Options for Resource Allocation in the Green Climate Fund (GCF)

Possible Allocation Principles and Criteria – Mitigation

Background Paper 4

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Disclaimer:

The views and opinions expressed in the paper reflect those of the author(s) and do not reflect the position of any institution.

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1 Introduction

The resource allocation framework will have to provide agreed principles and criteria for making transparent how decisions are taken on WHAT will be financed, while at the same time taking into account the guiding principles of the Governing Instrument.

The allocation framework described in this paper is based on the assumption that the allocation decisions with regard to concrete proposals are taken by the GCF Board based on agreed principles, priorities and criteria.[1] This should inspire confidence on the donors side enabling ambitious funding contributions, and confidence in host countries that the Fund can make a difference and promote the envisaged paradigm shift. The allocation framework outlined in more detail in the next sections would allow room for the consideration of national priorities within the overall framework set by agreed principles and priorities.

2 Possible Allocation Principles and Criteria for Mitigation

Four key criteria need to be assessed within an allocation framework aimed at supporting transformational change:

1. ***Contribution to paradigm shift*:** how does the activity proposed contribute to the required transformation in the context of the national circumstances?
2. ***Effectiveness*:** how does the activity contribute to mitigate climate change in the short, medium and long term, taking into consideration potential replication?
3. ***Efficiency*:** how much impact is achieved with the funds spent?
4. ***Sustainable co-benefits*:** how does the activity contribute to the sustainable development of the country and generate other potential co-benefits?

These investment criteria need to be translated to more concrete indicators. We discuss country related and proposal related indicators in more detail below. While the competitive allocation will mainly focus on the individual proposal, characteristics of a country will provide valuable insights for the evaluation.

While each indicator provides an important input to the overall picture it is important to be clear that each only provides part of the picture. The overall assessment will depend on all elements of the evaluation and the weighting between the different indicators. How this aggregation of the individual indicators could work is outlined in more detail at the end of this section.

Eligibility would be defined at the proposal level, i.e. not on a country level but for each funding application, with specific indicator values which could be set as minimum requirement for funding (see sections below for examples).

2.1 Country related indicators

There are four indicators that would be useful to assess on a country-wide basis, irrespective of the geographic scope of the proposal. They are summarized in Table 1 with a first evaluation of their appropriateness.

[1] The latter would also be the case for direct access which would imply that proposals are submitted directly from the national level, but decisions on the proposals are still taken by the GCF Board.

Table 1: Mitigation - Overview and evaluation of proposed country related indicators

	Meaningful	Simple	Practical	Cost effective	Acceptable
Contribution to paradigm shift					
Ambition of country's pledge	✓✓	✓	✓	✓/✗	✗✗✗
Achieved reductions of policies	✓✓	✓	✓	✓/✗	✗✗✗
Ambition of low carbon strategy	✓✓	✓✓✓	✓✓	✓✓✓	?
Effectiveness					
Economic capacity	✓✓	✓✓✓	✓✓	✓✓✓	?

✓✓✓	meets criteria fully
✓✓	meets criteria mostly
✓	meets criteria partly
✓/✗	unclear/depends on further detail
✗	doesn't meet criteria to moderate extent
✗✗	doesn't meet criteria to medium extent
✗✗✗	doesn't meet criteria at all

Notes: Assessment is the individual evaluation by the consultant. For further processing within the GCF this would likely need to be based on the evaluation of a wider range of experts

2.1.1 Contribution to paradigm shift

Assessing the ambition of a country could be used as a way to reward early movers and highly ambitious countries. There are three dimensions of this:

a) the ambition in terms of the international pledge by the country under the UNFCCC;

b) the progress already achieved in implementing mitigation actions in the past; and

c) the existence and level of ambition of the low carbon strategy. Ambition in this case should be assessed against agreed GCF priorities which should be set following a technical guidance as outlined in Vieweg & Noble (2013)[2] that ensures priorities are in line with the defined objective.

For all of these assessments an appropriate expertise would be required to conduct the evaluation. Existing tools and methodologies could be used and expanded to deliver the required results[3].

2.1.2 Effectiveness

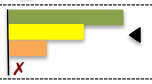
An additional element to address at the country level is the economic capacity of the country to implement mitigation measures nationally. Countries with higher national capacity could be expected to contribute more own funds to activities or get different forms of support (e.g. loans instead of grants). Countries with lower national capacity could receive higher shares of funding.

Technical and institutional capacity also play a role and would be important elements in the evaluation but are much more difficult to operationalize. Further work would be needed to enable the inclusion of such criteria.

