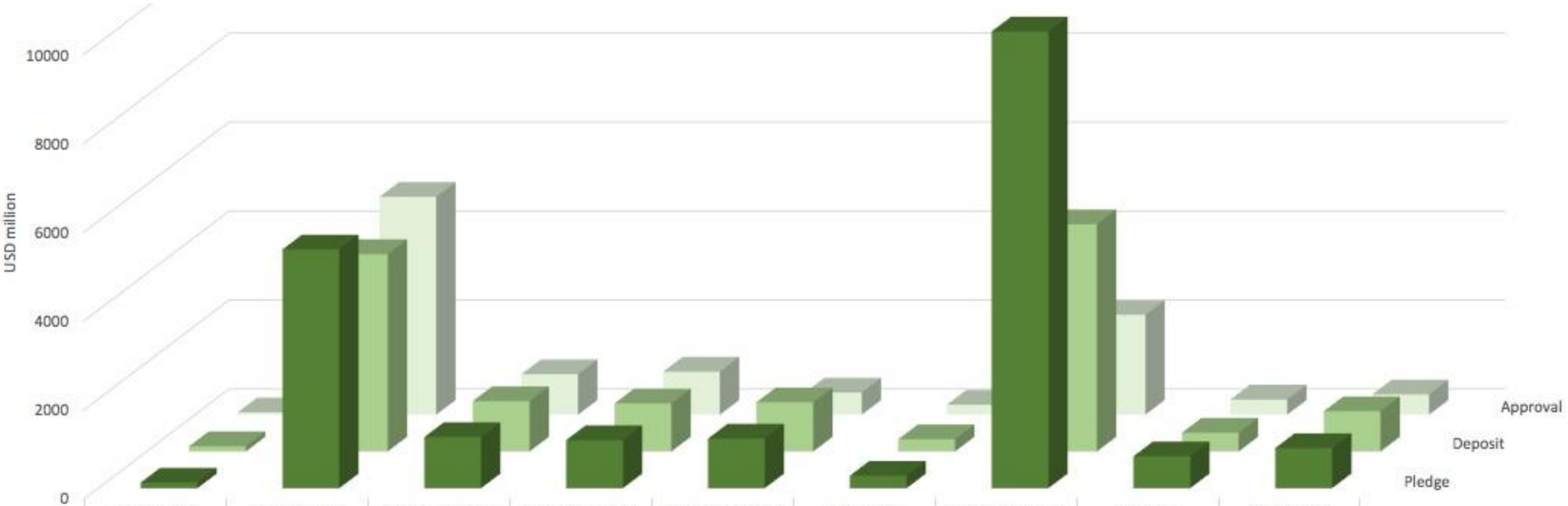
Introduction to the GCF from a project development point of view

Largest multilateral Funds offering RES finance Source: climatefundsupdate.org



	Partnership for Market Readiness	Clean Technology Fund (CTF)	GEF Trust Fund (GEF 5)	GEF Trust Fund (GEF 4)	GEF Trust Fund (GEF 6)	Global Energy Efficiency and Renewable Energy Fund (GEEREF)	Green Climate Fund	Scaling Up Renewable Energy Program (SREP)	Global Climate Change Alliance (GCCA)
Pledge	127.27	5370.08	1152.41	1082.98	1117.16	281.5	10272.96	719.66	905.6
Deposit	118.27	4438.66	1133.59	1082.98	1107.18	275.5	5109.4	422.76	905.6
Approval	52.3	4899.03	909.43	968.52	498.29	223.59	2244.53	342.32	455.97

GCF Basics

- The GCF was created in 2010 and is operationalized since 2013.
- Today only few operational policies are lacking and some are under reconsideration. It is therefore useful to visit the GCF website regularly: www.greenclimate.fund
- Key governance features: UNFCCC, Board, Secretariat, AP, iTAP

How does GCF differ from other climate finance mechanisms?

1. Scale and Impact

- Make a significant and ambitious contribution to global efforts to combat climate change
- **Promote a paradigm shift and help developing countries transform their economies and put them on a low emission and climate-resilient pathway.**
- Country driven and in line with countries priorities
- Expected to become the main global fund for climate finance

2. Governance

- Board comprised of an equal number of members from developed countries and developing countries
- Dedicated seats for SIDS and LDCs

3. Access

- Recipient countries will be able to utilize direct access or access through international and regional intermediaries and implementing entities accredited by the Fund

4. Allocation

- Minimum floor for adaptation financing to SIDS, LDCs
- The allocation of resources will be balanced between adaptation and mitigation activities
- The allocation of resources will be based on results

GCF Revenues

- The GCF to receive revenues from developed country Parties to the UNFCCC, as well as other public and private sources.
- GCF to mobilize funds at scale from institutional investors, incl. possibly pension funds and sovereign wealth funds.
- Initial resource mobilization process in 2014 yielded approx. USD 10.3 billion.
- Regular replenishment process coming soon. The plan is to start a replenishment process, once 60% of pledged funds are approved.

