

**GREEN
CLIMATE
FUND**

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5 July 2017

Review of the initial proposal approval process

Summary

This document presents a review of the GCF initial proposal approval process taking into account lessons learned from its initial application.

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I. Introduction

1. The Board, in decision B.11/11, paragraph (j), decided to review the Green Climate Fund (the “GCF”) initial proposal approval process, which was approved by the Board in decision B.07/03.
2. In decision B.11/11, paragraph (j), the Board requested the Secretariat to undertake this review based on the experience gathered from the proposals already submitted for consideration by 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, and facilitating the contact of the independent Technical Advisory Panel (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, paragraph (j), mandates that the review also include:
 - (a) Policy gaps listed in paragraph (c) of the decision, 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 approvals process as undertaken by the Secretariat, including an overview of the process of undertaking the review; and
 - (b) An overview of the progress made to date in relation to the proposal approval process and pipeline and portfolio development.

II. Initial proposal approval process review

5. 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.

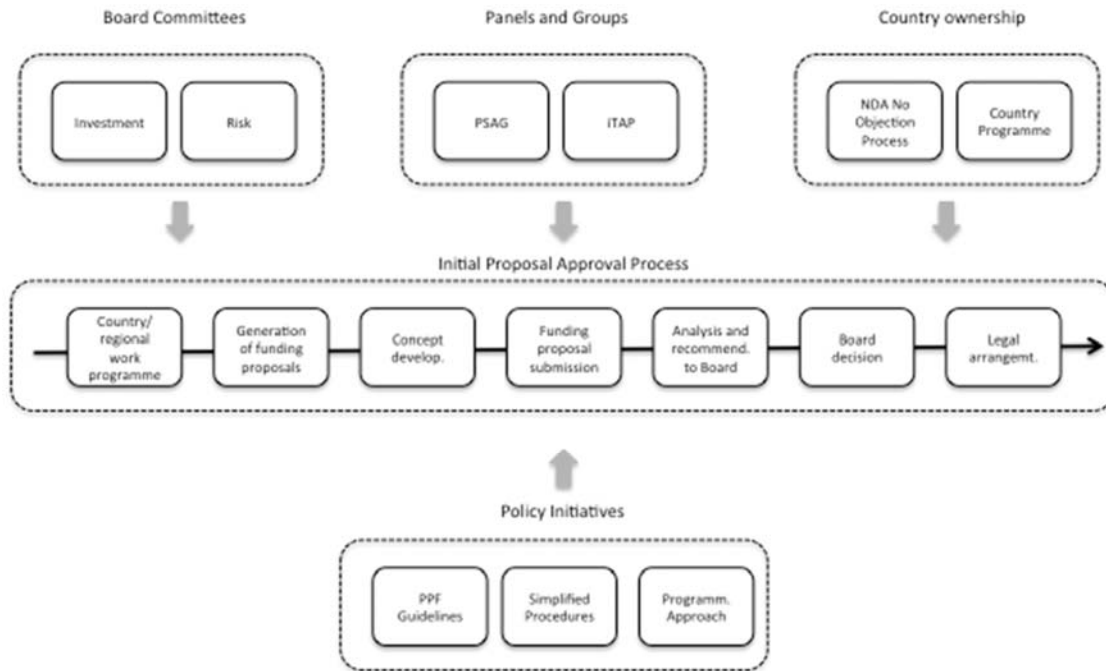


Figure 1. Context of the initial proposal approval process

2.1 Review context: pipeline overview

6. The first round of funding proposal consideration occurred at the eleventh meeting of the Board (B.11) in Zambia in November 2015, and the Board has approved 43 funding proposals with a total GCF funding of USD 2.2 billion as at its most recent meeting (its sixteenth meeting (B.16)). One project was withdrawn from consideration after submission for consideration at the fifteenth meeting of the Board (B.15), and one project was not approved at the sixteenth meeting of the Board (B.16).

7. As at 15 May 2017, the GCF pipeline contained 193 concept notes with total GCF funding requested of USD 9.3 billion. In the reporting period from 1 February 2017 to 15 May 2017, 16 new concept notes were submitted and 9 concept notes were developed into funding proposals.

8. As of the same reporting date, the GCF pipeline also contained 57 public- and private-sector funding proposals requesting total GCF funding of USD 3.6 billion to support projects and programmes totalling USD 13.2 billion.

9. Pipeline growth has accelerated since the first round of funding proposal considerations. 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 increased to 48 as at B.16. Furthermore, based on the work plan of the Secretariat (GCF/B.16/21/Rev.01), the Secretariat currently expects to add 20 new AEs from stage I to stage II in 2017.

