ADDRESSING THE GCF INVESTMENT CRITERIA

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Executive Summary

The Green Climate Fund (GCF) is the biggest global climate fund in existence that supports developing countries to address climate change. It aims to help countries achieve a paradigm shift towards low emission and climate resilient development, taking into account the needs and priorities of those countries most vulnerable to climate change impacts. Proposals submitted to the GCF can focus on either mitigation, adaptation or be crosscutting, and both private and public sector entities can submit proposals. Funding from the GCF can be in the form of grants, loans, equity or guarantees.

Accessing the fund requires project proponents to submit a GCF project proposal that meets GCF requirements, which includes a response to the six GCF investment criteria that form the basis of the approval process that enables the Board to make funding decisions regarding project and programme funding proposals.[i]

HOW CAN THIS BRIEFING HELP YOU?

This briefing provides insights and guidance based on best practices and lessons learned, to project proponents, especially those from small island developing states (SIDS) and least developed countries (LDCs) on how to address 4 of the 6 investment criteria, specifically:

- Needs of the recipient
- Paradigm shift potential
- Country ownership
- Efficiency and effectiveness.

It provides practical guidance on how to address these four criteria as previous experience has highlighted that the above criteria pose particular challenges for SIDS and LDCs. Selecting these criteria is not meant to suggest that they are more important than other investment criteria.

Finally, the briefing includes a few case studies which provide solid examples of how successful projects responded to the 4 criteria covered in this briefing. In addition to the investment criteria, a separate Climate Analytics briefing provides guidance on some other key elements that enhance a GCF proposal overall but also contribute to responding to the required investment criteria.

The Green Climate Fund's (GCF) six investment criteria, listed below, provide the basis of the technical assessment, which is a key step in the approval process that guides the Board's decisions on whether or not to fund a proposal.[ii] It is therefore critical for GCF proposals to address the criteria in detail.

Box 1. GCF Investment Criteria[iii]

1) **Impact Potential**: Quantitative and qualitative information on the potential impact of project/programme, e.g. tonnes of CO_2e avoided or reduced, number of beneficiaries, number of people affected by climate impacts.

2) **Paradigm shift potential**: Potential for project to catalyse action beyond the GCF-funded project. Proponents must specify how the project or its activities can be scaled up or replicated, as well as plans for knowledge sharing and how the project contributes to national policies and strategies or regulatory frameworks. Innovative aspects of the project, e.g. promoting new business models should also be highlighted, along with how the project creates an enabling environment for further climate-related activities.

3) **Sustainable development potential**: Provide information on how the project aligns with the Sustainable Development Goals (SDGs), especially those which are priority for the country seeking funding. Include quantitative information, backed by solid evidence, of the social, environmental and economic benefits of the project, e.g. number of jobs created, number of women and girls benefited.

4) **Needs of the recipient**: Identify vulnerabilities and exposure of the target areas or populations, highlight financing barriers and need for institutional capacity building, and such information should be backed by sound evidence.

5) **Country ownership**: Demonstrate how the proposal aligns with national policies, strategies and/or frameworks, e.g. alignment of project activities with achievement of the NDC. Highlight stakeholder engagement with national and local stakeholders, e.g. national ministries, the Accredited Entity, the National Designated Authority, as well as civil society, academia and other stakeholders for the particular project.

6) **Efficiency and Effectiveness**: Explain the economic and financial viability of the project/programme by including economic and financial analyses. The proposal should also specify co-financing and/or return on investment where applicable.

Summary of Guidance

1. **Needs of the recipient:**

According to the GCF Handbook, "Needs of the Recipient" addresses vulnerability and financing needs of the beneficiary country and population, including:

i. Intensity of exposure to climate risks and the degree of vulnerability,
ii. Exposure to slow onset events as well as the size of population, and/or
iii. Social or economic assets or capital of the country exposed to climate change risks and impacts.