[2] Vieweg, Marion and Ian Noble (2013). Options for Resource Allocation in the Green Climate Fund (GCF). *Incentivizing Paradigm Shift Within The GCF Allocation Framework.* Background Paper 2

[3] For assessment of pledges see for example www.climateactiontracker.org. For assessment of policies ex-post (past success) and ex-ante (strategies) the newly developed WRI GHG Protocol Standard for Mitigation Action could be used as a standardized methodology.

Table 2: Mitigation - Overview of proposed country related indicators including units and examples for weighting factors, visualization and minimum requirements

Indicator	Units/values	Weighing factor (example)	Graphic visualization	Minimum requirement
Contribution to paradigm shift		**10%**		
Ambition of country's pledge	Benchmark			TBD
Achieved reductions of policies	% from BAU			N/A
Ambition of low carbon strategy	Compatible with agreed GCF priorities			Partly
Effectiveness		**5%**		
Economic capacity	GNI per capita			TBD

2.2 Proposal related indicators

The following table provides an overview of the proposed indicators for the investment criteria at the proposal level.

Table 3: Mitigation - Overview and evaluation of proposed proposal related indicators

	Meaningful	Simple	Practical	Cost effective	Acceptable
Contribution to paradigm shift					
Ambition of proposal	✓✓✓	✓✓✓	✓✓	✓	✓✓✓
Activity embedded in overal strategy	✓	✓✓	✓✓✓	✓✓✓	?
Fit with agreed GCF priorities	✓✓✓	✓✓	✓✓✓	✓✓	✗
Scale	✓✓✓	✓✓	✓✓	✓✓✓	✓
Prevention of lock-in	✓✓✓	✓✓✓	✓✓✓	✓✓✓	?
Effectiveness					
Total reduction potential	✓✓✓	✓✓✓	✗-✓✓✓*	✓✓	✓✓✓
Replicability	✓✓✓	✓✓	✓	✓✓	✓✓✓
Efficiency					
Cost per unit of emission reduction	✓✓	✓✓✓	✓/✗	✓/✗	✓✓✓
Private sector leverage	✓✓✓	✓✓✓	✓/✗	✓/✗	✓✓✓
Suitability for private investment	✓	✓	✓	✓	?
Sustainability co-benefits					
List of indictors to be determined	✓✓✓	✓✓✓	✓	✓	✓✓✓

* Depending on type of activity determination of potential is more or less difficult

✓✓✓	meets criteria fully
✓✓	meets criteria mostly
✓	meets criteria partly
✓/✗	unclear/depends on further detail
✗	doesn't meet criteria to moderate extent
✗✗	doesn't meet criteria to medium extent
✗✗✗	doesn't meet criteria at all

Notes: Assessment is the individual evaluation by the consultant. For further processing within the GCF this would need to be based on the evaluation of a wider range of experts.

Some of these indicators are quantitative and proposals would need to specify the values and calculation methods used to derive them. Others are qualitative and need to be explained in the proposal templates based on guiding questions provided in the proposal templates.

2.2.1 Contribution to paradigm shift

At the proposal level this needs to be assessed based on agreed GCF priorities. The concept can be operationalized with the following indicators:

The ambition of the proposal aims to assess the relative effort of the activity compared to BAU development. For all sectors a significant change from BAU is required to allow a pathway compatible with the objective of the fund. For smaller countries and sectors this could be a way to demonstrate that large scale paradigm shift is feasible, even though total reductions may not be as large.

Where low carbon strategies or similar plans exist it is essential that the proposed activity is embedded in the strategy. It needs to contribute to the implementation and not be contradictory.

Depending on the approach chosen by the GCF board (see discussion in section 5.1) there are different ways to assess whether the proposed activity fits with the agreed GCF priorities and principles. For very broad approaches (like the proposed result areas in the business model framework) and relatively narrow approaches (target area approach) the assessment is relatively easy and would likely be restricted to a yes/no. For these cases the evaluation could also happen in a first step to determine eligibility before evaluating the full proposal. It would then not be part of the aggregate score. For a portfolio approach this would be different. Priority would be given to projects towards the right hand upper corner (larger geographic and sectoral scope). While there would be minimum requirements, the evaluation would be included in the overall aggregation.

The scale of activities needs to support the transformative character of the proposed activity. Within a portfolio approach this would be covered by the assessment of the fit with GCF priorities as the portfolio matrix would already set minimum standards for scale. For other approaches scale will be a useful indicator to ensure the transformative character of the activity.

The prevention of lock-in is an essential element for the assessment of proposals. Given the speed of the required transformation any funding needs to be targeted towards generating the framework conditions that avoid the lock-in of high emissions technologies.

