation;

(iii)   How benefits will be sustained once GCF financing ends;

(iv)   Monitoring and evaluation, including how lessons can be disseminated to inform and possibly promote replication in other regions/countries;

(v)   How benefits for women and girls will be delivered;

(vi)   How fiduciary weaknesses in project countries will be addressed;

(vii)   Country ownership and effective stakeholder engagement; and

(viii)   Additionality of the funding.

4.   This document contains the following information:

(a)   The review of the initial proposal approval process as undertaken by the Secretariat, including an overview of the process of undertaking the review;

(b)   An overview of the progress made to date in relation to the proposal approval process and pipeline and portfolio development; and

(c)   An updated version of the initial proposal approval process based on appropriate decisions taken by the Board since its seventh meeting (B.07).

5. The Board is invited to take note of the Secretariat's review and the overview of progress made, and approve the revisions to the initial proposal approval process.

II.   Initial proposal approval process review

6. The proposal approval process is a central element of the GCF operational processes, policy framework and governance arrangements. Figure 1 highlights its importance in the context of key GCF policy initiatives and structures.

Figure 1. Proposal approval process context
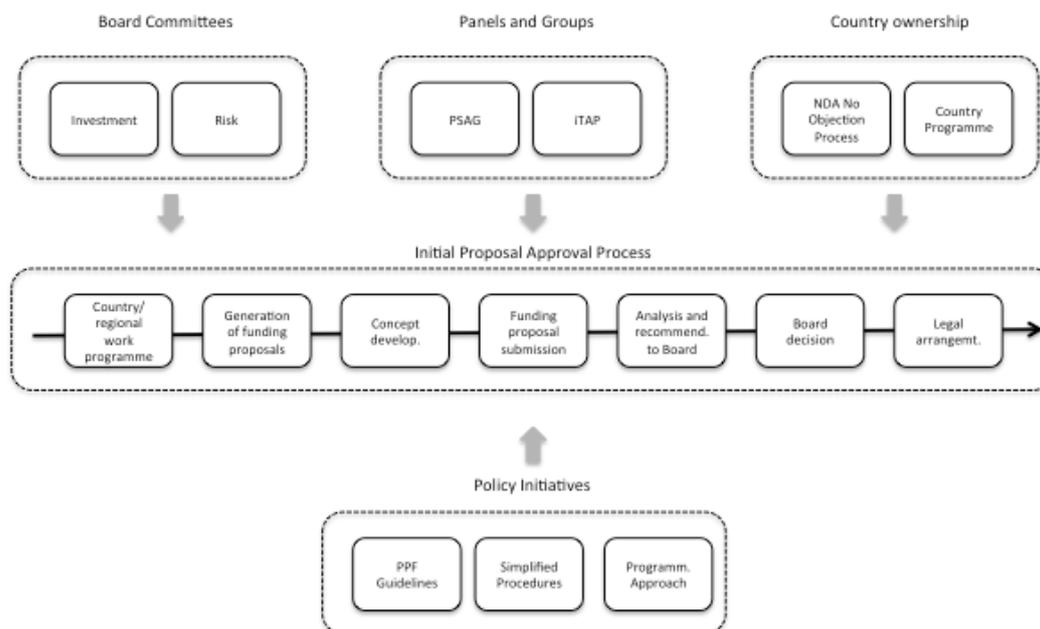
2.1   Review context: pipeline overview

7. The first round of funding proposal consideration occurred at the eleventh meeting of the Board (B.11) and the Board had approved a total of 27 funding proposals with a total GCF funding of USD 1.2 billion as at its most recent meeting (its fourteenth meeting (B.14)).

8. As at 31 October 2016, the GCF pipeline contained 46 public and private sector funding proposals requesting total GCF funding of USD 3.2 billion to support projects and programmes totalling USD 10.2 billion. Of the 46 funding proposals, 9 proposals are being submitted to the Board for consideration at its fifteenth meeting (B.15).

9. As at the reporting date, the GCF pipeline also contained 169 concept notes with total GCF funding requested of USD 7.9 billion. Since March 2015, a total of 53 concept notes have been developed into funding proposals, including 24 concept notes developed into funding proposals and subsequently approved by the Board at B.11, the thirteenth meeting of the Board and B.14.

10. It will be difficult to continue to apply the initial proposal approval process in assessing funding proposals in the context of an increasing pipeline. At B.11, it was reported in document GCF/B.11/04, "Consideration of funding proposals", that the GCF had received a total of 37 funding proposals, requesting close to USD 1.5 billion of GCF funding.

11.   Pipeline growth has accelerated since the first round of funding proposal consideration. As reported in document GCF/B.15/Inf.10, the current pipeline is approximately USD 3.2 billion of requested GCF funding. In addition, the number of funding proposals has increased as the Board approves additional AEs. At B.11, there were 20 entities accredited to the Fund and that number has doubled to 41 as at B.14. It was noted in document GCF/B.11/04 that the proposals varied significantly in their quality at entry, and while there has been modest improvement overall, quality at entry remains a significant issue.

12.   Figure 2 indicates the difficulty of managing the current process in the context of an increasing pipeline. The number of proposals that can be presented for consideration per Board meeting is around one third of the active pipeline, which suggests that it could take three more Board meetings to process the existing pipeline only, noting current staffing limitations.

Figure 2. Proposals for consideration relative to GCF pipeline
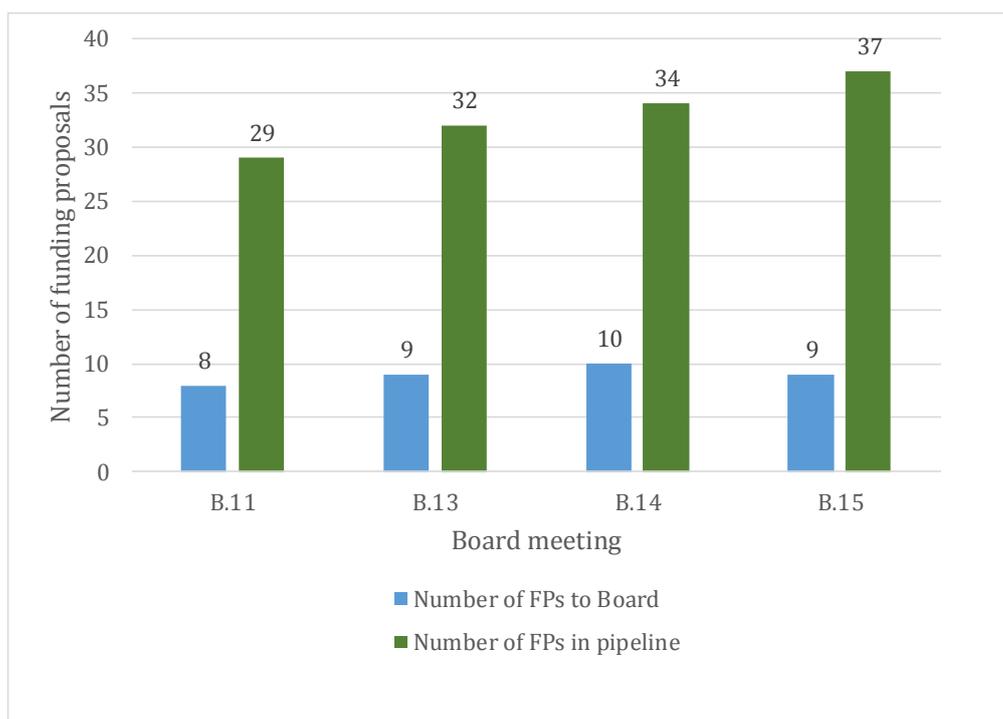
13.   Figure 2 demonstrates the need to promote more strategic approaches for project and pipeline development, consistent with the GCF Strategic Plan, while improving the efficiency of the Secretariat in keeping up with an increasing pipeline.

