Appraisal Guidance

A comprehensive guide to the tools and due diligence processes used to review and assess concept notes and funding proposals

GCF GUIDEBOOK SERIES

Appraisal Guidance

This Guidebook is a living document and will be updated to reflect feedback, lessons learned, as well as policy and operational changes. For that reason, we encourage readers to use the online/electronic version of this document.

Published in July 2022

Green Climate Fund
Songdo Business District
175 Art Center-daero
Yeonsu-gu, Incheon 22004
Republic of Korea

+82 (0)32-458-6039
countries@gcfund.org
greenclimate.fund

GREEN CLIMATE FUND

Appraisal Guidance

A comprehensive guide to the tools and due diligence processes used to review and assess concept notes and funding proposals

CONTENTS

ABBREVIATIONS AND ACRONYMS

ACRONYM	TERM	ENTITY*
AE	Accredited Entity	E
AG	Appraisal Guidance	
AMA	Accreditation Master Agreement	
AP	Accreditation Panel	Ind
CIC	Climate Investment Committee	I
CN	Concept Note	
C-NET	Climate Impact Assessment Network	I
CO_2e	Carbon Dioxide equivalent	
CP	Country Programme	
DAE	Direct Access Entity	E
DCP	Division of Country Programming	I
DMA	Division of Mitigation and Adaptation	I
DPM	Division of Portfolio Management	I
DSS	Division of Support Services	I
ED	Executive Director	I
EE	Executing Entity	E
EFA	Economic and Financial Analysis	
ESS	Environmental and Social Safeguards	
EWP	Entity Work Programme	
FAA	Funded Activity Agreement	
FP	Funding Proposal	
GCF	Green Climate Fund	
GEC	Grant Equivalent Calculator	
GHG	Greenhouse Gas	
IAE	International Access Entity	E
IAT	Innovation and Additionality Tool	
ICS	Investment Criteria Scorecard	
IE	Implementing Entity	E
IEU	Independent Evaluation Unit	Ind
IIU	Independent Integrity Unit	Ind

ACRONYM	TERM	ENTITY*
IPT	Interdivisional Project Team	I
IRM	Independent Redress Mechanism	Ind
IRMF	Integrated Results Management Framework	
iTAP	Independent Technical Advisory Panel	Ind
LOD	Line Of Defence	
NDA	National Designated Authority	E
NDC	Nationally Determined Contribution	
NOL	No-Objection Letter	
OED	Office of the Executive Director	I
OGC	Office of the General Counsel	I
ORMC	Office of Risk Management and Compliance	I
PAP	Project Approval Process	
PPF	Project Preparation Facility	
PRTP	Project Review and Tracking Platform	
PSF	Private Sector Facility	I
QA/QC	Quality Assurance/Quality Control	
RMC	Risk Management Committee	Ind
RMF	Risk Management Framework	
SAP	Simplified Approval Process	
SMT	Senior Management Team	I
Ts & Cs	Terms and Conditions	
TAP	Technical Advisory Panel	Ind
TM	Task Manager	I
ToC	Theory of Change	
ToR	Terms of Reference	
TS	Task Support	I
TT	Task Team	I
UNFCCC	United Nations Framework Convention on Climate Change	E

**Note:* I = internal GCF entity, Ind = independent entity reporting to GCF; E = entity external to GCF

GLOSSARY

Accreditation: Access to GCF resources is only granted to entities accredited by the Board (see Accredited Entity below) pursuant to paragraph 45 of the GCF Governing Instrument. Entities are assessed and approved by the Board to access GCF funding through an accreditation process. Accreditation defines the way in which an entity can access GCF resources ("the accreditation scope"), identifying the maximum limits of GCF financial support for which the entity can apply in a single funding proposal, the financing modality (e.g., for managing projects, awarding grants, on-lending, blending, undertaking equity investments and providing guarantees) and the environmental and social risk levels.

Accreditation Master Agreement (AMA): The Accreditation Master Agreement is a framework legal agreement entered into between GCF and the accredited entity (AE). The AMA marks the final stage of the accreditation of the AE. The AMA establishes the general terms and conditions that govern the relationship between GCF and the AE during the entire term of AE accreditation. The AMA also sets out the main roles and responsibilities of an AE throughout the GCF project cycle and reflects GCF policies and requirements that apply to implementation of funded activities.

Accredited Entity (AE): Once an institution or organization has been approved by GCF in the accreditation process it is called an Accredited Entity (AE). Only AEs can submit funding proposals to GCF for appraisal and approval. If their funding proposal is approved, AEs then oversee and monitor the management and implementation of projects and programmes that will be financed by GCF. There are two types of accreditation modalities: direct access and international access. This results in two types of accredited entities: Direct Access Entities (DAEs) and International Access Entities (IAEs).

Accredited Entity due diligence and appraisal: The AE is required to carry out all due diligence necessary in accordance with its own policies and procedures in addition to the requirements of the Accreditation Master Agreement when investing funds in relation to a concept note or funding proposal submitted to GCF. This applies to AE funds as well as to funds for which it has management or investment responsibility. In conducting appraisals and making investment decisions, GCF relies on this AE due diligence, and risk appraisal and assessment presented in the concept note or funding proposal. GCF does reserve the right to request additional information, clarification and documents from the AE.

Appraisal: In the context of the GCF project or programme activity cycle, appraisal is an analysis of a project's purpose, approach and intended impact as well as its alignment to the GCF investment criteria and strategic priorities. The appraisal also determines the risks that may impact the effectiveness, efficiency and sustainability of the project or programme, and the measures necessary to mitigate those risks. The appraisal is an assessment of the likelihood that a project or programme will achieve its stated impact and objectives.

Appraisal Areas: The ten Appraisal Areas presented in this Appraisal Guidance document are derived from the GCF Investment Framework and its six investment criteria and sub-criteria. The Appraisal Areas are central to the GCF Secretariat due diligence and appraisal process that aims to facilitate the development of a high-quality portfolio of projects and programmes.

Climate Investment Committee (CIC): The CIC is a committee of the GCF Secretariat that oversees the GCF project pipeline with respect to the development, management and financial planning of concept notes and funding proposals in alignment with GCF portfolio-level goals and Board decisions on financial planning.

Concept Note (CN): A document submitted to the GCF Secretariat providing basic information about a project or programme. An entity can use CNs to seek feedback from the Secretariat on whether their concept is aligned with GCF investment criteria and policies.

Direct access entity (DAE): Pursuant to paragraph 47 of the GCF Governing Instrument, DAEs are entities accredited under the direct access modality, including subnational, national or regional entities that have obtained a nomination from National Designated Authorities (NDAs). They may include ministries or government agencies, development banks, climate funds, commercial banks or other financial institutions, private foundations, and non-governmental organizations.

Due diligence: Due diligence, a risk management process, includes fact-based screening and is applied to a potential counterparty in order to ensure minimum standards of practice are carried out. The output of due diligence is a determination of the level of compliance with minimum standards.

Funding proposal (FP): A set of documents prepared by AEs using GCF standard templates (for the funding proposal and its annexes) that is submitted to GCF to formally request funding for a project.

Governing Instrument (GI): The GCF GI was approved by the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFPCCC) at its seventeenth session on 11 December 2011 and annexed to its decision 3/CP.17. The GI outlines GCF objectives and guiding principles, governance and institutional arrangements and operational guidelines. The GI also refers to an integrated approach for cross-cutting projects/programmes and for results-based payments.

Independent Technical Advisory Panel (Independent TAP, iTAP): The terms of reference of the Independent TAP were established under GCF decision B.09/09 and updated in B.BM-2018/09 in order to provide independent technical assessment of and advice on funding proposals for the Board. The Independent TAP conducts these assessments on proposals submitted through the Secretariat by AEs, using the GCF investment framework criteria, after the proposals have been endorsed by the Climate Investment Committee of the GCF Secretariat.

International access entities (IAEs): IAEs are AEs that are accredited under the international access modality. They operate across multiple regions and countries and include bilateral development agencies, multilateral development banks, United Nations organizations, intergovernmental organizations and private sector financial institutions.

Investment Criteria: As adopted by the Board in decision B.07/06, all GCF funding proposals must meet six criteria called the "Investment Criteria" to receive GCF funding. The criteria include coverage areas, activity-specific sub-criteria and indicative assessment factors further detailed by the Board.

Interdivisional Project Team (IPT): A team consisting of members from multiple divisions and offices of the GCF Secretariat assigned to review project or programme proposal elements.

Lines of Defence (LOD): The "Three Lines of Defence" risk management model was codified by the Chartered Institute of Internal Auditors in 2013 and was adopted by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in its Risk Management Framework.[1] The first Line of Defence (1LOD) in risk management is comprised of the roles and functions that own and manage risk within an organization. The second Line of Defence (2LOD) is comprised of the functions that provide the policies, frameworks, tools and support to enable the first Line of Defence to manage risk, and entails a challenge and monitoring function to assess how effective the first Line of Defence is. The third Line of Defence (3LOD) is comprised of the functions that provide independent assurance of the risk control environment, generally performed by the internal audit.

National Designated Authorities (NDAs): Authorities designated by a developing country Party to the United Nations Framework Convention on Climate Change pursuant to paragraph 46 of the GCF Governing Instrument that serve as the interface between each country and GCF. This NDA or focal point plays a key role throughout the project cycle in ensuring country ownership and a country-driven approach – core principles of the GCF business model. NDAs and focal points are listed on the GCF website.

Operations Manual: This internal document for staff of the GCF Secretariat was published in August 2020 and documents the operational procedures for the different stages in the life cycle of GCF programming modalities.

Programming Manual: This external document for external GCF stakeholders was published in July 2020. It outlines the roles of key stakeholders throughout the activity cycle for projects and programmes and provides guidance on how to prepare and submit a funding proposal that meets all GCF investment criteria.

Result Areas: GCF funds projects that fall under one or more of eight result areas divided into two categories:

[1] *Leveraging COSO Across the Three Lines of Defence, Committee of Sponsoring Organizations of the Treadway Commission, July 2015,* *https://www.coso.org/SitePages/Internal-Control.aspx?web=1*

mitigation and adaptation (four results areas for mitigation and four for adaptation), as approved by the GCF Board in decision B.07/04.

Risk Management Framework (RMF): The Risk Management Framework establishes the GCF risk appetite, sets out the principles for the sustainable financial viability for the Fund and enables the Fund to meet its mission of promoting paradigm shift towards low-emission and climate-resilient development pathways whilst striving to uphold the highest standards of integrity, ethics and transparency in the conduct and governance of all its activities. It comprises a series of policies and guidelines, including the risk guidelines for funding proposals, the investment risk policy, the compliance risk policy, and a risk register and risk dashboard. The RMF supports the Secretariat in its decision-making at an organizational level, including the appraisal of funding proposals.

Secretariat due diligence and appraisal: The GCF Secretariat due diligence and appraisal is a process undertaken by the GCF Secretariat to assess the details of a proposed funding opportunity to ensure its adherence to required assurances and fiduciary standards of care and to the GCF mandate. This part of the Appraisal Process also seeks to identify any relevant risks, including technical, financial, environmental, and social risks, and to ensure consistency with the relevant GCF policies and procedures. The Secretariat relies, for these purposes, on the due diligence and appraisal conducted by the AE, and may, at any stage of its own due diligence and appraisal process, request specific clarification, information and/or additional documents from the AE.

SECTION 1.
THE APPRAISAL GUIDANCE

1. INTRODUCTION

The Green Climate Fund ("GCF" or "the Fund") is the only stand-alone multilateral financing entity whose sole mandate is to serve the United Nations Framework Convention on Climate Change (UNFCCC). GCF aims to deliver equal amounts of climate finance to mitigation and adaptation initiatives.

The Conference of the Parties (COP) to the UNFCCC established GCF to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development in developing countries and to help achieve the goal of keeping global temperature rise under 2º Celsius. GCF was given the mandate to make an "ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change".[2] GCF seeks to help developing countries limit or reduce their greenhouse gas emissions and adapt to the impacts of climate change. The Fund strives to maximize the impact of its funding for mitigation and adaptation objectives, seeking a balance between the two, while promoting environmental, social, economic and development co-benefits, taking a gender-responsive and gender transformative approach. To support the achievement of these goals, GCF contributes funding to an appropriate portfolio of projects and programmes in developing countries.

For the purposes of this Guidance document, AE due diligence and the related appraisal assessment, along with the due diligence and appraisal conducted by the GCF Secretariat in Stages 3 to 5 of the Programme Cycle as defined in the GCF Programming Manual, are collectively referred to as the "Appraisal Process".

1.1 CONTEXT

GCF is mandated to ensure the application of best practice fiduciary principles and standards as stipulated in its Governing Instrument[3] including in, with and towards the following relevant areas and entities:

- Financial management practices and financing agreements;
- GCF entities, implementing entities and all operations, projects and programmes financed by the Fund;
- Environmental and Social safeguards that shall be applied to all programmes and projects financed using the resources of the Fund.[4]

The ***COSO framework***[5] is the internal control framework for GCF. The COSO Framework sets out the rationale for the control environment as follows:

> Every organization has objectives it strives to achieve. In pursuit of these objectives, the organization will encounter events and circumstances which may threaten the achievement of these objectives. These potential events and circumstances create risks an organization must identify, analyze, define, and address. Some risks may be accepted (in whole or in part) and some may be fully or partially mitigated to a point where they are at a level acceptable to the organization. There are a number of

[2] *Governing Instrument, Paragraph 1*

[3] *https://www.greenclimate.fund/document/governing-instrument*

[4] *Governing Instrument, Paragraph 56 - Financial management practices and financing agreements; Paragraph 63 — The Fund's entities, the trustee's function related to the Fund and to all operations; and Paragraph 65 — Environmental and social safeguards.*

[5] *Board decision B.BM-2015/06. From the COSO Framework: The Framework is: "a process effected by an entity's board of directors, management and other personnel designed to provide reasonable assurance of the achievement of objectives in the following categories: Operational Effectiveness and Efficiency; Financial Reporting Reliability; Applicable Laws and Regulations Compliance".*

ways to mitigate risks, with one key method being the design and implementation of effective internal control.[6]

The GCF Risk Management Framework (RMF), approved by the Board, establishes the risk appetite of GCF and covers several components, including the investment risk policy and the compliance risk policy.[7] While ensuring sustainable financial viability for the Fund, the RMF enables the Fund to meet its mission of promoting a paradigm shift towards low-emission and climate-resilient development pathways whilst striving to uphold the highest standards of integrity, ethics and transparency in the conduct and governance of all its activities. The RMF indicates the roles and responsibilities of units within the Secretariat in the process of review and appraisal of funding proposals in accordance with the principles of the COSO framework. These levels of review and appraisal and corresponding lines of defence are further elaborated below (see section 2).

1.2 THE PURPOSE OF THE APPRAISAL GUIDANCE

This Appraisal Guidance document is meant to ensure that the appropriate review and appraisal is conducted on each concept note and funding proposal effectively and efficiently and in a consistent and predictable manner to facilitate access to funding and to fulfil the Fund's catalytic objective. To this end, the Appraisal Guidance is available for use as a reference document for actors from within the GCF Secretariat as well as Accredited Entities (AEs) and other stakeholders at any stage of the development of the concept note and funding proposal and of the ensuing Appraisal Process.

This document sets out a transparent, methodical Appraisal Process incorporating criteria, checklists, and tools to assess the design of Concept Notes (CNs) and Funding Proposals (FPs), as well as their sustainability, intended impacts and alignment with the GCF mandate, Investment Framework and policies. The results of this Appraisal Process will provide information upon which the ultimate decision by the GCF Board regarding any particular FP will be based. Accordingly, it is imperative that each element of the Appraisal Process be completed prior to an FP being presented for consideration by the Board.

2. THE APPRAISAL PROCESS

GCF has a unique business model in which large and complex funding outlays are made through AEs across a range of diverse result areas and financial instruments. According to the Strategic Plan,[8] the GCF vision is to promote a paradigm shift towards low-emission, climate-resilient development and to support implementation of the UNFCCC and Paris Agreement in developing countries. Consequently, overall GCF due diligence and appraisal processes must be tailored to ensure that all GCF investments contribute to this mandate and at the same time align with the policies and frameworks (prudent standards of care, probity, and investigation) at GCF and all institutions involved in the business model.

Due diligence is a risk-management process wherein fact-based screening is applied to a potential counterparty in order to ensure that minimum standards of practice are carried out. This may cover environmental, social, legal, fiduciary and integrity-related matters (for example anti-money laundering, "Know Your Customer", administrative

[6] *COSO*

[7] *Board decisions B. 17/11, B.19/04, and B.23/14*

[8] *Updated Strategic Plan for the GCF 2020–2023 adopted by the Board in decision B.27/06*

sanctions, etc.). The output of due diligence is a determination of the level of compliance with minimum standards.

GCF assesses the suitability of the potential AE internal due diligence processes and their capacity to implement them through the Accreditation process. The Accreditation Panel is responsible for advising the Board as to the capabilities of the implementing entities and intermediaries to GCF, with respect to fiduciary standards and Environmental and Social Safeguards (ESS), including gender considerations.[9]

Appraisal (or *assessment of the viability* of a project or programme) is a determination of the risks that may impact on the effectiveness, efficiency and sustainability of the project results, and the measures necessary to mitigate those risks. This is an assessment of the likelihood that a project or programme will achieve its objectives.

In the specific context of GCF, **Appraisal** is also *an analysis of the purpose and approach of a project* and its intended impact and its alignment to the GCF policies and strategy stipulated in the Investment Framework and GCF Strategic Plan.

The output of the appraisal process is an assessment of the extent to which a project can reasonably be expected to deliver the intended results within a determined level of risk tolerance. The appraisal is completed with the engagement of both the First and Second Lines of Defence within the GCF Secretariat (see **Figure 1**).

The due diligence and appraisal of proposed projects is therefore a matter of delegated responsibility. The GCF appraisal process includes two distinct levels of due diligence and appraisal within the project/programme activity cycle.

2.1 DUE DILIGENCE AND APPRAISAL: ACCREDITED ENTITIES

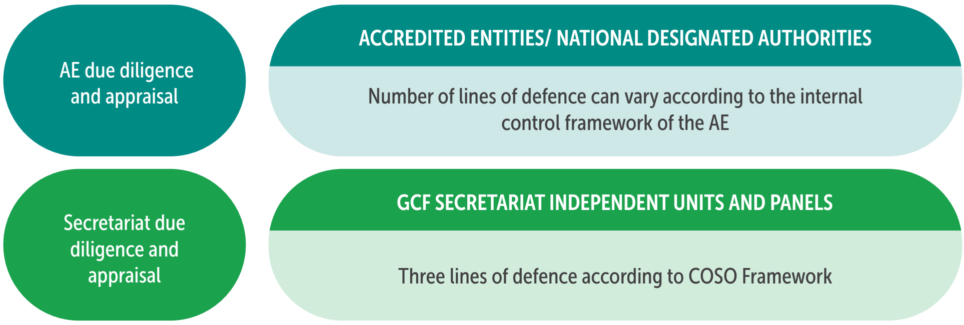
The initial due diligence and appraisal is conducted through an extensive process undertaken by the AEs (the originating organizations for funding proposals to GCF) to document, assess and verify the details of the investment or financing opportunity being proposed, including the capacities of Executing Entities (EEs) and other partners in the project or programme. As set out in the GCF Programming Manual, AEs are responsible for developing and initially appraising the concept note or funding proposal. The AE will conduct all necessary due diligence that it would apply to its own portfolio or when using or investing its own funds, or funds for which it has management or investment responsibility, pursuant to its policies and procedures. These obligations are set out in the Accreditation Master Agreement (AMA) signed between an AE and GCF (see 1.3.2 below for more details). The conclusions and recommendations of the AE due diligence, as it relates to the GCF investment criteria and sub-criteria, will inform the AE elaboration of concept notes and funding proposals.

The AE shall also consult National Designated Authorities (NDAs) and request no-objection letters (NOLs) from NDAs to ensure country ownership. The role of NDAs themselves in appraisal may go beyond the provision of NOLs. In particular, NDAs, on behalf of the government of the recipient country, may ensure that funding proposals are selected and prioritised in line with national development needs, policies, regulations and plans, including Nationally Determined Contributions (NDCs) to the

[9] *The Accreditation Panel (AP) was established by the Board in accordance with decision B.07/02, paragraph (g), as an independent technical panel to advise the Board on matters related to the accreditation of implementing entities and intermediaries to GCF. The AP is responsible for conducting the Stage II (Step 1) review of applications in the accreditation process in accordance with its terms of reference (TOR), contained in annex V to decision B.07/02, resulting in an assessment of how the entity meets the standards for accreditation and a recommendation on accreditation scope for the Board's consideration.*

Paris Agreement and other national plans related to climate change, including GCF Country Programmes.

FIGURE 1. LEVELS OF DUE DILIGENCE AND APPRAISAL



AEs and NDAs may have their own internal control and risk-management frameworks that may or may not be consistent with the COSO framework and within which the number of lines of defence can vary based on government regulations and/or their individual frameworks. The main output of AE due diligence and appraisal is a funding proposal package including relevant annexes. Accordingly, considerable reliance is placed on the work of the AE in developing the concept and conducting due diligence and appraisal related to a particular FP. The Accreditation Panel of GCF has a role in AE due diligence and appraisal by virtue of its assessment of the capacity of the AE, during the GCF accreditation process, to carry out its due diligence responsibilities effectively with regard to fiduciary standards, ESS and gender.

2.2 DUE DILIGENCE AND APPRAISAL: GCF SECRETARIAT

The process of due diligence and appraisal undertaken by the GCF Secretariat is required in order to assess the details of a proposed funding opportunity and to ensure adherence to the GCF mandate and to required assurances and fiduciary standards of care. This part of the Appraisal Process also seeks to identify any relevant risks, including technical, financial, environmental, and social risks, and to ensure consistency with the relevant GCF policies and procedures. As a result of this assessment, GCF may request specific additional clarification, information and documentation from the AE. The tools, decisions and processes within the Secretariat due diligence and appraisal process are the focus of this Appraisal Guidance.

3. OPERATIONALISING THE GCF APPRAISAL PROCESS

3.1 INVESTMENT CRITERIA, SUB-CRITERIA, AND APPRAISAL AREAS

The GCF Initial Investment Framework was approved by the GCF Board in decision B.07/06 and further guidance was provided in decision B.27/06 to translate the Fund's overall objectives into clear guidance for individual investment decisions by GCF. The Appraisal Guidance will ensure that the GCF Secretariat has the information it needs for the purposes of making assessments relating to the Initial Investment Framework.[10] To assist with this, the GCF Secretariat will focus its appraisal process on ten appraisal areas. These ten appraisal areas are central to the development and assessment of high-quality funding proposals meeting the GCF mandate and strategic objectives (see section 2).

3.2 ROLE OF ACCREDITED ENTITIES IN THE APPRAISAL PROCESS

GCF resources are available to Board-accredited entities (AEs).[11] The Accreditation Panel of the Board assesses and approves entities to access GCF funding. The Accreditation Master Agreement (AMA) defines the way in which an entity can access GCF resources ("the accreditation scope"), identifying the maximum limits of GCF financial support for which the entity can apply in a single funding proposal, the financing modality, and the environmental and social risk levels. The AMA is a legally binding framework between GCF and AE that establishes the general terms and conditions that govern the relationship between GCF and AE during the entire term of the accreditation. The AMA also sets out the roles and responsibilities of an AE throughout the GCF project cycle and reflects GCF policies and requirements that apply to implementation of funded activities. Furthermore, GCF policies that impact funded activities that become effective after the AMA is substantially agreed with the AE, will be incorporated into the Funded Activity Agreements (FAAs) between the AE and GCF for any projects and programmes that are subsequently approved by the Board.

In addition to certain specific compliance requirements[12] the AE is required to perform due diligence and appraisal of each project in accordance with its own policies and procedures and the requirements of the AMA when investing funds (its own funds or funds for which it has management or investment responsibility). AE due diligence includes, but is not limited to: (i) technical, engineering, economic, financial, risk, legal and commercial viability; (ii) compliance with standards in accordance with AMA clause 13.01; (iii) developmental, climate change mitigation and/or adaptation impacts; (iv) administrative and regulatory requirements; and (v) any business or company searches to ascertain the solvency or financial health of an Executing Entity as well as other recipients or beneficiaries of the funding and parties to the transaction set out in the relevant funding proposal. Based on the outcomes of this due diligence, the AE is expected to appraise their CNs and FPs prior to submitting them to the GCF Secretariat.

GCF relies on AE representations and warranties as to the accuracy of the information and projections that it provides as part of the FP, which may include information resulting from the AE due diligence and appraisal.

3.3 LINKAGES OF THIS APPRAISAL GUIDANCE DOCUMENT TO THE GCF OPERATIONS MANUAL AND THE PROGRAMMING MANUAL

This Appraisal Guidance document builds on two important manuals already developed by the GCF Secretariat: the Operations Manual and the Programming Manual.

---

[10] *The Board adopted initial activity-specific sub-criteria and indicative assessment factors in decision B.09/05, which further breaks down the six investment criteria into sub-criteria and additional indicative assessment factors to facilitate how each criterion can be described in proposals.*

[11] *Paragraph 45 of the Governing Instrument.*

[12] *Due diligence requirements include minimum fiduciary standards, and standards and policies for: the Protection of Whistle-blowers and Witnesses; Anti-Money Laundering and Countering the Financing of Terrorism; Prohibited Practices; Environmental and Social Safeguards; Information Disclosure; Gender; and environmental and social information disclosures.*

The Operations Manual, an internal document for GCF Secretariat staff published in August 2020, documents the operational procedures for the different stages in the life cycle of GCF programming modalities. The Appraisal Guidance describes the key operational procedures specifically related to appraisal to better inform external stakeholders. As such, this publication aims to support Board Decision B.28/03 requesting the Secretariat to develop a transparent and consistent approach to the review of funding proposals. The Operations Manual also contains internal procedures for the information of Secretariat staff including details of the internal allocation of roles and responsibilities to specific Divisions and Units.

The Programming Manual, a document for external stakeholders of GCF published in July 2020, outlines the roles of key stakeholders throughout the entire cycle of the approval process for projects and programmes. It provides guidance on how to prepare and submit a funding proposal that meets all GCF investment criteria.

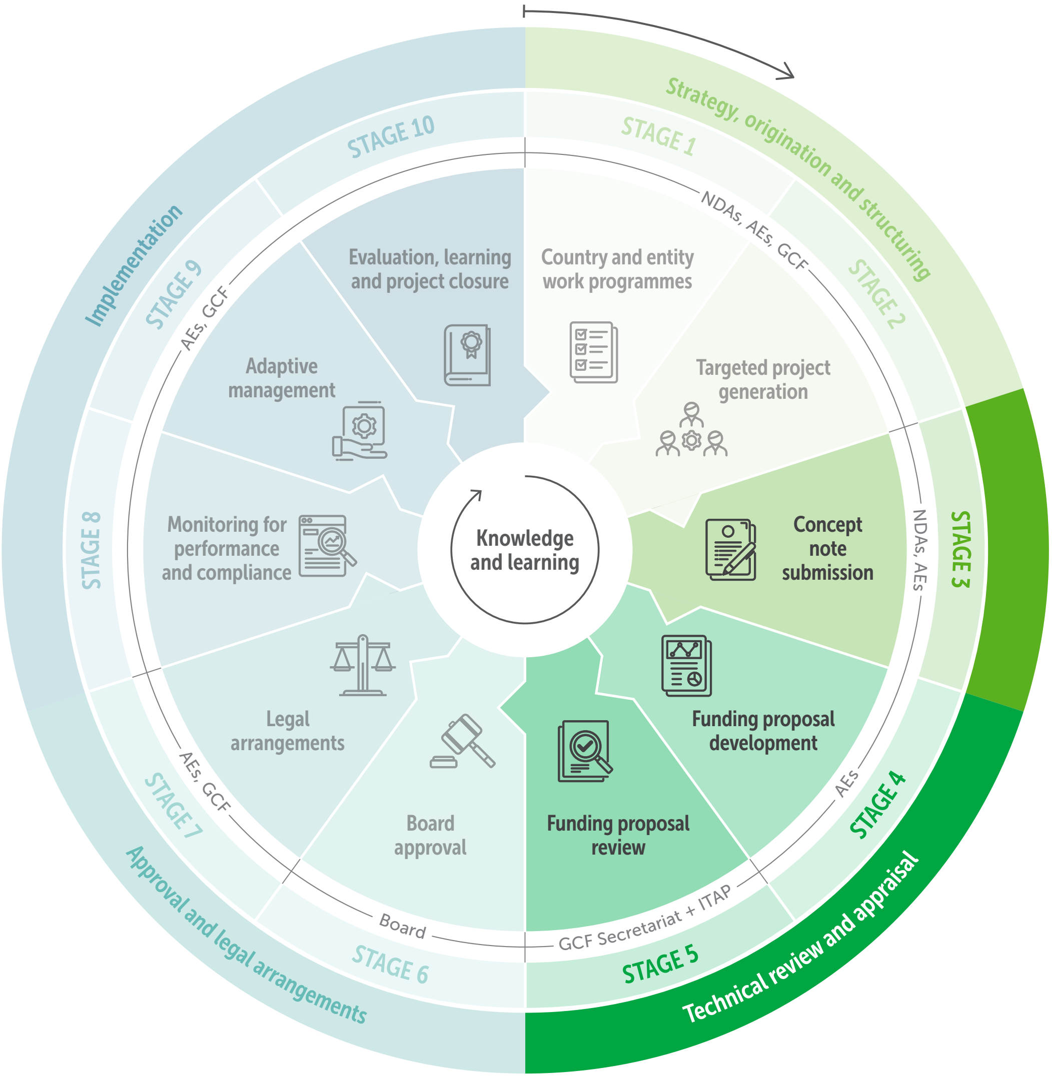
Both manuals provide a basis for comprehensive risk assessments for funding processes. The Appraisal Guidance covers Stages 3, 4 and 5 of the Programming Cycle as defined in the Programming Manual (see **Figure 2**) and provides further clarity on the following:

- The levels of due diligence and appraisal among GCF stakeholders and lines of defence within the Secretariat;
- The links between the investment criteria and the key areas of appraisal that AEs are expected to address in proposals;
- The uses and functions of the tools[13] employed by the Secretariat throughout the appraisal process; and
- The flow of decision making within the Secretariat as a proposal proceeds through the Appraisal Process, including the requirements for a "recommendation to proceed" from one step to the next, where necessary.

The Appraisal Guidance, the Operations Manual and the Programming Manual are all living documents subject to periodic reviews and updates to maintain coherence and consistency, and to ensure alignment with Board-mandated Decisions and Policies. On the publication of this Appraisal Guidance document, the Operations and Programming manuals will be updated to ensure that they are aligned with the due diligence and appraisal processes described in this document. Thereafter, the processes and approaches outlined in the most recently updated of the three documents will prevail.

[13] *At time of publication of this Appraisal Guidance (May 2022), not all tools described in the Appraisal Guidance document are in full operational use. Relevant information and details will be added to future updates of the Appraisal Guidance as tools become operational.*

FIGURE 2. APPRAISAL GUIDANCE COVERS STAGES 3, 4 AND 5 OF THE PROJECT/PROGRAMME ACTIVITY CYCLES



4. REVIEW AND APPROVAL PROCESSES

4.1 CLIMATE INVESTMENT COMMITTEE REVIEWS

The Climate Investment Committee (CIC) plays a key role in the due diligence and appraisal process within the Secretariat. The CIC, a committee within the GCF Secretariat comprised of some Senior Management Team (SMT) members or their alternates, oversees the development, management and financial planning of the pipeline of concept notes and funding proposals in alignment with the Strategic Plan, policies, GCF portfolio-level goals and Board decisions on financial planning. The CIC convenes, as necessary, to review the appraisals conducted by relevant divisions, to review the results of the due diligence and the appraisal processes, and to take decisions pursuant to a funding proposal's progress through the stages of the Appraisal Process.

4.2 BOARD LEVEL REVIEW AND APPROVAL

Additional review processes are conducted by independent units and panels that are accountable and report directly to the Board, including the Accreditation Panel (AP) and the independent Technical Advisory Panel (iTAP or Independent TAP). The Independent TAP has a critical role in the overall appraisal process with the provision of an independent assessment of, and advice on, the performance of a funding proposal against the activity-specific criteria forming part of the Investment Framework. Information about this additional review is not within the scope of this Appraisal Guidance document. The Board retains the accountability and responsibility for approving each funding proposal.

5. APPRAISAL GUIDANCE STRUCTURE

This document sets out information on each element of the due diligence and appraisal process to be conducted by the GCF Secretariat including:

- **i.** The order in which each element needs to be conducted and completed;
- **ii.** A description of each element to be conducted, together with reference to GCF tools associated with the element;[14] and
- **iii.** General description of the Three Lines of Defence within the GCF Secretariat as noted in the Investment Risk Policy. (Further details of inter-divisional responsibilities within the Secretariat are contained in the Operations Manual).

6. REVIEW OF APPRAISAL GUIDANCE

This document will undergo regular reviews and be updated to ensure that it reflects lessons learned, policy and operational changes and emerging trends and practices in due diligence. This continual review aims to ensure that the Board has the information required to make informed decisions on funding proposals.

In addition, the implementation and operation of this Appraisal Guidance document will be the subject of regular assessments by Internal Audit or an appropriate external party to ensure that it is being utilized as intended and that its benefits are being fully realized. Any such audit will be carried out in line with, and as part of, standard processes as set out by the Office of Internal Audit (OIA) of the Secretariat.

[14] *see section 3 and annexes I-VII for full descriptions of key tools*

SECTION 2.
THE APPRAISAL PROCESS

1. The GCF Investment Framework
2. Operationalising investment policies
3. Ten Appraisal Areas
4. Committees and review processes

1. THE GCF INVESTMENT FRAMEWORK

The GCF Investment Framework is comprised of Investment Policies, Investment Criteria, an Investment Strategy and Portfolio Targets that are informed by the Fund's four-year strategic planning[15] and programming process. The investment policies set out principles that govern the approach to all grants, concessional loans, and other financial instruments (such as guarantees). The investment guidelines establish the six criteria for assessing programme/project proposals[16] to ensure GCF invests in the most impactful projects and programmes that are in line with the GCF mandate, using clear, measurable and predictable processes for the individual investment decisions made by GCF.[17]

1.1 INVESTMENT STRATEGY AND PORTFOLIO TARGETS

Decision B.27/06 updated the Fund's Initial Investment Framework and Investment Strategy for allocation parameters and portfolio targets as outlined in **Table 1**.

TABLE 1. PORTFOLIO TARGETS FOR THE GCF FIRST REPLENISHMENT PERIOD (GCF-1)[18]

GCF-1 ALLOCATION PARAMETERS	GCF-1 PORTFOLIO TARGETS
Balance between mitigation and adaptation, and portfolio impact	50/50 distribution between adaptation and mitigation (over time), while seeking to deliver portfolio-level mitigation and adaptation outcomes that exceed average Initial Resource Mobilisation outcomes (see note a)
Allocate for Adaptation for vulnerable countries including the Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African States taking account of their urgent and immediate needs	Floor of 50 per cent of adaptation allocation, while aiming to build on Initial Resource Mobilisation outcomes (see note b)
Support developing country mitigation activities	Support mitigation activities that respond to the urgency of action to hold the increase in global average temperature to well below 2 °C and pursue efforts to limit it to 1.5 °C
Balance allocation geographically	Appropriate geographical balance
Channel funding through Direct Access Entities (DAEs)	Significantly increase relative to the Initial Resource Mobilisation (see note c)
Engage with the private sector	Maximize fund-wide engagement with the private sector, including micro-, small- and medium- size enterprises, ensuring that the allocation to the Private Sector Facility exceeds 20 per cent

[15] *Updated 2020 – 2023 GCF Strategic Plan, adopted by the Board in decision B.27/06*

[16] *Investment Framework, adopted by the Board and contained in annex XIV to decision B.07/06, paragraph (a), and updated by the Board in decision B.27/06, paragraph (k)*

[17] *To date, portfolio targets have been set for GCF 1 (the first replenishment period, 2020 – 2023)*

[18] *Adopted by the Board and contained in annex XIV to decision B.07/06, paragraph (a), and updated by the Board in decision B.27/06, paragraph (k) to reflect GCF first replenishment allocation parameters and portfolio targets.*

GCF-1 ALLOCATION PARAMETERS	GCF-1 PORTFOLIO TARGETS
Mobilize private sector finance at the portfolio level	Significantly increase relative to the IRM (see note d)
Readiness and preparatory support	Support readiness and preparatory activities associated with the above

Notes to Table 1:

a. Initial Resource Mobilization period outcomes on 31 December 2019: 460 million tCO_2e reduced/avoided for each USD 1 billion invested in mitigation; and 166 million beneficiaries with increased resilience for each USD 1 billion invested in adaptation.

b. Initial Resource Mobilization outcome on 31 December 2019: 69 per cent finance for adaptation (in grant equivalent terms) allocated to LDCs, SIDS and African States.

c. Initial Resource Mobilization outcome on 31 December 2019: 11 per cent of funding (in grant equivalent terms) allocated to DAEs.

d. Initial Resource Mobilization outcome on 31 December 2019: Ratio of GCF finance to private sector co-financing 1:3. Mobilized private finance will be reported when data becomes available.

1.2 INVESTMENT POLICIES

The Fund's set of investment policies cover all financial resources extended by the Fund, as follows:

a. The Fund will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development in accordance with the Fund's initial results management framework, its initial result areas, and subsequent decisions on additional result areas for adaptation and integrated results management framework (IRMF),[19] consistent with a country-driven approach;[20]

b. The Fund's receipt and extension of funding will be accounted for in grant-equivalent terms based on a standard methodology to be developed by the Fund based on best international practices to provide an accurate comparison of funding amounts between financial instruments;[21]

c. The Fund will provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable. Concessional funding is understood as funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme;[22]

d. Financing provided by the Fund to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes;[23]

e. The Fund will not "crowd out" potential financing from other public and private sources;[24] and

f. Only revenue-generating activities that are intrinsically sound from a financial point of view will be supported through loans by the Fund.[25]

---

[19] *Board decision B.29/12 — Integrated Results Management Framework*

[20] *Board decision B.05/03 — Initial result areas*

[21] *GCF Grant equivalent calculator*

[22] *Board decision B.09/04 — Financial terms and conditions of the Fund's instrument*

[23] *Board decision B.05/07 — Business model framework: Financial instruments*

[24] *Board decision B.07/06 — Initial Investment Framework*

[25] *Board decision B.07/06 — Initial Investment Framework*

1.3 INVESTMENT GUIDELINES

The Fund's investment guidelines are activity-based and composed of the six criteria and 24 sub-criteria shown in **Table 2**.

TABLE 2. SIX INVESTMENT CRITERIA AND 24 SUB-CRITERIA FOR ASSESSING PROJECT OR PROGRAMME PROPOSALS

CRITERION	DEFINITION	SUB-CRITERIA
Impact potential	Potential of the project/ programme to contribute to the achievement of the Fund's objectives and result areas	• Mitigation impact • Adaptation impact
Paradigm shift potential	Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment	• Potential for scaling-up, replication and overall contribution to global low-carbon development pathways consistent with a temperature increase of less than 2 °C • Potential for knowledge and learning • Contribution to the creation of an enabling environment • Contribution to the regulatory framework and policies • Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans
Sustainable development potential	Wider benefits and priorities	• Environmental co-benefits • Social co-benefits • Economic co-benefits • Gender-transformative development impact
Needs of the recipient	Vulnerability and financing needs of the beneficiary country and population	• Vulnerability of the country • Vulnerable groups and gender aspects • Level of economic and social development of the country and the affected population • Absence of alternative sources of financing • Need for strengthening institutions and implementation capacity
Country ownership	Beneficiary country ownership of and capacity to implement a funded project/programme (policies, climate strategies and institutions)	• Existence of a national climate strategy • Coherence with existing policies • Capacity of implementing entities, intermediaries or executing entities to deliver • Engagement with civil society organizations and other relevant stakeholders
Efficiency and effectiveness	Economic and, if appropriate, financial soundness of the programme/project	• Cost-effectiveness and efficiency regarding financial and non-financial aspects • Amount of co-financing • Programme/project financial viability and other financial indicators • Industry best practices

The activity-specific sub-criteria presented in **Table 2** were elaborated in annex 3 of Decision B.09/05 along with indicative assessment factors, which in turn elaborate the Investment Guidelines and how they should be applied.[26]

2. OPERATIONALISING INVESTMENT POLICES

As mandated by the Board, the GCF Secretariat assesses proposals submitted by AEs and NDAs/focal points against the Investment Framework, its six investment criteria and 24 sub-criteria. The AEs must elaborate on these criteria and the relevant sub-criteria within the concept notes and funding proposals submitted to GCF. The GCF Investment Framework translates the Fund's overall objectives into clear, measurable and predictable guidelines for AEs to ensure that individual investment decisions by GCF follow a logical, transparent process for assessing CNs and FPs. The Secretariat focuses its appraisal process on ten appraisal areas that are directly linked to the Investment Framework and its investment criteria and sub-criteria (see **Figure 3**). These appraisal areas are those that have been determined to be central to the development of high-quality funding proposals, and at the same time meet the GCF mandate and strategic objectives.

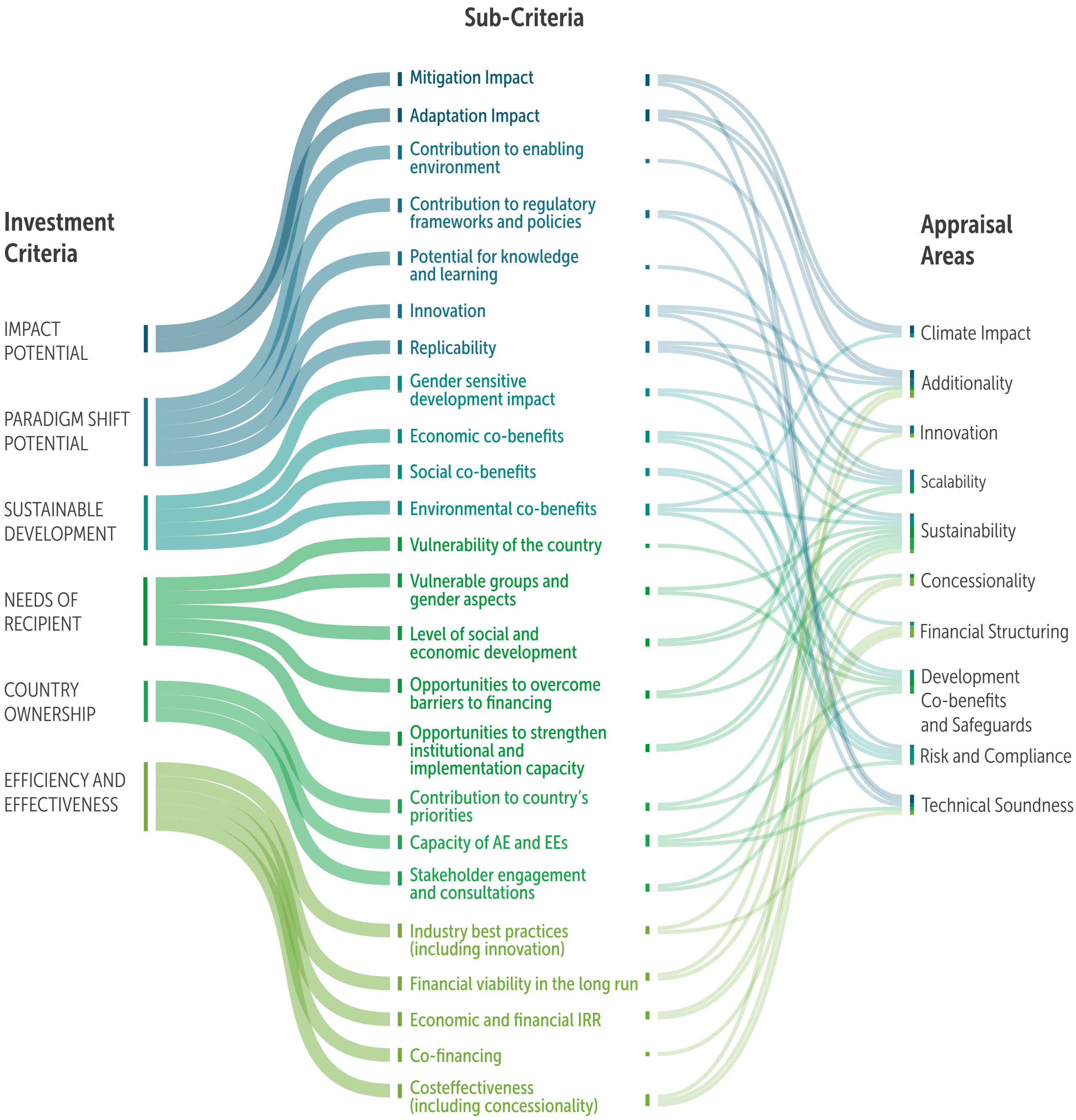
These appraisal areas constitute the methodology by which the six investment criteria and 24 sub-criteria will be assessed (see **Figure 3**). Note that the identification of these ten appraisal areas does not imply that other factors are excluded from consideration during the Appraisal Process. These ten appraisal areas form the core of the analysis performed throughout the Process. The mapping of investment criteria to appraisal areas facilitates the conciseness and efficiency of the GCF Appraisal Process.[27]

Fundamental to the focus on these appraisal areas is the requirement to ensure clear, transparent processes that are in line with the mandate to support developing countries in their move towards low-emission and climate-resilient development pathways. The ten appraisal areas facilitate the elaboration of determinate and predictable guidelines for the individual investment decisions made by GCF and facilitate access to funding.

[26] *Decision B.09/05, Annex III "Further development of the initial investment framework: Sub-criteria and methodology"*

[27] *Such a mapping is one of the key attributes of factor criteria models. See: "Factors in Exploratory Factor Analysis: A Model Selection Perspective", Preacher; Zhang; Kim; Mels, 2013. Multivariate Behavioral Research, 48:28–56, http://quantpsy.org/pubs/preacher_zhang_kim_mels_2013.pdf*

FIGURE 3. SIX INVESTMENT CRITERIA AND 24 SUB-CRITERIA AND THE APPRAISAL AREAS



2.1 THE REVIEW PROCESSES IN PROGRAMME ACTIVITY CYCLE STAGES

The full appraisal process covers Stages 3, 4 and 5 of the Project/Programme Activity Cycle (see **Figure 2**). The intention is to align the appropriate tools with the elements of the Appraisal Process, the analysis and assessment required, and the decisions to be made, including at CIC meetings. This document does not cover the Country Programme (CP) development and Entity Work Programmes (EWPs) (Stage 1 of the Programme Cycle) nor the Targeted programme development (Stage 2).

With respect to Stage 1, the Division of Country Programming (DCP) is responsible for leading the coordination and review of CPs and EWPs and the project idea development phase in close collaboration with the sectoral and financial experts of the GCF Division of Mitigation and Adaptation (DMA) and the GCF Private Sector Facility (PSF) with support from specialists from other GCF offices and divisions as required. The CIC1 meeting reviews country programmes and entity work programmes recommended by the Division of Country Programming and determines whether to endorse them for further development into concept notes or to recommend that they be revised (by NDAs and AEs) for possible resubmission (to CIC1).

Stage 2 of the Programme Cycle refers to projects and programmes that are pursued by way of specific Board-approved terms of reference and financing windows through Requests for Proposals and other project origination platforms or initiatives besides CPs and EWPs. This is not considered a separate step in the context of the Appraisal Process.

The DMA is responsible for leading the 1LOD and inter-divisional concept note and funding proposal review process for all public sector projects and programmes (Stages 3, 4 and 5). Sector experts from DMA may also provide technical inputs to facilitate the review of private sector projects and programmes. The PSF leads the 1LOD and inter-divisional review process for all private sector concept notes and funding proposals. In addition, PSF also provides inputs on public sector projects where there are reflows, non-grant instruments and complex financial structures. Further inter-divisional roles and responsibilities within the Secretariat are described in the Operations Manual.

2.2 THE GCF RISK MANAGEMENT FRAMEWORK AND THE THREE LINES OF DEFENCE

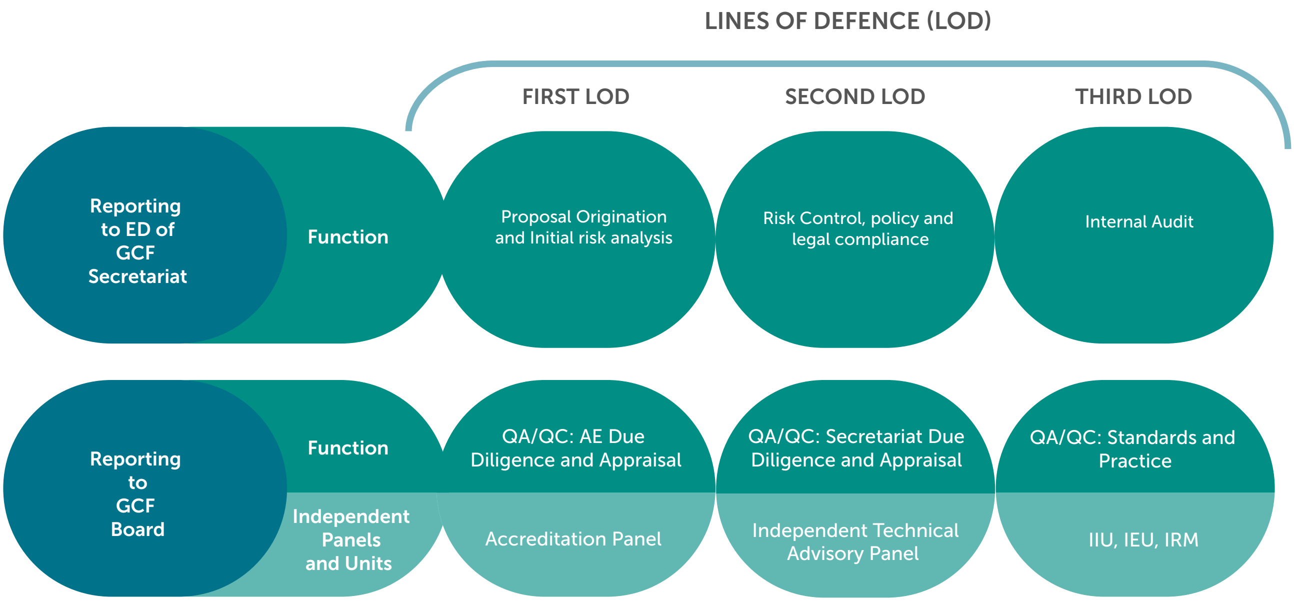
Core to the GCF control environment is the adoption of the COSO Integrated Internal Control Framework – the ***COSO Framework***. In pursuit of its objectives, GCF and the projects and programmes it finances will encounter events and circumstances that may threaten the achievement of these objectives. These create potential risks to the GCF business model that must therefore be identified, analysed, defined, and addressed. Some risks may be accepted (in whole or in part) and some may be fully or partially mitigated to a point where they are tolerated by the organization. The COSO Framework outlines the components, principles, and factors necessary for an organization to effectively manage its risks through the implementation of internal controls. However, it is largely silent on responsibilities for specific duties outlined in the COSO Framework. The COSO "Three Lines of Defence" (3LOD) model addresses how specific duties related to risk and control can be assigned and coordinated within an organization, regardless of its size or complexity. "This control structure should identify the roles and responsibilities of these accountabilities and duties, and how they should be optimally assigned for the organization to have an increased likelihood of achieving its objectives." The COSO Framework makes clear that the 3LOD model is flexible and needs to be adapted to the needs and context of the organization.[28]

[28] *COSO*

As explained in section 1 and **Figure 1**, the due diligence and appraisal processes are conducted at two distinct levels in the context of CNs and FPs; the level conducted by AEs themselves, and the level conducted through the GCF Secretariat and Independent Panels and Units. The role of the independent panels and units in this process is primarily to provide Quality Assurance and Quality Control (QA/QC) on behalf of the GCF Board. In the context of the Secretariat level of due diligence and appraisal, **Figure 4** illustrates how the COSO Framework 3LOD model is applied for FP development (as is further elaborated in the Risk Management Framework).

The Three Lines of Defence are part of the GCF risk control environment and should not be confused with levels of due diligence. Whereas in the context of the appraisal process, the AE and the GCF Secretariat both conduct due diligence respectively with regard to the same funding proposal, both organizations are understood to contain their own internal risk control environment, entirely distinct from each other. Neither the AE, nor any part thereof can serve as one of the GCF Secretariat's Three Lines of Defence.

FIGURE 4. DUE DILIGENCE AND APPRAISAL: ROLES OF GCF SECRETARIAT AND INDEPENDENT PANELS AND UNITS



2.3 ROLES AND RESPONSIBILITIES IN THE THREE LINES OF DEFENCE

Table 3 describes the specific roles and responsibilities and respective accountabilities of each line of defence in onboarding and managing risk across the GCF Secretariat insofar as they relate to the appraisal of concept notes and funding proposals.

TABLE 3. ROLES AND RESPONSIBILITIES OF THE THREE LOD IN THE APPRAISAL PROCESS WITHIN THE GCF SECRETARIAT

THREE LINES OF DEFENCE	
1LOD	**RISK OWNER**
IDENTIFY, ANALYSE, MONITOR AND ADDRESS	• Own, identify, manage, measure, and monitor current and emerging risks in concept note (CN) and funding proposal (FP) development. • Review the sufficiency of measures to mitigate risks in CN and FP development and assess the operating effectiveness of those measures. • Monitor and report on risk profile so that FPs are within GCF risk appetite and policies. • Recommend risk-based approval processes for all submissions. • Escalate risk issues (e.g. capacity constraints of AEs in due diligence) and develop and implement action plans in a timely manner. • Implement training, tools, and advice to address risk in FP development. • Promote a strong risk-management culture.
2LOD	**RISK OVERSIGHT**
CONTROL, SET STANDARDS AND CONSTRUCTIVELY CHALLENGE	• Establish and communicate risk control strategies and frameworks for FP development within the Secretariat • Provide oversight and independent challenge to First LOD through an effective, objective assessment that is evidenced and documented, including: » Challenge the quality and sufficiency of the First LOD's risk activities; » Identify and assess current and emerging risks and controls, using a risk-based approach; » Monitor the adequacy and effectiveness of internal control activities; » Review and discuss assumptions, material risk decisions and outcomes; » Aggregate and share results across business lines (e.g. DMA, PSF) and risk categories to identify similar events, patterns, or broad trends; » Identify, assess, and communicate the relevance and impact of changes to the GCF internal regulatory framework on the FP appraisal process; » Develop and implement risk measurement tools (risk register) to ensure alignment of FP development practice with the GCF RMF; » Monitor and report on compliance with GCF RMF and policies; and » Escalate risk issues in a timely manner. • Report on the risks of the Fund on an enterprise-wide and disaggregated level to the Board and/or senior management independently of the business lines or operational management. • Design and deliver training, tools, and advice to support the First LOD in carrying out its duties. • Promote a strong risk-management culture.
3LOD	**INTERNAL AUDIT**
INDEPENDENT ASSURANCE	• Verify independently that the GCF RMF and appraisal process is designed and operated effectively. • Validate the effectiveness of the First and Second LODs in fulfilling their mandates and managing risk.

2.4 THE APPRAISAL PROCESS DECISION FLOW

The process to be followed for all submissions to GCF related to the development of funding proposals, from receipt of CN until submission to the independent TAP is illustrated below (see **Figure 5**). Note that for concept notes and funding proposals submitted through the Simplified Approval Process (SAP), in accordance with Board mandate B.18/06, the Secretariat will review to a standard commensurate with their level of risk. SAP concept notes and funding proposals will be reviewed in a streamlined manner in accordance with the guidance provided in the SAP Review Toolkit (annex VII).

A CN is a document that provides basic information about a proposed project or programme to GCF in order for the submitting entity to receive feedback from the GCF Secretariat on its alignment with the Fund's mandate, objectives, policies and investment criteria. The CN gives AEs a chance to further develop and strengthen the project or programme idea based on the feedback received before committing the time and resources necessary to develop the full FP package. The CN checklist (annex II) has been developed by the Secretariat to assist AEs in performing their due diligence on CN documents before submission and to facilitate efficiency and consistency in the Secretariat's initial review of submitted CNs.

A Task Team (TT) is assigned to a CN once it has been officially submitted by an AE or NDA to the Secretariat. The TT comprises a Task Manager (TM) and a project officer/ associate acting as Task Support (TS). The TT may be assisted by any other relevant technical expert within the Secretariat, depending on the technical and financial scope and complexity of the project or programme.

On receipt of a Concept Note, the appraisal focuses on the following key question: Does this proposed project or programme have the potential to fully meet GCF investment criteria, with particular reference to climate impact, paradigm shift potential, country ownership and strategic fit with GCF portfolio-level goals?

To answer this question, the review of a CN by the TT focuses firstly on Climate Impact. This review determines whether the project or programme is designed to contribute primarily to low-emission and climate resilient development pathways, and whether it can demonstrate, with confidence, that it will provide measurable mitigation and/ or adaptation results. The review also covers the proposal's Theory of Change and examines whether proposed interventions directly address identified climate risks and vulnerabilities.

This initial review also focuses on the appraisal areas of Additionality and Innovation. Having already confirmed that the concept note demonstrates potential climate impact, and will thus potentially contribute to the objectives of the Paris Agreement and to the GCF mandate, the review seeks to confirm that the project/programme, in particular its innovative aspects, ***will not occur without the GCF financial contribution***. The TT within the GCF Secretariat conducts this step of assessment with the support of the Innovation and Additionality Tool (IAT) (see annex IV).

A CN that does not address either the Climate Impact or the Additionality appraisal area effectively is not ready for a more detailed review. In such cases, the TT within the Secretariat reverts to the AEs, informing them that the Secretariat will take no further action on the CN unless it can be revised so that both Climate Impact and Additionality can be clearly demonstrated.

AEs may refer to the Secretariat's Climate Guidance for mitigation and adaptation proposals available in this document (section 3 and sub-section 3.2 and annex III) and the IAT (section 3, sub-section 3.3 and annex IV). Both tools are available to external parties in order to facilitate AE due diligence and appraisal and thus ensure that AEs submit CNs only when they are confident that they are compliant with the Climate Impact and Additionality appraisal areas.

A CN submitted to the Secretariat that clearly satisfies the Climate Impact and Additionality appraisal areas may proceed to further review.

Task teams in the Secretariat confer with other relevant units and internal expertise to supplement their own expert analysis and screening through the IAT and to initiate review of the appraisal areas of Scalability and Sustainability. Financial expertise will also be applied, facilitated by the internal Financial Structuring and Concessionality tools (see sections 3.4 and 3.7 respectively) to support this screening.

A CN that clearly satisfies the Climate Impact and Additionality appraisal areas can be presented by the Task Team to CIC2 for endorsement, supported by the results of the IAT, Financial Structuring and Concessionality tools, and other relevant supporting information made available through the AE due diligence and appraisal. For CNs that do not clearly satisfy the Secretariat's assessments through the internal review processes as outlined above, the Task Teams revert to the AE with relevant feedback and advice, supporting AE revision and improvement of the CN and its subsequent resubmission.

The Secretariat conducts broader analysis of the CNs submitted by AEs to determine when to bring a CN for consideration at CIC2. This concerns the strategic fit of a CN in the context of the GCF Strategic Plan and includes:

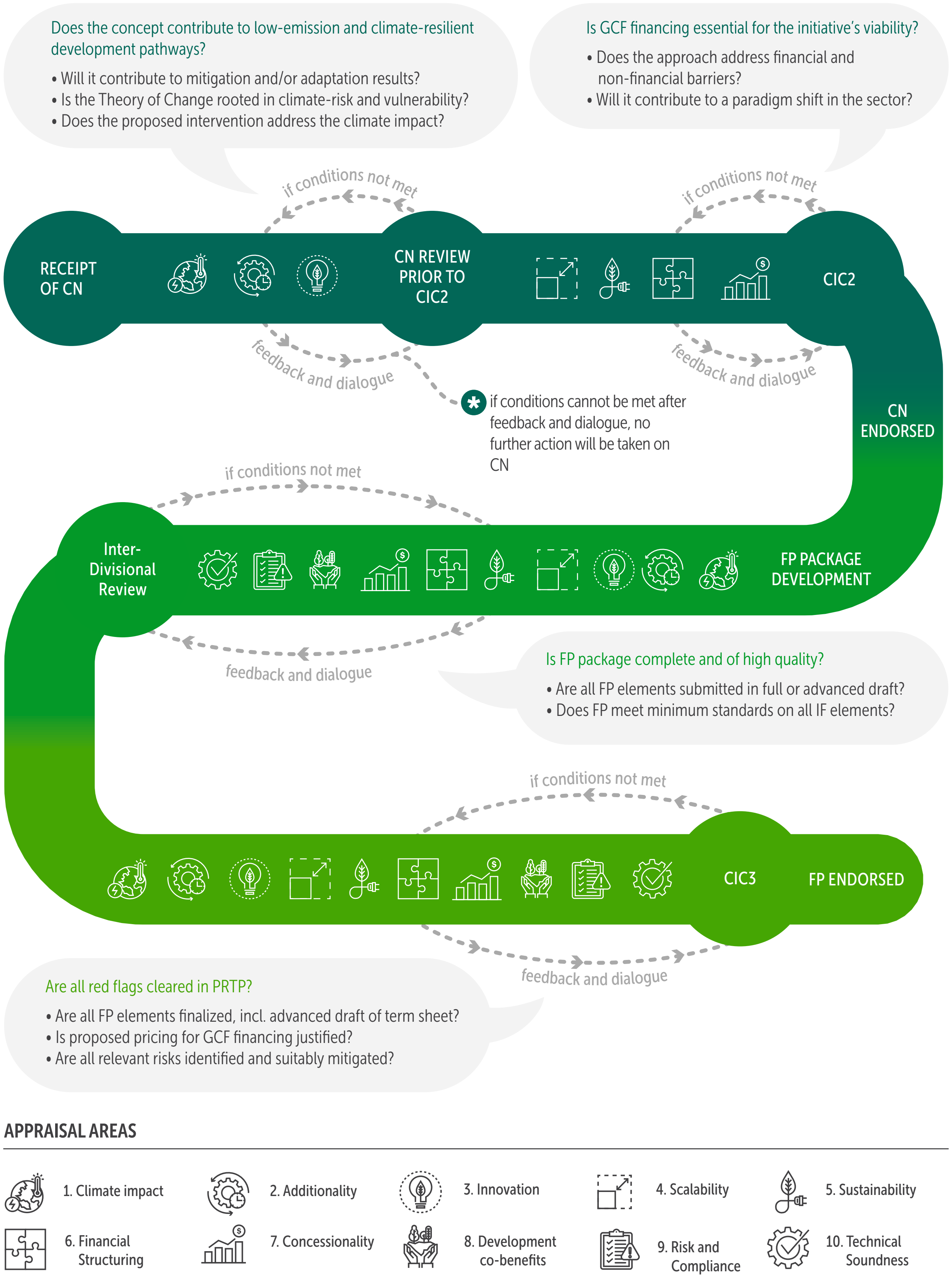
a. Strategic programming, which considers the potential impact of the approval of a project or programme on the strategic objectives of the Fund (e.g. distribution of investment between regions, between public and private sector, between mitigation and adaptation result areas, etc.); and
b. Financial planning, including tracking of portfolio-level goals and any decisions made on the financial planning authority given to the Secretariat; and the provision of relevant advice for action.

The Secretariat reserves the right to ask AEs for additional analysis and evidence as necessary and in line with the Investment Criteria (see **Table 4** in section 2.4.1 for further details of CIC2 operation and decision processes and annex IX for the key discussion points covered by CIC2). Endorsement of a CN at CIC2 is communicated to the AE, which is then advised to proceed with the development of a full FP and associated annexes.[29]

---

[29] *In case the AE submits a full FP package to the GCF Secretariat without first submitting a Concept Note for review and appraisal (thus omitting the voluntary Stage 3 in the GCF Programming Cycle), the FP must still be reviewed by CIC2 before proceeding for finalisation and inter-divisional review. In this case, the Innovation and Additionality Tool (IAT) and the Investment and Criteria Scorecard (ICS) will both be applied to the full FP, and AEs are advised to self-appraise the FP with both tools prior to submission. As with CNs, if the outcome of the IAT application indicates that the project or programme does not demonstrate 'GCF Additionality', the AE will be advised to revise the package further before proceeding to CIC2.*

FIGURE 5. APPRAISAL PROCESS DECISION FLOW[30]



[30] *Please refer to* ***Table 5*** *on page 47 for the appraisal tools and guidance.*

The Secretariat's guidance to partners starts during the Country Programme and Entity Work Programme (CP/EWP) processes, including upstream information and advisory services on project/programme eligibility and structuring. The Secretariat's review and feedback processes after a CN has been endorsed at CIC2 become more formalized. This CIC2 endorsement implies that GCF expects the CN to develop into a FP package that will meet all Investment Framework criteria and will be suitable for presentation to the GCF Board for its approval, provided that the AE and its partners in FP development fully implement their due diligence and appraisal responsibilities and draw on their technical, financial and institutional capacities set out in the Accreditation Master Agreement (AMA) signed with GCF.

Subsequent to CIC2 endorsement, the composition of the TT formed for the CN stage is expanded or enhanced as necessary and is then available for consultation and advice to AEs during the development of the full FP package. The TT will carry out a completeness check of the package when it is formally submitted by the AE to the Secretariat.

The TT makes use of the Investment Criteria Scorecard (ICS) to support their initial review of the FP package. Like the IAT, with which it is fully compatible, this tool is available to AEs (see section 3, sub-section 3.6, and annex I). The ICS allows for assessment of FPs against all criteria of the initial Investment Framework (see **Table 2** and **Figure 3**). The ICS can therefore be used to help assess the degree to which an FP aligns with GCF Investment Criteria and overall mandate. It contributes to all ten of the appraisal areas outlined in part 3 of this section. The ICS is made available to external partners so that it can be applied at any stage of AE due diligence and appraisal, including before the first submission of a CN. Though at the early stage of the appraisal process there will be insufficient information to complete all sections of the tool, the results will allow AEs to set a benchmark to track progress through the appraisal process, and to indicate which elements of the proposal require further work.

AEs are encouraged to check the completeness and consistency of their FPs with the GCF initial Investment Framework by applying the ICS before formal submission of the full FP package. The TT in the GCF Secretariat will use the ICS to conduct their initial review of the FP. This review, and relevant technical expertise of the TT may indicate areas of the package that are incomplete, internally inconsistent, or that require substantial improvement before the FP can proceed for further review. The TT will not initiate interdivisional review if the FP package is not complete. In such cases, the TT can advise the AE to carry out any necessary improvements and resubmit the package in the Secretariat's online system.

Once the initial review by the TT has been completed satisfactorily, the FP package proceeds to the Interdivisional Project Team (IPT), for review by its members from relevant divisions and units across the Secretariat. Note that the IPT review is triggered via an inter-divisional kick-off meeting only once the initial review by the TT has been completed. The results of the TT use of the ICS can be shared with IPT members to indicate the relative strengths of the FP package with respect to the various Investment Framework sub-criteria, and the areas of the FP package that require particular attention.

The IPT is responsible for conducting a thorough review of all elements of the FP package, including technical soundness and best practices in the areas of Environmental and Social Safeguards (ESS), Greenhouse Gas (GHG) calculations, economic and financial analysis, detailed budget and sources of co-finance and other sources of secured or potential mobilized finance. The IPT will also review whether the project or programme has been designed in accordance with the logic elaborated in the Theory of Change. Further information on the approaches employed by the IPT in the appraisal process is included in the description of the ten appraisal areas in part 3 of this section.

Members of the IPT submit their comments and requests for feedback from the AE through the online Project Review and Tracking Platform (PRTP) maintained by the Secretariat. Each member of the IPT indicates the degree to which they consider the FP package to be complete and ready to proceed to CIC3 with a red/yellow/green flag system in the PRTP. Red and yellow flags are accompanied by comments and feedback from the respective units in the Secretariat. The TT uses the PRTP to compile feedback to pass on to the AE. The AE is advised to resubmit the FP package, indicating to the TT how they have addressed the comments and feedback. IPT members who indicate green flags in the PRTP system may also provide feedback on the positive aspects of the proposal that can be communicated to the AE. The cycle repeats until no red flags remain in the PRTP.

Important to note during the IPT review:

- During this part of the appraisal process, all FP annexes, including an advanced draft of the term sheet, must be completed and all comments from the TT addressed by the AE.
- The AE should respond to comments and questions from the IPT and refine the proposal to address information gaps to advance the FP to the next stage. This may involve several exchanges between the AE and the Secretariat for revisions and resubmissions of proposals as deemed necessary.
- The AE should provide a complete analysis of the risks that may affect achievement of the project or programme's anticipated impacts, how they have incorporated measures to mitigate these risks, and the sensitivity of project effectiveness to changes in frame conditions during the implementation period.
- The TT compiles comments from the IPT process into the Secretariat assessment findings, which forms part of the FP package sent to the Board.

In the process of providing feedback to the AEs during this process, the TT may request IPT members to join calls or meetings with the AE to explain their comments and support the revision process.

Funding proposals that have completed the Secretariat's technical review through the IPT and that have no red flags remaining in the PRTP, proceed to consideration at CIC3. The meeting of CIC3 decides whether or not to endorse the FP package on behalf of the Secretariat, and to send it for review by the independent TAP. FPs that are not endorsed by CIC3 are returned to the AE for further review and resubmission through the IPT and PRTP process.

3. TEN APPRAISAL AREAS

The ten appraisal areas are detailed below. They appear in the order in which they are first considered in the appraisal process decision flow (see **Figure 5**). For complete descriptions of the tools listed within each appraisal area, see section 3 and annexes I–VII.

3.1 CLIMATE IMPACT

For this appraisal area, the project or programme is assessed for its potential contribution to the achievement of the Fund's strategic objectives with respect to mitigation and adaptation.[31]

Mitigation

Contributions to mitigation indicate the extent to which a project or programme aids the shift to low-emission sustainable development pathways. Appraisal for this area focuses on an estimation of baseline emissions and the projections for the reduction or avoidance of net emissions as a result of the proposed interventions. Information provided must be supported by robust evidence. Estimates must be conservative, with detailed information provided on the methodologies and assumptions used for their calculation along with references. A monitoring plan to measure the achieved emission reductions during implementation should also be described.

Mitigation impact indicator: the reduction in project lifetime emissions in tonnes of carbon dioxide equivalent (tCO_2e). Project proposals should describe the expected reductions in emissions resulting from the GCF intervention.

Adaptation

Climate impact, in terms of adaptation, is assessed as the expected contribution of a programme or project to climate-resilient sustainable development, measured in number of individuals directly and indirectly affected by the programme and in terms of additional indicators according to the IRMF. Appraisal for this area focuses on vulnerability assessments and linkages of these vulnerabilities with the proposed interventions. Sufficient information must be provided to generate confidence that the proposed intervention will address the vulnerabilities and contribute to the wellbeing of the affected populations.

Adaptation impact indicators: Project proposals should describe the expected reduction in loss of lives, maintenance of the value of physical assets, livelihoods, and/or reductions in environmental or social losses otherwise arising from 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.

[31] *The Governing Instrument requires that the Fund strive to maximize the impact of its funding for mitigation and adaptation and seek a balance between the two.*

GCF Secretariat appraisal of climate impact:

1LOD:

- Review impact calculation methodologies for mitigation and adaptation
- Review completeness of relevant FP sections and annexures; coherence of proposal design with estimated impacts and reasonableness of assumptions
- Establish potential and provision for monitoring and evaluation of the estimated impact

2LOD:

- Confirm coherence between proposed interventions and estimated impacts and sector-specific assumptions underlying impact calculations

Tools for appraising climate impact:

Climate guidance/mitigation and adaptation guides include:

- External references on appropriate methodologies for GHG calculations for mitigation; and
- External references on credible models and databases for climate information for adaptation.

Investment Criteria Scorecard

- *Sub-criterion 1:* Mitigation impact (Impact Potential)
- *Sub-criterion 2:* Adaptation impact (Impact Potential)

Strategic guidance and relevant frameworks for appraising climate impact:

Governing Instrument Para 3. The Fund will strive to maximize the impact of its funding for adaptation and mitigation and seek a balance between the two.

Initial Investment Framework

Impact Potential: Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas covering mitigation and adaptation impact

Initial activity-specific sub-criteria and indicative assessment factors

- Contribution to the shift to low-emission sustainable development pathways
- Contribution to increased climate-resilient sustainable development

Investment Criteria Indicators

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.

Adaptation impact indicator: Project proposals should describe the expected adaptation to the impact of extreme climate-related disasters and climate change in the geographical area of the GCF intervention: fewer lives lost, decreased losses in terms of the value of physical assets, livelihoods, and/or environmental or social goods. Proposals should also refer to the number of direct and indirect project beneficiaries, taking into account the needs of developing countries that are particularly vulnerable to the adverse effects of climate change.

Integrated Results Management Framework

Reduced emissions and increased resilience

Core indicator 1: GHG emissions reduced, avoided or removed/sequestered
Thematic area: Mitigation
Unit: Tonnes of carbon dioxide equivalent (tCO_2e)
Disaggregation: Results area

Core indicator 2: Direct and indirect beneficiaries reached
Thematic area: Adaptation

Unit: Number of individuals
Disaggregation: Sex (female and male)

Core indicator 3: Value of physical assets made more resilient to the effects of climate change and/or more able to reduce GHG emissions
Thematic area: Mitigation or adaptation
Unit: Value of assets in USD
Disaggregation: Type of physical assets and results area

Core indicator 4: Hectares of natural resource areas brought under improved low emission and/or climate-resilient management practices
Thematic area: Adaptation
Unit: Hectares
Disaggregation: Type of natural resource area and results area

3.2 ADDITIONALITY

The proposal demonstrates "additionality" if it can be shown that certain interventions would not occur without the funding provided through GCF.[32] This requires the clear identification of both financial and non-financial barriers that prevent the interventions from being otherwise implemented, as well as any alternatives to the intervention that would potentially achieve the same climate impact. Such a proposal would illustrate the rationale for the proposed intervention to be preferred. Moreover, an assessment of the rationale for the GCF funding request, based on the existence of a clear climate rationale for the proposed interventions, and whether the project/programme would occur without GCF resources, is required.

Where technical, financial or business innovation is being introduced into the market, the case for additionality should be made by presenting an analysis of regulatory/policy barriers that creates an absence of alternative sources of financing. In this context, "GCF Additionality" is understood in a broader sense than additionality in the context of the Clean Development Mechanism (CDM) and Voluntary Carbon Markets or in the context of financial additionality. As well as building on the assessment of Climate Impact, GCF Additionality is considered to be closely linked to the appraisal areas of Innovation, Scalability, Sustainability and Concessionality, as indicated in the description and application of the Innovation and Additionality Tool (IAT) (see Annex IV).

[32] *Governing Instrument, par 54: "Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable."*

GCF Secretariat appraisal for additionality:

1LOD:

- Review justification for GCF investment
- Assessment of financial and non-financial barrier analyses and risks relevant to addressing these barriers

2LOD:

- Confirm justification for GCF investment and 1LOD assessment of barrier analyses and financial models

Tools for appraising additionality:

Innovation and Additionality Tool: Dimensions 1, 2, 3

Investment Criteria Scorecard

- *Sub-criterion 3:* Innovation (Paradigm shift potential)
- *Sub-criterion 9:* Market development and transformation (Paradigm shift potential)
- *Sub-criterion 20:* Opportunities for fund to overcome specific barriers to financing (Needs of recipient)

Strategic guidance and relevant frameworks for appraising additionality:

Governing Instrument Para 54. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable.

