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Indicative Minimum Benchmarks

Summary

This document outlines the proposal by the Secretariat for Indicative Minimum Benchmarks. It builds on two-phase process led by the Investment Committee with support from the Secretariat and an external consulting firm. The Investment Committee recommends that the name Indicative Minimum Benchmarks is instead referred to as "Investment Criteria Indicators" to better reflect the objectives of their implementation.

I. Introduction

1. The Board of the Green Climate Fund (GCF) ('The Board') requested the GCF Secretariat to develop minimum benchmarks for project and programme proposals to be considered by the Board. The request was first made at the seventh meeting in May 2014, and additional guidance was provided at the ninth meeting in March 2015.

2. At the seventh meeting, the Board adopted an initial investment framework for the GCF, which laid out six investment criteria and 24 coverage areas for assessing funding proposals. The Board also decided that further work was to be done on the investment framework. As part of decision B.07/06, paragraph (c), the Board requested for consideration of minimum benchmarks for each criterion, taking into account the best practices of other institutions.

3. At the ninth meeting, the Board considered a more detailed investment framework, including sub-criteria and indicative assessment factors, as well as methodology options for the assessment of funding proposals. One assessment methodology option presented minimum benchmarks, both qualitative and quantitative, for the investment criteria. Ultimately, the Board adopted the more detailed investment framework and decided to use indicative minimum benchmarks. In decision B.09/05, paragraph (d), the Board requested the Secretariat to develop indicative minimum benchmarks that:

(a) Encourage ambition; and

(b) Take into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change, in particular the least developed countries (LDCs), small island developing States (SIDS), and African States, according to project size, mitigation/adaptation, and local and sector circumstances.

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

5. The second phase of the Investment Committee's work on minimum benchmarks built on the previous phase by (i) testing the robustness of the indicative quantitative benchmarks through their retrospective application to projects / programmes already approved by the Board; (ii) further developing qualitative benchmarks; and (iii) exploring the potential for expanded benchmarks by results area by developing a pilot approach for projects focused on resilience of infrastructure and the built environment.

II. Indicators for Investment Criteria

6. Building on the research and analysis commissioned by the Secretariat on behalf of the Investment Committee and after consideration of each phase of the process, this document:

(a) Sets out the updated understanding of the objectives of the benchmark work, clarifying their purpose;

(b) Proposes a set of qualitative and quantitative indicators for each of GCF's six investment criteria; and

(c) Recommends a way forward on implementation and next steps.

7. The Investment Committee's proposal is provided in annex II to this document.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.19/04/Rev.01 titled "Indicative Minimum Benchmarks":

(a) *Adopts* the Investment Criteria Indicators as set out in annex II;

(b) *Decides* to implement Option C for a pilot period of X;

(c) *Requests* the Secretariat to provide guidelines to Accredited Entities on the use of Investment Criteria Indicators;

(d) *Also Requests* the Secretariat to report to the Investment Committee the results of the application of the Investment Criteria Indicators at the end of the pilot period.

Annex II: Proposal on Investment Criteria Indicators

I. Objectives

1. Given the objectives of the work, the Investment Committee has recommended that indicative minimum benchmarks are no longer referred to as such, as this has led to confusion both over their purpose and implementation. Instead, the Committee proposes the name "investment criteria indicators" to better reflect their intended purpose and objective.

2. Through its discussions on investment criteria indicators, there is a common understanding among Committee members on the following objectives of this work:

(a) Should be used, as guidance, by a range of GCF stakeholders, particularly the Board, ITAP, the Secretariat and Accredited Entities (AEs), in order to describe more clearly how the project is expected to deliver against the relevant investment criteria, taking into account developing countries' different national circumstances;

(b) Should not be used binary pass/fail test nor will set a single threshold which must be passed; instead, will support AEs to describe the extent to which a funding proposal delivers against the investment criteria and provides a mechanism through which an explanation can be provided for relatively higher or lower expected performance, again taking into account different national circumstances;

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

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

3. Other comparable funds have not established indicators ex-ante, therefore there were limitations encountered during the two phases of the research work. The main limitation was the challenge to capture differing national circumstances when analysing the data from comparator funds. Proposals are received from a range of countries with varying national circumstances. It is vital to understand and acknowledge these circumstances when applying the indicators.

4. In addition, the Committee have also agreed the following through their discussions:

(a) Indicators should not be used to screen out proposals for funding;

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

(c) Data used for developing the indicators' reference-values do not reflect the circumstances of all developing countries, reflecting the limitations in the availability of data used from comparator funds. Therefore, the application of the indicators must consider the range of different national circumstances;

(d) Indicators can facilitate an AE to describe why the expected performance against the investment criteria might look different relative to other proposals. Possible reasons may be readily identifiable (e.g., country context, proof of concept, etc.) or may highlight a gap in the development of the proposal;

(e) As other comparable funds have not established indicators ex-ante, GCF's work in this area is forging new ground, and therefore will start with a small and simple set of indicators and evolve over time with experience and lesson learning; and

(f) By taking a more consistent and transparent approach to looking at funding proposals, stakeholders should have a clearer understanding of the strengths and weaknesses of each proposal.

