GREEN CLIMATE FUND

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Mapping of elements related to project or programme eligibility and selection criteria

Summary

This document identifies all the elements related to project or programme eligibility and selection criteria that have been included in: Conference of the Parties guidance, the Governing Instrument for the GCF; previous Board decisions; conditions imposed by the Board on funding proposals; and recommendations of the independent Technical Advisory Panel.

I. Introduction

1. The Board in decision B.17/10 requested the Secretariat, under the guidance of the Co-Chairs, to develop a mapping document that identifies all elements related to project or programme eligibility and selection criteria that have been included in previous Board decisions, conditions imposed by the Board on funding proposals, and the Governing Instrument for the GCF, which can contribute to strengthening the GCF eligibility criteria.

2. Moreover, decision B.11/11 refers to strengthening project or programme eligibility criteria, including categories of incremental cost eligible for funding. This is again reiterated in decision B.19/06, in which the Board noted the linkages between matters related to incremental costs and concessionality and the policy gaps identified in decision B.11/11, including project eligibility criteria, as well as issues related to co-finance and other matters considered at subsequent Board meetings, and requested the Secretariat to develop an integrated approach to resolve these interrelated issues for consideration by the Board at its twentieth meeting.

3. GCF has not yet established explicit project or programme eligibility and selection criteria, per se.

4. This document includes the mapping of decisions, guidance and recommendations to inform the GCF eligibility and selection criteria from:

(a) United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement Conference of the Parties (COP) guidance;

(b) Governing Instrument guidance;

(c) Decisions of the Board; and

(d) Conditions and recommendations attached to funding proposals.

5. In addition, a review of the approach taken by other institutions on eligibility is included as an annex.

II. Paris Agreement: guidance from the Conference of the Parties to the United Nations Framework Convention on Climate Change

6. The COP decided in decision 1/CP.21 that GCF, as one of the operating entities of the Financial Mechanism of the Convention, shall serve the Paris Agreement.

7. Article 2 of the Paris Agreement emphasizes country-driven strategies and states that financial resources provided should enhance the implementation of their policies, strategies, regulations and action plans and their climate change actions for both mitigation and adaptation.

8. Article 7, paragraph 5 of the Paris Agreement notes that adaptation action should be based on and guided by the best available science and, as appropriate, traditional knowledge, knowledge of indigenous peoples and local knowledge systems, with a view to integrating adaptation into relevant socioeconomic and environmental policies and actions, where appropriate.

9. Similarly, Article 7, paragraph 7(b) and (c) highlights activities that strengthen institutional arrangements and scientific knowledge to inform climate services and decision-making.

10. In addition, Article 7, paragraph 9(e) recognizes that economic diversification and sustainable management of natural resources are adaptation activities that build the resilience of socioeconomic and ecological systems.

11. Article 8, paragraph 4 of the Paris Agreement also sets out areas of cooperation and facilitation to enhance understanding, action and support for early warning systems, risk insurance facilities, resilience of communities, livelihoods and ecosystems, and others.

12. Other COP guidance and articles in the Paris Agreement indicate activities that may be considered as eligible and will be further considered by the Secretariat.

III. Guidance from the Governing Instrument for the GCF

13. Paragraph 1 of the Governing Instrument states that "the purpose of the Fund 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".

14. Paragraph 2 of the Governing Instrument states that "[t]he Fund will contribute to the achievement of the ultimate objective of the UNFCCC. In the context of sustainable development, the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways".

15. Paragraph 3 of the Governing Instrument states that "[t]he Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two."

16. Paragraph 50 states that "[t]he Board will balance the allocation of resources between adaptation and mitigation activities under the Fund and ensure appropriate allocation of resources for other activities".

17. In addition, paragraph 51 states that "[a] results-based approach will be an important criterion for allocating resources".

18. Paragraph 35 of the Governing Instrument, under the section on eligibility, states:

> "All developing country Parties to the Convention are eligible to receive resources from the Fund. The Fund will finance agreed full and agreed incremental costs for activities to enable and support enhanced action on adaptation, mitigation (including REDD-plus), technology development and transfer (including carbon capture and storage), capacity-building and the preparation of national reports by developing countries."

19. Paragraph 36 of the Governing Instrument states that "[t]he Fund will support developing countries in pursuing project-based and programmatic approaches in accordance with climate change strategies and plans".

20. Under the section on readiness and preparatory support, paragraph 40 states:

> "The Fund will provide resources for readiness and preparatory activities and technical assistance, such as the preparation or strengthening of low-emission development strategies or plans, NAMAs [nationally appropriate mitigation actions], NAPs [national adaptation plans], NAPAs [national adaptation programmes of action] and for in-country institutional strengthening, including the strengthening of capacities for country coordination and to meet fiduciary principles and standards and environmental and social safeguards, in order to enable countries to directly access the Fund."