Initial Investment Framework

- **Impact Potential:** Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas covering mitigation and adaptation impact
- **Paradigm shift potential:** Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment
- **Needs of recipient:** Vulnerability and financing needs of the beneficiary country and population

Initial activity-specific sub-criteria and indicative assessment factors

- Contribution to the shift to low-emission sustainable development pathways
- Contribution to increased climate-resilient sustainable development
- Contribution to the creation of an enabling environment: market development and transformation
- Absence of alternative sources of financing: Opportunities for the Fund to overcome specific barriers to financing: Explanation of the existing barriers to alternative sources of financing and how they will be addressed

Investment Criteria Indicators

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.

Integrated Results Management Framework

Reduced emissions and increased resilience

Core indicator 1: GHG emissions reduced, avoided or removed/sequestered

Core indicator 2: Direct and indirect beneficiaries reached

Core indicator 3: Value of physical assets made more resilient to the effects of climate change and/or more able to reduce GHG emissions

Core indicator 4: Hectares of natural resource areas brought under improved low emission and/or climate-resilient management practices

Core indicator 7: Degree to which GCF investments contribute to market development/transformation at the sectoral, local or national level

3.3 INNOVATION

As an appraisal area for GCF, "Innovation" is an assessment of whether new technical or business innovations, governance, legislative or planning systems will be created and/or adopted through the proposed intervention to address mitigation and/or adaptation needs, or whether the proposal describes the scaling up, adaptation or replication of existing tools, systems or approaches in ways that are specifically prompted by the climate context and the needs of the countries.

"Technical innovation or improvements" are defined as the adoption of new unproven technologies, new processes, or modal shifts in the context of the country, region or sector concerned. The proposal should provide evidence that the proposed innovation did not previously exist in the region or market and that it addresses the mitigation and adaptation needs that cannot be met, or are less effectively met, by alternative available options at similar costs in the target region or market.

Business innovation or improvements refers to the adoption of new financial instruments, financial mechanisms, financial processes or new business models that address existing investment gaps or barriers in the market that have not yet been addressed, or that address investment gaps or barriers for a new area of demand, or for a new class of investors.

Confirmation of technical or business innovation is specific to the country and sector context. Innovation also has links to technical soundness and financial structuring as well as concessionality, additionality, and climate impact. For example, where an innovation is being introduced, there may be a trade-off between sustainability and concessionality depending on the level of concessionality provided.

GCF Secretariat appraisal of innovation:

1LOD:

- Confirm innovation link to climate rationale
- Review and confirm presence of innovative components in the proposal and justification for claims to innovation

2LOD:

- Confirm innovative nature of the interventions; assess viability and sustainability of the innovation, from technical, institutional and financial perspectives

Tools for appraising innovation:

Innovation and Additionality Tool: (Dimension 4)

Investment Criteria Scorecard

- *Sub-criterion 3:* Innovation (Paradigm shift potential)
- *Sub-criterion 31:* Application of best practices and degree of innovation (Efficiency and Effectiveness)

Strategic guidance and relevant frameworks for appraising innovation:

Governing Instrument Para 38. The Board shall also ensure adequate resources for capacity-building and technology development and transfer. The Fund will also provide resources for innovative and replicable approaches.

Initial Investment Framework

- **Paradigm shift potential:** Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment
- **Efficiency and effectiveness:** Economic soundness and, if appropriate, financial soundness of the programme/project

Initial activity-specific sub-criteria and indicative assessment factors

- **Innovation:** Opportunities for targeting innovative solutions, new market segments, developing or adopting new technologies, business models, modal shifts and/or processes
- **Industry best practices:** Application of best practices and degree of innovation: If applicable, the proposal specifies the innovations or modifications/adjustments made based on industry best practices

Integrated Results Management Framework

- **Enabling environment Core indicator 6:** Degree to which GCF investments contribute to technology deployment, dissemination, development or transfer and innovation

3.4 SCALABILITY

This appraisal area, "scalability", is an assessment of the potential for expanding the scale and impact of the proposed programme or project. This area must be supported by a strong theory of change as well as evidence of the existence of market demand for the sector targeted for scaling up, with reference to existing studies, surveys and literature, both within and outside the project or programme target locations and communities where the same climate rationale applies.

Inherent in the assessment of scalability is the replicability of the interventions supported through the project or programme, taking into account the complexity of the interventions and the technical capacities required to replicate them and to create the supporting infrastructure (e.g. extension, service and monitoring). It will also consider the economies of scale involved in expanding the scope and impact of the interventions, assessing to what extent the unit costs may be reduced as well as the implications for improved employment, business opportunities and livelihoods.

This appraisal area is also related to the areas of sustainability, additionality and concessionality and should be assessed using similar approaches. It will cover the extent to which the interventions are limited to the specific geographical, environmental, social and governance contexts of the project or programme target countries and locations.

GCF Secretariat appraisal of scalability:

1LOD:

- Review of information related to scalability contained within the FP package
- Potential for application of project or programme approaches in the target countries beyond the specified geographical or thematic scope, or in other country contexts

2LOD:

- Assessment of potential relevance of project/programme approach beyond target locations; necessary frame conditions for replicability

Tools for appraising scalability:

Innovation and Additionality Tool: (Dimension 4)

Investment Criteria Scorecard

- *Sub-criterion 5:* Scalability (Paradigm Shift Potential)

Strategic guidance and relevant frameworks for appraising scalability:

Initial Investment Framework

- **Paradigm shift potential:** Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment

Initial activity-specific sub-criteria and indicative assessment factors

- **Scalability** or the potential for expanding the scale and impact of the proposed programme or project: A theory of change for scaling up the scope and impact of the intended project or programme without proportionally increasing the total costs of implementation
- **Replicability** or the potential for exporting key structural elements of the proposed project or programme elsewhere within the same sector as well as to other sectors, regions or countries: A theory of change for replication of the proposed activities in the project or programme in other sectors, institutions, geographical areas or regions, communities or countries

Integrated Results Management Framework

- **Replicability:** Degree to which the GCF investments exported key structural elements of the proposed programme or project elsewhere within the same sector as well as to other sectors, regions or countries
- **Scalability:** Degree to which there has been a significant increase in quantifiable results within and beyond the scope of the intervention

3.5 SUSTAINABILITY

This appraisal area is an assessment of the sustainability of outcomes and results beyond the completion of the intervention. Reviews of this appraisal area will focus on the details of the funding proposal that provide evidence and confidence for the long-term continuation of relevant outcomes and, as necessary, key relevant activities initiated through the project or programme beyond the implementation period and the project or programme lifetime.

Sustainability is dependent in the first place on country ownership, and the assurance that a funding proposal is aligned with the national strategic, policy and development goals of the country or countries concerned, particularly in relation to climate change and the targeted sectors including GCF Country Programmes (CPs), if they have been developed, and to NDCs, National Adaptation Plans (NAPs) and other relevant strategies or legislation.

According to the Initial Investment Framework, the assessment of sustainability covers the financial viability of the interventions, which depends on (a) the existence of a business model and strategy to phase out GCF capital investment; (b) the financial strength and credit rating of the EEs, and their technical and institutional capacity to continue activities and interventions without GCF capital after the implementation period; and (c) deployment of effective risk-mitigating instruments that will be operational after the implementation period.

In addition to assessment of financial sustainability, this appraisal area also covers the policy, governance, technical and institutional contexts, and whether the project or programme will ensure the changes to these contexts during the implementation period that will be necessary to sustain results. Sustainability should also consider the potential rate of uptake of technology (for example, of improved fuel-efficient cookstoves in poor households where cultural and social context may entail barriers to uptake in addition to financial barriers).

This appraisal area is also related to the areas of technical soundness, scalability, concessionality, financial structuring and risk and compliance.

GCF Secretariat appraisal of sustainability:

1LOD:

- Review and confirm completeness of exit strategy, sensitivity analyses
- Review of economic and financial analysis
- EWP and CP development and alignment; EE capacity and institutional analysis

2LOD:

- Financial risk assessment; technical and institutional feasibility of exit strategy; confirm assumptions underpinning exit strategy

Tools for appraising sustainability:

Innovation and Additionality Tool: Dimensions 2 and 3

Investment Criteria Scorecard

- *Sub-criterion 8:* Sustainability of outcomes and results beyond completion of intervention (Paradigm Shift Potential)
- *Sub-criterion 22:* Objectives are in line with the priorities in the country's national climate strategy (Country Ownership)
- *Sub-criterion 30:* Financial viability in the long run (Efficiency and Effectiveness)

Project Success Rating Scorecard

Strategic guidance and relevant frameworks for appraising sustainability:

Initial Investment Framework

- **Paradigm shift potential:** Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment
- **Country ownership:** Beneficiary country ownership of, and capacity to implement, a funded project or programme (policies, climate strategies and institutions)
- **Efficiency and effectiveness:** Economic soundness and, if appropriate, financial soundness of the project or programme

Initial activity-specific sub-criteria and indicative assessment factors

- **Contribution to the creation of an enabling environment:** Sustainability of outcomes and results beyond completion of the intervention. Arrangements that provide for long-term and financially sustainable continuation of relevant outcomes and key relevant activities derived from the project or programme beyond the completion of the intervention

- **Objectives are in line with priorities in the country's national climate strategy:** Project or programme contributes to country's priorities for low-emission and climate-resilient development as identified in national climate strategies or plans, such as nationally appropriate mitigation actions (NAMAs), national adaptation plans (NAPs) or equivalent, and demonstrates alignment with technology needs assessments (TNAs), as appropriate
- **Proposed activity is designed in cognizance of other country policies:** Degree to which the activity is supported by a country's enabling policy and institutional framework, or includes policy or institutional changes
- **Financial viability in the long run:** Description of financial soundness in the long term (beyond the Fund's intervention)

Integrated Results Management Framework

- **Sustainability:** Degree to which there has been a significant increase in quantifiable results within and beyond the scope of the intervention

Risk guidelines for funding proposals (Component IV)

- **Financial viability:** (a) The proposal should be assessed against the Fund's investment policies and guidelines; (b) The proposal should include financial and cash flow analyses, including stress analyses. Depending on the characteristics of a particular proposal, the specific areas that should be covered include: market conditions analysis; sensitivity of the asset value and liquidity to economic cycles; debt service financial ratios; repayment schedule; off-take risk; and GCF control over reflows (including expropriation risk).

3.6 FINANCIAL STRUCTURING

This appraisal area is an assessment of the soundness of the financial structure including the choice of financial instruments, justification for the GCF funding amount, co-financing, pricing, and subordination, and includes any factor or scenario stress testing that is required.

The assessment of the structure shall take account of the context (including country context) of the proposed projects and programmes (including the selection criteria and selection process for sub-projects), as well as the source and type of co-financing, and the potential for leveraged finance. A sound financial structure can strengthen the viability of the project while adhering to the principle of minimum concessionality.

The assessment of financial structure shall consider the flow of funds from GCF to AE, to EE, to intermediary (if applicable) and to the end recipient of the funds. The FP shall provide information on, and justification for, the proposed financial instruments, the amounts and relative proportions of GCF funding and co-financing, the terms of GCF funding, the key terms of co-financing at the project and (in the context of programmatic approaches) sub-project level, and the potential for leveraged finance, if applicable.

This appraisal area is closely linked to the areas of concessionality, sustainability and risk and compliance, and falls directly under the efficiency and effectiveness criterion of the investment framework.

GCF Secretariat appraisal of financial structuring:

1LOD:

- Review of financial structure of the project or programme; economic and financial analysis
- Assessment of the relevance and effectiveness of proposed financial instruments

2LOD:

- Assessment of financial and investment risk; confirmation of financial structure of the project or programme; review of economic and financial analysis

Tools for appraising financial structuring:

Investment Criteria Scorecard

- *Sub-criterion 26:* Financial adequacy and appropriateness of concessionality (Efficiency and Effectiveness)

Innovation and Additionality Tool: Dimensions 3 and 4: Financial barriers and Innovation

Grant Equivalent Calculator

Financial Structuring Tool

Concessionality Tool

Strategic guidance and relevant frameworks for appraising financial structuring:

Governing Instrument Para 54. The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels.

Initial Investment Framework

- **Mobilized private sector finance at the portfolio level:** Significantly increase relative to the IRM with private sector co-financing ratio of 1:3
- **Efficiency and effectiveness:** Economic and, if appropriate, financial soundness of the programme or project

Initial activity-specific sub-criteria and indicative assessment factors

- **Cost-effectiveness and efficiency regarding financial and non-financial aspects:** Financial adequacy and appropriateness of concessionality: Demonstration that the proposed financial structure provides the least concessionality needed to make the proposal viable Demonstration that the Fund's support for the programme or project will not crowd out private and other public investment

Investment Criteria Indicators

- **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.
- **Mitigation indicator:** expected rate of return. 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.

Business Model Framework: Guiding principles and factors for determining terms of financial instruments (Decision B.07/05)

Financial terms and conditions of grants and concessional loans (Decision B.09/04)

Risk guidelines for funding proposals (Component IV)

Risk guidelines for setting funding terms and conditions

3.7 CONCESSIONALITY

This appraisal area is an assessment of the level of concessionality proposed for the funding requested from GCF, which should be the minimum amount necessary to make a proposal viable and help to achieve GCF climate impact and paradigm shift objectives.

Concessionality is required when the economic benefits to the public of mitigation and adaptation interventions are under-priced in investment decisions, due to financial or non-financial barriers. GCF offers concessionality (funding with below-market terms and conditions) in order to align financial incentives with economic benefits, and thus facilitate a high-impact climate action that would otherwise not take place. The appropriate level of concessional funding is therefore the amount (and the terms) that achieves this objective and no more.[33]

The assessment of concessionality should validate the potential of the project or programme to successfully achieve its objectives while also ensuring that the level of concessional financing — besides being minimal yet sufficient for financial viability — is not crowding out any private or public investment.

Currently determined on a case-by-case basis, contributing factors include, for example, the potential for reflows and rate of return, opportunities for overcoming barriers, and the potential for catalysed or leveraged investments.

Steps to determining the appropriate level of concessionality for a funding proposal include:

- *Assessment of eligibility and level of preparation:* Does the funding proposal fit the GCF mandate and contain sufficient information for an assessment?
- *Type of funding requested:* Which parts of the project require concessional finance in order to make the proposal viable, and which financial instruments are appropriate for these parts?
- *Co-financing:* For which parts of the project is co-financing identified, and what terms and instruments will be employed?

The Concessionality Tool will consider factors such as country and project context, market failures, provision of public goods, co-financing size and instruments, revenue potential and level of uncertainty related to the revenue potential. It will assess the consistency of AE accreditation status and capacity with the financial instruments required for the proposed project or programme.

This appraisal area is closely linked with the areas of financial structuring and additionality, and directly falls under the efficiency and effectiveness criterion of the investment framework. Levels of concessionality also involve trade-offs with other appraisal areas including innovation and scalability.

GCF Secretariat appraisal of concessionality:

1LOD:

- Review of financial structure of the project or programme; economic and financial analysis
- Review of the calculations and rationale underpinning the funding request

[33] *Investment Framework, Section I, d.: "Financing provided by the Fund to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes"; and section e. "The Fund will not 'crowd out' potential financing from other public and private sources."*

2LOD:
- Assessment of financial and investment risk; confirmation of financial structure of the project or programme; review of economic and financial analysis

Tools for appraising concessionality:

Innovation and Additionality Tool: Dimensions 2, 3 and 4: Non-financial and financial barriers and innovation

Investment Criteria Scorecard
- *Sub-criterion 20:* Opportunities for fund to overcome specific barriers to financing (Needs of recipient)
- *Sub-criterion 26:* Financial adequacy and appropriateness of concessionality (Efficiency and Effectiveness)

Concessionality Tool

Strategic guidance and relevant frameworks for appraising concessionality:

Governing Instrument Para 35: The Fund will provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable. Concessional funding is understood as funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme.

Initial Investment Framework
- **Mobilized private sector finance at the portfolio level:** Significantly increase relative to the IRM with private sector co-financing ratio of 1:3
- **Needs of recipient:** Vulnerability and financing needs of the beneficiary country and population
- **Efficiency and effectiveness:** Economic and, if appropriate, financial soundness of the programme or project

Initial activity-specific sub-criteria and indicative assessment factors
- **Absence of alternative sources of financing:** Opportunities for the Fund to overcome specific barriers to financing: Explanation of the existing barriers that create absence of alternative sources of financing and how they will be addressed
- **Cost-effectiveness and efficiency regarding financial and non-financial aspects:** Financial adequacy and appropriateness of concessionality; demonstration that the proposed financial structure provides the least concessionality needed to make the proposal viable; demonstration that the Fund’s support for the programme or project will not crowd out private and other public investment

Investment Criteria Indicators
- **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
- **Mitigation indicator:** Expected rate of return. 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.

Business Model Framework: Guiding principles and factors for determining terms of financial instruments (Decision B.07/05)

Financial terms and conditions of grants and concessional loans (Decision B.09/04)

3.8 DEVELOPMENT CO-BENEFITS AND SAFEGUARDS

This appraisal area will cover the wider benefits that the proposed project activity may achieve including environmental, social, economic and development co-benefits, and will consider a gender-responsive and gender-transformative approach. This assessment complements the appraisal area of risk and compliance by covering the social, environmental and governance-related risks inherent in the project or programme, the recognition of those risks in the FP package, and the incorporation of mitigation measures in the FP design, results framework and budget that are necessary to address these risks.

This appraisal area is directly linked to the investment criterion of sustainable development potential and the description is derived from the Initial Investment Framework. It is also relevant to the investment criteria of country ownership and needs of the recipient. It can be broken down into four broad categories,[34] as follows:

Environmental: Expected positive environmental impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral level, as appropriate. Examples of such co-benefits could include positive impacts of climate change adaptation, mitigation and cross-cutting projects or programmes on soil-, water- and air-quality; biodiversity; and increase in native species. Recognition of the potential for adverse environmental risks and/or impacts as a result of projects or programme interventions, and incorporation of mitigation measures.

Social: Expected positive social impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral levels, as appropriate. Examples of such co-benefits could be positive impacts of climate change adaptation, mitigation and cross-cutting projects or programmes on human respiratory health, recognition of indigenous rights/knowledge, fairer labour practices, the protection of cultural heritage etc. Recognition of the potential for adverse social risks (including sexual exploitation, sexual abuse) and/or governance risks and/or impacts as a result of project or programme interventions, and incorporation of mitigation measures.

Economic: Expected positive economic impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral level, as appropriate. Recognition of potential for adverse livelihood impacts, particularly on targeted beneficiaries and marginalised communities, and incorporation of mitigation measures.

Gender-responsive and gender-transformative development impact: Recognition of gender-related aspects and impacts of activities and interventions under the project or programme. Examples of gender co-benefits could include reduced gender inequalities, the empowerment of women, equal participation by women's groups in contributing to expected outcomes, etc. Impacts of the project or programme on gender-related aspects of human respiratory health, fairer labour practices, the protection of cultural heritage, etc.

[34] *Investment Framework, activity-specific sub-criteria and indicative assessment factors, "Sustainable development potential: wider benefits and priorities; Environmental co-benefits; social co-benefits; economic co-benefits; gender-sensitive development impact."*

GCF Secretariat appraisal of the development co-benefits and safeguards:

1LOD:

- Preliminary assessment of environmental and social risk category; completeness of environmental and social safeguards instruments (e.g. ESIA, ESMF, ESMS, environmental and social audits, etc.) and GAP within the FP package. Review of adherence to AE's own safeguards policies, and to relevant GCF policies

2LOD:

- Review and verification of environmental and social risk category; review of environmental and social safeguards instruments (e.g. ESIA, ESMP, ESMF, ESMS, environmental and social audits, etc.) and the project/programme's compliance to various GCF policy requirements/review of GAP; review of whether the FP package meets the GCF Indigenous Peoples Policy

Tools for appraising development co-benefits and safeguards:

Investment Criteria Scorecard

- *Sub-criterion 13:* Environmental co-benefits
- *Sub-criterion 14:* Social and health co-benefits
- *Sub-criterion 15:* Economic co-benefits
- *Sub-criterion 16:* Gender-sensitive development impact

Strategic guidance and relevant frameworks for appraising development co-benefits and safeguards:

Governing Instrument Para 65. The Board will agree on and adopt best practice environmental and social safeguards, which shall be applied to all programmes and projects financed using the resources of the Fund.

Initial Investment Framework: Sustainable development potential: wider benefits and priorities

Initial activity-specific sub-criteria and indicative assessment factors

Environmental and Social Policy (revised)[35]

Indigenous Peoples Policy

Gender Policy

[35] *B.BM-2021/18* https://www.greenclimate.fund/document/revised-environmental-and-social-policy

3.9. RISK AND COMPLIANCE

This appraisal area is an assessment of four types of risk:

- Risks of project/programme failure to deliver its target impact (closely linked with sustainability);
- Risks across diverse funding structures and terms (linked with concessionality and financial structuring);
- Alignment with GCF portfolio level risk limits; and
- Alignment with GCF Compliance Risk Policy.

The risk guidelines adopted by the Board elaborate on how these four types of risk are assessed in funding proposals.[36] This covers AE and EE technical and institutional capabilities to implement the project, project-specific execution risks, and financial viability as applicable.

In addition, GCF expects all individuals and entities involved in GCF-related activities to observe the highest standards of ethics and integrity and to take appropriate measures to prevent and combat prohibited practices in line with the Policy on Prohibited Practices and the Anti-Money Laundering & Countering the Financing of Terrorism Policy (AML/CFT Policy).

Therefore, the appraisal of funding proposals includes the evaluation of whether the AE has assessed and appropriately designed controls to mitigate the following types of risk:

- Anti-Money Laundering and Counter-Terrorist Financing
- Other forms of Prohibited Practices
- United Nations Security Council Resolutions (Financial Sanctions)

In addition, due diligence should also consider whether the funding proposal clearly demonstrates (where applicable) that the EEs and all other parties involved:

- Observe the rules and policies around AML/CFT and prohibited practices;
- Have the appropriate systems and processes in place to ensure this capability; and
- Structure the funding proposal appropriately to prevent illicit use of funds with a particular focus on anti-money-laundering and countering the financing of terrorism.

This appraisal area is related to many other appraisal areas, but particularly to sustainability, concessionality and financial structuring, and is a cross-cutting consideration for all criteria under the investment framework.

[36] *"Risk guidelines for Funding Proposals", adopted by the Board in decision B.17/11. It was sent to the Board for consideration at B.17 in document GCF/B.17/12 titled "GCF Risk Management Framework Risk Management Committee proposal".*

GCF Secretariat appraisal of risk and compliance:

1LOD:

- Review of completeness and accuracy of Risk Matrix and Barrier Analysis in FP package and to fill counterparty due diligence gaps if necessary
- Review of project/programme management structure and implementation arrangements including flows of funds relating to ML/FT, UN Security Resolution related sanctions, and Prohibited Practices

2LOD:

- Comprehensive risk assessment and verification of FP risk matrix; Compliance analysis and review of relevant sections in FP

Tools for appraising risk and compliance:

Risk

- Risk guidelines for funding proposals (Component IV)
- Investment Risk Policy (Component V)

Compliance

- Anti-money Laundering and Countering the Financing of Terrorism Policy
- Standards on the Implementation of the Anti-money Laundering and Countering the Financing of Terrorism Policy
- Policy on Prohibited Practices
- Compliance Risk Policy (Component VIII)

Strategic guidance and relevant frameworks for appraising risk and compliance:

Risk

Risk guidelines for funding proposals (Component IV)

Investment risk policy (Component V)

Compliance

Anti-Money Laundering and Countering the Financing of Terrorism Policy

Standards on the Implementation of the Anti-Money Laundering and Countering the Financing of Terrorism Policy

Policy on Prohibited Practices

Compliance Risk Policy (Component VIII)

3.10 TECHNICAL SOUNDNESS

This appraisal area focuses on the sector-specific feasibility of a proposed intervention. This is a cross-cutting area of appraisal that encompasses aspects of most other appraisal areas including, in particular, climate impact, innovation, sustainability, and financial structuring.

Assessments of technical soundness focus primarily on the feasibility of the interventions proposed, both in terms of the potential for the approaches described in the funding proposal to be implemented successfully in the prevailing national and local contexts, and of the potential for the interventions to achieve the estimated mitigation and adaptation impacts.

An effective review of technical soundness will also examine, for example, the alternative technical options to those proposed, and the rationale behind the selected approach compared to these alternatives; the appropriateness and completeness of references to past examples or experiences relevant to the project or programme;

the accuracy and justification of assumptions used in estimating the effectiveness of the interventions in achieving the anticipated results and the climate impacts; the technical capacities and infrastructure required to support the project or programme and the incorporation of these elements into the design and budget; the technical competencies required of the AE and EEs and their demonstration and description within the FP package; and the completeness of the technical feasibility studies required in order to justify the funding of the project or programme.

GCF Secretariat appraisal of technical soundness:

1LOD:

- Technical capacities and appropriate mandate of AE/EEs; review of interventions

2LOD:

- Comprehensive sector-specific assessment and review

Tools for appraising technical soundness:

- Sector guides
- Sector-specific checklists for second LOD

Strategic guidance and relevant frameworks for appraising financial structuring:

- Investment Framework (Impact Potential, Paradigm Shift Potential, Needs of Recipient)
- Integrated Results Management Framework
- Risk Management Framework

4. COMMITTEES AND REVIEW PROCESSES

4.1 CLIMATE INVESTMENT COMMITTEE (CIC)

The Climate Investment Committee (CIC) within the Secretariat oversees the development, management and financial planning of the pipeline of concept notes and funding proposals in alignment with GCF portfolio-level goals and Board decisions on financial planning. The CIC convenes, as necessary, to review and validate the appraisals conducted by relevant divisions and to take decisions pursuant to a funding proposal's progress through the stages of appraisal.

The CIC has three distinct functions depending on the stage of the programming cycle (see **Table 4**). The CIC meetings at different moments of the process are called CIC1, CIC2 and CIC3.

All concept notes (and funding proposals that have not been previously submitted as concept notes) are required to undergo review at CIC2.[37] The CIC is responsible for providing strategic guidance on concept notes and funding proposals and clearance for further development and interdivisional review.

[37] *Refer to Administrative Instruction AI/OED/2019/001*

TABLE 4. THE CLIMATE INVESTMENT COMMITTEE

	MAIN QUESTION	EXPECTED INPUTS FROM TEAMS/DIVISIONS	EXPECTED OUTPUTS FROM CIC
CIC1	Will this CP or EWP lead to a pipeline of high-impact projects for GCF?	CPs and EWPs, with a focus on a memo or presentation prepared by the Task Team seeking a CIC decision that includes: • Impact potential · • Paradigm shift potential • Country ownership • Opportunity to promote complementarity and coherence	CIC decides whether to: • Endorse CPs and EWPs, including pipelines, for further development into CNs and funding proposals; or • Return them to NDAs and AEs for revision and a possible resubmission
CIC2	Does this proposed project or programme have the potential to fully meet GCF investment criteria?	CNs, with a focus on a memo or presentation prepared by the Task Team seeking a CIC decision that includes: • Project description • Theory of change • Preliminary assessment of fit with six investment criteria • Climate Impact appraisal area, according to Climate Guidance • Innovation and Additionality appraisal areas, according to IAT • Concessionality and Financial Structuring appraisal areas, according to corresponding tools • Paradigm shift potential, including sustainability and scalability • Country ownership • Fit with GCF portfolio-level goals **or** FPs, with a memo prepared by Task Team addressing specific issues highlighted by CIC2 at CN stage, seeking clearance for opening IPT review **or** FPs that have not previously been submitted as CNs, with a memo prepared by Task Team, focusing on above parameters, seeking clearance for opening IPT review	CIC decides whether to: • Endorse the CN for further development of the funding proposal • Recommend for further refinement or improvement, including Project Preparation Facility (PPF) • Endorse the CN for FP development, noting specific issues that require FP package to come back to CIC2 before opening IPT review • Return the CN to the AE for revision and potential resubmission • CIC2 provides guidance on issues that need to be addressed before CIC3 • Inform the AE that no further action will be taken on the CN **or** • Endorse the FP for proceeding to IPT review • Return the FP to AE for revision and potential resubmission to CIC2 • Inform the AE that no further action will be taken on the FP
CIC3	Is this funding proposal ready for review by the independent TAP and approval by the Board?	Funding proposals, with a focus on a memo/ presentation prepared by the Task Team seeking a CIC decision that includes: • Comments from CIC2 and how they have been addressed • Pricing and fees, including grant equivalence, based on an advanced draft of the term sheet • Evaluation against investment criteria, based on the draft assessment against all 10 appraisal areas by the Secretariat, with the help of the Investment Criteria Scorecard and other tools as indicated in section 3	CIC decides whether to: • Approve the financial terms and conditions for inclusion in the term sheet; • Endorse the final funding proposal package, including the advanced draft of the term sheet and the interim draft of the assessment by the Secretariat, to be presented to the Board; and • Endorse the funding proposal to proceed to the independent TAP; or • Return the funding proposal to the AE for revision and resubmission

The Task Manager, under the guidance of the Director responsible for project and programme origination (DMA or PSF) in consultation with technical experts from other Secretariat divisions as required, is responsible for deciding when a concept note (or funding proposal) will be brought for consideration at CIC2 and for leading the ensuing discussion. A concept note should be brought for CIC2 consideration when there is sufficient information (using the Climate Guidance, IAT and other tools as indicators) to have an informed discussion on the overall concept, which usually requires some interaction with the AE, according to the pre-CIC2 screening processes as outlined in **Figure 5** and the associated text above. Task Managers may bring concept notes to CIC2 for guidance on how to proceed in case of unique challenges or considerations. Only concept notes endorsed by CIC2 can proceed with applications for funds under the Project Preparation Facility (PPF) to support specific studies and activities necessary to prepare the full FP package.

The task team should provide the following information to the CIC2 meeting (in slides or supporting documents):

- Ratings of the CN against the Dimensions of the GCF Innovation and Additionality Tool and, optionally, against the ICS;
- An assessment of the proposal's impact potential, based on a climate assessment by the Climate Specialist and/or through the task team's application of the GCF Climate Guidance; and
- An assessment of Country Ownership.

Every proposal needs to be cleared by CIC2, either as a CN or as a FP, before the associated FP package can be submitted for review by the IPT. For projects or programmes that are cleared by CIC2 as CNs, the resulting FP package may proceed directly to the IPT review without returning for review by the CIC, unless the decision of the CIC2 meeting specifically indicated that it should do so, in order to assess specific issues of concern highlighted at that meeting. Refer to annex IX for details of the key discussion points considered by CIC2.

Without first being endorsed by a CIC3 meeting within the Secretariat, FP packages cannot proceed to review by the independent TAP, and thence potentially for Board consideration. As indicated in the decision flow in **Figure 5** and associated text, prior to submission to CIC3, the Task Team (TT) assigned by the Secretariat for a particular FP package undertakes an initial review of the proposal, verifies its completeness and screens for alignment with Investment Framework criteria using the ICS. The TT subsequently advises the AE to revise and resubmit, if necessary, on the basis of that screening. Once the TT has launched the IPT process, through an interdivisional kick-off meeting and by entering the FP package in the PRTP, several cycles of IPT review, feedback to AE, revision and resubmission may ensue. The FP package should not be submitted by the TT to CIC3 until and unless all IPT members have withdrawn their red flags from the PRTP.

CIC3 then decides whether the funding proposal should be sent to the Independent TAP and eventually the Board or returned to the AE for revisions and potential resubmission. The Board has authorized the Secretariat, through CIC3, to submit for its consideration only those FP packages that it recommends for approval by the Board.[38] Information provided to CIC3 to support this decision-making process includes:

- Changes and improvements to the project design and how comments from CIC2 have been addressed;

[38] *Board decision B.17/18, annex I*

- Performance of the FP against all six investment criteria, as assessed by the IPT using the Investment Criteria Scorecard and elaborated in the interim draft of the Secretariat Assessment;
- Financial terms and conditions, including instruments, interest rates, tenor, grace period, commitment fee, service charge, AE fee and project management costs;
- Results of other tools applied during the IPT review process, including the Grant Equivalent Calculator (GEC), Concessionality and Financial Structuring tools;
- Result of the Project Success Rating (PSR) Scorecard, indicating the risk factors that will require close monitoring during the implementation phase if the FP package is approved by the Board;

As part of the full FP package, the TT is expected to submit an advanced draft of the term sheet for the CIC3 review. The advanced draft should include the following key elements:

- **Project/programme activity information** including name, description and objectives;
- **Implementation arrangements** identifying the AE, EE(s) by component, output, sub-component or activity;
- **Total amount to be disbursed by the Fund** listing the form of financing (grant, loan, equity, guarantee) and the amount to be disbursed by GCF for the project/programme in reference to each financial instrument;
- **Components and financing** (by source), listing the breakdown of the costs and financiers including GCF and co-financiers for each of the components/outputs/activities of the project/programme;
- **Cost/budget breakdown** (using the appropriate template);
- **Disbursement plan**, indicating the number of disbursements and indicative amount of each disbursement that the AE would like to receive from GCF during the project/programme implementation period;
- **AE fee**, expressed as a percentage of the GCF Proceeds, supported by a fee budget in the GCF template and reviewed by the IPT;
- **Reporting period**, specifying the Effective Date and Completion Date for the Funded Activity;
- **Key financial terms and conditions for GCF Proceeds**, including downstream financial terms and conditions;
- **Conditions to be met** prior to FAA execution, FAA effectiveness, and disbursements;
- **GCF holding currency of disbursements;**
- **Financial reporting and accounting currency;**
- **Covenants;** and
- **For Programmes only: Selection criteria for sub-projects or investments**, as appropriate.

Note that as the term sheet negotiation continues between the Secretariat and the AE, the Task Manager continues to lead and facilitate the term sheet negotiations with the AE, with the participation of the GCF Secretariat's Office of the General Counsel (OGC). The negotiation can be conducted via email, conference calls or any other appropriate means.

If any provisions of the final term sheet differ from the advanced draft term sheet endorsed by CIC3 and result in the equivalent of a major change under the Policy on Restructuring and Cancellation, such changes must be submitted to CIC3 for endorsement.

4.2 THE INDEPENDENT TECHNICAL ADVISORY PANEL (TAP)

The independent TAP reviews the funding proposal package. There may be a visit to the Secretariat for internal discussions and consultation with the Task Team and other Secretariat staff if required. In many cases, a conference call will be organized with the AE.

The independent TAP records a written assessment of their decision on the quality of the funding proposal based on the documents, discussions and interaction with the AE. This independent TAP assessment is included in the FP package compiled by the Task Support.

As an independent body, the TAP develops its own review procedure, and is not governed by the Secretariat processes outlined in this document , nor does it make use of the tools described herein. The independent TAP review procedure is designed to assess a FP against the Investment Framework and, in so doing, will inherently address each of the ten appraisal areas. Decision 28/03 requests the Secretariat to develop a consistent approach to FP assessment "...in close consultation with the independent TAP...". The Secretariat thus consults with the independent TAP to facilitate mutual understanding of Secretariat and TAP respective procedures and confirm that they are consistent in scope and objective. The full and updated review procedure of the independent TAP is reproduced in annex VIII of this document.

SECTION 3.
TOOLS AND GUIDANCE

1. Concept Note Checklist
2. Climate guidance (mitigation and adaptation guides)
3. Innovation and Additionality Tool (IAT)
4. Financial Structuring Tool
5. Economic and Financial Analysis Guidance
6. Investment Criteria Scorecard (ICS)
7. Concessionality Tool
8. Sector Guides and SAP Technical Guidance
9. Grant Equivalent Calculator
10. SAP review Toolkit
11. Project Success Rating (PSR) Scorecard

TABLE 5. USE OF TOOLS AND GUIDANCE IN THE DUE DILIGENCE AND APPRAISAL PROCESS

		PRIOR TO CN SUBMISSION	GCF PROG. CYCLE STAGE 3 CN SUBMISSION AND REVIEW		GCF PROG. CYCLE STAGE 4 FP DEVELOPMENT		GCF PROG. CYCLE STAGE 5 FP REVIEW	
		AE	AE	SEC'T*	AE	SEC'T*	AE	SEC'T*
TOOLS	CN Checklist/ Review							
	IAT							
	Financial Structuring							
	Concessionality							
	ICS							
	GEC							
	PSR							
	SAP review toolkit							
GUIDANCE	EFA							
	Climate							
	Sector guides							

Note: * Secretariat

This section includes summaries of key tools and guidance that the GCF Secretariat has developed or is developing, to facilitate a consistent, transparent appraisal process for concept notes and funding proposals. **Table 5** above shows the recommended application of tools and guidance by AEs during their due diligence processes, and of their intended application by the GCF Secretariat in the context of the GCF Programming cycle. **Table 5** indicates that AEs are recommended to apply several tools and guidance documents prior to the first submission of a CN (or FP) to the GCF Secretariat, in order to self-appraise the quality of their submission and to expedite the appraisal process within the Secretariat. Please refer to **Figure 5** on page 21 for the Decision flow of the appraisal process.

The Financial Structuring Tool, Concessionality Tool, and Project Success Rating Scorecard are internal tools used by the Secretariat. The other tools and guidance documents are publicly available through hyperlinks in this section and as Annexes I-VII to this Appraisal Guidance document.

DOWNLOAD

1. CONCEPT NOTE CHECKLIST

USERS:	AEs Secretariat 1LOD
STAGE OF APPLICATION:	AEs: Prior to CN submission Secretariat: On receipt of a first version of a CN
OUTCOME OF APPLICATION:	Submission of a complete CN
PURPOSE:	This checklist was developed to support AEs, Delivery Partners and NDAs in their development and first submission of a CN. This checklist can also ensure consistency and efficiency in the initial review of CNs by the GCF Secretariat. The CN checklist capitalizes on the review process and feedback provided by the Secretariat Task Teams to AEs at the CN submission stage. The checklist supports AEs/NDAs and Delivery Partners in completing basic aspects of the CN with targeted questions in each section of the CN template. This checklist also provides basic recommendations and comments aimed at enhancing the completeness of the CN at first submission. The use of the CN checklist prior to CN submission is also expected to result in an increase in the quality of CNs at the time of first submission to the GCF Secretariat, and a decrease in the average time between first CN submission and CN presentation by Task Teams to CIC2.
SCOPE:	The CN checklist is an optional tool for all CNs at first submission and first review. The checklist is a simple and straightforward tool that does not require additional training or new credentials for external partners and Secretariat reviewers. The tool is adaptable and is expected to be further updated based on the integration of feedback provided by the Secretariat to AEs, Delivery Partners and NDAs when reviewing CNs. It can be updated regularly. This tool will ultimately support the transition of the CN template from a Word document to an online facility.
STATUS:	The CN checklist has been completed and is available for use by AEs and their partners; it is available in annex II of this document.

2. CLIMATE GUIDANCE (MITIGATION AND ADAPTATION GUIDES)

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	On first submission of a draft CN
OUTCOME OF APPLICATION:	CN continues to be assessed by the Secretariat, with a potential presentation to CIC2 **or** No further action taken on CN
PURPOSE:	GCF Climate Guidance focuses on the Climate Impact appraisal area and serves as the first screening within the decision flow of the Appraisal Process. If the draft CN is not relevant to mitigation or adaptation objectives, no further screening is possible. If the CN does not fall under the GCF mandate, the Appraisal Process ends here. Otherwise, the AE can revise the CN to incorporate Climate Impact according to the GCF Climate Guidance. Clear and consistent guidance on establishing climate impact potential will promote preparation of more complete funding proposals and a more consistent approach to reviews, allowing developing countries to more effectively access the Fund's resources by expediting funding proposal review and approval. This will enhance the Fund's ability to contribute to the objectives of the UNFCCC and the Paris Agreement and to make investment decisions that maximize opportunities for the climate actions of each country. The mitigation and adaptation guides are proposed to provide non-prescriptive guidance for developing proposals for mitigation and adaptation activities.
SCOPE:	The mitigation guide shall include external references on appropriate methodologies for GHG calculations. The adaptation guide shall include external references on credible models and databases for climate information.
STATUS:	Guides are in development, in parallel with the drafting of Board document “Steps to enhance the climate rationale of GCF-supported activities” and will be finalised on the endorsement of this paper by the Board. See annex III for GCF-WMO climate guidance and two examples.

In the context of climate impact, the GCF Board has provided decisions setting out how resources should be deployed to support mitigation and adaptation activities in developing countries. For adaptation, resources will be allocated based on: (1) the ability of a proposed activity to demonstrate its potential to adapt to the impacts of climate change in the context of promoting sustainable development and a paradigm shift; (2) the urgent and immediate needs of vulnerable countries, in particular least developed countries (LDCs), small island developing States (SIDS) and African States (B.05/05, paragraph d). For mitigation, resources will be allocated based on the ability of a proposed activity to demonstrate its potential to limit and reduce GHG emissions in the context of promoting a paradigm shift (see decision B.05/05, paragraph e).

The climate impact of a GCF funding proposal is assessed under the Impact Potential criterion of the GCF Investment Criteria. Mitigation impact is assessed in terms of the contribution of a project to the shift towards low-emission, sustainable development pathways. Adaptation impact is assessed in terms of the contribution of a project to increased climate-resilient sustainable development for the most vulnerable people and communities. The guidance referred to in this document should be seen in the context of enhancing the clarity of how funding proposals meet these existing investment criteria. The guidance is encapsulated in the paper "Steps to enhance the climate rationale of GCF-supported activities", which is scheduled for discussion by the GCF Board in 2022.

Formal guidance for both mitigation and adaptation will be described in two separate papers and follows a principles-based approach in both cases, identifying key elements for demonstrating a funding proposal's impact potential. The high-level guidance is supported by an evolving set of online resources that list and direct proposal developers towards a non-prescriptive set of tools, methodologies and climate data platforms that can help countries and accredited entities describe these elements. Proposal developers are encouraged to draw upon all relevant, available data and the tools or methodologies most appropriate to their specific proposal and context, recognizing that there are significant differences in data availability and capacities between countries.

Assessment of adaptation proposals (including the adaptation component of cross-cutting proposals)

For adaptation actions, impact potential is established by providing analysis and explanation that shows that a proposal is presenting an appropriate response to the threat of an ongoing and/or projected climate change hazard. Climate change adaptation aims to reduce the risks or vulnerabilities caused by climate change and to increase resilience to climate change. Clearly establishing climate impact requires a diverse range of information unique to each proposal. Proposals should use all relevant and available data. The significant variation in data availability across countries is recognised. Adaptation proposals are more complex since they will often seek to mainstream climate change knowledge into government policy and private sector activities, and directly address risks due to specific climate change hazards.

Adaptation proposals must demonstrate alignment with country priorities. They must also show that the proposed activity would not have occurred without GCF funding. Establishing the climate impact potential for an adaptation proposal involves several key components, as follows:

1. Proposals should identify the vulnerability of the region or country to climate change, describing who and what is at risk and what climate change hazard is in play. They should demonstrate an explicit connection between the climate change being experienced, or projected to be experienced, and the climate change impact for which an intervention is being proposed. Proposals should also consider non-climatic factors that may be causing the impact and describe the interactions between climate change and non-climatic drivers where possible. This overall analysis could draw on previously commissioned studies and existing country documents such as national adaptation plans (NAPs), national adaptation programmes of action (NAPAs), national and climate change strategies as well as peer-reviewed scientific literature.
2. Adaptation proposals should show how climate change has led (or will lead) to the specific impacts for which the proposed adaptation action is considered necessary. This would normally involve the presentation of both historic and future projected

climate data to present an assessment of how climate change is affecting, and/or will affect, the country or region. Defining the climate hazard and exposure involves gathering the best available data, which can include project-specific observational data, other historical climate data, other records (e.g. for non-climatic factors), and projected future changes to climate. This process should recognize the significant variation in data availability and should make use of the best available existing data and/or peer-reviewed scientific literature considering the proposal context and the capacities for a specific country or region.

3. A range of community tools and information platforms exist to assist in the retrieval and analysis of suitable observational data, gridded global datasets, atmospheric re-analyses, and Intergovernmental Panel on Climate Change (IPCC) climate model projections. Since these platforms and available data are constantly evolving, there is no prescription for which to choose. Proposal developers should use the tools, information platforms and climate data that are most relevant to the risks and hazards specific to their proposal and should seek consensus amongst different information sources where possible. Proposal developers may develop their own, proposal-specific tools, if necessary, and where they have the technical capacity to do so.

4. Adaptation proposals should link the climate change problem to risk to a particular sector, or section of the population by examining the vulnerability of that sector or group to the specific climate change hazard. This assessment may examine socio-economic mechanisms that exacerbate climate change impacts and can also provide the information required to ensure that the proposed activity will not lead to maladaptation.[39,40,41] Whilst top-down assessments of physical conditions that lead to climate impact drivers (points 2 and 3 above) are necessary, an understanding of the factors that make people vulnerable to climate change risks is equally necessary. These are often locally generated and require bottom-up analysis. Factors at the national and regional levels also determine vulnerabilities. Recent guidelines[42] propose a non-prescriptive, country-driven, gender-responsive, participatory action, taking into consideration vulnerable groups, communities, and ecosystems.

5. Proposals should demonstrate how the specific adaptation activities aim to reduce the stated vulnerability. Proposals should apply a methodological approach for the quantification of the number of people expected to benefit from the activities. They should also consider any barriers (i.e. technical, social, institutional or regulatory barriers) to the implementation of the chosen action and describe how the project would overcome those barriers.

6. Adaptation proposals should confirm alignment of the proposed activities with the participating countries' national plans and climate strategies (including their NAPs, NAPAs, long-term climate strategies, adaptation communications and NDCs, as applicable).

7. Proposals should include a description of the monitoring and reporting system that will be used to assess the climate impact of the proposed activity. During implementation, this will facilitate the assessment of whether the funded activity generated the proposed climate impact.

To assist in the development and assessment of adaptation proposals, the climate guidance includes a framework of online resources that lists and provides links to a

---

[39] *Avoiding maladaptation means that the proposed actions taken to avoid or reduce vulnerability to climate change will not: i) have adverse impacts on, or increases the vulnerability of other systems, sectors or social groups or ii) lead to the emergence of negative impacts in the medium to long term.*

[40] *Barnett, J. and S. O'Neill, 2010: Maladaptation. Global Environmental Change, 20(2), 211-213.*

[41] *Working Group II Contribution to the Fifth Assessment Report of the IPCC section 7.5.1.4. Facilitating Adaptation and Avoiding Maladaptation.*

[42] *https://environmentalmigration.iom.int/national-adaptation-plans-technical-guidelines-national-adaptation-plan-process*

comprehensive suite of climate data platforms, methodologies, and community best practices. This will provide a dynamic portal to climate information platforms (e.g. the GCF/WMO Climate Information platform, the IPCC Working Group I Interactive Atlas, and other similar platforms) that provide user-friendly tools for describing both historic and future climate change in a country or region. This will also contain country profiles of climate hazards for which there is scientific consensus for both current trends and future projections of particular climate indicators. These profiles will identify incontrovertible climate change hazards and associated impacts where there is high consensus and known adaptation measures for these hazards and impacts.

Assessment of mitigation proposals (including the mitigation component of cross-cutting proposals)

For mitigation actions to prove impact potential they should demonstrate that a projected level of emission reductions will occur, and that these emission reductions would not have happened without the GCF-funded intervention. The climate guidance is based on the experience of other climate finance mechanisms, as well as GCF experience in assessing the mitigation impact of its investments, and it will be updated periodically to reflect the most recent developments related to mitigation impact assessment.

The mitigation guidance summarizes the approach recommended by GCF in relation to the assessment of GHG emission reductions or removal of GHG emissions by sinks (also referred to as "mitigation impact") in GCF mitigation and cross-cutting funded activities. For GCF, the mitigation impact is defined as tonnes of CO_2 equivalent reductions (tCO_2e). Establishing the impact potential for a mitigation proposal involves several key components, as follows:

1. The proposal should confirm alignment of the proposed activities with country priorities, including nationally determined contributions (NDC) or other national and long-term climate strategies. This helps ensure the integration of country ownership into the proposal and the targeting of the national areas of highest potential impact and need by interventions.
2. The additionality of the funded activity should be demonstrated. In the context of a mitigation project, an activity is considered "additional" if it can be shown that the GHG emission reductions would not occur in the absence of GCF funding.
3. A methodological approach for the quantification of the activity's mitigation impact and its monitoring needs should be selected and implemented. GCF does not prescribe any specific methodologies, but strongly encourages accredited entities to utilize the many tools and methodologies developed for the quantification and monitoring of mitigation impact. Since the adoption of the Kyoto Protocol and the Paris Agreement, significant work has gone into establishing methodologies for mitigation activities. Examples of suitable methods include the Clean Development Mechanism (CDM), and the Joint Implementation (JI) mechanism under the Kyoto Protocol, which have established methodologies for quantifying mitigation impact for projects. Multilateral development banks and bilateral donors have also developed their own approaches towards establishing the mitigation impact potential of projects. Proposal developers should use mitigation methodologies that are most relevant to the activities in their proposal. Proposal developers may develop their own, proposal-specific methodologies if no other existing methodologies are suitable and if they have the technical capacity to do so, but they are nonetheless expected to follow mitigation guidance (under development).
4. The quantification of mitigation impact should also use consistent assumptions (e.g. emission factors) to those made in national GHG reporting as this will allow for the

accurate quantification of the support provided to countries in meeting their goals under the Paris Agreement.

5. The proposal should describe the establishment of a monitoring and reporting system for the mitigation impact of the proposed activity. During implementation, this will facilitate the assessment of whether the funded activity has generated the projected mitigation impact. This will in turn enable the Fund, accredited entities, and host countries to increase the impact of future mitigation activities.

When developing proposals to GCF for mitigation and for cross-cutting projects, accredited entities are required to submit **Annex 22** that details how the mitigation calculations were undertaken — this mandatory component for funding proposal submissions consists of two parts. The first part is a narrative describing the individual mitigation activities, the selection of the methodology for assessing the impact of mitigation actions (the mitigation methodology), and the demonstration of additionality as per the chosen mitigation methodologies. The second part of **Annex 22** consists of an Excel spreadsheet that provides all calculations of the emission reductions in a way that facilitates verification and transparency.

DOWNLOAD

3. INNOVATION AND ADDITIONALITY TOOL (IAT)

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	On completion of CN
OUTCOME OF APPLICATION:	CN continues to be assessed by the GCF Secretariat, with a potential presentation to CIC2 **or** No further action taken on CN
PURPOSE:	The Innovation and Additionality Tool (IAT) has been developed specifically to address the concept of "GCF Additionality" according to the following definition: "A project would be considered additional if the project (and its resulting positive climate impact) would not have occurred in the absence of GCF funding." The IAT is also designed to assess the degree to which the proposed project or programme is innovative. Along with Climate Guidance, the IAT is applied at the first stage of screening within the decision flow of the Appraisal Process and is independent and supplementary to the additionality requirements demonstrated under the mitigation methodologies for Annex 22 (see previous section). Only CNs that have already been confirmed as consistent with Climate Guidance will need to be screened using the IAT. Confirmation of GCF Additionality through this tool implies that the CN has clearly defined barriers to investment, has described how those barriers will be addressed, and has demonstrated that other sources of funding and support would not address these barriers as effectively. Confirmation of Innovation implies that the CN incorporates innovative approaches as outlined in the description of the Innovation appraisal area in Section 2. The tool thus serves as confirmation that the concept falls within the GCF mandate and justifies investment from the AE to develop a full proposal package. The results of the tool can inform the presentation of the Task Team to CIC2.
SCOPE:	The IAT covers not only the appraisal areas of Additionality and Innovation, but also includes parameters relevant to the areas of Scalability, Sustainability and Concessionality, in order to confirm fit with the GCF mandate. The tool will assess projects and programmes against the following dimensions: • Baseline investment context and alternatives to proposed activities • Non-financial barriers to the proposed activities • Financial barriers to the proposed activities Innovation: AEs should provide clear descriptions of the current practice in the relevant country and sector, identify past or existing initiatives active in the sector and illustrate how the proposed intervention achieves climate impact that existing practice or other initiatives cannot achieve.
STATUS:	The IAT in Excel format has been finalized, along with a user manual (annex IV in this document). The tool is undergoing piloting within the Secretariat prior to full rollout and is also available for external use by AEs.

Following the introduction of the ICS and its successful application in the appraisal of full Funding Proposal packages, the GCF Secretariat recognised the need for a standardised approach for appraisal at the Concept Note stage. At the same time, the need for a dedicated Additionality Tool was also identified in order to provide a deeper assessment of the appraisal area of Additionality than the ICS provides. During the development of the Appraisal Guidance, the potential for combining these two deliverables and explicitly incorporating the appraisal area of Innovation was identified. The elements identified for inclusion in the Dimensions of the IAT correspond closely to the appraisal areas that need to be addressed at the early stages of the decision flow of the Appraisal Process.

The IAT has been designed to have full complementarity and inter-compatibility with the ICS. Relevant elements of a completed ICS can be imported directly into the IAT score sheet to avoid duplication of effort. This functionality will be reciprocated in future revisions of the ICS.

In case the AE submits a full FP package to the GCF Secretariat without first submitting a Concept Note for review and appraisal (thus omitting the voluntary Stage 3 in the GCF Programming Cycle), the FP must still be reviewed by CIC2 before proceeding for finalisation and inter-divisional review. In this case, the IAT will be applied to the full FP. Accordingly, the tool has been designed to be compatible with both CNs and FPs. As with CNs, if the outcome of the IAT application indicates that the project or programme does not demonstrate "GCF Additionality", the AE will be advised that the Secretariat will take no further action on the FP.

Subsequent to confirmation of the potential of the proposed project or programme to achieve Climate Impact through application of the Climate Guidance, the IAT focuses on the information necessary to confirm that the AE has conceived and designed the initiative in such a way that this potential can be realised. GCF expects the technical and institutional competence of the AE, as determined through the Accreditation process, to be applied in the development of the full FP, and that the AE will invest their resources, as necessary, in this development supplemented by financial and technical support through the Project Preparation Facility (PPF), if necessary. Appraisal of detailed technical, financial and operational information can be conducted only when this investment has been made. At the CN stage, therefore, before the AE has committed resources to the FP development, the IAT must focus specifically on the conceptual framework of the initiative, ensuring that AE investment in FP development, and thereafter GCF investment in FP implementation, will ultimately contribute to fulfilling the GCF mandate.

To this end, the four Dimensions of the IAT can be summarised as follows:

- **Dimension 1:** *A well-defined investment baseline and alternatives to project activities.* Projects should deliver impact outcomes that perform well against a clear investment baseline, and clearly explain how the proposed activities are better than available alternatives.[43]
- **Dimensions 2 and 3:** *Addressing market barriers [non-financial (2) and financial (3)].* There should be market failures and/or excessive risks and uncertainties presenting barriers to commercial investment, and GCF investment should address them in order to make the envisioned project possible/viable. The IAT seeks information on which barriers are addressed, how and to what extent GCF support facilitates this, and evidence that these barriers are not addressed by other instruments available in

[43] https://ghginstitute.org/wp-content/uploads/2015/04/AdditionalityPaper_Part-1ver3FINAL.pdf

the market. These dimensions also account for the socio-economic vulnerability of the country context and ease of access to finance.[44,45]

- **Dimension 4:** *Advancing Innovation and accounting for second order effects of the intervention:* Projects should contribute to a sustainable paradigm shift in the market of the implementation country through characteristics including but not limited to technological innovation and business model or regulatory innovation in comparison to previous interventions.

Scoring methodology: The scoring methodology for the IAT is designed to be sufficiently flexible to recognize particularly robust instances of additionality when they are present.

The indicators used to construct scores along each of the four dimensions follow a mathematical formula. Indicators are combined to arrive at the score for each dimension. Within dimensions, indicators are weighted according to the sector of application, type of entity applying for funding, and whether a project (or sub-project in the case of programmes) is mitigation- or adaptation-focused (see annex IV for details). Once scores for each dimension are calculated, the IAT score is calculated as the average of the scores across all four dimensions.

4. FINANCIAL STRUCTURING TOOL

USERS:	Secretariat 1LOD and 2LOD
STAGE OF APPLICATION:	CIC2
OUTCOME OF APPLICATION:	Financial instruments proposed in CN are confirmed to be appropriate to the initiative **or** Advise AE to revise financial structure
PURPOSE:	The Financial Structuring tool and associated guidance will help AEs and the GCF Secretariat to identify the suitable financial instrument for GCF funding to a project or programme. The appropriate financial instrument shall support the viability of the project and promote long-term sustainability of the project activities.
SCOPE:	The selection will consider factors such as country and project context, market failures, provision of public goods, co-financing size and instruments, revenue potential and level of uncertainty related to revenue potential. The tool will ensure consistency of AE accreditation status and capacity with the financial instruments required for the proposed project or programme.
STATUS:	Discussions of tool design initiated within the Secretariat in 2021. Development anticipated in 2022.

[44] https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf

[45] https://lawreview.vermontlaw.edu/wp-content/uploads/2015/05/39-2-07_Greenglass.pdf

With the range of financial instruments available to GCF, there is the potential for considerably greater efficiency in terms of return on investment than would be possible for a fund limited to grant-based finance only. However, this flexibility is limited depending on the AEs concerned. The financial structure of Funding Proposals should therefore be aligned with the accreditation status of AEs.

The Financial Structuring tool is conceived in recognition of the fact that AEs with different accreditation status are suited to the development of different types of GCF projects and programmes, particularly with respect to the financial instruments. AEs and national institutions that have only implemented grant-financed projects may not be familiar with the relative benefits of debt, equity and guarantee instruments, and the circumstances for which they are suited.

The Financial Structuring tool will be applied at an early stage of the decision flow in the Appraisal Process in order to ensure that AEs do not invest significant time and resources into initiatives for which alternative financial instruments are better suited, particularly if their accreditation status does not extend to these instruments. It is therefore proposed that the tool be applied prior to the presentation of CNs at CIC2, thus providing AEs and NDAs with the opportunity to:

a. Redesign CNs to ensure they match the AE accreditation status and are therefore suited to the financial instruments that the AE can administer.

b. In case the initiative requires the use of financial instruments that are beyond the AE accreditation status and cannot feasibly be redesigned, identify appropriate partnerships and implementation arrangements to ensure that the appropriate instruments can be used, including, if necessary, the identification of an alternative AE.

The Financial Structuring tool will be developed to be inter-compatible with the Concessionality Tool (see section 3.7 below). As well as being employed prior to CIC2, it will be used in parallel with the IPT review to confirm the appropriate composition of the full FP package prior to submission to CIC3.

5. ECONOMIC AND FINANCIAL ANALYSIS GUIDANCE

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	• On first submission of a draft FP • Optional on first submission of a CN • Optional on first submission of a SAP FP
OUTCOME OF APPLICATION:	Confirm FP for presentation to CIC3 **or** Advise AE to revise FP, Improve project Efficiency and Effectiveness
PURPOSE:	GCF Economic and Financial Analysis (EFA) Guidance aims at helping AEs develop an economic and financial analysis that successfully inform the GCF Efficiency and Effectiveness investment criteria assessment. The EFA is a tool that enables an evidence-based approach to maximizing projects' efficient use of concessionality when implementing activities; as well as the effectiveness of the project in achieving mitigation and adaptation outcomes.
SCOPE:	EFA Guidance discusses technical considerations of EFA scope and objectives. It provides sector-level suggestions to AE for economic analysis with a focus on delivering a technically sound and relevant analysis. It also discusses the use of financial analysis to demonstrate the role of GCF concessionality in project financial viability. The EFA Guidance further discusses the contribution of EFA to the other GCF investment criteria as well the way the EFA Annex (Annex 3 of the complete submission of the FP package) should be considered in relation to the FP, the project budget, the feasibility study, and GHG emissions/beneficiary calculations.
STATUS:	The EFA Guidance document was reviewed by an inter-divisional group and by external consultants. The final version is available for use by the Secretariat and AEs and is attached to this document as annex VI.

Accredited Entities are required to submit an Economic and Financial Analysis (EFA) as part of the Funding Proposal submission package during the Proposal Approval Process (PAP). The EFA is the key source of information used by the GCF Secretariat when assessing the Efficiency and Effectiveness of FPs. The EFA guidance has been developed to facilitate consistency in EFA submissions by AEs, and thus to allow the assessment of project efficiency and effectiveness based on comparable scope and methodologies.

The EFA guidance will help AEs to develop a standardized analysis that best informs the Secretariat assessment. The Secretariat is focused on providing guidance on five areas: the structure of an EFA, assumptions, scope considerations, the interpretation of the results, and the positioning of the EFA in relation to the rest of the submission package.

The EFA guidance was designed specifically in response to the challenges observed by the GCF Secretariat during the development of the EFA annex 3 as part of the full FP package, and is therefore envisaged as a key tool for AEs to use at stage 4 of the programming cycle, and will be used by the Secretariat as a means to review EFA submissions in the IPT review process prior to CIC3. However, it is also recommended that AEs review the EFA guidance to inform the development of CNs. The EFA guidance is complementary to the Innovation and Additionality Tool and can be used by AEs to address issues under Dimension 3 of the IAT, in particular. Both the Financial Structuring Tool and the Concessionality Tool will also support the consistent implementation of the EFA guidance.

The GCF PAP annex 3 makes a distinction between the two components of an EFA, the economic analysis and the financial analysis. The economic analysis is an assessment of the project's returns at the level of the entire economy. It encompasses positive and negative externalities and aims at assessing the effectiveness of projects in achieving mitigation and adaptation outcomes. The financial analysis is performed at a project or beneficiary level. It aims at assessing the efficiency of the FP's use of concessionality with a focus on understanding the role of concessionality within the GCF context, in particular regarding the project's financial viability. The combined output of the economic and financial analysis provides a full picture for the assessment of the efficiency and effectiveness investment criterion. As well as contributing directly to the appraisal area of Concessionality, the EFA guidance also relates to the Financial Structuring and Additionality appraisal areas.

DOWNLOAD

6. INVESTMENT CRITERIA SCORECARD (ICS)

USERS:	AEs Secretariat 1LOD
STAGE OF APPLICATION:	AEs: Flexible – at any point in their due diligence and appraisal process Secretariat: On receipt of complete FP package and prior to the initiation of IPT review
OUTCOME OF APPLICATION:	Launch of inter-divisional review on the Project Review and Tracking Platform (PRTP)
PURPOSE AND APPLICABILITY:	The ICS tool aims to support the GCF Secretariat's objective appraisal of funding proposals against the GCF investment criteria, thus encouraging their development into high quality and complete funding proposals for submission to the Board. The ICS is part of an established framework to support GCF operations. It enables GCF to maximize positive climate impacts and minimize risks of adverse impacts. Alongside the IAT and Climate Guidance, the ICS aims to improve transparency, discipline, and the objectivity of the appraisal process in line with Board decision B.28/03. The AE, with support from the task team, should use the ICS to self-assess their FP package and indicate to the Secretariat their readiness for IPT review. The task team, after applying the ICS to the complete FP package, shares the full results of the tool (including explanatory notes as necessary) with the IPT at the same time as the PRTP is launched. The results of the ICS may thereafter prompt in-depth analysis of the components of the package and dialogue of IPT members with the AE to address gaps and weaknesses. The ICS may be applied again towards the end of the IPT review to update the results of the tool and to prepare for presentation at the CIC3 meeting.
SCOPE:	ICS version 2 covers the following: • Six investment criteria from Decision B.07/06 of the Initial Investment Framework • 24 sub-criteria from Decision B.09/07 on Further development of sub-criteria and methodology for the Initial Investment Framework • 31 indicators including a mix of quantitative indicators based on benchmarking of project and related data entries against project and country-level data evidence and qualitative indicators based on yes/no checklists to objectively validate specific, carefully described scenarios/circumstances based on information in the funding proposal.
STATUS:	Version 2 of the ICS was completed in 2020 and has been implemented since its completion. It is currently used by Task Teams in DMA and PSF. Results are presented at CIC3. The current ICS is included in annex I of this document. An update is being considered to expand the ICS tool to ensure a full coverage of the indicators under the Investment Framework and for the use of the tool both to facilitate DMA and PSF identification of key areas for improvement of FPs and discussion with AEs, and as a means for justifying the opening of inter-divisional review via PRTP. The IAT has been designed to be inter-compatible with the ICS, and a further update of the ICS tool may be required to ensure that this inter-compatibility is reciprocal.

In the Appraisal Process, the tool is applied as the first comprehensive screening of a full proposal package. It is intended as an aid to both the AE and the task teams in the GCF Secretariat to ensure that proposals are complete and meet all Investment Framework criteria.

The tool is designed to provide objective assessments against each of the six Investment Framework criteria and, in so doing, includes questions that address all of the ten appraisal areas introduced in this document. The ICS is publicly available and can potentially be used by an AE at any time during the appraisal process to assess a CN or FP package against the Investment Framework criteria and appraisal areas.

The ICS should be completed prior to the launch of the review by the inter-divisional project team (IPT). It does not provide a benchmark or threshold that FPs must reach before PRTP is opened, but instead facilitates the work of the IPT by indicating the areas or components of the package that require more information from AEs, and thus the degree of attention required from respective IPT members.

The release of the ICS as a tool for use by AEs, along with the IAT and Climate Guidance, serves to increase the transparency of the GCF appraisal process and to further clarify to AEs and other stakeholders involved in proposal development the key parameters that the Secretariat looks for in order to confirm a proposal's fit with the GCF mandate. It is important to note, however, that the ICS provides an indicative overview of the quality of a proposal according to the sub-criteria of the Investment Framework. It does not provide an in-depth, comprehensive assessment of the FP package, and will not be used in isolation to justify the endorsement of an FP by the Secretariat at CIC3 or other stages in the appraisal process. AEs are expected to demonstrate that they have applied their own due diligence throughout the various elements of the FP package.

The full list of questions covered by the ICS, categorised by the six Investment Criteria and 24 coverage areas (sub-criteria), along with the indicators and methodologies used to assess each coverage area, are described in detail in annex I.

7. CONCESSIONALITY TOOL

USERS:	Secretariat 1LOD and 2LOD
STAGE OF APPLICATION:	• On completion of CN, prior to CIC2 • On submission of full FP package, prior to CIC3
OUTCOME OF APPLICATION:	Confirmation that the project or programme budget is in the appropriate range **or** Advise AE to revisit and adjust budget and financial breakdown of project or programme
PURPOSE AND APPLICABILITY:	A concessionality tool can provide the indicative price that GCF should charge to make a project financially viable in order to achieve the climate impact. Such a calculation can be based on expected project financial returns, and the quantum and pricing of the co-financers. Such a tool can incorporate benchmarks such as a sovereign yield curve in order to double check the pricing suggested by co-financers. The tool can be used to demonstrate the active risk-bearing nature of GCF investments by measuring the extent to which GCF accepts below-market financial rates of return that would normally be necessary to make projects viable. The final output of the tool may be the range of pricing that GCF should charge or apply to achieve a range of returns.
SCOPE:	The scope of the Concessionality Tool will be focused on the calculation of the minimum level of GCF financing required to make a project or programme viable based on the appropriate financial instruments.
STATUS:	Discussions of tool design initiated within the Secretariat in 2021. Development anticipated in 2022.

Recognising the importance of GCF's mandate to facilitate high-impact climate action that would otherwise not take place, through support to both public and private operations, the Concessionality Tool is designed to provide a consistent and systematic approach to the selection of the most appropriate financial instrument and the relevant level of concessionality for funding proposals submitted to the Board.

The Concessionality Tool is internal to the GCF Secretariat and will be applied at an early stage of the decision flow in the Appraisal Process to assess the suitability of the type and level of concessionality proposed by the AE.

Currently determined on a case-by-case basis, contributing factors in determining concessionality include, for example, the potential for reflows and rate of return, opportunities for overcoming barriers, and the potential for catalysed or leveraged investments. Equally important, concessional forms of financing, while supporting financial viability, should not crowd out any private or public investment and should minimize market distortions and potential disincentives to private investment.

The Concessionality Tool will provide an indication of the price required to make a project or programme financially viable with a view to achieving the climate impact. It will incorporate a financial analysis that calculates the internal rates of return with and without GCF concessionality, and benchmarks such as a sovereign yield curve to validate the pricing suggested by co-financiers.

The Concessionality Tool will be developed to be inter-compatible with the Financial Structuring Tool. As well as being employed prior to CIC2, it will be used in parallel with the IPT review to confirm the appropriate composition of the full FP package prior to submission to CIC3.

8. SECTOR GUIDES AND SAP TECHNICAL GUIDANCE

USERS:	AEs Secretariat 1LOD
STAGE OF APPLICATION:	Throughout CN and FP development and appraisal process
OUTCOME OF APPLICATION:	FP contributes to paradigm-shifting pathways with respect to the relevant sector or sectors.
PURPOSE:	The Sector Guides focus on how GCF can support developing countries in their transition to low-emission and climate-resilient pathways according to the priorities elaborated in their NDCs. It supports the progressive work programme approved for 2020–2023 as part of the updated Strategic Plan, providing evidence-based information for impactful projects in priority investment areas and giving further momentum to making GCF operations more efficient and more effective. There are eight result areas that GCF has targeted because of their potential to deliver a substantial impact on mitigation and adaptation in response to climate change. Result areas provide the reference points that guide GCF and its stakeholders to ensure a strategic approach when developing programmes and projects, while respecting the needs and priorities of individual countries. The Sector Guides outline pathways in each respective result area for achieving a paradigm shift. The Sector Guides are intended for use by AEs and development partners to facilitate the conceptualization of initiatives that are aligned with innovative, climate-relevant paradigm shifting pathways. They are expected to enhance the ability of AEs to ensure that CNs and FPs are consistent with the appraisal areas of Innovation and Technical Soundness. An additional series of technical guidance documents have been developed specifically to assist GCF AEs and NDAs in their development of concept notes and funding proposals for the SAP. More concise than the Sector Guides, these SAP technical guidance documents also cover topics across the eight GCF result areas, focusing on the potential application of the SAP modality within each of the sectors addressed.

SCOPE:	Each Sector Guide provides an overview of the respective sector within the global context of climate action, highlights the typical barriers and opportunities to achieving a paradigm shift in each sector and provides an overview of financing trends and models to catalyse public and private investments. In addition, country experiences are described and specific guidance for the development of impactful projects and programmes in relation to GCF investment criteria are provided. The following Sector Guides have been drafted and will be available for use by AEs within 2022: • Agriculture and Food Security • Cities, Buildings and Urban Systems • Ecosystems and Ecosystem Services • Forest and Land Use • Energy Generation and Access • Climate Information and Early Warning Systems • Health and Well-being • Water Security • Low Emission Transport • Energy Efficiency The SAP technical guidance documents, in addition to providing a concise summary of the technical information and paradigm shifting pathways provided in the Sector Guides, include a section with project scenarios that outline specific examples of potential SAP interventions for GCF funding. They provide general clarifications on what activities are deemed to be applicable for the SAP that would typically be considered to have minimal or no environmental and social risks and impacts in the specific sectoral contexts. The following SAP technical guidance have been developed and are available in the compendium: • Agriculture and Food Security • Ecosystems and Ecosystem Services • Water Security • Cities, Buildings and Urban Systems • Energy Efficiency for industries and appliances • Forest and Land Use • REDD+ • Renewable Energy • Transport
STATUS:	**Final Draft Sector Guides available on GCF website:** • **Agriculture and Food Security** • **Ecosystems and Ecosystem Services** • **Cities, Buildings and Urban Systems** • **Forests and Land Use** • Supplemental guidance, in the form of annexes, checklists or other guidance documents will be developed in specific areas as needed. • **SAP technical guidance documents** are all available on GCF website as part of the SAP Compendium. • The SAP Toolkit is Included in annex VII of this document.

9. GRANT EQUIVALENT CALCULATOR

DOWNLOAD

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	Prior to CIC3, as part of the inter-divisional review
OUTCOME OF APPLICATION:	Objective measure of concessionality of FP
PURPOSE:	The GEC was developed to measure the concessionality of funding proposals submitted to GCF and to enable consistent comparison of concessionality across all funding proposals. The GEC is a transparent, publicly available calculation **tool** that allows both the Secretariat and AEs to confirm the appropriate level of financing for a funding proposal according to the financial instruments used and thence to identify the amount of grant funding that would have been necessary to finance the same interventions. Though primarily developed for use by the Secretariat to conduct appraisal in the area of Concessionality and for regular reporting to the Board against targets in Grant Equivalent terms, it is also advisable for AEs to use the tool independently to ensure that their funding requests in their CNs and FPs are at the appropriate scale.
SCOPE:	The GEC covers all financial instruments in use by GCF.
STATUS:	The GEC was completed in 2017. Implementation is ongoing, conducted by origination teams (DMA and PSF) for presentation at CIC3, and is also employed by OED for monitoring and reporting against Fund-level targets. The Grant Equivalent Calculator is included in annex V of this document.

The full instruction manual for use of the GEC is included in this document in annex V. The general logic of the tool is as follows:

- Overall formula: Grant equivalent = Present Value of funding under market conditions (estimated) ***minus*** Present Value of reflows to GCF (based on proposal term sheets).
- Grant Equivalent (GE) is a standardised measurement to evaluate the concessionality of a funding project.
- GE is presented in either portion of the overall GCF funding size (percentage) or absolute terms (displayed as USD, but can be treated as any currency).
- Higher GE means higher concessionality of the project.
- Present Value of reflows and principal may include interest and principal repayment received from the borrower of loans, dividend received from the project, fees charged by GCF, etc.
- If the user inputs conditions that are outside the acceptable limits (e.g. grace period longer than tenor), an error message is displayed.
- The user is encouraged to follow parameters stated in the term sheets, as they are within the acceptable limits.
- If a term sheet consists of multiple non-grant financial instruments (e.g. grant + loan + equity), the user should treat them separately.

DOWNLOAD

10. SAP REVIEW TOOLKIT

USERS:	Secretariat 1LOD AEs
STAGE OF APPLICATION:	• On submission of full SAP CN, prior to CIC2 • On submission of full SAP FP package, prior to CIC3
OUTCOME OF APPLICATION:	• SAP FPs cleared by IPT for submission to CIC • SAP CNs are cleared to progress to FP stage
PURPOSE:	The SAP review toolkit responds to multiple Board mandates including the original SAP decision, B.18/06, which asked the Secretariat to reduce the time and effort needed for the review of SAPs, and decision B.28/03, where the Board requested the Secretariat, in consultation with the Independent TAP, to develop a transparent and consistent approach to their assessment of funding proposals. Further to Board decisions, the SAP review toolkit also responds to the IEU Rapid Assessment of the SAP that recommended that the Secretariat enhance the clarity of guidance on the review criteria used by the Secretariat and Independent TAP and should provide one consolidated set of comments on each CN and FP. The SAP review checklist is used to confirm the completeness of the SAP proposals while guiding the appraisals of the Secretariat staff and consultants towards a streamlined process and providing clarity to the AEs of the type and quality of information that is expected in each section of the SAP CN/FP and annexes.
SCOPE:	The SAP Review Toolkit is intended for application against all concept notes and funding proposals submitted through the SAP modality and covers all six IF criteria and ten appraisal areas.
STATUS:	Following extensive consultations with all GCF divisions and the independent TAP, the SAP tool was completed in November 2021. Following SMT endorsement in January 2022, the SAP team updated the toolkit to be consistent with new templates. The toolkit will be rolled out within the Secretariat and shared with external reviewers during 2022. The SAP procedures are described in Annex VII.

In line with Board decision B.32/05, the Simplified Approval Process (SAP) is designed to expedite the progress of low-risk, smaller investments (up to USD 25m GCF financing) through the GCF Secretariat's Programming Cycle. The SAP should maintain the appropriate levels of due diligence by both AE and the Secretariat, while recognizing that gains in efficiency are to be made by reducing the amount of time spent by Secretariat personnel in the review and appraisal of these proposals, in comparison to large, higher-risk and more complex investments.

