# GEF-6 GEF SECRETARIAT REVIEW FOR FULL-SIZED/MEDIUM-SIZED PROJECTS
# THE GEF/LDCF/SCCF TRUST FUND

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| GEF ID: | **9309** | | |
| Country/Region: | **Global** | | |
| Project Title: | **The Climate Finance Aggregation Initiative for Developing Countries** | | |
| GEF Agency: | **UNDP** | GEF Agency Project ID: | **5749 (UNDP)** |
| Type of Trust Fund: | **GEF Trust Fund** | GEF Focal Area (s): | **Climate Change** |
| GEF-6 Focal Area/ LDCF/SCCF Objective (s): | | **CCM-1 Program 2;** | |
| Anticipated Financing PPG: | **$50,000** | Project Grant: | **$1,950,000** |
| Co-financing: | **$85,350,000** | Total Project Cost: | **$87,350,000** |
| PIF Approval: | **November 24, 2015** | Council Approval/Expected: | |
| CEO Endorsement/Approval | | Expected Project Start Date: | |
| Program Manager: | **Dustin Schinn** | Agency Contact Person: | **Oliver Waissbein** |

## PIF Review

| Review Criteria | Questions | Secretariat Comment | Agency Response |
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| **Project Consistency** | 1. Is the project aligned with the relevant GEF strategic objectives and results framework?[1] | DS, September 18, 2015:<br>Yes, project is aligned with CCM-1 Program 1.<br><br>DS, October 19, 2015. After consultation with the agency, the project alignment has been adjusted to CCM-1, Program 2, Develop and demonstrate innovative policy packages and market initiatives to foster a new range of mitigation actions. | |

[1] For BD projects: has the project explicitly articulated which Aichi Target(s) the project will help achieve and are SMART indicators identified, that will be used to track the project's contribution toward achieving the Aichi Target(s)?

| PIF Review | | | |
|---|---|---|---|
| Review Criteria | Questions | Secretariat Comment | Agency Response |
| | 2. Is the project consistent with the recipient country's national strategies and plans or reports and assessments under relevant conventions? | DS, September 18, 2015:<br>Yes. This is a global project that will benefit numerous GEF recipient countries that have identified lack of financing as a barrier to expansion of clean energy technologies. | |
| **Project Design** | 3. Does the PIF sufficiently indicate the drivers[2] of global environmental degradation, issues of sustainability, market transformation, scaling, and innovation? | DS, September 18, 2015:<br><br>Partly. While the project indicates sufficiently the benefits of aggregation, it seems unclear whether the need for aggregation is based on sound research and reasoning. Please address the following comments:<br><br>a) Please elaborate in more detail on the need for aggregation and the benefits resulting from it, including as it relates to SE4ALL beyond the mere need for increasing flows of financing.<br><br>b) Describe the potential risks with aggregation that were made evident in the financial crisis and how the project will minimize those risks.<br><br>DS, October 19, 2015:<br>a) Comment cleared<br>b) Comment cleared | On a):<br>The need, and potential benefits, of aggregation have been researched by a number of different actors. This includes analysing the need of increasing financial flows, but also the need to lower financing costs for low-carbon energy, as well as the benefits that arise from risk diversification through aggregation.<br><br>Some illustrative reports from development actors which address these issues include: NREL (2012)1, identifying the need for asset-backed securities for solar PV in the US; the New Climate Economy report (2014)2, whose key recommendation in the area of climate finance (chapter 6) is the need to lower financing costs, including through aggregation; and the report from the SE4All Advisory Board Finance Committee (2015)3, which identifies aggregation as one of four priority areas to achieve the SE4All targets. Academic research addressing these issues ranges from Markowitz (1952)4, introducing the |

[2] Need not apply to LDCF/SCCF projects.

