



**GREEN  
CLIMATE  
FUND**

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# Consideration of funding proposals – Addendum XX Secretariat's review

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## **Summary**

This addendum contains the Secretariat's review of the public sector funding proposals (FP049-FP058) submitted for the Board's consideration at its eighteenth meeting.

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## Secretariat’s Review of FP049

Proposal name:	Building the climate resilience of food-insecure smallholder farmers through integrated management of climate risk (R4) in Senegal
Accredited entity:	World Food Programme (WFP)
Project/programme size	Micro

### I. Overall assessment of the Secretariat

1. The funding proposal titled “Building the climate resilience of food- insecure smallholder farmers through integrated management of climate risk (R4) in Senegal” is presented for the consideration of the Board, taking note of the remarks listed in table 1 below.

**Table 1. Summary of strengths and points of caution**

Strengths	Points of caution
The proposal responds to increased risks from climate variability (particularly rainfall), which are evidence-based and coupled with food security	The use of food vouchers and cash transfers to implement disaster risk reduction assets and climate-resilient practices addresses urgent needs but poses a risk for replicability
An integrated approach to building climate resilience has been tested in countries across Africa with proven results, including in Senegal, and has been recognized with an award from the secretariat of the United Nations Framework Convention on Climate Change	Intervention 3.1 on women-only savings groups is not strongly related to climate change adaptation, because savings can be used for any purposes. However, it contributes to the delivery and sustainability of the other components
The proposal leverages the expertise and experience of a large number of partners in the country, and the implementation structure has been tested in a previous pilot project	The grant-only funding request limits the efficiency and effectiveness of GCF funding. However the Government of Senegal is covering the 50% of the insurance premiums for farmers
The shared execution responsibilities between the World Food Programme (WFP) and the co-executing entity Secrétariat Exécutif du Conseil National de Sécurité Alimentaire (SE/CNSA) help to leverage the experience and capacity of WFP in complex coordination and project management, while building the capacity of SE/CNSA to ensure country ownership and help mainstream actions	
It fosters innovation through an agricultural insurance system in Senegal, and supports mainstreaming of climate resilience tools within Senegal’s safety net, allowing it to reach a wider number of climate-vulnerable and food-insecure households on the ground	

2. The Board may consider approving this funding proposal with the terms and conditions listed in the respective term sheet and document titled “List of conditions and recommendations”.

## II. Summary of the Secretariat's review

### Project background

3. The proposal is part of the R4 Rural Resilience Initiative approach that the World Food Programme (WFP) has been piloting in four countries in Africa, including Senegal, with successful results, such as higher yields and investment and reduced use of negative coping mechanisms in the face of climate-related impacts. It has been tailored to the Senegalese context during the pilot phase, incorporating innovation and best practices on agricultural insurance. The proposal is also part of Senegal's country programme, which is being developed in consultation with multiple stakeholders, and will support the development of the national adaptation plan. Moreover, agriculture, including agricultural insurance, is one of the priority options for adaptation as communicated in Senegal's intended nationally determined contribution.

4. The funding proposal is the third one submitted by Senegal for consideration by the Board and it emerges from the country programming exercise led by the national designated authority. There is potentially strong synergy with one upcoming project on climate information which could allow the scaling up of the agriculture insurance developed by this project. There is no duplication with other projects either approved or in the pipeline.

5. The project aims to increase the resilience of food-insecure households in Senegal affected by greater climate variability due to climate change, in particular in terms of rainfall, which is the main determinant of agricultural production in rain-fed production systems. Households are forced to respond to climate change impacts such as droughts by selling their scarce assets, hindering recovery.

6. The project seeks USD 9.98 million in GCF funding, covering the totality of the cost of the project. The project is classified as low environmental and social risk – Category C. USD 0.74 million have been budgeted for project management, and a total of 11 staff and consultants will work in the country office on the delivery of the activities, including one officer for each of the three components and one field monitor in each of the suboffices. Implementation arrangements and responsibilities for each partner in the delivery are well outlined in the proposal.

7. WFP proposes an integrated approach to reduce and transfer climate risks of 45,000 food-insecure households (405 000 beneficiaries). GCF funding would help households and communities improve their own adaptive capacity, by: (1) increasing the resilience (ex ante) of their assets and environment; (2) introducing risk-transference mechanisms (weather index insurance); (3) building risk reserves and encouraging prudent risk taking; and (4) mainstreaming those tools through Senegal's safety net and social protection programmes.

### Component-by-component analysis

#### Component 1 – risk reduction (total and GCF cost: USD 5.26 million)

8. The component aims to increase the resilience of community and household assets through water and soil conservation measures, increased water availability, diversification of livelihood opportunities, and training on climate-resilient practices. Households would receive incentives in the form of food and cash vouchers to engage in the creation of disaster risk reduction (DRR) assets creation to ensure their adoption before the benefits of these start to be realized. Further, households would receive climate advisory services that would further contribute to reducing their exposure to climate risks by improving households' decision-making and planning for each growing season.

9. The component contributes to strengthening the impact of other components and the sustainability of the project's results. DRR assets directly tie into the diversification and risk-proofing of farmers' livelihoods, such as climate-smart assets and practices linked to on- and off-

farm income-generating activities. Training of farmers will help to ensure that no maladaptation results from the increased income (e.g. unsustainable uses of water or fertilizer, crops and varieties that are not adapted to the local context).

10. Food and cash vouchers constitute a constraint for the replicability of the activities by new farmers beyond the scope of this project., but respond to immediate needs of the beneficiary households, and are considered critical for the participation of beneficiary households in the initial stages of the project, after which they are gradually phased out.

*Component 2 – risk transfer (total and GCF cost: USD 2.45 million)*

11. Some 25,000 households participating in the resilience asset creation activities in component 1 will get enrolled, through an “insurance for assets” scheme, in a weather index insurance programme that would provide payouts when rainfall is below a certain threshold. The project’s technical assistance and delivery activities will allow 20,000 additional better-off households that are not participating in the insurance for assets scheme, to enrol in insurance by paying cash. This component includes technical assistance, training and product delivery activities by specialized international and national partners.

12. The weather index insurance is an innovative tool in the context of Senegal. Reduced risk for farmers has successfully led to increased investment in agriculture in the pilot project.

*Component 3 – risk reserves and prudent risk taking (total and GCF cost: USD 1.83 million)*

13. In order to further enhance the overall resilience of households through income diversification, WFP proposes to: (1) create savings groups targeting women; and (2) establish village cereal banks, where surplus crop can be used as collateral to access credit from microfinance institutions. These two subcomponents would help households to gradually build savings to cope with shocks and to invest in on- and off-farm income-generating activities, thus lifting households out of food insecurity.

14. This component helps to leverage savings and crop surpluses resulting from components 1 and 2, helping households diversify their income sources by providing them with access to microfinance through village cereal banks and women savings groups. Combining these activities has the potential to improve the livelihoods of the target groups and build their resilience to increased climate variability.

15. While the component could be more strongly related to climate change by specifically facilitating the adoption of climate-resilient income-generating activities and practices, it enhances the sustainability of other the components and provides a delivery mechanism for other outputs, such as insurance.

*Component 4 – mainstreaming (total and GCF cost: USD 0.44 million)*

16. WFP will mainstream some of the tools piloted, such as the insurance for assets and “food for assets” schemes, into Senegal’s safety net, in order to reach a wider pool of food-vulnerable households.

17. The inclusion of Secrétariat Exécutif du Conseil National de Sécurité Alimentaire (SE/CNSA) as co-executing entity (co-EE) contributes to ensuring country ownership of the project, enhancing sustainability and mainstreaming results after implementation. The mainstreaming component envisaged, introducing the insurance for assets scheme and other tools in Senegal’s safety net, could be effective to reach the wider pool of food-insecure households vulnerable to climate change. WFP is currently engaging with the Government of Senegal and other partners in efforts to mainstream these tools through the creation of a strategic advisory board.

18. The integrated approach proposed at the community level requires strong on-the-ground delivery capabilities and technical expertise. WFP, jointly with the co-EE SE/CNSA, will leverage its experience in coordinating numerous partners, each with expertise and on-the-ground capabilities in the area, because most of them participated in the pilot project.

### III. Assessment of performance against investment criteria

#### 3.1 Impact potential

*Scale: N/A*

19. The project responds to climate vulnerabilities and enhances the resilience of the population. It aims to directly improve the resilience of 45,000 households (405,000 beneficiaries, 4.27 per cent of Senegal's population). Some 25,000 households will benefit from the full package of activities in components 1, 2 and 3 (225,000 direct beneficiaries), while 20,000 additional households will be covered by the insurance component. An estimated 121,000 people will be indirect beneficiaries of the project, based on the 1.3x multiplier default value used by WFP. An impact study at the end of the R4 pilot initiative in Senegal (November 2016) confirmed that participating households dealt better with the impact of bad years (particularly low rainfall) in terms of household food consumption and negative coping mechanisms.

20. Although component 3 is likely to improve the ability of households to save and invest in income-generating activities, and "tontines" (women-only savings groups) will contribute to the overall delivery and sustainability of the other activities, there is room to improve the component's linkage specifically to climate change adaptation by promoting investment in the scaling up of climate-resilient practices and related income-generating activities.

#### 3.2 Paradigm shift potential

*Scale: N/A*

21. The proposal aims to scale up an existing intervention to transform the way in which households deal with weather and climate risks, while adding a mainstreaming component to reach a larger number of food-insecure households (250,000 beneficiaries of Senegal's safety net). The integrated approach of the proposal, based on analytical work by WFP and their experience in the field, has a substantial potential to address critical barriers and risks for farmers, generating a paradigm shift in their strategies to cope with climate variability. However, this paradigm shift is contingent on the sustainability and replicability of the local-level disaster risk reduction interventions, and on the effectiveness of the mainstreaming component.

22. One of the strengths of the proposal is the leveraging of expertise and implementation capabilities from many partners. Annual impact reflection workshops, attended by all partners and community representatives, are proposed to allow the sharing of experiences and learning from successes and failures. Lessons learned from this project could contribute to improve the R4 approach and could improve overall integration of climate change adaptation in WFP overall portfolio.

23. The sustainability of the disaster risk reduction activities would be stronger if the theory of change is reinforced by tying the food for assets scheme or cash transfer mechanisms to the diversification of income-generating activities, thus inducing a self-sustaining change in the practices and activities that households undertake. The current system of food vouchers and cash transfers provides an incentive for participating households to work on improving their resilience, but that system may not be replicable once the project is over.

24. WFP signed a memorandum of understanding (annex 4) with the Government of Senegal DGPSN (Social Protection and National Solidarity – *Délégation Générale à la Protection Sociale et*

*à la Solidarité Nationale*) with the aim to strengthen Senegal's social safety net in rural areas through insurance, and has worked on mainstreaming their community-based approach to climate resilience with the co-EE, SE/CNSA. The project will continue to work with relevant government entities to mainstream these tools.