The SAP Review Toolkit was therefore developed to cover a comprehensive set of all key parameters and variables considered in the appraisal of low-risk proposals, ensuring consistency in the Secretariat's CN and FP review with regard to SAPs. Regular application of this toolkit by Task Teams is expected to reduce the number of revision and resubmission cycles for SAPs, and thus substantially reduce the feedback cycles to AEs and ensuring SAP target review times for CNs and FPs are met.

The use of the SAP review toolkit for review of CNs and FPs does not replace the use of the other tools described in this Appraisal Guidance document. The SAP review toolkit complements other tools to facilitate a quicker progression through the Secretariat's

CN and FP review process for SAP proposals, provided that the AE has conducted their own Due Diligence and Appraisal functions comprehensively.

The Secretariat has developed an SAP FP preparation guidance and e-learning package to provide AEs with a thorough overview of what is expected of an SAP FP and to aid reviewers of SAP FPs within the Secretariat and external firms or consultants engaged for this purpose by the Secretariat. The SAP FP Guideline and SAP e-learning provide section-by-section guidance on what should be included in an SAP FP. This document and e-learning provide general clarifications on the indicative content expected in an SAP funding proposal.

The SAP FP Guidance is available on the GCF website, and the SAP e-learning module is available on the GCF ilearn platform with links available on the GCF website.

Following the adoption of the IRMF, the SAP FP Guidance and e-learning are being updated to reflect the changes to the SAP FP template. The guideline and e-learning refer to policies approved by the Board and will be further updated as necessary to be consistent with new and updated policies.

11. PROJECT SUCCESS RATING (PSR) SCORECARD

USERS:	Secretariat 2LOD
STAGE OF APPLICATION:	Prior to CIC3 or after completion of term sheet
PURPOSE AND APPLICABILITY:	As part of the Board's support for the continuous development of risk policies and guidelines and considering its focus on climate change, the Secretariat initiated the development of the Project Success Rating (PSR) scorecard, which is a customized rating tool for estimating the likelihood of the project or programme achieving its envisaged climate impact using a range of qualitative and quantitative criteria.[46] The development of the PSR is expected to improve the transparency of the risk assessment. Its objective is similar to various scorecards and rating models used by public sector and private sector institutions to support decision-making processes for project financing. The PSR scorecard is applicable to all projects and programmes, whether operating in a single country or regional/multiple country context, across result areas and irrespective of financial instrument. The PSR scorecard can be used as an assessment tool during pre-approval stages and during the implementation stage of a project or programme for monitoring and portfolio analysis purposes.
SCOPE:	Factors assessing PSR are grouped across three major sections, as presented below: 1. AE & EE factors a. AE Experience and Involvement b. EE Management and Experience 2. Macro factors a. Global Competitive Index (GCI) - World Economic Forum b. ND-Gain Index Factors 3. Project-specific factors a. Environment & Social Risk b. Technology Risk c. External Risk d. Affordability e. FX and Cost Stability f. Project Fund Certainty g. CRR rating
STATUS:	The tool has been completed and pilot testing has been done. The tool will be fully implemented in 2022.

The PSR utilizes information available in FP packages, including the Term Sheet. It is applicable to all projects and programmes, whether operating in a single country or multiple countries, across all result areas and irrespective of financial instrument. It is intended for use as an assessment support tool prior to Board submission and approval,

[46] *During B.17 the Secretariat presented to the Board an approach to risk rating models as a component of RMF; the Board took note of the approach. At B.24, the Board requested the Secretariat to develop the appropriate risk-rating models with the proviso to bring back any recommendations requiring Board attention.*

to be applied as part of the 2LOD function within GCF Secretariat's Due Diligence and Appraisal process. The PSR is not intended to be used as the basis for decision-making by CIC, or for endorsement of FPs by the Secretariat or other bodies, but to provide an objective summary of the risks that are relevant to the achievement of objectives and impact, based on the information available in the FP and on the prevailing macroeconomic and socio-political context. It may therefore indicate which projects and programmes require closer oversight during the implementation stage, and thus allow for prioritization of monitoring and evaluation resources by the relevant units (including DPM) within the Secretariat.

The current version of the tool was completed in 2020 and pilot testing was carried out in 2021. The PSR will be used by units involved in the 2LOD risk control function (including ORMC) as a complement to the reporting provided to CIC3.

The PSR scorecard manifests in a numerical score from 0-100 and in 5 categories, or "buckets", correlating with the degree of likelihood of achieving intended impact. Score criteria for the rating of project success are as follows:

BUCKET	CATEGORY	SCORE RANGE
1	HIGH POSSIBILITY	X > 75
2	HIGH TO MEDIUM POSSIBILITY	65 > X < 75
3	MEDIUM POSSIBILITY	55 > X < 65
4	MEDIUM TO LOW POSSIBILITY	45 > X < 55
5	LOW POSSIBILITY	<45

The factors assessing project success are grouped across three major sections, as presented below:

1. **Accredited Entity & Executing Entity factors**

   a. AE Experience and Involvement

      This section consists of three factors: (i) AE experience in climate projects, (ii) Programme/project location in one of its member nations or if the AE is an International Financial Institution, and (iii) AE co-financing. These factors help assess the capability of the AE to implement the project based on their experience in climate projects in the country or region, the support of the Government in leveraging resources, and the effectiveness of Technical Assistance. Previous experience of AE and/or EE is expected to reflect a higher level of competence in structuring, implementing, and monitoring the project or programme. In addition, financial commitment from the AE acts as an additional direct incentive to successfully implement the project.

   b. EE Management and Experience

      This section captures two factors: (i) quality of management of EE in climate projects, and (ii) EE experience in the country or region. Management competence of EEs can be crucial in aligning the project or programme with national policies and strategic objectives. Relevant experience of EEs can facilitate the resolution of issues that may arise during construction or operational phases of the project or programme, and the need for EEs to receive technical assistance as part of the funded activity is an indication of the degree to which the lack of such experience may affect project success.

2. Macro factors

a. Global Competitive Index (GCI) – World Economic Forum

b. ND-Gain Index Factors – Readiness and Vulnerability

These factors are quantitative and aim to evaluate the operational, business, and economic viability of the project with respect to the context of the country (or countries) in which it is implemented. The score relies on external data; the Global Competitive Index (GCI) of the World Economic Forum and the readiness and vulnerability scores of the Notre Dame Global Adaptation Initiative (ND-Gain) Index. The GCI measures a country's macroeconomic and business environment based on over 110 variables. A low score indicates less competitiveness. The ND-Gain Readiness score captures a country's economic, governance and social readiness to measure its ability to leverage investments for adaptation. A low score indicates low readiness. The ND-Gain Vulnerability score captures a country's overall vulnerability through six sectors — food, water, health, ecosystem services, human habitat, and infrastructure. A high score indicates high vulnerability to the impacts of climate change.

3. Project-specific factors

Project-specific factors have the largest weighting in the calculation of the final PSR score. They are based on the risks that impact operational details and outcome expectations of the project or programme but are sector-agnostic in the current version of the PSR model.

a. Environment & Social Risk

Includes two factors that capture the social and environmental impact of the project: transition to long-term management/ownership, and ESS score. Project sustainability can be ensured if the AE and EEs are able to transfer the operational and management functions of the project to local entities, who continue to ensure the delivery of climate impact. The factors also include an ESS score that is derived from the environmental and social risk assessment.

b. Technological Risk

This factor covers the risks associated with technological innovation. Proven technology, already applied under the specific conditions of the country or region, carries less risk of failing to deliver the anticipated impacts.

c. External Risk

External risk refers to factors outside the scope of project planning and beyond the influence of AE or EEs, which can materially affect the success of the project or programme and the extent to which risk mitigation measures are in place to address them.

d. Affordability

The affordability factor assesses the potential for project outputs to be incorporated into the local economy in the long term, based on the level of demand for these outputs and the need to secure predictable and consistent flows of resources to cover continuous operations beyond the project or programme lifetime.

e. FX and Cost Stability

This includes two factors covering the degree of certainty of project operational cost estimates, and exposure to currency risk and interest rate risk. Volatile operational costs endanger the project's sustainability and thus the potential to deliver the envisioned impact. Similarly, large exposure to currency and interest rate fluctuations can affect the adequacy of funds due to cashflow mismatch.

f. Project Fund Certainty

This factor covers co-financing risks when the success or completion of the project or programme is dependent on funding from other contributors and investors besides GCF. Insufficiency or uncertainty of such funding can materially impact the implementation of the project and consequently its climate impact.

g. Credit rating

This factor is applicable only to projects where financing is through debt proposed to be repaid from project cash flows and takes into account the creditworthiness of the project or programme.

Expert notching: The PSR includes the option of "expert notching", which allows the reviewer to adjust the final score either up or down for one bucket, based on their professional opinion.

ANNEX I

INVESTMENT CRITERIA SCORECARD

INTRODUCTION TO THE INVESTMENT CRITERIA SCORECARD (ICS) TOOL

Objectives

The **Investment Criteria Scorecard (ICS) tool** is intended help the AEs to self-appraise and the GCF Secretariat to appraise funding proposals against the GCF investment criteria more objectively, thus supporting prioritization and selection of the strongest projects and programmes, thereby:

- improving transparency, discipline, and objectivity of the process in line with the request of the board for a **high-quality pipeline**
- using the tool for internal review purposes to **complement and support** decision-making.

Approach

Through consultations with GCF staff, a set of principles was adopted for the development of ICS indicators. These principles are intended to incorporate the complexity of the task into a streamlined assessment that guarantees an objective process and cross-sectoral comparability. The principles for the ICS indicators include:

- Basing ICS indicators on the Investment Criteria and sub-criteria specified in the **Investment Framework** approved by the Board. These six Investment criteria include: impact potential, paradigm shift potential, sustainable development potential, needs of the recipient, country ownership, and efficiency and effectiveness.
- Applying a scoring **range of 1 to 5** accords an ordinal value (a ranking of importance). These quantitative scores are then translated into qualitative terms according to the following table, which proposes a scale according to GCF current practice:

TABLE 1. ASSOCIATION OF QUALITATIVE AND QUANTITATIVE SCORES

QUANTITATIVE SCORE	QUALITATIVE SCORE
1	Low
2	Medium-Low
3	Medium
4	Medium-high
5	High

- Using a mix of indicators that are qualitative and quantitative (especially for Impact and Efficiency & Effectiveness criteria):
  - **Quantitative indicators** based on **benchmarking** of project and related data entries against project and county-level data evidence. (See 'Use of quintiles for benchmark analysis', below);
  - **Qualitative indicators** based on **yes/no checklists** to objectively validate specific, carefully described scenarios/circumstances based on information in the funding proposal.

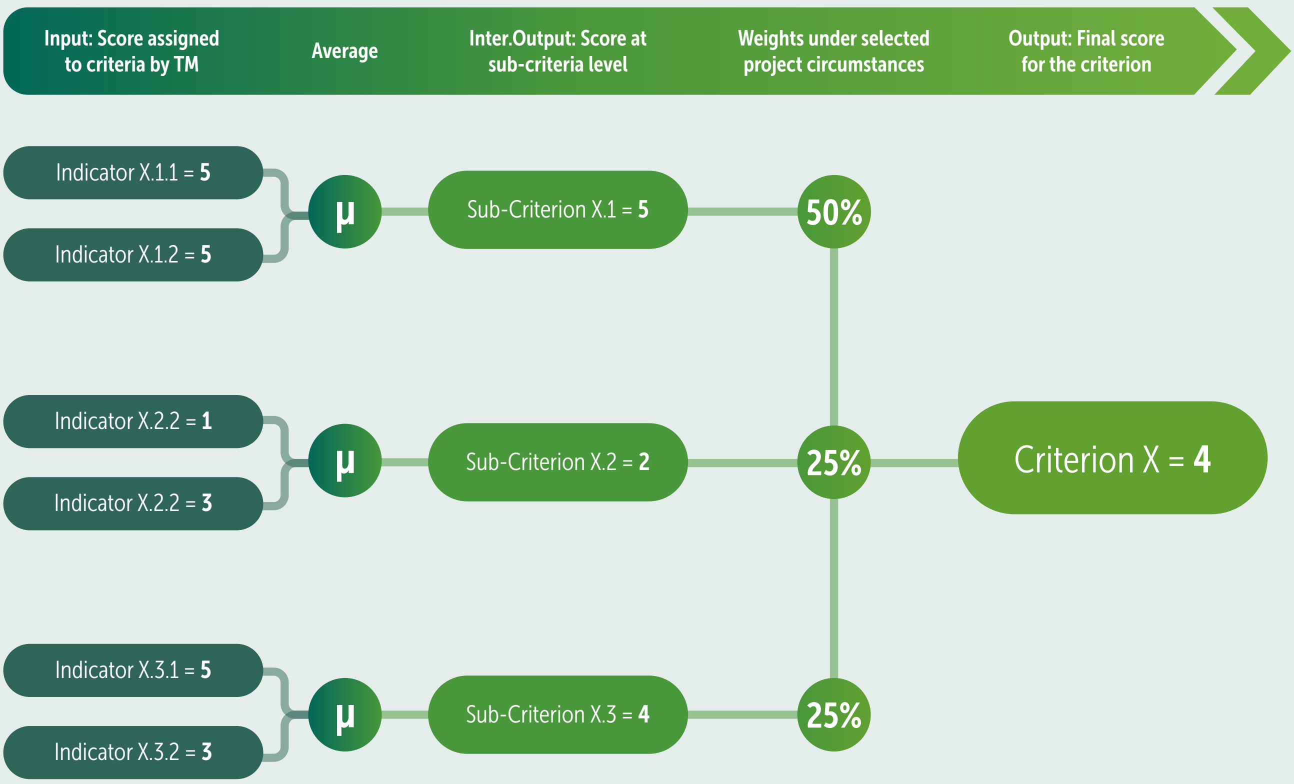
- Aligning with **information available** in proposals;
- Allowing for **flexibility**, with indicators applicable to multiple impact areas;
- Allowing for **judgement and expert opinion** from end users, who will have the possibility to override the judgement of the tool if necessary;
- Ensuring **simplicity** so to allow task managers and end users to perform analyses quickly; and
- Reflecting **country context** when possible.

The two elements of the tool and scoring process: (i) **indicators** permitting the objective assessment of a proposal at sub-criteria level (see sections 1.3 and 2 for more information on indicators); and (ii) a **weighting system** defining the relative importance of sub-criteria[1] (see section 1.5 for more information on the weighting system).

The scoring process for the ICS tool is structured as follows:

1. The evaluator **assesses indicators** within each sub-criterion;
2. The average of indicators forms the **score at sub-criterion level**;
3. The **weighting system** then automatically determines the score for each sub-criterion under the selected project/programme circumstance (see figure 1 below).

FIGURE 1. SCORING PROCESS (EXAMPLE)



[1] *Investment criteria under the ICS tool maintain the same equal weights.*

Indicators selected

Table 2 contains a list of the **31 indicators** for **24 sub-criteria** (under the **six high-level investment criteria**) included in the current version (v2) of the ICS tool. The full description of indicators and their rationale and their relationship with the underlying criteria and sub-criteria are described in section 2.

TABLE 2. LIST OF INDICATORS FEATURED IN ICS V2

SUB-CRITERIA	INDICATORS
IMPACT POTENTIAL	
1/31 - Contribution to the shift to low-emission sustainable development pathways	1 - Mitigation impact
2/31 - Contribution to increased climate-resilient sustainable development for most vulnerable people and communities	1 - Adaptation impact
PARADIGM SHIFT	
3/31 – Innovation	1 - Innovation checklist
4/31 - Level of contributions to global low-carbon development pathways, consistent with a temperature increase of less than 2 degrees Celsius	*
5/31 Potential for expanding the scale and impact of the proposed programme or project (scalability)	1 - Scalability score
6/31 Potential for exporting key structural elements of the proposed programme or project elsewhere within the same sector as well as to other sectors, regions or countries (replicability)	*
7/31 - Contribution to the creation or strengthening of knowledge, collective learning processes, or institutions	1 - Creation and diffusion of knowledge
8/31 - Sustainability of outcomes and results beyond completion of the intervention	1 - Financial viability in the long-run
9/31 - Market development and transformation	1 - Market creation at national, local or sectoral level
10/31 - Potential for strengthened regulatory frameworks and policies to drive investment in low-emission technologies and activities, promote development of additional low-emission policies, and/or improve climate-responsive planning and development	1 - Contribution to mainstreaming and systematically promoting climate change within regulatory framework and policies
For the purposes of ICS v2, 11/31 was merged with 5/31	
For the purposes of ICS v2, 12/31 was merged with 6/31	

SUB-CRITERIA	INDICATORS
SUSTAINABLE DEVELOPMENT POTENTIAL	
13/31 - Expected positive environmental impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral level, as appropriate	1 - Extent of environmental co-benefits
14/31 - Expected positive social and health impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral level, as appropriate	1 - Extent of social and health co-benefits
15/31 - Expected positive economic impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral level, as appropriate	1 - Extent of economic co-benefits
16/31 - Potential for reduced gender inequalities in climate change impacts and/or equal participation by gender groups in contributing to expected outcomes	1 - Introduction of gender-responsive measures to promote gender equality or gender equity
NEEDS OF THE RECIPIENT	
17/31 - Scale and intensity of exposure of people, and/or social or economic assets or capital, to risks derived from climate change (adaptation only)	1 - Evidence of exposure and vulnerability for the country
	2 - Climate vulnerability and adaptation readiness
18/31 - Comparably high vulnerability of the beneficiary groups	*
19/31 - Level of social and economic development of the country and target population	1 - Country-level socio-economic development
20/31 - Opportunities for the Fund to overcome specific barriers to financing	1 - Prioritization given barriers and opportunities
21/31 - Opportunities to strengthen institutional and implementation capacity in relevant institutions in the context of the proposal	*
COUNTRY OWNERSHIP	
22/31 - Objectives are in line with priorities in the country's national climate strategy	1- Coherence with the country's national climate priorities
23/31 - Proposed activity is designed in cognizance of other country policies	1 - Degree of alignment of the proposed project or programme objectives with the country's national development priorities
24/31 - Experience and track record of the Accredited Entity or executing entities in key elements of the proposed activity	1 - AE experience working in the project/programme country of implementation or a similar context (e.g. SIDS, LDCs, similar region or geographical area)
	2 - AE/EE experience in implementing similar projects (similar sector, technology, type of intervention)

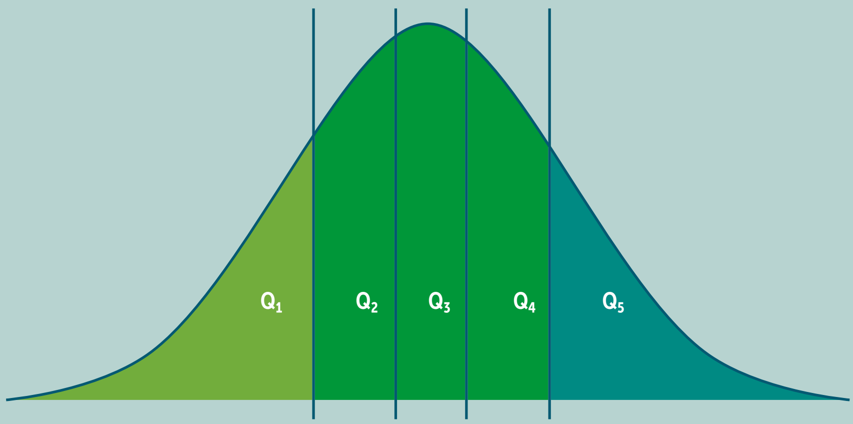
SUB-CRITERIA	INDICATORS
25/31 - Stakeholder consultation and engagement	1 - Coverage of diverse stakeholders from non-governmental organizations in designing the project/programme
	2 - Existence of a robust Stakeholder Engagement Plan
	3 - Level of engagement of the National Designated Authority (NDA)
EFFICIENCY AND EFFECTIVENESS	
26/31 - Financial adequacy and appropriateness of concessionality	1 - Adequacy of concessionality to instrument type
27/31 - Cost-effectiveness (mitigation only)	1 - Cost-effectiveness of CO_2 emissions abatement
28/31 - Potential to catalyse and/or leverage investment (mitigation only)	1 - Co-financing ratio
29/31 - Expected economic and financial internal rate of return	*
30/31 - Financial viability in the long run	1 - Existence of business and strategy for phasing out GCF capital
	2- Strength of the AE and EE
	3 - Effectiveness in mitigating risks and challenges to the project implementation in the long-run
31/31 - Application of best practices and degree of innovation	1 - Innovation checklist
	2 - Innovation and transfer of best available tech and practices

Note: * shows where no indicator was identified within ICS v2

Use of quintiles for benchmark analysis

Quintile analysis: In statistics, five contiguous and equally probable intervals containing a range of probability density functions of a population are called quintiles. These five quintiles into which a data population can be divided show an equal distribution of values of a particular variable. In other words, the statistical value of each data set represents 20 per cent of the given population, so that the first quintile represents the lowest values (1 per cent to 20 per cent); the second quintile represents the second fifth (21 per cent to 40 per cent) and so on. **Figure 2** provides a visualization of quintiles in a normal distribution.

FIGURE 2. NORMAL DISTRIBUTION AND QUINTILES



Quintiles are indicated as Q_1, Q_2, Q_3, Q_4, and Q_5. The probability is 0.2 for any value extracted from the distribution to fall into one of the shaded areas. In other words, each shaded area would include approximately 20 per cent of the elements of any sample extracted from the total distribution.

Using the quintile-based approach to ICS scoring: Operatively, the same concept can be applied to the assessment of projects and programmes in the GCF portfolio.

Quintile-based methodologies are often adopted as a best practice in the construction of indicators. For example, the final country score in the World Bank *Index of Doing Business* is obtained from the average percentile for every country with respect to percentile placements in sector-specific indicators. Easy understanding and communicability to non-technical audiences, along with the possibility of easily spotting underlying patterns, are often cited as the main advantages of similar rankings. Furthermore, the results are consistent with those obtained via comparable approaches (e.g., principal-components analysis and unobserved-components analysis).[2]

In the preparation of the ICS, the adoption of a quintile-based analysis pursues the twofold goal of **(a) maintaining a user-friendly 1-to-5 scoring system** and **(b) setting benchmarks on solid data-driven evidence.**

Once a numerical value for an indicator has been obtained for a project undergoing preliminary screening, this value is **compared with the values assumed by the same indicator calculated for a comparable sample.** The indicator for the activity of interest

[2] *See the methodology from the World Bank for more details.*

(x_A) is then assigned a value of 1 to 5 depending on the quintile-based interval to which it belongs. Quintiles are relative to the values of the indicator x across the comparable sample. More precisely:[3]

- If x_A is greater than or equal to the minimum and less than or equal to the first quartile, it will translate into a value of 1;
- If x_A is greater than the first quartile and less than or equal to the second, it will translate into a value of 2;
- If x_A is greater than the second quartile and less than or equal to the third, it will translate into a value of 3;
- If x_A is greater than the third quartile and less than or equal to the fourth, it will translate into a value of 4;
- If x_A is greater than the fourth quartile and less than or equal to the maximum, it will translate into a value of 5.

As an example, let Project A be an incoming project, which has to be evaluated relative to a certain indicator (S1). Indicator S1 has already been automatically calculated for all the other activities in the portfolio of the ICS tool, and quintiles relative to the sample of S1 calculated accordingly. Assume that the value of the first quartile (Q1) for S1 is 0.1 (i.e. 20% of the activities in the portfolio reported a score for the indicator S1 less than or equal to 0.1) and the second quartile for S1 (Q2) = 0.15 (i.e. 20% of the activities in the portfolio reported a score for the indicator S1 less than or equal to 0.15 but greater than 0.1). Therefore, if the score of S1 for the incoming project is equal to, say, 0.123, it will fall in between the first and the second quartile for S1. As a consequence, Project A would be assigned a score of 2 – equivalent to "Low" on the previous scale.

Dataset used for benchmarking indicators: This approach requires that indicators for the evaluation of sub-criteria are calculated also for comparable sample datasets. **Country-level** datasets help measure the performance of a country on a specific indicator by looking at how it compares with other countries. Sources include:

- *Historical Country-level GHG emissions*
- *Population*
- *Human Development Index (HDI)*
- *Inequality-linked Human Development Index (IHDI)*
- *University of Notre Dame Global Adaptation Initiative (ND-GAIN)*

Project/programme level datasets measure the performance of a project or programme on a specific indicator (e.g. its CO_2 emissions impact), by looking at how it compares with a portfolio of comparable project/programmes. A sample covering **657 approved projects and 6600+ data points from six different funds** were used for the purpose of benchmarking for the ICS, including 95 projects from the GCF portfolio as well as 401 projects from the Global Environment Facility (GEF), 60 from the Clean Technology Fund (CTF), 39 from the Scaling Up Renewable Energy in Low Income Countries Programme (SREP), 29 from the Forest Investment Programme (FIP), and 33

[3] *The following equation describes the algorithm applied to transform raw scores into 1-to-5 scores. Let x_i be the raw score for indicator x relative to project I; it must be converted into X_i, the indicator on a scale of 1 to 5, relative to project i. Let Q_k with k = 1,...,5 be the quintiles for the raw indicator x calculated on the portfolio of GCF projects and programmes as explained in the previous section. Then:*

$$X_i = \mathbb{1}_{(-\infty;Q_1]}(x_i) + \sum_{k=2}^{4} k \cdot \mathbb{1}_{\,Q_{k-1};Q_k]}(x_i) + 5 \cdot \mathbb{1}_{(Q_4;+\infty)}(x_i)$$

where $1_{(a;b)}(x_i)$ represents an indicator function that assumes a value of 1 if x_i falls in the interval in between a and b, and 0 otherwise.

from the Pilot Programme for Climate Resilience (PPCR). Of these projects, 291 are mitigation-only, 139 adaptation-only, and 238 include both mitigation and adaptation ("cross-cutting" in GCF terminology).

An overview of main quantitative indicators and their benchmark of reference are seen below (**Table 3**). For an overview of definitions of data used for project-level benchmarks please refer to Annex A.

TABLE 3. QUANTITATIVE INDICATORS RELYING ON BENCHMARKING THROUGH QUINTILES

SUB-CRITERIA	INDICATORS	REFERENCE BENCHMARK
	IMPACT POTENTIAL	
Contribution to the shift to low-emission sustainable development pathways	Mitigation impact	• Project-level CO_2 emission reductions • Target country annual emissions
Contribution to increased climate-resilient sustainable development for most vulnerable people and communities	Adaptation impact	• Project-level number of beneficiaries • Target country population
	NEEDS OF THE RECIPIENT	
Scale and intensity of exposure of people, and/or social or economic assets or capital, to risks derived from climate change (adaptation only)	Evidence of exposure and vulnerability for the country	Country-level vulnerability index (ND-GAIN)
Level of social and economic development of the country and target population	Country-level socio-economic development	Country-level development index (IHDI, or HDI)
	EFFICIENCY AND EFFECTIVENESS	
Cost-effectiveness (mitigation only)	Cost-effectiveness of CO_2 emissions abatement	Project-level costs and CO_2 emission reductions
Potential to catalyse and/or leverage investment (mitigation only)	Co-financing ratio	Project-level financing and co-financing

Weighting approach

GCF measures the potential impact of proposals against a set of sub-criteria built around six broader criteria. Their relative importance may vary under different project/programme circumstances (e.g., project type, context of implementation) that should be considered when assessing a proposal.

The objective of the weighting system is to reflect the relative importance of sub-criteria in determining the criteria score under one or more project/programme circumstances.

Approach used to determine weights: Making rational decisions for any complex problem requires various analyses of trade-offs between goals/objectives/outcomes that will measure the results of applying various decisions in a wide range of application domains. A typical decision problem has many solutions, and users are interested in analysing trade-offs between those that correspond to their preferences, which is called "the preferential structure of the user". Such preferences are typically expressed in terms of criteria, e.g., desired criteria values (or their ranges), trade-offs between improving/worsening criteria values.[4]

A two-stage approach was used for the development of the weighting system for the ICS tool as follows:

- As a first step, weights were differentiated by looking at a total of **four** project/programme variables: **mitigation/adaptation** components and **public/private** components;
- As a second step, further granularity and differentiation in weighting was achieved, based on **16** combinations of project/programme variables: 8 GCF **result areas** and **public/private** components.

Two alternative approaches had been initially considered to perform the assessment:

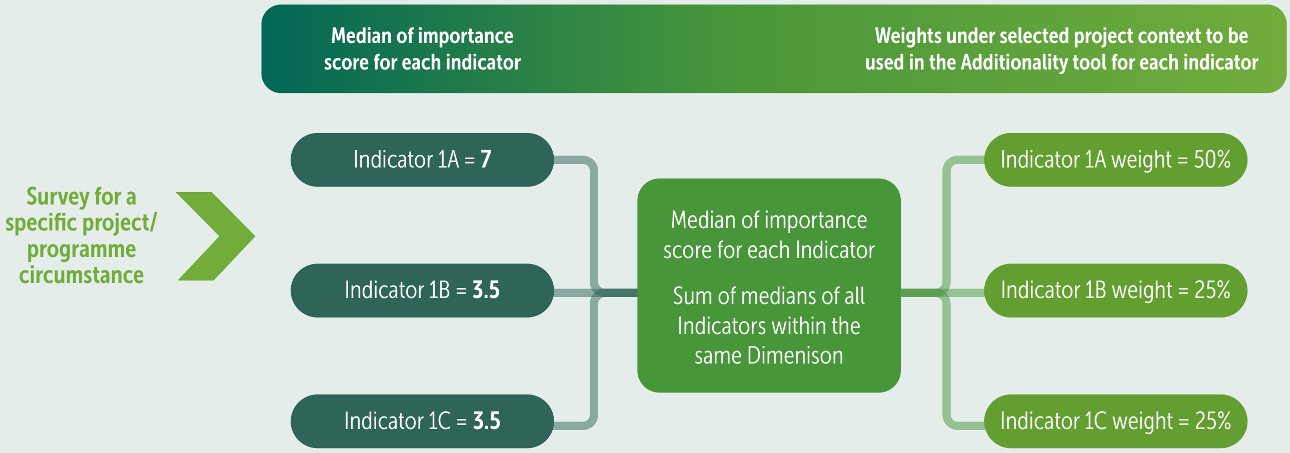
- **Weighted sum approach:** The oldest and still one of most popular multicriteria analysis methods in current use, the process requires experts to define the relative importance of each variable typically on an integer number scale associated with importance level and weights. The importance score of the indicator is then determined using the median observed within the sample consulted for the specific combination of project/programme variables. The median score is eventually converted into a percentage weight.
- **Analytical hierarchic process (AHP).** AHP is a multicriteria decision analysis method developed by Saaty. The process requires experts to compare indicators with one another, two at a time, with sets of pairwise comparisons. The AHP then converts evaluations to numerical values that can be compared over the entire range of the problem and transformed into a numerical weight.

Through a consultative approach involving 45 experts, the **weighted sum approach** was identified as the preferred option for determining weights due to the number of sub-criteria examined, the extent of individual feedback required, and the extent of outreach needed to carry out the activity. Weights were also calculated through a consultative process and have been applied accordingly in the ICS tool design. The approach is summarised in **Figure 3**.

---

[4] *Granat, J., and M. Makowski. 2009. "Multicriteria Methodology for the NEEDS project". Available at: http://www.iiasa.ac.at/~marek/mca_doc/pdf_needs/mc.pdf*

FIGURE 3. APPROACH USED TO DEFINE WEIGHTS FROM RELATIVE IMPORTANCE SCORES (EXAMPLE)



OVERVIEW OF INDICATORS

Criterion 1/6 Impact potential

Over the past decade, the demand to accurately measure climate finance and its environmental returns has increased. According to the UNFCCC, prompt and coordinated efforts are needed to support mitigation and adaptation measures capable of addressing the challenges of a changing climate.[5] Regardless of the type of intervention, the explicit objective of mobilized financing should be to maximize the impact of responses to climate change and to enhance the action and resilience of recipient countries. Impact potential also provides guidance to investors on how to select interventions and allocate funding.[6]

Despite the general consensus among practitioners of the need to maximize impact for both mitigation and adaptation finance,[7] there is still debate over the best metrics for monitoring results. Concerning mitigation, climate funds generally consider the relative contribution of funded activities to the reduction of country-level GHG emission profiles.[8] Concerning adaptation impact, there is less consensus.[9] The relative number of beneficiaries is often regarded as a proxy for the scale of intervention, but further research is still needed to determine truly comprehensive measurements of the adaptation impacts of climate finance.[10] In the meantime, even though standard metrics might evolve over time, impact potential is crucial for solid guidance in steering the investment decisions of policy makers and the allocation of global climate finance flows.

Link to the GCF mandate and policies: As a criterion within the GCF Initial Investment Framework, "Impact Potential" is defined as the prospective capacity of a project/ programme to contribute to the achievement of the Fund's strategic objectives with

---

5 *See the UNFCCC website.*

6 *See for example Bosetti et al. (2009)*

7 *See WEF (2013).*

8 *The GEF TF, for example, assesses results in climate change mitigation as reduced growth in GHG emissions and contribution to the stabilization of GHG concentrations in the atmosphere (see GEF (2014), at page 7).*

9 *An overview of the three objectives for adaptation of the LDCF/SCCF and of the way they are measured is provided in OECD (2011).*

10 *See for example Eriksen and Kelly (2007).*

respect to both mitigation and adaptation. As the Fund's mandate ultimately seeks to limit GHG emissions in developing countries, while improving the resilience of local vulnerable livelihoods, impact potential represents a necessary condition in the GCF investment strategy. Impact potential comprises two sub-criteria: the contribution to the shift to low-emission, sustainable development pathways and to increased climate-resilient sustainable development.

CRITERION 1/6 IMPACT POTENTIAL **SUB-CRITERION 1/31 CONTRIBUTION TO THE SHIFT TO LOW-EMISSION SUSTAINABLE DEVELOPMENT PATHWAYS**

Coverage area: Potential for scaling up and replication, and its overall contribution to global low-carbon development pathways being consistent with a temperature increase of less than 2 degrees Celsius

Focus on: Mitigation only

Definition and Rationale: To better understand the specific contribution of activities in the GCF portfolio to the achievement of the Fund's long-term mitigation objectives, this sub-criterion considers the extent of the shift towards low-emission sustainable development pathways brought about by each project/programme. As GCF aims to produce tangible mitigation results in four key impact areas while fostering systemic positive change in the long run, the potential for impact and a paradigm shift represent a critical index of performance for funded activities. Other metrics are better suited to quantify sector-specific performance, but the size and quality of emission reductions provides a flexible way to evaluate activities promoted by GCF as well as the Fund's entire portfolio against comparable climate funds.

In the Initial Investment Framework,[11] GCF proposes more than ten sector-specific metrics capable of tracking results in every specific impact area (e.g. expected GHG sequestration potential, avoidance of lock-in of suboptimal technologies, improvement in access to clean energy). Five of those key performance indicators also appear in the Performance Measurement Framework (PMF) for mitigation, both as core and as proposed indicators.[12] In evaluating mitigation potential, it is necessary to account for project size and country circumstances for GCF and to better consider the needs of developing countries that are particularly vulnerable to the effects of climate change.[13] Several other financing facilities and funds – including the CTF,[14] the GEF,[15] and the GEEREF[16] – currently measure the potential of mitigation impacts via sequestered, avoided, or reduced emissions.

Scoring assesses the extent of the mitigation impact of the proposed project/programme and the robustness of the impact estimate.

---

11 *See GCF/B.09/07, pages 8–9.*

12 *See GCF/B.08/45, from page 72 onwards.*

13 *See GCF/B.19/04/Rev.01.*

14 *See Clean Technology Fund (CTF).*

15 *See GEF (2014), as per GEF/C.46/07/Rev.01 and GEF/LDCF.SCCF.16/03/Rev.01 for a description of the performance measurement frameworks of the GEFTF, the LDCF, and the SCCF.*

16 *See GEEREF (2015).*

Proposed Indicator for Sub-criterion 1/31
Indicator S1/31.1 *Mitigation impact*

$$S1 = \min\{\max(A, B), C\}$$

$$A = quintile(A_{raw})$$

$$A_{raw} = \frac{Total\ tCO2e\ reduced\ or\ avoided\ by\ activities}{M \times Total\ financing\ in\ US\$}$$

$$M = share\ of\ mitigation$$

$$B = quintile(B_{raw})$$

$$B_{raw} = \frac{Annual\ tCO2e\ reduced\ or\ avoided\ by\ activities}{\sum_{i=1}^{n}(Share\ of\ country_i) \times (Annual\ tCO2e\ emitted\ by\ country_i)}$$

$$C = robustness\ of\ the\ mitigation\ impact\ estimate = 1 + \{\sum_{i=1}^{3} Answer_i \times \frac{4}{7}\}$$

Analytical process and construction:
S1/31.1 includes three intermediate metrics: (A) the total mitigation impact of the project/programme per USD of financing; (B) the mitigation impact relative to the overall emission profile of the country; and (C) the robustness of impact assessment.

(A) quantifies the impact of activities estimated as the total amount of tCO_2e that would be sequestered and/or avoided, divided by the share of total financing attributable to mitigation as defined in the funding proposal;

(B) is the ratio of the annual amount of tCO_2e reductions of the activities to the total annual GHG emissions from the country(ies) in the context of reference (weighted, if countries are more than one, based on share of activity in each country).

The scores Araw and Braw for the project / programme are calculated for all the activities already in the portfolio of projects included in the ICS database. The final A and B scores for the activity of interest are assigned to a class from 1 to 5 based on the results of quintile analysis.

(C) is equal to the sum of scores in the following three questions:

1. Is a **robust estimate of baseline emissions** provided? (i.e. the avoided emissions or counterfactual emissions trajectory that would be expected to occur in the absence of the project) [No = 0, Low = 1, Medium = 2, High=3].

NO	0	**No estimate** is provided for baseline emissions/avoided emissions.
LOW	1	An **estimate** of baseline emissions/avoided emissions is provided.
MEDIUM	2	An **estimate** of baseline emissions/avoided emissions is provided. **AND** It follows the steps/guidelines of reliable (known, widely used, vetted and tested) **best practices, protocols, or methodologies** (e.g. CDM methodologies,[17] IPCC emissions factor database[18]).

[17] https://cdm.unfccc.int/methodologies/index.html
[18] https://ghgprotocol.org/Third-Party-Databases/IPCC-Emissions-Factor-Database

HIGH	3	An **estimate** of baseline emissions/avoided emissions is provided. **AND** It follows the steps/guidelines of reliable (known, widely used, vetted and tested) **best practices, protocols or methodologies** (e.g. CDM methodologies, IPCC emissions factor database). **AND** The proponent provides **evidence/literature** backing up a **realistic and credible baseline scenario(s) for the proposed activity** that incorporates technologies or practices that provide outputs (e.g. cement) or services (e.g. electricity, heat) with **comparable quality, properties and application areas** as the proposed project activity. **AND** These technologies or practices have been **implemented previously or are currently being introduced** in the relevant country/region.

2. Is a **robust estimate of the amount of CO_2e emitted by the project provided** [this includes emissions generated and induced by the project (e.g. emissions from the use of efficient electric equipment, emissions from construction of power plant, emissions from operations, emissions generated elsewhere due to leakage)]? [No = 0, Low = 1, Medium = 2, High=3].

NO	0	**No estimate** is provided of the amount of CO_2e emitted by the project, or **no meaningful rationale** is given for the **exclusion of this assessment**.
LOW	1	An **estimate** of the amount of CO_2e emitted by the project, or a **rationale for the exclusion of this assessment** is provided.
MEDIUM	2	An **estimate** of the amount of CO_2e emitted by the project, or a **rationale for the exclusion of this assessment** is provided. **AND** The estimate follows the guidance of reliable (known, widely used, vetted and tested) **best practices, protocols or methodologies** (e.g., CDM methodologies, IPCC emissions factor database).
HIGH	3	An **estimate** of the amount of CO_2e emitted by the project, or a **rationale for the exclusion of this assessment** is provided. **AND** The **estimate** follows the guidance of reliable (known, widely used, vetted and tested) **best practices, protocols or methodologies** (e.g., CDM methodologies, IPCC emissions factor database). **AND** The estimate accounts for and reference the possibility of a **rebound effect**, or explain why it was not considered if not applicable to the technologies considered. **OR** The estimate accounts for and reference **leakage** that is measurable and attributable to the activities or explain why they were not considered if not applicable to the technologies considered within the activity.

3. Does the FP include a **monitoring plan** to **measure and demonstrate** achieved emissions reductions **ex-post**? [Yes = 1, No = 0]

Data

Data retrieved by the evaluator: The user must retrieve key information on total reduced/avoided emissions, total GCF financing, and share of mitigation activities from the FP. If data is missing, a score of 1 is assumed. The user must also identify the country where the project/programme takes place.

Data already in the ICS Database: Annual GHG emissions at the country level are retrieved automatically via Climate Watch. The indicator is calculated for all the activities from a portfolio of projects included in the ICS database, to retrieve quintiles.

CRITERION 1/6 IMPACT POTENTIAL **SUB-CRITERION 2/31 CONTRIBUTION TO INCREASED CLIMATE-RESILIENT SUSTAINABLE DEVELOPMENT FOR MOST VULNERABLE PEOPLE AND COMMUNITIES**

Coverage area: Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans

Focus on: Adaptation only

Definition and Rationale: The sub-criterion, "Contribution to increased climate-resilient sustainable development for most vulnerable people and communities," falls under the impact potential investment criterion, and is applicable to all result areas for adaptation-focused projects and programmes (livelihoods, people and communities; health, food and water security; infrastructure and built environment; ecosystems and ecosystem services).

This sub-criterion aims to assess how a proposed project or programme contributes to increasing the resilience of the most vulnerable people and communities in a country in the face of climate risks. See annex II on Climate Guidance (Adaptation) for more details.

Proposed Indicator for Sub-criterion 2/31
Indicator S2/31.1 *Adaptation impact*

$$S1 = \min\{\max(A, B), C\}$$

$$A = quintile(A_{raw})$$

$$A_{raw} = \frac{(Expected\ number\ of\ beneficiaries\ )}{A \times Total\ financing\ in\ US\$}$$

$$A = share\ of\ adaptation$$

$$B = quintile(B_{raw})$$

$$B_{raw} = \frac{(Expected\ number\ of\ beneficiaries)}{\sum_{i=1}^{n}(Share\ of\ country_i) \times (Total\ population\ of\ country_i)}$$

$$C = robustness\ of\ the\ adaptation\ impact\ estimate = 1 + \{\sum_{i=1}^{3} Answer_i \times \frac{4}{7}\}$$

Analytical process and construction:
S1 looks into three intermediate metrics: (A) the expected total number of beneficiaries of the project/programme divided by the share of financing attributable to adaptation as defined by the proponent; (B) the expected total number of beneficiaries relative to the total average population of the country(ies) in the context of reference (weighted, if countries are more than one, based on share of activity in each country), and (C) the robustness of impact assessment.

The final A and B scores for the activity of interest are assigned to a class from 1 to 5, based on the results of quintile analysis.

(C) is equal to the sum of scores in the set of three questions:

1. Does the proposed project or programme clearly set out its **climate-change vulnerability context** (i.e. the specific risks and vulnerabilities under current and future conditions of climate change that the project or programme aims to address)? [No = 0, Low = 1, Medium = 2, High=3].

NO	0	The assessment of the **climate vulnerability context** of the proposed project or programme is NOT PROVIDED OR DOES NOT CONSIDER **observed (historic) climate trends** (e.g. observed changes in mean annual temperature and rainfall) and **expected future climate change** (e.g. projected changes in temperature or rainfall).
LOW	1	The assessment of the **climate vulnerability context** of the proposed project or programme CONSIDERS **observed (historic) climate trends** (e.g. observed changes in mean annual temperature and rainfall) and **expected future climate change** (e.g. projected changes in temperature or rainfall).
MEDIUM	2	The assessment of the climate vulnerability context of the proposed project or programme CONSIDERS **observed (historic) climate trends** (e.g. observed changes in mean annual temperature and rainfall) and **expected future climate change** (e.g. projected changes in temperature or rainfall). **AND** **Geographic** and **temporal scales** are appropriate[19] for the project, considering both **slow-onset** climate-related hazards[20] and **rapid-onset** climate-related hazards.[21]

[19] *An appropriate geographic scale is one using the data that is the most local available. An appropriate timescale is one that matches the project or programme lifespan (including associated activities, assets, infrastructure etc...).*

[20] *Slow onset events evolve gradually from incremental changes occurring over many years or from an increased frequency or intensity of recurring events, whereas a rapid onset event may be a single, discrete event that occurs in a matter of days or even hours. Slow onset events were identified to include "sea level rise, increasing temperatures, ocean acidification, glacial retreat and related impacts, salinization, land and forest degradation, loss of biodiversity and desertification". Source: https://unfccc.int/resource/docs/2012/tp/07.pdf*

[21] *A rapid onset event or a climate extreme is the occurrence of a value of a weather or climate variable above (or below) a threshold value near the upper (or lower) ends of the range of observed values of the variable. Rapid onset events include: tropical cyclones, storm surge, extreme rainfall, riverine floods, heat or cold waves and droughts. https://www.ipcc.ch/sr15/chapter/glossary/*

HIGH	3	The assessment of the climate vulnerability context of the proposed project or programme CONSIDERS **observed (historic) climate trends** (e.g. observed changes in mean annual temperature and rainfall) and **expected future climate change** (e.g. projected changes in temperature or rainfall). **AND** **Geographic** and **temporal scales** are appropriate for the project, considering both **slow-onset** climate-related hazards and **rapid-onset** climate-related hazards. **AND** Assessment **demonstrates/quantifies** through literature/data **how climate hazards[22] will affect** the project or programme geographical area in terms of loss of lives, value of physical assets, livelihoods, and/or value of environmental or social/cultural assets.

2. Does the proposed project or programme articulate a **clear causal link** between specific activities and its objective of reducing vulnerability to climate change? [No = 0, Low = 1, Medium = 2, High=3].

NO	0	**No** causal link between specific activities and the objective of the proposed project or programme to reduce climate vulnerability.
LOW	1	The proposed project or programme makes an **explicit statement** of its intent to reduce climate vulnerability.
MEDIUM	2	The proposed project or programme makes an **explicit statement** of its intent to reduce climate vulnerability. **AND** Provides a **clear description of the causal link** between specific activities and adjustments needed to reduce climate vulnerability for targeted beneficiaries.
HIGH	3	The proposed project or programme makes an **explicit statement** of its intent to reduce climate vulnerability. **AND** Provides a **clear description of the causal link** between specific activities and adjustments needed to reduce climate vulnerability for targeted beneficiaries. **AND** These links **are demonstrated/quantified** using reliable data sources and evidence.

3. Does the FP include a **monitoring plan** to **measure and demonstrate** achieved adaptation targets **ex-post** [Yes = 1, No = 0]

Data

Data retrieved by the evaluator: For (A) and (B), data regarding the expected total number of beneficiaries are provided by the evaluator based on information contained in the FP. The user must retrieve key information on total number of beneficiaries, total GCF financing and share of adaptation activities from the FP. If data is missing, a score of 1 is assumed. The user also must identify the country where the project/programme takes place. For (C), answers are provided by the evaluator, based on information contained in the FP.

[22] *Climate hazards include both: (i) Rapid-onset events encompassing tropical cyclones, storm surge, extreme rainfall, riverine floods, heat or cold-waves and droughts; and, (ii) slow onset events encompassing sea level rise, increasing temperatures, ocean acidification, glacial retreat and related impacts, salinization, land and forest degradation, loss of biodiversity and desertification.*

Data already in the ICS Database: Population data at the country level are retrieved automatically via **The World Bank**. The indicator is calculated for all of the activities from a portfolio of projects included in the ICS database, so as to retrieve quintiles.

Investment criterion 2/6 Paradigm shift potential

A full paradigm shift results in simultaneous transformations in markets, technologies, policies, and consumer behaviour, which can only be accomplished by an ambitious, systemic, and long-term solution. Changes in people's understanding of the world causes their behaviour to change, and a paradigm shift results when the institutional frameworks and decisions they control also change.

The four main elements in the judgement of paradigm shift potential are: (1) projects are able to change behaviour; (2) the project is ambitious, (3) the project is systemic, and (4) project effects are long term. Any project or programme that can cause a paradigm shift must be ambitious enough to be able to overcome the present barriers and change individuals' beliefs at the scale necessary to change socio-economic systems.

This criterion is significant because it values long-term change over short-term results. While impact criteria measure the expected direct, short-term impacts of a project, a project's potential for paradigm shift accounts for its possible indirect, long-term impacts beyond the results of just the one GCF investment. These elements are captured in the sub-criteria and indicators.

The potential for paradigm shift is necessary for GCF funds to catalyse future replications or symbiotic interventions without directly investing in them.

Link to GCF mandate, and policies: This criterion is directly linked to the GCF mandate which states that "the Fund will promote the paradigm shift towards low-emissions and climate-resilient development pathways." For GCF to promote paradigm shift, it must invest in projects that raises its likelihood.

In the GCF Results Management Framework logic model, paradigm shift potential is the longest-term level of achievement. For mitigation and adaptation, there are lists of example programme or project outputs and indicative activities that would be required for a paradigm shift to be achieved. In the performance measurement frameworks where paradigm shift is the objective, different relevant indicative indicators, baseline targets, and assumptions are detailed.

Coverage area: Potential for scaling up and replication, and its overall contribution to global low-carbon development pathways being consistent with a temperature increase of less than 2 degrees Celsius (mitigation only)

Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans (adaptation only)

Focus on: Mitigation only (or adaptation if relevant)

Definition and Rationale: The sub-criterion "innovation" falls under the "paradigm shift" investment criterion. Innovation is an embedded component in the GCF finance strategy, given its risk appetite to fund techniques, business models, modal shifts, processes, and/or financial innovation having potential to accelerate large scale climate finance.

For the purpose of the Investment Framework assessment, "innovation" is defined as the creation and/or adoption of new technical or business improvements. Adoption and development of technical improvements, such as new technologies, in the target region are essential to the innovation assessment as they are key to meeting the goals of the Paris Agreement and the Sustainable Development Goals. Historically, small- and medium-size enterprises have played an important role in technological innovation, often leading to the introduction of paradigm-shifting technologies and lifestyles.[23] Innovation can go beyond technical improvements to focus on the ability to adopt business models that can help access new market segments, or address barriers in target geographies. The different types of innovation are defined as follows:

1. **Technical innovation** refers to the adoption of new or unproven technologies, new processes,[24] or modal shifts[25] in the context of reference. Overall technical innovation refers to innovation in the end-product or project leading to emission reductions, which is a critical accelerator of national efforts to address climate change, or innovation which enables the application of existing technologies, processes and/or modal shifts in new markets.
2. **Business innovation** means novelty in business models, financial instruments, organizational processes[26] or their creation through unbundling and reassembling of existing ones. Business innovation refers to the adoption of new financial instruments/financial mechanisms/financial processes or new business models[27] that address existing investment gaps or barriers in the market that have not yet been addressed, or that address investment gaps or barriers for a new demand segment, or for a new class of investors.[28]

---

23 *https://www.greenclimate.fund/news/dialogue-to-boost-climate-technology-innovation*

24 *The OECD Oslo Manual defines process innovation as the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/ or software.*

25 *https://www.greenclimate.fund/documents/20182/24949/GCF_B.09_07_-_Further_Development_of_the_Initial_Investment_Framework__Sub-Criteria_and_Methodology.pdf/18db33f8-a55b-488f-8a6b-5df68f39a137?version=1.1*

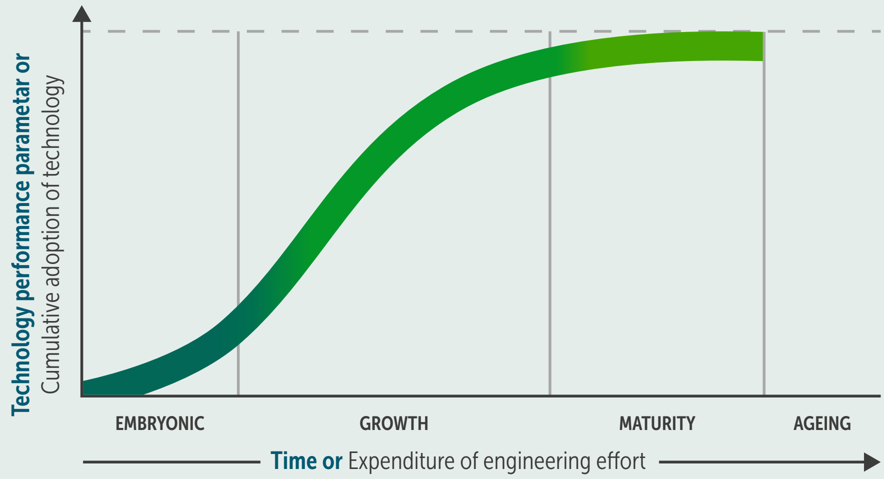
26 *The OECD Oslo Manual defines organizational innovation as the implementation of a new organizational method in the firm's business practices, workplace organization or external relations.*

27 *New business models require changes both to an organization's value proposition to customers (new revenue model, new offering/delivery of the product) and to its underlying operating model (new approaches to drive profitability, and create value https://www.bcg.com/capabilities/strategy/business-model-innovation.aspx*

28 *https://www.greenclimate.fund/documents/20182/24949/GCF_B.09_07_-_Further_Development_of_the_Initial_Investment_Framework__Sub-Criteria_and_Methodology.pdf/18db33f8-a55b-488f-8a6b-5df68f39a137?version=1.1*

Assessing the achievement of a stated purpose of innovation is one way to assess innovation itself. Two scores are used in this calculation:

1. *Technical innovation score:* An assessment of the stage of innovation within a given geographic context (from the embryonic stage through to the ageing phase as illustrated for technology in the Figure below).



2. *Business innovation score:* An assessment of the ability of the innovation to meet its purpose more effectively than existing alternatives.

Proposed Indicator for Sub-criterion 3/31
Innovation Indicator S3/31.1 *Innovation checklist*

$$S1 = \max(S_T, S_B)$$

$$S_T = technical\ innovation\ score = \min(A_T, B_T)$$

$$S_B = business\ innovation\ score = min(A_F, C_F)$$

$$A = Answer_a$$

$$B = Answer_b$$

C = sub-criterion 20/31

Analytical process and construction:
S1 is the maximum of two intermediate metrics: technical innovation score (S_T) and business innovation score (S_B). In turn, the score of S_T and S_B is assessed as the minimum of observed metrics: degree of innovation in the target region (A), extent to which it is able to address a mitigation/adaptation[29] need in the context region (B), and extent to which it can address an investment barrier in the context region (C).

"A", applicable to both technical innovation and business innovation, is measured with answers to the following question:

1. Based on the evidence provided in the FP, and/or to the best of your knowledge, does the proposed project/programme introduce an **innovation** (a technical and/or business innovation) that **did not previously exist in the market of reference**?[30] [Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]

[29] *Assessment of innovation for adaptation projects will be optional for end users of the tool.*

[30] *This refers to whether the proposed project/programme is a "First-of-its-kind activity", as defined in the Tool for demonstration and assessment of additionality by the UNFCCC (https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf).*

LOW	1	Innovation has been "**observed at scale**": it has been implemented, adopted or made available at market rates to potential users in the target region/market for MORE than **1 year**. **OR** Not known
MEDIUM-LOW	2	Innovation has been "**observed at scale**": it has been implemented, adopted or made available at market rates to potential users in the target region/market for LESS than **1 year**.
MEDIUM	3	Innovation has NOT been "**observed at scale**": it has NEVER been implemented, adopted or made available at market rates to potential users in the target region/market. **AND** The innovation is at "**pilot stage**": it has been tested in the target region/market (or at least one pilot exists) for MORE than **1 year**. **OR** Not known
MEDIUM-HIGH	4	Innovation has NOT been "**observed at scale**": it has NEVER been implemented, adopted or made available at market rates to potential users in the target region/market. **AND** The innovation is at "**pilot stage**": it has been tested in the target region/market (or at least one pilot exists) for LESS than 1 year.
HIGH	5	Innovation has NOT been "**observed at scale**": it has NEVER been implemented, adopted or made available at market rates to potential users in the target region/market. **AND** The innovation is NOT yet at "**pilot stage**": it has NEVER been tested in the target region/market.

"B", applicable to technical innovation only, is measured by scores of answers to the following question:

2. Based on the evidence provided in the FP, and/or to the best of the user's knowledge, does the proposed technical innovation **address mitigation/adaptation needs** that can't be met, or are less effectively met, by alternative available options at similar costs in the target region/market?[31] [Low=1, Medium=3, High =5]

LOW	1	The supported technology, process or modal shift addresses mitigation/adaptation needs that CAN be addressed by alternative available options in the target region/market. **AND** The supported technology, process or modal shift is potentially EQUALLY OR LESS effective, efficient and/or cost effective than alternative options in the target region/market.

[31] *This question refers to STEP 1 in the CDM tool, "identification of alternatives to the project activity" https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf*

MEDIUM	3	The supported technology, process or modal shift addresses mitigation/ adaptation needs that CAN be addressed by alternative available options in the target region/market. **AND** The supported technology, process or modal shift is potentially MORE effective, efficient and/or cost effective than alternative options in the target region/ market.
HIGH	5	The supported technology, process or modal shift addresses mitigation/ adaptation needs that CANNOT be addressed by alternative available options in the target region/market.

"C", applicable to business innovation only, is equivalent to using the final score of sub-criterion 20/31 "Opportunities for the Fund to overcome specific barriers to financing". [Low=1, Medium-low=2, Medium=3, Medium-high=4, High =5]

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 2/6 PARADIGM SHIFT POTENTIAL **SUB-CRITERION 5/31 (AND 11/31) POTENTIAL FOR EXPANDING THE SCALE AND IMPACT OF THE PROPOSED PROGRAMME OR PROJECT (SCALABILITY)**

Coverage area: Potential for scaling up and replication, and its overall contribution to global low-carbon development pathways being consistent with a temperature increase of less than 2 degrees Celsius (mitigation only)

Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans (adaptation only).

Focus on: Mitigation and adaptation

Definition and Rationale: The aim of a paradigm shift is to catalyse impact beyond a one-off investment, and scalability and replicability are central to such change.

The sub-criterion "scalability" represents the potential for a project to scale and reach a long-term scenario for a specific sectoral, national, or regional context.

In contrast to replicability, the sub-criterion "scalability" is assessed within the purview of activities undertaken as part of the proposed project and theory of change. More specifically, "scaling-up" refers to "activities that attempt to expand an initial intervention in terms of, for example, greenhouse gas (GHG) emissions or energy consumption reduced, revenue generated, risks mitigated, stakeholders served or affected, money provided, assets, goods and/or services financed, and geographical or facility scale."[32] The Initial Investment Framework GCF/B.09/23, refers to the indicative assessment factor for scalability as a "theory of change for scaling-up the scope and impact of the intended project/programme without equally increasing the total costs of

[32] *OECD (2014). Scaling up and Replicating Effective Climate Finance Interventions. Climate Change Expert Group Paper No. 2014(1). May 2014. Paper available at: http://www.oecd.org/env/cc/Scaling_up_CCXGsentout_May2014_REV.pdf*

implementation." As such, scalability sits within a project boundary and is clearly linked to its objectives and expected results.

Examples of scaling a project or programme include:

1. Launching a pilot initiative with GCF support that is expected to become financially self-sufficient and to reach scale that will capture a greater share of the market.
2. Launching a capacity-building campaign for farmers that expects to grow impacts as more farmers copy and apply new farming techniques.

The sub-criterion is applicable to both mitigation and adaptation-focused projects and programmes.

Proposed Indicator for Sub-criterion 5/31
Indicator S5/31.1 *Scalability score*

$$S1 = 1 + \{\sum_{i=1}^{4} Answer_i \times \frac{4}{12}\}$$

Analytical process and construction:
The indicator represents the sum of scores as indicated in the following set of questions, if applicable:

1. Does the proposed project or programme explicitly **identify target sectors** for scaling up (e.g. the whole sector or all sectors of the national economy)? [Yes = 3, No = 0]
2. Does the proposed project or programme provide **evidence of the existence of market demand** for sectors targeted for scaling up from existing studies/surveys/ literature? [Yes = 3, No = 0]
3. Does the proposed project or programme provide an estimate of the **size of the target market** to be scaled up (in size of investment or size of activity)? [No = 0, Low = 1, Medium = 2, High=3].

NO	0	Information **not available**
LOW	1	The proposed project or programme provides an **estimate of the target market at scale** (in size of investment or size of activity) and a **timeframe** (e.g. short, medium or long term).
MEDIUM	2	The proposed project or programme provides an **estimate of the target market at scale** (in size of investment or size of activity) and a **timeframe** (e.g. short, medium or long term). **AND** The proposed project or programme provides **a rationale** demonstrating the **significance of such scale in the context of reference** (sector/investor).

HIGH	3	The proposed project or programme provides an **estimate of the target market at scale** (in size of investment or size of activity) and a **timeframe** (e.g. short, medium or long-term). **AND** The proposed project or programme provides **a rationale** for the **significance of such scale in the context of reference** (sector/investor). **AND** Estimates of both scale and its significance are **backed by evidence** (existing studies, data, literature).

4. Does the proposed project or programme clearly set out the **short, medium and long-term** changes, during or after project implementation, to expand its scope and impact without increasing its costs?[33] [No = 0, Low = 1, Medium = 2, High=3].

NO	0	Information **not available**
LOW	1	The proposed project or programme **sets out changes necessary to expand its scope** and impact.
MEDIUM	2	The proposed project or programme sets out changes necessary to expand its scope and impact. **AND** Provides **details on short, medium and long-term milestones**[34] to achieve that. **OR** Provides evidence of being able to do so **without increasing its costs.**
HIGH	3	The proposed project or programme sets out changes necessary to expand its scope and impact **AND** Provides **details on short, medium and long-term milestones** to achieve that. **AND** Provides evidence of being able to do so **without increasing its costs.**

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 2/6 PARADIGM SHIFT POTENTIAL **SUB-CRITERION 7/31 CONTRIBUTION TO THE CREATION OR STRENGTHENING OF KNOWLEDGE, COLLECTIVE LEARNING PROCESSES, OR INSTITUTIONS**

Coverage area: Potential for knowledge and learning

Focus on: Mitigation and adaptation

Definition and Rationale: This sub-criterion falls under the paradigm shift investment criterion and is applicable to mitigation and adaptation-focused projects and

[33] *e.g. without determining significant additional costs to the ones needed for the setting up of the project/ programme.*

[34] *e.g. description of expected timing and requirements for each milestone*

programmes. Knowledge creation is an important part of sustaining and catalysing a long-term change necessary for a paradigm shift.

The sub-criterion assesses the specific and measurable contributions of the proposed project to collective learning, including creating individual and institutional capacities, creating and disseminating knowledge, and strengthening institutions with the aim of driving or reinforcing a paradigm shift.

To develop this sub-criterion, we considered the indicative assessment factor listed in GCF/B.09/23 that looks for the presence of monitoring and evaluation for sharing lessons learned. We also considered how knowledge creation helps sustain and catalyse further impact as would be inherent to a paradigm shift. Thus, we expanded the assessment factors to include, in addition to a monitoring and evaluation plan, the specific, and measurable contributions of the proposed project to collective learning, including creating individual and institutional capacities, creating knowledge, and strengthening institutions with the aim of driving or reinforcing a paradigm shift.

Proposed Indicator for Sub-criterion 7/31
Indicator S7/31.1 *Creation and diffusion of knowledge*

Assessment of this sub-criterion uses a scoring matrix to assess factors that contribute to knowledge creation, based on the project's theory of change.

$$S1 = 1 + \{\sum_{i=1}^{4} Answer_i \times \frac{4}{5}\}$$

Analytical process and construction:
The sum of the points for the questions below will determine the sub-criterion score.

1. Does the proposed project or programme provide evidence of improving/ advancing the **general technical understanding**[35] in a field relevant to the proposed intervention? [Yes = 1, No = 0]
2. Does the proposed project or programme include mechanisms to **strengthen cooperation** between partner organizations responsible for implementing the activities of the proposed project or programme? [Yes = 1, No = 0]
3. Does the proposed project or programme **clearly set out learning exchanges or institutional knowledge**[36] **sharing activities** between organizations partnering in the project and beyond?[37] [No/Low = 0, Medium = 1, High=2].

NO/LOW	0	The proposed project or programme **does not** set out **learning exchanges** between partner organizations and other entities.
MEDIUM	1	The proposed project or programme provides a **description** of the **learning exchanges** between partner organizations and other entities.

[35] *Contributions may be technical or academic contributions on strategies, policies, data management, software and/or financial techniques.*

[36] *Institutional knowledge is defined as knowledge that transcends individuals and helps preserve and sustain knowledge within an institution, or organization. Examples of institutional knowledge include: strategies, policies, processes, data, software, computer code and other types of information that make up an organization.*

[37] *Institutions include entities such as regulatory agencies, non-profit organizations, academic institutions, businesses, and other types of organizations.*

HIGH	2	The proposed project or programme provides a **description** of the **learning exchanges** between partner organizations and other entities. **AND** **Roles and responsibilities** and **implementation modalities** are clearly defined.

4. Does the proposed project or programme include details for a plan for the **monitoring and evaluation** of knowledge creation/spreading? [Yes = 1, No = 0]

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 2/6 PARADIGM SHIFT POTENTIAL **SUB-CRITERION 8/31 SUSTAINABILITY OF OUTCOMES AND RESULTS BEYOND COMPLETION OF THE INTERVENTION**

Coverage area: Contribution to the creation of an enabling environment

Focus on: Mitigation and adaptation

Definition and Rationale: This sub-criterion falls under the paradigm shift investment criterion and is applicable to mitigation and adaptation-focused projects and programmes. Scoring addresses the likelihood that a proposed project would become self-sustaining after GCF funding has ended. Contributing factors include financial sustainability and the availability of institutional capacity to continue activities over the long-term.

Proposed Indicators for Sub-criterion 8/31

Indicator S8/31.1 *Financial viability in the long run*

$$S1 = sub\text{-}criterion\ 30/31$$

Analytical process and construction:

S1 is measured by using the final score of Sub-criterion 30/31 "Financial viability in the long run" under the sixth criterion "Efficiency and effectiveness".

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 2/6 PARADIGM SHIFT POTENTIAL **SUB-CRITERION 9/31 MARKET DEVELOPMENT AND TRANSFORMATION**

Coverage area: Contribution to the creation of an enabling environment

Focus on: Mitigation and adaptation

Definition and Rationale: This sub-criterion falls under the paradigm shift investment criterion and is applicable to mitigation and adaptation-focused projects and programmes. Scoring addresses whether the proposed project can deliver lasting change in market transformation by increasing opportunities to adoption of mitigation and adaptation measures at national, local, or sectoral levels.

Proposed Indicator for Sub-criterion 9/31

Indicator S9/31.1 *Market creation at national, local or sectoral level*

Assessment of this sub-criterion uses a scoring matrix to assess factors that contribute to market development and transformation, based on the project's theory of change.

$$S1 = 1 + \sum_{i=1}^{2} Answer_i$$

Analytical process and construction:

The sum of the points for the questions below will determine the sub-criterion score:

1. Does the project or programme provide **evidence** that **skills are introduced in the job market** at national, local, or sectoral levels? (e.g. with the creation of long-term training facilities, universities, etc.). [Yes = 1, No = 0].
2. Does the project or programme provide evidence of the creation at national, local or sectoral level of **new business activities** (e.g. companies, funds, equipment suppliers, insurers, service providers, engineering companies) previously not existing in the market? [No = 0, Low = 1, Medium = 2, High=3].

NO	0	No market transformation or information not available.
LOW	1	The proposed project or programme provides evidence that the market is transformed by expanding capacity within existing businesses at the local, national, or sectoral level to carry out new business activities. **BUT** No additional (net) jobs are created as a result of these activities.
MEDIUM	2	The proposed project or programme provides evidence that the market is transformed by expanding capacity within existing businesses at the local, national, or sectoral level to carry out new business activities. **AND** Additional (net) jobs are created as a result of these activities.
HIGH	3	The proposed project or programme provides evidence that the market is transformed by expanding capacity within existing businesses and with the creation of new businesses at the local, national, or sectoral level. **AND** Additional (net) jobs are created as a result of these activities.

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 2/6 PARADIGM SHIFT POTENTIAL **SUB-CRITERION 10/31 POTENTIAL FOR STRENGTHENED REGULATORY FRAMEWORKS AND POLICIES TO DRIVE INVESTMENT IN LOW-EMISSION TECHNOLOGIES AND ACTIVITIES, PROMOTE DEVELOPMENT OF ADDITIONAL LOW-EMISSION POLICIES, AND/OR IMPROVE CLIMATE-RESPONSIVE PLANNING AND DEVELOPMENT**

Coverage area: Contribution to the regulatory framework and policies

Focus on: Mitigation and adaptation

Definition and Rationale: This sub-criterion falls under the paradigm shift investment criterion and is applicable to mitigation and adaptation-focused projects and programmes.

The "systematic mainstreaming" of climate change into national regulatory frameworks and policies involves amassing country-specific information and data relevant to GHG emissions, climate risks and vulnerabilities, costing and assessing adaptation/mitigation options and measures to be implemented through policies and/or frameworks, strengthening the capacities of the institutions responsible for the implementation of climate-related regulatory frameworks and policies, as well as ensuring that the implementation of climate-related frameworks and policies are properly budgeted and monitored.

Scoring addresses whether the proposed project contributes to regulatory and policy frameworks with the aim of driving investment to mitigation and adaptation.

Proposed Indicator for Sub-criterion 10/31
Indicator S10/31.1 *Contribution to mainstreaming and systematic promotion of climate change within regulatory frameworks and policies*

Assessment of this sub-criterion uses a scoring matrix to assess factors that contribute to regulatory and policy changes, based on the project's theory of change.

$$S1 = 1 + \left\{ \sum_{i=1}^{5} Answer_i \times \frac{4}{5} \right\}$$

Analytical process and construction:
The sum of the points for the questions below will determine the sub-criterion score:

1. Does the project or programme clearly describe (e.g. by defining milestones) how it will **actively encourage** (i.e. through awareness-raising, lobbying, campaigning, facilitating stakeholder dialogue, capacity building) **regulatory entities** (national and local government entities, regulatory agencies) **to consider climate change, and low-carbon/climate resilient development as a priority** (i.e. by achieving senior level commitment, setting targets on the issue, updating their risk management frameworks) in the strategies, policies and frameworks they are responsible for? [Yes = 1, No = 0]
2. Does the project or programme clearly describe (e.g. by defining milestones) how it will **contribute** (i.e. by providing information or identifying climate adaptation and/or mitigation measures) to the **enactment of legally binding provisions** (i.e. financial/fiscal incentives, drafting of codes) that **systemically promote investment** in **low-emission and/or climate-resilient development** (e.g. through the integration of climate change considerations into relevant budgetary frameworks at national, subnational and sectoral levels)? [Yes = 1, No = 0]

3. Does the project or programme clearly describe (e.g. by defining milestones) how it will **contribute** (i.e. by providing information or identifying climate adaptation and/or mitigation measures) to **increased transparency in the reporting of climate action progress** (e.g. including tracking of policies or financing towards clean energy, energy efficiency, climate resilience or other climate-related activities and investments)? [Yes = 1, No = 0]
4. Does the project actively encourage regulatory changes that would **enable and facilitate the survival of the proposed activities** in the long-term OR **the scale up and/or replication of the proposed activities**? [Yes = 1, No = 0]
5. Does the project or programme clearly describe how **the implementation of the legally binding provisions (climate action) will be monitored and evaluated (M&E)** (transparency of the M&E process, reporting frequency)? [Yes = 1, No = 0]

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

Investment Criterion 3/6 Sustainable Development Potential

The wider impact of climate mitigation and adaptation efforts sits within a broad definition of sustainable development. Projects with positive climate impacts may produce adverse outcomes in other key development areas. Conversely, the strongest impacts are achieved where climate finance also delivers on other environmental, social, and economic co-benefits.

The broad concept of sustainable development is encapsulated by the seventeen Sustainable Development Goals (SDGs) agreed in 2015, along with their 230 indicators for measuring progress.[38],[39]

"Sustainable development potential" captures positive impacts of projects in environmental, economic, and social terms. Environmental co-benefits may cover environmental quality, efficient resource use, and impact on biodiversity and ecosystem services. Social co-benefits span labour rights, land rights, indigenous peoples' issues, health outcomes, access to education, and preservation of cultural heritage. Finally, economic co-benefits include increased income, reduced inequality, increased productivity, infrastructure investment, poverty alleviation and job creation. Gender is treated as a separate category.

Co-benefits are the **net intended positive side effects**[40] that are expected to be produced with the implementation of the proposed project activity.

Link to the GCF mandate, and policies: The sustainable development criterion used by the GCF investment framework requires proponents to provide an assessment of expected environmental, social, health, and economic co-benefits of a project. It also

---

38 *https://unstats.un.org/sdgs/*

39 *In addition to climate action, these span poverty reduction; hunger; public health; education; gender equality; clean water and sanitation; affordable and clean energy; economic growth and decent work; infrastructure investment; equality; sustainable cities; production and consumption; marine and coastal zones; environmental protection; just institutions; and global partnerships.*

40 *The IPCC AR3 distinguished co-benefits or the intended positive side effects of a policy from ancillary benefits or unintended positive side effects. https://iges.or.jp/en/publication_documents/pub/nonpeer/en/2393/acp_factsheet_1_what_co-benefits.pdf*

requires a gender-sensitive assessment with the aim of reducing gender inequalities in project impacts.

GCF does not require separate co-benefit analyses for each factor. Environmental, social, and health co-benefit calculations can be drawn from economic analysis and supported by qualitative factors where appropriate. This may include, for instance, references to the ability of the project to enable the achievement of one or more of the Sustainable Development Goals.

CRITERION 3/6 SUSTAINABLE DEVELOPMENT POTENTIAL **SUB-CRITERION 13/31 EXPECTED POSITIVE ENVIRONMENTAL IMPACTS, INCLUDING IN OTHER RESULT AREAS OF THE FUND, AND/OR IN LINE WITH THE PRIORITIES SET AT THE NATIONAL, LOCAL OR SECTORAL LEVEL, AS APPROPRIATE**

Coverage area: Environmental co-benefits

Focus on: Mitigation and adaptation

Definition and Rationale: The sub-criterion "Environmental co-benefits" falls under the investment criterion of sustainable development potential and is applicable to all result areas for adaptation and mitigation projects and programmes. Examples include increased quality of air, water, and soils as well as conservation and biodiversity.

This sub-criterion can help understand and assess how a proposed project or programme contributes to wider environmental benefits and priorities at the national, local, or sectoral level.

