CENTER FOR CLEAN AIR POLICY

The Green Climate Fund

September, 2014

The Green Climate Fund (GCF) was established to support developing country efforts to limit or reduce their emissions and adapt to the impacts of climate change. Intended to serve as a financial mechanism of the UNFCCC, the GCF is a legally independent institution with an appointed secretariat and a 24-member board that oversees funding decisions, operating under the guidance of and accountable to the COP.

In May 2014, the GCF Board came to agreement on eight design elements necessary to support fund operations. Key among these, the Board has agreed to offer financial support on a competitive basis to developing countries based on six criteria (see Table 1).

The GCF will initially offer support through two thematic funding windows: mitigation and adaptation. A Private Sector Facility that supports both funding windows will help leverage private sector capital, with a focus on engaging local actors and small-and-medium-sized enterprises.

Table 1: Initial criteria for assessing program/ project proposals

Impact potential	Mitigation and adaptation impact
Paradigm shift potential	Impact beyond a one-off project/program investment
Sustainable development potential	Wider benefits and priorities (economic, social and environmental)
Needs of the recipient	Vulnerability and financing needs of beneficiary country and population
Country ownership	Beneficiary country ownership of and capacity to implement a funded project or program
Efficiency and effectiveness	Economic and financial soundness of program or project

With these essential elements in place, the GCF has begun efforts to mobilize funds. In September, Germany pledged up to USD $1 billion to the Fund. At least 10 additional countries have stated their intention to make pledges by the end of 2014.

Several important components of the Fund will require further development in the coming months:

Investment framework: The Board is further refining the procedures for evaluating and selecting proposals for funding, and is considering the application of activity-specific sub-criteria and indicators, minimum benchmarks, and various methodologies to support the objective assessment of comparable proposals.

Access modalities: The Board is set to consider options to better enable national and sub-national institutions of developing countries to access, oversee and manage GCF funds—a role generally played by multilateral and bilateral institutions. For example, the Board will consider adjusting the procedures used to facilitate direct access to GCF finance depending on the "nature, scale and risks" of the proposed project or program.

Funding instruments: While the Board has approved the use of grants and concessional loans as financial instruments of the Fund, they will consider whether other types of financial instruments, for example guarantees and equity investments, should also be used.

The Green Climate Fund and Ambition

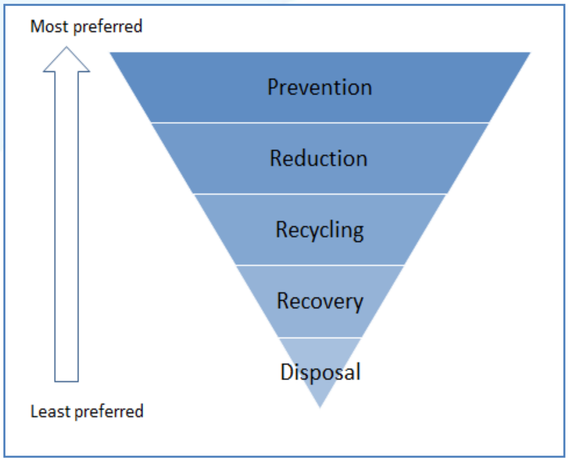
CCAP supports a competitive selection process for proposals to the GCF, and has recommended two methodologies that can be used to assess the relative merits of proposals in a fair and transparent way: 1) weighting of the Fund's selection criteria and 2) use of benchmarks.

Weighting of the criteria: One methodology to compare GCF proposals on a competitive basis would involve the use of "scorecards" that allow for quantitative scoring of the six investment criteria for assessing proposals. While the GCF board could decide to weight all the criteria evenly, CCAP recommends 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 GCF's methodology for evaluating proposals should emphasize a preference for funding "transformational" actions in developing countries that represent a paradigm shift to low-carbon development. The weighting of evaluation criteria should also recognize the importance of *country ownership* and *sustainable development potential* because such proposals are most likely to attract the public support required to sustain transformational programs when funding ends.

Benchmarks: 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*.

Investigators can select appropriate performance indicators by examining best practices that 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 goals based on best practice achievements in the applicable sector. In the waste sector, for example, countries that have achieved high recycling rates can set the benchmark for recycling. Proposals can then be scored based on the ambition of the proposed action relative to sector benchmarks. The evaluation of proposals against sector-specific benchmarks should take into account countries' circumstances that may put countries at an advantage or disadvantage in achieving transformational outcomes.

Figure 1: Waste management hierarchy



Weighting of the criteria and use of benchmarks can support a competitive selection process that ensures that submitted proposals are aligned with the evaluation criteria adopted by the Fund and that the GCF's resources are directed to the most ambitious proposals.