

GCF insight: Cross-cutting projects and the mitigation-adaptation balance

GCF insight seeks to understand what's working - and what's not working - in Green Climate Fund (GCF) project development. The surveys and reports spotlight the most topical GCF issues. This fourth edition explores cross-cutting projects and the balance between mitigation and adaptation projects.

Spotlight on cross-cutting projects

The balance between adaptation and mitigation in the portfolio of the Green Climate Fund is undoubtedly one of its key characteristics. The Governing Instrument - the document outlining the GCF's mission - requires such a balance, but the exact interpretation of what this implies was a matter of much debate at the GCF Board meetings. In 2014, at the 6th meeting in Bali, Indonesia, the Board eventually settled on taking it to mean a 50/50 split between funding of adaptation and mitigation.

In practice, however, funding of these two aspects is not necessarily separated. GCF has acknowledged this by creating a category of cross-cutting projects, which have both mitigation and adaptation aspects.

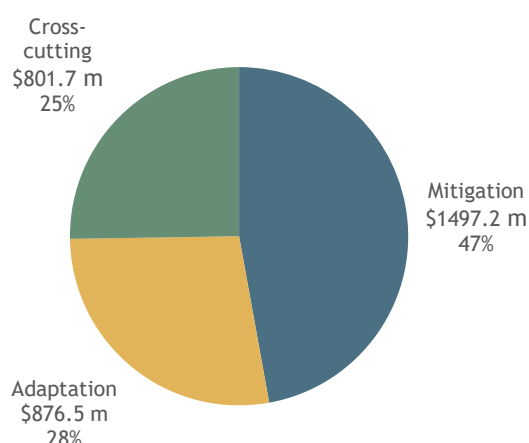
At the recently concluded UNFCCC COP 22 in Marrakesh, developing countries and civil society groups again expressed their concern about the scarcity of adaptation finance. The extent to which cross-cutting projects can contribute to solving this problem therefore deserves close attention.

Drawing on a survey conducted for this report, this edition of *GCF insight* contributes to the debate regarding the adaptation-mitigation balance by examining the role of cross-cutting projects in GCF project development.

Key findings:

- The Green Climate Fund's portfolio and pipeline clearly show the importance of cross-cutting projects, but it is unclear what that says about the adaptation-mitigation balance due to the lack of transparent, quantifiable rules for what counts as a cross-cutting project.
- While the majority of the Fund's stakeholders believe that their cross-cutting projects strike a good balance between mitigation and adaptation, they also realise that labelling a project as cross-cutting can give them a competitive advantage.
- Determining hard requirements for the definition of cross-cutting projects is difficult, especially since national context should be taken into consideration in such a definition.
- To clarify the true balance between adaptation and mitigation in its funding, the GCF should provide clearer guidance with regard to what projects can be considered cross-cutting.

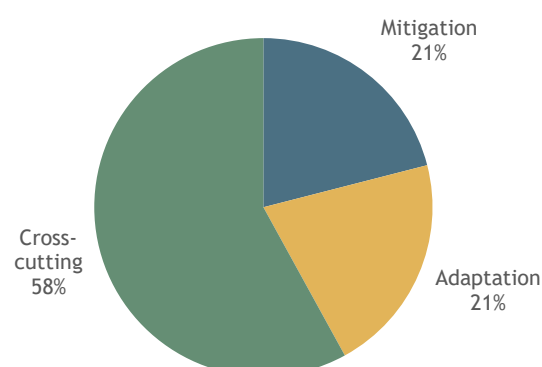
Examining the official pipeline



Currently requested amount of GCF funding by type of project¹

According to the Green Climate Fund's official pipeline (projects submitted but not yet approved), just over US\$ 800 million, one quarter of currently requested GCF funds, is being requested for cross-cutting projects.¹ This is less, proportionally, than the 45% (US\$ 531 million) in the current portfolio of approved projects, but the further one looks up the pipeline, the larger the share of cross-cutting projects becomes. Looking only at projects in earlier stages of development (those not 'expected to be presented to the Board within the next 12 months), 73% (US\$ 425 million) of funding requested is for cross-cutting projects, and there are only two rather small mitigation projects, with US\$ 18 million in GCF funds expected to be requested. For concept notes, 58% of funding submitted to the Secretariat is for cross-cutting projects and 21 % for mitigation.¹

