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Strengthening and scaling up the GCF pipeline: establishing strategic programming priorities

Summary

The document discusses why strategic programming priorities may be needed, outlines approaches taken by other funds and institutions, and provides considerations in developing strategic programming priorities.

I. Introduction

1. Given the urgency and seriousness of climate change, the purpose of the GCF is to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change, which, as set out in the Paris Agreement (2015), includes holding the global increase in temperature to well below 2° C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5° C. The Governing Instrument of the GCF directs the GCF to contribute to the accomplishment these goals by promoting the paradigm shift towards low-emission and climate-resilient development pathways to support developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change.

2. It is this ambitious mandate that makes the GCF distinct from other funds. Promoting a paradigm shift and meeting the ambitious climate change goals set by the international community cannot be done with business-as-usual investments. As noted in the GCF Strategic Plan, achieving the goals requires climate change projects that are innovative, transformational and replicable at scale. For the GCF to be successful and develop into the largest dedicated multilateral climate fund, projects submitted to and approved by the GCF should clearly demonstrate that they further these goals, and also that they advance the climate change strategies of the countries involved.

3. Over its first meetings, the GCF initiated work on the development of policy frameworks for its operation, including frameworks for reviewing and approving projects. Even with progress in the approval of projects, some policy gaps remain, including an approach to finance incremental cost, one of the two GCF financing approaches provided for in Art. 35 of the Governing Instrument. Indicative minimum benchmarks, which could be used to ensure that projects and programmes achieve their full potential, have also not been adopted.

4. Including the eleventh meeting of the Board, 43 project and programme proposals have been approved. This experience has enabled the Board to assess whether the projects it is receiving are fully meeting the transformational goals of the GCF, and to develop further policy guidance consistent with its earlier decisions to guide future submissions. In addition, the experience to date has shown that a large number of conditions have had to be placed on project approvals. As noted in document GCF/B.17/Inf.xx on the post-approval update on project/programme status, the number of conditions on projects has grown from an average of 2.5 at the thirteenth meeting of the Board[1] to 5.5 at the sixteenth meeting of the Board, although the number is expected to decline substantially for the projects submitted for approval at the seventeenth meeting of the Board. Experience has shown that clearing the conditions is a considerable challenge, considering the tight deadlines set for execution and effectiveness of the funded activity agreements.

5. As a continuously learning organization, the GCF may now address some of these matters taking into account the experience gained after five rounds of funding proposal considerations. During the consideration of funding proposals, the Board has identified characteristics that would be expected of projects and through which the GCF will achieve its transformational objectives. Most of the funding proposals approved by the Board have had conditions attached to them following review by the Secretariat, and/or the independent Technical Advisory Panel (TAP), and/or the Board. The necessity of imposing such conditions, as well as observations made by Board members during the consideration of funding proposals, suggest the need to develop an approach to further define the GCF project eligibility criteria,

[1] At B.11 the term sheets had not been developed at the time of approval, and at B.12 no funding proposals were considered.

including an approach to measuring incremental costs, to increase the quality of funding proposals and to increase their alignment with the GCF results framework.

6. Developing a strategic programming priorities policy may contribute to clarifying the characteristics of projects/programmes which the Fund would support. This could then form the basis of the assessment of eligibility. National authorities and accredited entities (AEs), with support from the Readiness and Preparatory Support Programme, have been developing a strong pipeline of projects for submission to the GCF. By B.16, the portfolio of projects approved by the GCF had reached USD2.2 billion. As part of the review and approval process of these funding proposals, the Secretariat and the Board have relied on the Governing Instrument, prior Board decisions and the review of each funding proposal against the GCF investment framework to ensure strategic alignment between the objectives of the GCF and the specific activities and goods and services for which funding is being requested.