In an adaptation context, addressing the needs of the recipient criterion requires an explanation of how vulnerability in the context of the proposal will be reduced (from a baseline and future projections) and information on how the project promotes social and economic development.[iv] The briefing points to different tools, e.g. vulnerability assessments and financial analyses, that can contribute to building the needs of the recipient narrative. Fulfilling this criterion requires project proponents to undertake or refer to existing vulnerability studies and financial analyses that justify the need for the proposed GCF interventions.

2. **Paradigm shift potential:**

A main aim of the GCF is to fund proposals that create a paradigm shift towards low-emission and climate resilient development. Thus, the paradigm shift potential criterion relates to the potential for the activities to catalyze impact beyond a one-off project or programme investment.[v]

This briefing highlights that the paradigm shift potential discussion should include, among other aspects, the following:

i. A description of how the project can be scaled up or replicated in different areas, and/or the innovative aspects of the project,

ii. How the project creates an enabling environment for further climate change activities.

iii. How the proposal addresses knowledge sharing and learning and contributions to building institutional capacity to promote climate change activities beyond the GCF investment.

3. Country ownership:

The country ownership criterion involves considering how well the project fits within the beneficiary country's strategic policies, climate strategies and institutions that support the shift to low-carbon climate resilient sustainable development.

GCF proposals that align with national strategies, policies, frameworks and priorities, and engage local and regional stakeholders, as well as ministries and other national institutions, are more likely to fulfil this criterion.

A GCF proposal should discuss how the project fits with the country's Nationally Determined Contribution (NDC) or other planning documents such as National Adaptation Plans (NAPs). This briefing discusses further guidance on making such linkages. In addition, a no-objection procedure from the national designated authority bolsters the country ownership criterion, but elaboration within the proposal either through a description of the capacity of the Accredited Entities (AE) or Executing Entities (EE) to deliver and implement or of the meaningful stakeholder engagement process can support this criterion as well.

4. Efficiency and effectiveness:

This criterion seeks to address questions related to the financial soundness or viability of the proposed interventions. To address this criterion, project proponents must undertake economic and financial analyses to prove that the project is cost-effective. Proponents should also explain options for co-financing, or the lack thereof. Proposals benefit from explanations of how the project will mobilize funds long-term investment as well.

GCF Investment Criteria Guidance

As the GCF assesses projects against its investment criteria, it is important that project proponents are equipped to respond to the criteria in GCF proposals. The following guidance is meant to provide some context on what the GCF Secretariat and Independent Technical Advisory Panel (ITAP) are looking for as responses to the criteria in proposals:

1. *Needs of the recipient*

Key elements to address the needs of the recipient investment criterion include highlighting the vulnerability of the country/target area/population, and/or the financing needs of the beneficiary country and/or population. The proposal should also discuss how the activities address the identified needs.[vi] Below, we elaborate on how to highlight these elements in a GCF proposal:

- **Vulnerability studies or assessments**: For adaptation projects, conducting vulnerability studies or assessments increases a proposal's ability to demonstrate how the needs of the recipient will be met through the project, as they identify a baseline, climate change risks, impacts projections, persons/entities most vulnerable and potential costs of the related climate change impacts. Quantitative and qualitative information on the level of vulnerability of target populations or areas to climate impacts makes for a stronger case of needing GCF finance to address specific adaptation challenges. For example, a proposal can highlight number of people including women that will benefit from the activities, percentage increase in financial resources as a result of the GCF interventions, and/or an explanation of increase in resilience of livelihoods.