# PIF Review

| Review Criteria | Questions | Secretariat Comment | Agency Response |
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| | | | original theory of financial portfolio diversification, to Alafita and Pearce (2014)5, whose recent modelling indicates that securitisation for US residential solar assets can reduce the cost of equity from 12.0% to 6.12%. UNDP's (2013)6 report on derisking also provides detailed analyses on the impact of lower financing costs in four case study countries.<br><br>With respect to SE4All, aggregation will indeed likely be necessary to the achievement of SE4All's targets. For example, SE4All seeks to achieve universal energy access by 2030. 65% of the population of Sub-Saharan Africa currently lacks electrification, in large part in rural areas (SE4All/World Bank, 2015)7. If SE4All's 2030 targets are to be met, it is reasonable to deduce that small-scale, low-carbon energy will be key to achieving these targets, particularly given the recent competitiveness and rapid uptake of new service offerings such as pay-as-you go solar home kits. If this reasoning holds true, these small-scale activities will need financing; conventional (utility scale) financing approaches will not be suitable; and instead financial aggregation, which is well suited to small-scale, will need to be a key part of the SE4All financing solution. A similar logic can be applied to SE4All's other 2030 targets, including |

# PIF Review

| Review Criteria | Questions | Secretariat Comment | Agency Response |
|---|---|---|---|
| | | | doubling the rate of global improvement in energy efficiency, where a significant share of energy efficient measures will be small-scale, distributed activities, which can also benefit from aggregative financing.<br><br>1 NREL (2012): The Potential of Securitization in Solar PV Finance<br>2 New Climate Economy (2014): Better Growth, Better Climate: The New Climate Economy Report.<br>3 SE4All Advisory Board's Finance Committee Report (2015): Scaling Up Finance for Sustainable Energy Investments<br>4 Markowitz (1952): Portfolio Selection, The Journal of Finance<br>5 Alafita and Pearce (2014): Securitization of Residential Solar Photovoltaic Assets: Costs, Risks and Uncertainty.<br>6 UNDP (2013): Derisking Renewable Energy Investment<br>7 SE4All/World Bank (2015): SE4All Global Tracking Framework Report.<br><br>New text has been inserted in Section 1.1.<br><br>On b):<br>Securitisation of sub-prime mortgages was a central contributing factor in the |

| PIF Review | | | |
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| Review Criteria | Questions | Secretariat Comment | Agency Response |
| | | | financial crisis of 2008. A number of highly-levered, large financial institutions took positions where sub-prime mortgages comprised a significant portion of their balance sheet, creating systemic risk in the financial sector. A range of issues with the underlying securities and the broader environment â€“ poor mortgage origination, poor risk assessment, lack of liquidity in this asset class, a real-estate bubble, amongst others â€“ then resulted in a run on these assets, triggering losses in the financial markets and, from there, the global economy.<br><br>While aggregation of low-carbon energy and mortgages do share clear similarities, there are also a number of reasons why it is unlikely that low-carbon energy could trigger a similar financial crisis. Low-carbon energy is not likely to reach the market size and volume to become a systemic risk to the financial system. New regulations, such as Basel-III, have placed constraints on bank leverage and proprietary trading, further reducing risk in these areas.<br><br>More specifically, the project's components will expressly address â€“ through activities such as standardization in contracts, best practice O&M, best practice due diligence for credit rating agencies â€“ many of the very issues of |

# PIF Review

| Review Criteria | Questions | Secretariat Comment | Agency Response |
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| | | | transparency of information and robust risk assessment which were lacking with sub-prime mortgages. The Working Group itself will dedicate a work stream to quality assurance and appropriate risk mitigation (for example through over-collateralization), to further explore these issues and with the overall aim of strengthening the integrity of this new asset class.<br><br>A new risk category, with corresponding text, has been inserted into the table on project risks in section 4. |
| | 4. Is the project designed with sound incremental reasoning? | DS, September 18, 2015:<br><br>Yes. Without the project, efforts to attract financing for low-carbon, energy efficiency and renewable energy projects to developing countries will fall short of the need. | |
| | 5. Are the components in Table B sound and sufficiently clear and appropriate to achieve project objectives and the GEBs? | DS, September 18, 2015:<br><br>Please address the following comments:<br><br>a) The preliminary emissions benefit is very basic and provides a view of the strong potential for this important effort. However, it is unlikely that the GEF funded project alone can claim full causality for the proposed benefits. At the PIF stage, it would be wise to include a range for causality | On a):<br>We have re-calculated the environmental and economic benefits to follow the guidance provided, with a lower bound of 1% causality, a higher bound of 10% causality, and a 10 year time horizon after the completion of the project. On this basis, the following benefits have been calculated:<br><br>• Total financial aggregation for low-carbon energy assets over 10 years of USD 3.3 billion (1% causality) to USD |

