Submission on the Review of the Initial Proposal Approval Process

April 2016

The Center for Clean Air Policy (CCAP) is pleased to respond to the Secretariat’s call for inputs on the initial proposal approval process. This submission is presented in narrative form, but we have also presented key points in the requested template as an Appendix.

Introduction

CCAP welcomes the decision taken by the Green Climate Fund (GCF) Board at the 12th meeting in Songdo to approve the Strategic Plan, which points to the Paris Agreement as the main reference point for Fund programming, and emphasizes the role of the GCF in supporting countries to achieve their Intended Nationally Determined Contribution (INDC) goals. With the Board request to the Secretariat to further consider the role the Fund will play in implementing the Paris Agreement and related decisions, CCAP is answering this submission in light of our broader views on that question.

The GCF should be the “keystone” climate finance institution to support achieving the Purpose of the Paris Agreement and the three key elements enumerated, namely reducing emissions, building climate resilience, and transforming financial flows. As such, the GCF should consider its funding and funding modalities based on not only their direct impacts on reducing emissions and/or building climate resilience, but also their catalytic impacts on the broader financial architecture and financial flows.

The GCF’s approach to the project cycle will therefore be critical in order to build and efficiently support a strong pipeline of projects and programs that achieve these impacts. Through policy dialogues and focused discussions with a range of national and international decision-makers, CCAP has found a consistent view that developing countries not only need financing for their key transformational programs and projects, but they also need support to convert their INDCs into these ambitious actions and financeable investments. Our recent policy paper1 highlights the steps countries are likely to take in this process, and provides key considerations for how the GCF and other sources of climate finance can help countries take this work forward.

1 Next Steps for Converting Intended Nationally Determined Contributions into Action available at http://tinyurl.com/zytp569
Recommendations

Building on this work and CCAP’s ongoing engagement GCF stakeholders, we see three broad approaches that should be considered:

1. Enhance readiness and project preparation support to improve the quality of projects entering the project cycle;
2. Introduce an optional two-stage approval process to ensure proponents get useful feedback and project development support on their ideas should they wish it before formally submitting a final proposal; and
3. Streamline information required for decision-making within a more transparent overall process.

1. Enhance readiness and project preparation support

An efficient project cycle will include robust support at early stages to ensure a sufficient volume and quality of projects coming to the GCF for consideration. Not only does this pipeline of projects need to be in line with the timely delivery of the initial $10 billion committed to the Fund, but also should help set up the identification and disbursement of a significant amount of resources for the GCF’s first replenishment. To support the goals of the Paris Agreement and the “paradigm-shift” objectives of the Fund, the GCF will need to be in a position to deliver a scaled up resources on an annual basis up to and well beyond 2020, ideally to programs that are well anchored in their respective INDCs.

In this context, enhancing the conversion of INDCs into strong proposals anchored in a broader country strategy will be critical, not only for the successful implementation of the first round of INDCs, but also to put in place the national capacity and policy frameworks necessary to raise ambition and enhance climate resilience over time.

The GCF should therefore make enhancing readiness and project preparation support for INDC conversion a core focus of Fund programming. Key considerations include:

Scale-up resources for readiness and project preparation support

With the goal of spending $10 billion by the end of 2017 and securing a subsequent replenishment, a significant investment in readiness activities is justified to ensure a sufficient demand for transformational funding without sacrificing project quality. By making this upfront investment, the GCF will encourage greater engagement with the Fund by recipient countries and, in the process, build national capacity across key ministries, including finance, planning and sectoral ministries. Consideration should be given to devoting a meaningful portion of the initial $10 billion for this purpose to ensure enough funding is available for all countries that need it (at least $500 million for the readiness program and the project preparation facility together would seem appropriate). If this support delivers a higher quality pipeline and strengthened national capacity by the time the Paris Agreement is applicable in 2020, this small portion of the total would be money well spent.

Readiness and preparatory support should respond to country needs

Countries will require different types of support as they carry out the INDC conversion process. While some countries may be ready to develop specific programs in support of their INDCs, others may need broader support to develop or advance national climate plans, put in place policy frameworks, and identify and assess policy actions and measures.
The GCF should take a comprehensive approach to readiness and preparatory support that is responsive to this wide range of country needs. To this end, the existing GCF readiness program should support more “upstream” activities, including the development of national strategies, policy frameworks, and programmatic approaches, as well as the preparation of concept notes that can be presented to the project preparation facility. The project preparation facility can complement the readiness program by providing support for the development of full funding proposals.

