
Compilation of Submissions: Investment Framework Call for Public Input

On 7 August 2014 the Fund published a call for public input that invited individuals, organizations and all entities involved and interested in climate finance, adaptation, innovative finance, development finance and related topics, to provide inputs to support the development of the Fund's initial investment framework. The deadline for submissions was 25 August 2014, and the Fund Secretariat has subsequently collected and compiled all inputs received within 30 days of the call's publishing.

This document is the compilation of inputs received and is published for public review as stated in the 7 August call document. Please note that this compilation document presents the inputs with no editing or additional formatting.

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Response to the GCF's Call for Public Inputs: Investment Framework

This document includes inputs for the GCF's Investment Framework in response to the call made by the Board of the Green Climate Fund on August 7th, 2014.

Context and reason for our submission

Believe Green is a company dedicated to fostering an economic system that intrinsically safeguards our environment, including low carbon, sustainable development. Over the past decade we've been making major contributions to environmental regulations around the world, including supporting the Mexican proposal for a Green Fund, which resulted in today's GCF.

Now we are helping entrepreneurs, investors and businesses capture the growing opportunities arising from the transition to a global green economy: we are working with NGOs, entrepreneurs and investors to identify and implement innovative solutions. Our approach is to start small, develop and consolidate profitable business models and then scale them up by raising finance from private investors.

We are currently developing a low carbon project in Ethiopia. This involves manufacturing and distributing water filters to replace inefficient cook stoves, such as three stone stoves, which are currently used for boiling drinking water. This results in significant carbon emission reductions, as well as important social, health and environmental co-benefits. For more information, check our [project webpage](#).

We are developing an innovative business model to make this project viable: we are leveraging carbon credits to reduce the costs of the water filters. This allows us to obtain an additional revenue stream from the market which is independent of donations (a traditional source of funding for this type of projects). The additional carbon finance will help us scale up our operations and help bring low-cost safe drinking water technologies to the 2bn people who currently lack it, and in the process reduce millions of tons of carbon emissions.

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Based on our direct experience on the ground, especially in poor countries, we are hereby writing to offer inputs to the GCF's Investment Framework. Concretely, we think that it would be important to take into account the problems faced by entities that are planning to scale up small-medium projects, which could have significant impacts on broader national strategies.

Inputs to the GCF's Investment Framework: Sub-criteria for the IR4 activity area

Here we are proposing sub-criteria that refer to the activities in the IR4 area (see document GCF/B.05/02).

National plans to tackle climate change, because of their large scale, tend to have both strengths and weaknesses. On the one hand they have the advantage of designing a complex programme on large territories. On the other hand, a challenge is to ensure uniform adoptions across diverse geographic areas, as well as monitoring and control. Also, each country has different learning mechanism and different adoption times of new practices and technologies.

Often the new technologies or practices that are introduced encounter technical and cultural barriers that prevent these practices from becoming a habit. Many projects last only for the time that they are financed, often through external donor money, and fail to become established practices once the donor funds come to an end. This can prevent these practices from becoming established and the country benefitting from the related long term development process of locally improving and the practices and technologies.

On the other hand, if we can ensure that the processes are established without external support, this can lead not only to the creation job opportunities but also diversification of the work opportunities and the development of new spin-off solutions, exploiting local resources and knowledge.

To address this critical issue, we recommend that the GCF considers the Sub-criteria and indicators listed in the table below.

Criteria	Indicators
Analysis of the local context and the barriers to entry for the penetration of the new technology and /or practice : <ul style="list-style-type: none"> - Technical barriers - Cultural barriers 	<ul style="list-style-type: none"> - Socio-economic data of population - Quantification of target population - Number of effective end-users - Classification for age/sex/role - % of initial learning ability

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<p>Strategy plan to create a resilience process to overcome barriers and increase the penetration of new technology/ practice project</p>	<p>The level of involvement of members and partners in developing the strategic processes is important: it is hard to specify and to measure. It would be useful to elaborate on what “level of involvement” means in the local context and how it will be evaluated by specific surveys. Quantitative indicators could be:</p> <ul style="list-style-type: none"> - Number of local people involved in planning interventions - Number of local people that will be employed in the diffusion and production of the new technology - Number of roles that will be created for managing permanently the technology cycle - Provisional growth rate of new technology adoption
<p>Strategy to create indirect benefits from the new technology:</p> <ul style="list-style-type: none"> - Institutional benefits - Social benefits - Knowledge benefits 	<ul style="list-style-type: none"> - Growth rate of learning ability - Creation of linkages between institutions and end-users participation (The indicator attempts to measure not only the number of contacts and dialogue opportunities but also provide a more qualitative aspects of participation) - Describe in what way participation will be increased - Describe how the results of the participation will be used (Importantly, in order to detect changes, a baseline would be required.) - Number of initiatives created to strengthen community ability to share and manage knowledge, lessons learned and good practices, - Use of research for dissemination and policy making new initiatives
<p>Strategy to create spin off-economic process from the new technology/practice introduced.</p> <p>In every country the first important step to translate knowledge results into products and processes is the innovation disclosure.</p> <p>The plan has to aim at start a local innovation process that leverages the local knowledge, resources and context is the first important step to create a local economic process.</p>	<ul style="list-style-type: none"> - Number of local innovation process that will be created - Number of new linkages created between local education institution and private entities. - Creation of new “Innovation academic training process” that increases the role of local research in social and economic development. - Provisional number of new jobs created. - Provisional number of new professional figures created. - % average growth rate of income per-capita.

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Strategy to create financial cycle and cluster around the new project. The strategy aim at the establishment, and capacity to manage, trust funds for implementing regional, national or local strategies and actions plans.	<ul style="list-style-type: none"> - Growth rate of private funds attracted - Number of funding professional roles created - Number of local financial entities created - Number of local management companies created
<p>Strategy for a monitoring multi-annual plan : Reporting activity of following range of resilience indicators:</p> <ul style="list-style-type: none"> -Ecological indicators -Social indicators -Economic indicators <p>Every country/ region could choose different indicators according to their characteristics and their goals.</p>	<p>Example of Ecological Indicators:</p> <ul style="list-style-type: none"> - % Soil erosion Cutter - % Green space/undisturbed land - % Urban (access variable) - % Forested land cover (wildfire potential) - % Land with hydric soils (liquefaction) - % Wetland loss (ecosystem services) <p>Example of Social Indicators:</p> <ul style="list-style-type: none"> - Educational inequality - Physicians/10,000 (health access) - Social vulnerability index - Transport challenged (% no vehicle) - Communication challenged (% phone/internet access) - Language / Literacy competency - Health coverage (% pop with coverage) - Population wellness (% infant mortality rate) <p>Example of Economic Indicators:</p> <ul style="list-style-type: none"> - Homeowners (%) - Employment (%) - Median household income - Poverty (%) - Single sector employment (%different sector employment) - Female labor force participation (%) - Business size (% large >100 employees)

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18 August 2014

Secretariat of the Green Climate Fund (GCF)

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Yeosu, Incheon, Republic of Korea

Response to Call for Inputs on GCF Investment Framework

Core CarbonX Sols Pvt Ltd (CoreCarbonX) is grateful to the Board of the Green Climate Fund for launching call for public inputs on “**GCF Investment Framework**” and would like to submit out comments. We believe it is a positive move that will build up framework for the operationalization of the Investment Framework. CoreCarbonX would like to make following comments on:

- Activity-specific sub-criteria and a set of activity-specific indicators;
- Minimum benchmarks for each criterion, taking into account the best practices of relevant institutions;
- Methodologies for assessment of the relative quality and innovativeness of comparable funding proposals in comparable circumstances.

The fund's initial investment guideline will be activity based and will be composed of the 6 criteria and 24 coverage areas. However, these criteria are subject to interpretation by different stakeholder who will be involved in the Investment Framework process. National level or regional level evaluation of project considering these criteria and indicator will require major preparedness and consultation among different stakeholder for project selection criteria, benchmarking for each criterion and methodological approach; will also be a lengthy and time process.

Existing resource base from CDM can compliments the initial and subsequent requirements under Investment Framework. We would request the Secretariat to visit and leverage deep knowledge base from Clean Development Mechanism; a readily available platform for providing best practices, methodologies, tools, guidelines and monitoring criteria for projects/programme in 15 sectoral scope for climate change mitigation projects and programme.

The benefits of using CDM resource base

The CDM has successfully approved 89 large scale methodologies, 23 large scale consolidated methodologies, 92 small scale methodologies, 1 large scale A/R methodologies, 1 large scale consolidated A/R methodologies, 2 small scale A/R methodologies and 4 standardized methodologies from chemical industries to utility to energy efficiencies measures to improved biomass cookstove/biomass briquette to agricultural sector to forestry. It has also contributed numerous tools and guidelines for implementation of project activities. As of today, 7548 standalone projects, 263 Programme of Activities and 4 projects under standardized baseline have been registered under CDM which itself is a success story irrespective of uncertainty associated with CDM market.

The CDM can be readily considered to fill in the methodologies requirement for various sectors under Investment framework to ensure real, measurable and verifiable emission reductions that are additional to what would have occurred without the project.

Selective use of CDM resource base

However, there are number of CDM methodologies and tools which are narrow in nature and require improvements by considering ground realities of the sector in the context of national and regional priorities, objectives and circumstances.

Many of the stakeholders have serious concerns on “demonstration and assessment of additionality” under CDM process. The hypothetical nature of additionality in the context of financial additionality, definitional



confusion and the need to determine the intent of the investor are components of the challenge of applying financial additionality under CDM. Thus, these issues need to be further looked upon and deliberated.

As a starting point, methodologies from some selective sectors/types can be considered for use under GCF which are mostly failing under automatically additional project categories. These are the sectors which are not garnered much benefits under CDM and have serious limitation on successful implementation of these projects without carbon revenue or support through grant and subsidy. These projects can suitable term itself under "social sector" category. Some of these projects are improved biomass cookstoves project, household biogas digester project, energy efficient bulbs for households, energy efficiency measures under transport sector, methane avoidance from rice field, drip irrigation etc. All these project can be possibly considered as acceptable projects under Investment Framework similar to criteria defined under CDM which qualifies these projects under automatic additional (thus, no requirement to prove investment analysis and barrier analysis and are eligible as a CDM project/programme). Similarly, the abovementioned projects or certain other type of projects from small islands, LDCs and special underdeveloped zone of the host country can be also treated as auto additional and can be qualified as funding under GCF. CDM has also defined many monitoring plan under different category of methodologies, guidelines and tools for monitoring and quantification of emission reductions. These plan, guidelines and tools can be considered for ensuring real, measurable and verifiable emission reduction units.

Methodological approach for emission reductions quantifications

As per Kyoto Protocol Article 12.5(b & c),: "Emission reductions resulting from each project activity shall be certified...on the basis of...(b)real, measurable, and long-term benefits related to the mitigation of climate change; (c) Reductions in emissions that are additional to any that would occur in the absence of the certified project activity. " This emission reduction can be derived through below approach:

A project baseline scenario or a reference case, that will estimate the scenario that would have happened in the absence of the project methodologies for estimating actual GHG emissions or sequestration and environmental additionality of the project through a quantitative comparison of actual emissions to baseline projections.

Thus, the future methodologies under Investment Framework can consider environmental additionality as a desirable factor for project selection. However, this criterion poses challenges, namely in developing methodological approaches to accurately and consistently compute environmental additionality (dynamic baseline scenario) of projects and programme. A consideration of "top-down" or "bottom-up" methodologies, or combination that can maximizes the comparative strengths of each for various sectors and project types -- with appropriate mitigation measures (such as discounting, offsets averaging, penetration of technology) for projects that are particularly prone to leakage, baseline uncertainty, shifting technologies or negative externalities -- may be the most desirable approach.

CoreCarbonX appreciates your consideration to the above recommendations, as well as the opportunity to provide input for further development of GCF's investment framework. We look forward to future discussions and opportunities to lend input to GCF's design and operationalization. If you have any questions or further information requests, please contact Niroj Mohanty, at nmohanty@corecarbonx.com (+91-9908387772)

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At CoreCarbonX, we work with businesses, governments and civil societies to solve complex sustainability challenges. We help in identifying the problems and deliver values with speed, certainty and strategic dexterity. Established in 2008, CoreCarbonX is now recognized the world over for its expertise and innovative solutions in the areas of Renewable Energy; Sustainable Habitat; Corporate Sustainability, Waste Management; Community Development and Climate Change.



Response to the call for inputs into the GCF Investment Framework¹

CARE International, one of the leading international, non-governmental development and emergency agencies, is pleased to share with the GCF Investment Committee and the Secretariat views in response to the call for inputs into the Investment Framework (as issued on 7 August).

CARE is working with people at the frontlines of climate change and has been responding to climate change in over 70 projects in ca. 30 countries in recent years. Poverty reduction, social justice and gender equality/women's empowerment have been at the centre of this. CARE also approved a specific CARE Climate Change Strategy (2013-2015).

CARE welcomes that the initial adaptation logic model of the GCF seeks to promote, as central outcomes,

- a. Increased resilience and enhanced livelihoods of the most vulnerable people, communities, and regions;
- b. Increased resilience of health and well-being, and food and water security;

In CARE's experience these are high-priority areas in vulnerable communities dealing with already occurring and future climate change impacts.

This input addresses in particular the following elements which are part of the GCF Investment Framework, and refers to extensive on-the-ground experience in helping poor and vulnerable communities in developing countries to adapt to climate change impacts, and methodologies developed:

- Adaptation impacts
- Social, environmental and economic co-benefits, efficiency and effectiveness
- Needs of vulnerable groups and gender aspects
- Gender-sensitive development impact
- Engagement with civil society and other relevant stakeholders

This aims to inform the GCF's search for adequate criteria, indicators and methodologies. Some of the evidence and approaches described may be relevant for several of these areas, why the submission does not strictly follow these headings. We are prepared to provide further information and insights for additional considerations, if requested.

General aspects related to climate adaptation

CARE regards the following aspects as particularly important to design and implement successful adaptation projects which serve the needs of those most vulnerable people, and these should also be reflected in activity-specific sub-criteria and indicators:²

¹ Contact: Sven Harmeling, Climate Change Advocacy Coordinator, CARE International GCF focal point, sharmeling@careclimatechange.org; 0049-228-97563-61

² Source: ALP, 2014: Community Based Adaptation: An empowering approach for climate resilient development and risk reduction http://www.careclimatechange.org/files/CBA_Brief_nov_13.pdf

Key messages for practitioners and policy makers:

- Building resilience requires a coordinated approach which goes beyond stand-alone adaptation actions to integrate adaptation into local and national development planning, disaster risk reduction and early warning systems, ecosystem management and sustainable development.
- Empowering vulnerable communities to play a central role in the planning and decision making processes affecting their lives will be more successful than pre-determining solutions.
- Adaptive capacity is central to building resilience and involves developing processes and capacities which enable continued response to a changing and uncertain climate over time.
- Differential vulnerability and capacity of different groups and individuals to respond to the impacts of climate change, along with their valuable knowledge, must be taken into account when developing responses.
- Information from climate science and the ability to understand and work with uncertainty is an essential resource to assist decision making for adaptation and resilience.
- A multi-level, cross-sectoral approach involving a range of different stakeholders is necessary to develop adaptive capacity and build long term resilience.
- Community based adaptation depends upon but also adds new dimensions to good development practice, ensuring that interventions are decided and designed based on understanding current and future impacts of climate change.
- CBA is a cost effective approach to developing adaptive capacity and building resilience; the social, economic and environmental benefits outweigh the costs of implementation in virtually all scenarios.

Community-based adaptation recognises the inherent adaptive capacity which exists within vulnerable populations and seeks to build on this. Adaptive capacity is central to building resilience because it involves the processes and capacities which enable continued response to a changing and uncertain climate over time. Adaptive capacity is strengthened when climate vulnerable people have more

- access to, accumulation of and control over assets knowledge and information
- confidence in and access to innovation
- access to effective institutions and entitlements
- and when they are making more flexible and forward looking decisions.

In order to promote and facilitate the **integration of adaptation into projects and programmes**, CARE has developed project checklists which address inter alia the following aspects:

- Identifying the environmental, socio-economic, and political-institutional context
- Project objectives and envisaged results
- Problem analysis
- Description of approach/methodology
- Project implementation
- Information and knowledge management

These can also help the GCF in identifying key aspects for assessing the quality of projects to be funded.

Project concepts:

http://www.careclimatechange.org/files/toolkit/Int_Concept_Paper.pdf

Full projects:

http://www.careclimatechange.org/files/toolkit/Int_Proposal.pdf

General aspects related to indicators

Although the GCF has identified the number of beneficiaries as the central impact indicator in the area of adaptation, it is important to apply this indicator in a manner which still promotes qualitative improvements and does not end into simple “head counting” (and comparison of such figures). In general, the GCF should give value both to quantitative and qualitative, as well as process indicators.

Quantitative indicators are represented by a number – for example ‘number of people with access to water during drought.’ This example, and any indicator measuring numbers of people can be further gender-disaggregated, for example: ‘number of women/men/boys/girls with access to water during drought.’

Qualitative indicators will give information about the ‘quality,’ ‘extent’ or ‘level’ of change, for example to measure changes in attitudes or awareness to climate change. This information can be obtained through focus group discussions and stories of change.³

There is also the need to apply **process indicators**, in particular because climate adaptive capacity and vulnerability are context specific. A top-down, generic framework for measuring the changes brought about through CBA will not capture the different priorities of different groups in different places. Participatory monitoring and evaluation allows disaggregated and context-specific indicators for CBA to be set by vulnerable people, ensuring the changes that are relevant to those doing the adaptation are observed and analyzed.

Depending on the specific context and objectives pursued, there is the need to contextualize the contribution of adaptation to achieving certain development benefits. For example, in the area of increasing the resilience of food security – one impact pursued by the GCF - the following are key dimensions of promoting food security:

- household assets
- households and community insurance mechanisms
- Dietary diversity and food consumption
- Stable nutrition rates and reduced stunting
- Water access and availability
- Livelihood options and functioning markets
- Stable and inclusive institutional and enabling environment

Useful and proven methodological guidance for taking better food security decisions exists⁴, and for the purpose of the GCF these approaches can be contextualized with regard to adaptation to, and building resilience for climate change impacts.

Needs of vulnerable groups and stakeholder involvement

The decision by the GCF to promote increasing resilience of the most vulnerable people, communities and regions is extremely important and should be applied across all adaptation initiatives. Operationalising this objective requires to effectively promote it across the different stages of the activity cycle, from early consultations for project identification to monitoring, evaluation and learning exercises during and after the implementation.

In our view this also implies a strong focus on funding community-based adaptation activities which we believe is a highly effective approach, for the following reasons:

³ See CARE, 2014: Participatory Monitoring, Evaluation, Reflection and Learning for Community-based Adaptation: PMERL – a revised manual for local practitioners. http://www.careclimatechange.org/files/CARE_PMERL_a_revised_manual.pdf

⁴ See e.g. IPC Global Partners. 2012. Integrated Phase Classification Technical Manual Version 2. FAO, Rome. http://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/docs/IPC-Manual-2-Interactive.pdf

- Generating adaptation strategies with communities and other local stakeholders improves the uptake and sustainability of the process because communities develop a strong sense of ownership and their priorities are met.
- Enhancing communities' awareness and understanding of climate change and uncertainty enables them to create responsive plans and make more flexible and context-appropriate decisions.
- Embedding new knowledge and understanding into existing community structures expands and strengthens those structures as well as institutional mechanisms.

In a recent study CARE has compiled experience from numerous adaptation projects.⁵

The principles of **non-discrimination, equity and special attention to the needs and priorities of marginalised social groups** are central to the international human rights framework. Increasingly applied to development policy and practice during the past twenty years, they have fundamentally shaped how many development actors see the challenge of adaptation—and their role in meeting it. Integrating these principles into adaptation efforts entails explicit steps to:

- Identify differentials in vulnerability and adaptive capacity across demographic groups (by gender, age, ethnicity, etc.) and identify particularly vulnerable individuals and marginalised social groups;
- Seek full inclusion of particularly vulnerable and marginalised groups in all levels of adaptation planning, as well as implementation processes (by providing, for example, information in minority languages);
- Understand and address their unique needs through targeted interventions (reaching poor women, the elderly, geographically isolated communities, and politically marginalised Indigenous Peoples);
- Ensure that adaptation activities do not inadvertently worsen their vulnerability;
- Redress power imbalances and other structural causes of differential vulnerability within and between households.

CARE's PMERL manual, for example, contains a **range of tools** for assessing vulnerable communities' needs in a participatory manner. Tools such as the **Participatory Scenario Planning**⁶ or the **Climate Capacity and Vulnerability Assessment (CVCA)**⁷ are relevant here as well.

For example the CVCA highlights the following aspects as key procedural elements of a CVCA:

- Provide details of the overall process undertaken: timeline, membership of analytical team, objectives of the analysis, etc.
- Note the sources of secondary information and the names of key informants (if they agree to be identified, otherwise just note the number of people interviewed), etc.
- Provide details of participatory research: number of focus group discussions, location, number and characteristics of participants, names and designations of facilitators, etc

⁵ CARE, 2014: Community-based adaptation in practice: A global overview of CARE International's practice of Community-Based Adaptation (CBA) to climate change. <http://www.careclimatechange.org/publications/adaptation>

⁶ ALP, 2014: Decision-making for climate resilient livelihoods and risk reduction: A Participatory Scenario Planning approach http://www.careclimatechange.org/files/ALP_PSP_Brief.pdf

⁷ http://www.careclimatechange.org/index.php?option=com_content&view=article&id=25&Itemid=30

- Describe the process of interpreting and validating the analysis.⁸

Proposals submitted to the GCF should address these aspects inter alia by clearly demonstrating how the above aspects have been addressed and by applying participatory tools wherever possible. This can then also serve to assess the quality – and throughout the project cycle – the performance in these areas.

Joint Principles for adaptation – for consideration by the GCF

CARE is part of an international civil society consortium “Southern Voices” (including numerous CSO networks in developing countries) which is currently developing and testing Joint Principles for Adaptation.⁹ These are mainly developed in the context of the emerging National Adaptation Plan (NAP) process, which, however, in itself is obviously very relevant to the work of the GCF. We also consider some of the principles and their suggested concretization relevant for key elements of the investment framework, in particular regarding co-benefits, gender, and stakeholder involvement.¹⁰

⁸ CARE: Climate Vulnerability and Capacity Analysis Handbook. http://www.careclimatechange.org/cvca/CARE_CVCAHandbook.pdf; page 21

⁹ Southern Voices also made a submission to the UNFCCC in the context of the National Adaptation Plan process in June 2014, see <http://unfccc.int/resource/docs/2014/smsn/ngo/445.pdf>

¹⁰ Table: Joint Principles for Adaptation

http://www.southernvoices.net/images/docs/JointPrinciplesforAdaptation_v1.pdf

PRINCIPLES	Criteria
A. The planning process is participatory and inclusive	<ol style="list-style-type: none"> 1. The knowledge and experience of local communities and indigenous peoples is incorporated 2. Communities affected by climate change participate in defining options and priorities 3. Plans are publicised in ways that local people can understand and engage with
B. Public funds for adaptation are utilised efficiently and managed transparently and with integrity	<ol style="list-style-type: none"> 1. The implementation and financing of plans is periodically monitored by a body on which civil society is represented 2. Adaptation funding is made available through a transparent process of allocation 3. There is full and free access to information on how adaptation funds are being spent (finances and processes) 4. There is a mechanism in place to safeguard against initiatives that might have negative impacts 5. A secure mechanism for expressing grievances and seeking redress is available
C. All government sectors and levels of administration have defined responsibilities and appropriate resources to fulfil them	<ol style="list-style-type: none"> 1. National adaptation plans carry the authority to enable different government sectors to work in a coordinated way 2. Existing initiatives are enhanced to take climate change into account 3. Funding for adaptation is explicitly provided for within the national budget and respective sectorial allocations
D. Local adaptation plans developed through community-based approaches are a core element	<ol style="list-style-type: none"> 1. Local adaptation plans are formalised and integrated into the development priorities of local administrations 2. Significant resources are allocated towards implementation of local adaptation plans 3. Financing arrangements make commitments for multi-year programmes of support to vulnerable communities
E. The resilience of women and men who are most vulnerable to climate change is built	<ol style="list-style-type: none"> 1. Plans identify and target people who are socially and economically most vulnerable 2. Programmes take into account the differentiated needs and capacities of women and men in different social groups 3. Initiatives that enhance community adaptation through greater social integration and cohesion are promoted
F. There is a balance between the investment in physical infrastructure and the building of skills and capacities	<ol style="list-style-type: none"> 1. Adequate resources are made available to improve the effectiveness of institutions responsible for managing climate change adaptation 2. Adequate resources are made available for raising public awareness and education about climate change 3. Investment plans contains targets for both “soft” and “hard” interventions
G. Plans respond to evidence of the current and future impacts of climate change	<ol style="list-style-type: none"> 1. Adaptation plans consider how climate is affecting existing vulnerabilities 2. Planning scenarios are based on the best available science and evidence from the ground 3. Interventions are modified as new information becomes available 4. Climate information is made accessible to enable adaptive decision making by all stakeholders

Gender aspects and gender-sensitive development impacts

In CARE’s experience, social differences relating to gender are ‘learned, and though deeply rooted in every culture, are changeable over a lifetime or generations, and have wide variations both within and between cultures. Gender, along with other factors such as wealth and ethnicity, often determines the rights, roles, opportunities, power, access to and control over resources for women and men in any culture.’ In addition to the power dynamics between men and women, there is a need to further identify and understand the dynamics among women, among men and the positive and negative contributions of both men and women with regard to gender equality and equity. Climate change impacts are causing new changes and shifts in gender roles and power relations to emerge which add to the varied and continually changing political, economic and socio-cultural contexts that contribute to differential vulnerabilities to women, men, girls and boys. These aspects need to be reflected in the GCF.

In our experience this also requires to monitor and document gender achievements **in adaptation** projects to generate critical knowledge and evidence, which can be used to advocate for and contribute to an enabling environment for gender Community-based Adaptation policy at community, local, national and global levels. Given that gender is about power relations, it is crucial to **monitor and evaluate gender dynamics not only in absolute terms (numbers of female/ male beneficiaries) or in isolation (impacts on men versus impacts on women), but in relative terms (increases or decreases in gender gaps, changes in gender relations).**

A tool which CARE has developed based on its programme experience, and which the GCF can take into account in assessing the impact and performance of projects proposed for funding, is the CARE Gender Marker.¹¹ The below table indicates an assessment of the performance of potential approaches in three different levels of “quality”, with the gender marker 2 (a and b) being the most progressive and positive approaches, and with 1 and 0 contributing less to reducing gender inequities.

CARE GENDER MARKER	
2a: GENDER MAINSTREAMING <i>Potential to contribute significantly to gender equality through meaningful gender mainstreaming</i> <ul style="list-style-type: none"> ■ A gender and age analysis is included in the needs assessment. ■ Activities reflect the findings of the gender analysis. ■ Outcomes are designed to contribute to gender equality goals with linkages to longer-term gender and development work. 	2b: TARGETED GENDER ACTION <i>Principal purpose of the response is women's empowerment, or to advance gender equality</i> <ul style="list-style-type: none"> ■ The gender analysis in the needs assessment justifies a response in which <i>all</i> activities and <i>all</i> outcomes advance gender equality. ■ Activities respond specifically to the identified disadvantage, discrimination or special needs of women, men, boys or girls. ■ Main outcomes are designed to contribute to gender equality goals with linkages to longer-term gender and development work.
1: GENDER SENSITIVE <i>Potential to contribute in some limited way to gender equality</i> Some evidence of gender analysis, but gender does not appear in a comprehensive manner throughout all stages of the program cycle. Gender is part of only one or two of the three components of the Gender Marker: i.e. in needs assessment, activities or outcomes*. <i>*Where gender and age appear in outcomes only, the project is still considered gender-blind.</i>	
0: GENDER BLIND <i>No visible potential to contribute to gender equality</i> Gender and age are not reflected anywhere, or only appear in the outcomes. There is risk that the project will unintentionally fail to meet the needs of some population groups and possibly even do some harm.	

The guide developed as part of the Women's Empowerment Impact Measurement Initiative (WEIMI) provides additional background to the operationalization of women's empowerment and gender sensitive high-level indicators:

Overview: <http://gendertoolkit.care.org/weimi/introduction.aspx>

Full guide: http://gendertoolkit.care.org/Resources/WEIMI%20Guide%20Parts%201_4.pdf

Efficiency and effectiveness, socio-economic cost-benefit analysis

Approaches to assess the efficiency and effectiveness of proposed investments need to be based on participatory socio-economic cost benefit analyses. Cost-Benefit Analysis (CBA) is one of the major tools used to analyse the relative efficacy and effectiveness of public interventions. Typically, CBA allows the

¹¹ see e.g. http://reliefweb.int/sites/reliefweb.int/files/resources/Donor_Spending_on_Gender_in_Emergencies_2013.pdf for a report on applying the gender marker to development projects.

return-on-investment (ROI) of different projects, programmes or policies to be compared in order to determine which of the interventions yields the greater level of benefits in relation to the resources invested. In the case of climate change adaptation interventions as well as development policies, CBA can be used to identify which approach and/or strategies can yield the higher possible returns for a given amount of costs. Given that a variety of adaptation and development approaches are being tested, it is indeed important to know to which of these are the most efficient and effective in generating high benefits for the population and communities. Based on findings of CBA, it is thus possible to determine which interventions should be dropped in the favour of other, more effective, interventions.

CARE jointly with the New Economics Foundation (nef) released a cost-benefit assessment of a community-based adaptation programme in Niger which clearly demonstrated the positive net benefits of the activities undertaken.¹² The key findings include that:

- **“a community-based approach appears to present dual dividends:** it enhances the decision-making ability of communities at a local scale as well as considerably impacting on ‘hard’ outcomes, such as an increase in agricultural production. This means that a community-based approach may increase adoption of adaptation and development activities, such as the introduction of improved seed varieties.
- Similarly, **community-based adaptation impacts on the overall development of communities.** Indeed the benefits considered in our analysis are based on typical development outcomes such as health and education. The findings suggest that community-based adaptation responds both to short-run disaster mitigation measures as well as long-run development needs. This means that adaptation strategies need to be planned in tandem with development priorities or, put differently, that adaptation needs to be embedded in development interventions.”