- **Social and economic development**: How the proposed project will promote social and economic development and/or sustain/enhance the livelihoods of the targeted population should also be factored into the narrative for both adaptation and mitigation projects.
- **Financing gaps**: For both adaptation and mitigation projects, identifying financing gaps is critical to justify the GCF intervention (amounts, conditions, funding period and instruments). This could include explanations of barriers to alternative financing for the activities and how the project would not be viable without the funding from the GCF and how such barriers will be addressed if GCF funding is received to implement the project.
- **Institutional capacity building**: Proposals that highlight how the activities strengthen institutional capacity to address climate change score higher under the needs of the recipient investment criterion. For example, the proposal could highlight how the activities will engage stakeholders in a manner that increases capacity. It is also helpful to link this strengthening of institutional capacity to the long-term integration of climate change in national policies and strategies, as this can contribute to overall success of project implementation and sustainability of results.

The UNFCCC and the Governing Instrument of the GCF recognize the particular vulnerability of SIDS and LDCs. Article 4 of the United Nations Framework Convention on Climate Change (UNFCCC) identifies SIDS and LDCs in particular as being among the most vulnerable to climate change impacts. This vulnerability is also highlighted in paragraph 52 of the Governing Instrument of the GCF, *which* states that: 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.[vii] Therefore there is an understanding that SIDS and LDCs can benefit from certain flexibility in the context of the Fund's modalities and policies. However, this justification must be coupled with other explanations of needs as explained above as being a SIDS or an LDC does not automatically guarantee funding.

Needs of the recipient

Representative remarks from the ITAP and GCF Secretariat's assessments on those projects that received high scores for needs of the recipient include:

- Projects displayed their background with **key metrics of climate change negative impacts** where economic, social and environmental consequences of "business as usual" trends can be shown.
- The funding proposals **explicitly targeted vulnerable groups**, regions or markets or sources of emissions within the objectives of the Project with reference to national circumstances.
- In the case of adaptation projects or adaptation components within a project, they **explicitly identified exposure to potential losses due to climate impacts** in terms of people, infrastructure, systems, or other elements; identified level of sensitivity or vulnerability as well as adaptive capacity showing **how the project interventions will enhance the ability to prepare for hazards and opportunities in advance or how to cope with the negative effects of climate change**.
- The project displayed barriers to climate-related finance **describing the country's financial, structural, and technical barriers to access sources of funding with international, regional, domestic or private funding**, aside from how the proposed intervention will address those needs and barriers, taking into account different national circumstances.

- Among the common barriers that projects faced are: financial barriers; such pricing distortions, risk and capital intensity; structural barriers for example policy and regulation gaps, lack of standards, fragmentation and transaction costs; lack of incentives for sustainable use of a natural resource and agency problems or deficient community linkage; finally, technical or capability barriers such as low levels of awareness and education, inability to price risk or environmental good and services, market immaturity and need for technical solutions.
- **Projects demonstrated the need for GCF funding**. Projects displayed barriers for local capital markets in all the countries in the target regions lack the capacity to provide funds with the right characteristics for climate technology investments.
- **Projects presented the need for strengthening institutions and implementation capacity**. Proposals clearly displayed the lack of capacities and institutions to raise finance, identify, develop, manage and maintain low-carbon investment projects and the need to be assisted through the components of the funding proposal to develop such capabilities.

*Project examples with high score in "**needs of the recipient**" criterion*

Funding Proposal 111: **Promoting climate-resilient forest restoration and silviculture for the sustainability of water-related ecosystem services in Honduras by the Inter-American Development Bank (IDB).** This proposal showed key metrics of how Honduras has been affected by extreme climate-related events and its level of vulnerability, especially to natural disasters such as hurricanes and forests infections (pine beetle) outbreaks. Key metrics about the vulnerability of the country and vulnerable groups are showed as well as how strengthening institutions and implementation capacity are a central component of the project.

Additionally, the project presented evidence on the absence of alternative sources of financing. Although the government of Honduras committed to invest USD 26 million, the project aims to deliver a more long-term economic model that will ensure long-term management of the forests; therefore, additional concessional resources are needed to overcome financial barriers and support the adoption of appropriate measures for forest restoration and management. According to the ITAP and Secretariat's assessments, the project will provide a sustainable source of finance and knowledge to the region, leading to more sustainable and economically viable communities with built capacity in the country's forestry institutions.