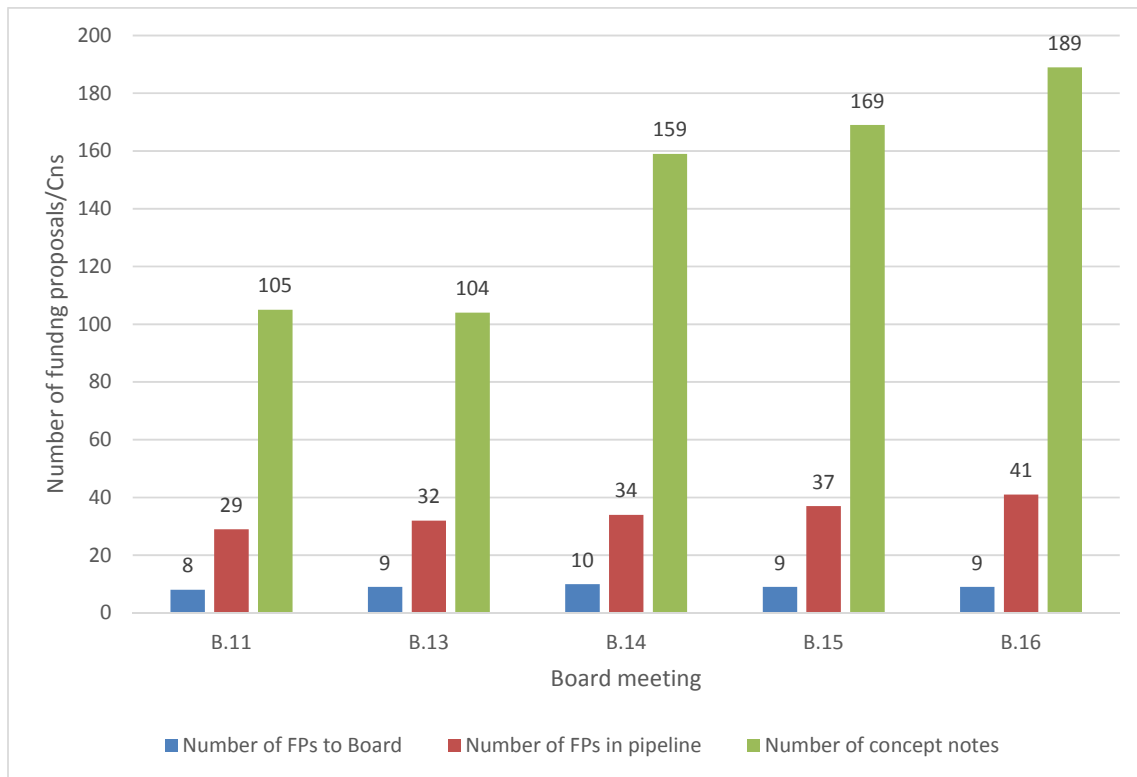


Figure 2. Proposals for consideration relative to GCF pipeline

2.2 Process for the review

2.2.1 Process for stakeholder consultations

10. 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 GCF website.

11. 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 experience gathered from the all 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.

12. Two further consultations with NDAs and FPs and AEs, respectively, focused on how to simplify the process and templates, and how the Secretariat and TAP can more effectively engage with NDAs, FPs, AEs and other stakeholders. Issues related to increased transparency and further clarity and guidance were also discussed. Multiple NDAs and FPs spoke to their experience with the GCF, and several interventions highlighted a desire for better communication and engagement with the Secretariat. During the sessions with AEs, several interventions highlighted a desire for more clarity on the expected timelines at each step of the review process.

13. A more detailed summary of the inputs provided by stakeholders is presented in annex II of this document.

2.2.2 **Linkages with Board decisions, on-going policy initiatives and guidance from the Conference of Parties**

14. There remains a close linkage between the initial proposal approval process, the review discussed in this document, its outcomes and other related policy streams. 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.

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

16. The programmatic approach (pending discussion by the Board) seeks to define the approach to be followed by the Board in approving programmes. Such an approach implies an adjustment to the overall proposal approval process to accommodate programmes composed by multiple subprojects. Such an approach could imply a two-step approval process, one for the programme, and one for each subproject, possibly taken at different levels.

17. 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.

18. 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 (LDCs) and small island developing States (SIDS), as appropriate, and in accordance with Board decisions”.²

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/105.pdf>

2.2.3 Analysis of Input and Experience

19. The Secretariat reviewed the inputs received, Board decisions and other guidance received since B.07/03, guidance from the COP, and internal experience to identify the key issues in the PAP for this review.

2.3 Main issues identified by the Board

20. At the fifteenth and sixteenth meetings of the Board (B.15 and B.16), the members of the Board expressed concern at the low quality of funding proposals, particularly in terms of their potential for climate impact which, in certain cases, was not sufficiently clearly developed or well-connected to the activities. Board members also expressed diverging views on the climate and development nexus.

21. A number of Board members expressed concern that the climate-related objectives of certain projects were not sufficiently clear, particularly in the case of adaptation.