Based on this case study, nef and CARE developed **“Simplified guidelines for Social Cost-Benefit Analysis of Climate Change adaptation projects on a local scale”**. First these look at the definition of a scope for CBA analysis; secondly it presents ways to determine outcomes and impacts (benefits) against which the success/failure of an intervention is to be evaluated and judged; thirdly it focuses on data collection systems required to monitor change of these outcomes in a useful and robust way; finally it presents how the actual quantitative analysis is undertaken. This may be relevant for the GCF’s considerations (both with regard to the investment framework considerations and the monitoring and evaluation framework).

The guidelines can be downloaded here (also available in French).

http://www.careclimatechange.org/files/CBA_Simple_Guidance_ENG_FORMATTED.pdf

¹² Olivier Vardakoulas and Natalie Nicholles, 2014: Managing uncertainty: An economic evaluation of community-based adaptation in Dakoro, Niger. http://www.careclimatechange.org/files/Managing_Uncertainty_CARE_nefc_email_version.pdf



Submission to the Green Climate Fund Call for Inputs on the Investment Framework

August 18, 2014

The Center for Clean Air Policy (CCAP) is pleased to offer initial comments in response to the Green Climate Fund's call for public inputs on the initial investment framework. Our comments specifically address the question on **methodologies for comparing GCF proposals, including the use of benchmarks.**

CCAP strongly endorses a **competitive selection process for proposals**. Competition in the Fund's selection process is critical to ensuring that submitted proposals fulfill the evaluation criteria agreed to by the Board and to ensuring that the GCF's resources are directed to the most ambitious proposals. A variety of methodologies can be applied to "assess the relative quality and innovativeness of comparable proposals in comparable circumstances." Two of these methodologies are: **1) weighting of criteria** and **2) the use of benchmarks**. CCAP recommends the use of both methodologies in concert.

1. Weighting of Criteria

CCAP agrees with the GCF Board regarding the need for transparent metrics that can be used to evaluate the relative merits of proposals in a fair and objective manner. It will be important to clearly communicate to developing countries how their proposals will be assessed in order to maintain transparency and objectivity.

One methodology to compare GCF proposals on a competitive basis would involve the use of "scorecards" that allow for quantitative scoring of the criteria for assessing program/project proposals. In such an approach, a point grade (e.g., 0-10) would be associated with each criterion. GCF staff and board members evaluating the proposals would assign a score or grade to each criterion based on performance in respective sub-criteria (to be defined), with higher-performing proposals earning a higher score across criteria. While the GCF board could decide to weight all the criteria evenly, or based on the preferences of each evaluator, we recommend that the board give **explicit weighting to the criteria to guide the secretariat and outside reviewers** in order to better achieve the objectives of the Fund. The weighting of the criteria could be differentiated based on the type of proposal (e.g., mitigation vs. adaptation). This will help ensure that similar proposals are evaluated in a consistent manner.

The relative importance of different criteria will vary depending on whether the evaluation relates to climate mitigation or adaptation. For example, while *needs of recipient* may be a more important criterion to consider for adaptation proposals, *paradigm shift* may be more important for mitigation proposals. The scorecard for mitigation proposals might therefore assign a higher weight or percentage to *paradigm shift* while the

adaptation scorecard would weight *needs of recipient* more heavily. In the case of mitigation proposals, one option would be to use *needs of recipient* to determine the amount of funding to award a proposal rather than as a criterion for funding approval. Once proposals are selected based on the other criteria, the amount of support and the overall financial package (i.e., the mix of loans versus grants, and level of concessionality) could be decided based on the *needs of recipient*. In this scenario, the total funding amount would be a function of an ex-post assessment of the country's wealth (with more funding going to proposals from lower-income countries), as opposed to an ex-ante criterion for whether or not a proposal is selected.

For mitigation proposals, CCAP is particularly interested in approaches to evaluate the extent to which proposals contribute to climate mitigation (*impact potential*), *paradigm shift* and *sustainable development*. The GCF's methodology for evaluating mitigation proposals should emphasize a preference for funding "transformational" actions in developing countries that have significant economic and social co-benefits. For example, the evaluation of proposals should assess the extent to which proposed actions are national in scope and offer the potential to transform entire sectors by removing existing barriers. In most cases, wide-reaching proposals, such as those that include national or sector-wide policy elements, should be prioritized over those that propose smaller, project-level actions.

In assessing *efficiency and effectiveness*, the board should take into account the ratio of co-financing leveraged (an important consideration for "economic soundness") coupled with a proposal's score on *paradigm shift*. Assessing co-financing leverage ratios alone could reward business-as-usual projects, whereas truly transformational proposals will couple policy changes with financial mechanisms to address key sectoral barriers. These transformational proposals will go beyond business as usual to change the economics of the sector (e.g., risk-return equations), leverage significant investment, and ultimately achieve significant emissions reductions.

The weighting of evaluation criteria should also adequately recognize the importance of *country ownership* and *sustainable development potential* criteria. Proposals with significant potential to advance national sustainable-development and poverty-reduction goals are most likely to attract strong public and high-level political support and ensure that policies will continue when funding ends. In the case of *country ownership*, relevant unilateral actions (e.g., policy changes, pilot projects) that countries are already undertaking or are proposing to undertake should be considered as part of their "score" for this criterion, as these are indicative of a country's buy-in.

The **Germany/UK NAMA Facility** provides a strong case study for evaluating mitigation proposals (NAMAs) based on their ability to achieve transformational outcomes. The NAMA Facility assesses proposals on a point-grade system based in part on four ambition criteria, each of which is assigned a specific weight:

- 1) potential for transformational change (40%),
- 2) co-benefits (20%),
- 3) financial ambition (20%), and
- 4) mitigation potential (20%).

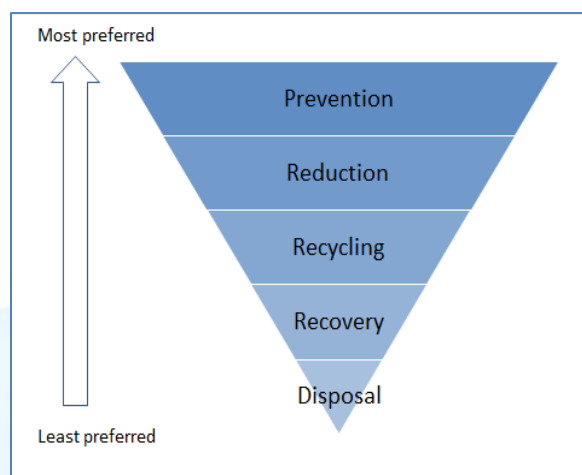
These criteria and weights allow for consistent ranking of all submitted proposals to ensure that the Facility supports the most ambitious proposals. We understand the NAMA Facility will be submitting a separate input letter, which will elaborate on these points.

2. Use of Benchmarks

In addition to weighting of the criteria, defining benchmarks is another methodology that can support the objective evaluation of proposals. While minimum benchmarks can ensure basic requirements are met, a graduated scale of benchmarks can be used in tandem with the weighting methodology discussed above to develop a transparent scorecard to evaluate proposals. CCAP is particularly interested in the application of sector-specific benchmarks to evaluate *impact potential* and *paradigm shift*. Benchmarks that are sector-specific, in contrast to economy-wide indicators, provide a concrete way for the GCF to evaluate criteria across proposals in a given sector.

Appropriate performance indicators can be identified using sectoral policy and technology best practices, which define preferred mitigation activities within a sector. The waste management hierarchy, for example, prioritizes policy actions in the waste sector (see Figure 1). A benchmarking analysis can be used to define performance thresholds based on best practice achievements in this sector. Indicators directly pertaining to abatement in the target sector (e.g., proposed reduction in emissions per ton of solid municipal waste) reflect the mitigation impact potential of a proposal. Paradigm shift potential can be assessed against benchmarks that reflect fundamental change to the sector (e.g., a shift away from landfill disposal to recycling and reuse).

Figure 1: Waste management hierarchy



Translating benchmarks to proposal scorecards

Proposals evaluated against sector benchmarks can be scored based on the following elements (see below for an example of how these elements could be applied in the waste sector):

- **How far the proposed actions will move the country along the benchmark scale.** Depending on how closely progress along the benchmark indicator reflects greenhouse gas abatement, this element will be indicative of *impact potential (mitigation)*. Proposals that represent large shifts in the country's location along the scale may offer one way to define *paradigm shift potential*.
- **The degree of progress the country has already made in the sector,** which is reflected in the country's starting place on the benchmark scale. In this way, the GCF can reward proposals from countries that have demonstrated significant progress in achieving ambition and transformational change in the sector.

Similar to weighting, the evaluation of proposals against sector-specific benchmarks should take into account countries' circumstances (e.g., income level, resource endowment) that may put countries at an advantage or disadvantage in achieving transformational outcomes. For example, the benchmark values used in scoring a proposal targeting the energy sector could be adjusted based on the country's indigenous energy resources and renewable energy potential.

Illustration on the use of benchmarking in the waste sector

Preferred activities in the waste sector, based on the waste hierarchy, are characterized by a shift towards reuse, recycling and reduction, and landfilling with landfill gas recovery. Relevant indicators that measure performance in these preferred activities include:

- 1) Percentage of solid waste that is treated through modern techniques (e.g., engineered or controlled landfills, thermal treatment, mechanical-biological treatment),
- 2) Rates of waste reuse and recycling (recycling, composting, animal feed, anaerobic digestion)
- 3) Changes in waste generation per capita
- 4) Changes in waste sector emissions per capita and per ton

Benchmark thresholds for these indicators can be defined based on an analysis of waste disposal and recycling performance across countries. For example, a study by the UK-based Resource and Waste Advisory (RWA) Group, which aims to create a scorecard for solid waste management, defines benchmark levels for the activities above. The boundaries are assigned "high" to "low" ratings, based on extensive analysis on the demonstrated performance across solid waste systems around the world. Performance at the municipal or regional level is then scored for each indicator based on where the locality falls along the graduated scale, allowing solid waste management across localities to be easily compared (see Table 1).

Table 1: An example of waste sector benchmarking

Indicators and corresponding performance ratings from the RWA Group solid waste management scorecard

Benchmark Indicator 1		Benchmark Indicator 2	
Controlled treatment*	Performance rating	Recycled, reused, or composted*	Performance rating
95 - 100%	High	>50%	High
80 - < 95%	High/Medium	31-50%	High/Medium
60 - <80%	Medium	21-30%	Medium
40 - < 60%	Medium/low	11-20%	Medium/low
< 40%	Low	<10%	Low

*Percentage of solid municipal waste destined for disposal that goes to state-of-the-art, engineered or controlled treatment or disposal site

*Percentage of total solid municipal waste generated that is recycled, reused or composted

Benchmark scales such as those above can be adjusted based on the relevant country circumstances of the applicant. For example, the ranges for each benchmark could be made higher for upper-middle income

countries than for lower-middle income countries to reflect the level of performance countries at different stages of development can achieve at a reasonable cost.

Translating the waste sector benchmark indicators into the scoring of criteria would involve assigning points based on the change in performance associated with the proposed actions, and the country's starting point along the benchmark scale. For example, a proposal that shifts the recycling rate from low to high on the benchmark scale would receive more points than a proposal that moves the country from medium to high. Likewise, countries who have already made significant progress in their rate of recycling and reuse at the time of submitting an application would receive more points than those with lower rates.

Conclusion

CCAP recommends the use of two methodologies for the evaluation of GCF proposals: weighting of criteria and the use of benchmarks. These methodologies can be used in tandem to develop a transparent scorecard for proposals. Explicit weighting of criteria can guide the secretariat and outside reviewers to better achieve the objectives of the Fund. Sector-specific benchmarking can be used to score comparable proposals within the same target sector. These methodologies can support a competitive selection process that ensures that submitted proposals are aligned with the evaluation criteria adopted by the Fund's initial investment framework and that the GCF's resources are directed to the most ambitious proposals.

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Call for public inputs - Response Investment Framework

Submitted on behalf of:
Friends of the Earth USA, Institute for Policy Studies

We welcome the opportunity to provide inputs to support the creation of the Green Climate Fund Investment Framework, with specific reference to activity-specific sub-criteria and indicators, minimum benchmarks and methodologies for assessing the relative quality and innovativeness of funding proposals.

However, the short time period between the call for inputs and the submission deadline (during what is a vacation period here) is a severe constraint on our ability to respond comprehensively. While we appreciate that the Secretariat works with a limited capacity, we are disappointed that the call for inputs was not open for longer – not least, as this is likely to have restricted the ability of many civil society colleagues to contribute. The relatively cryptic nature of the call for submissions (for example, cross-referencing past Board decisions rather than spelling out the salience of what these refer to) is also a limiting factor that, we hope, would be improved upon in the course of issuing similar calls for input in future.

Our comments here should be considered as initial and incomplete responses, intended to open a dialogue on the further definition of the investment framework. We look forward to engaging further as the process of formulating these criteria develops further in advance of the GCF's Eighth Board meeting.

In the context of developing activity-specific criteria and benchmarks, some general criteria should be taken into account. First, the definition of activity-specific criteria and benchmarks should not imply that the guidelines are to be the basis of a solely competitive process, since a **balanced allocation** of GCF financing is also required. This includes, with reference to Decision B.06/06, the need to strive for geographical balance, as well as reaching for a 50 per cent target for adaptation and a 50 per cent floor within that for “vulnerable countries” (LDCs, SIDS and African states). Proposals that meet those criteria may in many cases require full grant financing. Second, it will be difficult to assess criteria unless there is adequate and timely **information disclosure** on the identity, location, and potential environmental and social risks associated with sub-projects when approving proposals via financial intermediaries. Third, priority should be given to ensuring that a **multi-stakeholder process** is embarked upon at an early stage, and that this should include representatives of communities that would be impacted by proposed projects and programs. Fourth, the criteria should include **qualitative** as well as quantitative measures, for both mitigation and adaptation-related proposals. We are willing to elaborate further on these general proposals in due course.

On “**impact potential**”, we would caution against simply adopting the “Initial performance indicators” of Annex II to document GCF/B.05/23 (cross-referenced as part of the results

management framework) as indicators. In particular, we would note that the Investment Framework, as subsequently defined in decision B.07/06, and in greater detail in Annex XIV of document GCF/B.07/11 (Decisions from the 7th Board meeting) offers a broader and more comprehensive scope that should be used as the basis for defining activity-specific sub-criteria. For example, although high-level indicators of tCO₂/kWh may be of use, in certain circumstances, in understanding mitigation “impact potential”, they are a poor proxy for assessing the potential to contribute to a “paradigm shift”, contributions to sustainable benefit (including social co-benefits) or equality and access.

Indicators of “mitigation impact potential” should be viewed in the broader context of their **“paradigm shift potential.”** In particular, we would note that the paradigm-shift investment criteria requires an “overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than **2 degrees.**” In practice, this should mean that the GCF **excludes** offering funding support the development of **new coal, gas or shale gas capacity – even with CCS** – all of which would lock-in high carbon infrastructure that would result in overshooting 2 degrees.¹ In our reading, the 2 degree criteria supersedes and should take precedent over the results management performance indicator that seeks to measure “Support to development of negative emission technologies (Number of carbon capture and storage projects, tCO₂ sequestered).”

Emissions reduction benefits should go hand in hand with **sustainable development potential** (social, environmental and economic benefits). For example, in developing activity-specific criteria on **“low-emission transport,”** priority should given to measures that support **modal shifts** to walking, cycling and public transportation. As the IPCC report on mitigation (chapter 8) points out, smart urban planning is a cost-effective means to reduce transport emissions (given the high cost of infrastructure). It also finds that urban planning and improvements in public transportation are strong promoters of social inclusion and access to services and jobs for the poorest and most vulnerable members of society.

GCF funding for energy generation should consider **energy access** as an integral part of proposals. On this matter, we associate ourselves with comments prepared by our civil society colleagues at Oil Change International (OCI), who suggest sub-criteria to measure the achievement of direct energy access benefits to the poor. (As OCI notes, performance could be measured by the number of new electricity connections to low-income households; percentage of MWs produced reaching low-income households or energy services important to the poor; a focus on improving services in areas with a large proportion of low-income households and/or where access is currently unreliable; a focus on making low-emission energy affordable for the poor; and the provision of rural, off-grid/mini-grid solutions providing energy services to the poor).

Economic co-benefits should be assessed according to the benefits brought to local economies. Relevant sub-criteria would include the potential to create local jobs, measuring “local multiplier” effects, and assessing potential benefits for local supply chains.² They might also include domicile-related indicators to measure financing that goes

¹ We are willing to engage further on this point. Technical support for this claim is offered in the academic work and commentaries of Professor Kevin Anderson of the Tyndall Centre, University of Manchester UK, <http://kevinanderson.info>, amongst others.

² On local multipliers, see the work of the New Economics Foundation, www.neweconomics.org

to companies directly-owned within the country where the economic activity undertaken takes place.

Poverty reduction criteria should also be considered **gender-sensitive**, since women and women-headed households are disproportionately represented amongst the poorest populations). Further gender-sensitive criteria would include checking the consistency of project/program funding with widening equal access to basic services (e.g. health, education), as well as ensuring that the funding proposals offer chances for the equal participation of women in decision-making and leadership positions.

When considering the “**needs of the recipient**” - in particular, those of “vulnerable groups”, it is vital that such groups are consulted and given a voice at an early stage. As an instrument of the UNFCCC, the GCF should pay due attention to the principle of countries' common but differentiated responsibilities and respective capabilities, which is of relevance to country-based sub-criteria. There are various means of operationalizing this, including the Equity Reference framework developed as part of the Greenhouse Development Rights approach.³

In assessing “**country ownership**”, the “existence of a national climate strategy” and “coherence with existing policies” are only part of the picture. Experience elsewhere has shown the importance of devolving decision-making responsibility to in-country institutions, as well as the use of national systems to ensure accountability.⁴ It is important, also, that national strategies are developed on the basis of a lasting partnership with a full range of stakeholders, especially affected communities. Multi-stakeholder engagement processes are crucial to this.

“Engagement with civil society organizations and other relevant stakeholders” requires **meaningful consultation**, which can be defined as “a process that (i) begins early in the project preparation stage and is carried out on an ongoing basis throughout the project cycle; (ii) provides timely disclosure of relevant and adequate information that is understandable and readily accessible to affected people; (iii) is undertaken in an atmosphere free of intimidation or coercion; (iv) is gender inclusive and responsive, and tailored to the needs of disadvantaged and vulnerable groups; and (v) enables the incorporation of all relevant views of affected people and other stakeholders into decision making, such as project design, mitigation measures, the sharing of development benefits and opportunities, and implementation issues.”⁵

Local consultations with affected communities (including but not limited to where affected populations include Indigenous Peoples) should be in accordance with principles of Free, Prior and Informed Consent. Women's organizations and representatives of other marginalized groups (especially the poor) must be included to achieve effective mobilization and lasting climate and development impacts. Recruitment for engagement processes must include groups representing disadvantaged populations that have lacked social, political and economic influence; these groups should be appropriately supported with resources and technical support to ensure they participate fairly and effectively.

³ See <http://gdrights.org/Calculator-about/>

⁴ World Resources Institute, “Strengthening Country Ownership and Accountability in Accessing Climate Finance,” p.8, <http://www.wri.org/sites/default/files/Ownership%20and%20Accountability%20Final%20Paper.pdf>

⁵ ADB, Safeguard Policy Statement, p.4 <http://www.adb.org/sites/default/files/pub/2009/Safeguard-Policy-Statement-June2009.pdf>

In assessing the “**cost-effectiveness and efficiency** regarding financial and non-financial aspects,” using leveraging as an indicator is potentially detrimental to a real paradigm shift. There can be an inverse relationship between high degrees of leveraging and emissions reductions goals, with some low-cost options (such as energy efficiency) not requiring significant additional investment to reach their goals. A high leverage ratio may be a sign that a project/program would have happened anyway without the Fund's support.⁶

Finally, in relation to coverage areas on “financial viability” and “co-financing”, it should be noted that the GCF portfolio should include full-grant financing. That may be particularly appropriate in the case of some adaptation activities, especially the 50 per cent of those that should take place in particularly “vulnerable countries” (LDCs, SIDS and African states).

18 August 2014

This document is submitted on behalf of the following organizations:

Institute for Policy Studies www.ips-dc.org

Friends of the Earth USA www.foe.org

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⁶ See Bretton Woods Project (2012) “[Leveraging” private sector finance. How does it work and what are the risks,](http://www.brettonwoodsproject.org/2012/04/art-570165/) <http://www.brettonwoodsproject.org/2012/04/art-570165/> ; Pereira, J. (2012) [Cashing in on climate change? Assessing whether private funds can be leveraged to help the poorest countries respond to climate challenges](#) , Eurodad; Reyes, O. (2013) [Critical Issues for Channelling Climate Finance via Private Sector Actors](#), BOND; Stadelmann, M., Castro, P., & Michaelowa, A. (2011). [Mobilising Private Finance for Low-Carbon Development: Tackling Barriers to Investments in Developing Countries and Accounting of Private Climate Flows](#), Climate Strategies

**Inputs to the Investment Framework of Green Climate Fund as contained in Annex XIV of document GCF/B.7/11.
24 August 2014**

By the Global Forest Coalition

Call for Public Inputs : Investment Framework

Inputs requested on:

- Activity-specific sub-criteria and a set of activity-specific indicators;
- Minimum benchmarks for each criterion, taking into account the best practices of relevant institutions;
- Methodologies for assessment of the relative quality and innovativeness of comparable funding proposals in comparable circumstances.

Annex III (Interim environmental and social safeguards of the Fund)

An overall recommendation regarding the Environmental and Social Safeguards that the Fund is planning to further develop is that the process of safeguard development should be transparent, inclusive of stakeholders and rights holders and that there should be effective participation of indigenous and local communities, in particular women in the planning and further concretization of these safeguards.

Recommendation: There should be one PS on Mainstreaming Gender. It should also be ensured the safeguards comply with current human rights standards, including in particular the UN Declaration on the Rights of Indigenous Peoples. The suggestion that FPIC only applies in **certain circumstances** (PS7) is not coherent with the UN Development Group Guidelines on Indigenous Peoples Issues.. It is important that the safeguards have stronger language/mechanisms to 'safeguard' rights of marginalized peoples and communities in real terms. Terms like "minimize" displacement (PS5), "minimize or reduce" project-related pollutions (PS3), and "minimize adverse impacts" would weaken existing environmental and social standards adopted by the UN and some of the main existing funding institutions for climate mitigation and adaptation, and should thus be avoided.

Agenda XIV: Initial Investment Fund

I: Investment policies

- (a) The decision B.05/03 is the Business Model Framework: Results Management Framework, which has some good components but continues to place too much emphasis on private financing, and technical logical frameworks. This is an inappropriate focus in light of the decision to allocate at least 50% of the funds to adaptation, and proposed investment policy (a) which indicates that the Fund will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient development, as adaptation and resilience-enhancing projects are seldom commercially competitive and thus not attractive for private investments. Especially community-driven, ecosystem-based initiatives to promote low-carbon climate-resilient development are often highly sustainable from a socio-economic, environmental, cultural and gender perspectives, but not commercially attractive enough for private investments.

We also want to highlight in this reference document Point 4, “the fund.....promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholder.....and taking a gender sensitive approach.” This should be an overarching principle of the investment policies.

Recommendation: In its investment policies, the fund should recognize and give equitable importance to the traditional knowledge, innovations and practices of indigenous peoples and local communities in the field of mitigation and adaptation strategies. The recognition of the need for a ‘paradigm shift’ should be translated into a holistic approach to the preservation of ecosystems by recognizing the biocultural relationship of local communities and indigenous peoples with their lands and territories. The fund should break with the tradition of a top down, scientific and technical approach of addressing mitigation and adaptation that targets local communities as assumed drivers of forest loss and provides them with artificial “co-benefits” only. Genuine climate resilience initiatives are grounded in traditional knowledge, which can contribute significantly to a country’s adaptive strategies for climate change.

- (b) What does ‘standard methodology’ entail, as this methodology is yet to be developed by GCF. It is also important to be aware that indicators/practices are different in different geography locations.

Recommendation: The international practices should recognize resilience initiatives that are based on local and grassroots practices of indigenous and local communities. One methodology/ indicator might not fit all, it has to be flexible.

- (f) This is a very business/profit oriented provision

Recommendation: As stated above, some of the initiatives that contribute most to the required 'paradigm shift' and climate resilience are ecosystem-based, low-carbon climate resilience initiatives driven by indigenous peoples and local communities, but these initiatives normally do not have a profit-oriented aspect and are thus not revenue-generating. The use of loans is also highly questionable from a climate justice perspective, especially in light of the investment strategy of 50/50 balance between mitigation and adaptation

II. Investment strategy and portfolio targets

Table 1: Initial portfolio targets mentions engagement with the private sector, and mentions fund wide engagement and 'significant allocation to the PSF'.

Recommendation: The emphasis on "fund-wide" engagement with the private sector is in sharp contradiction with investment policy (a) and the proposed balance between mitigation and adaptation. As suggested, some of the most sustainable initiatives do not require private sector involvement and will not be attractive for private sector investment as they are not necessarily profit-oriented.

III. Investment guidelines

The paradigm shift potential is a crucial criterion, but its definition and coverage should be aligned with the definitions and proposed actions for 'transformational change' proposed by the UN Open Working Group on the Sustainable Development Goals.

Recommendation: The coverage area for the paradigm shift potential should include "contribution to sustainable consumption and production patterns and 'buen vivir'", "contribution to gender equity" and "contribution to transformational change".

Criteria 3 on Sustainable Development Potential excludes cultural dimensions

Recommendation: The coverage area on the Sustainable development potential should include cultural co-benefits. There also is a need clarification on what environmental co-benefits entail and to what extent these benefits are equitably distributed between countries, communities, genders and generations.

Criteria 4 on Needs of the recipient should be specified

Recommendation: The coverage area under needs of the recipient should include more specific criteria to distinguish Indigenous peoples and women as vulnerable groups.

Criteria 5: Country ownership does not specify human rights instruments and needs of special groups. There should be cross-reference to the interim safeguards.

Recommendation: It should be ensured relevant human rights agreements, including the UN Declaration on the Rights of Indigenous Peoples' and CEDAW, and the interim safeguards of the GCF are included in the coverage area. There should also be an explicit reference in the coverage area to the need for an inclusive and participatory processes that includes effective participation by indigenous peoples, local communities and women to further concretize investment policies and safeguard mechanisms at the country level.

Criteria 6: Efficiency and effectiveness are only approached from an economic perspective

Recommendation: Efficiency and effectiveness should not only be defined in economic terms, but also in terms of cultural and socio-economic soundness of the programme/project. Not only industry best practices should be mentioned, but the best practices and innovations of Indigenous peoples and local communities, as well, including of women.



Stockholm, August 25, 2014

Secretariat of the Green Climate
Fund G-Tower, 175 Art Center-daero
Yeonsu, Incheon
Republic of Korea

Subject: GWP's inputs to GCF's "Call for call for public inputs: Initial Investment Framework"

Dear Sir or Madame,

On behalf of GWPO, we are pleased to input and comment on the initial adaptation logic model and possible initial performance indicators, which is contained in Annex X, p. 53, of document GCF/B.07/11. Attached to the email, GWP's GWP Indicators, taken from Work Programme Management Manual, can be found as an example for a result framework for adaptation indicators.

Impacts level

- Indicator 1.1: The unit of measurement chosen for this indicator (Percentage reduction in the number of people affected) is likely to be influenced by factors other than increased resilience, e.g. number of climate related disasters occurring over a given period. Seems like the measurement should be more along the lines of percentage reduction per climate-related disaster weighted by severity of the climatic event or something in order to capture meaningful results.
- Indicator 2.1 & 2.2: Meaning of these indicators is slightly unclear: Are they measuring progress as a consequence of climate investments, i.e. increasing numbers of households are now water and food secure due to e.g. investments in water scarcity/drought management measures? If so then the results against these indicators are likely to reflect much more than the performance of increased climate funding. Access to adequate water for example is indeed influenced by resilience to climate change but also a range of other factors (e.g. infrastructure, ability to pay, source pollution, etc.) and the indicator would therefore have to be more specific in what it measures.

Outcomes level

- Indicator 5.1: The indicator is lacking a unit of measurement. (Degree of integration/mainstreaming is subjective. Could rather be something like number of plans, policies, strategies etc. that have climate resilience incorporated?).
- Indicators 6.1, 6.2 and 7.1: As above, no units of measurement (appreciate that this set of indicators is still to be further developed).

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- Result 7.0: A minor point but if a household, community, etc. has strengthened adaptive capacity and reduced exposure (sensitivity) to risk does this not automatically make them more resilient meaning that this result is more relevant under the impacts level?

Overall comment: Many of the indicators are high level and would probably require a set of sub-indicators, or at least comprehensive criteria, in order to be measured meaningfully.

Please do not hesitate to contact us, if you have any queries.

Yours sincerely

Maika Mueller
Water, Climate and Development Programme
Global Water Partnership Organisation



17 August 2014

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GCF call for public inputs – response

Submission to the GCF Investment Committee

*By Liane Schalatek, Associate Director, Heinrich Böll Stiftung North America,
on behalf of the Heinrich Böll Stiftung North America*

On August 7, 2014, the Secretariat of the Green Climate Fund (GCF), on behalf of the Investment Committee of the GCF Board, issued a call for public inputs on the further development of the Fund's Initial Investment Framework. We appreciate the opportunity to provide our input to support the work of the GCF Investment Committee and Secretariat on operationalizing the GCF's Initial Investment Framework, specifically, our thoughts and recommendations on activity-specific sub-criteria and indicators, minimum benchmarks and methodologies for assessing the relative quality and innovativeness of funding proposals. Songdo Board Decision B.07/06 tasked the GCF Investment Committee to focus on these elements in preparation for the full Board's consideration at the 8th GCF Board meeting in Barbados in mid-October.

While the call to the public for input is welcome, the timing and short time-frame of the response period (less than two weeks during August which as a main vacation time falls in the absence of many civil society colleagues from work) is unfortunate and not conducive to allow for a thorough elaboration of crucial discussion points and suggestions by civil society groups, including through coordinated joint submissions. Our comments and suggestions submitted here are thus to be seen as initial response with the hope for further opportunities for more thorough engagement and dialogue with both the Investment Committee and technical experts working with the Secretariat on advancing the GCF's Initial Investment Framework. We look forward to further engaging in formulating sub-criteria and indicative activity-specific indicators in advance of the 8th GCF Board meeting.