Revenues outlook

- Current GCF project pipeline exceeds USD 10 billion of GCF finance already if CN pipeline is counted in, i.e. replenishment efforts can be expected soon.
- GCF, along with GEF, serve as operating entities of the financial mechanism of UNFCCC.
- UNFCCC COP decided on a mobilization goal of USD 100 billion p.a. for mitigation and adaptation finance in developing countries after 2020.
- The 100 billion target was reinforced at the latest COP in Nov. 2016 (Marrakech Action Proclamation).
- No guarantees as to whether the 100 billion will be provided, but GCF likely to receive a significant share of what will be provided.

GCF Access: Basic Requirements

Key **elements needed in a recipient country to be able to access GCF** funding:

- Ambitious and coherent **national climate strategy / policy**
- Institutional requirements:
  - **NDA** designated by the Government
  - **DAEs** proposed by NDA and **accredited** by the GCF, and/or
  - **IAEs accredited** by the GCF
- **Projects, project pipelines** that fulfill GCF requirements (ideally based on the GCF Country Programme and relevant Entity Programme)

NDA services and decisions during GCF project development

- NDA to provide advice during project preparation (voluntary) – may facilitate prioritization and project development, e.g. based on Country Programme.
- NDA to coordinate strategic planning leading to a regularly updated country project pipeline (GCF country program) – early inclusion in the Country pipeline will probably facilitate prioritization and project development.
- NDA to issue formal no-objection letters for each project that foresees implementation of activities on the territory of the country represented by the NDA – this is a compulsory requirement!

Example of NDA No-Objection procedure

- Few published examples yet (to the authors knowledge)
- Some countries in process of establishing formal procedures
- One key issue in some countries is how the GCF requirements for NDAs and no-objection can be incorporated into national law
- GCF may formulate respective best practices and guidelines
- At present, it appears that no-objection procedures are implemented in an ad hoc fashion

Access: DAEs, IAEs

- GCF money can be accessed through national or international implementing entities (Direct Access Entities - DAEs and International Access Entities - IAEs).
- In order to achieve the status of DAE or IAE, interested institutions need to get accredited by the GCF.
- Accredited DAEs or IAEs are also called accredited entities (AEs).
- AEs can submit funding proposals to the GCF and once proposals are approved, manage the implementation of these projects.
- AEs which passed accreditation against grant award, lending and/or blending standards are also called intermediaries. These institutions can on-grant or on-lend GCF money.

Accredited entities (03/15 – 08/18)

- 59 institutions accredited so far.
- More with every GCF Board meeting.
- There is an accreditation backlog – some 100+ institutions in the process of getting accredited and many more preparing for accreditation – it may therefore take a lot of time to get accredited for new applicants.
- Accreditation framework may be changed soon (currently under review)