Proposed Indicator for Sub-criterion 13/31
Indicator S13/31.1 *Extent of environmental co-benefits*

$$S1 = \max\left[1, \left(\frac{\sum_{i=1}^{a} Answer_i}{a}\right)\right]$$

$$a = \ number\ of\ applicable\ dimensions\ within\ indicator$$

Analytical process and construction:
The indicator is based on the sum of scores as indicated below in the following set of questions, if applicable[41]:

1. Does the proposed project or programme provide **net improvement in the quality of air** (e.g. reduced air pollution) compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]
2. Does the proposed project or programme provide **net improvement in the quality of water** (e.g. reduced water pollution) compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]
3. Does the proposed project or programme provide **net improvement in the quality of land** (e.g. reduced land pollution/contamination) compared to the likely situation

[41] *Environmental co-benefit categories identified draw from 2nd level ESS due diligence questions/ requirements for Accredited Entities (AEs) submitting funding proposals to GCF as adopted – as interim environmental and social safeguard standards – from the International Finance Corporation Performance Standards.*

without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]

4. Does the proposed project or programme provide **net improvement in the efficient and sustainable use of living natural resources and/or ecosystem services** compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]

5. Does the proposed project or programme provide **net improvement in biodiversity**, compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]

NOT APPLICABLE	-	Dimension is **not relevant for / not applicable to** the project or programme as per GCF assessment.
NEGATIVE IMPACT	-1	Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined.
LOW	1	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined AND **evidence is provided that a plan is in place** to entirely offset such negative impacts.
MEDIUM-LOW	2	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined AND **evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined.

MEDIUM	3	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined AND **evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** at the national, local or sectoral level, that will remain once the project ends. **OR** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual /baseline** is supported by **evidence/documentation**. **OR** The FP includes a **monitoring plan** to **measure and demonstrate ex-post** such net positive impacts.
MEDIUM-HIGH	4	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined AND **evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** <u>Two of the following three statements are true:</u> Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** at the national, local or sectoral level, that will remain once the project ends. **OR** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual/baseline** is supported by **evidence/documentation**. **OR** The FP includes a **monitoring plan** to **measure and demonstrate ex-post** such net positive impacts.

HIGH	5	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce a negative impact** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined AND **evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** at the national, local or sectoral level, that will remain once the project ends. **AND** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual/baseline** is supported by **evidence/documentation**. **AND** The FP includes a **monitoring plan** to **measure and demonstrate** such net positive co-benefits **ex-post**.

If **none** of the environmental co-benefit dimensions are applicable to the project, the score of the sub-criterion is "low."

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 3/6 SUSTAINABLE DEVELOPMENT POTENTIAL **SUB-CRITERION 14/31 EXPECTED POSITIVE SOCIAL AND HEALTH IMPACTS, INCLUDING IN OTHER RESULT AREAS OF THE FUND, AND/OR IN LINE WITH THE PRIORITIES SET AT THE NATIONAL, LOCAL OR SECTORAL LEVELS, AS APPROPRIATE**

Coverage area: Social co-benefits

Focus on: Mitigation and adaptation

Definition and Rationale: The sub-criterion "Expected positive social and health impacts" falls under the investment criterion of sustainable development potential and is applicable to all result areas for adaptation and mitigation projects and programmes.

This sub-criterion can help explain and assess how a proposed project or programme contributes to wider social benefits and priorities in the country where it is implemented, in addition and/or as a result of its initial low-carbon and/or climate-resilient development objective. It also encompasses the potential for positive externalities in the form of expected improvements in the following areas: welfare,[42] health and safety, access to education, improved regulation and/or cultural preservation.

Proposed Indicator for Sub-criterion 14/31
Indicator S14/31.1 *Extent of social and health co-benefits*

$$S1 = \max\left[1, \left(\frac{\sum_{i=1}^{a} Answer_i}{a}\right)\right]$$

$$a = \textit{applicable dimensions within indicator}$$

Analytical process and construction:
The indicator is based on the sum of scores as indicated below in the following set of questions, if applicable:[43]

1. Does the proposed project or programme provide **net positive** impact on **health, safety and security**[44] compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]
2. Does the proposed project or programme provide **net positive impacts on communities facing land acquisition and involuntary resettlement**[45] compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]
3. Does the proposed project or programme provide **net positive impacts on indigenous peoples**, or **improved conservation of and/or access to cultural heritage**[46] compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]
4. Does the proposed project or programme provide **net improved access to education**[47] compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]

NOT APPLICABLE	-	Dimension is **not relevant for/not applicable** to the project or programme as per GCF assessment.
NEGATIVE IMPACT	-1	Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined.

[42] *There is no clear-cut definition for social welfare, but a broad understanding of the concept evolves around "the well-being of the entire community". See Punekar S.D. (1959) The Concept of Social Welfare*

[43] *Social and health categories identified draw from: (i) 2nd level ESS due diligence questions/requirements for Accredited Entities (AEs) submitting funding proposals to GCF as adopted - as interim environmental and social safeguard standards - from the International Finance Corporation Performance Standards, and (ii) the approach used by the Clean Development Mechanism (CDM) to measure project co-benefits (including social) available here: https://cdm.unfccc.int/about/ccb/index.html*

[44] *Including disease prevention, accident reduction, crime reduction, food preservation, reduction of health damaging indoor air pollution, health service enhancement, improvement of sanitation and waste management and other health and safety improvements.*

[45] *Including avoidance of expropriation or negotiated resettlement, improvement of land rights and land use rights, improvement of access to traditional natural resources and communal property, appropriate compensation, concerted resettlement plans.*

[46] *Including preservation of lands occupied by indigenous groups /cultural sites and the protection of national/regional cultural/knowledge-related practice.*

[47] *Enhanced educational services, and other educational benefits.*

LOW	1	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts.
MEDIUM-LOW	2	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined.
MEDIUM	3	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** at the national, local or sectoral level that will remain after the project ends. **OR** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual/baseline** is supported by **evidence/documentation**. **OR** The FP includes a **monitoring plan** to **measure and demonstrate ex-post** such net positive impacts.

MEDIUM-HIGH	4	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** Two of the following: Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** (at the national, local or sectoral level) that will remain once the project ends. **OR** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual/baseline** is supported by **evidence/documentation**. **OR** The FP includes a **monitoring plan** to **measure and demonstrate ex-post** such net positive impacts.
HIGH	5	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** at the national, local or sectoral level that will remain once the project ends. **AND** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual /baseline** is supported by **evidence/documentation**. **AND** The FP includes a **monitoring plan** to **measure and demonstrate** such net positive co-benefits **ex-post**.

If **none** of the social co-benefit dimensions are applicable to the project, the score of the sub-criterion is "low."

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 3/6 SUSTAINABLE DEVELOPMENT POTENTIAL **SUB-CRITERION 15/31 EXPECTED POSITIVE ECONOMIC IMPACTS, INCLUDING IN OTHER RESULT AREAS OF THE FUND, AND/OR IN LINE WITH THE PRIORITIES SET AT THE NATIONAL, LOCAL, OR SECTORAL LEVEL, AS APPROPRIATE**

Coverage area: Economic co-benefits

Focus on: Mitigation and adaptation

Definition and Rationale: The sub-criterion "economic co-benefits" falls under the investment criterion of sustainable development potential and is applicable to the results of adaptation and mitigation projects and programmes. Examples include the creation of jobs, poverty alleviation and enhancement of income and financial inclusion, especially among women (GCF/B.20/Inf.14).

This sub-criterion assesses how a proposed project or programme contributes to wider economic benefits and priorities at the national, local, or sectoral level.

Proposed Indicator for Sub-criterion 15/31
Indicator S15/31.1 *Extent of economic co-benefits*

$$S1 = \max\left[1, \left(\frac{\sum_{i=1}^{a} Answer_i}{a}\right)\right]$$

$$a = \ applicable\ dimensions\ within\ indicator$$

Analytical process and construction:
This indicator is based on the sum of scores as indicated in the following set of questions, if applicable:

1. Does the proposed project or programme **create net income improvement** for the target geographies[48] compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]
2. Does the proposed project or programme **contribute to net poverty alleviation**[49] compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]
3. Does the proposed project or programme **increase availability of physical infrastructure, for a wider use than strictly serving the project purposes)**[50] compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]

[48] *e.g. through job creation, generation of profits for local investors, reduced transaction costs, or opportunity costs for its beneficiaries*

[49] *e.g. economic benefits (jobs, salary increase, better employment conditions, and other) determine a net decrease in the number of people below the poverty threshold for the target country(ies).*

[50] *e.g. enabling connection to the grid which may benefit other power projects, expanding roads network.*

4. Does the proposed project or programme determine a **net increase in productivity and competitive capacity for the beneficiaries**[51] compared to the likely situation without the project? [Negative impact = -1, Low = 1, Medium-low = 2, Medium = 3, Medium-high = 4, High = 5]

NOT APPLICABLE	-	Dimension is **not relevant for/not applicable** to the project or programme as per GCF assessment.
NEGATIVE IMPACT	-1	Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined.
LOW	1	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts.
MEDIUM-LOW	2	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined.

[51] *e.g. from improved resources use through energy efficiency or increased competitive advantage deriving from services provided.*

MEDIUM	3	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** at the national, local or sectoral level, that will remain once the project ends. **OR** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual/baseline** is supported by **evidence/documentation**. **OR** The FP includes a **monitoring plan** to **measure and demonstrate ex-post** such net positive impacts.
MEDIUM-HIGH	4	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negative impacts** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** Two of the following: Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** at the national, local or sectoral level, that will remain once the project ends. **OR** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual/baseline** is supported by **evidence/documentation**. **OR** The FP includes a **monitoring plan** to **measure and demonstrate ex-post** such net positive impacts.

HIGH	5	Based on information in the FP, or as per GCF assessment, the proposed project or programme **does not produce negatives impact** in the dimension examined. **OR** Based on information in the FP, or as per GCF assessment, the proposed project or programme **may produce negative impacts** in the dimension examined. **AND** **Evidence is provided that a plan is in place** to entirely offset such negative impacts. **AND** The proposed project or programme provides a **description** of **long-term net positive impacts** in the dimension examined. **AND** Based on information in the FP, or as per GCF assessment, net positive impacts can be considered **significant** and **aligned with priorities** at the national, local or sectoral level, that will remain once the project ends. **AND** **Potential net positive impacts** are **estimated** using **peer-reviewed protocols or methodologies** as a frame of reference and the **counterfactual / baseline** is supported by **evidence/documentation**. **AND** The FP includes a **monitoring plan** to **measure and demonstrate** such net positive co-benefits **ex-post**.

If **none** of the economic co-benefit dimensions are applicable to the project, the score of the sub-criterion is "low."

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 3/6 SUSTAINABLE DEVELOPMENT POTENTIAL **SUB-CRITERION 16/31 POTENTIAL FOR REDUCED GENDER INEQUALITIES IN CLIMATE CHANGE IMPACTS AND/OR EQUAL PARTICIPATION BY GENDER GROUPS IN CONTRIBUTING TO EXPECTED OUTCOMES**

Coverage area: Gender-sensitive development impact

Focus on: Mitigation and adaptation

Definition and Rationale: As per the GCF Gender Policy, gender is defined as the way societies and specific cultures assign roles and ascribe characteristics to men and women based on their sex. Since climate change impacts upon men and women differently, existing gender inequalities are likely to be exacerbated by climate change.[52]

The Gender Policy spells out the principles for achieving gender equality and women's empowerment through an action plan and supporting technical guidance, the operational requirements for stakeholder involvement in the design, implementation and evaluation of projects. The updated policy is not only gender sensitive (taking

[52] *GCF (2019). Updated Gender Policy and Gender Action Plan 2020–2023. GCF/B.24/15*

into account the societal and cultural factors involved in gender-based exclusion and discrimination) but is also engaged in gender responsiveness, which entails an active promotion of gender equality, and the respect and value of contributions from both women and men. The three main objectives of the gender policy are:

1. To support climate change interventions and innovations through a comprehensive gender approach, applied both within the institution and by its network of partners, including accredited entities (AEs), national designated authorities (NDAs) and focal points, and delivery partners for activities under the GCF Readiness and Preparatory Support Programme;
2. To promote climate investments that (i) advance gender equality through CCM/CCA, and (ii) minimize social, gender-related and climate-related risks while also endeavouring to promote respect for and observance of the human rights of all people, including women and men from vulnerable or marginalized communities in all climate change actions;
3. To contribute to reducing the gender gap of climate change-exacerbated social, economic and environmental vulnerabilities and exclusions through GCF climate investments that mainstream gender equality issues.

The GCF Gender Policy applies throughout all the Fund's activities and across four interconnected levels: GCF institutional level, project/portfolio level, national level and sector level.

At the project preparation stage, accredited entities are mandated to submit, as part of the funding proposal: (i) a gender assessment, and (ii) a project-level gender action plan with the aim of identifying specific gender elements that should be included in project activities and determining how the project/programme can respond to the needs of women and men in view of the specific climate change issue to be addressed.

The sub-criterion "potential for reduced gender inequalities" falls under the sustainable development potential investment criterion and is applicable to all result areas for adaptation and mitigation-focused projects and programmes.

This sub-criterion can provide information on and assessment of the way in which a proposed project or programme addresses the needs of women and men in order to correct prevailing inequalities in the context of climate change-related vulnerability and risks. Gender co-benefits can arise from enhanced job opportunities, improved financial and/or social status, better political representation, and/or empowerment.

This sub-criterion has been mainstreamed in the Fund's Integrated Results Management Framework (IRMF) by integrating gender-sensitivity at the Fund's portfolio level through gender actions and performance as well as programmes and project-level gender-based performance objectives, impact and outcome indicators, and reporting aligned with the Sustainable Development Goal (SDG) framework, particularly SDG5 and gender targets in other goals.[53] As part of the Performance Measurement Framework (PMF), quantitative and qualitative indicators must be disaggregated by sex for both mitigation and adaptation portfolios where relevant and feasible.[54]

[53] *GCF (2021) Integrated Results Management Framework.* *https://www.greenclimate.fund/document/integrated-results-management-framework*

[54] *Ibid*

Proposed Indicator for Sub-criterion 16/31
Indicator S16/31.1 *Introduction of gender-responsive measures[55] to promote gender equality[56] or gender equity[57]*

$$S1 = 1 + (\sum_{i=1}^{6} Answer_i \times \frac{2}{3})$$

Analytical process and construction:
The indicator represents the sum of scores as indicated below in the following set of questions, if applicable:

1. Does the proposed project or programme include gender-responsive measures that aim to address gender inequalities[58] in **decision-making participation** (including inclusion of women in decision-making governance structures at all levels from community to national levels)? [Yes = 1, No = 0]
2. Does the proposed project or programme include gender-responsive measures that aim to address gender inequalities in **access and control over natural resources**?[59] [Yes = 1, No = 0]
3. Does the proposed project or programme include gender-responsive measures that aim to improve women's **access to education and training** (including job-related training, enhanced educational services, project-related knowledge dissemination and other educational benefits)? [Yes = 1, No = 0]
4. Does the proposed project or programme include gender-responsive measures that aim to address gender inequalities in **access to other services** (including energy, healthcare)? [Yes = 1, No = 0]
5. Does the proposed project or programme include gender-responsive measures that address gender inequalities in the **distribution of socioeconomic benefits** (including new short-term jobs, new long-term jobs, new sources of income generation and other employment activities)? [Yes = 1, No = 0]
6. Does the proposed project or programme include a **monitoring plan** to measure and demonstrate **ex-post** progress on gender equality? [Yes = 1, No = 0]

Data
Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

---

55 *Measures with the potential for reduced gender inequalities in climate change impacts and/or equal participation by gender groups in contributing to expected outcomes. Source: GCF (2014). Gender Policy and Action Plan. GCF/B.08/19*

56 *As enshrined in international and national constitutions and other human rights agreements, 'gender equality' refers to equal rights, power, responsibilities and opportunities for women and men, as well as equal consideration of the interests, needs and priorities of women and men. Source: GCF (2014). Gender Policy and Action Plan. GCF/B.08/19*

57 *Gender equity' refers to the process of being fair to women and men. To ensure gender equity, measures often need to be taken to compensate for (or reduce) disparities in historical and social disadvantages that prevent women and men from otherwise operating on an equitable basis. Equity leads to equality. Source: GCF (2014). Gender Policy and Action Plan. GCF/B.08/19*

58 *Gender inequality can be defined as a "legal, social and cultural situation in which sex and/or gender determine different rights and dignity for women and men, which are reflected in their unequal access to or enjoyment of rights, as well as the assumption of stereotyped social and cultural roles." https://eige.europa.eu/thesaurus/terms/1182. As such, addressing gender inequality(ies) means aiming to achieve equality between genders in terms of rights, status and dignity.*

59 *Such as access to natural resources (e.g. woodland, water) with an active role in governance of such resources*

Criterion 4/6 Needs of the recipient

The investment criterion, "needs of the recipient", focuses on the vulnerability and financing needs of the beneficiary country and population. It aims to assess vulnerabilities of a country or population and exposure to climate risks and barriers to financing. This is reflected along the following dimensions:

- Vulnerability of the country and populations (for adaptation projects)
- Economic and social development level of the country and the affected population(s)
- Absence of alternative sources of financing
- Need for strengthening institutional and implementation capacity

Those needs can be illustrated as follows:[60]

- *Vulnerability* of the country and beneficiary groups (adaptation only): Scale and intensity of exposure to climate risks for the beneficiary country and groups, which could include the exposure of people, capital or social or economic assets to risks derived from climate change.
- *Economic and social development level:* Level of social and economic development (including income level) of the country and target population.
- *Absence of alternative sources of financing:* Barriers that have created a lack of alternative funding sources for the project/programme.
- *Need for strengthening institutions and implementation capacity:* Opportunities to strengthen institutional and implementation capacity in relevant institutions.

Other climate funds also consider recipients' needs and vulnerabilities when reviewing proposals:

- *Adaptation Fund:* The Fund ensures that the project/programme provides environmental and socio-economic co-benefits with a focus on the most vulnerable communities. It also assesses whether consultative processes involved vulnerable groups among their key stakeholders.
- *Pilot Programme for Climate Resilience (PPCR):* The PPCR assesses the extent to which vulnerable households, communities, businesses, and the public sector use improved PPCR-supported tools, instruments, strategies and activities to respond to climate change. The PPCR also looks for evidence that the project/programme contributes to strengthened government capacity and coordination mechanisms to mainstream climate resilience.

[60] *Fayolle, V. and Odianose, S. (2017) Green Climate Fund Proposal toolkit 2017. London: Acclimatise and Climate and Development Knowledge Network.*

CRITERION 4/6 NEEDS OF THE RECIPIENT **SUB-CRITERION 17/31 SCALE AND INTENSITY OF EXPOSURE OF PEOPLE, AND/OR SOCIAL OR ECONOMIC ASSETS OR CAPITAL, TO RISKS DERIVED FROM CLIMATE CHANGE**

Coverage area: Vulnerability of the country

Focus on: Adaptation only

Definition and Rationale: The sub-criterion, "Scale and intensity of exposure of people, capital and/or social or economic assets or capital, to risks derived from climate change", falls under the investment criterion of "needs of the recipient" and is applicable to the results of adaptation-focused projects and programmes (namely livelihoods of people and communities; health, food and water security; infrastructure and built environment; ecosystems and ecosystem services).

This sub-criterion can help assess the level of exposure to climate risks and the degree of vulnerability of the country where the proposed project or programme will be implemented [e.g. particularly vulnerable countries, including Least Developed Countries (LDCs), Small Island Developing States (SIDS), and African states].

Climate risks should be understood as part of a broader system that involves hazards, exposure, and vulnerability, as explained below:[61]

- **Hazard:** the potential occurrence of a natural or human-induced physical event or trend or physical impact that may cause loss of life, injury, or other health impacts, as well as damage and loss to property, infrastructure, livelihoods, service provision, ecosystems, and environmental resources.
- **Exposure:** the presence of people, livelihoods, species or ecosystems, environmental functions, services, and resources, infrastructure, or economic, social, or cultural assets in places and settings that could be adversely affected.
- **Vulnerability:** the propensity or predisposition to be adversely affected. Vulnerability encompasses a variety of concepts and elements including sensitivity or susceptibility to harm and lack of capacity to cope and adapt.

The concepts of exposure and vulnerability mostly arise from socio-economic factors, and are, therefore, closely intertwined. The interaction of these two elements with hazards is what lead to risks to a system. The indicator below captures to what extent the FP presents evidence of exposure and vulnerability at the national level.

Proposed Indicators for Sub-criterion 17/31
Indicator S17/31.1 *Evidence of exposure and vulnerability for the country*

$$S1 = 1 + (A \times \frac{4}{3})$$

$$A = \ Answer1\ from\ input\ C\ from\ sub - criterion\ 2/31$$

Analytical process and construction:
"A" uses metrics previously assessed as part of the ICS. More specifically, it uses the score of the answer to question (1) under input C *"Robustness of the adaptation impact estimate"* within sub-criterion 2/31 *"Contribution to increased climate-resilient sustainable development for most vulnerable people and communities"*, which asks:

---

[61] *Intergovernmental Panel on Climate Change (IPCC), 6th Assessment Report, Working Group 2: Climate Change 2022: Impacts, Adaptation and Vulnerability (2022).* https://www.ipcc.ch/report/sixth-assessment-report-working-group-ii/

> "Does the proposed project or programme clearly set out its climate-change vulnerability context (i.e. the specific risks and vulnerabilities under current and future conditions of climate change that the project or programme aims to address)?" [No = 0, Low = 1, Medium = 2, High=3].

The answer to the above question is used as a proxy for the extent to which there is clear **evidence** that the country(ies) of implementation is **vulnerable to climate change** (i.e. the specific risks and vulnerabilities under current and future conditions of climate change).

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

Indicator S17/31.2 *Climate vulnerability and adaptation readiness*[62,63]

$$\boldsymbol{S2} = 6 - S2_{raw}$$

$$S2_{raw} = quintile(\sum_{i=1}^{n}(Share\ of\ country_i) \times (NG\ GAIN\ Country\ Index\ of\ country_i)$$

Analytical process and construction:

The indicator S2 is inversely related to the level of the ND-GAIN Country Index (i.e. the higher the ND-GAIN Country Index, the lower the need of the country to adapt) and if more than one country is included, the index is weighted to reflect the share of activity in each country. The score for $S2_{raw}$ for the activity of interest is assigned to a class from 1 to 5 (with 1 = Very low, and 5 = Very high), based on the results of quintile analysis for ND-GAIN Country Index.

The ND-GAIN Country Index is composed of two key dimensions of adaptation needs: vulnerability and readiness. ND-GAIN measures overall vulnerability by considering six life-supporting sectors – food, water, health, ecosystem service, human habitat, and infrastructure. ND-GAIN measures overall readiness by considering three components – economic readiness, governance readiness and social readiness. Climate vulnerability and adaptation readiness are based on compiled indicators. Thirty-six indicators contribute to the ND-GAIN measure of vulnerability and nine indicators contribute to the measure of readiness.

Data

Data retrieved by the evaluator: The user must identify the country where the project/programme takes place.

Data already in the ICS Database: The ICS Database contains data relative to the country-specific ND-GAIN Index and Human Development Index.

62 *Methodological information for the index can be found in ND GAIN country index methodology.*

63 *It should be noted that using an index to measure the adaptation needs of recipients at country level implies looking at varied aggregated data at a broad scale, hence providing indicative generic information. Further, updates of the index's underlying indicators may vary over time and should be checked to ensure the completeness of the index scoring information provided.*

CRITERION 4/6 NEEDS OF THE RECIPIENT **SUB-CRITERION 19/31 LEVEL OF SOCIO-ECONOMIC DEVELOPMENT OF THE COUNTRY AND TARGET POPULATION**

Coverage area: Economic and social development level of the country and the affected population

Focus on: Mitigation and adaptation

Definition and Rationale: This sub-criterion measures the needs of the project/programme recipients through general indicators of economic development. This sub-criterion thus allows to better understand the relative context in which activities and generated impacts take place. To be as comprehensive as possible, it encompasses measures of country-level development and specific references to target populations.[64] As GCF tends to prioritize its investments according to the needs of beneficiaries, the rationale of the sub-criterion allows a full understanding of the extent to which prompt intervention is required. The concept of needs is twofold, spanning both the vulnerability and the financial neediness of the target group. In turn, this allows GCF to steer its allocations accordingly, as countries with a weaker financial profile would be in more pressing need for support.

The focus on country needs is a key part of the investment strategies of several other climate funds. The GEF refers to country needs indirectly by tying country eligibility for funding to the respect of their sustainable development priorities. The Least Developed Countries Fund (LDCF) specifically targets the 51 countries that are most threatened by climate change according to the UN.[65] Within the Climate Investment Funds, both the Clean Technology Fund[66] and the Strategic Climate Fund invest consistently in developing countries, de facto trying to fill the learning and financing gap for green investment in scenarios with particularly low levels of socio-economic development. Despite formally allocating its resources on a first come, first served basis, the CTF admits that a greater consideration of country needs, and priorities may prove helpful in promoting its mandate by making interventions more effective.

Proposed Indicator for Sub-criterion 19/31
Indicator S19/31.1 *Country-level socio-economic development*[67]

$$S1 = 6 - S1_{raw}$$

$$S1_{raw} = quintile(\sum_{i=1}^{n}(Share\ of\ country_i) \times (IHDI\ of\ country_i))$$

Analytical process and construction:
The indicator S1 is inversely[68] related to the level of inequality-adjusted Human Development Index[69] (i.e. the higher the IHDI, the lower the need of the country, the lower the score of S1) of the country(ies) in the context of reference (and if more than one country is included, the index is weighted to reflect the share of activity in each country). The score for $S1_{raw}$ for the activity of interest is assigned to a class from 1 to 5 (1 = Very low, and 5 = Very high), based on the results of quintile analysis for IHDI (please refer to the methodological annex for details).

[64] *See GCF/B.09/23, page 28.*
[65] *See for example the GEF website.*
[66] *See Climate Investment Funds (2009), from page 2 onwards.*
[67] *Methodological information for HDI and IHDI can be found in UNDP (2016).*
[68] *Via the difference between 6 and $S1_{raw}$*
[69] *Or HID if information is not available for selected countries in a project activity.*

Data

Data retrieved by the evaluator: The user must identify the country where the project/programme takes place.

Data already in the ICS Database: The ICS Database contains data relative to the country-specific Inequality-Adjusted Human Development Index and Human Development Index.

CRITERION 4/6 NEEDS OF THE RECIPIENT **SUB-CRITERION 20/31 OPPORTUNITIES FOR THE FUND TO OVERCOME SPECIFIC BARRIERS TO FINANCING**

Coverage area: Absence of alternative sources of financing

Focus on: Mitigation and adaptation

Definition and Rationale: This sub-criterion seeks to capture the extent to which activities under the proposed project/programme intervention and GCF participation in such activities may lower barriers to investment. Despite the encouraging momentum for global climate finance worldwide, investments towards low-carbon and climate-resilient development are still severely constrained, especially in developing countries. Furthermore, imperfect markets and regulatory shortcomings lead to institutional uncertainty in shaping often unfavourable investment environments. As the purpose of GCF includes the creation of enabling conditions to leverage financing and catalyse inputs from public and private investors, the impact of GCF interventions would benefit from an investment strategy capable of understanding the challenges of current barriers and turning them into opportunities to make investments more attractive for market actors.

As GCF pursues the overarching objective of bringing about a paradigmatic shift towards low-carbon and climate-resilient pathways of sustainable development,[70] it may be able to maximize impact by lowering barriers for private financing by buying down incremental costs and making upfront investments more viable, by reducing investment risk, by building capacity and readiness, by supporting the development of early-stage technologies, and by incentivizing grass-roots information dissemination.[71]

Several climate funds target the reduction of barriers to investment through dedicated strategies. For example, the CTF addresses and dilutes excessive risk by providing concessional lines of credit to financial intermediaries. According to the IFC, there are three main types of obstacles to investment in low-carbon sectors – (1) *financial*, (2) *structural*, and (3) *technical barriers*. The first encompass uncompetitively low revenues, O&M costs, high capital intensity, and significant idiosyncratic risks; the second type includes network effects, transaction costs, agency problems, and status quo bias. Furthermore, capacity barriers comprise early-stage immaturity, inadequacy of technical solutions, lack of awareness and education, and inability to price risk adequately. However, as it is for GCF, the right mix of an enabling environment and strategic planning is likely to succeed in turning barriers into significant opportunities to catalyse financing more effectively, and ultimately to bring projects/programmes to scale.[72]

---

70 See GCF/B.04/07, page 4, and GCF/B.04/03, pages 2–5.

71 See GCF/B.04/07, from page 4 onwards.

72 See The World Bank (2017) for sector-specific application on infrastructure

Proposed Indicator for Sub-Criterion 20/31
Indicator S20/31.1 *Prioritization given barriers and opportunities*

$$S1 = 1 + \left(\frac{\sum_{i=1}^{a} Answer_i}{a} \times \frac{4}{3}\right)$$

$$a = \ number\ of\ relevant/applicable\ barriers\ within\ indicator$$

Analytical process and construction:
The construction of S1 follows several steps.

Among the possible main **barriers to financing** in the target context (B),[73] the evaluator is required to select, based on information provided in the FP, **up to three of these barriers to financing that are most relevant for the country/context and assess how they are addressed by the proposed project/programme intervention** (A).

For each of the applicable barriers identified, the evaluator must then assess **to what extent the barriers are relevant for the context/country targeted and how they are addressed by the project/programme intervention**. [No = 0, Low = 1, Medium = 2, High=3].

NO	0	There is **NO evidence** that the barrier is relevant for the context targeted and addressed by the proposed project/programme intervention.
LOW	1	There is **WEAK evidence** that the applicable barrier is relevant for the context targeted and addressed by the proposed project/programme intervention. **AND** Evidence of **the existence of barrier** and **how it will affect investors IS** provided.
MEDIUM	2	There is **STRONG evidence** that the applicable barrier is relevant for the context targeted and addressed by the proposed project/programme intervention. **AND** Evidence of **the existence of barrier** and **how it will affect investors IS** provided **AND** Evidence about **how this barrier is successfully addressed, more effectively than existing alternative options, by the current proposed project/ programme intervention IS** provided.

[73] *As per GCF/B.04/07 page 3 and GCF/B.19/04/Rev.01 pages 5–6.*

HIGH	3	There is **VERY STRONG evidence** that the applicable barrier is relevant for the context targeted and addressed by the proposed project/programme intervention. **AND** Evidence of **the existence of barrier and how it will affect investors IS** provided. **AND** Evidence about **how this barrier is successfully addressed, more effectively than existing alternative options, by the current proposed project/programme intervention IS** provided. **AND** An **assessment of the magnitude of the impact** of the barrier for investors, and **how it is addressed** by the current proposed project/programme intervention is provided (e.g. through cash flow modelling, references to literature).

If no barriers are relevant/applicable to the proposed project/programme intervention, the score of the sub-criterion is "low".

Data

Data retrieved by the evaluator: Inputs from the evaluator, according to information contained in the FP, particularly from Theory of Change and barrier analysis.

No data in the ICS Database.

Criterion 5/6 Country ownership

The investment criterion "country ownership" focuses on beneficiary country ownership of a funded project or programme through the country's policies, climate strategies, and institutions and the national capacity to implement it. This is reflected along the following dimensions:

- Existence of a national climate strategy with which the project/programme is aligned.
- Coherence of the project/programme with existing policies.
- Capacity of the project/programme accredited entities or executing entities.
- Engagement with civil society organizations and other relevant stakeholders during the project/programme's preparation.

Other climate funds also commonly assess proposals according to the level of their linkages to countries' national priorities:

- *Adaptation Fund (AF):* Project eligibility is based on consistency with national sustainable development strategies, and meeting national technical standards
- *The International Renewable Energy Agency (IRENA) Abu Dhabi Fund for Development (ADFD) Project Facility:* As part of the socio-economic and environmental impacts criterion, the facility assesses stakeholder engagement. Further, the Advisory Committee's selection and recommendation also consider the project's alignment with Government priorities.
- *Pilot Programme for Climate Resilience (PPCR):* The PPCR reviews the project's degree of Integration of climate change in national planning, including sector planning.

- *Global Environment Facility (GEF), Special Climate Change Fund (SCCF):* The Fund assesses the project's alignment with countries' priorities by considering if the project responds to the priorities identified in the National Communications and national and regional programmes [plans such as NAPAs in the case of Least Developed Countries, and Technology Needs Assessments (TNAs) if applicable].
- *GEF Least Developed Countries Fund (LDCF):* The LDCF also reviews projects against their alignment with countries' priorities.

CRITERION 5/6 COUNTRY OWNERSHIP **SUB-CRITERION 22/31 OBJECTIVES IN LINE WITH PRIORITIES IN THE COUNTRY'S NATIONAL CLIMATE STRATEGY**

Coverage area: Existence of a national climate strategy

Focus on: Mitigation and adaptation

Definition and Rationale: The sub-criterion "objectives in line with priorities in the country's national climate strategy" falls under the investment criterion of "country ownership" and is applicable to all result areas for adaptation and mitigation-focused projects and programmes.

This sub-criterion helps to demonstrate how the project or programme's objectives are aligned with the country's climate strategy and/or climate priorities, set out in the following documents and contributing to advancing the country's climate agenda:

- National climate strategies or plans
- Sectoral climate strategies or plans
- Nationally Appropriate Mitigation Actions (NAMAs)
- National Adaptation Plans (NAPs)
- Technology Needs Assessments (TNAs)
- Nationally Determined Contributions (NDCs)
- National Communications (NC) to the United Nations Framework Convention on Climate Change (UNFCCC)

Proposed Indicator for Sub-criterion 22/31
Indicator S22/31.1 *Coherence with national climate priorities*

$$S1 = 1 + \left(Answer_i \times \frac{4}{3}\right)$$

Analytical process and construction:
The indicator represents the sum of scores for the following set of questions, if applicable:

1. **To what extent** are the proposed project or programme's objectives linked with the sector/activity-specific priorities from **national climate strategies or plans** (of one or multiple countries depending on the project or programme)? [No = 0, Low = 1, Medium = 2, High=3].

Assessment scale for Indicator 1, coherence with national climate priorities/Question 2

NO	0	**No mention is** made of **sector/activity-specific priorities** within **national climate strategy(ies) or plan(s)** as defined in relevant strategic and policy documents (e.g. national and sectoral climate strategies or plans, NAMAs, NAPs, NDCs, TNAs, NOLs, RE frameworks, national communications).
LOW	1	The proposal **refers** to **sector/activity-specific priorities** within the **national climate strategy(ies) or plan(s)** as defined in relevant strategic and policy documents (e.g. national and sectoral climate strategies or plans, NAMAs, NAPs, NDCs, TNAs, NOLs, RE frameworks, national communications). **AND** **There is an unclear or indirect[74] link** between (a) specific **objective**(s) of the proposed project or programme and the referenced **sector/activity-specific priority(ies)** defined in relevant national climate strategy(ies) or plan(s).
MEDIUM	2	The proposal **refers** to **sector/activity-specific priorities** within the **national climate strategy(ies) or plan(s)** as defined in relevant strategic and policy documents (e.g. national and sectoral climate strategies or plans, NAMAs, NAPs, NDCs, TNAs, NOLs, RE frameworks, national communications). **AND** There is a **clear and direct[75] link between** one or several specific **objective**(s) of the proposed project or programme and the **referenced sector/activity-specific priority(ies)** of relevant national climate strategy(ie) or plan(s).
HIGH	3	The proposal **refers** to **sector/activity-specific priorities** within the **national climate strategy(ies) or plan(s)** as defined in relevant strategic and policy documents (e.g. national and sectoral climate strategies or plans, NAMAs, NAPs, NDCs, TNAs, NOLs, RE frameworks, national communications). **AND** There is a **clear and direct link between** (a) specific **objective**(s) of the proposed project or programme and the **referenced sector/activity-specific priority(ies)** of relevant national climate strategy(ies) or plan(s). **AND** These links **are** supported by or derived from references/data/evidence.

Data

Data retrieved by the evaluator: Data is provided by the evaluator, based on information contained in the FP. The UNFCCC website provides information on the country's TNAs, NDCs, NAMAs, NAPs, and national communications.

TNAs: http://unfccc.int/ttclear/tna
NDC: http://www4.unfccc.int/ndcregistry/Pages/Home.aspx
NAMA: http://www4.unfccc.int/sites/nama/SitePages/Home.aspx
NAPs: http://www4.unfccc.int/nap/News/Pages/national_adaptation_plans.aspx
NDCs: https://unfccc.int/national-communications-and-biennial-reports

The website of the country's Ministry of Environment provides information on national policies/strategies related to climate change.

No data in the ICS Database.

[74] *An indirect link exists when the project/programme includes general references to national climate strategies or plans without specifying how the project/programme addresses them.*

[75] *A direct link exists when the project/programme explicitly includes references to specific priority(ies)/aspect(s) mentioned in relevant national climate strategies or plans and how the project/programme addresses them.*

CRITERION 5/6 COUNTRY OWNERSHIP **SUB-CRITERION 23/31 PROPOSED ACTIVITY IS DESIGNED IN COGNIZANCE OF OTHER COUNTRY POLICIES**

Coverage area: Coherence with existing policies

Focus on: Mitigation and adaptation

Definition and Rationale: The sub-criterion, "proposed activity is designed in cognizance of other country policies", falls under the investment criterion of "country ownership" and is applicable to all result areas for adaptation and mitigation-focused projects and programmes.

The sub-criterion helps to demonstrate how the project or programme objectives are aligned with national and sectoral policies, including national development policies and strategies, sustainable or green growth development policies and strategies, Vision 2020, and other institutional frameworks.

Proposed Indicator of Sub-criterion 23/31
Indicator S23/31.1 *Degree of alignment of the proposed project or programme objectives with national development priorities*

$$S1 = 1 + (\sum_{i=1}^{3} Answer_i \times \frac{4}{5})$$

Analytical process and construction:
This indicator represents the sum of scores as indicated below in the following sets of questions referring to the country (or key target countries) targeted by the funding proposal:

1. Does the proposed project or programme **refer** to one priority or several priorities from **national (sustainable) development frameworks** as defined in relevant strategic policy documents (e.g. national policies including national development policies and strategies, sustainable or green growth development policies and strategies, Vision 2020 and/or other policy frameworks)? [Yes = 1, No = 0]
2. Does the proposed project or programme **refer** to one priority or several priorities from the national **sectoral (sustainable) development frameworks** as defined in relevant strategic sectoral policy documents (e.g. national sector-specific policies, and/or other policy frameworks)? [Yes = 1, No = 0]
3. To what extent are the referenced priorities from national or sectoral development or sustainable development frameworks **linked with the proposed project or programme objectives**? [No = 0, Low = 1, Medium = 2, High=3].

NO	0	**No link** is made between one or several specific objective(s) of the project or programme and the referenced priority(ies) of relevant national or sectoral development strategy(ies) or plan(s).
LOW	1	**Unclear**[76] link(s) between one or several specific objective(s) of the project or programme and the referenced priority(ies) of relevant national or sectoral development strategy(ies) or plan(s).

[76] *An unclear link exists when the project/programme includes general references to relevant national development strategies or plans without specifying how the project/programme is linked to them.*

MEDIUM	2	A **direct/explicit**[77] link is provided between one or several specific objective(s) of the project or programme and the referenced priority(ies) of relevant national or sectoral development strategy(ies) or plan(s).
HIGH	3	A **direct/explicit** link is provided between (a) specific objective(s) of the project or programme and the referenced priority(ies) of relevant national or sectoral development strategy(ies) or plan(s). **AND** These links **are** supported by/derived from references/data/evidence

Data

Data retrieved by the evaluator: Data are provided by the evaluator based on information contained in the FP.

No data in the ICS Database.

CRITERION 5/6 COUNTRY OWNERSHIP **SUB-CRITERION 24/31 EXPERIENCE AND TRACK RECORD OF THE ACCREDITED ENTITY (AE) OR EXECUTING ENTITIES (EE) IN KEY ELEMENTS OF THE PROPOSED ACTIVITY**

Coverage area: Capacity of accredited entities or executing entities to deliver

Focus on: Mitigation and adaptation

Definition and Rationale: The sub-criterion "experience and track record of the Accredited Entity (AE) or Executing Entities (EEs) in key elements of the proposed activity" falls under the investment criterion "country ownership" and is applicable to all result areas for adaptation and mitigation-focused project and programmes. Key elements refer to activities of the proposed project or programme.

The sub-criterion helps to establish a direct relationship between project or programme activities and the experience of the entities responsible for their implementation. This is done by highlighting the AE and/or EE track record(s) and relevant experience and expertise in similar or relevant circumstances as described in the proposed project/programme. Such circumstances can be linked to the entities' experience in the same country context, the project or programme's targeted sector, type of intervention, and technology.

Proposed Indicators of Sub-criterion 24/31
Indicator S24/31.1 *AE or EE experience working in the project/programme country of implementation or a similar context (e.g. SIDS, LDCs, similar region or geographical area)*

$$S1 = 1 + \{\max(Answer_1, Answer_3) + \max(Answer_2, Answer_4)\} \times \frac{2}{3}$$

Analytical process and construction:
The indicator represents the sum of scores as indicated in the following set of questions, if applicable:

[77] *A direct/explicit link exists when the project/programme explicitly mentions (a) specific priority(ies)/aspect(s) from relevant national development strategies or plans, specifying how the project/programme is linked to them, including via direct support by a country's enabling policy and institutional framework.*

Accredited Entity

1. For **how long** has the **AE** been **working in the target country** (or in a similar country context)? [10 years and over = 3, five to nine years = 2, one to four years = 1, no work experience or no data = 0].
2. For **how long** has the **AE** been **working with** the **National Designated Authority** (NDA) of **the country** (or key target countries if project covers multiple geographies)? [10 years and over = 3, five to nine years = 2, one to four years = 1, no work experience or no data = 0]

Executing Entity

1. For **how long** has the **EE** been **working in the target country**, or in a similar country context? [10 years and over = 3, five to nine years = 2, one to four years = 1, no work experience or no data = 0].
2. For **how long** has the **EE** been **working with the country's** (or key target countries, if project covers multiple geographies) **National Designated Authority** (NDA)? [10 years and over = 3, five to nine years = 2, one to four years = 1, no work experience or no data = 0]

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

Data already in the IS Database: Not Applicable

Indicator S24/31.2 *AE or EE experience in implementing similar projects (similar sector, technology, type of intervention)*

$$S2 = 1 + \{\max(Answer_1, Answer_5) + \max(Answer_2, Answer_6) + \max(Answer_3, Answer_7) + \max(Answer_4, Answer_8)\}$$

Analytical process and construction:

The indicator represents the sum of scores as indicated below in the following sets of questions, if applicable:

Accredited Entity

1. Has the **AE** been implementing projects in a **similar sector** or results area in past projects over the **last 5 years** (e.g. food security, water security, health)? [Yes = 1, No, or no data = 0]
2. Has the **AE** been implementing the **same type** of proposed activities (e.g. capacity building, construction of infrastructure/facility, lending) over the **last 5 years**? [Yes = 1, No, or no data = 0]
3. Has the **AE** been managing **similar financing size/budget** projects/initiatives over the **last 5 years**? [Yes = 1, No, or no data = 0]
4. **How many projects** has the **AE** been implementing of a **similar financing size/budget**? [over five projects = 1, Less than five projects, or no data = 0]

Executing Entity

1. Has the **EE** been implementing projects in a **similar sector** or results area in past projects over the **last 5 years** (e.g. food security, water security, health)? [Yes = 1, No, or no data = 0]

2. Has the EE been implementing the **same type** of proposed activities (e.g. capacity building, construction of infrastructure/facility, lending) over the **last 5 years**? [Yes = 1, No, or no data = 0]
3. Has the **EE** been managing **similar financing size/budget** projects/initiatives over the **last 5 years**? [Yes = 1, No, or no data = 0]
4. **How many projects** has the **EE** been implementing in a **similar financing size/budget**? [over five projects = 1, Less than five projects, or no data = 0]

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 5/6 COUNTRY OWNERSHIP **SUB-CRITERION 25/31 STAKEHOLDER CONSULTATIONS AND ENGAGEMENT**

Coverage area: Engagement with civil society organizations and other relevant stakeholders

Focus on: Mitigation and adaptation

Definition and Rationale: The sub-criterion "stakeholder consultations and engagement" falls under the investment criterion of country ownership and is applicable to all result areas for adaptation and mitigation-focused project and programmes.

Stakeholder engagement is a key component of the Environmental and Social Policy that applies to all activities financed by the Green Climate Fund (GCF) and to accredited entities (AEs). AEs are required to establish meaningful[78] consultation[79] and engagement[80] processes in line with the GCF environmental and social management system, environmental and social safeguards, Gender Policy and Indigenous Peoples Policy.[81]

Stakeholder engagement should be inclusive of vulnerable and marginalized groups and individuals who are affected (or potentially affected) by proposed GCF-funded activities or who belong to impacted communities (including indigenous communities, women, young and the elderly). Under certain circumstances, free, prior and informed consent of indigenous peoples may be required.

The sub-criterion helps to assess whether the proposed project or programme has been elaborated in close cooperation and consultation with relevant stakeholders, including private sector organizations, civil society organizations (CSOs),[82] universities

[78] *"Meaningful" refers to a deep commitment by AEs, executing entities and intermediaries to use stakeholder engagement as an opportunity to improve each phase of their activities rather than to simply look for their validation.*

[79] *"Consultation" refers to seeking the input of various interest groups, including those that are traditionally marginalized or under-represented, to better understand their perspectives on a proposed activity.*

[80] *"Engagement" is a more in-depth, nuanced and time-intensive process that gives stakeholders a larger role in framing questions and participating actively in discussions about the activity.*

[81] *GCF. 2019. "Sustainability Guidance Note: Designing and ensuring meaningful stakeholder engagement on GCF-financed projects". Available at: https://www.greenclimate.fund/documents/meaningful-stakeholder-engagement*

[82] *CSOs: Non-State, not-for-profit, voluntary entities formed by people in the social sphere that are separate from the State and the market. CSOs represent a wide range of interests and ties. They can include community-based organizations as well as non-governmental organizations (NGOs). UN Guiding Reporting Principles, https://www.ungpreporting.org/glossary/civil-society-organizations-csos/*

and/or research institutions and the targeted population inclusive of ethnic minorities, disabled, elderly, children, women, indigenous peoples and others. In addition, it helps to assess how relevant stakeholders will be involved during the implementation phase through a defined mechanism, such as regular meetings and workshops defined within a Stakeholder Engagement Plan.

Proposed Indicators of Sub-criterion 25/31

Indicator S25/31.1 *Coverage of diverse non-governmental stakeholders in designing the project/programme*

$$S1 = 1 + (\sum_{i=1}^{a} Answer_i \frac{4}{a})$$

$$a = number\ of\ applicable\ dimensions\ within\ indicator$$

Analytical process and construction:

This indicator derives from the sum of scores as indicated below in the following set of questions reflecting to what extent the AE/EE has engaged a diverse group of non-governmental stakeholders during the development/design phase.

1. In the development/design phase, has the AE/EE engaged **private companies**, including suppliers or relevant technologies or solutions (e.g. solar pumps, climate resilient seeds or drip irrigation systems)? [Yes = 1, No = 0]
2. In the development/design phase, has the AE/EE engaged the **financial sector** (e.g. commercial or retail banks, investment banks, internet banks, credit unions, savings and loans associations, mortgage companies, microfinance, insurance and re-insurance, pension funds and sovereign wealth funds)? [Yes = 1, No = 0, n/a]
3. In the development/design phase, has the AE/EE engaged **industry-wide and sector specific associations** (e.g. chambers of commerce or industry)? [Yes = 1, No = 0, n/a]
4. In the development/design phase, has the AE/EE engaged **civil society organizations** (CSOs), including non-governmental organizations (NGOs), indigenous peoples' organizations, community-based organizations (CBOs), faith-based organizations (FBOs), unions? [Yes = 1, No = 0]
5. In the development/design phase, has the AE/EE engaged **vulnerable groups** such as women, indigenous peoples, minority groups, and other more traditionally under-represented stakeholders? [Yes = 1, No = 0]

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

Indicator S25/31.2 *Existence of a robust Stakeholder Engagement Plan*

$$S2 = 1 + (\sum_{i=1}^{5} Answer_i \frac{4}{15})$$

Analytical process and construction:

The indicator derives from the sum of scores as indicated below in the following set of questions:

1. To what extent does the **Stakeholder Engagement Plan**[83] articulate a well-defined **stakeholder engagement strategy** that includes the following key elements? [No = 0, Low = 1, Medium = 2, High=3].
   - Purpose and objectives of the engagement plan
   - Guiding principles of the engagement plan
   - Commitments made to stakeholders and success indicators of the engagement plan
   - Organizational roles within the engagement plan and responsibilities related to stakeholder engagement activity

NO	0	**None** of the key elements of a well-defined engagement strategy are included.
LOW	1	**Some** of the key elements of a well-defined engagement strategy are included.
MEDIUM	2	**Most** of the key elements of a well-defined engagement strategy are included.
HIGH	3	**All** the key elements of a well-defined engagement strategy are included.

2. To what extent does the **Stakeholder Engagement Plan** present a detailed **stakeholder mapping** including the following key elements? [No = 0, Low = 1, Medium = 2, High=3].
   - Stakeholders' background (government, private sector, CSOs, vulnerable groups)
   - Stakeholders' expectations on a project (what they want)
   - Stakeholders' interests in a project (why they want it)
   - Stakeholders' potential conflict of interest/elite capture
   - Stakeholders' relative influence[84] on a project and/or influence within a community or organization
   - Stakeholders' emotional stake in an issue or a project
   - Stakeholders' financial or political positions
   - Stakeholders' potential contributions to a project or activity

NO	0	**None** of the key elements of a well-defined stakeholder mapping are included.
LOW	1	**Some** of the key elements of a well-defined stakeholder mapping are included.
MEDIUM	2	**Most** of the key elements of a well-defined stakeholder mapping are included.
HIGH	3	**All** the key elements of a well-defined stakeholder mapping are included. **OR** **Most** of the key elements of a well-defined stakeholder mapping are included. **AND** **A dynamic view** of stakeholders' evolution throughout the project is provided (changes in perspective and interest).

3. To what extent does the **Stakeholder Engagement Plan reflect in-depth** pre-project/programme preparation **consultation and engagement** with stakeholders

[83] *A stakeholder engagement plan is a mandatory requirement of all funding proposals submitted to GCF, irrespective of the E&S risk level. It can be provided as part of other E&S safeguard documents or it can be provided as a separate annex of the FP.*

[84] *e.g. how a stakeholder's perspective can weigh on peers' view on a project*

(Government, CSOs, private sector, vulnerable groups) including the following key elements? [No = 0, Low = 1, Medium = 2, High=3].

- **Pre-consultations** with all stakeholders that were identified through the stakeholder mapping during the project preparation phase
- More **in-depth** engagement with key stakeholders (those most likely to be affected by project/programme activities) through at least a dialogue and negotiation processes, and/or partnerships, joint fact-finding exercises and similar processes

NO	0	**None** of the key elements of in-depth consultation and engagement are included.
LOW	1	**Some** of the key elements of in-depth consultation and engagement are included.
MEDIUM	2	**All** the key elements of in-depth consultation and engagement are included.
HIGH	3	**All** the key elements of in-depth consultation and engagement are included. **AND** Activities are outlined in detail.

4. To what extent does the **Stakeholder Engagement Plan** provide a well-articulated **implementation plan** including the following key elements? [No = 0, Low = 1, Medium = 2, High=3].
   - Internal actions (e.g. revising strategies, adjusting timeline)
   - External actions (e.g. communication)

NO	0	The implementation plan is vague and does not provide details.
LOW	1	**Some** of the key elements of an articulated implementation plan are provided.
MEDIUM	2	**All** the key elements of an articulated implementation plan are provided.
HIGH	3	**All** the key elements of an articulated implementation plan are provided. **AND** Actions are described in detail.

5. Does the **Stakeholder Engagement Plan** include a monitoring and evaluation (M&E) process? [Yes = 3, No = 0]

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

Indicator S25/31.3 *Level of engagement of the National Designated Authority (NDA)*

$$S3 = 1 + round(\sum_{i=1}^{3} Answer_i \frac{2}{3})$$

Analytical process and construction:

The indicator represents the sum of scores as indicated below in the following set of questions, if applicable, portraying the extent to which the AE/EE engaged the National Designated Authority (NDA) during the development/design phase of the proposed project/programme:

1. Is there evidence that the NDA(s) **attended or supported stakeholder consultation meetings and workshops**? [Low = 0, Medium = 1, High=2].

LOW	0	Based on available evidence, **no** NDA attended stakeholder consultation meetings and workshops.
MEDIUM	1	Based on available evidence, **most** NDAs (if more than two countries are involved) attended stakeholder consultation meetings and workshops.
HIGH	2	Based on available evidence, **all** NDAs attended stakeholder consultation meetings and workshops.

2. Is there evidence that the NDA(s) **provided strategic inputs and guidance** to the AE and/or EE? [Low = 0, Medium = 1, High=2].

LOW	0	Based on available evidence, **no** NDA provided strategic inputs and guidance to the AE and/or EE.
MEDIUM	1	Based on available evidence, **most** NDAs (if more than two countries are involved) provided strategic inputs and guidance to the AE and/or EE.
HIGH	2	Based on available evidence, **all** NDAs provided strategic inputs and guidance to the AE and/or EE.

3. Is the proposed project/programme derived from/aligned with the **priorities identified in the country work programme** (if existing) developed by the NDA(s) in consultation with key national stakeholders? [Low = 0, Medium = 1, High=2].

LOW	0	Based on available evidence, the proposed project/programme is derived from/ aligned with **none** of the NDAs' country work programmes.
MEDIUM	1	Based on available evidence, the proposed project/programme is derived from/ aligned with **most** of the NDAs' country work programmes.
HIGH	2	Based on available evidence, the proposed project/programme is derived from/ aligned with **all** of the NDAs' country work programmes.

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

Investment Criterion 6/6 Efficiency and effectiveness

Flows of finance to developing countries to support climate mitigation and adaptation efforts are growing in speed and scale. However, they are still insufficient for projected needs. Ensuring that money is well spent, and hence maximizes its impact, is critical to maintaining support and realizing the transition to a low-carbon, climate-resilient future.

Efficiency and effectiveness of climate finance is usually considered to be linked with clarity in the objectives shared among key stakeholders; level of transformative or demonstration effect of activities; effective balance between public and private capital; extent of links with results; extent of "climate return" per dollar allocated; local ownership and alignment with local and national priorities; transparency and accountability.[85] The UNFCCC provides general guidance on how to assess the effectiveness of its Financial Mechanism and also links effectiveness to the degree of stakeholder engagement process, inclusion of gender-transformative approaches, adequacy of funds, sustainability, and leverage.[86]

In a narrower definition – more applicable to the criterion examined here. "Efficiency and effectiveness" is associated with productivity of public capital committed, or its cost-effectiveness, usually measured through various economic metrics such as return on investment, and benefit-cost ratio. Donors also look into the leverage of additional climate finance to measure the impact of blending instruments or concessional and non-concessional loans to climate investment.[87]

Link to the GCF mandate and policies: The "efficiency and effectiveness" criterion adopted by GCF requires that proponents conduct an economic and financial analysis making the case for the economic and financial soundness of projects and programmes, the appropriateness of the level of concessionality provided, and cost effectiveness.

Efficiency, along with effectiveness, were both highlighted in the GCF Governing Instrument. In the Durban COP-17 decision on establishment of GCF, the guiding principles of the governing instrument were agreed in Article I of the Annex where it is stated that the fund will "operate in a transparent and accountable manner guided by efficiency and effectiveness."

More specifically, cost-effectiveness, leverage, and additionality seem to play key roles in this context. The guiding principles for GCF make it explicit that the Fund will strive to "maximize the impact of its funding" and that it will "play a key role in channelling new, additional, adequate, and predictable financial resources to developing countries" helping to "catalyse climate finance, both public and private."[88] Importance of the leverage of private investment is further stressed by the GCF agreement to establish a "Private Sector Facility" under decision B.04/08 to address barriers to private sector investment in adaptation and mitigation activities, such as market failures, insufficient capacity, and lack of awareness.

---

[85] *CPI. 2011. "Improving the Effectiveness of Climate Finance: Key Lessons". Available at: https://climatepolicyinitiative.org/publication/improving-the-effectiveness-of-climate-finance-key-lessons/*

[86] *UNFCCC. 2017. "FCCC/CP/2016/10/Add.1 - Report of the Conference of the Parties on its twenty-second session, held in Marrakech from 7 to 18 November 2016, Addendum, Part two" Available at: https://unfccc.int/resource/docs/2016/cop22/eng/10a01.pdf*

[87] *Wright, H.L. 2015. Effective Finance for Food Security under Climate Change https://spiral.imperial.ac.uk/bitstream/10044/1/43800/1/Wright-H-2015-PhD-Thesis.pdf*

[88] *COP. 2011. "Green Climate Fund - report of the Transitional Committee". Available at: http://unfccc.int/files/meetings/durban_nov_2011/decisions/application/pdf/cop17_gcf.pdf*

Coverage area: Cost-effectiveness and efficiency regarding financial and non-financial aspects

Focus on: Mitigation and adaptation

Definition and Rationale: This sub-criterion aims to capture the overall adequacy of the financial structure for the proposed activities and to consider whether the level of concessionality would be appropriate. The sub-criterion validates the potential of the project/programme to successfully achieve its objectives while also ensuring that the level of concessional financing – besides being minimal, yet sufficient for financial viability – is not crowding out any private or public investment. The rationale is in line with the general mandate of the Fund, whose contributions serve as triggers for further financing to take place by ensuring the enabling conditions (financial, reputational, etc.) for what would otherwise be unviable activities. In this sense, GCF supports the mobilization of financing, rather than their replacement.

As both PSF and DMA are designed to deploy resources on a concessional basis with the intent of overcoming barriers and attracting further investment, GCF has already been pursuing an assessment of financial adequacy, as documented in section E.6.1 of FP submissions.

An early definition of concessionality by GCF[89] requires that the "proposed financial structure is adequate and reasonable to the proposal's objectives" and that "the financial structure proposed provides the least concessionality needed to make the proposal viable."

Concessional funding is understood as "Funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme."

As a result, the GCF Board requested the Secretariat to develop a "Grant Equivalent Calculator" to calculate the level of concessionality in GCF contributions required on a grant equivalent basis, which allows for comparison among proposals based on GCF primary funding instruments: grant, loan, equity, and guarantee.

In parallel, discussions at GCF[90] try to estimate the level of concessionality in GCF contributions that should be provided. This is tied to three key variables: 1) the proposal's strengths in delivering climate impact, (2) paradigm shift potential and (3) potential for reflows as assessed through the rating given based on the GCF investment framework.

Looking beyond GCF, the strategies of other climate funds clearly show that the analysis of concessionality is highly activity-specific and depends largely on the inputs and experience of personnel involved in the appraisal process. The Clean Technology Fund, for example, uses rates of return to discriminate between harder and softer concessionality in the provision of funds, the latter being applied to projects with below-market rates or even negative FIRRs, but it is unclear whether the principle of minimal concessionality has always been respected.[91]

---

[89] *GCF/B.07/06, GCF/B.09/05 and GCF/B.09/07*

[90] *GCF/B.20/19*

[91] *ODI. 2013. "The effectiveness of climate finance: a review of the Clean Technology Fund."*

The ICS systematizes screening, making it easier for evaluators to compare different activities. To this end, the assessment of concessionality focuses principally on definitions in accordance with Decision B. 07/06, which links concessionality to the viability of projects.

Proposed Indicator for Sub-criterion 26/31
Indicator S26/31.1 *Adequacy of concessionality to instrument type*

$$S1 = min_{i \in A}(Answer_i)$$

$$Answer_i = (Answer_{\ 1} + Answer_{\ 2} + Answer_{\ 3}) \times \frac{4}{3}$$

$$i = \ applicable\ GCF\ instrument\ types\ within\ indicator$$

Analytical process and construction:
The construction of S3 follows several steps.

1. Among the possible GCF instruments (B), the evaluator is required to select, based on information provided in the FP, the ones actually requested to GCF under the proposal (A), for a maximum of four instrument types including:
   - Grant
   - Loans
   - Equity
   - Guarantees

2. For each of the applicable instrument types identified (X_i), the evaluator must then assess evidence of the adequacy of concessionality by answering the following instrument-specific questions:
   - **Grant**
     1. Does the proponent provide evidence that there is **no revenue potential** from the project? [Yes = 1, No = 0].
     2. Does the proponent provide evidence that – if the grant component had to be replaced by other instruments (e.g. debt) – **the project revenue would not be able to cover its payment**? [Yes = 1, No = 0].
     3. (If GCF grant is accompanied by other grant sources) Does the proponent clearly describe **why the GCF grant is needed in addition** to other concessional sources? [Yes, or not applicable to proposed grant instrument = 1, No = 0].
   - **Loan**
     1. Does the proponent provide evidence that the **pricing benefit of the GCF concessional loan is passed on** to end beneficiaries? Alternatively, does the proponent provide evidence that the pricing benefit is necessary for the proponent to achieve acceptable returns? [Yes = 1, No = 0].
     2. (If GCF loan is **subordinated**) Does the proponent provide evidence that the cushion provided to senior lenders is **adequate** to their risk appetite? [Yes, or not applicable to proposed loan instrument = 1, No = 0].
     3. (If GCF loan is accompanied by **other concessional debt** sources) Does the proponent clearly describe **why the GCF loan is needed in addition** to other concessional sources? [Yes, or not applicable to proposed loan instrument = 1, No = 0].

- Equity

1. Does the proponent provide evidence that the **pricing benefit of GCF** concessional equity is passed on to end beneficiaries? Alternatively, does the proponent provide evidence that the pricing benefit is necessary for the proponent to achieve acceptable returns? [Yes = 1, No = 0].
2. (If GCF equity is **subordinated**) Does the proponent provide evidence that the cushion provided to senior equity providers, or lenders, is **adequate** to their risk appetite? [Yes, or not applicable to proposed equity instrument = 1, No = 0].
3. (If GCF equity is accompanied by **other concessional equity** sources) Does the proponent clearly describe why the GCF equity is needed in addition to other concessional sources? [Yes, or not applicable to proposed equity instrument = 1, No = 0].

- Guarantee

1. Does the proponent provide evidence that the guarantee causes a **reduction in the borrowing cost** of end beneficiaries or is critical in enabling access to financing? [Yes = 1, No = 0].
2. Does the proponent provide evidence that the guarantee cover (percentage of loan guaranteed / first loss cover) is **adequate to their risk appetite**? [Yes = 1, No = 0].
3. (If GCF guarantee is accompanied by **other guarantee sources**) Does the proponent clearly describe **why the GCF guarantee is needed in addition** to other concessional sources? [Yes, or not applicable to proposed guarantee instrument = 1, No = 0].

Data
Data retrieved by the evaluator: Answers are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

CRITERION 6/6 EFFICIENCY AND EFFECTIVENESS **SUB-CRITERION 27/31 COST-EFFECTIVENESS**

Coverage area: Cost-effectiveness and efficiency regarding financial and non-financial aspects

Focus on: Mitigation only

Definition and Rationale: The cost-effectiveness sub-criterion is meant to ensure that pursuing emission abatement or reduction is carried out at a reasonable unitary price. Since the marginal cost of abatement technologies varies over time, the rationale of the sub-criterion is that of inducing investments towards remedies that would maximize the impact per dollar of financing. In turn, this would enhance the capability of GCF to succeed in achieving its core mandate.

Similar metrics are widely adopted by comparable funds to keep track of the effectiveness of fund mobilization.[92] Cost-effectiveness has been part of the mitigation assessment frameworks of GCF since May 2014,[93] and there is positive consensus

[92] *GEF. 2005. "Cost effectiveness analysis in GEF projects". Available at: https://www.thegef.org/sites/default/files/council-meeting-documents/C.25.11_Cost_Effectiveness_0_5.pdf*

[93] *See GCF/B.07/04*

concerning its value in providing comparison to analyse, over time, the potential of the investment.[94]

Proposed Indicator for Sub-criterion 27/31
Indicator S27/31.1 Cost-effectiveness of CO_2 emissions abatement

$$S1 = \text{quintile}(S1_{raw})$$

$$S1raw = \frac{M \times Total\ financing\ in\ US\$}{Total\ tCO2e\ reduced\ or\ avoided\ by\ activities}$$

$$M = share\ of\ mitigation$$

Analytical process and construction:
The numerator is the total project/programme costs, or the grand total of direct financing invested in the activities (in USD, as reported in the FP), for the share attributable to mitigation as per proposal; the denominator represents the total amount of expected emission reductions attainable under the activities (in tCO_2e, as reported in the FP). The ratio of the two provides a raw score, $S1_{raw}$. The raw score of S1 is retrieved automatically also for activities from a portfolio of projects included in the ICS database, to introduce a benchmark for the indicator, and to retrieve quintiles. The final S1 score for the activity of interest is assigned to a class from 1 to 5, based on the results of quintile analysis.

Data
Data retrieved by the evaluator: Project-specific direct financing in USD, total tCO_2 emissions reductions and share of mitigation activities are retrieved by the user from the FP.

Data already in the ICS database: Total project costs / direct financing in USD, tCO_2e avoided and share of mitigation activities from programmes and projects already in the portfolio of projects included in the ICS database are used for benchmarking the project-specific score.

CRITERION 6/6 EFFICIENCY AND EFFECTIVENESS **SUB-CRITERION 28/31 POTENTIAL TO CATALYSE AND/OR LEVERAGE INVESTMENT**

Coverage area: Amount of co-financing

Focus on: Mitigation only

Definition and Rationale: In line with the GCF core mandate of producing long-term effects capable of exceeding the boundaries of the single project/programme to maximize impact, this sub-criterion considers the capability of GCF to attract additional financing for activities. The rationale of the sub-criterion is to measure the extent to which the intervention of GCF is able *per se* to mobilize further investment, in the sense of channelling financing from multiple actors that would have not been present should the Fund have not participated in the investment.

In terms of leveraged finance, GCF currently distinguishes between three different operational concepts: (1) *direct co-finance*, which includes all public and private financial resources from third parties that flow directly into the funded activities of the project/programme alongside GCF financing; (2) *indirect mobilised finance*, representing all public and private resources from third parties that flow into the

[94] *See GCF/B.08/07, from page 9 onwards*

activities of the project/programme, or their replication, but on which the achievement of the project/programme's impact does not depend; and (3) *leveraged finance or catalysed finance*, which includes all direct and indirect financial resources from third parties that flow into the intervention (i.e. the sum of 1 and 2 above). A causal link needs to be proven between GCF resources and the abovementioned direct and indirect third-party sources:[95] more specifically, leveraged resources must be the result of GCF taking part in the investment that would not have been invested otherwise. As such, this sub-criterion can be regarded as an indicator of the broader effectiveness of the Fund's intervention, and ultimately as a proxy of its success in contributing to the goal of triggering new – and sometimes truly additional – climate investments.

Several other Funds pay great attention to the concept. For example, the GEF is aware of the importance of its own catalytic potential[96] although co-financing is optional for its enabling activities,[97] while the CTF includes the measurement of leverage of additional financing in its logic model among the metrics for which regular reporting is required after implementation. Finally, three important considerations when considering co-financing are: (1) the appropriate level of leveraged finance depends on the project/programme (e.g. via cost structure or reflows); (2) co-financing should be considered along with other metrics (e.g. potential for impact and paradigm shift of the activities) rather than as a stand-alone indicator; and (3) if incremental costs for a project/programme are covered by GCF funding, co-financing should cope with the non-climate related costs of the activities.[98]

Proposed Indicator for Sub-criterion 28/31
Indicator S28/31.1 *Co-financing ratio*

$$S1_{raw} = \frac{Co - financing\ in\ US\$}{Total\ GCF\ financing\ in\ US\$}$$

$$S1 = quintile(S1_{raw})$$

Analytical process and construction:
The numerator represents the total amount of co-financing in USD for the project/programme, while the denominator represents the amount of GCF financing (in USD). The raw score $S28/31.1_{raw}$ is calculated for all the activities already in the portfolio of projects included in the ICS database. The final S28/31.1 score for the activity of interest is assigned to a class from 1 to 5 based on the results of quintile analysis.

Data
Data retrieved by the evaluator: The user has to retrieve key information on the financial structure from the FP. If data is missing, a score of 1 is assumed.

Data already in the ICS Database: The indicator is calculated for all the activities from a portfolio of projects included in the ICS database so as to retrieve quintiles.

---

[95] *See GCF/B.20/19, pages 10-11.*

[96] *See The GEF Evaluation Office (2008).*

[97] *See GCF/B.20/19, page 37.*

[98] *See GCF/B.20/19, page 11.*

CRITERION 6/6 EFFICIENCY AND EFFECTIVENESS **SUB-CRITERION 30/31 FINANCIAL VIABILITY IN THE LONG RUN**

Coverage area: Programme/project financial viability and other financial indicators

Focus on: Mitigation and adaptation

Definition and Rationale: In the case of project financing, financial viability in the long term means generating sufficient cash flows to meet financial obligations without the closure of the project. GCF recognized this concessional financing principle and brought it within the Initial Investment Framework. GCF links financial viability in the long run to the project's "financial soundness in the long term beyond the Fund's intervention".[99] In other words, the project/programme must remain financially viable after the withdrawal of GCF financing, whether through commercial or other concessional capital providers.

The "Financial viability in the long run" criteria is functional to the maximization of the leverage of capital. Since the amount of investment required to achieve green economic development is far more than the concessional capital available, concessional capital should be deployed where it maximizes its impact. Pursuing financial viability of projects in the long run allows concessional capital to move from a financially viable incumbent project to the new financially unviable project giving the possibility to reuse public finance where it is most needed.

Because of its highly context-specific nature, specific circumstances should be accounted for when assessing financial viability of project/programmes in the long run. For example, adaptation projects in LDCs and SIDS are public goods in nature and may struggle to find viable commercial and/or concessional capital financing options, due to limited availability of government funding and other concessional capital, and lack of a market economy to attract commercial capital.

The financial viability of a project in the long run depends on (a) the existence of a business strategy to phase out GCF capital (b) the financial strength of the EE, including its credit rating to run the project without GCF capital, and (c) deployment of effective risk-mitigating instruments.[100]

Proposed Indicators for Sub-criterion 30/31
Indicator S30/31.1 *Existence of strategy for phasing out GCF support*

$$S1 = 1 + (\sum_{i=1}^{2} Answer_i \times \frac{4}{5})$$

Analytical process and construction:
S30/31.1 represents the sum of the scores from the following set of questions:

1. Does the FP include a **strategy** to identify sources of financing and continue its activities in the long run? [Low = 0, Medium = 1, High=2].

LOW	0	No strategy is provided.

[99] See GCF/B.09/23, page 30.
[100] For further details, see the 4th Cycle Lab Methodology from CPI.

MEDIUM	1	The FP outlines a **strategy** to phase out GCF support by ensuring continuous concessional financing support in the long term (e.g. Funding from government or other public entities). **OR** No strategy is provided. **AND** The FP targets adaptation implemented in **least developed countries** (LDCs) and/or **small island developing states** (SIDS).
HIGH	2	The FP outlines a **strategy**[101] to phase out GCF support and operate on a commercial basis (including an exit strategy, etc.). OR The FP outlines a **strategy** to phase out GCF support by ensuring continuous concessional financing support in the long term (e.g. Funding from government or other public entities). AND The FP targets adaptation implemented in **least developed countries** (LDCs) and/or **small island developing states** (SIDS).

2. Does the proposal provide evidence of the commitment by a specific source of capital replacing GCF capital? [No=0, Low = 1, Medium = 2, High=3].

NO	0	**No evidence of commitment** is provided.
LOW	1	**Evidence of commitment** is provided for the **partial** or **short-term** replacement of GCF capital. **OR** **No evidence of commitment** is provided. **AND** The FP targets adaptation implemented in **least developed countries** (LDCs) and/or **small island developing states** (SIDS).
MEDIUM	2	**Evidence of commitment** is provided for the **full** and **long-term** replacement of GCF capital. **OR** **Evidence of commitment** is provided for the **partial** or **short-term** replacement of GCF capital. **AND** The FP targets adaptation implemented in **least developed countries** (LDCs) and/or **small island developing states** (SIDS).
HIGH	3	Evidence (in the form of supportive research and analytical documents, including projected cash flows) is provided that the commitment guarantees the **project viability** in the long term. **OR** **Evidence of commitment** is provided for the **full** and **long-term** replacement of GCF capital. **AND** The FP targets adaptation implemented in **least developed countries** (LDCs) and/or **small island developing states** (SIDS).

101 *A business plan with measurable goals, action plans, and milestones*

Data

Data retrieved by the evaluator: Answers to the previous set of questions according to information contained in the FP.

No data in the ICS Database.

Indicator S30/31.2 *Strength of the accredited entity and executing entity*

$$S2 = \text{sub-criterion } 24/31$$

Analytical process and construction:

S2 is measured by using the final score of all indicators under sub-criterion 24/31 "Experience and track record of the Accredited Entity (AE) or Executing Entities (EEs) in key elements of the proposed activity", as this is representative of the ability of the entity to carry out the project activity.

Data

Data retrieved by the evaluator: Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

Indicator S30/31.3 *Effectiveness in mitigating risks and challenges to the project implementation in the long run*

$$S3 = \left(\frac{\sum_{i=1}^{a} Answer_i}{a}\right)$$

$$Answer_i = max(answer_{\ 1}, 1 + \ Answer_{\ 2} + Answer_{\ 3})$$

$$a = \ number\ of\ applicable\ risks\ and\ challenges\ within\ indicator$$

Analytical process and construction:

The construction of S3 follows several steps.

Among the possible main risks/challenges to the long-term financial viability of the project in the target context (B), the evaluator is required to select, based on information provided in the FP, up to **three risks most relevant to the success of the project/programme that need to be addressed** (A). Possible risks include:[102]

1. **Political, policy, and social risks**
   - Political risks (e.g. corruption and governance risks including repeal of contracts, legal and ownership rights infringements risk, risk of property expropriation; ownership claims)
   - Administrative risks (e.g. permitting delays, denial or repeal; forced relocation)
   - Policy / regulatory risks (e.g. change of support to tariffs or level of subsidization)
   - Risk of social opposition and risk of violence (e.g. social resistance, protests from local citizen, reputational risk)

[102] *Risk categorization based on Frisari et al, 2013 and Micale et al, 2013 and following updates. https://climatepolicyinitiative.org/wp-content/uploads/2013/09/World-Bank-Group-Risk-Mitigation-Instruments-for-Climate-Change-Brief1.pdf*

2. **Technical and physical risks**
   - Construction delays and risks (e.g. uncertainty over the timing of construction and sub-standard construction)
   - Upstream resource-related risks (e.g. lack of capacity and knowledge, availability of material and workforce, risks related to delays and quality of supply, uncertainty over the effective availability of natural resources on the specific site)
   - Operation risks and other downstream output-related risks (e.g. risks related to technical operations, faulty operations, reliability of activity output)
   - Catastrophic risks impacting the activity (e.g. earthquakes, severe drought)
   - Environmental risks resulting from project activities (e.g. leading to potential clean-up liabilities)
3. **Commercial risks**
   - Financing barriers (uncertainty in access to capital and cost of capital for financing /re-financing)
   - Construction and operation costs increase (e.g. risk of increased project-related construction and operation costs).
   - Currency risk (e.g. risk of depreciation and currency volatility)
   - Revenue risk (e.g. uncertainty on output price, low demand, payment risk, counterparty credit risk, uncertainty of exit value of investment).

For each of the three applicable risks to the long-term financial viability of a proposal identified (X_i), the evaluator must then assess to what extent the risks are relevant for the context/country targeted.

1. Based on evidence provided in the FP or to the best of the user's knowledge, how relevant are KEY risks/challenges identified based on their likelihood of occurrence and potential impact? [Low = 5, Low-Medium = 4, Medium = 3, Medium-High = 2, High =1] See table below.