Some General Observations

Some general observations and contextualization are however necessary before attempting to provide more specific input on the Secretariat's call. The Fund's initial investment guidelines with their six initial criteria and 24 coverage areas as reflected in Annex XIV of GCF/B.07/11 are meant to help the Board decide which of the multitude of expected project and program funding proposals should be prioritized for funding. Since the GCF is an operating entity of the financial mechanism of the UNFCCC, all developing country Parties to the Convention are eligible to receive resources from the Fund (Governing Instrument, para 35). Funds transferred via the GCF to developing countries are meant to fulfill a financing obligation by developed countries as historical polluters to help developing countries address climate change challenges. This is a matter of international justice and fairness.

The methodologies to be developed to "assess the relative quality and innovativeness of comparable proposals in comparable circumstances" (Decision B.07/06, para (c)(iii)) will inject an element of competition into the GCF allocation practice that could contravene these fundamental principles of the UNFCCC if not managed carefully and interpreted with generosity. For example, it will be inappropriate to evaluate most proposals for adaptation activities, specifically those coming from vulnerable countries such as the LDCs, SIDS and African States, which in accordance with Bali Decision B.06/06 should be allocated not less than fifty percent of the GCF's adaptation allocation, on cost-effectiveness or amount of co-financing (as proposed as coverage area under the investment criterion of "efficiency and effectiveness"). Indeed, for

adaptation, full cost grant financing has to be acknowledged as primary financial delivery for public sector adaptation activities, which will likely not see a financial return on investment, involve longer time-frames and have to prioritize gender-sensitive community-focused implementation with the full engagement and participation of the most vulnerable population groups as beneficiaries.

Geographical balance of allocation as well as a “reasonable and fair allocation across a broad range of countries” (Decision B.06/06, para. (a)(iii)) could also be undermined with the competitive application of investment guidelines which do not guarantee some minimum country-based allocations (such as the GEF or the Adaptation Fund set). It is for this reason that the Board in Songdo Decision B.07/06 stipulated that the initial investment framework will be kept under review and that action should be taken as necessary in particular to the criterion on the needs of the recipient countries (para (e)).

Specific Input on the Initial Investment Framework and its Criteria

The initial investment framework as decided in Songdo recognizes six broader initial criteria and articulates 24 initial coverage areas. In some instances, coverage areas could serve as initial expressions of sub-criteria to be further tweaked (for example those listed under the criterion for the paradigm shift potential). In other instances, some further elaboration and specification is needed (for example for the criterion on impact potential). In developing activity-specific sub-criteria and indicators further, the Board’s prior decisions from Paris on initial result areas and indicators and the initial results management framework (Decision B.05/03) and on a theme/activity-based approach to allocation (Decision B.05/05) as well as the Bali Decision on options for a Fund-wide gender-sensitive approach (Decision B.06/07) are to be taken into account. Additionally, minimum benchmarks for each criterion, that is minimum standards against which incoming project and program proposals can be measured, are to be developed for consideration at the 8th GCF Board meeting.

The table below expands on Table 2 of Annex XIV of document GCF/B.07/11 and lists some potential minimum benchmarks for the six investment criteria, as well as possible sub-criteria and/or indicative examples of activities reflective of minimum benchmarks for the respective criteria. The proposed inputs and recommendations are added in RED. The input recognizes that a somewhat artificial separation into individual criteria could be counterproductive to the achievement of the Fund’s objectives as articulated in para. 3 of the Governing Instrument, particularly if the Board decides to assign different weights to different criteria and sustainable development potential receives only a low weight. For example, the impact potential of mitigation and adaptation activities should not be separated from the paradigm shift potential and the sustainable development potential, all of which should acknowledge the need for gender-sensitive proposal development and implementation. High level of tCO₂ equivalent reduced, often suggested as the primary indicator for mitigation impact, are a poor proxy for assessing the activity’s potential to contribute to a paradigm shift and to sustainable development with multiple (co-)benefits and might be counter-acting either, particularly, if high levels of emissions reductions are achieved in a way that harms people and the environment (the sustainable development criterion) and relies on technologies that lock-in high carbon infrastructure incompatible with a temperature increase of less than 2 degrees (the paradigm shift potential criterion). Illustrative activity-specific indicators for each criterion need to reflect such a broader context. Further work on adequate indicators for that purpose is clearly needed (they need more reflection and collaborative work of many experts inside and outside of the climate arena) and we are interested in working on and elaborating further on those.

The following reflects on and explains some key points summarizing our input in the table below:

Impact Potential Criterion

A suggested minimum benchmark for mitigation impact would be the compliance of the proposed technology with a GCF investment exclusion list that should be developed. Activity-specific sub-criteria for mitigation and adaptation impact could build and improve on agreed Fund impact areas defined by the initial results management framework (Decision B.07/04). For example, a mitigation sub-criteria reflective of the paradigm shift potential and sustainable development context would be “reducing emissions through increased, inclusive and gender-sensitive access to renewable energy options”, with an appropriate indicator measuring not the supply of such options via the number of RE energy providers, but the sex-disaggregated number of beneficiaries/users, including their social/income stratification to encourage prioritization of access for the energy poor. Similarly, an example for an adaptation impact sub-criteria with paradigm shift and sustainable development potential could be “increasing the resilience of local food and water systems”, with an activity-specific indicator acknowledging that food security in most developing countries is dependent on the well-being of mostly small-scale subsistence women farmers, who are often neglected by agricultural extension services and shut out from irrigation usage, and focusing on measuring improvements for them. Likewise, an adaptation sub-criteria on “increasing the resilience of infrastructure and the built environment to climate change threats” should focus on the infrastructure’s utility to vulnerable population groups, with an appropriate activity-specific indicator not looking at the kilometers of seawalls built or streets raised, but the (sex-disaggregated) number of people in communities nearby helped in securing or improving their livelihood and increasing their resilience to climate change impacts as a consequence of climate-proofing specific infrastructures.

Paradigm Shift Potential Criterion

The coverage areas listed in Table 2 of Annex XIV of document GCF/B.07/11 under the paradigm shift potential criterion can form the basis for some activity-specific sub-criteria with further refinement. A missing sub-criteria for the paradigm shift potential criteria however would be “indication of a clear break with ‘business-as-usual’ approaches”, specifically with respect to carbon-based technologies and mitigation approaches. So called “technology-neutral” funding proposals should be considered incompatible with the paradigm shift potential criterion. Mitigation funding proposals should focus instead on replicating and aggregating on a national scale decentralized off-grid renewable energy access solutions prioritizing the most energy poor population groups, often in rural areas where the extension of on-grid energy provision is likely cost-prohibitive. The affordable and gender-sensitive provision of financial services and products, especially “patient” (long-term) small scale loans, through a country-wide network of domestic, especially local financial intermediaries is another example for an activity demonstrating the paradigm shift potential. Such small-scale “patient” and affordable loans are needed by households and micro-, small- and medium-sized enterprises (MSMEs), which form the backbone of many developing country economies, are majority-operated by women entrepreneurs and are key for a paradigm shift on energy use in these countries, for investment in decentralized renewable energy services and technologies. The gender-responsive provision of appropriate financial services and products for MSMEs through local financial intermediaries is thus a good activity-specific proxy indicator. For adaptation activities with paradigm shift potential, the prioritization of community-based and community-owned implementation with the involvement and participation of the most vulnerable people and population groups and its replication and aggregation on a national level, would be an important benchmark. A national small grants program or facility with an inclusive multi-stakeholder national steering committee focusing on the gender-sensitive implementation of grassroots- and community-based mitigation and adaptation activities would be an example of such an activity with paradigm shift potential.

Sustainable Development Potential Criterion

Environmental, social, and economic co-benefits and gender-sensitive development impacts are recognized as coverage areas under the sustainable development potential criterion. Each of these coverage areas could be understood as a summary heading of indicative sub-criteria, which are listed in the table below. A minimum benchmark for this criterion would be that proposals for program/activities detail the provision of multiple, gender-sensitive benefits (which include both climate and non-climate benefits) to the most vulnerable people as part of targeted mitigation and adaptation activities. For economic co-benefits, priority should be given to benefits to local economies with regard to income diversification, support for local MSMEs, the creation of local jobs or the gender-sensitive access to local financial services and trade opportunities. Gender-sensitive development impact sub-criteria could look at efforts on reducing the poverty of the lowest income quintile (where women and women-headed households are disproportionately represented) as well as the availability and equal access for women and girls to health and education services, crucial to build the resilience of local populations, as well as the participation of women in leadership and communal decision-making positions (for example local water communities, food banks, cooperatives). Environmental co-benefits should look at biodiversity safeguards, for example in the case of large-scale RE infrastructure such as hydro dams or reforestation via monoculture plantations. Specifically, measures taken in the name of one Rio Convention (the UNFCCC) should not counter-act activities and protective measures taken in the fulfillment of Parties' obligations under the other Rio Conventions (the Convention on Biological Diversity and the UN Convention on Combating Desertification).

Needs of the Recipient Criterion

When considering recipient needs, the minimum benchmarks for proposals should look at both the financing and climate-related needs of the recipient country as a whole as well as those of targeted beneficiaries, including by looking at gender differences in vulnerability and discrimination of women in economic and social development approaches and outcomes. In accordance with the common but differentiated responsibilities and respective capabilities (CBDR), the fairness principle enshrined in the UNFCCC for which the GCF is an operating entity of the financing mechanism, full cost grant financing and community-based implementation at minimum for adaptation measures should be prioritized. In line with this, financing proposals should include dedicated financial support for strengthening domestic institutions and prioritize the building particularly of sub-national and community-focused implementing capacity. Comprehensive needs assessments should focus on the needs and targeted benefits for vulnerable groups and gender aspects, in particular through the meaningful consultation with women and other disadvantaged and vulnerable groups, including Indigenous Peoples. Local meaningful consultations must be in accordance with the principles of free, prior and informed consent (FPIC). Meaningful consultations, following some best-practice policies set for consultation approaches by the Asian Development Bank, includes the early involvement of stakeholders in the project preparation process and throughout the project or program cycle; the timely disclosure of project/program relevant information in a way readily accessible and understandable to affected people; a gender-inclusive and –responsive approach and tailored outreach to disadvantaged and vulnerable groups; and the incorporation of their relevant views into project/program related decision-making.

Country Ownership Criterion

Country ownership is a fundamental principle of the Fund's operating procedures, including its allocation and results management frameworks. Building the capacity of domestic institutions and devolving investment decision-making to the national level are therefore crucial to the long-term success of the GCF's mission. Coherence of funding proposals with national priorities is to be ensured through the no-objection procedure as part of the proposal approval process. Suggested minimum benchmarks and sub-criteria for the country

ownership investment criterion must therefore look at the contribution of proposals to nationally identified priorities for the engagement with the GCF or the proposals' direct contribution to a country's national climate plan as well as other existing national policies and strategies, including development and poverty reduction plans, or gender equality and anti-discrimination commitments. Those domestic priorities will have to be determined through a comprehensive, inclusive and gender-sensitive multi-stakeholder process that includes participation of civil society organizations, affected communities and vulnerable and disenfranchised groups with specific attention to the inclusion of women and Indigenous Peoples. Proof and documentation of active domestic stakeholder engagement on an ongoing basis – from the determination of national funding priorities to the elaboration of specific funding proposals and a participatory monitoring role in implementation – should therefore be considered a crucial minimum benchmark and important sub-criteria both. Such a multi-stakeholder process should also include the involvement of other relevant government entities and agencies on different levels, including existing women's machineries (i.e. the agencies, departments, commissions or ministries formed to implement the principle of non-discrimination and equality between women and men nationally). Proposals should prioritize project/program management and implementation by a domestic entity or include a component with dedicated funding focusing on building the capacity of domestic organizations to work as implementing entities, intermediaries or executing entities with the Fund.

Efficiency and Effectiveness Criterion

Finally, the GCF Initial Investment Framework should assess effectiveness – the degree to which the proposed activity will produce the desired result – not only in terms of the economic and financial soundness of the project/program, but also in terms of the proposal's social and environmental costs and benefits, many of which are intangible and measured best by qualitative indicators that for example describe process or policy improvements, not returns on investment. Likewise, efficiency is more than a measurement of the benefit-cost ratio of an activity (going beyond a simplistic “bang for the buck” assessment), but speaks to the viability and the sustainability of a measure (including with sub-criteria such as soundness of the proposal, government commitment including through supportive legal/regulatory frameworks, or socio-political/stakeholder support). Lastly, using the amount of co-financing as an investment sub-criteria or leveraged finance amounts as indicator is not indicative of either efficiency or effectiveness. Experts have warned that leverage ratios are often inflated (double-counting) and, that they might indicate that the project would have been financed without Fund support as it could be considered low risk for sufficient investment returns. Relating the amount of co-financing to an assessment of efficiency in the investment guidelines of the Fund will also bias Board financing decisions against full cost grant financing (= no co-financing), which should be the preferred financing option at a minimum for most adaptation measures in line with the equity principle (CBDR) of the UNFCCC.

For further information or details, contact Liane Schalatek, liane.schalatek@us.boell.org, phone: +1-202-462-7512, Ext. 225 (office) or +1-202-290-0956 (cell).

TABLE: Initial criteria for assessing program/project proposals (Songdo Decision B.07/06, Annex XIV), with suggested minimum benchmarks, some activity specific sub-criteria and possible selected activity-specific indicators (additions marked in RED)

Criterion	Definition	Minimum benchmark(s)	Coverage areas	Activity specific sub-criteria	Possible activity-specific indicators (to be further refined, selected examples as indicative illustration only)
Impact potential	<i>Potential of the program/project to contribute to the achievement of the Fund's objectives and results areas</i>	<p><u>Mitigation:</u> Proposal details tCO₂.eq reduced and future emissions avoided in a way that creates no harm to people and the environment, secures or improves their livelihoods and complies with a GCF investment exclusion list (to be developed)</p> <p><u>Adaptation:</u> Proposal details resilience and livelihood improvements for the most vulnerable population groups (specifically women, elderly, the young and Indigenous Peoples) in local communities in each recipient country</p>	<ul style="list-style-type: none"> • Mitigation impact • Adaptation impact 	<p><u>Mitigation impact activity specific sub-criteria</u></p> <ul style="list-style-type: none"> • Reducing emissions through increased, inclusive and gender-sensitive access to renewable energy options; • Reducing emissions through increased, inclusive and gender-sensitive access to low-carbon transport options; • Reducing and avoiding future emissions from public and private buildings, cities, industries and appliances; • Reducing emissions and securing livelihoods of natural resources dependent local populations from land use, deforestation, forest degradation and through sustainable, inclusive and gender-sensitive forest management; <p><u>Adaptation impact activity specific sub-criteria:</u></p> <ul style="list-style-type: none"> • Increasing resilience and enhancing livelihoods of targeted population groups (specifically women, Indigenous People, the elderly and the young), local communities and regions considered to be most vulnerable or underserved; • Increasing the resilience of local food and water systems; • Increasing the resilience of and access to sub-national, specifically local health and disaster risk reduction and response services; • Improving the resilience of ecosystems and of the inclusive and gender-sensitive provision of ecosystem services, prioritizing natural resource dependent local populations; • Increasing the resilience of infrastructure and the built environment to climate change threats and their utility to vulnerable population groups 	<p>ENERGY ACCESS → (increase in) number of beneficiaries (disaggregated by gender) with access to RE energy options; detailed focus on improvement on number in lowest income quintile and female-headed households</p> <p>→ (increase in) share of population (disaggregated by gender and with focus on lowest income quintile and female-headed households) with access to clean cooking solutions</p> <p>TRANSPORTATION → (Increase in) Number of people (disaggregated by gender) using low carbon transport options with documentation of modal shift toward public options; detailed focus on improvement of access for beneficiaries from lowest-income quintile and female-headed households</p> <p>FOOD/WATER SYSTEMS → (Increase in) number of smallholder farmers (disaggregated by gender) to agricultural extension services and local irrigation/water storage systems</p> <p>INFRASTRUCTURE → (Increase in) number of people (disaggregated by gender) and local communities whose livelihood was improved due to climate-proofed infrastructure investments</p>
Paradigm shift potential	<i>Degree to which the proposed activity can catalyze impact beyond a one-off project or program investment</i>	<p><u>Shift to low –emission sustainable development pathways:</u></p> <p>Proposals are not technology-neutral but focused on RE, prioritizing aggregation and replicability of inclusive and gender-sensitive on-grid and off-grid decentralized RE energy access solutions and domestic MSME private sector involvement.</p> <p><u>Increased climate-resilient</u></p>	<ul style="list-style-type: none"> • Potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than 2 degrees • Potential for knowledge and learning • Contribution to the 	<ul style="list-style-type: none"> • Potential for scaling up, aggregating small-scale measures and replication (including through the establishment of nation-wide programs) and its overall contribution to global low-carbon sustainable development, consistent with a temperature increase of less than 2 degrees • Clear rejection of "business-as-usual" carbon-focused technology approaches, consistent with a temperature increase of less than 2 degrees • Potential for knowledge generation and South-South as well as peer-to-peer learning • Contribution to the creation of an enabling environment for people-centered sustainable development • Contribution to a regulatory framework and policies supportive of people-centered sustainable development 	<p>→ Compliance with GCF exclusion list</p> <p>→ Existence or development of South-South and peer-to-peer knowledge sharing and learning opportunities</p> <p>→ Number of policies or frameworks developed or strengthened by focusing</p>

		<p><u>sustainable development:</u></p> <p>Proposals focus on providing direct benefits and addressing urgent needs for the largest number possible of people from the most vulnerable population groups (specifically women, elderly, the young and Indigenous Peoples) in each recipient country, prioritizing community-based implementation.</p> <p><u>Enabling environment/learning:</u></p> <p>All proposals ring-fence funding for gender-sensitive capacity-building and learning, including for South-South learning and peer-to-peer exchanges.</p> <p>Proposals suggest specific country-owned policy and regulatory changes facilitating an inclusive and gender-sensitive implementation and benefit-sharing of this and future proposals.</p>	<p>creation of an enabling environment</p> <ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Overall contribution to climate-resilient sustainable development pathways consistent with a country's climate change adaptation strategies and plans and prioritizing the needs and benefits for the most vulnerable population groups with special focus on community-based implementation. <p><u>Examples for activities indicative of paradigm shift potential:</u></p> <ul style="list-style-type: none"> • Establishment of a national small grants program or facility for grassroots- and community-based gender-sensitive implementation of mitigation and adaptation activities with inclusive multi-stakeholder steering committee • Development of a nation-wide off-grid decentralized RE access program for the most energy poor population groups • Affordable and gender-sensitive provision of financial services, especially long-term patient smaller scale loans, through domestic financial intermediaries for decentralized RE services and technologies 	<p>on inclusive and gender-sensitive implementation and benefit-sharing</p>
Sustainable development potential	<i>Wider benefits and priorities</i>	<p>Proposal details provision of multiple, gender-sensitive benefits (climate AND non-climate) to the most vulnerable people as part of targeted mitigation and adaptation activities</p>	<ul style="list-style-type: none"> • Environmental co-benefits • Social co-benefits • Economic co-benefits • Gender-sensitive development impact 	<p><u>Environmental co-benefits"</u></p> <ul style="list-style-type: none"> • Safeguarding biodiversity (including CBD commitments); • combating natural habitat loss and desertification (including UNCCD commitments); • reducing non GHG pollutants; etc. <p><u>Social co-benefits:</u></p> <ul style="list-style-type: none"> • Increase voice and agency of socially marginalized population groups such as women and Indigenous Peoples (= often those groups most vulnerable to climate change); <p><u>Economic co-benefits:</u></p> <ul style="list-style-type: none"> • Economic empowerment of marginalized population groups, specifically women; • local income diversification; • local job creation • providing gender-sensitive access to local financial services and trade opportunities • support for local micro-, small- and medium-sized entrepreneurs, especially women-owned businesses; <p><u>Gender-sensitive development impact:</u></p> <ul style="list-style-type: none"> • Poverty reduction focused on the lowest income quintile of the population; • Availability and equal access for men and women, boys and girls to local health and education services; • participation of women in leadership positions and in 	

				<p>community decision-making;</p> <ul style="list-style-type: none"> gender-equal reform of inheritance and ownership laws and practices; 	
Needs of the recipient	<i>Vulnerability and financing needs of the beneficiary country and population</i>	<p>Proposal looks at both the financing and climate-related needs of the recipient country as a whole as well as those of the targeted beneficiaries, including gender differences in vulnerability and economic and social development, prioritizing full cost grant financing and community-based implementation for adaptation measures.</p> <p>Proposal includes expenditures for strengthening of domestic institutions and prioritizes the building of sub-national, community-focused implementation capacity</p>	<ul style="list-style-type: none"> Vulnerability of the country Vulnerable groups and gender aspects Economic and social development level of the country and the affected population Absence of alternative sources of financing Need for strengthening institutions and implementation capacity 	<ul style="list-style-type: none"> Needs assessment of targeted beneficiaries as determined by meaningful and comprehensive, gender-responsive consultations 	<ul style="list-style-type: none"> Economic and social development level could be determined by human development and inequality centered indexes such as the Human Development Index (HDI) or Inequality-adjusted Human Development Index (IHDI) Gender aspects of vulnerability could be determined by Social Watch Gender Equity Index (GEI)
Country ownership	<i>Beneficiary country ownership of and capacity to implement a funded project or program (policies, climate strategies and institutions)</i>	<p>Proposal references national strategies and policies, received a no-objection, and was developed with comprehensive, inclusive and gender-sensitive stakeholder participation involving intended beneficiaries and affected groups and detailing their engagement throughout the project/program cycle.</p>	<ul style="list-style-type: none"> Existence of a national climate strategy Coherence with existing policies Capacities of implementing entities, intermediaries or executing entities to deliver Engagement with civil society organizations and other relevant stakeholders 	<ul style="list-style-type: none"> Presence of comprehensive, inclusive and gender-sensitive multi-stakeholder process that includes participation of CSOs, affected communities and vulnerable groups, with specific attention to women and Indigenous Peoples; such a process should also include the involvement of other relevant government and sub-national entities and agencies, including existing women's machineries. Contribution to nationally identified priorities for engagement with the GCF or direct contribution to the implementation of a national country climate plan Application of active no-objection procedure Contribution to implementation of existing national policies, including development and poverty reduction plans, gender equality and antidiscrimination laws Managed and implemented either by a domestic entity or including a project/program component intended to build the capacity of domestic entities to work as implementing entities intermediaries or executing entities with the Fund 	
Efficiency and effectiveness	<i>Economic and, if appropriate, financial soundness of the program/project</i>	<p>Proposal references not just economic and financial costs, but also social and environmental costs and benefits, including intangible ones and how to achieve them. Project/program viability is proposed not just in financial terms, but in terms of the measure's sustainability</p>	<ul style="list-style-type: none"> Cost-effectiveness and efficiency regarding financial and non-financial aspects Amount of co-financing Program/project financial viability and other financial indicators Industry best practices 	<ul style="list-style-type: none"> Comprehensive cost-benefit analysis covering and weighing social and environmental as well as economic and financial cost and returns and allowing for adjustments based on participatory monitoring and lessons learned Quality and terms (not amount) of co-financing and in-kind contributions, including governmental/institutional commitments 	



18 August 2014

Secretariat of the Green Climate Fund (GCF)

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Yeonsu, Incheon, Republic of Korea

Response to Call for Inputs on GCF Investment Framework

As an Accredited Private Sector Observer organization and close follower of the UN Green Climate Fund (GCF), the [International Emissions Trading Association](#) (IETA) recognizes the vital role the Fund should play in fostering the transformative paradigm shift required to build lasting low-carbon and climate resilient communities in developing regions. We therefore welcome this opportunity, announced in the 7 August “[Call for Inputs](#)”, to share private sector insights to help inform the development of GCF’s Investment Framework.

ABOUT IETA

IETA represents a multi-sector business voice to governments – inside and outside of the UN process – to inform low-carbon policy and financial development and innovation worldwide. Since its establishment in 1999, IETA has been at the forefront of private sector engagement on climate policy, advocating a strong role for markets and innovative financial instruments to reduce emissions in a robust and cost-effective manner. IETA’s 140+ business members hold broad and deep practical experience across the fields of greenhouse gas emissions trading, emission reductions, project finance and investment, and monitoring, reporting and verification (MRV) worldwide.

INVESTMENT FRAMEWORK INPUTS & KEY DECISIONS/DOCUMENTATION

We understand that GCF’s Secretariat, on behalf of the Fund’s Investment Committee, is particularly keen to draw stakeholder input regarding the following areas of GCF’s Investment Framework:

- A. Activity-specific sub-criteria and a set of activity-specific indicators, taking into account the Fund’s: [Initial investment framework](#)¹; Initial result areas and [initial results management framework](#); and Decisions of the Board (B.05/05, B.06/04, and B.05/03);
- B. Minimum benchmarks for each criterion, taking into account the best practices of relevant institutions; and
- C. Methodologies for assessment of the relatively quality and innovativeness of comparable funding proposals in comparable circumstances.

In its [Decision B.07/04](#) part (a), we note that the GCF Board reaffirmed that:

“...elements of the initial results management framework of the Fund...complement decision B.05/03, including the initial result areas of the Fund referred to in the decision contained in Annex 1 to the document GCF/B.05/23, as the performance indicators of the initial result areas of the Fund also referred to in that decisions, as contained in Annex II of the document GCF/B.05/23.”

In part (c) of the [Board Decision B.07/04](#), we note that GCF's Board has officially adopted the **following core indicators for mitigation**:

1. *Tonnes of carbon dioxide equivalent (tCO₂eq) reduced as a result of the Fund-funded projects/programmes;*
2. *Cost per tCO₂eq decreased for all Fund-funded mitigation projects/programmes; and*
3. *Volume of finance leveraged by Fund funding, disaggregated by public and private sources.*

We also recognize that, contained in part (g) of [this Decision](#), the Board has “taken note of the **initial performance indicators** Annexes IX and X” in the latest Board Decision report. These Annexes focus on initial mitigation (IX, page 51) and adaptation (X, page 53) logic models and possible initial performance indicators, which may be taken into account for further work by the Secretariat.

Upon careful review of these relevant GCF Board Decisions and documentation, IETA's following observations and recommendations focus on **mitigation-oriented** considerations, particularly those related to non-financial mitigation criteria, indicators, and methodologies. In particular, we believe that it's critical for **learnings and methodologies from existing, internationally-recognized and accepted emission reduction programs** (e.g. Clean Development Mechanism, or CDM) **and institutions** (e.g. UNFCCC CDM Executive Board) be smartly leveraged to inform the GCF Secretariat and Committee's investment framework analyses and report-out to the Board by October 2014.

PSAG RECOMMENDATIONS & LEARNING FROM CARBON MARKET EXPERIENCE

In May 2014, GCF's newly-established Private Sector Advisory Group (PSAG) prepared its [High-Level Recommendations to the Board](#), which included points related to the Fund's investment framework. While preparing documentation and recommended decisions to the Board, the Secretariat and Investment Committee members should carefully draw upon, or at least be guided by, these PSAG key recommendations. Doing so will also satisfy the Board Decision's [B.07/06](#) (c, page 9) request to the Investment Committee to seek PSAG guidance and input.

Of PSAG's investment framework recommendations ([B.07/10, Annex 1, #7, page 9](#)), we strongly encourage Secretariat and Committee efforts to be guided by one particularly important recommendation, with a view to enhancing the overall effectiveness and efficiency of the new Fund's investment framework: **“GCF's Board should not re-invent indicators that already exist for monitoring or evaluating purposes for project or program approval and screening”².**

To avoid re-inventing indicators, criteria and methodologies that already exist, IETA encourages the Secretariat and Investment Committee to build-on the UNFCCC's CDM and other emission reduction programs over the coming weeks and months. Valuable standards, tools and methodologies – borne from the CDM and still evolving today across both UN and non-UN emission reduction programs – should not be ignored as the GCF becomes operational and investment framework decisions, criteria and indicators are considered and compared. We shed additional light on specific key lessons and opportunities below.

² GCF Board Document B.07, Annex 1, page 9

CDM EXPERIENCE & PRINCIPLES

Numerous lessons and tools from experience with the UNFCCC's [Clean Development Mechanism \(CDM\)](#), in particular, should be drawn from to inform the UN GCF's investment framework efforts. These priority lessons touch on: results-based project methodologies and frameworks; monitoring, reporting and verification (MRV) procedures; host country involvement; and registration processes.

Representing the world's first, large-scale greenhouse gas emissions offsetting mechanism, the CDM was established to unlock and channel additional capital (mostly private) into greenhouse gas emissions mitigation projects across developing countries. When launched, the CDM was considered as a combination of cost-effective greenhouse gas emission reductions and a clean technology transfer mechanism to developing countries. To date, the CDM has supported over **8,000 greenhouse mitigation** projects across **110 developing countries** – while unleashing more than **USD 400 Billion** in real, quantifiable, and verifiable results-based emission reduction activities³. Along with channeling billions of dollars in, mostly private, capital into mitigation activities, the CDM has also fuelled complementary low-carbon capacity building activities and broader sustainable development in host countries.

The CDM is overseen by the UNFCCC, which sets project standards, makes decisions regarding project registration, and issues Certified Emission Reductions (CERs) to eligible CDM project owners. Eligible project selection and CERs issuance criteria are based on the following core principles of the international mechanism: 1) *Methodology-Based*; 2) *Additionality*; 3) *Host Country Support*; 4) *Third-Party Verification*; and 5) *Registration & Crediting Period*.

Methodological Experiences & Considerations

The function of [CDM methodologies](#) is to provide precise guidelines for baseline determination, additionality assessment, and monitoring of project implementation, thereby allowing for the quantitative evaluation of environmental results on a project basis. For each CDM project type (e.g. renewable energy projects, landfill gas projects, industrial gases, etc.) we see defined methodologies supported by the UNFCCC that set standards for the valuation of the project and calculation of greenhouse gas emission reductions achieved by the project.

To date, the **CDM has successfully delivered over 300 methodologies** across several project categories including: large-scale project activities; small-scale project activities; consolidated methodologies; and one each for large-scale, small-scale and consolidated Afforestation and Reforestation (A/R) project activities - spanning across 15 broad sectors. A complete and updated list of available methodologies is available at <http://cdmpipeline.org>.

³ UNEP CDM Pipeline <http://cdmpipeline.org/>. As of 1 August 2014, the total number of registered CDM projects was 7,538 (87% of the 8,707 of “live” CDM projects). Of these, 1,152 remain at the validation stage and 17 have requested registration. According to UNEP's CDM pipeline, the total issuance to date of CERs is 1,472 million.