7. Countries and AEs, particularly direct access entities, require clear guidance on the type of projects/programmes that can be financed by the Fund. Such information should be available early on, as they embark on the preparation of funding proposals to facilitate the overall process. Developing a strategic programming priorities policy could address this need, by establishing eligibility criteria that would have to be met by projects/programmes in order for them to be considered by the Board. In addition it would support country-driven programming by offering clearer signals of the scope and structure of GCF investments and how they can be best deployed in relation to other domestic or international sources of finance. Such a policy could be updated periodically so that in practice it would establish a “programming period” between updates.

8. Any approach to establish funding priorities should balance the current flexibility with the need to provide clearer guidance to countries and AEs and strengthen the alignment of funding proposals with the objectives of the GCF. Given the mandate of the GCF to promote the paradigm shift towards low-emission and climate-resilient development pathways, a policy establishing financing priorities should not be too restrictive. Unlike other climate change-related funds with very specific objectives, one of the main characteristics of the GCF is its broad mandate to contribute to the achievement of the ultimate objective of UNFCCC. As the needs of countries seeking to mitigate and adapt to climate change evolve, the GCF will need to be ready to respond flexibly (e.g. with increasingly innovative financing mechanisms).

9. A continuation of the flexible approach used at present would ensure that the GCF could support innovative, paradigm-shifting interventions. Typical examples of a flexible approach include financing an enabling environment and policy instruments, and knowledge and pilot projects that could be scaled-up at a later stage; and de-risking instruments, such as insurance premiums, could also be included. Keeping a flexible approach will also facilitate the evolution of the GCF financial instruments and the implementation of those already in place such as guarantees that may require more complex structures.

10. A policy establishing funding priorities should also ensure alignment with the GCF country-driven approach. The Governing Instrument and multiple Board decisions emphasize the country-driven nature of the GCF. The provision of readiness support to national authorities, the use of country and entity work programmes to ensure country-driven pipelines are developed and other elements of the proposal approval process seek to maximize such an approach. An appropriately structured strategic programming priorities policy should enhance, rather than conflict with the country-driven approach and must therefore ensure that sufficient flexibility is provided to accommodate country-specific characteristics and needs.

II. Motivation: Why a strategic programming priorities policy is needed

2.1 Ensure alignment with the objectives of the GCF

11. A mandate to develop policies exists. The Board, in Decision B.11/11 (c) acknowledges existing policy gaps in the GCF approval process, including project eligibility criteria, calculation of incremental costs, and risk investment criteria. The Board further decided in Decision B11/11 (j) to review the proposal approval process based on the experience gathered from the review of the first batch of proposals submitted for consideration of the Board, with a view, among others, to strengthening project/programme eligibility criteria, including categories of incremental cost eligible for funding.

12. Promoting a paradigm shift cannot be done with business-as-usual investments. It requires projects and programmes that are transformational towards low emissions and climate resilience, supporting the aims of the Paris Agreement. A strategic programming priorities policy could help ensure that the GCF focuses on supporting investments that match this ambition and the fulfillment of the GCF initial strategic plan. Such a policy could also be tailored to help ensure that funding proposals demonstrate some of the important issues identified in decision B.11/11, paragraph (d):

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

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

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

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

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

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

(g) Country ownership and effective stakeholder engagement; and

(h) Additionality of the GCF's funding;

13. The private sector is a key partner for the achievement of the GCF objectives. Such a strategic programming policy could also consider how to engage the private sector, especially in the form of in-country partners, such as local enterprises or banks, in order to help the GCF achieve its strategic objectives.

14. An approach to measuring incremental costs could be a component of this policy. Quantification of incremental costs could facilitate defining proposals focused on climate change and the objectives of the GCF and differentiate them from others falling outside the remit of the GCF. Such quantification would also be an important element to define other guidelines such as co-financing policies. Furthermore, a clear and transparent approach to calculate the incremental costs of activities included in funding proposals assessed by the Board would ensure an efficient use of the GCF resources in the delivery of its objectives.

2.2 Current decision-making tools are limited

15. The Governing Instrument, in paragraph 35, establishes at a high-level the eligibility policy of the GCF. Paragraph 35 states that the GCF will finance activities "to enable and support

enhanced action on adaptation, mitigation (including REDD-plus[2]), technology development and transfer (including carbon capture and storage), capacity-building and the preparation of national reports by developing countries." This statement is the basis for the type of activities that the Fund will finance.