LIKELIHOOD OF OCCURRENCE AS PER EVIDENCE	High / No evidence	*Medium (3)*	*Medium-High (2)*	*High (1)*
	Moderate	*Low-Medium (4)*	*Medium (3)*	*Medium-High (2)*
	Low	*Low (5)*	*Low-Medium (4)*	*Medium (3)*
		Low	Moderate	High / No evidence
		EVIDENCE OF POTENTIAL IMPACT OF RISK		

2. Does the project have **strategies** in place to **mitigate/manage** the key risks/challenges identified above? [Low = 0, Medium = 1, High=2].

LOW	0	No mitigation strategy has been provided.
MEDIUM	1	Mitigation strategy is able to **partially** address key risk/challenge, or **uncertainties** remain.
HIGH	2	Mitigation strategy is able to **fully** address key risk/challenge.

3. Have **Providers of services/internal resources** required to mitigate the challenge (e.g. insurers, guarantors) been identified? [Low = 0, Medium = 1, High=2].

LOW	0	No provider of services required to mitigate the risk has been identified.
MEDIUM	1	Providers of services required to mitigate the risk (e.g. insurers, guarantors) have been **identified**.
HIGH	2	Providers of services required to mitigate the risk (e.g. insurers, guarantors) have been identified and **secured** via contract, or an official partnership in the project.

Data

Data retrieved by the evaluator: Answers to the previous set of questions, according to the information contained in the FP, particularly the risk matrix, and expert assessment of the importance of the risks presented.

No data in the ICS Database.

CRITERION 6/6 EFFICIENCY AND EFFECTIVENESS **SUB-CRITERION 31/31 APPLICATION OF BEST PRACTICES AND DEGREE OF INNOVATION**

Coverage area: Industry best practices

Focus on: Mitigation and adaptation

Definition and Rationale: The central role of innovation is recognized by most other climate funds. For example, the CTF acknowledges that process-related innovation – along with the construction of institutional capacity, particularly at the local level – plays a vital role in making climate finance effective. Also, the GEF embraces a grass-roots approach in endorsing community-driven initiatives and the diffusion of new models through the Small Grants Programme, supporting bottom-up innovation capable of responding to local traditions.[103] The SREP advocates disruptive approaches in incoming proposals, especially with respect to cost savings in electricity generation and engagement with the private sector. Most importantly, GCF recognizes that its mandate, along with its willingness to produce transformational impacts, is driven by innovation.[104]

The sub-criterion measures the extent to which adoption of best practices and openness to technical innovation is enabled by the project or programme.[105] Specifically, the sub-criterion investigates the capacity of the FP to opt for innovative technological solutions and practices, to absorb innovative inputs from local stakeholders, and to adjust the adopted best practices to better suit the needs of the activities.[106] Innovation and application of best practices may enhance the impact of the activities of interest, while also paving the way for further capacity building within the host country (e.g. via positive spillovers).

---

[103] *For more details, see the GEF website and the innovation library on the SGP website.*

[104] *See for example the introductory statement on the GCF website. Innovation appears also among the sub-criteria to appraise the potential for paradigm shift. See GCF/B.09/23, page 26.*

[105] *See GCF/B.09/23, page 30.*

[106] *See also GCF/B.20/Inf.14.*

For the purpose of assessment of the Investment Criteria Framework, this indicator focusses on two aspects:

- Assessment of level of technical and practices innovation, given the breadth in the concept of "best" practices, we focus on technical and business innovation.
- Considerations and transfer of related best available technical improvements and practices.

Proposed Indicators of Sub-criterion 31/31
Indicator S31/31.1 *Innovation checklist*

$$S1 = sub\text{-}criterion\ 3/31$$

Analytical process and construction:
S31/31.1 is the maximum of two intermediate metrics: technical innovation score and business innovation score.

Data
Data retrieved by the evaluator Data are provided by the evaluator and are based on information contained in the FP.

No data in the ICS Database.

Indicator S31/31.2 *Transfer of best available technologies and practices*

$$S2 = 1 + \sum_{i=1}^{4} Answer_i$$

Analytical process and construction:
The indicator seeks to capture the extent to which activities encourage and foster transfer of best available technologies and/or best practices, including those of indigenous peoples and local communities. Aspects of innovation are also covered as embedded in the definition of "technology transfer", drawing – among others - from determinants of effective transfer of new technologies as per experience with the CDM.[107]

The score S31/31.2 represents the sum of positive answers (indicated as 1) to the following set of questions:

1. Does the FP **describe and provide evidence from resources/literature about how best practices and/or best available technologies were identified and reviewed**, including international ones, and those of indigenous peoples and local communities? [Yes = 1, No = 0]
2. Does the FP **describe and provide evidence of how best practices and/or best available technologies were integrated during proposal development and will be used during project implementation, or how the proposal deviates from/improves them**, including international ones, and those of indigenous peoples and local communities? [Yes = 1, No = 0]
3. Are best available technologies and practices **accessed** through **imports from outside the region of application of the project** (e.g. of technical components,

[107] *See in particular UNFCCC (2010), page 18. Dechezleprêtre et al. (2009) and Seres et al. (2009) provide more details and discuss empirical findings based on samples of CDM projects.*

pieces of equipment, expertise),[108] and/or through the **valorization of contributions by indigenous peoples and local communities**? [Yes = 1, No = 0]

4. Does the FP include the **description of a causal path ensuring the continuous/ long-term adoption of best available technologies and practices** within the target geography and sector (e.g. training activities, and resources and time allocated for that,[109] encouraging policy changes incentivizing their adoption[110])? [Yes = 1, No = 0]

Data

Data retrieved by the evaluator: Answers to the previous set of questions, according to information contained in the FP.

No data in the ICS Database.

[108] *https://cdm.unfccc.int/Reference/Reports/TTreport/TTrep08.pdf*

[109] *https://cdkn.org/wp-content/uploads/2017/06/GCF-project-development-manual.pdf*

[110] *https://knowledge4policy.ec.europa.eu/technology-transfer_en*

ICS Annex A – Definitions of project-level data sources

The table below provides an overview of project-level data definitions (e.g. CO_2 emissions, number of beneficiaries) from the various sources used.

	GCF	GEF	CIFS
DATA SOURCES	Data from online project page and the latest available version of the Funding Proposal.	Data from online project page and latest available document, namely CEO Endorsement submissions, or alternatively retrieved from Project Identification Forms (PIFs) and complemented (if needed) by information in Scientific and Technical Advisory Panel (STAP) reviews.	Data from online project page and latest available document, namely the Cover Page for Project/ Programme Approval Request, or the Project Appraisal Report.
CO_2 EMISSION REDUCTIONS	Focus on all direct project emissions reductions linked to the project or programme.	Focus on all **direct emissions reductions**[111] generated by a project or programme, when available/mentioned. If not available, then total emissions are used (which also include indirect emissions).[112]	Focus on all direct project emissions reductions linked to the project or programme.

111 Direct GHG emission reductions are those achieved by project investments such as technology demonstrations and discrete investments financed or leveraged during the supervised project implementation period (from the project start to the project closure). Direct post-project emissions are also calculated within this category, indicating post-project emission reductions of GEF-supported revolving financial mechanisms that are still active after the project closure (ex-post). (GEF, 2013, GEF, 2019).

112 Lifetime indirect GHG emissions avoided (top-down and bottom-up) are those attributable to the long-term outcomes of the GEF activities such as capacity building, innovation and catalytic action for replication, that aim to remove barriers (GEF, 2013). Indirect emissions have also been redefined as Consequential GHG emission reductions, referring to those projected emissions that could result from a broader adoption of the outcomes of a GEF project, plus longer-term emission reductions from behavioural change. Broader adoption of a GEF project proceeds through several processes including sustaining, mainstreaming, replication, scaling-up and market change. Consequential emission reductions are typically achieved after GEF project closure and occur outside of the project logical framework (logframe). A causality factor defining the attribution of emissions is used in this case (GEF, 2015)

CO_2 ANNUAL EMISSION REDUCTIONS	Annual emissions reductions if available, or alternatively estimated using either the technical lifespan if explicitly reported, or the lifespan of the fund if total emissions were calculated accordingly.[113] In the latter two cases, annual emissions are used for benchmarking purposes only if projects stated a duration >5 years.	Annual emissions reductions if available, or alternatively estimated using technical duration of projects (if available).[114] In the latter case, annual emissions are used for benchmarking purposes only if projects stated a duration >5 years.	Annual emissions reductions if available, or alternatively estimated using either the technical lifespan if explicitly reported, or the lifespan of the fund if total emissions were calculated accordingly.[115] In the latter two cases, annual emissions are used for benchmarking purposes only if projects stated a duration >5 years.
BENEFICIARIES	Focus on total number of people positively impacted by the project. Reported figures are always specified and split between direct and indirect beneficiaries, although in some instances only direct beneficiaries are provided. Figures are required to be reported only by projects with an adaptation component (where they chiefly refer to beneficiaries of reduced vulnerability), although in some cases are also reported by mitigation-only projects.	Focus on total number of people positively impacted by the project (for adaptation project focus only on beneficiaries of reduced vulnerability), although reported figures mostly refer to direct beneficiaries,[116] but this is not always specified within projects. If number of impacted people was not available, the estimate was derived from country-level data (e.g. household beneficiaries converted into individual beneficiaries based on average size of household in specific country).	Focus on total number of people positively impacted by the project (for adaptation project focus only on beneficiaries of reduced vulnerability), although reported figures mostly refer to direct beneficiaries or are in some instances not specified. If number of impacted people was not available, the estimate was derived from country-level data (e.g. household beneficiaries converted into individual beneficiaries based on average size of household in specific country).

113 Project lifetimes are usually reported inconsistently between funds. As observed for GCF projects, proposals officially reporting lifespans beyond 10 years generally tend to refer to the technical lifespan of the technologies supported by the project, while those reporting below 10 years usually refer to the duration of the funding instruments. Those have been amended to reflect technical lifetimes based on information contained in the proposals.

114 Project lifetimes are usually reported inconsistently between funds. GEF submissions tend to report mainly of the duration of GEF financial instrument, rather than the duration of the technology or the project, thus usually lengths below 10 years are reported.

115 Project lifetimes are usually reported inconsistently between funds. As observed for CIF projects, proposals officially reporting lifespans beyond 10 years, generally tend to refer to the technical lifespan of the technologies supported by the project, while those reporting below 10 years, usually refer to the duration of the funding instruments. For the purposes of this analysis, the project lifetimes of those reporting below 10 years have been amended to reflect technical lifetimes based on information contained in the proposals.

116 This indicator captures the number of individual people who receive targeted support from a given GEF project/activity and/or who use the specific resources that the project maintains or enhances. Support is defined as direct assistance from the project/activity. Direct beneficiaries are all individuals receiving targeted support from a given project. Targeted support is the intentional and direct assistance of a project to individuals or groups of individuals who are aware that they are receiving that support and/or who use the specific resources. (GEF, 2019)

SHARES OF FEMALE BENEFICIARIES	Calculated as the ratio between female beneficiaries and total beneficiaries.	Calculated as the ratio between female beneficiaries and total beneficiaries. If not available, shares targeted by the project were used.	Calculated as the ratio between female beneficiaries and total beneficiaries.
CO-FINANCING	All financial resources required, whether Public Finance or Private Finance, in addition to the GCF Proceeds, to implement the Funded Activity for which a Funding Proposal has been submitted. There must be a causal link between GCF resources and third-party resources.	Resources that are additional to the GEF grant and that are provided by the GEF Partner Agency itself (e.g. MDB) and/or by other non-GEF sources that support the implementation of the GEF-financed project and the achievement of its objectives.	Includes the amount of financial resources contributed by external resources and can include entities from both the private (commercial) and public (non-commercial) sectors.

ANNEX II

CONCEPT NOTE CHECKLIST

DOES THE CONCEPT NOTE MEET THE FOLLOWING CRITERIA?

CRITERION	AE RESPONSE
A.5 RESULT AREAS OF THE PROJECT/PROGRAMME	
Are all the result areas relevant to the proposed project/programme? Please Note that there are eight result areas connecting with the sectors and topics chosen. Make sure that if a result area, or more than one result area is mentioned, then it is clearly described and explained in the CN. Please make sure that the share (%) considered for each result area is included. Have a clear and interconnected narrative between sectors, topics and result areas. The selection of the areas should refer to the GCF Performance Measurement Frameworks and be based on the climate rationale. Please carefully follow the instructions in the Concept Note Template and Concept Note User Guide	Yes/No
A.7 ESTIMATED ADAPTATION IMPACT	
Has the number of direct and indirect beneficiaries been estimated (a percentage of the total population targeted by the proposed project)? The project beneficiaries should be identified and quantified.	Yes/No
Is there a clear explanation of how the direct and indirect beneficiaries were estimated? References to and assumptions on the calculation of the direct and indirect beneficiaries should be included, such as refering to vulnerability assessments.	Yes/No
A.10 TYPE OF FINANCIAL INSTRUMENT REQUESTED FOR THE GCF FUNDING	
Has the financial instrument(s) been selected? Please remember to select the same financial instrument throughout the CN template. Is the financial instrument consistent with the accreditation standards?	Yes/No
"Have you considered other financial instruments? GCF provides 6 types of financial instruments, thus it is important to select the correct type of financial instrument that is optimal for the project/programme and country. Grants and in-kind co-financing are not the only option. Make sure the financial instrument selected (grant) is the optimal solution for the project/programme and country. "	Yes/No
A.11 ESTIMATED DURATION OF PROJECT/PROGRAMME	
Clarify the implementation period, in months or years and the disbursement period. How to ensure impacts will be kept between project implementation completion and project lifespan?	Yes/No
A.19 PROJECT/PROGRAMME RATIONALE, OBJECTIVES AND APPROACH OF PROJECT/PROGRAMME	
"Is the climate rationale strongly explained, regarding current and projected impacts and how the project seeks to respond to these impacts? See Climate Guidance for mitigation and adaptation proposals (see section 3, part 2, and Annex 3 of the Appraisal Guidance)."	Yes/No
B.1 CONTEXT AND BASELINE	
Is the problem statement clearly explained? Consider describing the impacts of climate change on the sector and identifying the main climate change risks that the project/programme will be addressing.	Yes/No
Does this section provide a detailed description of baseline scenarios of the project/ programme?	Yes/No
Is the linkage between climate hazards and proposed activities fully explained? Are these climate links considering the potential impacts on units of analysis? (e.g. communities, ecosystems, businesses).	Yes/No
Are the consequences of not making any investments described? (project versus no project scenarios)	Yes/No

CRITERION	AE RESPONSE
Were the climate change impacts in each area specified?	Yes/No
Does this section provide information of any complementary projects within the region/country and does it describe opportunities for complementarity with those projects? Are the lessons learned from other initiatives contemplated in the project design?	Yes/No
B.2 PROJECT/PROGRAMME DESCRIPTION	
Are the Executing Entities (carries out project activities, or channels funds) and/or Implementing Entities for each Component identified? Include a summary of the roles and responsibilities of each partner.	Yes/No
Is the monitoring structure clearly described?	Yes/No
B.3 EXPECTED PROJECT RESULTS ALIGNED WITH GCF INVESTMENT CRITERIA	
Is the Theory of Change Presented? ToC has to be based on the guidelines in the GCF Programming Manual. This includes updating the goal statement in the "if, then, because" format. A theory of change diagram should be included as an Annex as well	Yes/No
Does the ToC clearly present all the barriers identified (included inherent barriers) and risks that will need to be addressed by project/programme activities?	Yes/No
Are the outcomes, outputs and activities clearly presented and logically connected through the ToC?	Yes/No
Are the expected impacts and the objectives fully quantified?	Yes/No
Is the expected economic internal rate of return (IRR) and/or financial internal rate of return estimated?	Yes/No
Was additional co-finance from public or private entities considered? Is co-finance distinguished from parallel finance and leveraged finance?	Yes/No
Does the project show an innovative approach and/or tackle specific financial/market/operational barriers to enable private investments? Add related information such as policies and laws supporting the project viability and current gaps.	Yes/No
Does the CN present evidence that GCF funds will be used to leverage additional funding for the project?	Yes/No
Are all types of costs contemplated in the cost estimation?	Yes/No
Is the ratio of co-financing (total amount of the GCF investment as percentage of project) provided and detailed?	Yes/No
B.4 ENGAGEMENT AMONG THE NDA, AE AND/OROTHER RELEVANT STAKEHOLDERS IN THE COUNTRY	
Are all the roles of the different stakeholders, including NDA, private sector and local communities included? Make sure there is a description of the strong engagement of stakeholders in the programme in terms of knowledge transfer and capacity building.	Yes/No
Are other related projects mentioned? Always clarify the relationship of these other projects with the Concept Note.	Yes/No
C.2 JUSTIFICATION OF GCF FUNDING REQUEST	
Is there a clear explanation of why the GCF is the relevant donor for this project in terms of contributing to climate-related activities and impact?	Yes/No
Are the gender components included in the impact potential? Female participation should be ensured in the decision making of the facility and/or fund management.	Yes/No

CRITERION	AE RESPONSE
Is the paradigm shift potential presented easy to assess? The details presented should be aligned with the NDC under Country Ownership and should describe the opportunities for private sector investment and leverage.	Yes/No
Is the proposed financial structure (funding amount, financial instrument, tenor and term) adequate, reasonable, and appropriate to make the proposal viable?	Yes/No
C.3 SUSTAINABILITY AND REPLICABILITY OF THE PROJECT	
Is the exit strategy clearly presented? An elaboration of how the project/programme activities and scope will continue after funds end should be included.	Yes/No
Is the potential for scaling up and replication of the project/programme explained?	Yes/No
GENERAL GUIDANCE	
Are the supportive documents included? Some documents are optional but are worth submitting in the first submission in order to strengthen the Concept Note.	Yes/No
Are the references and citations included? Use acceptable data. See GCF sources and documents.	Yes/No
Is the geographical location of the interventions presented in the Concept Note? Is this accompanied by a map?	Yes/No
Is information on the impact of COVID-19 presented?	Yes/No
COMPLETENESS	
Has the Accredited Entity submitted all relevant documents?	Yes/No
CONSISTENCY	
Are there any inconsistencies in the information and annexes presented?	Yes/No

ANNEX III

CLIMATE GUIDANCE

As described in the Appraisal Guidance document (see Section 2 part 3.1), the appraisal process focuses firstly on climate impact potential. This stage of review determines whether the project or programme is designed to contribute primarily to low-emissions and climate resilient development pathways, and whether it can demonstrate that it will provide measurable mitigation and/or adaptation results.

The Green Climate Fund (GCF) provides a range of advice to accredited entities on how to access, synthesize, and employ climate information in showing the climate impact potential of any proposal. This principles-based guidance is consistent with, and in most cases more rigorous than, equivalent guidance from other climate finance mechanisms. These principles steer Accredited Entities (AEs) towards the development of proposals that include an overarching narrative which shows how they address climate change and contribute to ambitious climate action. The principles differ depending on whether a proposed activity is designed to deliver mitigation, adaptation, or cross-cutting results, as set out below.

PRINCIPLES FOR DEMONSTRATING THE CLIMATE IMPACT POTENTIAL OF MITIGATION ACTIVITIES

Proposals for mitigation activities need to demonstrate that a projected level of GHG emissions reductions (or removals) will occur, and that these emission reductions would not have happened without the GCF-funded activity. Establishing the climate impact potential for a mitigation funding proposal involves the following high-level principles which mirror established procedures and best-practices in emission reductions estimation across the climate finance landscape:

1. Proposals should confirm alignment of the activities with host country priorities, including its nationally determined contribution (NDC) or other national and long-term climate strategies consistent with the long-term global goal to hold the increase in the global average temperature to well below 2°C and to pursue efforts to limit the temperature increase to 1.5°C. The GCF is an operating entity of the financial mechanism of the UNFCCC and the Paris Agreement, and it is important to confirm that the GCF-funded activity is aligned with the NDC or other national climate strategies of the country. This also helps ensure that country ownership is integrated in the proposal and that activities are targeting the areas of highest potential impact and need for that country;
2. A methodological approach for the quantification of the mitigation results of the activity and its monitoring needs to be selected and implemented. The GCF does not prescribe any specific methodologies, but strongly encourages AEs to utilize, whenever possible, the multitude of tools and methodologies developed for the quantification and monitoring of mitigation impact. Since the adoption of the UNFCCC and subsequently the Kyoto Protocol and the Paris Agreement, significant work has been done towards establishing methodologies for mitigation activities. Examples of suitable methods include the Clean Development Mechanism, and Joint Implementation under the Kyoto Protocol, which have established methodologies for quantifying mitigation impact for projects and programmes.
3. Proposals should use the methodology most relevant to the specific activities proposed. Articulation and assessment of mitigation impact follows a number of standard steps: determine project impact boundaries; define the baseline; and show additionality. In the context of a mitigation project, an activity is considered additional if it can be shown that the GHG emission reductions would not occur in the absence of the GCF funding. Each of these steps is described in more detail and illustrated with worked examples in supplementary online resources.
4. The quantification of mitigation impact should use consistent assumptions (e.g., emission factors) to those made in national GHG reporting as this will allow for the

accurate quantification of the support provided to countries in meeting their NDCs in line with the Paris Agreement.

5. Proposals should describe the establishment of a Measurement, Reporting, and Verification (MRV) system for the GHG emission reductions and removals of the proposed activity. This will facilitate the assessment, during and after implementation, of whether the funded activity generated the projected mitigation results. This will in turn provide learnings to the GCF, AEs, and host countries towards maximising the impact of future mitigation activities. When describing the MRV system for mitigation results, proposals should include all indicators, equations, input values to formulae, and any other assumptions used to quantify the emission reductions or removals, baseline and project scenarios, and information on how the MRV will be conducted. Proposals should also provide projections of the annual emission reductions or removals during the lifetime of the project or programme.

PRINCIPLES FOR DEMONSTRATING THE CLIMATE IMPACT POTENTIAL OF ADAPTATION ACTIVITIES

For adaptation activities, climate impact potential is established by providing an analysis to show that a proposed activity is likely to be an effective adaptive response to the risk or impact of a specific climate change hazard. Here and in all GCF guidance we use the Intergovernmental Panel on Climate Change (IPCC) terminology for risk resulting from the combination of hazard(s), exposure and vulnerability (leading to impact if the risk materializes). For simplicity, these terms are used here in the singular but with the implicit understanding that there can be multiple hazards, vulnerabilities, risks and impacts. Establishing the impact potential for an adaptation funding proposal follows four high-level principles:

1. **Identification:** Adaptation proposals should show how the activity addresses current or future projected climate change risk or impact, and why it is likely to be an effective response. Proposals should identify the systems at risk and the climate change hazard affecting them or expected to in the future. They should show how climate change has contributed, or will contribute, to the specific risk or impact that the proposed activity addresses using the best available information. Where relevant, proposals should also consider any non-climatic factors that may be causing or exacerbating the risk or impact and describe the interactions between climate change and non-climatic drivers. Vulnerability assessments can be used to identify groups, sectors and subregions most susceptible to the climate change impact and therefore will provide information to select and prioritise appropriate adaptation outcomes.
2. **Response:** Proposals should explain how the activity will reduce the exposure and/or vulnerability (of people, systems, or ecosystems) and thus lessen the climate change risk or impact. Where relevant, a justification should be given for why the proposed activity was selected over alternatives. Proposals should consider barriers (e.g., technical, social, institutional, regulatory) to the implementation of the activity and describe how the project aims to overcome those barriers. Proposals should apply a methodological approach for the quantification of the number of beneficiaries expected to result from the activity.
3. **Alignment:** Proposals should confirm alignment of the proposed activity with the host country's national plans and climate strategies (including their NAPs, NAPAs, long-term climate strategies, and adaptation communications including those submitted as components of NDCs, as applicable). This helps ensure the country ownership of the proposal and that activities are targeting areas of highest potential need and impact for that country.
4. **Monitoring and evaluation:** Projects with a well-designed theory of change are more likely to result in successful outcomes that can be measured and evaluated. Proposals should include a description of the monitoring and evaluation system

that will be used to assess the outcomes of adaptation activities and to quantify the adaptation beneficiaries. This will facilitate the assessment during implementation of whether the funded activity generated the climate impact expected and will also inform the design of more impactful future adaptation options.

Articulation of the identification and response stages should make use of the best available information and data, which may come from a variety of sources, and be adapted to information and data availability, context and capacities for a specific country, region, or AE. In all guidance, we refer to information and data together, putting information first since for data to become information it requires context (data are simply numbers, facts or details from which information is derived and are seldom useful alone). Recognizing the significant variation in information and data availability across countries and contexts, the GCF makes no prescription of the use of any specific information or data type. The IPCC stresses the value of developing any climate analysis by using multiple lines of evidence. This underlines the importance of using integrated information above any single type or source of data. When determining climate risk from the combination of historical data and future climate projections, proposals should consider the consistency and agreement between the different sources of information including traditional, local and indigenous knowledge and practices.

Defining the climate hazard, exposure, and vulnerability of a project domain involves gathering and synthesizing a diverse range of information, which will be unique for each proposal. Historical information and data provide an essential baseline against which adaptation options can be compared (e.g., can show how close key human systems or ecosystems are to critical thresholds). The most recent syntheses of the IPCC should be considered a gold standard for climate science and climate change attribution, along with relevant peer-reviewed journal publications where they provide results relevant to the proposal (e.g. geographically). However, existing scientific literature does not specifically address all adaptation options in all countries and the IPCC synthesis reports do not always provide information at a suitable local scale. In these cases, demonstrating the identification and response principles should make use of project-specific local information and observational data where it is available and of sufficient quality. Where such information and data are not available or are not of sufficient quality then alternative peer-reviewed and scientifically credible datasets such as global gridded data or climate reanalyses may be used to show historical climate (and further guidance is given by the online resources discussed below).

DYNAMIC ONLINE RESOURCES

The Secretariat is leading a wider climate action expert community to develop online training materials, practical detailed guidance, open-source information platforms, tools, and capacity support to help guide the development of climate actions, particularly for adaptation and resilience projects. These online resources respond to a growing demand from stakeholders of the GCF (and other climate finance organizations) to have access to such tools and information platforms to help select effective climate actions. The online resources represent a "one-stop-shop" for climate information and will provide up-to-date links to *inter alia* all available country-level climate risk profiling, all existing mitigation methodologies, and climate model information platforms, and will ultimately also provide linkages to socio-economic and sector-specific advice. Climate science information resources are intended to ensure that GCF-funded investments, and other investments and plans, can easily access the climate data, indicators, and analysis needed to demonstrate the climate impact potential of projects. This will in turn: (1) support the selection of transformative climate actions; (2) promote effective implementation of climate actions; and (3) facilitate better access to climate finance.

In partnership with the World Meteorological Organisation (WMO) the GCF is convening a climate information expert advisory forum which will provide oversight of this plethora of climate information. The forum will provide authoritative guidance on the use of the diverse sources of data and information. It will assist in defining what is the best available information in any given context.

For future projections of climate change, a wide range of community tools and information platforms exist to assist in the retrieval and analysis of climate model information. Since these platforms and their data are constantly evolving, there is no prescription of which to choose. Proposal developers should use the information platforms and future climate information that are specific to the risk and hazard of their proposal. However, the GCF and WMO have co-developed one such tool and are committed to continuing working in partnership on the GCF-WMO Climate Information Platform.

THE GCF-WMO CLIMATE INFORMATION PLATFORM: "CLIMATE SCIENCE INFORMATION FOR CLIMATE ACTION"

GCF and WMO have partnered to produce a series of climate science information tools that improve access to climate science information for climate action. These tools aim to inform investments in climate action and will prove especially useful for providing the climate science information needed for adaptation planning, policy and decision making.

The toolkit includes:

- A web-based Climate Information Platform that gives access to information on past, present and projected future climate worldwide at a regional level;
- An online statistical software package ("Climpact") for calculation of climate indices associated with impacts in climate-sensitive sectors such as agriculture, food security, coastal management, disaster risk reduction, energy, forestry, fisheries, health and water; and
- A guidance document that explains how these tools can be used alongside other information to identify effective climate actions.

The Climate Information Platform (https://climateinformation.org/) is a user-friendly online tool that provides a rapid regional assessment of selected climate indicators, which are an aggregate measure of climate change on complex environmental phenomena. The indicators provided are commonly used and can be applied for impact analysis in many sectors. The platform outputs a climate overview for a specific site where the users can sort indicators by magnitude of change and robustness. Maps, graphs and summary texts are downloadable to insert into proposals or to use for communication. The platform presents all climate and water indicators for three future time periods (presented as a change compared to a historical period). The model data used to generate the indicators are based on climate models from two international climate scientific communities, and all models have been extensively peer-reviewed. CMIP5 stands for the Coupled Model Inter-comparison Project Phase 5. CMIP (https://www.wcrp-climate.org/wgcm-cmip) is the standard experimental protocol for studying the output of coupled atmosphere-ocean general circulation models. It provides a community-based framework that supports climate model diagnosis, validation, inter-comparison, documentation and data access. The international climate modelling community has participated in the CMIP project since it began in 1995.

CORDEX is the Coordinated Regional Climate Downscaling experiment (https://cordex.org/). CORDEX is the regional climate modelling framework whose purpose is to advance and coordinate the science and application of regional climate downscaling models through global partnerships. Both CMIP and CORDEX are endorsed and supported by the World Climate Research Programme (WCRP) and form the basis for assessment of future climate projections in the most recent IPCC reports.

The climate information platform will be updated on an ongoing basis as the underlying model data is updated to calculate indicators using the CMIP6 climate models and from the regional climate models using CMIP6 data as boundary conditions.

The Climpact open-source package (https://climpact-sci.org/) reads in meteorological data (daily minimum and maximum temperatures, as well as daily precipitation) and delivers the frequency, duration and magnitude of various climate extremes that are directly relevant to each sector. Indices calculated by Climpact are available at both monthly and annual timescales. Sectors like agriculture, health and water resources need information on how climate extremes affect their operations. But information on extremes is often buried in meteorological data and is not directly applicable to specific sectors. Climpact has been developed to address these specific concerns. It was developed by an international team of climate scientists dedicated to improving the availability and consistency of sector-specific climate indices.

During its development, the GCF-WMO toolkit was used in several country case studies to provide the climate change context and background consistent with supporting the high-level assessment principles of 'identification' and 'response' set out here. The toolkit was used to assess and synthesize climate information in a wide variety of contexts, wherever possible leading to a shortlisting of suitable adaptation activities, for example in the following countries and sectors:

- St. Lucia
  - Fisheries and marine ecology
  - Forestry
  - Water
- Cabo Verde
  - Disaster Risk Reduction
  - Energy
- Cambodia
  - Agriculture
  - Forestry
  - Health
  - Disaster Risk Management (flood mitigation)

Full details of each of the above-listed case studies can be found in the WMO e-library, as well as all documentation regarding the use of the climate information tools:

https://library.wmo.int/index.php?lvl=notice_display&id=21974#.YvM6b_hBw2w

TRAINING AND CAPACITY BUILDING

The Secretariat will support the use of its guidance for demonstrating climate impact potential with a suite of capacity-building measures to assist NDAs/focal points and AEs. Support measures will include (but are not limited to):

- Early engagement of GCF technical experts in Concept Note development.
- Utilization of the Readiness Programme to strengthen countries' capacities to undertake adaptation planning and investment programming, and to help countries identify their priorities for adaptation action based on relevant data.
- Utilization of Project Preparation Facility funding to help countries convert project ideas identified in their country programmes into bankable investments.

ANNEX IV

INNOVATION AND ADDITIONALITY TOOL (IAT)

INTRODUCTION TO THE INNOVATION AND ADDITIONALITY TOOL

Background

This Innovation and Additionality Tool (IAT) is designed specifically to assess the Adaptation and Mitigation components of Projects and Programmes proposed by Accredited Entities (AEs) to GCF. It is designed to be applicable both at the Concept Note (CN) stage and for full Funding Proposals (FPs), however, it is primarily designed to evaluate the innovation and additionality of projects at the CN stage. The tool operates independently from, but is complementary to, the pre-existing Investment Criteria Scorecard (ICS). While the IAT can be operated as a stand-alone tool, the evaluator can exercise the option to import data from the ICS tool in case the evaluator has applied it previously to the same CN or FP to avoid redundancy in data entry and improve consistency across different stages of the assessment process.

The assessment includes modified versions of indicators already available in the existing Investment Framework (IF) and covered in ICS v2. It also introduces an additional set of indicators (with assessment questions) where additional verification or assessment of certain aspects of innovation or additionality is justified.

The IAT is designed to be applicable both in single-country projects and to programmes where sub-projects are envisaged across multiple countries. The IAT can be applied to adaptation projects, mitigation projects, and cross-cutting projects with adaptation and mitigation components evaluated separately where this distinction is relevant.

For programmes with sub-projects in five countries or less, it is recommended that a separate input sheet be completed for each country. For programmes with sub-projects in six or more countries, it is recommended to select, for the purposes of assessment, the five countries with the greatest proportion of the total anticipated impact of the programme. For such a selection to be made, country-specific impact estimates will need to be available *a priori*. A summary tab allows the evaluator to compare the results of the additionality assessment for multiple country-specific sub-projects within a proposed programme.

Definition of Additionality and review of existing literature

The definition of additionality in the context of the IAT is as follows: ***A project or programme is considered additional if it would not have occurred in the absence of GCF funding***. Within the tool, the breakdown of additionality into dimensions and components (including innovation) is derived from existing operational GCF documents and incorporates elements of additionality from the wider institutional literature, including GCF. Accordingly, a project is considered additional not only where it would not have occurred without GCF resources, but also where the mitigation/adaptation benefits of the project relative to a baseline scenario are clear (as assessed under the "impact potential" investment criterion).

DEFINITION OF "ADDITIONALITY" IN EXISTING APPROACHES

Perhaps the most comprehensive attempt to define and operationalize additionality may be found in the UNFCCC tool to assess the additionality of projects under the Clean Development Mechanism (CDM). This was last updated in 2012. Under the framework, additionality is determined through a stepwise approach, which:

- Assesses whether a project is the first of its kind;
- Identifies alternatives to the project activity ("counterfactual");

- Determines the extent to which the project would be economically or financially viable without concessional support;
- Assesses whether and to what extent barriers to implementation exist; and
- Assesses whether the project is representative of "common practice" or if it has an innovative element.

Documentation from international financial institutions (IFIs) suggests that the additionality of interventions should also be linked to the performance of knowledge-transfer activities (e.g. technical advisory, standard setting) that ultimately lead to better development outcomes in the target country. In 2018, the multilateral development banks (MDBs) jointly developed a Harmonized Framework for Additionality in Private Sector Operations. The framework recognizes that specific definitions of additionality depend on the individual mandates of MDBs but lays out a set of shared principles for additionality combining many of those listed above: ability to deliver innovative financing instruments; appropriate risk mitigation and/or risk sharing; resource mobilization; regulatory improvements; and greater adoption of Environmental, Social, and Governance (ESG) Standards. **Table 1** provides a summary of key attributes of additionality covered by the definitions and approaches used by different international institutions, including GCF. A table showing the direct comparison between CDM and GCF in this regard is provided in **Annex 1** to this IAT document.

TABLE 1. SUMMARY OF ADDITIONALITY ATTRIBUTES REFERENCED BY INTERNATIONAL CLIMATE AND DEVELOPMENT INSTITUTIONS

#	ATTRIBUTE OF ADDITIONALITY	UNFCCC CDM	UNFCCC JI	IFIS	MDBS	GEF	GCF	ICS V2	RELEVANT DIMENSION(S) OF IAT
1	Project activity (technology) is **first of its kind**	X	X			X	**X**	X	Dimension 4
2	Define **alternatives** to the project activity	X	X				**X**		Dimension 1
3	Project activity faces **barriers** that prevent it from happening without concessional support	X	X	X	X	X	**X**	X	Dimensions 2 and 3
4	Project activity is **not** regarded as **"common practice"** [includes elements of (1)]	X	X			X	**X**	X	Dimension 4
5	**Investment baseline** identified on the basis of conservative assumptions	X	X				**X**	X	Dimension 1
6	Project activity in **lower income** country			X			**X**		Dimensions 2 and 3
7	Project activity includes **knowledge transfer** that enables development outcomes			X	X	X	**X**	X	Dimensions 2 and 3
8	Project activity involves **innovative financing structures**				X		**X**		Dimensions 2 and 3

#	ATTRIBUTE OF ADDITIONALITY	UNFCCC CDM	UNFCCC JI	IFIS	MDBS	GEF	GCF	ICS V2	RELEVANT DIMENSION(S) OF IAT
9	Project activity enables **resource mobilization**				X	X		X	
10	Project activity enables **regulatory** change				X	X		X	
11	Project activity promotes adoption of **higher environmental and social standards**				X	X			

The IAT is intended to **enable a comprehensive assessment** of additionality within the broad parameters of the GCF Investment Framework Criteria, also drawing on elements of the Integrated Results Management Framework (IRMF). Additionality is not explicitly measured within these frameworks, however, several components of additionality are measured separately as part of the assessment of different sub-criteria. The aim of this document and the accompanying tool is therefore to:

- Improve the overall **quality of FP packages** submitted to the GCF Board
- Respond to the request of the Board for the Secretariat "...to develop a **transparent and consistent approach** to their assessment of funding proposals."[1]
- Facilitate appraisal and support decision-making processes within the **due diligence** roles of both the AEs and the GCF Secretariat.

DIMENSIONS OF ADDITIONALITY

The implications of the definition of "GCF additionality" presented above are, firstly, that the project outperforms a baseline and reasonable alternatives; and secondly, that funding or financing from GCF addresses critically important financial and/or non-financial barriers to investment that others cannot address. Where both these criteria are met, a project may be considered more "additional" to the extent that it also contributes to a wider paradigm shift in the sector in which it applies, which in turn depends on its role in advancing innovation in that sector.

These criteria give rise to four overall "dimensions" of additionality to be assessed with this Innovation and Additionality Tool.

- **Dimension 1: A well-defined investment baseline and alternatives to project activities.** Projects should deliver impact outcomes performing well against a comprehensible investment baseline, and clearly explain how the proposed activities are better than available alternatives.[2]
- **Dimensions 2 and 3: Addressing non-financial barriers (Dimension 2) and financial barriers (Dimension 3).** There should be market failures and/or evidence-based impediments that present barriers to commercial investment, and GCF investment should be designed to clearly address these barriers in order to make the envisioned project possible and/or viable. The IAT requires information on which barriers are addressed, how and to what extent GCF support facilitates overcoming these barriers, and evidence that these barriers are not addressed by other instruments

[1] *Decision B.28/03(b)*

[2] *https://ghginstitute.org/wp-content/uploads/2015/04/AdditionalityPaper_Part-1ver3FINAL.pdf*

available in the market. Dimensions 2 and 3 also account for the socio-economic context of the country and ease of access to finance.[3,4]

- **Dimension 4: Advancing Innovation and accounting for second order effects of the intervention.** Projects should contribute to a sustainable paradigm shift in the market in the country of implementation through characteristics including, but not limited to, technological innovation and business model or regulatory innovation in comparison to previous interventions.

The four dimensions are assessed in the IAT based on a series of indicators, denoted by 1A, 1B, 1C, 2A etc. The dimensions of additionality assessed in the IAT are summarized in **Table 2**:

TABLE 2. DIMENSIONS OF ADDITIONALITY AND RELEVANT INDICATORS

	DESCRIPTION	RELEVANT INDICATORS
Dimension 1. Baseline context and alternatives	Proposed project/programme can demonstrate project alternatives and presents a comparative analysis between proposed interventions and these alternatives	• 1A. Baseline Investment Context • 1B. Alternative project activities (mitigation and/or adaptation) • 1C. Additionality of concessional finance
Dimension 2. Non-financial barriers in the country	Proposed project/programme addresses non-financial barriers to low-carbon/climate resilient investment in the context of reference that would otherwise prevent the project from happening.	• 2A. Opportunities for the Fund to overcome specific barriers to financing • 2B. Level of socio-economic development of the country and target population
Dimension 3. Financial barriers in the country	As in Dimension 2, but specifically for financial barriers.	• 3A. Opportunities for the Fund to overcome specific barriers to financing • 3B. Financial needs of the country
Dimension 4. Innovation and second order effects of the intervention	Proposed technology is first-of-a-kind or otherwise new in design or application.	• 4A. Market development and transformation • 4B. Innovation • 4C. Contribution to the creation or strengthening of knowledge, collective learning processes, or institutions • 4D. Application of best practices and degree of sector-specific additionality

[3] *https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf*
[4] *https://lawreview.vermontlaw.edu/wp-content/uploads/2015/05/39-2-07_Greenglass.pdf*

Approach

Scoring methodology: The scoring methodology for the IAT is designed to be **sufficiently flexible** to recognize particularly robust instances of additionality in whichever dimension(s) they are present.

The indicators used to construct scores for the four dimensions each follow an appropriate mathematical formula. Indicators are combined to arrive at the score for each dimension. Within dimensions, indicators are weighted according to the sector of application, type of entity applying for funding, and whether a (sub-)project is mitigation- or adaptation-focused (see "Approach" below). Once scores for each dimension are calculated, a simple average is taken to determine project additionality. A project is considered "additional" when the overall score is greater than 2.5 out of 5.0.

Indicator construction: The indicators for the IAT were identified according to a set of principles intended to strike a balance between the complexity of the task, objectivity in the process, and cross-sectoral comparability. Principles therefore include the following:

- The Investment Criteria and sub-criteria specified in the **Investment Framework** approved by the Board was used as a starting point. Investment criteria include: Impact Potential, Paradigm Shift Potential, Sustainable Development Potential, Needs of the Recipient, Country Ownership, and Efficiency & Effectiveness.
- A scoring range has an *ordinal* value (i.e. based on an ordering or ranking of importance). Scores are then translated into qualitative terms. The following table proposes a scale for conversion of the score from numeric to qualitative scoring according to GCF current practice:

TABLE 3. QUANTITATIVE AND QUALITATIVE SCORE EQUIVALENCIES

QUANTITATIVE SCORE	QUALITATIVE SCORE
1	Low
2	Medium-low
3	Medium
4	Medium-high
5	High

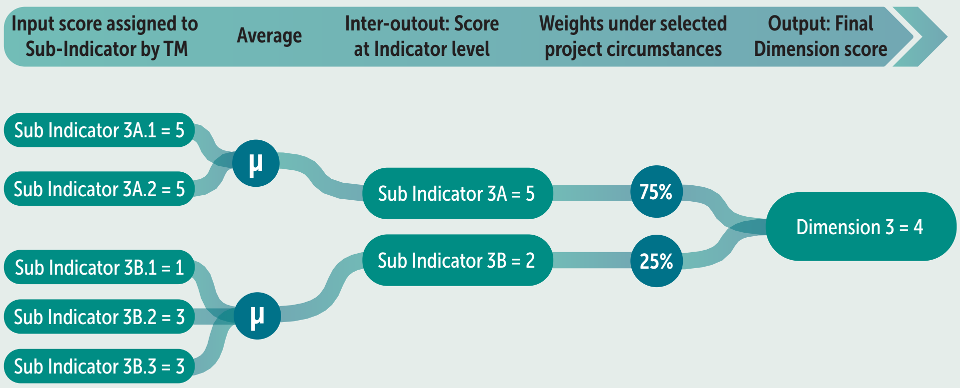
- A mix of quantitative and qualitative indicators is included:
  - **Quantitative indicators** are based on **benchmarking** of project and related data entries against project and county-level data evidence. See below for more information on the approach used for benchmarks.
  - **Qualitative indicators** are based on **checklists** to objectively validate specific, carefully described scenarios and circumstances based on information in the CN/FP.
- Indicators align with **information available** in CN/FP.
- Indicators allow for **flexibility** and are applicable to multiple impact areas.

- Indicators allow for **judgement and expert opinion** from evaluators who will have the possibility to override the judgement of the tool if necessary.
- Indicators **remain simple** so to allow evaluators to perform analysis quickly.
- Indicators take into account the **country context** where possible.

The scoring process for the IAT is structured as follows:

1. The evaluator **assesses sub-indicators** within each indicator.
2. The average of sub-indicators forms the **score at Indicator level**.
3. When applied at the **CN stage**, sub-indicators for data which are unavailable are **excluded from scoring** at the indicator level. When applied at the **FP stage**, **a score of 1 is applied** to sub-indicators for which data is unavailable.
4. The **weighting system** then automatically determines the score for each Indicator under the selected project/programme circumstance (see diagram below) and the weighted Dimension score is calculated.

FIGURE 1. SCORING PROCESS (EXAMPLE)



Application of the IAT in the GCF appraisal cycle

The IAT would ideally be applied after an assessment of climate context/impact has been carried out.[5] The IAT is primarily intended for the CN stage and will be used to provide the core elements of justification for bringing a CN to the Climate Investment Committee (CIC) for inter-divisional review. In effect, this means that confirmation of a CN's Innovation and Additionality should be demonstrated before an AE is advised by the Secretariat to develop a full FP package. The tool may also be applied to full FPs in case a CN has not been submitted to the Secretariat beforehand.

The tool can be configured to distinguish between the assessment of CNs and FPs based on the information requested from AEs in the respective templates. Where required information for an indicator is not supplied at the CN stage, it is not penalized with a low score (i.e. it is simply not included). In such cases, the user is encouraged to seek information from AEs for additional information. Only the information available in the CN is used to calculate a score for the indicator or sub-indicator. If the IAT is applied to a full FP, where required information is absent, a score of "1" is attributed for the corresponding indicator.

[5] *Separate guidance materials on climate context (adaptation and mitigation) will be available through C-NET within the GCF Secretariat.*

Use of quintiles for benchmark analysis

The IAT uses a similar quintile-based benchmark analysis approach as the ICS. See the handbook to the ICS (**Annex 1** to the Appraisal Guidance) for the description of this approach.

Once a numerical value for an indicator of interest for the project undergoing preliminary screening has been obtained, this is **compared with the values assumed by the same indicator calculated for a comparable sample**. In contrast to the ICS, however, the IAT indicator for the activity of interest is assigned a value of 1 to 5 based on **the inverse of** the quintile-based interval to which it belongs, as follows:

- If x_A is greater than or equal to the minimum and less than or equal to the first quartile, it will translate into a value of 5.
- If x_A is greater than the first quartile and less than or equal to the second, it will translate into a value of 4.
- If x_A is greater than the second quartile and less than or equal to the third, it will translate into a value of 3.
- If x_A is greater than the third quartile and less than or equal to the fourth, it will translate into a value of 2.
- If x_A is greater than the fourth quartile and less than or equal to the maximum, it will translate into a value of 1.

Country-level datasets used to help develop benchmarking indicators for the IAT include:

- Inequality-adjusted Human Development Index (IHDI)
- Human Development Index (HDI)
- International Monetary Fund (IMF) Debt Sustainability Report
- World Economic Forum (WEF) Ease of Access to Loans
- WEF Financing Through Local Equity Market
- World Bank - Foreign Direct Investment (FDI) as percentage of GDP

The following table provides an overview of main quantitative indicators and their benchmark of reference.

TABLE 4. QUANTITATIVE INDICATORS RELYING ON BENCHMARKING THROUGH QUINTILES

INDICATOR	SUB-INDICATOR
2B. Level of socio-economic development of the country and target population	Country-level socio-economic development
3B. Financial needs of the country	Debt Sustainability
3B. Financial needs of the country	Level of Investment
3B. Financial needs of the country	Ease of access to finance

Weighting approach

The weighting approach used for construction of the IAT was based on an expert consultation process carried out for the ICS (see Appraisal Guidance **Annex 1** on the ICS for details). Proxies for existing indicators are used to weigh the relative importance of different Indicators in order to match each indicator in the IAT to the closest possible sub-criterion within the existing weighting matrix for the ICS. Substituting sub-criteria for dimensions, within each dimension, there are several indicators that have been weighted. The table in **Annex 2** of this document provides an example of how scores are converted into weights under the 16 different scenarios.

Notes on scoring methodology:

- Regardless of whether the inputs are measured between 1–3 or 1–5, all inputs are scaled from 1–5. The scaling of inputs for a select group of sub-indicators has been broken down into the mathematical formulas provided to emphasize this approach. This can be reviewed in detail in the Calculations tab in the Master Excel tool.

  The number of sub-indicators varies for each indicator. The average of the sub indicators is taken to calculate the score for the indicator

Note on the Excel tool:

- As a means of recording brief justification for the rankings assigned, users have the option to input comments or notes in columns to the immediate right of the numerical assessment, allowing for transparency and comparison between assessments, in case results differ

All questions in the scoring criteria have been drawn from the **Investment Framework** and the GCF **Integrated Results Management Framework**. Exceptions to this are noted in the document.

DIMENSIONS OF ADDITIONALITY

Dimension 1: Baseline investment context and alternatives to project activity

INDICATOR 1A. BASELINE INVESTMENT CONTEXT

Definition: To better understand the specific contribution of activities in the GCF portfolio to the achievement of the Fund's long-term objectives, the indicator considers the extent to which an investment baseline has been established by the AE. The indicator also assesses whether this baseline is evidence-based, and the methodologies are sufficiently robust and adequate for the nature and size of the project.

Proposed Sub-Indicator S1A *Details provided in the CN/FP*

$$S1A = \frac{\sum_{i=1}^{3}(1 + \left((Answer_i) \times \frac{4}{2}\right))}{3}$$

Analytical Process and Construction

The sum of the points for the questions below will determine the sub-criterion score:

1. Does the CN/FP provide details of the current trajectory of investment in the relevant sector(s)?

NO	0	The assessment of the **baseline investment context** relevant to the proposed project or programme is NOT PROVIDED OR DOES NOT CONSIDER **observed (historic) investment trends** in the **relevant sector(s)**.
LOW	1	The assessment of the **baseline investment context** relevant to the proposed project or programme CONSIDERS **observed (historic) investment trends** in the **relevant sector(s)**.
HIGH	2	The assessment of the **baseline investment context** relevant to the proposed project or programme CONSIDERS **observed (historic) investment trends** in the **relevant sector(s)**. **AND** The assessment of the **baseline investment context** relevant to the proposed project or programme CONSIDERS **forecasts for future investment trends** in the **relevant sector(s)**.

2. Does the CN/FP provide details of the existing institutional framework and capacities that apply to investment in the relevant sector(s)?

NO	0	The assessment of the **baseline investment context relevant** to the proposed project or programme is NOT PROVIDED OR DOES NOT CONSIDER the **institutional framework and capacities** that apply to the relevant sector(s).
LOW	1	The assessment of the **baseline investment context** relevant to the proposed project or programme CONSIDERS the **institutional framework and capacities** that apply to the relevant sector(s).
HIGH	2	The assessment of the **baseline investment context** relevant to the proposed project or programme CONSIDERS the **institutional framework and capacities** that apply to the relevant sector(s). **AND** The project considers the baseline investment context with respect to **regulatory frameworks** OR **policies**.

3. Is the evidence provided backing up a **realistic** and **credible baseline investment scenario?**

NO	0	The proponent DOES NOT provide **evidence** backing up a **realistic** and **credible** baseline scenario.
LOW	1	The proponent provides LIMITED quantitative and qualitative **evidence/literature** backing up **a realistic and credible baseline investment context**.
HIGH	2	The proponent provides SUFFICIENT quantitative and qualitative **evidence/literature** backing up **a realistic and credible baseline investment context**.

INDICATOR 1B. ALTERNATIVE PROJECT ACTIVITIES

Definition: An important aspect of Additionality is determining what kinds of project activities would be most additional for GCF to invest in. For instance, for solar PV projects in countries where there is high private sector participation, GCF resources may not be additional. However, if the same country is trying to invest in storage solutions for renewable energy but lacks a track record in doing so or is struggling to attract investment, this project activity may be considered additional for GCF if no realistic alternatives are available that achieve the same outcome.

The purpose of this indicator is to identify realistic and credible alternative(s) separately for mitigation and adaptation projects available to the project participants or similar project developers that provide outputs or services comparable with the proposed GCF project activity. Moreover, this indicator also explores whether the theory of change of the past initiative(s) has been assessed for relevance to the status quo.

Proposed Sub-Indicator S1B.1 *Credible alternative(s) available (mitigation)*

$$S1B.1 = 1 + \{\max(Answer_1, Answer_2, Answer_3) \times \frac{4}{3}\}$$

Analytical Process and Construction

The maximum of three metrics is taken because each of these questions was considered equally important in the assessment of Additionality. For example, if an AE fails to demonstrate at least one viable alternative that is relevant to the project context, it can still score highly if it presents a comprehensive view of past initiatives and how they differ from the present.

1. Does the AE demonstrate at least **one** viable **alternative** to the project activities proposed?

NO	0	**No** counterfactual scenario (counterfactual **distinct** from the baseline) is provided for **baseline emissions**.
LOW	1	**At least one** counterfactual scenario (counterfactual **distinct** from the baseline) is provided for **baseline emissions** along with **an estimate of mitigated emissions** using alternative technologies, strategies, policies, and measures.
MEDIUM	2	**At least one** counterfactual scenario (counterfactual **distinct** from the baseline) is provided for **baseline emissions** along with **an estimate of mitigated emissions** using alternative technologies, strategies, policies, and measures.

MEDIUM	2	**AND** The counterfactual scenario(s) has/have been **compared** with the **baseline scenario** to evaluate the implications of various mitigation technologies, strategies, policies, and measures.
HIGH	3	**At least one** counterfactual scenario (counterfactual **distinct** from the baseline) is provided for **baseline emissions** along with **an estimate of mitigated emissions** using alternative technologies, strategies, policies, and measures. **AND** The counterfactual scenario(s) has/have been **compared** with the **baseline scenario** to evaluate the implications of available mitigation technologies, strategies, policies, and measures. **AND** The counterfactual scenario(s) is/are in **compliance with all mandatory applicable legal and regulatory requirements** in the status quo (e.g., if the counterfactual for a solar project is coal in a country where there are high regulatory barriers to investing in coal, the counterfactual would fail to receive a score of "3" on this sub-indicator).

2. Is/are the defined alternative(s) counterfactual scenario(s) **relevant to the project context?**

NO	0	There is **NO evidence** that the **counterfactual scenario(s)** provided for baseline emissions is/are **relevant** for the targeted context.
LOW	1	There is **WEAK evidence** that the **counterfactual scenario(s)** provided for baseline emissions is/are **relevant** for the targeted context.
MEDIUM	2	There is **STRONG evidence** that the **counterfactual scenario(s)** provided for baseline emissions is/are **relevant** for the targeted context.
HIGH	3	There is **STRONG evidence** that the **counterfactual scenario(s)** provided for baseline emissions is/are **relevant** for the targeted context. **AND** The mitigation activities/technologies defined in the counterfactual are **comparable** to project activities.

3. To what extent does the AE present a review of **past initiatives** and explain how they **differ from the status quo?**

NO	0	Document **DOES NOT** contain details of relevant past or ongoing mitigation initiatives in the sector and **DOES NOT** assess their past or potential (ongoing/future) successes/failures.
LOW	1	Document **contains** details of relevant past or ongoing mitigation initiatives in the sector **and** assesses their past or potential (ongoing/future) successes/failures.
MEDIUM	2	Document **contains** details of relevant past or ongoing mitigation initiatives in the sector **and** assesses their past or potential (ongoing/future) successes/failures. **AND** Document identifies **key differences** between the proposed mitigation initiative and past/ongoing mitigation initiatives that will **prevent repetition** of unsuccessful or unsustainable outcomes.

HIGH	3	Document **contains** details of relevant past or ongoing mitigation initiatives in the sector **and** assesses their past or potential (ongoing/future) successes/failures. **AND** Document identifies **key differences** between proposed mitigation initiative and past/ongoing mitigation initiatives that will **prevent repetition** of **unsuccessful or unsustainable outcomes**. **AND** Document identifies **synergies with ongoing mitigation initiatives** that will **enable scaling up** or **alignment with successful approaches**.

Proposed Sub-Indicator S1B.2 *Credible alternative(s) available (adaptation)*

$$S1B.2 = 1 + \{\max(Answer_1, Answer_2, Answer_3)\ \times \frac{4}{3}\}$$

Analytical Process and Construction

The maximum of three metrics is taken because each of these questions was considered equally important in the assessment of Additionality. For example, if an AE fails to demonstrate at least one viable alternative that is relevant to the project context, it can still score highly if it presents a comprehensive view of past initiatives and how they differ from the present.

1. Does the AE demonstrate at least **one** viable **alternative** to the project activities proposed?

NO	0	**No** counterfactual scenario (counterfactual **distinct** from the baseline) is provided for **vulnerability of context**.
LOW	1	**At least one** counterfactual scenario (counterfactual **distinct** from the baseline) that represents future conditions in the **priority system**[6] has been provided.
MEDIUM	2	**At least one** counterfactual scenario (counterfactual **distinct** from the baseline) that represents future conditions in the **priority system** has been provided. **AND** The counterfactual scenario(s) has/have been **compared** with the **baseline scenario** to evaluate the implications of various adaptation technologies, strategies, policies, and measures.
HIGH	3	**At least one** counterfactual scenario (counterfactual **distinct** from the baseline) that represents future conditions in the **priority system** has been provided. **AND** The counterfactual scenario(s) has/have been **compared** with the **baseline scenario** to evaluate the implications of various adaptation technologies, strategies, policies, and measures. **AND** Document identifies **synergies with ongoing initiatives** that will **enable scaling up** or **alignment with successful approaches**.

[6] *A priority system is the focus of an adaptation project. It is a system that is characterized by high vulnerability to different climate hazards, as well as being strategically important at local and/or national levels. Socio-economic and biophysical criteria are often used to select priority systems by a given stakeholder group, and to set system parameters (indicators) for a given project.*

2. Is/are the defined alternative(s) (counterfactuals) **relevant to the project context?**

NO	0	There is **NO evidence** that the **counterfactual scenario(s)** provided for vulnerability of context is/are **relevant** for the context targeted.
LOW	1	There is **WEAK evidence** that the **counterfactual scenario(s)** provided for vulnerability of context is/are **relevant** for the context targeted.
MEDIUM	2	There is **STRONG evidence** that the **counterfactual scenario(s)** provided for vulnerability of context is/are **relevant** for the context targeted.
HIGH	3	There is **STRONG evidence** that the **counterfactual scenario(s)** provided for vulnerability of context is/are **relevant** for the context targeted. **AND** The adaptation activities/technologies defined in the counterfactual are **comparable** to project activities.

3. To what extent does the AE present a review of **past initiatives** and explain how they **differ from the status quo?**

NO	0	Document **DOES NOT** contain details of relevant past or ongoing adaptation initiatives in the sector and **DOES NOT** assess their past or potential (ongoing/future) successes/failures.
LOW	1	Document **contains** details of relevant past or ongoing adaptation initiatives in the sector **and** assesses their past or potential (ongoing/future) successes/failures.
MEDIUM	2	Document **contains** details of relevant past or ongoing adaptation initiatives in the sector **and** assesses their past or potential (ongoing/future) successes/failures. **AND** Document identifies **key differences** between the proposed adaptation initiative and past/ongoing adaptation initiatives that will **prevent repetition** of unsuccessful or unsustainable outcomes.
HIGH	3	Document **contains** details of relevant past or ongoing adaptation initiatives in the sector **and** assesses their past or potential (ongoing/future) successes/failures. **AND** Document identifies **key differences** between proposed adaptation initiative and past/ongoing adaptation initiatives that will **prevent repetition** of unsuccessful or unsustainable outcomes. **AND** Document identifies **synergies with ongoing adaptation initiatives** that will **enable scaling up** or **alignment with successful approaches**.

INDICATOR 1B. ALTERNATIVE PROJECT ACTIVITIES

Definition: To better understand the specific contribution of activities in the GCF portfolio to the achievement of the Fund's long-term mitigation and adaptation objectives, the indicator considers the extent to which an AE has determined the required concessionality from GCF for the project to be bankable for investment from the private sector, thereby bringing a paradigm shift to the market.

Proposed Sub-Indicator S1C *Justification for concessionality*

$$S1C = 1 + (Answer_1 \times 4/3)$$

1. Has the AE provided an **explanation of why the proposed activity will not happen in the absence of GCF concessional financing** in the baseline vulnerability context?

NO	0	The proponent DOES NOT provide justification for the extent of GCF concessionality necessary for the project to be bankable, which may include lack of availability of types of concessional and grant capital.
LOW	1	The proponent PROVIDES a **WEAK** justification for the extent of concessionality necessary for the project to be bankable.
MEDIUM	2	The proponent PROVIDES a **STRONG** justification for the extent of concessionality necessary for the project to be bankable. **AND** The proponent PROVIDES the **required concessional investment figure** for the project to become bankable.
HIGH	3	The proponent PROVIDES a **STRONG** justification for the extent of concessionality necessary for the project to be bankable. **AND** The proponent PROVIDES the **required concessional investment figure** for the project to become bankable. **AND** The proponent PROVIDES evidence that concessional **investment would not be made absent GCF intervention**.

Dimension 2: Non-financial barriers in the country

INDICATOR 2A. OPPORTUNITIES FOR THE FUND TO OVERCOME SPECIFIC BARRIERS TO FINANCING

Definition: This indicator seeks to capture the extent to which activities under the proposed project/programme intervention, and GCF financing of such activities, may lower non-financial barriers to investment. Despite the encouraging momentum for global climate finance worldwide, investments towards low-carbon and climate-resilient development are still severely constrained, especially in developing countries, and imperfect markets and regulatory shortcomings add up to institutional uncertainty in unfavourable investment environments. As the purpose of GCF includes the creation of enabling conditions to leverage financing and catalyse inputs from public and private investors, the impact of the Fund's interventions would benefit from an investment strategy capable of understanding the challenges of current barriers and turning them into opportunities to make investments more attractive for market actors.

The CDM Additionality Methodology Tool under Step 3 requires that project proponents provide evidence of purported investment or technological barriers such as regulatory information, industry norms, statistical data, or written documentation of independent expert judgments. If the evidence provided indicates that there are, indeed, barriers to the implementation of the proposed project activity that would not prevent the implementation of one or more of the alternatives, the project participant may proceed to the next stage of assessment of Additionality. However, if the proposed project activity fails one or both requirements above, the project is not considered additional under the CDM additionality methodology.[7] In the latest version of the ICS tool, the barrier assessment was not parsed between financial and non-financial barrier assessment but in the IAT, there is a clear demarcation between the two.

As GCF pursues the overarching objective of bringing about a paradigmatic shift towards low-carbon and climate-resilient pathways of sustainable development,[8] the Fund may maximize its impact by lowering barriers for private financing by buying down incremental costs and making upfront investments more viable by reducing investment risk, building capacity and readiness, supporting the development of early-stage technologies, and incentivizing grass-roots information dissemination.[9]

Proposed Sub-Indicator S2A.1 *Prioritization given barriers and opportunities*

$$S2A.1 = 1 + \left(\frac{\sum_{i=1}^{a} Answer_i}{a} \times \frac{4}{3}\right)$$

$$a = \ number\ of \frac{relevant}{applicable} barriers\ within\ indicator$$

Analytical Process and Construction

The construction follows several steps. Among the possible main **non-financial barriers** in the target context (B),[10] the evaluator is required to select **up to three barriers that are most relevant for the country/context and assess how they are addressed by the proposed project/programme intervention**. These barriers should be based on information provided in the **Theory of Change (ToC) and associated text** in the CN/FP.[11] A drop-down list is provided in the tool to classify barriers as institutional, political, technical, socio-cultural and other. Users are encouraged to describe the specific barrier in the corresponding comment cell to the right of the Excel sheet.

Users are free to select less than three barriers but must identify at least one barrier in order for this Dimension to be effectively assessed. Selecting “None” in the drop-down list for the second and third barriers will result in the subsidiary questions for these barriers to be invalidated. This will have no impact on the final score for this sub-criterion.

For each of the applicable barriers identified, the evaluator must then assess **to what extent the barriers are hampering investment towards low-carbon and climate-resilient development in the context/country targeted, and how they are addressed by the project/programme intervention.**

---

[7] *https://lawreview.vermontlaw.edu/wp-content/uploads/2015/05/39-2-07_Greenglass.pdf*

[8] *See GCF/B.04/07, page 4, and GCF/B.04/03, pages 2-5.*

[9] *See GCF/B.04/07, from page 4 onwards.*

[10] *As per GCF/B.04/07, page 3, and – more generally – IFC (2011), from page 6 onwards, and GCF/B.19/04/Rev.01, pages 5-6.*

[11] *“Business Model Framework: Private Sector Facility.” 2013. https://www.greenclimate.fund/sites/default/files/document/gcf-b04-07.pdf.*

1. Is there evidence of the **existence of selected barrier** (e.g. lack of technical capacity of key government institution) and how it will affect investors?

NO	0	There is **NO evidence** of the selected barrier.
LOW	1	There is **WEAK evidence** of the selected barrier.
MEDIUM	2	There is **STRONG evidence** of the selected barrier.
HIGH	3	There is **VERY STRONG evidence** of the selected barrier. **AND** Evidence of **how it will affect investors** is provided.

2. Is there evidence of how this barrier is **successfully addressed** more effectively than existing alternative options by the proposed project/programme intervention as described in the ToC and the **description of project/programme components, outputs and activities?**

NO	0	There is **NO evidence** of how this barrier is successfully addressed.
LOW	1	There is **WEAK evidence** of how this barrier is successfully addressed.
MEDIUM	2	There is **STRONG evidence** of how this barrier is successfully addressed. **AND** The document considers **alternative solutions** to this barrier.
HIGH	3	There is **VERY STRONG evidence** of how this barrier is successfully addressed. **AND** Evidence that the current proposed project/programme intervention and the Fund addresses this barrier **more effectively** than existing alternative options.

Data

Data retrieved by the evaluator: Inputs from the evaluator according to information contained in the CN/FP.

Sub-Indicator S2A.2 *Effectiveness in addressing non-financial barriers to project implementation in the long term*

$$S2A.2 = 1 + \left(\frac{\sum_{i=1}^{a} Answer_i}{r}\right)$$

$$Answer_i = \mathrm{Max}\left(Answer_1, \frac{\sum_{n=2}^{5}\left(1+\left((Answer_n)\times\frac{4}{max(Answer_n)}\right)\right)}{4}\right)$$

$$a = \ number\ of\ applicable\ risks\ and\ challenges\ within\ indicator$$

Analytical Process and Construction

The construction follows several steps. For each of the main non-financial barriers selected in sub-indicator 1 above, the evaluator must assess the relevant risks to this barrier being effectively addressed in the long term, **based on the risks identified in the CN/FP**, both in terms of the severity of the relevant risks to each barrier (as defined by the risks' likelihood of occurrence and potential impact per question 1 below), and to what extent mitigating measures are in place to address the risk(s) (questions 2–5 below).

Two scores are then calculated for each barrier, one for the severity of the risks relevant to the barrier in the context/country targeted and another for the extent to which mitigating measures are in place to address the risks. The maximum of these two scores is applied to determine the overall additionality of the project in addressing the risks relevant to each barrier. For example, if relevant risks to a barrier are determined to have a high likelihood of occurrence and a high potential impact, yet strong mitigating measures are in place to overcome the risks, the additionality score will not be adversely affected. Conversely, it will benefit from the strong mitigating measures in place to address the risks.

1. **To the best of the evaluator's knowledge and according to evidence provided in CN/FP**, how severe are the KEY RISKS relevant to the selected barrier, based both on their **likelihood of occurrence** and **potential impact** on overcoming this barrier? The matrix below will provide one score after each variable is scored.

Likelihood of occurrence as per evidence				
	High / No evidence	Medium (3)	Medium-High (2)	High (1)
	Moderate	Low-Medium (4)	Medium (3)	Medium-High (2)
	Low	Low (-)	Low-Medium (4)	Medium (3)
		Low	Moderate	High / No evidence

Evidence of potential impact of risks

Important note: A project that is given a score of low/low on this matrix should not benefit in principle from this scoring approach. As such, scores from this question will not be included in the assessment if it is given a score of low/low on this matrix.

2. Does the project have **strategies** in place to **mitigate/manage** the KEY RISKS relevant to the selected barrier?

NO	0	No risk mitigation strategy has been provided.
LOW	1	Mitigation strategy can **partially** address the risks relevant to the barrier, or **uncertainties** remain.
MEDIUM	2	Mitigation strategy can **fully** address the risks relevant to the barrier.
HIGH	3	Mitigation strategy can **fully** address the risks relevant to the barrier. **AND** Mitigation strategy is aligned with the **wider theory of change** for the sector as outlined in the GCF **sector guides**.

3. Are **providers of services / internal resources** required to mitigate the KEY RISKS relevant to the barrier (e.g. institutions, technical agencies) been identified?

LOW	0	No provider of services required to mitigate the risks relevant to the barrier has been **identified**.
MEDIUM	1	Providers of services required to mitigate the risks relevant to the barrier (e.g. institutions, technical agencies) have been identified.
HIGH	2	Providers of services required to mitigate the risks relevant to the barrier (e.g. institutions, technical agencies) have been identified. **AND** A signed MoU is in place.

4. Does the project demonstrate that the activities address the **underlying causes** to the risks relevant to the barrier?

LOW	0	No risk mitigation strategy has been provided.
MEDIUM	1	Mitigation strategy only de-risks a single project.
HIGH	2	Mitigation strategy de-risks the project/programme concerned. **AND** Mitigation strategy addresses the underlying causes to the risks relevant to the barrier.

5. Is the proposed **financial structure** (funding amount, financial instrument, tenor, and term) **adequate** and **reasonable** to address the risks relevant to the barrier?

LOW	0	No financial structure has been proposed.
MEDIUM	1	The funding amount, type of financial instrument, tenor and term can **partially** address key risks relevant to the barrier, or **uncertainties** remain.
HIGH	2	The funding amount, type of financial instrument, tenor, and term can **fully** address key risks relevant to the barrier.

Data

Data retrieved by the evaluator: Answers to the previous set of questions, according to the information contained in the CN/FP, and assessment of the importance of the risks relevant to the barriers provided to the best of her/his knowledge.

INDICATOR 2B. LEVEL OF SOCIO-ECONOMIC DEVELOPMENT OF THE COUNTRY AND TARGET POPULATION

Definition: This indicator measures the needs of the project/programme recipients through general indicators of economic development to better understand the relative context in which activities and generated impacts take place. In order to be as comprehensive as possible, it encompasses both measures of country-level development and specific references to target populations.[12] As GCF tends to prioritize its investments according to the needs of beneficiaries, the rationale of the sub-criterion allows a full understanding of the extent to which prompt intervention is required. The concept of needs is twofold, as it spans both the vulnerability and the financial needs of the target group. In turn, this allows GCF to steer its allocations accordingly, as countries with a weaker financial profile would be in more pressing need for support. Despite formally allocating its resources on a first-come-first-served basis, GCF admits that a greater consideration of country needs and priorities may prove helpful in promoting its mandate by making interventions more effective.[13]

In the context of measuring additionality, GCF resources would be considered additional where the level of socio-economic development of a country with respect to its population is low. The trade-off of taking this approach is that these countries may not have the necessary financial market complexity to be able to finance climate change projects.

[12] *See GCF/B.09/23, page 28.*

[13] *See Nakhooda and Amin (2013), page 14.*

Proposed Sub Indicator S2B *Country-level socio-economic development*[14]

$$S2B = 6 - S2B_{raw}$$

$$S2B_{raw} = quintile(\sum_{i=1}^{n} \times (IHDI\ of\ country_i)$$

Analytical Process and Construction

The indicator S2B is inversely[15] related to the level of inequality-adjusted Human Development Index[16] [i.e. the higher the IHDI, the lower the need of the country, the lower the score of S2B of the country(ies)]. The score for $S2B_{raw}$ for the activity of interest is assigned to a class from 1 to 5 (1 = Very low, and 5 = Very high), based on the results of quintile analysis for IHDI .

Data

Data retrieved by the evaluator: Inputs from the user, according to information contained in the CN/FP.

Data already in the ICS Database: The ICS Database contains data relative to the country-specific **Inequality-Adjusted Human Development Index** and Human Development Index.

Dimension 3: Financial barriers in the country

INDICATOR 3A. OPPORTUNITIES FOR THE FUND TO OVERCOME SPECIFIC BARRIERS TO FINANCING

Definition: This indicator seeks to capture the extent to which activities under the proposed project/programme intervention and GCF financing of such activities may lower financial barriers to investment. The rationale and approach to this indicator is otherwise essentially parallel to that described above for non-financial barriers (Indicator 2A).

Proposed Sub-Indicator S3A.1 *Appropriate identification of financial barriers and opportunities to address them*

$$S3A.1 = 1 + \left(\frac{\sum_{i=1}^{a} Answer_i}{a} \times \frac{4}{3}\right)$$

$$a = number\ of\ \frac{relevant}{applicable} barriers\ within\ indicator$$

Analytical Process and Construction

The construction follows several steps. Among the possible main **financial barriers** in the target context (B),[17] the evaluator is required to select **up to three barriers that are most relevant for the country/context and assess how they are addressed by the proposed project/programme intervention.**

These barriers should be based on information provided in the **Theory of Change (ToC) and associated text** in the CN/FP.[18] A drop-down list is provided in the tool to classify

---

[14] *Methodological information for HDI and IHDI can be found in UNDP (2016).*

[15] *Via the difference between 6 and $S1_{raw}$*

[16] *Or HDI if information is not available for selected countries in a project activity.*

[17] *As per GCF/B.04/07, page 3, and – more generally – IFC (2011), from page 6 onwards, and GCF/B.19/04/ Rev.01, pages 5-6.*

[18] *"Business Model Framework: Private Sector Facility." 2013. https://www.greenclimate.fund/sites/default/files/document/gcf-b04-07.pdf.*

barriers as financing, market-related, and other. Users are encouraged to describe the specific barrier in the corresponding comment cell to the right of the Excel sheet.

Evaluators are free to select less than three barriers but must identify at least one barrier in order for this Dimension to be effectively assessed. Selecting "None" in the drop-down list for the second and third barriers will result in the subsidiary questions for these barriers to be invalidated. This will have no impact on the final score for this sub-criterion. For each of the applicable barriers identified, the evaluator must then assess to what extent the barriers are relevant for the context/country targeted, and how they are addressed by the project/programme intervention.

1. Is evidence of the **existence of selected barrier** (e.g. lack of access by farmer groups to financial services) and **how it will affect investors** presented?

NO	0	There is **NO evidence** of the selected barrier.
LOW	1	There is **WEAK evidence** of the selected barrier.
MEDIUM	2	There is **STRONG evidence** of the selected barrier.
HIGH	3	There is **VERY STRONG evidence** of the selected barrier. **AND** Evidence of **how it will affect investors** is provided.

2. Is evidence of how this barrier is **successfully addressed** more effectively than existing alternative options by the proposed project/programme intervention, as described in the ToC and the **description of project/programme components, outputs and activities?**

NO	0	There is **NO evidence** of how this barrier is successfully addressed.
LOW	1	There is **WEAK evidence** of how this barrier is successfully addressed.
MEDIUM	2	There is **STRONG evidence** of how this barrier is successfully addressed. **AND** The document considers **alternative solutions** to this barrier.
HIGH	3	There is **VERY STRONG evidence** of how this barrier is successfully addressed. **AND** Evidence that the current proposed project/programme intervention and the Fund addresses this barrier **more effectively** than existing alternative options.

Data

Data retrieved by the evaluator: Inputs from the user, according to information contained in the CN/FP.

Sub-Indicator S3A.2 *Effectiveness in addressing financial barriers to project implementation in the long term*

$$S3A.2 = \left(\frac{\sum_{i=1}^{a} Answer_i}{a}\right)$$

$$Answer_i = \text{Max}\left(Answer_1, \frac{\sum_{n=2}^{5}\left(1+\left((Answer_n)\times\frac{4}{max(Answer_n)}\right)\right)}{4}\right)$$

$$a = \text{ number of applicable risks and challenges within indicator}$$

Analytical Process and Construction
The construction follows several steps. For each of the main financial barriers selected in indicator 1 above, the evaluator must assess the relevant risks to this barrier being effectively addressed in the long term **based on the risks identified in the CN/FP**, both in terms of the severity of the relevant risks to each barrier (as defined by the risks' likelihood of occurrence and potential impact per question 1 below) and the extent to which mitigating measures are in place to address the risk(s) (see questions 2–5 below).