Table 4: Mitigation - Overview of proposed proposal level indicators for criteria contribution to paradigm shift, including units and examples for weighting factors, visualization and minimum requirements

Indicator	Sub-Indicators	Units/values	Weighing factor (example)	Graphic visualization	Minimum requirement
Contribution to paradigm shift			**30%**		
Ambition of proposal	Deviation from BAU of sector	%			TBD
	Deviation from BAU of national	%			N/A
Activity embedded in overal strategy		• Fully • Partly • Very limited • No			Partly
Fit with agreed GCF priorities		• High scope • Medium scope • Limited scope • No			Limited scope (could increase over time, i.e. medium scope for 2nd period)
Scale		• National • Subnational/sectoral • City/programmatic • Installation/project			City/programmatic
Prevention of lock-in		• Preventing long-term • Preventing medium-term • None • Enabling medium-term • Enabling long-term			Preventing medium-term

2.2.2 Effectiveness

This tries to ensure a maximum level of impact via the following indicators:

Total reduction potential would be assessed in the total amount of GHG emissions avoided by a measure compared to BAU in the short, medium and long term. Quantification beyond 2050 would be technically difficult and would entail growing uncertainties. Therefore both pathways for BAU and including the measure that cover as a minimum 2020, 2030 and 2050 should be provided[4]. Additionally a sensitivity analysis of results related to the most important model parameters (e.g. economic growth, fuel prices) should be provided.

Replicability aims to assess how well the activity is suited for replication in other countries and contexts, thus paving the way for further investment. There are two dimensions to this analysis. On the one hand a qualitative assessment is required based on the design of the activity. Measures that are for example designed to remove a very specific, country related barrier will not be as easily replicable as a measure to address a barrier that is widely found in different countries. On the other hand a quantitative assessment could evaluate the potential reduction if the measure was replicated in other regions or countries with similar characteristics. This quantification would need to take into account the qualitative assessment on the replication potential of the measure (for example through assigning a "likelihood factor" of replication between 0 and 1 that is multiplied with the identified theoretical potential).

2.2.3 Efficiency

Here we measures how well the funds are spent with respect to impact and the stated objectives:

Main indicator here is the cost per unit of emission reduction. Cost in this context constitutes the amount of funding requested from the GCF for the proposed activity. The evaluation could then either mainly be comparative between proposals or include absolute maximum values as a threshold.

Another factor for the efficient use of resources is the ability of a proposed activity to leverage private sector investment to supplement public funding. This could be either directly as part of the funding for the activity or subsequently as a result of the activity.

Suitability for private sector investment could be used as an optional indicator in case the GCF would decide to focus on funding activities that are less suited for private investment to ensure needed change in areas that are more the public domain.

2.2.4 Sustainability co-benefits

A wide range of **sustainability co-benefits** could potentially be connected to proposed activities, ranging from health benefits to economic impacts or other environmental services. The last board meeting decided that the GCF will have a strategic focus on delivering climate results, but nevertheless co-benefits will play an important role for the implementing countries.

[4] The WRI GHG Protocol Initiative currently develops standards for the quantification of mitigation actions. These could for example be used as a guidance for project proponents.

Table 5: Mitigation - Overview of proposed proposal level indicators for criteria effectiveness, efficiency and sustainability co-benefits, including units and examples for weighting factors, visualization and minimum requirements

Indicator	Units/values	Weighing factor (example)	Graphic visualization	Minimum requirement
Effectiveness		**30%**		
Total reduction potential	$MtCO_2e$ /yr (for 2020, 2030, 2050)			N/A
Replicability	• High potential • Medium potential • Low potential • No potential			Medium potential
Efficiency		**15%**		
Cost per unit of emission reduction	USD/tCO_2e		N/A	TBD?
Private sector leverage	$USD_{private}/USD_{public}$		N/A	N/A
Suitability for private investment	• High • Medium • Low		N/A	N/A
Sustainability co-benefits		**10%**		
List of indictors to be determined	• List to tick off			N/A

Annex 1 provides examples of how these indicators could work in practice for different types of activities.

3 Minimum requirements

Specific indicator values could be set as minimum requirement for funding (see Tables 4-6). Depending on the priorities decided by the GCF it is likely that different minimum criteria would be required for different types of activities, technologies and/or geographic scope. These threshold values would need to be developed by a technical expert group mandated by the GCF board and finally agreed at board level.

Apart from defining eligibility of proposals, specific indicator values could also be used to differentiate access to different financial instruments. Depending on for example the economic capacity, level of ambition and private sector leverage a proposal could be eligible for higher or lower grant components, or higher or lower interest levels for concessional loans.