Over the CDM's history, some recognize the advent of an **unbalanced distribution between project host countries and project types**. This reality mainly exists due to lower project transaction costs and lower project risks for industrial gas mitigation projects in more developed host countries. China has seen the highest volume of registered CDM projects to date, followed by India and Brazil. In total, nearly 85% of CDM projects are registered in Asia compared to less than 3% in Africa. Of all registered CDM projects, nearly 70% are renewable energy projects. However, upon looking at issuance data, over half of all issued CERs have gone to industrial gas projects (e.g. HFC-23).

The UNEP DTU **CDM Pipeline Analysis and Database** contains all UNFCCC CDM/JI projects that have been submitted for validation and determination. The site also contains all CDM project baseline & monitoring methodologies, a list of CDM Designated Operating Entities (DOEs) and numerous guidance documents and analyses. Full project pipelines and analyses, including tables with key information for all CDM projects and methodologies, can be freely accessed. All information is available at <http://cdmpipeline.org/>.

CDM's Programmes of Activities (PoA) provides the organizational and methodological framework for Component Project Activities (CPAs) with the same stated goal to operate within a single registered CDM program activity. Today, **approximately 390 PoAs are in the UNFCCC pipeline, of which 254 have been registered**⁴.

CDM's PoA is defined as: "a voluntary coordinated action by an entity which coordinates and implements any policy/measure or stated goal (i.e. incentive schemes and voluntary programmes), which leads to anthropogenic greenhouse gas emission reductions or net anthropogenic greenhouse gas removals by sinks that are additional to any that would occur in the absence of the PoA, via an unlimited number of CDM programme activities (CPAs)"¹.

The CDM PoAs framework and CPAs are increasingly being pointed to as success stories. The PoA framework is being used across a number of smaller mitigation projects in developing and least-developed countries, including small-scale renewable energy projects, household and community scale biogas projects, and energy efficient light bulbs. These next generation frameworks and methodologies are also helping to make CDM projects and issuances more regionally and sectorally balanced (to counter concerns mentioned-above). In fact, thanks to PoAs, we see the growing inclusion of Africa and other small and least-developed countries in the CDM. In Africa, the progress is quite striking – approximately 30% of total registered PoAs are Africa-based.

We strongly recommend that GCF's Secretariat and Investment Committee take careful note of these CDM methodological stories, while considering approaches and criteria for adoption – or at least experimentation – under GCF's investment framework. Leveraging all or parts of these robust methodologies to incorporate into future GCF project or funding monitoring and evaluation assessments will only improve the effectiveness and efficacy of the new Fund.

⁴ According to the latest [CDM Pipeline](#) report (August 2014), new PoAs submitted include: Geothermal (Kenya); an international water purification programme (Uganda); small-scale renewable energy (Thailand); and a wind energy project (India).

Additionality & Criteria Considerations

CDM's project selection criteria have always been driven by the need to deliver real, verifiable, quantifiable and additional greenhouse emission reductions in tonnes of greenhouse gas equivalent (tCO₂eq). **This objective and metric aligns with GCF's [Board Decision part \(c-1\)](#)**, adopting the three core mitigation indicators for Fund-funded projects/programmes, including tCO₂eq reduced.

In the CDM, like other recognized emission reduction programs, the additionality of projects is crucial to ensure project and program integrity. Only defined and demonstrable additionality – rather than a simply redirection of funds – results in eligibility of projects and issuance of emission reduction credits under the CDM. Under the CDM, CERs are only issued for projects that are “additional” or beyond “business as usual”. As such, a CDM project proponent must prove that a project would *not have existed in the absence of the CDM*. In simplest terms, additionality under the CDM can either be tested via: **financial analysis** (i.e., proof that project is only profitable with additional income through sale of CERs); or proof that other **institutional barriers** would prevent the project's implementation.

GCF Secretariat and Investment Committee consider CDM's most recent “**Tool for the Demonstration and Assessment of Additionality**” (Version 7.0), available for download at <http://cdm.unfccc.int/methodologies/PAmethodologies/tools/am-tool-01-v7.0.0.pdf>.

Third-Party Validation & Verification

In the CDM, independent entities are involved in the registration and issuance processes. Similar to the GCF's National Designated Entities (NDEs), the CDM's Designated Operated Entities (DOEs) are identified and accredited by the UNFCCC. DOEs validate a CDM project concept (Project Design Document) and verify each issuance request on behalf of the UNFCCC.

Without positive third-party support from a DOE, a CDM project cannot be registered or request CERs. As noted above, additionality is the requirement for CDM [project validation](#), which will be confirmed by the DOE as part of its [validation report](#). Selected by the project proponent to validate project activity, a DOE must review a CDM [Project Design Document](#) and supporting documentation to confirm that the following requirements have been met: “(proposed CDM) project activity is expected to result in a reduction of anthropogenic emissions by sources of greenhouse gas emissions that are additional to any that would occur in the absence of the proposed project activity.”

The CDM Executive Board requires detailed information on the demonstration of additionality to be integrated in [Project Design Documents](#) or shared in Annexes to these documents. The Executive Board has also instructed DOEs to ensure that validation reports include a **complete assessment of the appropriateness of the demonstration of additionality**, including documentation and other evidence provided by project proponents. Without attaching a project design document and validation report, information is considered incomplete by the Executive Board, halting all further registration and issuance steps in the chain.

General Comments on the CDM and Beyond...

GCF has a unique opportunity to inherit the CDM's already-existing approaches and methodologies. The same can be said for a number of other existing and continually-evolving emission reduction programs across both voluntary and compliance results-based emission reduction programs, such as the [Verified Carbon Standard](#) (VCS)⁵, Gold Standard (GS), [Climate Action Reserve](#) (CAR)⁶, and the [American Carbon Registry](#) (ACR)⁷.

Drawing from these existing and internationally-accepted emission reduction programs – rather than re-inventing criteria, indicators and methodologies – will result in both cost and time savings for the GCF. This will also avoid duplicative efforts related to supporting, tracking, and attempting to scale private capital into mitigation activities, while also complementing these systems and tools as climate finance is effectively scaled, mobilized, channeled and tracked.

ADDITIONAL COMMENTS & CONSIDERATIONS

GCF Technical Advisory Panel and Terms of Reference

At GCF's Board Meeting in May 2014 (GCF-B07), the Board decided to establish “an Independent Technical Advisory Panel, composed of experts to provide an independent technical assessment of, and advice on, funding proposals for the Board”.

As the draft Terms of Reference (ToRs) for this new technical advisory panel are prepared for GCF's eighth Board Meeting in October, IETA strongly **urges the Secretariat to consider the need for offset project implementation and verification expertise to be reflected in the ToRs and advisory panel's make-up**. IETA will gladly lend support to the Secretariat as it crafts the ToRs and/or seeks member candidates for this important independent technical advisory panel.

REDD+ - Logic Model & Performance Framework Development

In section (k) of the Board's [B.07/04 Decision](#), the GCF Board further requested the Secretariat “to develop a logic model and performance framework for **ex-post REDD+ results-based payments**, in accordance with the methodological guidance in the Warsaw framework for REDD+, for consideration at the third Board meeting in 2014”.

IETA is well-positioned to draw expertise and practical experience from our membership and networks to help inform this REDD+ logical model and performance framework. We welcome future formal and informal opportunities to communicate with, and lend support to, the Secretariat and Committee Members to effectively undertake these efforts.

⁵ All available VCS methodologies are [available here](#). Under the VCS, auditors known as [validation/verification bodies](#) (VVBs) are tasked with validating project descriptions and verifying actual emission reductions.

⁶ All approved CAR protocol methodologies are [available here](#). Unlike the CDM, CAR utilizes a standardized approach that promotes the relevance, completeness, consistency, accuracy, transparency and conservativeness of emissions reductions data reported by project developers. CAR verification manuals, documentation and requirements are all [available here](#).

⁷ All ACR standards and approved methodologies are [available here](#).

IN CONCLUSION

The GCF faces a challenging task to establish efficient frameworks for mobilizing and properly channeling and tracking unprecedented sums of climate finance. But as IETA's comments showcase, we believe this also presents an exceptional and unmatched opportunity for the Fund's decision-makers to build-on existing mechanisms, institutions, and non-financial mitigation program experiences, with a view to making the Fund's investment framework a success.

IETA recognizes that in order to build lasting business-friendly low-carbon investment environments requires bold, creative, and concentrated participation from private sector players across all regions and sectors of the economy. IETA is committed to leveraging its broad network and international multi-sectoral membership base to help meet these challenges head-on. We also stand ready and willing to lend support to GCF's Secretariat, Board and various Committees/Panels to help inform future Fund-related Investment Framework work and beyond.

We look forward to future discussions and opportunities to lend input to GCF's design and operationalization. If you have any questions or further information requests, please contact IETA's Director of Climate Finance, Katie Sullivan at sullivan@ieta.org (+1.416.500.4335).

Sincerely,



Dirk Forrister
IETA President and CEO

ABOUT IETA

IETA is dedicated to the establishment of market-based trading systems for greenhouse gas emissions that are demonstrably fair, open, efficient, accountable, and consistent across national boundaries. IETA has been the leading voice of the business community on the subject of emissions trading since 2000. Our 140 member companies include some of California's, and the world's, largest industrial and financial corporations—including global leaders in oil & gas, mining, power, cement, aluminum, chemical, pulp & paper, and investment banking. IETA also represents a broad range of global leaders from the industries of: data verification and certification; brokering and trading; offset project development; legal and advisory services. More information about IETA, including its current regional and global membership and partner network, is available at www.ieta.org.



To
Secretariat of the Green Climate Fund
175, Art center-daero, Yeonsu-gu
Incheon 406-840
Republic of Korea

Bochum, 18 August 2014

Subject: Call for public inputs – Response

Dear Sir, Madame,

On behalf of the International Renewable Energy Alliance (REN Alliance) we herewith submit our input on the investment framework and structure of the Green Climate Fund.

The International Renewable Energy Alliance (REN Alliance) was formed at the Bonn 2004 International Renewable Energy Conference, and was established to advance policy and information on renewable energy by providing a combined voice for renewable energy technology and practice. REN Alliance partners include the International Geothermal Association (IGA), International Hydropower Association (IHA), International Solar Energy Society (ISES), World Wind Energy Association (WWEA) and the World Bioenergy Association (WBA).



The REN Alliance bridges the gap between policy and practice by building on the synergy of its partner organisations to achieve progress through their collective experience and knowledge.

We hope that our enclosed input can assist the GCF responsible further in designing the investment framework. If you wish to contact us, please approach Marietta Sander at the following Email address: iga@hs-bochum.de.

Best regards,

M. Sander

Marietta Sander
Executive Director, IGA



Green Climate Fund

Position paper

International Renewable Energy Alliance

The Green Climate Fund (GCF) should:

- Support renewable energy investment in the poorest countries
- Establish global incentive programmes for renewable energy technologies
- Set up appropriate technology support mechanisms such as global feed in tariff programmes for grid-connected technologies
- Create suitable financial support mechanisms such as micro-credit programmes for decentralised off-grid applications
- Introduce new models for further applications in heating/cooling and transportation
- Take into account Energy Efficiency Measures and Public Education in All Aspects of Energy Use
- Focus on mobilising and leveraging private capital with public funds, seek expansion of public funding sources and work to incentivize private investment
- Collaborate with key players such as the International Renewable Energy Agency (IRENA) and the International Renewable Energy Alliance (IREN Alliance)

The REN Alliance sees the creation of the GCF as a significant opportunity to accelerate climate change mitigation and adaptation efforts. The GCF should emphasize direct investment in renewable energy technologies (i.e., solar, wind, water, biomass, and geothermal) and supporting infrastructure, which can make effective and sustainable contributions both in the short and long term. The success of GCF programmes must be measured in terms of emission-free energy and sustainable output of the deployed solutions throughout their life cycles. Careful monitoring of GCF projects to ensure effective use of funds to achieve the desired outcomes is essential. The REN Alliance encourages the following steps.



Renewable Energy investment in the Poorest Countries

While access to other climate change mechanisms - such as the Clean Development Mechanism (CDM) - is in practice limited to a handful of countries and technologies, the GCF should provide its funds especially to those countries that do not currently benefit sufficiently from the CDM processes. The GCF must be easily accessible for all non-Annex I countries – primarily the least developed countries.

Global incentive Programme for Renewable Energy Technologies

All investment in renewable energy technologies should have a strong focus on the mitigation and 'co-benefit' measures (e.g. parallel non-mitigation sustainable development measures including adaptation). Typical renewable energy investments have a very broad range from smaller-scale, off-grid household uses (e.g. biomass heating or solar home systems) up to larger-scale projects (e.g. major hydropower or Concentrating Solar Power plants). The full range of investments and projects needs to be supported by the GCF using different mechanisms depending of scale and form of investment.

“ The full range of investments and projects need to be supported by the GCF using different mechanisms depending on scale and form of investment”

Grid-connected Technologies: Global Feed-in Tariff Programme

The REN Alliance proposes implementation of a Global Feed-In Tariff Fund for electric power generation installations, district cooling/heating systems or transportation fuels to allow governments in developing (i.e. non-Annex I countries) to set up national feed-in tariff policy and system infrastructure. The additional cost would be covered by the GCF, which would also reduce the regulatory risks for private investors. Built on such a model, it can be expected that the volume of private capital can be mobilized for investment in the developing countries. A number of organizations have been supportive of this proposal and some of them have developed detailed proposals, such as Deutsche Bank (i.e. GET FIT), Greenpeace, UN DESA and the World Future Council.

Micro-Credit Programmes for Decentralised Off-Grid Application

In parallel with the Global Feed-in Tariff Programme, The GCF contribution should subsidise microcredit schemes and thus reduce the regular payments (or the size of the payments) that the consumers have to make. Micro-credit programmes have already had successful applications in South Asia and Africa, which have delivered electricity to hundreds of thousands of families and communities, and the basic concept is transferable to new areas.

New Models for Further Applications in Heating/Cooling and Transportation -

For other non-electrical, direct applications of renewable energy technologies, such as biomass, geothermal and solar for heating/cooling and biofuels for transport, additional mechanisms should be implemented that incentivise investment in renewable energy infrastructure and systems.

Energy Efficiency and Conservation Measures in All Aspects of Energy Use

Efficient and wise use of energy should be significant part of energy programs in all countries. Education and training of the local populations must be provided as new energy services are being introduced to ensure best practices and acceptance of the services. Programs supported by the GCF need to have efficient renewable energy use and public education as key considerations.



Mobilising and Leveraging Private Capital with Public Funds

The major barrier to large-scale penetration of renewable energy is the high financial risk of the investments. The GCF must work to minimize this financial risk by supporting the development of a stable long-term policy framework. The GCF should primarily focus on public funds and indirectly incentivise the mobilisation of private finance by reducing the perceived and actual regulatory and financial risks of investment in renewable energy technologies. These technologies usually have high upfront investment costs, despite low operating costs over the long term compared to fossil fuel and nuclear options. Hence the capital costs are decisive for the economic feasibility of investment in such projects. It is also important that funds are provided based on the output of the investment, in order to increase efficiency and effectiveness.

“ The GCF must have a predictable budget to reduce regulatory risks for investment in climate mitigation and adaptation energy technologies”

Public Funding Sources

The GCF must have a predictable budget to reduce regulatory risks for investment in climate mitigation and adaptation of renewable energy technologies. This budget should be fully guaranteed by governments. Development banks are likely the most appropriate means of administration, with overarching governance from the UNFCCC framework. This would provide stimulus, certainty and assurance to investors, developers and markets. In principle, governments should contribute in relation to the amount of emissions they produce and economic strength they represent. In addition use of GCF funds should be based on existing effective and efficient support schemes for renewable energy that have been proven to work in practice at national, regional and local levels.

Private Capital Incentives

By primarily focusing on public funds the GCF will indirectly incentivise the mobilisation of private finance by reducing the perceived and actual regulatory and financial risks of investment in renewable energy technologies. Regarding the proposed scheme (i.e. output based incentives for investment in renewable energy) the total amount of available funds will have to be increased during the first few years. Due to generally decreasing prices for renewable energy equipment, the total fund size can be expected to stabilize after this initial period. It will be of crucial importance (even more important than the absolute size of the GCF) that the funding provided by the GCF be predictable and reliable. This is especially important in order to raise the confidence of private sector investors and in order to mobilize the necessary large amounts of private capital.

GCF Governance: IRENA and REN Alliance Collaboration

In order to ensure the necessary knowledge of effective regulations and operations, private sector and international expertise should be involved in the GCF governance. Governance and administration of the fund should include the relevant international organisations, such as IRENA. The private sector should be involved through representative industry associations such as the REN Alliance. Collaboration between GCF and the REN Alliance could accelerate progress. The private market actors coordinated by the REN Alliance are vital to moving to a renewable energy system, and in adaptation to a changing climate. The GCF's value-added purpose focuses on investment that directly contributes to a low-emission, climate resilient economy, based on renewable energy. The GCF can also distribute funds in a more efficient, effective and equal way than existing funds by focusing on output based incentives for investment in renewable energy technologies. The REN Alliance encourages the GCF to achieve all these goals on a long-term, affordable, large scale, and sustainable manner.

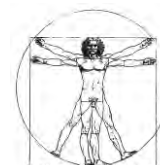
The International Renewable Energy Alliance

The International Renewable Energy Alliance, the REN Alliance, was formed at the time of the Bonn 2004 International Renewable Energy Conference to advance policy and information on renewable energy by providing a combined voice for renewable energy science, technology and practice.

The REN Alliance is uniquely placed in that it represents a partnership of international organizations, representing five principal renewable energy sources: bio, geo, solar, water and wind. The partners of the REN Alliance comprise:

- International Geothermal Association (IGA)
- International Hydropower Association (IHA)
- International Solar Energy Society (ISES)
- World Bioenergy Association (WBA)
- World Wind Energy Association (WWEA)

The REN Alliance partners are UN accredited non-profit, non-governmental organizations, with individual and corporate memberships spanning some 110 countries. All of the partner organizations are committed to advancing the deployment of renewable energy. The REN Alliance bridges the gap between policy and practice by pooling collective experience and knowledge of the partner organizations.



Country (Adaptation) Funding Needs in the GCF

OPERATIONALISING THE 'COUNTRY NEEDS' INVESTMENT CRITERION

Submission to the GCF Investment Committee*

August 2014

Benito Müller¹

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* This Submission is made in the author's personal capacity. It does not necessarily represent the views of Oxford Climate Policy (OCP), the European Capacity Building Initiative (ecbi) or its members.

1. Introduction

At its fifth meeting (Paris, October 2013) the GCF Board decided *that the Fund will adopt a theme/activity-based approach to the allocation of resources [and] that, in relation to adaptation, resources will be allocated based on [...] the urgent and immediate needs of vulnerable countries, in particular LDCs, SIDS and African States.*²

At its seventh meeting (Bali, May 2014) the Board – having decided, again, *that the Fund's initial investment framework will reflect the Fund's theme/activity-based resource allocation system as laid out in decision B.05/05 – adopted*³ *an initial investment framework*⁴ *with the proviso to keep under review the initial investment framework and to take action as necessary in particular with respect to the criterion on needs of the recipient countries in the investment guidelines* [Decision B.07/06 (e), emphasis added]. The Board also requested the *Investment Committee to submit the following for consideration to the eighth Board meeting:*

- (i) *Definitions for activity-specific sub-criteria and a set of activity-specific indicators, [...];*
- (ii) *Minimum benchmarks for each criterion, [...]; and*
- (iii) *Identification and comparison of methodologies, that enable the Secretariat to assess the relative quality and innovativeness of comparable proposals in comparable circumstances [...].*

On 7 August 2014, the GCF Secretariat issued a general call to observers for public input regarding these three points by 18 August. This submission has been written in response to this call. It is based primarily on the Paris and Bali Investment Framework Decisions ([Decision B.05/05](#) and [Decision B.07/06](#)) and the Paris Background Paper on Allocation ([GCF/B.05/05](#)) and focuses on the issue of defining *activity specific sub-criteria*, in general, and *the criterion on needs of the recipient countries*, in particular.

The initial investment framework adopted in Bali (Annex XIV of the Bali Decision) includes a Table listing the following six criteria to be taken into account, and includes definitions and “coverage areas” (referred to as “sub-criteria” in the relevant background paper⁵):

- (i) Impact potential
- (ii) Paradigm shift potential
- (iii) Sustainable development potential
- (iv) Needs of the recipient (see Table A for details)
- (v) Country ownership
- (vi) Efficiency and effectiveness

Table A: Initial criteria for assessing programme/project proposals (excerpt) ⁶		
Criterion	Definition	Coverage area [Sub-criteria]
Needs of the recipient	Vulnerability and financing needs of the beneficiary country and population	<ul style="list-style-type: none"> • Vulnerability of the country • Vulnerable groups and gender aspects • Economic and social development level of the country and the affected population • Absence of alternative sources of financing • Need for strengthening institutions and implementation capacity

The aim of this submission is to consider how country needs can be taken into account while allocating adaptation resources (to vulnerable countries).

2. The Governing Instrument

Both the idea of a “thematic approach” and of a “needs-based allocation of adaptation funding to vulnerable countries” are based on the GCF Governing Instrument (GI). The GI section on allocation (paras 50 to 52) introduces two distinct allocation types – between themes, and between countries:

50. The Board will balance the allocation of resources between adaptation and mitigation activities under the Fund and ensure appropriate allocation of resources for other activities.

52. In allocating resources for adaptation, the Board will take 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, using minimum allocation floors for these countries as appropriate. The Board will aim for appropriate geographical balance.

However, both refer to allocating **resources**, not **activities**. The “allocation” of activities, as used in the Paris Decision, is dealt with under the heading of “Programming and Approval Processes” (para. 53). The idea of “activity-based resource allocations”, in other words, is not based on the GI. It was introduced in a Background Paper on Allocation for the Paris meeting,⁷ which (in para. 3) simply subsumes the GI section on Programming and Approval Processes as part of specific guidance in the GI “on several key allocation-related features of the Fund”. This, in turn, made it possible to put forward “activity based allocation” as an option for the Fund’s Resource Allocation System (RAS).

3. Competitive Fairness and Distributive Justice

The Paris Paper listed three RAS model options:

- “Activity-based (A)”,
- “Theme- and Activity-based (TA)”, and
- “Theme-, Country-, and Activity-based (TCA)”.

While only the TCA model involves a tier which explicitly allocates resources to countries, they all ultimately result in a de-facto distribution of GCF resources among eligible countries by virtue of where the activities take place. Müller *et al.* (2013)⁸ have analysed the equity implications of such activity-based “endogenous” country allocations in the context of Quantity-Performance Instruments (QPIs), as described in Box 1. In particular, they looked at the question about the compatibility of these (competitive/efficient) endogenous country allocations with the requirements of equity/distributive justice (between countries). They point out that if the activities/transactions are fair, then the outcomes also have to be considered as being fair – in the sense that under fair competition, everybody gets their “fair share”. However, these competitively fair shares are not necessarily “just”, in the distributive justice sense of, say, being proportional to country needs.

This is precisely the problem that has plagued the Clean Development Mechanism (CDM) from the outset: the “activity-based allocation” of CDM resources was carried out through competitive market instruments, which, as long as the competition was fair, would deliver a “fair share” to countries. But the CDM created a concentration of resources, a “geographical imbalance”, which many regarded as unjust.

What can be done to remedy these incompatibilities?

Assuming that, in the context of QPIs, both economic efficiency and distributive justice (equity) are equally legitimate allocative goals, Müller *et al.* (2013) suggest that the best way to overcome the inherent allocative conflict between the two objectives would be to divide the *resource envelope* (i.e. the resources earmarked for the purpose in question) into two separate sub-envelopes: one dedicated to achieving the ‘biggest bang for the buck’, and the other dedicated to satisfying the requirements of ‘international distributive justice/equity’.

Box 1 Quantity Performance Instruments

Quantity Performance Instruments (QPIs), first introduced by Ghosh *et al.* (2012)*, are instruments used to provide *ex post* (‘on delivery’) funding for transactions of (physical) quantities, such as tonnes of CO₂, kWh of renewable energy, or hectares of forests, generally involving some form of ‘forward’ contract. QPI transactions – determined by the choice of counterparty, transaction price and transaction quantity – were meant to be fully competitive, and did not include any references to exogenous attributes such as “country needs”. Müller *et al.* (2013) list a number of existing experiments and conceptualizations of QPIs,** such as:

- the *Norwegian International Forest Climate Initiative* with the Brazilian Amazon Fund and the Guyana REDD+ Investment Fund,
- the *Energy+ programme*, and
- a proposal for a *Clean Development Mechanism Stabilization/Capacity Fund* by the High-Level Panel on the CDM Policy Dialogue.

* Ghosh, A., Müller, B., Pizer, W., and Wagner, G. (2012). ‘[Mobilizing the Private Sector: Quantity-Performance Instruments for Public Climate Funds](#)’, Oxford Energy and Environment Brief, August 2012.

** For more on this see also: Müller, B. and Pizer, W. (2014), ‘[Devolved Access Modalities: Lessons for the Green Climate Fund from existing practice](#)’ eebi Policy Brief. Mar 2014.

How does this compare with/relate to the “Theme- and Activity-based” RAS adopted by the GCF Board?

The activity-based tier of this model, as envisaged in the Paris and Bali Papers, was clearly meant to involve *an element of competition for the use of Fund's resources*,⁹ although that notion proved to be highly controversial at the Bali meeting. While the above-mentioned QPI examination in Müller *et al.* (2013) is providing a way forward for activity-allocations that can legitimately be compared in terms of their cost effectiveness, it also suggests that such comparisons may not always be possible, in particular in the case of adaptation funding. In the case of mitigation, there is a simple way of comparing activities with respect to economic efficiency (cost effectiveness) by looking at the amount of carbon reduced per unit of funding (the “bang for the buck”), but there really is no comparable measure (for the “bang”) in the context of adaptation activities.

It can therefore be argued that in the allocation of *adaptation resources*, the question of *international equity supersedes any issue of (international) cost effectiveness*.

4. Country-based Allocations

The Paris Paper describes country-based allocations as follows: *Under a country-based allocation system, multilateral funds allocate resources for fixed periods, ranging from annual to their whole replenishment period. All multilateral funds make the point that country allocations are not entitlements. They are indicative amounts that are available if activities are proposed and approved within the allocation period. Funds can also be reallocated across countries at fixed intervals.*¹⁰ *Country-driven choices could be enhanced by increasing the level of flexibility provided to countries in reallocating their adaptation and mitigation allocations. [...] Resource flows to countries are predictable, enabling countries to engage with the Fund and other development partners in a more strategic way.*¹¹ *Upfront country allocations provide countries with greater predictability in resources and facilitate country-level programming.*¹²

This description not only highlights some benefits of country-based allocations but also some of the potentially problematic issues that have arisen, and the remedies that have been introduced in that context.

4.1. Issues and Remedies

The Paris Paper identifies three issues of concern that have been raised in the context of country-based allocations, namely the issues of potentially stranded resources, of how to deal with supplementary resources, and of an implied restriction of budgetary flexibility. Another issue which has been raised is an implied decrease in economic efficiency.

4.1.1. Stranded resources

What can be done if resources allocated to a country *remain unutilized because some countries are unable to bring forward proposals of acceptable quality in a timely manner*¹³? The Paris Paper gives a very clear answer: *All multilateral funds make the point that country allocations are not entitlements. They are indicative amounts that are available if activities are proposed and approved within the allocation period. Funds can also be reallocated across countries at fixed intervals.*¹⁴ *Most multilateral funds have provisions to reallocate unutilized allocations towards the middle and the end of their allocation period. The policies and procedures for such reallocations attempt to increase the impact of the available resources while ensuring fairness to the affected countries.*¹⁵

Annex VIII of the Paris Paper presents how the International Fund for Agricultural Development (IFAD) actively manages its allocations in this respect.

4.1.2. Supplementary resources

*Multilateral funds also obtain additional resources after the allocations have been made (e.g. supplemental contributions from Governments, exchange rate gains or better-than-expected returns on investments). Policies for allocating such additional resources are varied. They could be allocated to all or a selected subset of countries (e.g. countries with good performance scores) or for specific purposes such as set-asides. Additional allocations to countries could be in proportion to their original allocations, or based on a re-evaluation of the allocation formulas.*¹⁶

4.1.3. Lack of budgetary flexibility

Country-based allocations can be interpreted as a form of earmarking which, while practiced by almost all governments – see Müller (2008)¹⁷ – is generally regarded as sub-optimal fiscal practice. The solution, as revealed by government practise, is simply to declare the earmarked funds “off

budget”, in other words to separate the budget from the earmarked resources as two administratively distinct funding streams. And the same is practised in multilateral funds through the use of set-asides:

*Multilateral funds with country-based RASs allocate 50-85 per cent of available resources to countries. The remainder is set aside to meet other priorities of the fund. They have also often been used to support programmes with high cross-country spill-overs, such as global public goods and regional programmes (IDA, GEF, AsDF, AfDF). For instance, the AsDF sets aside 10 per cent of its available resources for sub-regional proposals and three per cent for national disaster response. Similarly, the GEF sets aside resources for a small grants programme, and the GEF Earth Fund sets aside resources to support community-level and private sector engagement, respectively.*¹⁸

4.1.4. Impediment to economic efficiency

In the context of competitive activity-allocations – such as by way of QPIs (see Box 1) – country-based allocations could reduce the economic efficiency of the system, say if the most competitive activity is in a country that has exceeded its resource allocation. There are no doubt a number of ways in which this could be addressed, but probably the simplest one is, as mentioned in Section 3, to create a sub-envelope for global competitive activity-based allocations.

4.2. Existing Best Practice and Equity

4.2.1. Existing Best Practice: Resource Allocation Systems

What exactly is the existing best practice for RASs? According to the Paris Paper, *the GEF, CIF and the Global Fund have recently evolved into three-tier structures. Each of these multilateral funds first allocates to specific themes. This is followed by allocations to countries and then to projects.*¹⁹

As concerns the three options described in the Paris Paper, two of the three funds listed as having a single-tier activity-based allocation model (Option 1)²⁰ in reality have an additional country-based tier,²¹ and the description of the TA model (Option 2) does not mention any existing example at all.

Given this, the reasonable conclusion would seem to be that no multilateral fund (of significance) is presently allocating resources without a country-based tier. What does this mean? While the fact that all the other funds follow a certain practice does not necessarily mean that it is optimal, it does mean that it is (existing) best practice. In short, **country-based allocations** – with the sort of tools discussed in Section 4.1 – **are the best practice in the field.**

4.2.2. Existing Best Practice: Country-based allocation rules

According to the Paris Paper, *country-based allocations are rule-based in accordance with agreed principles, generally using a formula ... based on two factors: country's needs and country's performance.*²²

*Country's needs often include two components – a measure of the overall scale of the problem and the intensity of the problem. Country's needs in multilateral funds focus on general development and are typically based on the scale (often measured by population) and the intensity of need (often measured by per capita gross national income). Theme-based multilateral funds measure needs based on their specific areas of focus.*²³

A practical example of such a scale-cum-intensity measure for adaptation funding needs – initially proposed in Müller (2013)²⁴ – is discussed in Box 2 below. At this point the key lesson to be drawn

is that according to best practice *proportionality to ‘country needs’ is fundamental to distributive justice*.