Two scores are then calculated for each barrier, one for the severity of the risks relevant to the barrier in the context/country targeted and another for the extent to which mitigating measures are in place to address the risks relevant to the barrier. The maximum of these two scores is applied to determine the overall additionality of the project in addressing the risks relevant to each barrier. For example, if the risks relevant to a barrier are determined to have a high likelihood of occurrence with a high potential impact yet strong mitigating measures are in place to overcome the risks, the additionality score will not be adversely affected. Conversely, it will benefit from the strong mitigating measures in place to address the risks.

1. **To the best of the evaluator's knowledge** how severe are KEY RISKS relevant to the barrier, based on their **likelihood of occurrence** and **potential impact** on overcoming this barrier? See matrix below.

Likelihood of occurrence as per evidence	High / No evidence	Medium (3)	Medium-High (2)	High (1)
	Moderate	Low-Medium (4)	Medium (3)	Medium-High (2)
	Low	Low (-)	Low-Medium (4)	Medium (3)
		Low	Moderate	High / No evidence
			Evidence of potential impact of risks	

Important note: A project that is given a score of low/low on this matrix should not benefit in principle from this scoring approach. As such, scores from this question will not be included in the assessment if it is given a score of low/low on this matrix.

2. Does the project have **strategies** in place to **mitigate/manage** the KEY RISKS relevant to the barrier?

NO	0	No mitigation strategy has been provided.
LOW	1	Mitigation strategy can **partially** address the risks relevant to the barrier, or **uncertainties** remain.
MEDIUM	2	Mitigation strategy can **fully** address the risks relevant to the barrier.
HIGH	3	Mitigation strategy can **fully** address the risks relevant to the barrier. **AND** Mitigation strategy is aligned **with the wider theory** of change for the sector as outlined in the GCF **sector guides**.

3. Have **providers of services / internal resources** required to mitigate the KEY RISKS relevant to the barrier (e.g. insurers, guarantors) been identified?

LOW	0	No provider of services required to mitigate the risks relevant to the barrier has been identified.
MEDIUM	1	Providers of services required to mitigate the risks relevant to the barrier (e.g., insurers, guarantors) have been **identified**.
HIGH	2	Providers of services required to mitigate the risks relevant to the barrier (e.g., insurers, guarantors) have been identified. **AND** Providers of services required to mitigate the risks relevant to the barrier (e.g., insurers, guarantors) **secured** via contract, or an official partnership in the project.

4. Does the project demonstrate that the activities address the **underlying causes** of KEY RISKS relevant to the barrier?

LOW	0	No mitigation strategy has been provided.
MEDIUM	1	The mitigation strategy only de-risks a **single** project.
HIGH	2	The mitigation strategy de-risks the project/programme concerned. **AND** Mitigation strategy addresses the **underlying causes** to the key risks relevant to the barrier.

5. Is the proposed **financial structure** (funding amount, financial instrument, tenor, and term) **adequate** and **reasonable** to address the KEY RISKS relevant to the barrier?

LOW	0	No financial structure has been proposed.
MEDIUM	1	The funding amount, type of financial instrument, tenor, and term can **partially** address key risks relevant to the barrier, or **uncertainties** remain.
HIGH	2	The funding amount, type of financial instrument, tenor, and term can **fully** address key risks relevant to the barrier.

Data

Data retrieved by the evaluator: Answers to the previous set of questions, according to the information contained in the CN/FP and assess the importance of the risks provided to the best of her/his knowledge.

INDICATOR 3B. FINANCIAL NEEDS OF THE COUNTRY

Definition: Assessing the financial capacity of a country to implement climate change projects is an important attribute of Additionality. GCF resources would be considered additional where the level of financial needs of a country with respect to its population is high. The trade-off of taking this approach is that these countries may not have the necessary financial market complexity to be able to finance climate change projects. However, in the event of a successful intervention, it may be more likely that it has a pioneering snowball effect on the market, thereby leading to a paradigm shift.

To develop an indicator to assess the financial needs of the country, the following country level benchmarking data are being used as proxies:

- Government's fiscal position and ability to invest with public resources can be measured through the IMF Debt Sustainability Report.
- Ease of access to finance is measured by taking the average of "Ease of access to loans" and "Ability to raise equity locally" from the World Economic Forum Global Competitiveness Index.
- Actual (normalized) level of investment measured through incoming FDI as percentage of GDP (World Bank).

Proposed Sub-Indicators Sub-Indicator S3B.1 *Debt Sustainability*

$$S3B1 = 6 - S3B1_{raw}$$

$$S3B1_{raw} = quintile(\sum_{i=1}^{n} Debt\ Sustainability\ of\ country_i)$$

Analytical Process and Construction

The indicator S3B.1 is inversely[19] related to the IMF Debt Sustainability Index (i.e. the higher the Debt Sustainability, the lower the additionality of the project, the lower the score of S3B.1) of the country(ies) in the context of reference (weighted, if countries are more than one, based on share of activity in each country). The score for $S3B1_{raw}$ for the activity of interest is assigned to a class from 1 to 5 (1 = Very low and 5 = Very high), based on the results of quintile analysis for IMF Debt Sustainability.

Note

The score for this indicator has been adjusted to make it less penalizing for countries with high FDI and debt sustainability as projects in these countries may still benefit from GCF intervention if there are high market-related barriers. The 4th and 5th percentile will automatically lead to a score of 3.

Data

Data retrieved by the evaluator: The user must identify the country where the project/programme takes place.

Data already in the ICS Database: The ICS Database contains data relative to the country-specific debt sustainability from the IMF.

Sub-Indicator S3B.2 *Level of Investment*

$$S3B2 = 6 - S3B2_{raw}$$

$$S3B2_{raw} = quintile(\sum_{i=1}^{n} \times (Level\ of\ Investment_i)$$

Analytical Process and Construction

The indicator S3B.2 is inversely[20] related to the level of investment in a country measured through incoming FDI as a percentage of GDP (i.e. the higher the level of investment, the lower the additionality of the project, the lower the score of S3B.2) of the country(ies) in the context of reference (weighted, if countries are more than one, based on share of activity in each country). The score for $S3B.2_{raw}$ for the activity of interest is assigned to a class from 1 to 5 (1 = Very low and 5 = Very high) based on the results of quintile analysis for level of investment.

---

[19] *Via the difference between 6 and $S1_{raw}$*

[20] *Via the difference between 6 and $S1_{raw}$*

Note
The score for this indicator has been adjusted to make it less penalizing for countries with high FDI and debt sustainability as projects in these countries may still benefit from GCF intervention if there are high market related barriers. The 4th and 5th percentile will automatically lead to a score of 3.

Data
Data retrieved by the evaluator: The user must identify the country where the project/programme takes place.

Data already in the ICS Database: The ICS Database contains data relative to the country-specific level of investment (FDI as percentage of GDP) from the World Bank.

Sub-Indicator S3B.3 *Ease of access to finance*

$$S3B3 = 6 - S3B3_{raw}$$

$$S3B3_{raw} = quintile(\sum_{i=1}^{n} \times (Ease\ of\ Access\ to\ Loans + Ease\ of\ Access\ to\ Equity)/2))$$

Analytical Process and Construction
The indicator S3B.3 is inversely[21] related to the ease of access to finance in a country measured through the average of Ease of Access to Loans and Ease of Access to Equity (i.e. the higher the ease of access to finance in a country, the lower the additionality of the project, the lower the score of S3B.3) of the country(ies) in the context of reference (weighted, if countries are more than one, based on share of activity in each country). The score for $S3B.3_{raw}$ for the activity of interest is assigned to a class from 1 to 5 (1 = Very low and 5 = Very high), based on the results of quintile analysis for level of investment.

Data
Data retrieved by the evaluator: The user must identify the country where the project/programme takes place.

Data already in the ICS Database: The ICS Database contains data relative to the country-specific ease of access to loans and ease of access to equity in the local market from the World Bank.

Dimension 4: Innovation and second order effects of the intervention

INDICATOR 4A. MARKET DEVELOPMENT AND TRANSFORMATION

Definition: This sub-criterion falls under the paradigm shift investment criterion and is applicable to mitigation and adaptation-focused projects and programmes.

Market development, transformation, and the creation of jobs are all predicted second order effects of a GCF intervention. Any second order effects of a GCF intervention that are expected to lead to a positive outcome in a market which is nascent may be considered additional by GCF. Market creation at national, local, or sectoral level is an important second order effect of an intervention. It addresses whether the proposed project can deliver lasting change in market transformation by increasing opportunities to adoption of mitigation and adaptation measures at national, local, or sectoral levels.

[21] *via the difference between 6 and $S1_{raw}$*

Proposed Sub-Indicator S4A *Market creation at national, local, or sectoral level*

Assessment of this sub-criterion uses a scoring matrix to assess factors that contribute to market development and transformation, based on the project's theory of change.

$$S4A = \frac{\sum_{i=1}^{2}(1 + \left((Answer_i) \times \frac{4}{max(Answer_i)}\right))}{2}$$

Analytical Process and Construction

The sum of the points for the questions below will determine the sub-criterion score:

1. Does the project or programme provide **evidence** that **skills are introduced in the job market** at national, local, or sectoral levels? (e.g. with the creation of long-term training facilities, universities, etc.). [Yes = 1, No = 0].
2. Does the project or programme provide evidence of the creation at national, local or sectoral level of **new business activities** (e.g. companies, funds, equipment suppliers, insurers, service providers, engineering companies) previously not existing in the market?

NO	0	No market transformation, or information not available.
LOW	1	The proposed project or programme provides evidence that the market is transformed by expanding capacity within existing businesses at the local, national, or sectoral level to carry out new business activities. **BUT** No additional (net) jobs are created as a result of these activities.
MEDIUM	2	The proposed project or programme provides evidence that the market is transformed by expanding capacity within existing businesses at the local, national, or sectoral level to carry out new business activities. **AND** Additional (net) jobs are created as a result of these activities.
HIGH	3	The proposed project or programme provides evidence that the market is transformed by expanding capacity within existing businesses **AND** With the creation of new businesses at the local, national, or sectoral level. **AND** Additional (net) jobs are created as a result of these activities.

Data

Data retrieved by the evaluator: Data are provided by the evaluator, based on information contained in the CN/FP.

INDICATOR 4B. INNOVATION

Definition: This indicator falls under the paradigm shift investment criterion. The indicator is an embedded component in the finance strategy of GCF given its risk appetite to fund technical, business model, modal shifts, processes, and/or financial innovation having potential to accelerate large-scale climate finance.

For the purpose of assessing additionality, innovation is defined as the creation and/or adoption of new technical or business improvements. Adoption and development of new technical improvements, such as new technologies, in the target region are essential to the innovation assessment since they are key to achieving the goals of the Paris Agreement and the Sustainable Development Goals. Historically, small- and medium-size enterprises have played an important role in technological innovation, often leading to the introduction of paradigm-shifting technologies and changes in the way we live.[22] However, innovation can go beyond technical improvements and focus on the ability to adopt innovative business models that can help access new market segments, or address barriers in the target geographies. The different types of innovation are defined as follows:

- **Technical innovation** refers to the adoption of new or unproven technologies, new processes,[23] or modal shifts[24] in the context of reference. Overall technical innovation refers to innovation in the end-product or project leading to emission reductions, which is a critical accelerator of national efforts to address or adapt to climate change or innovation that enables the application of existing technologies, processes and/or modal shifts in new markets.
- **Business innovation** means novelty in business models, financial instruments, organizational processes[25] or the creation of the latter through unbundling and reassembling of existing processes. This refers to the adoption of new financial instruments/financial mechanisms/financial processes or new business models[26] that address existing investment gaps or barriers in the market that have not been addressed yet, or that address investment gaps or barriers for a new demand segment or for a new class of investors.[27]

The assessment of innovation is then defined conservatively as the assessment of innovation that is also relevant for the achievement of its stated purpose, resulting from a combination of:

- **Assessment of the stage of innovation** supported within the context geography, from embryonic, through to the growth phase and maturity phase and beyond (see **Figure 3** for an illustration of technology).[28]

---

22 *https://www.greenclimate.fund/news/dialogue-to-boost-climate-technology-innovation*

23 *The OECD Oslo Manual defines process innovation as the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software.*

24 *https://www.greenclimate.fund/documents/20182/24949/GCF_B.09_07_-_Further_Development_of_the_Initial_Investment_Framework__Sub-Criteria_and_Methodology.pdf/18db33f8-a55b-488f-8a6b-5df68f39a137?version=1.1*

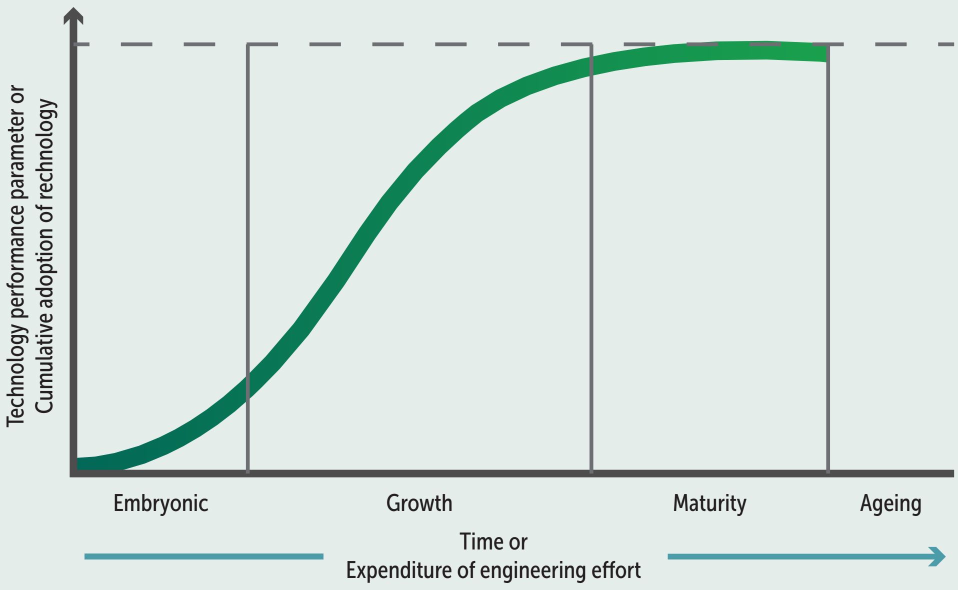
25 *The OECD Oslo Manual defines organizational innovation as the implementation of a new organizational method in the firm's business practices, workplace organization or external relations.*

26 *New business models require changes both to an organization's value proposition to customers (new revenue model, new offering/delivery of the product) and to its underlying operating model (new approaches to drive profitability, and create value https://www.bcg.com/capabilities/strategy/business-model-innovation.aspx*

27 *https://www.greenclimate.fund/documents/20182/24949/GCF_B.09_07_-_Further_Development_of_the_Initial_Investment_Framework__Sub-Criteria_and_Methodology.pdf/18db33f8-a55b-488f-8a6b-5df68f39a137?version=1.1*

28 *https://www.sciencedirect.com/science/article/pii/S2352484719301337#b14*

FIGURE 2. STAGES OF INNOVATION



- **Assessment of the level of relevance of the innovation supported**, assessed through the ability it has in meeting its purpose more effectively than existing alternatives.

$$S4B = \max(S_T, S_B)$$

$$S_T = technical\ innovation\ score = \min(A_T, B_T)$$

$$S_B = business\ innovation\ score = min(A_B, C_B)$$

$$A = Answer_a$$

$$B = Answer_b$$

Proposed Sub-Indicator S4B *Innovation checklist*

Analytical Process and Construction

S4B is the maximum of two intermediate metrics: technical innovation score (S_T) and business innovation score (S_B). In turn, the score of S_T and S_B is assessed as the minimum of observed metrics: degree of innovation in the target region (A) and the extent to which it is able to address a mitigation/adaptation[29] need in the context region (B). The maximum of two intermediate metrics is taken because GCF wishes to support both technical and business innovation through its projects. As such, if a project scores highly on business innovation and low on technical innovation, that should mean that GCF will be advancing business innovation through this project and technical innovation should have no bearing on the outcome.

"A" is applicable to both technical innovation and business innovation and is measured by the following question:

1. Based on evidence provided and/or to the best of the user's knowledge does the proposed project/programme introduce an **innovation** (technical and/or business innovation) that **did not previously exist in the market of reference?**[30]

---

[29] *Assessment of innovation for adaptation projects will be optional for end users of the tool.*

[30] *This refers to whether the proposed project/programme is a "First-of-its-kind activity", as defined in the Tool for demonstration and assessment of Additionality by the UNFCCC (https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf).*

LOW	1	Innovation has been "observed at scale"; it has been implemented, adopted or made available at market rates to potential users in the target region/ market for **MORE THAN 1 year**. **OR** Do not know
MEDIUM-LOW	2	Innovation has been "observed at scale"; it has been implemented, adopted or made available at market rates to potential users in the target region/ market for **LESS THAN 1 year**.
MEDIUM	3	Innovation has NOT been "observed at scale": it has **NEVER** been implemented, adopted or made available at market rates to potential users in the target region/market. **AND** The innovation is at "pilot stage": it has been tested in the target region/ market (or at least one pilot exists) for **MORE THAN 1 year**. **OR** Do not know
MEDIUM-HIGH	4	Innovation has NOT been "observed at scale": it has **NEVER** been implemented, adopted or made available at market rates to potential users in the target region/market. **AND** The innovation is at "pilot stage": it has been tested in the target region/ market (or at least one pilot exists) for **LESS THAN 1 year**.
HIGH	5	Innovation has NOT been "observed at scale": it has **NEVER** been implemented, adopted or made available at market rates to potential users in the target region/market. **AND** The innovation is NOT yet at "pilot stage": it has **NEVER** been tested in the target region/market.

"B" is measured by the following question (applicable to technical innovation only):

2. Based on evidence provided and/or to the best of the evaluator's knowledge, does the proposed technical innovation address mitigation/adaptation needs that cannot be met, or are less effectively met by alternative available options at similar costs in the target region/market?[31]

[31] *This question refers to STEP 1 in the CDM tool, "identification of alternatives to the project activity"* *https://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf*

LOW	1	The supported technology, process or modal shift addresses mitigation/adaptation needs that **CAN BE** addressed by alternative available options in the target region/market. **AND** The supported technology, process or modal shift is potentially **EQUALLY OR LESS EFFECTIVE**, efficient and/or cost effective than alternative options in the target region/market.
MEDIUM	3	The supported technology, process or modal shift addresses mitigation/adaptation needs that **CAN BE** addressed by alternative available options in the target region/market. **AND** The supported technology, process or modal shift is potentially **MORE** effective, efficient and/or cost effective than alternative options in the target region/market.
HIGH	5	The supported technology, process or modal shift addresses mitigation/adaptation needs that **CANNOT BE** addressed by alternative available options in the target region/market.

Data
Data retrieved by the evaluator: Data are provided by the evaluator based on information contained in the CN/FP.

INDICATOR 4C. CONTRIBUTION TO THE CREATION OR STRENGTHENING OF KNOWLEDGE, COLLECTIVE LEARNING PROCESSES, OR INSTITUTIONS

Definition: This sub-criterion falls under the paradigm shift investment criterion and is applicable to mitigation and adaptation-focused projects and programmes. Knowledge creation is an important part of sustaining and catalysing a long-term change necessary for a paradigm shift.

Learning exchanges between stakeholders are a second order effect of a GCF intervention. Any second order effects of a GCF intervention that are expected to lead to a positive outcome in a market which is nascent may be considered additional by GCF. The creation and diffusion of knowledge is an important second order effect of an intervention. It leads to the specific and measurable contributions of the proposed project to collective learning, including creating individual and institutional capacities, creating, and disseminating knowledge, and strengthening institutions with the aim of driving or reinforcing a paradigm shift.

Proposed Sub-Indicator S4C *Creation and diffusion of knowledge*

Assessment of this sub-criterion uses a scoring matrix to assess factors that contribute to knowledge creation, based on the project's theory of change.

$$S4C = \frac{\sum_{i=1}^{4}(1 + \left((Answer_i) \times \frac{4}{max(Answer_i)}\right))}{4}$$

Analytical Process and Construction
The sum of the points for the questions below will determine the sub-criterion score.

1. Does the proposed project or programme **provide** evidence of improving/ advancing the **general technical understanding**[32] in a field relevant to the proposed intervention? [Yes = 1, No = 0]
2. Does the proposed project or programme Include mechanisms to **strengthen cooperation** between partner organizations responsible for implementing the activities of the proposed project or programme? [Yes = 1, No = 0]
3. Does the proposed project or programme **clearly set out learning exchanges or institutional knowledge**[33] **sharing activities** between organizations partnering in the project and beyond?[34]

LOW/NO	0	The proposed project or programme **does not** set out **learning exchanges** between partner organizations and other entities.
MEDIUM	1	The proposed project or programme provides a **description** of the **learning exchanges** between partner organizations and other entities.
HIGH	2	The proposed project or programme provides a **description** of the **learning exchanges** between partner organizations and other entities. **AND** **Roles and responsibilities** and **implementation modalities** are clearly defined.

4. Does the proposed project or programme include details for a plan for the **monitoring and evaluation** of knowledge creation/spreading? [Yes = 1, No = 0]

Data
Data retrieved by the evaluator: Data are provided by the evaluator, based on information contained in the CN/FP.

INDICATOR 4D. APPLICATION OF BEST PRACTICES AND DEGREE OF SECTOR-LEVEL ADDITIONALITY

Definition
This indicator measures the extent to which adoption of best practices and openness to technical innovation is enabled by the project or programme.[35] Specifically, the indicator investigates the capacity of the CN/FP to lead to adoption of innovative technological solutions and practices, absorption of innovative inputs from local stakeholders, and thus adjustment of the adopted best practices to better suit the needs of the activities.[36] Innovation and application of best practices may enhance the impact of the activities of interest, while also paving the way for further capacity building within the host country (e.g. via positive spillovers).

[32] *Contributions may be technical or academic contributions on strategies, policies, data management, software, financial techniques.*

[33] *Institutional knowledge is defined as knowledge that transcends individuals and helps preserve and sustain knowledge within an institution, or organization. Examples of institutional knowledge include: strategies, policies, processes, data, software, computer code and other types of information that make up an organization.*

[34] *Institutions include entities such as regulatory agencies, non-profit organizations, academic institutions, businesses, and other types of organizations.*

[35] *See GCF/B.09/23, page 30.*

[36] *See also GCF/B.20/Inf.14.*

For the purpose of assessment of the IAT, this indicator focusses on two aspects:

- Assessment of technical and practices innovation. Given the breadth in the concept of "best practices", we focus on technical and business innovation.
- Considerations and transfer of related best available technical improvements and practices.

Additionality recognizes that innovation projects in public–private collaborations do not just exist for the time of the project. They can begin before the contracted work and continue after the contracted work has finished. Furthermore, innovations are generally integrated with other activities that are privately funded. Hence, Georghiou (2002) emphasized that the additionality question therefore is: What did the publicly supported contract contribute to the wider effort? In this research and innovation context, additionality is described as having three elements:

- **Input additionality**, which seeks to assess whether the input resources are additional to what would be invested by the collaborator and not merely replace resources.
- **Output additionality**, which seeks to assess the proportion of outputs that would not have been achieved without public sector support. This category extends beyond immediate outputs of interventions and includes unintended effects and spillovers.
- **Behavioural additionality**, which seeks to assess scale, scope and acceleration, as well as long-term changes in behaviour at the strategic level or in competencies gained.[37]

Proposed Sub-Indicator S4D *Transfer of best available technologies and practices*

$$S4D = 1 + \sum_{i=1}^{4} Answer_i$$

Analytical Process and Construction
This indicator seeks to capture the extent to which activities encourage and foster transfer of best available technologies and/or best practices, including those of indigenous peoples and local communities. Aspects of innovation are also covered as embedded in the definition of "technology transfer", which draw, for example, from determinants of effective transfer of new technologies as per experience with the CDM.[38]

The score S4D represents the sum of positive answers (indicated as 1) to the following set of questions:

1. Does the CN/FP **describe and provide evidence from resources/literature about how best practices and/or best available technologies** including international ones, and those of indigenous peoples and local communities **were identified and reviewed?** [Yes = 1, No = 0]
2. Does the CN/FP **describe and provide evidence of how best practices and/or best available technologies were integrated during proposal development and will be used during project implementation, or how the proposal deviates from/improves them,** including internationally accepted best practices and those of indigenous peoples and local communities? [Yes = 1, No = 0]

---

[37] *https://www.fsnnetwork.org/sites/default/files/qualitative_approach_to_impact_evaluation.pdf*

[38] *See in particular UNFCCC (2010), page 18. Dechezleprêtre et al. (2009) and Seres et al. (2009) provide more details and discuss empirical findings based on samples of CDM projects.*

3. Are best available technologies and practices **accessed** through **imports from outside the region of application of the project** (e.g. of technical components, pieces of equipment, expertise),[39] and/or through the **valorisation of contributions by indigenous peoples and local communities?** [Yes = 1, No = 0]
4. Does the CN/FP include the **description of a causal path ensuring the continuous/long-term adoption of best available technologies and practices** within the target geography and sector (e.g. training activities, and resources and time allocated for that,[40] encouraging policy changes incentivizing their adoption?) [Yes = 1, No = 0]

Note (applicable to Programmes only): As it may be difficult to answer all these questions for each country, we have added an option to categorize countries by stage of their economic development. If countries are in the same category, the user is advised to use the answers from a previous assessment.

Data
Data retrieved by the evaluator: Answers to the above set of questions, according to information contained in the CN/FP.

IAT ANNEX 1: CDM AND IAT COMPARISON

#	ATTRIBUTE OF ADDITIONALITY	UNFCCC CDM	IAT TOOL
1	Project activity (technology) is **first of its kind**	X	Dimension 4
2	Define **alternatives** to the project activity	X	Dimension 1
3	Project activity faces **barriers** that prevent it from happening without concessional support	X	Dimensions 2 and 3
4	Project activity is **not** regarded as **"common practice"** (includes elements of (1))	X	Dimension 4
5	**Baseline** identified based on conservative assumptions	X	Dimension 1
6	Project activity in **lower income** country		Dimension 2
7	Project activity includes **knowledge transfer** which enables development outcomes		Dimension 4
8	Project activity involves **innovative financing structures**		Dimension 4

[39] *https://cdm.unfccc.int/Reference/Reports/TTreport/TTrep08.pdf*
[40] *https://cdkn.org/wp-content/uploads/2017/06/GCF-project-development-manual.pdf*

IAT ANNEX 2: OUTCOME OF INTERVIEWS FOR THE INDICATORS SHORTLISTED

		MITIGATION								ADAPTATION							
		1. Energy generation / access		2. Transport		3. Buildings, cities, industries and appliances		4. Forests and Land Use		5. Livelihoods of vulnerable people and communities		6. Health and well-being, and food and water security		7. Infrastructure and built environment		8. Ecosystem and ecosystem services	
DIMENSION	**WEIGHTING CATEGORIES**	**PUBLIC**	**PRIVATE**	**PUBLIC**	**PRIVATE**	**PUBLIC**	**PRIVATE**	**PUBLIC**	**PRIVATE**	**PUBLIC**	**PRIVATE**	**PUBLIC**	**PRIVATE**	**PUBLIC**	**PRIVATE**	**PUBLIC**	**PRIVATE**
1A	Expected economic and financial internal rate of return	7.00	8.00	6.25	7.25	6.50	7.50	6.00	7.00	5.50	6.50	5.75	6.75	6.50	7.50	5.50	6.50
1B	Potential for expanding the scale and impact of the proposed programme or project (scalability)	8.00	9.00	8.00	9.00	8.00	9.00	8.00	9.00	-	-	-	-	-	-	-	-
	Potential for expanding the proposal's impact without equally increasing its cost base (scalability)	-	-	-	-	-	-	-	-	7.50	7.25	7.50	7.25	7.50	7.25	7.50	7.25
1C	Financial adequacy and appropriateness of concessionality	8.00	9.00	7.75	8.75	7.50	8.50	7.00	8.00	7.00	8.00	7.00	8.00	7.50	8.50	7.50	8.50
2A	Opportunities for the Fund to overcome specific barriers to financing	7.75	8.25	7.50	8.00	7.50	8.00	8.00	8.50	7.75	8.25	7.50	8.00	7.25	7.75	7.00	7.50
2B	Level of social and economic development of the country and target population	7.50	6.50	7.50	6.50	7.50	6.50	7.00	6.00	8.00	7.00	8.00	7.00	7.50	6.50	7.50	6.50
	Expected positive economic impacts, including in other result areas of the Fund, and/or in line with the priorities set at the national, local or sectoral level, as appropriate	7.13	7.00	7.63	7.50	7.63	7.50	7.38	7.25	7.63	7.50	7.13	7.00	7.13	7.00	7.13	7.00
3A	Opportunities for the Fund to overcome specific barriers to financing	7.75	8.25	7.50	8.00	7.50	8.00	8.00	8.50	7.75	8.25	7.50	8.00	7.25	7.75	7.00	7.50
3B	Level of social and economic development of the country and target population	7.50	6.50	7.50	6.50	7.50	6.50	7.00	6.00	8.00	7.00	8.00	7.00	7.50	6.50	7.50	6.50
	Objectives are in line with priorities in the country's national climate strategy	8.38	7.00	8.13	6.75	7.88	6.50	8.38	7.00	7.88	6.50	7.88	6.50	8.38	7.00	7.88	6.50
4A	Market development and transformation	7.25	8.25	7.00	8.00	7.00	8.00	6.50	7.50	6.50	7.50	6.25	7.25	6.50	7.50	6.00	7.00
4B	Innovation	6.50	7.50	7.00	8.00	7.00	8.00	6.50	7.50	-	-	-	-	-	-	-	-
4C	Contribution to the creation or strengthening of knowledge, collective learning processes, or institutions	7.00	6.00	7.75	6.75	7.50	6.50	7.50	6.50	8.00	7.00	8.00	7.00	7.75	6.75	7.75	6.75
4D	Application of best practices and degree of innovation	6.75	7.00	7.25	7.50	7.00	7.25	6.50	6.75	6.75	7.00	6.50	6.75	7.25	7.50	6.75	7.00

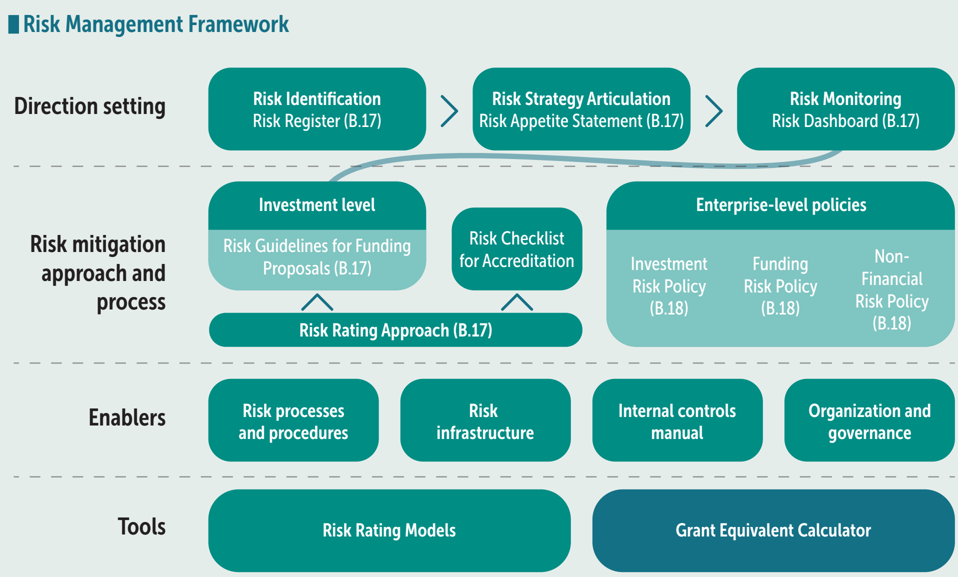
ANNEX V

GRANT EQUIVALENT CALCULATOR (GEC)

I. INTRODUCTION

Through the decision B.17/11, the Board adopted the first set of components of the updated Risk Management Framework (RMF) and requested the Secretariat to "continue the development of the RMF and its remaining components". This document presents a critical element of the remaining RMF: the user manual for the Grant Equivalent Calculator (see figure 1).

FIGURE 1. RISK MANAGEMENT FRAMEWORK COMPONENTS



II. PURPOSE

The Initial Investment Framework (GCF/B.07/11) of GCF institutes that the GCF objective is to receive and extend funding in grant equivalent terms based on a standard methodology. As a result, the GCF Board requested the Secretariat to develop a "Grant Equivalent Calculator".

Several leading institutions such as the International Monetary Fund, World Bank and OECD maintain Grant Equivalent Calculators (GECs)"). The Office of Risk Management and Compliance (ORMC) with the support of Oliver Wyman has developed a customized Grant Equivalent Calculator for GCF.

The purpose of the GEC is to provide a tool for GCF to calculate contributions and investments on a grant-equivalent basis. The GEC provides an overview of the grant elements in investments made and contributions received by the Fund. The calculation of the grant element allows for comparison among proposals, comparison on a portfolio level and comparison among the primary GCF funding instruments: Grant, Loan, Equity and Guarantee.

The calculator allows for more consistent decision-making and optimal use of GCF resources through better understanding of the grant element in each investment. In addition, it enables GCF to communicate transparently to stakeholders on grants provided.

The purpose of this user manual is to describe how the GEC should be used. The target audiences of the user manual are the persons who will be using the calculator.

III. GOVERNANCE

The responsibilities for using the GEC are aligned with the Three Lines of Defence (LOD) Framework. See Section 2.2 of the Appraisal Guidance main text for a summary of GCF's 3LOD Framework.

The First Line of Defence is responsible for using the GEC to quantify the Grant Equivalence of a GCF funding proposal, and to record the data accordingly within GCF's Integrated Project Management System. This data will be used to update quarterly reporting to the Board.

The GEC can also be used by other GCF stakeholders such as AEs and donors.

IV. OVERVIEW OF GEC STRUCTURE

The calculator is composed of the following sheets targeted at the model users:

a. "User Section" is an introductory page describing the model objective, general logic, general assumptions, and model structure of this GEC.

b. "User Panel" is a page for inputting data for the grant equivalent calculation. (users will primarily interact with this page).

c. "Results Chart" is a page graphically presenting the output based on the inputs in the User Panel page.

The sheets where intermediate calculations are performed are hidden from model users.

The calculator is to be used at the appraisal stage of a Funded Activity. The results of the GEC are based on the date when the Funded Activity Agreement (FAA) is signed, called Day 0, and Year 0 signifies one year immediately following Day 0.

V. UNDERLYING METHODOLOGY: DISCOUNTING OF CASH FLOWS

The GEC calculates the grant element by discounting the cash flows of the instrument with a specified discount rate differentiated for various funding structures.

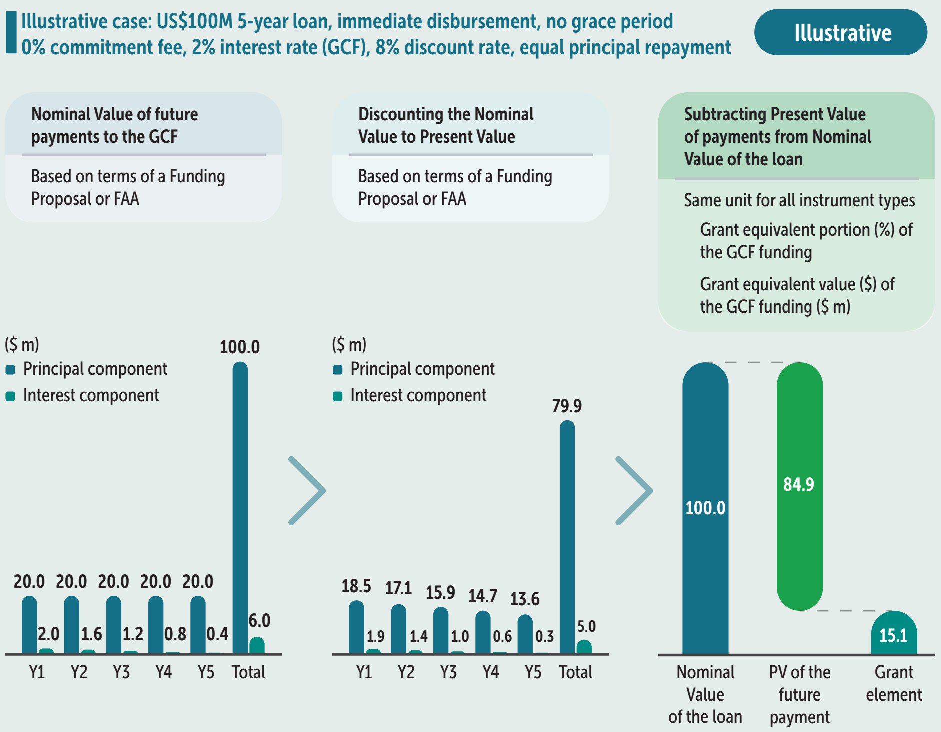
a. First, based on the terms outlined on the Funding Proposals or the FAA, the cash flows of a project or a programme (outflows and inflows) are projected and distributed throughout the timeline. The cash flows in this process are represented in nominal values.

b. Secondly, the nominal values of the cash flows from and to GCF are discounted to their present values to calculate concessionality. The discount rates used are differentiated for different funding structures.

c. Lastly, the sum of the present value of GCF cash outflows is subtracted by the sum of the present value of GCF cash inflows, with the resulting difference showing the amount of concessionality (see figure 2)

Depending on the structure of GCF outflows and inflows, and the discount rates used to calculate the present value, the grant element varies.

FIGURE 2. DISCOUNTING OF CASH FLOWS



VI. PRIMARY INSTRUMENT TYPES

The Grant Equivalent Calculator allows the user to calculate the grant element for three primary instrument types[1] – loans, guarantees and equity. The calculator can also be used to calculate the grant element of a funding outlay that combines any of the three primary instrument types with a grant.

The user must first select the primary instrument type by finding the relevant section of the User Panel page. The data for each of the three instruments must be input separately into the correct section. The GEC has a separate section for each primary instrument type:

a. The Loan section is in cell B9:EL56;

b. The Equity section is in cell B60:EM106; and,

c. The Guarantee section is in cell B110:EM156.

Calculating the grant element of a funding outlay that has more than one instrument of the three primary instrument types must be done manually by first using the calculator to compute the grant element of each instrument of the three primary types individually and then adding them together.

[1] *"Primary instrument types" are the types of instruments for which grant equivalent calculation has been built into the calculator. The word "primary" does not reflect the role or prominence of the instrument in the funding outlay.*

FIGURE 3. INPUT FIELDS OF LOAN SECTION

LOAN

Please select the input mode STANDARD

Standard mode

Please leave the relevant input cells blank if you wish to use the manual input mode

Total nominal loan amount (GCF portion)	US$M	**20.0**	
Total nominal grant amount (GCF portion)	US$M	**5.0**	
Annual commitment fee du to GCF	% of undisbursed amount at the beginning of each year	**0.5**	
Total other fees due to GCF on Day 0	US$M		
Tenor of GCF Loan	Years	**5**	
Grace period of GCF Loan	Years	**-**	
Does the grace period also apply to interest payment due to GCF?		**Yes**	If selected 'No', grace period only affects principal repayment.
Repayment type		**Lump sum principal payment and simple interest payable annually**	Please select the repayment type
Interest rate charged by GCF	% p.a.	**1.80**	

Loan Disbursement Schedule (GCF Portion)	Year of disbursement	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
	% of Total Nominal Loan	**50.0**	**50.0**						
	Amount Disbursed Sum	100%: Correct							
Grant Disbursement Schedule (GCF Portion)	Year of disbursement	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
	% of Total Nominal Grant	**100.0**							
	Amount Disbursed Sum	100%: Correct							

Note: Disbursements are assumed to occur at the beginning of each period, and interest and fee reflows at the end of each period, with interest accrued throughout the year.

Note: Principal repayments are also assumed to occur at the beginning of each period, starting from year 1.

Discount Rate Input (applicable both to Standart and Manual Models)

Please fill all input cells

Type of discount rate to be used		**Standard discount rate for senior loans**	Please select the discount rate to be used based on the loan structure
Manually input discount rate (if applicable)	% p.a.		Leave it empty if not available
Discount rate adopted	% p.a.	8.00	

VII. CASH FLOW INPUT MODES

Before any calculation, the user must select the input mode (**Figure 3** shows a snapshot of the sheet where the "Standard" mode is selected). The calculator allows two possible user modes (available for each of the three primary instrument types):

a. The Standard mode allows users to calculate the grant element in most standard funding outlays from GCF by allowing the user to input a few simple terms of the instrument.

b. The Manual mode allows users to input more complicated disbursement and repayment structures that are not captured by one of the standard forms.

Input fields for Standard mode calculation are available on the left side of the User Panel for all three instruments. Input fields for Manual mode calculation are available on the right side of the User Panel for all three instruments (see table 1).

FIGURE 4. INPUT FIELDS OF LOAN SECTION

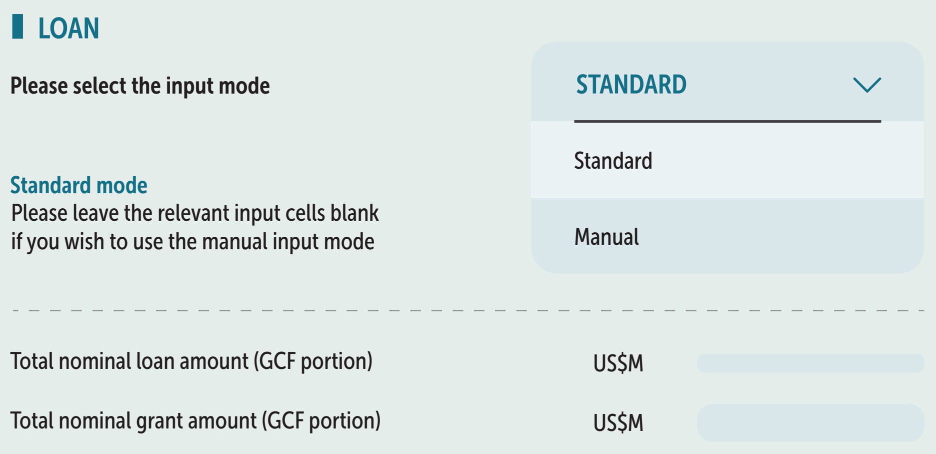


TABLE 1. CELL LOCATION FOR EACH INSTRUMENT AND MODE

	STANDARD MODE	MANUAL MODE
Loan	C13	R13
Equity	C64	R64
Guarantee	C114	R114

VIII. CASH FLOW INPUT FOR PRIMARY INSTRUMENT TYPES

VIII.1 Loan Standard Mode

The following are the details and instructions for Standard mode input for Loan funding:

a. *Total nominal loan amount (GCF portion):* Input the total nominal value of GCF loan funding, in millions of United States dollars (USD).

b. *Total nominal grant amount (GCF portion):* Input the total nominal value of GCF grant funding (if any), in millions (USD). This amount refers to any grant that GCF is providing to the counterparty beyond the loan.

c. *Annual commitment fee due to GCF:* Input the annual commitment fees that GCF is charging/will charge, expressed as a percentage value. The annual commitment fee is to be applied to the sum of the undisbursed loan at the end of each year. Leave the field blank if there is no annual commitment fee charged by GCF to the loan.

d. *Total of other fees due to GCF on Day 0:* Input the total nominal value of any other fees due to GCF prior to GCF disbursement of funding at the date of the signing of the Funded Activity Agreement (Day 0) in millions (USD).

e. *Tenor of GCF Loan:* Input the tenor of GCF loan funding in the number of years. The tenor is the number of years after Year 0 after which GCF receives the full amount of the total loan disbursement. Year "Tenor" thus denotes the end of the loan. The maximum tenor allowed in both the Standard mode and the Manual mode is 120 years.

f. *Grace period of GCF Loan:* Input the grace period of GCF loan funding, in the number of years after Year 0. The grace period is the number of years from the disbursement year to the year in which the principal repayments begin.

g. *Interest payments during the grace period:* Select whether the grace period does or does not apply to the interest payments to GCF as well. This option applies to all repayment types. This option does not affect the calculation if there is no grace period. If there is a grace period, leaving this cell empty will indicate "Yes" by default. Therefore, the user must select "No" in the case where the grace period does not affect the interest rate.

h. *Repayment type:* Select the repayment type. There are six fixed repayment structures:

   i. "Equal principal repayment" assumes the principal repayments to be the equal annual amounts after the grace period till the end of the loan. The amount of principal repayment is total loan funding divided by the difference between the tenor and the grace period. Annual interest payment may or may not occur during the grace period based on the previous field selection.

   ii. "Annuity" assumes a repayment structure consisting of equal annual repayments (including principal and interest), after the grace period. Annual interest payment may or may not occur during the grace period based on the previous field selection.

   iii. "Lump sum payment, simple interest accrued" assumes lump sum, bullet repayment of principal and the total simple interest accrued annually, at the end of the tenor.

   iv. "Lump sum payment, compound interest accrued" assumes lump sum, bullet repayment of principal and the total compound interest accrued annually, at the end of the tenor.

   v. "Lump sum principal payment and simple interest payable annually" assumes lump sum, bullet repayment of principal, at the end of the tenor. Simple interest is paid annually until the end of the tenor. Interest payments may or may not occur during the grace period based on the previous field selection.

   vi. "Multiple tranches each with equal principal payment" assumes that each loan disbursement is a separate tranche of "equal principal payment", with its own tenor and grace period. Essentially, this repayment type is treating each disbursement as an independent "equal principal repayment" loan funding by GCF. Annually interest payment may or may not occur during the grace period based on the previous field selection.

g. *Interest rate charged by GCF:* Input the percentage value of the annual interest rate charged by GCF to the borrower.

h. *Loan Disbursement Schedule (GCF portion):* Input the percentage value of the total nominal loan amount disbursed by GCF at the beginning of each year. The sum of the fields must equal 100 per cent.

i. *Grant Disbursement Schedule (GCF portion):* Input the percentage value of the total nominal grant disbursed by GCF at the beginning of each year. The sum of the fields must equal 100 per cent.

VIII.2 Loan Manual Mode

The following are the details and instructions that need to be entered in the Manual mode input for Loan funding:

a. *Loan disbursement amount (GCF portion):* Input the nominal values of loan disbursements by GCF at the beginning of each year according to the disbursement schedule.

b. *Grant disbursement amount (GCF portion):* Input the nominal values of grant disbursements by GCF at the beginning of each year according to the disbursement schedule.

c. *Fee payment due to GCF:* Input the nominal values of the fee payments due to GCF at the end of each year according to the repayment schedule.

d. *Interest payment due to GCF:* Input the nominal values of the interest payments due to GCF at the end of each year according to the repayment schedule.

e. *Principal repayment due to GCF:* Input the nominal values of the principal repayments due to GCF at the beginning of each year according to the repayment schedule.

All figures in the Manual mode are to be in millions (USD).

VIII.3 Equity Standard Mode:

The following are the details and instructions for Standard mode input for Equity funding:

a. *Total nominal equity amount (GCF portion):* Input the total nominal value of GCF equity funding, in millions (USD).

b. *Total nominal grant amount (GCF portion):* Input the total nominal value of GCF grant funding (if any), in millions (USD). This amount refers to any grant that GCF is providing the counterparty beyond GCF equity investment.

c. *Annual commitment fee due to GCF:* Input the annual commitment fees that GCF is charging/will charge in proportion to the undisbursed amount of GCF equity investment, expressed as a percentage value. The annual commitment fee is to be applied to the sum of the undisbursed GCF equity investment at the end of each year. Leave the field blank if there is no annual commitment fee charged by GCF to the equity.

d. *Total of other fees due to GCF on Day 0:* Input the total nominal value of any other fees due to GCF on Day 0 in millions (USD).

e. *Estimated GCF exit year:* Input the number of years after which GCF intends to exit the equity investment. Please leave the field blank if the exit year is not available. If the exit year is not specified, the dividend payments are assumed to continue until the end of year 20, and the equity investment to have been exited by GCF at the end of year 20 as well.

   i. Exit after 20 years is assumed to be consistent with an average tenor of GCF loan disbursements.

f. Dividend grace period: Input the number of years from the disbursement year to the year in which the dividend payments begin.

g. Expected annual dividend rate due to GCF: Input the percentage value of the expected annual dividend. The dividend rate is to be applied to the book value of GCF equity investment (the equity value of GCF disbursements in the balance sheet).

h. How dividend is calculated beyond Year 0: Select one of the two options on how the dividend rate input above is applied:

   i. "Fixed to Year 0 book value of equity" assumes that the dividend rate is applied on the Year 0 book value of the GCF equity investment (GCF Year 0 equity disbursement) and is therefore uniform across the life of the investment.

   ii. "Varies with the book value of equity" assumes that the dividend rate is applied dynamically on the book value at the end of each year.

i. *Expected IRR for GCF:* Input the expected annual internal rate of return for GCF (in percentage) from the equity investment.

j. Equity Disbursement Schedule (GCF portion): Input the percentage value of the total nominal equity investment disbursed by GCF at the beginning of each year. The sum of the fields must equal 100 per cent.

k. Grant Disbursement Schedule (GCF portion): Input the percentage value of the total nominal grant disbursed by GCF at the beginning of each year. The sum of the fields must equal 100 per cent.

VIII.4 Equity Manual Mode:

The following are the details and instructions for Manual mode input fields of Equity funding:

a. *Equity disbursement amount (GCF portion):* Input the nominal values of equity disbursements by GCF at the beginning of each year according to the disbursement schedule.

b. *Grant disbursement amount (GCF portion):* Input the nominal values of grant disbursements by GCF at the beginning of each year according to the disbursement schedule.

c. *Fee payment due to GCF:* Input the nominal values of the fee payments due to GCF at the end of each year according to the repayment schedule.

d. *Dividend due to GCF:* Input the nominal values of expected dividend payments to GCF at the end of each year.

e. *Expected exit value of the GCF Portion:* Input the expected nominal exit value at the time of the GCF exit. Please leave the fields blank if the exit year is not available. If the exit value does not exist, the GCF investment is assumed to be lost and to have zero value.

All figures in the Manual mode are to be in millions (USD).

VIII.5 Guarantee Standard Mode:

The following are the details and instructions for Standard mode input for Guarantee funding:

a. *Total nominal amount of loan guaranteed by GCF:* Input the total nominal value of the loan amount guaranteed by GCF in millions (USD).

b. *Total nominal grant amount (GCF portion):* Input the total nominal value of GCF grant funding (if any) in millions (USD). This amount refers to any grant that GCF is providing the counterparty beyond the guaranteed amount.

c. *Tenor of loans guaranteed by GCF:* Input the tenor of GCF guaranteed loans in the number of years. The tenor is the number of years after Year 0 after which the lender receives the full amount of the total loan investment and the guarantee by GCF expires. Year "Tenor" thus denotes the end of the loan.

d. *Guarantee fee grace period:* Input the grace period of GCF guarantee fees in the number of years. The guarantee fee grace period is the number of years from the disbursement year to the year when the guarantee fees due to GCF are paid.

e. *Guarantee Fee charged by GCF:* Input the percentage value of the guarantee fee charged by GCF. The guarantee fee is applied as a percentage of the outstanding amount of loan guaranteed by GCF at the end of each year during the guarantee tenor.

f. *Total of other fees due to GCF on Day 0:* Input the total nominal value of any other fees due to GCF prior to issuance of the guarantee by GCF at the date of the Funded Activity Agreement signing (Day 0) in millions (USD).

g. *Guaranteed Loan Repayment Assumption:* Select the expected or assumed structure of the GCF guaranteed loan:

   i. Equal Principal Repayment: Please refer to para. 20(h)(i).

ii. Multiple tranches each with equal principal payment: Please refer to para. 20(h)(vi).

h. Loan (Guaranteed by GCF) Disbursement Schedule: Input the disbursed amount of GCF guaranteed loan at the beginning of each year as the percentage value of the total nominal amount of loan guaranteed by GCF. The sum of the fields must be 100 per cent.

i. Disbursement Schedule of Grant (GCF portion): Input the percentage value of the total nominal grant disbursed by GCF at the beginning of each year. The sum of the fields must equal 100 per cent.

VIII.6 Guarantee Manual Mode:

The following are the details and instructions for Manual mode input fields of Guarantee funding

a. Total outstanding amount of loan disbursed (guaranteed by GCF): Input the total nominal values of outstanding loan amount guaranteed by GCF at the beginning of each year.

b. Grant disbursed amount (GCF portion): Input the nominal values of grant disbursements by GCF at the beginning of each year according to the disbursement schedule.

c. Guarantee Fee payment due to GCF: Input the nominal values of the guarantee fee payments due to GCF at the end of each year.

IX. Discount Rate Input (applicable both to Standard and Manual Modes)

IX.1 LOAN DISCOUNT RATE INPUT

Type of discount rate to be used: Select the discount rate to be used for grant equivalent calculations of GCF loan disbursement. There are five discount rate options for loan instrument:

a. "Uniform discount rate" selects a discount rate appropriate for all investments made by GCF based on industry best practices.

b. "Standard discount rate for sovereign-backed loans" selects a discount rate appropriate for loans given to or fully guaranteed by a national government.

c. "Standard discount rate for senior loans" selects a discount rate appropriate if GCF is investing in a senior loan tranche.

d. "Standard discount rate for junior loans" selects a discount rate if GCF is investing in a junior loan tranche.

e. "Manually input discount rate" allows the user to input any discount rate deemed appropriate for a particular project or programme.

Manually input discount rate: Input discount rate to be used when "Manually input discount rate" is selected for "Type of discount rate to be used". If "Manually input discount rate" option is not selected, the input value does not affect the calculation.

IX.2 EQUITY DISCOUNT RATE INPUT

Type of discount rate to be used: Select the discount rate to be used for grant equivalent calculation of GCF equity disbursement. There are three discount rate options for equity instruments:

a. "Uniform discount rate" selects a discount rate appropriate for all investments made by GCF based on industry best practices.

b. "Standard discount rate for equity investments" selects a discount rate appropriate for equity investments made by GCF.

c. "Manually input discount rate" allows the user to input any discount rate deemed appropriate for a particular project or programme.

IX.3 GUARANTEE DISCOUNT RATE INPUT

Type of guarantee rate and discount rate to be used: Select the guarantee and discount rate to be used for grant equivalent calculation of GCF guarantee disbursement. There are three options for guarantee instruments:

a. "Uniform discount rate" selects a discount rate appropriate for all investments made by GCF based on industry best practices.

b. "Standard guarantee rate and discount rate" selects a guarantee rate appropriate for an average guarantee rate based on risk level of an average GCF guarantee proposal, and a discount rate appropriate for guarantee investments made by GCF.

c. "Manually input guarantee and discount rate" allows the user to input any guarantee rate and discount rate deemed appropriate for a particular project or programme.

X. Grant Element Calculation

X.1 RESULTS DISPLAYED IN "USER PANEL" TAB

The output of the calculator describes the grant element of each Funding Proposal. More specifically, the first set of output measures the absolute value and percentage of grant element of the selected primary instrument type and the second set of output measures the absolute value and percentage of grant element of the total GCF funding, or the funding outlay that combines one of the three primary instrument types with a grant (see figure 5).

The output may display a negative value of grant equivalent. The negative value signifies that GCF funding to a project or a programme is not concessional.

FIGURE 5. RESULT FIELDS IN LOAN SECTION

RESULT

Grant Equivalent: GCF Loan Disbursement	% of Total Nominal Loan Amount	21.9%
Grant Equivalent: GCF Loan Disbursement	US$M	4.4
Grant Equivalent: Total GCF Funding	% of Total Nominal Loan and Grant Amount	37.5%
Grant Equivalent: Total GCF Funding	US$M	9.4

X.2 RESULTS DISPLAYED IN "RESULTS CHART" TAB

The Results Chart page presents the grant equivalence amount expressed as a percentage of the total non-grant funding nominal amount. The values to be displayed are directly brought from the "User Panel" tab and are shown in cells C5, L5, S5, and Z5. The total grant equivalent amount that includes the nominal grant amount provided by GCF is shown in the cells directly below the cells.

There are a total of four charts that are displayed in the Results Chart page:

a. The first chart presents the total grant equivalent amount and includes all instrument structures that have been utilized in one project or programme as part of the grant equivalent calculation.

b. The second chart presents the grant equivalent amount of a GCF loan investment.

c. The third chart presents the grant equivalent amount of a GCF equity investment.

d. The fourth chart presents the grant equivalent amount of a GCF guarantee investment.

For each chart, there are four bars that display relevant information for the grant equivalence:

a. The first bar of the chart displays the total nominal investment amount provided or guaranteed by GCF in the primary instrument type.

b. The second bar displays the present value of GCF outflows in a project or a programme.

c. The third bar displays the present value of GCF inflows in a project or a programme.

d. The fourth bar represents the total grant equivalent amount that GCF provides to the borrower, given the funding structure input in the User Panel. This bar also displays, if existing, the nominal grant amount provided by GCF.

ANNEX VI

ECONOMIC AND FINANCIAL ANALYSIS (EFA) GUIDANCE

INTRODUCTION

The GCF Programming Manual requests that Accredited Entities (AEs) submit an Economic and Financial Analysis (EFA) as part of the Proposal Approval Process (PAP)[1] in FP **Annex 3**. It is one of the optional annexes for Concept Note[2] (CN) submissions as well as for Simplified Approval Process (SAP) proposals (**Annex 10**).[3] "Financial structure, terms and conditions, and economic impact"[4] is one of the key elements of project and programme appraisal.

The EFA allows AEs to demonstrate the relative viability and efficiency of the climate interventions considered in the Funding Proposal. It helps GCF to understand how the project's financial and economic performance contribute to each of the six GCF investment criteria.[5]

The financial analysis evaluates the forecasted cash flows to the project sponsor or beneficiaries over the lifetime of the project or investment. It informs the consideration of alternative means of achieving project objectives based on financial indicators such as net present value using commercial discount rates, financial internal rate of return and simple payback period.

By exploring the financial performance of the activities considered in the FP with and without GCF support, the EFA can contribute to the additionality assessment conducted through the Innovation and Additionality Tool (IAT); as well as supporting the assessment of concessionality and of the appropriateness of the de-risking financial instruments in the proposal.[6] Examples of questions that could be answered through the financial analysis include:

- How do beneficiaries' cash flows change over time in the absence of GCF support?
- Is it profitable for beneficiaries to invest in mitigation or adaptation measures without GCF?
- How does GCF support of mitigation or adaptation measures affect the profitability of a project activity?
- How long does it take the activities to generate a positive financial return with and without GCF support?
- What are the financial incentives for continuing the mitigation or adaptation activity beyond the GCF funding period?

The economic analysis complements this view by evaluating the costs and benefits at a national, societal, or global level. It attempts to capture non-market externalities that are not easily monetized, such as the value of greenhouse gas (GHG) reductions, health benefits, social welfare, and ecosystem services. The economic analysis demonstrates

---

[1] *GCF Programming Manual, page 81.*

[2] *GCF Programming Manual, page 17.*

[3] *GCF Simplified Approval Process funding proposal preparation guidelines, page 1.*

[4] *GCF Programming Manual, page 45.*

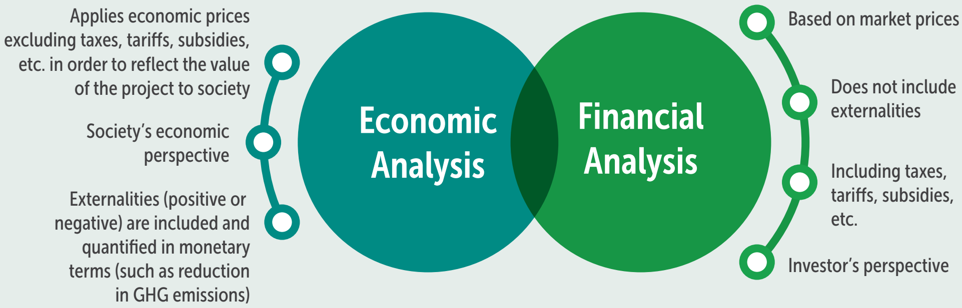
[5] *GCF Programming Manual, page 113.*

[6] *GCF Programming Manual, page 32.*

the extent to which the GCF investment results in societal benefits. Examples of questions that could be answered through the economic analysis include:

- What are the project's benefits and costs including or excluding externalities?
- What are the sources of benefits and costs at a project or societal level?
- Is the intervention cost-effective? Are the economic returns above the social discount rate?

FIGURE 1. DIFFERENCE BETWEEN ECONOMIC AND FINANCIAL ANALYSIS



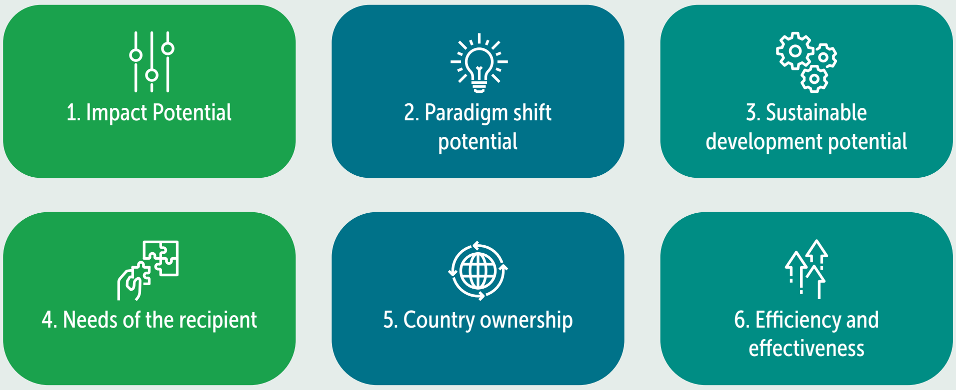
Source: Adapted from "Guide 3: Economic and Financial Analysis", Nielsen et al., Nordic Council of Ministers 2016.

This distinction is helpful because the positive and negative externalities associated with mitigation and adaptation projects are often not captured in market transactions. Economic Analysis allows to identify and quantify these externalities. The Financial Analysis allows to understand how concessional finance can be used to address these market failures and create incentives to finance similar projects at scale.

After a brief overview of the GCF Investment Criteria below, Section 1 of this document presents a summary of the steps of the Economic and Financial Analysis. Section 2 provides recommendations on Economic Analysis for the paradigm shifting pathways identified in each sector under the GCF Sector Guides. Section 3 provides guidance on how to use the results of the EFA to support the assessment of the six GCF investment criteria. Section 4 is a series of recommendations for Economic Analysis. Section 5 is a series of recommendations for Financial Analysis. Section 6 explores how EFA can be linked to other documents submitted as part of the GCF submission package (i.e. the Feasibility Study, Budget Annex, Implementation Timeline, GHG emissions calculations, and the Funding Proposal).

ECONOMIC AND FINANCIAL ANALYSIS AND THE GCF INVESTMENT CRITERIA

FIGURE 2. GCF INVESTMENT CRITERIA



CRITERION 1/6 IMPACT POTENTIAL

The GCF Initial Investment Framework defines impact potential as the "potential of the programme/project to contribute to the achievement of the Fund's [mitigation and adaptation] objectives and results areas".[7]

Wherever possible, the EFA should demonstrate a clear link between the GCF investment and the most likely impact assessment factors, including but not limited to:

- tCO_2eq to be reduced or avoided
- Avoiding lock-in of long-lived, high-emission infrastructure
- Number of households with access to low-emission energy
- Support for scale-up of low-emission energy by addressing key barriers
- Megawatts of low-emission energy capacity installed, generated and/or rehabilitated
- Increase in the number of small, medium, and large low-emission power suppliers and installed effective capacity
- Decrease in energy intensity of buildings, cities, industries, and appliances
- Increase in the use of low-carbon transport
- Expected improvement in management of land or forest areas (including change in area or type of cover)
- Improvement in waste management (e.g. the change in the share of waste managed using low-carbon strategies and/or the change in the share of waste that is recovered through recycling and composting).

For adaptation projects, the EFA should demonstrate, where possible, the contribution to climate-resilient development pathways based on the most likely indicative impact assessment factors, including but not limited to:

- Expected total number of direct and indirect beneficiaries experiencing reduced vulnerability or increased resilience and number of beneficiaries relative to the total population
- Degree to which the activity avoids lock-in of long-lived, climate-vulnerable infrastructure

[7] *GCF Programming Manual, page 36.*

- Enhancement of adaptive capacity and resilience for populations affected by the proposed activity
- Expected strengthening of institutional and regulatory systems for climate-responsive planning and development
- Expected increase in generation and use of climate information in decision-making
- Expected strengthening of adaptive capacity and reduced exposure to climate risks
- Expected strengthening of awareness of climate threats and risk reduction processes

For climate adaptation/resilience projects the expected impact potential is often based on a hypothetical scenario – weather events whose exact timing and severity are impossible to predict. The analysis therefore should specify the extent to which the scenario is built upon a credible evidence base, and then document linkages between the GCF investment and the impact assessment factors presented in the model.

CRITERION 2/6 PARADIGM SHIFT POTENTIAL

The GCF Initial Investment Framework defines "paradigm shift potential" as the "degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment". Here, GCF wishes to understand the project's:

1. Potential for scaling up and replication, and, for mitigation projects, the overall contribution to global low-carbon development pathways consistent with the 2º Celsius target;
2. Potential for knowledge and learning through contribution to collective learning processes and institutions;
3. Contribution to the creation of an enabling environment that supports sustainable outcomes beyond project completion and/or market development and transformation;
4. Contribution to policies and a regulatory framework supportive of low-emission technologies and activities and/or climate-responsive planning and development; and
5. Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans (for adaptation projects).

Many of these assessment factors are likely to be presented only indirectly in the EFA. A possible way for the analysis to demonstrate potential for scaling up and replication, and for contribution to the creation of an enabling environment, might be consideration of the relative attractiveness and financial sustainability of the returns presented in the financial analysis, then using the Theory of Change to understand the extent to which the project has established an enabling environment that allows those returns for new entrants. Presentation of other assessment factors would depend on the specifics of each project and the effort made already by the AE to elaborate these factors in the Theory of Change and log-frame.

CRITERION 3/6 SUSTAINABLE DEVELOPMENT POTENTIAL

The GCF Initial Investment Framework defines "sustainable development potential" in terms of the project's wider benefits and priorities. These include environmental co-benefits, social co-benefits, economic co-benefits, and gender-sensitive development impact – none of which are captured easily by analysis of the project's direct costs and benefits.

It is possible to use stated or revealed preferences methods to estimate the value of positive environmental externalities such as air quality, soil quality, biodiversity, etc; for social co-benefits such as health and safety or cultural preservation; and for factors such as increased energy security. It is also possible to model the economic multiplier effects of job creation and increased private investment. It will be important to document clearly the assumptions used to generate these values.

CRITERION 4/6 NEEDS OF THE RECIPIENT

The GCF Initial Investment Framework defines "needs of the recipient"` in terms of the vulnerability and the financing needs of the beneficiary country and population. These needs are evaluated along several interrelated axes:

- For adaptation projects, need at the country level is indicated by the intensity of exposure to climate risks and degree of vulnerability, as well as by the size of the population and/or assets/economic sectors exposed to climate change risks and impacts.
- For adaptation projects, the need of beneficiary groups is indicated by the extent to which the project or programme supports groups that are identified as particularly vulnerable in national climate or development strategies, with relevant sex disaggregation.
- In all cases, the needs of the recipient must take into account the economic and social development level of the targeted country/region and the affected population.
- It is the geographic or spatial intersection of the exposure to climate-sensitive hazards and the socio/economic vulnerability of populations (i.e. variability within the population to prepare for, respond to, mitigate, and recover from a climatic hazard/latent risk) that would determine the needs of the recipients.
- The need for GCF support is also indicated by the absence of alternative sources of financing, coupled with a description of how the Fund can overcome specific barriers to financing.
- The need for GCF support to strengthen institutions and implementation capacity.

GCF is interested in understanding whether there are market failures that justify the need for public financing and whether any of the outputs have characteristics of public goods.

Many of these assessment factors are amenable to inclusion in the economic and financial analysis. The counterfactual scenario based on climate trends and expected impacts can quantify the extent to which GCF support will reduce the intensity of exposure to climate risks by project beneficiaries or accelerate the introduction of GHG mitigation measures. The Funding Proposal and Feasibility Study narrative can help to explain the absence of alternative sources of financing or else clarify how those alternatives are presented in the financial analysis (for example, showing financial returns based on commercial or informal loans at high interest rates).

CRITERION 5/6 COUNTRY OWNERSHIP

Economic and Financial Analysis (EFA) does not directly support the assessment of the GCF Country Ownership investment criteria. However, the EFA handbook explains how to integrate country-level climate policy considerations when relevant.

CRITERION 6/6 EFFICIENCY AND EFFECTIVENESS

The EFA directly informs the assessment of the project's efficiency and effectiveness. In fact, the GCF Initial Investment Framework defines "efficiency and effectiveness" as "economic and, if appropriate, financial soundness of the programme/project".[8]

Efficiency and effectiveness are two distinct assessments aiming at evaluating two distinct aspects:

- Efficiency: How well are our agents converting inputs into outputs? ("Spending well")
- Effectiveness: How well are the outputs produced by an intervention having the intended effect? ("Spending wisely")

Cost-effectiveness and efficiency can be benchmarked based on project outputs. For example, cost per tCO_2e of emission reduction or avoidance is a cost-effectiveness indicator, while cost per hectare of landscape rehabilitation, cost per MW of low-emission power generation, and cost per MWh of energy efficiency investment are cost-efficiency indicators.

Cost-effectiveness can be assessed further based on the proposed level of concessionality calculated according to the methodologies presented in GCF/B.21/24, GCF/B.23/19 or as indicated using the Grant Equivalent Calculator.[9]

GCF evaluates efficiency and effectiveness according to several assessment factors:

- Financial adequacy and appropriateness of concessionality
- Cost-effectiveness
- Long-run financial viability
- Application of best practices and degree of innovation

1. SUMMARY OF ECONOMIC AND FINANCIAL ASSESSMENT STEPS

This section summarizes the steps of the EFA and focuses on the differences between economic and financial analysis. More detailed inputs are available in sections 3 and 4 of this document.

[8] *GCF Initial Investment Framework. initial-investment-framework.pdf (greenclimate.fund)*

[9] *https://www.greenclimate.fund/document/grant-equivalent-calculator*

TABLE 1. ECONOMIC AND FINANCIAL ANALYSIS COMPARISON

	STEPS FOR ECONOMIC AND FINANCIAL ANALYSIS	CONTEXT	FINANCIAL ANALYSIS	ECONOMIC ANALYSIS
			Objective: To assess the financial profitability of the activities under consideration in the FP with and without GCF support.	**Objective:** To assess the overall economic returns of the activities under consideration in the FP including all the relevant externalities.
1.	**Define scope**	Financial and economic analyses do not adopt the same perspective.	The level of the beneficiary (project developer, farmer, farmer organization, households, etc.). Could assess a single unit, for instance, the profitability of an intervention on one hectare of land or one MW of renewable energy. Should be performed as much as possible on a relevant scope for a beneficiary. For instance, an entire forest concession or land owned by a farmer.	The level of the impacts of the project from a holistic economic perspective. The benefits and costs must be aggregated with the capital budgeting criteria such as EIRR or ENPV calculated for all the activities. For instance, if an energy project aims at installing 10 MW of renewable energy, the analysis should not be performed for a unit of 1 MW but for the entire scope. At a minimum, the entire budget (including co-financing and other financing to be mobilized) should be included on the costs side, and non-cash flow benefits (e.g. positive externalities) should be included on the benefits side along with cash flow analysis.
2.	**Assign costs and revenues to activities**	Some of the income, benefit and cost streams are different for the economic and the financial analysis.	Should include fixed and variable costs for products with market prices. For instance, the cost of a water input would only be included if the beneficiary is paying for the water. Should include revenues from the sales of project outputs (agricultural products, electricity output, forestry products, etc.).	Should include fixed and variable costs for both products with and without market prices. Taking the water example again, the cost of water would be included in the analysis even if the beneficiary is not paying for the water. The analyst could then use a shadow water price.
3.	**Determine baseline**	For both the financial and economic analysis, the project case should be considered in comparison with a baseline.	The focus here should be on modelling the FP's intervention with and without GCF financing. The baseline is the project "without GCF support" and the intervention is the project "with GCF support".	The baseline scenario can be either a "no project" scenario or, preferably, a plausible alternative scenario to the activity under consideration. The benefits and costs of the project need to be evaluated against this baseline.

	STEPS FOR ECONOMIC AND FINANCIAL ANALYSIS	CONTEXT	FINANCIAL ANALYSIS	ECONOMIC ANALYSIS
4.	**Estimate production functions**[10]	The formulas linking project inputs and outputs should be based on evidence from studies or market data.	Formulas linking marketable physical inputs of the project and outputs. This will only include inputs and outputs that have a market price.	Formulas linking physical inputs of the project and outputs including those without market prices. Production functions for non-marketable assets should be based on studies (using benefit transfers methods) that are clearly referenced either in the supporting documentation or in the calculation sheets.
5.	**Collect data on prices and unit costs**		Price and unit cost data should be based on projects previously implemented in the project location and sector to avoid distortions. The analysis should not include shadow prices and should only be based on prices observed in market context.	Prices and unit costs for marketable goods should be based on previous projects implemented in the project location and sector to avoid distortions. Prices should not include taxes and subsidies. Prices and unit costs for non-marketable goods should be included in the analysis using shadow values. Shadow prices should be based on environmental valuation methods discussed in the next section.
6.	**Calculate cashflow**		The difference between project costs and revenues over each period of the analysis. This calculation should include financial elements such as depreciation, interest payments, transfer payments, etc. Cashflows should be calculated separately for the "without GCF support" and "with GCF support" scenarios.	The difference between project costs and benefits over each period of the analysis for each scenario. This needs to include both marketable and non-marketable costs and benefits. The final net stream of benefits and costs figures to be discounted is the difference between the project scenario's cashflows and the baseline scenario cashflows. See also above under "Scope" related to what aspects to include.

[10] *Small changes in production functions can have large impacts on profitability metrics.*

	STEPS FOR ECONOMIC AND FINANCIAL ANALYSIS	CONTEXT	FINANCIAL ANALYSIS	ECONOMIC ANALYSIS
7.	**Determine Economic Profitability Indicators** **Determine Financial Profitability and Solvency Indicators**	The key indicators to assess the economic and financial relevance of GCF participation in the project.	Discounting of each scenario's cashflows using relevant cost of capital. In the case of project components with different types of beneficiaries, use different discount factors based on the beneficiary's cost of capital. Please refer to the rest of the document for discussion on the relevant discounting time-horizon. Calculate profitability indicators for each scenario. As a minimum include: Net Present Value (NPV), Internal Rate of Returns (IRR), and Payback period. For projects including a debt component, please include analysis on solvency of beneficiaries with and without GCF intervention. Examples of indicators can include Debt Service Coverage Ratios (DSCR) for companies and organizations, as well as debt service as a share of income for households and individuals.	Discounting of the net cashflows, difference between baseline and project scenario, using the relevant social discount rate. The social discount rate used should reflect the fact that the benefits of the project under consideration might occur over a long period of time. See next section for detailed discussion on social discount rate. The analysis should include a calculation of the Economic Net Present Value (ENPV) of the net difference between the project cashflows and the baseline scenario's cashflows. It should also include an Economic Internal Rate of Return (EIRR) as well as the Benefit and Cost Ratio for the project.
8.	**Perform Sensitivity Analysis**	Check the sensitivity of the assessment's results to the main parameters of the analysis.	As a minimum, the AE should include sensitivity analysis on the discount rate as well as the main drivers of costs and revenues. In absence of clarity over the trajectory of key costs and revenues drivers, the AE should explore simple upper and lower band values for the relevant variables.	The AE should include an analysis of how the ENPV varies based on changes in other variables known as input variables (as a minimum social discount rate as well as all shadow prices used to value non-marketable assets).