Support for the preparation of comprehensive INDC investment strategies

Support from the GCF should give all countries the opportunity to prepare comprehensive INDC investment strategies or national climate finance strategies that consider the strategic use and mobilization of all sources of funding. Beyond the GCF’s current support for country programs, which identify potential funding opportunities for the Fund, a broader strategy can help attract support from a wide range of public and private sources, and identify how international support can be used to best effect, including the catalytic programs best suited for funding by the GCF that can leverage the rest of the strategy. This can strengthen the Fund’s own portfolio, as well as strengthen the pipeline of projects and programs under development and being submitted for funding to other climate finance institutions and funders. Indicating priority needs to all sources could also significantly strengthen country ownership across the wider climate finance architecture, and could serve as useful signal to private sector investors looking for clarity on government policy, tendering and spending priorities.

Using country strategies to drive GCF programming

To promote ambitious, country-driven programming, the Board should be advised by the Secretariat on how projects and programs being considered for funding align with country strategies and contribute to transformational outcomes consistent with countries’ INDCs and longer-term climate goals – this advice could be informed by INDC investment strategies or national climate finance strategies when they are available.

The newly-adopted Strategic Plan calls on accredited entities to submit periodic work programs. While these work programs may offer useful information on the pipeline of the entity in question, they should be considered by the Fund in terms of how well they are anchored in a country’s overall strategy to achieve its INDC goals. National strategies should be used as a basis for planning by the Fund, as well as inform the activities of accredited entities.

2. Introduce a two-stage approval process

Even with national strategies in place, many countries may be hesitant to engage in significant development of specific projects and programs before funding is identified. A two-stage approval process, in which promising concept notes would receive preparatory support, could help solve this problem. The two-stage process should aim to give proponents an option for feedback, guidance and support before significant resources are invested in the development of a fully-fleshed out idea. By providing the opportunity for support early in the proposal development process, this approach can help create strong stakeholder and ministry engagement and should incentivize the development of innovative ideas and new approaches that advance transformational change.

In the first stage of a two-stage approval process, concept notes would be reviewed against the GCF investment framework and selection criteria, and promising concepts would be endorsed and deemed eligible to seek preparatory support from the project preparation facility. Alternatively, project concepts approved in the first stage could receive a defined amount of project preparation support without further application. In addition to financial support, the Board should consider how to broaden support
for project preparation, including the provision of advisory services and other technical assistance through Fund partners.

The full proposal would be considered for approval in the second stage with the understanding that first stage approval is without prejudice to the Board’s final decision on the full proposal. Compared to the first stage where promising ideas that are likely to be in line with the criteria should receive support, the second phase should apply the selection criteria in a more rigorous manner, commensurate with the greater risk the GCF is taking by committing larger scale funding for implementation.

It is important to note that the two-stage process should in no way be obligatory – proponents should be free to submit proposals they deem are ready for full consideration by the Board at any time. Also, a two-step process would not preclude other targeted support through the project preparation facility before the development of a full concept note (e.g., funding for a specific feasibility study).

Figure 1: Two-Stage Approval Process

- **Stage 1: Submission of concept note**
  - Assessment by the Secretariat and expedited review by Board committee
  - Endorsement of promising concept notes
  - Option to request project preparation support

- **Stage 2: Submission of funding proposal**
  - Analysis and recommendation to the Board
  - Board decision
Considerations for an effective two-stage process

To accelerate the approval process, the Board should simplify the concept note for submission in the first stage, as well as streamline and expedite the review process. To this end, the Board should consider delegating decision-making responsibility to a Board committee and allowing for decisions to be made between meetings, informed by an initial assessment by the Secretariat. Given their existing obligations to review funding proposals, the Board might consider limiting the role of the Technical Advisory Panel (TAP) in providing feedback for concept notes to certain types of proposals (e.g., high-risk and/or large-scale projects).

Countries should have the flexibility to submit concept notes and seek project preparation support through their NDA, or partner with the accredited entity or support provider that best suits their needs. The Board should also consider extending project preparation support for the development of concepts that would lead to medium ($50 - $250 million) and larger-scale activities (> $250 million) in order to catalyze transformational action at the scale needed to meet INDC goals.

At the same time, in order to maintain a favorable bias towards the development of national capacity, direct access institutions and other in-country partners should enjoy a simplified access channel with dedicated resources under defined criteria (for example, smaller scale projects, projects in LDCs and SID, etc.).