22. Concerns were raised among Board members over what was considered to be an excessive reliance on grants, including for proposals in areas for which other loans or equity investments may be more appropriate, and the low proportion of co-financing, all of which reduced efficiency and effectiveness in the use of GCF resources.

23. A board member noted that the Secretariat was making inconsistent policy decisions on matters where Board guidance was currently lacking, such as the incremental cost of adaptation or the level of concessionality.

24. Several Board members underlined the need to make progress on resolving policy gaps. They agreed that work must be carried out urgently to review policy issues and submit the relevant findings and research to the Board for it to consider and incorporate these into its review of policy gaps.

2.4 Main issues identified by the Secretariat

25. **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 in-depth 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 and AEs, including the on-going programme of structured regional dialogues, as well as through readiness programmes and the PPF, will increase the share 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.

26. **Issue 2 - quality at entry:** The preparation of concept notes and funding proposals necessitates 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, regional structured dialogues, discussions of country and entity work programmes as well as direct engagement at an early stage in support of direct access entities (DAEs), will also contribute to increasing the quality at entry of funding proposals thus contributing to a more streamlined review process. Several attributes need to be included to ensure good quality at entry. These include sector-specific guidelines and benchmarks for the GCF investment criteria, the theory of change, and the ability

to evaluate impact and cost-effectiveness/value for money as well as long-term social, economic and environmental benefits.

27. **Issue 3 –processing times:** The current processes of second-level due diligence require increased efficiency at the Secretariat level, while the AEs need more information regarding the documentation required. To facilitate this process, the Secretariat is currently revising concept note 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. The processing time varies greatly, depending on the response time from both the Secretariat and the AEs, and can take between one month to 18 months or more. In most cases, the length of the response time is linked to the lack of information/analysis/documentation provided in the funding proposal or differing views on technical aspects between the Secretariat and the AEs.

28. **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 to create the necessary incentives for AEs to focus on the strategic contribution of individual funding proposals towards the objectives stipulated in the Governing Instrument of the GCF and GCF policies.

29. **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 consolidating review processes in an internal operational manual to reduce transactions costs both for itself and for AEs.

III. Recommendations

30. Based on the common issues identified in the current process, as well as the demands of managing an increasingly high-quality pipeline in the future, the review indicates that improvements are needed to the initial proposal approval process. It is recommended that the interconnected nature of the identified issues be recognized and the proposed improvements be framed in an organized and systematic manner. There are four broad categories of improvements to consider:

- generation of programme or project funding;
- high-quality concept and proposal development;
- funding proposal review and assessment; and
- post-approval management and implementation.

A fifth category, funding proposal consideration and decision-making could be considered for review by the Board.

31. 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 the B.07 meeting, but it plays a critical role in the GCF pipeline of funding proposals. The PPF could be considered part of the concept development work of the GCF, broadly defined.

32. 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

3.1.2 Pipeline generation through strategic programming

33. The initial proposal approval process outlines the generation of projects or programmes through a regular call for funding proposals (spontaneous submissions) and requests for proposals (targeted submissions). Consistent with the GCF initial Strategic Plan, there is a need to continue strengthening the strategic approach to programming and to develop the pipeline. The quality at entry and promoting country ownership of funding proposals, especially for spontaneous submissions, could improve with additional guidance and during the process of identifying priorities, financial gaps and identification of partners to design and implement funding proposals.

34. In this regard, the Board may consider prioritizing funding proposals resulting from the upstream engagement, country and AE work programmes, and the support given by the GCF to the countries and AEs through the readiness support programme. Therefore, project or programme funding proposals could be generated through:

- (a) Strategic programming to pipeline generation;
- (b) Request for proposals (targeted submissions); and
- (c) Regular calls for proposals (spontaneous submissions).

35. The strategic programming should derive from the country and AE work programmes which are currently still in an initial stage of dialogues with the NDAs and AEs. The first versions of these were developed for B.16.

3.1.3 Provision of additional guidance for spontaneous submissions

36. 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 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, and could target result areas/ priority sectors of the GCF. This guidance could be published generally, but also provided during direct engagement with specific countries and AEs.

3.2 Improvements to concept development

3.2.1 Publication of additional concept development information (concept notes, country programmes and accredited entity work plans, project preparation facility proposals/pipeline)

37. The Board may consider requesting the Secretariat to publish the pipeline of concept notes on the website as well as the country programmes (or country programme briefs in absence of country programme) and AE work plans. While this could improve those cases where further local and global stakeholder consultation is needed, a decision on this matter should take into account an analysis of the impact that such an increased 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 documents does not imply endorsement by the Board of the underlying funding proposals, and that concept notes may not have been endorsed by NDAs/FPs) as well as the increased transaction costs in order to address broader concerns raised by stakeholders. Concept notes for private sector projects should be kept confidential in any case.

3.2.2 Role of concept notes

38. Concept note 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.

39. The role of the concept note may perhaps add the greatest value when it provides NDAs/FPs and AEs the opportunity to discuss at the very 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 structured and systematic. Furthermore, the Secretariat can also use the structured 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. Finally, TAP notes that projects arising from concept notes tend to be of higher quality.

