



**GREEN
CLIMATE
FUND**

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26 September 2018

An integrated approach to addressing policy gaps to ensure climate impact:

an overview of policies related to the consideration of funding proposals

Summary

This document provides an overview of the policy papers to be presented to the Board at its twenty-first and subsequent meetings, considers their interlinkages, and explains how they are related to the integrated policy approach of GCF. It also proposes a schedule for the elaboration of policies and tools to address policy gaps identified in the approval of funding proposals in order to ensure climate impact.

I. Introduction

1. At its seventeenth meeting (B.17), the Board adopted decision B.17/10, which states:
 - (a) *Reaffirms the elements of funding proposal eligibility criteria embedded in previous 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 decisions, conditions imposed by the Board on funding proposals, and the Governing Instrument for the GCF that can contribute to strengthening the eligibility criteria of the GCF, 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 policies and procedures of the GCF;*
 - (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 development and application of an incremental cost calculation methodology and/or alternative methodologies, as appropriate;*
 - (ii) *Guidance on the approach and scope for providing 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 GCF financial instruments;*
 - (ii) *Indicative minimum benchmarks; and*
 - (iii) *Risk management framework.*
2. At its nineteenth meeting (B.19), the Board, by decision B.19/06, requested the Secretariat to develop an integrated approach to address the policy gaps identified in decision B.11/11 and other matters considered at subsequent Board meetings for the Board's consideration at its twentieth meeting (B.20). In particular, the Board:
 - (a) 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;
 - (b) Also noted the linkages between such policy gaps and the GCF results management framework, initial investment framework, country programmes and entity work programmes, and the risk management framework;
 - (c) Further noted that addressing these policy gaps requires an integrated approach that considers their interlinkages; and

- (d) Requested the Secretariat to develop an integrated approach to resolve these interrelated issues for the Board's consideration at B.20, including:
- (i) Steps to enhance the climate rationale of GCF-supported activities; and
 - (ii) Policies on the review of the financial terms and conditions of GCF instruments and concessionality, incremental costs, full costs and co-financing;
3. In order to fulfil this mandate, the Secretariat is presenting a series of documents for consideration by the Board at B.21 as part of an integrated approach to addressing policy gaps. The Secretariat's approach is to divide the policy matters into the following two groups for the Board's consideration:
- (a) **A core set of documents for decision and information** at B.21 containing operational policies and guidelines related to funding proposals; and
 - (b) **Documents for both decision and information** containing policies, updates, findings and outlining next steps that may be considered by the Board if time permits.
4. The first group contains following **eight decision and information documents**, proposing approaches for operational guidelines and policies for Board consideration that will guide the further development and implementation of the policy framework:
- (a) "Project or programme eligibility and selection criteria" (document GCF/B.21/Inf.02);
 - (b) "Incremental and full cost calculation methodology" (document GCF/B.21/03);
 - (c) "Review of the financial terms and conditions of the Green Climate Fund financial instruments" (document GCF/B.21/05); and
 - (d) "Options for further guidance on concessionality" (document GCF/B.21/24);
 - (e) "Co-financing matters" (document GCF/B.21/29);
 - (f) "Investment criteria indicators" (document GCF/B.21/18).
 - (g) "Revision of the structure and operations of the independent Technical Advisory Panel" (document GCF/B.21/04);
 - (h) "Outcome of Co-Chairs consultations: programmatic policy approach" (document GCF/B.21/31).
5. The second group contains the following **six decision and information documents** on policies, updates, findings and outlining next steps that may be considered by the Board if time permits at B.21 or in upcoming Board meetings:
- (a) "Policy on restructuring and cancellation" (document GCF/B.21/32);
 - (b) "Two-stage proposal approval process" (document GCF/B.21/11);
 - (c) "Steps to enhance the climate rationale of GCF-supported activities" (document GCF/B.21/Inf.08);
 - (d) "Identification of results areas where targeted GCF investment would have the most impact" (document GCF/B.21/Inf.04);
 - (e) "Guidance and scope for providing support for adaptation activities" (document GCF/B.21/Inf.03); and
 - (f) "Results management framework: Independent Evaluation Unit recommendations to improve the Results Management Framework" (document GCF/B.21/20).
6. This overview paper provides a summary of each of the papers listed in paragraphs 4 and 5 above. The background to the development of these policies is outlined, followed by a brief analysis of the interlinkages.

