Capacity Building for a
transformational use of climate finance

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Governance and Action:

Design Criteria
for Transformational Climate Finance

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More and more financing institutions aim at supporting the process towards a low-carbon and climate resilient development. The question often raised is: "Which criteria should we use to select projects with the highest transformational potential?" We firmly believe that it is not possible to develop ticking-the-box-criteria for transformational change on a global level. Such project-level performance criteria would have to be spelled out sector and country specific.

What is possible, in contrast is to define process or design criteria on two levels:

- ***design processes for actions** and*
- ***internal governance processes for financing institutions***

which aim to promote a paradigm shift towards a low-carbon and climate resilient development.

This paper specifically targets climate and environment financing organisations, including primary bi- and multilateral financing organisations. Transfer organisations such as national institutions in developing countries may also profit from these deliberations.

We base our recommendations on the Guidebook, "Shifting Paradigms: Unpacking Transformation for Climate Action", and have included page references to the guidebook as appropriate. We highly recommend referring to the guidebook for further information on the aspects we touch upon here. The guidebook can be downloaded at:

http://wupperinst.org/en/projects/details/wi/p/s/pd/482/

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The GIZ Climate Finance Readiness Programme (CF Ready) supports partner countries to strengthen their capacity to use climate finance well, and in particular to prepare to access the Green Climate Fund. The programme works in ten countries and one region ranging from Least Developed Countries to Emerging Economies. An important pillar is supporting national climate finance institutions in their coordination work and in gaining accreditation under GCF's direct access modality. Furthermore, the programme provides strategic and conceptual support in developing national climate strategies and policy packages for ambitious, climate-resilient, low-carbon development paths. A third pillar is the global exchange of experiences. The explicit objective of the programme is to support the transformational use of climate finance in the countries.

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Introduction

Transformational change and *paradigm shift* are becoming important terms within the vocabulary of the climate change and development community. They reflect a common understanding that a fundamental change of perspective and means is needed to prevent dangerous levels of climate change, and to ensure a globally sustainable development. Such a change cannot simply arise from changing technologies or simple structures. It must entail a systemic change comprising "worldviews, institutions and technologies together, as an integrated system" (Beddoe et al. 2009).

Financing institutions aiming at supporting such change processes often face the challenge that they have to select project sketches and proposals, e.g. if they run a national or international call or simply have to choose various options. Selecting concrete actions that have the highest potential to bring about this type of change is not trivial: a plain comparison of numbers (e.g. involved costs vs. expected reduction of emissions) will not suffice.

Of the triad of worldviews, institutions and technologies, only the latter can be easily quantified. However, for structural changes within a targeted system, the qualitative aspects of an envisioned transformation must not be treated as an add-on, but as integral part of intervention design. O'Brien and Sygna (2013) point out that "attention to parameters and numbers is one of the least effective leverage points for systems change, as many such changes push the system in the wrong direction. Indeed, without addressing the larger systems and structures, practical solutions may create unexpected outcomes and new problems" (O'Brien and Sygna 2013).

Selecting the technologies, institutional changes and capacity development responses that are most suited to induce or accelerate transformational change processes will necessarily depend on national or even local circumstance. Defining global performance criteria would only be possible on such an aggregated level that they would lose most of their informative value and power of differentiation between different interventions. We therefore suggest that ***performance criteria*** **for transformational change should be defined in a context-specific manner.**

However, the processes of *how* interventions with transformational ambition should be developed can be globally defined. This means that **implementers can apply *process-oriented design criteria* that are globally valid**, and that lead to intervention designs with a high potential for transformational change. Financing organisations may screen proposals or sets of proposals along the quality of their design, including how proponents have applied the design criteria proposed below. Design criteria will also provide a basis for distinction of competing proposals, as financing organisations will be able to directly compare how implementers plan to induce transformational processes within their specific context.

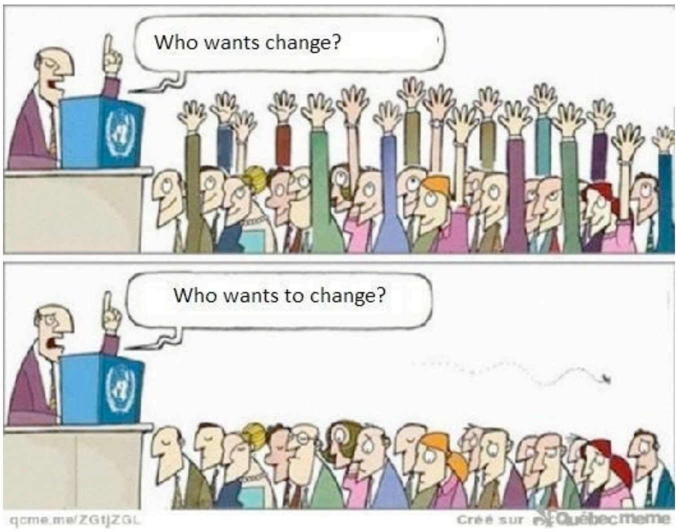

Figure 1: Who wants to Change? *If financing institutions want to trigger transformational change, they will inevitably have to change the way they work internally. (Cartoon taken from: http://quebecme.me/)*

Thus, we claim that financing institutions who want to support transformational change do not only have to look for different projects - the also have to look at projects differently. This means they have to change their internal processes and procedures of how they assess and select the projects they support.