21. The operational modalities of GCF are outlined in paragraphs 31 and 32 of the Governing Instrument, and paragraphs 37–39 outline the funding windows and fund structure. Lastly, paragraph 18, on the role and functions of the Board, specifically itemizes the Board's role and functions, including that it will:

> "… (b) Approve operational modalities, access modalities and funding structures;

(c) Approve specific operational policies and guidelines, including for programming, project cycle, administration, and financial management;

(d) Approve funding in line with the Fund's principles, criteria, modalities, policies and programmes; … "

II. Decisions of the Board

2.1 Initial proposal approval process

22. At its fifth meeting, in decision B.05/05, the Board requested the Secretariat to develop and present a resource allocation system. In May 2014, the Board adopted its initial proposal approval process, including the criteria for programme and project funding (decision B.07/03).

23. In decision B.07/03, the Board confirmed that the criteria for programme and project funding are outlined in decision B.07/06 on the investment framework.

24. In the same decision, the Board also requested the Secretariat to develop methodologies for the selection of programmes and projects that best achieve the objectives of GCF.

25. In decision B.05/17, the Board refers to essential requirements for resource mobilization outlined in annex XXII including the initial proposal approval process with the criteria for programme and project funding. This was addressed through the GCF investment framework (see document GCF/B.07/06 titled "Investment framework").

2.2 Initial results management framework

26. The initial results management framework (RMF) presented in GCF decision B.07/04 further clarifies the type of results that GCF will finance. This decision, though not intended to define activities eligible for funding, establishes the areas that GCF will support to achieve results, and therefore effectively defines the type of activities that GCF will seek to finance as follows:

(a) Mitigation through low and reduced emissions from energy access and power generation, transport, buildings, cities, industries and appliances, and land use, deforestation, forest degradation, and through sustainable forest management and conservation and the enhancement of forest carbon stocks; and

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

27. However, the initial RMF remains incomplete. At its third and fourth meetings, the Board instigated a discussion on the results areas in which GCF should invest (document GCF/B.01-13/03 and document GCF/B.04/03 titled "Business Model Framework: Objectives, Results, and Performance Indicators"). This led to the development of the initial version of the RMF adopted by the Board at its seventh meeting (decision B.07/04).

28. By decision B.07/04, the Board also adopted the core indicators for mitigation and adaptation and requested the Secretariat to develop indicators for the impact and outcome results as decided in the version of the RMF adopted at that meeting. At the eighth meeting of the Board, the RMF indicators were presented, as contained in annex VIII to decision B.08/07 (annex VIII to document GCF/B.08/45) and were referred to as performance measurement framework (PMF) indicators. At the time, the Board decided to discuss the indicators one by one, and adopted only 60 per cent of them, mainly those related to the mitigation results. The others were "noted" by the Board, which requested that the Secretariat further refine those

indicators (decision B.08/07, paragraphs (a) and (b)).

29. The PMF indicators that had not been adopted by the Board at its eighth meeting were presented to the Board at its twelfth meeting. However, the related document was deferred in decision B.12/33. The Board sent an invitation to submit additional inputs on further development of the indicators to members of the Board, alternate members of the Board and active observers. The Secretariat received 19 submissions in response to the call for inputs. A compilation of these inputs is available on the GCF website. Based on the inputs received, the Secretariat conducted analyses and developed an audit trail table. Over 300 inputs on the indicators were counted. The inputs were analysed and divided into three groups according to the level of consensus on their most recent formulation.

30. Also at its thirteenth meeting, the Board deferred the consideration of the further development of some PMF indicators as contained in document GCF/B.13/26 titled "Further development of some indicators in the performance measurement frameworks" to its fourteenth meeting (decision B.13/34). However, the item was not included in the agenda for the fourteenth meeting.

31. Lastly, in decision B.19/06, the Board took note of linkages between policy gaps and the RMF and agreed that, in order to fill them, an approach should be taken that addresses the gaps in the RMF and takes note of practices used by other institutions.

2.3 Initial investment framework

32. In May 2014, the Board adopted an initial investment framework through decision B.07/06. This decision reflects the GCF theme-/activity-based resource allocation system as laid out in decision B.05/05. The investment framework provides six high-level investment criteria against which funding proposals will be assessed (see annex XIV to decision B.07/06; annex XIV to document GCF/B.07/11).

33. Document GCF/B.09/07 titled "Further Development of the Initial Investment Framework: Sub-Criteria and Methodology" continued and deepened decision B.07/06 by defining the sub-criteria for the six high-level investment criteria and providing an assessment methodology used in the second-stage due diligence process to provide inputs to the Board for funding decisions. Essentially, the six investment criteria adopted in decision B.07/06, together with their further development, including the sub-criteria and indicative assessment factors, define the eligibility of proposals for funding consideration.

34. The investment criteria and sub-criteria are designed to:

(a) Signal as clearly as possible to countries, accredited entities (AEs), project developers and other stakeholders what kinds of projects or programmes the GCF seeks to finance;

(b) Enable efficient project and programme funding proposal preparation;

(c) Enable the Secretariat and the independent Technical Advisory Panel (TAP) to make comparable assessments in an open and transparent manner; and

(d) Enable the Board to be clear on what basis the Secretariat and the TAP are making their recommendations to the Board on a funding decision.

2.4 Investment criteria indicators

35. The investment criteria indicators, previously known as indicative minimum benchmarks, can further develop and operationalize the concept of a proposal's eligibility for further funding consideration.

