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Steps to enhance the climate rationale of GCF-supported activities

Summary

This document responds to the Board's request to the Secretariat to address various policy matters related to the investment framework, including steps to enhance the climate rationale of GCF-supported activities (see decision B.19/06). It is prepared on the basis that the 'steps to enhance climate rationale' do not set out any project selection or eligibility criteria for GCF funding, but rather provide non-prescriptive, principles-based guidance that accredited entities can use to establish the climate impact potential of GCF-supported projects and programmes in line with the GCF investment framework. In connection with the principles-based guidance described in this paper, decision B.28/03 further requested the Secretariat, in close consultation with the independent Technical Advisory Panel, to develop a transparent and consistent approach to their assessment of funding proposals. To that end, this document outlines related actions that are being taken by the Secretariat and the independent Technical Advisory Panel to establish clear and consistent guidance and support for the assessment of the climate impact potential of proposals, thus providing consistent GCF-level guidance that will improve the consistency and ease of proposal development and review.

I. Introduction

1. Under the Governing Instrument for the GCF, the purpose of the GCF is to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change. The Board has since taken a series of decisions setting out how the resources of GCF should be deployed to support mitigation and adaptation activities in developing countries, including that:

- (a) In relation to adaptation, resources will be allocated based on: (i) 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; (ii) the urgent and immediate needs of vulnerable countries, in particular least developed countries (LDCs), small island developing States (SIDS) and African States (see decision B.05/05, para. (d)); and
- (b) In relation to mitigation, resources will be allocated based on the ability of a proposed activity to demonstrate its potential to limit and reduce greenhouse gas (GHG) emissions in the context of promoting a paradigm shift (see decision B.05/05, para. (e)).

2. In line with its Strategic Plan for the GCF 2020–2023 (Strategic Plan 2020–2023), paragraph 13 (a), the GCF has committed to deliver greater mitigation and adaptation impact for developing countries compared with the initial resource mobilization (IRM) period while strengthening country ownership and capacity to identify, design and implement projects and programmes. The Strategic Plan 2020–2023 also commits the GCF to deliver balanced funding across mitigation and adaptation over time, as well as use minimum allocation floors as appropriate in allocating resources for adaptation, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States.

3. To date, GCF has not presented clear and consistent guidance to inform how accredited entities (AEs) are to present information related to establishing the mitigation and/or adaptation impact potential of funding proposals, or to guide reviews by the Secretariat and independent Technical Advisory Panel (TAP). This has led to difficulties for AEs in establishing climate impact potential, particularly with regard to adaptation proposals. It has also resulted in delays in the review process and access to GCF resources because funding proposals have undergone multiple feedback and revision rounds, with some not receiving endorsement or being recategorized due to a lack of sufficient justification to be presented as adaptation or cross-cutting projects.

4. Through its decision B.19/06, paragraph (d), the Board requested the Secretariat to develop an integrated approach to address the policy gaps related to the investment framework, including steps to enhance the climate rationale of GCF-supported activities.

5. In decision B.19/06, paragraph (f), the Board also requested the Secretariat to include in their approach a capacity-building strategy to support national designated authorities/focal points, and AEs, particularly direct access entities (DAEs), to incorporate these policies into their interactions with the GCF.

6. In response to decision B.19/06, paragraph (d), in 2018 the Secretariat commissioned a study from the World Resources Institute on GCF's adaptation approaches. Based on that study and in consultations with the Board, an initial paper with a focus on adaptation climate rationale and readiness was developed for the twenty-first meeting of the Board (B.21). However, the paper was not considered by the Board during that meeting.