40. For strategic programming 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 request for proposals (RFPs), the role of the concept note is more limited because the funding proposal requirements are clearly defined within the documentation of the RFPs.

41. A concept note should always precede a spontaneous submission funding proposal because this facilitates 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 results areas/sector-specific guidance so that AEs or others submitting concept notes may better understand what the GCF is looking for in terms of future funding proposals.

42. A revised concept note template will also be useful to capture strategic issues, such as the theory of change proposed for the project, impact evaluability, the proper sequence of projects that form part of a programme, the selection of suitable financial instruments, potential risks, and other relevant issues. Approaches to concept note template format and scope may need to be different for public and private sector AEs.

43. In order to improve pipeline management and reporting to the Board, the concept notes of those submitting entities who have not responded to Secretariat communications for more than two months should be placed in the "inactive" category and be removed from the concept note "active" pipeline information provided to the Board.

3.3 Improvements to proposal review and assessment

3.3.1 Bridging concept development and proposal review

44. Between concept development and beginning the review of funding proposals there is the issue of how or whether to prioritize funding proposals from the various modalities of proposal submission (strategic programming, proposals originating from 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 and re-submitted. Although there is no formal queue system, funding proposals are processed in the following order:

- (i) Revisions and resubmissions of complete funding proposals;
- (ii) New complete funding proposals; and
- (iii) Incomplete funding proposals.

45. 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 programming approaches. By reprioritizing, funding proposals would be processed through an informal queue system in the following order:

- (i) Revisions and resubmissions of complete funding proposals;
- (ii) New complete funding proposals originated or supported through readiness, strategic programming approaches, the PPF and RFPs;
- (iii) New complete funding proposals with previous concept note engagement;
- (iv) New complete funding proposals (spontaneous submission); and
- (v) Incomplete funding proposals.

46. The Secretariat would assign a code to each of the proposals received according to the above prioritization order.

47. The Secretariat would revert to the AE to address the comments/observations prior to resubmission. The Secretariat would only conduct two iterations of interactions with the AEs, after which the final assessment by the Secretariat would be made and the proposal would be sent to the independent TAP for its assessment. Due to complexity of private sector proposals, the Secretariat may require additional interactions with AE.

48. For cases where the assessment recommendation of either the Secretariat or the TAP is “not for approval of a project proposal in its present form”, and where the AE has agreed not to submit the funding proposal in its current form after the two iterations of interaction, the AE should resubmit the funding proposal which would then be treated as a “complete funding proposal (spontaneous submission)” with a new code and prioritization order within the queue.

49. The Secretariat would inform the Board of those cases where either the Secretariat or the TAP assessment recommendation is “not for approval of a project proposal in its present form” if the AE does not agree with the recommendation of the Secretariat and/or TAP. Such proposals would not be submitted for Board consideration. The AE could also decide to withdraw the funding proposal in consultation with the NDA.

3.3.2 **Ensuring national designated authority engagement on funding proposal feedback**

50. NDAs/FPs signal their support for funding proposals through their submission of no-objection letters. However, the engagement of the NDA/FP needs to be strengthened, assuring country ownership not only through the submission of no-objection letter but also through a leading role in the development of the pipeline. The Secretariat, through the Readiness Programme and PPF should assist the NDA/FP in conducting the strategic programming process to pipeline generation and in developing a work programme at country level. It is also important to strengthen the capacity and raise awareness of the NDAs with respect to their role towards private sector, for example by providing private sector focused capacity support.

51. Experience also shows that AEs undergo a learning process in their engagement with the Secretariat and the Fund in general, leading to enhanced project quality over time. This could be accelerated through dedicated outreach to AEs with the aim to discuss recurring themes and strengths or weaknesses observed in their submissions.

3.3.3 **Improving data management and analytics within the Secretariat**

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

53. The systems currently under development will enable the Secretariat 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 because information will be increasingly centralized and more easily monitored.

3.4 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.

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

55. 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.

3.4.2 **Issues relevant to post-approval of funding proposals**

56. As the GCF moves towards project implementation it is important to anticipate certain policies that need to be developed. As implementation ramps up, the GCF will soon be expected to respond to requests from AEs regarding several matters covered by the accreditation master agreement (AMA) but that still lack more detailed policy and procedural guidance. These matters include:

- (a) **Restructuring:** the AMA considers a “Major Change” to be a restructuring that involves a major change in Funded Activity scope, structure or design, a major change in the Funded Activity’s objectives, a reallocation of GCF Proceeds affecting the Funded Activity’s scope or objectives, or any other change that substantially elevates the environmental and social risk category and alters the purpose or benefit of the Funded Activity. The AMA specifies that the AE must inform the GCF and seek instructions on how to proceed whenever a potential modification that would constitute a Major Change is to take place. The GCF needs to develop a process to assess the materiality of the Major Change including whether or not the restructuring requires approval by the Board, a no-objection letter from the NDA, and adjustments to the environmental and social safeguards requirements and potentially a review of the accreditation assessment to see if the AE could be upgraded if it is not already qualified for increased the relevant accreditation scope or (e.g. higher risk categories). The review may result in the need for the AE to apply for an upgrade in its accreditation scope;