Consequently in this paper we sketch design criteria for two different purposes:

1. **Climate finance *programme governance* design**
   In this section, we address aspects that financing organisations may implement *internally* in order to design climate finance funding programmes that are conducive to transformational change. In a way, these criteria describe qualities of the internal governance of finance institutions.
2. **Mitigation / adaptation *action* design**
   In this section, we propose process-oriented criteria for selecting actions which should be funded. They are process-oriented qualities of how to design climate actions. Financing organisations may require (external) project developers to employ these design criteria when developing climate actions in a way that is conducive to transformational change.

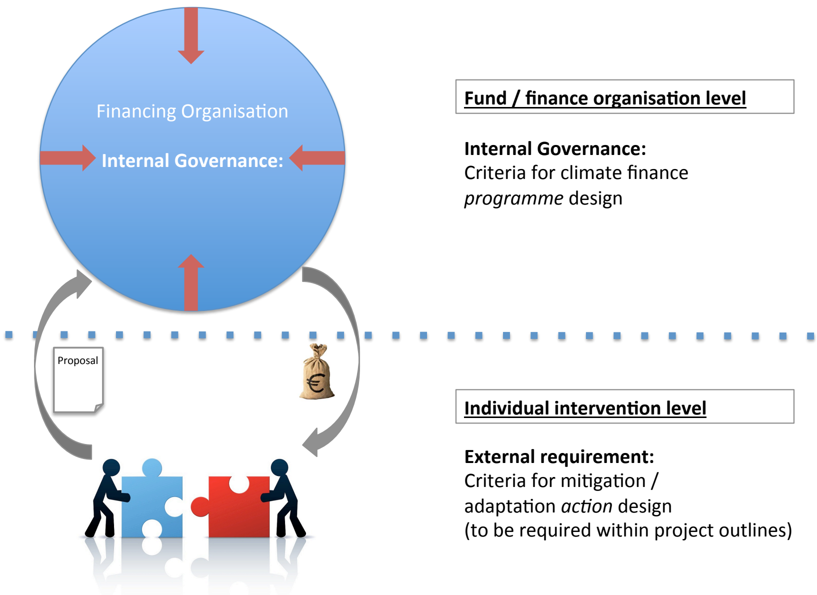

Figure 2: Two distinct criteria sets to operationalise Transformational Change

The recommendations and guidelines summarised in this paper are sketched in more detail within the guidebook, "Shifting Paradigms". Here we also describe in more detail tools which we propose to use in the development of climate actions. These tools can be employed be project developers (as summarised in the last section of this paper). Alternatively these tools can also used by financing organisations to develop context-specific *performance* criteria (see p. 18ff of the guidebook).

Criteria for climate finance programme governance design

Actions with a high probability for transformational change in a given system may require adapting current approaches to climate and development financing. The guidelines contained in "Shifting Paradigms" (p 22ff) address a number of success factors that financing organisations should implement if they aim at maximising the probability for transformational impact through climate and development finance.

We have condensed our guidelines into criteria that financing organisations may implement internally to maximise the transformational impact of their financing programmes.[1] They can be read as a "how to develop a climate finance programme". They are condensed recommendations on the internal governance of financing institutions: on how they assess and select actions, which are prioritized for funding. Within the overall governance structure of finance programmes, these criteria can assist in bringing about transformational change.

[1] Climate finance programmes in the sense of this paper are programmes by climate finance institutions that channel and redistribute finance from primary sources by issuing targeted calls for proposals and strategic actions in target countries.

For every criterion, we have included a recommendation on how that criterion should in our view be applied by a financing organisation, as well as the rationale for that criterion.