Funding Proposal 091: **South Tarawa Water Supply Project in Kiribati by the Asian Development Bank (ADB).** The project presented evidence of the vulnerability of the country and region displaying climate change projections that would affect Kiribati's freshwater sources include sea level rise (13 to 33 cm by 2050), increase in average annual rainfall, seasonal rainfall and the number and intensity of extreme precipitation events, and increased frequency of overtopping events (from 100 years to 20 years return period), using information of the Climate and Abstraction Impacts in Atoll Environments (CAIA) project estimations on impacts could reduce the Countries' yield by 40 per cent for several years. The project identified vulnerable groups, (poverty, unemployment, gender) and proposed a "rising block" tariff structure includes a "lifeline block" of 7.5 m3/month, up to which water will be provided for free, poor households that reach the lifeline limit could collect extra water from communal taps (to be installed) for free.

Although Kiribati is considered a 'grant-only' country by the ADB and the IMF had concluded that investments for climate change adaptation in Kiribati will remain dependent on development partners' financial support, the project demonstrated absence of alternative source of financing showing Kiribati's limited financial capacity. The proposed project is to be 97 per cent grant financed. ADB and the World Bank would finance 26 per cent and 22 per cent, respectively, of the project. GCF would finance 50 per cent of the project. Making GCF allocation vital for projects viability. Finally, the need for strengthening institutions and implementation capacity are specifically under two of the project's activities.

2. *Paradigm Shift Potential*

Paradigm shift potential refers to whether the proposed activity can catalyse impact beyond a one-off project or programme investment.[viii] To address this GCF investment criterion, project proponents should highlight the following in their proposals:

- **Potential for replication or scaling up**: Proposals that demonstrate potential for scaling up or replication, by highlighting such plans and strategies, tend to score higher in the paradigm shift potential category. This is especially relevant for pilot projects.
- **Innovation**: The GCF also values "innovative" proposed activities. For example, The ITAP and GCF Secretariat give higher ratings to projects that foster new business models or market segments, new technologies or introduce innovative co-financing.[ix] However, the GCF realizes that this is specific to the particular context and suggests that the project proponents highlight the context in the proposal.[5]
- **Knowledge sharing or learning**: Another indicator of potential for paradigm shift is knowledge sharing or learning. The proposal should capture lessons learned from the activities and highlight processes in place to share those lessons. Building institutional capacity through knowledge sharing and learning under the GCF project contributes to the kind of impact-beyond-project that the GCF deems valuable.
- **Sustainability of proposed activities**: Addressing sustainability of the activities and/or results, beyond the planned implementation period for the project also enhances the narrative under paradigm shift potential. This explanation includes how the project fosters an enabling environment for continued engagement on the climate-related activities. When writing the proposal, project proponents should consider long term financial sustainability and explicitly address this sustainability, including barriers to low emission or climate resilient development.
- **Link to national policies and frameworks**: The paradigm shift potential discussion can also include a description of how proposed activities advance national policies and/or regulatory frameworks on climate change.
- **Barriers to implementation**: This investment criterion requires project proponents to discuss how the project/programme will address a range of barriers to low carbon and climate resilient development and also embed climate change responsiveness and/or low-carbon development within national policies and regulatory frameworks.

Paradigm shift potential

Representative remarks from the ITAP and GCF Secretariat's assessments on those projects that received high scores for paradigm shift potential include:

- Project proposals identified a vision for paradigm shift that **articulates project interventions with a programmatic approach** (e.g. covering whole sectors or economies) **outlining how the proposed project can catalyse impact beyond a one-off investment** and maintain a long-term strategy** challenging the "status quo" through mitigation and/or adaptation integral measures.