Requests for support from international entities should demonstrate clear participation from NDAs and domestic partners in the preparatory process, and consideration should be given to whether such entities might be asked to demonstrate a strong potential for replication of innovative approaches. For example, project preparation support for international entities could be reserved for the development of pilots that will inform regional programs or replicable sector approaches.

Streamlining and increasing transparency

More than just a practical concern, CCAP views the issues of streamlining and increasing transparency of the proposal approval process as strategic. They are relevant to the GCF’s ability to deliver transformational funding at scale.

Key considerations include:

Simplify funding application templates

To expedite access to support, the concept note template and the full funding proposal templates should be simplified and the Secretariat, in consultation with the TAP, should provide additional clarity on their requirements. For readiness, the requirements for submitting a proposal for pipeline development (readiness activity area 4) currently require NDAs or their delivery partners to provide the same analytical and design elements as a concept note. This should be simplified to allow countries to more easily access support for early stage project development.

Increase the transparency of assessments by the Secretariat and the TAP

The Board has put in place investment criteria and assessment methodologies that signal to countries what the Fund is looking for and help provide predictability in how proposals will be reviewed. However, greater clarity is needed on how the Secretariat and TAP apply criteria and assessment scales in different country contexts and sectors. Developing guidance on the application of these assessment
Methodologies can enhance the credibility of funding decisions, and encourage the development of proposals that are well-aligned with the GCF’s investment priorities. Similar guidance should be developed for minimum benchmarks, which the Board will consider at the 14th Board meeting in June 2016.

**Promote efficient and well-informed decision-making by the Board**

The Secretariat and the TAP should provide their evaluations of proposals well in advance of Board meetings to allow for adequate consideration by Board members, civil society, and other stakeholders. The Secretariat should establish a formal process for these actors to submit comments and inputs on proposals ahead of Board meetings.

In the case where proposals are incomplete or require further due diligence in order to be properly evaluated, the Board should have the authority to defer approval. In these cases, the Board should explicitly specify the elements to be addressed before re-submission.

**Fostering discussion on funding requests (incremental costs, project eligibility criteria, terms and conditions of loans)**

In addition to how the investment criteria are applied, lack of clarity remains on how the Board and TAP will assess the amount and terms of financing requested, the role of domestic resources versus international funds to support planned actions, and whether and how incremental costs requirements or project eligibility criteria should be applied.

A common understanding of what information should be put forward to justify funding requests, and of approaches to assessing proposals (based the existing investment framework), can provide greater confidence to developing countries in preparing competitive proposals. This can, in turn, help the GCF strengthen the pipeline of proposals put forward and improve perceptions of fairness.

While CCAP offers no operational recommendations at present, we invite the Board to consider how to facilitate this common understanding through outreach and engagement and improved transparency by the Secretariat and TAP in their assessments.

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These inputs are provided on behalf of CCAP.
Appendix: Inputs on the review of the initial proposal approval process
This appendix includes CCAP’s key recommendations on the GCF proposal approval process. We focus on the elements that are relevant to the narrative presented in the body of the submission.