2.2   Process for the review

2.2.2   **Process for stakeholder consultations**

14.   As part of the stocktaking of the initial proposal approval process, a call for public inputs was made in April 2016, after the first round of proposal approvals had taken place. A broad range of GCF stakeholders, including members and alternate members of the Board, national designated authorities (NDAs), focal points (FPs), AEs, observers and other stakeholders, provided their views in writing in response to the call for inputs. Forty-five submissions were received in total and the responses were compiled and published on the GCF website.

15.   At B.14, an informal open consultation was held on the review of the initial proposal approval process. The objective of this consultation was to receive stakeholder input on the

priorities and key issues for the review of the initial proposal approval process, taking into account the experiences gathered from the three rounds of proposal approval taking place through B.14. Alternate members of the Board, observers, advisors and other stakeholders all raised a range of important issues and priorities.

16.   Two further consultations were led by the GCF Co-Chairs during the twenty-second session of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) (COP 22). The consultations were with NDAs and FPs for the first consultation and with AEs for the second. They focused on how to simplify the process and templates, how the Secretariat and TAP can more effectively engage with NDAs, FPs, AEs and other stakeholders, and issues related to increased transparency and further clarity and guidance.

17.   Many NDAs and FPs spoke of their experience with the GCF, and several interventions highlighted a desire for better communication and engagement with the Secretariat. During the consultation with AEs, several interventions highlighted a desire for more clarity on the expected timelines at each step of the review process.

18.   A more detailed summary of the inputs provided by stakeholders is presented in the following section.

2.2.3   Linkages with Board decisions, ongoing policy initiatives and guidance from the Conference of the Parties

19.   There remains a close linkage between the initial proposal approval process, the review discussed in this document, its outcomes and other related policy streams. In particular, the proposal approval process review has strong linkages to three key recent Board decisions:

(a)   Decision B.12/20 adopting the GCF initial Strategic Plan, which prioritizes pipeline development, enhances the strategic approach of the GCF to programming and seeks to enhance accessibility and predictability of funding, including through the review of the proposal approval process;

(b)   Decision B.13/20 establishing the overall eligibility criteria for the simplified proposal approval process; and

(c)   Decision B.13/21 establishing the guidelines of the Project Preparation Facility (PPF). The PPF enhances the role of the GCF in supporting the preparation of funding proposals, one of the steps of the proposal approval process.

20.   This review is also closely tied to ongoing developments in the programmatic approach to funding proposals and the simplified process for approval of proposals for certain activities, in particular for small-scale activities.

21.   The programmatic approach currently under development seeks to define the approach to be followed by the Board in approving programmes. Such an approach will imply an adjustment to the overall proposal approval process to accommodate programmes composed of multiple subprojects. The approach may also imply a two-step approval process, one for the programme and one for each subproject.

22.   Similarly, the guidelines for the simplified proposal approval process currently under development in response to decision B.13/20 will imply an adjustment to the proposal approval process.

23.   This review also takes into account the guidance received from the COP, in particular:

(a)   COP decision 7/CP.21, which requests the Board to "ensure that the revised funding proposal template and concept note template are designed to facilitate the application

process" and to "adopt a simplified process for approval of proposals for certain activities, in particular for small-scale activities, as soon as possible in 2016, to reduce complexities and costs involved in project proposal development";[1] and

(b)   The recent additional guidance to the GCF on this matter from COP 22 , which "requests the Board to take into account decision 1/CP.21, paragraph 64, to enhance the coordination and delivery of resources to support country-driven strategies through simplified and efficient application and approval procedures, and through continued readiness support to developing country Parties, including the least developed countries and small island developing States, as appropriate, and in accordance with Board decisions".[2]

2.3   Main issues identified by stakeholders

24.   This subsection summarizes the common issues identified in the current process, as identified by respondents to the call for inputs on the initial proposal approval process review referred to in paragraph 14 above. It is organized according to the seven review elements set out in decision B.11/11, paragraph (j).

25.   It should be noted that the inputs were made in April 2016 and reflect stakeholder experience from the first round of funding proposal consideration by the Board in November 2015. The Board has since had multiple rounds of funding proposal consideration, including the one planned for B.15. Subsequent consultations (informal consultation at B.14 and the consultations at COP 22) have further enriched the stakeholder discussion and have been incorporated throughout the subsections.

2.3.4   **Strengthening and scaling up the Green Climate Fund pipeline, including the country programme pipeline**

(a)   Implementation of a country strategy approach, including suggestions for:

    (i)   Development of business plans for countries; and

    (ii)   Linking to intended nationally determined contributions or other UNFCCC processes;

(b)   GCF funding should support risk-taking that otherwise cannot be done by mainstream financial institutions – this will help to engage the private sector and stimulate innovation;

(c)   Introduce calls for proposals with timelines instead of rolling submissions;

(d)   PPF funding decisions should be delegated to the Secretariat to avoid delays in project approvals;

(e)   Programmatic approaches to funding proposals:

    (i)   More emphasis should be placed on having programmatic approaches approved;

    (ii)   Clearer guidance is needed on programmatic approaches (requirements, definitions, subprojects, etc.); and

    (iii)   Enhanced direct access can be a form of programmatic approach that can channel higher levels of funding;

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[1] Available at <http://unfccc.int/resource/docs/2015/cop21/eng/10a02.pdf#page=10>.
[2] Available at <http://unfccc.int/resource/docs/2016/cop22/eng/l05.pdf>.