The official numbers, however, need to be treated with some caution. Is the share of cross-cutting projects a good measure for the mitigation-adaptation balance? The GCF does not have a clear definition of what constitutes a cross-cutting project. The guidelines for concept notes - voluntary project descriptions that can be submitted to the Fund prior to a full funding proposal - merely advise accredited entities to tick the appropriate box for their kind of project, with the expectation that they explain both the adaptation and mitigation aspects in the



Current distribution of concept notes by type of project¹

proposal. The annexes to the GCF's Investment Framework contain indicators for mitigation and adaptation impact, but do not offer guidance on how prominent each aspect needs to be - e.g., in terms of impact or financing levels - for a project to count as cross-cutting.

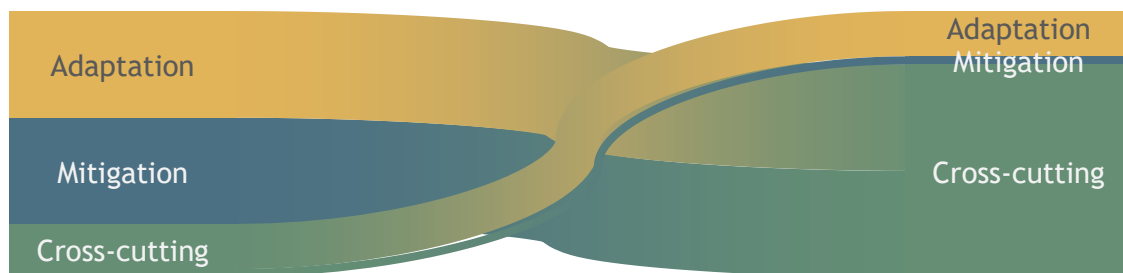
Note that the submission of concept notes is voluntary. So it is possible that more, proportionately larger mitigation projects will be entering the pipeline at a later stage. However, it seems more and more projects in the pipeline are being labelled as cross-cutting. Their increasing significance warrants a closer look at the definition of cross-cutting projects and the way in which those entities directly involved in the early stages of GCF project development see them. To this end, the remainder of this report will present results of a survey of National Designated Authorities (NDAs), accredited entities, and consultants working on GCF projects. As one of the respondents to our survey remarked: *"We need more in depth discussions related to concepts and practices concerning cross-cutting projects."*

Survey overview

- 107 respondents
 - 39 NDAs and Focal Points
 - 10 accredited entities
 - 58 consultants
- Conducted from 28 November to 10 December

¹ GCF/B.15/Inf.10: Status of the GCF portfolio: pipeline and approved projects

Unpacking the cross-cutting label



In cases where the project type changed after the initial project identification, an equal number of projects was changed from adaptation and from mitigation to cross-cutting (note that the sizes in this flow chart denote net change, not absolute numbers of projects).

Given the urgent need for adaptation to climate change, it is important to assess the adaptation impact of cross-cutting projects. Some argue that while on paper they might help the Fund to achieve the desired mitigation-adaptation balance, the actual magnitude of adaptation benefits of cross-cutting projects is unclear.

Results from the survey conducted for this report give a nuanced answer to this question. On the one hand, respondents were confident that their cross-cutting projects are deserving of the label. The vast majority of respondents estimated mitigation and adaptation are equally important to the overall impact of the project (65%) or at least considerable (29%). Many respondents chose a cross-cutting project type because their project intrinsically presented opportunities for adaptation and mitigation impacts (47%) or because of urgent needs in the recipient country (35%). Only 5% said a secondary aspect was added to increase the project's chances of getting approved.