5. The Committee proposes the following framing for these indicators:

(a) For the quantitative investment criteria, ranges will be established in order to position the funding proposal. Ranges will be drawn from the 5th, 10th and 25th percentiles from the research previously done by the consulting firm on comparator funds. Each applicable proposal will report against the range for that quantitative criteria and provide an explanation as appropriate.[1]

(b) For the qualitative investment criteria, a checklist will be applied. Each proposal can then demonstrate which of the suggested or recommended elements have been considered, and if some have not, the AE may describe why those elements were not appropriate.

II. Indicators for each Investment Criterion

2.1 Impact Potential

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

7. *Mitigation impact* indicator*: project lifetime emission reductions (tCO_2eq).* Proposed indicators for project lifetime emission reductions are differentiated by project size and country circumstance, to take into account the needs of those developing countries particularly vulnerable to adverse effects of climate change, as requested in decision B.09/05, paragraph (d).

8. These indicators represent the 5th, 10th and 25th percentile of comparator fund projects; in other words, 5, 10 and 25 percent of comparator fund projects report lifetime emission reductions less than the proposed value, respectively. Indicators for LDCs, SIDS, and African States are set at 40 percent below the value for all other developing countries, based on the data from comparator funds.

Table 1: Indicative minimum project lifetime emission reductions (tCO2eq)

Project Size	LDCs, SIDS, and African States			All other developing countries		
	5%	10%	25%	5%	10%	25%
Micro-sized	1 920	3 660	24 540	3 200	6 100	40 900
Small-sized	9 120	37 500	120 300	15 200	62 500	200 500
Medium-sized	83 280	144 480	540 000	138 800	240 800	900 000
Large-sized	252 720	559 200	2 400 000	421 200	932 000	4 000 000

Box 1: Mitigation Impact Theoretical Example

Project A is a medium-sized project from an LDC. The project lifetime emissions reductions are 96,000 tCO2 eq. This project would have emissions savings better than 5-10% of projects from comparator funds.

[1] According to the consultancy report by ICF "All but one approved GCF projects exceed the most ambitious 25 percent level benchmarks (differentiated by sector and country circumstance). The one exception fell short of the 25th percentile benchmark but still exceeded the 5th and 10th percentile levels."

9. *Adaptation impact* indicator.[2] Project proposals describe the expected change in losses of lives and direct economic losses due to the impact of extreme climate-related disasters in the geographic area of the GCF intervention. Proposals should also refer to number of direct and indirect beneficiaries of the project and discuss how vulnerabilities will be reduced or resilience will be increased, taking into account country context.

2.2 Paradigm Shift Potential

10. *Necessary conditions* indicator. Project proposals identify a vision for paradigm shift as it relates to the subject of the project. This vision for longer-term change should be accompanied by a robust and convincing theory of change for replication and/or scaling up of the project results, or by a description of the most binding constraint(s) to change and how it (they) will be addressed through the project, with reference to country context, as appropriate.

2.3 Sustainable Development Potential

11. *Co-benefits* indicator**.** Project proposals identify at least one positive co-benefit—with an associated indicator and baseline and target values, disaggregated for men and women—in at least two of the three coverage areas:

(a) Economic co-benefits such as the creation of jobs, poverty alleviation, and growth of private funds.

(b) Social co-benefits such as improvements in health and safety, access to education, and cultural preservation.

(c) Environmental co-benefits such as increased air quality, conservation, and biodiversity.

2.4 Needs of the Recipient

12. *Adaptation* indicator*: Vulnerability-based approach.* Project proposals explicitly identify the constituent components of vulnerability (exposure, sensitivity, and adaptive capacity) for the country and the specific people, places, or ecosystems targeted by the project intervention, with reference to national circumstances, as appropriate.

13. *Mitigation and adaptation* indicator*: Barriers to finance.* Project proposals describe the country's financial, structural, and technical barriers to accessing domestic (public), private, and other international sources of funding, as well as if and how the proposed intervention will address those barriers, taking into account different national circumstances. Such an approach could be implemented through a tally card (example in the table below).

Table 2: Barriers to Finance

Category of Barrier	**Project Description of Barrier** (specific to the country and sector/technology, and describing relevance to domestic, private, and international sources of funding)	**Barrier directly targeted by the intervention?**
Financial *(e.g., pricing distortions, higher capital intensity, risk)*		
Structural *(e.g., policy/regulatory gaps, lack of standards, fragmentation and transaction costs, incentive/agency issues, network needs)*		

[2]Note that for adaptation, the limited project-level data available (i.e., on number of beneficiaries) did not provide a sufficient sample size (44 PPCR projects) to inform quantitative indicators by project size or country circumstance.

Technical/ Capability *(e.g., awareness and education, inability to price risk, market immaturity, need for technical solutions)*		

2.5 Country Ownership

14. *Alignment with NDC* indicator. Project proposals clearly describe how the proposed activities align with the country's nationally determined contribution (NDC) and how the FP will help to achieve the NDC by making progress against specific targets in national climate policies and strategies, such as NAMAs and NAPs.

