Daily Briefing
19th Green Climate Fund Board Meeting
28 February 2018

This is the Climate Finance Advisory Service (CFAS) Daily Briefing. Produced at key meetings and negotiations by the CFAS expert team, the Daily Briefings try to provide a concise, informative update on key discussions that have taken place at each day of the meeting and give an overview of substantive points of action or progress. Please note that this is an independent summary by CFAS and not officially mandated by the GCF Board or its Secretariat.

During the meetings, CFAS experts are available to provide advise to and answer specific questions for Board Members, Alternates and their advisers from developing countries. The CFAS team can be reached via cfas@germanwatch.org.

Previous daily briefings and other CFAS analyses are available on the CFAS website www.cfas.info.

The CFAS Team

Summary from 28 February 2018

On Wednesday, 28 February 2018, the Board of the Green Climate Fund (GCF) reconvened for the third day of its 19th meeting. The Board continued the consideration of funding proposals and the discussion on policy matters.

Consideration of Funding Proposals

FP071: Scaling Up Energy Efficiency for Industrial Enterprises in Vietnam, World Bank
This project intends to scale up energy efficiency in the high-energy intensive industrial sector aiming to unlock the potential for energy savings and greenhouse gas emission reductions in Vietnam. The proposed project would contribute substantially to achieving Vietnam's Nationally Determined Contribution (NDC) of 25% GHG emission reduction compared to a Business-As-Usual scenario.

Several Board members questioned if the project would be able to achieve a paradigm shift impact without the necessary regulatory framework in place. They also raised concerns about the non-cost-reflective end user tariff and lacking incentives for pure renewable investments. The Co-Chair deferred the decision on this project to the following day, in order to allow time for additional discussions among Board members and with the project proponents.

FP072: Strengthening climate resilience of agricultural livelihoods in Agro-Ecological Regions I and II in Zambia, United Nations Development Programme (UNDP)
This project aims at increasing the resilience of smallholder farmers in Agro-Ecological Regions I and II in Zambia by taking a value chain approach, addressing risks posed across key stages of the value chain, namely planning, inputs, production and post-production.

A Board member raised questions about the approach to monitor progress in this proposal, and what kind of climate information is to be disseminated among beneficiaries. A representative of the independent Technical Advisory Panel (iTAP) responded that information will be disseminated to communities throughout the project life cycle, and that monitoring results and tracking will be undertaken by national implementing partners in collaboration with UNDP. The Board approved the proposal with a budget totalling USD 137.3 million, including a GCF financing of USD 32 million in grants.

FP073: Strengthening climate resilience of rural communities in Northern Rwanda, Ministry of Environment of Rwanda
This project seeks to restore and enhance ecosystem services in one of the sub-catchments of the degraded Muvumba watershed, while increasing the capacity of communities to renew and sustainably manage forest resources and support smallholders to adopt climate resilient agriculture. It will invest in climate resilient settlements for vulnerable families and support community based adaptation planning and livelihoods diversification.

Some Board members expressed concerns about what they considered very low co-financing of the proposal (USD 0.36 million). Since this project was the first to have benefitted from support through the GCF's Project Preparation Facility (PPF), some Board members questioned whether this had led to to the elaboration of an outstanding proposal that they would expect. The iTAP replied that as a Least Developed Country (LDC), Rwanda has limited capacity to co-finance projects. The Co-Chair deferred decision on this proposal until the following day, requesting the iTAP and the Secretariat to suggest ways to accommodate the concerns raised.

FP074: Africa Hydromet Program-Strengthening Climate Resilience in Sub-Saharan Africa: Burkina Faso Country Project, World Bank
This project aims to strengthen the adaptive capacity and climate resilience of vulnerable communities and the economy of the country which experiences large weather and climate variability and where extreme weather and climate events are also frequent. National hydro-meteorological and warning services will be developed and will in turn support adaptation planning for public and private sector users, including 80% of the population. The Board approved the project with a total budget of USD 27 million, including a GCF contribution of USD 22.5 million in grants.