(f)   Establish clearer guidelines on the GCF approval process, including defining all decision-making options and procedures, as well as clear roles for the TAP, the Secretariat, AEs, NDAs and Board members;

(g)   Develop a specific guidance note for filling out templates;

(h)   Establish an inter-sessional decision process on funding proposals; and

(i)   For the least developed countries (LDCs) and small island developing States (SIDS), include feasibility study completion as part of the conditional approval of a proposal to help to speed up the approval process.

2.3.5   **Streamlining and improving the transparency of the proposal approval process**

Streamlining the proposal approval process

(a)   Create a fit-for-purpose approach to approvals:

  (i)   Simplified proposal approval process for lower-risk, lower-value projects;

  (ii)   Consider developing additional templates that are tailored to different risk levels (low, medium, high), type of funding requested (grants/loans, volume of funds requested etc.); and

  (iii)   Review proposal information requirements, such as the scope of documentation required from the AEs in submitting proposals, depending on the size and complexity of the proposed activities;

(b)   Define what constitutes the Secretariat's "second-level due diligence";

(c)   Limit the review of the Secretariat:

  (i)   Limit the Secretariat's due diligence to an assessment of whether standards and processes have been applied and whether the information provided is appropriate and sufficient to allow appraisal in accordance with the GCF investment framework;

  (ii)   When climate change is only one component of a larger project or programme, the no-objection and second-level due diligence, including assessment against activity-specific criteria of the GCF, should be limited to the climate change part of the project for which a funding application has been submitted;

  (iii)   The Secretariat should not provide suggestions and recommendations on micro-level project design. The Secretariat's role should focus on alignment of the project design with the investment framework and compliance with Secretariat requirements (as outlined in the Accreditation Master Agreement and Funded Activity Agreement); and

  (iv)   Information provided by AEs during the accreditation process should not be requested during the project proposal review

(d)   Develop and adhere to common business standards:

  (i)   Set clear timelines for the various stages of the submission process (e.g. GCF responses to concept note submissions, concept note resubmissions, funding proposal submissions, funding proposal resubmissions, etc.); and

  (ii)   Set a fixed maximum number of rounds of review with a system for tracking the review comments and how these have been addressed, so as to avoid reintroducing the same comments at various points in the process.

Improving transparency

(a) Online system: the GCF should establish a real-time data system to make proposal information accessible to various stakeholders, including NDAs and AEs. This would help to ensure that all necessary stakeholders have access to up-to-date information and reduces the burden of the Secretariat for reporting on project status;

(b) Document availability: the Secretariat's review of the proposal should be made public, as well as comments from the Board and any responses by the AE to comments from the Secretariat, the TAP or the Board; and

(c) It would be helpful for the GCF to have a system of tracking GCF funding accessed per country, and per AE. This could help to manage expectations, reduce duplication and inform the decisions to be made by AEs to support countries in developing proposals.

2.3.6 **Defining further decision-making options, including deferral of proposal approvals**

(a) Introduction of a "deferral option for Board decisions:

    (i) For a deferral decision, limit the number of times of resubmission;

    (ii) Deferral could usefully be linked with the provision of project development funds (e.g. from the PPF) in an automatic or quasi-automatic manner, thereby allowing project developers to address the data deficiencies or other issues in a reasonable time frame; and

    (iii) A deferral option may include a request to satisfy certain conditions before resubmission;

(b) Points of caution on a deferral option:

    (i) A deferral decision overlaps with conditional approval; and

    (ii) If there are major issues with a proposal, the Board should reject it or provide clear guidance to the AE on how the project should be improved for resubmission;

(c) Introduction of a "resubmission" option for Board decisions:

    (i) The Board could request an AE to address major revisions recommended by the TAP or the Board before the Board reconsiders the proposal at a future date;

    (ii) AEs responses and revisions would be clearly explained in the publicly available proposal documents; and

    (iii) Guidelines should be developed that detail when the Board should consider the resubmission option to be included in the action plan for improvement of the project approval process; and

(d) Other decision-making options:

    (i) Intersessional approval between Board meetings for smaller proposals (by funding size). Details would be needed on how this would work in practice;

    (ii) Cancellation of an approved funding proposal because of unjustifiable delays in implementation;

    (iii) For multi-tranche proposals, a funding tranche can be withheld pending resolution of the underlying reason(s); and

(iv)   For programmes, decision-making procedures should be clarified in cases where the exact scope of subprojects/investments is not clear at the time of approval.

2.3.7   **Reviewing how concept notes should work within the project cycle, facilitating the feedback of the independent Technical Advisory Panel on concept notes and facilitating contact of the independent Technical Advisory Panel with accredited entities as useful and necessary**

(a)   Analyse a possible "pre-concept note" approach:

(i)   Particularly for financial institutions, it is important that investment ideas can be shared with the GCF (Secretariat/Private Sector Facility and/or TAP for some issues), for a first-level opinion on GCF potential interest, as informally and reactively as possible. To that extent, a business opportunity memorandum under free format should be allowed in an informal process distinct from concept notes. Taking note that this step may increase the workflow for accessing funding, these preliminary discussions would validate an a priori interest of the GCF, and guidelines for the financial conditions of a potential intervention;

(ii)   Based on national priorities, NDAs could request an AE to conduct a pre-feasibility study for a prioritized project/programme. Alternatively, the NDA, in coordination with the AE, could commission a pre-feasibility study itself with the support of an enhanced readiness programme; and

(iii)   If a pre-feasibility study concludes that an approach has potential, AEs, in close coordination with the NDA, would develop and submit concept notes to the GCF for approval; and

(b)   Concept note:

(i)   Concepts must be reviewed in a single review procedure of all aspects of the proposed project, as opposed to a number of disparate reviews from different teams within the Secretariat;

(ii)   For approved concepts, set aside funds for the project subject to the eventual approval of the full proposal. AEs should have to submit funding proposals with a certain time limit (e.g. 12 months);

(iii)   If a concept does not receive preparation funds, it means significant technical issues have been raised and need to be addressed before the project preparation grant can be secured;

(iv)   Concept notes from direct access entities should be prioritized for feedback from the TAP (in addition to the feedback they are already receiving from the Secretariat);

(v)   The concept note template should be modified to include the information required for application to the PPF so that a single template serves all concepts, whether or not they are requesting project preparation support; and

(vi)   The strategic focus of the Board should be on concept approval. The Board could have a limited involvement in later stages; this could also be done in a no-objection format (e.g. when there are material changes in the concept, when the Secretariat or the TAP have technical doubts related to a specific project, and/or as requested by Board members, etc.).