- (b) **Operationalization of reallocation of funds:** funded activity agreements (FAAs) specify that the reallocation of resources in a project that exceed a certain threshold requires approval by the GCF. Guidance on the criteria that the GCF will use in agreeing to such reallocations needs to be developed;
- (c) **Cancellation and/or suspension of disbursements:** the AMAs also specify certain situations in which the GCF can cancel or suspend disbursements. A policy with further elaboration of the criteria to be followed to cancel/suspend disbursements needs to be developed including a description of the decision-making process, approval or notification to the Board, and criteria to re-start disbursements;
- (d) **Clearance and waiving of conditions:** a streamlined process to review the fulfilment of conditions still needs to be put in place. While the assumption is that most conditions will be reviewed and cleared by the Secretariat, some funding proposals have been approved with conditions that the Board needs to be involved in this process. The Board has also requested that the Secretariat assess if conditions are inconsistent with GCF policies and if, after discussions with the AEs, conditions may not be technically implementable. A systematic process to carry out this analysis and a way to seek Board endorsement, if applicable, still needs to be defined; and
- (e) **Additional financing:** an existing project/programme may request additional GCF resources to scale-up activities or to address unexpected price increases

57. It is also noted that one particular element related to decision B.11/11 paragraph (j) is closely related to post-approval. The review element calls for the development of interim procedures for redress pending the recruitment of the Head of the Independent Redress Mechanism. Since B.11, the Head of the Independent Redress Mechanism has been appointed and started work in 2016. Interim redress procedures were adopted at the thirteenth meeting of the Board (decision B.13/24), including a request for revised terms of reference of the Independent Redress Mechanism.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.17/18 titled “Review of the initial proposal approval process”:

- (a) Takes note of the update from the Investment Committee on progress related to Board-mandated work on indicative minimum benchmarks, financial terms and conditions, and the performance review of the independent technical advisory panel;
- (b) Also takes note of the review of the initial proposal approval process undertaken pursuant to decision B.11/11, paragraph (j);
- (c) Endorses the immediate actions that the Secretariat will implement in order to improve the effectiveness, transparency and country ownership of the initial proposal approval process, as contained in Annex II to this decision;
- (d) Requests the Secretariat to only submit to the Board those funding proposals:
 - (i) submitted to the Secretariat by entities accredited by the Board that have signed accreditation master agreements;
 - (ii) submitted to the Secretariat by entities accredited by the Board that have not signed accreditation master agreements, provided that such submission to the Secretariat occurs no later than 120 days from the date of the decision by the Board to accredit the relevant entity;
 - (iii) submitted to the Secretariat in response to Requests for Proposals issued by the GCF; or from those entities who have not yet signed the accreditation master agreement that have proposals currently at stage 3 of the initial project and programme activity cycle;
- (e) Underscores the importance of early engagement by Accredited Entities with national designated authorities and focal points in the preparation and submission of concept notes;
- (f) Agrees, in the context of B.11/11, paragraph (p), to insert a new Stage into the project and proposal activity cycle:

On receipt of a concept note submission from an accredited entity, the Secretariat will seek confirmation from the national designated authority or focal point that the concept note fits under national priorities and country ownership.
- (g) Requests the Secretariat to prepare a document, for the Board’s consideration at its nineteenth meeting, which outlines options for the development of a two-stage proposal approval process, with stage one focusing on concept note approval and stage two focusing on the Secretariat and ITAP assessment, and Board consideration;
- (h) Further requests the Secretariat, to present to the Board, implementation challenges identified in the application of the initial proposal approval process, including policy matters identified during the Secretariat’s assessment of funding proposals, for the Board’s consideration at the earliest opportunity, including information on the budgetary considerations;
- (i) Decides that the Secretariat shall only submit to the Board for its consideration those funding proposals (Stage 4) whose approval has been recommended by the independent Technical Advisory Panel and the Secretariat;

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- (j) Confirms that proposals not recommended by the independent Technical Advisory Panel and the Secretariat, as outlined in paragraph (j) above, will continue to be revised by the Secretariat and Accredited Entities at Stage 3 of the initial project and programme cycle;
 - (k) Requests the Secretariat to inform the Board at each Board meeting on the status of funding proposals that either the Secretariat or the independent Technical Advisory Panel do not recommend for approval and do not submit to the Board;
 - (l) Also requests the Secretariat to develop and publish clear timelines for its assessment of funding proposals to ensure timely consideration of funding proposals by the Secretariat, the independent Technical Advisory Panel and the Board;
 - (m) Further requests the Co-Chairs, in consultation with the Board, to explore options for the timely consideration of funding proposals between Board meetings;
 - (n) Decides to update the project and programme activity cycle as contained in Annex III to this decision;
 - (o) Requests the Secretariat to define the nature, scope and extent of second-level due diligence and submit the same to the Board for its consideration by no later than April 2018;
 - (p) Also requests the Secretariat to develop an interim restructuring and cancellation policy, including further options for decision making, for consideration by the Board no later than its eighteenth session and a comprehensive policy no later than April 2018.