### 3.3 Sustainable development potential

*Scale: N/A*

25. One of the main objectives of the project is to increase the income base of households and reduce economic shocks resulting from climate variability. Impact analyses have confirmed a strong performance of the pilot project in terms of economic and social co-benefits, as a result of improved decision-making (e.g. based on the seasonal weather forecasts), economic and physical assets, and greater awareness on nutrition aspects.

26. In the pilot project, there was a substantial increase in the quantity of crops harvested by participating households with respect to the control group, in particular for rice, which is a key staple crop (a 230 kg increase, compared with a 20 kg increase for the control group), as a result of improved water and soil management techniques and access to agricultural inputs. Households were better able to cope with climate variability and less exposed to shocks, thus having higher food security (consumption level). Women in particular benefitted from participation in savings groups and increased their access to productive assets, as well as increased their participation in decision-making.

27. The project is also likely to provide environmental co-benefits in terms of improved water and soil conservation, whereas diversified income-generating activities, particularly fruit trees and tree nurseries, can contribute to increasing carbon sequestration, habitat diversity, although evidence of this was not provided in this proposal.

28. The increase in production and surplus stock are also highly likely to benefit communities and populations living in the target districts through higher crop availability in the markets, as well as informal support between community members.

### 3.4 Needs of the recipient

*Scale: N/A*

29. The proposal targets highly vulnerable food-insecure households in Senegal. The country is regularly and increasingly affected by climate shocks, including droughts and floods, which are primary factors impacting food production and are expected to increase in frequency and magnitude as a result of climate change. Vulnerable households such as those targeted are usually forced to respond to these impacts through the sale of assets or other negative coping mechanisms, which affect their long-term resilience and livelihoods. As such, the proposal responds to a very relevant need in the country.

30. WFP has identified the five areas of intervention (the regions of Kaffrine, Kolda, Tambacounda, Fatick and Kaolack) by overlaying areas that are highly food insecure and those that are particularly vulnerable to recurrent climatic shocks, with a focus on rainfall.

### 3.5 Country ownership

*Scale: N/A*

31. The project is well aligned with the priorities of the Government of Senegal on adaptation, as reflected in the national adaptation programme of action and the intended nationally determined contribution. It benefits from a strong consultation process and working relationship with a wide range of stakeholders, including at the local level through community-based participatory processes. The proposal aims to build the capacity of the Government to respond to

climate change, in particular to build technical capacity about design and implementation of weather index insurance, and to contribute to the development of the country's national adaptation plan, currently under preparation. In addition, the national designated authority has been actively engaged during the preparation of the funding proposal and has expressed support for the work of WFP in enhancing the resilience of communities vulnerable to climate change.

32. WFP will share execution responsibilities with SE/CNSA, a national structure attached to the Office of the Prime Minister, which will chair the project steering committee. It will coordinate the relevant national structures, including the Ministries of Agriculture, of the Environment and of Finance, the Delegation to Social Protection (which is attached to the Office of the President of the Republic), the state-owned insurance company (Compagnie Nationale d'Assurances Agricole du Sénégal, CNAAS) and the National Programme of Local Development, as well as Oxfam, the Food and Agriculture Organization of the United Nations and the International Fund for Agricultural Development activities in the country. These arrangements will contribute to ensure a strong involvement and capacity-building of the government, ownership of the process and results, and increasing the chances of mainstreaming the tools.

33. WFP has experience of working with a variety of international and national partners, including local community groups, weather advisory services, the national insurance company, and microfinance institutions in the implementation of the project. This strong level of involvement of institutions, using their on-the-ground capacities, constitutes one of the strengths of the proposal.

### 3.6 Efficiency and effectiveness

*Scale: N/A*

34. The grant-only funding request and absence of co-financing limit the efficiency and effectiveness of GCF funding.

35. Ex ante DRR interventions are aimed at reducing the costs of extreme events, including those caused by climate change. The proposal contains information on similar case studies in Ethiopia and Kenya that can generally be extrapolated to this case; costs of early response and resilience are much more cost-effective than humanitarian response, by over USD 300 per beneficiary. Although the net present value of the project calculated by WFP appears to be positive only in a time frame of 9–10 years, the analysis is conservative and includes only direct benefits to households, and does not consider the costs of response to extreme droughts or floods as well as other co-benefits, which would certainly raise the overall figure.

36. The project management cost is USD 0.74 million (7.4 per cent of the total project) corresponding to the provision of a Project Coordinator and Programme Assistant. Eleven WFP staff and consultants will make up the Project Management Unit, which reflects and is commensurate with the substantial coordination requirements with a large number of partners as a result of the integrated approach proposed and niche expertise related to agricultural insurance. This is considered critical for successful local-level delivery and mainstreaming of the results.

## IV. Assessment of consistency with the safeguards and policies of the GCF

### 4.1 Environmental and social safeguards

37. The accredited entity (AE) has classified the project as low environmental and social risk – Category C in the funding proposal, that is, having minimal or no adverse environmental and

social risk level. The proposed activities have also been screened and assigned a low risk categorization by the AE according to the environmental management and monitoring plan (EMMP) for the R4 rural resilience initiative in Senegal.

38. The AE has provided an EMMP. The EMMP contains information on the expected environmental impacts of the project's activities and mitigation measures to manage the identified risks. There is no requirement to disclose the EMMP in line with the GCF Information disclosure policy.

39. Potential negative environmental and social impacts of the project such as water pollution, loss of biodiversity and invasion of exotic species may result mainly from construction of proposed climate adaptation assets and the use of fertilizers. Mitigation measures have been proposed for potential negative impacts in the EMMP submitted by the AE. Social and environmental co-benefits that are likely to result from the project include improved food security.

40. The project will be executed by the AE together with the SE/CNSA. The co-EEs will coordinate with their local partners to implement and monitor the mitigation measures outlined in the EMMP.

41. The AE will monitor the application of environmental and social mitigation measures as well as parameters in accordance with the EMMP that it has submitted to the GCF during its routine monitoring activities of the project, with the aim of anticipating unforeseen impacts, planning for additional mitigation measures and informing the evaluation of the project. The EMMP outlines the parameters that will be monitored, including methodologies employed, indicators and frequency of monitoring. The impact evaluation will include an environmental evaluation based on information collected during the monitoring of project activities.

42. In terms of consultations at the design phase of the project, the AE has consulted national authorities in the development of a concept note of the project. Additionally, the AE conducted community-based participatory planning exercises with local communities to identify community needs, prioritize interventions and engage communities. Throughout the implementation of the project, the AE plans to engage stakeholders such as national and local authorities and local communities through quarterly meetings, monitoring missions and annual impact reflection workshops.

43. The AE has outlined, in the funding proposal, a project-level grievance mechanism that can be employed by stakeholders, including affected communities. The AE, through its country office in Senegal, will establish a toll-free telephone number that can be used by the project beneficiaries and other stakeholders to bring to its attention concerns regarding the project. Moreover, during the post-distribution monitoring surveys of food and insurance vouchers, participants will have the opportunity to give feedback on their level of satisfaction and concerns. Details of how affected communities or other stakeholders will be informed about the grievance redress mechanism have not been included in the funding proposal.

## 4.2 Gender policy

44. The proposal contains a gender analysis and action plan, and states that a more thorough gender assessment containing updated gender-related baseline information will be undertaken during the inception phase. This will help to include more appropriate and situational women's empowerment indicators in the monitoring and evaluation framework of the project.

45. The logic framework contains some gender performance indicators. There is an overall indicator and associated sex-disaggregated targets on the number of males and females benefitting from the adoption of diversified, climate-resilient livelihood options. An indicator

with associated sex-disaggregated targets on the number of males and females made aware of climate threats and related appropriate responses has also been included in the logic framework. However, there is scope to add more gender-informed indicators and associated targets in the logic framework to enhance the gender responsiveness of the project.

46. In addition, WFP is recommended to take into account the following in the implementation of the project:

- (a) More explicit targeting of women-headed households in terms of beneficiary targeting, and that both men and women participate in the food for assets and insurance for assets schemes;
- (b) Strategies to train women and enhance their control over livestock resources;
- (c) Measures to ensure women's participation in the community management component, for example by preparing those with an understanding of gender needs and the involvement of women;
- (d) Considerations to reduce hard farming work and labour time for women;
- (e) Use of gender-friendly information channels and campaigns to address social norms and cultural practices that hinder women participation in decision-making;
- (f) Training of women in the interpretation of weather and hydrological data, as well as community early warning systems;
- (g) The participation of vulnerable groups, including women, in activities dealing with disaster risk;
- (h) The provision of opportunities for women to become part of women-led business associations with direct access to cooperatives and local/regional/national markets; and
- (i) Equal representation of women and men in village management committees, as well as non-discrimination of any community members in participatory planning exercises.

### 4.3 Risks

#### ***Project-level risks***

47. Throughout the funding proposal the AE (also the co-EE) has identified and assessed many of the risks linked to the project. It is positively noted that this project has WFP as both AE and co-EE, which gives clarity of control and accountability for the project outcomes. The AE/EE has defined mechanisms of control and has set mitigation measures to address these potential risks. The AE/EE has a long track record of implementing similar projects with experience and knowledge in this project area. The AE/EE has also demonstrated that it has learned from other initiatives similar to this project and has put corrective measures in place to address these weaknesses. As the Government of Senegal and the local communities currently lack the technical capacity to implement this project, the AE/EE has incorporated in its plans the development of the government's technical capacity to increase the likelihood of success for this project.

48. The Government of Senegal supports the project by involving several state departments dedicated to overseeing specific activities with a relatively complex governance. Therefore, the role of WFP role is crucial to coordinate them when reporting on the project outcomes.

49. To monitor the project activities and outcomes, it is recommended that the AE communicate a detailed action plan including the project milestones and their related deadlines. If possible and in line with the above project action plan, the GCF could disburse the grant amount

in separate disbursements that are linked to outcomes achieved and evidence provided by the AE.

50. **Economic viability:** the economic cost-benefit analysis provided by the AE has an economic internal rate or return of 11.47 per cent with discount rate of 10 per cent over the 10-year time frame of this project. Although the project proves the economic viability with the economic internal rate or return being higher than the discount rate, the net present value is positive only in year 10. The project net present value becomes negative with a scenario involving a 1 per cent benefit decrease. This implies that a strong exit strategy is important in order to secure the economic sustainability of the project after year 4 of implementation. The AE states that the potential climate change impact on assets reduced by insurance and other positive externalities are not considered in the model, which can be considered conservative. Regarding this point, the Secretariat expressed a view to the AE that the economic analysis could be strengthened by capturing the additional benefits mentioned above, which could not be addressed by the AE because of the lack of data.

51. **Concessionality:** the AE requests grant financing from the GCF given the country's status as a least developed country and the nature of the project targeting adaptation activities for highly vulnerable and food-insecure communities. The contribution of the GCF to this project is expected to enhance the income level and adaptation capacity of the communities through the improved infrastructure and financial products for farmers. However, the economic model lacks details on how and what basis each project component (i.e. adaptation assets, weather index insurance, income-generating activities, warrantage) will contribute to the overall project outcome with regard to the economic benefits. Furthermore, the economic analysis by the AE was done mainly focusing on the benefit from income generation. It is therefore difficult to see the clear project impact directly related to climate change from the model while the GCF is being requested to be a sole financier to this project without any co-financing from other development agencies.

