GREEN CLIMATE FUND

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# Annual portfolio performance report (2017)

## Summary

The annual portfolio performance report presents a review and analysis of the GCF-funded activities under implementation as well as the performance of Readiness and Preparatory Support Programme activities as at 31 December 2017.

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# Acronyms

| | |
|---|---|
| AE | accredited entity |
| AF | Adaptation Fund |
| APR | annual performance report |
| CIF | Climate Investment Funds |
| DAE | direct access entity |
| DP | delivery partner |
| EBRD | European Bank for Reconstruction and Development |
| FAA | funded activity agreement |
| GCF | Green Climate Fund |
| GHG | greenhouse gas |
| GIZ | Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH |
| IAE | international access entity |
| IEU | Independent Evaluation Unit |
| IPR | readiness interim progress report |
| KPI | key performance indicator |
| LAC | Latin America and the Caribbean |
| M&E | monitoring and evaluation |
| MSME | micro, small and medium-sized enterprise |
| MRV | measurement, reporting and verification |
| NAP | national adaptation plan |
| NDA | national designated authority |
| NDC | nationally determined contribution |
| NOP | no-objection procedure |
| OPM | Office of Portfolio Management |
| PMFs | performance measurement frameworks |
| PPR | annual portfolio performance report |
| TOC | theory of change |
| UNEP | United Nations Environment Programme |
| UNDP | United Nations Development Programme |

# I. Executive summary

1. The GCF annual portfolio performance report (PPR) presents a review and analysis of the funded activities[1] under implementation by the Accredited Entities, as well as the performance of Readiness and Preparatory Support Programme (Readiness Programme) activities as at 31 December 2017. The report identifies trends and key findings, as well as challenges during this first year of implementation and highlights planned actions based on lessons learned identified from this review cycle of the portfolio under implementation.

2. The information on results and targets reflected in this document is based on the reporting submitted by the accredited entities (AEs) for the annual reporting period ended on 31 December 2017.

### Funded activities under implementation

3. The GCF portfolio of approved funding amounted to USD 1.25 billion as at the end of 2017, of which activities under implementation comprised 19 projects financed through grants, loans and equity investments totalling USD 633 million. This represents a significant increase compared with year-end 2016, when USD 25 million of GCF approved funding for one project was under implementation. The total disbursed amount has increased from USD 5.5 million at the end of 2016 to USD 147.4 million at the end of 2017, of which USD 78 million was reported as having been used.

4. At year-end 2017, the share of the portfolio under implementation by the public sector was 32 per cent, while the private sector accounted for 68 per cent. Nonetheless, disbursements to the private sector projects represented 64 per cent, while the public sector accounted for 36 per cent.

5. Based on the estimates of AEs, a total of 47.4 million tonnes of carbon dioxide equivalent ($MtCO_2eq$) is expected to be reduced or avoided, and 84.1 million total beneficiaries are expected to be reached from these 19 projects under implementation over the lifetime of the projects. AEs have reported impacts of 0.3 MtC02eq reduced and 2.6 million direct beneficiaries reached.

6. In terms of volume of finance leveraged, the aggregate target for the portfolio of projects under implementation is USD 1.3 billion, of which approximately USD 560 million has been reported by the AEs as at the end of 2017.

### Readiness Programme under implementation

7. As at 31 December 2017, a total of 67 readiness grants that had received first disbursements were being monitored by the Secretariat, of which 3 grants were completed during this reporting period. The Secretariat has processed disbursements amounting to USD 12.9 million for readiness grants as at the end of 2017, increasing from USD 2.8 million in 2016.

### Issues and Lessons Learned

8. All reported funded activities under implementation described some challenges related to project implementation in the annual performance reports (APRs). Among reporting projects, the distribution of projects reporting challenges resulted in only 1 project presenting high impact challenges. The main challenges reported with medium and high impact refer to implementation challenges including project commencement activities and delays in local staff recruitment, while financial challenges reported comprised difficulties in local financial management capacity and fluctuations in exchange rates, among others. Notably, AEs indicated

[1] As of 31 December 2017, 19 projects were under implementation. GCF received 18 APRs that are subject to the review for this report. A full list of the 18 reporting funded activities under implementation is provided in the annex.

that despite these challenges, they were on track to deliver the projects based on their original implementation timelines.

9. Readiness Programme activities faced issues and challenges related to insufficient communications and coordination mechanisms across stakeholder groups, limited information provided in the country programmes developed from readiness grants, lack of clarity regarding GCF standard operating procedures, unrealistic project implementation timelines vis-à-vis the number of planned activities, and inadequate capacity on the ground to address implementation challenges.

**Planned actions**

10. The following planned actions would contribute to resolving the challenges identified during the 2017 review cycle of reports:

11. On Funded Activities:

(a) Encouraging the AEs to promptly communicate to the Fund on any emerging challenges, and clarifications needed on reporting and procedures;

(b) Refining and harmonizing tools for monitoring performance of AEs on impacts and results based on the review of APRs;

(c) Requesting AEs to implement Project-level stakeholder engagement plans and grievance redress mechanisms of ESS on the ground and for the Secretariat's action;

12. On Readiness Programme activities:

(a) Proactively engaging national designated authorities (NDAs) and delivery partners (DPs) with mutual goals;

(b) Increasing technical support and guidance for country programmes and pipeline development;

(c) Improving the efficiency of existing application and operating procedures; and

(d) Strengthening of local capacity through improved talent sourcing.

# II. Introduction

## 2.1 Objectives and approach

13. GCF and its respective stakeholders require consistent and relevant reporting in order to ensure that the Fund is meeting its mandate as per paragraph 57 of the Governing Instrument which states that programs and projects, as well as other activities, funded by the Fund will be regularly monitored for impact, efficiency and effectiveness.

14. Furthermore, the monitoring and accountability framework (MAF) for accredited entities (AEs) established the requirement of an annual report to the Board on the performance of the GCF funded activities implemented by AEs.[1]

15. In order to address these mandates, the present PPR provides an annual review of the performance of the GCF-funded projects, covering implementation, financial and results achievement elements.

16. The PPR contains an analysis of qualitative and quantitative information on funded activities drawn from the APRs, financial information reports and annual financial statements submitted by the AEs as part of their regular reporting requirements. It is also drawn from the interim progress reports and project completion reports submitted by NDAs and DPs on readiness activities. These reporting requirements follow the obligations agreed to by the AEs and DPs under the relevant legal agreements.