36. As part of decision B.07/06, paragraph (c)(i), the Board requested the Secretariat to

develop minimum benchmarks for project and programme proposals, taking into account the best practices of other institutions, to be considered by the Board at its eighth meeting.

37. At the ninth meeting, the Board considered a more detailed investment framework, including sub-criteria and indicative assessment factors, as well as methodology options for the assessment of funding proposals. Ultimately, the Board adopted the more detailed investment framework and requested the Secretariat to develop indicative minimum benchmarks (decision B.09/05).

38. At its nineteenth meeting, the Board considered the indicative minimum benchmarks developed by the Secretariat and decided that the name "indicative minimum benchmarks" be referred to as "investment criteria indicators", as recommended by the Investment Committee; and requested the Secretariat to further develop a proposal on investment criteria indicators, under the guidance of the Investment Committee, for the consideration of the Board at its twentieth meeting (decision B.19/07).

2.5 Strategic Plan

39. The initial Strategic Plan for GCF, under the section of the Board's Strategic Vision for GCF on promoting the paradigm shift towards low-emission and climate-resilient development pathways, notes the following:

> "The GCF will support developing countries in the implementation of the ambitious Paris Agreement, whose aim is to enhance the implementation of the UNFCCC including by holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, enhancing adaptive capacity and fostering resilience, and making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

40. In the same section, it lists the elements under promoting the paradigm shift as follows:

(a) Financing innovative projects and programmes, inter alia supporting the application and dissemination of cutting-edge climate technologies, which are characterized by the highest levels of mitigation/adaptation ambition, that can be scaled up and/or replicated or lead to fundamental changes in behaviours and/or investment patterns;

(b) Programming resources at scale, while seeking to maximize impact as well as to achieve a balanced allocation between mitigation and adaptation activities, and a particular focus on supporting those developing countries particularly vulnerable to the adverse impacts of climate change, including the least developed countries, small island developing States and African States;

(c) Ensuring full country ownership through its operational modalities and by providing adequate support to build the required country capacity;

(d) Also ensuring transparent and inclusive procedures with respect to all GCF-related activities; and

(e) Crowding-in and maximizing the engagement of the private sector in financing and implementing the paradigm shift towards low-emission and climate-resilient development pathways.

41. Under the section on supporting the implementation of the Paris Agreement, it states that "[t]he Fund will provide support in terms of finance, capacity building and technology transfer".

42. To achieve maximum impact, the same section notes that GCF should:

(a) Take on risks that other funds/institutions are not able or willing to take, including risks associated with deploying innovative climate technologies;

(b) Pilot and potentially scale up and replicate innovative approaches; and

(c) Set new standards regarding country ownership, direct access and level of ambition impacting the global practice of climate finance beyond its immediate engagement.

43. Under the section on operational priorities, the initial Strategic Plan lists the core operational priorities as follows:

(a) Allowing GCF to scale up its investments in developing countries with the objective of tapping its full potential to promote urgent and ambitious actions enhancing climate change adaptation and mitigation in the context of sustainable development;

(b) Maximizing its impact by supporting projects and programmes that are scalable, replicable and employ GCF resources in the most efficient manner by, inter alia, catalysing climate finance at the international and national levels, including by maximizing private sector engagement;

(c) Setting out the approach of GCF to programming and investing the full amount pledged for the 2015–2018 programming period, while striving to maximize the impact of its funding for adaptation and mitigation, and to seek a balance between the two;

(d) Ensuring that GCF is responsive to developing countries' needs and priorities, including by enhancing country programming and direct access (e.g. through enhanced support for accreditation of national implementing entities, ensuring fast disbursement, implementing a gender-sensitive approach, supporting multi-stakeholder engagement, ensuring the effective use of funds and enhancing transparency); and

(e) Proactively communicating the ambition of GCF in terms of both scale and impact as well as its operational modalities with a view to enhancing predictability and facilitating access.

44. The Strategic Plan also calls for the development of a GCF-wide pipeline of transformational projects and programmes that meet the GCF investment criteria. Hence, the Strategic Plan also calls for pipeline development to be prioritized by providing enhanced readiness support and by, among others:

(a) Identifying opportunities for GCF to add value by co-financing projects and programmes together with the Global Environment Facility (GEF), the Adaptation Fund or multilateral development banks (MDBs). Particularly in the early stages of operations, this might be a way of scaling up quickly and capitalizing on, and learning from, the knowledge and experience of these institutions;

(b) Making increased use of simplified requests for proposals (RFPs) aimed at the public and private sectors in consultation with the national designated authorities (NDAs)/focal points targeting promising and innovative approaches ensuring that successful proposals submitted in response to RFPs can demonstrate a viable path to accreditation and a plan to ensure country ownership;

(c) Developing replicable approaches and potentially standardized products that would allow proven approaches to be rapidly rolled out in new locations where they match priorities identified in consultation with NDAs/focal points; and

(d) Operationalizing results-based payments for REDD-plus in line with guidance from the COP and the Governing Instrument, evaluating the implementation of results-based payments, and assessing their applicability to other sectors within the purview of GCF.