16. The GCF results management framework (decision B.07/04) and investment framework (decision B.07/06) are the basis for the assessment of funding proposals. The results management framework, though not initially intended to define activities eligible for funding, in practice establishes the areas that the GCF will support and therefore effectively defines the type of activities the GCF seeks to finance:

(a) Mitigation through low- and reduced-emission: energy access and power generation, transport, buildings, cities, industries and appliances, and land use, (i.e. deforestation, forest degradation, and through sustainable forest management and conservation and enhancement of forest carbon stocks); and

(b) Adaptation through the increased resilience and the reduced climate and climate variability risks of: the most vulnerable people, communities, and regions; health and well-being, and food and water security; infrastructure and the built environment to climate change threats; and ecosystems and ecosystem services.

17. Alignment with the GCF results areas is the primary tool that the Secretariat uses in its early project cycle engagement with national designated authorities (NDAs) and AEs. The objective was to ensure that funding proposals submitted for consideration are consistent with the results the GCF seeks to achieve. The investment framework provides the criteria used by the Secretariat and the TAP to assess proposals and it is also the main tool provided to the Board to make funding decisions.

18. These two frameworks can be strengthened through additional policy guidance to provide a more discriminating tool for decision-making. At present these tools do not provide sufficient guidance to AEs to enable them to submit for consideration by the Board the full range of high-quality transformational projects and programmes that the GCF is meant to invest in. As a consequence, many projects have required substantial work at the assessment stage, and often also the imposition of substantive conditions by the Board, the TAP and the Secretariat, to ensure that the projects can support the achievement of the objectives of the GCF. This imposes costs on the Secretariat, AEs and countries, during both the development of funding proposals, and their implementation, and increases the risk of approved projects not being able to deliver their results.

2.3 Sustainability as activities of the GCF are scaled-up

19. Achieving the objectives of the GCF requires an increase not only in the quality but also in the quantity of projects. At B.16, the number of funding proposals in the pipeline (without considering those at the concept note stage) was about four times larger than the nine funding proposals that have, on average, been considered during the Board meetings where proposals were discussed. This points to a considerable time lag emerging between the receipt of funding proposal and their possible consideration by the Board.

20. In spite of the steps taken by the Board and the Secretariat to enhance the transparency and the efficiency of the proposal approval process, the current approach to considering funding proposals is process heavy. It is therefore unlikely to be sustainable as the number of proposals

[2] Reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

increases. Even if the Secretariat and the TAP could increase the number of proposals assessed, the Board is unlikely to be able to properly assess a much larger number of them at each meeting without the assistance of a more structured tool to assess the alignment of the funding proposals with the objectives and policies of the GCF.

21. A set of strategic programming priorities could enhance the Fund's efficiency and effectiveness in considering funding proposals. By assessing proposals against a set of criteria for tighter eligibility, which effectively would constitute a more structured assessment process, the Secretariat could undertake a first review of a substantially higher number of proposals, with only those that comply with the criteria moving into full second level due diligence. Having such clear eligibility criteria as a guide could also facilitate more targeted Board deliberations of proposals.

2.4 Facilitate the development of funding proposals by countries and AEs

22. Countries and AEs lack clear guidance on the type of projects/programmes that the GCF could support and this creates uncertainty and expense. Given its broad mandate to support the attainment of objectives of the UNFCCC, the GCF has remained flexible with respect to the type of interventions it is prepared to support, provided they contribute to achieving the objectives of the GCF. However, countries and AEs do not have sufficient information at hand to decide if a potential project is sufficiently aligned with the GCF priorities, exposing them to considerable risk of wasting the capacity required to develop a GCF funding proposal. The Secretariat seeks to address this through its early engagement with national authorities and AEs during the proposal approval process – through structured dialogues, concept note discussions, periodic technical exchanges, and strategic discussions of entity work programmes. Nevertheless, there are certain areas where the Secretariat is constrained in providing such guidance.