7. Also in response to decision B.19/06, paragraph (d), the Secretariat initiated technical work with the World Meteorological Organization (WMO) on the development of information platforms and guidance for providing aspects of the climate science evidence base required for adaptation proposals. Those and similar tools form part of the guidance proposed in this paper.
8. In accordance with the Strategic Plan 2020–2023 (para. 20 (c)(v)), the GCF seeks to strengthen the GCF investment framework, urgently closing remaining investment policy gaps, including steps to enhance the climate rationale of GCF-supported activities.
9. In decision B.28/03, paragraph (b), the Board requested the Secretariat, in close consultation with the TAP, to develop a transparent and consistent approach to their assessment of funding proposals.
10. This paper and the draft decision in annex I aim to respond to the various Board mandates set out above by (i) articulating steps to enhance the climate rationale of GCF-supported activities through non-prescriptive, principles-based guidance; and (ii) describing further actions that the Secretariat, in consultation with the TAP, will take to develop practical guidance, tools and capacity support to help AEs clearly articulate mitigation and/or adaptation impact potential in funding proposals. The principles-based, non-prescriptive guidance, knowledge products and online tools will be established in close consultation with the TAP and AEs. In this paper, reference to the terminology ‘steps to enhance climate rationale’ is retained to mirror the related Board mandate from decision B.19/06, paragraph (d). This terminology is used on the understanding that the ‘steps to enhance climate rationale’ were not intended by the Board to set out any project selection or eligibility criteria for GCF funding but rather directed at helping to strengthen the ability of AEs to more clearly and accurately demonstrate the climate impact potential of proposals in line with the GCF initial investment framework. For this reason, no attempt is made to define the term ‘climate rationale’ in this paper.
11. This paper also describes initiatives that will provide additional support to AEs and countries, including through the Readiness and Preparatory Support Programme (Readiness Programme) and Project Preparation Facility (PPF) support mechanisms.

II. Policy rationale

12. The Board has recognized that there is an urgent and immediate need for clear and consistent guidance by establishing a consistent approach to demonstrating adaptation and/or mitigation climate impact potential in GCF funding proposals. The urgency for this guidance stems from the assessment of funding proposals where challenges demonstrating climate impact potential have limited the ability of proposals to proceed to, or successfully receive endorsement from, the TAP. This challenge is particularly acute for adaptation projects, raising concern about achieving the target from the first replenishment of the GCF (GCF-1) of maintaining a 50:50 balance in adaptation and mitigation funding over time.
13. Between B.23 and B.29, 11 out of 21 funding proposals (52 per cent of all non-endorsements) were initially non-endorsed by the TAP on the grounds of insufficient demonstration of ‘climate rationale’. Of these 11 proposals, seven were for adaptation and two were cross-cutting. Over the same period, a number of other funding proposals were unable to proceed to TAP review because of similar issues.
14. The recent rate of attrition of adaptation proposals has also impacted GCF progress toward achieving the portfolio goals set out in the Strategic Plan 2020–2023 and updated initial investment framework for GCF-1, as already signalled by the trends in the IRM portfolio where a gradual increase of the share of mitigation projects has been observed (see figure 1).

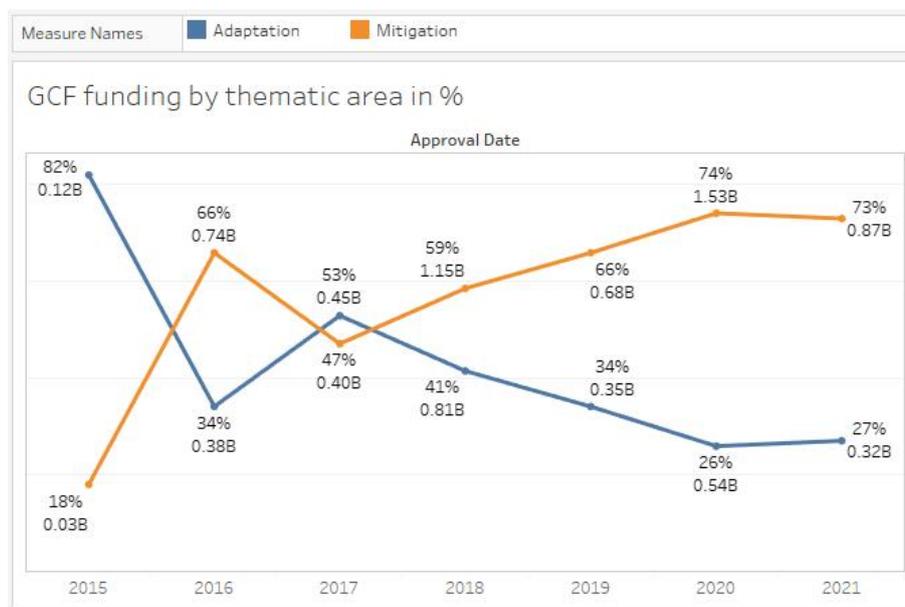


Figure 1. GCF funding by thematic area (%) since 2015.