2.3.8 **Supporting the Board to make decisions regarding funding proposals**

(a) Moving to a concept stage approach will provide the Board with a short document that contains sufficient information to make a funding decision; and

(b) Suggestions for a small-scale approval process:

(i) Initially, this could be conducted by a small-scale advisory committee to be formed, and later delegated to the Secretariat; and

(ii) Longer-term, the approval of all proposals up to a certain funding volume should be delegated to the Executive Director, based on technical assessments and recommendations by the Secretariat and the TAP.

2.3.9 **Strengthening project/programme eligibility criteria, including categories of incremental cost eligible for funding**

(a) Avoid limiting the scope of GCF investments:

(i) Eligibility criteria should be designed on a high level;

(ii) Given the diversity of project types and contexts that the GCF will encounter, establishing a set of general eligibility criteria for GCF funding is too complex and restrictive;

(iii) Following a case-by-case approach based on economic viability is more efficient compared with defining project eligibility criteria (beyond the current investment criteria) and general rules for how to calculate incremental costs;

(iv) Determining project eligibility criteria and eligible incremental costs for the large variety of activities that countries might want to include in their country programmes, and taking into account technology development, is extremely challenging; and

(v) In the short term, avoid the elaboration of a strict adaptation framework and concentrate efforts on preparing a typology of adaptation projects the GCF would like to prioritize;

(b) Avoid funding "business as usual" development projects or investments the private sector would make without the GCF:

(i) Apply a "but for" causality test by asking whether the project/proposal would go forward without GCF support; and

(ii) Better define the six investment criteria and prioritize them to put emphasis on climate impact and transformative effect;

(c) Additionality: proposals should be assessed on the basis of anticipated improvements in social and environmental standards, gender responsiveness, corporate governance and measurable portfolio shifts towards sustainability or institutional management as a result of GCF involvement;

(d) Guidelines should be provided for full-cost financing;

(e) Eligibility criteria:

(i) Advance GCF work on developing minimum benchmarks;

(ii) Eligibility should be based on performance/impact and not specify which technologies/approaches can be funded or not; and

    (iii)   For mitigation, require the use of UNFCCC-approved latest streamlined baseline and monitoring methodologies for the various technologies and categories of activities; and

(f)   Incremental cost:

    (i)   The concept of incremental cost should be operationalized through providing the appropriate level of concessionality that will make a proposed activity viable;

    (ii)   Clearer guidelines are needed from the Board on the financing package it expects to see brought forward, specifically the level of concessionality the Board will accept for different types of proposals, and guidelines for co-financing;

    (iii)   Consider the categories of incremental costs eligible for funding, in particular for adaptation projects and programmes. The review can consider how incremental costs are addressed in other multilateral funds, including the Global Environment Facility (GEF); and

    (iv)   Recommended that highly complex incremental cost assessments and negotiations similar to the experience of the GEF in the 1990s be avoided.

2.3.10   **Developing interim procedures for redress pending the recruitment of the Head of the independent Redress Mechanism**

26.   It is noted that, since the publication of the compilation of the call for submissions in April 2016, the Head of the Independent Redress Mechanism vacancy has been filled and the position is now operational.

2.4   Main issues identified by the Secretariat

27.   **Issue 1 – pipeline origination:** the majority of the funding proposals received by the Secretariat are spontaneous submissions by AEs. This requires additional information to be provided by the AE and deeper assessment by the Secretariat to verify alignment with the GCF investment criteria as defined in the initial investment framework (decision B.07/06). It is expected that increased engagement by the GCF during the initial stages of project/programme development through dialogue with NDAs, including the ongoing programme of structured regional dialogues, as well as through readiness programmes and the PPF, will increase the fraction of funding proposals arising from this early engagement with the GCF, thus facilitating a faster review by the Secretariat once they are received as fully developed funding proposals.

28.   **Issue 2 – quality at entry:** the absence of more detailed guidance for the preparation of concept notes and funding proposals generates a high number of interactions between the AEs and the Secretariat in order to enhance the quality of proposals to be submitted to the Board for consideration. It is expected that early GCF engagement through mechanisms such as the PPF will also contribute to increased quality at entry of funding proposals, thus contributing to a more streamlined review process.

29.   **Issue 3 – processing times:** current processes of second-level due diligence require increased efficiency at the Secretariat level and the AEs need more clarity with regard to the information and documentation required. To facilitate this process, the Secretariat is currently revising concept notes and funding proposal templates as well as the structure and format of the Secretariat's assessment, including more clarity on the expected level of documentation to complete its second-level due diligence and ensure the high quality of proposals to be submitted to the Board.

30.   **Issue 4 – portfolio targets and strategic considerations of funding proposals:** decision B.07/06 stipulates the GCF initial portfolio targets, including (i) balance over time between mitigation and adaptation on a grant equivalent basis; (ii) adaptation allocation for vulnerable countries (including LDCs, SIDS and African States); (iii) geographical balance; (iv) engagement with the private sector; and (v) readiness and preparatory support. There is a need to continuously monitor the development of the GCF pipeline and the strategic contribution of individual funding proposals towards the objectives stipulated in the Governing Instrument for the GCF and GCF policies.

31.   **Issue 5 – policy gaps and inconsistencies:** as the Secretariat continues to conduct business in an evolving policy environment, policy gaps and/or inconsistencies are regularly identified during the conduct of the review process. The Secretariat is currently seeking to minimize inconsistencies by codifying review processes in an internal operational manual to reduce transactions costs both for itself and for AEs.

III.   Recommendations

32.   Based on the common issues identified in the current process, as well as the demands of an increasing pipeline in the future, the review indicates that improvements are needed to the initial proposal approval process. Rather than take an ad hoc, issue-by-issue approach to improving the process, it is instead recommended that the interconnected nature of the identified issues be recognized and the proposed improvements framed in an organized and systematic manner. There are four broad categories of improvements to consider: generation of programme or project funding; concept development; funding proposal review and assessment; and funding proposal consideration and decision-making.

33.   These categories incorporate the initial proposal approval process, as decided through decision B.07/03, as well as activities that occur outside of the scope of the process but are critical to GCF results. For example, the PPF was not yet in place at B.07, but it plays a critical role in the GCF pipeline of funding proposals. The PPF would be considered as part of the concept development work of the GCF, broadly defined.

34.   It is recognized that any improvements to the proposal approval process should be linked to and consistent with the Strategic Plan, as endorsed in decision B.12/20. The Strategic Plan has been closely considered throughout the review and the suggested improvements align with and are intended to enhance the Board's vision as set forth in the plan.

3.1   Improvements to the generation of programme or project funding

3.1.1   Pipeline generation through strategic approaches

35.   The initial proposal approval process outlines the generation of projects or programmes through calls for funding proposals and spontaneous submissions. Consistent with the initial Strategic Plan, there is a need to continue strengthening the strategic approach to programming and to develop the pipeline. As previously mentioned, the quality at entry and the promotion of country ownership of funding proposals, especially for spontaneous submissions, could improve with additional guidance during the process of identifying priorities, financial gaps and identification of partners to design and implement funding proposals.