4 Aggregation of assessment

If all minimum requirements are met, the proposal needs to receive an overall assessment. This overall evaluation could be based on scores that translate the different indicator values (qualitative and quantitative) into a simple scoring system. Then weighting factors would be applied for the individual indicators. The weighting will depend on the set priorities and will in final consequence be a political choice that should be based on detailed technical input. Examples for the weighting between the criteria at country and proposal level are provided in Tables 4-6.

Scores should be kept simple, as most indicator assessments will be connected to large uncertainties. They could be set with a scale from zero to three, with zero representing the lowest available value and three the highest.

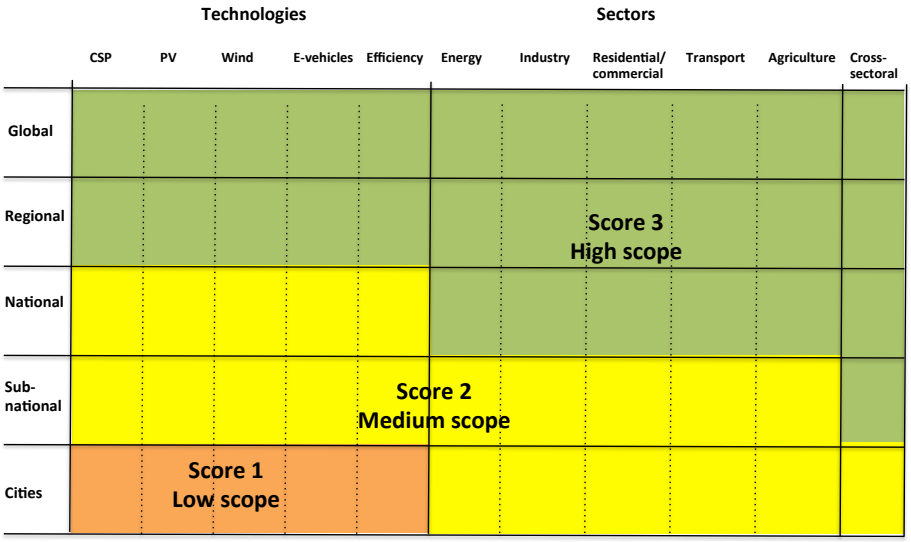


Figure 1 Example for the determination of scores in the portfolio approach

Multiplying the scores per indicator with the respective weighting factor and adding them up would calculate the final score. Table 6 provides an overview of how such a system could work. Values for the indicators and thresholds for the translation to scores would need to be agreed by the board based on a more in-depth technical assessment.

Table 6: Mitigation - Weighting and scoring system overview

	Units	Criteria weighting	Indicator weighting (within criteria)	Indicator weighting (total)	Translation of scores 0	1	2	3
Country related								
Contribution to paradigm shift		**10%**						
Ambition of country's pledge			30%	3%	inadequate	medium	sufficient	role model
Achieved reductions of policies			30%	3%	inadequate	medium	sufficient	role model
Ambition of low carbon strategy			40%	4%	no	very limited	partly	fully
Effectiveness		**5%**						
Economic capacity	GNI per capita		100%	5%	>12,616	4,086-12,615	1,036-4,085	<1,035
Proposal related								
Contribution to paradigm shift		**30%**						
Ambition of proposal	% deviation of sector		30%	9%	depending on sector			
	% deviation of national		10%	3%	depending on sector			
Activity embedded in overal strategy			20%	6%	no	very limited	partly	fully
Fit with agreed GCF priorities	Portfolio approach		20%	6%	no	limited scope	medium scope	high scope
Fit with agreed GCF priorities	Priority area approach				no			yes
Scale			10%	3%	installation/ project	city/ programmatic	subnational/ sectoral	national
Prevention of lock-in			20%	6%	none	short-term	medium-term	long-term
Effectiveness		**30%**						
Total reduction potential	MtCO2e /yr (example for 2020)		80%	24%	<1	1-10	10-20	>20
Replicability			10%	3%	none	low	medium	high
Efficiency		**15%**						
Cost per unit of emission reduction	USD/tCO2e		70%	10.5%	>100	30-100	10-30	<10
Private sector leverage	USDprivate/USDpublic		20%	3.0%	0-1	1-2	2-3	>3
Suitability for private investment			10%	1.5%	none	low	medium	high
Sustainability co-benefits		**10%**						
List of indictors to be determined			tbd	10%	none	low	medium	high
		100%		**100%**				

Notes: Thresholds for economic capacity are based on the World Bank's definition of income groups; Scoring for the ambition of the proposal need to be based on the sector as there are large differences in required deviation from BAU per sector.

Fine-tuning of priorities over time could be supported by a dynamic definition of weighting factors, translation to scores and minimum thresholds.