2.6 Other decisions

45. Other decisions indirectly define some of the types of activities that can or cannot be included in funding proposals. For example, the interim policy on fees for AEs (decision B.11/10) defines the activities that are to be covered by AE fees, such as project/programme implementation, supervision, completion, evaluation and reporting, therefore implying that such costs cannot be covered by GCF resources provided directly to the project or programme. Subsequently, a revised policy on fees for AEs was adopted by the Board in decision B.19/09, which also included the adoption of the general principles and indicative list of eligible costs covered under GCF fees and project management costs.

46. Similarly, with regard to the Project Preparation Facility (PPF), decision B.13/21 specifies the activities that can be funded by the PPF, which could be taken to imply that any preparation activities cannot be part of the costs of the funding proposal.

47. Nevertheless, several projects intend to use a phased approach, where upstream activities define how GCF resources are best employed in the further implementation of the investment. AEs can therefore continue with the current flexible and demand-driven approach and propose the appropriate solution as part of their concept note/funding proposal.

48. In decision B.14/07, the Board requested the Secretariat to explore options for a mechanism that would draw on appropriate scientific and technical advice, as initially envisaged by decision B.04/09, paragraph (d).

49. In decision B.14/02, paragraph (f), the Board requested the Secretariat to prepare a document for consideration by the Board at its seventeenth meeting identifying concrete options on how GCF can support collaborative research and development in developing countries, in line with the operational modalities of GCF, taking into account decisions B.13/11 and B.13/12, and in the context of operational frameworks for complementarity and coherence with climate finance delivery channels. This may mean that collaborative research is eligible for GCF support.

50. On adaptation planning processes (decision B.13/09), the Board recognized that AEs could bring forward programmatic approaches for the formulation of multi-country national adaptation plans and/or other adaptation planning processes under the project approval process.

51. In decision B.14/07, the Board took note again of the views expressed on programmatic proposals, including those related to the need to seek a balance of national, regional and international programmatic funding proposals. The Board requested the Co-Chairs to continue to consult on the programmatic approach with a view to conclude policy guidelines on the programmatic approach for consideration at the fifteenth meeting of the Board. At the fifteenth meeting, however, the Board decided to extend consultations on the mandates given (decision B.15/02) and the programmatic approach was not presented.

52. In decision B.18/06, the Board decided to operationalize the Simplified Approvals Process Pilot Scheme. The Board also requested the Secretariat to develop a proposal for approving funding proposals brought forward under this Pilot Scheme between meetings of the Board in the context of the ongoing work to develop further options for decision-making and to report back with recommendations to further improve the efficiency and effectiveness of the process, and to consider expanding the type of eligible activities and increasing GCF funding after two years of operationalization or USD 80 million of GCF fund allocated.

53. In decision B.18/07, the Board decided to adopt the RFP for the pilot programme for REDD-plus results-based payments, as set out in annex XI to document GCF/B.18/23 and the corresponding scorecard provided in annex XII thereto, which specifies the requirements that funding proposals must meet in order to receive GCF funds.

2.7 Country ownership

54. Issues related to country ownership also contribute to eligibility and selection. In this context, the following elements are noted from decisions already taken by the Board.

55. The RMF (decision B.05/03) notes that access to GCF resources could be enhanced by the inclusion of indicators capturing country-driven policies that have the potential to promote a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development as set out in the Governing Instrument. There is also the potential to develop indicators with further work on investment criteria indicators for country ownership.

56. Under readiness and preparatory support (decision B.05/14), countries present their readiness proposals on the basis of self-assessed needs with the support of a delivery partner/AE. A baseline, in terms of country readiness and needs, could support the development of the eligibility and selection criteria.

57. On adaptation planning processes (decision B.13/09), the Board recognized that AEs could bring forward programmatic approaches for the formulation of multi-country national adaptation plans and/or other adaptation planning processes under the project approval process. However, the Board has yet to adopt modalities on the programmatic approach.

58. At the seventeenth meeting of the Board, the guidelines for enhanced country ownership and country drivenness were adopted (decision B.17/21). Within these, guiding principles were agreed, including: "The need for country ownership to continue throughout the project cycle, from readiness activities, and the pre-concept stage, through implementation to monitoring and evaluation of a project or programme" (decision B.17/21, annex XX, para. 4 (vi)). This principle highlights that the costs for implementation and monitoring and evaluation are eligible.

59. When reflecting country ownership in the operational modalities of GCF, training of local staff during project or programme implementation to improve the sustainability of actions would be eligible. However, in funding proposal FP035, scholarships were deemed ineligible for funding under GCF resources. This could mean that the training of local staff in-country in support of project implementation is eligible but that sending staff abroad to undertake formal studies is not.

III. Conditions and recommendations attached to funding proposals

60. The initial proposal approval process established that the Board can approve, approve with conditions or reject funding proposals. As at its nineteenth meeting, the Board had approved 76 funding proposals. 18 funding proposals have been approved without conditions, namely FP007, FP008, FP047, FP048, FP053, FP059, FP062, FP063, FP064, FP065, FP066, FP067, FP068, FP071, FP072, FP077, FP081, and SAP001.