17. The period covered in this report is the calendar year ended 31 December 2017.

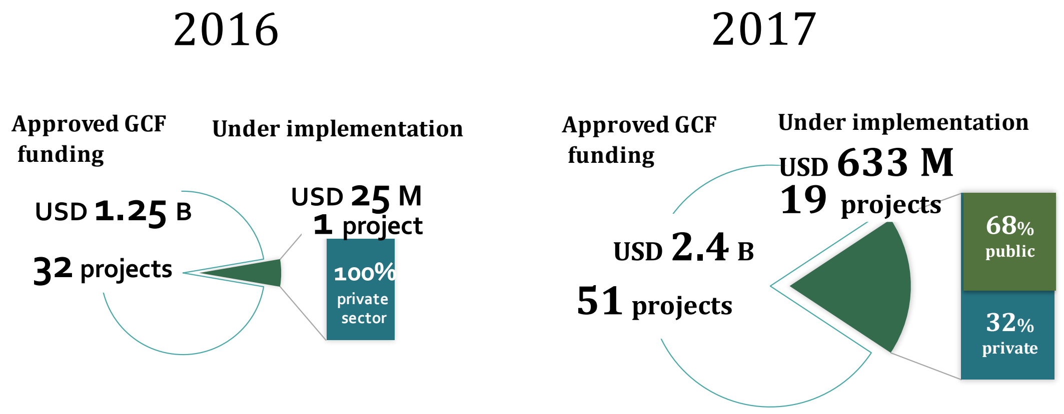
# III. Performance review of GCF-funded activities under implementation

18. This section provides a review of the implementation of funded activities corresponding to the calendar year ended 31 December 2017. The size of the portfolio of projects under implementation increased significantly in 2017 to 19 projects equivalent to USD 633 million of GCF approved funding (representing approximately 26 per cent of the total GCF approved funding). Comparatively, at year-end 2016 there was only one project under implementation amounting to USD 25 million of GCF-approved funding.

19. For the reporting period ended 31 December 2017, the portfolio under implementation comprised 68 per cent of public sector projects (USD 433 million) and 32 per cent of private sector projects (USD 199.7 million), as shown in figure 1.

[1] Decision B.11/10, annex I, paragraph 14.

**Figure 1: Portfolio of approved projects and portfolio under implementation (2016–2017)**




*Abbreviations:* B = billion, M = million.

## 3.1 Review of the implementation of funded activities

20. As at 31 December 2017, based on data provided by the AEs through the regular reporting received, the following time periods reflect the reported implementation periods in relation to the maturity of the GCF portfolio under implementation:

(a) On average, 7.4 months had elapsed since funded activity agreements (FAAs) became effective[2] as at the end of 2017 for the projects under implementation. This represents 10 per cent of the expected implementation period of 6.2 years;[3] and

(b) Similarly, the average time between FAA effectiveness and first disbursement was two months. This refers to the period for AEs to meet all conditions precedent to the first disbursement. Figure 2 shows a summary of the average periods of implementation for 2017.

**Figure 2: Average period of implementation expected and time elapsed[a]**


*Abbreviations:* FAA = funded activity agreement
[a] Average expected period for the 19 projects under implementation as at the end of 2017.

21. As expected during this first year of implementation, the majority of projects reported initiating the implementation of start-up activities related to setting up the respective project management units, sensitizing stakeholders, training and conducting baseline and design studies.

22. At this stage, some entities have reported some issues related to delays on some of the initiation activities and administrative tasks related to the design and establishment of procurement processes, etc. Despite initial delays and challenges with high impact reported, there is no discernible effect causing delays on the overall implementation timelines, with most projects reported being on schedule with their implementation plans.

[2] The implementation of GCF-funded projects starts when their FAA become effective, unless otherwise established in the signed legal agreement.
[3] On average, the planned implementation for the portfolio of projects under implementation is 6.2 years.

23. Similarly, none of the funded activities under implementation required any major change related to the scope, structure, design and objectives of the projects during 2017.

## 3.2 Financial performance: disbursements and utilization of funds

### Approved commitments and disbursements

24. The approved GCF funding amount of the portfolio of projects under implementation as at year-end 2017 amounted to USD 633 million, of which USD 147.4 million[4] was cumulatively disbursed to AEs in 2017. The expected target for disbursement for 2017 ranged between USD 160 and 250 million, based on the assessment of scheduled disbursements of funded projects under implementation.

25. This represents a significant increase in the volume of disbursements from year-end 2016 levels, when disbursements amounted to USD 5.5 million.

26. Out of the total projects comprising the current portfolio under implementation, 63% (12 projects) target vulnerable countries, including least developed countries (LDCs), small island developing states (SIDS) and African states.

27. The breakdown of cumulative disbursements by sector shows that disbursements made to the private sector as at the end of 2017 represented 64 per cent of the total (USD 93.9 million). In contrast, disbursements to the public sector comprised the outstanding 36 per cent (USD 53.4 million).

28. When disaggregated by theme, disbursements to projects under the mitigation thematic area accounted for 66.1 per cent of total disbursements, while those under the adaptation and cross-cutting thematic areas accounted for 18.4 per cent and 15.5 per cent, respectively, of total disbursements. The high proportion of disbursements for mitigation projects is affected by larger disbursements made to projects FP039[5] and FP028[6] in 2017 (amounting to USD 65.8 million and USD 20 million, respectively), which jointly account for 58 per cent of total GCF disbursed funds as at the end of 2017.

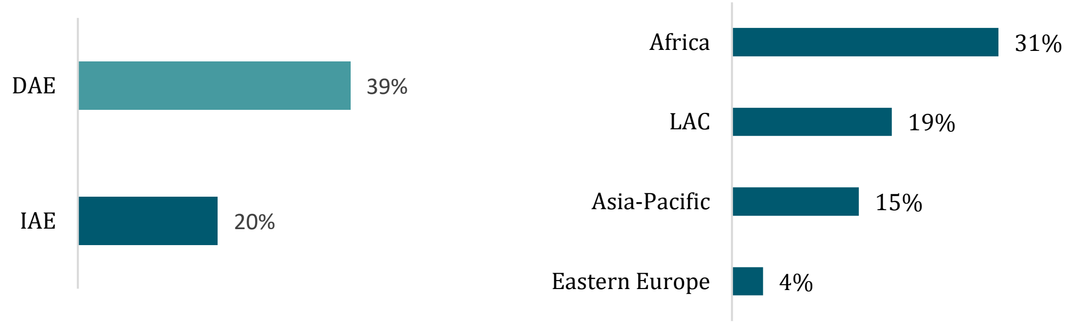
29. The disbursement rate[7] for 2017 was 23 per cent of the GCF-approved funding for the projects under implementation. It is expected that this number will vary over the next years with a significant number of projects starting implementation in 2018 or advancing into the next stages of implementation.