23. Transformational interventions are bound to arise in many cases from high risk – high reward projects. Lack of clarity on matters such as whether the GCF can support recurrent expenditures, the criteria for research and development activities, or conditional cash transfer programmes are some of the types of questions that have been received by the Secretariat and for which clear guidance does not exist can lead in some cases to either excess funding proposal preparation costs as AEs, facing uncertainty with respect to required criteria, provide an excessive amount of analysis and justification in support of a certain activity, or to national authorities abandoning what could have become a good project. The current lack of guidance on eligibility criteria may lead national authorities to reduce their own risks by seeking other sources of funding for such transformative projects, or abandoning them completely, while prioritising lower risk – lower impact projects for submission to the GCF.

24. Clarifying eligibility criteria would contribute to focusing countries' efforts. Establishing early on in the engagement with NDAs and AEs the type of projects/programmes that the GCF seeks to finance would support countries and AEs by helping them to focus their efforts on the preparation of funding proposals with higher quality and alignment with the objectives of the GCF. The review of these proposals by the Secretariat, TAP, and finally their consideration by the Board, would become more streamlined because the fundamental question of alignment of the proposal with the GCF objectives, which currently still needs to be discussed during the review process, would have been addressed at an earlier stage through its review against eligibility criteria arising from a strategic programming priorities policy. Post-approval, the implementation of funding proposals would be streamlined by the absence of conditions that are currently imposed by the Secretariat, the TAP and the Board.

2.5 Ensure balance of the Fund's portfolio

25. The GCF needs a tool to balance its portfolio. Decision B.09/02 mandates the Secretariat to monitor the portfolio, report to the Board, and recommend needed actions, in order to align the portfolio composition with the initial results management framework. As the portfolio grows, this will need to be done periodically and, when measures are needed to balance it, a mechanism to effect changes in the composition of the portfolio will be needed. At this point in time, no such mechanism exists.

26. Periodic adjustments to the strategic programming priorities could accomplish balancing. Strategic programming priorities, which could be periodically adjusted, could be used to direct the portfolio towards activities required to ensure its overall balance particularly with respect to each of the GCF results areas. In such cases, by stating the GCF preferences for activities in certain results areas, countries and AEs are provided with clearer guidance on the type of funding proposals that can be considered by the Board. This process of rebalancing of the portfolio can be implemented in a manner consistent with the GCF country-driven approach by ensuring that countries continue to drive the process of identifying projects/programmes for GCF funding and that activities which may not fall within the GCF priorities during a specific programming period are not necessarily excluded – provided they are consistent with the overall mandate of the GCF – but can still be supported through other mechanisms.

2.6 Contribute to ensure complementarity and coherence with other funds

27. The GCF can establish programming priorities that complement and bring coherence between the GCF and other climate financing actors. The Governing Instrument of the GCF mandates the GCF to operate in a manner that seeks to complement and ensure coherence with other funds, entities, and channels of climate change financing. This is done through active dialogue with other financing mechanisms under the UNFCCC but also through active engagement with other climate finance entities, several of which are in fact AEs of the GCF. However, there are limitations to systematically pursuing complementarity and coherence with respect to the growing portfolio of the GCF. The strategic programming priorities policy could facilitate such coherence and complementarity by ensuring that the GCF concentrates its support on activities that complement and do not replicate those of other funds.

2.7 Complement ongoing initiatives

28. The GCF is currently working on several initiatives whose impact could be enhanced by a strategic programming priorities policy. The table presents a list of these initiatives. All of them are ultimately geared toward enhancing the quality of the projects / programmes to be supported by the GCF and therefore establishing strategic funding priorities could facilitate this process and contribute to achieve the objective of all of these efforts.

Table 1. Relationship of a strategic programming priorities policy to existing initiatives

Initiative	Potential role of a strategic programming priorities policy
Review of the initial proposal approval process (decision B.11/11)	This review has been undertaken to, inter alia, strengthen and scale up the GCF pipeline and strengthen project/programme eligibility criteria, including categories of incremental cost eligible for funding. Establishing programming priorities could be essential to achieve these objectives of the review.