FP075: Institutional Development of the State Agency for Hydrometeorology of Tajikistan, Asian Development Bank (ADB)
This project will support the development of the State Agency for Hydrometeorology (Hydromet) to a sustainable and well-resourced institution that produces timely and accurate forecasting of extreme weather events in the Pyanj River Basin. It will primarily modernize Hydromet's campus and associated facilities and undertake capacity building for improved forecasting and warning of extreme weather events.The Board approved the proposal with a total amount of USD 10 million and a GCF contribution of USD 5 million in grants.

FP076: Climate-friendly Agribusiness Value Chains Sector Project, Cambodia, Asian Development Bank (ADB)
This project aims to reduce climate change vulnerability and greenhouse gas (GHG) emissions of four agricultural value chains in Cambodia, enhance resilience and productivity of target crops, and increase agricultural competitiveness and household incomes. The funds will be used to invest in climate smart agribusiness value chain infrastructure, capacity strengthening in climate friendly agriculture, and enabling environment for sound agribusiness policy.

Board Members sought clarification regarding the difference in concessionality between the GCF and the ADB contribution. It was suggested that this development bank should be accepting bigger risk in the future. The Board approved the proposal with a total amount of USD 141.39 million and a GCF contribution of USD 10 million in loans and 30 million grants.

FP077: Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal Project, Mongolia, Asian Development Bank (ADB)
The project seeks to improve the climate resilience of Ulaanbaatar city and the adaptability of Mongolia to climate change; and reduce greenhouse gas emission and pollution, and improve the livability in Ulaanbaatar city, by transforming the highly climate-vulnerable and high polluting peri-urban areas of Ulaanbaatar (ger areas) into eco-districts characterized as low-carbon, climate resilient, and affordable.

Questions were raised by Board members with regard to the replication potential of the project and in relation to the emissions mitigated through the project component of housing construction. One Board member noted the lack of an adequate baseline and pointed to the need to close that policy gap. Another Board member highlighted the relevance of such an approach to megacities and the potential to address important social issues. An active observer from civil society conveyed concerns on the project, based on inputs received from Mongolian civil society, including doubts regarding the sustainability of urban housing promotion and problematic experience with past ADB projects. In response to questions raised, ITAP explained how possible permanent sources of emissions would be monitored. Furthermore, the Secretariat explained that the Mongolian Parliament as well as the ADB have indicated plans for scaling-up activities (incl. regulation), independent of further GCF finance. After this discussion, the Board approved the project, with USD 145 million of GCF financing (USD 50 million as a grant, 95 million as concessional loan), in addition to USD 399 million from several other contributors.

FP078: Acumen Resilient Agriculture Fund, Nigeria, Ghana, Uganda, Acumen
The aim of the Acumen Resilient Agriculture Fund (ARAF) would be to support pioneering and early-growth stage innovative agribusinesses that enhance the climate resilience of smallholder farmers (SHFs). Focus countries would be Nigeria, Ghana and Uganda. The Acumen fund is composed of a USD 6 million, grant-based technical assistance facility, USD 25 million in equity and a USD 25 million catalytic first loss capital tier.

Several Board members welcomed the project, noting that support for adaptation in Africa is urgently needed. With regard to Board members' questions regarding the concrete project pipeline that would potentially be funded, the Secretariat said that more information on the pipeline is available from the accredited entity. One Board member noted that investments of Acumen are relatively small compared to GCF investment. Other Board members noted the importance of the activities to be funded to be in line with the National Adaptation Plans of those countries, and to ensure they incorporate climate resilience. A civil society active observer suggested that the stated exclusion of support to agribusinesses which promote genetically modified organisms (GMO) should be included in the Funded Activity Agreement (FAA) and that the gender-differentiated information should be country-specific. Eventually, the Board approved the project, with USD 23 million of equity finance and USD 3 million of grant finance.

FP080: Zambia Renewable Energy Financing Framework, African Development Bank (AfDB)
The proposals aims at supporting Zambia's efforts to mobilize private investment in the renewable energy sector, hence contributing to the achievement of the country's renewable electricity generation targets and the diversification of its energy mix. The proposal targets decentralized solar energy generation and will support the implementation of Zambia's Renewable Energy Feed-in-Tariff (REFiT) Strategy.