30. Regarding the disbursements of GCF funds by AE access modality, disbursements rates to direct access entities (DAEs) were higher than those to international access entities (IAEs), reporting rates of 39 per cent and 20 per cent, respectively.

31. Disbursements by region reveal higher disbursement rates of 31 per cent and 19 per cent in the Africa and the Latin America and the Caribbean regions, respectively. It should be noted that the disbursement figure for Africa is largely driven by the first disbursement to project FP039, which amounted to 45 per cent of the total disbursed amount in 2017. Figure 3 provides the breakdown by AE access modality and region.

[4] Excluding AE fees.
[5] See annex for more detail on the Funding Proposal.
[6] Ibid.
[7] Defined as total disbursements relative to GCF-approved funding amount for the portfolio under implementation.

**Figure 3: Disbursement rates per accredited entity access modality and region (2017)**

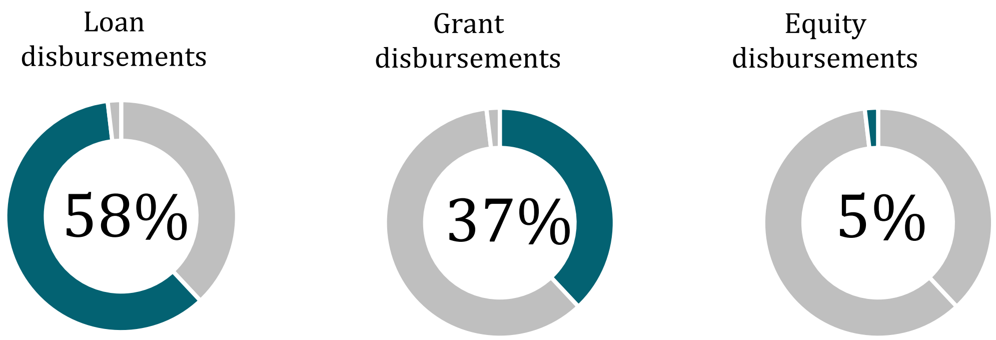



*Abbreviations:* DAE = direct access entities. IAE = international access entities, LAC = Latin America and the Caribbean.

### Disbursements and utilization by financial instrument

32. The Board, by decision B.08/12, decided that GCF will work through AEs, who may deploy the resources in approved projects and programmes by using financial instruments, focusing on grants, concessional loans, equity and guarantees. As at year-end 2017, the GCF portfolio of projects under implementation consisted of loans, grants and equity investments. Figure 4 provides a breakdown by financial instrument of the total USD 147.4 million of funds disbursed by GCF by the end of 2017.

**Figure 4: Breakdown of disbursements by financial instrument (2017)**




33. As at year-end 2017, the portfolio under implementation for the private sector was composed almost entirely of loans and equity investments, while the public sector portfolio under implementation was fully composed of grants.

34. When analysed by financial instrument and sector, disbursements from GCF to the private sector projects are 90.8 per cent loans and 8.7 per cent equity investments (USD 85.3 million and USD 8.1 million, respectively), with less than 1% correspondent to grant disbursements (USD 0.5 million) as at the end of 2017. For the public sector, considering that the portfolio under implementation consists entirely of grants as at the end of 2017, the full amount disbursed to the public sector comprised Grants (USD 53.4 million).

35. The volume of funding disbursed from GCF to the AEs by financial instrument was as follows:

(a) Loans disbursed from GCF were USD 85.3 million, of which USD 19.5 million had started reflows for interest payments to GCF. As at the end of 2017, there were no non-performing loans and all interest payments due were received on time;

(b) Equity investments amounting to USD 20 million had been committed by GCF, of which approximately USD 8.1 million (41 per cent) had been drawn down. A deeper analysis of the equity portfolio performance will be included in future as the portfolio matures, including additional number and amount of equity investment projects entering implementation; and

(c) Grants amounting to USD 53.9 million, representing 100 per cent of disbursements made to public sector projects and a smaller portion of disbursements to the private sector (0.3%).

**Utilization rates of GCF funds for projects under implementation**

36. Approximately USD 78 million of disbursed funds to the AEs have been used[8]. The overall utilization rate, defined as funds used relative to the disbursed GCF funds, is reported at 53 per cent as at the end of 2017.[9]

37. When reviewed by the AE access modality, the IAEs reported a higher utilization rate of GCF funds disbursed than the DAEs (65 per cent compared with 23 per cent). Regionally, projects implemented in the Africa region reflected a higher utilization rate, with a reported 70 per cent, followed by Eastern Europe with 41 per cent, as compared with projects in Latin America and the Caribbean (15 per cent) and Asia-Pacific (13 per cent).

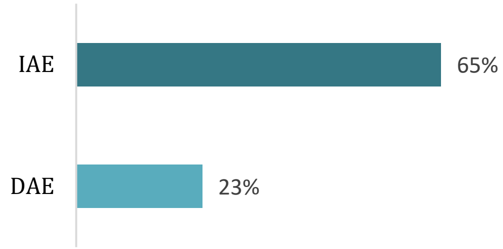
38. The higher utilization rate by IAEs and Africa-based projects is largely influenced by one EBRD project (FP039). When excluding this project from the sample, the utilization rate for IAEs and Africa would be 16 per cent and 25 per cent, respectively. The breakdown of the utilization rates by access modality and region is provided below in figure 5.

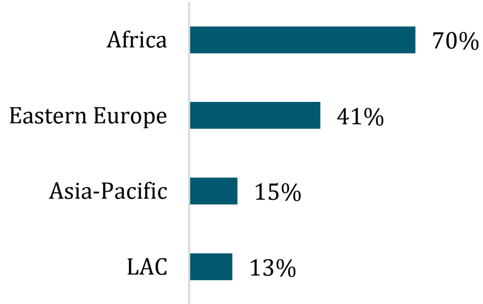
39. In parallel, the utilization rate disaggregated by sector shows a higher rate for private sector funds (76 per cent) compared with public sector projects (13 per cent). This is partly due to the higher levels of committed amounts by the AEs in private sector projects incorporating loans as financial instruments.

40. It is expected that the utilization rate of funds disbursed would continue to improve as the implementation of GCF funded activities moves into the next year of implementation.

[8] Funds used include funds committed and spent by the AEs.
[9] When excluding committed funds and only considering expenditures on a cash basis, the rate is reduced to 10 per cent.

**Figure 5: Utilization rates per accredited entity access modality and region (2017)**




*Abbreviations*: DAE = direct access entities. IAE = international access entities, LAC = Latin America and the Caribbean.