61. Some of the conditions attached to approved projects prevent funding going towards certain activities. Such conditions may imply a general policy and indicate the types of activities that the Board may wish to exclude from financing. For example, within the 76 projects and programmes approved so far, eight include conditions that imply some form of eligibility. See annex I, table 1 for an illustrative example of a conditional and negative list. In decision B.16/02, the Board requested the Secretariat to assess the conditions attached to funding proposals and, in the event that any such conditions are considered by the Secretariat to be inconsistent with GCF policies, the Secretariat shall make a recommendation to the Board for further guidance and pending such guidance, the relevant condition shall be deemed not to apply.

62. Activities funded in approved proposals may also be regarded as eligible by default. An illustrative example of such a positive list of eligible activities based on existing Board guidance is provided in annex I, table 2.

63. In addition, the TAP and the Secretariat, in their interaction with the AEs during the second-level due diligence review of project and programme proposals, provide certain advice on the elements that would make projects viable, from a technical point of view. These can be illustrated as an improvement list that are good practices contributing to project sustainability, to avoiding maladaptation, and to promoting the goals of the GCF as expressed in the investment criteria. An example that incorporates recommendations from the eighteenth and nineteenth meetings of the Board is provided in annex I, table 3.

IV. Conclusions and follow-up actions

64. As GCF operations grow, it is necessary to provide further guidance to stakeholders on the types of activities, expenditures, goods and services that GCF can finance. National authorities and AEs, with support from the GCF Readiness and Preparatory Support Programme, have been developing a strong pipeline of projects for submission to GCF. By B.16, the portfolio of projects approved by the Board had reached USD 2.2 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 by the Secretariat and the independent TAP to ensure strategic alignment between GCF objectives and the specific activities and goods and services for which funding is being requested.

65. However, countries and AEs, particularly direct access entities, require clearer guidance on the type of interventions and expenditures in projects or programmes that can be financed by GCF. Such information should be available as they embark on the preparation of funding proposals to facilitate the overall process.

66. The proposed approach should balance the current flexibility with the need to provide clearer guidance to countries and AEs. Given the broad mandate that GCF must promote the paradigm shift towards low-emission and climate-resilient development pathways, the financing eligibility policy should not be too restrictive. Unlike other climate change related funds with very specific objectives, one of the main characteristics of GCF is its broad mandate to support the UNFCCC and the Paris Agreement. As the needs of countries seeking to mitigate and adapt to climate change evolve, GCF must be ready to respond with increasingly innovative financing mechanisms and their development could be constrained by an excessively restricted financing eligibility policy.

67. While conditions and covenants have been attached to previously approved funding proposals by the Board, these should not set precedent and form policy for GCF. The conditions attached are project- or programme-specific and do not necessarily reflect a GCF policy of general applicability.

68. At the strategic level, GCF could concentrate on key principles until the RMF is reviewed. The eight initial results areas of the GCF should underpin the overall strategic financing eligibility framework of GCF, that is, GCF will finance activities that contribute to achieving any of the results areas.

69. GCF should also recognize that the various tools and policy papers required for the integrated approach to addressing policy matters as contained in document GCF/B.20/18 will greatly influence the eligibility and selection criteria. Specific emphasis is put on the linkage with document GCF/B.20/19 that discusses incremental cost and full cost methodologies, concessionality policy, and co-financing policy.

70. The mapping above also highlights the following actions, which the Board can address:

(a) The Board could review how it intends to use the investment criteria indicators to assist in strengthening the development of the programme and project eligibility and selection criteria;

(b) The Board could consider the strengthened implementation of priorities outlined in the Strategic Plan;

(c) In line with decisions B.12/20, and B.13/10, the Board could request the Secretariat to work more closely with the UNFCCC secretariat to elaborate on how GCF can support implementation of the Paris Agreement. These evolving priorities could be considered as part of eligible funding for the replenishment of GCF; and

(d) The Board could resume discussion of the modalities on programmatic approach for funding proposals.

71. Lastly, the Secretariat has identified follow-up actions based on the mapping of elements related to project and programme eligibility and selection criteria:

(a) The Secretariat should continue to develop methodologies for the selection of programmes and projects that best achieve the objectives of GCF and that may help to strengthen the development of GCF programme and project eligibility and selection criteria;

(b) The Secretariat should review and finalize the RMF and PMFs for approval by the Board to support the work of the Secretariat, and improve the development of project or programme eligibility and selection criteria for GCF;

(c) The Secretariat should work more closely with scientific and technical entities in support of country readiness activities having proven benefits for adaptation and mitigation in line with the GCF results areas, and for strengthening the climate rationale; and

(d) The Secretariat should compile and develop quality improvement guidelines for programme or project selection, instead of eligibility criteria, based on conditions and recommendations from approved funding proposals as illustrated in annex II.

72. The Secretariat will report to the Board on the progress made in implementing the above follow-up actions to be taken by the Secretariat as identified.

Annex I: Illustrative examples of lists for GCF financing eligibility and selection criteria

1. Table 1 shows an example of a conditional and negative list for GCF financing eligibility criteria based on conditions attached to approved funding proposals that prevent funding going towards certain activities.