7. The Secretariat’s approach to further addressing policy gaps is outlined in annex I, which provides an indicative schedule for the further completion of policy gaps and a strategy for the elaboration of policies and tools relating to the remaining policy areas.
8. The Board is invited to review the policies and approve the Secretariat’s proposed approach and schedule for completing the strategic frameworks and for further developing policy tools and methodologies (figure 1).

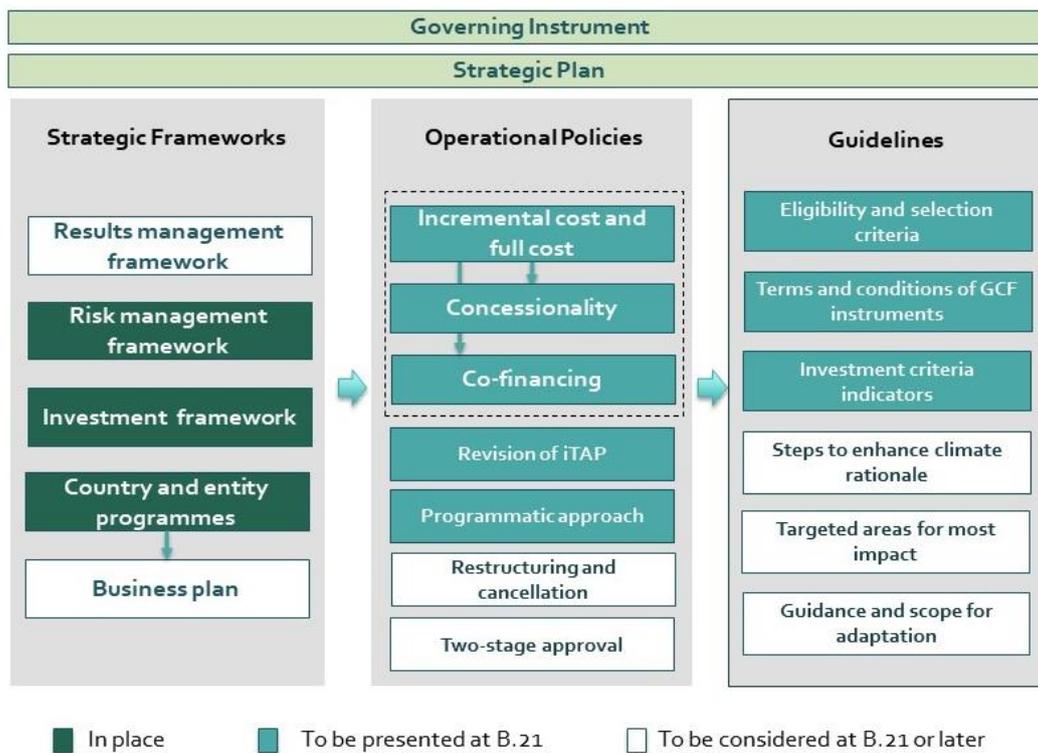


Figure 1: Integrated approach to addressing policy gaps

II. Background and context

9. GCF is mandated to “promote the paradigm shift towards low-emission and climate-resilient development pathways” (Governing Instrument for the GCF, para. 2). Strategic frameworks have been put in place to guide the activities of GCF towards this objective, notably the results management framework, the performance measurement frameworks, the investment framework and the risk management framework (although the performance measurement frameworks has been only partially adopted). The development of country and entity programmes also contributes towards a more programmatic approach to the activities of GCF that will help achieve its mandate.

10. However, the Board has identified the need to fill various gaps in the GCF operational policy framework in order to complete and implement the strategic frameworks. The main policy areas identified include enhancing the climate rationale of GCF activities, as well as policies on concessionality, incremental and full cost methodologies, co-financing and the financial terms and conditions of GCF financial instruments.