Accreditation pipeline as of 31 May 2018

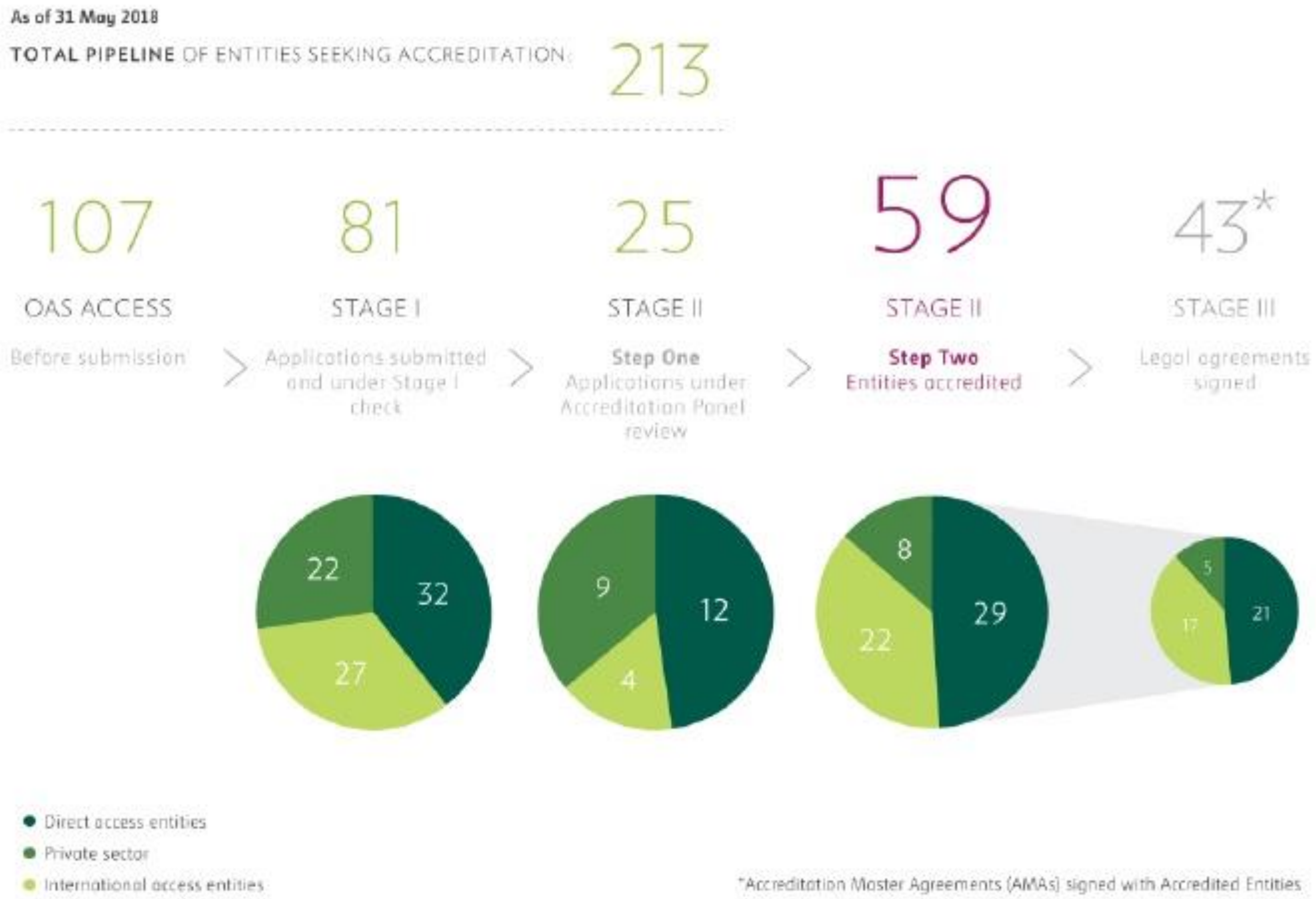


Figure 10: Projected total number of accredited entities (number of entities)