- The vision for paradigm shift (longer-term change) was accompanied by a **robust and convincing methodology for planning, participation, and evaluation**. Commonly 'Theory of Change' is used to define long-term goals and then maps backward to identify necessary preconditions as well as displaying the most binding constraints to change and how they will be addressed through the project, with reference to country context, as appropriate.
- Projects showed interventions' **potential for scaling-up, expanding the proposal's impact in other regions, countries or markets without equally increasing its cost base**.
- Projects showed interventions' **potential for replication, potential for exporting key structural elements** of the proposal to other sectors, regions or countries. Both replication and up-scaling should be undertaken by other actors and be funded by other sources than the project itself for it to be considered a catalytic effect.
- Projects contributed to **the creation of an enabling environment through activities that change incentives for participants by reducing costs and risks and helping in eliminating barriers** to the deployment of low-carbon and climate-resilient solutions and overcome systematic barriers.
- Project interventions contributed to **enhanced country regulatory framework and policies**, particularly those considering long-term goals. In case of adaptation projects, projects displayed the overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and national plans. In case of mitigation projects, they showed overall contribution of the project in achieving long-term low-carbon development pathways (ideally compatible with the 1.5C temperature goal).

Projects displayed the potential **for knowledge and learning by sharing lessons learned** through monitoring and evaluation plans.

*Project examples with high scores on the "**paradigm shift**" criterion*
Funding Proposal 076: **Climate-Friendly Agribusiness Value Chains Sector Project in Cambodia** by the **Asian Development Bank (ADB)**. According to the ITAP's assessment, this project has the potential to move traditional agriculture development efforts towards a more climate resilient and low-carbon trajectory, catalysing a significant impact on Cambodia's agricultural sector with a comprehensive package of support to build in resilience and climate smart features in the agriculture value chain development. Among the most notable measures is the potential to leverage behavioural changes from stakeholders. Also supportive of a paradigm shift are the introduction of climate smart policies and norms and standards for the creation of a conducive investment environment for agricultural enterprises and to support the emergence of long-term public private partnerships to leverage additional growth.

The paradigm shift of this proposal was elaborated by a theory of change with an integrated approach that targets each stage of the agricultural value chain and related policies, thereby presenting its contribution to a paradigm shift. The project showed the possibility for replication and scaling-up in the four provinces covered by the project as well as other provinces in Cambodia and neighbouring countries connected with the transport corridors. Moreover, the project displayed the potential for knowledge sharing and learning mainly in targeted training for stakeholders on climate-smart agribusiness skills and climate-smart agriculture practices and in infrastructure operations and maintenance (O&M) using energy-efficient technologies to reduce the carbon footprint along the value chain.

The project showed how the intervention will contribute to the creation of an enabling environment through the development of a climate-smart agribusiness policy to enable public–private partnerships, which will lead agricultural cooperatives. These cooperatives will not only reach regional but also international markets. Finally, the project plans to enhance the regulatory framework and policies for improved and climate-resilient agricultural productivity in Cambodia as one of the key objectives for one of the project's outputs.

Funding Proposal 103: **Promotion of climate-friendly cooking in Kenya and Senegal by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).** According to the ITAP assessment, this project strategy has the potential to move from ODA-dependence for improved cooking stoves (ICS) towards an innovative commercial market transformation for affordable ICS that are well adapted to local needs. This will result in a paradigm shift that substantially contribute to the national climate goal of reducing GHG emissions in the cooking sector through the adoption of ICS by an additional 50 per cent of Senegalese households and 36 per cent of Kenyan households by 2030. The proposal highlighted that this intervention would directly benefit 11.23 million people and 1.91 million rural households in both countries.

The replication and scale-up potential of the project within the targeted countries is significant according to the ITAP assessment. The unserved market for ICS now includes more than 6 million households (more than 5 million in Kenya and about 1.4 million in Senegal). While the proposed project aims to tap this considerable potential, it will also create conditions for sustained ICS sector growth beyond its timeframe, thus ensuring the continued replication impact of the GCF investment.