11. Completing the policy framework will provide greater clarity to national designated authorities (NDAs), accredited entities (AEs) and other GCF stakeholders on what GCF is looking for in projects and programmes, and will help to improve the quality and transformational

ambition of proposals. It will also provide guidance to the Secretariat in developing and applying implementation tools, including methodologies for assessment, measurement, reporting and verification of the implementation of the GCF project portfolio.

III. Interlinkages between policies

12. The policies identified by the Board in previous Board meetings to be addressed through an integrated approach are closely interconnected, both to one another and to the strategic frameworks.

13. The Board has held useful discussions on how to address policy gaps on several occasions from its eleventh to nineteenth meetings. However, agreement has proved difficult to reach on individual policy areas, mainly as a result of the overlaps and interlinkages between policies. The recognition of these interlinkages has led to the Board's request for an integrated approach to completing the policy framework.

14. The interlinkages exist at a number of levels, including but not limited to:

- (a) The strategic frameworks along with all the policy matters listed here together will comprise the eligibility and selection criteria;
- (b) A methodology needs to be established to determine how full and incremental costs are agreed (the Governing Instrument states that GCF will finance "agreed full and agreed incremental costs"). However, this determination is also one of the main factors to be considered in formulating the GCF co-financing policy. Agreed incremental costs or agreed full costs could be covered by GCF, but the remaining project costs should rely on co-financing, which may imply different levels of required co-financing for activities not related to the incremental costs of climate change;
- (c) The calculation of incremental costs of climate change is also relevant for the concessionality policy, since concessionality is related to what would otherwise be considered a business as usual activity;
- (d) The principles used to determine levels of concessionality are linked to the application of the financial terms and conditions of the financial instruments of GCF;
- (e) Depending on whether or not the funding is covering certain types of incremental costs, further guidance on selection of financial instruments including concessionality is needed. For example, the Fund may choose to give priority to covering incremental costs associated with activities directly related to climate change with grants and other highly concessional instruments;
- (f) The definition of an incremental cost approach can also contribute to sharpen investment criteria indicators. Simultaneously, the investment criteria indicators, with an approach to assess and develop benchmarks for costing, may also provide guidance on the development of baseline cost methodologies;
- (g) Programmes need clear guidance on incremental cost calculation methodologies that will apply to sub-projects in the programmes; and
- (h) Proposals with adaptation activities will need to be aligned with the guidelines for incremental cost and steps to enhance climate rationale thereby influencing the guidance and scope for providing support to adaptation activities.

15. To see how the three interrelated policy matters on incremental and full cost, concessionality and co-financing fit together in practice, consider a hypothetical project that costs \$100M (figure 2). To determine the eligibility for GCF funding and the appropriate

concessional nature of a proposed project/programme, AEs and GCF need to answer three main questions:

- (i) What is the cost of the project?
- (ii) How much of that cost should be financed by GCF?
- (iii) What instruments and level of concessionality should GCF use to finance its portion of the costs?