Initiative	Potential role of a strategic programming priorities policy
Activities undertaken by the Secretariat to enhance funding proposals quality	The Secretariat is undertaking more active engagement with accredited entities and nationally designated authorities during the early phase of funding proposal preparation providing feedback on preliminary ideas and concept notes. A strategic programming priorities policy could inform this process and allow the Secretariat to provide more systematic guidance.
Development of minimum benchmarks (decision B.09/05)	The GCF Investment Committee is currently developing a set of minimum benchmarks that would support the Board's decision-making with respect to funding proposals. A strategic programming priorities policy would be an additional tool in this process and could focus the use of the minimum benchmarks on a set of funding proposals meeting particular eligibility criteria.
Addressing policy gaps in matters related to funding proposals (decisions B.11/11 and B.15/07)	During several meetings, Board members have agreed on the need to address and identify existing policy gaps with respect to funding proposals. A strategic programming priorities policy could contribute to address a significant number of these gaps by ensuring that the GCF focuses its support on certain types of activities that are fully consistent with the policies of the GCF.
Risk appetite and other risk guidelines (decision B.13/36)	Risk and investment guidelines are currently being finalized by the risk management committee. A strategic programming priorities policy could be aligned to complement such risk guidelines and ensure the GCF portfolio evolves in a manner consistent with the GCF risk appetite.
Deployment of Project Preparation Facility (decision B.13/21)	A strategic programming priorities facility could provide guidance on the type of projects that could be supported by the Project Preparation Facility.
Development of entity and country work programmes (decision B.12/20 endorsing the Strategic Plan for the GCF)	The development of work programmes could be facilitated and their use made more impactful if they are informed by a strategic programming priorities policy that would focus their activities.

III. Elements of an eligibility policy: approach taken by other institutions

3.1 Adaptation Fund

29. The decision establishing the Adaptation Fund defines key elements of its project eligibility criteria. UNFCCC decision 10/CP.7, creating the Adaptation Fund, established that it would finance concrete adaptation projects and programmes as well as activities previously identified in decision UNFCCC 5/CP.7 including adaptation in the areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems (including mountainous ecosystems), and integrated coastal zone management; monitoring of diseases affected by climate change; and the development of climate information systems.

30. Operational policies adopted by the Adaptation Fund board have provided further guidance on eligibility criteria. Funding by the Adaptation Fund is provided on full adaptation

cost basis of projects and programmes to address the adverse effects of climate change. The operational policies present the criteria used to make funding decisions[3]:

(a) Has the government endorsed the project?

(b) Does the project / programme support concrete adaptation actions to assist the country in addressing the adverse effects of climate change?

(c) Does the project provide economic, social and environmental benefits, with particular reference to the most vulnerable communities?

(d) Is the project cost-effective?

(e) Is the project consistent with national sustainable development strategies, national development plans, poverty reduction strategies, national communications or adaptation programmes of action, or other relevant instruments?

(f) Does the project meet the relevant national technical standards, where applicable?

(g) Is there duplication of the project with other funding sources?

(h) Does the project have learning and knowledge management components to capture and feedback lessons? and

(i) Has the project provided justification for the funding requested on the basis of the full cost of adaptation?

31. The approach to eligibility criteria and programming used by the Adaptation Fund can be characterized as principles-based. The broad range of areas covered by adaptation and the criteria used to make funding decision allows the Adaptation Fund to have a substantial amount of flexibility in determining the type of projects it is prepared to support.

3.2 Global Environment Facility

32. At the strategic level, the Global Environment Facility (GEF) defines eligible activities based on each one of the conventions that it supports and its focal area strategies. The text of the conventions (the Convention on Biological Diversity, UNFCCC, Stockholm Convention on Persistent Organic Pollutants, the United Nations Convention to Combat Desertification, and the Minamata Convention on Mercury) and the guidance that they periodically provide constitute the overarching strategy.