Annex II: Immediate actions that the Secretariat will implement

I. Origination

- (a) Improve origination of funding proposals by supporting NDAs/FPs in accelerating the development of strategic country programmes
- (b) Encourage funding proposals and concept notes to be developed directly from country and entity work programmes, and concept notes will include a clear rationale on the concept of paradigm shift
- (c) Derive strategic programming from the country and AE work programmes and RfPs
- (d) Encourage and support NDAs to solicit Accredited Entities to support country programmes and preparation of the pipeline based on the principle of country ownership
- (e) Continue to implement the no objection procedure by NDAs on Project Preparation Facility proposals before secretariat consideration
- (f) Inform NDA or Focal Point of concept note submissions to the Secretariat and, where requested by the NDA/FP, to inform on the feedback provided to the AE
- (g) Improve and simplify the Concept Note templates. Template to include a word- and length-limit as technology development allows.
- (h) Require country programmes, concept notes and funding proposals to satisfactorily cover gender issues, stakeholder engagement and, where relevant, indigenous people issues.

II. Review

- (a) Develop an online CN and FP submission portal
- (b) Consult with the Board on policy related issues raised in concept notes as necessary.
- (c) As part of ongoing TAP review, explore increased TAP and AE interactions
- (d) Expedite timing, processing, transparency and guidance of concept notes and funding proposals.
- (e) Increase transparency by publishing concept notes and status of funding proposals as per the confidentiality assessment of the AEs and in accordance with the Information Disclosure Policy.
- (f) Publish Secretariat assessment of funding proposals sent to the Board.
- (g) Secretariat will check the feasibility of proposed conditions with the accredited entity during the project review
- (h) Improve data management and analytics, for example, AE submission portal and NDA portal. Provide updated note on proactive pipeline management and related knowledge management by B18.

III. Post approval

- (a) Take note of the budget implications of the implementation of Conditions.



- (b) Provide an update on the status of the fulfillment of conditions attached to approved funding proposals.
- (c) Provide status update on Board approved funding proposals without a signed AMA.



Annex III: Updated project and programme cycle

Table. Updated project and programme activity cycle

| 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 (FP) Secretariat | <ol style="list-style-type: none"> 1. Submit country programme, including a national adaptation plan or voluntary adaptation plan and appropriate elements of countries' nationally determined contributions, to the Secretariat. 2. NDAs may request support from the Readiness and Preparatory Support Programme under the readiness activity areas outlined in decision B.13/32. 3. NDA/FP may inform the Secretariat of preferred AEs that will implement programmes and projects under the country programme. 4. The Secretariat will compile country programmes and submit this to the Board for its information. |
| 1.2 | Submission and compilation of accredited entity work programme | Accredited entity (AE) Secretariat | <ol style="list-style-type: none"> 1. 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. |
| 1.3 | Structured dialogues | Secretariat, NDAs/FPs and AEs | In accordance with the 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 | <ol style="list-style-type: none"> 1. Based on the country and AE work programmes, countries will identify priorities, analyse financial needs and gaps and identify partners to design and implement funding proposals. 2. The Secretariat would provide support to NDAs/FPs and direct access entities to conduct the process for pipeline origination through strategic approaches. |
| 2.2 | Requests for proposals | Board, Secretariat | 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 | <ol style="list-style-type: none"> 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 (Voluntary) | | | |
|--------------------------------------|--|-------------------------|---|
| 3.1 | Concept note submission | AE, NDA/FP | <ol style="list-style-type: none"> 1. The NDAs/FPs and/or AEs submit the concept note to the Secretariat. 2. In accordance with the country ownership guidelines and relevant decisions, AEs are encouraged to engage NDAs/FPs prior to the submission of concept notes. 3. The Secretariat acknowledges the submission of the concept note, and updates the concept note pipeline accordingly. |
| 3.2 | Concept note pipeline | Secretariat | The Secretariat will present an updated concept note pipeline prior to each Board meeting. |
| 3.3 | Feedback and recommendations on the concept note | Secretariat, NDA/FP, AE | In consultation with the NDA/FP, the Secretariat will provide feedback and recommendations to the AE, and advises if the concept is endorsed, not endorsed with possibility of resubmission or rejected. |
| 3.4 | Project preparation and development support | AE, Secretariat | <ol style="list-style-type: none"> 1. The Project Preparation Facility (PPF) will support project and programme preparation requests, especially for projects in the micro to small size category. 2. The NDA/FP will submit the no-objection letter related to the PPF request through the Accredited Entity. 3. AEs submit proposals based on the PPF application template. 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 PPF approval unless sufficient justification for an extension is provided. |
| IV. Funding proposals | | | |
| 4.1 | Full proposal pipeline | Secretariat | The Secretariat will update the information on the GCF portfolio prior to each Board meeting and publish it on the GCF website. |
| 4.2 | No-objection letter | NDA/FP | 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, Secretariat | <ol style="list-style-type: none"> 1. The full funding proposal submitted to the Secretariat. 2. The Secretariat acknowledges the submission of the documentation. 3. The Secretariat reviews the funding proposals for completeness of documentation. |
| 4.4 | Information disclosure | AE, Secretariat | In accordance with the comprehensive information disclosure policy of the GCF as in force. |