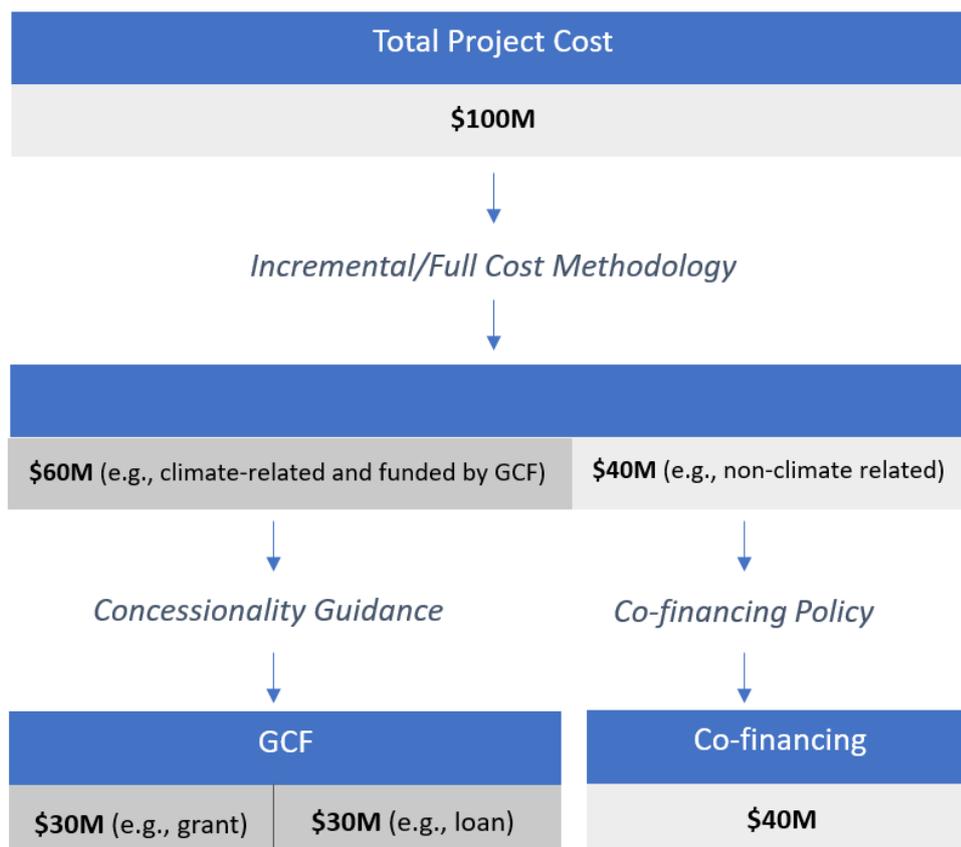


Figure 2: Determination of GCF eligibility and concessionality for a hypothetical funding proposal

16. The methodology for estimating incremental and full costs helps determine which part of the project is eligible to be funded by GCF and which may be better suited for co-financing. In this example, \$60M has been identified as incremental costs due to climate considerations and eligible for GCF funding. Unless GCF agrees that full cost funding is warranted, the \$40M that do not include climate considerations are set aside for co-financing, and the co-financing policy will explain how those costs are to be classified, reported and used to leverage additional funding. Then, the concessionality guidance and its associated tools would be used to determine the appropriate financial instruments and terms for the \$60M financed by GCF to ensure efficiency and effectiveness. In this case, the application of the principles resulted in a \$30M grant and a \$30M concessional loan.

17. The diagram above is simplified and shows the process to determine the eligibility and concessionality of a project proposal. However, it is important to note that it does not capture other possible options that may exist for some proposal. For example, in deciding on the level of

concessionality, considering the justification provided by the AEs and the guidance and assessment by the Secretariat, there may be cases where the whole amount requested from GCF maybe a grant. For co-financing, there may be cases wherein co-financiers may opt to cover some climate-related costs.

18. These linkages clearly illustrates the need for alignment among the incremental and full cost methodology, the concessionality guidance and the co-financing policy.

IV. Summaries of core documents for decision and information at B.21

19. Summaries of the operational policies and guidelines proposed in response to the Board's mandate given from B.11 to B.19 are provided below. Descriptions of each paper's objectives, principles and proposed approach to fill the respective policy gaps are provided.

4.0.1. "Mapping of elements related to project or programme eligibility and selection criteria" (document GCF/B.21/Inf.02):

20. This paper identifies all the elements related to project or programme eligibility and selection criteria that have been included in the following:

- (a) The Paris Agreement and related guidance of the Conference of the Parties to the United Nations Framework Convention on Climate Change;
- (b) The Governing Instrument for GCF;
- (c) Previous Board decisions; and
- (d) Conditions imposed by the Board on funding proposals.

4.0.2. "Incremental and full cost calculation methodology" (document GCF/B.21/03):

21. This document identifies potential methodologies and measures for the GCF to apply principles of full and incremental costs to its project approval processes. The document examines the concept of full and incremental costs and their applications to climate change projects. It describes some key issues that the GCF will need to consider in developing an approach to incremental and full costs. Finally, it recommends an approach for applying incremental and full cost methodologies.