15. Determining climate impact potential involves a number of important elements. Proposals need to show alignment with country priorities for addressing climate change impacts and should also demonstrate that the emission reductions or adaptation impacts would not have been achieved without the proposed activities. Adaptation proposals also need to show that the proposed activities are an appropriate response to a specific climate change problem.

16. Analysis of the existing portfolio by the Secretariat has shown that in mitigation, a number of approved funded activities, particularly those approved early in the IRM period, have not provided sufficient information on the methodology applied, underlying assumptions or precise data used, which has led or could lead to incorrect estimates of GHG emission reductions. Pipeline analysis indicates that this continues to be a challenge for many new funding proposal submissions as well.

17. In addition, an Independent Evaluation Unit evaluation and Secretariat review of the portfolio has shown that for adaptation, proposals often fail to provide a clear and convincing demonstration of the climate hazard that the proposal is seeking to address. The main deficiencies in assessing climate impact have been identified as : (i) unavailability of data; (ii) lack of clear articulation of the climate relevance of the proposed action to a specific climate hazard; and (iii) lack of clear articulation of the risk to vulnerable groups.

18. Clear guidance on establishing climate impact potential will promote the submission of higher quality funding proposals and a more consistent approach to reviews. This will (i) enable developing countries to access GCF resources more effectively; and (ii) enhance the ability of GCF to contribute to the objectives of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement and make investment decisions that maximize opportunities for the climate actions of each country.

III. Steps to enhance the climate rationale of GCF-supported activities

19. This paper addresses the above issues by:

- (a) Proposing guidance to enhance the articulation of climate impact potential of GCF-supported activities, in order to support the development of high-impact funding proposals and increase the consistency of review by the Secretariat and the TAP; and
 - (b) Outlining the further actions that the Secretariat will take, in consultation with the TAP, to develop a supporting framework of tools, materials, methodologies, best practices and capacity support to assist AEs in developing mitigation, adaptation and cross-cutting proposals.
20. The proposed guidance for both mitigation and adaptation described in this paper follows a principles-based approach, identifying key elements for demonstrating a funding proposal's climate impact potential. The further actions will identify a number of tools, methods and data types, which may help countries and AEs describe these key elements. In addressing 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.
21. The guidance will have positive impacts for all GCF stakeholders, but especially for:
- (a) AEs, where it will provide much-needed clarity for developing the climate impact potential of proposals, reducing their workload and reducing the number of review iterations of funding proposals;
 - (b) The TAP, which will receive proposals with a better articulation of climate impact potential, leading to a more effective and streamlined review process. The development of the guidance also cements ongoing scientific dialogue between the TAP and the Secretariat, leading to common principles;
 - (c) The Secretariat, which can work with AEs and national designated authorities (NDAs) to use the guidance to streamline the proposal development cycle, leading to improved internal review outcomes and a more rapid flow of proposals for TAP review;
 - (d) NDAs, which can use the guidance to inform national planning for climate action and climate finance;
 - (e) Delivery partners (of Readiness Programme grants), which can use the guidance to inform NDAs and DAEs in best practice approaches for designing the most relevant climate actions.

IV. Proposals for mitigation actions – key components

22. To establish impact potential, proposals for mitigation actions should demonstrate that a projected level of emissions reductions will occur, and that these emission reductions would not have happened without the GCF-funded intervention.

23. 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. Multilateral development banks and bilateral donors have also developed their own approaches towards establishing the mitigation impact potential of projects and programmes supported by them as part of their efforts to more efficiently mobilize climate finance and contribute to the goals of the UNFCCC, Kyoto Protocol and the Paris Agreement.

24. Establishing the impact potential for a mitigation proposal involves a number of key components, as follows:

- (a) The proposal should confirm alignment of the proposed activities with country priorities, including its nationally determined contribution (NDC) or other national and long-term climate strategies. The GCF is an operating entity of the financial mechanism of 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 interventions are targeting the areas of highest potential impact and need for the country;
- (b) 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 the GCF funding;
- (c) A methodological approach for the quantification of the mitigation impact 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 over the past 20 years for the quantification and monitoring of mitigation impact. Where AEs have the necessary technical expertise, they may use proposal-specific methodological approaches, but they are nonetheless expected to follow the IPCC Guidelines for National GHG Inventories (2006 and 2019) and draw on existing best practices in quantifying mitigation impact; and
- (d) 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.