41. No major deviations and reallocations from the approved project budgets were required by the projects under implementation for the reporting period of 2017. Nonetheless, some projects reported escalation of costs due to issues such as foreign exchange movements and unforeseen costs related to new technologies.

42. Regarding AE fees, the disbursements totalled USD 7.7 million to seven AEs[10] as at the end of 2017, corresponding to 17.5 per cent of the aggregated AE fees amount approved for projects under implementation. Of the disbursed AE fees amount, the reported utilization is 70 per cent.

## 3.3 Results achieved by funded activities

43. The current PMFs for the mitigation and adaptation results areas define core performance indicators, which were adopted by the Board at its seventh and eighth meetings.

44. In this regard, the core indicators for mitigation are the following:

(a) $tCO_2eq$ reduced as a result of GCF-funded projects/programmes;

(b) Cost per $tCO_2eq$ decreased for all GCF-funded mitigation projects/programmes; and;

(c) Volume of finance leveraged by GCF funding.

45. The core indicator for adaptation is:

(a) Total number of direct and indirect beneficiaries; number of beneficiaries relative to total population.

46. Of the 19 projects/programmes under implementation as at the end of 2017, 5 projects target mitigation, 10 adaptation and 4 are categorized as cross-cutting. In terms of results areas for mitigation, three of the four results areas are currently targeted: energy access power generation; buildings, cities and industries and appliances; and forestry and land use. In terms of results areas for adaptation, all 4 results areas are targeted, namely: most vulnerable people

[10] Peruvian Trust Fund for National Parks and Protected Areas, United Nations Development Programme, United Nations Environment Programme, Agency for Agricultural Development of Morocco, Environmental Investment Fund of Namibia, XacBank and EBRD.

and communities; health and well-being, and food and water security; infrastructure and built environment; and ecosystem and ecosystem services.

47. In terms of funds mobilized by the portfolio under implementation, the aggregated portfolio target of volume of finance leveraged is approximately USD 1.3 billion, of which approximately USD 560 million has been reported by the AEs [11].

48. According to the estimates of the AEs, the total mitigation impact potential of the 19 projects under implementation amounts to 47.4 $MtCO_2eq$ of emissions reduced or avoided over their respective lifetime. In parallel, the expected total amount of beneficiaries reached is 84.1 million (19.2 million direct beneficiaries and 64.9 million indirect beneficiaries).

49. Given the very early stage of projects under implementation, the progress towards the expected target reported in the APRs is only at the initial stage and it is expected to increase with projects advancing into later stages of implementation. For 2017, the aggregated progress reported by the AEs is approximately 0.3 $MtCO_2eq$[12] emissions reduced or avoided over the lifetime of the projects and around 2.6 million direct beneficiaries reached (mainly from private sector projects). Higher impact results are expected to be reported as project implementation continues.

50. Despite the early state of projects under implementation, we can nevertheless highlight, as detailed in the excerpt below, some of the effects that GCF investments are already having in vulnerable countries.

**Box 1. Creating a new investment fund, KawiSafi Ventures Fund, to drive off-grid solar power in East Africa.**

Rwanda has 70 per cent of its population living off-grid, and even a planned massive investment from the government will leave over 3.5 million without power. Energy costs are high, both for on- and off-grid customers, because of a heavy reliance on imported oil and kerosene. In Kenya, 80 per cent live off-grid with 35 million without access to affordable and reliable electricity. Lighting costs in particular are very high for rural off-grid Kenyans, who spend around 26 per cent of their income on kerosene, which is expensive, dangerous and harmful to health. Rapid population growth is increasing demand for electricity and placing further demands on grid supply.

The KawiSafi portfolio is the world's first climate change fund targeting low-income populations in developing countries with investments of USD 2–10 million per company in 10–15 clean energy small and medium-sized enterprises. The investments are targeted at addressing lack of electricity and high kerosene use through affordable clean household solar energy solutions such as solar lanterns, solar home systems and solar mini-grids. KawiSafi also seeks to invest in other parts of the ecosystem such as consumer finance, mobile payment and metering/monitoring technologies.

## 3.4 Environmental and social safeguards/gender assessment

[11] The information reported by the AEs had inconsistencies and gaps, which limited the ability to aggregate the volume of funding leveraged at the portfolio level. The ongoing work of the Secretariat on policies and frameworks, harmonization of the indicators, as well as further clarifications requested by both the Secretariat and AEs on methodologies, should improve the ability to aggregate results in the future.

[12] Target and achieved results are reported based on the AEs' methodologies and ex-ante estimations.

51. Approximately 65 percent of the projects that submitted APRs were considered to have moderate environmental and social risks and impacts (Category B and medium level of intervention), while 35 percent were considered to have likely negligible to no risks and impacts. This is consistent with the percentages reported for the overall portfolio of approved projects under the same category (66 percent). None of the projects reviewed were considered Category A.

52. The extent and scope of assessments and management plans reflected in the safeguard instruments of the projects were appropriate to the environmental and social risk category of the projects. There are varied typologies of environmental and social assessments and the management plans submitted by the AEs. It would be important as part of the due diligence of the AEs and GCF to also align the instruments based on the requirements of the GCF Environmental and Social Policy.

53. The environmental and social risks and impacts of the projects remain varied. Most of the identified risks and impacts are those arising from civil works, ecosystem restoration, water resources and renewable energy facility installations. Two of the projects required further assessment of potential impacts related to land acquisition and physical and economic displacements, which will be provided in the next reporting cycle.

54. To understand and respond to the needs and priorities of both women and men, the GCF Gender Policy requires a gender assessment and analysis to be conducted for each project and expects the development of action plans based on that analysis. In this regard, 15 projects have undertaken project-level gender analysis, and of these, 14 have put in place gender action plans.

55. The APRs received indicate that eight projects provided information on the gender-related actions that were undertaken. Overall, most of the gender-related work was focused on project start-up activities such as establishing systems and creating space for women to organize and influence design and implementation arrangements. Further actions on gender included the provision of business opportunities, where 49 per cent of participants were reported to be women; loans to women-led micro, small and medium-sized enterprises (MSMEs) surpassed 50 per cent; and provision of lower interest rates for loans for women-led MSMEs. An example of relevant gender-related results is highlighted in the excerpt below.

56. The review of the projects' action plans demonstrates that the focus of gender-related results will be the following:

(a) Access to information, resources and services: which are critical for women and vulnerable groups to benefit from project interventions as well as make informed decisions. Projects enable women to access goods and services such as safe, affordable water, housing and capital and loans as these services are mostly inaccessible by women and vulnerable groups, including female heads of households;

(b) Access to income: projects create access to employment opportunities in the formal sector, prioritizing and supporting women-led services and small businesses, which have a potential to contribute to improved decision-making for women; and

(c) Sensitization and awareness-raising: creating the space to change unfavourable conditions that create inequalities increases the gender sensitivity and responsiveness of policies and practices.

