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Investment criteria indicators

Summary

This document outlines the proposal by the Secretariat on the investment criteria indicators. It builds on a two-phase process led by the Investment Committee to produce indicative minimum benchmarks with support from the Secretariat and an external consultancy firm. The document has been updated in the light of the discussions during the nineteenth meeting of the Board on document GCF/B.19/04/Rev.01 titled "Indicative Minimum Benchmarks" and the written comments submitted to the Secretariat following the Board meeting. The document also discusses the application of the indicators to the GCF portfolio.

I. Introduction

1. The Board, in decision B.07/06, requested the 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 of the Board, in May 2014, and additional guidance was provided at the ninth meeting of the Board, in March 2015.

2. By the same decision, the Board adopted an initial investment framework for GCF, which defined 6 investment criteria and 24 coverage areas for assessing funding proposals. The Board also decided that the investment framework would be kept under review. The Board requested the Investment Committee to submit minimum benchmarks for each criterion, taking into account the best practices of other institutions, for consideration by the Board at its eighth meeting.

3. At its 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 qualitative and quantitative minimum benchmarks 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 in order to:

(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, small island developing States 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 the development of indicative minimum benchmarks with the support of the Secretariat and an external consultancy 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 the development of 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 and 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 the resilience of infrastructure and the built environment.

6. At its nineteenth meeting (B.19), the Board considered document GCF/B.19/04/Rev.01 titled "Indicative Minimum Benchmarks". In decision B.19/07, paragraph (a), the Board decided that "indicative minimum benchmarks" would be referred to as "investment criteria indicators". In paragraph (b) of the same decision, the Board requested the Secretariat to further develop a proposal on investment criteria indicators, taking into account the feedback raised by the Board during B.19 and written comments submitted to the Secretariat.

7. In response, the Secretariat took over the work on further developing the investment criteria indicators, supported by the Investment Committee. The Secretariat's work on the indicators is a continuation of the work completed by the Investment Committee and the external consultancy firm to produce document GCF/B.19/04/Rev.01 for B.19. The investment criteria indicators build on the indicative minimum benchmarks, incorporating comments

received from the Board during B.19 and the written comments received from Board members following the meeting.

8. To further the development of the indicators after B.19, the Secretariat has retroactively applied the indicators to a sample of the GCF portfolio. The analysis was undertaken to identify the strengths and weaknesses of the proposed indicators. The indicators have been updated as necessary based on the analysis.

II. Investment criteria indicators

9. 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, the discussions at B.19, the written comments submitted by Board members and the application of the investment criteria indicators to the GCF portfolio, this document:

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

(b) Proposes a revised set of indicators for each of the six GCF investment criteria that incorporates qualitative measures; and

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

10. The Secretariat's proposal on the investment criteria indicators is provided in annex II.

III. Objectives

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

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

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

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

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

12. As other comparable funds have not established indicators ex ante, limitations were therefore encountered during the two phases of the research work. The main limitation was the challenge in capturing 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.

13. In addition, the Investment Committee, through its discussions, has agreed on the following points:

(a) The 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 each proposal to understand its individual context and merits. A project may be less strong on one criterion (e.g. sustainable development potential) but stronger on another (e.g. impact potential). The two should be considered together and not in isolation;

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

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

(e) As other comparable funds have not established indicators ex ante, the work of GCF in this area is forging new ground and therefore will start with a small, simple set of indicators that evolves over time with experience and lessons learned; and

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

IV. Follow-up actions

14. The Secretariat will ensure that the indicators meet the stated objectives. The Secretariat will undertake the following actions in the implementation of the investment criteria indicators:

(a) Apply the indicators on a pilot basis for one year to projects under implementation in an integrated manner and start incorporating relevant information on the indicators into the portfolio performance report to the Board;

(b) Report back to the Board after one year on the progress of the pilot period;

(c) Provide guidelines to AEs on how to use the investment criteria indicators to describe how project/programme proposals deliver against the investment criteria by the twenty-second meeting of the Board. These guidelines will draw on the existing GCF portfolio of projects;

(d) Update the funding proposal template to incorporate the information required by AEs to report on the indicators aligned with the modifications needed for the integrated policy approach, ideally by the twenty-second meeting of the Board;

(e) Start using the indicators as part of the regular work of the Secretariat and TAP, and provide related information as part of the Secretariat and TAP assessments sent to the Board at its twenty-fourth meeting; and

(f) Review the indicators when the updates of the results management framework and performance measurement framework have been completed by the Board.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.21/18 titled “Investment criteria indicators”:

(a) *Adopts* the investment criteria indicators as set out in annex II to this decision; and

(b) *Takes note* of the actions by the Secretariat as set out in annex III.

Annex II: Investment criteria indicators

I. Objectives and approach towards implementation

1. The investment criteria indicators:

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

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

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

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

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

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

II. Indicators for each investment criterion

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

2.1 Impact potential

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

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

5. **Adaptation impact indicator**. Project proposals should describe the expected change in loss of lives, value of physical assets, livelihoods, and/or environmental or social losses due to the impact of extreme climate-related disasters and climate change in the geographical area of the GCF intervention. Proposals should also refer to the number of direct and indirect

beneficiaries of the project, taking into account the needs of developing countries that are particularly vulnerable to the adverse effects of climate change.

2.2 Paradigm shift potential

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

2.3 Sustainable development potential

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

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

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

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

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

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

2.4 Needs of the recipient

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

2.5 Country ownership

10. **Alignment with nationally determined contributions (NDCs), relevant national plans indicator, and/or enabling policy and institutional frameworks**. Project proposals should clearly describe how the proposed activities align with the country's NDC and other relevant national plans, and how the funding proposal will help to achieve the NDC or these plans by making progress against specific targets defined in national climate policies and

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

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

2.6 Efficiency and effectiveness

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

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

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

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

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

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

Annex III: Follow-up actions by the Secretariat to support the implementation of the investment criteria indicators

1. The Secretariat will support the implementation of the investment criteria indicators following the Investment Committee's previous discussions on starting with a straightforward proposal and developing the indicators through experience and lessons learned.

2. Implementation of the indicators will be a phased process, starting as a pilot phase for one year. The indicators will initially be applied to the projects under implementation and relevant information on the indicators will be incorporated in the portfolio performance report to the Board.

3. By the twenty-second meeting of the Board (B.22), the Secretariat proposes to create guidelines to assist accredited entities (AEs) in implementing the indicators, including by defining a possible range of information that demonstrates how the GCF 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.

4. At B.22 (or at a date agreed when the interrelated policy matters have been agreed, requiring updates to the funding proposal template), the Secretariat proposes to update the funding proposal template to incorporate the data required for AEs to report on the indicators.

5. Starting at the twenty-fourth meeting of the Board, the Secretariat proposes to use the indicators as part of the information related to the consideration of funding proposals that is shared with the Board; the indicators will also be used, by the Secretariat and independent Technical Advisory Panel to assist in their assessments of funding proposals.

6. The Secretariat will report back to the Board after one year on the progress made during the pilot period.

7. Finally, the Secretariat proposes that the investment criteria indicators will be reviewed when the results management framework and performance measurement framework are updated.