V. Proposals for adaptation actions – key components

25. For adaptation actions, climate impact potential is established by providing evidence and analysis which shows that a proposal is suggesting an appropriate response to the threat of an ongoing and/or projected climate change hazard.

26. It is this climate impact that distinguishes an adaptation project from a development project, whilst recognizing that most adaptation benefits are localized and that adaptation and development are inexorably connected. Clearly establishing climate impact requires a diverse range of information, which will be unique for each proposal. Proposals should use all relevant and available data, whilst recognizing the significant variation in data availability across countries and contexts. As is the case for mitigation proposals, adaptation proposals should demonstrate alignment with country priorities and also that the proposed activity would not have occurred without GCF funding.

27. Establishing the climate impact potential for an adaptation proposal involves a number of key components, which are summarized here:

- (a) Proposals should identify the systems at risk and the climate change problem (i.e. the hazard) affecting them. They should demonstrate an explicit connection between climate change being experienced or projected to be experienced in the country or region and the climate change impact for which an intervention is being proposed. A clear definition of the problem can help ensure a tight focus on the climate change hazard and the particular sector, or group of people, that it is thought to affect. Proposals should also consider any non-climatic factors that may be causing the impact and describe the interactions between climate change and non-climatic drivers where possible. This analysis could draw on previously commissioned studies and existing country documents (e.g. national adaptation plans (NAPs), national adaptation programmes of action (NAPAs), national climate change strategies, etc.);

- (b) Adaptation proposals should show how climate change has led to the specific impacts for which the proposed adaptation action is considered necessary, or how future projections of climate change will lead to those impacts. This would normally involve the use of scientific tools, data and information platforms to present an assessment of how climate is affecting, 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 across contexts, and should be adapted to optimise data availability, context and capacities for a specific country or region.

A wide range of community tools and information platforms exist to assist in the retrieval and analysis of suitable observational data, gridded global datasets, atmospheric reanalyses and Intergovernmental Panel on Climate Change (IPCC) climate model projections. Since these tools, platforms, methods and available data are constantly evolving, there is no prescription of which to choose. Furthermore, the combination of data needed for adaptation proposals will be specific to the context of the proposal, the nature of the proposed intervention and the country capacity. 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 data sources wherever possible. Proposal developers may develop their own, proposal-specific tools where they have the technical capacity to do so;

- (c) Adaptation proposals should clearly 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 hazard. Vulnerability assessments can be used to identify groups, sectors and subregions most susceptible to the climate change impacts and therefore will provide information to support the required adaptation outcomes. This assessment may provide an understanding of socioeconomic mechanisms that exacerbate climate change impacts, thus identifying the most vulnerable population groups or sectors. This analysis can also provide the information required to ensure that the proposed activity will not lead to maladaptation;¹
- (d) The proposal should demonstrate how the specific adaptation activities address the risk caused by climate change in order to reduce vulnerability. Proposals should apply a methodological approach for the quantification of the number of beneficiaries expected to result from the activities. They should also consider any barriers (e.g. technical, social, institutional, regulatory) to the implementation of the chosen action and describe how the project would overcome those barriers;
- (e) 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); and
- (f) Finally, proposals should show that the benefits to identified beneficiaries would not occur in the absence of the GCF funding.

28. The inclusion of these key components in presenting the climate impact potential of adaptation proposals is not designed to introduce new eligibility criteria. The aim is to assist the design of transformative adaptation activities that maximize benefits and avoid maladaptation through the assessment of the full range of interactions arising from the planned actions.¹

¹ <https://www.ipcc.ch/site/assets/uploads/2018/02/WGIIAR5-Chap14_FINAL.pdf>.

VI. Framework of measures to enhance the climate rationale of GCF-supported activities

29. In line with the principles-based guidance described above, the Secretariat will, in close consultation with the TAP and AEs, also evolve a framework of measures to support more clear and consistent articulation and assessment of climate impact potential, as shown schematically in figure 2.