According to the ITAP, the project also aims to create an enabling environment for accelerated ICS market growth in Kenya and Senegal. This enabling environment stems from strong ICS production, distributional networks, involvement of local NGO's and other relevant stakeholders and a broad awareness on the benefits and viability of ICS usage amongst all relevant population groups in the two countries. Additionally, the project will contribute to regulatory framework and policies in both countries through the finalisation, adoption, and enforcement of ICS regulations and standards, as well as national ICS quality labels.

The project will support the development of an investment plan for co-benefits (health, forestry management and capacity building) with a strong component of improving women's quality of life. Finally, the project proposal considered the creation of knowledge among the many ICS sector stakeholders, producers, distributors, individual consumers, and community organisations, as well as public authorities as a key element of the ICS market transformation strategy of the project.

3. *Country Ownership*

Country Ownership is how well the project fits within the beneficiary country's strategic policies, climate strategies and institutions that support the shift to low-carbon climate resilient sustainable development. A necessary piece of documentation to fulfil the country ownership criteria is a no-objection letter from the National Designated Authority (NDA), which confirms endorsement of the proposal's approach and its support of the country for the project. The requirements of the no-objection procedure can be elaborated upon within the proposal through a description of the capacity

of the AEs or EEs to deliver and implement or a description of the meaningful stakeholder engagement process.
Proposals without a no objection letter will not be considered by the GCF Board for adoption as country ownership is the cornerstone of the GCF operations. However, in addition to the no objection letter, elaboration of the following elements in the proposal can enhance the country ownership narrative:

- Consultation with local and national stakeholders;
- Linkages between national climate change policies/regulatory frameworks and the objectives of the project/programme;
- Engagement of the NDA;
- Capacity of accredited and/or executing entities to implement the project/programme.

The project should engage a range of stakeholders before, during and after implementation. Including stakeholders in the planning and execution of the activities allows for additional feedback on the approach. Accredited and executing entities should also have some level of expertise on implementation of similar projects.[x]

The GCF also places emphasis, as part of the country ownership criterion, on the development of country programmes. It is beneficial for proposals submitted to the GCF to be included in a country programme, which takes into account the country's NDC as well as Nationally Appropriate Mitigation Actions (NAMAs), National Adaptation Programmes of Action (NAPAs), NAPs and/or other adaptation planning processes where applicable, as well as regional, national, sub-national and local climate policy frameworks. Such linkages ensure that GCF climate finance is consistent with national priorities.[xi] This is not a requirement however.

Country ownership

Representative remarks from the ITAP and GCF Secretariat's assessments on those projects that received high scores for country ownership include:

- The proposal outlined how the project will **contribute to national development goals and/or climate change policies** as well as the degree of support to a country's enabling policy and institutional framework or included **policy or institutional changes**.
- Project proposals clearly described **alignment of the proposed activities with the country's NDC** and how the project will help to achieve the NDC by making progress against specific targets in national climate policies and strategies such as NAMAs and NAPs.
- Projects detailed how **interventions were developed with engagement from relevant stakeholders** including national designated authorities (required) and relevant actors within the project.
- Projects demonstrated **accredited entities' capacity to deliver** showing a consistent track record and relevant experience and expertise in similar or relevant projects or circumstances (e.g. sector, type of intervention, technology, etc.).
- Projects developed **country programmes** that promote stakeholder engagement including governments, sub-national institutions, civil society, and the private sector. The country programmes included relevant climate context, the roles and contributions of key stakeholders, the priority areas in mitigation or adaptation, the financial needs and monitoring and evaluation components. Country programmes were a useful tool to

articulate the alignment between funding proposals interventions and the Fund's objectives.