A Board member asked about the costs per megawatt of the proposed investments and whether if the grid infrastructure in Zambia was able to support the proposed capacity additions or investments in grid upgrades or mini-grids were planned. Another member pointed to the need to implement this proposal in a way that is well coordinated with the activities of other development partners and other changes in the electricity sector. The iTAP provided additional clarifications on the aspects mentioned. The Board approved the USD 154 million funding proposal, with a GCF financing of USD 50 million in loans and USD 2.5 million in grants.

FP081: Line of Credit for Solar rooftop segment for commercial, industrial and residential housing sectors, India, National Bank For Agriculture And Rural Development (NABARD)
This programme will provide concessional loans to solar rooftop developers in the commercial, industrial and residential sector, to enable the installation of 250 MW of solar capacity, as a contribution to reaching India's ambitious solar targets. A concessional loan of USD 100 million received from the GCF would be passed on by NABARD to the executing entity, Tata Cleantech Capital Limited (TCCL), in Indian Rupees. TCCL would contribute the equivalent of USD 100 million of its own resources, while project developers would contribute the equivalent of USD 50 million in equity.

An active observer from civil society called for a better explanation of the added value of GCF investment and suggested that the intended social co-benefits should be spelled out as clear targets, reflected in the monitoring framework. The Board approved the proposal with a total size of USD 250 million, with a GCF contribution of USD 100 million in concessional loans.

Further development of the accreditation framework

The Secretariat gave an update on the ongoing review of the accreditation framework. In addition, it proposed for the Board to establish a project-specific assessment approach that would allow entities to receive GCF funding for certain proposals without having to go through the accreditation process. This would apply to proposals that are submitted under the simplified approval process (SAP) or under the three requests for proposals: enhancing direct access (EDA), supporting micro-, small-, and medium-sized enterprises (MSME) and mobilizing funds at scale (MFS). In the context of the proposal assessment, an entities ability to implement that specific proposal would also be checked. This option would also be limited to a maximum of three proposals per entity. The chair of the Accreditation Committee (AC) reported that the AC supported the proposal. In addition, the AC suggested continuing the prioritization of certain entities, including direct access entities, until the end of the twentieth Board meeting.

Several Board members supported the introduction of the proposed project-specific approach on a time-bound pilot basis. Some suggested modifications to it, such as limiting the number of eligible proposals to one or two, restricting it to small scale-activities and/or direct-access entities or not applying it to the MFS pilot. It was stressed that the GCF's high standards should not be compromised by this approach. Other Board members considered a decision on this approach premature. They pointed out that the approach would be a very significant change that needed to be carefully considered. It was suggested that the idea could be considered in the context of the full results of the review of the accreditation framework at the next Board meeting. The Co-Chair proposed a decision that took note of the progress on the review and extends the prioritization, which was adopted by the Board. The project-specific assessment approach will be considered at the following Board meeting.

Status of accreditation matters

The Secretariat presented a status report. The Accreditation Panel (AP) did not have enough members to reach the quorum necessary to forward applications to the Board, but its members continued the review of accreditation applications. Following the appointment of new members in the previous week, the AP can now forward applications to the Board again. The work of the AP and Secretariat was guided by the prioritization of certain entities, including direct access entities, decided by the Board. The Secretariat provided pre-accreditation support and technical assistance to numerous direct access entities.

Terms of reference for the review of committees, panels and groups

The Secretariat presented draft Terms of Reference for the review of the Risk Management Committee, the Investment Committee and the Private Sector Advisory Group. When these groups were created, it had been mandated that after three years their usefulness and continued necessity would be reviewed. to also cover the Ethics and Audit Committee and the Accreditation Committee. It was proposed that the review be conducted by an ad hoc committee of Board members. Several Board members stressed the importance of such a review. It was suggested to extend the review and also consider other committees and their interaction with the Board. Several Board members also called for the review to be conducted with the help of external experts. The Co-Chair asked a small group of Board members to work on a revised document and report back the following day.