4.2.3. *Safeguarding against disproportionate resource concentrations*

As it happens, best practice also suggests the necessity to address another equity problem, namely the potential for unfair/disproportionate resource concentrations. Disproportionate concentration of resources is one of the most common equity concerns in the context of resource allocation. The GI reflects this by stipulating that *the Board will aim for appropriate geographic balance*.²⁵ The background paper on Policies and Procedures for the Initial Allocation of Fund Resources²⁶ prepared for the sixth meeting of the Board in Bali (February 2014) suggested that to address this issue *the Board may introduce a universal single-country limit to ensure that Fund resources are deployed equitably across eligible developing countries. [...] The single-country limit is an important part of the overall allocation system and should be reviewed by the Board from time to time. In the event that the Fund introduces a third-tier, country-based, allocation system in the future, the third tier would replace the single-country limit*.²⁷

As discussed in Müller (2014),²⁸ the proposal of a single-country limit was highly controversial at the Bali meeting and was rejected. Moreover, it would not have been able to avoid the real issue, namely eligible countries finding themselves empty-handed.

What the Bali Paper failed to mention is that in order to avoid this situation it has become standard best practice to introduce (flat) single-country floor allocations (GEF, IDA, AF, LDCF and many others). Moreover, the GCF GI not only requires the Board to take into account the needs of particularly vulnerable countries in allocating resources for adaptation, but it also stipulates that this is to be carried out *using minimum allocation floors for these countries as appropriate* (para. 52).

Although the Board did introduce a 50 percent floor of adaptation resources for particularly vulnerable countries,²⁹ it stands to reason from the use of the plural “allocation floors” that the *GI para. 52 language is referring to single-country floors*.

5. Summary, Key Lessons and Recommendations

5.1. Summary

1. **International equity/distributive justice** (“a fair share for each recipient country”) and **global efficiency** (“biggest global bang for the buck”) – provided the bang in question is well defined for all the relevant activities – are both legitimate resource allocation objectives that need to be addressed.

- ‘Efficiency’, in this context, can be dealt with solely in terms of ‘activity-based allocations’. Indeed, for mitigation one of if not the most efficient activity-based way of allocating resources would be through fully competitive unrestricted Quantity Performance Instruments (say by reverse auctioning of certified emission reductions). ‘Equity’ however, pertains to the just distribution of resources between eligible recipient countries. It cannot be discussed, let alone assessed, without reference to country-wide funding figures.
- The initial investment framework of the GCF, however, has no reference to such country-wide figures, which makes it impossible to discuss, let alone address, the equity of the framework. The only reference to countries in the allocation criteria of the investment guidelines is in terms of country needs, which is indeed a key equity parameter, but cannot be operationalised without reference to country-wide funding figures.

2. Generally, efficiency and equity cannot be achieved simultaneously – through a single allocation – which is why the proposed way forward is to ***deal with the two objectives in separate allocations***, whereby each funding envelope is divided into two (not necessarily equal) sub-envelopes: one guided purely by efficiency, and the other purely by equity considerations.

- The exact nature of the allocation methods used in either of these sub-envelopes will depend on the thematic nature of the envelope in question. However, there are some general minimal commonalities. For one, it stands to reason that efficiency in practice cannot be achieved without some form of competition. It also stands to reason that equity minimally requires single-country floor allocations.
- Single-country floors are needed to deal with the issue of “unfair concentrations/geographic imbalance of resources”. The crux of the matter is not really about “they are getting too much”, but about “we are getting too little” (which means, in particular, that country caps will generally not address the problem). Apart from ‘basic needs’ dealt with these country floor allocations, equity may also require the consideration of country needs in a thematic sense.

3. **Thematic considerations:** The exact nature of the allocation methods in the two sub-envelopes and their relative size will depend on the funding theme, as mentioned before.

- **Mitigation:** It is relatively simple to compare mitigation activities with respect to their cost-effectiveness (efficiency). At the same time, it is not straightforward to define what country ‘mitigation funding needs’ might be. It thus stands to reason that equity could be achieved through the country floors alone, while the rest of the mitigation funding could be allocated on a purely competitive basis.
- **Adaptation:** While it is possible to estimate adaptation funding needs of countries, it is not straightforward, if at all possible, to compare adaptation activities with respect to their cost-effectiveness: there is no globally comparable ‘bang’ in this context. This is why adaptation resources should be allocated principally in proportion to adaptation funding needs (in conjunction with the basic floor allocations).

5.2. Key Lessons

- Equity (distributive justice) as a resource allocation objective can be reconciled with the objective of economic efficiency (“biggest bang for the buck”), if applicable, by creating dedicated sub-envelopes in the relevant resource envelope: one to satisfy the requirements of equity, the others for efficiency.
- Equity minimally requires single-country floor allocations. Country needs, in accordance with best practice, can only be taken into account through **country-needs-based allocations**, that is to say: country-based allocations in proportion to country needs.
- Country-needs-based resource allocations with single-country floors reflect existing best practice. As such, they are not entitlements, but equity benchmark amounts that are available if activities are proposed and approved within the allocation period.

5.3. Key Recommendations

I. Allocation of adaptation resources to vulnerable countries:

- (i) In order to satisfy equity, the allocation of these resources should, in accordance with GI para. 52, use single-country floor allocations.
- (ii) In order to comply with the Paris Decision that the allocation of these resources must take into account country needs,³⁰ a country-needs-based resource allocation (such as the one described in Box 2) should be included for this purpose into the Fund’s initial investment framework. This is in accordance with the Songdo Decision *to keep under review the initial investment framework and to take action as necessary in particular with respect to the criterion on needs of the recipient countries in the investment guidelines*.³¹

II. General recommendations:

- (i) All resource allocations should use single country floors.
- (ii) All adaptation resource allocations should take into account country needs.

Box 2. Country-needs/risk-based allocation of adaptation resources

A recent paper on allocating adaptation resources* puts forward a concrete and practical proposal, based on lessons from fiscal transfer mechanisms, for a needs-based formula to allocate adaptation resources, in keeping with the best practice scale-cum-intensity paradigm discussed in Section 4.2.2.

In brief, the proposal is to estimate the scale of country k ’s adaptation need by its **Exposure Headcount** (EH_k), that is to say the number of inhabitants exposed to climate change impacts, modified by a factor reflecting the intensity of this need, estimated by the relevant **Vulnerability Index** (v_k),** leading to a simple estimate for k ’s Adaptation Need:

– with the resources allocated in proportion to these needs.

As it happens, the right-hand side of this equation is the same as the product of k ’s population (P_k) with its [World Risk Index](#) (WRI_k) developed by the United Nations University Institute for Environment and Human Security, Bonn/Germany:

– which is why the allocation in proportion to these needs could also be referred to as a “risk-based” country allocation.

* Müller, B. (2013). [The Allocation of \(Adaptation\) Resources: Lessons from fiscal transfer mechanisms](#). Oxford Energy and Environment Brief, September 2013

** If for some reason the use of vulnerability indices is seen to be problematic, one could instead use prosperity (GDP/cap) levels to estimate the needs intensity:

Endnotes

- ¹ Managing Director OCP: www.oxfordclimatepolicy.org/publications/mueller.shtml
Director ecbi: www.eurocapacity.org
benito.mueller@philosophy.ox.ac.uk
- ² [Decision B.05/05](#).
- ³ [Decision B.07/06](#).
- ⁴ Annex XIV to [Decision B.07/06](#).
- ⁵ [GCF/B.07/06](#).
- ⁶ The other criteria are strictly about activities, and not about countries and their needs, which is the topic of this submission.
- ⁷ GCF/B.05/05, [Business Model Framework: Allocation](#), 30 September 2013
- ⁸ Müller, B., Fankhauser, S., and Forstater, M. (2013). [Quantity Performance Payment by Results: Operationalizing enhanced direct access for mitigation at the Green Climate Fund](#). OIES Working Paper EV 59, July 2013.
- ⁹ Bali Paper, paragraph 6.b.
- ¹⁰ Paragraph 28.
- ¹¹ Paragraph 46, Option 3.
- ¹² Paragraph 25.
- ¹³ Paragraph 29.
- ¹⁴ Paragraph 28.
- ¹⁵ Paragraph 29.
- ¹⁶ Paragraph 30.
- ¹⁷ Müller, B. (2008). [To Earmark or Not to Earmark? A far-reaching debate on the use of auction revenue from \(EU\) Emissions Trading](#). Oxford Institute for Energy Studies EV 43, November 2008.
- ¹⁸ Paragraph 27.
- ¹⁹ Paragraph 26.
- ²⁰ Paragraph 46, *Option 1: Activity-based (A)*. This is a single-tier system, is the simplest to set up and is similar to the systems currently in use at the Adaptation Fund, SCCF and LDCF.
- ²¹ The Adaptation Fund Board [Decision B.13/22](#) approves a cap of US \$10 million for each country funded for support by the Adaptation Fund, while the LDCF country cap has recently (20 April 2014) been raised from \$20m to \$30m. See, for example, paragraph 7 in [Progress Report on the Least Developed Countries Fund and The Special Climate Change Fund](#), GEF/LDCF.SCCF.16/04 May 1, 2014
- ²² Paragraph 28.
- ²³ Paragraph 29.
- ²⁴ Müller, B. (2013). [The Allocation of \(Adaptation\) Resources: Lessons from fiscal transfer mechanisms](#). Oxford Energy and Environment Brief, September 2013
- ²⁵ Paragraph 52.
- ²⁶ GCF/B.06/05. [Policies and Procedures for the Initial Allocation of Fund Resources](#). 7 February 2014
- ²⁷ Paragraph 20.
- ²⁸ Müller, B. (2014). [Concentration of GCF resources: what is at issue?](#) OCP/ecbi/OIES Discussion Note, March 2014.
- ²⁹ [Decision B.06/06](#), Paragraph (a)(ii).
- ³⁰ [Decision B.05/05](#), (d)(ii).
- ³¹ Decision B.07/06 (e).

GCF - Call for Public Inputs – Investment Framework

18 August 2014

Experiences of the NAMA Facility relevant for further developing the Investment Framework of the GCF

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Both the GCF and the NAMA Facility seek to promote 'the paradigm shift towards low-emission and climate-resilient development pathways'. Within the context of the Facility, however, this is operationalised as transformational change potential and applied only to mitigation actions. Hence, we believe that some of the experiences we have made and lessons we have learned from implementing the NAMA Facility can be valuable for further developing the Investment Framework of the GCF, particularly with regard to the ambition-based competitive mitigation project proposal selection process.

Introduction to the NAMA Facility

The NAMA Facility was jointly established by the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) and the UK Department of Energy and Climate Change (DECC).

The NAMA Facility aims to support the concrete implementation of highly ambitious NAMA Support Projects that fit into a broader, ideally sector-wide NAMA and have the potential to catalyse transformational change towards low-carbon development in line with the 2°C limit. With this objective in mind, the NAMA Facility holds open competitive calls for NAMA Support Project Outlines and selects the most ambitious and promising NAMA Support Projects for funding, that are ready for implementation. In line with this objective, the NAMA Facility has no regional or sector focus and does not support readiness measures.

In the context of the NAMA Facility, a NAMA is understood to be

- country-driven and anchored in national development strategies;
- a sector-wide programme, national in scope – regional and municipal elements could form part of the overall design; and
- consisting of a combination of policies or regulations and financial mechanisms.

NAMA Facility funds are meant to provide international support for the most innovative and ambitious elements of this 'wider NAMA' (= NAMA Support Project) and are there expected to unlock additional public and private investments in the targeted sector.

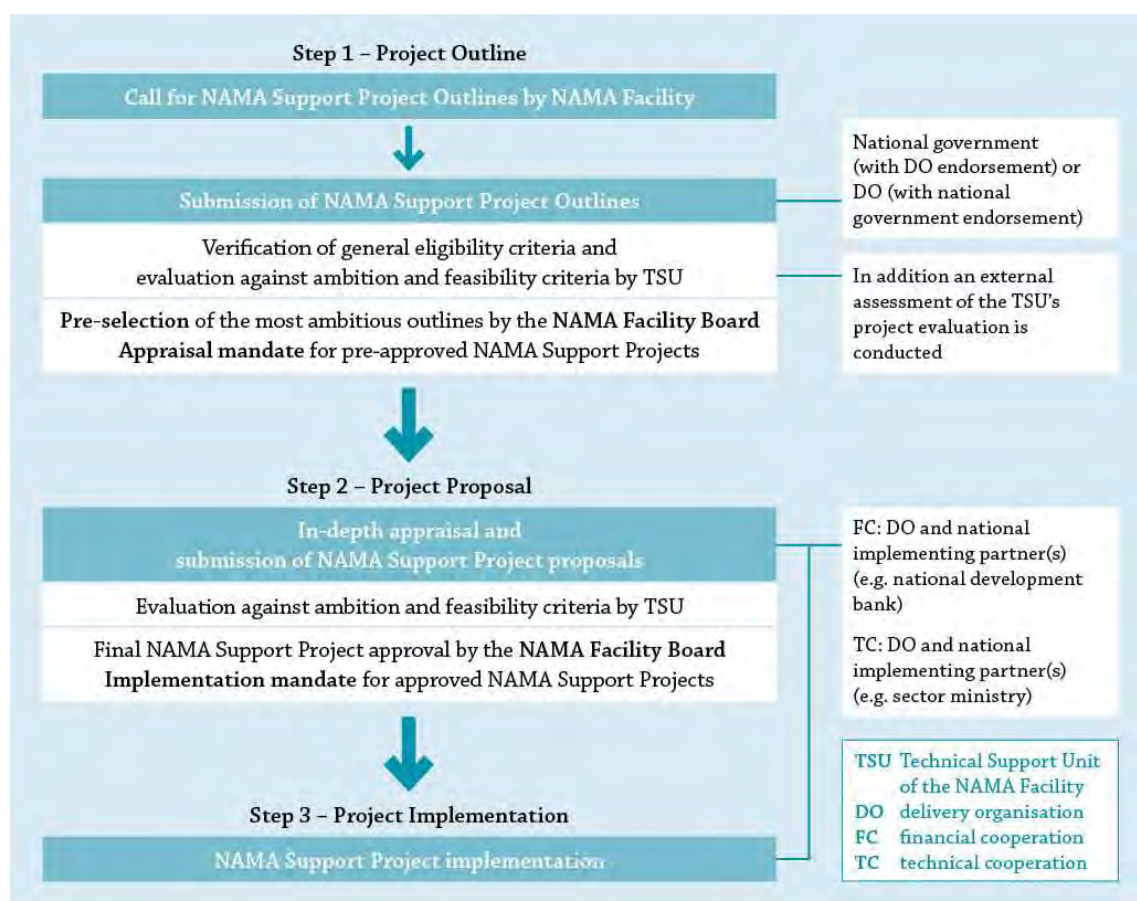
These principles and objectives are covered by the NAMA Facility's selection criteria.

The selection process and criteria of the NAMA Facility

The NAMA Facility aims at selecting the most ambitious NAMA Support Projects across sectors and regions, while making sure to take into account the specific national circumstances.

The selection process of the NAMA Facility follows a two-step approach. During the first step all outlines submitted during the public call are evaluated against the general eligibility, ambition and feasibility criteria, which are presented in detail below. This evaluation is conducted on the basis of a detailed evaluation template, which includes the sub-questions for each selection criterion. These sub-questions are posed in the outline template for submissions to the Facility and as well as presented in the [General Information Document](#).

Based on this evaluation, NAMA Support Projects are *pre-selected* for support from the NAMA Facility and are commissioned to conduct an in-depth appraisal on the basis of which a detailed project proposal will be submitted. The detailed project proposals are then re-evaluated based on the initial selection criteria. Based on the second step of the selection process, the final funding decision is being made by the NAMA Facility Board.



Selection criteria for NAMA Support Project Outlines

The NAMA Facility makes use of three different types of criteria:

- eligibility criteria

- ambition criteria
- feasibility criteria

In detail:

Eligibility criteria

Eligibility criteria serve to ensure that NAMA Support Projects fulfil the basic requirements for the successful implementation in terms of their financial and technical support instruments.

Criterion	Definition/explanation/rationale
Formal requirements	Was the outline submitted on time, in the right format etc.?
Eligibility of the submitting entity	Was the outline submitted by a national government or a qualified delivery organisation?
Endorsement by the national government/country ownership	Does the NAMA Support Project Outline provide written documentation to prove its full endorsement by the national ministry responsible for climate protection, including the UNFCCC climate negotiations, and by the relevant sector ministry or agency?
Cooperation with a qualified delivery organisation	Does the NAMA Support Project Outline provide written documentation that a qualified delivery organisation is supporting the NAMA Support Project? The facility defined additional criteria for delivery organisations.
Readiness for implementation	Does the outlined project aim to support the implementation of a NAMA and provide evidence that a reasonable level of project preparation has already been completed? Does the project directly mobilise capital investments?
Time frame for implementation	Is the NAMA Support Project expected to come to an end within three to five years?
ODA eligibility	Funding provided by BMUB and DECC needs to qualify as ODA.
Financing volume	Does the NAMA Support Project Outline envisage overall support of between EUR 5-15 million?
Concept for the phase-out of support	Does the NAMA Support Project Outline provide a feasible plan for phasing-out international support? This criterion seeks to ensure that NAMA Facility support will lead to sustainable, long-lasting results.

NAMA Support Projects that do not fulfil any one eligibility criterion are not considered further.

Ambition criteria

The ambition criteria seek to ensure that the NAMA Facility supports the most ambitious projects. Projects are assessed via a point-grade system. According to this system, projects can receive up to 10 points for their potential for transformational change and 5 points each for the other three ambition criteria (sustainable development co-benefits, financial ambition, mitigation potential). Hence, the transformational change potential is weighted twice as strongly as the others.

Evidently, the NAMA Facility's ambition criteria closely resemble the initial criteria established for assessing programme/project proposals under the GCF. Hence, we believe that the sub-questions can provide some guidance for the definition of sub-questions/sub-criteria to be used by the GCF for evaluating NAMAs or similar activities.

The sub-questions listed in the table below were further refined based on the experiences made when evaluating outlines received during the first call. For instance, we are now asking for:

- more specific information on direct vs. indirect emissions reduction potential including a clear distinction between the two to avoid a bias between more conservative and more generous estimates,
- more specific information on private/public funds to be leveraged/mobilized,
- a more specific description of the financial support mechanism(s) to be applied,
- a very specific analysis of barriers, which a project seeks to overcome and
- a closer explanation of how the envisaged measures are perfectly tailored to address these barriers.

While these comprehensive questions seek to provide us with comparable information to enable the NAMA Facility Board to select the most ambitious projects in a fair and transparent manner, establishing clear benchmarks that take the country and sector specific context into account remains a challenge. Given the relatively small size of the NAMA Facility's project portfolio, making a more qualitative judgement is possible; however, we will be very interested in the benchmarks, which will be used by the GCF.

In this context, we applaud the GCF for requiring project ambition to be consistent with the objective of limiting global warming to a maximum of 2°C and to use this as an indicator for the paradigm shift potential. It is our experience from discussions with partner countries and other stakeholders that using the reference to the 2°C limit makes the concept of paradigm shift/transformational change more tangible ("Projects should be transformational in the sense that they contribute to bringing the respective sector onto a development trajectory consistent with limiting global warming to a maximum of 2°C and not 2,5 or 3."). With respect to the NAMA Facility, we are currently in the process of screening scientific reports that allow us to derive specific benchmarks for mitigation projects from this internationally agreed objective. While this remains difficult for some sectors, the 5th assessment report of the IPCC, for instance, concludes that maintaining a likely (66%) chance of limiting global warming to 2°C requires us to decarbonize global energy supply by the middle of the 21st century – in some scenarios by 2040, in others by 2070.

Criterion	Definition/explanation/rationale
Potential for transformational change	Does the outlined NAMA Support Project contribute to a transformation of national or sectoral development towards a less carbon-intensive development path?
10 points	In general, there can be different arguments for the transformational impacts of a NAMA Support Project. The argument for the transformational impact of a NAMA Support Project has to be closely

	<p>aligned with the specific project and country context, and with the broader context of the country's mitigation strategy/NAMA in the sector.</p> <ul style="list-style-type: none"> - Is the outlined NAMA Support Project part of a broader programme or policy framework that contributes to achieving an ambitious sectoral or national emission reduction target or implementing a low-emission development strategy? Would the achievement of the emission reduction target or implementation of the low-emission development strategies contribute to bringing the target country onto a low-carbon development path in line with the 2°C limit? Does the outlined NAMA Support Project fit into a broader context of mitigation activities in the sector? - Does the outlined NAMA Support Project help to change the prevailing structures of the sector that contribute to high emission levels? Please refer to the starting situation of the country and the sector. Does the NAMA Support Project help to overcome systemic barriers to the reduction of emissions, and if so, how? - Are the outlined NAMA Support Projects appropriate for achieving an enabling environment for low-carbon investments? - What transformational impacts does the outlined NAMA Support Project have beyond the scope of the project? - Does the outlined NAMA Support Project develop capacities to reduce future GHG emissions beyond the scope of the project? - Does the outlined NAMA Support Project serve to strengthen the institutional capacities of the national system, as described for example in the aid effectiveness criteria of the OECD/DAC? - Does the outlined NAMA Support Project envisage the participation and/or development of the private sector? What is the specific contribution of the private sector to transformational change potential? - Does the outlined NAMA Support Project adopt an innovative approach to reducing emissions, which can have impacts beyond the specific NAMA Support Project (e.g. technology transfer)? - Is the outlined NAMA Support Project replicable in terms of its applicability in other regions, countries and internationally?
<p>Sustainable development co-benefits</p> <p>5 points</p>	<p>Does the outlined NAMA Support Project provide additional sustainable development co-benefits beyond the reduction of GHG emissions?</p> <p>Co-benefits are considered a key element for creating country ownership and can have an important impact on the long-term sustainability of a NAMA Support Project. NAMA Support Project Outlines should therefore explicitly state which additional socio-economic, ecological and institutional sustainable development co-benefits will be achieved via the NAMA Support Project beyond the reduction of GHG emissions.</p>
<p>Financial ambition</p> <p>5 points</p>	<p>Does the outlined NAMA Support Project envisage or have the potential to mobilise a substantial funding contribution from other (public or private) sources?</p> <p>NAMA Support Project Outlines should specifically detail additional funding contributions leveraged through the outlined NAMA Support Project and, where applicable, within the broader context of mitigation activities in the (sub-) sector that create the backdrop to the NAMA Support Project. This includes both directly mobilised funds and funding that will be mobilised indirectly; however, please distinguish between directly and indirectly mobilized funds. The list below includes the different aspects that will be considered when evaluating outlines for NAMA Support Projects. The financial ambition of a NAMA Support Project will be</p>

	<p>considered against the specific project, sector and country background.</p> <ul style="list-style-type: none"> - Does the NAMA Support Project reduce or remove market barriers? Please reflect specifically on the financial barriers and the instruments used to address these barriers. Please provide a detailed description of the financial support mechanism (e.g. concessional loans, subsidy mechanisms, revolving fund, guarantees, PPP, equity finance) and give reasons for why it best serves to overcome the investment barriers identified. - Does the NAMA Support Project identify adequate financial mechanisms to reduce the perceived financial risk and to mobilise additional finance? - Does the NAMA Support Project provide opportunities for investments in GHG mitigation activities by the private sector? Please specify and quantify these opportunities. - Does the NAMA Support Project envisage a financial contribution from the private sector? How will the NAMA Support Project mobilise private investments? - Does the NAMA Support Project envisage a financial contribution from the host country's national budget? Please specify the status of the expected financial contribution to the NAMA Support Project. The NAMA Facility encourages contributions from the country's national budget proportionate to the country's economic capacity (GDP per capita). If applicable, does the host country provide a financial contribution to a broader range of mitigation activities in the (sub-) sector that create the backdrop to the NAMA Support Project? - With regard to financial contributions from the private sector and the country's national budget, please refer to the financial mechanism(s) to be applied, if relevant. - Does the NAMA Support Project envisage a financial contribution from other donors? If applicable, do donors contribute to a broader range of mitigation activities in the (sub-) sector? - Does the NAMA Support Project provide a financially viable phase-out concept? Please describe how future support needs shall be addressed and how the long-term sustainability of the NAMA Support Project shall be secured.
<p>Mitigation potential</p> <p>5 points</p>	<p>Does the outlined NAMA Support Project envisage substantial direct and indirect GHG emission reductions?</p> <p>NAMA Support Project Outlines should provide estimates for expected reductions in direct GHG emissions as a result of the NAMA Support Project and explain whether and how indirect mitigation effects will be achieved. The mitigation potential of a NAMA Support Project must be aligned with and will be considered against the specific project, sector and country background. This also includes the cost-effectiveness of GHG reductions.</p> <ul style="list-style-type: none"> - Are the underlying assumptions that define the baseline provided in the outline, and are these robust? - Are the calculations of the expected reduction in direct GHG emissions over the course of the project and the projection over the next ten years against the specified baseline robust? - Are the assumptions and calculations relating to indirect mitigation effects robust? - What are the assumptions made when calculating the cost-effectiveness of the planned measures/activities, and how have these figures been derived?

Feasibility criteria

Feasibility criteria seek to ensure that the NAMA Facility supports projects that are not only highly ambitious but also feasible, and therefore promising and likely to be implemented successfully. For each criterion, we assess whether the criterion is given, partly given or not met. According to the assessment, a score is assigned to the project (for details see p.7 of the external assessment report, http://nama-facility.org/fileadmin/user_upload/pdf/KPMG_NAMA_Facility_First_Call_Assessment_Report.pdf).

Criterion	Definition/explanation/rationale
National and international embeddedness	<p>Is the current national climate change policy aligned with national (development) strategies and/or (sub-) sector strategies, and does it relate to international agreements?</p> <p>Is clear evidence provided that the national government will support the NAMA Support Project?</p> <p>Is the targeted sector prioritised in the national emission reduction plan?</p> <p>Has a legal framework been established that provides enabling conditions for project implementation? Are the technical and financial preconditions met and can project implementation start?</p>
Project structure	<p>Is the structure of the NAMA Support Project in itself consistent?</p> <p>Is the scope of the NAMA Support Project defined? Are the government institutions that are involved clearly identified and committed to the project?</p> <p>Are the roles of the different stakeholders clearly defined and presented?</p> <p>How are stakeholders involved?</p> <p>Are the steps of implementation clearly laid out and shown to be feasible?</p> <p>Are the planned methods, mechanisms and/or instruments appropriate for reaching the project goals?</p> <p>Are the proposed measures and/or activities appropriately designed for the national context?</p>
Log-frame and monitoring and evaluation (M&E)	<p>Is the log-frame and monitoring and evaluation (M&E) approach consistent with the NAMA Facility's objectives?</p> <p>Are project hypotheses and goals realistic and measurable?</p> <p>Are the expected long-term impacts, outcomes, outputs and, activities appropriately selected and achievable by the envisaged activities and within the proposed time frame?</p> <p>Do the planned monitoring and reporting activities seem appropriate?</p>
Project finance	<p>Is the project finance and/or budget calculation feasible and consistent with the cost specification?</p> <p>Are the funds requested for the in-depth appraisal adequate, reasonable and consistent with the cost specification?</p>

	<p>Are the funds requested for implementing the NAMA Support Project adequate and reasonable given the planned activities?</p> <p>Are financial contributions from other sources (national budget, private, other international donors) secured?</p> <p>Is the distribution of funds over the course of the project consistent with the planned activities and implementation steps?</p>
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For additional sub-questions please consult the template for NAMA Support Project Outlines <http://nama-facility.org/downloads.html>

The evaluation of the NAMA Support Project Outlines is conducted by the Technical Support Unit. In a second step, the evaluation results are assessed by an external evaluator to ensure that they are unbiased (report on the external assessment of the first call of the NAMA Facility: http://nama-facility.org/fileadmin/user_upload/pdf/KPMG_NAMA_Facility_First_Call_Assessment_Report.pdf).

Lessons learned, ongoing challenges and concluding remarks

Being the first initiative to provide earmarked support for NAMA implementation, and allowing for the combination of both technical and financial support, the NAMA Facility offers a learning environment for the operationalisation of the guiding principle of catalysing transformational change towards sustainable low-emission development in line with the 2 degree limit and is willing to share its lessons learned.

Lessons learned so far have been communicated after the evaluation of the first call and informed the revision of the templates, guidance documents and processes for the second call.

From our analysis, we noticed that partner governments tend to be highly committed and strongly involved in the development of an abundance of good and ambitious climate change mitigation projects. Nevertheless, we also noticed a gap between the preparation of an activity (initial NAMA development) and the structuring of its financial instruments (preparing a project to the point of bankability). Hence, the development of a pipeline of bankable, ambitious and feasible NAMAs is a continuing challenge. While the NAMA Facility with its relatively small amount of funding available is exclusively designed to support projects that are already ready for implementation within a short time-frame (up to 12 months), the GCF might also provide some finance for project development, which could be done via country allocations. When doing so, our experience suggests that it will be important to ensure the early involvement of development banks to ensure that financial project components are properly structured to allow for swift and smooth implementation.

Project components delivering financial support mechanisms tailored specifically to overcome existing barriers in the given sector are key for strengthening the ambition and

the transformational potential of a NAMA as they serve to mobilise additional financial resources from different sources (private, national and international).

Our previous experience has shown that most ambitious projects require both technical and financial support during implementation. Hence, the NAMA Facility follows an approach of combining technical and financial cooperation elements to provide tailor-made support to strengthen the implementation of transformative NAMAs. This has proven to meet the needs of many partner countries; however, closely aligning technical and financial support components; which are sometimes implemented by different organisations, continues to be challenge.

The Technical Support Unit of the NAMA Facility is willing to share its experience with the Secretariat of the Green Climate Fund and kindly invites its representatives to contact the Technical Support Unit if need arises. We are delighted to be able to contribute to the development of the GCF's investment framework.