On the other hand, GCF stakeholders realise the important competitive edge a cross-cutting project can provide. 84% of respondents said the secondary aspect of their project was important to its chances of

being approved. As one respondent pointed out, "*adaptation became more important on the political agenda*". This could partly explain the shift from mitigation to cross-cutting projects in the pipeline.

Such considerations become even more evident looking at cases where a project's type was changed at a later stage of development. In those cases (34% of respondents' projects), an equal number of adaptation and mitigation projects was relabelled as cross-cutting (40% each, see the flow chart above). Investigating the reasons for the change, sometimes the focus of the project had simply shifted during the course of development (24%). Other projects changed type partly because it was felt this would increase the project's chances of being approved (21%) or would enable receiving higher levels of grants (18%).

At the moment, the cross-cutting label does not seem to be used as window-dressing on a large scale. However, the facts that some projects were relabelled to appeal more to the Fund and that cross-cutting projects are becoming more prominent in the pipeline feed concerns about the extent to which cross-cutting projects can be indicative of the Fund's adaptation-mitigation balance.

What should count as cross-cutting?

The insights presented above underline the need for a clearer definition of cross-cutting projects. But what would that look like? How does one determine the adequate proportion of adaptation impacts that would be sufficient to call a mitigation project cross-cutting?

One option would be to look at relative levels of financing. This would be in line with the Secretariat's current practice to interpret the 50/50 split as a balance between mitigation and adaptation in terms of volume of funding. The challenge to such an approach is that instituting hard

minimum values for each aspect in a cross-cutting project would not always make sense from a practical perspective. Mitigation and adaptation can have very different cost structures that do not translate into impact in the same way.

Another option would be to compare the impact on each aspect. 83% of survey respondents would prefer this method. The issue faced by such an approach would be that it compares apples and oranges: emissions reduced, measured in tonnes of CO₂eq, versus adaptation impact, measured in numbers of people benefitting. Moreover, adaptation and mitigation aspects are often not separate in cross-cutting projects, making it even harder to determine how they affect the mitigation-adaptation balance of the overall portfolio.

Survey respondents also pointed out this “*difficulty of clearly assessing adaptation in projects*”, lamenting the fact that there are “*not enough tools to estimate co-benefits of adaptation*”. Moreover, they stressed that whether a project can truly be cross-cutting depends “*on the project nature and the local demand*” and on “*[h]ow it fits into the country’s NDC and what the biggest*

financing gaps and priorities of the national government [are]”.”

In general, despite obvious uncertainties, there is no opposition from the Fund’s stakeholders against the idea of cross-cutting projects per se. Respondents stressed the importance of including both adaptation and mitigation “*to have a more comprehensive approach to the problem. Mitigation and adaptation many times solve problems in similar ways therefore both things should be measured.*”

With its balance between mitigation and adaptation, the Green Climate Fund has the conceptual foundation to help those most vulnerable to climate change. However, as it stands, there is no reliable measure to confirm to what extent cross-cutting projects contribute to that part of the Fund’s mission. This creates the danger of stakeholders proposing cross-cutting projects for the sake of appealing to the Board, rather than actually strengthening resilience. The GCF needs to provide clarity with regard to what they consider cross-cutting, along with tools for project assessment.

About this survey and report

This survey is an initiative of E Co, emerging from work we are doing to develop low-carbon, climate resilient projects. E Co’s team of consultants designed and administered the survey and prepared this report. E Co. has conducted this research independently, and is not affiliated with the GCF, the GCF Secretariat or donors. The views expressed in this report are those of the authors and do not represent those of the GCF.

About E Co.

We are a UK-based consulting company with a long-track record in low-carbon, climate-resilient project formulation. We believe that the GCF can make a substantial and lasting change in the world, and we’re doing all we can to help it do that. As a consulting company we are leading the way, and we are happy to share the lessons with the GCF community to make all GCF projects better. We would love to hear your thoughts on this edition of GCF insight. Please get in touch by email or phone.

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