52. **Compliance, anti-money laundering (AML) and countering the financing of terrorism (CFT):** In the absence of an executed accreditation master agreement (AMA), compliance with anti-money laundering (AML) and countering the financing of terrorism (CFT) requirements is not contractually assured. It is recommended that legal arrangements (i.e. an AMA, a funded activity agreement) should be executed prior to the first disbursement.

**Table 2. Summary of GCF-level risk management assessment**

Summary risk assessment		Remarks and mitigation strategy for the GCF
Reputational:	Low	Based on the long track record and extensive experience and knowledge of the accredited entity/executing entity, coupled with their demonstrated ability to learn from previous initiatives similar to this project and to take corrective measures, the risks are perceived to be low
Operational:	Low	
Compliance:	Low	
Performance:	Low	

#### 4.4 Fiduciary

53. The AE will ensure that the project complies with its fiduciary and procurement standards through the measures below.

54. WFP will be the AE and co-EE for the project. WFP has an established team for implementing the R4 initiative, which will be the same for the proposed project.

55. As the AE, WFP will be responsible and accountable for managing the project, including ensuring effective use of project funds according to agreements made with the GCF, oversight and reporting (annual reporting, mid-term and final evaluations, and audit), achieving project objectives and coordinate the involved actors to implement the project components.

56. The AE will create a dedicated trust fund and will be responsible for ensuring that project funds are spent according to the project document and grant agreement signed with the GCF. WFP shall be responsible for all project procurement following its procurement rules and regulations as described in its procurement regulations.

57. As the co-EE, WFP will be responsible jointly with SE/CNSA for the direct implementation of project activities and for achieving the project outputs. The SE/CNSA has a coordinating role, and GCF funds will be managed by WFP. Both WFP Senegal Country Office and WFP headquarters staff will provide technical and operations support related to technical inputs, capacity-building efforts, procurement, logistics and other related services required for effective execution of project activities.

## 4.5 Results monitoring and reporting

58. As an adaptation project, the proposal indicates in section E.1.2 the value of the core indicator “Expected total number of direct and indirect beneficiaries (with reduced vulnerability or increased resilience), number of beneficiaries relative to total population (for adaptation only)”. The number of beneficiaries disaggregated is provided (405,000 direct and 121,000 indirect beneficiaries) with an indicative target of 50 per cent female beneficiaries.

59. Regarding the logical framework section, the proposal aligns with the climate results and indicators of the performance measurement framework of the GCF. However, the measurements selected for many result areas could benefit from greater specificity and stronger alignment to the specific result area it is tracking. It is recommended that the AE improve the quality of the project’s results-management component, including revising the logical framework for outcome and output level indicators.

60. The arrangements for monitoring, reporting and evaluation details of how the AE will comply with the GCF-specific reporting requirements are reported and consistent.

## 4.6 Legal

61. The AMA has not been agreed yet between the GCF and the World Food Programme (WFP). Therefore, the accreditation process has not been completed. As the absence of an AMA will delay implementation of the proposed project, it is recommended that the Board does not approve the project before the execution of an AMA by WFP.

62. WFP has not yet provided a legal opinion/certificate confirming that it has obtained all final internal approvals to implement the project. Furthermore, section A.3 of the funding proposal does not indicate an expected date to obtain such internal approvals.

63. The proposed project will be implemented in Senegal, a country in which the GCF is not provided with privileges and immunities. This means that the GCF is not protected against litigation or expropriation in this country. The Secretariat submitted a draft of the privileges and immunities agreement and a background note to the national designated authority in November 2015, which were resubmitted to them in September 2016, and multiple discussions have been held, including meetings at the United Nations Climate Change Conferences in Paris and Marrakech, with representatives of the Government of Senegal to discuss the terms of the agreement; however, no response on the draft agreement has been received thus far.

64. The GCF is exposed to litigation risk in Senegal. Risk of expropriation needs to be further assessed. Furthermore, the Independent Redress Mechanism and Independent Integrity Unit have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations, to the fullest extent envisaged in the Governing Instrument for the GCF and the Board-approved terms of reference, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after the GCF has obtained satisfactory protection against litigation and expropriation in Senegal, or has been provided with appropriate privileges and immunities.

65. If the Board decides to approve the project, in order to mitigate risk, it is recommended that such approval by the Board is made subject to the following conditions:

- (a) The execution of an AMA by WFP, in a form and substance satisfactory to the Fund, within 120 day of Board approval;
- (b) the execution of all required legal documentation in form and substance satisfactory to the GCF Secretariat;
- (c) the completion of legal due diligence to the satisfaction of the GCF Secretariat; and
- (d) the submission of a legal opinion/certificate in a form and substance that is satisfactory to the GCF Secretariat within 120 days after Board approval, confirming that WFP has obtained all final internal approvals needed to implement the project and it has the capacity and authority to implement the proposed project.

## Secretariat’s review of FP050

Proposal name:	Bhutan for Life
Accredited entity:	World Wildlife Fund
Project size:	Medium

### I. Overall assessment of the Secretariat

1. The funding proposal is presented to the Board for consideration with the following remarks:

Strengths	Points of caution
The proposal targets to protect more than half of the country in protected areas for perpetuity which includes significant amount of stored CO2 in the forest within protected areas.	The incremental contribution by public and private sources will need to be monitored and secured through performance disbursements
The proposal catalyses large public and private contribution to the long-term conservation of Bhutan’s protected areas, providing clear mitigation and adaptation benefits.	
The proposal is well aligned with national climate change strategies and policies, including its NDCs and the national Constitution.	

2. The Board may consider approving this funding proposal with the terms and conditions listed in the respective term sheet and addendum titled “List of conditions and recommendations”.

### II. Summary of the Secretariat’s review

#### Project background

3. The “Bhutan for Life” (BFL) project aims to protect 51 percent of the country’s territory managed under its network of protected areas. It serves as the cornerstone of Bhutan’s bold pledge to remain carbon neutral, as re-stated in its Nationally Determined Contribution (NDC) under the Paris Agreement. It is also central to the country’s plans for meeting its constitutional requirement to maintain a minimum of 60 percent of its land area under forest cover. The BFL project thus has the full backing of the Royal Government of Bhutan, with strong public support received during design consultations.

4. The project is structured into five components which entail 16 milestones and 80 activities, spanning from technical assistance and capacity building of local communities to tangible output-based activities including reforestation of 3,000 hectares and ecotourism. The five components are: (a) Forestry and land use climate mitigation; (b) Adaptation in communities and ecosystem; (c) Provision of ecosystem services; (d) Sustainable management of protected areas; and (e) Project management and monitoring, reporting and evaluation.

5. The proposal provides significant climate benefits for mitigation and adaptation. As already a net carbon sinks with negative emissions of 4.1 MtCO<sub>2</sub>eq annually, Bhutan aims to sequester 35.1 MtCO<sub>2</sub>eq throughout the lifetime of the project mainly through natural growth of forests in the protected areas with small contribution from reforestation and distribution of renewable energy sources.<sup>1</sup> This questions the additionality of mitigation benefits which will be discussed in the latter section. The project also aims to benefit 35,000 people directly and 110,000 people indirectly through its range of adaptation measures, including the establishment of ecotourism, climate vulnerability and capacity assessment, and other interventions. However, attribution of adaptation activities to the number of beneficiaries is not well delineated.

6. The project requests USD 26.5 million of grant funding which is 22 percent of the total financing cost. Co-financing will be provided by the government of Bhutan and multiple private and/or individual donors whose contributions are in the form of grants and will be channelled through WWF's trust fund. The requested funding will be used as a one-time, 14-year bridge financing that will allow the government of Bhutan to gradually mobilize public resources, to be able to fully finance the sustainable management of its protected areas after the year 14.

### **Component by component analysis**

*Component A – Mitigation component: Increasing forestry and land use climate mitigation (Total Cost: US\$2.4M; GCF US\$1.8M, or 75%)*

7. This component will generate basic information for assessing the ecosystem health of the protected areas as well as direct interventions to restore degraded lands and manage natural forest by local communities. In addition, this component will provide support for alternative energy generation for population living within the protected areas.

8. The interventions described in the funding proposal are more detailed described in previous assessments of the protected areas of Bhutan. Nonetheless, the technical capacities to undertake these activities may require further strengthening and long term support. The activities described under this component are well aligned with the milestones foreseen as successful implementation; these include maintenance of large scale protected areas and securing carbon stocks as well as restoration of degraded landscapes.

*Component B – Adaptation component I: Integrated adaptation in communities and ecosystems to improve natural resource management for livelihoods and climate resilience (Total: US\$12M; GCF US\$5.9M or 49%)*

9. This component involves large number of activities (25) ranging from raising awareness and local capacity building to promoting alternative nature-based income generation activities.

10. The activities related to raising awareness are foreseen to be implemented in the long term for all the population within the protected areas. Such activities will require extensive field work and close follow-up with the beneficiary communities and target groups. The accredited entity should carefully plan the integration of these activities with formal and informal education processes that would enable securing the continuity of these interventions beyond the project implementation.

11. Another set of activities are oriented towards assessing and identifying response measures to vulnerability of communities to climate change. Currently, the proposal includes measures and a budget allocation for the implementation of activities in the absence of the studies yet to be implemented. It is important to note that the implementation of actions to respond to climate vulnerability in these communities will need to be adjusted according to the findings of

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<sup>1</sup> The baseline and estimated emission reductions will need to be revised once Bhutan develops its forest reference emissions level under the UNFCCC.

the assessments. It is also important to note that some activities related to raising awareness may overlap with other foreseen activities with similar objectives.

12. The proposal also identifies measures to prevent conflicts due to human wildfire including research, capacity building, policy regulation and physical interventions as well as insurance schemes. The implementation of these activities may be challenged by the capacity to monitor and prevent wildfires.

13. The final set of activities under this component expect to achieve an increase of income and diversification of income generation activities for at least 80% of households. Based on these activities, the project will promote eco-tourism and other nature-based enterprises. At the stage of the project proposal, detailed information on market studies and financial sustainability plans for the promotion of eco-tourism and other enterprises were missing. It is therefore important to closely monitor the implementation of these activities and to assess the actual economic benefits to be perceived by the communities.

*Component C – Adaptation component II: Climate-smart conservation to enhance provision of ecosystem services (Total cost: US\$ 25.1M; GCF US\$ 9M or 36%)*

14. This component is targeted mainly to assure the conservation of main biodiversity values of protected areas through several interventions. The first group of activities aims to monitor and increase the population of tigers and snow leopards as umbrella species for the major ecosystems in the protected areas. The implementation of these activities will require highly trained personnel and detailed protocols to assure high quality data gathering. Yet, it remains to be further analysed what are the main pressures that these two flagship species face and require particular mitigation measures to allow an increase in their populations.