Secretariat of the Green Climate Fund

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Regarding: **Call for public inputs - Response**

August 15, 2014

Submitted on behalf of: **Oil Change International and Friends of the Earth US**

Contact: Heike Mainhardt
Oil Change International
714 G Street SE, Suite 202
Washington, DC 20003
Email: heike@priceofoil.org

This submission is in response to the Green Climate Fund (GCF) Secretariat's call, dated August 07, 2014, for public inputs to the GCF's initial investment framework, which is contained in Annex XIV of document GCF/B.07/11. The submission covers the specific request for "[d]efinitions for activity-specific sub-criteria and a set of activity-specific indicators, taking into account the Fund's initial investment framework, the Fund's initial result areas and initial results management framework..."

This submission emphasizes that GCF-supported energy sector projects should demonstrate direct energy access benefits to the poor. As such, the submission addresses the following areas:

GCF/B.05/23 –

Annex I: Initial result areas of the Fund, (e) Low-emission energy access;
Annex II: Performance indicators of the initial result areas of the Fund, Project and programme outputs performance indicators/Mitigation (e) Households with access to low-carbon modern technologies (Number of households served by off-grid or clearly identifiable on-grid renewable technologies)

GCF/B.07/11 –

Annex XIV: Initial investment framework, III. Investment guidelines, Table 2: Initial criteria for assessing programme/project proposals, Sustainable development potential/Environmental co-benefits & Social co-benefits

Background

It is essential to define indicators that specifically measure a GCF-supported activity's potential to provide energy access for the poor.

Surveying organizations that address energy access provides direction on what a list of indicators should include. The International Energy Agency (IEA) breaks down energy access into three main incremental levels of access: 1) basic human needs; 2) productive uses; and 3) modern society needs. According to the IEA, 'basic human needs' includes electricity for lighting, health, education, communication and community services – equal to approximately 50-100 kWh per person per year, and it includes modern fuels and technologies for cooking and heating – equal to approximately 50-100 kgoe¹ of modern fuel or improved biomass cook stoves. The basic human needs level is the level that is used for forecasts of costs for universal energy access.²

The UN Secretary-General's Advisory Group on Energy and Climate Change (AGECC) argues that the productive uses level should also be included in measurements for universal energy access. According to the AGECC, productive uses include "electricity, modern fuels and other energy services to improve productivity," "agriculture: water pumping for irrigation, fertilizer, mechanized tilling," "commercial: agricultural processing, cottage industry," and "transport: fuel."³

Oil Change International used these definitions regarding the first two levels of the IEA's incremental levels of access to come up with performance indicators for energy access.⁴ A slightly revised version of these indicators are suggested for the GCF's Investment Framework as described below:

GCF/B.07/11 –

Annex XIV: Initial investment framework

III. Investment guidelines

Table 2: Initial criteria for assessing programme/project proposals

Criterion: Sustainable development potential

Coverage area: Environmental co-benefits & Social co-benefits

Activity-specific sub-criterion: Low-emission energy access

¹ Kilogram(s) of oil equivalent

² IEA (2009). *World Energy Outlook 2009*. International Energy Agency.
www.worldenergyoutlook.org/docs/weo2009/WEO2009_es_english.pdf

³ AGECC (2010). *Energy for a Sustainable Future: Summary Report and Recommendations*. New York: The Secretary-General's Advisory Group on Energy and Climate Change (AGECC), April 28, 2010.
www.un.org/millenniumgoals/pdf/AGECCsummaryreport%5B1%5D.pdf

⁴ Oil Change International, 2010. World Bank Group Energy Financing: Energy for the Poor?
<http://priceofoil.org/content/uploads/2010/12/EnergyforthePoor.pdf>

Activity-specific Performance Indicators:

1. Number of new low-emission electricity connections to low-income households.
2. Percentage of low-emission MWs reaching low-income households or energy services important to the poor, such as health clinics, schools, agro-processing or telecommunications.
3. Project focuses on improving the reliability of electricity services in an area that largely serves low-income households and/or electricity services important to the poor and currently has intermittent or unreliable access.
4. The programme focuses on provisions to make low-emission energy affordable for the poor.
5. The project/programme involves rural, off-grid/mini-grid solutions for providing energy services to the poor.

Green Climate Fund: Inputs: Investment Framework

Inputs by:

(Charles Pradhan, Thematic Leader (Environment, Climate Change, DRR, raining),

Rural Reconstruction Nepal (RRN), Individual inputs on behalf of RRN

E-mail: Charles@rrn.org.np, Telephone: 977-01-4004976, 4004988)

General Observation/Inputs:

- Green Climate Fund: Decision of the Board-Seventh Meeting of the Board 18-21 May, 2014, this document is well written and documented. However, this document looks lengthy and complicated.
- This document could be clearly divided into two parts so that readers/users can easily read and understand (1. Green Climate Fund Policy/Legal instruments/guidelines/institutional; i.e. Accreditation process/arrangement 2. Operational/Green Climate Fund/funding mechanism and process)

Specific Inputs:

- I. Green Climate Fund should develop a clear and straight forward “ **Green Climate Fund Investment/Funding Manual**” which can develop as following sample guidelines:

1 GREEN CLIMATE FUND (INTRODUCTION/BACKGROUND/CONTEXT)

2 GREEN CLIMATE FUND (GCF) SCOPE AND COVERAGE

2.1 Target recipients

2.2 Geographical coverage (LDCs/Developing/Developed Countries/vulnerable countries)

2.3 Focus Thematic areas (Water/Agriculture/Biodiversity/Infrastructure/Energy/Food Security)

2.4 Number of Grants, Loans and Fund Allocation

2.5 The strategy for determining the actual numbers

3 IMPLEMENTATION ARRANGEMENTS

3.1 GCF Program Steering Committee (PSC)

3.2 GCF Selection Committee (RGSC)

3.3 GCF Secretariat/ Program Unit

4 GUIDELINES FOR PREPARATION OF A PROJECT/PROGRAM CONCEPT NOTE (PCN)

4.1 Purpose

4.2 Preparation of PCN

4.3 Format and Content

5 GUIDELINES FOR PREPARATION OF A FULL PROJECT PROPOSAL

5.1 Basic Information

5.2 Outcomes, Outputs and Activities

5.3 Collaboration and Partnerships

5.4 Financial Information

6 GCF FINANCING AND FINANCIAL MANAGEMENT

6.1 Main steps to be followed from advertisement to signing contracts with funds recipients/grantees

6.2 Obtaining the Funds from GCF to Cover the Project Implementation Expenses

6.3 Financial Management

7 GCF COMMUNICATION PLAN**8 RESULTS BASED MONITORING AND EVALUATION ARRANGEMENTS**

Annex 1 - Guideline – Eligibility and Evaluation Criteria for Applying GCF and Evaluation Criteria

Annex 3 - PCN Format Detail (Contact details)

Annex 4 - Full Project Proposal (FPP) Format Detail (Contact details)

Annex 5 - GCF Contract Agreement Format

- II. Page 51 and 53: Initial Mitigation and Adaptation Logic Model, Results look good but need complete format with Expected Results, Performance Indicators, Means of Verification, Risks and Assumptions, the following example “Results Based Logical Framework” may be useful:

(Sample) Results-based Logical framework

	Project Description (Intervention Logic, Objective Hierarchy)	Objectively Verifiable Indicators or Targets	Monitoring Mechanisms (Means of Verification)	Risk/Assumptions (External Factors)
Overall objective (Project Development Goal) (Impact level)	Climate resilient Countries	<ul style="list-style-type: none"> • % population with improved water, energy and food security (including poor, women, marginalized people) 	<ul style="list-style-type: none"> • News reports, periodic research reports, government/NGO/INGO reports, national statistics 	<ul style="list-style-type: none"> • Favorable political situation and willingness of the government to implement climate resilient policies/programs • Serious and continuous donor interest, support and participation
Project purpose (Outcome)	<ul style="list-style-type: none"> • Enhanced and strengthened capacity of agencies (government, research, academic and development) to secure water, energy and food, particularly for vulnerable urban population 	<ul style="list-style-type: none"> • # and evidence of government policies formulated on relevant issues • 	<ul style="list-style-type: none"> • Government directives, policy documents, 	<ul style="list-style-type: none"> • Political stability and continued government support to climate resilient development activities
Expected Results (Outputs)	Result 1: Result 2: Results 3: Result 4:			
Activities	<u>Component 1:</u> <u>Knowledge Hub</u> <u>Component 2: CC and</u> <u>ENV Research</u> <u>Component 3: Capacity</u> <u>Building</u> <u>Component 4:</u> <u>Knowledge Products</u> <u>and Outreach</u>		Total budget : U\$ Approximate breakdown: Comp 1: U\$ million Comp 2: U\$ million Comp 3: U\$ million Comp 4: U\$ million	<ul style="list-style-type: none"> • Timely partner co-operation and budget approval

	<u>Component 5: Project Management and Co-ordination</u>			
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III. **Thematic Components for Program/Projects/Activities Should be defined as a Sample Below:**

<p>A. <u>Water resources and Energy</u></p> <ul style="list-style-type: none"> Hydrological/Water cycle Water induced disasters Drinking water sources, accessibility and quality Wetlands and ecological services Carbon sequestration in high altitude lake and comparison with low attitude lake Glacier Lake Outburst Floods (GLOF) 	<p>B. <u>Agriculture and Food Security</u></p> <ul style="list-style-type: none"> Adaptation in agricultural productivity and food security Food scarcity and adaptation strategy Climate change impacts on livestock raising and household economy Animal husbandry - Climate change adaptation, mitigation and improved livelihoods Agricultural / seasonal calendar change and farmer adaptation strategies Crop variety and adaptation
<p>C. <u>Forests and Biodiversity</u></p> <ul style="list-style-type: none"> Vegetation shift and ecosystem Climate change and biodiversity species changes Important Plant Area (IPM) delineation Regeneration of selected species for climate resilience Flora and Fauna inventory Types and status of ecosystems Climate change impact on habitat of key flag species 	<p>D. <u>Urban Settlements and Infrastructure</u></p> <ul style="list-style-type: none"> Climate resilient infrastructure Climate change and construction of infrastructure (i.e. hydropower, irrigation, domestic water, road) Micro and Macro Watershed Management for climate resilience River flood, sedimentation, landslides and mass wasting Climate change, damage and loss
<p>E. <u>Public Health</u></p> <ul style="list-style-type: none"> Climate change and diseases pattern (i.e. Malaria/Japanese Encephalitis, cold and heat injuries, etc.) Climate change and disease outbreak (i.e. vector-borne/water borne infectious diseases) Study on different diseases in relation to climate change Health related migration and displacement during epidemic outbreak of diseases 	<p>F. <u>Climate Induced Disasters</u></p> <ul style="list-style-type: none"> Vulnerable groups and livelihoods Differences of climate change impacts on productive and reproductive work of women and men; priorities in adaptation for gender equality Tourism and livelihoods Change in natural resources consumption Energy consumption pattern Study of economy, resource consumption (type of resources) between high and low altitude society

	<ul style="list-style-type: none">• Impact of climate change in settlement (particularly housing)• Impact of climate change in human activities (i.e. Grazing, harvesting, storing, trans-human activities)• Floods/landslides• Conflict over natural resources
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Date: August 18, 2014

To:

The Secretariat of the Green Climate Fund (GCF)

Attn Mrs. Hela Cheikhrouhou

Executive Director

G-Tower, 175 Art Center-daero

Yeonsu, Incheon, Republic of Korea

Tel: +82 32 458 6059 / Fax: +82 32 458 6094

Email: secretariat@gcfund.org

Reference: Call for Inputs- Green Climate Fund's Investment Framework

Dear Mrs. Cheikhrouhou,

SNV Netherlands Development Organisation appreciates and welcomes the decision of the board of the Green Climate Fund [*DECISION B.07/06*] on the initial investment framework of the Fund, as contained in Annex XIV.

Based on its own understanding, SNV would like to submit the inputs below for consideration by the secretariat of the GCF, so that they can be discussed in the forthcoming Board meeting of the GCF.

A. Definitions for activity-specific sub-criteria and a set of activity-specific indicators:

SNV would request the GCF to **further sub-categorize** the 50:50 division of the mitigation and adaptation activities in line with the decision B.05/03, which aims to 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.

Practically, in many instances, it is difficult to differentiate the type of interventions under a definitive scope of works of mitigation and/or adaptation; hence, it is pertinent to also encourage integrated type of interventions. For instance, REDD+ and LCDS are two examples on this front.

It will be highly desirable to **specify revenue-generating and non-revenue-generating activities** in the investment framework in relation to the mitigation and adaptation interventions. This is particularly true for Low income countries [LICs] which need initial support for non-revenue-generating activities such as gender and capacity development activities.

SNV brings to the attention of the board of the GCF that the investment framework can also be strengthened by country-specific submissions on national communication reports of the parties to the UNFCCC.

The current method of identification of indicators with a general assumption of 'Floor of fifty per cent of adaptation allocation' may be misleading. Instead, the GCF can consider calling for country-specific priorities and a relevant investment plan with a set of mitigation and adaption criteria. Based on commonalities between different countries, the GCF can regroup countries for funding as different priority or trench of funding.

It is understood that private capital is an enormous source of global wealth that has not historically played as significant a role in development as its scale would suggest, and that this is not for lack of interest. Private capital is constantly seeking investment opportunities¹. However, it only commits to those prospects that meet its appetite for risk and reward. Due to a variety of factors, many opportunities in developing countries are often perceived as overly risky or uncertain for the majority of investors. Institutions offering to guarantee portions of loans made for such investments help investors rebalance their assessments of risk and reward and subsequently unlock considerable capital into developing countries. Since guarantees may be more difficult to get through national budget processes than traditional financing, a starting point could be to work on ways to address these institutional barriers through the GCF instrument.

SNV would like to express its satisfaction on the focus of the GCF on allocation of funds for the Readiness and preparatory support. Sufficient support for readiness and preparatory activities associated with the mitigation and adaption activities is crucial for effective implementation of programs/projects.

B. Criteria on needs of the recipient countries in the investment guidelines:

With respect to the criteria, SNV notes that an indicator on the readiness of the countries is also important to include, in addition to the existing criterion on Country ownership.

SNV notes that the criterion on 'Paradigm shift potential' needs further clarity as it does not specify the baseline situation of a particular country before implementing GCF funded programs/projects.

The private sector investment modality is also crucial while defining the criterion on needs of the recipient. This is particularly true as most of the middle income countries and emerging economies are investment friendly for the private sector. However, least developed countries (LDCs) and poor countries of Sub-Saharan Africa are still not attractive for private sector investment. In such cases, it is pivotal to have a balanced investment framework, with grant funding, results-based finance and concessional loans.

One of the key criteria in selecting recipient countries should also be the current capacities of those host countries in managing funds as well as effectively utilizing the funds for bringing results and impact as planned in the investment plan. Therefore, a thorough and detailed capacity needs assessment is necessary.

C. Identification and comparison of methodologies:

SNV believes that there should be appropriate methodologies that enable the Secretariat to assess the relative quality and innovativeness of comparable proposals in comparable circumstances, including through a survey.

SNV understands that parties continued discussions of aspects of REDD+ methodologies on financing under GCF at the 40th session of the Subsidiary Bodies to the UNFCCC (SB 40) as well as during the meetings of Subsidiary Body for Scientific and Technological Advice (SBSTA). Unfortunately, there appears to be very little progress on this aspect, and further consideration

¹ For more, see the full McKinsey Global Institute report, *Financial globalization: Retreat or reset?*, March 2013.

of these issues was postponed to future sessions. Encouragingly, there are a few promising progresses with respect to the modality of the results- based financing of REDD+, which is expected to be linked to the Green Climate Fund (GCF).

To expedite this encouraging development, it will be helpful if GCF could play an important role in channelling REDD+ payments to developing country governments, and that results-based payments will depend partially on the submission of a reference level for review by experts from an assessment team and this provision can be made under the comparison methodologies of the investment framework of GCF. Hence, assessment guidelines and procedures need to also be established, so that developing countries know how their reference levels will be evaluated.

In addition, developing countries wanting to participate in GCF REDD+ activities will have to establish national forest monitoring systems (NFMS) as a basis for estimating forest-related greenhouse gas (GHG) emissions if they do not yet have such systems in place. The similar conditions will also be applicable to the mitigation activities related to the renewable energy, energy efficiency and CCS. In addition, parties officially mandated a link between safeguards (such as respecting livelihoods, the rights of indigenous peoples and local communities, and biodiversity) and payments. To facilitate this process, GCF can encourage the parties to submit summaries identifying strategies to address the safeguards framework. Furthermore, all information submitted, including data on payments should be posted on an "information hub" that parties requested the Secretariat to create.

D. Lima Expectations-

SNV understands from its partners and from close relations with parties that expectations are high for COP 20, which will convene in Lima, Peru, in December, as it is the last negotiating session of the COP before a new legal instrument is to be agreed in Paris in 2015. Keeping Lima in mind, UNFCCC parties and the GCF can take a number of actions between now and Lima to build confidence in the efficacy and authority of the guidance created at COP 19 and the initial investment framework of GCF. From capitalizing the GCF, to submitting reference levels, to completing the GCF's "logic model and performance framework," showing the Warsaw Framework in action will be the most expedient way to encourage convergence to its methodology.

Sincerely yours,



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Response to call for public inputs on elements of the GCF Investment Framework

Doreen Stabinsky, Professor, College of the Atlantic¹

25 August 2014

I appreciate the opportunity to provide input towards further development of the Fund's investment framework. The questions being addressed are of multiple importance, given that the approval criteria contained in the investment framework will inform the initial approval process, and the criteria, sub-criteria, and indicators may also be elements of the results management framework.

Given the importance both of the work ahead and the need for quality and considered input from stakeholders, it should be noted that both the timing of (August holidays) and timeframe for (originally 11 days, extended to 18) providing input is not ideal. I might suggest in the future to 1) provide advance notice of an upcoming comment period – a “save-the-date” type of notification; and 2) provide a minimum of 2 weeks for submission of input.

Given the time constraints of this particular consultation, I would also expect that the Secretariat and Board will seek further engagement and dialogue with stakeholders on the sub-criteria and activity-specific indicators in advance of the 8th GCF Board meeting.

Comments on adaptation elements of the Investment Framework:

I have organized my input into three main sets of comments:

1. The unique challenges of adapting to climate change will require special consideration when designing approval criteria, investment guidelines, and approaches to assessment.

Adaptation success will always be context-specific, with that context changing over time. Exposure to climate impacts may increase over time due to changing climate, despite efforts that a country may take to reduce inhabitants' exposure to climate impacts. Over time, new longer-term hazards may emerge.

The UNFCCC Adaptation Committee noted a number of methodological challenges for monitoring and evaluation of adaptation efforts in a background paper for its recent workshop on monitoring and evaluation:²

- the nature of adaptation, including long timescales and uncertainty associated with impacts and difficulties in data collection and the setting of baselines and targets;
- a lack of agreed metrics to determine effectiveness, e.g., no agreed method to measure the reduction of vulnerability;
- the difficulty of attributing cause and effect.

In the context of UNFCCC actions, LDCs have already developed NAPAs and many developing countries are beginning the process to develop national adaptation plans (NAPs). The NAPs process is designed to be flexible and non-prescriptive, in response to specific national needs and circumstances.

These aspects of adaptation lead to a number of basic conclusions for developing criteria, sub-criteria, and indicators related to adaptation:

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²

http://unfccc.int/files/adaptation/cancun_adaptation_framework/adaptation_committee/application/pdf/ac_m&e_ws_background_note_16a_ugust2013.pdf

- Adaptation cannot be measured and quantified in the same manner as mitigation, and will require use of both process and outcome indicators, both qualitative and quantitative approaches, and evaluation over much longer time frames.
- It should be recognized that “a results-based approach will be **an** important criterion for allocating resources.” [GI, para 51], but not the only criterion. There are baseline needs for adaptation in all developing countries, and legal obligations under the convention for developed countries to provide financial resources for adaptation efforts. These needs and obligations should also inform basic adaptation allocation criteria.
- Criteria, sub-criteria, and indicators should be differentiated between mitigation and adaptation and between programmes and projects.
- Adaptation is a **continuous, progressive, iterative process** that is dependent on predictability of finance, so any evaluation of progress/impact must be put into the context of what financing was or was not available. Indeed, the GCF must carefully consider how it can most effectively contribute to financing for NAPs processes – given the character of the processes as progressive and iterative. Success will not be achievable if financing is not predictable and sustainable.
- Adaptation benefits must be understood in their local and national context.
- Sub-criteria and indicators that are too specific could bias adaptation planning in non-useful ways, with a risk of a path leading to maladaptation.
- Design of sub-criteria and indicators should recognize the requirements of a flexible approach under the NAPs process to develop activities in response to needs and circumstances, allowing for coherence with priorities determined in countries’ own NAPs processes.
- Linking adaptation performance to resource allocations risks punishing those countries most in need – those countries most affected by climate impacts.

Following from this last point, it must be noted that the possible initial performance indicators contained in decision B.07/04, Annex X, include a number of indicators that are not well suited to reflect the **growing** adaptation burdens of countries as climate **impacts increase** over time, and therefore should either be removed or altered to address this shortcoming.

- Percentage reduction in the number of people affected by climate-related disasters
- Percentage of food-secure households
- Percentage of households with year-round access to adequate water
- Climate-induced disease incidence
- Area of agricultural land made more resilient (what does it mean to be resilient? What does it mean to be resilient when precipitation and temperature regimes are changing and agriculture can no longer be practiced?)

Co-financing **should not** be a sub-criterion for adaptation projects under the efficiency and effectiveness criterion. In many cases, full-cost financing will be needed in order to make adaptation projects or programmes viable, particularly those most visionary and likely to lead to a paradigm shift. Legal obligations under the convention also necessitate agreed full cost coverage of adaptation actions. Countries have communicated both political and technical challenges with the application by the GEF of co-financing requirements under the LDCF and the SCCF (contested the interpretation by the GEF of “agreed full cost”).³ Recently the GEF has done away with its co-financing sliding scale requirement.

3

http://unfccc.int/files/adaptation/cancun_adaptation_framework/adaptation_committee/application/pdf/ac5_background_paper_on_financing_fornaps_4march.pdf

2. The GCF Secretariat and Board should directly engage with the relevant thematic bodies under the Convention – the Adaptation Committee (AC) and the Least Developed Countries Expert Group (LEG) – to ensure compatibility with the NAPA and NAPs processes under the Convention.

It is important to recall that the Adaptation Committee (AC) and the COP have repeatedly requested that the GCF consult with the AC on matters related to adaptation; the consideration of the thematic area of adaptation within the Investment Framework should be informed by input from the AC and the LEG. Work already undertaken by the AC and LEG, such as on the *monitoring and evaluation of adaptation*, should be used to inform the Board's consideration of activity-specific sub-criteria and activity-specific indicators. In particular the background document for and report from the workshop held in September last year in Fiji will provide useful input on a range of issues related to monitoring and evaluation and adaptation, including indicators. Should also look at LEG PEG (progress, effectiveness, and gaps) M&E tool that is being developed.

The NAPs technical guidelines lay out a framework for action on adaptation. Countries will develop their own roadmaps to be followed as part of the national process. GCF criteria, sub-criteria, and indicators all must be written in general enough terms to allow for the flexibility that countries will need in developing, implementing, reviewing, and iteratively updating their NAPs. It is essential that the GCF Secretariat and Board confer regularly with the AC and LEG to develop an approach that is consistent with the work adopted by Parties and coherent with adaptation-specific decisions, to ensure coherence between the NAPs processes and funding under the GCF.

Core indicators and common methodologies among the entities of the financial mechanism and other climate-related funds should be developed, with substantial input from the AC and the LEG. Numerous different criteria and indicators serve to increase the data collection, monitoring, and reporting burdens on countries. A small number of common criteria and indicators should be agreed among the funds, with the approach of the PPCR kept in mind. In a recent revision and simplification of its results framework, the PPCR reduced the number of indicators it was using from 22 to 11, with only 5 core and 6 optional indicators. According to the report of the AC M&E workshop "most pilot countries did not have the capacity to establish a complex M&E system." Three of the five PPCR core indicators are qualitative in nature, rather than quantitative.

At level of impact and outcome for the Fund, few indicators are needed. The Adaptation Fund has recently developed five core indicators, corresponding to two Fund-level impact areas.

Table 1: Adaptation Fund Core Indicators	
Impact	Indicator
Increased adaptive capacity of communities to respond to the impacts of climate change	Number of beneficiaries (direct and indirect)
	Number of early warning systems
	Assets produced, developed, improved, or strengthened
	Increased income, or avoided decrease in income
Increased ecosystem resilience in response to climate change-induced stresses	Natural habitats protected or rehabilitated

It bears repeating that experts at the 2013 M&E workshop concluded that there was a lack of agreed metrics on effectiveness.

3. Criteria, sub-criteria, and indicators should be formulated within the boundaries of the agreed Results Management Framework, initial results areas, and investment guidelines, in the context of a

country-driven, gender-sensitive, participatory and fully transparent approach, taking into consideration vulnerable groups.

Already agreed language includes **Initial result areas of the Fund** (decision B.05/03, Annex I). This decision is obviously a foundation upon which further work has been built, however it must be stressed that the initial result areas for adaptation found in this decision have not been carried forward into the RMF adopted at the 7th Board meeting. Therefore it would be *inappropriate* to use as sub-criteria the performance indicators found in Annex II of the same decision (and replicated in Annex III of GCF/B.07/06), including for the reasons outlined above. Moving forward, *these adaptation performance indicators should be ignored*:

- Environmental effectiveness: including units of human health (DALY) and units of wealth (\$) saved and enhanced
- Cost-effectiveness: DALY and \$ saved
- Co-benefits: \$/unit of co-benefit
- Institutional feasibility: level of acceptance

Elements of the agreed **Results Management Framework** (decision B.07/04) would be appropriate to include as sub-criteria and indicators of the investment guidelines, taking into consideration the issues raised under point 1 above, particularly with regard to the problematic nature of some of the indicators vis-à-vis increasing climate impacts.

Preparatory documents have been repeatedly referenced, such as GCF/B.05/02 and GCF/B.06/03, but it must be noted that these are not decision language. Much of the language in the preparatory documents was considered for and not included in decision language; the documents should not be referenced in the same way as decision language. Also, it is indeed worth noting the significant difficulties the Board encountered to identify “result areas” for adaptation, beginning with the adoption of initial result areas in Paris and continuing through conversations at the 7th Board meeting in Songdo. The basic results contained in the RMF agreed in Songdo should serve as a basis until further substantive work can be done, in particular in consultation with the AC and LEG.

While the decision on the Investment Framework seems to indicate a direction to define sub-criteria and indicators for as-yet-to-be-defined result areas for adaptation, it would at this point be inappropriate to consider criteria for additional results areas that have not yet been agreed.

Table 2: Comments on initial criteria, sub-criteria, and possible indicators for assessing programme/project proposals

Criterion	Sub-criteria	Possible indicators
Impact potential	Adaptation impact: four results from impacts level in Annex X [1.0, 2.0, 3.0, 4.0]	Significantly reduce the indicators listed in Annex X (see commentary above on caveats with listed indicators). Suggest to only use indicators that are already used by other funds – AF, GEF, PPCR – so as to reduce possible burden on national M&E systems. [indicators 1.2, 2.1, 2.2, 2.3, 4.1] Look to PPCR as a model: 5 core indicators, with substantial number as qualitative
Paradigm shift potential	Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans	
Sustainable development potential	All four of the coverage areas: <ul style="list-style-type: none"> • Environmental co-benefits • Social co-benefits • Economic co-benefits • Gender-sensitive development impact 	
Needs of recipient	All of the coverage areas except: Absence of alternative sources of financing. [Absence of alternative sources of funding should not be a requirement, given the legal obligation under the convention to provide developing countries with financial resources for adaptation.]	
Country-ownership	Contribution to NAPs, NAPAs, and other adaptation elements of the national climate strategy	Based on nationally identified priorities and coordinated with national sustainable development objectives, plans, policies, and programmes.
Efficiency and effectiveness	No sub-criteria at present. It will be problematic to use this criterion with adaptation projects and programmes until there is much better development and consensus on how to evaluate effectiveness. Efficiency is not an appropriate metric for adaptation.	

Response to the Call for Public Inputs: Investment Framework

The World Bank PPCR Focal Point in coordination with CIF Administrative Unit

The purpose of the Pilot Program for Climate Resilience (PPCR), managed by the Climate Investment Funds (CIF), is to pilot and demonstrate ways in which climate risk and resilience may be integrated into core development planning and implementation. The CIF has developed Monitoring and Reporting System in collaboration with the Multilateral Development Banks (MDBs) and the PPCR pilot countries. The system constitutes five core indicators that track progress towards climate-resilient development at national level and monitor, report and learn from PPCR activities at program and project levels.

Below are the PPCR core indicators:

1. Degree of integration of climate change into national including sector planning (data collection: at national level)
2. Evidence of strengthened government capacity and coordination mechanism to mainstream climate resilience (data collection: at national level)
3. Quality and extent to which climate responsive instruments/investment models are developed and tested (data collection: at project/program level)
4. Extent to which vulnerable households, communities, businesses and public sector services use improved PPCR supported tools, instruments, strategies, activities to respond to climate variability and climate change (data collection: at project/program level)
5. Number of people supported by the PPCR to cope with the effects of climate change (data collection: at project/program level).

In addition to the core indicators, pilot countries have the flexibility to determine their own additional country, project/program specific indicators. At project level, output/intermediate indicators specific to each project/program and the priorities of each country are prepared but they are not specified in the PPCR results framework. However, project/program documentation will demonstrate how the output indicators that are selected will help achieve outcomes at the PPCR program (country) level.

PPCR projects are in early stages of implementation and reports related to baseline, targets or interim results are prepared in consultation with relevant stakeholders. The baselines and targets were submitted by the PPCR pilot countries in August 2013. As the PPCR portfolio matures, the results from the monitoring and reporting of the projects will provide greater clarity on activity specific sub-criteria and indicators. Monitoring and reporting of the core indicators, set up to track PPCR progress, is an ongoing process which will be reviewed in for quality, validity, usefulness, usability and measurability and adjusted if necessary.

Below are the resources we think will be useful for the GCF team:

[Designing the CIF Results System](#)

[PPCR Results Framework and Monitoring and Reporting Toolkit](#)

The World Bank PPCR Focal Point in coordination with CIF Administrative Unit

The CIF and the PPCR team looks forward to engaging more with the GCF's in this matter.

Submission by:

The World Bank PPCR Focal Point in collaboration with CIF Administrative Unit

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United Nations
Climate Change Secretariat

Nations Unies
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Dear Ms Cheikhrouhou,

I am pleased to respond in the context of the Green Climate Fund's call for public inputs on the further development of its investment framework by reiterating the offer of the UNFCCC secretariat to provide technical assistance to the Green Climate Fund based on its extensive experience in developing and administering the Clean Development Mechanism.