Review of the structure and effectiveness of the independent Technical Advisory Panel (iTAP)

The Secretariat and the Investment Committee presented main findings and recommendations from the review of the Independent Technical Advisory Panel, whose main tasks is to provide independent advice on the funding proposals. The proposed draft decision also contained the committee’s proposal to improve the structure and effectiveness of the iTAP. Several Board members highlighted the importance of the iTAP. With regard to the roster of experts proposed to complement the iTAP’s expertise, several Board members welcomed the idea, with one recommending to seek synergies with the UNFCCC roster of experts. Areas of further expertise mentioned included REDDplus, gender assessment and cost-benefit analysis. With regard to the question raised whether the iTAP’s expertise could also contribute to the development of policies and guidelines, iTAP pointed to its priority task of reviewing projects and limited capacities, but that the Board could give further guidance. The Board then approved the proposed decision with an amended and increased budget.

Revised policy on fees for accredited entities

The Secretariat presented a proposed revised policy on fees for accredited entities and delivery partners, which specifies fees for public sector grants only. For public sector instruments other than grants and all private sector instruments, it is foreseen that fees should be determined on a case-by-case basis. The new policy would set fee caps expressed as percentage of the GCF contribution, differentiated by policy size. It introduces lower percentages for higher project sizes compared with the interim policy. It also has higher upfront disbursement than the interim policy. Some Board members underlined that the fee provided should meet the needs of the Accredited Entity. Some also suggested that the percentage needs to be set also based on whether the project was transformational or not and complexity of the project. It was also suggested that micro and small size projects might need higher percentage especially those coming from direct access entities. Three changes were made to the document: 1) a footnote allowing exceptional increases to the fee cap for small projects,similar to the exceptional increases already allowed for microprojects 2) a rule that those projects that negotiate on a case by case basis should not exceed the percentage mentioned in the fee table, 3) a review of the policy in 2 years. The Board adopted the policy with those changes.

Development and application of incremental cost calculation methodology

The Secretariat presented the a document it had prepared, which examines the concept of incremental cost, its applications to climate change projects and the current practices of other climate funds. Several Board members clearly indicated the need for further discussions and not taking a decision at this meeting, as the paper was provided very shortly before the meeting. Others expressed their disappointment that this issue still would remain a policy gap. While several Board members agreed with the proposed paper that generally a quantitative approach to mitigation and a more qualitative approach to adaptation seemed reasonable, it was noted that there are project categories in adaptation where quantitative approaches might also be applied. Board members also mentioned the need to take into account specific circumstances, for example of SIDS and LDCs in relation to the lack of data which would be required for incremental cost calculations. Some Board members also noted the need to clarify the approach to be taken with regard to cross-cutting projects. Some Board members noted that agreement on incremental cost methodologies should not exclude to possibility for full cost financing, which is also included in the Governing Instrument. Noting the rich discussion, the Co-Chair asked members to provide written submissions in the next two weeks and asked the Secretariat to prepare a document on this basis for discussion at the following meeting, to be distributed at least 21 days before that meeting.

Options for further guidance on concessionality

The Secretariat introduced the proposed approach to determining the appropriate level of concessionality in the Fund's financing. It would consist of a positive list approach that determines certain types of activities, based on project and country characteristics, that would automatically qualify for a given level of concessionality and would not need to provide further justification. It would not preclude higher concessionality on a case by case basis. For projects not covered by the positive list, guiding principles to determine concessionality on a case by case basis would be established. The draft decision is to mandate the Secretariat to develop this approach further.

A Board member pointed out that the mandate for additional guidance on this matter asked for this to be developed in conjunction with the annual review on terms and conditions and stated that he would only consider it in that context. Several Board members stated that a categorization of countries based on income was not acceptable. They also requested that the paper would have to reflect that all developing countries can be vulnerable to climate change. Furthermore, it was suggested that guidance on concessionality should reflect how it could contribute to the transformative change envisioned by the Fund. Some Board members warned that the proposed positive list could de facto become an exclusion list. Other Board members stressed how important guidance on this item would be for the Secretariat and project proponents. They considered the paper a good starting point and urged the Board to further work on it in order to come to a resolution. It was also stressed that budgetary constraints and level of indebtedness needed to be taken into account in determining concessionality. Noting that several members were still on the speakers list, the Co-Chair adjourned the meeting and announced that the discussion would continue in the morning.

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