*Project examples with high scores in "**Country ownership**" criterion*

Funding Proposal 113: **TWENDE – Towards Ending Drought Emergencies: Ecosystem Based Adaptation in Kenya's Arid and Semi-Arid Rangelands by the International Union for Conservation of Nature (IUCN)**. The project was designed on the foundation of a rich policy framework on climate change and drought in Kenya, which strengthened the capacity of county governments to address the threats of climate change. According to both ITAP and Secretariats assessments, the project aligns well with national policies and strategies on climate change, such as the National Climate Change Response Strategy, Kenya Climate Smart Agriculture Strategy, Kenya Strategic Investment Framework for Sustainable Land Management, the ASAL policy, the livestock policy and others. It also shows strong alignment with the country's NDC and NAPs.
The project took a participatory approach and suggested a community-based approach, enabling autonomous community-led solutions. There was a high level of stakeholder engagement and consultation during the identification of priorities and target areas, including consultations with disadvantaged groups and local women. According to the ITAP, the robust design of the project may be considered as a reflection of strong community ownership.

Funding Proposal 073: **Strengthening climate resilience of rural communities in Northern Rwanda (SCRNRP) by the Ministry of Environment of Rwanda**. The project is closely aligned with the national adaptation plan of action Green Growth and Climate Resilience Strategy (GGCRS, 2011) that provides the country's roadmap for becoming a climate resilient, low-carbon economy by 2050. The Ministry of Environment is the project sponsor and accredited entity, and FONERWA is the executing entity. FONERWA was established by the Government of Rwanda in 2012 as a national basket fund for climate and the environment, and since its inception it has financed projects valued at USD 40 million and has played a key role in attracting climate finance, demonstrating experience in managing climate change projects in the country.

The project was designed by an interdisciplinary team, with site visits that included consultations with community leaders and the Governor of the Northern Province and the Mayor of Gicumbi District and their team.

4. *Efficiency and effectiveness*

This investment criterion addresses the economic and financial soundness of a GCF proposal. Through an economic and financial analysis, a proposal must demonstrate that it has a financially viable model and is cost-effective and efficient in financial and non-financial aspects.

The proposal needs to establish a financial structure that corresponds to objectives and planned activities according to the funding amount, financial instrument, tenor and term, including addressing existing bottlenecks and/or barriers.

Projects also need to demonstrate that the proposed financial structure provides the least concessionality needed to make the proposal viable.[xii] Projects should also present evidence on how best practices or technologies are implemented in the funding proposal taking national circumstances into consideration, as well as a plan for the use of revenues generated in the case of projects that produce revenues. The financial structure may also include a robust plan for the use of revenues generated by activities under the project, if relevant.

In addition, the GCF investment framework identifies the following non-mandatory, indicative assessment factors to be considered, where applicable: (i) expected volume of finance to be leveraged by the proposed project/programmes, disaggregated by public and private sources; (ii) co-financing ratio; and (iii) potential to catalyse private and public sector investment, assessed in the context of performance on performance industry best practices.

Efficiency and effectiveness

Representative remarks from the ITAP and GCF Secretariat's assessments on those projects that received high scores for efficiency and effectiveness include:

- Projects presented an **adequate and clear financial structure showing the funding amount, financial instrument, the tenor and term** in order to achieve the proposal's objectives.
- Projects demonstrated that t**he Fund's support for the programme/project will not crowd out private and other public investment**.
- Projects proposed a **financial structure that provides the least concessionality** needed to make the proposal viable.
- Projects depicted the **amount of co-financing and the co-financing ratio** (total amount of co-financing divided by the Fund's investment in the proposal).
- Projects showed **evidence of the potential to catalyse private- and public-sector investment**, assessed in the context of performance on industry best practices.
- Projects presented the potential to propel indirect investment (public or private) and depicted the expected indirect **investment mobilization** as a result of the implementation of proposed activities.
- Projects presented the **expected economic and financial internal rate of return with and without the Fund's support** (i.e. hurdle rate of return or other appropriate/relevant thresholds)
- For mitigation projects they **estimated cost per tCO_2eq defined as total investment cost/expected lifetime emission reductions**, and relative to comparable opportunities and described the financial viability of project results over the long run (i.e., after project closure).
- Projects **explained how best available technologies and/or best practices, including those of indigenous peoples and local communities, are considered and applied** in the planned interventions.