15. The second group of activities under this component are targeting high profile, lesser known, endangered or endemic flora and fauna species. These activities will require a more detail pre-analysis on how to identify the appropriate research methods in accordance to species yet unknown. Currently, the available information on the status of protected areas in Bhutan provides sound basic information to identify such species.

16. Poaching and wildlife trade are among the main threats to wildlife for which this proposal includes a set of interventions aimed to strengthen the local capacities to enforce the law. The implementation of patrolling in all protected areas represents significantly high cost compared to all other activities in the proposal. Patrolling is one of the most direct measures to prevent and detect illegal activities that cause detriment to the ecosystem health of the protected areas. The long-term financial sustainability of this activity relies in the increase of public finance to BFL, in addition, the involvement of local communities and exploring partnerships with private sector entrepreneurs in eco-tourism could contribute to this goal.

*Component D – Sustainable management of protected areas (Total cost: US\$69.1M; GCF US\$4.4M or 6%)*

17. This component requires the larger amount of total finance. The activities include zoning and physical demarcation and assessing the effectiveness of protected areas management. The highest amount of funds are on securing the appropriate staffing for managing the protected areas. Same as other key basic activities to manage protected areas, the long term financial sustainability of securing adequate staffing relies on the increase of public finance. It is critical to explore additional funding sources for that purpose.

*Component E – BFL program management component: Management, monitoring, reporting, policy support, contingencies (Total cost: US\$9.6M; GCF US\$5.4 or 56%)*

18. The total cost of this component remains to be revised and compared to the accredited entity fees based on recent guidance.

## Alignment with Investment criteria

19. Overall, the proposal is well aligned with the six investment criteria. Particularly, the proposal aims to contribute to the conservation of around the half of the country in protected areas which provide both mitigation and adaptation benefits. Additionally, the co-benefits generated by the protected areas will largely contribute to the sustainable development of the communities within the protected areas and indirectly to the entire country.

### 2.2 Impact potential

*Scale: High*

20. The proposal clearly demonstrates mitigation and adaptation potential; thus, it is considered a cross cutting proposal.

21. In terms of mitigation potential, the proposal assumes the natural growth of forest in the protected areas, the sequestration of CO<sub>2</sub> emissions from reforestation activities as well as the long-term conservation of carbon sinks. Considering the stage of Bhutan's forest in the context of the forest transition curve, it can be foreseen that the large carbon stocks in the natural forest may be released at some point in time if the country chooses to follow the same development path as most of the countries followed to increase their economies.

22. Although the attribution of the mitigation outcomes from the natural growth and conservation of carbon sinks to the proposed project may be debatable for the period of the implementation, the successful implementation of this proposal and securing long term finance for the conservation of the protected areas anticipates long-term mitigation benefits.

23. The estimation of the mitigation benefits is based on conservative estimates and based on published literature. It is important to remark that there are very few examples globally where conservation of carbon sinks is included as a mitigation measure, although it is a recognized mechanism under the United Nations Framework Convention on Climate Change (UNFCCC) included in REDD+.

24. In terms of adaptation, the proposal clearly demonstrates the high vulnerability of Bhutan due to its geographical location and the limited socio-economic condition of the country. In this sense, the proposed project will contribute to the maintenance of large scale ecosystems within the protected areas assuring the continuation of the ecosystem services provided by the forest and providing alternative sources of income to local population. Such benefits will require close monitoring and additional basic studies for successful implementation. The proposal also foresees more specific vulnerability analysis for local population which will inform measures to increase resilience.

25. Overall, the proposal provides robust analysis of the mitigation and adaptation potential in line with GCF objectives.

### 2.3 Paradigm shift potential

*Scale: High*

26. This proposal will contribute to the very ambitious commitment of Bhutan to remain carbon neutral permanently and further included in its Nationally Determined Contribution (NDC) a mitigation and adaptation program with strong emphasis in forest conservation and sustainable natural resources management. This is a unique example where a country decides to set aside half of the entire country for conservation purposes. In addition to that, the country is committing its own resources to secure the long term financial sustainability of the proposed project beyond the implementation of GCF resources.

27. The proposal clearly demonstrates its potential for scaling up and replication, providing examples of similar projects and programmes in other countries. It also shows the potential to create enabling environment by leveraging additional finance and building capacity for target populations and the private sector. The project activities are well aligned with national climate change and environment strategies and policies.

## 2.4 Sustainable development potential

*Scale: High*

28. The proposal makes direct reference to six (out of 17) UN Sustainable Development Goals, although it does not state how the proposed project will contribute to achieving each Goal.

29. *Environmental benefits:* Generating environmental co-benefits is one of the biggest strengths of the proposed project. Through component C “*Climate-smart conservation to enhance provision of ecosystem services*”, which is designed specifically for biodiversity and ecosystem conservation, the proposal clearly shows that Bhutan’s rich biodiversity, ecosystem and habitats will be assessed and protected, and the quantity of key important species will be either maintained or increased. In addition, through watershed management, watershed conditions in 10 critical catchments will be improved in the protected area network. Although the proposal is silent on what it means by “climate-smart” conservation, it clearly demonstrates strong potential for environmental benefits through the implementation of the proposed project.

30. *Social benefits:* Social benefits are not elaborated in detail, although some benefits are mentioned in the proposal including reduced human wildlife conflict.

31. *Economic benefits:* The most visible economic benefits in the proposal is presented in component C “*Integrated adaptation in communities and ecosystems to improve natural resource management for livelihoods and climate resilience*” which includes building ecotourism facilities inside the protected areas and training local people for new income generating opportunities. However, the inputs and activities leading to the outputs are a set of soft measures, including vulnerability and capacity assessments, awareness-raising and promotion of ecotourism, and they themselves present weak linkage with the proposed outputs.

## 2.5 Needs of the recipient

*Scale: High*

32. Vulnerability of the country and people to the impacts of climate change is well demonstrated in the proposal. The proposal identifies flooding, particularly glacial lakes outburst floods originating from medium to high Himalayas, as the most visible and recurring impacts of climate change. The proposal then makes a sound argument to demonstrate the country and people’s vulnerability to these impacts, by referring to the location of the major hydropower and other infrastructures and agricultural land (main drainage basins and slopes that are vulnerable to flooding). The stated climate impacts do not have any references to scientific data and projections.

33. Financial needs of the recipient are explained in the proposal with several alternative financing options. Justification provided – heavy dependence on foreign aid/loans, public resources already being pushed to the maximum, and the nature of protected areas – presents reasonable arguments for the needs of the recipient. Heavy dependence on foreign aid and loans (amounting to 10 percent of the GDP) can be a point of caution, considering government’s financial commitment to fully finance the management of protected areas networks after project termination.

## 2.6 Country ownership

*Scale: High*

34. The proposal demonstrates the project's alignment with national climate strategies and policies in a sufficient manner. Bhutan's Nationally Determined Contributions contain the carbon neutrality pledge and proposes to maintain a minimum of 60 percent of its land under forest cover. The project is expected to contribute to six of the nine mitigation strategies and seven of the ten adaptation strategies in the NDCs. These targets are also reflected in the national Constitution and other national climate and environment policies.

35. The proposal highlights the executing entity's relevant experience and expertise in managing Bhutan's protected areas. Nonetheless, the proposal could have been strengthened by explaining the EE's capacity to implement medium to large scale projects with similar interventions as the proposed project.

36. Record on the engagement with civil society organizations and relevant stakeholders is provided in detail in the proposal. The proposal clearly shows that it has been developed in consultation with various stakeholders at field, national and international levels. Detailed consultation transcripts with local communities has been provided, and the contents prove that comments from the local communities have been reflected in the development of the proposal.

## 2.7 Efficiency and effectiveness

*Scale: Medium*

37. The proposal provides sound justification for the requested grant funding, by explaining the nature of the project which is management of the protected areas at subnational scale without specific income generating activities. The proponent analysed alternative financing instruments, including loans, and concluded that grant funding is the only feasible option for the proposed project. GCF funding will leverage private and public resources of USD 92 million during the project implementation, corresponding to the ratio of 3.5:1.

38. The proposal assumes that 25 percent of the total cost will be targeted at mitigation results. With this assumption, the estimated GCF cost per tCO<sub>2</sub>eq is USD 0.38, assessed to be highly cost-effective. Complete economic analysis has not been fully conducted due to the difficulty of valuing forest ecosystem and ecosystem services in the target protected areas.

## III. Assessment of consistency with GCF safeguards and policies

### 3.1 Environmental and social safeguards

39. The project "Bhutan for Life" seeks to strengthen the management of the network of 10 protected areas (PAs) and 8 corridors in Bhutan to secure the well-being of the people, conserve biodiversity and enhance climate resilience. This 14-year project will have an integrated approach to climate change mitigation and adaptation and implemented through five interrelated components, 16 outputs, and over 80 potential activities.

40. The AE has classified Bhutan for Life as having an overall low to moderate environmental and social risk following the AE's Environmental and Social Safeguards Categorization Memorandum and equivalent to Category B of the GCF ESS standards. The environmental and social risk category considered the potential adverse environmental and social impacts on the communities residing within and surrounding the protected areas (PAs) and on the receiving environment of the PA themselves. The due diligence by the GCF Secretariat confirms that the project's potential adverse environmental and social impacts are likely to be limited in scale, within the footprint of the various activities, mostly reversible, and are readily mitigated using accepted best practices.

41. The details and locations of the various activities have yet to be finalized by the AE and the Government, and given this, the AE prepared an environmental and social management framework (ESMF) for the project. The ESMF serves as a guidance and planning tool to ensure a consistent approach to developing a more specific environmental and social assessment and management plan. The ESMF described the principles and processes that will be followed for conducting environmental and social due diligence of the project and its component activities including risk screening, assessment, and design and implementation of avoidance and mitigation measures. The processes described in the ESMF are expected to be in line with the applicable national laws as well as the AE's Environmental and Social Safeguards Integrated Policies and Procedures. Specific environmental and social assessments and management plans are expected to be developed as more information on the activities becomes known and established and will be based on the approaches and principles described in the ESMF. The ESMF outlined the processes that the project will develop and implement through an environmental and social management plan (ESMP). These processes integrate the requirements of the applicable country laws and regulations particularly on environmental impacts assessments and land acquisition. An outline of the ESMP was included in the annex of the document. As a Category B project, the ESMF appears appropriate however would need to be complemented by more specific studies and management plans identified in the ESMF and this assessment findings.