| V. Secretariat analysis and independent technical assessment and recommendations to the Board | | | |
|--|--|-------------|---|
| 5.1 | Analysis and recommendation to the Board | Secretariat | <ol style="list-style-type: none"> 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 the performance of the project or programme against activity-specific criteria. |
| 5.2 | Independent assessment | TAP, AEs | <ol style="list-style-type: none"> 1. The independent Technical Advisory Panel (TAP) will conduct technical assessment of the performance of the project or programme against activity-specific criteria, as defined in the initial investment framework (decision B.09/05). 2. The TAP will present the outcome of its technical assessment and its recommendations on each funding proposal. 3. The Secretariat facilitates the response from AEs to the assessment and recommendations from the TAP. 4. The TAP assessment and the AEs responses will be published on the GCF website. |
| 5.3 | Submission of documentation to the Board | Secretariat | <ol style="list-style-type: none"> 1. The Secretariat will submit the following documentation to the Board: <ol style="list-style-type: none"> (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 (v) The assessment of the TAP and responses from AEs (standard practice since the fourteenth meeting of the Board). |
| VI. Board decision | | | |
| 6.1 | Board decision | Board | <ol style="list-style-type: none"> 1. The Board takes a decision to: <ol style="list-style-type: none"> (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; or (iii) Reject the funding proposal. |



| | | | |
|---|------------------------------------|------------------------|--|
| 6.2 | Post approval follow-up | Secretariat | <ol style="list-style-type: none">1. The Secretariat will inform the AE and the NDA/FP of the Board's decision and the 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 (decision B.04/04) 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 | The Secretariat will report to the Board at each meeting on the status of implementation of the approval conditions, and identify any matters that require further Board action. |
| VII. Legal arrangements for approved proposals | | | |
| 7.1 | Funded activity agreement | Secretariat with AE | <ol style="list-style-type: none">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/FP is informed of the outcome of the funded activity agreement. |
| 7.2 | Letter of commitment | Interim Trustee | The Interim Trustee provides a letter of commitment, subject to the availability of funding. |
| 7.3 | Funding proposal conditions | Secretariat, AE, Board | The Secretariat will assess the conditions attached to funding proposals and, in the event any such condition is considered by the Secretariat to be inconsistent with GCF policies, the Secretariat will make a recommendation to the Board for further guidance and pending such guidance, the relevant condition shall be deemed not to apply (decision B.16/02). |

Annex IV: Main issues identified by stakeholders

1. This sub-section summarizes the common issues identified in the current process, as identified by respondents to the April 2016 public call for inputs on the initial proposal approval process review. It is organized by the seven review elements of decision B.11/11 paragraph (j).
2. 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 ones at the B.15 and B.16 meetings. Subsequent consultations (informal consultation at B.14 and the consultations in Marrakech at COP22) have further enriched the stakeholder discussion and have been incorporated throughout the sub-sections.

I. Stakeholders views - Strengthening and scaling up the GCF 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 INDCs and/or other UNFCCC processes.
- (b) GCF funding should support scaling up and replication of successful interventions risk-taking that otherwise cannot be done by mainstream financial institutions – this will help engage the private sector and stimulate innovative structures and long term commitments.
- (c) Introduce request for proposals (RfPs) with dedicated TORs and timelines instead of rolling spontaneous submissions
- (d) Project Preparation Facility (PPF) funding decisions should be delegated to the Secretariat to avoid delays in project approvals¹.
- (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, sub-projects, etc.); and
 - (iii) Enhanced Direct Access can be a form of programmatic approach that can channel higher levels of funding.
- (f) Establish clearer guidelines on the Fund's 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 inter-sessional decision process on funding cycle / process.
- (i) For Least Developed Countries and Small Island Developing states, include feasibility study completion as part of the conditional approval of a proposal to help speed up the approval process.

¹ Relevant PPF decisions are B.11/11 and B.13/21.