*Project examples with high scores in "**Efficiency and effectiveness**" criterion*

Funding Proposal 063: **Promoting private sector investments in energy efficiency in the industrial sector in Paraguay by the Inter-American Development Bank (IDB)**. This project estimated that GHG emission reductions will be 269,393 tCO2eq per annum and 4,004,899 tCO2eq over the project's lifetime. The estimated cost per tCO2eq and GCF cost per tCO2eq are USD 10.75 and USD 5.75, respectively. As the Accredited Entity stated, the project has a lower cost per ton of tCO2eq reduced than similar projects in the region (and possibly outside of the region as well). The GCF loan will enable local financial institutions (LFIs) to extend long-term loans attractively priced which are critically necessary for energy efficiency investments to be viable. Accordingly, the proposed tenor and concessional interest rate for GCF financing are justified.

The co-financing, leveraging and mobilized long-term investments of the projected are clearly showed. Besides the USD 20 millions of GCF funding the project will be matched with another USD 20 million from the AE. In addition, the project will mobilize USD 14.05 million from small and medium enterprises in the form of equity contributions when energy efficiency investments are made. The co-financing ratio of the GCF is therefore estimated to be 1.7x (or 1.5x if a USD 3 million grant from GCF is taken into account). Finally, the financial analysis of the project shows that it has an economic rate of return of 136 per cent with the social cost of carbon emissions valued at USD 62/tCO2 and a financial return of 74 per cent.

Funding Proposal 085: **Green Bus Rapid Transit (BRT) in Karachi Pakistan by the Asian Development Bank (ADB).** This project presented an economic analysis that showed an economic internal rate of return of 18 per cent, a good indication that the project is economically viable. The requested GCF financing is part loan and part grant and has been structured to ensure that it does not crowd out other funding sources. A concessional loan will cover incremental capital expenses of components which go beyond a standard BRT system but have the potential of being financially profitable. Thus, it is reserved for investment in the biogas facility and for the BRT buses. The grant from GCF is reserved for investments which are additional to a standard BRT system for costs which are not recovered through additional revenues. This includes bicycle-sharing and e-pedicabs, and adaptation investments and is also targeted at funding monitoring, reporting and outreach measures which allow for massive replication of the project.

The efficiency and effectiveness of the proposed GCF funding for this project is displayed in the GHG abatement cost that will result in 19 USD per tonne of CO2eq. Finally, the project is aligned with all the international best practices for BRT projects, especially those that are classified as “gold standard”.

Resources

[i] Green Climate Fund Investment Framework. Available here: https://www.greenclimate.fund/documents/20182/24943/GCF_B.07_06_-_Investment_Framework.pdf/dfc2ffe0-abd2-43e0-ac34-74f3b69764c0

[ii] Further Development of the Initial Investment Framework: Sub-Criteria and Methodology. GCF/B.09/07. Available at: https://www.greenclimate.fund/documents/20182/24949/GCF_B.09_07_-_Further_Development_of_the_Initial_Investment_Framework__Sub-Criteria_and_Methodology.pdf/18db33f8-a55b-488f-8a6b-5df68f39a137?version=1.1

[iii] GCF Investment Criteria Indicators. Available at: https://www.greenclimate.fund/documents/20182/1424894/GCF_B.22_05_-_Investment_criteria_indicators.pdf/3bd307ff-d213-266a-de74-bbb28cda2bc0

[iv] GCF Handbook. Decisions, Policies and Frameworks as agreed by the Board of the Green Climate Fund through April 2018. Available at: http://www.adaptation-platform.nies.go.jp/en/ap-plat/tools_guidelines/pdf/GCF/01_GCF_Handbook.pdf

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