36.   In this regard, the Board may consider prioritizing concept notes and funding proposals resulting from the upstream engagement and support of the GCF to the countries and AEs through the readiness support programme since these would have already been conceived with

the investment framework of the GCF taken into consideration at the strategic level. Therefore, project or programme funding proposals could be generated through:

(a)   Strategic approaches to pipeline generation;

(b)   Request for proposals (RFPs)(targeted submissions); and

(c)   Regular calls for proposals (including spontaneous submissions).

37.   The strategic approach should derive from the country and AE work programmes which are currently still at an initial stage of dialogue with the NDAs and AEs.

3.1.2   Provision of additional guidance for spontaneous submissions

38.   Currently, the majority of the proposals submitted to the GCF are spontaneous submissions. In many cases, the lack of more detailed guidance on the appetite of the GCF for certain project characteristics at the sector level increases the number of iterations during the review process. Additional guidance provided by the Secretariat would facilitate the origination of concept notes and funding proposals.

3.2   Improvements to concept development

3.2.1   Publication of additional concept development information (concept notes, country and accredited entity work programmes, Project Preparation Facility proposals/pipeline)

39.   The Board may consider requesting the Secretariat to publish the pipeline of concept notes on the website as well as country and AE work programmes. A decision on this matter should take into account an analysis of the impact that such a level of transparency may have on the Board's ability to take decisions with respect to individual proposals (i.e. the appropriate disclaimer will need to be made to ensure that stakeholders understand that publication of these document does not imply endorsement by the Board of the underlying funding proposals.)

3.2.2   Role of concept notes (two-stage approach, ensure national designated authorities engagement in concept notes)

40.   Concept development can lead to higher quality at entry of funding proposals, and significant discussion has been generated over the role of concept notes in the proposal approval process.

41.   A two-stage approval process may be further analysed to reflect the role of the concept notes. The basic proposal in favour of a two-stage approval is for the Board to endorse or approve a concept note, thereby giving greater certainty to AEs in spending resources on project development but without implying a commitment by the Board to approve the project during the second stage. For this approach to be meaningful, endorsement by the Board of the concept note would need to imply a prioritization of the funding proposal once it is received by the Secretariat and the development of more streamlined Board approval procedures for such proposals. The disadvantage of this approach is that it is difficult to assess on which basis a concept note would or would not meet GCF standards and requirements based on the relatively low amount of information contained in the concept note, beyond a high-level assessment to ensure alignment with GCF results areas and investment framework.

42.   In addition, the volume of concept notes currently in the pipeline would probably stretch the Board's capacity to process and take decisions on them. This would only increase, probably substantially, if concept notes were explicitly linked to future project funding.

43.   The role of the concept note may perhaps add the greatest value when it provides NDAs/FPs and AEs with the opportunity to discuss at early stages of a spontaneous submission funding proposal. Currently, NDA/FPs are not required to provide a no-objection at the concept note stage. However, the process whereby the Secretariat consults NDAs/FPs during the concept note stage needs to be strengthened to make it more systematic. Furthermore, the Secretariat can also use the structure dialogue forums more effectively to facilitate the ability of concept notes submitted directly by NDAs/FPs to be taken up for further development by AEs.

44.   For strategic approaches to pipeline generation, including proposals generated through country programmes, concept notes may play an important role, particularly for cases in which the proposed activities are highly innovative or untested. In cases of RFPs, the role of the concept note is more limited as the funding proposal requirements are clearly defined within the document of the RFPs.

45.   Regardless of whether a concept note precedes a spontaneous submission funding proposal or is part of a larger strategic engagement, it is clear that it should facilitate meaningful feedback that will enable an AE to proceed with funding proposal development. In order to further improve this feedback, it may also be helpful for the Secretariat to develop sector-specific guidance so that AEs may better understand what the GCF is looking for in terms of future funding proposals.

3.3   Improvements to proposal review and assessment

3.3.1   Bridging concept development and proposal review

46.   Between concept development and beginning the review of funding proposals there is the matter of how or whether to prioritize funding proposals from the various modalities of proposal submission (strategic approaches, proposals originating from the PPF, RFPs or spontaneous submissions) once received. The current process treats proposals in a "first come, first served" manner, meaning that funding proposals are reviewed and assessed in the order in which they are received. Although there is no formal queue system, funding proposals are processed in the following order:

(a)   Revisions and resubmissions of complete funding proposals;

(b)   New complete funding proposals; and

(c)   Incomplete funding proposals.

47.   In order to better leverage scarce capacity resources and emphasize the importance of early stage concept development, an alternative approach is suggested: reprioritize the funding proposals that have had earlier stage concept development through strategic approaches. By reprioritizing, funding proposals would be processed through an informal queue system in the following order:

(a)   Revisions and resubmissions of complete funding proposals;

(b)   New complete funding proposals originated or supported through readiness, strategic approaches, the PPF and RFPs;

(c)   New complete funding proposals with previous concept note engagement;

(d)   New complete funding proposals (spontaneous submission); and

(e)   Incomplete funding proposals.

3.3.2 Ensuring national designated authority engagement on funding proposal feedback

48.   NDAs/FPs signal their support for funding proposals through their submission of no-objection letters. However, there is no systematic manner to keep the NDAs/FPs informed of the feedback provided by the Secretariat on proposals. Incorporating the NDAs/FPs into this process not only increases country ownership, but also facilitates the process of quality enhancement of the proposal. This can be achieved by establishing a protocol of communication between the Secretariat and the NDAs/FPs during the second-level due diligence of funding proposals. This communication should ensure that they are kept informed of the feedback provided and that their views are solicited at critical junctures, in particular when further local stakeholder consultation is needed. This protocol should also provide guidance to the Secretariat as to the criteria to be followed if a new no-objection letter is required if, for example, the structure of the project/programme changes substantially as a result of the comments provided by the Secretariat.

3.3.3 Improving data management and analytics within the Secretariat

49.   The Secretariat is currently developing more sophisticated data management systems that will better enable it to carry out its duties, particularly for a more efficient second-level due diligence as well as more thorough data reporting.

50.   The systems currently under development will be able to track a concept note and funding proposal throughout the proposal approval process. Stakeholders will receive more granular and meaningful reporting, including a better understanding of where concept notes and funding proposals are within the pipeline. Meanwhile, the Secretariat will be better positioned to assess and give feedback on concept notes and funding proposals in a timely manner as information will be increasingly centralized and more easily monitored.