**Box 2. Gender-focused private sector project: business loan programme for greenhouse gas emissions reduction**

Ninety per cent of Mongolian businesses are run by micro, small and medium-sized enterprises (MSMEs). Most of these enterprises use outdated and inefficient equipment, processes and buildings – resulting in relatively large emissions of greenhouse gases. One of the main barriers to low-carbon innovation is financial. The lack of accessible commercial finance by local banks impedes the ability of Mongolian enterprises to invest in energy efficiency and renewable energy.

This programme provides XacBank, one of Mongolia's leading banks, with an enhanced ability to support loans to Mongolian enterprises investing in energy efficiency and renewable energy projects. The GCF USD 20 million contribution, which was fully disbursed to the Bank, will be blended with other financial sources to fund low-carbon projects. This will help Mongolian enterprises adopt enduring, low-carbon business models – and help alleviate the current prevalence of high financing costs and relatively short-term loan periods.

The programme also promotes gender equal access to funding by making sure that women-led MSMEs are a core focus of loan activities. By the end of the third year of the programme, the facility's portfolio will be made up of at least 50 per cent women-led MSMEs.

According to the annual performance report (APR) received early 2018, 78 per cent of the loans disbursed to MSMEs during the reporting period are for women-led MSMEs, which is above the target of 50 per cent. The programme's gender-mainstreamed approach hopes to simultaneously support the ventures of women-led MSMEs, and reward MSMEs that employ women at top positions, while correcting historical market gaps in the financial services industry's ability to serve the needs of female customers. ■

## 3.5 Readiness activities performance

57. The implementation progress has been assessed by various measures through monitoring and reporting tools developed during the year. Below is a snapshot of the operational progress and quantitative and qualitative outcomes of the Readiness Programme activities during 2017.[13]

### Operational progress

58. As at 31 December 2017, a total of 67 readiness grants that received first disbursements were being monitored by the Secretariat, of which 3 grants were completed during this reporting period and the respective completion reports were submitted to the Secretariat.[14]

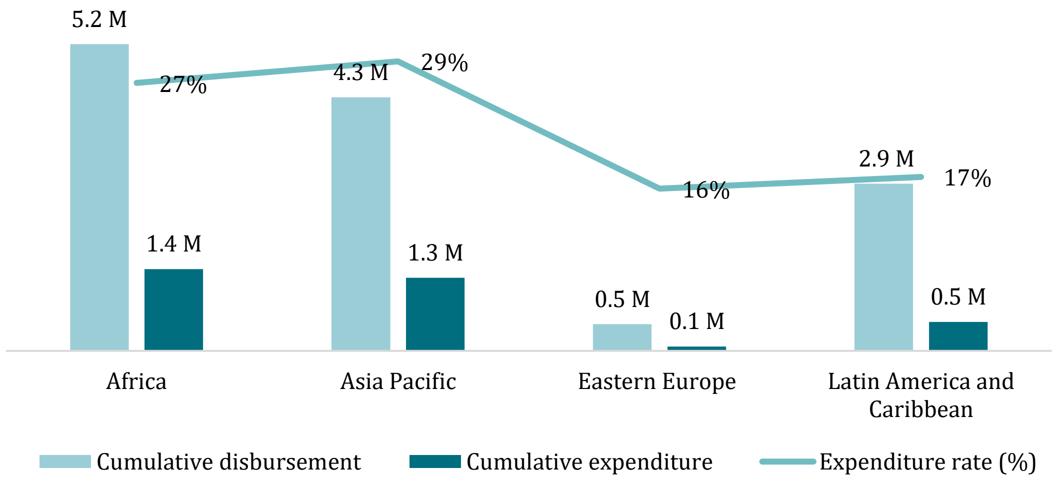
59. The total approved funding for the Readiness Programme is USD 27.5 million as at the end of 2017. From this amount, the amount disbursed totalled USD 12.9 million, increasing from 3.2 million in 2016.

[13] For additional information on the Readiness Programme refer to the document on the Readiness and Preparatory Support Programme progress report (under preparation).

[14] 67 Readiness grants are the readiness activities subject to the monitoring and evaluation of OPM, apart from PwC technical assistance that supported total 18 projects for 15 countries as at 31 December 2017, which are managed by DCP. Please note that the total amount approved and disbursed in the next paragraph includes both the Readiness grants and PwC technical assistance.

60. The overall expenditure rate of the readiness portfolio stood at 25 per cent against the disbursed amount, as reflected in figure 6.[15] With respect to regional distribution, Asia-Pacific reported the highest expenditure rate of 29 per cent, followed by Africa at 27 per cent, Latin America and the Caribbean at 17 per cent and Eastern Europe had the lowest expenditure rate of 16 per cent as at 31 December 2017.

**Figure 6: Disbursement and cumulative expenditure of the readiness portfolio (2017)**




61. A total of 50 reports were expected to be submitted from 29 grants in 2017. This number is seven times larger than 2016 levels, where 7 reports were expected to be submitted from 7 grants. Reports due comprised interim progress reports, audited and unaudited financial reports, project completion reports and portfolio reports. In addition, 6 reports pending from 2016 were submitted with delay in 2017, resulting in a total of 27 reports received.

62. Derived from the readiness framework agreements signed with two DPs (United Nations Development Programme and Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH), 12 portfolio reports were submitted covering 9 readiness grants.

63. In total, seven extension requests were received by the Secretariat. Out of the seven requests, two no-cost extensions were granted to two readiness grants after the review of the nature and detail of requests. The pending five requests remained under review at year end and expected to be approved during 2018.

## Results reported

64. The Readiness Programme provides support to countries in building capacity to address a number of outcomes outlined in the readiness logic framework that range from strengthening NDA capacity through various outputs such as setting up no-objection procedures and a coordination mechanism to engaging with the private sector. The programme also supports countries in the process of national adaptation planning through the funding of national adaptation plan (NAP) proposals. Some of the main quantifiable results achieved during 2017 through the Readiness Programme are set out below.

65. **Establishment of no-objection procedures**. It is through the no-objection procedures that country ownership is ensured to align project objectives with national priorities, plans and targets. As at 31 December 2017, 59 grants representing 54 countries had identified no-

[15] Out of 67 disbursed grants as at 31 December 2017, 22 grants have reported the expenditure amount to date, which renders the expenditure rate lower than the actual figure.

objection procedures as outcomes. Among 17 countries that submitted the interim progress reports, 2 countries had established no-objection procedures, while the other 15 countries were still in the process of establishing no-objection procedures.

