GCF Guideline

Guidelines on preparing the economic and financial analysis for SAP proprosals

GREEN CLIMATE FUND

I. Objective

1. To aid in assessing SAP proposals against its Investment Framework, GCF may require entities to submit economic and/or financial analyses with funding proposals. This guidance is intended to clarify GCF's expectations for these analyses, including documentation requirements and technical standards.

II. Relation to GCF Investment Criteria

2. The mandate for economic and financial analysis is rooted in GCF's Initial Investment Framework, adopted in Decision B.07/06 and elaborated in Decision B.09/05. The Initial Investment Framework identifies several investment criteria and indicative assessment factors which could be directly or indirectly informed by robust economic and financial analyses. Most directly, assessment of the efficiency and effectiveness criterion is based mostly on economic and financial analyses. Indirectly, economic and financial analyses can form a minority share of the assessment of impact potential, paradigm shift potential, sustainable development potential and needs of the recipient. Table 1 below shows the potential applications of economic and financial analysis to GCF's Investment Framework.

Table 1: Applications of economic and financial analysis to the GCF Investment Framework

Investment Criterion	Indicative sub-criteria or assessment factors
Impact potential	Number of direct and indirect beneficiaries
Paradigm shift potential	Sustainability of outcomes beyond completion of the intervention
	Market development and transformation
	Scalability and replicability
Sustainable development potential	Economic co-benefits
Needs of the recipient	Economic and social development level of the country and the affected population
	Absence of alternative sources of financing
Efficiency and effectiveness	Cost effectiveness
	Financial adequacy
	Minimum concessionality
	Leveraging and catalysation
	Long-run economic and financial viability

III. Application to SAP

3. The SAP Funding Proposal Preparation Guidelines state that "the Secretariat usually requests economic and/or financial analysis for private sector proposals. For public sector proposals, the AE does not have to submit the analysis if cost-effectiveness can be demonstrated through some of the other means described in section E.6, or if the proposal's benefits are difficult to quantify due to the nature of the activity (e.g. capacity-building)."

4. Private sector SAP proposals require, at a minimum, a formal financial analysis, including a model. This should be used to justify the level of concessionality requested and illustrate long-term sustainability. This may be paired with an economic model that demonstrates overall cost effectiveness of the project. The detailed requirements are described below in Section IV.

5. For most public sector SAP proposals, a formal economic and/or financial model is not required, but the projects must still demonstrate cost effectiveness, financial adequacy, minimum concessionality and long-run economic and financial viability as mandated by the GCF Investment Criteria. Depending on available data and capacity, an economic and/or financial model may be the easiest way to demonstrate these principles. A financial model is required for any public sector SAP proposal that results in financial reflows that may be used to service a loan or other reimbursable financial instrument. The detailed requirements are described below in Section IV.

6. In public sector SAP proposals where data or capacity are limited, the proposal may meet the Investment Criteria without a model, but with references to reports from similar projects, studies from the literature or other evidence. The detailed requirements are described below in Section V.

IV. Guidance for projects with economic and/or financial models

7. For all private sector SAP proposals and public sector SAP proposals with economic and/or financial models, accredited entities (AEs) are asked to submit the following documentation as annexes to the SAP proposal:

(a) The economic and/or financial models in spreadsheet format, with all cells unlocked and formulas visible.

(b) A document that summarises the economic and/or financial model, including its assumptions, results and citations of key evidence that informed the models.

8. AEs may follow their own standards and guidelines when producing their models. GCF will review the models to assess the accuracy, reliability and relation to GCF Investment Criteria.

V. Guidance for projects without economic and/or financial models

9. For public sector SAP proposals without economic and/or financial models, AEs are asked to provide evidence that the proposal meets the Efficiency and Effectiveness sub-criteria that would normally be informed by the economic and financial models, such as cost effectiveness, financial adequacy, minimum concessionality and long-run economic and financial viability. The type of evidence may vary widely depending on the project, but some indicative files are listed in Table 2 below.

10. As part of second-level due diligence, the Secretariat will assess whether the information provided is sufficient to inform the investment criteria in the absence of economic and/or financial models.

Table 2: Examples of evidence that may demonstrate Investment Criteria assessment factors

Indicative sub-criteria or assessment factors	Examples of evidence that may demonstrate the factor
Cost effectiveness	• Estimate of expected tonnes of carbon dioxide equivalent (t CO2 eq) to be reduced or avoided, benchmarked against similar projects.

	• Estimate of cost per beneficiary, benchmarked against similar projects. • Documentation of economic losses in the project area due to climate-related events and estimates of future such losses, and an explanation in the theory of change of how these would be reduced under the project. • Evaluation reports from previous similar projects that show effectiveness of the project in achieving the intended outcomes in a cost-effective manner. Reports that estimate statistics such as EIRR, NPV and benefit-cost ratio are helpful. • Peer reviewed articles supporting the assumptions in the theory of change and its cost effectiveness.
Financial adequacy	• An assessment in the proposal of elements of the financial structure (funding amount, financial instrument, tenor and term) including explanations why each was chosen over alternatives
Minimum concessionality	• An explanation in the proposal of the selected financial instrument, including the potential for revenue generation, whether the project corrects a market failure or provides a public good.
Leveraging and catalysation	• Co-financing ratio (total amount of co-financing divided by the Fund's investment in the project/programme) • Expected volume of finance to be leveraged by the proposed project/programme and as a result of the Fund's financing, disaggregated by public and private sources. • A detailed description in the proposal of the financial or other incentives for additional parties to invest in the project.
Long-run economic and financial viability	• An operation and maintenance plan identifying required actions, responsible parties and sources of funds. • A detailed description in the proposal of the financial or other incentives for stakeholders to sustain the project or its benefits after GCF's exit.