3.4   Improvements to proposal consideration and decision-making: addition of resubmission and reconsideration option

51.   The Board has discussed on multiple occasions the addition of a fourth decision option, sometimes referred to as a deferral or revision and resubmission option and this has also been raised by stakeholders during consultations. In the initial proposal approval process decision, the Board had the option to:

(a)   Approve the funding proposal;

(b)   Provide an approval that is conditional on modifications to project or programme design or subject to availability of funding; or

(c)   Reject the funding proposal.

52.   A revision and resubmission option enables the Board to reconsider a funding proposal in the future once changes have been made or more information has been provided. The Board may wish to exercise this option, for example, when it wants to assure a level of quality that the proposal does not currently have while at the time signalling that the overall thrust of the proposal is promising and generally aligned with GCF objectives.

53.   When considering this fourth option, it is recommended that placing a limit on the number of times the Board may request a funding proposal to be revised and resubmitted be considered. Some proposals are particularly sensitive to the timing, speed and predictability of project approval, especially those proposals with relatively high co-financing, owing to the urgent need to fill a project funding gap. For those projects, a decision to revise and resubmit

has the potential to cause the project to collapse as other potential co-financiers back out or the project timeline slips too far away.

3.5   Other issues related to the proposal approval process

54.   There are other issues that, while not directly part of the proposal approval process, contribute to the overall transparency and effectiveness of the process.

3.5.1   **Publications of yearly approval target**

55.   This approach, already taken in 2016, could be formalized in the context of the periodic updates on the implementation of the GCF strategic plan. This practice not only provides a signal to stakeholders of GCF ambition, but also enhances the overall transparency of the proposal approval process.

3.5.2   **Publication of no-objection letters as they are received**

56.   During the consultation process, several stakeholders requested that no-objection letters from NDA/FPs be published as they are received without having to wait for their disclosure as part of the funding proposals package. If no-objection letters are disclosed upon receipt, it will be important to communicate at the same time that their disclosure does not imply endorsement of the project/programme that the letter endorses.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.15/10 titled "Review of the initial proposal approval process":

(a)   _Takes note_ of the progress made to date on matters related to the initial proposal approval process, pipeline development and portfolio management as contained in annex II;

(b)   _Adopts_ the revised project and programme activity cycle as contained in annex III, and authorizes the Secretariat to regularly update the proposal approval process as appropriate and in accordance with relevant Board decisions;

(c)   _Requests_ the Secretariat to present to the Board for approval at its sixteenth session a time frame for implementing each phase of the review of the initial proposal approval process in an expedited manner, including a response to concerns raised in decision B.14/07 and the report of the Investment Committee on the staffing of the Mitigation and Adaptation and Private Sector Facility divisions of the Secretariat;

(d)   _Invites_ the Investment Committee to present to the Board for consideration at its seventeenth meeting project eligibility criteria, including incremental cost considerations in accordance with decision B.11/11;

(e)   _Also invites_ the Co-Chairs to schedule the review of the initial allocation parameters and guidelines, including concentration risks, in 2017, in accordance with decision B.06/06;

(f)   _Requests_ the Secretariat to present to the Board in 2017 its recommendations on the alignment of the portfolio composition with the initial results management framework as soon as the Board's approval level reaches USD 2 billion, in accordance with decision B.09/02;

(g)   _Also requests_ the Co-Chairs to continue to consult on the policy related to programmatic funding and report to the Board on an ongoing basis, as mandated in decision B.14/07.

Annex II: Actions taken to improve the initial proposal approval process

The Board, with the support of the Secretariat, has already taken action and made progress on a majority of the review elements listed in decision B.11/11, paragraph (j). The table below briefly summarizes the action taken on each of the review elements.

Summary of review elements and actions taken

Review elements	Action taken to date
Strengthening and scaling up the GCF pipeline, including the country programme pipeline	Mandates addressed in the Strategic Plan, including through the provision of enhanced readiness support, establishment of structured dialogues with national designated authorities, and development of country and AE work programmes Ongoing consultations by Co-Chairs on co-financing arrangements Country and accredited entity work programmes to be presented at the fifteenth meeting of the Board (B.15) Ongoing consultations and development of the programmatic approach and simplified approval process policies Establishment and operationalization of the Project Preparation Facility. Launch of request for proposals for enhancing direct access at the thirteenth meeting of the Board (B.13). Launch of request for proposals for the micro, small and medium-sized enterprise pilot programme Support from the Readiness and Preparatory Support Programme, including indicative list of activities that can be supported by the programme (decision B.13/32)
Streamlining and improving the transparency of the proposal approval process	Routine update published for each Board meeting, plus two limited distribution documents on the concept note pipeline and full funding proposal pipeline The independent Technical Advisory Panel (TAP) funding proposal assessments have been made publicly available along with the responses from the respective accredited entities Comprehensive GCF information disclosure policy adopted, including webcasting decision Environmental and social safeguard reports published online and included in the funding proposal packages Call for public inputs made on the review of the initial proposal approval process
Defining further decision-making options, including deferral of proposal approvals	Ongoing consultations on improvements to the proposal approval process, simplified procedures and deferral, decision-making processes of the Board, and other options during proposal consideration
Reviewing how concept notes should work within the project cycle, facilitating the feedback of the TAP on concept notes and facilitating contact of the TAP with accredited entities as useful and necessary	The Investment Committee has prepared a terms of reference for the review of the TAP

Supporting the Board to make decisions regarding funding proposals	Additional discussions of Board members and advisors with the Secretariat and accredited entities on funding proposals in advance of the Board meeting. Decision to explore options for a mechanism that will draw on appropriate scientific and technical advice, as initially envisaged by decision B.04/09, paragraph (d).
Strengthening project/programme eligibility criteria, including categories of incremental cost eligible for funding	Initial use of request for proposals, including micro, small and medium-sized enterprise pilot programme and enhanced direct access modalities Ongoing work on minimum benchmarks led by the Investment Committee Interim risk approach and policies agreed at B.13 (decision B.13/36) Decision B.14/07 addressing the status of fulfilment of all conditions decided by the Board in its approval of the relevant projects or programmes, and requesting the Secretariat to seek further guidance from the Board in the event that it determines that any such condition is technically, financially or legally unimplementable Decision B.14/07 calls on designated authorities, focal points and accredited entities to intensify efforts to strengthen the quality of funding proposals, in order to demonstrate greater potential to adapt to the impacts of climate change and/or to limit and reduce greenhouse gas emissions in the context of promoting a paradigm shift
Developing interim procedures for redress pending the recruitment of the Head of the Independent Redress Mechanism	Head of the Independent Redress Mechanism has been appointed and has started work Interim redress procedures adopted at B.13 (decision B.13/24), including a request for revised terms of reference of the independent Redress Mechanism
Country ownership and effective stakeholder management - participation of national designated authorities and focal points and relevant stakeholders in the early stages of the project cycle and beyond the provision of the no-objection letter	Strategic Plan defined structured dialogue meetings between national designated authorities/focal points and accredited entities. Three dialogues have taken place: Asia-Pacific (August 2016), Africa (October 2016) and Latin America (November 2016) Country ownership guidelines to be presented at B.15 Advancements in the Readiness and Preparatory Support Programme, including a revised list of indicative activities that can be supported by the programme