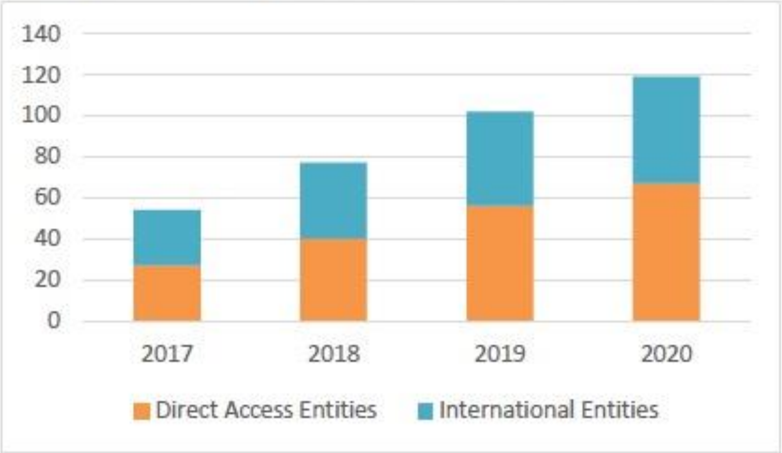
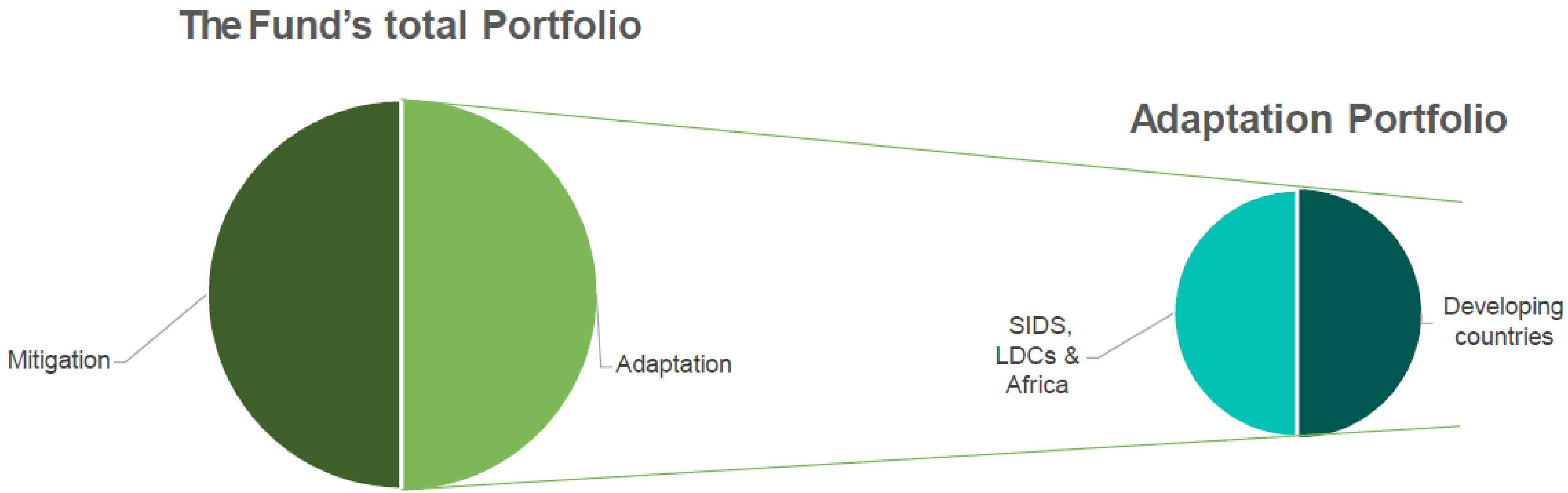


Figure 11: Mapping of GCF's Accredited Entities and their accreditation scopes (as at 31 January 2018)

Allocation Framework



- No country cap
- At least 50% to adaptation, of which at least half to vulnerable countries
- Geographic balance across broad range of countries to be achieved
- Maximize fund-wide engagement with the private sector
- Support for readiness and preparatory activities

Eight result areas

MITIGATION - Reduced emissions from:

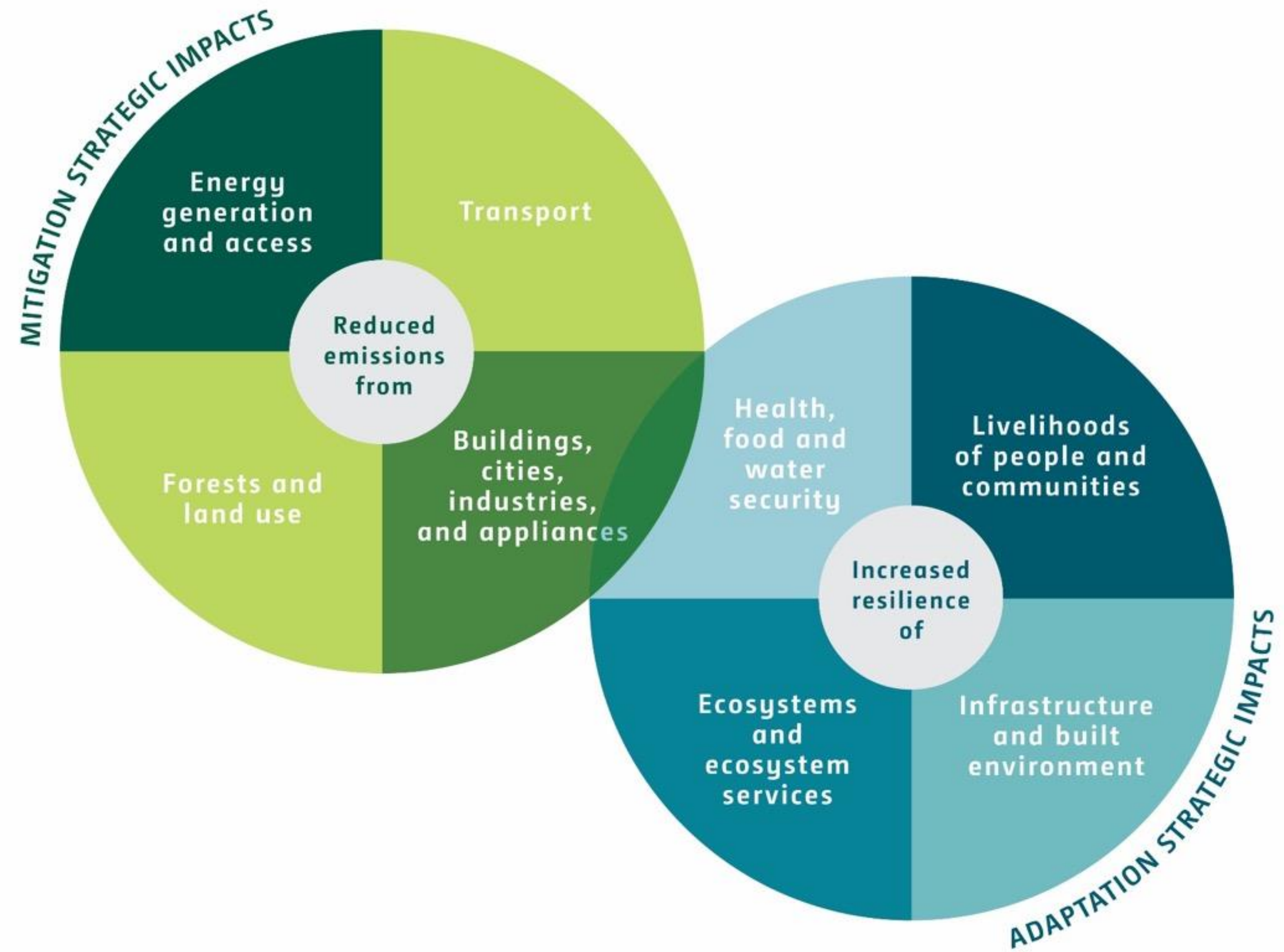
1. **Energy access and power generation** (e.g. on-grid, micro-grid or off-grid solar, wind, geothermal, etc.)
2. **Low emission transport** (e.g. high speed rail, rapid bus system, etc.)
3. **Buildings, cities and industries and appliances** (e.g. new and retrofitted energy-efficient buildings, energy-efficient equipment for companies and supply chain management, etc.)
4. **Forestry and land use** (e.g. forest conservation and management, agroforestry, agricultural irrigation, water treatment and management, etc.)

Eight result areas

ADAPTATION - Increased resilience of:

5. **Most vulnerable people and communities** (e.g. mitigation of operational risk associated with climate change – diversification of supply sources and supply chain management, relocation of manufacturing facilities and warehouses, etc.)
6. **Health and well-being, and food and water security** (e.g. climate-resilient crops, efficient irrigation systems, etc.)
7. **Infrastructure and built environment** (e.g. sea walls, resilient road networks, etc.)
8. **Ecosystem and ecosystem services** (e.g. ecosystem conservation and management, ecotourism, etc.)

Strategic Results Areas



Investment policy

- Focus on projects that demonstrate the maximum potential for a mitigation / adaptation paradigm shift.
- GCF to provide minimum concessional funding necessary to make a project viable.
- Intermediaries allowed to blend GCF finance.
- No "crowding out" of other financing.
- In case revenue-generating activities are included in a proposal, these have to be intrinsically sound from a financial point of view

Investment Framework: Key criteria for investment

1. Impact potential
2. Paradigm shift potential
3. Sustainable development potential
4. Responsive to recipients needs
5. Promote country ownership
6. Efficiency and effectiveness

Investment Framework: 1. Impact potential

Definition	Coverage area
Potential of the project / programme to contribute to the GCF's objectives and result areas	• Mitigation impact • Adaptation impact

Investment Framework: 2. Paradigm shift potential

Definition	Coverage area
Degree to which the proposed activity can catalyze impact beyond a one-off project / programme investment	• Potential for scaling up and replication in the context of the 2 degrees goal • Potential for knowledge and learning • Contribution to the creation of an enabling environment • Contribution to the regulatory framework and policies • Consistency with a country’s climate change strategies and plans

Investment Framework:
3. Sustainable development potential

Definition	Coverage area
Wider benefits and priorities	• Environmental co-benefits • Social co-benefits • Economic co-benefits • Gender-sensitive development impact

Investment Framework: 4. Needs of the recipient

Definition	Coverage area
Vulnerability and financing needs of the beneficiary country and population	• Vulnerability of the country • Vulnerable groups and gender aspects • Economic and social development level of the country and affected population • Absence of alternative financing sources • Need for strengthening institutions and implementation capacity