33. The GEF governing instrument and other key policies establish the overall criteria for project eligibility. The instrument defines the purpose of the GEF as “providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits”[4] in the focal areas of the conventions it supports. Projects to be supported by the GEF must:

(a) Address one or more of the GEF “focal areas”, improving the global environment or advance the prospect of reducing risks to it;

(b) Be consistent with the GEF operational strategy, generally understood to be the programming document described below;

(c) Seek GEF financing only for the agreed-on incremental costs on measures to achieve global environmental benefits;

[3] Operational policies and guidelines for parties to access resources from the Adaptation Fund (March 2016).
[4] Instrument for the Establishment of the Restructured Global Environment Facility, March 2015 Revision.

(d) Involve the public in project design and implementation; and

(e) Be endorsed by the government(s) of the country/ies in which it will be implemented.

34. Focal areas are agreed for each replenishment period. At each replenishment cycle, the GEF assembly agrees on "focal areas" for that programming period, which further define the strategic areas of support for each of the conventions. While financing is not necessarily limited to activities falling under these focal areas, the focal areas do serve as part of the financing strategy during the programming period. In the case of the current GEF-6 programming period, 1 July 2014 to 30 June 2018, the GEF assembly agreed on a "GEF-6 Programming Directions"[5] document that establishes the following parameters:

(a) Resource allocations to each one of its focal areas/themes. These generally correspond to the conventions it supports and to its corporate as well as administrative activities. GEF-6 focal areas are biodiversity, climate change mitigation, chemicals and wasted, international waters, and land degradation;

(b) Objectives for each focal area. Based on a strategic review of key needs in each theme, the document defines a set of goals and objectives. For example, in the case of climate change mitigation, GEF-6 has three objectives: promote innovation, technology transfer, and supportive policies and strategies; demonstrate mitigation options with systemic impacts; and foster enabling conditions to mainstream mitigation concerns into sustainable development strategies;

(c) Programmes and target allocations in support of each objective. These programmes are intended to operationalize the attainment of each objective. For example, in the case of the first climate change objective mentioned above, it is supported by two programmes: "Promote timely development, demonstration and financing of low carbon technologies and mitigation options" and "Develop and demonstrate innovative policy packages and market initiatives to foster new range of mitigation actions."; and

(d) Results frameworks for each focal area tying expected outcomes to each one of the programmes supporting the objectives and setting overall targets.

35. The use of allocations also focuses the activity for each replenishment cycle. There are varying degrees for flexibility for the allocations established at the beginning of each replenishment period. The allocation per focal area is distributed using a fixed formula for each recipient country for the three main focal areas (biodiversity, climate change, and land degradation). Countries with very small allocations are allowed flexibility to programme across those three focal areas. Allocations at the programme level are intended to be strategic targets and are generally updated based on actual utilization during the replenishment period.

3.3 Multilateral Fund for the implementation of the Montreal Protocol

36. The approach taken by the Multilateral Fund can be useful to further develop the concept of categories of incremental costs eligible for funding. These are divided into three categories depending on whether the intervention seeks to eliminate the use of the controlled substance at the stage of production, intermediate use or end use:

(a) Supply of substitutes (production): (i) cost of conversion of existing production facilities; (ii) costs arising from premature retirement or enforced idleness; (iii) cost of establishing new production facilities for substitutes; (iv) net operational cost, including the cost of raw materials; and (v) cost of import of substitutes.

[5] GEF-6 Programming Directions, GEF Assembly Document GEF/A.5/07/Rev.01, May 22, 2014.

(b) Use in manufacturing as an intermediate goods (consumption): (i) cost of conversion of existing equipment and product manufacturing facilities; (ii) cost of patents and designs and incremental cost of royalties; (iii) capital cost; (iv) cost of retraining; (v) cost of research and development (vi) operational cost, including the cost of raw materials; and

(c) End use (consumption and technical assistance): (i) cost of premature modification or replacement of user equipment; (ii) cost of collection, management, recycling, and, if cost-effective, destruction of ozone-depleting substances; (iii) cost of providing technical assistance.