Table 1: Illustrative example of a possible conditional and negative list for GCF financing eligibility criteria

Funding proposal number	Description	Type of eligibility criteria
01	Business plans for bio-businesses	Conditional list
18	GCF proceeds shall not be used for financing activities related to disaster response and relief	Negative list
24	Transaction costs limited to 15% of grant facilities	Conditional list
35	GCF proceeds will not be used to finance scholarships	Negative list
36	GCF proceeds will not be used for project preparation activities that can be funded by the Project Preparation Facility	Negative list
38	Limitations on investments in hydropower	Conditional list
39	No investments in environmental and social safeguards (ESS) category A projects	Negative list
46	The specification of the solar power plants should not crowd-out other private sector renewable energy projects that were licensed by the Energy Regulatory Commission of Mongolia in the Choir area.	Negative list

2. Table 2 provides an example of a positive list based on eligible activities in approved funding proposals.

Table 2: Illustrative example of a possible positive list for GCF financing eligibility criteria

Strategic level	
The GCF will promote the paradigm shift towards low-emission and climate-resilient development pathways by providing financing in support of its eight results areas. [Additional limitations may be put in place to ensure complementarity and coherence with other funds and avoid duplication of efforts.]	
Results areas	**Eligible activities**
Reduced emissions through increased low-emission energy access and power generation	Construction, upgrading and rehabilitation of zero-emission power generation, transmission and distribution systems [Construction, upgrading and rehabilitation of other sources of power generation that while not being zero-emission, constitute an intermediate path towards reduced emissions. Such technologies should not generate more than XX tonnes of carbon dioxide per megawatt hour]
Reduced emissions through increased access to low-emission transport	Construction, upgrading and rehabilitation of low- and zero-emission public transport systems and other infrastructure, including that required to support the development of low- and zero- emission private transport
Reduced emissions from buildings, cities, industries and appliances	Construction, retrofitting and rehabilitation of infrastructure and appliances to reduce emissions through enhanced energy efficiency and other measures affecting buildings, cities and industries
Reduced emissions from land use, deforestation and forest degradation, and through sustainable forest management and conservation and enhancement of forest carbon stocks	Institutional, legal, regulatory, capacity-building, results-based payment (REDD-plus) and other interventions to reduce emissions from land use, deforestation and forest degradation, and through sustainable forest management and conservation and enhancement of forest carbon stocks
Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions	Provision of infrastructure, risk management, reduction, and mitigation measures supporting livelihoods of vulnerable people [including support to move towards more climate-resilient productive activities through the provision of training, capital investment, and other inputs to develop such activities]
Increased resilience of health and well-being, and food and water security	Provision of infrastructure, capacity-building, agricultural extension services, and other inputs and institutional strengthening activities to support climate-resilient health and well-being and food and water security
Increased resilience of infrastructure and the built environment to climate change threats	Construction, upgrading, and rehabilitation of climate-resilient infrastructure
Improved resilience of ecosystems and ecosystem services	Provision of infrastructure, capacity-building, and other inputs and institutional strengthening to support climate-resilient ecosystems and ecosystem services

For all results areas/cross-cutting projects	Institutional support, including legal and consulting services, capacity-building and other training activities Data, information and knowledge management, and policy frameworks Capitalization of funds, insurance premiums and other fees associated with financial instruments including guarantees

3. Table 3 shows an example of an improvement list that compiles with the recommendations made by the independent Technical Advisory Panel on approved funding proposals.

Table 3: Illustrative example of a possible improvement list for GCF financing selection criteria

Results areas	Technical recommendations
Reduced emissions through increased low-emission energy access and power generation	Where feasible, it is useful to promote the enabling environment for solar energy penetration, including promoting training facilities for technicians and promoters; value chain schemes that promote small- and medium-sized enterprises capable of selling, maintaining and repairing systems; market and awareness schemes to promote the use of solar systems by communities; and knowledge-sharing schemes within the financial community to increase the knowledge of investment analysts on solar energy
Reduced emissions through increased access to low-emission transport	
Reduced emissions from buildings, cities, industries and appliances	Projects involving public sector buildings that lie within multiple jurisdictions reflecting the complex administrative and political structure of the government require extensive and complex coordination to ensure that the project will succeed
Reduced emissions from land use, deforestation and forest degradation, and through sustainable forest management and conservation and enhancement of forest carbon stocks	Projects related to wood use such as those involving cooking using fuelwood, should promote, where feasible, diversification of forest species and relevant ecosystem services and the emissions monitoring system for sustainable regenerative forest management
Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions	Projects that support livelihoods of urban and rural communities in adaptation to climate change and build their resilience. These interventions should be designed based on vulnerability and risk assessments and could support as well local governments' capacity-building For example, these projects could be disaster risk reduction interventions aimed at increasing resilience of households and communities to climate-related hazards (typhoons, droughts, floods, etc.). These actions directly support livelihoods, increasing their capacity to prevent and mitigate disaster damages and enhance their economic and social conditions
Increased resilience of health and well-being, and food and water security	Projects that increase the amount of water that will be used at the domestic, commercial and industrial levels imply the generation of an increased volume of wastewater that without proper treatment and disposal could generate a significant negative impact on the health

