



**GREEN
CLIMATE
FUND**

Meeting of the Board
5 – 6 July 2017
Songdo, Incheon, Republic of Korea
Provisional agenda item 7

GCF/B.17/Inf.02/Add.02

4 July 2017

Status update on indicative minimum benchmarks

Summary

This informational document gives a status update of the work on indicative minimum benchmarks led by the Investment Committee. The Committee expects to deliver a proposal for a set of indicative minimum benchmarks at the eighteenth meeting of the Board. This status update provides information on the progress to date and the work remaining. The work on indicative minimum benchmarks is expected to continue beyond the eighteenth meeting of the Board.

I. Introduction

1. Through decision B.07/06, the Board requested the Investment Committee to submit for consideration minimum benchmarks for each of the investment criteria, taking into account the best practices of other institutions. The Board clarified this request in decision B.09/05 and requested the Secretariat to develop indicative minimum benchmarks that (1) encourage ambition; and (2) take into account the needs of particularly vulnerable developing countries, according to project size, mitigation/adaptation, and local and sector circumstances.
2. In response, the Investment Committee has led the work on indicative minimum benchmarks with the support of the Secretariat and an external consulting firm. The first phase of research and analysis on indicative minimum benchmarks did the following: provided an assessment of other institutions' best practices and available data; identified data gaps and constraints that may present challenges for indicative minimum benchmarks; and estimated a preliminary set of indicative quantitative minimum benchmarks for two investment criteria (mitigation impact potential and mitigation effectiveness and efficiency).
3. A second phase of work is currently underway, which seeks to build on the previous analysis by (1) testing the robustness of the indicative quantitative benchmarks through their retrospective application to projects/programmes already approved by the Board; (2) further developing qualitative benchmarks; and (3) exploring the potential for expanded benchmarks by results area by developing a pilot approach for projects focused on the resilience of infrastructure and the built environment. The second phase also seeks to suggest possible implementation options for the Board's consideration.

II. Key findings to date

2.1 Other institutions' current and best practices

4. Minimum benchmarks have had very limited use in multilateral climate change and development funds that are being implemented by multiple agencies. Development banks use minimum benchmarks relatively more often, for both financial and sector-specific conditions.
5. Two climate funds—the Clean Technology Fund (CTF) and the Nordic Climate Facility—have defined and used minimum benchmarks to assess specific aspects of project proposals. The CTF has defined a marginal abatement cost of USD 200/tonne of carbon dioxide equivalent (t CO₂ eq) as a minimum benchmark, but this minimum benchmark does not appear to be applied in practice. The investment guidelines of the NCF require that 20 per cent of a project's funding come from other sources (i.e. co-financing).

2.2 Indicative quantitative minimum benchmarks

6. Using project-level data from similar funds (the Global Environment Facility, CTF and the Scaling Up Renewable Energy in Low Income Countries Program (SREP)), indicative minimum benchmarks were estimated for mitigation impact potential (lifetime greenhouse gas emission reductions) and mitigation effectiveness and efficiency (cost per tonne and additional

finance leveraged).¹ Benchmarks were estimated across several dimensions, including country circumstance (e.g. least developed countries, small island developing States and African States), project size (micro, small, medium, and large) and sector. Benchmarks also included a range of three reference levels (5, 10, and 25 per cent).²

7. Nearly all of the 16 approved mitigation GCF projects and programmes exceeded the highest reference level of 25 per cent for lifetime emission reductions and cost per tonne. GCF projects fared less well against the indicative minimum benchmarks for additional finance leveraged. Subsequent analysis will explore likely reasons for this result, which could include the country circumstances.

2.3 Indicative qualitative minimum benchmarks

8. Work is in the early stages to develop qualitative minimum benchmarks for the remaining investment criteria—paradigm shift potential, sustainable development potential, needs of the recipient and country ownership. The development of these benchmarks will be informed by research, evaluations, and assessments of similar criteria by climate and other development finance organizations, as well as reviews of project proposals submitted to the GCF and other climate funds. The interim report presents research and analysis and proposed options for qualitative minimum benchmarks for one criterion: sustainable development potential.