The CDM is the leading mechanism for the assessment of the comparative quality of mitigation activities and for the monitoring, reporting and verification (MRV) of mitigation outcomes worldwide. With seven thousand-eight hundred registered project activities and programmes of activities and almost 1.5 billion units issued, the CDM has amassed vast experience and know-how in the effective monitoring, reporting and verification (MRV) of mitigation outcomes.

The CDM offers over 200 methodologies and tools for the assessment of the quality of mitigation activities and programmes of activities against established activity-specific criteria and indicators that take into account minimum benchmarks rooted in solid and established data on the relative costs of mitigation activities across technologies and countries. It is fair to say that the standards and processes of the CDM are the most robust of any MRV system for mitigation outcomes and are considered international best practice.

We have previously discussed the opportunity to consider how the experience in existing CDM systems and infrastructure can be utilized in a way that brings robustness, simplicity and efficiency in matching the needs of the Green Climate Fund. I would be happy to ensure that the interaction of our teams' address the specific needs of your secretariat highlighted in this call for public input.

I look forward to the continued collaboration of our organizations on these matters.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'John Kilani'.

John Kilani
Director

Sustainable Development Mechanisms



VOICE OF FUTURE GENERATIONS

FIT FOR RENEWABLES?

Design options for the Green Climate Fund to support renewable energy feed-in tariffs in developing countries

AUTHORS:

Axel Michaelowa, Stephan Hoch
with contributions from Stefan Schurig and Sonja Butzengeiger
September 2013

KEY MESSAGES

- The Green Climate Fund is becoming a key UNFCCC climate finance institution, which aims to make a “significant and ambitious contribution” to global mitigation efforts.
- Renewable energy Feed-in Tariffs (REFIT) have been highly effective in many countries, and provide a proven example of a results-based climate finance instrument, if tuned carefully over time to be sustainable.
- A Renewable Energy FIT Facility or Fund at the GCF Private Sector Facility would be an ideal institutional home to implement REFITs at scale in developing countries.
- A prompt start of pilot activities should be implemented to build experience, including on how to measure, report and verify mitigation impacts of REFITs as supported Nationally Appropriate Mitigation Actions (NAMA) by developing countries.

ACKNOWLEDGEMENTS

This policy paper has been prepared with funding from the World Future Council.

ACRONYMS

ADC	Advanced developing country
BMF	Business model framework
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
ClF	Climate Investment Funds
CMP	Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol
COP	Conference of the Parties
CSP	Concentrated solar power
DECC	Department of Energy and Climate Change
DNA	Designated National Authority
DOE	Designated Operational Entity
EB	(CDM) Executive Board
ESMAP	Energy Sector Management Assistance Programme
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse gas
GRF	GCF REFIT Facility
GW	Gigawatt
IGES	Institute of Global Environmental Strategies
IMF	International Monetary Fund
IIE	International Implementing Entity
IPCC	Intergovernmental Panel on Climate Change
KfW	German Development Bank (Kreditanstalt für Wiederaufbau)
kWh	Kilowatt hour
LDC	Least Developed Country
MIC	Middle income country
MFE	Multilateral funding entity
MRV	Measurement, Reporting and Verification
MWh	Megawatt hour
NAMA	Nationally Appropriate Mitigation Action
NMM	New Market Mechanism
NFE	National Funding Entity
NIE	National Implementing Entity
PIN	Project Information Note
PoA	Programme of Activities
PSF	Private Sector Facility
PV	(Solar) Photovoltaic
REFIT	Renewable Energy Feed-in Tariff
QA/QC	Quality Assurance and Quality Control
SB	Standardized Baseline
SREP	Scaling-Renewable Energy Programme
SDR	Special Drawing Rights
tCO ₂	Tonne of carbon dioxide
UNFCCC	United Nations Framework Convention on Climate Change

FOREWORD

From Anders Wijkman and Stefan Schurig:

The climate scientists unfortunately leave no doubt. The 5th Assessment Report of the International Panel on Climate Change of the United Nations (IPCC) launched in September 2013 states: "Warming of the climate system is unequivocal and since the 1950s, many of the observed changes are unprecedented over decades to millennia. The atmosphere and ocean have warmed, the amounts of snow and ice have diminished, sea level has risen, and the concentrations of greenhouse gases have increased."¹

It is common knowledge that developing countries are most vulnerable to the devastating impacts of climate change already taking place in many parts of the world. However, it is equally important to mention that addressing the causes of human-induced climate change, chief among them the combustion of fossil fuels, would also risk making poverty reduction more difficult – and expensive – for low-income countries, not least in Africa. Investments in alternatives to fossil fuels may still appear to be more expensive too many observers, at least seen in a short-term perspective.

This being said, developments in both renewables and energy efficiency technologies have been very promising in the recent past. Over time, the costs for solar, wind and efficient biomass have been reduced significantly. This means that there are great opportunities to accelerate the economic development of many developing countries along a green trajectory. Transforming the energy infrastructure towards low-carbon technologies in both industrialized and developing countries is a critical component of the climate change action program that is absolutely necessary to prevent dangerous climate change.

With this report the WFC offers a timely and concrete contribution to the emerging design and architecture of the Green Climate Fund (GCF). The objective of the GCF is to "promote a paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change."² The suggestions in this report are perfectly designed to meet this objective.

This report offers institutional design options – renewable energy feed-in tariffs - that would allow rapid implementation of renewable energy technologies in developing countries. A key element is that funding support through the feed-in tariffs would only be distributed against performance, i.e. once the renewable energy technology provides electric power to the communities in need.

Anders Wijkman is a member of the World Future Council, co-president of the Club of Rome, former president of Globe EU and has been active on environmental and development issues for many years. As a member of the European Parliament (1999–2009) he focused on issues related to climate change, environment, development cooperation and humanitarian affairs. He is a former assistant secretary general of the United Nations and policy director of the UN Development Program. Wijkman is a member of the Royal Swedish Academy of Sciences.

Stefan Schurig is Director Climate Energy at the World Future Council. He initiated the international policy campaign on renewable energy and the worldwide promotion of 'Feed-in tariffs' policies. In 2004 he was appointed member of the REALISE Forum, an international platform on renewable energy policies led by the European Commission. Schurig authored and co-authored numerous publications on climate and energy issues including the concept-proposal for a Renewable Energy Policy Fund (2009). He works as a direct advisor for governments and parliamentarians around the globe.

¹ IPCC WGI AR5 SPM-36 27 September 2013

² www.gccfund.net

SUMMARY

Transforming the energy infrastructure towards low-carbon technologies in both industrialized and developing countries is a critical part of the global greenhouse gas mitigation efforts that are necessary to limit dangerous climate change. Renewable Energy Feed-in tariffs (REFIT) have been crucial policy instruments to rapidly expand renewable electricity generation in Europe, and have been taken up in a rapidly increasing number of countries outside Europe in the last years. This policy paper argues that the Green Climate Fund (GCF) should become a key UNFCCC vehicle to support further diffusion of REFITs in developing countries to a level that mobilizes the hundreds of gigawatts of renewable energies required for a 2° C stabilization scenario. The GCF aims at making a “significant and ambitious contribution” to these efforts, guided by the principles of the UNFCCC. As the GCF is currently still emerging, we offer institutional design options that would allow facilitating rapid implementation, provided there is a sufficient capitalization.

REFITs are fully consistent with the spirit of results-based financing and could be embedded within the GCF’s Private Sector Facility (PSF). For an effective, efficient, flexible and scalable design, several important aspects require consideration. It is key to decide on the criteria for the support of REFITs ex ante, i.e. a tariff level that does not lead to overfunding, precise definitions of eligible technologies that prevent an exaggerated level of rent-seeking, a sufficient duration of REFIT payments in order to investments, availability of grid or mini-grid access and guarantees of payment from the off-taker, as well as credibility of the institution disbursing the REFIT. These criteria need to be differentiated in order to address different country circumstances. A critical question is how the modalities of a REFIT mechanism can be made compatible with (enhanced) direct access models to the GCF. A REFIT Committee could decide on applications from governments, but is likely to need evaluation support by independent expert reviewers or auditors. Even in a medium-sized country, a REFIT can trigger very large renewable energy investments of gigawatt (GW) scale, and thus the cost differential to conventional energy could reach several hundred million € per year. Therefore, it is crucial to differentiate the share of cost differential covered by the GCF according to country groups. LDCs could be entitled to coverage of the full differential, whereas the covered share would decline in middle income countries and advanced developing countries, respectively. The institutional setting would have to enable a transparent, but rapid adjustment of the REFIT support payment over time to prevent inefficiencies of REFIT support seen in several European systems.

Given that progress in the operationalization of the GCF currently is slow, a trust fund for a pilot phase of REFIT support could be set up quickly by a progressive group of donor governments in order to allow a rapid start. A trust fund of 1 billion € could finance 1-3 GW of renewables (see section 5). The trust fund should be designed with the clear aim of serving as a pilot phase for a REFIT funding window of the PSF.

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1. INTRODUCTION AND HISTORY OF THE IDEA OF A GLOBAL REFIT FUND

In light of the magnitude of the challenge of financing mitigation and adaptation efforts in the developing world, a critical challenge is how to ensure that financial flows to developing countries achieve the envisaged outcome cost-effectively.

Internationally, renewable energy feed-in tariffs (REFITs) have proven to be an effective means to rapidly increase the generation of renewable electricity; they have clearly outcompeted renewable quota trading systems, tender programmes or direct investment subsidies. REFITs have spread beyond industrialized countries and were applied by 65 countries and 27 states worldwide (GCF 2013d: 2) worldwide as of 2012. Therefore, REFITs have been instrumental to advance progress in renewable energy technology development, by enabling economy of scale effects to bring costs down more rapidly than even optimists had anticipated. Becker and Fischer's (2013) assessment of China, India and South Africa shows, however, that these large countries have preferred auction-based tariffs instead of classical FITs. Still, as long as there is a minimum level of confidence in government institutions, the strong advantage of REFITs compared to other renewables support policies is to provide investment security given that the tariff usually is made available for 10-20 years and there is a guarantee that the power produced will actually be taken by the grid operator and remunerated. This then induces financial institutions to provide loans to renewable power producers and leads to the emergence of a renewable electricity "ecosystem". This certainty is a critical aspect of the effectiveness of REFITs due to the long periods of time that are typically needed for energy production infrastructure development.

In many countries, REFITs are generally financed by a supplement to the electricity tariff of final users. This means that the end-users subsidize the additional cost of the REFIT as in many countries energy-intensive industry has been exempt in order to safeguard competitiveness. There has not been relevant opposition to this system, except in Germany where the surcharge has become so high that it now constitutes a significant share of the end user electricity cost. If available, however, this surcharge could also be replaced with other sources of funding.

Therefore, regarding efficiency of the policy scheme, the key challenge for REFITs is to avoid "overfunding" which could result if the electricity generation costs of renewable technologies fall while the REFIT is not adjusted in a timely manner. Such situations have occurred in the context of solar PV in Germany, Italy and Spain. Overfunding led to a massive expansion of renewable capacities. A simultaneous decrease in wholesale electricity prices and excessive exemptions for industry increased the consumer-financed cost differential, which raised concerns about energy costs. Policy-makers then overreacted, slashing REFITs to levels at which even the most efficient companies could not build renewable energy capacities.

As the availability of domestic finance is often a key barrier to rolling out REFITs in developing countries, there have been several attempts to introduce an international support scheme for REFITs. In 2009, the World Future Council was among the first to propose a "Renewable Energy Policy Fund", which would allow for replicating the positive experiences with REFITs in developing countries, financed from a range of innovative sources, including Special Drawing Rights of the International Monetary Fund (IMF) (WFC 2009). Building on this proposal, Deutsche Bank Climate Change Advisors proposed the GET FiT programme where grants and concessional loans would be given for FITs, combined with risk mitigation strategies through international guarantees and insurance, as well as technical assistance to address non-financial barriers (Deutsche Bank 2011). In countries in which

there are grid integration constraints or technologies have a limited in-country track record, “lighthouse” power purchase agreements can pave the way for fully-fledged subsequent REFITs. Currently, GET FiT is piloting its concept in Uganda (see 3.2).

Even beyond REFITs, “results-based financing” (RBF) is becoming increasingly relevant for international climate finance and renewable energy initiatives. For example, the Norwegian initiative Energy+ requires the introduction of a policy instrument such as feed-in tariffs, renewable certificate, off-take guarantee, tax exemption or tender programmes to trigger initial payments, followed by payments for measurable performance such as renewable energy produced (Norwegian government 2012). Given that international climate finance is slated to reach a level of 100 billion USD per year by 2020, a disbursement modality to maximize mitigation benefits is crucial. This is even more important as carbon markets that provided a performance-based benefit for mitigation initiatives are currently suffering from a meltdown of prices for emission credits, and thus currently do not provide a relevant incentive anymore.

ESMAP (2013) summarizes when and under which circumstances RBF is desirable in the context of the energy sector. They find that RBF is appropriate to allocate payments for environmental services, and that it increases the probability of achieving desired results. On the other hand, it could increase project costs, as the project developers will want to ensure that the projects perform, and will require interim – often commercial – financing with a higher interest rate, before RBF resources start to materialize. Monitoring and verification arrangements need to be perceived as trustworthy.

The Green Climate Fund (GCF) is to become the key vehicle of international climate finance³. Therefore, this paper discusses options how the GCF could support the roll-out of REFITs in the countries that require international support to implement REFITs at scale. In a broader perspective, Müller et al (2013b) discuss quantitative performance payments in the context of the GCF, which includes a brief discussion of the GET FiT pilot activity in Uganda, but does not focus on REFITs specifically.

Key elements that inform international financing of REFITs include

- Need for technical assistance to assess the renewable energy potential, and its cost structure, as well as design the administrative structure of the REFIT
- Support for political processes that overcome the resistance of incumbent electricity utilities and grid operators
- The cost differential between conventional electricity generation facilities and the different types of renewable electricity technologies, as well as adjustment procedures to trigger changes in the REFIT due to changes in the cost differential.
- The duration for which the REFIT is granted
- A mechanism to allocate limited GCF resources, e.g. country ceilings or caps (capacity / kWh generated), above which the REFIT is no longer granted.

Given that renewable energy provides substantial ancillary benefits such as reduction of local air pollution, an equitable approach would not cover the entire cost differential through GCF subsidies, but only the part of it which is not covered by ancillary benefits.

Therefore, at this early stage, reflections on a possible institutional design of a **GCF REFIT Facility (GRF)** raise many fundamental questions, and the need to address the following issues: What criteria are applied in order to safeguard effective use of limited available funds? Which countries can access the GRF, and how? Who decides about applications? Should there be a differentiation according to the development level of countries? How should the availability of other incentives (e.g. revenues from carbon market mechanisms)

³ No pledges to the GCF have been made so far, and its internal structure and procedures remain to be finalized. Most climate finance to date has flown through classical bilateral development assistance channels. We assume, however, that eventually the GCF will channel the lion's share of public climate finance.

be taken into account? Does the GRF provide finance for setting up or expanding REFITs, or does it provide a top-up/premium on existing or emerging REFITs, or a mix depending on the country context?

Although there is a lack of clarity on the direction which the GCF will take, we will attempt to come up with some useful suggestions for answers to these questions. First, a brief overview of the evolution of the GCF will be provided (2.), followed by a brief analysis of key design elements of REFITs as well as related precedents (3.). This analysis forms the basis for the subsequent suggestions for the institutional design of a GRF (4). In conclusion, some thoughts on possible next steps that would move this concept closer to implementation are presented.

2. STATUS QUO OF THE GCF

The Green Climate Fund (GCF) was first mentioned in the Copenhagen Accord of 2009, and is being operationalized slowly following the Cancun Conference of the Parties (COP) to the UNFCCC in 2010. A transitional committee prepared a decision of the Durban COP in 2011 on the “Governing Instrument” (GCF 2011), which installed the GCF as an entity of the financial mechanism of the UNFCCC, and elected its Board. This institutional nesting in the UNFCCC institutional landscape is a significant decision, although it is not yet entirely clear how the institutional linkages may emerge. In 2013, Heila Cheikhrouhou from Tunisia became the GCF’s first director and its office in Songdo, Korea was set up. The UNFCCC Secretariat and the GEF Secretariat jointly set up the Interim Secretariat of the GCF as an autonomous unit within the UNFCCC Secretariat, which is accountable to the GCF Board. To date, the Board has met four times, and has produced a number of initial decisions.

The GCF is to channel “new, additional, adequate and predictable” international climate finance resources to developing countries (GCF 2011). Its key principles are guided by the UNFCCC, and include efficiency, effectiveness, equity, and contributing to a paradigm shift towards climate-resilient low-carbon development pathways (Mueller et al. 2013). The Governing Instrument specifies important, yet largely rudimentary rules of procedure for the Board, including its composition, the selection of Board members and their term, as well as basic rules for decision-making and observer participation; these have been supplemented by detailed “additional rules of procedure” (Schalatek 2013). Board meetings have been contentious, with North-South rifts emerging. Conflicts focus on whether the GCF should be the main or only a subsidiary instrument for public climate finance, the degree of oversight of the COP, the relevance of private finance for the GCF, and whether the GCF should follow the development bank model or the direct access route pioneered by the Adaptation Fund. Whereas industrialized country Board members prefer a “whole-sale” model where the GCF funds are channelled through existing development banks and want a large role for private sector funds, developing country members would like to see a “retail” model with direct access and a limited role for the private sector. A key bone of contention has thus been the development of a “Business model framework” (BMF) which is to define the structure and organization of the GCF, the design of its private sector facility (PSF), disbursement routes and results-based financing modalities. The second Board meeting had decided to hire a consultancy but due to a fee seen as excessive the attempt aborted, and thus in the run-up to the third Board meeting submissions from governments and NGOs were solicited.

Thematically, the GCF will aim at achieving a balance between resource allocation for adaptation and mitigation. GCF (2013c) lists “Supporting the development, transfer and deployment at scale of low-carbon power generation” as a priority area for the mitigation side. Related performance indicators facilitate measuring achievement, and form the basis for the GCF’s results frameworks (GCF 2013c: 17). Related to the power sector, the BMF

proposes either “deployment of low-carbon technologies”, measurable e.g. in tCO₂e reduced per kWh or in the number of households served. As REFITs typically focus on grid-connected electricity generation, the former is likely to be more relevant, although REFITs can also be adapted to mini-grid and offgrid technologies. Importantly, this indicates that GCF-funded activities are intended to account for their mitigation impact, for which appropriate frameworks for measuring, reporting and verification (MRV) need to be developed. In addition, the document on performance indicators also notes that renewable electricity generation has been a “popular option in CDM and other climate finance initiatives, however, mostly on a small-scale. This makes it difficult for the Fund to carve out a niche.” Yet, REFITs can address important weaknesses with which the CDM has struggled (e.g. certainty on revenue streams, extensive baseline and additionality determination exercises). Therefore, a REFIT Fund is an ideal niche for the GCF.

2.1 ACCESS

The Governing Instrument (GCF 2011) states that access to funding should be “simplified and improved”, country-driven and include direct access (para 31). According to para 45, national, regional and international implementing entities accredited by the Board should channel resources, as well as accredited international entities (the classical development finance institutions, para 48). Host countries can set up National Designated Authorities for recommendation of funding proposals to the Board. GCF (2013a) thus sees three access modalities: direct access through national implementing entities (NIEs), international access through development finance institutions (International Implementing Entities, IIEs) and an “enhanced access” model where financial intermediaries, national funding entities (NFEs) or multilateral funding entities (MFEs) are involved before NIEs or IIEs engage in implementation⁴.

2.2 FINANCING INSTRUMENTS

As per the Governing Instrument (GCF 2011) “grants and concessional lending, and other modalities, instruments or facilities as may be approved by the Board” (para 54) are possible. Thus, the Board is very flexible. GCF (2013b) lists grants, concessional loans, guarantees and equity investments as key options, which are then tailored in specific sub-instruments. The loan category is differentiated into adaptable programme loans, development policy loans, sector investment loans, credit lines, concessional financing for waterfall payment mechanisms and debt swaps.

2.3. RESULTS-BASED FINANCING

GCF (2011) mentions the option of results-based financing and payment for verified results (para 59). Financing should “cover the identifiable additional costs of the investment necessary to make the project viable” (para 54). Results-based financing can have grant or loan elements; advanced market commitments and performance-based payments are also mentioned in GCF (2013b). The Board needs to apply a results measurement framework with guidelines and appropriate performance indicators (GCF 2011, para 58). The indicators proposed by the GCF (2013c) include “deployment of low-carbon power generation technologies (tCO₂/kWh)”. Such a criterion would fit nicely with a REFIT in which the number of kWh produced would be multiplied by a zero emission factor. However, developing country Board representatives may prefer to also take into account qualitative indicators which may allow for preferential treatment of activities with long-term transformative effects, such as improving the climate resilience of an electricity system.

2.4 PRIVATE SECTOR FACILITY

The PSF shall enable direct and indirect finance private sector mitigation (GCF 2011,

⁴ See Müller (2013) for a discussion of various options for institutional design of access to GCF Funds.

para 41), and relies on the same principles and performance indicators as the GCF. There shall be a focus on “local actors, including small and medium-sized enterprises and local financial intermediaries” (para 43). GCF (2013d) proposes the indicator of “dollars of new, predictable and additional private capital actually mobilized per dollar of PSF grant equivalent funding” for PSF evaluation. This document (p. 7) also proposes tariff support and guarantees for small scale renewables in order to overcome barriers linked to the affordability of the incremental tariff the credit-worthiness of the utility that would contract the supply from the private sector under a long-term power purchase agreement. It explicitly proposes that the PSF could fund the incremental tariff. For determination of the tariff level it sees the option of a “reverse auction involving pre-qualified bidders” (GCF 2013d, p. 7), although other options are possible, as long as they ensure competitive pricing while safeguarding investment certainty. Thus, the PSF seems highly appropriate to become a REFIT support facility. This could also allow for testing co-funding through revenues from market mechanisms.

2.5 CRITICAL ISSUES

Given that the first pledges to the GCF are only likely when the key design issues have been agreed, it will take at least until 2014 to generate resources of a scale sufficient to finance transformational initiatives like REFITs. Moreover, the allocation rules could still develop in the direction of the Adaptation Fund. Country-level ceilings would then direct the resources to small countries, and make it unlikely that large-scale policy initiatives in large countries would receive sufficient funding. In this context, the uncritical application of the “common but differentiated responsibility” principle could be a barrier for a large-scale REFIT scheme in the absence of sufficient resources. In addition, ideological opposition against the PSF by some developing country representatives may also raise obstacles to the combination of different forms of financing from private and public sources.

Despite these considerable uncertainties about the timelines, scale, and sources of financial resources of the GCF, it will be assumed that levels of climate finance will flow according to political agreements. As the purpose of this paper is to provide suggestions on possible institutional design options for a GCF REFIT Facility, the focus is consequently not on how to raise resources, but on how they can be effectively disbursed.

As a final brief note on the supply side of the GCF, the likely scale of required resources when introducing an international REFIT underlines the need for the GCF to draw on all available sources of finance, including from innovative sources such as carbon markets and international transport. The World Future Council (WFC) has contributed to this debate by proposing to use the ability of the IMF to create new international reserve money in the shape of Special Drawing Rights (SDR), which could be channeled to the GCF (WFC 2012). The IMF member states can decide on the issuance of new SDRs, which are usually distributed to them proportionate to their quota shares. Pursuant to agreeing on the formation of the GCF, member states should agree in advance to commit all or most of the new SDRs to the GCF. A small portion (e.g. 10% – 20%) could be claimed by the member states for the financing of specific climate protection projects.

As SDRs are not usually a medium of payment, the GCF would change the newly obtained SDRs into the required national currencies at the respective central banks. At that moment, the creation of new money in the currency of the IMF (SDRs) becomes a creation of new money in the equivalent national currencies. The basic principle is that the new money should be paid only against performance, i.e. for renewable energy development (WFC 2012).

3. KEY ELEMENTS OF REFITS AND EFFECTIVE POLICY INTEGRATION

There is ample experience with implementing REFITs internationally, using international climate finance (GEF, Climate Investment Funds), and market mechanisms (CDM) to promote renewable electricity generation. The lessons will be summarized below.

3.1 DESIGN OF REFITS

In order to achieve a long-term transformational impact of REFITs, several challenges need to be addressed:⁵

- Adjustment of REFITs over time through pre-determined degression rates and monitoring intervals to prevent overfunding and massive expansion of renewable capacity without cost reduction (see Leepa and Unfried 2013 for an assessment of overfunding in the context of German solar PV, as well as Zhang 2013 who sees rent seeking in many European REFITs).
- Differentiation of REFITs according to technologies. The exact specification of technology becomes very important in this context and it needs to be prevented that a skewed definition leads to rent capture by developers of a specific technology.
- Duration of REFIT payments. The longer the duration, the higher the probability that financial institutions are willing to provide financing. Looking at REFIT for European wind power, Zhang (2013) proves empirically that a longer duration increased investment. However, this effect will only materialize if the government / the institution administering the REFIT is seen as credible
- Grid access must be actually possible and not hampered by informal barriers. Zhang (2013) found that a grid access guarantee had a massive impact on wind power investment in European countries.

While an international organization like the GCF may be better placed than national institutions to withstand lobby pressure, direct access modalities may allow rent seekers on the national level to increase their rent because the GCF will face difficulties evaluating the situation on the ground with regards to technology costs and nature of barriers.

3.2 PRECEDENTS AND LESSONS FOR GCF-SUPPORTED REFITS FROM OTHER POLICY INSTRUMENTS

The importance of the energy sector for global mitigation efforts has already resulted in a broad range of carbon market and climate finance activities. Generally, climate finance for renewable energy has been most successful when synergies between different finance streams could be mobilized (Castro et al. 2011). This means that REFITs should not crowd out other policy instruments. The following passages will consider some key lessons from related precedents, including the above-mentioned GET FiT pilot in Uganda, the CDM and the Climate Investment Funds.

The **GET FiT** programme introduced above is currently beginning to be piloted in Uganda, financed by the German development bank (KfW) and the British Department of Energy and Climate Change (DECC). Barriers to be overcome are the low pre-existing FIT level in Uganda, a liquidity crisis at the state electricity utility that led to electricity providers requiring off-taker guarantees, and generally expensive debt finance. GET FiT targets small scale renewable electricity generation from hydro, biomass, and bagasse and is expected to leverage 300 million € which enable to add roughly 125 MW of renewable generation to the nation's grid within the next 3 – 5 years. GET FiT pays 1-2 USDct/kWh for hydro

⁵ For a more in-depth discussion of specific design options, please refer to Mendonca et al (2009) and Deutsche Bank (2011)

between 1-20MW, biomass, bagasse for 20 years, organizes MIGA guarantees and provides a Deutsche Bank-led debt facility. 50% of the net present value of the FIT subsidy will be paid up-front, the rest in subsequent instalments every five years (KfW 2012). The blend of output-based payments with grant components is an excellent example for how a pilot FIT activity can be financially structured in low-income countries.

Unfortunately, however, the GET FiT pilot in Uganda is setting a negative precedent as it does not allow projects receiving the FIT subsidy to utilize the CDM. Some of the eligible power plants had already been developed as CDM projects prior to GET FiT, and have sometimes even received public assistance for CDM capacity building activities from the same institutions that now finance GET FiT, for instance through the CDM SPEAR PoA. Due to the dominance of renewable energy projects in the global CDM portfolio, it can be expected that many of the most attractive FIT eligible projects have already been targeted as CDM projects or Programme of Activities (PoA). Therefore, some key aspects about possible interactions of a FIT Facility with the CDM will briefly be considered next.

The [Clean Development Mechanism](#) has now registered more than 7000 projects. 70% of these activities support renewable energy (URC 2013), mainly grid-connected renewable electricity generation. As of July 2013, the CDM pipeline includes projects and PoAs that would deliver an aggregated installed capacity of biomass (11.0 GW), geothermal (2.6 GW), hydro (115.0 GW), solar (7.9 GW), and wind (119.9 GW) (URC 2013). Some of these projects may become victims of the current carbon market price depression, or due to domestic challenges. Still, this noteworthy number of projects and their aggregated scale underlines the need to explore how CDM will interact with other mechanisms such as REFITs. From a CDM policy perspective, however, recent decisions on host country domestic energy policies clearly allow for linking CDM with REFITs for projects submitted for registration during the first seven years of their implementation. Moreover, the CDM provides a vast pool of regulatory experience and methodological tools, which could also be useful for instance to determine the mitigation impact of activities that are supported by a REFIT. Therefore, for the purposes this paper, the CDM will be mainly considered as a source of experience and as a methodological toolbox rather than a source of revenue. It is worth noting, however, that the latest GCF private sector facility decisions already include thoughts on PSF guarantee prices for CERs in order to mitigate uncertainty and allow to draw on carbon markets for co-financing (GCF 2013d: 7). From the perspective of the CDM's regulatory framework, a combination of CDM revenues with a REFIT is possible as long as all revenue streams are factored into a credible demonstration of additionality in the specific country circumstances.

Using the South African Power Pool as an example, Burian and Arens (2012) suggest another possible combination of a REFIT and carbon credit revenues, which would partly make the level of payments depending on carbon reductions rather than price increment. This arrangement could result in negative trade-offs with efficiency and investment certainty, and furthermore disadvantage low-income countries with a relatively high share of hydro-power, which frequently corresponds with suppressed demand.

The [Climate Investment Funds](#) (CIF) (Clean Technology Fund, Strategic Climate Fund) are the largest multilateral vehicles for international climate finance support for renewable energy. The CIF have stopped short of financing REFITs directly, and have followed established project financing practices of multilateral development banks relatively closely. While there are efforts to pursue a country-driven approach, there is no MRV system in place that would consistently measure mitigation impacts.

Yet, as the GCF aims to become a major contributor to mitigation efforts, it can be anticipated that there will be demands that mitigation effects will need to be measured more accurately. In this context, the concept of "[supported NAMAs](#)" could provide UNFCCC-compatible MRV frameworks, as well as contribute to mobilizing (bilateral) funding for REFITs. Therefore, it is recommended to design GCF-supported REFITs as

supported NAMAs. Actually, when the concept of NAMAs was still very young, Edkins et al. (2009) proposed to fund deployment of concentrating solar power in South Africa through a NAMA with a REFIT. However, due to political uncertainty about the future climate regime, the concept is only now beginning to move towards implementation. An increasing number of developing countries have now begun to develop NAMAs. Still, there continues to be an absence of regulatory guidance and modalities for NAMAs, as well as substantial financial support. Therefore, many NAMA concepts draw directly on CDM tools, e.g. for establishing baselines and MRV procedures. The CDM's methodological tools to determine baselines for grid-connected electricity generation and for monitoring performance are among the most streamlined (UNFCCC 2012). Therefore, it would be relatively simple to adjust these tools to the requirements of a REFIT MRV framework as part of a supported NAMA, which would not generate carbon credits, but provide information that is requested in the GCF performance indicators (Mt CO₂ reduction/kWh).