Institutional Criteria Program Governance	**Recommendation**	**Rationale**
Theory of Change	Financing organisations should clearly define their overall goal that they want to achieve with the sum of the actions they finance, and outline crucial steps that need to be taken and aspects that must be covered to achieve that goal.	Transformational change can take on numerous forms, and may happen in many different sectors or parts of society. Not every aspect can or should be addressed by a specific programme. At the outset of every financing activity, there is a strategic choice of what is to be achieved with a particular programme. While this may seem trivial, it has strong repercussions on how the performance of the funded actions will be assessed. A Theory of Change allows to define the most crucial steps and aspects that need to be achieved for the envisaged transformation. This is the prerequisite to build an indicator set targeted at assessing progress towards that specific goal.
Portfolio financing	Financing organisations should take a systemic perspective, and design finance programmes as portfolios that facilitate coherent strategic approaches (aligned with national priorities of target countries).	Systemic changes require a wide range of different angles and vectors for change that single projects are seldomly able to address. Project-by-project approaches to financing can leave persistent problems that inhibit systemic change unaddressed. By giving preference to wider project portfolios (either by a single or across various proponents), financing organisations can assure that many angles are covered through their programme. Project portfolios are also ideal to spread risk across different interventions, which can promote novel approaches (see *allowance of risk and failure* below).
Portfolio evaluation	In order to assess transformational impacts with respect to a given goal of change, financing organisations should concentrate on evaluations of project portfolios within that field.	Success or failure of transformational processes rarely lies within a single project's scope, but within the overall approach to change in a given area. A portfolio of projects should be able to address multiple angles geared towards structural change. Therefore, not a single project's contribution, but the performance of the portfolio as a whole should be evaluated. Such an approach to evaluation should be made transparent from the outset by financing organisations. This will also most likely result in intervention designs that show higher levels of alignment with each other in respect to a given goal of change.

Institutional Criteria Program Governance	**Recommendation**	**Rationale**
Qualitative assessments	Financing organisations should pay as much attention towards intangible impacts of interventions as they do towards tangible aspects, and make this decision wholly transparent to developers.	An evaluation of transformational processes cannot be reduced to tangible factors that are readily measured. Putting the strongest focus on quantitatively measurable results (as is often the practice especially for mitigation actions) leads to intervention designs that produce this type of results. At the same time, it may crowd out designs that have less tangible impacts, but can be more transformational e.g. for changing values and worldviews, or long-term structural change.
Commitment to long-term funding	Financing organisations should commit to long-term funding of transformational efforts, and not look for "quick wins".	Transformational change is a long-term process that will likely not show quick success. This implies that funding periods need to be more extensive than they often are currently. Interventions must be given time to develop impacts, and financing organisations need to acknowledge that these impacts can most likely not be attributed to single interventions (see above). However, without long-term commitments to funding, there is a high risk that interventions supporting transformational processes will stall prematurely.
Allowance of risk and failure	A venture capital portion within a finance programme can increase innovation in intervention design by removing fears that a proposal is not chosen because of financial risks involved.	Piloting promising, but untested approaches always entails a risk that a particular action does not deliver. Most financing organisations are highly risk-averse, which in turn leads to many project designs that have a low probability of failure, but often are not exceptionally innovative. However, Transformational Change is explicitly about fundamental changes and restructuring systems – this will only be possible by true innovation and must entail experiments. By reserving parts of financial resources as risk / venture capital, financing organisations can specifically address this issue.
Funding flexibility	Financing organisations should allow easy adaptation of actions should the circumstances make a change necessary.	Due to their long-term nature, it is possible that interventions face spontaneous challenges that need addressing. Flexibility is also needed in order to respond quickly to windows of opportunity that facilitate structural change. For financing organisations, this implies that project designs should not be cast in stone, but be amendable and adaptable to positive or negative circumstance.

Table 1: Governance criteria for the design of transformational climate finance programmes

Criteria for mitigation / adaptation action design

In the following, we provide financing organisations with a set of design criteria and questions to proponents of interventions (i.e. the designers and implementers of concrete actions) that will aid screening mitigation and adaptation actions with transformational potential. These are aimed at the level of individual interventions, but in many ways reflect the criteria for the governance design of financing entities laid out in the previous chapter.

- A number of general criteria should be adhered to within intervention design, as they form basic prerequisites for a transformational process to take shape in the first place. They are mainly derived from some of the main characteristics of transformational change processes (see our guidebook, p. 15ff).
- A systems thinking approach to intervention design will greatly enhance chances for a transformation. Financing organisations should require proponents to use the planning and design tools we have compiled within our guidebook (see p. 25ff).

We believe that this combination of basic design criteria and systems thinking in intervention design will greatly enhance the quality of proposals and their potential to effectively contribute to transformational change.

A selection of actions on the ground can naturally not be reduced to its design process. However, the responses to the criteria questions will provide financing organisations with a basis for comparison within specific contexts. This will greatly simplify a comparison of directly competing proposals within a given sectoral / topical / national context.

General criteria

We have identified a number of decisive characteristics of transformational change processes within our guidebook that refer to the intensity, social and temporal dynamics of change (see p. 15ff). From these, we can abstract a number of general design criteria that any proposal should consider in order to maximise transformational impacts. We have indicated where these criteria reflect programme governance design criteria that we have outlined above.

