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Status of indicative minimum benchmarks: key findings to date and options for implementation

Summary

This informational document gives a status update on the development of indicative minimum benchmarks for GCF's investment criteria. The work is led by the Investment Committee with support from the Secretariat.

I. Introduction

1. Through decision B.07/06, the Board requested for consideration the development of minimum benchmarks for each of the investment criteria, taking into account the best practices of other institutions. In decision B.09/05 the Board further requested the Secretariat to develop indicative minimum benchmarks that: (a) encourage ambition: and (b) take into account the needs of particularly vulnerable developing countries, according to project size, mitigation/adaptation, and local and sector circumstances.

2. In response, the Investment Committee has led the work on the development of indicative minimum benchmarks with the support of the Secretariat and an external consulting firm (ICF International), through a two-phase process. The first phase of research and analysis on indicative minimum benchmarks: provided an assessment of other institutions' best practices and available data; identified data gaps and constraints that may present challenges for indicative minimum benchmarks; and estimated a preliminary set of indicative quantitative minimum benchmarks for two investment criteria (mitigation impact potential and mitigation effectiveness and efficiency). This phase was concluded in August 2016.

3. The second phase of the Investment Committee's work on minimum benchmarks built on the previous phase by: (a) testing the robustness of the indicative quantitative benchmarks through their retrospective application to projects/programmes already approved by the Board; (b) further developing qualitative benchmarks; and (c) exploring the potential for expanded benchmarks by results area, by developing a pilot approach for projects focused on resilience of infrastructure and the built environment. The second phase of the consultant's work resulted in a suggested set of benchmarks for each of the investment criteria, as well as possible implementation options, for the Investment Committee's consideration. The Investment Committee is currently discussing the next steps for indicative minimum benchmarks along these lines.

II. Key findings to date

2.1 Overview

4. Indicative minimum benchmarks are an informational tool to strengthen the investment decision-making process of the GCF. In the GCF context, indicative minimum benchmarks refer to minimum benchmarks for each of the six investment criteria of the GCF: impact potential; paradigm shift potential; sustainable development potential; needs of the recipient; country ownership; and efficiency and effectiveness.

5. More broadly – outside the GCF – benchmarking is as a technique used to assess a project and make an investment decision using a specific indicator value (e.g. cost per unit of measure) that is considered best practice. Minimum benchmarks (or thresholds) are used as performance standards that a project must achieve in order to satisfy an objective and move forward for further assessment and, potentially, ultimately approval. Usually quantitative, their values can be above or below the value of a certain benchmark indicator.

6. However, the Investment Committee has agreed that indicative minimum benchmarks will not constitute a threshold, nor will they be used in a binary pass or fail application; instead, they are part of the information available to the Board, the Secretariat, the independent Technical Advisory Panel, accredited entities and other GCF stakeholders, to help surface relative strengths and weaknesses in proposals and to drive up the quality of the portfolio over time. The Investment Committee has also agreed to develop and implement benchmarks in a

step-wise approach, starting small, learning by doing, and growing and refining the set of benchmarks over time.

2.2 Other institutions' current and best practices

7. Minimum benchmarks have had very limited use in multilateral climate change and development funds that are implemented by multiple agencies. Development banks use minimum benchmarks relatively more in order assess specific aspects of project proposals, and in these cases, the minimum benchmarks are typically quantitative.

8. Two climate funds, the Clean Technology Fund (CTF) and the Nordic Climate Fund (NCF), have defined and used minimum benchmarks to assess specific aspects of project proposals. The CTF has defined a marginal abatement cost of USD 200 per tonne of carbon dioxide equivalent (t CO_2 eq) as a minimum benchmark, but this minimum benchmark is not used as a threshold. Rather, it is used as a mechanism to highlight where further scrutiny of a project's costs relative to benefits might be required. The NCF investment guidelines require that 20 per cent of a project's funding should come from other sources (i.e. co-financing).

2.3 Approach to the development of indicative minimum benchmarks

9. The analysis was done using both quantitative and qualitative approaches to developing indicative minimum benchmarks, based on data availability and other factors (table 1). Available project-level data from comparator funds was found to be relevant for indicative minimum benchmarks related to the criteria: impact potential; and effectiveness and efficiency. However, comparator funds do not systematically collect data that can be analysed to inform the development of a quantitative minimum benchmark for the criteria: paradigm shift potential; sustainable development potential; needs of the recipient; and country ownership. Therefore, qualitative approaches were used to develop options for those benchmarks.