Importantly, the relevance of this “mitigation layer” can be expected to increase in importance, as the 2015 agreement will have to place a higher share of the mitigation burden upon the shoulders of developing countries, according to formulas that still have to be determined. Still, it is already clear that it will be important to have robust and coherent accounting frameworks and MRV procedures in place in order to allow for comparability of efforts and to prevent double-counting of emission reductions.

4. CONCEPT FOR FIT SUPPORT BY THE GCF REFIT FACILITY

This section will develop a concept for how a dedicated GCF REFIT Facility that can use the GCF Secretariat could support REFITs in developing countries, taking into account the key challenges discussed in the sections above.

4.1 CRITERIA FOR SUPPORT OF FITS IN ORDER TO PREVENT OVERFUNDING

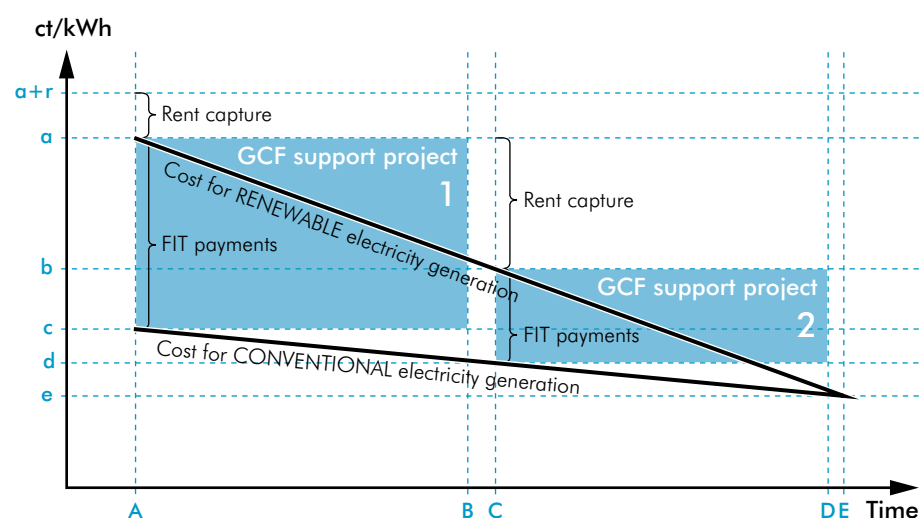
The REFIT support must fulfil the GCF criterion of covering the additional costs of a project to make it financially viable. This means that the GCF Board should decide on the principle that a REFIT will only be supported if it is not higher than the level required to make renewable electricity projects just competitive.

The decision parameters are shown in Figure 1. The upper downward-sloping curve shows the development of the levelized electricity costs of a renewable electricity technology over time, the lower curve those of the cheapest conventional electricity generation technology; it is assumed that the characteristics of the electricity from both technologies are the same. It is important to note that fuel costs for conventional electricity generation could rise in the future, which could also lead to increasing conventional electricity generation costs. Such a development would make renewable electricity generation cost-competitive more rapidly.

The renewable electricity **project 1** starting at time **A** will need a REFIT of level **a** for the time period **A-B** to become competitive with the fossil alternative. Thus the ideal level of support by the GRF is the blue rectangle **A-B, a-c**. However, some renewable lobby groups will try to increase the REFIT to the level **a+r** in order to capture rent. The GRF must be able to identify such attempts.

Renewable electricity **project 2** starting at time **C** will only need a FIT of level **b** for the time period **C-D** to become competitive with the fossil alternative. Now, the ideal level of support by the GRF is the blue rectangle **C-D, b-d**, much less than the support for project 1. Had the REFIT level remained at level **a**, an enormous rent would accrue. At time **E** the costs become equal ("grid parity"). From that time, no REFIT is needed anymore, as renewables are fully competitive.

Figure 1: IDEAL SUPPORT LEVEL FOR FIT OVER TIME



Source: own illustration

4.2 EVALUATION OF THE KEY PARAMETERS OF FITS BY THE GRF

The REFIT support must be country-driven. Thus, the GRF will only act on the request by a government to support a REFIT. The GRF could support preparation and implementation of the REFIT, as well as the extension of an existing scheme, many of which are capped at a certain level of generation capacity due to budget constraints. The GRF should provide templates for support requests, and a procedure with clear timelines and responsibilities for evaluation of the proposals and decisions on whether support will be granted. Such procedures need to be transparent, and consider the multilateral context in which the GCF operates. Mueller et al (2013, p.8) lay out proposals for how requests can be dealt with, e.g. in a first-come, first-serve mode, in the form of “beauty contests”, or even auctions. These criteria can be differentiated according to “respective capacities” of different countries (e.g. low-middle-high-income country).

To evaluate proposals for REFIT implementation support, the GCF Secretariat must be enabled to draw on an adequate technical support structure which has the skills to evaluate the following critical parameters of a REFIT (see also Heinrich Boell Foundation et al. 2013, pp. 14ff for an in-depth discussion of these parameters):

1. **Tariff rate** per kWh, and procedures for changing this rate for new power generation projects, as costs fall (see Figure 1). Heinrich Boell Foundation et al. (2013, p. 17) argue that the tariff should be based on the actual cost of generation plus a premium that allows sufficient returns on investment (usually 5-10% in the European context). The calculation of costs should not exclude relevant categories, meaning that investment costs, grid (connection)-related and administrative costs for licenses, operation and maintenance costs, fuel costs and decommissioning costs have to be covered.
2. In order to keep investor confidence, a regular schedule (e.g. every 2 years) for updating for new projects should be communicated from the start.
3. Differentiation by technology and scale: Precise definitions of eligible **technology**, and procedures for changing these definitions as technologies evolve. Unexpected technological breakthroughs, which may result in significant cost reductions, may create a big potential for rent seeking, if not acted upon quickly. Technology definitions can include **size thresholds**. Commonly, large hydropower plants have been excluded from REFITs on the grounds that they are already competitive. Where large plants are not excluded, they often get a lower REFIT.
4. **Duration** of REFIT payments (typically 15-20 years), and procedures for changing this duration for new power generation projects, as lifetimes of technologies change.
5. Necessity of **guarantees** for payment of power offtake. The GRF could link payment of REFIT support to the existence of a guarantee facility.
6. Availability of **grid access, both in regulatory and physical terms** – only once this is proven, would REFIT support be made available. This may include guidance on risks and responsibilities in case of defaulting (e.g. compensation payments if electricity cannot be transmitted or consumed by the utility).
7. **Financing modality** of the cost differential between conventional and renewable electricity remaining after the GRF contribution is deducted – progressive distribution of this financing according to the level of development (i.e. respective capacity). Structuring of support, blending of grants and loans.
8. **Credibility** of institution disbursing the REFIT funds, which could be a NIE under the GCF. The institution would have to prove that it fulfils relevant fiduciary and accountability standards. It would have to be discussed whether NIEs have to fulfil the same standards as IIEs. In order to promote direct access, blending with other investment guarantee vehicles may be required (GCF 2013d: 7).

Evaluation of FIT proposals by the GRF

There are three possibilities for evaluation: a) the GCF Secretariat does the evaluation inhouse, b) it commissions expert reviews, or c) it requires proponents to do an independent audit by a GCF-accredited auditor.

The inhouse option seems unrealistic as GCF staff will be unable to understand country-specific details that influence the key parameters. Commissioning of expert reviews seems promising as long as the roster of experts can cover specific expertise for all countries that apply. The GCF could provide a call for experts; it would have to be ensured that experts do not have a conflict of interest and that remuneration is sufficiently attractive to get good quality outcomes. This would be similar to the German system where tariff levels require studies by independent research institutions. The audit option has been applied under the CDM by establishing a system in which the CDM Executive Board accredited designated auditors (Designated Operational Entities, DOE). After initial problems, this arrangement became universally accepted. Transferring it to the GCF, however, will generate relatively high costs, unless domestic actors in the respective host country are more strongly involved.

Decision-making on proposals could be done on the level of a **GCF REFIT Facility committee** of the PSF. This committee could consist of two GCF Board members, two members of the highest body of the PSF, and two renewable energy policy experts, one each from a GCF donor and GCF recipient country. The GCF Board should only decide on the set of criteria and the evaluation principles. CDM experience has shown that deciding on specific proposals by the Board can lead to a high workload of the Board and its inability to decide on ground rules, whereas delegation of work into committees like the Meth Panel has enabled rapid development of a robust set of methodologies. As the UNFCCC and the GEF Secretariats form the interim GCF Secretariat, direct lesson-learning exercises may be desirable and possible.

The need for flexible and scalable frameworks

A relevant challenge will be to agree on criteria such as a **maximum amount of funding** being allocated to a specific REFIT and the parameters that could trigger a funding cap. Experience in industrialized countries have shown that capacity caps for REFITs led to “boom and bust” cycles that are deleterious to the renewables industry. Another key parameter is the **share of the cost differential** covered by the GCF. Here, country differentiation as per level of development could be implemented. For example, LDCs could receive full coverage, middle-income countries a significant coverage while advanced developing countries only a smaller share. The classification of countries as well as the shares funded for each class would have to be discussed in the negotiations about funding of the GCF given that the instrument could take up a significant share of the GCF’s resources.

Table 1 below gives a rough estimate of the order of magnitude of payments a FIT would require depending on the size of the resource and the cost differential, as well as the share of cost differential covered by the GCF. The LDC example assumes an African country that expands hydro, with the entire cost differential being covered by the GCF. The middle income country (MIC) example would expand wind power in the trade wind zone; it would get coverage of half of the cost gap. The advanced developing country (ADC) has a mix of hydro and wind power potential, which is large. 20% of the cost gap would be covered by the GCF.

Table 1: ILLUSTRATIVE EXAMPLES FOR FUNDING REQUIREMENT FOR GCF REFIT

Country type	Installed renewables capacity (MW)	Plant load factor (%)	Cost differential (€/kWh)	Share of cost differential covered by GCF (%)	Type of support	Total GCF financing need (million € p.a.)
LDC	100	70	2	100	Grant	12.1
MIC	5000	40	4	50	Grant and concessional loan	350.4
ADC	30000	50	3	20	Concessional loan	788.4

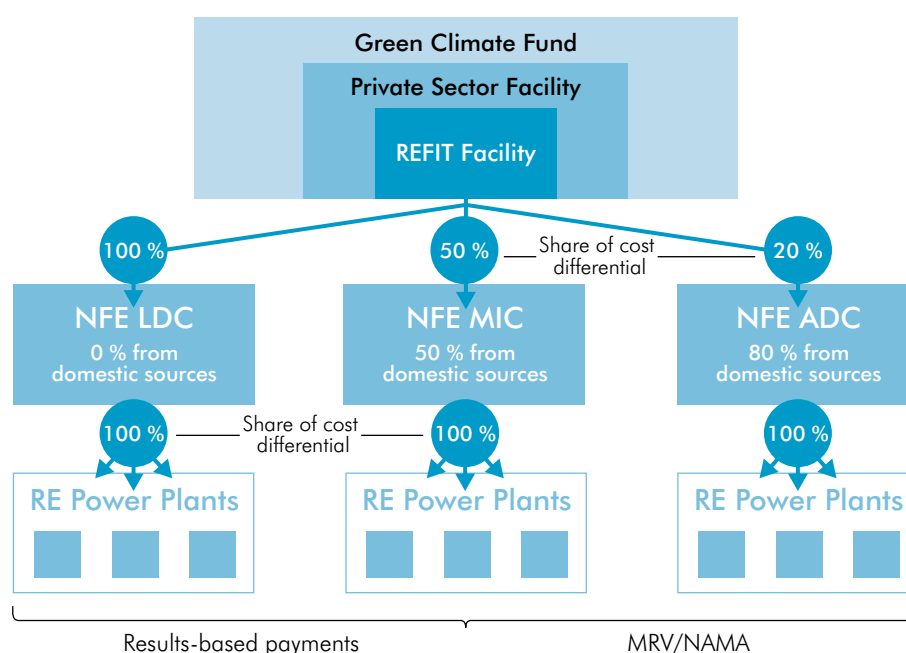
Note: The scale difference between the different country categories is not pre-determined; it is just frequently the case that the economically viable potential is higher in a large ADC than a small LDC.

The examples show that financing of REFITs requires significant resources even if the cost differential is small and only a part of it is covered by the GCF. Annual disbursements for REFITs in a dozen countries can therefore easily reach several billion €; they need to be sustained over several decades. If there is a front-loading of the whole or part of the REFIT payment towards the start of the project as in the case of the Ugandan GET FiT, the required short term funding would increase substantially. Front loading is problematic inasmuch it reduces incentives to operate the plant sustainably.

Institutional structure of GRF disbursements

Relying on domestic structures may allow for reducing the administrative burden on the GRF, while strengthening host country ownership (Müller et al 2013). This draws attention to the role of NFEs and NIE. There is a rapidly increasing number of emerging national climate funds, such as the Bangladeshi Climate Change Resilience Fund, the Brazilian Amazon Fund, or the Ethiopian CRGE Facility, which could serve as NFEs. Such an arrangement would allow designing a REFIT in a direct access model, in which a national climate fund is accredited as the NFE. These NFEs would then transfer these GCF resources to executing entities – i.e. developers of renewable electricity generation projects - based entirely on performance, e.g. as a premium to a domestic REFIT. As mentioned above, these activities would require an additional MRV layer that measures mitigation impacts as part of a supported NAMA framework. However, these NAMA components could also be coordinated by the NFE. Additional efforts can be expected to be small, as the main parameter is the amount of generated electricity which is monitored anyways, as well as the baseline for emission reductions. [Figure 2](#) visualizes a simplified version of these arrangements, taking into account the differentiation in the share of the cost gap covered by the REFIT.

Figure 2: REFIT DISBURSEMENT STRUCTURE



Source: own illustration

These NFEs are likely to require some form of institutional capacity building support, but as they are already being set up and can be anticipated to seek GCF funding, it would be the most efficient arrangement to involve them. This institutional capacity could also facilitate disbursement for further GCF thematic windows.

Blending upfront and performance-based financing elements such as in the Ugandan GETFiT pilot may provide sufficient incentives to operate activities sustainably over the relatively long timelines. As concessional loans and grants are likely to be combined in a

large number of countries, the repayments of the loans contribute to replenishment. This would essentially create a revolving fund, which is an important precondition to reach the necessary scale.

5. WHAT CAN BE APPROPRIATE NEXT STEPS?

A prompt start that enables participants to build on practical experiences from pilot activities is an ideal precondition to build an evolving flexible and scalable design for a GCF REFIT Facility. Therefore, with the first funding of the GCF and the establishment of the PSF, a pilot REFIT support procedure should be set up. Ideally, it would support up to 3 small-medium sized countries, respectively, at different stages of development, and its results should be used to fine-tune the rules for broader REFIT support from 2015 onwards. Building on the initial proposal by the World Future Council (WFC 2009), we recommend to set up a multilateral trust fund for such a pilot. Such a fund could be set up directly as a GCF multilateral funding entity, or, if procedural constraints appear to be too prohibitive, also outside of the direct GCF context, but with clear trajectory towards an integration into the GCF's institutional landscape. An example using simple assumptions based on recent numbers for key parameters such as cost differential between technologies and plant load factors (see e.g. IPCC 2011) follows. If the duration of the REFIT payments is 15 years, the cost differential between renewables and conventional electricity technologies reaches 3 €/ct and if the average share of cost differential covered reaches 50% the fund would need 1 billion € to fund close to 5 TWh per year. This could fund 2.85 GW of wind at 20% load factor, but only 0.76 GW of hydro at 75% load factor.

A procedure that is transparent and prevents overfunding should allow for building sufficient trust for industrialized countries to provide funding for a GCF REFIT support programme that would then expand to a scale where REFITs in large countries could realistically be covered. A REFIT programme for 100 GW, which is consistent with the expansion levels seen for the 2020s by IPCC (2011), at a load factor of 50% and a cost differential of 3 €/ct would require 1.3 billion € per year if the full cost differential is covered; and this would have to be sustained over two decades. Such a REFIT programme should be framed under the concept of supported NAMAs, in order to make mitigation impacts transparent and quantifiable.

Setting up such a pilot REFIT Facility is likely to require a related institutional capacity building programme. Although many countries may have domestic experience with REFITs, the evolving GCF procedures are likely to require external support at least in the less advanced developing countries. Importantly, institutional and human capacity building needs also apply to the GCF itself, as the robust administration of such a large amount of financial resources requires not only the development of relevant procedures, but also a significant number of qualified personnel (Müller 2013, Ciplet et al. 2010)

In conclusion, it has been demonstrated that the GCF would be an ideal institution to promote renewable energy REFITs in developing countries. As mentioned initially, there needs to be a certain degree of caution with regard to when the GCF will be sufficiently capitalized. Mobilizing climate finance is a key issue of the UNFCCC process, and a range of proposals for possible sources of finance have been tabled, which also include the WFC (2012) proposal to issue IMF special drawing rights.

The comprehensive experience with REFITs, and their acceptance in many countries around the world offers the GCF a promising opportunity to successfully set up performance-based pilot activities which can also build trust in the GCF, thereby accelerating the process for other thematic windows and its overall success and effectiveness.

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Response to Green Climate Fund “Call for Public Inputs: Investment Framework”

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This submission is in response to the call for public input on the Investment Framework of the Green Climate Fund, circulated by the Green Climate Fund Secretariat on August 7, 2014.

Broadly, the further design of the Investment Framework can be informed by consulting WRI’s working paper on this issue, entitled “Sum of Parts: Making the Green Climate Fund’s Allocations Add Up to its Ambition.”¹ This paper examines the resource allocation approaches – including the investment criteria – of 15 climate, environment and development funds, and draws lessons on these experiences to inform the design of the Green Climate Fund.

With respect to the Secretariat’s request for input on “activity-specific sub-criteria and a set of activity-specific indicators;” and “[m]inimum benchmarks for each criterion, taking into account the best practices of relevant institutions,” a table is attached as part of this submission to provide input on these issues. Indicators or benchmarks for a particular coverage area are suggested in the table; the **notes** column may provide further guidance on development of indicators or benchmarks.

With respect to the Secretariat’s request for input on “[m]ethodologies for assessment of the relative quality and innovativeness of comparable funding proposals in comparable circumstances,” some of the categories of criteria and coverage areas may be difficult to assess with specific indicators and metrics. In these cases, use of independent expert bodies or panels in the assessment of proposals may be one tool to aid in the assessment of the relative quality and innovativeness of comparable proposals.

¹ Polycarp, Clifford, Neil Bird, Alex Doukas, and Maliheh Birjandi-Feriz. 2013. “Sum of Parts: Making the Green Climate Fund’s Allocations Add Up to its Ambition.” Working Paper. Washington, DC: World Resources Institute. Available online at wri.org/publication/green-climate-fund-allocation

Note that entries in green represent mitigation-specific entries; entries in blue represent adaptation-specific entries.

CRITERION	DEFINITION	COVERAGE AREA	SUB-CRITERIA	INDICATOR	NOTES / RATIONALE
Impact potential	Potential of the programme / project to contribute to the achievement of the Fund's objectives and result areas	• Mitigation impact	• Projected GHG emissions reduced or avoided as a result of activity, relative to BAU	tCO2e [benchmark for this sub-criterion is linked to "cost-effectiveness" coverage area]	CTF guidance on how to calculate emission reductions (subtracting projected lifetime emissions of the CTF-financed project from the projected lifetime emissions of the business as usual project that the country would have pursued without CTF financing) was found to be applied unevenly across project documents, according to the CIFs Independent Evaluation. Providing clearer guidance on estimating mitigation potential will be important to ensure some comparability of proposals. Methodologically, estimating reduced or avoided emissions can be challenging. WRI and WBCSD's Greenhouse Gas Protocol is currently considering development of an international standard for calculating avoided emissions. The GEF and its Scientific Technical and Advisory Panel (STAP) have also provided guidance on calculating ex-ante GHG benefits for energy efficiency and renewable energy projects that may be helpful to consider in the design of the GCF Investment Framework (see GEF/C.33/Inf.18 and http://www.stapgef.org/revised-methodology-for-calculating-greenhouse-gas-benefits-of-gef-energy-efficiency-projects-version-1-0/)
			• Degree to which activity avoids lock-in of long-lived, high-emitting infrastructure		
		• Adaptation impact	• Expected reduction in vulnerability for populations affected by proposed activity.		Assessing this category varies substantially based on the type of shock, country context, and the scale of interest. E.g. at household level, families keep children in school throughout a drought; at national level % of affected people who have access to safety nets; over the long term, demonstration. Indicators should consider, for example, maintenance of human well-being through & after repeated climate shocks & directional trends; development succeeds over multiple decades in which successive generations have higher HDI scores than parents
			• Degree to which activity avoids lock-in of long-lived, climate-vulnerable infrastructure		
Paradigm shift potential	Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment	• Potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than 2 degrees	• Presence of a theory of change approach to demonstrate replication and scale-up		The CIFs Independent Evaluation noted that about 40% of CTF proposals did not discuss replication and scale-up mechanisms; if the GCF intends to achieve paradigm shifts, presence of a clear theory of change in proposals may be important.
			• Degree to which activity transforms markets by changing incentives for market participants by reducing costs and risks, and eliminating non-financial barriers to the deployment of low-carbon solutions.		

	• Expected effect of activity on technology cost		Including the expected effect of an activity on technology cost was also recommended in the CIFs Independent Evaluation based on experience in CTF. This sub-criterion is applicable beyond mitigation activities, but not applicable to all activities. Note that 13% of CTF project documents quantified the projected impact of a proposed activity on technology cost; these examples might be consulted for methodological guidance .
	• Expert assessment of potential contribution of activity to global low-carbon development pathway		This dimension of the investment framework may be important in determining whether an activity is likely to contribute to a paradigm shift, but relies on factors and circumstances particular to an individual proposed activity; thus, a qualitative expert assessment of the potential for an activity to contribute to low-carbon and climate-resilient development pathways undertaken by an expert body might be a helpful tool to assess this sub-criterion.
• Potential for knowledge and learning	• Clear monitoring system and evaluation schedule, incl. opportunity for monitoring/evaluation after completion of the intervention		
	• Involvement of researchers or knowledge brokers in intervention		
• Contribution to the creation of an enabling environment	• Intervention promotes flexible, forward-looking decision-making		Sub-criterion could consider whether a proposal incorporates use of scenarios for planning; use of "bottom-up" evidence regarding vulnerability, adaptation practices, and stakeholder risk tolerances; establishment of climate services; establishment of NAPs and mainstreaming protocols; creation of coordination bodies and funding mechanisms; creation of large-scale, long-term monitoring/observation systems
	• Degree to which activity shifts incentives or promotes mainstreaming the consideration of climate change into institutions, planning and decision-making processes		
	• Builds a country's innovation capacity (goes beyond technology transfer)		
	• Contributes to robust critical infrastructure, e.g. grid infrastructure or transmission lines		
	• Increases the ability of project developers to develop bankable projects in a particular sector or country		
	• Improves financial institutions' capacity to appraise projects, manage risks, and create/deploy different financial instruments/vehicles		
	• Demonstrates how activity will help create enabling policy and regulatory conditions for scale-up, or demonstrates that policy and regulatory framework is already conducive to implementation and scale-up of activity		Should prioritize first assessing whether regulatory or policy environment supports the deployment, diffusion, and transfer of low-carbon technologies, climate-resilient knowledge / information and then how it contributes to that framework.
• Contribution to the regulatory framework and policies	• Demonstrates how activity will help create enabling policy and regulatory conditions for scale-up, or demonstrates that policy and regulatory framework is already conducive to implementation and scale-up of activity		Should prioritize first assessing whether regulatory or policy environment supports the deployment, diffusion, and transfer of low-carbon technologies, climate-resilient knowledge / information and then how it contributes to that framework.

		<ul style="list-style-type: none"> • Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans 	<ul style="list-style-type: none"> • Expert assessment of potential contribution of activity to climate-resilient development pathway consistent with a country's climate change adaptation strategies and plans 		<p>For an activity to achieve "mainstreaming" of climate considerations in policy and planning, it is important to assess not only the nature of the intervention, but to emphasize the process through which the intervention is undertaken. Communication with a wide variety of stakeholders, involving champions, knowledge brokers, and conscious linking of the intervention or knowledge to its context, are all components that could be considered in the assessment of proposals.</p>
			<ul style="list-style-type: none"> • Builds support and ancillary industries: technology manufacturers, engineers, procurement and construction companies, storage and spare parts manufacturers, technology providers 		
Sustainable development potential	Wider benefits and priorities	<ul style="list-style-type: none"> • Environmental co-benefits 	<ul style="list-style-type: none"> • Expected level of environmental risks relative to impact / transformational potential. (this could be replicated for social as well). 		
		<ul style="list-style-type: none"> • Social co-benefits 	<ul style="list-style-type: none"> • Health and associated quality of life benefits 		
			<ul style="list-style-type: none"> • Provision of services that contribute to sustainable development (e.g., a renewable energy project might be privileged over a CCS project with equal abatement potential, because the renewable energy project would result in more electricity being produced) 		
		<ul style="list-style-type: none"> • Economic co-benefits 	<ul style="list-style-type: none"> • Job creation 		
			<ul style="list-style-type: none"> • Infrastructure complementarity (does building infrastructure for one thing have spillover effects in other areas?) 		
			<ul style="list-style-type: none"> • Cost savings in other sectors (e.g. reduced health care costs from less smoke-related illnesses) 		
			<ul style="list-style-type: none"> • Effect on per capita income levels 		
		<ul style="list-style-type: none"> • Gender-sensitive development impact 	<ul style="list-style-type: none"> • Analysis of gender-disaggregated beneficiaries 		
Needs of the recipient	Vulnerability and financing needs of the beneficiary country and population	<ul style="list-style-type: none"> • Vulnerability of the country 			<p>To assess this dimension, clustering or categorizing countries before ranking their vulnerability might be a useful approach. Different countries have different drivers of vulnerability (eg. Mountainous vs. island vs. dryland vs. heavily urbanized; fragile states; river deltas; poverty rates; etc.), and comparing across all countries may result in apples-to-oranges comparisons.</p>
		<ul style="list-style-type: none"> • Vulnerable groups and gender aspects 	<ul style="list-style-type: none"> • Clear plan to conduct or draw on a vulnerability assessment as part of intervention, to identify relevant groups and their needs 		<p>WRI's Designed for the Future report assessed World Bank projects along this dimension by the presence / mention / analysis of vulnerable groups that are relevant to the country context (e.g. indigenous people, women, youth, ethnic minorities) within project documents.</p>
			<ul style="list-style-type: none"> • Plan for involvement and meaningful engagement of vulnerable groups (incl. gender-specific vulnerability) from beginning to end of activity 		
		<ul style="list-style-type: none"> • Economic and social development level of the country and the affected population 			

		<ul style="list-style-type: none"> • Absence of alternative sources of financing 	<ul style="list-style-type: none"> • Commercial sources of finance are not available or are too expensive (thereby making the project financially non-viable without GCF investment) 		
		<ul style="list-style-type: none"> • Need for strengthening institutions and implementation capacity 			
Country ownership	Beneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions)	<ul style="list-style-type: none"> • Existence of a national climate strategy 	<ul style="list-style-type: none"> • Level of coherence of proposed activity with national or regional strategy that was developed with broad stakeholder engagement. 		
		<ul style="list-style-type: none"> • Coherence with existing policies 	<ul style="list-style-type: none"> • Degree to which activity is supported by country enabling policy and institutional framework, or includes policy or institutional changes. 		
		<ul style="list-style-type: none"> • Capacity of implementing entities, intermediaries or executing entities to deliver 			Important not to duplicate the accreditation process or add undue burden in assessment of implementing entities or intermediaries if already accredited; this coverage area might instead focus on comparative advantage of an implementing entity for a specific activity, as well as capacity of executing entities.
		<ul style="list-style-type: none"> • Engagement with civil society organizations and other relevant stakeholders 	<ul style="list-style-type: none"> • Degree to which activity has been developed through broad stakeholder consultation. 		
Efficiency and effectiveness	Economic and, if appropriate, financial soundness of the programme/project	<ul style="list-style-type: none"> • Cost-effectiveness and efficiency regarding financial and non-financial aspects 	<ul style="list-style-type: none"> • Marginal abatement cost 	<ul style="list-style-type: none"> • \$/ton CO2 avoided (e.g. \$100/ton max for mitigation components) 	<ul style="list-style-type: none"> • CIFs Independent Evaluation suggested that CTF Investment Criteria would have been better expressed as marginal abatement cost, as opposed to current CTF criteria, which is cost per ton of emission reductions (calculated by dividing CTF financing, and/or total project costs including co-financing, by the entire project's anticipated GHG emission reductions).
			<ul style="list-style-type: none"> • Proposed activity is additional. 		
			<ul style="list-style-type: none"> • Investment represents appropriate degree of concessionality. 		
			<ul style="list-style-type: none"> • Degree to which activity promotes positive development externalities and minimizes negative ones. 		
		<ul style="list-style-type: none"> • Amount of co-financing 	<ul style="list-style-type: none"> • Maximum of 70% of financing from GCF for private sector projects; can provide 100% of funding for feasibility studies / project preparation 		<ul style="list-style-type: none"> • Presence of figures, analysis indicating much co-financing and why will be mobilized as a consequence of investment. • The GCF may wish to clearly define leverage in such a way that GCF investment can be said to have had some causal influence on finance that has been leveraged.
		<ul style="list-style-type: none"> • Programme/project financial viability and other financial indicators 	<ul style="list-style-type: none"> • Based on general hurdle rates for sectors and countries, but slightly lower (i.e. GCF support should help take the project over the hurdle) 		Financial viability can be assessed by providing rate of return without concessional resources (counterfactual), CTF uses following possibilities: (a) Negative rate of return; (b) Rate of return below normal market threshold; (c) Rate of return above normal market threshold, but below risk premium for project type, technology, sector or country; (d) Rate of return above normal market threshold, but acceleration of low carbon investments has higher opportunity costs
		<ul style="list-style-type: none"> • Industry best practices 			