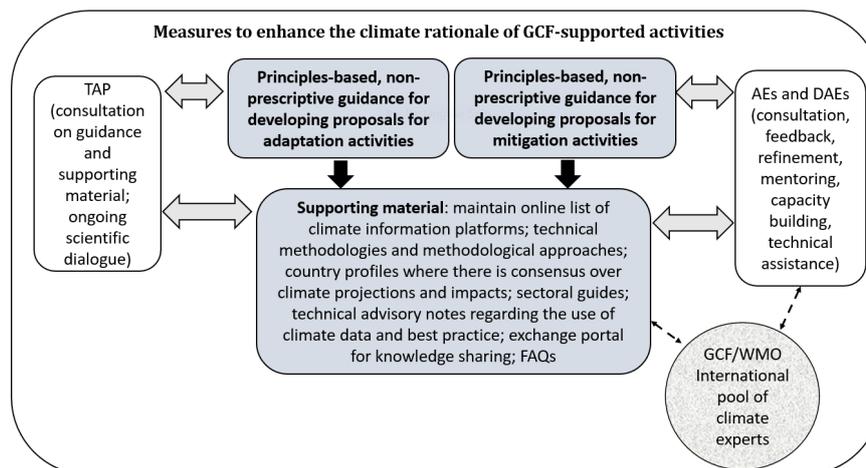


Figure 2. Framework of measures to enhance the climate rationale of GCF-supported activities.

30. To support AEs in this evolving landscape of technical materials, the GCF will maintain an online network of resources. A regularly updated series of webpages hosted by the Secretariat will list and provide links to a comprehensive suite of climate data platforms, methodologies, tools and community best-practices.

31. The resources will include a voluntary portal for AEs and Secretariat to share approaches used to overcome problems in demonstrating climate impact potential. It will also contain a list of frequently asked questions and will be regularly updated by the Secretariat.

32. One key resource is the GCF–WMO Climate Information platform (and other similar platforms such as the IPCC Working Group I Interactive Atlas), which provides a user-friendly online tool for AEs to: (i) rapidly create reports and climate indicators relevant to their proposals using the most recent IPCC climate models; and (ii) calculate proposal-specific climate indicators from any data time series. GCF and WMO will continue to collaborate to ensure that the products remain up to date and take account of feedback.

33. Another resource, already in development, is country profiles of climate hazards where there is high certainty and scientific consensus for current trends and future projections of particular climate indicators. These country profiles are being developed initially for LDCs, SIDS and African States and will link climate hazards, impacts and known appropriate adaptation measures. These profiles will be drafted by the Secretariat, in close consultation with the TAP, to identify and quantify: (i) incontrovertible climate change hazards and associated impacts where there is strong consensus across all scientific literature and IPCC assessment reports; and (ii) known adaptation measures for these specific hazards and impacts. These materials will in some cases obviate the need for additional analysis or modelling in developing adaptation proposals. The linked lists of hazards, impacts and adaptation actions are non-restrictive in that LDCs, SIDS and African States would not be limited to those specific adaptation actions; it simply means that proposal development would be simplified for those cases. These country profiles, as with all the supporting materials, will evolve and be updated by the Secretariat.

34. The online resources will also provide links to all relevant sectoral guides.
35. Working together with the TAP, the Secretariat will produce technical advice in response to any specific climate science issues encountered by AEs in the proposal review cycle (e.g. on the use and interpretation of specific observational datasets, global climate datasets and IPCC climate model data). This will assist AEs in making the best use of available climate datasets, specific to the context of their proposals. Such technical advice could also be compiled as a knowledge product for use by wider stakeholders.

VII. Additional support to be provided by the GCF to accredited entities in the use of the guidance

36. A prime motivation for this paper is to ensure that countries, AEs, and DAEs in particular receive consistent guidance that enables them to develop a high-quality demonstration of climate impact potential that leads to proposals with a significantly greater chance of being endorsed for GCF funding.
37. In line with this, and in response to decision B.19/06, paragraph (f), the Secretariat will support the use of this guidance with a suite of capacity-building measures to assist NDAs/focal points and AEs. Support measures may include (but are not limited to):
- (a) Direct mentoring and early engagement of GCF technical experts in proposal conceptualisation;
 - (b) 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; and
 - (c) Utilization of PPF funding to help countries convert project ideas identified in their country programmes into bankable investments, as mandated by Board decision B.13/21. The PPF is designed especially to support DAEs for projects in the micro (< USD 10 million) to small (USD 10–50 million) size category, with a view to enhancing the balance and diversity of the GCF project portfolio. However, all AEs are eligible to apply.
38. A longer term goal of the GCF–WMO collaboration is to explore mechanisms for establishing and deploying an international expert team to assist with the interpretation of the climate science upon which the climate impact potential depends.