66. **Strategic frameworks**. Country programmes help countries to identify project concepts and pipelines and develop bankable projects with buy-in from multiple stakeholders in pursuit of turning national climate strategies such as nationally determined contributions into actions. The Secretariat has continuously engaged with countries to provide support in developing country programmes, including project pipeline development and prioritization of sectors. As at 31 December 2017, three countries had submitted completed country programmes to GCF.

67. **National stakeholder engagement process**. Of the 57 readiness grants that included stakeholder consultations as a part of their outputs, 5 grants have reported consultation meetings with representation from stakeholders, including the government, women's groups, the private sector, indigenous peoples' groups, civil society organizations, interest groups and MSME associations. These consultative processes have been highly participatory and – in many instances – resulted in the development and continuous update of country programmes, including mitigation and adaptation priorities.

68. **Capacities and pipelines of DAEs**. One of the outcomes of readiness activities is to enable support for DAEs in the accreditation process, develop their capacities to build pipelines in line with their entity work programmes, and effectively implement GCF-funded projects and programmes. As at 31 December 2017, 15 countries were receiving support through PricewaterhouseCoopers (PwC) to identify gaps and develop action plans for accreditation.

69. As at 2017, 11 readiness proposals for institutional gap assessment and action plan support from PwC UK were approved and 4 proposals approved the previous year were still under implementation. The support from PwC brought forth high-quality deliverables based on frequent feedback, efficient processes and smooth communication between the firm, GCF and the recipient entity. PwC remained available beyond services completion for follow-up calls and further exchanges to maximize the value of its work. Feedback received from entities receiving this support proved to be positive as well.

70. In addition, the roster for environmental and gender support provided by Mott MacDonald offered targeted and in-depth support to one applicant (in the accreditation process) to address its gaps on environmental and social safeguards. Deliverables included a draft institutional policy for environmental and social safeguards, based on existing policy and practice along with recommendations for operationalizing the policies, particularly with regard to activities potentially to be financed by GCF resources.

71. **Private sector engagement and mobilization**. A total of 19 grants representing 17 countries have received support through NDAs and focal points to engage the private sector during their stakeholder consultation processes and thereby to identify opportunities to create enabling environments and crowd in private sector investments from domestic as well as regional and international sources. Among those, 2 countries have provided updates against this outcome area, mainly regarding the process of undertaking preliminary work engaging the private sector.

72. **National adaptation planning and other adaptation planning processes**. A total of 35 countries have submitted proposals that support NAP formulation or other adaptation planning processes by the end of 2017. The Secretariat developed a theory of change (TOC) for the NAP and other adaptation planning-related processes contributing to showing more clearly the causal pathway, strengthen the results chain and allow NDAs and delivery partners to choose from multiple, and broader, programmatic pathways. As reported, approximately 60 per cent of the NAP proposals include a TOC that is intended to complement the logic framework.

73. In the excerpt below (Box 3), and summary of a Readiness activity enhancing country ownership in Vanuatu is provided.

**Box 3. Delivering country ownership to mobilize climate finance – Vanuatu**

Developing countries have developed nationally determined contributions (NDCs) in line with the Paris Agreement. But often they require support to convert this climate ambition into bankable investment plans that can access climate finance. The GCF Readiness Programme responds to these needs by supporting countries to build their capacity to tackle climate change, and to develop pipelines of projects that can be implemented by GCF. Country programming is our version of a financing strategy to internalize NDCs into national planning, and develop bankable projects and ensure multi-stakeholder buy-in. We work to build cross-government coordination to integrate NDC implementation into national planning, to translate NDCs into transformative projects, and to identify the role that GCF financing can play, alongside other sources of finance, to unlock broader shifts in investment.


The Pacific island of Vanuatu identified the need for climate information services (CIS) to aid in longer-term climate resilience planning. Like many small island developing States, Vanuatu is highly vulnerable to climate change, ranging from rising sea levels to the impacts of the changing climate on infrastructure and agriculture. But before project funding could be sought, the government in partnership with the Secretariat of the Pacific Regional Environment Programme (SPREP) sought GCF readiness funding to better understand the island's needs across all sectors, and to develop a solid case for investing in CIS.

The resulting analysis aided the design of a full project proposal and provided the evidence that ultimately backed the case for CIS investment as part of Vanuatu's overall climate-resilient development agenda. GCF approved the Climate Information Services for Resilient Development in Vanuatu in December 2016, and is now implementing the project together with SPREP, providing CIS for tourism, agriculture, infrastructure, water management and fisheries, and supporting Vanuatu in developing country ownership of its climate priorities and investments. ■

# IV. Issues and lessons learned

## 4.1 Funded activities

74. Despite the reported challenges by the AEs on implementation at this early stage, all the projects remain on course with expectations through adapting their work plans to evolving realities, without major delays or changes identified at this stage.

75. Notably, all reporting projects under implementation reported some level of challenges related to project implementation in their APRs with varied potential impact on project delivery, as rated by AEs. The projects were clustered into three main categories – minor, moderate and high, based on the assessments of the AEs. Figure 7 below provides a breakdown of the review of projects with challenges reported during the first review cycle.

**Figure 7: Projects reporting challenges: distribution by assessed impact**

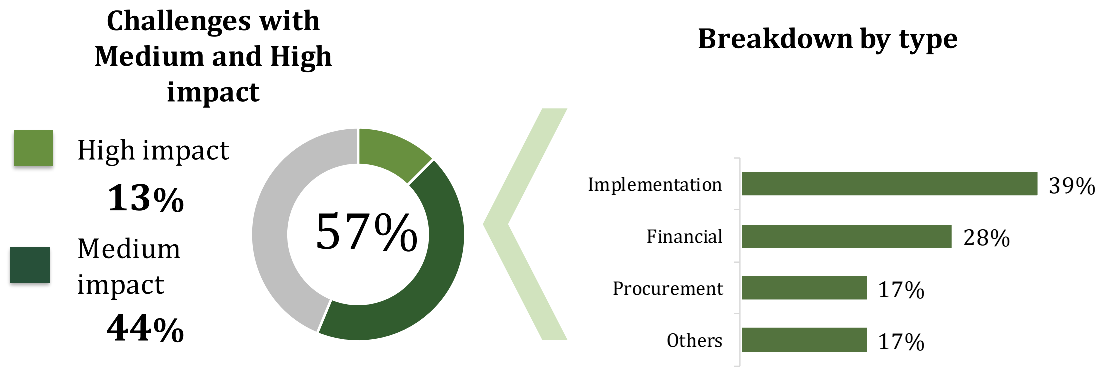
**12** projects with minor/solved impact challenges

**5** projects with moderate impact challenges

**1** project with high impact challenges

76. Overall, of the 32 challenges reported by the AEs, 43% per cent were classified as minor (or were resolved as at the time of reporting), 44% as moderate, with the remaining 13 per cent classified as high. The distribution of challenges reported by category[16] is shown in figure 8.