2. ECONOMIC AND FINANCIAL ANALYSIS AND THE GCF SECTOR GUIDES

The objective of section 2 is to summarize specific elements that AEs should consider when performing EFA in relation to the GCF sector guides. This is not an exhaustive guidance; it is intended to cover the most common issues identified during the review of GCF Funding Proposals. AEs should consider these sector-specific notes as a starting point and should feel free to add any relevant methodological or scope adjustments in line with their internal EFA guidance. Further notes on benefits and cost valuation, as well as financial analysis, are provided in the rest of the document.

2.1 Climate Information and Early Warning Systems (CIEWS)

The baseline for a CIEWS economic analysis should start with the determination of the relevant type of disasters in the project's spatial and temporal context. It should determine: (1) the typical accuracy of the forecast for each disaster; (2) the typical lead time of acute warnings; and (3) the resulting damage in lives and property value.

The AE should then assess the impact of the activities in the FP on the reliability and accuracy of the CIEWS and the three determinants mentioned.

The economic analysis will help to determine the optimal parameters of the warning system in addition to its overall benefits.

A key element of discussion in a CIEWS economic analysis is the trade-off between increased lead-time and warning reliability. Higher lead-times reduce damages but also decrease the reliability of forecasts and increased false alerts.[11]

CIEWS EFAs can include prediction-related factors such as the ones mentioned and **dissemination-related factors**.[12] The dissemination-related factors could be the likelihood that a person uses a communication channel or notices a warning message or that a communication channel is not operational.[13] These factors should be integrated into the economic analysis as much as possible.

Following Klafft and Meissen (2011), we recommend including the following costs at a minimum: the investment needed to establish the CIEWS, energy costs, training costs for operating the CIEWS, costs of operating and expendable materials, communication costs for receiving and sending alerts, and wages.

The economic impacts of disasters in lives and damages should be accounted for following an avoided-cost methodology.

2.2 Transport

2.2.1 PARADIGM SHIFTING PATHWAY: ACCELERATE THE SHIFT TO LOW EMISSIONS PUBLIC TRANSPORT

For urban mobility projects, a non-exhaustive list of benefits to be included in the analysis could be: GHG emissions reductions, passengers and freight traffic time savings, travel time reliability, noise reduction, air pollution reductions, soil and water

[11] *"Costs and benefits of early warning systems", Rogers, D. and Tsirkunov, V.; Global Assessment Report on Disaster Risk Reduction, 2010.*

[12] *"Assessing the economic value of early warning Systems", Klafft, M. and Meissen, U., 2011.*

[13] *"Assessing the economic value of early warning Systems", Klafft, M. and Meissen, U., 2011.*

pollution reductions, accident reductions, and revenues from the charges applied to the users of the transport mode if relevant.[14]

The economic analysis should be fully consistent with any multimodal transport model used in the FP's feasibility study and the metric of Generalised Cost (GC) used to perform the integration [see Beria and Grimaldi (2012), Castigliano et al. (2003), and Jong et al. (2007)].

Following Beria and Grimaldi (2014), we recommend a careful analysis of the difference between the activities and policies when performing an EFA for urban transport plans. The activities or policies can differ: they may have costs and benefits attributed to public bodies or public users; they may be specially concentrated or diffused; they may be punctual in time or continuous. All these characteristics can lead to different activities within the same plan and generate very different mobility patterns. The synergies between the activities, policies,[15] or modes need to be carefully studied and the best methodology selected to calculate the welfare implications of mixed policies.[16]

On the cost side, the EFA should include investment costs such as infrastructure construction costs, noise protection, flood protection, etc. and recurrent costs such as operations and maintenance costs (O&M).

2.2.2 PARADIGM SHIFTING PATHWAY: RAPID ELECTRIFICATION OF THE TRANSPORT SYSTEM

The baseline fuel used for the GHG emissions reduction estimation should be the same as the one used in the estimation of the economic benefits of electrification. It should be differentiated by type of vehicle when relevant.

The quantification of the benefits should be based on estimations of the penetration of the electric transport technology under consideration. It should be consistent with the country's NDCs or other decarbonization roadmaps. This demand analysis should be consistent with estimations in the Feasibility Study and other parts of the proposal.

Benefits should be considered in terms of (i) operating cost savings for the vehicle owners; (ii) costs to the electricity utility; and (iii) monetization of GHG emissions reductions.[17]

In the case of charging infrastructure, the AE should also explore the benefits of electricity price incentives that would encourage the vehicle users to delay charging until off-peak hours and estimate the overall financial benefits for utilities and users.

In all cases, the impact of the electric vehicle charging load on the grid should be studied and monetized (generation cost, transmission cost, peak capacity cost, infrastructure cost, and revenues).

The analysis should be linked to the country's power sector strategy in terms of (i) using an appropriate grid emissions factor that considers a future decarbonization target for

---

[14] *"Detailed guidance on how to evaluate each benefit is available in the European Commission (EC) "Guide to Cost-Benefit Analysis of Investment Projects", 2014. cba_guide.pdf (europa.eu)*

[15] *"Cost-benefit analyses of policy tools to encourage the use of Plug-in electric vehicles", Lavee, D.; Parsha, A., 2021.*

[16] *"Cost benefit analysis to assess urban mobility plans. Consumers' surplus calculation and integration with transport models", Beria, P. and Grimaldi, R., 2014.*

[17] *"Electric Vehicle Cost-Benefit Analysis", Lowell, D.; Jones, B.; Seamonds, D.; MJB&A; 2016.*

the power sector; (ii) the impact of the charging load mentioned previously; and (iii) the impact on the government budget for State Owner utilities.

Cost should include investment costs with specific attention to the cost of batteries for options where it is possible to own a vehicle while leasing the battery. The AE should make explicit any VAT or registration tax examples for electric vehicles. Operations costs should include taxes and fuel consumption based on annual mileage. The maximum speed and battery range are important factors to make explicit in the analysis of operations costs for electric vehicles.[18]

In addition to GHG emissions reduction, the economic analysis should include a discussion of the differences between electric vehicles and internal combustion engine vehicles[19] in terms of the typical externalities such as accident consequences, air pollution, and noise exposure.[20]

Following Jochem et al. (2016) relevant characteristics to consider for each one of these costs are fuel type, vehicle size, population density, and the time of day (i.e. for noise and congestion).

In terms of assumptions, it is important to perform sensitivity analysis on the cost of fuel, the grid emissions factor, electricity tariffs, as well as vehicle mileage.

2.2.3 PARADIGM SHIFTING PATHWAY: NEW GENERATION ZERO-EMISSIONS FUELS

The economic analysis should include scenarios on demand for the new generation zero-emissions fuels based on integrated assessment and energy system models with competing decarbonization strategies.

The estimation of the benefits and costs should consider the entire new generation zero-emissions fuel value chain,[21] energy source availability, production method (gasification or electrolysis for hydrogen for example), transportation (pipeline, tanker, etc.), storage (liquid or compressed), and distribution in the fuelling stations.

The economic analysis should also include parameters on production, transportation, and storage constraints such as the number of units.

For biofuel generation projects,[22] the economic analysis should include a discussion on the impact of changes in land use on crop prices through the channel of increase in demand for energy crops and potential decrease in land surface for competing crops. It should also include a discussion on the GHG balance associated with the change in land use, but also soil carbon sequestration, and fertilizer use.

The availability of land being a key issue for biofuel generation, the economic analysis should reference the change in land use analysis included in the project's feasibility study and ensure that estimations in the EFA are fully consistent with the estimations in the feasibility study.

---

18 "A cost benefit analysis of electric vehicles – a UK case Study", Piao, J.; McDonald, M.; Preston, J.; 2014.

19 "External costs of electric vehicles", Jochem, P.; Doll, C.; Fichtner, W.; 2016.

20 "Dynamic and acoustic behaviour of electric versus combustion vehicles", Mocanu, I.; Aichinger, C.; Czuka, M.; Gasparoni, S.; Saleh, P.; 2016.

21 "Cost-benefit analysis of a hydrogen supply chain deployment case for fuel cell vehicles use in Midi-Pyrenees region", Martinez-Garcia, G., 2017.

22 "The economic and environmental costs and benefits of the renewable fuel standard" Chen, L.; Environmental Research Letters; 2021.

The economic analysis should also include an assessment of the impact on the transport sector in terms of decrease of demand on fuels (gasoline and diesel for instance) that would be replaced by the biofuel. For fossil-fuel exporting countries, the decrease in "domestic" demand in fuels can translate into an increase in export, which in turn will have an important impact on the outcomes of the economic analysis. Impact on exports and assumptions on demand for commodities and prices should be carefully discussed in the economic analysis.

Such an analysis would include a high level of uncertainty over the prices of the different commodities, land use, and the future demand for crops and fuel. All these elements need to be included in the sensitivity analysis.

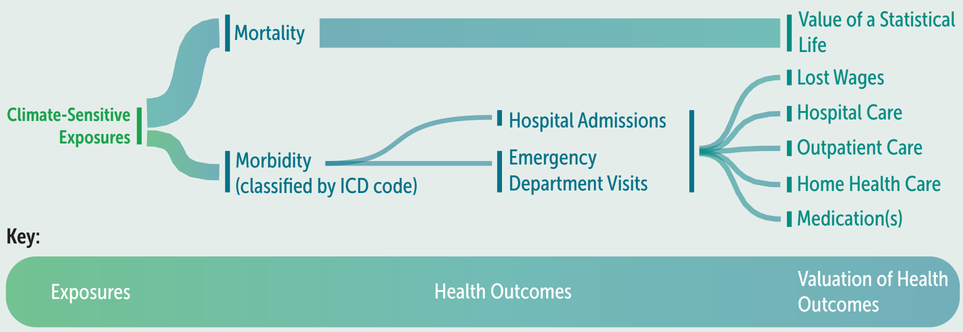
The analysis should explicitly discuss parameters of cost of energy sourcing, production, transportation, storage, and distribution (benefits section). The AE should adopt a total cost of ownership approach including the cost of the infrastructure as well as the cost of the end-user equipment that needs the new generation zero-emissions fuels and its operations and maintenance. The AE should also estimate the "embodied carbon" of infrastructure assets using life-cycle analysis.

2.3 Health and Well-Being

Limaye et al. (2020) defined climate health valuation as the "process for estimating the price tag of climate-sensitive health outcomes in terms of morbidity and mortality from climate-sensitive exposures".[23]

An economic analysis for health and well-being should start by identifying the climate-sensitive exposures of the health system under consideration. The AE should start by identifying the climate stressors with potential health impacts such as heatwaves, temperature changes, droughts, or floods, then link those to health impacts[24] in terms of mental illness, undernutrition, injuries, respiratory disease, allergies, cardiovascular diseases, infectious diseases, poisoning, water-borne diseases, and heat stroke.

FIGURE 3. CLIMATE-SENSITIVE EXPOSURES AND HEALTH IMPACTS



Source: Limaye et al. 2020.

The economic benefits of the interventions in the funding proposals should be estimated using an avoided cost method or averting behaviour/defensive expenditure

[23] *"Estimating the costs of inaction and the economic benefits of addressing the health harms of climate change", Limaye, V.; Max, W.; Constible, J.; Knowlton, K.; Environmental Health, 2020.*

[24] *"Health & Climate Change", World Health Organization (WHO), 2018.*

models,[25] estimating the costs of the health impact with and without intervention. For examples of costs to be considered see section 3.2 below (Main Steps: Estimation of benefits and costs).

Climate change can have implications on the operations of healthcare facilities in terms of physical damage in extreme events such as floods or hurricanes or increased operations costs due to cooling or heating needs in the case of change in temperature patterns. The AE should estimate the benefits of climate resilience for health facilities when they are part of the project scope.

Limaye et al. (2020) suggest the use of "Value of Statistical Life" (VSL) to estimate the cost of mortality from the climate health impacts. In addition, they suggest estimating morbidity costs linked to hospital admissions and emergency department visits in terms of lost wages during time in the hospital, hospital care, outpatient care, home health care, and prescribed medications.

2.4 Water Security

2.4.1 PARADIGM SHIFTING PATHWAY: ENHANCE WATER CONSERVATION, WATER EFFICIENCY AND WATER RE-USE

The estimation of the trends in demand and price for water is an important first step of the economic (and financial) analysis for water projects. The AE should include an assumption of the justification of demand based on the analysis of the socio-economic drivers of water demand in the project area. Such drivers could be demographic, but also sectoral when much of the demand is driven by irrigation or industrial use. The AE should be clear about the water user group(s) targeted by the activities in the proposal and include the relevant scope. For instance, if water conservation or re-use activities are targeting the agriculture sector in a country where agricultural commodities are exported, the scope for the demand analysis should also include trends in global commodity demand and prices.

The second point of attention is the coherence of all the assumptions in the economic analysis with the hydrological models submitted for the project. Hydrological models should serve as one of the primary inputs to economic and financial analysis for water conservation, re-use, and integrated water resource management projects alike.

For water conservation and efficiency projects, or project components, water savings analysis should be the starting input to the economic analysis. The AE needs to calculate the water savings associated with each conservation measure in the FP. The avoided water use or water savings should then be monetized using an avoided cost method in order to estimate the water savings benefits.

The AE should also estimate the GHG emissions reductions and energy savings resulting from "plumbing/appliance standards and planned active conservation measures".[26]

The AE baseline scenario[27] for the economic analysis should identify the sources, uses, treatment, re-use, and discharge of the water resources. For each step, the AE should identify the quantity, quality, and reliability standards, GHG emissions impacts, other environmental, health and economic impacts, as well as impact on ecosystem services

[25] *"Cost-Benefit Analysis and the Environment – Chapter 3: revealed preference methods", OECD, 2018. Home | OECD iLibrary (oecd-ilibrary.org)*

[26] *"Water use efficiency cost-benefit analysis"; Riley, G.; City of Bellingham, Washington; 2019.*

[27] *"Cost-benefit analysis approach suited for water reuse schemes" De Paoli, G.; Mattheiss, V.; 2016.*

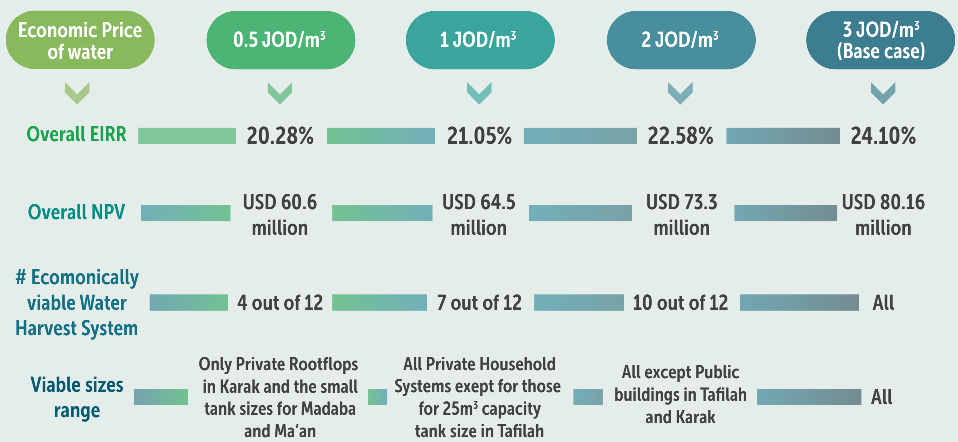
of the water flows. The AE should map the financial flows and payment at each stage of the process.

The AE should monetize the impact of the interventions or activities in the funding proposals on the water quality, quantity, GHG emissions, other environmental, health and economic impacts using the suggested methods described in the rest of this document.

For the economic analysis, the AE should use a shadow price of water[28] to monetize water savings and other benefits. This shadow price should be estimated in a way that considers the scarcity of the resources and competing use between sectors.[29] Water is often under-priced, and water tariffs do not usually reflect the true cost of the resource. For activities such as aquafer recharge,[30] water tariffs simply do not reflect the externalities associated with groundwater use. Water tariffs can be used as a second-best water pricing source.

For the financial analysis, the AE should use the water tariffs in place for each category of water use (and not the shadow price). The AE should differentiate between categories of users if necessary – single family households, multi-family households, commercial buildings, industry, agriculture, etc.

FIGURE 4. EXAMPLE OF THE LINK BETWEEN WATER TARIFF AND WATER PROJECT COMPONENT VIABILITY BASED ON FP155



Source: FP155 "Building resilience to cope with climate change in Jordan through improving water use efficiency in the agriculture sector (BRCCJ)", Project approved at B.28. Full EFA package available here: GCF/B.28/02/Add.02 : Consideration of funding proposals — Addendum II: Funding proposal package for FP155 | Green Climate Fund. Note: Economic Internal Rate of Returns (EIRR), Net Present Value (NPV), Jordanian Dinar (JOD).

Revenues for water conservation/re-use projects typically come from user payments. Users are often charged a fixed tariff and variable/volumetric tariff depending on the consumption level. If it is planned that water tariffs will also depend on the quality of the treated water, the differentiation should also be included in the financial analysis.

[28] *"Water use, shadow prices and the Canadian business sector productive performance", Dachraoui, K.; Harchaoui, T.; 2004.*

[29] *"Shadow price of water for irrigation – a case of the high plains", Ziolkowska, J.; 2015.*

[30] *"An estimate of the shadow price of water in the Southern Ogallala aquifer" Williams, R.; Al-Hmoud, R.; Sgarra, E.; Mitchell-McCallister, D.; 2017.*

Revenue from subsidies and taxes should not be included in the economic analysis as these are neutral cashflows at the level of the entire society.

2.4.2 PARADIGM SHIFTING PATHWAY: STRENGTHEN INTEGRATED WATER RESOURCES MANAGEMENT AND WATER MANAGEMENT

Yoder et al. (2017) note that the difficulty in performing an EFA for integrated water resource management (IWRM) projects lay in that they entail the understanding of multiple facets "water systems, uses and stakeholders, and water management activities".[31] They qualify these multiple facets as "interrelated and non-separable".

The AE's challenge in such an economic analysis is therefore to identify the interdependence between the different components of the integrated water resource management project or system.

In practice, this means that we encourage AEs to aggregate economic analysis results both at the level of the entire IWRM project as well as present results by individual technical component. In addition to technical components, it is also a practice for IWRM economic analysis to aggregate results by stakeholder (i.e. developer, local community, water utility, council) given the importance of stakeholders in the IWRM approach.[32]

An IWRM project's economic analysis offers the possibility of including a wide range of benefits[25,] such as water savings, ground water recharge, reduction in flood impact and other climate-resilience benefits, GHG emissions reduction, water quality benefits, improved aesthetics (impact on property prices), and improved health (morbidity and mortality).

The cost of water can be categorized as use costs and opportunity costs.[33] Use costs are relative to construction and operation of infrastructure, storage, treatment, and distribution of water. Opportunity costs relate to the foregone benefits associated with using the water resources for one purpose rather than a competing one. For instance, "greater abstraction of water by a city might affect the quality and quantity of water available to downstream irrigators, thus imposing costs on these users".

For water treatment plants, use costs should include pumping systems, pipes, storage, infiltration, and reinjection investments,[34] man work units, land acquisition costs, and other administrative costs. Typical O&M costs are related to energy use or pipeline network.

The required quality of the re-used water will determine the cost and type of treatment considered for the economic and financial analysis. The cost assumptions need to be consistent with the technology choice assumptions in the project Budget and Feasibility Study.[35]

---

[31] *"Benefit-cost analysis of integrated water resource management: accounting for interdependence in the Yakima basin integrated plan"; Yoder et al.; Journal of the American Water Resources Association; 2017.*

[32] *"INFFEWS Benefit cost analysis tool: Booklet of applied examples", Cooperative Research Centre for Water Sensitive Cities; Australian Government; 2020.*

[33] *"Cost-Benefit Analysis and Water Resources Management: Water as an Economic Good" Briscoe, J.; Brower, R.; Pearce, D.; 2005.*

[34] *"Socio-economic interest of treated wastewater reuse in agricultural irrigation and indirect potable water reuse: Clermont-Ferrand and Cannes case studies' cost-benefit analysis", Declercq, R.; Loubier, S.; Condom, N.; Molle, B.; Irrigation and Drainage; 2020.*

[35] *"Cost-benefit analysis of wastewater reuse in Puglia, Southern Italy" Arborea, S.; Giannoccaro, G.; de Gennaro, V.; Ferruccio Piccinni, A.; Water, 2017.*

The assessment of opportunity cost[36] must account for the value of the use (high value vs low value), the quality and quantity issues that water extraction and use can cause on a basin, and the institutional mechanisms that exist (or do not exist) to manage the allocation of resources between users.

2.5 Energy Efficiency

The mix of technologies used for both the intervention and baseline scenarios should be based on least-cost analysis consistent with sector-level low-carbon development pathways, or national level least-cost analysis for the purpose of NDC or Long-Term Strategies (LTS). If such a decarbonization pathway is absent, the AE should consider developing one for the purpose of the FP.

Economic analysis for energy efficiency projects should include the benefits from GHG emissions reductions, energy savings and any savings on operating costs.

An important and often-overlooked benefit of energy efficiency is the "avoided need for generation and new Transmission and Distribution" or the capacity-avoided costs (related to equipment, system losses, T&D facilities, capacity market price reductions, land use, etc.).[37] The AE should include such elements in the analysis as much as possible.

Another overlooked aspect of energy efficiency is its potential adaptation benefits. Energy consumption can be associated with water consumption, especially in fossil-fuel-based energy systems. The AE should explore adaptation benefits in contexts with increased water stress due to climate change.

The AE, when possible, should apply a **deadweight adjustment[38]** to the benefits of energy-efficiency measures that takes into account the measures that households/commercial/industry beneficiaries would have taken without the project intervention. This is important in a context where other energy-efficiency policies and programmes are in place. A **regulatory and gap analysis** can help identify these energy-efficiency savings and calibrate the deadweight adjustment accordingly.

In addition to the social cost of carbon used to monetize GHG emissions reductions, the cost of energy (electricity, heat, or other fuels) will be an important determinant of the outcomes of economic analysis on energy efficiency projects. The AE should perform a specific sensitivity analysis on the cost of energy source used in the analysis.

Energy-efficiency measures can result in significant positive job impacts. The AE should aim at estimating these job impacts and integrating them into the FP in the economic co-benefits section.

Below are additional sector-specific considerations.

Industry

The baseline and intervention scenarios of energy efficiency in the industry sector should consider energy demand (electricity, heat, feedstock, or other fuels) based on the growth in demand for the industry.

[36] *"Cost-Benefit Analysis and Water Resources Management: Water as an Economic Good" Briscoe, J.; Brower, R.; Pearce, D.; 2005.*

[37] *"Understanding Cost-Effectiveness of Energy Efficiency Programmes: Best practices, technical methods, and emerging issues for policy-makers" EPA, 2008.*

[38] *"Economic analysis of residential and small-business energy efficiency improvements", Sustainable Energy Authority of Ireland, 2011.*

To avoid over-inflation of energy-efficiency benefits, the economic analysis should consider decarbonization of the electricity sector in the country, if electricity is the main energy input for the industry under consideration, as well as any demand-side dynamics.

Buildings

The project intervention should be articulated in the context of any quantitative targets already in place in the country (energy consumption per square meters in Net Zero building regulations for instance).

For heating and cooling technologies, the assumptions of the economic analysis must be consistent with: (1) climatic trends identified in the FP's climate rationale, (2) any maximum demand or technology penetration assessments in the Feasibility Study.

Appliances and equipment

For economic analysis on high efficiency appliances/equipment projects, it should pay particular attention to the future trajectory of the energy costs that could be included in the sensitivity analysis. The deadweight adjustment mentioned earlier is also particularly important in the appliances and equipment context.

Benefits from energy savings should be compared with the costs of implementing energy-efficiency measures in terms of investment cost and O&M.

When possible, the AE should also include other costs such as data collection and Measurement, Reporting and Verification (MRV) costs, any permitting and certification costs,[39] and any legal costs linked to the negotiations of contractual issues when dealing with residential building energy efficiency.

For technology and equipment, the AE should provide an analysis of the cost of disposal/recycling of electronic waste and factor these costs into the economic analysis.

2.6 Forest and Land Use and Ecosystems and Ecosystem Services

The estimation of benefits and costs for forestry and land use, as well as for ecosystems and ecosystem services projects should be performed using the ecosystem services framework.

The United Nations System of Environmental Economic Accounting (SEEA) provides a list of ecosystem services generally categorized in provisioning services, regulating and maintenance services, cultural services, and supporting services. The economic analysis is therefore an estimation of the costs and benefits "associated with changes in assets and the services they provide".[40]

The AE should map project interventions with ecosystem services provided by the forestry, terrestrial and freshwater, or coastal and marine ecosystem. The total economic value of the service[41] is made up of:

---

[39] *"Towards a more realistic cost-benefit analysis – Attempting to integrate transaction costs and energy efficiency services", Adisorn et al., 2020. Energies.*

[40] *"Towards a global map of natural capital: key ecosystem assets", UNEP, 2014. Towards a global map of natural capital: key ecosystem assets | UNEP - UN Environment Programme*

[41] *Ewards, L., 2013 based on "The economic value of Guam's coral reefs", van Beukering et al. 2007.*

1. *Use values:* direct use (drinking water, timber, tourism, etc.); indirect use (coastal protection, water purification, carbon sequestration, etc.); and optional use (biodiversity, clean soils, etc.); and
2. *Non-use values:* bequest value (avoided damage from climate change); or existence value (rare species, and indigenous rights).

Ecological interdependencies between ecosystems is a challenge in such analyses. Although it is difficult to understand how the ecosystem targeted by the AE's intervention is dependent on other ecosystems, it is important to identify critical interdependencies and include them in the analysis. Ecosystem services-related valuations should "explicitly seek to be as inclusive as possible in scope and coverage".

Another challenge when it comes to valuing ecosystem services through NPV is the analysis lifespan. Ecosystem assets tend to provide services for many decades, given the ability of ecosystems to regenerate, introducing issues of intergenerational wealth transfer. The AE should consider relevant time horizons that can go beyond the project period. Alternative approaches to Net Present Value (NPV) that better reflect long-term value, such as Land Expectation Value (LEV),[42] can be explored.

For restoration projects, the economic analysis should not estimate *the total economic value* of the restored land use, but rather the *change in total economic value* between the degraded and restored landscape.[43]

The baseline degradation scenario for restoration projects should be consistent with the assumptions in the FP. It should factor in socio-economic drivers such demographic and urbanization trends, as well the future demand for forest and ecosystem services-based products.

2.7 Energy Generation and Access

For energy generation and access, the use of least-cost optimization approaches is the industry standard when it comes to modelling low-emissions pathways for the energy sector. Such studies are sometimes referred to as "market studies". These "are used to calculate the cost optimal dispatch of generation units under the constraint that the demand for electricity is fulfilled (taking into account demand side responses, DSR) in each bidding area and in every modelled time step".[44]

We recommend that AEs perform economic analysis where the baseline, counterfactual, and project scenarios are developed based on a least-cost energy system modelling. When available, AEs should prioritize such modelling developed in the context of available Nationally Determined Contributions (NDCs), Long-Term Strategies (LTS), or energy sector low-carbon development pathways.

The estimation of benefits and costs for energy projects can rely on a high number of assumptions linked to the dynamic of demand for energy, fuel prices, energy tariffs, the price of carbon or investment cost for technologies. A thorough sensitivity analysis is often necessary to check the robustness of results.

---

[42] *See "A profitability study for both timber and nuts in a Brazil nut forest concession: The case of Madre de Dios, Peru", Rodriguez, A., 2014.*

[43] *"A cost-benefit framework for analyzing forest landscape restoration decisions", IUCN, 2015.*

[44] *"3rd ENTSO-E Guideline for Cost Benefit Analysis of Grid Development Projects", ENTSO-E, 2019.*

One important consideration for electricity-generation projects is the potential for sector coupling and in particular for demand-side flexibility[45] measures that can have an impact on the load profile and costs of generation. An electricity-generation project should include foreseeable developments in the industry, transport, commercial, or residential sector that would result in some level of demand-side flexibility. In practice, this means that when AEs set the baseline for the economic analysis of a generation project, they should also consider development plans in other sectors that include demand-side flexibility considerations.

The "ENTSO-E 3rd Guideline for Cost Benefit Analysis for Grid Projects" identifies three project-level benefits for transmission and distribution: "balancing energy exchange, avoidance of the renewable/replacement costs of infrastructure (...) reduction of necessary reserve for re-dispatch power plants".[46] For project scenarios with a high penetration of renewable energy, the estimation of the reduction in reserve requirements for re-dispatch is an often-overlooked element in economic analysis that AEs should try to include. For grid projects, we recommend including indicators on the project contribution to enhancing the transfer capabilities of the grid such as Net Transfer Capacity (NTC) or Grid Transfer Capability (GTC).[47]

In terms of benefits from GHG emissions reductions, transmission and distribution projects should clarify cross-border considerations and the geographic scope. If electricity export and import flows are to be expected, these should be factored into the analysis at all the relevant levels.

The economic benefits of storage connected to intermittent renewables can be estimated based mainly on avoided loss of load for peaking power above the network capacity and curtailment during peak production hours.[48]

A further economic benefit comes from reducing the cost of unserved energy (CoUE) to account for the impact of lost load on consumers. This can be estimated based on the marginal cost of running backup power units like diesel generators by customers to address network outages.

For further examples of cost and benefits to consider for smart transmission, distribution and storage projects, AEs can refer to the International Renewable Energy Agency (IRENA) guide "Smart Grids and Renewables: A Cost-Benefit Analysis Guide for Developing Countries".[49]

For energy access projects considering mini-grid technologies for off-grid beneficiaries,[50] the AE should consider a baseline scenario based on the current generation technology used by the communities in addition to a counterfactual scenario looking at the extension of the grid. The grid extension counterfactual should consider future development of the generation mix including potential increases in the share of renewable energy generation. This will result in different estimations in terms of GHG emissions reductions for the project and subsequent benefit estimations. Benefits should be calculated over the useful life of the technologies considered and if the timeframe of the analysis exceeds the useful life, it should include any replacement costs. For an accurate estimation of energy savings, the cost of fuels for the baseline

---

[45] *"Demand-side flexibility for power sector transformation", IRENA, 2019.*

[46] *"3rd ENTSO-E Guideline for Cost Benefit Analysis of Grid Development Projects", ENTSO-E, 2019.*

[47] *"3rd ENTSO-E Guideline for Cost Benefit Analysis of Grid Development Projects", ENTSO-E, 2019.*

[48] *"Power System Flexibility for the Energy Transition, IRENA, 2018.*

[49] *"Smart Grids and Renewables: A Cost-Benefit Analysis Guide for Developing Countries", IRENA, 2015.*

[50] *"Cost-Benefit Analysis of Off-Grid Solar Investments in East Africa", USAID, 2017.*

or counterfactual scenario should include any transport costs. Similarly, the cost of the mini-grid alternative should factor in the capacity-building component, if included in the project.

For energy sector investment, the AE should aim at including estimation of embedded carbon emissions in infrastructure and equipment.

2.8 Agriculture and Food Security

For the adaptation component of projects in the agriculture and food security sector, the AE should make sure that the climate impact baseline scenario is fully in line with the climate rationale in the funding proposal. For instance, the percentage changes in crop yield, frequency, and severity of extreme climate events, should be based on the same climate modelling adopted in the Funding Proposal's climate rationale. The AE should include at least two different Representative Concentration Pathways (RCPs) when considering climate impacts on the agriculture sector. Economic analysis for agriculture and food security projects should include a sensitivity analysis on climate change impact assumptions.[51]

AEs should clearly explain and discuss the production functions[52] used to model "the physical response pattern of yield in response"[53] to funding proposals activities (such as Liebig or Mitscherlich functions[54]). The AE can consider using benefit transfer methodologies when there is a lack of data on the project's context. The economic analysis needs to explain the activities' relation to outcomes such as "improved soil fertility, improved crop water availability and reduced soil erosion" and the subsequent potential increase or stabilization of agriculture output.

Following Liu et al. (2016), when data is available, AEs should consider including a diffusion model[55] in the economic analysis that attempts to predict the adoption of the activities under consideration in the FP beyond the direct scope of the project. The AE can then calculate project benefits that are linked to the project's exit strategy.

For economic analysis, the AE should use agricultural commodity prices based on the market where these commodities are sold. For international commodities destined for export, international prices should be considered. For locally marketed commodities, local prices should be considered. In all cases, tax and subsidies should not be included in the prices used for the economic analysis

For the financial analysis, the AE should use local prices reflecting the income generated for the project's beneficiary.

51 *"Cost-benefit analysis for climate change adaptation policies and investments in the agriculture sectors", FAO, 2018.*

52 *"Reconciling the von Liebig and Differentiable Crop Production Functions", Berck and Helfand, American Journal of Agricultural Economics, 1990.*

53 *"Cost and benefit analysis of adopting climate adaptation practices among smallholders: The case of five selected practices in Ghana", Williams et al., Climate Services, 2020.*

54 *"Integrating the production functions of Liebig, Michaelis-Menten, Mitscherlich and Liebscher into one system dynamics models", Nijland, Schouls, and Goudriann, 2008.*

55 *"Cost and benefit analysis of adopting climate adaptation practices among smallholders: The case of five selected practices in Ghana", Liu, at al., Climate Risk Management, 2016.*

3. ECONOMIC ANALYSIS

3.1 Purpose in the context of a GCF project

Economic analysis aims at capturing the benefits and costs of the activities undertaken in the Funding Proposal from society's perspective. Multiple methods are used to assess the costs and benefits of mitigation and adaptation projects. The three most common are: Cost-Benefit Analysis (CBA), Cost-Effectiveness Analysis (CEA), and Multi-Criteria Analysis (MCA).

The CBA is the most widely applied and influential method for policy analysis.[56] It requires all the benefits and costs of a project to be expressed in monetary terms, which can sometimes be difficult to achieve. In that case, CEA and MCA can be helpful.[57] Cost-effectiveness analysis (CEA) is used to determine the least costly way to achieve a specific mitigation or adaptation goal. Costs are measured in monetary terms, but benefits can be expressed in any other measures. Projects can be compared based on least cost and other relevant measures (GHG emissions for instance in the case of mitigation). Multi-Criteria Analysis (MCA) integrates financial and non-financial criteria and priorities of different stakeholders to arrive at a scoring and relative ranking of project. MCA often integrates results from CBA or CEA as one of the criteria. In the context of the GCF Project Cycle, the Secretariat assessment can already be considered a form of MCA.

Example of questions that could be answered through the economic analysis

- What are the project's benefits and costs including externalities?
- What are the sources of the benefits and costs: Mitigation? Adaptation? Health? Etc.
- Is the intervention cost effective? Are the economic returns above the social discount rate?

Example of results presentation

The analysis should include a calculation of the Economic Internal Rate of Return (EIRR), the Benefit to Cost Ratio, as well as the Economic Net Present Value (ENPV) of the Net Benefits of the projects.

The Net Benefits here refer to the difference between the benefits and the costs of the project in the case where the project is evaluated against a "no project/no action" baseline; or it refers to the difference between the net benefits of the projects and the net benefits of the baseline scenario in the case of a specific baseline (this case is often relevant for adaptation projects).

The Benefit to Cost Ratio provides information on the "value for money"[58] of the proposed activities and it should be greater than 1. ENPV (also a "value for money" measure) provides information on the net total amount of benefits in present value obtained and it should be positive. The EIRR reflects the returns on the mitigation or adaptation measures at society level and it should be above the discount rate used in the analysis.

---

[56] *https://environment.yale.edu/kotchen/pubs/CBAchap.pdf*

[57] *"Conducting a cost-benefit analysis of adaptation measures", Urban Adaptation Support Tool, Covenant of Mayors for Climate & Energy. 4.2 Conducting a cost-benefit analysis of adaptation measures — Climate-ADAPT (europa.eu)*

[58] *"NSW Coastal Management Manual: Using Cost-Benefit Analysis to Assess Coastal Management Options: Guidance for Councils", NSW Australia Government, 2015.*

This table is an example of the way economic analysis results and indicators can be presented. Such a table should be included in the funding proposal in support of the discussion on the Efficiency and Effectiveness criteria.

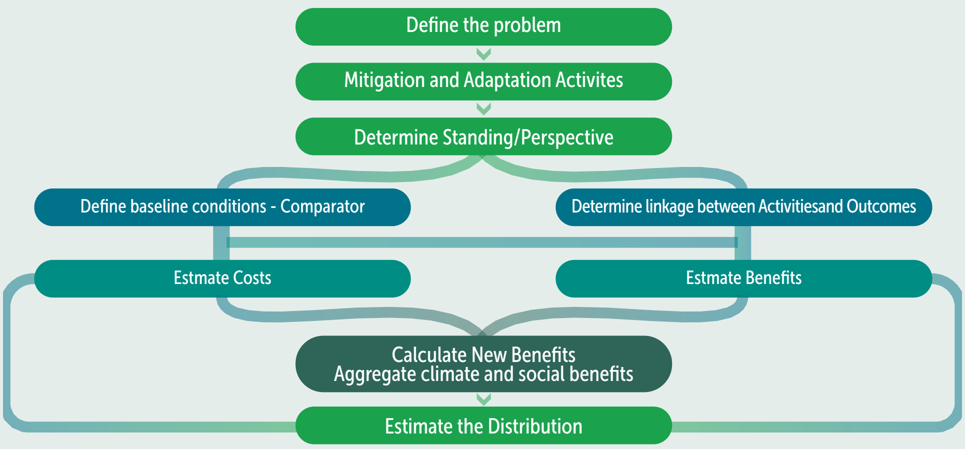
TABLE 2. PRESENTATION OF ECONOMIC ANALYSIS RESULTS (EXAMPLE)

	ECONOMIC COSTS IN PRESENT VALUE (USD)	ECONOMIC BENEFITS IN PRESENT VALUE (USD)	ECONOMIC IRR	ECONOMIC NPV	BENEFIT TO COST RATIO
Activity 1 or Portfolio of Measures 1					
Activity 2 or Portfolio of Measures 2					
Activity 3 or Portfolio of Measures 3					
...					
Total Funding Proposal					

3.2 Main steps

This section presents recommendations on elements to include in a CBA or CEA performed for a GCF Funding Proposal.

FIGURE 5. ENVIRONMENTAL COST-BENEFIT ANALYSIS



Source: Author, based on "Conducting Benefit-Cost Analysis in Low- and Middle-Income Countries: Introduction to the Special Issue", Robinson et al., Journal of Benefit-Cost Analysis, 2019.

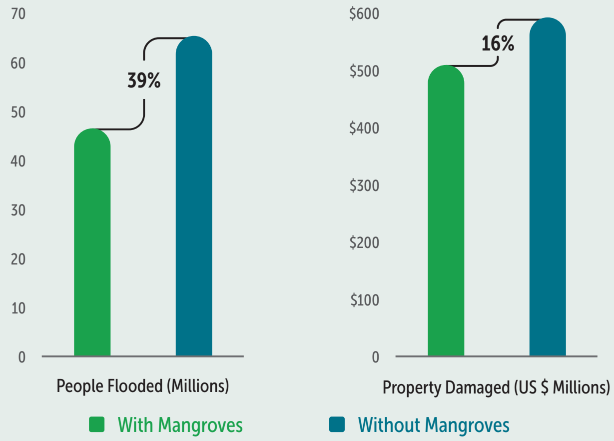
Defining the problem: Consistency with the Theory of Change and climate rationale
The Funding Proposal's Theory of Change and Climate Rationale should be the starting point to identify the specific problem or policy goal the analysis is trying to address (i.e. investing in a low-carbon transport or adaptation of an urban transport infrastructure). The analysis should include all the significant outcomes considered in the Funding Proposal.

Determining the relevant perspective for the analysis and climate narrative
The AE should perform the economic analysis (CBA or CEA) at the spatial and temporal scope of the entire project.

Most of the time, intended climate impacts for adaptation projects are not linked to a specific climate scenario. The AE needs to clearly identify the Representative Concentration Pathway (RCP) it is using to formulate the climate impacts. We recommend the use of at least two climate scenarios and consider benefits and costs for short-term impacts as well as medium- and long-term impacts. This can be performed as well as a sensitivity analysis.[59]

Determining baseline conditions and linkages between activities and outcomes
The economic analysis requires comparing the activities included in the Funding Proposal against a baseline scenario. The baseline is the status quo or the alternative to the mitigation or adaptation project under consideration. A classic baseline is a "no action" scenario that reflects the future if the project is not implemented. Other policies that are already planned will be taking place in this scenario. Only the project is not taking place. Alternatives can be driven by considerations other than climate action. A counterfactual scenario of "minimum action" can also be developed in addition to the "no action" baseline. The number of counterfactual scenarios is not limited and should reflect the expected changes in status quo.

FIGURE 6. ANNUAL EXPECTED DAMAGES WITH AND WITHOUT MANGROVES FROM TROPICAL CYCLONES AND REGULAR CLIMATE



Source: Losada et al., The Nature Conservation,[60] 2018.Analysis, 2019.

[59] *"Scope and limitations of the cost-benefit analysis (CBA) for the evaluation of climate change adaptation measures", Latino Adapta Policy Brief, Gutman, V.; 2019.*

[60] *"The global value of mangroves for risk reduction. Technical Report". Losada, I. J., P. Menéndez, A. Espejo, S. Torres, P. Díaz-Simal, S. Abad, M. W. Beck , S. Narayan, D. Trespalacios, K. Pfiegner, P. Mucke, L. Kirch. 2018. The Nature Conservancy, Berlin.*

In the context of GCF Funding Proposals, the baseline considered for the GHG emissions reductions and the determination of the adaptation impact should be consistent with the baseline considered in the economic analysis.

Economic analysis baseline consistency with climate scenarios and low-carbon development roadmaps

For adaptation projects, the climate narrative considered for the estimation of climate change impacts needs to be in line with the climate scenarios mentioned in the Funding Proposal's climate rationale. The AE should clearly say which Representative Concentration Pathway (RCP) is considered for the climate impacts. We recommend the use of at least two RCPs for the climate impacts and include a sensitivity analysis on climate scenarios.

For mitigation projects, the baseline assumptions in terms of adoption of a mitigation activity or technology should be consistent with low-carbon pathways built using Integrated Assessment Models (IAM) when available. Ideally, such a sector or national roadmap can be referenced in the project country's Nationally Determined Contributions (NDCs), Long-Term Strategies (LTS), or other Low-carbon Development Strategies (LDS).

For the activities assessed in the economic analysis, it is important to clearly understand *the causal pathways*[61] between the Funding Proposal's activities and outcome. For instance, what is the exact contribution of the shift in transport mode to the reduction in GHG emissions? What is the exact way climate-resilient measures can reduce congestion and generate time savings for end-users?

Indicators such as Economic Net Present Value (ENPV) and Economic Internal Rate of Return (IRR) should be calculated on the benefit/cost difference between the baseline and project[62] scenarios. The AE should make sure this difference is solely attributable to the project activities under consideration.

An assessment of other projects and activities planned in the same sector, country, or area is necessary to evaluate what benefits and costs can be attributed to the project and **to avoid double counting**. If overlapping projects are identified, the AE should clarify the measurement, reporting and verification processes that will ensure a correct attribution of benefits.

A clear elaboration of the baseline scenario can compensate for limitations related to the estimations of costs and benefits discussed below. The baseline scenario is key to understanding the economic value of the interventions under consideration in the FP.

Estimation of Benefits and Costs

The distinction between benefits and costs is not always clear, especially when talking about climate economic analysis. For instance, GHG emissions are sometimes included as a cost using a social cost of carbon; but can also be included as benefits (or negative

[61] *"Conducting Benefit-Cost Analysis in Low- and Middle-Income Countries: Introduction to the Special Issue", Robinson et al., Journal of Benefit Cost Analysis, 2019.*

[62] *Also referred to as "factual" and "counterfactual" outcomes in the evaluation literature.*

costs) using the same social cost of carbon when quantifying the benefits of reducing emissions in comparison with a baseline.

It is important to categorize costs and benefits in a homogenous way. A useful framework to ensure consistency of benefits and costs is to separate inputs and outputs. Costs are the required investments to implement the mitigation or adaptation activity. Benefits are the outputs or outcomes of the activities. The project can result in some costs, but these can be categorised as negative benefits if it serves to improve the narrative. This framework is consistent with the way the Theory of Change is often presented in Funding Proposals.

Costs are the required investments and inputs to implement the mitigation or adaptation activity. The AE should include at least two categories of costs: (i) onetime investment costs such as infrastructure construction costs, noise protection, flood protection, etc.; and (ii) recurrent costs such as operation and maintenance costs (O&M), the progressive loss of jobs and production due to climate change.[63] During the initial GCF investment period, these costs are usually closely aligned with GCF and co-financing amounts presented in FP **Annex 4** – Detailed Budget Annex. For the remainder of the investment lifetime, these costs should reflect ongoing amounts necessary to ensure the project/programme continues to deliver the projected adaptation and/or mitigation benefits. Costs should also include any negative externalities generated by project activities such as air quality costs due to dust during the construction phase.

Alignment of the economic analysis cost assumptions with the Budget

The cost assumptions used for the economic and financial assessment need to be consistent with Funding Proposal **Annex 4** – Detailed Budget Annex.

Although we do acknowledge that some of the costs in the economic and financial analysis might not be included in the budget, for any investment or O&M cost that will be funded under the project, GCF expects full consistency with the budget.

The benefits to be considered in the analysis will depend on the perspective and the stakeholders. Stakeholders can directly or indirectly benefit from the activity under consideration.

Benefits are the outputs or outcomes of the activities. As mentioned previously, the benefits to be considered in the analysis will depend on the perspective and the stakeholders. Stakeholders can benefit from the activity under consideration directly. For instance, if the activity aims at recharging a depleting aquifer,[64] farmers will directly benefit as they use the water for irrigation. Direct benefits can then be subdivided into marketable and non-marketable benefits. For goods and services to be included in

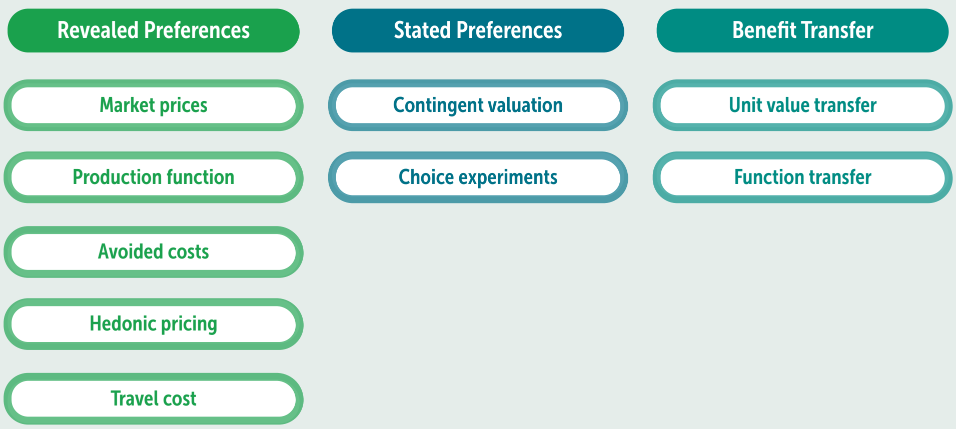
[63] *"Using ecosystem services to underpin cost-benefit analysis: Is it a way to protect finite soil resources?", Greenhalgh and al., Ecosystem Services Journal, 2017.*

[64] *"Assessing the Economic Viability of Alternative Water Resources in Water-Scarce Regions", Birol, Koundouri, and Kountouris, International Food Policy Research Institute, 2015.*

an economic analysis, they need to have a monetary value. In the case of the aquifer recharge example, the benefit farmers get from increased yield due to irrigation can be quantified directly as the harvest can be sold in a market and they are therefore marketable. Taking the example of a transportation project, potential benefits could be travel time, traffic safety, and reduction in noise and air pollution; yet non-market benefits need to be indirectly estimated as there is no market for travel time. These are then considered as non-marketable benefits that require estimation. Projects can also include indirect benefits. In the example of the aquifer recharge project, local communities might benefit indirectly by consuming locally produced food.

Valuing climate mitigation or adaptation benefits and costs requires the use of revealed-preference or stated-preference methods. As much as possible, AEs should use revealed-preference valuation methods. Revealed preference methods estimate the value of non-market outcomes based on the prices paid for related market goods. Stated-preference methods estimate these values based on survey data. For example, the value of water saving benefits can be calculated using the price of water. However, a survey can also be used to ask farmers how much they would value an increase in water quality in a context without a price on water. AEs should explore stated-preference methods as part of the Project Preparation Facility support. A party can also benefit when it does not have to bear a cost. This is the avoided-cost approach[65] to evaluating benefits. For instance, the owners of coastal properties that would be damaged due to coastal erosion would benefit from management options that would reduce the risk of erosion. It is important to also factor in the co-benefits of climate mitigation and adaptation such as changes in time-use valuation[66] and health benefits.[67]

FIGURE 7. ENVIRONMENTAL BENEFITS VALUATION METHODS



Source: Authors.

[65] *"NSW Coastal Management Manual: Using Cost-Benefit Analysis to Assess Coastal Management Options: Guidance for Councils", NSW Australia Government, 2015.*

[66] *"Valuating changes in time use in low- and middle-income countries", Whittington, Dale, and Joseph Cook; Journal of Benefit-Cost Analysis; 2019.*

[67] *A detailed presentation of the methodology for quantifying non-monetary costs and benefits using shadow pricing techniques like those described above is beyond the scope of this Handbook.*

Prices used to evaluate benefits and costs

For the estimates of the economic benefits, prices should not include taxes or subsidies. This is necessary to reflect the true costs and benefits to society. Economic benefits and costs usually include proxies of values for non-marketable goods called "shadow prices".[68] For instance, the social cost of carbon used to monetise the mitigation benefits under the project should be aligned with the recommendation of the High-Level Commission on Carbon Prices.[69] Please refer to the financial analysis section for information on elements that should not be included in the economic analysis.

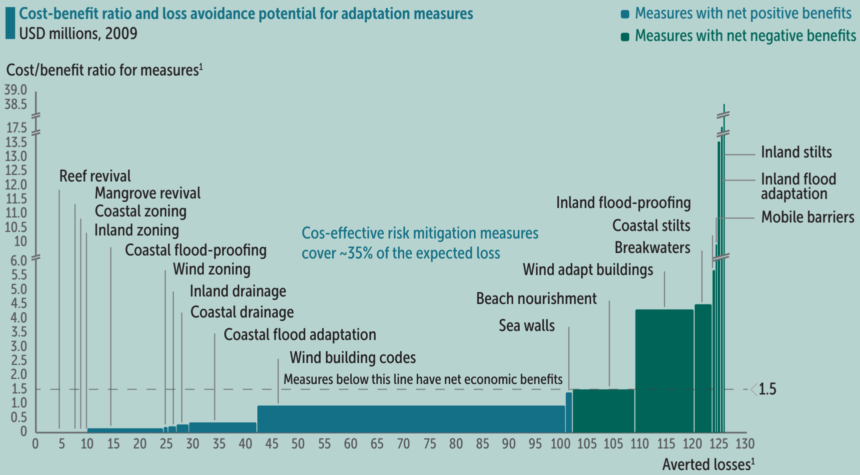
When an Integrated Assessment Model (IAM) was computed in the project's country as part of the Nationally Determined Contribution (NDC), Long-Term Strategy (LTS), or sector or national decarbonization roadmaps and strategies, the AE should use the social cost of carbon developed under these analyses.

The Value of Benchmarking

In the context of the GCF project approval cycle, Economic Analysis is fundamentally a tool to assess the cost effectiveness of the mitigation and adaptation measures considered in the funding proposal. The AE will compare the project primarily through the baseline and counterfactual scenarios. However, there could be situations where multiple counterfactuals are possible.

The Caribbean Catastrophe Risk Insurance Facility[70] (CCRIF) provides an example for the Caribbean countries using the concept of "Adaptation cost-benefit curves". The study compares adaptation measures based on their averted losses and cost-benefit ratios.

FIGURE 8. EXAMPLE OF ADAPTATION COST-BENEFIT CURVE FOR BARBADOS



1 Does not account for synergies and dis-synergies between measures (e.g. building seawalls behind a breakwater)

Source: CCRIF, 2010.

[68] *Shadow Pricing - Overview, Varying Definitions, & Example (corporatefinanceinstitute.com)*

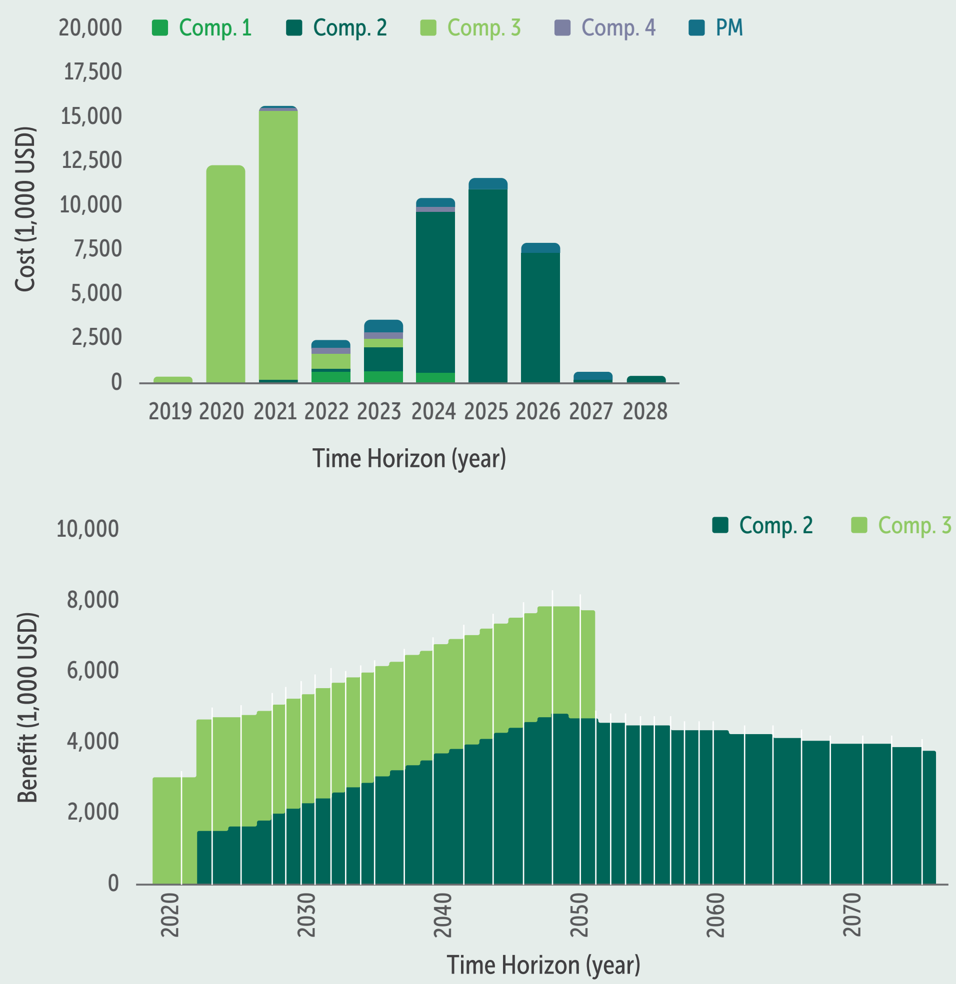
[69] *https://static1.squarespace.com/static/54ff9c5ce4b0a53decccfb4c/t/59b7f2409f8d ce5316811916/1505227332748/CarbonPricing_FullReport.pdf*

[70] *"Enhancing the climate risk and adaptation fact base for the Caribbean", CCRIF, 2010.*

Time horizon of the analysis

AEs should consider the lifespan of each activity based on its benefits and costs. The choice of the analysis indicators can be impacted by the nature of the project where cashflows occur over several decades. The AE should consider the timeline that is consistent with the useful life of the infrastructure or policy under consideration.

FIGURE 9. EXAMPLE OF REPRESENTATION OF BENEFITS AND COSTS TIMING BASED ON FP165 EFA SUBMISSION PACKAGE



Source: FP165 "Building Climate Resilient Safer Islands in the Maldives", JICA. Project approved at B.29. Full EFA package available here: GCF/B.29/02/Add.01 : Consideration of funding proposals - Addendum I Funding proposal package for FP165 | Green Climate Fund.

Social Discount Rates

Benefits and costs extend over long time periods. They are converted into present values using a measure of the social discount rate. The higher the discount rate, the more important the present is at the expense of the future.

There is no professional consensus on what social discount rate should be used for climate adaptation and mitigation projects. The appropriate response to this level of uncertainty is therefore to choose a discount rate, provide a justification for it, and conduct sensitivity analysis.

O'Mahony (2021) shows that the discounting guidance in many OECD[71] countries for projects is shifting towards: (i) the use of a lower discount rate over the short- to medium-term; and (ii) the use of declining discount rates over the long-term. The United Kingdom's Green Book (2018) recommends declining interest rates for projects with more than a 125-year life span.

The AE should use the social discount rate it deems relevant and provide references. However, the social discount rate can be different from the financial cost of capital as it reflects society's time preference and not only the activity. Public mitigation and adaptation projects are meant to maximize social and environmental benefits and therefore might not be directly comparable with for-profit investments. This explains why social discount rates are typically lower than financial discount rates in developing economies.

Tips and Good Practice

- Consider structuring the spreadsheet model with one tab for all the key parameters and assumptions, and then link to these in the formulae to reduce the potential for transcription errors in subsequent calculations.
- Be sure to include formulae in the cells rather than hard-coded values. This will make it easier for the GCF reviewer to follow the logic of the analysis and potentially reduce the number of follow-up questions
- Include references for all key parameters.
- Include all project costs presented in the budget – if these costs are not considered necessary to generate the project's benefits, then one could ask whether they should be part of the budget request.
- Ensure the projected benefits reflect the Theory of Change.

3.3 Additional Recommendations

Comparing values across countries and over time

To allow country comparison[72] in the case of Funding Proposals covering multiple countries over time, some conversions are recommended: (1) an inflation adjustment to account for economy-wide price changes; (2) an exchange rate adjustment to reflect the relative value of the different currencies; and (3) a discount rate adjustment to account for time preferences and GDP levels across countries.

Dealing with Uncertainty: Scenario and Sensitivity Analysis

Uncertainty poses a significant challenge in assessing climate mitigation and adaptation projects. One way to deal with uncertainty is scenario and sensitivity analysis.

A simple way to perform scenario analysis is to use a "maximum-minimum approach" or "optimistic-pessimistic" approach. Such an approach identifies upper and lower boundaries for the key parameters of the analysis. Other scenarios can also be identified by varying the degree of climate outcomes such as GHG emissions reductions or degrees of adaptation.

---

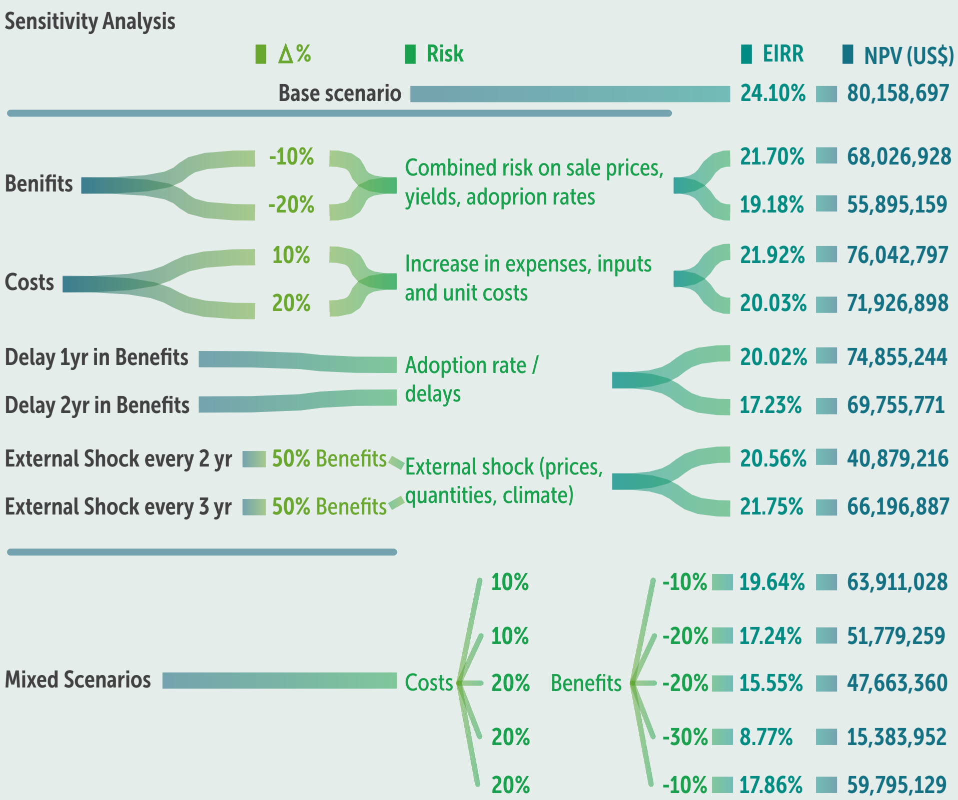
[71] *"Cost-Benefit Analysis and the Environment", the OECD, 2018.*

[72] *"Reference Case Guidelines for Benefit-Cost Analysis in Global Health and Development", Harvard T.H. Chan School of Public Health, 2019.*

Such scenarios can then provide input for sensitivity analysis of outcomes of the economic assessment such EIRR, ENPV, or BCR.[73]

The analysis should include a sensitivity analysis on main parameters such as: carbon prices, value of time, fares and tariffs, rate of increase of the demand for the services or goods in question in the project, over time,[74] and discount rate. As mentioned previously, one of the key parameters of economic analysis is the social discount rate. AEs are encouraged to perform sensitivity analysis at least on the social discount rate. We suggest performing a sensitivity analysis for a discount rate equal to twice the per capita growth rate of the country under consideration[75] in line with the recommendation of the *Journal of Benefit Cost Analysis* "2019 Special Edition on Benefit Cost Analysis in Middle and Low-income countries".[76]

FIGURE 10. EXAMPLE OF SENSITIVITY ANALYSIS WITH CLEAR JUSTIFICATION BASED ON FP155



Source: FP155 "Building resilience to cope with climate change in Jordan through improving water use efficiency in the agriculture sector (BRCCJ)", Project approved at B.28. Full EFA package available here: GCF/B.28/02/Add.02 : Consideration of funding proposals - Addendum II: Funding proposal package for FP155 | Green Climate Fund.

[73] *"Economic approaches for assessing climate change options under uncertainty – Excel tools for Cost-Benefit and Multi-criteria Analysis", GIZ, 2013.*

[74] *Detailed guidance on how to evaluate each benefit is available in the European Commission (EC) "Guide to Cost-Benefit Analysis of Investment Projects", 2014. cba_guide.pdf (europa.eu)*

[75] *This value is a simplistic approximation of Ramsey's rule with a social rate of time preference of zero and an elasticity of the marginal utility of consumption of 2.*

[76] *"Standardized sensitivity analysis in BCA: An education case study", Pradhan and Jamison, Journal of Benefit-Cost Analysis, 2019.*

Understanding distributional impacts
Distributional impacts refer to how different income groups incur costs and receive benefits from the project. It is important to understand the interplay between project activities and "poverty alleviation or social inclusion strategies".[77]

Many GCF projects target vulnerable communities. Yet it is not easy to capture the effect of the activities under consideration on specific communities through the economic analysis.[78] It is therefore important to try to estimate the distribution of impact across the groups identified in the economic analysis (business size, income, age, region, etc.). These groups can include local communities, business, or government depending on the context. Ultimately the availability of information will dictate the ability of the AE to perform such analyses.[79]

The theoretical underpinnings of Cost-benefit analysis generally ignore which segments of a population may be on the receiving end of the costs and benefits, leading to an inequitable result. Using distributional weights can help avoid this problem, where weighting factors are applied to reflect the relative income levels of those affected by the costs or benefits of an investment.

4. FINANCIAL ANALYSIS

The financial analysis should evaluate the relative financial performance of activities under consideration in the Financial Proposal with and without the GCF contribution. For revenue-generating activities, the financial analysis informs the assessment of the following criteria:

LONG-RUN FINANCIAL VIABILITY (FIRR)

POTENTIAL TO CATALYSE INVESTMENT

FINANCIAL ADEQUACY AND APPROPRIATENESS OF CONCESSIONALITY

Example of questions that could be answered through the financial analysis

- Are the project activities profitable for the beneficiaries without GCF?
- Is GCF concessionality used appropriately? What happens if other financial instruments are used to finance the Funding Proposal's activities?
- What happens after the project is over? How does financial profitability impact the potential for scalability of the activities under the project?

---

[77] *"Economic approaches for assessing climate change options under uncertainty – Excel tools for Cost-Benefit and Multi-criteria Analysis", GIZ, 2013.*

[78] *"Conducting Benefit-Cost Analysis in Low- and Middle-Income Countries: Introduction to the Special Issue", Robinson et al., Journal of Benefit Cost Analysis, 2019.*

[79] *"NSW Coastal Management Manual: Using Cost-Benefit Analysis to Assess Coastal Management Options: Guidance for Councils", NSW Australia Government, 2015.*

Example of results presentation

Below is an example of a simple presentation of financial analysis conducted at the level of beneficiaries:

TABLE 3. PRESENTATION OF FINANCIAL ANALYSIS RESULTS (EXAMPLE)

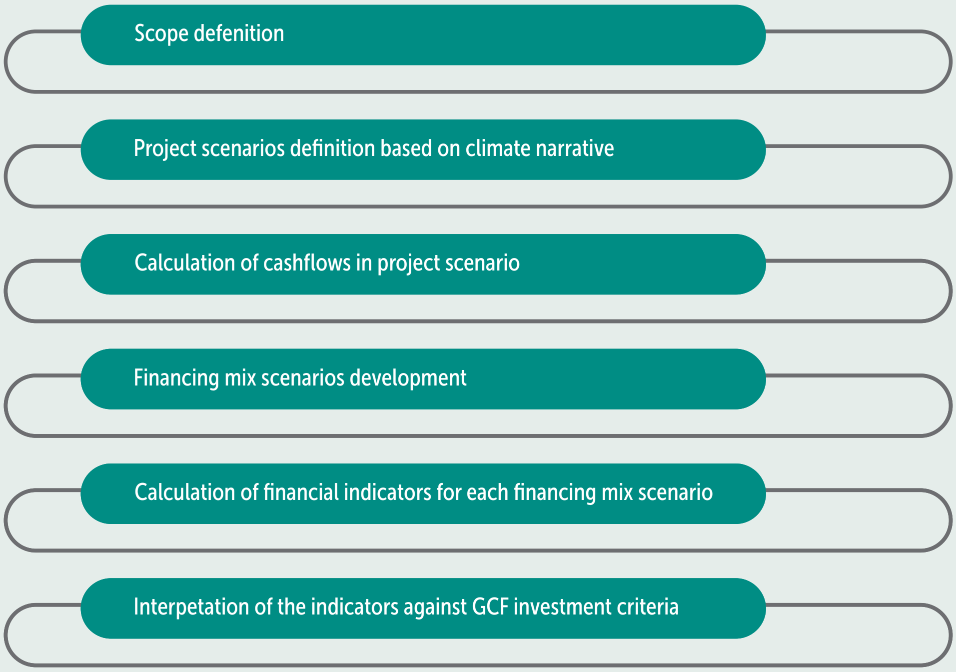
EXAMPLE OF ACTIVITY	EXAMPLE OF PERSPECTIVE	NPV		IRR		PAYBACK PERIOD		DEBT SERVICE COVERAGE RATIO	
		Without GCF	With GCF	Without GCF	With GCF	Without GCF	With GCF	Without GCF	With GCF
Solar PV	Farmer association								
Irrigation	Municipality								
Climate resilient seeds	Farmer family								
Etc.									

The results of the financial scenario analysis should be included in the funding proposal in Section D: Effectiveness and Efficiency. The results should be discussed with the objective of reaching a conclusion on appropriateness of instruments used in the FP to finance the activities as well as the sustainability of these activities in the long run.

4.1 Main steps

The AE is encouraged to perform the financial analysis following the steps described below.

FIGURE 11. FINANCIAL ANALYSIS SUGGESTED STEPS



Defining the scope

A financial analysis[80] considers the costs, revenues, and profits from the activities in the Funding Proposal (FP). The analysis is carried out based on available market prices only as opposed to the economic analysis that also includes non-market prices.

A financial analysis is carried out from the perspective of the main beneficiary as opposed to economic analysis that is carried out from the perspective of the entire economy.

The analysis should be performed at the relevant scope, or multiple scopes, depending on the FP's Theory of Change. Examples could be a municipality or a project developer. The AE should provide a financial analysis for each type of beneficiary.

Determining project cashflows and scenarios

The next step is to identify all the project activities and the associated costs and income streams and estimate cashflows for each project scenario. The cost is the sum of variable and fixed costs. Variable costs refer to the costs that change according to level of output of the activity and fixed costs to those that do not, such as interest repayment, taxes, etc.

The AE should collect data on unit cost of inputs and price of outputs. These prices may be obtained from many sources. We encourage the AE to include prices directly collected from the project area to avoid distortions.

[80] *Based on the recommendation formulated by Cubbage et al. (2015) "financial and Economic Evaluation Guidelines for International Forestry Projects".*

The appropriateness of concessionality should be assessed on the cashflows of a project's activities, not on the incremental difference between the activities and the baseline alternative.

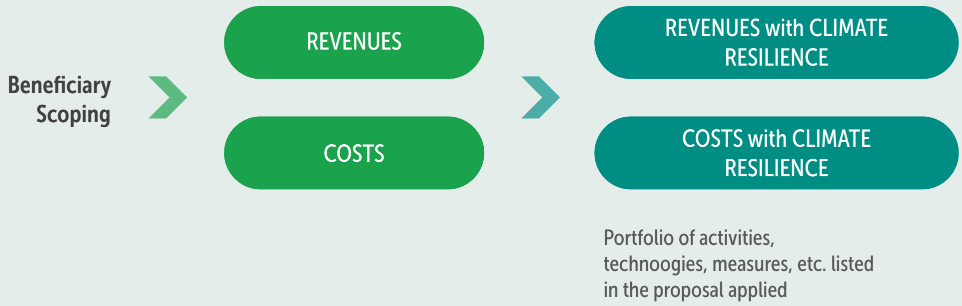
It can, however, be interesting to perform a financial analysis for the baseline or counterfactual activity. This is often the case when affordability questions are in play. In the case of fares, tariffs, or tolls, these could be calculated as outputs of the financial analysis and discussed in the funding proposal. For instance, the AE can present a fare of a public transport mode with and without GCF concessional funding.

For adaptation projects, or project components, the AE should consider two scenarios:

- A first scenario where the transport service is provided without the adaptation investment. In this case, climate change should affect its quality of service and result in lost income or decreasing cashflows as climate impacts worsen. The assumptions used in this section need to be fully aligned with the Theory of Change and climate narrative developed in the FP.
- A second scenario where the transport service is provided after the adaptation investment is implemented. In this case, the beneficiary takes advantage of the climate resilience investment with resulting stable or increasing cashflows.

The cashflows of the second scenario are the basis of the financial analysis.

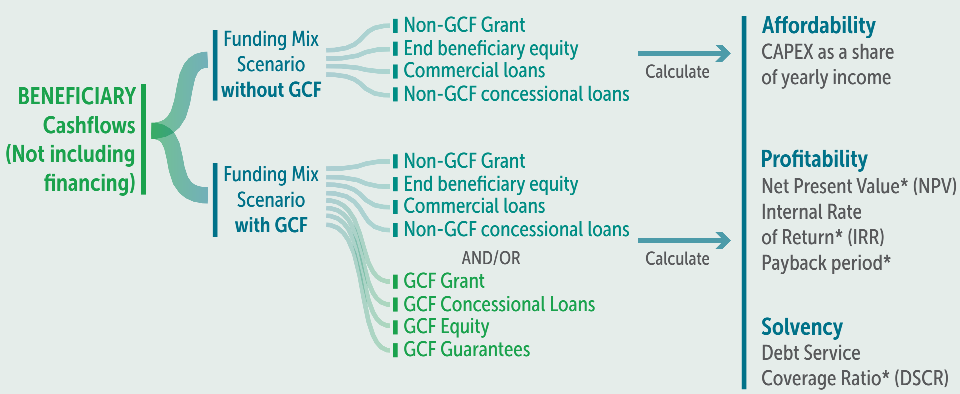
FIGURE 12. CASHFLOWS BUILDING AND ADAPTATION SCENARIOS



Calculating the financial indicators

The AE should calculate capital budgeting criteria for the activities under consideration. GCF requires the calculation of Net Present Value (NPV), Internal Rate of Return (IRR), and payback periods.

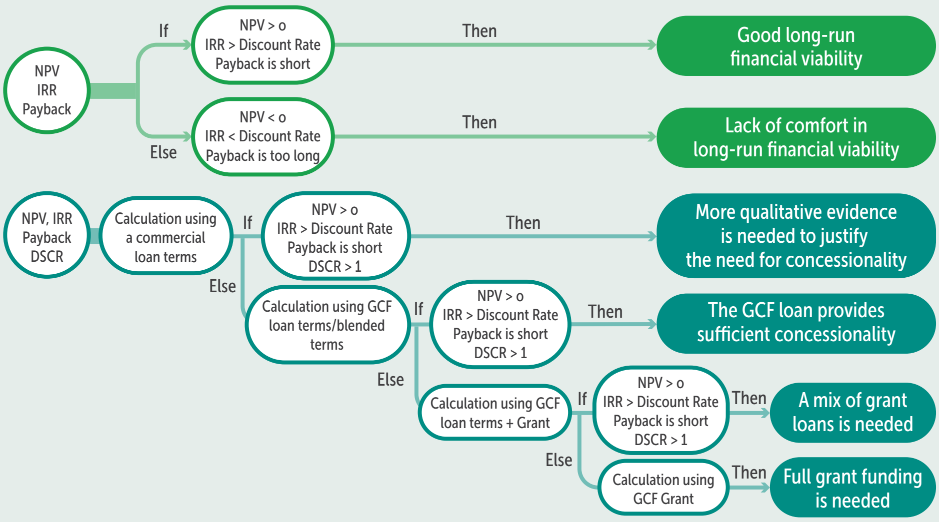
FIGURE 13. FINANCIAL SCENARIO ANALYSIS AND THE APPROPRIATENESS OF CONCESSIONALITY



Projects or activities are profitable if the NPV is positive and the IRR is above the discount rate used in the analysis. The AE should also calculate other relevant profitability[81] and solvency[82] indicators for each scenario such as the payback period for each activity. The analysis should demonstrate that the payback period is short enough to ensure the commitment of the end beneficiaries to the activities.

FPs involving debt financing should provide a calculation of the Debt Service Coverage Ratio (DSCR) under each scenario. The analysis should demonstrate that the DSCR is above 1. An interesting analysis would be to study the effect of GCF concessionality on the DSCR by calculating a DSCR with and without GCF. Below is an example of the interpretation of the results of the financial analysis.