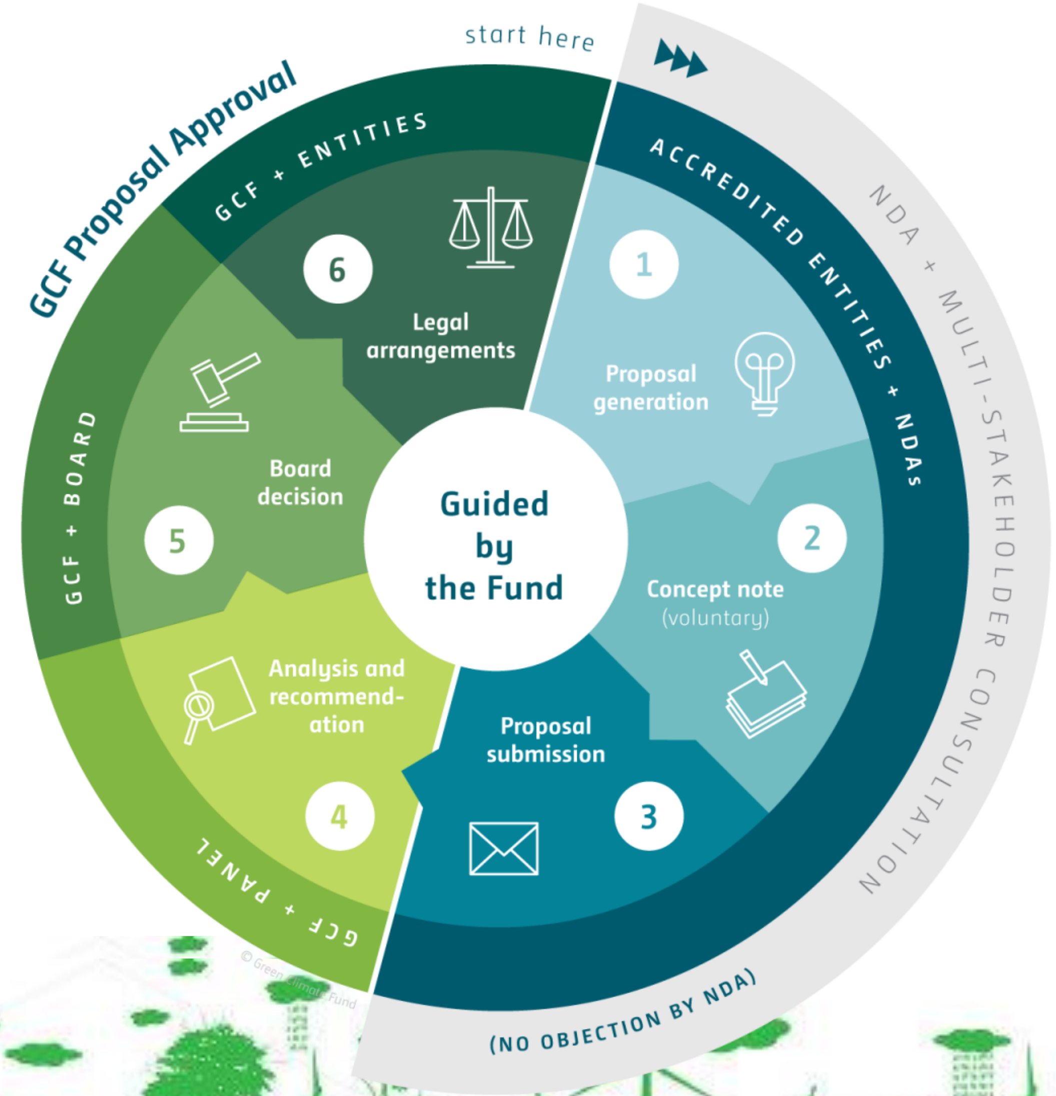
Investment Framework: 5. Country ownership

Definition	Coverage area
Beneficiary country ownership of and capacity to implement a project / programme	• Existence of a national climate strategy • Coherence with existing policies • Capacity of implementing entities, intermediaries or executing entities to deliver • Engagement with civil society organizations and other relevant stakeholders

Investment Framework: 6. Efficiency & effectiveness

Definition	Coverage area
Economic and, if appropriate, financial soundness of a project / programme	• Cost-effectiveness and efficiency regarding financial and non-financial aspects • Amount of co-financing • Financial viability of the project / programme and other financial indicators • Industry best practices

Project Approval Process



GCF Concept Note and Funding Proposal Templates

Templates to be used have been published and are available at the GCF website:

- GCF Concept Note Template (there is also a SAP CN template)
- GCF Funding Proposal Template (there is also a SAP FP template)

A User Guide for completing Concept Notes is available at the GCF website.