**Figure 8: Distribution of challenges reported for projects under implementation[17] (2017)**




*Note: Others include Legal, Political, Environmental and Social, Sanctions, AML/CFT, and others.*

77. Per the AEs reports, many of the challenges classified as having moderate and/or high impact were related to:

(a) **General implementation challenges**, such as delays in project commencement, staff recruitment and the lengthy process of capacity-building to reach communities. For issues related to inadequate capacity and delays in staff recruitment, weak absorptive capacities of the project management units in the areas of procurement, monitoring and evaluation and financial management has an impact on project management. This has affected the rate at which procurement processes have been handled. There is a need to consider measures to speed up recruitment processes prior to project effectiveness so that the project can embark on staff recruitment once a project becomes effective. This might include the development of terms of reference for project staff at the design stage/prior to effectiveness, among other measures;

(b) **Financial challenges**, such as difficulties in local financial management capacity on the ground despite the initial capacity assessments, fluctuations in the exchange rate, the need to include necessary but initially unbudgeted activities and delays in capital raising. One of the main financial challenges is the time period from Board approval to receipt of funds by executing entities. This has led to late start-ups and delayed the preparatory processes for the establishment of the project management teams. This is especially relevant right at the start of implementation to avoid delays and improve the adequacy of support for accomplishing key projects tasks; and

(c) **Procurement delays** related to slow or delayed procurement processes. Other contributors to this category include regulatory changes impacting processes, such as a new procurement law, uncertainties associated with upcoming elections and delays in the recruitment of project staff.

[16] As reported in the APRs, the categories reported correspond to: Implementation, Financial, Legal, Procurement, Political, Organizational, Other.
[17] The breakdown by impact and category reflected below is based on the assessment of the AEs.

78. Information received from the AEs (APR, financial information reports) were at times incomplete and inconsistent, which required additional engagement with AEs for more detailed information and clarification of the information provided. However, in some cases the level of detail was not sufficient, limiting our capacity to analyse and report data.

79. Furthermore, the different methodologies for calculation of impacts posed a challenge when aggregating and analysing data at the portfolio level. This points to a need for further work on the current GCF indicators to facilitate consistency and harmonization of the reported data and information, to the extent possible.

## 4.2 Readiness activities

80. The key issues based on the reports provided by NDAs and DPs and identified by the Secretariat with respect to the implementation of readiness activities can be grouped as follows:

(a) **Insufficient communication and coordination mechanisms:** establishing functioning coordination mechanisms between NDAs, DPs and other stakeholders, including ministerial and governmental bodies, has been a challenge for some countries that, in turn, impeded effective implementation of readiness activities. Also, limited dialogues between NDAs and DPs often lead to miscommunication resulting in subsequent delays or even cancellation of projects;

(b) **Limited information provided in the country programmes:** while some movement is seen in the completion or drafting of country programmes, there remains a big gap between the targets and actual level of quality of country programmes from both qualitative and quantitative aspects. This is reflected by country programmes' limited scope and insufficient guidance to integrate government climate change plans as well as generate a stream of quality project proposals;

(c) **Lack of clarity regarding GCF standard operating procedures:** current application processes for readiness activities require disproportionate efforts and costs in relation to the amount of support provided. Also, the lack of standard procedures in the Secretariat makes it difficult for NDAs/DPs to plan their time and resources for the implementation of the Readiness Programme. This leads to project design without much consideration of contingencies, perceived external and internal risks, proper sequencing of activities and unexpected events; and

(d) **Inadequate capacity on the ground to address implementation challenges:** Regional Advisers do not receive proper training with regard to rules and standard operating procedures as well as engagement with countries on joining GCF. Also, there are concerns that Regional Advisers do not often travel to the countries of which they have oversight and are not in step with the work being carried out by DPs and NDAs. The limited number of local experts with enough understanding and knowledge of GCF procedures and modalities as well as technical expertise to manage poses additional challenges.

# V. Planned actions for the 2018 portfolio review cycle

## 5.1 Funded activities

81. Based on the challenges identified in section 4.1 above, the following points are based on the lessons learned identified from the initial review cycle of the portfolio under

implementation. Some of these actions are already under development and progress will be reported in the next PPR.

**Encouraging the AEs to promptly communicate to the Fund on any emerging challenges, and clarifications needed on reporting and procedures**

82. The GCF Secretariat, the AEs, local development partners on the ground at the country level and government entities need to promptly communicate to identify emerging challenges and to address clarifications as required for reporting and standard operating procedures that may arise during implementation. This would allow an early identification of issues with a potential impact on the overall project implementation.

83. Regarding new DAEs and IAEs, adequate planning is required and prompt sharing of expected compliance protocols to expedite learning about administrative processes, reporting processes and procedures, to forestall risks such as delays in project implementation and to support efficient delivery of results.

84. Moreover, additional clarifications to the AEs to ensure consistency in the definition and application of terms in the regular reports is further required. Additional guidance by formal and informal means would strengthen the Secretariat's ability to aggregate results-related information. Building upon feedback on the initial APR template from AEs with projects under implementation in 2017, the Secretariat will continue to identify opportunities to improve the reporting templates based on lessons learned, including further consultation processes with all AEs to improve ease of use.

**Refining and harmonizing tools for monitoring performance of AEs on impacts and results based on the review of APRs**

85. Reducing the carbon footprints through climate change mitigation and adaptation actions is a non-linear and complex process that requires a significant level of efforts. Therefore, it needs non-linear and harmonized tools for results measurement, monitoring and reporting. Some AEs would require augmenting their monitoring and evaluation systems to include a comprehensive results management framework as well as other approaches and evaluation methodologies (e.g. TOC, ex ante and ex post evaluations, mid-term and final evaluations, impact evaluations, and MRV system).

86. Regarding evaluating results at the aggregate portfolio level, especially in the context of the measurement of greenhouse gas emissions reduction is the different types of methodologies used by AEs to calculate and monitor greenhouse gas emissions in their projects. The Fund will need to standardise and harmonise the methodologies to measure greenhouse gas emissions reductions to be able to aggregate AE results on the reduction of greenhouse gas emissions at the portfolio level and for ease of comparability of projects performance within the portfolio. During 2018, the Secretariat made an effort to streamline its performance measurement frameworks in order to track progress at the project/programme and aggregate portfolio level information. The finalization of the indicators in the PMFs will be submitted for the Board's consideration at B.22, this will contribute to reporting clarity in the APRs.