FIGURE 14. INDICATIVE EXAMPLE OF FINANCIAL ANALYSIS RESULTS INTERPRETATION[83]



The discount rate in the context of the financial analysis refers to the cost of capital of the entity that will implement the activity. For instance, if the entity is a company, project sponsor, or municipality, the appropriate cost of capital is the Weighted Average Cost of Capital (WACC).

AEs should perform sensitivity analysis on key inputs costs, output prices, and discount rates. As the distribution probability of specific parameters is not available in most cases, AEs should consider introducing optimistic and pessimistic scenarios for key parameters. **Annex 3** of the FP package should also include a discussion on uncertainties over NPVs and IRRs.

---

[81] *The ability of a project to generate revenues in excess of its expenses.*

[82] *The ability of a project, company, or individual to meet its debt and other financial obligations.*

[83] *This flow chart is for illustration purposes only and does not reflect the actual decision-making process in the context of the GCF project approval cycle. The purpose of this illustration is to guide the AE in interpreting the outcome of the financial analysis in relation to the efficiency and effectiveness investment criteria.*

The following elements[84] should be factored into the financial analysis BUT NOT into the economic analysis:

- Interest payments
- Residual value (the value of the activity/investment at the end of the timeframe).
- Depreciation (an accounting item that represents the decline in the value of an asset).
- Transfer payments (if they do not have an impact on the overall welfare of society).
- Taxation and subsidies
- Sunk costs (not included in the economic analysis as they have already been incurred and should not affect new investments).

FIGURE 15. EXAMPLE OF FA RESULTS SUMMARY FOR ADAPTATION PROJECT TARGETING SUBSISTENCE FARMERS

		Commercial loan 18% p.a. 5yrs	50% Grant 50% Loan	100% Grant	100% Reimbursable Grants (5 years)
Package 1	IRR	18%	21.7%	24.2%	43.6%
	NVP	1.87	860	1.718	448
	Payback	7	6	5	3.5
Package 2	IRR	26.0%	24.8%	27.0%	N/A
	NVP	224	167	281	4,216
	Payback	5	4.3	4.3	3
Package 3	IRR	5.2%	11.5%	N/A	81.4%
	NVP	(6,841)	(4,308)	26,359	7,006
	Payback	7.5	6.8	-	5.0
Package 4	IRR	8.9%	14.8%	N/A	225.0%
	NVP	(1,313)	(589)	8,187	2,649
	Payback	7	6	-	2

Source: GCF Project Submission Package.

[84] *"NSW Coastal Management Manual: Using Cost-Benefit Analysis to Assess Coastal Management Options: Guidance for Councils", NSW, Australia Government, 2015.*

*: *Qualitative evidence such as analysis on access to finance and availability of credit can help identify barriers to finance that do not relate to profitability. Financial incentives and concessionality can still be an effective tool to accelerate the adoption of an activity or technology in context where risk perception or other barrier are hindering adoption.*

,**Tips and Good Practice**

- Consider structuring the spreadsheet model with one tab for all the key parameters and assumptions, and then link to these in the formulae to reduce the potential for transcription errors in subsequent calculations
- Be sure to include formulae in the cells rather than hard-coded values. This will make it easier for the GCF reviewer to follow the logic of the analysis and potentially reduce the number of follow-up questions
- Include references for all key parameters

Elements that should be included in the spreadsheet and narrative document
GCF expects the financial analysis to include the following critical elements:

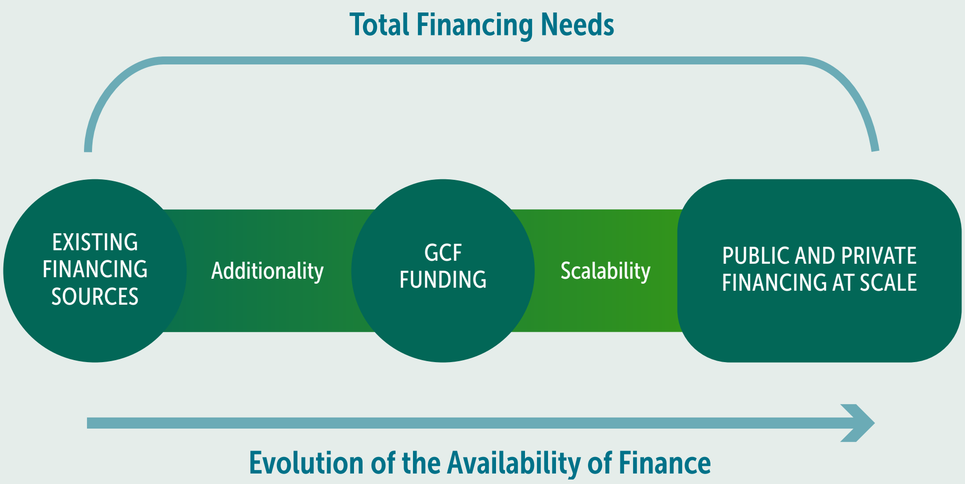
- The perspective of an identified beneficiary/investor perspective (i.e. farmer family, forest concession operator, cookstove users, PV minigrid operator, producer cooperative)
- The financing structure described in the Funding Proposal
- Estimations of incremental costs
- Calculations of the weighted average cost of capital for the beneficiary/investor
- Reasonable and justifiable assumptions
- Demonstration of viability/non-viability with and without GCF financing
- Sensitivity analysis
- Financial incentives of all parties aligned to the objectives of the project/programme
- Revenues sufficient to sustain investment

LINKAGES WITH OTHER ELEMENTS OF THE FUNDING PROPOSAL PACKAGE

FP **Annex 2** – Feasibility Study

A financing gap analysis improves understanding of the overall funding conditions in the FP's country and sector. It provides a context for EFA and contributes to assessing the proposal's paradigm shift potential from a financing perspective.

FIGURE 16. EVOLUTION OF THE AVAILABILITY OF FINANCE



AE should consider adding a financing gap analysis to the "**Annex 2** Feasibility Study" submission document including:

- An estimation of overall financing needs for the mitigation and adaptation activities under consideration in the proposal.
- The financing available to the climate mitigation and adaptation activities under consideration in the FP.
- The barriers (collateral requirements, bureaucracy, interest rates, tenors, etc.) and determinants of access to finance for the beneficiaries considered in the Financial Proposal (age, gender, size of the company, etc.).

For facilities addressing early stage companies, we recommend that the feasibility study include an analysis of the existing government support schemes for early-stage companies in the countries under consideration as well as venture capital market size.

For facilities with a bond component, we recommend that complementary analysis includes insights on bond markets (size, share of green bonds, existence of bond frameworks, etc.). This analysis would inform the sizing of the facility for bonds. We also recommend an estimation of the contribution of the bond market to the overall needs calculated for the activities under consideration.

The estimation of the overall needs for the activities in the proposal would inform the "scalability" potential of the activities implemented under the project.

Understanding the overall financing available in the country and the conditions/determinants of access to finance will help understand how the project enables further financing by other institutions.

See EFA ANNEX I for more details on how to develop such an analysis.

FP **Annex 4** – Detailed Budget Annex

The timing and amount of project costs and benefits in the economic and financial analyses (**Annex 3** of the FP package) should be aligned with the proposed annual budget costs presented in **Annex 4**. They should also take into account any lags in the expected expenditure and be able to observe/quantify the mitigation or adaptation benefit. Any subsequent change to the timing or amounts in FP **Annex 4** should be reflected in an updated FP **Annex 3**.

FP **Annex 5** – Implementation timetable

The quantity of project costs and benefits in the economic and financial analyses (**Annex 3**) should be aligned with the proposed implementation timeline in **Annex 4**. One would not expect to see mitigation benefits from a PV mini-grid in FP **Annex 3** while the implementation timetable says that construction activities are still underway.

FP **Annex 22** – GHG calculations

The calculation of GHG emissions/reductions in FP **Annex 22** directly informs the non-marketable benefits presented in **Annex 3** calculated using the social cost of carbon. Similarly, these calculations should be aligned with the potential value of any REDD+ or other GHG credit sales that occur as part of the project activities. Any revisions to the calculations in FP **Annex 22** should be reflected in FP **Annex 3**.

Funding Proposal sections

The results of the EFA should be included in sections B.5, B.6, D.4 and D.6 of the Funding Proposal.

EFA ANNEXES

EFA ANNEX I: Multi-Criteria Analysis

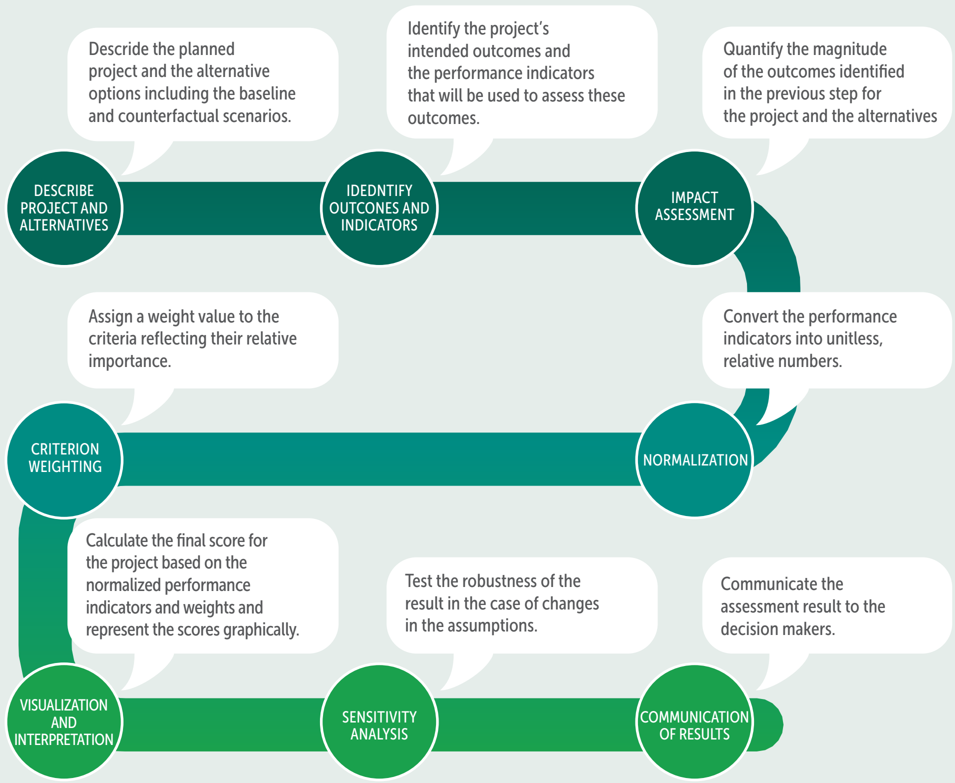
As mentioned in the previous sections of this document, the Cost Benefit Analysis (CBA) or Cost-Effectiveness Analysis (CEA) would not account for investment criteria that are difficult to monetize. This is the reason that GCF Funding Proposals are evaluated according to multiple investment criteria.

If they wish to, Accredited Entities (AE) could adopt a Multi-Criteria Analysis (MCA) in addition or in parallel to a CBA or a CEA.

The MCA is not a mandatory analysis under the GCF project cycle. The AE should only undertake an MCA if it considers that important decision elements not already captured in the GCF investment criteria are necessary for the investment decision.

Below, a figure extracted from Huging et al. 2014 summarizes possible steps for an MCA in the context of an urban mobility project.

FIGURE 17. AN APPROACH TO MCA STEPS FOR CITIES BY HUGING ET AL. 2014[85]



Source: Authors, based on Huging et al. 2014, page 8.

[85] *Huging, Glensor, and Lah "Need for holistic assessment of urban mobility measures – Review of existing methods and design of a simplified approach", Transportation Research Procedia 4, 2014.*

Huging et al. (2014) recommend including the CBA as one of the criteria of the MCA by allocating a score and weight to the CBA results similarly to the other criteria. This is also the way economic analysis is included in the GCF approval process. However, the AE is free to consider the MCA in parallel to economic analysis.

For GCF Funding Proposals, the economic analysis (CBA or CEA) has to be included separately and the results need to be discussed in detail in the FP main document as well as part of the Annex III submission. **An MCA cannot substitute the required economic analysis but would be supplementary to it.**

If the AE choses to perform a separate MCA, it should explain in detail the scoring methodology as well as the criteria weighting process. For more guidance, see Huging et al. (2014) as well as the Analytical Hierarchy Process (AHP) developed by Saaty (1977).

EFA ANNEX II: Facility Financial Modelling for Multi-Country Programmes

This section provides ideas and recommendations on financial analysis supporting multi-component, multi-financial instrument Funding Proposals (FPs). The financial analysis for such programmes should allow the review team to understand the overall functioning of the facility through the modelling of the Profit and Loss, Cashflow, and Balance Sheet statement of each facility and in aggregate.

For greater clarity, the FP should consider including the following elements in the analysis for the grant, loan, and bonds elements:

- **For the reimbursable grant component:** disbursement schedule, replenishment schedule (and cash flow statement if reimbursable grant).
- **For the loan facility:** business plan of the facility including profit and loss, cash flow, balance sheet and the relevant financial indicators.
- **For guarantee facility:** duration of the fund, guarantee volume, fee structure, coverage, interest income, and business plan of the guarantee facility.

ANNEX VII

SIMPLIFIED APPROVAL PROCESS (SAP) TOOLKIT

The objective of this annex is to provide specific guidance on how the Simplified Approval Process (SAP) differs from the regular Proposal Approval Process (PAP) and present a dedicated toolkit for streamlining and ensuring consistency of SAP reviews among all the actors involved in the review process. It specifies the Standard Operating Procedures (SOPs) that apply to the review of the SAP and the SAP-specific criteria that the CIC will apply towards the consideration of SAP proposals.

To be eligible for the SAP, a proposal should meet the eligibility criteria set by decision B.32/05. Namely, projects and programmes eligible for SAP are those that:

a. Request a GCF contribution of up to USD 25 million; and
b. Entail environmental and social risks and impacts that are classified as minimal to none.

This annex is composed of two parts:

a. SAP concept note and funding proposal review toolkit;
b. SAP Standard Operating Procedures.

SAP CONCEPT NOTE AND FUNDING PROPOSAL REVIEW TOOL

Introduction and Purpose

The objective of the SAP Review Tool is to support the implementation of decision B.32/05, by contributing to **streamlining the GCF Secretariat's SAP review process**, and therefore making it more **predictable and efficient** with a substantial reduction in the time to review SAP CNs and FPs. The Tool will also **provide AEs with transparency on the expected "quality standards at entry"**. By informing the AEs of the key elements to which Secretariat reviewers pay attention, the Tool is consequently expected to contribute to reducing the AE's project preparation time and efforts.

This Tool is not intended to substitute the judgment of specialists and experts from the Secretariat or independent Technical Advisory Panel (TAP), its objective is **to support their appraisal by guiding the focus of the reviewers to the essential elements that constitute "quality at entry"** of any SAP proposal. Therefore, this tool streamlines the entire SAP appraisal process.

The Tool will support reviewers, including the independent TAP, in their review of SAP projects and programmes to ensure consistency with GCF policies. The checklist will help standardize the review of SAP concept notes (CNs) and funding proposals (FPs) across different review teams and reviewers. The ultimate aim of the checklist is (i) to limit the number of rounds of reviews the Secretariat returns to the AE/NDA with the specific goal to limit SAP to only one round of feedback; and (ii) to consolidate the feedback from all the Secretariat reviewers to the AE in one single submission. The checklist will also train, provide guidance and support to the consultants assigned from the SAP firms that have been procured to increase the capacity of the Secretariat in the review of SAP concept notes and funding proposals.

Overall, the review tool will **ensure a greater level of consistency** of the SAP reviews, independent of the task teams/reviewers assigned to its assessment.

The checklist will also support Accredited Entities (AEs), National Designated Authorities (NDAs) and Focal Points and stakeholders at the national or local levels to better understand the quality standards expected at entry for SAP proposals. Therefore, the checklist can be used to aid the preparation of SAP CNs and FPs.

The Tool is a living document, and at the time of this publication is currently being revised. The Tool and its updates can be found at this weblink.

Specific queries on the Tool and other SAP resources can be addressed to the GCF SAP Team at the following email: sap@gcfund.org.

Table 1 is an extract from from the full version of the SAP Review Tool publication reported in the link above, which remains the guiding document for the review of **SAP concept notes and funding proposals** that will be updated overtime and to which the AEs, NDAs/FPs and GCF stakeholders involved in the preparation and review of SAP proposals should refer to.

TABLE 1. SAP REVIEW CHECKLIST - FUNDING PROPOSAL VERSION

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
A. PROJECT/ PROGRAMME SUMMARY						
Overall completeness of the FP package						
Has the Accredited Entity submitted all relevant documents (including Term sheet) according to the completeness checklist?						
Overall consistency						
Are there any inconsistencies in basic information presented in the Funding proposal and/or its annexes (including currency and budget, tonnes of GHG emissions to be avoided/sequestered, number of direct/indirect beneficiaries)?						
Project/Programme Summary Items						
Is the information provided in the summary section consistent with that provided in other sections/annexes of the Funding Proposal?						
A.2. Environmental and Social safeguards						
According to the information provided by the AE, and in alignment with GCF Environmental and Social Policy and Safeguards, can the project be confirmed to correspond to an Environmental and Social Safeguards Category C or I/3?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
A.6. GCF Results area: mitigation/adaptation						
Is the percentage of funding indicated for adaptation/mitigation consistent with the GCF result area(s) indicated in the funding proposal? Do the sums for GCF and Co-financing add up to 100 per cent?						
A.8. Total GCF and co-financed investment						
Is the total investment (GCF + co-financing) clearly indicated?						
Is the requested GCF financing less than USD 25 million?						
A.14. Scalability and potential for transformation						
Does the FP clearly explain how the proposal will scale up activities and interventions that have been proven to be successful in the context within which they are proposed or in the context of countries or regions of operations that have similar physical, social and economic conditions to the proposed project or programme area?						
Is the project scaling-up and/or supporting a follow-on phase of a project/programme?						
Has the project from which this investment is scaling up been supported by any of these donors? If yes, which one(s)? The Adaptation Fund (AF) The Global Environmental Facility (GEF) One of the Climate Investments Funds (CIFs) National co-funding Another donor. Please specify which one:___________________________						
A.15. Rationale, objectives and approach:						
Does the narrative clearly and concisely summarize the project/programme's climate rationale, purpose and activities, climate impacts, the rationale for GCF funding, and the justification for the chosen financial instrument?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Is the information provided in this summary consistent with the relevant project and programme details in Section B and Financing information in Section C?						
B. PROJECT/ PROGRAMME DETAILS						
Overall, does this section clearly outline how the structure of the project/programme works, including the cause-effect relationships between the different levels of the logic model, the climate justification and the rationale for GCF involvement?						
B.1. Context and baseline:						
Does this section clearly describe the climate vulnerabilities and/or GHG emission profile (s) of the country/countries where the project/programme intends to operate, with particular emphasis on the specific locations of implementation?						
Does this section include a GHG baseline for the specific interventions?						
Does this section provide a detailed description of baseline scenarios of the project/programme?						
Does this section provide information on any complementary projects within the region/country and does it describe opportunities for complementarity with those projects?						
Does this section clearly describe the "with and without the project" scenarios?						
Does this section describe main root causes and barriers (social, gender, fiscal, regulatory, technological, financial, ecological, institutional) of the problem to be addressed through this investment?						
Climate rationale: adaptation						
Does this section outline the main challenges to building resilience to climate change impacts?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does this section describe observed historic climate trends and expected future climate change, distinguishing between: (i) natural climatic drivers (ex. El Nino); (ii) drivers directly related to climate change (change in precipitation, aridity), and (iii) non-climatic drivers (ex: population stresses)?						
Does this section assess the vulnerability of the geographic area to hazards?						
Does this section consider how the climate hazards will affect the project's geographical area in terms of loss of lives, value of physical assets, livelihoods, etc. (Exposure)?						
Does this section include all scientific references, pages and links, and state if there is a lack of specific scientific evidence?						
Does this section provide a clear description of the causality link between climate change impacts and specific adaptation interventions needed to reduce the vulnerability of targeted beneficiaries?						
Does this section demonstrate that the proposed actions taken will not lead to maladaptation?						
Is there any evidence of a clear understanding of what maladaptation might occur as a result of project activities, and how this risk can be mitigated?						
Climate rationale: mitigation						
Does this section elaborate the baseline in terms of GHG emissions, referencing the methodology used for estimation?						
Does this section describe the methodology that has been used for the baseline, additionality and mitigation estimates?						
Is/are the methodology(ies) applicable to all mitigation activities?						
Does this section cover all emission sources, including potential leakages in the methodology(ies)?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does this section provide evidence/ literature that backs up (a) realistic and credible baseline scenario(s)?						
Does this section provide an analysis of the extent to which the proposed project type (e.g. technology or practice) has already been diffused in the relevant sector and region (common practice analysis)?						
Does this section demonstrate climate additionality as per the methodology(ies)?						
Does this section provide a spreadsheet of the detailed calculation of the mitigation activities?						
B.2.1 Project/programme description						
Does this section align with the logical framework of the project as described in Annex 2a of the funding proposal?						
Does this section explain the specific outcome (s) and provide a clear explanation of the climate paradigm shifting objective the project will achieve through its components?						
Does this section provide a clear description of the results expected to be achieved through each component and demonstrate how these components integrate with each other?						
Are activities and outputs detailed under each component and is there a description of their consistent connection with the TOC?						
Does this section present a clear rationale on how the different components, outputs and activities contribute to removing identified barriers?						
Is the description of the component, outputs and activities breakdown consistent with section C.2?						
For Programmes only						
Does this section include eligibility criteria available for the beneficiaries/selection of projects?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
B.2.2 Outcome mapping to GCF results areas and co-benefits categorization						
Are the outcomes consistent with section B.2.1 and correctly mapped to the mitigation and/or adaptation result areas of the GCF integrated results management framework?						
Are the co-benefits identified consistent with section D.3?						
B.3. Implementation/institutional arrangements						
Are the roles and responsibilities of each party clearly defined in the proposal, including those of AE, EE, local government, regulators and contractors?						
Is there a clear diagram or representation of the implementation structure with a clear vision of the roles and responsibilities, including supervisory and reporting lines?						
Are the monitoring structure and requirements for the respective activities of each entity clearly described in the proposal?						
Is the institutional design based on a sound assessment of the institutional capacities of the EEs and third parties involved?						
Does this section contain information to demonstrate the AE´s strong record in key sector-specific elements of the project to justify its role as implementing entity?						
Has a description been introduced in this section on the AE´s field office and/or adequate staff in the country (ies) to supervise the project?						
Does this section provide detailed information to prove the AE´s relevant experience in the country (ies), in terms of similar project funding amounts in the sector, and working with the selected executing entity/entities?						
Has the AE provided evidence and elaborated on their own track record in developing similar projects/programmes as proposed, in the same country(ies) of operation?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
In the case of an EDA project or where GCF finance contributes to the kick-starting/support of a fund/financial vehicle/facility, has an operation manual been developed for the project and presented in the FP package?						
Is the flow of fund structure (financial flows from GCF to the final recipients) clearly presented in the FP?						
In case there is an EE, does the FP present a clear differentiation between the roles of AE and EE for the project implementation?						
Are the post-implementation arrangements clearly described, including O&M Plans and others in the annexes?						
C. FINANCING INFORMATION						
C.1. Total financing						
Does this section provide clear information on the amount and currency of finance requested from the GCF?						
Are the financial instruments requested from GCF clearly defined, providing clear definition of amounts and currencies for each of the instruments requested?						
Does the project adhere to the required financial terms and conditions required by the GCF for grants and concessional loans as outlined in the "Financial terms and conditions of grants and concessional Loans" policy?						
Is the calculation of AE fees consistent and aligned with the provisions of the GCF policy on fees?						
Is information on expected co-financing clearly described in the FP, including name and type of co-financier, total investment committed, co-financing ratio, financial instrument, etc.? Are its terms and covenants related to co-financing tie-up and disbursement?						
Is the proposed co-financing consistent and aligned with the definitions provided in the GCF policy on co-financing?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
C.2. Financing by component						
Is a detailed breakdown of costs per component provided?						
Is the breakdown per component/activity aligned with the components and activities described in the logical framework?						
Is the information provided in this section consistent with that provided in sections B, D.1 and D.6 of the FP? As well as in other sections and annexes of the FP including the logical framework, budget details and term sheet?						
Is a detailed breakdown of costs to be covered by the GCF and by other co-financiers per component provided?						
Is there a breakdown of project management costs?						
C.2.1 Financing structure						
Does the financial structure provide the flow of funds from GCF co-financers up to end beneficiaries along with the financial instrument at each stage?						
C.3. Capacity Building and Technology development						
Is the amount of GCF finance allocated to capacity building and technology development/transfer clearly earmarked in the budget composition?						
C.4. Justification for GCF funding request						
Is there a thorough justification presented on how the GCF contribution covers climate-related expenses and not development or other types of expenses (i.e. climate rationale)?						
Is there a clear explanation on why the GCF is the relevant donor for this project in terms of contributing to climate-related activities and impact?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Is an explanation provided on the methodology to estimate incremental costs due to the impact of climate change and the role of the GCF in covering the total or partial costs due to the impact of climate change?						
Is a clear justification provided for the concessionality requested, including references on the revenue-generating capacity of the activities of the project, economic status of target country, typology of the country versus the GCF geographical priority areas, level of country's external debt and income-generating capacity?						
Is there a description on how the GCF concessionality is passed down to the beneficiaries?						
Has a detailed description been provided in this section on any existing challenges to access climate finance at national and/or target area levels?						
C.6. Financial Management/ procurement						
Is a description provided of the project/programme's financial management framework, including applicable financial accounting and auditing standards, flow of funds and disbursement arrangements, audit requirements and procurement arrangements?						
Does the FP provide detailed information on the methodology and frequency of the periodic financial reviews; the reporting of the project expenditures, including the audit requirements and frequency, to ensure that funds are used for their intended purposes?						
Has the AE provided information on how it will ensure that its fiduciary standards (according to its accreditation type) are adhered to?						
Has the AE provided detailed information on its own rules and regulations on financial management and procurement, as well as its track record in similar projects?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
D. EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA						
D.1. Impact potential						
Does this section showcase how the proposal meets impact sub-criteria relevant to the project?						
Does this section demonstrate how the FP complies with the indicative assessment factors for the relevant subsectors of the investment framework?						
Does this section provide detailed information on the expected change arising from the implementation of project outputs for institutions and beneficiaries?						
Does this section report the core indicators for mitigation and adaptation?						
Does the project design consider climate change vulnerability/risk assessments at the local level and/or country level? (Adaptation only)						
Does the project give clear details on how communities, especially those most vulnerable, will benefit from the intervention?						
Is the information provided consistent with section 3 of the logical framework (Annex 2a)?						
Are climate change mitigation and adaptation needs adequately/sufficiently justified in this project, taking into account developmental needs and national circumstances?						
Are the key expected targets and indicators aligned with the GCF integrated results management framework and are the calculation methodologies provided, including a spreadsheet and relevant annex?						
Does this section provide detailed information on the more critical results expected to be achieved during project implementation?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does this section provide detailed information on which results are expected to be achieved in the medium and longer terms following the completion of the implementation?						
Considering the information provided in the funding proposal and pre-feasibility study, are the proposed project interventions assessed to be the most suitable and feasible mitigation/adaptation options?						
Does this section showcase how the reduction costs of the greenhouse gas emissions/percentage of beneficiaries compare to other benchmarks in the same sector/country/community of operation?						
If the project invests in durable goods, is information provided on how the proposed measures avoid lock-in infrastructures or systems and ensure climate-proof results?						
Mitigation projects only						
Does this section present estimated reduction/sequestration of GHG emissions on annual and "lifetime" horizons?						
Has a reference been introduced to the methodology applied for the estimation of GHG emissions reduced or avoided? And is this methodology described in detail in the feasibility/pre-feasibility study?						
Adaptation projects only						
Does this section provide indicative numbers of direct and indirect beneficiaries and the methodology used to select those beneficiaries (or reference to the methodology provided in the pre-feasibility/feasibility study)?						
D.2. Paradigm shift potential						
Are the project elements well aligned and presented to respond to the proposed Theory of Change and its result chain?						
Can the proposed project catalyse impact beyond a one-off project or programme investment?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does the FP provide evidence of the sustainability of outcomes beyond completion of the intervention? (Consider the elements reported in Section C.6 Exit strategy and sustainability)						
Does the proposal provide innovative solutions (e.g. new market segments, development or adoption of new technologies, business models, modal shifts and/or processes)? Does the proposal build on previous experience proved by evidence-based evaluations?						
Does the proposal enable a contribution to global low-carbon development pathways consistent with a temperature increase of less than 2º Celsius?						
Does the proposal show potential for expanding the scale and impact of the proposed programme or project (scalability)?						
Does this proposal present/replicate innovative approaches to climate adaptation/mitigation justifying the proposed type of investment in the proposal?						
Is an enabling environmental strategy for the sustainability of the outcomes in place and clearly defined in the proposal, including the financial strategy?						
Are the political, economic, and behavioural changes of institutions/communities/ individuals due to the project/programme taken into consideration?						
Does the proposal hold potential for exporting key structural elements of the proposed programme or project elsewhere within the same sector and to other sectors, regions or countries (replicability)?						
Does the proposal provide a framework to share knowledge and contribute to replication and/or scale-up?						
Does the project mainstream climate change adaptation/mitigation measures into policies/laws, sectoral and national strategies and decision-making processes at the national/regional/local level?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does the FP provide detailed information on the project´s contribution to market development and transformation?						
Theory of change (TOC)						
Does this section provide a thorough description of the proposed Theory of Change (TOC)?						
Is the information provided aligned with the TOC provided in the pre-feasibility study (annex 2)?						
Has a climate change problem/issue been clearly defined?						
Is there a clearly defined project or programme goal that is detailed by logical pathways and causal links which are clearly articulated? In other words, is the cause and effect made clear when describing the project or programme goal?						
Is there a clearly defined goal statement in "IF ... THEN ... BECAUSE" format?						
Do the proposed activities address the problem/problems and barriers with long-term lasting solutions that will continue to have impact beyond the lifespan of the project?						
Are the proposed project activities linked to outputs and outcomes that contribute to the project goals?						
Are assumptions and risks clearly articulated?						
Are behavioural changes taken into account in the TOC?						
In the case of cross-cutting projects, are key connections between adaptation and mitigation clearly articulated?						
In the case of adaptation and cross cutting projects, is the vulnerability and risk analysis complete and available for review? (And details reported in the feasibility/pre-feasibility annex)?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
For an adaptation or cross-cutting proposal, will the prioritized adaptation measures address the assessed vulnerability, risks, and impacts?						
Are there mechanisms allowing to verify whether paradigm shift has occurred?						
D.3. Sustainable development:						
Does the project have a description of the project expectations to promote positive environmental outcomes (e.g. air quality, soil conservation, biodiversity, etc.)?						
Does the project hold potential for outcomes in the form of expected improvements, for women and men as relevant, in areas such as health and safety, access to education, improved regulation and/or cultural preservation?						
Does the project hold potential for economic outcomes in the form of expected improvements in areas such as expanded and enhanced job markets and job creation?						
Does the project show potential for poverty alleviation for women and men beyond income generation?						
Does the project show potential for increased and/or expanded involvement of local industries with increased collaboration between industry and academia and growth of private funds attracted?						
Does the project show any contribution to an increase in productivity and competitive capacity; improved sector income-generating capacity; contribution to an increase in energy security; change in water supply and agricultural productivity in targeted areas, etc.?						
Does the project hold potential for reduced gender inequalities in climate change impacts and/or equal participation by all genders in contributing to expected outcomes?						
Is there a description included in this section of a system to monitor and quantify the expected positive externalities?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Has a description been introduced about the project's expected potential to increase linkages among economic and social actors, such as the private sector and academia?						
Has detailed information been shared in the FP on how the project expects to increase low-emission and climate-resilient productivity in the development process?						
Does this section showcase how the project is expected to reduce losses and/or induce financial benefits?						
Is there any reference to the project's expected potential to contribute to improving health, safety, education, regulation, or cultural preservation?						
Does this section describe how the project will adequately address the different needs of women and men in order to address inequality in climate change vulnerability and risks?						
Does this section include information on how the project will adequately address the needs of women and men in order to address other types of inequalities (not related to climate change)?						
Can the proposed project promote sustainable development through one or more of the sub-criteria presented in the Initial Investment Framework of the GCF?						
D.4. Needs of recipient						
Does this section include relevant information describing how the project addresses the vulnerability of the country (adaptation only), the scale and intensity of exposure of people, and/or social or economic assets or capital, to risks derived from climate change? Does it clearly define which of these risks are targeted by the proposed project/programme?						
Does this section provide a detailed description of the economic and social development level of the country and the affected population?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does this section provide information justifying the absence of alternative sources of financing for the proposed type of investment?						
Is there a description provided in this section reflecting if national and local resources are limited and how GCF funding is expected to overcome specific barriers (financial, etc.)?						
Is there a detailed description on the result of the capacity assessment of the institutions that will benefit from the project intervention? Does it include a clear delimitation of what areas need to be strengthened?						
D.5. Country ownership						
Does this section demonstrate the project´s alignment with national policies, strategies and plans related to climate change, including, if present, the GCF country strategy (e.g. NDC, NAMA, NAPA, NAP, TNA, etc.)?						
Is there evidence of consultations with DAE?						
Is the information on the project´s alignment with the national strategic development plan (e.g. socioeconomic development plan, poverty reduction plan, sectoral strategies, etc.) introduced in the FP?						
Has the FP documented how the project has been adequately coordinated with ongoing and planned similar projects, including GCF projects?						
Has the project been designed with the intent to use a national EE?						
In case the capacity of the EE is not proven, has an action plan/strategy to build its capacity been provided or included in the funding proposal? Does the project articulate a capacity building opportunity for national organizations?						
Does the FP articulate what national level consultations have already taken place?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Is the level of non-national actors minimized, and, if present, is it well justified?						
Is there evidence that the funding proposal has been prepared in consultation with civil society organizations and other relevant stakeholders (provincial, local, private sectors, etc.)?						
Is a stakeholder engagement plan provided, and does it identify key partners and involvement of NDA? Is the provided plan assessed to be comprehensive and sufficient?						
D.6. Efficiency and Effectiveness						
Is the funding amount requested from GCF justified? Is the overall project cost in a justifiable range compared with other benchmarks investigated during project preparation?						
Does the FP introduce references to evaluation reports from similar previous projects that show the effectiveness of the project in achieving the intended outcomes in a cost-effective manner?						
Is there evidence of economic and financial analysis such as to estimate internal rate of return (IRR), net present value (NPV)?						
Does the FP include an explanation of the selected financial instruments, including the potential for revenue generation and whether the project corrects a market failure or provides a public good?						
Does this section provide detailed information on the cost-effectiveness of the proposed investment?						
Does the project include any measures entailing the risk of crowding out private sector and other public sector investments, or producing a conducive environment in which to catalyse private sector investments?						
Has a detailed description been introduced in the proposal of the financial or other incentives for additional parties to invest in the project?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Is the level of concessionality justified? Is it the minimum level of concessionality to make the proposal viable?						
Is detailed information presented in this section on the project intent to leverage an adequate level of co-financing from other partners and/or from domestic resources?						
Is the financial viability of the project beyond GCF support justified by a solid exit strategy and an operations and maintenance plan?						
Does the project include a detailed description of the financial or other incentives for stakeholders to sustain the project or its benefits after the GCF exit?						
Does the project incorporate industry best practices/lessons learned and available technologies in its design? Have multiple options been assessed?						
Adaptation projects only						
Does the FP document economic losses in the project area due to climate-related events and estimates of such future losses, and an explanation in the Theory of Change of how these would be reduced under the project?						
Does this section provide an estimate of cost per beneficiary, benchmarked against similar projects?						
Mitigation projects only						
Does this section provide an estimate of expected tonnes of carbon dioxide equivalent (tCO_2 eq) to be reduced or avoided, benchmarked against similar projects?						
Does the FP include information on the co-financing ratio (total amount of co-financing divided by the Fund´s investment in the project/programme)?						
Does the FP include detailed information on the expected volume of finance to be leveraged by the proposed investment and as a result of the Fund´s financing (disaggregated by public and private sources)?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Is there a detailed description on how the project could have a catalytic effect to mobilize other resources from other financiers as a result of its implementation, particularly the private sector?						
Mitigation and private sector projects only						
Is the economic/financial internal rate of return/net present value based on credible assumptions and does it provide evidence of economic and financial viability? Is there an adequate sensitivity analysis that shows the risks on project viability based on variations of estimated costs and benefits?						
E. ANNEXES						
1.NDA No-objection letter						
Is there a No Objection Letter included in the application that has been signed by the NDA Focal Point?						
2. Pre-feasibility study						
Is there a pre-feasibility or feasibility study that covers relevant information to assess the feasibility of the project, including ToC diagram, map of intervention areas, detailed reports of consultations with authorities and other stakeholders, as well as references to a project-level redress mechanism?						
2a. Project level logframe						
Section 1 – GCF impact level: Paradigm shift potential						
Does this section clearly present the baseline for each assessment dimension, scale, replicability, and sustainability, including a corresponding rating?						
Does this section clearly state the target scenario for each assessment dimension and describe how the project/programme will contribute to the shift/transformation?						
Does this section describe how the removal of identified barriers and reforms of the regulatory environment will support scalability and the long-term sustainability of the project results?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Is the information provided consistent with the description of paradigm shift provided in Section D.2?						
Section 2.1 – GCF outcome level: Reduced emissions and increased resilience						
Did the AE select the correct GCF result area and indicators from the IRMF core indicators 1-4 and respected (and did not modify) the definition of the indicators?						
Is there a detailed description of the means of verification that the project will use in order to report each selected indicator?						
Does this section present the baseline (quantifiable starting point) of the selected indicators?						
Have mid-term and final targets been defined for selected indicators?						
Have assumptions been determined as externalities that should be in place for the outcome to be achieved?						
Section 2.2 GCF outcome level: Enabling environment						
Did the AE select the relevant IRMF core indicators 5-8 and respect (and did not modify) the definition of the indicators?						
Did the AE provide a description of the baseline context and a targeted outcome of the project/programme that are relevant for the selected indicators?						
Is there a clear description of how the project/programme will contribute to achieving the target scenario?						
Are the coverage areas identified consistent with Section B.2.1 of the funding proposal?						
Section 3 Project/programme specific indicators						
Are the outcomes and outputs consistent with the information provided in section B.2.1 and B.2.2 of the funding proposal?						
Did the AE provide a set of tailored indicators for the outcomes/outputs and can these be tracked/monitored?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
If co-benefits are provided, are they consistent with section B.2 and section D.3 of the funding proposal?						
Section 4 Project/programme activities and deliverables						
Is there a clear/consistent description of how the project/programme activities relate to the outcomes/outputs reported in the FP?						
Are the activities and deliverables consistent with the information provided in section B.2 of the funding proposal?						
Section 5 Monitoring, reporting, and evaluation arrangements						
Does this section describe a plan for the submission of the annual performance reports in line with the GCF monitoring and accountability framework?						
Has a plan been described in this section for the internal monitoring and reporting system that the project will set during the implementation phase?						
Has the role of the Project Implementation Unit, in the daily monitoring activities, been clearly described?						
Have the type, timing and role of the mid-term and final evaluations been duly described?						
Does this section incorporate regular monitoring of information on how results will be maintained over the post-implementation phase?						
2b. Timetable						
Has the project included an example timeline at the project/programme level that details outputs, activities and project monitoring timing?						
Does the timetable include relevant milestones and deliverables?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
3.Budget plan						
Has the project included a detailed project plan that details expenses based on component, output, activity, funding source, budget category, financial instrument and compliance with PMC cost policy? Are the figures consistent with the FP section C, and other references in the FP package?						
Are the components and activities aligned with those in the logical framework?						
Has the project included a detailed project budget note inclusive of monetary details on local consultants work and positions, equipment, workshop costs, travel costs, professional services, materials and goods, office supplies and PMU (all with unit costs)?						
4.Gender assessment and action plan						
Does the proposal, also through the gender action plan, include dedicated financial and human resources, as appropriate, to ensure the project complies with the principles and requirements of the GCF Gender Policy?						
Has the proposal set out clear results to show how the project meets the principles and requirements of the GCF Gender Policy? Specifically in generation and use of sex-disaggregated and qualitative data?						
Has the proposal set out how data will be collected and reported with a gender-related baseline, indicators and targets (time-bound), including progress on the gender action plan?						
Does the FP and gender assessment mainstream gender through inclusive stakeholder consultations and show how project activities align to national policies and priorities for gender?						
Has the proposal included environmental and social assessments and a project-level gender action plan that includes activities aligned to the findings of the gender assessment addressing gender inequality within the scope of the project/programme?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does the gender assessment provide analysis regarding gender difference gaps and opportunities relevant to the scope of the programme/project, sector/project area and demonstrate the existence of an enabling environment (national policies, priorities etc.) to address gender issues and women's empowerment?						
5.Co-financing commitment letter						
Where applicable, is there a signed co-financing commitments letter included in the project application? Is the amount of co-financing provided in the letters consistent with FP section C and the budget?						
6.Term sheet						
Does the term sheet provide full information on the key terms and conditions, covenants, implementation arrangements and other legal obligations of the accredited entity (AE) and the executing entity/entities EE(s) for the implementation of the proposed project? The term sheet shall also cover other aspects such as Terms of GCF financing; Co-financing tie up and disbursement milestones (e.g. Before FAA execution/effectiveness all co-financing to be tied up...) and if the GCF funds and co-financing are sought for on-lending/on-granting, sub-projects then terms and eligibility criteria for such onward financing and sub-projects.						
7.Risk assessment and management						
Does the risk assessment adequately cover risks in various domains (i.e. political, market, technology, financial, natural resource or land conflicts, and financial management)?						
Has a risk assessment been conducted as to potential risks or vulnerabilities for money laundering (ML), terrorist financing (TF), or prohibited practices (PP) among the activities, counterparties, executing entities, or beneficiaries in the project?						
Does the risk assessment outline the assessed level of risk and the measures to be taken to identify, monitor, mitigate and remedy such risks and any incidents that may arise?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Are risk mitigation actions adequately identified?						
Are private sector-related risks adequately identified (e.g. credit, forex, currency, contracting)?						
Are risks related to public financial management adequately identified (e.g. procurement, forex)?						
Are the results of any first level due diligence assessment undertaken on counterparties involved in the project and its activities clearly described in the funding proposal?						
If not undertaken, does the proposal provide a justifiable reason?						
Does the project have an AML/CFT programme and what are the internal controls to prevent ML, TF and/or PP? What due diligence procedures are implemented to control risk and vulnerabilities?						
Does the proposal outline the internal controls to be used in this project to prevent, mitigate, identify, report, and remedy any risks, indications, or allegations of ML, TF, PP or sanctions violations?						
If a project's climate impact is dependent on certain activities/capex to happen beyond the scope of FP, are risks related to such activities not taking place included? (The AE can also cover such aspects clearly in the project description section.)						
Are there any intentions to either directly or indirectly distribute or disburse to beneficiaries, cash, vouchers, commodities or other items of value?						
If so, are the controls to be used to identify and verify individuals eligible for such benefits clearly described, as well as measures to prevent fraud, abuse, ML, TF, or PP in the management of such distributions?						
8.Procurement plan model						
Have appropriate procurement implementation arrangements been proposed?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does the agency or unit have a Procurement Office, or any person qualified in procurement? Is this articulated in the proposal?						
Is the role of the AE clearly articulated to ensure compliance and efficiency?						
For IAEs, does the proposal outline how procurement guidance will be applied?						
Are the controls clearly described to assure materials or technologies procured in the project will only be used for intended purposes and not diverted or misused for unauthorized, improper or illicit purposes?						
For DAEs, are they using the ministry or country procurement guidance? Does the proposal outline the corruption perception index of the country and what controls are proposed?						
Does the proposal indicate which entity is performing the procurement? Is the AE going to carry out functions of the EE, or will separate EEs carry out the funded activity under the monitoring and oversight by AE?						
Does the EE have access to and understanding of any AE procurement guidance and procedures that will be used?						
Has a procurement risk assessment been undertaken to determine the level of intervention by the AE and/or relevant monitoring/oversight authority?						
Has a procurement plan been presented that reflects the applicable procurement guidance?						
Does the proposal outline the thresholds based on procurement methods?						
Is there evidence of the following red flags: • Direct contracting without justification; • Use of less competitive procurement methods; • Timing issues; • Splitting of orders; • Unclear procurement items; • High amounts of requested funding						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
9a. Legal Due Diligence						
Does the proposal include the appropriate legal due diligence information by describing details of any government or regulatory approvals, licenses or permits required for implementing and operating the project/programme, the relevant issuing authority, and the date of issuance or expected date of issuance?						
Does the proposal include the appropriate legal due diligence information by describing applicable taxes (or exceptions) and foreign exchange regulations related to the project/programme?						
Does the proposal include details of any insurance policies or requirements related to the project/programme?						
9b. Legal Opinion/Certificate of Internal Approvals						
Does the proposal include a copy of a legal opinion or certificate confirming that all internal approvals have been obtained and that the AE has the capacity and authority to implement the proposed Funded Activity in accordance with the AMA?						
10. Economic and/or financial analysis (mandatory for private sector; for mitigation and private sector, for adaptation usually not required)						
Are assumptions clearly identified?						
Is the methodology for calculations explicit?						
Is there a sensitivity analysis?						
12. Environmental and Social Action Plan (ESAP) (When requested by the GCF Secretariat)						
Is there evidence of the intent to provide an environmental and social management system that details the potential risk and impacts associated with the project activities?						

REVIEW SECTIONS AND QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	COMMENTS BY REVIEWER
Does the project state how the management system will allow for meaningful and inclusive multi-stakeholder consultation and engagement throughout the life cycle of activities that take into account the particular situations of vulnerable and marginalised groups that might be affected by any of the GCF-funded activities?						
Does the project state that entity and activity level grievance mechanisms will be developed as part of the project kick-off?						
Has the project shown access to the independent Redress Mechanism's grievance and complaints process?						
Does ESAP provide an adequate stakeholder engagement, grievance readdress mechanism and information disclosure mechanism?						
Has the project shown a process that will ensure that communities affected by activities (including vulnerable and marginalised groups) are properly consulted in a manner that is inclusive of local knowledge in the design of activities? Has the AE taken concerns into consideration in the design of the project activities in accordance with requirements of the GCF Information Disclosure Policy?						
13. Other references						
Have any other references been included as part of the application?						

TABLE 2. GCF SAP REVIEW TOOL (CONCEPT NOTE VERSION)

ITEM REVIEW QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	REVIEWER COMMENTS
A. PROJECT/ PROGRAMME SUMMARY						
Overall completeness of the CN package						
Has the Accredited Entity submitted a full (i) Concept Note and (ii) Mandatory Annex (Environmental and Social Screening Checklist)?						
Overall consistency						
Are there any significant inconsistencies in the basic information presented in the Concept Note proposal and/or its annexes (including currency and budget, tonnes of GHG emissions to be avoided/sequestered, number of direct/indirect beneficiaries) that should be corrected in the Concept Note or Annexes?						
Project/Programme Summary Items						
Is information in Section A satisfactorily input and consistent with other sections of the Concept Note and Annexes?						
A.10 Rationale for the ESS categorization						
Has the project provided clear reasoning/ justification for the ESS categorization?						
A.14. Rationale, objectives and approach						
Does the narrative clearly summarize the project/programme's climate rationale, objective and implementation approach, including the executing entity(ies) and other implementing partners, including who will be implementing the measures to manage the environmental and social risks?						
B. PROJECT/ PROGRAMME DETAILS						
Overall, does this section clearly outline the relevant climate vulnerabilities and impacts, GHG emissions profile, and mitigation and adaptation needs and how this proposal is envisaged to address these?						

ITEM REVIEW QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	REVIEWER COMMENTS
B.1. Context and baseline						
Does this section clearly describe the climate vulnerabilities and/or GHG emission profile (s) of the country/countries where the project/programme intends to operate with particular emphasis on the specific locations of implementation?						
Does this proposal indicate how it fits in with the country's national priorities, action plans and programmes?						
Does this section describe main root causes and barriers (social, gender, fiscal, regulatory, technological, financial, ecological, institutional) of the problem to be addressed through this intervention?						
B.2. Project/programme description						
Does this section explain the proposal objective(s) and provide an overview of the climate paradigm shifting objective the project will achieve through its components?						
Does this section provide a description of the expected results to be achieved through each component and how these components integrate with each other?						
Are the general activities and outputs reflected under each component of the proposal?						
Does this section provide an overview of how the different components, outputs and activities contribute to removing barriers identified and described above?						
For programmes only						
Does this section include an overview or general aspects to be considered in the eligibility criteria for the selection of projects?						
B.3. Expected Performance against the GCF Investment Criteria						
Does this section provide how the proposal answers the main impact potential sub-criteria relevant to the project?						

ITEM REVIEW QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	REVIEWER COMMENTS
Section: Impact potential						
Does this section provide an overview of the expected change arising from the implementation of project outputs for institutions and beneficiaries?						
Does this section provide an estimation (or preliminary estimation) of the core indicators for mitigation and adaptation?						
Does the proposal give clear details on how communities, especially those most vulnerable, will benefit from the intervention?						
Are climate change mitigation and adaptation needs included in the proposal, taking into account developmental needs and national circumstances?						
Does this section provide an overview of the expected results in the medium and longer terms following the completion of the implementation?						
Adaptation projects only						
Does the proposal project design consider climate change vulnerability/risk assessment at the local level and/or country level?						
Mitigation projects only						
Does this section present estimated reduction/sequestration of GHG emissions on an annual and lifetime basis?						
Has a reference been introduced to the methodology applied for the estimation of GHG emissions reduced or avoided?						
Section: Paradigm shift potential						
Does the proposal showcase the results chain between the activities proposed and the main objective of the proposal in a manner that will serve as baseline for the development of the Theory of Change for the Funding Proposal?						

ITEM	REVIEW QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	REVIEWER COMMENTS
	Does the FP provide evidence of the sustainability of outcomes beyond completion of the intervention? (Consider the elements reported in Section C.3 Exit strategy.)						
	Does the proposal show potential for expanding the scale and impact of the proposed programme or project (scalability)?						
	Does the proposal present/replicate innovative approaches to climate adaptation/mitigation justifying the proposed type of investment in the proposal?						
	Does the proposal hold potential for exporting key structural elements of the proposed programme or project elsewhere within the same sector as well as to other sectors, regions or countries (replicability)?						
Section: Sustainable development							
	Does the project hold potential for outcomes in the form of expected improvements for women and men, as relevant, in areas such as health and safety, access to education, improved regulation and/or cultural preservation?						
	Does the project hold potential for economic outcomes in the form of expected improvements in areas such as expanded and enhanced job markets and job creation?						
	Does the project show potential for poverty alleviation for women and men beyond income generation?						
	Does the project show potential for increased and/or expanded involvement of local industries with increased collaboration between industry and academia and growth of private funds attracted?						
	Does the project show any contribution to an increase in productivity and competitive capacity; improved sector income-generating capacity; contribution to an increase in energy security; change in water supply and agricultural productivity in targeted areas?						

ITEM REVIEW QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	REVIEWER COMMENTS
Does the project hold potential for reduced gender inequalities in climate change impacts and/or equal participation by all genders in contributing to expected outcomes?						
Section: Needs of recipient						
Does this section show how the project aims to address the vulnerability of the country (adaptation only); the scale and intensity of exposure of people, and/or social or economic assets or capital to risks derived from climate change?						
Does this section provide an overview of the economic and social development level of the country and the affected population?						
Is there information on the result of the capacity assessment of the institutions that will benefit from the project intervention? Does it include a clear delimitation of what areas need to be strengthened?						
Section: Country ownership						
Does this section reflect the alignment with national policies, strategies and plans related to climate change, including, if present, the GCF country strategy?						
Does the proposal present the consultations with DAE up to this stage and a clear path for the upcoming consultation engagements during the Funding Proposal development stage?						
Does the Concept Note highlight coordination of this proposal with similar ongoing and planned projects including GCF-funded projects?						
Has the project been designed with the intent to use a national Executing Entity (EE)?						
In case the capacity of the EE is not proven, has an action plan/strategy to build its capacity been provided or included in the funding proposal?						
Does the project articulate a capacity-building opportunity for national organizations?						

ITEM	REVIEW QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	REVIEWER COMMENTS
	Section: Efficiency and Effectiveness						
	Does the Concept Note include references to evaluation reports from previous similar projects that show effectiveness of the project in achieving the intended outcomes in a cost-effective manner?						
	Does this section include preliminary estimates of the internal rate of return (IRR) and net present value (NPV)?						
	Does the proposal provide a justification on the level of concessionality and the minimum level of concessionality required to make the proposal viable?						
	Does the CN include detailed information on the expected volume of finance to be leveraged by the proposed investment and as a result of the Fund´s financing (disaggregated by public and private sources)?						
	Mitigation projects only						
	Does this section provide an estimate of expected tonnes of carbon dioxide equivalent (tCO_2eq) to be reduced or avoided, benchmarked against similar projects?						
	B.4. Stakeholders' consultation and engagement						
	Does the CN include detailed information on the consultations that have already been undertaken with NDAs, AEs and/or other relevant stakeholders in the country(ies) for the development of the SAP project concept?						
	Does the CN include a detailed description of the further engagement that is planned as the concept note is developed into a full SAP FP?						

ITEM REVIEW QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	REVIEWER COMMENTS
C. FINANCING INFORMATION						
C.1. Financing by component						
Is a breakdown of costs per component provided?						
Is the information provided in this section consistent with the project description in section B.2 of the Concept Note?						
Is the breakdown of costs to be covered by the GCF and by other co-financiers per component provided?						
Is a breakdown of project management costs included?						
Private sector projects only						
Does the financial structure include the flow of funds from GCF/co-financers up to end beneficiaries along with the financial instrument at each stage?						
C.2. Justification for GCF funding request						
Is there a justification presented on how the GCF contribution covers climate-related expenses and not development or other types of expenses (i.e. climate rationale)?						
Is there an explanation of why the GCF is a relevant donor for this project in terms of contributing to climate-related activities and impact?						
Is a justification provided for the concessionality requested, including references on the revenue-generating capacity of the project activities, economic status of target country, typology of the country versus the GCF geographical priority areas, level of country´s external debt, and income-generating capacity?						
Is there an explanation of how the GCF concessionality is passed down to the beneficiaries?						
Has a description been provided on any existing challenges to access climate finance at national and/or target area level?						

ITEM REVIEW QUESTIONS	YES	NO	PARTIALLY	NOT APPLICABLE	CHECK-OUT	REVIEWER COMMENTS
C.3. Exit Strategy and sustainability						
Is an explanation provided on how the project supports the capacity of the institution(s) involved, including strategic views for staff retention and sustainability indicators?						
Does this section include a description on how ownership of beneficiaries is established at community and institutional level?						
Does this section showcase how the project invests in technologies that are suitable in the local context?						
Is a description provided on how the project supports policies and/or regulatory frameworks that impact the sustainability of the results in the long term?						
Is there an outline of the O&M plan and funding that cover the lifetime of the activities, infrastructure and equipment financed by the GCF in the capital investment stage?						
D. ANNEXES						
1. ESS Screening check list						
Does the proposal include the completed Environmental and Social Screening Checklist, with all its respective parts filled out?						
Does the person responsible in the AE/NDA for the environmental and social screening approve (sign off for) the checklist?						
2. Map						
Does the proposal include a map indicating the target location of the project/ programme (as applicable)?						
3. Evaluation Report of previous project (as applicable)						
Does the proposal include an Evaluation Report of the previous project (as applicable)?						

STANDARD OPERATING PROCEDURE ON REVIEWS OF SAP CONCEPT NOTES AND FUNDING PROPOSALS

I. Background, rationale, and Scope

The Simplified Approval Process (SAP) Standard Operating Procedures (SOP) follow the Board mandate to the Secretariat to further improve the efficiency and effectiveness of the SAP, as well as the recommendations from the review and independent evaluation of the SAP endorsed by the Board. This SOP is a part of a series of SAP procedures that will continue to clarify and simplify further the review of SAP proposals, as mandated by the Board and in line with the Secretariat objectives to increase efficiency and transparency of SAP reviews.

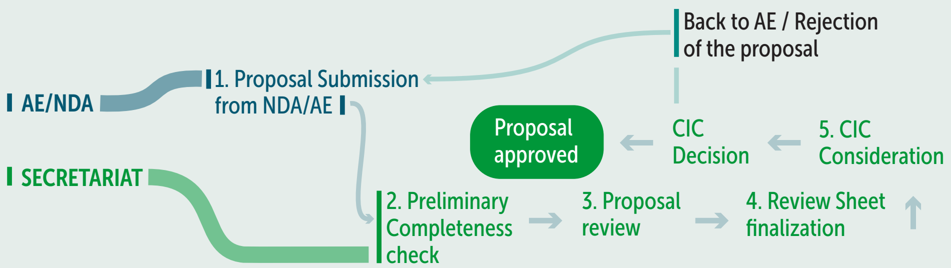
The present SOP intends to operationalize the review procedure for SAP Concept Notes and Funding Proposals up to endorsement by the Climate Investment Committee (CIC) as per stage 3 of the GCF Project/Programme Activity Cycle. Specifically, it describes the Secretariat process, from the receipt of the proposal to presentation and endorsement by CIC. It also describes the scope and general procedures of CIC in relation to endorsement of SAP proposals.

The SOP also provides details on the appraisal standards for SAP proposals in relation to the appropriate level of risk of SAP projects, following the SAP eligibility criteria that allow a project to apply for the SAP under the following conditions:

- The level of environmental and social risks and impacts is minimal to none;
- The level of GCF finance is below USD 25 million;
- SAP Funding Proposals can only be proposed by organizations that have been already accredited by the GCF for their fiduciary standards.

Finally, the following SOP informs how the technical review and appraisal of SAP proposals differs in practical terms from the review and appraisal of the regular Proposal Approval Process (PAP) as defined by decision B.17/09, while maintaining all the expected quality review standards. This SOP also provides updated guidance on the scope of the Climate Investment Committee (CIC) review of SAP Concept Notes and Funding Proposals (section IV) in a way that is commensurate to the reduced level of risks and aligned with the scope of the review.

II. Workflow chart for SAP proposal appraisals



III. Description of the procedure

STEP 1. PROPOSAL SUBMISSION BY NDA/AE

The review process of SAP proposals starts with the submission of a Concept Note or Funding Proposal to the Secretariat. The NDA or AE is responsible for submitting the SAP Concept Note or Funding Proposal to the GCF.

The GCF will endeavour to maintain an online submission system available to AEs and NDAs to automatically record the submission of SAP proposals. The system creates the respective registry in the internal Secretariat system. The submissions are also recorded by email in the SAP service account of the online submission system in place.

Upon receiving the proposal submission, a notification shall be sent to the NDA enquiring about whether the proposal fits under national priorities and country ownership.

After the proposals are received and recorded in the internal system, the Secretariat review process starts.

STEP 2. PRELIMINARY/COMPLETENESS CHECK

Upon receiving a proposal, the Secretariat performs a preliminary check on the submitted Concept Note or Funding Proposal.

The scope of this preliminary check is to verify and confirm that the proposal package has been submitted in full following the SAP requirements (e.g. annexes, correct template, etc.); the completeness of the proposal, identification of relevant content gaps and general information required to review the proposal. The Preliminary/Completeness Check also includes a preliminary E&S categorization in alignment with the eligibility criteria of SAP proposals.

It should be noted that completeness of the submitted proposal package is guided by the required annexes in SAP Concept Notes or Funding Proposals. The required list of annexes is detailed in the Concept Note and Funding proposal templates.

After the preliminary check has been performed by the Secretariat, the proposal moves to step 3 for a detailed technical review.

STEP 3. PROPOSAL REVIEW

The Secretariat review is led by the Task Manager with the support of the Task Support. Task Managers are assigned within each division as per their relevant technical expertise. The internal review team is comprised of:

- Task Manager (TM)
- Task Support (TS).

The Task Manager leads communications with the task team, coordinates the review of the proposal, and is ultimately responsible for meeting the review timelines. The review timelines are established in the Secretariat workplan as part of the Fund's KPIs (see table 1).

TABLE 3. SUMMARY OF ROLES AND RESPONSIBILITIES OF THE INTERNAL GCF TASK TEAM

ASSIGNED STAFF/PROFESSIONAL	SCOPE OF REVIEW & RESPONSIBILITY
Task Manager (TM)	TMs are senior level specialists in the proposed climate sector of operation (e.g. agriculture, water, RE, etc.) with specific knowledge of GCF review standards and procedures as given by the project-related policy and published GCF guidelines (e.g. SAP, Sector Guidelines, IRMF, IF, ESS, Gender, FTCs, MAF, etc.). A TM is responsible for the overall assessment of technical quality, soundness of the intervention's logic and results chain, climate relevance/rationale, appropriateness of the financial structure and concessionality and exit strategy. As necessary, they will lead the discussions with AEs, Secretariat staff and CIC members.
Task Support (TS)	The Task Support provides coordination support to the Task Manager during the review of proposals undergoing the standard internal review.
Additional Task Reviewer	Additional reviewers could be assigned in exceptional cases, considering specific needs of the SAP proposal.

The Secretariat may also utilize consultants to support the review of proposals by the Secretariat. In such cases, the task team will include a Lead Reviewer (Consultant) instead of the Task Manager. The review procedure in such cases mimics the standard review in order to ensure that the quality standard of the review by the Secretariat is maintained at all times.

STEP 4. REVIEW FINALIZATION AND SUBMISSION TO CIC

The Secretariat completes the review by the relevant team members, including the SAP Appraisal Toolkit assessment relevant for SAP proposals.

The Secretariat shall maintain relevant documentation on the review, including internal forms and communications with the AE and NDA in our internal system for record-keeping purposes. The Secretariat will continue to develop standard templates for communications between the AE and the Secretariat for SAP reviews.

The review seeks to provide comments with recommendations and suggestions on how to improve the proposed project. The feedback is formally submitted to the AE or NDA using the standard SAP review sheet for proposals. The AE or NDA can provide answers and comments via the review sheet.

Once completed, the review process is finalized with the assessment by the technical team to recommend either the endorsement by CIC (step 5 below) or a resubmission of the proposal with guidance on expected changes and recommendations.

STEP 5. CIC CONSIDERATION

Proposals submitted via the Simplified Approval Process will be endorsed by a simplified CIC committee ("S-CIC2") compared to PAP proposal endorsements. Its composition is commensurate to the level of risk and scope of information presented in SAP proposals.

Table 4 below provides guidance on the criteria and sub-criteria applicable for SAP proposals and shall constitute the basis for their deliberations.

The Secretariat shall ensure that internal documentation on the S-CIC2 deliberations are properly recorded and appropriate documentation is maintained at all times.

To increase its efficiency, the S-CIC2 shall maintain two procedures for endorsement of SAP proposals, (1) one for on-person deliberations, and (2) endorsement by no-objection via email. Submissions to S-CIC2 shall follow additional guidance, as relevant, as per the internal CIC guidelines.

The S-CIC2 decisions are as follows:

a. Endorsement of the proposal for Funding Proposal development and Interdivisional Review, including the possibility of PPF support;

b. Return of the proposal to the AE/NDA with recommendations for refinement/improvement prior to resubmission, including the possibility of PPF support;

c. Rejection of the proposal.

Deliberations and decisions by the S-CIC2 shall be recorded in the relevant internal systems and notified to the NDA or AE.

TABLE 4. S-CIC2 CRITERIA AND SUB-CRITERIA FOR SAP PROPOSALS

CRITERIA	GUIDING SUB-CRITERIA
1 Soundness of the project design	• Alignment of the Objectives and Activities with the target GCF Result Areas of the proposal; • Description of the Components and Activities of the proposal, including alignment with each other • Understanding of the expected outputs/deliverables of the proposal by each project Component • Linkage between the Activities proposed and the barriers/climate context described in section B.1 "Context and Baseline", including a clear cause-effect relationship and connection between the proposed Activities towards the project Objective. • As applicable, what the market barriers are that the GCF Funding is addressing • Adequacy of the past and planned engagement with all relevant stakeholders, including national/local organizations and PSOs/CSOs, MSMEs, etc.
2 Preliminary assessment of financial structuring	• Description of the financial structure of the Project/Programme • Description of the financing instruments utilized and the structure/vehicle to be put in place to manage the financing flows and its appropriateness to accomplish the proposal's Objectives • Preliminary considerations on concessionality, including seniority, tenor and indicative pricing • Considerations of the project/programme climate additionality for which GCF proceeds are required to cover the full and/or incremental costs" • Explanation for the need for GCF funding in lieu of other public/private and/or national/international funding sources

CRITICISM	GUIDING SUB-CRITERIA
3 Paradigm shift potential	• Comprehensiveness of the proposed project idea and its potential to for scale up and replication • Potential for innovation and alternatives to the business-as-usual approach in the sector/s • Potential for the sustainability of outcomes, including an enabling environment and a strategy for the sustainability of the outcomes • Potential for knowledge and learning for a behavioral change • Potential for the creation of new markets and/or the promotion of technology transfer • Potential for a positive impact on regulatory frameworks and policies and mainstreaming climate change adaptation/mitigation measures/ policies/ laws/ decrees into the decision making process
4 Environmental and Social categorization	• Preliminary assessment that the activities proposed are potentially compatible with the E&S Category C/I3 (validation will occur at FP review level by ESS)

ANNEX VIII

INDEPENDENT TECHNICAL ADVISORY PANEL (TAP) REVIEW PROCEDURE

KEY STAGES AND INDIVIDUAL STEPS		ACTOR(S)	RESPONSIBILITIES AND TASKS
1. ASSIGNMENT OF LEAD REVIEWER, SECONDARY REVIEWER AND PEER REVIEWERS			
1.1	Notification from the Secretariat upon clearance for TAP submission *Indicative time:* *1 month before submission*	Secretariat, TAP secretary	1. Upon receiving clearance by the Climate Investment Committee for TAP consideration, the task team will notify the TAP, through its secretary, of the upcoming proposal. 2. The task team will prepare a summary note with key facts of the project to facilitate the assignment of a review team. 3. The secretary will forward this information to the chair of the TAP.
1.2	Assignment of roles *Indicative time:* *1 week*	Head of the TAP, TAP members	1. 1a. The chair of the TAP, in consultations with TAP members, will assign the roles of lead reviewer, secondary reviewer (TAP review team) and two to three peer reviewers (peer review team), based on the overall workload and sectoral and geographical expertise. The chair of the TAP will also designate a back-up reviewer to ensure continuity in case a member of the TAP review team would become unable to fulfil their assignment. If, at a later stage, the TAP review team considers that the complexity of the funding proposal warrants an additional peer reviewer, the chair of the TAP may add said peer reviewer to the team. 1b. For SAP proposals, the head of the TAP will assign the roles of lead reviewer, assign a member of the roster of experts for the relevant result area, and assign one to two peer reviewers. 2. The chair of the TAP will share with TAP members the summary note prepared by the Secretariat. 3. TAP members will confirm their availability for the review. 4. In case of non-availability, the chair of the TAP will seek an alternative reviewer as per point 1. 5. The chair of the TAP and/or the TAP review team may seek support from one or more consultants from the roster of experts if required due to the need for specific sectoral expertise or overall capacity limitations.
1.3	Tracking	Secretariat task team TAP review team	1. The Secretariat task team will update the IPMS status of funding proposals as they progress through the stages of the Proposal Approval Process. 2. TAP members will be able to track the progress of the funding proposal through the final steps before submission through their IPMS module in order to better predict whether and when the submission will materialize.
2. REVIEW BY LEAD AND SECONDARY REVIEWERS			
2.1	Submission	Secretariat task team TAP secretary	1. Upon endorsement of the final funding proposal package at CIC-3, the Secretariat task team will forward to the TAP the full funding proposal package in a final form for review. This will take place on a fortnightly basis for funding proposals following the PAP. SAP funding proposals and their annexes can be submitted on a rolling basis. 2. The TAP secretary will notify TAP members indicating the timeline for the review. 3. The designated reviewers will acknowledge receipt and coordinate with a view to ensuring timely delivery of their review.

KEY STAGES AND INDIVIDUAL STEPS			ACTOR(S)	RESPONSIBILITIES AND TASKS
2.2	Desk review *Indicative time:* *2 weeks*		TAP review team AE, Secretariat task team	The reviewers will conduct the review of the funding proposal package and issue the comment matrices already in use through the Secretariat's task team to the AE, with an estimated timeline of two to three weeks, with the exact timing being subject to chair's confirmation.
2.3	Convening peer review		TAP review team Peer review team	1. Upon completion of the initial review, the TAP review team will notify and coordinate with the peer review team to establish the initial assessment of the TAP and conclusion about the funding proposal. 2. The meeting will conclude with an agreement by the TAP review team and peer reviewers as to the endorsement or non-endorsement of the funding proposal and the reasons for it.
3. PEER REVIEW AND FINALIZATION OF ASSESSMENT THROUGH VIRTUAL MEETINGS				
3.1	Virtual meeting(s) *Indicative time:* *1 week*		TAP review team Peer review team Secretariat task team AE	Virtual meetings will take place after the completion of the TAP initial review by the TAP review team, with the participation of the TAP review team, the peer reviewers, the Secretariat task team and the AE.
3.2	3.2.A Endorsement:	Assessment finalization and clearance *Indicative time:* *1 week*	Lead reviewer TAP secretary Secretariat task team, editing team, project lawyers	1. Based on the interactions and feedback with the peer review team, the Secretariat, and AE, if applicable, the lead reviewer, in consultation with the second reviewer (for regular funding proposals), will finalize the draft assessment. For regular funding proposals, the final draft assessment will subsequently be shared with the peer review team for endorsement. 2. The lead reviewer will share the final draft assessment with the TAP secretary for editing and finalization. 3. The TAP secretary will share the draft assessment with (i) the task team, who will liaise with the AE to solicit the AE response to the TAP assessment; (ii) the editing team, who will undertake the editorial review of the draft assessment; and (iii) the project/programme's lawyers from the Office of the General Counsel, who will cross-check the conditions and recommendations for clarity and ease of implementation. 4. Edits will be shared with the lead reviewer for confirmation and finalization. 5. The Secretariat will include the TAP assessment in the funding proposal package for submission to the Board or delegated authority, as applicable according to the respective approval process (e.g. SAP).

KEY STAGES AND INDIVIDUAL STEPS			ACTOR(S)	RESPONSIBILITIES AND TASKS
	3.2.B Non-endorsement	3.2.B (i) Assessment finalization *Indicative time:* *1 week*	Lead reviewer TAP secretary Secretariat task team, editing team	1. Based on the interactions and feedback with the peer review team and the AE, if applicable, the lead reviewer will finalize an assessment detailing the reasons for the non-endorsement and the outstanding issues. 2. The lead reviewer will share the draft final assessment with the Secretariat task team through the TAP secretary. 3. If requested by the Secretariat, a meeting will be convened with the Secretariat task team and AE to clarify the reasons for the non-endorsement. 4. The TAP secretary will share the draft final assessment with the editing team, which will undertake the editorial review of the draft assessment. 5. The Secretariat will share the edited assessment in confidence with (i) the AE; (ii) the NDAs of the target countries; and (iii) the Board, through a confidential document to be submitted prior to each Board meeting.
		3.2.B (ii) Re-submission by the AE *Indicative time:* *Open*	AE Secretariat task team TAP review team	1. The AE can re-submit the funding proposal any time after addressing the feedback provided by the TAP. 2. Upon receipt, the Secretariat will give notice to the TAP that the re-submission is being evaluated by the Secretariat three to four weeks in advance. 3. The Secretariat task team will evaluate whether the AE response addresses the issues raised by the TAP in their assessment. If so, the task team will seek internal clearance and forward the funding proposal package to the TAP. 4. Re-submissions will be handled by the TAP in the same way as regular submissions.
4. BOARD MEETING SUPPORT				
4.1	Board consideration of funding proposals		TAP review team	The TAP review team will be available before and during the Board meeting, virtually or in person, to respond to the questions of Board members and advisers on the assessments of endorsed and non-endorsed funding proposals.

ANNEX IX

KEY DISCUSSION POINTS FOR CIC2

Key discussion points for CIC2 will focus on a proposal's overall fit with strategic priorities. CIC2 will consider proposals for which an AE or NDA has submitted a CN or FP using the appropriate template. These CNs/FPs should include the following information at a minimum:

Project description including:

- A clear description of the project's objectives, components and outputs;
- A table of the proposed funding amounts for each component and output, disaggregated by financial instrument for each financier; and
- A preliminary assessment of the ESS category.

Description of the theory of change (the inclusion of a diagram is optional but highly encouraged);

Estimate of the expected impact potential including:

- For mitigation, estimates of GHG emission reductions (tCO_2eq), identification of the methodology used, a description of the emissions baseline and assumptions used, and identification of sources of emission reductions; and
- For adaptation, estimates of the number of beneficiaries; identification of current or future climate impacts, vulnerabilities and risks; and anticipated adaptation benefit streams;

Explanation of the paradigm shift potential, including, as applicable:

- Description of how the project will contribute toward low-emission and climate-resilient development pathways consistent with relevant national climate change adaptation strategies and plans;
- Consideration of arrangements that provide for the long-term and financially sustainable continuation of relevant outcomes and activities derived from the project/programme beyond the completion of the intervention;
  - The potential for scaling up and/or replication;
  - The potential for knowledge-sharing and learning;
  - The contribution to the creation of an enabling environment; and
  - The contribution to regulatory framework and policies;
- Evidence of country ownership:
  - Alignment with and contribution to national climate change strategies (e.g. NDCs, NAPs, NAPAs and NAMAs) and other relevant policies (e.g. economic strategies, technology needs assessments, development policies and plans, disaster risk reduction policies);
  - Priority within the relevant GCF Country Programme, if available;
  - Succinct description of AE experience in the country and chosen sector and explanation of why the proposed EE(s) is/are best suited to project implementation, in the context of the country; and
  - Description of any engagement among the NDA, AE and/or other relevant stakeholders in the country that has taken place and what further engagement will be undertaken as the concept is further developed.
  - Detailed analysis of components/outputs/activities of the project/programme for comparison to other approved or planned funded activities, including other multilateral climate funds to ensure complementarity and coherence, and to minimize overlap, if applicable.

In addition, the task team should provide the following information to the CIC, either through slides or supporting documents:

- Ratings of the CN against the Dimensions of the GCF Innovation and Additionality Tool:
  - For FPs, at CIC2 stage, the Investment Criteria Scorecard may also be used to generate the ratings against the six IF criteria, with the TM expressing any disagreement with the output of the ICS tool;
- An assessment of the proposal's impact potential, based on a climate assessment by the Climate Specialist and through task team's application of the GCF Climate Guidance:
  - For mitigation, the assessment should examine mitigation potential and relevance, validate the concept's additionality, provide an initial review of GHG emission baselines and project emissions, validate methodological approaches and provide initial comments on GHG emission estimates if provided by the AE/NDA.
  - For adaptation, the assessment should examine climate rationale, including observed and projected risks; inspect the parameters used for vulnerability assessments; comment on the vulnerability and risk analysis or impact assessments (current/ observed and future/ projected); and comment on the relevance of the prioritized adaptation measures to address the assessed vulnerability, risks and impacts.
- An assessment of Country ownership, encompassing:
  - Alignment with national climate change strategy;
  - Coherence with existing policies;
  - Capacity of AE/EE to deliver, and
  - Adequacy of stakeholder consultations and engagement.

GREEN
CLIMATE
FUND