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<th>Elements for review</th>
<th>Comments/inputs</th>
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<td>a. Strengthening and scaling up the GCF pipeline, including the country programme pipeline</td>
<td><strong>Enhance readiness and preparatory support</strong>: To build a strong pipeline of country-driven projects and programs, the GCF should make readiness and preparatory support a core focus of GCF programming. This support should focus on helping countries to convert their INDC goals into policies, measures, and financeable investment strategies, with a view to advance the goals of the Paris Agreement, disburse $10 billion to transformation programs by the end of 2017, and achieve a successful first replenishment. Key considerations include:</td>
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<td>• <strong>Scale-up resources for readiness and project preparation support</strong>, CCAP views an allocation of at least $500 million to the readiness program and project preparation facility as a strategic investment to build country pipelines and national capacity to ensure significant volumes of transformational financing can flow at scale without sacrificing project quality.</td>
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<td>• <strong>Ensure readiness and preparatory support responds to country needs</strong> as they carry out the INDC conversion process. The existing GCF readiness program should support “upstream” activities, including the development of national strategies, policy frameworks, and programmatic approaches, as well as the preparation of concept notes that can be presented to the project preparation facility. The project preparation facility would then complement the readiness program by providing support for the development of full funding proposals.</td>
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<td>• <strong>Provide all countries the opportunity to prepare INDC investment strategies or national climate finance strategies</strong> that consider the strategic use and mobilization of all sources of public and private funding in the country context.</td>
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<td>• <strong>Use country strategies as a basis for Fund programming</strong>. Country strategies, including INDC investment strategies when available, should be used to inform the Board on how projects and programs under consideration advance countries’ INDCs. These strategies should be used as a basis for planning by the Fund, as well as inform the activities of accredited entities.</td>
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| b. Streamlining and improving the transparency of the proposal approval process | The GCF should streamline the information required for decision-making, and improve the transparency of the Fund’s approval processes as a matter of urgency, including through:  
- **Simplifying funding application templates and providing guidance on their requirements**, including the concept note and full proposal template, as well as the proposal for readiness support for pipeline development (activity area 4).  
- **Increasing the transparency of assessments by the Secretariat and the TAP**. In particular, the GCF should provide greater clarity and guidance on how the investment criteria, scaling methodologies, and minimum benchmarks will be applied in different country contexts and sectors. |
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<td>c. Defining further decision-making options, including deferral of proposal approvals</td>
<td><strong>Deferrals</strong>: The Board should be have the authority to defer proposals which are incomplete or require further due diligence in order to be properly evaluated. In these cases, the Board should explicitly specify the elements to be addressed before re-submission.</td>
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| d. Reviewing how concept notes should work within the project cycle, facilitating the feedback of the TAP on concept notes and facilitating contact of the TAP with accredited entities as useful and necessary | **Two-stage approval process**: The GCF should introduce an optional two-stage approval process to enable proponents get useful feedback and project development support on concept notes before formally submitting a final proposal, as follows:  
- **Stage 1**: Concept notes would be reviewed against the investment framework. Promising concepts would be endorsed and either be deemed eligible to seek preparatory support from the project preparation facility. Alternatively, endorsed proposals could receive a defined amount of project preparation support without further application should it be requested.  
- **Stage 2**: The full proposal would be considered for approval in the second stage. The receipt of an endorsement in the first stage would be without prejudice to the Board’s final decision on the full proposal.  
  Countries could also choose to submit proposals they deem are ready for full consideration by the Board at any time without going through the two-stage process. In addition, targeted project preparation facility support would also be available without requiring a full concept note (e.g. funding for a specific feasibility study).  
  The two-stage process should ensure:  
- **Streamlined and expedited access** through a simplified concept note, and an accelerated decision-making process by a Board committee.  
- **Flexibility** to allow countries to submit concept notes and seek project preparation support through their NDA, or partner with the accredited entity or support provider that best suits their needs, and for projects and programs of various sizes. |
- Privileged access for direct access institutions and other in-country partners, which could include a simplified access channel with dedicated resources under certain criteria (for example, smaller scale projects, projects in LDCs and SIDS, etc.)

**Role of the TAP:** Given their existing obligations to review funding proposals, the Board might consider limiting the role of the TAP in providing feedback for concept notes to certain types of proposals (e.g., high-risk and/or large-scale projects). To ensure the TAP remains objective in their assessments, it may also be advisable to limit more informal contact between the TAP and the accredited entities during the project cycle. At the same time, the Board should consider how to enhance the provision of technical assistance for the development of strong proposals; for example, by building a network of organizations that can provide advisory services and technical support to project proponents as needed.

e. Supporting the Board to make decisions regarding funding proposals

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<th>e. Supporting the Board to make decisions regarding funding proposals</th>
<th>The Secretariat and the TAP should provide their evaluations of proposals well in advance of Board meetings to allow for adequate consideration by Board members, civil society, and other stakeholders. The Secretariat should establish a formal process for these actors to submit comments and inputs on proposals ahead of Board meetings.</th>
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<td>f. Strengthening project/programme eligibility criteria, including categories of incremental cost eligible for funding</td>
<td><strong>Foster discussion on funding requests:</strong> The Board should promote ongoing engagement on key questions around funding requests, including whether and how incremental costs and eligibility criteria should be applied and the terms and conditions of financing, with a view to move toward a common understanding. An important part of this effort will be to ensure transparent assessments by the Secretariat and TAP.</td>
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<td>g. Developing interim procedures for redress pending the recruitment of the head of the independent redress mechanism</td>
<td><strong>Foster discussion on funding requests:</strong> The Board should promote ongoing engagement on key questions around funding requests, including whether and how incremental costs and eligibility criteria should be applied and the terms and conditions of financing, with a view to move toward a common understanding. An important part of this effort will be to ensure transparent assessments by the Secretariat and TAP.</td>
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Any other comments/inputs in relation to the policy gaps listed in decision B.11/11, paragraph (c), and other common areas as contained in paragraph (d)

Any other general comments/inputs