II. Stakeholders views -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, without adding complexity to the process, 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 structure, information requirements, 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 GCF Secretariat’s “second level due diligence²”; and the expected minimum acceptable level of initial due diligence at the entry to the review process from AEs.
- (c) Limit the review of the Secretariat:
 - (i) Limit 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 per GCF’s investment framework;
 - (ii) When broadly defined climate change (mitigation, adaptation, cross-cutting issues) is only one of the components of a larger project or programme, the no-objection and second-level due diligence including assessment against activity-specific criteria of the Fund should be limited to the broadly defined 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. GCF Secretariat’s role should focus on alignment of the project design with the investment framework and compliance with GCF Secretariat requirements (as outlined in the AMA); and
 - (iv) Core information provided by AEs during accreditation process should not be requested during 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.);
 - (ii) Set a fixed maximum number of rounds of review with a system for tracking the review comments and how these have been addressed, to avoid reintroducing the same comments at various points in the process.

Improving transparency

- (a) Online system: GCF should establish a real-time data system to make proposal information accessible to various stakeholders including NDAs and AEs. This would help ensure that all necessary stakeholders have access to up-to-date information and

² Decision B.12/31 (Annex XXVII) indicates that the Fund will rely on the AE’s due diligence, whereas standard text of the GCF AMA in the Clause 4.05 lays out basic 2nd level due diligence requirements.

reduces the burden of the Secretariat for reporting on project status. This will also automate CN and FP submission, feedback and tracking.

- (b) Document availability: Secretariat's review of the proposal should be made public whenever possible and as defined in the individual AMA for each individual AE/DAE, as well as comments from the Board and any responses by the AE to comments from the Secretariat, TAP, or Board.
- (c) It would be helpful for the GCF to have an online system of tracking GCF funding accessed per country, and per AE. This could help manage expectations, reduce duplication and inform the decisions to be made by AEs to support countries in developing proposals.

III. Stakeholders views - Defining further decision-making options, including deferral of proposal approvals

- (a) Introduction of a "deferral" option for Board decision:
 - (i) For "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, if the missing elements can be addressed by PPF) in an automatic or quasi-automatic manner, thereby allowing project developers to address the data deficiencies or other reasons in a reasonable timeframe;
 - (iii) Deferral option may include a request to satisfy certain conditions before resubmission.
- (b) Points of caution on a "deferral" option:
 - (i) Deferral decision overlaps with conditional approval;
 - (ii) If there are major issues with a proposal, the Board should reject it or provide clear guidance to the accredited entity for how the project should be improved for re-submission.
- (c) Introduction of a "re-submission" option for Board decision:
 - (i) Board could request an AE to address major revisions recommended by the TAP, secretariat or Board before the Board re-considers 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 re-submit option to be included in the action plan for improvement of the project approval process.
- (d) Other decision-making options:
 - (i) Inter-sessional approval between Board Meetings for smaller proposals (by funding size). Details would be needed for 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);

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

IV. Stakeholders views - Reviewing how concept notes should work within the project cycle and facilitating contact of the TAP with accredited entities as useful and necessary

- (a) Possible “pre-concept note” approach:
 - (i) 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 program or PPF; and
 - (ii) 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.
- (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 people within the Secretariat;
 - (ii) For approved concepts, set aside funds for the project subject to eventual approval of 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 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 information required for application to the PPF so that a single template serves both, whether or not they are requesting project preparation support; and
 - (vi) The strategic focus of Board should be on concept approval. 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 concept, when the Secretariat or TAP have technical doubts related to a specific project, and/or as requested by Board members, etc.).

V. Stakeholders views - 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;
- (b) Suggestions for a small-scale approval process:
 - (i) Initially 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.

VI. Stakeholders views - 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 strategic 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 overly-complex and restrictive;
 - (iii) Following a case-by-case approach, based on economic viability, is more efficient compared to defining project eligibility criteria (beyond the current investment criteria) and general rules for how to calculate incremental costs;
 - (iv) Determining project eligibility criteria and, where possible, eligible and measured incremental costs for the large variety of activities that countries might want to include in their country programmes, and also 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; given well defined demand for increases of financial flows to adaptation initiatives and projects.
- (b) Avoid funding “business as usual” development and/or poverty reduction projects or investments private sector would make without 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 provable and quantifiable climate impact and transformative effect.
- (c) Additionality: proposals should be assessed based on anticipated improvements in social and environmental standards, gender responsiveness, corporate governance, measurable and preferably causal 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’s work on developing minimum benchmarks;
 - (ii) Eligibility should be based on performance/ proven and measurable impact and cost-effectiveness 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.
- (f) Incremental cost:

- (i) Incremental cost should be operationalized at the GCF 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 they expect 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. Review can consider how incremental costs are addressed in other multilateral funds, including the GEF; and
- (iv) Recommended to avoid highly complex incremental cost assessments and negotiations similar to GEF's experience in the 1990s.

VII. Stakeholders views - Developing interim procedures for redress pending the recruitment of the head of the independent redress mechanism

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