3.4 World Bank - International Development Association

37. The International development Association (IDA) has a strategy document for each replenishment period. These documents not only establish funding priorities but also present other operational updates such as new financial instruments introduced for that replenishment period. In the current replenishment period about to start, IDA-18 (1 July 2017 – 30 June 2020), there are five special themes:

(a) Jobs and economic transformation;

(b) Gender and development;

(c) Climate change;

(d) Fragility, conflict, and violence; and

(e) Governance and institutions

38. The special themes guide the IDA operations through the results framework, not through specific resource allocations. These special themes are embedded into the results framework of the activities of the IDA during the replenishment period by specifying a set of indicators for each theme. The evolution of these indicators is assessed during a mid-term review conducted during the programming period and on that basis additional dialogue is undertaken with countries to foster the attainment of results in each one of the themes.

39. In addition to strategic programming, it is useful to review the evolution of the eligibility criteria for specific expenditures that the IDA uses. The IDA uses the eligibility approach of the World Bank. Eligibility was based on the assumption that its investments are focused on developing capital assets, and primarily infrastructure, and it is therefore generally unwilling to finance non-capital expenditures (e.g. salaries or other recurrent expenditures) or activities that were not deemed "productive". Since the early 2000s, such approach has been evolving along several dimensions[6] outlined below. Since late 2012 the World Bank has moved to broader eligibility criteria where except for a fixed list of "excluded expenditures", there is not an ex-ante list of eligible expenditures.

(a) Full costs financing: originally, the World Bank and many multilateral development banks (MDBs) would only finance a fraction of project costs, say 90 per cent, to ensure that there was appropriate cost sharing with the recipient country. Most MDBs have by now moved away from this approach and have made 100 per cent of project costs eligible;

[6] See, for example, the changes made by the World Bank to its eligibility criteria in *Eligibility of Expenditures in World Bank Lending: A New Policy Framework, Board Paper, March 2004* to assess the evolution of these policies. The new policy is in *Investment Lending Reform: Modernizing and Consolidating Operational Policies and Procedures*, November 2012

(b) Local costs financing: funding from MDBs and bilateral agencies was generally provided in foreign currency and it was expected that the recipient would cover from its own sources expenditures in the local currency. This has generally been done away with by most providers of financing, because most currencies have become convertible thus making this a moot point;

(c) Taxes and duties: it was assumed that external providers would not cover taxes and duties because these items should be covered by the recipient, at least in public sector projects for which taxes are not an expenditure but a revenue. Most MDBs and many bilateral agencies have now moved to make taxes and duties eligible, recognizing that in many cases it is not practical to disaggregate all the taxes and duties for each expenditure item and the fact that economic distortions can be created if, for example, governments simply choose to make projects financed by external agencies tax free;

(d) Recurrent costs: the financing by external agencies of recurrent costs such as maintenance and salaries (including those of civil servants) was perceived as anathema to sustainability and further encouraged the bias towards capital investments by MDBs and many bilateral agencies. This restriction has now been relaxed by many financiers, recognizing that to achieve results financing of recurrent costs may be required, if there is a transparent framework to reflect them and projects have a road map to make those recurrent expenditures sustainable in the long term (i.e., after the existing source of external financing comes to an end); and

(e) Compensation, land and other costs: as part the process of compensation related particularly to environmental and social safeguards, projects may need to finance payments for livelihoods affected or the purchase of land. As in some of the previous examples, other institutions generally did not make these expenditures eligible for financing, because they were also perceived as part of the counterpart funding that the recipient ought to cover. This has also evolved, with some institutions now willing to finance these activities because they see such expenditures as an integral part of any project.