Table 1. Quantitative and qualitative approaches, by investment criteria

Quantitative benchmarks	Qualitative benchmarks
Impact potential (mitigation) Effectiveness and efficiency (mitigation)	Impact potential (adaptation) Paradigm shift potential Sustainable development potential Needs of the recipient Country ownership Effectiveness and efficiency (mitigation and adaptation)

2.4 Indicative quantitative minimum benchmarks

10. Using project-level data from comparator funds, namely CTF, the Global Environment Facility (GEF) and the Scaling Up Renewable Energy in Low Income Countries Program (SREP), indicative minimum benchmarks were estimated for mitigation impact (lifetime greenhouse gas emission reductions) and mitigation effectiveness and efficiency (cost per t CO_2 eq); and additional finance leveraged).[1] Benchmarks were estimated across several dimensions,

[1] Data from the Clean Development Mechanism were also analysed separately. For adaptation, data were obtained from the Pilot Program for Climate Resilience but sample sizes were too small to support analysis for minimum benchmarks. Compiled project-level data, including number of beneficiaries, were not available for the Least Developed Countries Fund, Special Climate Change Fund or the Adaptation Fund.

including country circumstance (for least developed countries, small island developing States, and African States), project size (micro, small, medium, and large), and sector.

11. Reference levels were used to help establish how a given project would compare to projects in relatively similar circumstances, but there is recognition of the unique details and circumstances for every project and country. Three reference levels were calculated, representing the 5th, 10th and 25th percentiles of projects in each group.[2]

12. The analysis identified several challenges when comparing GCF project data to quantitative benchmarks based on data from comparator organizations. These include: different methods used for collecting, estimating and reporting emission reductions; different types of costs eligible for funding; different circumstances of recipient countries; and different objectives and project goals. Small sample sizes and data gaps also pose a constraint for establishing benchmarks.

2.5 Indicative qualitative minimum benchmarks

13. The development of potential qualitative benchmarks was informed by research, evaluation and assessment of similar criteria by climate finance organizations and other development finance organizations, as well as a review of project proposals to GCF and other climate funds. Multiple options were developed for each investment criterion.

14. A challenge was that while many other international organizations have developed frameworks and other methods to assess the concepts of the investment criteria – such as paradigm shift potential and sustainable development potential – such frameworks have not typically been applied ex ante (i.e. as a project appraisal or investment review criterion). Thus, the utility of applying these frameworks as a means of identifying higher quality projects at the proposal appraisal stage has not been tested or proven.

15. A key advantage of many of the qualitative benchmarks may be that they require project developers to provide a transparent and explicit analysis or rationale for certain project features, adding rigour to the project funding proposal. But this additional rigour may also need to be balanced with the need to avoid over-burdening project applicants.

2.6 Additional analysis on results area-specific benchmarking

16. An analysis was conducted of the opportunities and challenges for expanding minimum benchmarks to individual results areas. As a pilot example, the analysis focused on GCF adaptation expected results area 3.0: Infrastructure and the Built Environment; the infrastructure components in other results areas were also addressed.

17. Four options for benchmarking in results area 3.0 were explored. The analysis suggests that consistent benchmarks should be applied across the adaptation results areas, rather than developing results area-specific indicative minimum benchmarks.

[2] Each level represents the percentage of projects from comparator funds in a given category that would not meet the benchmark value, with the 5 percentile being the least ambitious and 25 percentile being the most ambitious. For example, at the 25th percentile, 25 per cent of medium-sized comparator fund projects have lifetime emission reduction levels that are less than 900,000 t CO_2 eq. Therefore, a GCF medium-sized project with lifetime emission reduction levels higher than this benchmark value means the project is expected to achieve more lifetime emission reductions than 25 per cent of comparator fund projects in this category.

III. Options for implementation

18. The analysis by the consultant suggested that the assessment of project proposals against indicative minimum benchmarks may be most appropriate during the review processes of the GCF Secretariat and/or the independent Technical Advisory Panel. Such an assessment would provide additional information about the potential ambition and robustness of the project design. Benchmarks could be flexibly applied and were not intended to be used as a means of ruling out specific projects. As noted in paragraph 2.15 above, a key value of the qualitative minimum benchmarks may be encouraging project developers to include more explicit and transparent analysis on certain elements in the investment criteria, as an indication of project rigour.

19. The analysis also suggested that the development and application of minimum benchmarks should follow a process of "start, learn and evolve" to refine the benchmarks over time.