42. The project covers 10 PAs and 8 biodiversity corridors (BCs) that connect these PAs and 85 of the 205 "gewogs" or counties or approximately 65% of the country's total area. The project areas are mostly forest and agroecological land uses with a sizeable portion considered as degraded lands. The project will involve 46% of the community forest groups and 32% farmer groups in Bhutan. As an overall approach, the project integrates protected area management, ecosystem-based adaptation, monitoring and enforcement, natural resources-based livelihood, nature-based tourism, capacity building and institutional strengthening, and biodiversity conservation and habitat restoration. There are no components and activities considered to generate high environmental and social risks and significant impacts. The ESMF, however, identifies moderate risk and impacts that are likely to be generated by some of the activities. Environmental impacts are likely to be generated from construction works of small-scale rural infrastructure, disturbance of wildlife movement from fencing, and potential impacts to cultural heritage and physical cultural resources. Social impacts likely to be generated include those from potential restriction of access to natural resources, conflicts due to land rights, and resource uses. The identified risks and impacts are assessed to be moderate. The overall approaches to avoid, mitigate and manage the risks and impacts are described in the ESMF and to be further detailed in the environmental and social management plan (ESMP). Following the AE's Safeguards Integrated Policies and Procedures, the applicable environmental and social safeguards standards for the project include Natural Habitats, Indigenous Peoples, Involuntary Resettlement, and Physical Cultural Resources. Key environmental and social issues related to the project include:

43. Involuntary resettlement and land acquisition. The proposed project commits to avoid physical displacement of people and acquisition of private properties. However, where there would be the possibility of restriction of access, the ESMF identifies the requirements of the relevant government laws and policies including the AE's safeguards standards on involuntary resettlement and land acquisition. Land use planning and ecosystem restoration may restrict access of communities to their resources and adversely impact their livelihood. The ESMF further elaborated the land acquisition and livelihood restoration process, where called for, and consistent with the requirements of the AE and the country.

44. Indigenous peoples. The AE did not prepare a separate Indigenous Peoples Plan and Indigenous Peoples Planning Framework signifying that the identified groups are not

considered minority in the project site. The ESMF indicated that the due diligence exercised by the AE indicated that ethnic minority is not an issue or present in the project assessments. However, given that the project will cover 65% of the country's total geographical area, a more extensive process to seek out information on historical claims and exercise of customary rights of indigenous peoples in the country will need to be described including information on relevant national laws and policies. A process of identifying and consulting potentially affected indigenous communities will need to be laid out as part of the ESMF and further detailed in the ESMP preparation. Measures related to respecting the right to free, prior, and informed consent (FPIC) were identified in the ESMF, and the process and consent requirements in the context of the indigenous peoples are outlined. Consistent with the AE's safeguards standards on indigenous peoples and where the safeguards standards will be specifically applied, agreements to ensure full participation and benefits sharing will need to be established prior to any work in the areas.

45. Physical cultural resources. A chance find procedure is presented in the ESMF. However, the ESMP that will be developed will need to include a more detailed management approach and plan for mitigating impacts on physical cultural resources including the legal requirements that need to be met.

46. The implementation arrangements of the project will involve the Department of Forest and Park Services of the Ministry of Agriculture and Forests (MoAF) and have executed over 25 internationally supported projects. A project coordination unit will be formed by the executing entity and guided by the project advisory and steering committees. The responsibilities for the management of environmental and social impacts were identified in the ESMF and included responsibilities of the communities, the government, protected area offices, and other stakeholders. While the ESMF did not indicate the capacities of the institutions and actors to carry out the responsibilities, the ESMF described the capacity development measures that will be put in place. An environmental and social safeguards expert will be engaged to assist in the capacity development of the coordinating unit. The AE through its Bhutan country office will be able to provide further technical resources as may be needed by the project.

47. The ESMF described the two levels of project monitoring that include monitoring at the field level and at the government's clearing agency level. The PA and BC Management teams are tasked to report on accomplishments and implementation of the ESMF and ESMP and report on any operational changes and new activities that would warrant further environmental and social assessments and formulation of specific ESMP. Annual compliance report will also be submitted to the Government agency providing information on compliance to applicable national and local laws and regulations.

48. In the course of project development and due diligence, the ESMF and the funding proposal described an extensive consultation process that included the key stakeholders, relevant government agencies, CSOs, and the communities. The consultation events commenced in 2012 and carried on through a series of consultations and engagements. Key issues of the stakeholders were noted during the consultations and informed the design of the project and the ESMF. The processes and plans for continuing stakeholder engagement that will apply to the entire duration of the project were outlined in the ESMF. The ESMF described the identification of stakeholders, specific engagements, external communication, continuing consultation and reporting. Given the number of potential project beneficiaries, a stakeholder engagement plan will need to be developed to complement the ESMP. Project-level grievance mechanisms were described in the ESMF. The proposed mechanism describes the chain of actions and identifies informal and formal processes for accepting and handling grievances from affected and potentially-affected persons and communities. The informal process makes use of the traditional dispute resolution within the counties. Where grievances are not redressed at the

informal process, the grievances are elevated to the formal process that involves park and other government agencies. Grievances are registered and tracked through its resolution.

## 3.2 Gender policy

49. The proposal contains a comprehensive gender analysis; therefore, it complies with the operational guidelines of the GCF's Gender Policy and Action Plan. The gender analysis is based on secondary information sources, key informant interviews, focus group discussions, and surveys in villages in 8 of the 10 protected areas where the project will be implemented. The gender analysis outlines the legal and policy framework governing gender issues in Bhutan; gender perceptions; sex-disaggregated information on access to education; participation in employment in different sectors; division of labor at the household and community level; access and ownership of resources; and decision making and public participation. The gender analysis articulates some gender – relevant opportunities and entry points the project plans to promote.

50. The proposal also contains a project-level gender action plan presented in a matrix format that translates opportunities to mainstream gender in the project into activities, including costs against each activity, and responsibilities between the AE and its executing entities. The gender action plan seeks to address gender equity issues by having indicators with sex-disaggregated targets for many of the activities. While the AE has indicated that the project will be implemented until 2030, the timelines for the activities in the gender action plan are too far apart. The AE is recommended to bring these timelines forward and ensure that project activities are used to address the needs and priorities of men and women as early as possible in the implementation of the project.

51. In the proposal, i.e. section E.1. Impact potential, the AE has included core indicators of the number of direct and indirect beneficiaries, disaggregated by gender. Section H.1. logic framework of the proposal includes the core indicators of direct beneficiaries disaggregated by sex. Given that the gender action plan has outlined activities that will be undertaken during implementation of the project, there is scope to add more gender-related indicators with sex-disaggregated targets related to these specific activities in the logic framework. The AE is recommended to include more gender informed indicators in the logic framework. Additionally, the AE is recommended to address concerns of beneficiary selection that were raised in consultations held during the project design and preparation phase, by targeting vulnerable groups such as female-headed households, widows and indigenous peoples, to address equity issues related to project benefits.

## 3.3 Risks

### ***Project-level risks***

52. Throughout the funding proposal the Accredited Entity has identified and assessed the moderate risks linked to the project. The AE has defined mechanisms of control and has set mitigation measures to address the potential risks.

53. In addition, this Project can be implemented in a successful and sustainable manner considering the following factors:

- (a) The AE has a long track record of implementing similar projects. Their extensive experience and knowledge in this field mitigate the risk of mismanagement, and;
- (b) The Government of Bhutan is fully committed to the project, both from a financial perspective (financing 63.5% of the costs of this Project), and from the country's long-lasting commitment to sustainable development. The country has a good track record of

consistently integrating similar initiatives within their coherent NDC (submitted in 2015) which focuses on forest conservation and climate smart resources management.

***Compliance, Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT)***

54. As a general remark, there is no AMA in place yet which defines the contractual obligations of WWF when it comes to the risk of Money Laundering/Terrorism Financing and the risk of prohibited practices governing the relationship with the AE throughout projects.

55. There are three specific concerns related to AML/CFT requirements involved with this project:

- (a) The BFL transition fund may be established in an offshore jurisdiction. Depending on where this is going to be, the standards applicable to safeguard against Money Laundering/Terrorism Financing risk may not be at the level GCF expects (international best standards). Thus, depending upon the decision on the jurisdiction, additional controls may be required especially as there are direct donor transfers going into the BFL transition fund for which a certain level of Know Your Customer (KYC) is required. Depending on the jurisdiction which may be in high AML/CFT risk environment, the level of mitigation measures may deviate from standard best practices.
- (b) The involvement of private donors up to an amount of USD 16.5M which is paid directly to WWF may be prone to Money Laundering. WWF needs to ensure that there are thorough internal KYC and risk-based due diligence measures regarding who these donors are and to question their source of wealth in case a high volume of individual donors are involved. Documentation on this assessment should be made available to GCF.
- (c) Funds involved under points (i) and (ii) above are going to be co-mingled with GCF funds in the BFL transition fund which means that Money Laundering could be involved if there are no controls and measures in place to address the above concerns.

**Fund- level Risk Management Assessment**

Summary risk assessment		Remarks and mitigation strategy for the GCF
Reputational:	Low	Based on the track record of the AE and the commitment of the country, the risks are perceived to be low.
Operational:	Low	
Compliance:	Low	
Performance:	Low	

**3.4 Fiduciary**

56. The Executing Entity (EE) for the program will be the Ministry of Agriculture and Forests of the Royal Government of Bhutan. The WWF will enter into a Project Cooperation Agreement with the Executing Entity to provide the GCF grant for the execution of the project.

57. The current discussion proposes management of donor BFL funds through the establishment of a Transition Fund, a Transition Fund Board, and a BFL Project Coordination Unit within the Ministry of Agriculture and Forests. Other advisory and/or oversight bodies under consideration may include a BFL Strategic and Technical Committee and a BFL Project Steering Committee.

58. During project implementation, WWF will provide oversight and quality assurance in accordance with its policies and procedures, and any additional specific requirements contained in the grant agreement. This may include, but is not limited to, monitoring missions, spot checks, facilitation and participation in project steering committee meetings, quarterly progress and annual implementation reviews, and audits at project level or at executing entity level on the resources received from WWF.

59. The financial management and procurement of this project will be guided by the AE's financial management and procurement policies, standards, and guidelines. The Executing Entity is required to implement the project in compliance with WWF rules and regulations, policies and procedures, ensured through the grant agreement with the Executing Entity.

60. A scheduled audit is used to determine whether the funds transferred to the executing entity were used for the appropriate purpose and in accordance with the approved project work plan and budget. AE advances cash funds on a quarterly basis to the executing entity for the implementation of agreed and approved project activities, in accordance with AE's standard financial management policies. The executing entity reports back expenditure via a financial report on a quarterly basis to the AE.

61. The AE has assured that prior to signature of the project document, the Executing Entity will undergo an assessment by the AE to assess whether the specific resources of the EE assigned to the project in terms of capacities, policies, procedures, and controls meet WWF's financial management and procurement standards. We recommend that before the first disbursement from GCF to the AE, the AE completes the assessment of EE.

### 3.5 Results monitoring and reporting

62. As a cross-cutting intervention, the proposal reports in section E.1.2, the value of the core indicator "Expected tonnes of carbon dioxide equivalent (tCO<sub>2</sub> eq) to be reduced or avoided (mitigation only)." Expected GHG emissions reduced annually is 2.51 M tCO<sub>2</sub>e (35.1 M tCO<sub>2</sub>e lifetime). The methodology used for the current GHG reduction estimate is based on the government's official estimates of forest cover, forest cover changes and carbon stocks, which are based on tier 1 or tier 2 information from FAO FRA country reports (the most recent from 2015) and from forest cover studies conducted in Bhutan by the Ministry of Agriculture and Forests.

