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; 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”.

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.

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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 Reforesting (A/R) project activities - spanning across 15 broad sectors. A complete and updated list of available methodologies is available at [http://cdmpipeline.org](http://cdmpipeline.org).

³ UNEP CDM Pipeline [http://cdmpipeline.org/](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 in available at [http://cdmpipeline.org/](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**.

**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)".

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.

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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](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.

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\(^5\) 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.