	of the population and on the environment by contaminating surface water and aquifers. Addressing this by implementing a sewerage system and waterproof pits would be useful. In addition, the health benefits of projects can be improved by implementing sanitation (sewerage infrastructure) and a hygiene awareness and training programme simultaneously along with water provision
Increased resilience of infrastructure and the built environment to climate change threats	For investments regarding resilient infrastructure, provisions should be made to cover operation and maintenance expenses beyond the project implementation period In these type of projects, it is relevant to highlight the incrementality provided by the additional features that make the infrastructure climate-proof. For example, if the project invests in a road system which, given the climate projections, needs to be elevated to avoid the risk of floods, the feasibility study needs to highlight climate-related improvements of this type that justify the use of GCF finance
Improved resilience of ecosystems and ecosystem services	Projects involving groundwater pumping should maintain the balance of the water tables of the respective aquifers at positive or neutral levels throughout the expected project lifespan of the water-pumping activities to prevent maladaptation
For all results areas/cross-cutting projects	Good climate rationale of the project, based on a scientific evidence basis Project sustainability in terms of operation and maintenance Clear exit strategies, where relevant Economic and financial analysis for activities that generate income Knowledge-sharing, communication and dissemination of information to improve paradigm shift potential If components of the project are considered crucial in the fulfilment of the nationally determined contributions, national adaptation plans or the government’s action plan, it may be necessary to ensure an increase in the executing capacities of governmental structures as part of the interventions.

Annex II: List of Secretariat actions related to project or programme eligibility and selection criteria

1. The quality improvement guidelines for programme and project selection intended to serve as a guide for National Designated Authorities and Accredited Entities in submitting proposals to GCF. The guidelines consist of a compilation and summation of eligible activities and technical recommendations from approved funding proposals by results areas. This is not to be used as a restrictive list for assessing eligibility or non-eligibility of projects and programmes.

Table 1: Quality improvement guidelines based on approved funding proposals

Results areas	Eligible activities (positive list)	Technical recommendations (quality improvement list)
Reduced emissions through increased low-emission energy access and power generation	Construction, upgrading and rehabilitation of zero-emission power generation, transmission and distribution systems [Construction, upgrading and rehabilitation of other sources of power generation that while not being zero-emission, constitute an intermediate path towards reduced emissions. Such technologies should not generate more than XX tonnes of carbon dioxide per megawatt hour]	Where feasible, it is useful to promote the enabling environment for solar energy penetration, including promoting training facilities for technicians and promoters; value chain schemes that promote small- and medium-sized enterprises capable of selling, maintaining and repairing systems; market and awareness schemes to promote the use of solar systems by communities; and knowledge-sharing schemes within the financial community to increase the knowledge of investment analysts on solar energy
Reduced emissions through increased access to low-emission transport	Construction, upgrading and rehabilitation of low- and zero-emission public transport systems and other infrastructure, including that required to support the development of low- and zero-emission private transport	
Reduced emissions from buildings, cities, industries and appliances	Construction, retrofitting and rehabilitation of infrastructure and appliances to reduce emissions through enhanced energy efficiency and other measures affecting buildings, cities and industries	Projects involving public sector buildings that lie within multiple jurisdictions reflecting the complex administrative and political structure of the government require extensive and complex coordination to ensure that the project will succeed
Reduced emissions from land use, deforestation and forest degradation, and through sustainable forest management and conservation and enhancement of forest	Institutional, legal, regulatory, capacity-building, results-based payment (REDD-plus) and other interventions to reduce emissions from land use, deforestation and forest degradation, and through sustainable forest management and conservation and enhancement of forest carbon stocks	Projects related to wood use such as those involving cooking using fuelwood, should promote, where feasible, diversification of forest species and relevant ecosystem services and the emissions monitoring system for sustainable regenerative forest management

carbon stocks		
Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions	Provision of infrastructure, risk management, reduction, and mitigation measures supporting livelihoods of vulnerable people [including support to move towards more climate-resilient productive activities through the provision of training, capital investment, and other inputs to develop such activities]	Projects that support livelihoods of urban and rural communities in adaptation to climate change and build their resilience. These interventions should be designed based on vulnerability and risk assessments and could also support capacity-building for local governments For example, these projects could be disaster risk reduction interventions aimed at increasing resilience of households and communities to climate-related hazards (typhoons, droughts, floods, etc.). These actions directly support livelihoods, increasing their capacity to prevent and mitigate disaster damages and enhance their economic and social conditions
Increased resilience of health and well-being, and food and water security	Provision of infrastructure, capacity-building, agricultural extension services, and other inputs and institutional strengthening activities to support climate-resilient health and well-being and food and water security	Projects that increase the amount of water that will be used at the domestic, commercial and industrial levels imply the generation of an increased volume of wastewater that without proper treatment and disposal could generate a significant negative impact on the health of the population and on the environment by contaminating surface water and aquifers. Addressing this by implementing a sewerage system and waterproof pits would be useful. In addition, the health benefits of projects can be improved by implementing sanitation (sewerage infrastructure) and a hygiene awareness and training programme simultaneously along with water provision
Increased resilience of infrastructure and the built environment to climate change threats	Construction, upgrading, and rehabilitation of climate-resilient infrastructure	For investments regarding resilient infrastructure, provisions should be made to cover operation and maintenance expenses beyond the project implementation period In projects of this type, it is relevant to highlight the incrementality provided by the additional features that make the infrastructure climate-proof. For example, if the project invests in a road system which, given the climate projections, needs to be elevated to avoid the risk of floods, the feasibility study needs to highlight climate-related improvements of this type that