63. The proposal states that the estimates will be re-calculated once a tier 2 or 3 REDD+ baseline for the whole country is completed (estimated to be done in 2018 or 2019). It is recommended that the AE ensure the revised targets are reported to the GCF at the end of the first year of implementation to ensure the revised baseline and targets are captured in GCF's own system.

64. For the adaptation core indicator, "Expected total number of direct and indirect beneficiaries, disaggregated by gender (reduced vulnerability or increased resilience)" the proposal reports 35,000 direct beneficiaries and 110,000 indirect beneficiaries (A.1.6). The proposal provides a break-down by gender and the methodology used to calculate direct and indirect beneficiaries (E.1.2).

65. The proposal also reports against the core indicator "cost of tCO<sub>2</sub>e", estimated to be, for the total project financing of the mitigation portion of the project, US\$ 0.84 per ton (below the GCF minimum benchmark of US\$ 230 per ton). "Volume of finance leveraged" for mitigation portion of project is reported at a ratio of 1 to 1.26 for the total. When the total project financing is included (mitigation and adaptation) the "volume of finance leveraged" is 1 to 3.46.

66. Regarding the logical framework section, the proposal does align with the climate results and indicators of the performance measurement framework of the GCF. The AE is requested to review the due diligence comments to strengthen the current logframe.

67. The arrangements for monitoring and reporting would benefit from additional detail. There is no mention for how the accredited entity will comply with GCF specific reporting requirements. Section H.2 should provide details of the accredited entities' evaluation system and how it complies with the requirements set by the GCF monitoring and accountability framework.

### 3.6 Legal assessment

68. The accreditation process has not yet been completed, as the AMA has not yet been agreed between the GCF and WWF.

69. WWF has not yet provided a legal opinion/certificate confirming that it has obtained all final internal approvals to implement the project.

70. The proposed project will be implemented in Bhutan, country in which GCF is not provided with privileged and immunities. This means GCF is not protected against litigation or expropriation in this country. The Secretariat submitted a draft of the privileges and immunities agreement and background note on 9 December 2015 and resent to the NDA on two occasions on 23 May 2016 and on 8 February 2017; however, no response has been received so far.

71. The GCF is exposed to litigation risk in Bhutan. Risk of expropriation needs to be further assessed. Furthermore, the Heads of the Independent Redress Mechanism (IRM) and Independent Integrity Unit (IIU) have both expressed that it would not be legally feasible to undertake their redress activities and/or investigations, as appropriate, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after the GCF has obtained satisfactory protection against litigation and expropriation in Bhutan, or has been provided with appropriate privileges and immunities.

72. In order to mitigate risk, it is recommended that any approval by the Board is made subject to the following conditions:

- (a) Execution of the AMA by WWF within 120 days after Board approval;
- (b) Execution of all required legal documentation in a form and substance satisfactory to the GCF Secretariat;
- (c) Completion of legal due diligence to the satisfaction of the GCF Secretariat; and
- (d) Submission of a legal opinion/certificate in a form and substance that is satisfactory to the GCF Secretariat within 120 days after Board approval, confirming that WWF has obtained all final internal approvals needed to implement the project and it has the capacity and authority to implement the proposed project.

## Secretariat's review of FP051

Proposal name:	Scaling-up investment in low-carbon public buildings
Accredited entity:	United Nations Development Programme
Project/programme size	Medium

### I. Overall assessment of the Secretariat

1. The funding proposal is presented for its consideration to the Board, with the remarks listed in table 1 below

**Table 1. Summary of strengths and points of caution**

Strengths	Points for caution
The proposal has transformative potential, with a comprehensive and well-tailored strategy to unlock project development and finance flows to low-carbon investment in buildings, including both regional and local energy saving company market development	The complex administrative structure of post-conflict Bosnia and Herzegovina poses institutional coherence and implementation-related risks and challenges
The proposal requests a relatively moderate amount of GCF grant funding (USD 17.346 million), leverages abundant co-finance from the government's executing entities, and end users, in the form of grants and loans (USD 105.22 million). Concessionality is well adjusted vis-à-vis other funding sources	Grant financing is being provided for the financial de-risking component, which is revenue-generating. However, the amount is small, at the minimum amount to make investments viable; concessionality is adjusted vis-à-vis other sources of financing; and does not crowd out other funding sources
The achievement of substantial emission reductions (2.02 million t CO <sub>2</sub> eq), at a low cost for the GCF (USD 9 per t CO <sub>2</sub> eq). An estimated 150,000 people, of which 80,000 are women, using the targeted public-sector buildings for energy efficiency retrofit are expected to directly benefit from the proposed intervention	Institutional complexity and financial barriers, as well as a shortage of technical capacity and data, have resulted in poor investment to date in the aging stock of public-sector buildings, despite significant upfront and long-term investment needs (estimated at about USD 230 million). The proposal, however, identifies these barriers and addresses them comprehensively
The United Nations Development Programme is the entity with the most experience in working with government counterparts in the complex administrative structure of post-conflict Bosnia and Herzegovina	
This type of investment contributes to conflict resolution in Bosnia and Herzegovina as it delivers equitable long-term investment in public-sector buildings energy efficient retrofit used by and benefiting all three national entities. The project is also expected to create 5,630 full-time equivalent jobs for all nationalities present in Bosnia and Herzegovina, in the context of very high unemployment (31.2% for women and 25.2% for men)	

2. The Board may consider approving this funding proposal with the terms and conditions listed in the respective term sheet and addendum titled “List of conditions and recommendations” [under preparation.

## II. Summary of the Secretariat’s review

### Project background

3. The project aims to reduce about 2 million tonnes of carbon dioxide equivalent (Mt CO<sub>2</sub> eq) of emissions from energy use in public-sector buildings by unlocking investments in low-carbon retrofits in public-sector buildings in Bosnia and Herzegovina, such as schools, health care centres, or administrative and municipal buildings. The project will use USD 17.346 million of GCF grant resources in the form of technical and financial assistance to address barriers to investment. USD 105.22 million from the local government and ministry budgets, the Environmental Funds and international organizations will be leveraged, largely to finance low-carbon retrofits in the approximately 430 targeted buildings.

### Component by component analysis

#### Component 1 – policy de-risking (total cost: USD 9.83 million; GCF cost: USD 6.33 million)

4. Under this component, technical assistance will be provided:
  - (a) To develop local sustainable energy and climate action plans (the main energy efficiency policy instrument at the municipal level);
  - (b) To fully implement the emission management information system – a tool to track baseline emissions and the impact of energy efficiency (EE)/renewable energy (RE) measures, extending it from 2,100 to all 5,000 public-sector buildings in Bosnia and Herzegovina;
  - (c) To provide technical preparation and oversight for individual subprojects;
  - (d) To provide training and capacity-building to municipal and national stakeholders and entities on energy management and project development;
  - (e) To raise awareness among end users, and
  - (f) To develop a national-level framework for low-carbon investment in public-sector buildings, including:
    - (i) The development of energy performance contracts;
    - (ii) The enforcement of standards; and
    - (iii) The harmonization of the approach to public finance on energy efficiency in the public sector.

5. The comprehensive set of tools proposed addresses the barriers identified by the United Nations Development Programme (UNDP) during the feasibility studies and through previous experience in the country, and put in place an enabling environment to facilitate project generation and financing.

#### Component 2 – financial de-risking (total cost: USD 111.162 million; GCF cost: USD 10.044 million)

6. This component will contribute towards addressing financial gaps in and risks to investment. Under this component, buildings meeting certain conditions (including payback periods of over eight years, the achievement of minimum levels of energy performance, and the

implementation of fuel-switch measures) will receive GCF grants in order to make them bankable. Furthermore, lessons learned with energy performance contracts, together with the generated data on profitability, will be used to develop options to help energy saving companies (ESCOs) raise finance at adequate terms, including green bonds or other dedicated financial instruments. This is an important step towards the development of a mature ESCO market that can raise private sector finance for energy efficient investments.

7. GCF investment will directly contribute financial assistance towards the energy efficiency retrofitting of about 430 public-sector buildings and towards facilitating their fuel switch from coal and light fuel oil to renewable biomass. These investments need to meet a series of conditions, stipulated in the National Investment Framework for Low-Carbon Buildings, that ensure that GCF concessionality in the form of grants will finance only investments for which long return periods (usually over eight years) pose a barrier to investment, and meet co-financing, gender, emission reduction and other standards.

*Component 3 – project management (total cost: USD 1.572 million; GCF cost: USD 0.972 million)*

8. The project will be executed through the Direct Implementation Modality (DIM) of UNDP. UNDP will be the implementing partner and serve as executing entity. Two parallel implementation structures will be set up in the two jurisdictions of Bosnia and Herzegovina: the Federation of Bosnia and Herzegovina and the Republika Srpska. In each jurisdiction, the corresponding ministries in charge of land planning and the Environmental Funds (responsible for fundraising, financing and developing activities in the field on the conservation and sustainable use of resources and environmental protection) will be the main responsible partners for the policy and financial de-risking components.

**Alignment with investment criteria**

9. As the market for low-carbon investment in public-sector buildings is in its infancy in the Bosnia and Herzegovina, the proposal has a high likelihood of achieving substantial emission reductions and of catalysing further investment in energy efficiency in the public-sector buildings of the country. The project will develop key aspects that configure the enabling environment for energy efficiency investments in the public sector, including (1) a building-level database of energy use; (2) the use of energy performance contracts; (3) the development of financial vehicles to boost the nascent ESCO market; (4) the strengthening and enforcement of the Law on Energy Efficiency; as well as (5) capacity-building in institutions to effectively design and implement projects in the complicated context of post-conflict Bosnia and Herzegovina.

10. The theory of change is present and adequately addresses the barriers to investment in energy efficiency identified in the feasibility study. It proposes a mechanism to allow the ESCO market to grow out of its current initial stage, as well as comprehensive measures to address institutional fragmentation, lack of data, and institutional and technical capacities to implement and enforce the regulations of the country in the area of energy efficiency. With the establishment of the enabling environment, there is a strong potential for enabling further investment in the public sector, with 10 times as many buildings as those that the project will directly invest on. The institutional structure proposed is considered appropriate for the delivery and sustainability of the intervention.

11. Overall, grants will mobilize a larger volume of investment, USD 105.22 million in the form of grants and loans, from the government, the Environmental Funds, Global Environment Facility, UNDP and end users. This is reflective of the strong ownership of the project at the national and, particularly, at the local level. More importantly, the GCF funding will contribute to conflict resolution in Bosnia and Herzegovina as it delivers equitable long-term investment in the energy efficient retrofit of public-sector buildings used by and benefiting all three national entities (Bosniaks, Serbs and Croatians).