4.0.3. "Review of the terms and conditions of the Green Climate Fund financial instruments" (document GCF/B.21/05):

22. Under the guidance of the Investment Committee, this paper reviews the application of the principles and factors currently used to establish the GCF terms and conditions for a project and the recommendations arising from the review. It concludes that many of the recommendations have either already been implemented or are under implementation, but highlights some recommendations that should be considered by the Board within its approach to concessionality.

4.0.4. "Options for further guidance on concessionality" (document GCF/B.21/24):

23. This paper describes the guiding principles that GCF will consider when selecting the level and types of concessional instruments to fund a project and the approach to applying these principles to projects. These principles are needed in order to ensure that GCF financing is adequate and predictable, and does not crowd out private sector finance.

4.0.5. “Co-financing matters” (document GCF/B.21/29):

24. This document introduces the principles and definitions that GCF will consider when assessing co-finance and leveraged finance from private and public sources and the approach to applying these principles and definitions to projects. These principles and definitions are needed to ensure that resources mobilized by AEs and other partners are new, additional, adequate and predictable. The paper also expounds on methodologies for the calculation of co-finance.

4.0.6. “Revision of the structure and operations of the independent Technical Advisory Panel” (document GCF/B.21/04):

25. Under the guidance of the Investment Committee, this paper presents various options to revise the structure of the independent Technical Advisory Panel (TAP) to respond to new modalities for funding proposal assessment adopted by the Board after the terms of reference for TAP were established, and to fluctuations in the pipeline of funding proposals, in terms of both volume and areas of thematic expertise.

4.0.7. “Investment criteria indicators” (document GCF/B.21/18):

26. This paper outlines the proposal by the Secretariat on the investment criteria indicators. It builds on a two-phase process led by the Investment Committee to produce indicative minimum benchmarks, with support from the Secretariat and an external consultancy firm. The paper has been updated in the light of the discussions during B.19 on document GCF/B.19/04/Rev.01 titled “Indicative Minimum Benchmarks” and the written comments submitted to the Secretariat following the Board meeting. The document also discusses the application of the indicators to the GCF portfolio.

4.0.8. “Outcome of Co-Chairs consultations: programmatic policy approach” (document GCF/B.21/31):

27. This paper provides guidance on the programmatic approach of GCF to funding proposals, including the definition and principles of a programme, the requirements for submission of a programmatic funding proposal and its sub-projects, and process-related aspects for submission and approval. Guidance will help stakeholders including accredited entities, national designated authorities (NDAs) and focal points, the Secretariat, and the TAP in developing and assessing high-quality and impactful programmes which provide scale to the pipeline.

V. Summaries of documents for decision and information that maybe considered at B.21 or in upcoming Board meetings

28. The following section summarizes the documents for decision and information presented to the Board as non-core policies and updates on progress and outlines of next steps. These documents may or may not be considered at B.21.

5.0.1. “Policy on restructuring and cancellation” (document GCF/B.21/32):

29. This document outlines a policy on cancellation and restructuring of approved projects of the Green Climate Fund. It builds on a review of the practices of other institutions, and the relevant accreditation master agreement text and other relevant policies and procedures of the Green Climate Fund.

5.0.2. “Two-stage proposal approval process” (document GCF/B.21/11):

30. This paper outlines three options for a policy for a two-stage approval process for GCF funding proposals. The policy aims at strengthening the design, screening and appraisal process for concept notes, with a view to inform and support the second stage defined as the appraisal and approval of funding proposals.

5.0.3. “Steps to enhance the climate rationale of GCF-supported activities” (document GCF/B.21/Inf.08):

31. This document outlines the approach that the Secretariat is undertaking to strengthen climate rationale and thereby enhance the quality of GCF projects and programmes. It discusses approaches used by comparable funds and proposes activities to further support national designated authorities and accredited entities in ensuring their projects and programmes have a strong climate rationale.