Annex III: Revised project and programme activity cycle

Table 1. Revised process through approval

KEY STAGES AND INDIVIDUAL STEPS		ACTOR(S)	RESPONSIBILITY AND TASK
I. Country, regional and/or accredited entity programmes			
1.1	Submission and compilation of country programmes	National designated authority (NDA) or focal point Secretariat	1. Submit country programme, including national adaptation plan or voluntary adaptation plan in accordance with decision B.13/09 and appropriate elements of countries' nationally determined contributions in accordance with decision B.13/10, to the Secretariat 2. NDAs may request support from the GCF Readiness and Preparatory Support Programme under the readiness activity areas outlined in decision B.13/32 3. NDA/FP may inform Secretariat of preferred AEs that will implement programmes and projects under the country programme 4. The Secretariat will compile country programmes and submit to the Board for information
1.2	Submission and compilation of regional programmes	NDA or focal point (FP) Secretariat	1. Groups of NDAs/FPs and/or regional AEs jointly submit regional programmes 2. Where appropriate, NDAs/FPs may request resources from the Readiness and Preparatory Support Programme to develop regional programme in accordance with decision 13/32 3. The Secretariat will compile regional programmes and submit to the Board for information
1.3	Submission and compilation of accredited entity work programme	Accredited entity (AE)	1. In accordance with the initial Strategic Plan for the GCF, AEs will submit annual and/or multi-annual work programmes to the Secretariat 2. AEs will develop annual and/or multi-annual programmes in consultation with NDAs/FPs 3. The Secretariat will compile AE work programmes to be submitted to the Board for information and discussion
1.4	Structured dialogues	Secretariat, NDAs/FPs and AEs	1. In accordance with the initial Strategic Plan, the Secretariat will host an annual strategic dialogue at the regional level in each region
II. Generation of programme or project funding proposals			
2.1	Strategic approaches	NDA, Secretariat and AEs	1. As a result of the country and AE work programmes, countries will identify priorities, analysis of financial needs and gaps and identification of partners to design and implement funding proposals 2. The Secretariat would provide support to NDA/FP and direct access entities to conduct the process for pipeline origination through strategic approaches

2.2	Requests for proposals	Board, Secretariat	1. The Board may periodically approve requests for proposals to guide the development of the GCF portfolio in specific areas in accordance with the initial Strategic Plan
2.3	Regular call for funding proposals	Secretariat	1. The Secretariat will publish regular calls for funding proposals on the GCF website, as directed by the Board 2. NDAs/FPs and AEs may submit funding proposals to the Secretariat in response to requests for proposals, as well as funding proposals included in country and AE work programmes, which would be subject to the proposal approval process
III. Concept note			
3.1	Concept note submission	AE, NDA/FP	1. The NDAs/FPs and AE submit the concept note to the Secretariat 2. In accordance with the country ownership guidelines and relevant Board decisions, AEs are encouraged to engage NDAs/FPs prior to the submission of concept notes 3. In accordance with decision B.07/11, NDAs/FPs may submit concept notes for consideration by the Secretariat 4. The Secretariat acknowledges the submission of the concept note within the seven days of submission, and updates the concept note pipeline accordingly
3.2	Concept note pipeline	Secretariat	1. The Secretariat will present an updated concept note pipeline prior to each Board meeting. The concept note pipeline will be published on the GCF website
3.3	Feedback and recommendations on the concept note	Secretariat, NDA/FP, AE	1. In consultation with the NDA/FP, the Secretariat will provide feedback and recommendations to the AE, and advises if concept is endorsed, not endorsed with possibility of resubmission or rejected 2. The Secretariat will appoint one FP for all communications in relation to concept notes and will endeavour to respond fully to concept notes within a 1-month period
3.4	Project preparation and development support	AE, Secretariat	1. The Project Preparation Facility (PPF) will support project and programme preparation requests, especially for projects in the micro to small size category in accordance with decision B.10/17 and in line with country and AE work programmes 2. The NDA/FP will submit the no-objection letter related to the PPF request in accordance with decision B.13/21 and subsequent decisions 3. AEs submit proposals based on the PPF concept note template as modified 4. The Secretariat will report to the Board at each meeting on the pipeline of PPF requests

			received, approved and under implementation 5. The Secretariat will report on the progression of concept notes receiving PPF support to funding proposals submitted and approved by the Board 6. Funding proposals developed with PPF resources should be submitted to the Board within two years of the PPF approval unless sufficient justification for an extension is provided
IV. Funding proposals			
4.1	Full proposal pipeline	Secretariat	1. The Secretariat will update the information on the GCF portfolio prior to each Board meeting and publish on the GCF website in accordance with decision B.11/11	57.
4.2	No-objection letter	NDA/FP	1. The NDA or FP will provide a no-objection letter, in line with the GCF transparent no-objection procedure in accordance with decision B.08/10
4.3	Funding proposal submission to the Secretariat	AE	1. The full funding proposal submitted to the Secretariat 2. The Secretariat acknowledges the submission of the documentation within seven days of submission 3. The Secretariat reviews the funding proposals for completeness 4. In consultation with the NDA or FP, the Secretariat provides feedback and recommendations to the AE, and responds to the proposal within one month of submission
4.4	Simplified approvals process for certain activities, in particular small-scale activities	Board, Secretariat	1. In accordance with decision B.13/20 on the simplified proposal approval process for certain activities, in particular small-scale activities that will apply to micro and small-scale proposals and those under the low/no-risk category C/intermediation 3, the Secretariat will assess proposals that are submitted using a simplified funding proposal template 2. Proposals submitted under the simplified proposal approval process will be identified as such in any information on the GCF portfolio and pipeline update
4.5	Information disclosure	AE, Secretariat	In accordance with the comprehensive information disclosure policy of the GCF (decision B.12/35) information related to environmental and social reports will be disclosed as follows: (i) In the case of category A projects, the environmental and social impacts assessment (ESIA)and an environmental and social management plan (ESMP) at least 120 days in advance of the AE or GCF Board decision, whichever is earlier (ii) In the case of Category I-1 programmes, the environmental and social management system (ESMS) 2 at least 120 days in advance of the AE or GCF Board decision, whichever is earlier (iii) In the case of Category B projects, the ESIA3 and an (iv) ESMP4 at least 30 days in advance of the AE or GCF Board