- **Vision:**
  At the beginning of consciously planning for transformational change, a vision of how a successful transformation will look like is indispensable. This vision should take a long-term perspective, and serve as a basis to roadmap approaches that lead to this envisioned future.

- **Risk assessment:**
  1) Transformational change entails structural change processes that will in all probability encounter opposition from established actors and approaches (i.e. barriers to change).
  2) A different risk stems from possible impacts of an intervention: As transformational change means changes across multiple dimensions, proponents may need to look even more closely at possible consequences of their intervention than their current practice.

- **Innovativeness:**
  Approaches that have the potential for transformation will often include untested, experimental elements. If they are successful, they may lead to fundamentally different "ways of doing things". However, experiments always carry a risk of non-delivery. If allowed for by the financing organisations, such approaches may draw from dedicated risk-capital portions of available finance.
  Note that this criterion is therefore not universally applicable.

- **Integrated Strategy:**
  1) As no single project can change the system, but will be able to contribute to a transformational goal, interventions should be part of an integrated planning approach. Proposals should outline how they fit into a wider intervention portfolio, and/or how they align with national strategies that aim at transformational change
  2) At some point in a transformational process, interventions will have to transcend sectoral borders in order to maximise their impact. However, the relevance of this criterion depends on the circumstance of the planned intervention.
  Note that this criterion is therefore not universally applicable

- **Learning processes:**
  Transformational change is a long-term process that involves a learning curve on best practice, as well as the need to adapt to changing circumstance. Project design should therefore allow for periodical reviews of all tools in order to allow for learning and possible adaptation of project designs.

Design Criteria for Actions	Questions / Tasks	Applicability
Vision	Which vision of change do you have with your intervention?	all
	How does your intervention relate to existing national visions and long-term development /climate goals?	all
	What is the expected/intended long-term impact of your intervention?	all
Risk assessment	What are risks that may impede your intervention?	all
	Which risks can result from your intervention?	all
Innovativeness	Is your approach highly innovative? Does it constitute a new (untested) approach within your intervention context? If yes, how?	optional (risk capital?)
	Does your proposed intervention contain a heightened risk of non-delivery (failure)?	optional (risk capital?)
Integrated strategy	Is your intervention part of a wider intervention portfolio? If yes, how?	all optional (context-spec.)
	Does your proposed intervention transcend sectoral borders? Why yes/no?	if yes, than all
Learning	How does your intervention foster learning processes?	all
	Is your intervention geared at changing mindsets?	all
	If yes, how?	all

Table 2: Overview table: Criteria and Questions on the general design of mitigation and adaptation actions

Tools for systemic project planning

We support a *system* approach to intervention planning. We strongly believe that working in silos is one key barrier to promoting a transformation towards sustainable development. Consequently, in designing actions which aim at promoting a transformational change system thinking should play a key role. To facilitate such a system approach we propose three different tools. They are neither revolutionary new, nor is this list exhaustive. However, if applied consequently they can raise the potential contribution of actions towards a truly transformational change.

We recommend that these tools should be applied in any intervention design process, and findings should be well documented as part of the project proposal. Thus, the effective use of these tools can serve as a key selection criterion. In our view this will serve two purposes:

1) Proponents will have to apply and report on criteria for a design that facilitates transformational processes, which requires that they familiarise themselves with some of the basic prerequisites of systemic approaches to planning;
2) As these tools would constitute a basic requirement for eligibility, proposals will have similar structures and reasonings, which will facilitate comparability across proposals.

To limit transaction / planning costs the required level of detail needs to be tuned to the size of the available funds. Financing organisations should provide guidance as to how detailed the analysis should be. They could provide support for pre-proposal scoping studies, or carry out some of the recommended analysis themselves and provide results to project developers.

- **Systems Analysis:** As a key factor, project designers will have to take into account the wider system that projects are embedded in. They should conduct a systems analysis, and document the findings with respect to the problem their project is designed to resolve.
  The guidebook outlines some basic steps for conducting a systems analysis at p. 27 ff.
- **Phase Model:** Project designers should analyse at which point of a transformational process they consider their system to be in respect to a given transformational goal. The form interventions take have to fit the transformation phase the targeted system is at.
  The Phase Model is presented in our guidebook at p. 34 ff.
- **Backwards Planning:** Ideally, any single intervention should be part of a larger existing or new portfolio that is geared towards achieving a broader transformational goal. Proponents should demonstrate where their proposed project fits into a landscape of interventions, and how different interventions contribute to different aspects of the overall goal.
  The Backwards Planning approach is outlined in our guidebook on p. 41 ff.
- **Other tools, methods, approaches:** Financing organisations may add to this list of tools as they see fit. Questions on other tools should follow a similar logic as those proposed here.

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