We will work with the Concept Note template and User Guide in the training workshop.

Simplified Approval Process (SAP)

Easier access to GCF resources for smaller-scale activities – eligibility:

- project must be ready for scaling up, and have the potential for transformation to adapt and/or mitigate to climate change.
- Project requires a GCF contribution of up to USD 10 million.
- Project has minimal environmental and social risks and impacts.

Simplifications:

- The documentation to be provided with the Funding Proposal is reduced;
- The review and approval processes are streamlined.

→ These two simplifications should lead to a reduction in time and effort required to go from project conception to implementation.

Find more details on SAP on the GCF website and/or UBS stick

GCF Calls for Projects vs. “uninvited” project submission

Several RFPs published so far, including the 2016 USD 100 million first pilot programme to support SMEs and the 2016 RFP for enhanced direct access.
See: http://www.greenclimate.fund/about-gcf/procurement

More RFPs will likely follow in the future.

Apart from responding to RFPs, Accredited Entities can submit “uninvited” Concept Notes and Funding Proposals to the GCF any time. These will be assessed on a case by case basis.

Financial instruments offered by the GCF

In line with their accreditation conditions, accredited entities may request the following financial instruments from the GCF:

- grants,
- concessional loans,
- equity,
- loan guarantees

Possible that insurance products will be offered too after 2018.

Proposed terms of GCF grants/loans

	Currency	Service fee	Commitment fee	Interest rate	Maturity	Grace period
Grants	Major convertible currency	0.50 per cent of grant amount up front	Up to 0.75 per cent on undisbursed balances	Grants without repayment contingency: no reimbursement required[1] Grants with repayment contingency: terms adapted to the required concessionality of the project or programme		
Highly concessional loans	Major convertible currency	0.50 per cent annually on disbursed amounts	Up to 0.75 per cent annually on undisbursed amounts	Based on cost-of-borrowing terms of loan-type contributions received plus a margin that covers credit risk	Up to 40 years	Up to 10 years
Moderately concessional loans	Major convertible currency	0.50 per cent annually on disbursed amounts	Up to 0.75 per cent annually on undisbursed amounts	Based on cost-of-borrowing terms of loan-type contributions received plus a margin that covers credit risk	Up to 25 years	Up to 5 years

[1] Except in cases of corruption or other non-compliance with fiduciary standards.

Risk management responsibilities of AEs

At project level, the following types of risks will have to be managed and mitigated by AEs based on a risk assessments to be carried out by AEs:

- Implementation risk. Tools to address this risk include: borrower/implementer accreditation, third-party guarantees of performance;
- Technical risk. Tools to address this risk include: independent engineering review;
- Market risk. Tools to address this risk include: hedging, contractual terms;
- Foreign exchange risk. Tools to address this risk include: foreign exchange hedging, swaps;
- Country risk. Tools to address this risk include: political risk insurance.

Projects approved to date (06/18)

Total GCF portfolio

- 76 projects approved with USD 13.0 billion value and USD 3.7 billion GCF co-finance, of which 13 direct access and 63 regional/international access. 43% of total GCF contribution in grants, 43% in loans, 11% in equity, 3% in guarantees.

SAP

- SAP 001 (approved): Improving rangeland and ecosystem management practices of smallholder farmers under conditions of climate change in Sesfontein, Fransfontein, and Warmquelle areas of the Republic of Namibia
- Two SAP projects were proposed for B.20

GCF project pipeline as of Apr 30 2018

Sectoral distribution	Funding proposals		Concept Notes	
	GCF funding requested (million USD)	Number of proposals	GCF funding requested (million USD)	Number of concept notes
Public	2 208.7	48	5 868.3	116
Private	1 654.9	17	3 716.7	54
PPP	-	-	1 313.1	13
Total	3 863.6	65	10 898.1	183
(% from DAE)	33%	30.8%	18.6%	24%

Funding Proposal pipeline:

Figure 4: Total requested GCF amount by financial instrument

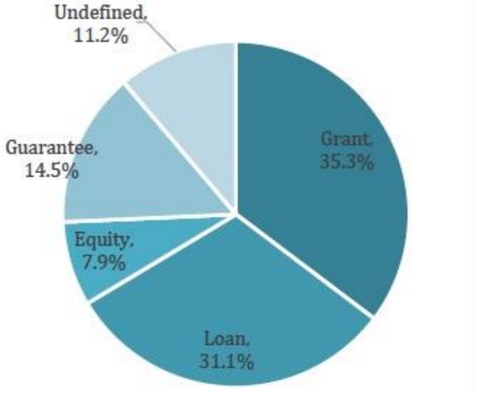


Figure 5: Total requested GCF amount by theme

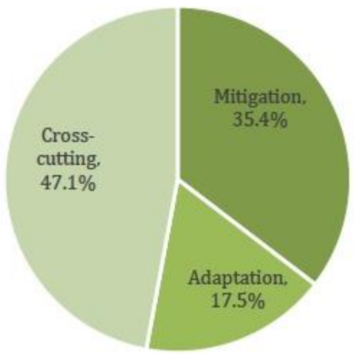
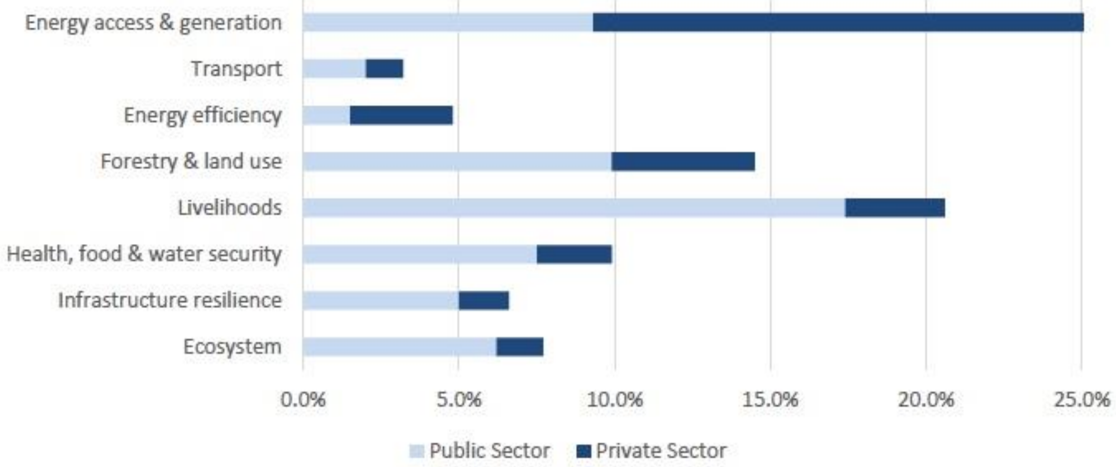


Figure 6: Requested GCF funding by results areas (percentage)[5]



Results Management Framework (RFM)

- RFM monitors the GCF's results at the project, programme and aggregate portfolio levels.
- RFM includes indicators that measure progress toward intended results based on objectives, impacts and outcomes defined in logical framework.
- Indicators will be used as the basis for the monitoring, reporting and evaluation of the Fund's progress over time.
- Accredited entities will develop detailed plans, including intended results with specific indicators for each intervention.

Initial Results Management Framework

Levels of logic model:

- Paradigm shift objective
- Impacts (Fund level)
- Project/Programme outcomes
- Project/Programme outputs
- Activities
- Inputs

Initial Results Management Framework: Paradigm shift objective

Paradigm shift objective for mitigation:

Shift to low-emission sustainable development pathways

Paradigm shift objective for adaptation:

Increased climate-resilient sustainable development

Initial Results Management Framework: Impact level

Impact level is pre-defined: the GCF’s eight result areas apply

Initial Results Management Framework: Outcome level

- Outcome level is pre-defined, as follows for mitigation projects:
  - *Strengthened institutional and regulatory systems for low-emission planning and development*
  - *Increased number small, medium and large low-emission power suppliers*
  - *Lower energy intensity of buildings, cities, industries, and appliances*
  - *Increased use of low carbon transport*
  - *Improved management of land and forest areas contributing to emission reductions*

Initial Results Management Framework: Inputs, activities, and outputs

Inputs, activities, and outputs will be defined for each project/programme on a case-by-case basis

Core Indicators

Mitigation:

i. Tons of carbon dioxide equivalent (tCO2eq) reduced as a result of GCF-funded projects/programmes

ii. Cost per tCO2eq decreased for all GCF-funded mitigation projects/programmes

iii. Volume of finance leveraged by GCF funding, disaggregated by public and private sources;

Adaptation:

i. Total number of direct and indirect beneficiaries; number of beneficiaries relative to total population