2.6 Efficiency and Effectiveness

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

16. *Mitigation efficiency and effectiveness* indicator*: cost per tonne.* Proposed indicators for cost per tonne are differentiated by project sector and country circumstance[3], to take into account the needs of those developing countries particularly vulnerable to adverse effects of climate change, as requested in decision B.09/05, paragraph (d).

17. These indicators represent the 5th, 10th and 25th percentile of comparator fund projects; in other words, 5, 10 and 25 per cent of comparator fund projects report cost per tonne values higher than the proposed value, respectively. As demonstrated in the table below, the 5th percentile separates the lowest 5% of comparator projects with a cost of $784 per tonne in the Energy Access and Power Generation sector. The 25th percentile has a much lower cost per tonne which indicates its relative cost efficiency. Indicators for LDCs, SIDS, and African States are set at 20 percent above the value for all other developing countries.

Table 3: Indicative cost per tonne by project sector

Project sector[4]	Indicative cost per tonne for:					
	LDCs, SIDS, and African States			All other developing countries		
	5%	10%	25%	5%	10%	25%
Energy Access and Power Generation	941	425	173	784	354	144
Buildings, Cities, Industries and Appliances	2 428	434	150	2 023	362	125

Note: US dollars

18. *Mitigation efficiency and effectiveness* indicator*: additional finance leveraged.* Proposed indicators for additional finance leveraged are differentiated by country circumstance, to take into account the needs of those developing countries particularly vulnerable to adverse effects of climate change, as requested in decision B.09/05, paragraph (d).

19. These indicators represent the 5th, 10th and 25th percentile of comparator fund projects; in other words, 5, 10 and 25 percent of comparator fund projects report ratios of additional finance leveraged that are less than the proposed value, respectively.

Table 4: Indicative Minimum Additional Finance Leveraged

LDCs, SIDS, and African States			All other developing countries		
5%	10%	25%	5%	10%	25%

[3] Country circumstance refers to the different national circumstances faced by each country that would prevent it from meeting these indicators. This expands beyond the special circumstances for LDCs, SIDS, and African States.

[4] Estimated indicator values for transport and land use and forestry are not recommended at this time, given small sample sizes.

0.3	0.9	1.6	0.9	1.4	2.9

Note: Values represent the ratio between co-financing and GCF financing.

20. *Mitigation* indicator*: expected rate of return.* Projects provide an estimate of expected economic and financial internal rate of return.

21. *Mitigation* indicator*: financial sustainability.* Projects describe the financial viability of project results over the long run (i.e., after project closure).

III. Implementation of the indicators

22. The proposed implementation of these indicators follows the Investment Committee's previous discussions on starting with a straightforward proposal and then building through experience and lesson learning.

23. The Secretariat proposes to implement these indicators on a pilot basis. In the implementation of these indicators, it is emphasized that national circumstances must be considered.

24. At the conclusion of the pilot period, the Secretariat would then report to the Investment Committee on the results of their application.

25. Three implementation options are presented below for the Board's consideration. The Investment Committee recommends implementing Option C.

Option A

26. This option will use the indicators as part of the Board's information related to the consideration of funding proposals as well as for the development of funding proposals by the AEs and the respective assessments of the Secretariat and TAP. This option would enhance consistency and transparency in developing and reviewing funding proposals.

27. This option would have the Secretariat produce an updated template or document to capture the necessary information from AEs. Then AEs would be requested to provide the information as a routine part of funding proposal submission. The Secretariat and TAP would consider this as a part of their assessment possibly starting from B.21. The same information would then be made available to Board members.

Option B

28. This option will request the Secretariat to implement these indicators by turning them into a guideline-like document to assist AEs.

29. This option would aim to provide AEs with a guideline-like document that enables them to meet the requirements of the investment criteria, including by defining a possible range of information that demonstrates how GCF's investment criteria have been interpreted and/or met. The guideline-like document will draw on the GCF's portfolio of approved projects.

Option C

30. Option C is a hybrid of options A and B. This hybrid option would allow all actors involved in the development, review, and assessment of funding proposals, e.g. AEs, the Secretariat, the Board, and TAP, to be involved in this learning process. This option is the preferred option of the Investment Committee.

31. The initial step in Option C will be to request the Secretariat to create guidelines to assist AEs in implementing the indicators, including by defining a possible range of information that

demonstrates how GCF's investment criteria have been interpreted and/or met. The guidelines will draw on the existing GCF portfolio of approved projects and will enable AEs to meet the requirements of the investment criteria.

32. Following the development of guidelines for AEs, the indicators would be used as part of the Board's information related to the consideration of funding proposals as well as by the Secretariat and TAP for their assessments of funding proposals. To implement this step, the Secretariat would have to produce an updated template or document to capture the necessary information. The AEs would then complete the template or document as part of a funding proposal submission. The Secretariat and TAP would consider this as a part of their assessment possibly starting from B.21. The same information would then be made available to Board members.