2.4 Expanded benchmarks

9. This work is also in the early stages. The state of practice was reviewed in regard to considering climate risks as part of the project proposal process in infrastructure and built environment projects, looking at GCF proposals and project proposals from comparator funders. Subsequent work will consider the analytical and resource constraints that affect the use of indicators and minimum benchmarks in this area. The objective is to develop a conceptual framework and suggest potential approaches for incorporating expanded minimum benchmarks into the project proposal review and approval process, as appropriate.

III. Constraints, challenges and data gaps

10. Earlier work on indicative minimum benchmarks led by the Investment Committee detailed some technical challenges of defining benchmarks, including:

- (a) Addressing small sample sizes and data gaps, particularly for adaptation projects and different countries and regions;

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

² Each level represents the percentage of projects from similar funds in a given category that would not meet the benchmark value, with 5 per cent being the lowest reference level selected and 25 per cent being the highest. For example, at the highest level, 25 per cent of medium-sized comparator fund projects have lifetime emission reduction levels that are less than 900,000 t CO₂e. Therefore, a GCF medium-sized project with lifetime emission reduction levels higher than this benchmark value means the project is expected to achieve more lifetime emission reductions than 25 per cent of comparator fund projects in this category.

- (b) Comparing data from different institutions given inherent differences in project portfolios and non-standardization of estimation methodologies;
- (c) Setting reference levels on quantitative indicative minimum benchmarks (where to set the reference level(s) relative to the underlying data); and
- (d) Developing qualitative indicative minimum benchmarks in cases where quantitative benchmarks are less straightforward.

11. For quantitative benchmarks, the analysis identified several challenges in comparing GCF project data to quantitative benchmarks based on comparator organizations' data. These include: different methods for estimating emission reductions; different types of costs eligible for funding; the different contexts of recipient countries; and different objectives and project goals. Small sample sizes and data gaps also pose a constraint for establishing robust benchmarks.

12. Data were not readily available from comparator funds to enable analysis that would inform the development of quantitative conditions for benchmarking paradigm shift potential, sustainable development potential, the needs of the recipient and country ownership. Therefore, qualitative benchmarks are being explored for these criteria.

13. In the case of the sustainable development potential investment criterion, the review of comparator fund approaches and relevant analyses by international organizations illustrates the significant challenges in developing benchmarks for sustainable development that: (a) are broadly applicable across a range of sectors, technologies, activities and countries; (b) are indicative of ambitious efforts to address sustainable development; (c) provide meaningful information to project reviewers through their application; and (d) are not unduly burdensome for project developers in seeking to demonstrate that they meet such benchmarks.

IV. Next steps and options for implementation

14. Next steps include completing the work described above that is in the early stages, with the intention of developing a proposal for a simple and straightforward set of indicative minimum benchmarks for the six investment criteria of the GCF. Work in this regard should be continued after the eighteenth meeting of the Board (B.18).

15. It is currently planned that the B.18 deliverable will include the following:

- (a) A proposal for indicative minimum benchmarks for each of the investment criteria of the GCF, including quantitative and qualitative benchmarks as appropriate;
- (b) An analysis of approved GCF projects against the quantitative benchmarks;
- (c) A pilot exercise of expanded minimum benchmarks to test the approach at a more granular level in one result area; and
- (d) Conclusions and recommendations.

16. An important part of this work will be developing options for how benchmarks could be implemented as part of the investment decision-making process. For example, benchmarks could be given to accredited entities as guidelines for project development or could be applied by the Independent Technical Advisory Panel and/or the Secretariat during their project reviews, along with expert recommendations on whether projects not meeting the benchmarks have sufficient justification. Other options may also be explored.

17. The challenges faced so far in developing quantitative benchmarks that represent meaningful values for comparison to GCF projects and programmes, as well as potential trade-



offs among other investment criteria, also suggest the need for a flexible and possibly phased approach to implementation.