			(v) decision, whichever is earlier and (vi) In the case of Category I-2 programmes, the ESMS at least 30 days in advance of the AE or GCF Board decision, whichever is earlier
V. Secretariat analysis and independent technical assessment and recommendations to the Board			
5.1	Analysis and recommendation to the Board	Secretariat	1. The Secretariat will carry out necessary and appropriate second-level due diligence 2. The Secretariat will assess compliance with the GCF interim environmental and social safeguards, gender policy, financial policies and any other policies promulgated by the Board, in addition to performance of the project or programme against activity-specific criteria (as contained in the investment framework) and the agreed minimum benchmarks 3. The independent Technical Advisory Panel (TAP) will conduct technical assessment of the performance of the project or programme against activity-specific criteria and the agreed minimum benchmarks, in accordance with the initial investment framework 4. The Secretariat will submit the following documentation to the Board: (i) The final funding proposal as submitted by the AE (ii) The Secretariat's assessment of compliance with safeguards and policies and performance of the project or programme against activity-specific criteria. Proposals that best achieve GCF objectives will be selected based on selection process methodologies to be approved by the Board (iii) A summary of the second-level due diligence carried out by the Secretariat (IV) A cover note containing: the funding recommendation by the Secretariat; and a summary of the proposal and the underlying assessments with respect to the activity-specific criteria and minimum benchmarks (v) Documentation provided for by the TAP and responses from AEs

5.2	Independent assessment	TAP	1. The TAP will present the outcome of its technical assessment and its recommendations on each funding proposal 2. A response from the AEs to the assessment and recommendations from the TAP 3. The TAP assessment and responses and the AEs responses will be published on the GCF website
VI. Board approval			

6.1	Board decision	Board	1. The Board takes a decision to:
			   (i) Approve the funding proposal; or
			   (ii) Provide an approval that is conditional on modifications to project or programme design or subject to availability of funding and conditions being met prior to disbursements where appropriate; or
			   (iii) Request the AE to revise and resubmit the proposal based on the Board agreement that specific recommendations from the Secretariat and the TAP be met before resubmissions; or
			   (iv) Reject the funding proposal

6.2	Post approval follow-up	Secretariat	1. The Secretariat will inform the AE and the NDA/FP of the Board's decision and next steps in relation to the approval conditions 2. The decision is recorded by the Secretariat and communicated to the Interim Trustee. 3. In the case of rejection, the Secretariat will inform the NDA/FP that, in accordance with decisions B.06/09 and B.13/24, they may request reconsideration of the funding decision via the independent Redress Mechanism

6.3	Implementation of Board conditions	Secretariat	1. The Secretariat will report to the Board at each meeting on the status of implementation of the approval conditions, the status of disbursements and identity any matters that require further Board actions
VII. Legal arrangements for approved proposals			
7.1	Funding activity agreement	Secretariat with AE	1. The Secretariat will work with AEs to conclude any necessary legal arrangements between the GCF and the AE 2. Legal agreements are signed by the Executive Director and the AE 3. The Interim Trustee is notified 4. The NDA or focal point are informed of the outcome of the Funded Activity Agreement
7.2	Letter of commitment	Interim Trustee	1. The Interim Trustee provides a letter of commitment, subject to availability of funding

Table 2. Revised initial post-approval items

KEY STAGES AND INDIVIDUAL STEPS	ACTOR(S)	
I. Implementation period		
1.1	Transfer of funds to accredited entity (AE) against agreed criteria	Interim Trustee
1.2	Application of the relevant GCF interim environmental and social safeguards	AE
1.3	External audit report	AE
II. Commissioning/launch		
2.1	Project or programme becomes effective	AE
2.2	Monitoring and evaluation of outcomes commences During the project/programme implementation period, reporting requirements may include the following to the GCF: (a) Annual performance reports (APRs), including financial management reports. Among other things, the financial management reports will include dates and amounts disbursed for each funded activity and compliance with financial covenants; and (b) An interim evaluation report and a final evaluation report for each funded activity. These project/programme-level evaluations should also assess the performance of the funded activity against the GCF investment framework criteria, including financial/economic performances as part of the project/programme efficiency and effectiveness criterion Contents for APRs should include a narrative report (with supporting data as needed) on implementation progress based on the logical framework submitted in the funding proposal and considerations on the ongoing performance of the project/programme against the GCF investment framework criteria, including updates on the indicators and a report on environmental and social safeguards as well as gender. The report should align with the	AE, national designated authority (NDA)/focal point (FP), Secretariat

	modalities set out in the GCF results management framework and its performance measurement frameworks for adaptation and mitigation, as amended and updated from time to time. Reporting requirements on ESS in the APR will be consistent with the GCF environmental and social management system.	
	The Secretariat will report to the Board on an annual basis on the performance of the AEs in relation to their GCF-funded activities. This report will be based on the APRs received from AEs and will include information on progress in implementation, potential risks and lessons learned	
	At the project/programme level, the AE should include in its reporting the participatory monitoring, involving communities and local stakeholders, including civil society organizations, at all stages of the project/programme cycle from the beginning. For participatory monitoring of the overall portfolio of GCF-funded projects and programmes in each country, the NDA or FP is encouraged to organize an annual participatory review for local stakeholders, notably project-affected people and communities, including women and civil society organizations. The participatory review will adhere to the following:	
	(a) The policy of the GCF is to communicate in English. In cases where participatory review require materials in local languages in order to be effective and meaningful, the NDA, in cooperation with the AE, shall provide such materials in a timely manner in advance of the participatory review; and	
	(b) The Readiness Programme, in coordination with the NDA, may provide support to such participatory monitoring and reviews	
	The Secretariat may decide to undertake additional ad hoc checks to follow up on the reports on compliance and performance submitted by AEs. These ad hoc checks may include site visits and will be arranged in coordination with the NDA/FP and the AE.	
III. Impact period		
3.1	Monitoring and evaluation of outcomes During the post-implementation period, the submission of APRs might be required. In some cases, it will not be cost-effective to contract the AE to provide post-implementation monitoring. In these cases, the GCF would develop alternative arrangements	AE, Secretariat

3.2	Monitoring of financial and economic performance	AE, Secretariat
3.3	Debt serviced according to loan agreement	AE, Secretariat, Interim Trustee
3.4	Monitoring of financing covenants	AE, Secretariat
IV. Close		
4.1	Financial closure	AE,, Secretariat and Interim Trustee
4.2	Activity exits the GCF portfolio	n/a

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