# PIF Review

| Review Criteria | Questions | Secretariat Comment | Agency Response |
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| | | estimates, using a lower and upper bound. Please consider if 1% causality may be a useful lower bound. Also, please consider restricting benefits to 10 years time horizon after the project is completed. Please revise and re-submit.<br><br>b) A major co-financing partner is IADB, in particular for the structuring and financial closure of transaction demonstrations in selected recipient countries as part of Component 4. This is sufficient at PIF stage, however, for CEO endorsement, it would be advantageous for the overall efficiency and effectiveness of the project to identify additional co-financing and partners to strengthen this component and enhance its reach even further.<br><br>DS, October 19, 2015:<br>a) Comment cleared.<br>b) Please consider comment at CEO endorsement stage of this two-step MSP. | 33.1 billion (10% causality)<br>• Total economic savings due to lower financing costs over 10 years of USD 239 million (1% causality) to USD 2.39 billion (10% causality)<br>• Total annual emission reductions over 10 years of 36.2 million $tCO_2e$ (1% causality) to 362.5 million $tCO_2e$ (10% causality).<br><br>It is fully recognised these are preliminary estimates. We will continue to refine these at the CEO endorsement stage.<br><br>Edits have been made to section 1.5 and to Table F.<br><br>On b):<br>Noted. This will be incorporated for CEO endorsement. |
| | 6. Are socio-economic aspects, including relevant gender elements, indigenous people, and CSOs considered? | DS, September 18, 2015:<br>Yes. | |
| **Availability of Resources** | 7. Is the proposed Grant (including the Agency fee) within the resources | | |

| PIF Review | | | |
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| Review Criteria | Questions | Secretariat Comment | Agency Response |
| | available from (mark all that apply): | | |
| | • The STAR allocation? | | |
| | • The focal area allocation? | DS, September 18, 2015:<br>Yes. | |
| | • The LDCF under the principle of equitable access | | |
| | • The SCCF (Adaptation or Technology Transfer)? | | |
| | • Focal area set-aside? | | |
| **Recommendations** | 8. Is the PIF being recommended for clearance and PPG (if additional amount beyond the norm) justified? | DS, September 18, 2015:<br>Not yet. Please address comments under Questions 3 and 5.<br><br>DS, October, 19, 2015:<br>Yes. The Program Manager recommends CEO PIF and PPG clearance.<br><br>At CEO endorsement stage, please consider comment under Question 5. | |
| **Review Date** | Review | September 18, 2015 | |
| | Additional Review (as necessary) | October 19, 2015 | |
| | Additional Review (as necessary) | | |

| CEO endorsement Review | | | |
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| Review Criteria | Questions | Secretariat Comment at CEO Endorsement | Response to Secretariat comments |
| **Project Design and Financing** | 1. If there are any changes from that presented in the PIF, have justifications been provided? | DS, November 30, 2016:<br>Some changes to the structure of individual project components have been made as compared to the PIF. All changes have been justified appropriately. | |
| | 2. Is the project structure/ design appropriate to achieve the expected outcomes and outputs? | DS, November 30, 2016:<br>Project structure and design seem appropriate and the proposed project shows high potential for accelerating capital flow into low-carbon sectors. Please address the following comments:<br>a) It is normal for executing agencies to receive the bulk of project resources. The project proposes to reserve some funding for UNDP. Please describe in detail the value-add of retaining resources at UNDP rather than at the EA.<br>b) The global finance markets are evolving quickly and the green finance market is maturing rapidly. Please document how the proposed project executing arrangement, which functions split between UNDP and the executing agency, will operate in an expeditious and productive manner that is closer to the speed of business than the speed of a typical international organization.<br><br>DS, December 19, 2016:<br>Comments cleared. | The prodoc proposes management arrangements involving a direct implementation modality for UNDP, with Climate Bonds (CBI) acting as a responsible party, and with an approximate 50/50 split of the project budget. The prodoc also proposes a dual human resources structure, with part-time project staff at both UNDP and CBI. These arrangements were carefully considered and assessed during the project's design.<br><br>The arrangements set out in the prodoc are consistent with the arrangements approved in the PIF (paragraph 11), which also sets out an approximate 50/50 budget split. During the PPG stage, these arrangements were again scrutinized, before being re-affirmed and further detailed.<br><br>A number of factors were considered:<br><br>1) Complementary comparative advantages. UNDP is an established development actor with a trusted UN brand and convening power, and an on-the-ground presence across developing countries. CBI is a fast growing NGO, with a strong network within the financial community, and proven awareness- |