		justify the use of GCF finance
Improved resilience of ecosystems and ecosystem services	Provision of infrastructure, capacity-building, and other inputs and institutional strengthening to support climate-resilient ecosystems and ecosystem services	Projects involving groundwater pumping should maintain the balance of the water tables of the respective aquifers at positive or neutral levels throughout the expected project lifespan of the water-pumping activities to prevent maladaptation
For all results areas/cross-cutting projects	Institutional support, including legal and consulting services, capacity-building and other training activities Data, information and knowledge management, and policy frameworks Capitalization of funds, insurance premiums and other fees associated with financial instruments including guarantees	Good climate rationale of the project, based on a scientific evidence basis Project sustainability in terms of operation and maintenance Clear exit strategies, where relevant Economic and financial analysis for activities that generate income Knowledge-sharing, communication and dissemination of information to improve paradigm shift potential If components of the project are considered crucial in the fulfilment of the nationally determined contributions, national adaptation plans or the government action plan, it may be necessary to ensure an increase in the executing capacities of governmental structures as part of the interventions

Annex IV: Review of the approach taken by other institutions on eligibility

1. At the strategic level, the Global Environment Facility (GEF) defines activities eligible for financing based on each of the conventions that it supports and its focal area strategies. The texts of those conventions (the Convention on Biological Diversity, the United Nations Framework Convention on Climate Change [UNFCCC], the Stockholm Convention on Persistent Organic Pollutants, the United Nations Convention to Combat Desertification and the Minamata Convention on Mercury) provide the same type of overarching strategy that, in the case of GCF, is provided by the Governing Instrument for the GCF as well as by the UNFCCC. At each replenishment of the GEF, the GEF Council agrees on a set of "focal areas" for that programming period, which further define the strategic areas of support for each of the above-mentioned conventions. Although financing is not necessarily limited to activities falling under these focal areas, they serve as part of the financing strategy during the respective programming period.

2. The Climate Investment Funds (CIFs) defines specific financing eligibility for each of its funds. Given the more specific purpose of each of the CIFs, there is a clear definition of activities eligible for financing:

a) The Clean Technology Fund (CTF): the CTF provides resources to scale up low-carbon technologies with significant potential for long-term greenhouse gas emission savings. The CTF specifies the definition of "low-carbon" with respect to energy generation in the context of technologies that do not have zero-emissions but that contribute to the transition towards low emissions. This approach determines a maximum number of tonnes of carbon dioxide generated per megawatt hour (MWh);[1] and

b) The Strategic Climate Fund (SCF): the SCF supports the Forest Investment Program, the Pilot Program for Climate Resilience and the Scaling-Up Renewable Energy in Low Income Countries Program. These programmes have very specific eligibility criteria regarding the types of activities that can be financed, and each has its own investment criteria.

3. Funds such as the GEF and the CIFs leave the determination of financing eligibility of expenditure types and specific goods and services to the partner agencies through which they operate. By providing funding, rather than directly preparing and implementing projects, the GEF and the CIFs do not have policies on the specific expenditures that can be financed; this task is the responsibility of the agencies carrying out the projects. To a certain degree, such an approach also reflects the closer relationship that these funds have with their partner agencies.

4. Institutions directly designing and implementing projects, such as multilateral development banks (MDBs) and bilateral development agencies, have a more active approach to financing eligibility criteria, with increased flexibility. Most MDBs developed financing eligibility criteria based on the assumption that their investments were focused on developing capital assets, primarily infrastructure, and therefore were generally unwilling to finance non-capital expenditures (e.g. salaries or other recurrent expenditures) or activities that were not deemed to be "productive". Since the early 2000s, that approach has been evolving in several areas:[2]

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

[1] CIF. 2009. *CTF Investment Criteria for Public Sector Operations.* Available at <https://www.climateinvestmentfunds.org/node/12142>.

[2] See, for example, the changes made by the World Bank to its financing eligibility criteria in *Eligibility of Expenditures in World Bank Lending: A New Policy Framework.* Available at <http://www1.worldbank.org/publicsector/pe/befa05/march26expenditureeligibilityboardpaper.pdf>.

(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 expenditures in local currency from its own sources. This practice is generally no longer followed by most providers of financing, as most currencies have become convertible, thus making this point moot;

(c) Taxes and duties: it was assumed that external providers would not cover taxes and duties as 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 for financing, recognizing that in many cases it is not practical to disaggregate all the taxes and duties for each expenditure item and 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, in order to achieve results, financing of recurrent costs may be required, provided that 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 of the compensation process related in particular to environmental and social safeguards, projects may need to finance payments for livelihoods affected or for the purchase of land. As in some of the above examples, other institutions did not generally make these expenditures eligible for financing, as they were also perceived as part of the counterpart funding that the recipient ought to cover. This practice has also evolved, with some institutions now willing to finance these activities as they view such expenditures as an integral part of any project.