Annex VII: Investment criteria indicators

I. Objectives and approach towards implementation

1. The investment criteria indicators:

(a) Should guide a range of GCF stakeholders, particularly by providing information to (i) the Board when approving projects; (ii) the independent Technical Advisory Panel (TAP) and the Secretariat when reviewing projects; (iii) and the accredited entities (AEs) when developing project/programme proposals so they can more clearly describe how the project is expected to deliver against the relevant investment criteria, taking into account the differing national circumstances of developing countries;

(b) Shall not be used to screen out proposals for funding and shall not be used as a binary pass/fail test or set a single threshold that must be passed; instead, the indicators should support AEs in describing the extent to which a funding proposal delivers against the investment criteria and provides a mechanism through which an explanation can be provided for performance that is relatively higher or lower than expected, again taking into account differing national circumstances;

(c) Should provide more consistency and transparency in funding proposal documents and make the preparation and assessment of funding proposals more efficient;

(d) Should be used by AEs to enhance the quality of funding proposals over time by increasing clarity on how different funding proposals meet the GCF investment criteria and by flagging where the Secretariat, TAP or the Board would require additional explanations or justification;

(e) All of the indicators, and therefore the relevant investment criteria, should be considered for each proposal to understand its individual context and merits. A project may be less strong on one criterion (e.g. sustainable development potential) but stronger on another (e.g. impact potential). The two should be considered together and not in isolation; and

(f) Application of the indicators must consider the range of differing national circumstances and take into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change, as requested by the Board in decision B.09/05, paragraph (d).

II. Indicators for each investment criterion

2. All the indicators noted below will take into consideration different country contexts.

2.1 Impact potential

3. Separate indicators are proposed for the impact potential of mitigation and adaptation projects.

4. **Mitigation impact indicator: project lifetime emission reductions (in tonnes of carbon dioxide equivalent)**. Project proposals should describe the expected reductions in emissions resulting from the GCF intervention.

5. **Adaptation impact indicator**. Project proposals should describe the expected change in loss of lives, value of physical assets, livelihoods, and/or environmental or social losses due to

the impact of extreme climate-related disasters and climate change in the geographical area of the GCF intervention. Proposals should also refer to the number of direct and indirect beneficiaries of the project, taking into account the needs of developing countries that are particularly vulnerable to the adverse effects of climate change.

2.2 Paradigm shift potential

6. **Necessary conditions indicator**. Project proposals should identify a vision for paradigm shift as it relates to the subject of the project. The vision for paradigm shift should outline how the proposed project can catalyse impact beyond a one-off investment. This vision for longer-term change should be accompanied by a robust and convincing theory of change for replication and/or scaling up of the project results, including the long-term sustainability of the results, or by a description of the most binding constraint(s) to change and how it/they will be addressed through the project.

2.3 Sustainable development potential

7. **Co-benefits indicator**. In addition to the impacts of the project, the proposals must identify at least one positive co-benefit – with an associated indicator, and baseline and target values, disaggregated for men and women if disaggregated data are available domestically – in at least two of the four coverage areas:

(a) Economic co-benefits, such as the creation of jobs, poverty alleviation and enhancement of income and financial inclusion, especially among women;

(b) Social co-benefits, such as improvements in health and safety, access to education, cultural preservation, improved access to energy, social inclusion, improved sanitation facilities and improved quality of and access to other public utilities such as water supply;

(c) Environmental co-benefits, including increased air, water and soils quality, conservation and biodiversity; and

(d) Gender empowerment co-benefits outlining how the project will reduce gender inequalities.

8. Where appropriate, proposals should reference the ability of the project to enable the achievement of one or more of the Sustainable Development Goals.

2.4 Needs of the recipient

9. **Mitigation and adaptation indicator: barriers to climate-related finance**. Project proposals should describe the country’s financial, economic, social and institutional needs and the barriers to accessing domestic (public), private and other international sources of climate-related finance. The proposal should outline how the proposed intervention will address the identified needs and barriers.

2.5 Country ownership

10. **Alignment with nationally determined contributions (NDCs), relevant national plans indicator, and/or enabling policy and institutional frameworks**. Project proposals should clearly describe how the proposed activities align with the country’s NDC and other

relevant national plans, and how the funding proposal will help to achieve the NDC or these plans by making progress against specific targets defined in national climate policies and strategies, such as nationally appropriate mitigation actions and national adaptation plans. The proposals should also outline how the project will help to achieve national development goals and/or climate change policies. Proposals should also reference the degree to which the project is supported by a country's enabling policy and institutional framework or includes policy or institutional changes.

11. **Explanation of engagement with relevant stakeholders, including national designated authorities indicator**. Project proposals should outline how they were developed in consultation with relevant stakeholders. Engagement with national designated authorities is required.

2.6 Efficiency and effectiveness

12. Separate indicators are proposed for the efficiency and effectiveness of mitigation and adaptation projects.

13. **Mitigation efficiency and effectiveness indicator: cost per tonne of carbon dioxide equivalent**. Projects should give the cost per tonne of carbon dioxide equivalent of the GCF intervention.

14. **Mitigation efficiency and effectiveness indicator: ratio of co-financing**. As appropriate. projects should indicate the ratio of co-financing mobilized relative to the GCF contribution to the total project.

15. **Mitigation indicator: expected rate of return.**[1] As appropriate, projects should provide an estimate of the expected economic internal rate of return and/or financial internal rate of return, depending on the needs of the project.

16. **Mitigation and adaptation indicator: application of best practices.** Projects should describe how the proposal applies and builds on the best practices in the sector.

[1] The financial internal rate of return assesses the cost effectiveness of projects that generate financial reflows. The economic internal rate of return assesses the cost effectiveness of projects that do not generate financial reflows but result in substantial non-financial benefits.