| CEO endorsement Review | | | |
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| Review Criteria | Questions | Secretariat Comment at CEO Endorsement | Response to Secretariat comments |
| | | | raising and communication channels. Through their joint roles, the project design seeks to maximize each of UNDP and CBI's value-add.<br><br>2) CBI as a recently founded NGO. CBI has been selected as the responsible party for this project due to its unique qualities as the leading NGO in the green bonds space. UNDP's corporate procedures for project design require that due diligence is performed on all prospective responsible parties (executing entities). As such, during the PPG phase, UNDP engaged the law firm Moore Stephens LLP to assess CBI's financial and operations policies, systems and internal controls. Moore Stephen's assessment of CBI makes recommendations consistent with those expected for a fairly young NGO. This has been a factor in the proposed project structure (UNDP project manager; an approximate 50/50 budget split between UNDP and CBI), with an ongoing UNDP role in project management and administration. This project structure is informed by UNDP's experience of projects with NGOs of a similar profile to CBI, where there is a track record of these project structures having been successfully applied.<br><br>3) Productive and qualified HR team. The project's HR structure for the CAP seeks to be responsive to rapidly evolving financial markets. The key hiring requirement for the part-time UNDP project manager/technical staff member will be financial experience, |

| CEO endorsement Review | | | |
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| Review Criteria | Questions | Secretariat Comment at CEO Endorsement | Response to Secretariat comments |
| | | | which will be key to the staff's value-add. UNDP is targeting a high-quality, mid-career finance professional for this role â€" likely with experience in an investment or development bank. The project itself uses the global direct implementation modality (â€˜global DIM'), as this modality enables UNDP project staff based in HQ to work directly in-country, in addition to UNDP's country office presence, giving project staff maximum room for maneuver. More broadly, the project's HR structure, with dual part-time staff in both New York (UNDP) and London (CBI), two global financial centers, is purposefully intended to be flexible and responsive to financial market developments and stakeholders. For day-to-day interactions between UNDP and CBI, streamlined operating procedures will be put in place and prioritized from the very onset of the project.<br><br>Overall, while fully recognizing there are trade-offs in project design, the current project design seeks to take a balanced approach, drawing upon UNDP's strengths and experience, and maximizing CBI's potential.<br><br>Additional text justifying management arrangements inserted in the CEO ER (paragraph 22) and prodoc (paragraphs 60 and 61). |

# CEO endorsement Review

| Review Criteria | Questions | Secretariat Comment at CEO Endorsement | Response to Secretariat comments |
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| | 3. Is the financing adequate and does the project demonstrate a cost-effective approach to meet the project objective? | DS, November 30, 2016:<br>Yes. | |
| | 4. Does the project take into account potential major risks, including the consequences of climate change, and describes sufficient risk response measures? (e.g., measures to enhance climate resilience) | DS, November 30, 2016:<br>Yes. Potential major risks have been assessed and are described, including sufficient risk response measures. | |
| | 5. Is co-financing confirmed and evidence provided? | DS, November 30, 2016:<br>Co-financing has been confirmed at an increased level compared to PIF approval. However, the project focuses on three regions (Latin America, Kenya and India, among others), while co-financing has been confirmed for Latin America and India only. Please describe why co-financing for India is relatively low and co-financing for Kenya absent at this point in time, including whether this might potentially have negative impacts on the project's likelihood of success. If possible, increased co-financing for India would be desirable, and a confirmed intention of co-financing from any sources for Kenya would be an additional asset, as appropriate.<br><br>DS, December 19, 2016:<br>Comment cleared. | The approach to obtaining co-financing letters for the project was a further area of project design which was carefully deliberated.<br><br>At the outset, it should be stated that we (both UNDP and CBI) are confident that the CAP, during its project lifetime, will attract a high level of total co-financing, quite possibly several multiples of that which the prodoc and CEO ER currently state. There is clear interest in the CAP's offer from stakeholders. During project implementation, the CAP's ability to provide financial support to showcase transactions can act as an additional incentive to attract co-financing.<br><br>The challenge with regard to arranging co-financing letters at the prodoc/CEO ER stage was twofold.<br><br>First, with a relatively small PPG budget of USD 50,000 for an MSP, the resources were simply not available for a financial expert to do |