5.0.4. “Identification of results areas where targeted GCF investment would have the most impact” (document GCF/B.21/Inf.04):

32. This paper identifies areas where targeted GCF investment would have the greatest impact. It analyses the GCF portfolio through the eight GCF results areas and compares it with analyses of country programme briefs. The removal of barriers is identified as key to achieving the most impact, including by mobilizing investment in insurance and reinsurance. It includes a review of the quality of climate information, and data used in the approved funding proposals are presented. The paper also includes several follow-up actions to be pursued by the Secretariat in areas where targeted GCF investment would have the most impact.

5.0.5. “Guidance and scope for providing support for adaptation activities” (document GCF/B.21/Inf.03)

33. This document outlines the status review of GCF’s support in adaptation activities and puts forwards a set of guiding approaches and next steps to enhance quality project development. The findings calls out for GCF’s particular focus on a) strategic engagement with accredited entities to improve climate rationale in adaptation projects submitted to the GCF; b) improvements in guidance and review criteria for readiness, NAPs and PPFs to improve climate rationale in projects submitted to the GCF; c) incremental and full cost calculation approach development; d) elaboration of adaptation indicators; and e) opportunities to increase private sector engagement in adaptation to complement PSAG recommendations.

5.0.6. “Results management framework: Independent Evaluation Unit recommendations to improve the results management framework” (document GCF/B.21/20)

34. This document outlines the recommendations by the Independent Evaluation Unit to improve the results management framework on the basis of quantitative and qualitative analysis of the portfolio.

Annex I: Overview of Board documents intended for B.21 and later Board meetings

1. The table below shows the grouping of the documents providing the Board with an overview of the plans for policy development. These can all be considered at B.21 consistent with the updated work plan of the Board for 2018 as noted in decision B.20/03.
2. However, some papers are presented by the Secretariat as optional for B.21, and may be considered by the Board in future Board meetings.
3. Various elements of the integrated policy papers, although presented as separate papers, should be considered together by the Board to allow for consistent adoption and implementation.

Table 1: Overview of the interlinked policies related to the consideration of funding proposals

Grouping	Policy item	For Decision or Information Only
<i>Core policies to be presented at B.21</i>	Project or programme eligibility and selection criteria	Information Only
	Incremental and full cost calculation methodologies	For Decision
	Review of financial terms and conditions of GCF financial instruments	For Decision
	Options for further guidance on concessionality	For Decision
	Co-financing Matters	For Decision
	Matters Related to the independent Technical Advisory Panel	For Decision
	Investment criteria indicators	For Decision
	Outcome of Co-Chairs consultations: programmatic policy approach	For Decision
<i>Can be presented at B.21 if agenda allows, otherwise can be postponed for future Board meetings</i>	Policy on restructuring and cancellation	For Decision
	Two-stage proposal approval process	For Decision
	Steps to enhance the climate rationale of GCF-supported activities	Information Only
	Identification of results areas where targeted investment would have the most impact	Information Only
	Guidance on approach and scope for providing support to adaptation activities	Information Only
	Update to results management framework and performance measurement frameworks	Information Only

4. In developing the papers within this integrated policy approach, the Secretariat intends to observe the following guidelines:

- (i) All policies requiring modification of the funding proposal template should ensure that the changes to the template occur only once per year at most in order to minimize confusion among the national designated authorities (NDAs) and accredited entities (AEs);
- (ii) Consolidated guidance materials will be developed to minimize confusion among GCF stakeholders and ensure ease of use and application by NDAs and AEs; and
- (iii) Consolidated capacity-building activities will be undertaken to support the implementation of policies in an integrated fashion for greater efficiency; and
- (iv) All relevant policies will be reviewed after one year of adoption and will be evaluation after three years of adoption;

5. Implementation tools are required in support of the strategic frameworks and operational policies and guidelines to be adopted by the Board. These tools will feed into strengthening the climate rationale by providing consistency in assessing projects and programmes. They will also inform guidance that should be provided to AEs, NDAs and other GCF stakeholders.