12. In addition to the technical assistance component and the development of the ESCO market, GCF grants will also finance individual investments. In the case of a switch from light fuel oil, with a positive baseline internal rate of return (IRR), GCF grants would be targeted at removing non-financial barriers (i.e. contributing to the design and implementation of those projects). In the case of a switch from coal to biomass, concessional financing would be required to make those investments financially viable, and sub-projects would receive grant financing for investment purposes. In such cases, loans are usually the preferred instrument, but UNDP accreditation status places limitations on their ability to use loans. However, in this project, the GCF grant request for this component is comparably moderate and leverages a large amount of co-financing from the government and end users, providing the minimal level of concessionality to cover the viability gap.

## 2.2 Impact potential

*Scale: Medium/high*

13. The project will contribute to the direct emission reduction of 2,019,976 t CO<sub>2</sub> eq from public-sector buildings through energy efficiency retrofits and the substitution of fossil fuels with high greenhouse gas emissions (coal and light fuel oil) with biomass, over the 20 years lifespan of the retrofitted infrastructure. The figure has been calculated in a manner consistent with clean development mechanism methodologies based on data from the energy management information system, detailed energy audits, as well as the result of completed EE-RE projects in public building undertaken by UNDP and the government.

14. The project will reduce annual energy use per building by between 635 MWh (light fuel oil-using buildings) and 880 MWh (coal-using buildings), which will be replaced by an estimated 220 MWh per year from biomass.

15. Based on estimates of the market size on a 10-year horizon and the replication effect attributable to the GCF, indirect emission reductions are estimated at 7.1-8.1 Mt CO<sub>2</sub> eq (top-down and bottom-up approaches).

## 2.3 Paradigm shift potential

*Scale: High*

16. The project will address key barriers to public investment in buildings, such as the lack of local political commitments and energy use data, the limited project expertise of energy managers, limitations in the ESCO market, and inefficient institutional coordination and public funding allocation, through its technical assistance component and the creation of an ESCO market. This well-tailored approach is likely to unlock finance flows that have historically been complicated to disburse because of difficulties in the design and implementation of low-carbon investment. The project is likely to create suitable conditions for scale up and replication.

17. The proposal will help to transform the financing model for energy efficiency investments, reducing reliance on grants from about 87 to 15 per cent by 2025. The current inefficient allocation system of public grants to the most financially attractive projects will be replaced by a new financing framework, whereby the level of concessionality is determined by the financial viability of the project and its socioeconomic benefits, crowding in – rather than crowding out – private sector finance. The finance thus mobilized is critical for the country to cost-effectively meet nationally determined contribution targets by 2030.

18. Project-financed investments will reach about 430 public-sector buildings in the country, scaling up the current level of investment by more than four times. The total number of public-sector buildings in Bosnia and Herzegovina is 5,000; the project can thus potentially be replicated by a factor of nearly 12 if the main structural barriers are adequately addressed.

19. The proposal outlines a viable exit strategy through the capacity-building of all relevant institutions and regulations, and the creation of a market where ESCOs will be gradually involved in the financing and implementation of low-carbon investments. To that end, as an intermediate step, the project will explore several options by which ESCOs can access finance and scale up their operations, supporting for example the design of dedicated catalytic vehicles for third-party investors to ESCO companies or the issuance of municipal/entity-level green/EE bonds. The specific instrument will be chosen based on further analysis.

## 2.4 Sustainable development potential

*Scale: Medium*

20. The energy efficiency retrofits and the switch from fossil fuels to locally available biomass will have benefits in terms of the improved energy security of public infrastructure, improved conditions for users of public-sector buildings (many of which are currently substantially underheated, with an average temperature of 15 °C compared with the usual comfort levels of 20-22 °C), local pollution reduction and improved public health. Women and children make up a large part of the beneficiary group. An estimated 150,000 people, including nearly 80,000 women, using the target public-sector buildings are expected to directly benefit.

21. The project is also expected to create 5,630 full-time equivalent jobs in the context of very high unemployment (31.2 per cent for women and 25.2 per cent for men), based on data from a UNDP study<sup>1</sup>.

## 2.5 Needs of the recipient

*Scale: Medium*

22. The proposal addresses the institutional needs of the country in the post-conflict context, characterized by two parallel administrative structures and inefficient public-sector oriented policies that hinder private sector investment. The project will contribute to addressing the institutional, technical and financial needs of the institutions in implementing the energy efficiency regulation and plans already in place.

23. The project will indirectly address needs related to the increased risk of flooding as a result of climate change. The study “Bosnia and Herzegovina Floods 2014: Recovery Needs Assessment”<sup>2</sup> identified the need to refurbish welfare support facilities. Flood-resistant building materials and the reliability of energy sources will allow these buildings to serve as shelters in disaster events.

24. Bosnia and Herzegovina does not have constraints in terms of borrowing capacity; in this case, the use of grants is justified based on the accredited entity limitations from its accreditation status.

## 2.6 Country ownership

*Scale: Medium/high*

25. The project is consistent with Bosnia and Herzegovina’s nationally determined contribution, which specifies “systemic energy rehabilitation of existing buildings with particular focus on public sector” as one of the climate change mitigation measures envisaged. It is further aligned with relevant country legislation and planning, and will contribute to the implementation of European Union directives recently transposed, for example in the country’s

<sup>1</sup> UNDP, “Green Jobs - Analysing the Employment Impact of Energy Efficiency Measures in BiH”, March 2016.

<sup>2</sup> Available at: [http://www.ilo.org/global/topics/employment-promotion/recovery-and-reconstruction/WCMS\\_397687/lang--en/index.htm](http://www.ilo.org/global/topics/employment-promotion/recovery-and-reconstruction/WCMS_397687/lang--en/index.htm)

energy efficiency action plan. The country provides the practical totality of the co-financing for the project.

26. The project leverages local leadership and momentum in climate action, which is critical due to the fragmented state of institutions in the country. Seventeen municipalities have joined the Covenant of Mayors Initiative by developing and adopting sustainable energy action plans (SEAPs). Twenty per cent of the co-financing will come from local and cantonal authorities.

27. UNDP has a substantial experience in working with authorities of Bosnia and Herzegovina, including on biomass and energy efficiency in the public sector, and has very strong delivery capabilities in the country, which is critical to reduce implementation risks in the country context. Likewise, the executing entities are capable delivery partners with experience in similar energy efficiency projects (e.g. the Green Economic Development UNDP project).

28. Stakeholders, both at the different levels of government and civil society, have been engaged since the idea for the project first originated during workshops for earlier UNDP projects. The national designated authority (NDA) was further involved in the development of the idea and facilitated consultations with all stakeholders in the two jurisdictions (the Federation of Bosnia and Herzegovina and the Republic of Srpska). These consultations have resulted in inputs reflected in the proposed implementation arrangements, costing, co-financing, and time frame. Consultations also took place with the beneficiaries of completed energy efficiency UNDP projects to ensure that no negative side effects had been experienced.

## 2.7 Efficiency and effectiveness

*Scale: High*

29. The cost-effectiveness in terms of price per t CO<sub>2</sub> for the GCF of USD 9 per t CO<sub>2</sub> eq, compares favourably with similar energy efficiency grants approved in the past (e.g. Armenia: USD 14.40 per t CO<sub>2</sub> eq). The overall investment cost of the project is in line with similar energy efficiency projects with substantial upfront costs but with cost savings over time.

30. Substantial co-financing is provided by government counterparts and the Environmental Funds, through regular budgetary resources and a new loan from the World Bank. Small grants (USD 2.3 million and USD 2.05 million, respectively) will also be provided by the Global Environment Facility and UNDP. Co-financing is provided in the form of loans (USD 45.5 million), grants (USD 28.3 million) and end user financing (USD 30.3 million), most of which is targeted at the financial de-risking component. The financial structure appears to be adequate taking into account the revenue-generating nature of the investments.

31. The requested use of GCF grants is well justified for both the technical and the financial de-risking components. Particular attention has been paid to the use of grant for revenue-generating activities. The GCF grant covers the viability gap for buildings undertaking a fuel switch from coal to biomass, since their baseline IRR (0 per cent) makes investment unattractive. The grant amount appears to be adequately adjusted to the financial needs of the subprojects and the volume and pricing of loans from other sources (1.25-1.4 per cent from the government; 1.25-5 per cent from environmental funds, which is concessional and is aimed at cost recovery). The grant does not amount to an indirect subsidy to co-financers.

32. Energy efficiency interventions and fuel switch from light fuel oil to biomass have a positive financial IRR, and are thus likely to continue without funding from the GCF if regulatory and institutional barriers are addressed. The fuel switch from coal to biomass requires further concessional financing to continue in order to take place under the current market conditions. However, the project will adapt the local investment framework so that grants are provided to such investments, covering financial gaps and crowding in private finance.

33. The project will apply the best available technology solutions, using materials and measures with higher energy efficiency parameters than national standards and in line with European Union best practices (current German Energy Saving Ordinance standards).

### **III. Assessment of consistency with GCF safeguards and policies**

#### **3.1 Environmental and social safeguards**

34. The accredited entity (AE) has classified the project as having an overall low environmental and social risk level in the funding proposal and in the social and environmental screening report of the project, equivalent to category C of the GCF environmental and social safeguard standards. Second level due diligence conducted by the Secretariat confirms that the project is likely to have minimal or no adverse environmental and social risks or impacts.

35. The AE has provided a social and environmental screening report in which it has categorized the overall environmental and social risk of the project as low risk, and screened the potential risks that have been identified. Each subproject will be screened and reviewed to ensure that activities undertaken result in an overall low environmental and social risk level. Subprojects that will involve activities that will result in an overall medium or high environmental and social risk level will not be supported by the project.

36. Key potential environmental impacts that have been identified and for which mitigation measures are outlined in the environmental and social management framework, include noise and air pollution, the generation of waste and the disturbance of aquatic flora and fauna. Key potential social impacts that have been identified, and for which mitigation measures are outlined in the environmental and social management framework, include changes in land use and limited public access to beach and ocean resources along the coastline, thereby compromising livelihoods. Health and safety management, including waste management will be the responsibility of contractors in line with the national regulations. Health and safety personnel will be available on the project sites to avoid accidents. In addition, training will be offered to project workers on occupational risks and the prevention of accidents. Furthermore, while there are a limited number of historical buildings in the area, the project will not support retrofitting activities in these buildings, recognizing the added risks and cost of such activities.

37. The appraisal of subprojects will be conducted by responsible parties (national ministries and environment funds) in line with UNDP standards. The results of the subprojects appraisal will be reviewed and validated by UNDP. The responsible parties will receive training on the application of UNDP standards. UNDP is expected to maintain oversight and quality assurance of the project's environmental and social safeguard issues as the GCF accredited entity.