# CEO endorsement Review

| Review Criteria | Questions | Secretariat Comment at CEO Endorsement | Response to Secretariat comments |
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| | | | justice to a full market assessment for financial aggregation in each of the proposed three in-country initiatives. In part to address this, the project design does not present the three in-country initiatives (LatAm, Kenya, India) as final, but instead sets out that their selection will be further scrutinized and confirmed early in implementation.<br><br>Secondly, and relatedly, the project design envisages that, once each in-country initiative is confirmed, (i) a national working group will be formed, and (ii) a market assessment and (iii) a CAP action plan will be developed in each case. These three activities will be key to proposing and identifying - in an informed, bottom-up, and stakeholder-driven manner - the CAP's showcase transaction in the particular country. This approach was also influenced by a recurring theme in stakeholder feedback: the importance of local context and having local buy-in.<br><br>Overall, this raised the concern that if we were to seek co-financing letters, particularly in relation to showcase transactions, we may: firstly, raise expectations with possible partners around showcase transactions without yet being sufficiently informed on their suitability; and, secondly, potentially undermine an organic, collaborative process amongst national stakeholders to propose the showcase transactions. |

| CEO endorsement Review | | | |
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| Review Criteria | Questions | Secretariat Comment at CEO Endorsement | Response to Secretariat comments |
| | | | All of this led us to take the current approach to co-financing in the prodoc/CEO ER â€“ seeking to obtain co-financing letters for LatAm, and not actively seeking co-financing letters for India and Kenya.<br><br>We selected LatAm as our focus in terms of co-financing letters because IDB/IIC is a founding partner of the CAP and is - by all accounts - the leading actor in aggregation transactions in the region. IDB/IIC is providing a debt co-financing letter of USD 50m. During the PPG stage we also identified MGM Innova, which is providing an equity co-financing letter of USD 30-60m. Having complementary debt and equity co-financing can strengthen the level of confidence that the envisaged co-financing will reach financial closure.<br><br>In India and Kenya, we have had various early-stage discussions with potential partners, but in general have not proactively advanced these discussions for the reasons stated above. We have included a letter we received from EESL for USD 5m in co-financing. As stated above, we are confident that further co-financing will materialize in these countries during project implementation.<br><br>Additional text describing co-financing approach inserted in the CEO ER (paragraph 11). |
| | 6. Are relevant tracking tools completed? | DS, November 30, 2016:<br>Yes. However, kindly use the lower | Agreed. Tracking tool revised;<br>Table E of CEO endorsement revised; |

| CEO endorsement Review | | | |
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| | | range estimate for GHG emission reductions in the tracking tool, both direct and indirect, instead of using the mid-point estimate. Please re-submit the tracking tool accordingly. In Table E on page 4 of the CEO endorsement request, please enter one number, the total of direct plus lower bound indirect, using two digits of precision.<br><br>DS, December 19, 2016:<br>Comment cleared. | Administrative annex E of the prodoc revised. |
| | 7. *Only for Non-Grant Instrument:* Has a reflow calendar been presented? | N/A | |
| | 8. Is the project coordinated with other related initiatives and national/regional plans in the country or in the region? | DS, November 30, 2016:<br>Yes. | |
| | 9. Does the project include a budgeted M&E Plan that monitors and measures results with indicators and targets? | DS, November 30, 2016:<br>Yes. | |
| | 10. Does the project have descriptions of a knowledge management plan? | DS, November 30, 2016:<br>Yes. | |
| **Agency Responses** | 11. Has the Agency adequately responded to comments at the PIF[3] stage from: | | |
| | • GEFSEC | DS, November 30, 2016:<br>Yes. | |
| | • STAP | | |

[3] If it is a child project under a program, assess if the components of the child project align with the program criteria set for selection of child projects.

| CEO endorsement Review | | | |
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| Review Criteria | Questions | Secretariat Comment at CEO Endorsement | Response to Secretariat comments |
| | • GEF Council | | |
| | • Convention Secretariat | | |
| **Recommendation** | 12. Is CEO endorsement recommended? | DS, November 30, 2016:<br>Not yet. Please address comments under Questions 2, 5, and 6 above.<br><br>DS, December 19, 2016:<br>Comments cleared. PM recommends CEO Endorsement. | |
| **Review Date** | Review | November 30, 2016 | |
| | Additional Review (as necessary) | December 19, 2016 | |
| | Additional Review (as necessary) | | |