IV. Conclusions and matters to be considered in developing GCF strategic programming priorities

40. The above review can be summarized as follows:

(a) A review of Board discussions and comments received by the Secretariat from stakeholders points in the direction of the needs for further guidance on the characteristics that funding proposals expected by the GCF should include;

(b) This could be achieved by developing a policy of strategic programming priorities that provide additional guidance to that provided by prior Board decisions, particularly the results and investment framework;

(c) If developing such a policy, the GCF should be mindful of the country-driven approach that should guide the operations of the GCF. A strategic programming priorities policy should aim to maximize the effectiveness of the GCF by focusing its efforts on transformative projects but without narrowing the eligibility criteria to a degree that would constraint country-driven initiatives. In fact, the policy should aim to assist national authorities and AEs in developing projects, as well as guide national programming processes and related guidelines; and

(d) Other funds and financing institutions have strategic programming and eligibility criteria that are generally driven by principles-based approaches or broad themes rather than hard targets or allocations.

41. If the Fund decides to pursue a strategic programming priorities policy, some of the aspects that could be taken into account include:

(a) Overall policy reach: establishing programming priorities requires defining the type of activities and expenditures, as well as the goods and services that the GCF can finance. It is important to clarify these three concepts:

(i) Strategic level areas: these refer to the strategic-level activities that the GCF will support for mitigation and adaptation activities. This is the approach taken by most institutions that provide funding to other entities to implement projects;

(ii) Type of expenditure: expenditure can be made to finance one-off capital investments, other one-off costs or recurrent expenditures; and

(iii) Specific goods and services: this is the most granular concept and refers to the specific items that the GCF is prepared to finance. This can refer to very specific items, such as meals and food supplies, civil servant salaries, or taxes. Most funds rely of the policies of their implementing entities to define this level of policy. However, the GCF may want to clarify the eligibility of certain expenditure types;

(b) Level of flexibility and prioritization: the GCF may wish to establish priorities the attainment of which would be fostered by active engagement with countries and AEs but without excluding activities that fall outside such a priority list. This could be attained, for example, by prioritizing the review of funding proposals which fall within the priority areas, not completely excluding other proposals;

(c) Level of reliance on AE methodologies: for example, if the GCF decides to include an assessment of incremental costs, the GCF may rely on whichever approach AEs take to assess such costs, or it could agree on a specific methodology, or it could agree on the principles on which any method used would have to rely; and

(d) Periodicity: the GCF may agree on establishing a priorities policy for a fixed amount of time, as many other institutions do. This could provide a clear timeline against which to measure not only the success of the policy, but also the results of the GCF.

V. Proposed next steps

42. Following review and consideration by the Board, the Board may wish to direct the Secretariat to commence the development of some or all of the points outlined in this paper.

Annex I: Draft decision of the Board

The Board, having considered the document "Strengthening and scaling up the GCF pipeline: establishing strategic programming priorities GCF/B.17/19":

(a) *Reaffirms* the funding proposal eligibility criteria embedded in previous Board decisions, including those related to the results management framework, the investment framework, country ownership, and engagement with nationally designated authorities, focal points and accredited entities;

(b) *Requests* the Secretariat, under the guidance of Co-Chairs, to develop a mapping document that identifies all elements related to project and programme eligibility and selection criteria included in: previous Board decisions; conditions imposed by the Board on funding proposals; and the Governing Instrument, that can contribute to strengthening the Fund's eligibility criteria, and present this for the Board's consideration at its eighteenth meeting as part of the ongoing process to simplify and clarify project and programme eligibility and selection criteria and update the GCF's policies and procedures;

(c) *Also requests* the Secretariat, under the guidance of the Co-Chairs, to develop a proposal for the Board's consideration at its nineteenth meeting, taking into account best practices from other multilateral funds and other approaches, to address the following:

(i) the application of an incremental cost methodology and/or alternative methodologies, as appropriate;

(ii) guidance on the GCF's approach and scope for support to adaptation activities;

(iii) a policy on co-financing; and

(iv) options for further guidance on concessionality, building on related work; and

(d) *Reaffirms* the importance of the following ongoing work of the Board that will contribute to providing policy guidance in the development of funding proposals:

(i) reviews of the financial terms and conditions of the GCF financial instruments;

(ii) indicative minimum benchmarks; and

(iii) risk management framework.

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