**Requesting AEs to implement Project-level stakeholder engagement plans and grievance redress mechanisms of ESS on the ground and for the Secretariat's action**

87. The scope of the environmental and social assessments and management plans at the outset will need to be sufficiently defined and specified during the project design stage and subsequently updated during the implementation phase for monitoring and reporting purposes. A well-defined safeguard instrument allows focused preparation and a cost-effective due diligence process and will need to be described in the safeguard instrument, environmental and social management framework or environmental and social management system. The

assessments and management plans will also have to be continuously updated to reflect any changes as a result of the implementation.

88. In parallel, strengthening the collection and analysis of sex-disaggregated data would allow for effective tracking of and reporting on activities and achievements. Moreover, collaborating on the formulation of comprehensive project-level gender action plans, including indicators, sex-disaggregated targets, timelines and budgets, would improve the transparency and accountability of results.

89. Various projects under implementation required further developing specific local engagement plans once the specific subprojects or activities in the proposal are defined. The stakeholder engagement plans should consider agreed consultation mechanisms for obtaining free, prior and informed consent, particularly for two of the projects that have triggered the safeguard standard for indigenous peoples.

## 5.2 Readiness activities

90. Recommendations for the readiness activities are based on the key issues facing NDAs/DPs concerning their implementation as set out below.

**Proactively engaging national designated authorities and delivery partners with mutual goals**

91. Communications between NDAs and DPs, including potential DPs identified by the NDAs, should be encouraged. More proactive interaction through regular dialogues and face-to-face meetings should take place. Mutual goals should be clearly set before or during the redesign stage among governments, NDAs, DPs and non–state actors to ensure that there is buy-in from all stakeholders concerned for the readiness activities undertaken in a particular country.

**Increasing technical support and guidance for country programmes and pipeline development**

92. Technical assistance needs to be available for countries to develop necessary inputs for the development of country programmes, which ensures country ownership when integrating climate change priorities into national development planning processes. Long-term planning to build national and project-level data systems, baseline information and country-specific indicators would allow project impacts to be demonstrated. In addition, building sectoral, thematic and results-based management-related partnerships with leading organizations at the country level through communities of practice can support the development of project ideas and concept notes and strengthen the quality of the pipeline of projects.

**Improving the efficiency of existing application and operating procedures**

93. The current project cycle and process for readiness proposals is codified in the Operations Manual published in June 2018. With the documentation of existing practice, the Secretariat will, starting from October 2018, embark on engaging with relevant divisions to improve efficiency during the application process and standardize operating procedures for the review process. The implementation plan should be in a sequential and phased manner with a multi-year timeline that allows for a buffer period to cater for unforeseen delays.

**Strengthening of local capacity through improved talent sourcing**

94. Developing an induction programme for Regional Advisors with the provision of proper guidance and historical background on countries of their regions will help them to better understand the context of the engagement on the Readiness Programme. To address the capacity issue posed on the ground, the Secretariat could create a list of national-level consultants who have been verified as technical experts for the provision of advisory services. Moreover, establishing strategic partnerships with organizations that possess the necessary skills and resources through communities of practice would help to bridge the gap.

## Annex: List of projects with annual performance reports submitted for the reporting period

| FP Reference | Country | Project name | AE | Theme | Region | Access modality | Sector |
|---|---|---|---|---|---|---|---|
| FP001 | Peru | Building the resilience of wetlands in the province of Datem del Marañón, Peru | PROFONANPE | Cross-cutting | LAC | Direct (national) | Public |
| FP002 | Malawi | Scaling Up of Modernized Climate Information and Early Warning Systems in Malawi | UNDP | Adaptation | Africa | International | Public |
| FP005 | Rwanda, Kenya | KawiSafi Ventures Fund | Acumen | Cross-cutting | Africa | Direct (regional) | Private |
| FP007 | Maldives | Supporting vulnerable communities in Maldives to manage climate change induced water shortages | UNDP | Adaptation | Asia-Pacific | International | Public |
| FP010 | Armenia | De-risking and scaling-up investment in energy efficient building retrofits in Armenia | UNDP | Mitigation | Eastern Europe | International | Public |
| FP011 | Gambia | Large-scale Ecosystem-based Adaptation in the Gambia River Basin: developing a climate resilient, natural resource based economy | UNEP | Adaptation | Africa | International | Public |
| FP013 | Viet Nam | Improving the resilience of vulnerable coastal communities to climate change related impacts in Viet Nam | UNDP | Cross-cutting | Asia-Pacific | International | Public |
| FP015 | Tuvalu | Tuvalu coastal adaptation project | UNDP | Adaptation | Asia-Pacific | International | Public |
| FP016 | Sri Lanka | Strengthening the resilience of smallholder farmers in the Dry Zone to climate variability and extreme events through an integrated approach to water management | UNDP | Adaptation | Asia-Pacific | International | Public |
| FP018 | Pakistan | Scaling-up of Glacial Lake Outburst Flood risk reduction in Northern Pakistan | UNDP | Adaptation | Asia-Pacific | International | Public |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| FP019 | Ecuador | Priming financial and land use planning instruments to reduce emissions from deforestation | UNDP | Mitigation | LAC | International | Public |
| FP023 | Namibia | Climate-resilient agriculture in three of the vulnerable extreme northern crop growing regions | EIF | Adaptation | Africa | Direct (national) | Public |
| FP024 | Namibia | Empower to adapt: creating climate change resilient livelihoods through community-based natural resource management in Namibia | EIF | Adaptation | Africa | Direct (national) | Public |
| FP028 | Mongolia | MSME Business loan program for GHG emission reduction | XacBank | Mitigation | Asia-Pacific | Direct (national) | Private |
| FP033 | Mauritius | Accelerating the transformational shift to a low-carbon economy in the Republic of Mauritius | UNDP | Mitigation | Africa | International | Public |
| FP034 | Uganda | Building resilient communities, wetland ecosystems and associated catchments in Uganda | UNDP | Adaptation | Africa | International | Public |
| FP037 | Samoa | Integrated flood management to enhance climate resilience of the Vaisigano River Catchment in Samoa | UNDP | Adaptation | Asia-Pacific | International | Public |
| FP039 | Egypt | Egypt renewable energy financing framework | EBRD | Mitigation | Africa | International | Private |

*Abbreviations: MSME = micro, small and medium-sized enterprise, GHG = greenhouse gas.*