VIII. Measurement of effectiveness, monitoring and review

39. The impacts of the proposed guidance and its effectiveness in enhancing climate rationale in GCF-funded activities will be regularly monitored by the Secretariat. The Secretariat will provide regular updates on the implementation and impact of this paper to the Board under its periodic activity reporting, as well as a more comprehensive stocktake each replenishment programming cycle.

IX. Consultations

40. A consultation draft of this paper was sent to all Board members and alternates on 19 July 2021. The Secretariat received 11 sets of comments from Board members and 65 comments in total. The full comments are appended to this paper, and Secretariat responses can also be found in the comment response matrix that is published alongside this paper.

41. All comments were supportive of the overall aims of this paper. Key areas in which further development of the paper was requested included the following:
- (a) There were some differences of view about the appropriate level of detail and prescriptiveness of the paper. Some comments reflected that only a very high-level, principles based approach should be presented. Others desired more specific guidance and detail. The Secretariat considers this an area which would greatly benefit from further dialogue among the Board to inform refinement of the paper;
 - (b) Many of the comments requested more details on, or examples of, the tools, methodologies and datasets that should be used in the development of climate rationale, and some comments recommended specific approaches. As the modified text, and particularly the draft decision, now make clear, the proposal is that this level of detail be provided by the ongoing development by the Secretariat of a range of supporting materials, platforms, interactive forums and examples, compiled on an accessible web platform. The principles-based approach proposed in this paper is designed to establish an inclusive approach, where different methodologies could be used by AEs to establish the climate impact potential of GCF funding proposals, allowing flexibility to account for different country and project contexts;
 - (c) Another frequent request was to more openly acknowledge the diverse capabilities, capacities and data availability of different countries. This has been addressed in several sections of this document, making clear that the objective of this guidance is to promote the use of the best available data in a project-specific context and taking into consideration the significant variation of data availability across contexts;
 - (d) Some comments expressed concern at the terminology “climate rationale”. Clarifications to the text have been made to make clearer that the project selection and eligibility criteria derive as always from the GCF initial investment framework criterion on climate impact potential. The terminology “steps to enhance climate rationale” is retained with reference to the mandate in decision B.19/06, paragraph (d), but is categorically not intended to establish new eligibility criteria; and
 - (e) Finally, some comments were made regarding matters that are considered beyond the immediate scope of this paper. These comments included (i) requests to clarify the TAP assessment criteria, (ii) the process for evaluation of the IUE adaptation evaluation and (iii) consideration of a wider adaptation strategy. Whilst beyond the immediate scope of this paper, it was noted that these matters should be deferred for Board consideration.
42. The consultation draft was also sent to the TAP and AEs for their review, and they raised similar issues to those of Board members. In the time available between the consultation period and publication, the Secretariat has not been able to incorporate all of those comments in the paper but has taken note of them all and will use them in any further draft, and in the further development of the guidance materials and supporting resources. It is noted that all AEs who commented were very supportive of the framework of measures described in section VI of this document.

X. Recommendation to the Board

43. It is recommended that the Board adopt the draft decision presented in annex I to this document.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.30/04 titled “Steps to enhance the climate rationale of GCF-supported activities”:

- (a) *Takes note* of the steps to enhance the climate rationale of GCF-supported activities as presented in document GCF/B.30/04;
 - (b) *Also takes note* of the strong capacity-building strategy in the approach, in line with decision B.19/06, paragraph (f);
 - (c) *Requests* the Secretariat and the independent Technical Advisory Panel to follow the approach articulated in document GCF/B.30/04, including in advancing work under decision B.28/03, paragraph (b), to develop a transparent and consistent approach to the assessment of funding proposals, and in the further development of principles-based, non-prescriptive guidance materials for mitigation and adaptation proposals, supported by an online network of resources; and
 - (d) *Also requests* the Secretariat to support accredited entities, and especially direct access entities, in building capacity to enhance the climate impact potential of proposals for funding in line with this guidance, and to take into account their feedback for future refinement of the guidance.
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