38. UNDP has provided a summary of stakeholder engagement activities that were conducted at the proposal design phase of the project with stakeholders such as the national designated authority of the country, other government authorities, non-governmental organizations and municipal authorities. In addition, a separate annex, with a summary of the second scoping mission which discussed the detailed project design, was submitted together with the funding proposal. Information on stakeholder engagement during the project implementation phase has been included in the funding proposal, including project stakeholders that have been identified. Four consultations will take place with local communities during project implementation before and after retrofit works. Furthermore, during its implementation phase, the AE and responsible parties will strive to meet as many end users as possible in order to determine the effectiveness of the project in terms of generated energy savings and other development benefits.

39. Stakeholders, including affected communities, will also benefit from the AE institutional-level grievance redress mechanism, which will be used to address concerns related to the project's environmental and social issues. The funding proposal contains a weblink to the AE institutional-level grievance redress mechanism, which in turn provides information on how to access the mechanism and information on how a request or general enquiry can be submitted to the AE. The AE will need to ensure that potentially affected communities are informed of the mechanism and how to access it.

## 3.2 Gender policy

40. The proposal contains a gender analysis; therefore, it complies with the operational guidelines of the GCF Gender policy and Gender action plan. The gender analysis highlights legislative and policy frameworks for promoting gender equality in Bosnia and Herzegovina, and the participation of women in politics and economic activities. The gender analysis recommends the equal participation of women and men in project design processes and the inclusion of gender-informed indicators in the logical framework of the project. The gender assessment identifies few entry points for promoting gender equality in the energy efficiency sector. The proposal also contains a project-level gender action plan that outlines gender-related objectives, actions, indicators, targets, timelines and responsibilities for the two main components of the project. A budget for undertaking gender-related activities has been included by the AE and there is a plan to recruit a gender expert to support the implementation and monitoring of gender-informed results. The proposal also states that stakeholder engagement activities – undertaken during the project preparation stage – were participatory in nature and gender-responsive.

41. Below are some recommendations that might help to further strengthen the gender angle of the project:

42. The logical framework of the proposal includes gender-informed indicators and sex-disaggregated targets related to training and awareness-raising activities. Given that the project has the potential to address gender concerns, there is scope to add more gender-informed indicators with associated sex-disaggregated targets in the logical framework so that the framework more closely mirrors the proposed gender action plan. One or more immediate/intermediate result areas and associated indicators related to women's increased participation in green enterprises and markets could easily be added to the logical framework. Moreover, an effort should be made to design result areas and associated indicators that measure how the project will contribute to incorporating gender equality into the mainframe, rather than showing it as just co-benefits. For example, result areas/indicators could be developed to measure progress and recognize women as independent users of energy services. These indicators could show how the project has enabled women to benefit from access to renewable energy technologies; how their access to renewable energy for productive uses has improved; how the impact of the project is enhanced by greater contributions by women; and how women have gained more technical expertise and experience in mitigation activities.

43. The project will strengthen the capacity of women entrepreneurs and women-led small- and medium-sized enterprises to participate in the development of green markets. It is advised that the AE works together with relevant regulatory authorities and decision makers to ensure that women-led small- and medium-sized enterprises are seen to be at the forefront of a clean energy future and provided incentives like reduced clean power tariffs, tax benefits, technology rebates to enable them to play a more productive and transformative role in the energy value chain.

44. The AE should – in consultation with relevant authorities – put measures in place that will provide women and men from vulnerable communities with a stronger voice and with legal

protection of their energy rights. Such measures could include the involvement of women and men in the decision-making processes related to energy services and choices; the addition of consumer information requirements; the empowerment and protection of vulnerable consumers; and the use of grievance mechanisms and processes for complaints handling.

45. Given that the project has strong gender elements, it is advised that the AE develops a knowledge-sharing and learning platform which showcases best practices and lessons learned in relation to gender mainstreaming in sustainable energy efficiency enhancement measures. With a view to bringing about transformational change, the best practices that emerge from this project can then be replicated/scaled up within the country or elsewhere.

### 3.3 Risks

#### *Project/programme-level risks*

46. The accredited entity has identified and addressed many of the risks linked to the project. It is noted that the AE confirmed the involvement of skilled resources to make sure the project deliverables are achieved based on DIM of UNDP. For project activities carried out where the government is a responsible party, fund transfer to the government will follow the DIM guidelines.

47. UNDP will monitor the performance of all the parties involved on a quarterly basis and will take corrective measures in case of non-performance or slow delivery (e.g. it will take over responsibility for the delivery of specific outputs, and provide oversight and quality assurance in accordance with its policies and procedures). This will include monitoring missions, periodic on-site spot checks, and participation in project board meetings, quarterly progress implementation reviews and audits on the disbursed funds.

48. UNDP will carry out scheduled audits (financial audit and/or internal control) to determine whether the funds are used for the appropriate purpose and in accordance with the work plan. It is recommended to deliver the audit outcomes and all the other assurance activities to the GCF as part of the project annual performance reports. In the case of financial audits, compliance with the International Public Sector Accounting Standards is expected to be reported by UNDP to the GCF.

49. Critical to project success is the coordination between all the involved stakeholders, the majority of which are from the public sector in Bosnia and Herzegovina. The complexity of the country's public administration has resulted in deficiencies in terms of governance and has weakened the effectiveness of its decision-making in recent years. Autonomous entities and self-governing districts have a track record of neglecting investments particularly in public-sector infrastructure and buildings. UNDP recognizes the challenges and risks involved in the proposed implementation structure, and proposes a mitigation approach that ensures overall project implementation and direct oversight.

50. The GCF grant will be disbursed on a pro-rata basis and at the same time as the funds from the co-financiers. UNDP will provide reports of compliance (annual performance reports, interim/final reports) to confirm the progress of planned deliverables for both of the following project sub-components: sub-component 1.1 (policy de-risking (technical assistance)) and sub-component 1.2 (financial de-risking (financial assistance)). It is recommended that GCF disbursements are made subject to performance evidenced by UNDP in these reports to the satisfaction of the GCF.

51. **Economic and financial viability:** the AE presents economic and financial analyses, which result in economic IRRs and financial IRRs with a 20-year time frame for different types of buildings as summarised in Table 2 below. It is clear from the analyses that while the light

fuel oil (LFO)-powered buildings can expect nearly full cost recovery from potential energy saving, retrofitting the buildings heated and lighted by coal is not financially viable without grants due to the relatively low price of coal although a strong economic return, including a decrease in public expenditures and greenhouse gas (GHG) emissions, is expected.

**Table 2. Economic and financial internal rates of return of the project**

Indicator	Without grant	With grant (60% for coal, 5% for LFO)
<b>Overall portfolio (coal+LFO)</b>		
Economic IRR	11%	20%
Financial IRR	5%	10%
<b>Coal-powered</b>		
Economic IRR	8%	26%
Financial IRR	0%	10%
<b>LFO-powered</b>		
Economic IRR	14%	15%
Financial IRR	9%	10%

*Abbreviations:* IRR = internal rate of return, LFO = light fuel oil.

52. **Concessionality:** the AE and the country request a total of USD 17.346 million, USD 6.33 million for sub-component 1.1 (“Policy de-risking”) (technical assistance) and USD 10.044 million for sub-component 1.2 (“Financial de-risking”) (investment). Although the project may have a bigger funding gap to fill and the GCF can offer concessional loan at a maximum interest rate of 0.75 per cent, due to the accreditation type, the AE is not able to on-lend the GCF resources to the country, thus it is requesting a grant. However, given the direct project impact on the operating expenditures reduction through energy saving and the level of pricings set for the loans for this project, which varies between 1.4 and 5 per cent, the grant contribution to this project should be minimized at the level that makes the project viable. As such, the country and the AE agreed to reduce the funding amount originally requested for the investment component by 40 per cent.

53. The GCF grants account for 9 per cent of the investment component and finance up to 20 per cent of the coal buildings eligible for the GCF, the requirement of which is specified in table 5 in the funding proposal. As stated in the funding proposal, coal-powered buildings have difficulties in attracting loans, including international finance institutions, because of the longer payback period than the LFO-powered buildings. GCF concessionality will play a complementing role filling the financing gap for the coal-powered buildings, which without the GCF and other grant contributors are unlikely to be included in this project. The GCF grant of USD 10.044 million for sub-component 1.2 will finance the coal-powered building that have a longer than eight-year payback period, but which have more than 20 years of remaining lifespan and clear economic and social benefits during that time frame. Furthermore, the contribution to sub-component 1.1 will be partially used to remove non-financial barriers for both coal- and LFO-powered building projects (i.e. financing project design and required feasibility studies apart from policy assistance).

54. It is noted that although this project targets public-sector buildings and is executed with multiple ministries, it is not expected to benefit from a tax exemption. A fairly high rate of value added tax, 17 per cent, is applied to the entire project cost. The AE explains that this is aligned with the relevant national tax and procurement policy and other European Union directives that while taxation is controlled by the central government authority, there is no provision for entity-level public authorities to recover value added tax from the central budget.

***GCF-level risk management assessment***

**Table 3. Summary of GCF-level risk assessment**

Summary risk assessment		Remarks and mitigation strategy for the GCF
Reputational:	Low	Based on the track record of poor coordination between the country institutions, poor governance may increase the risk of poor operational performance of the project (e.g. cost overruns or delays)
Operational:	Medium	
Compliance:	Low	
Performance:	Medium	

### 3.4 Fiduciary

55. The United Nations Development Programme will be both the accredited entity and executing entity for the project. The project will be implemented in accordance with the Direct Implementation Modality of UNDP. Under DIM, UNDP will assume full responsibility and accountability for the overall project management, including the monitoring and evaluation of project interventions, the achieving of project output and specified results, the efficient and effective use of resources, and reporting.

56. As the executing entity (implementing partner), UNDP will use responsible partners for the implementation of project sub-components and activities.

57. UNDP will lead and ensure overall project implementation and direct oversight and accountability of the responsible partners, as well proper coordination between the entities and between national and subnational activities. In addition, UNDP will closely monitor the performance of the responsible partners (on a quarterly basis) and will take corrective measures in the case of non-performance or slow delivery.

58. The harmonized approach to cash transfer process has been initiated and completed, confirming the responsible partners' levels of implementation capacity to be in line with UNDP requirements.

59. A Project Manager will run the project on a day-to-day basis on behalf of UNDP within the constraints laid down by the Project Board. The Project Manager will be responsible for day-to-day project management, the development of annual work plans, and the regular monitoring of project results and risks.

60. The financial management and procurement of this project will be subject to UNDP financial rules and regulations. UNDP prepares and reports financial statements in full accordance with the International Public Sector Accounting Standards.

61. The UNDP country office will receive the GCF funds from UNDP head office on the basis of approved annual work plans. In order to receive the funds advanced by UNDP, the responsible parties (partners) for the project may open bank accounts to be used only for receiving UNDP advances and to make payments relating to their respective project sub-components.

62. The project will be subject exclusively to the internal and external auditing procedures provided for in the financial regulations, rules, policies and procedures of UNDP, which also include specific audits of the responsible partners.

### 3.5 Results monitoring and reporting

63. As a mitigation intervention, the proposal reports in section E.1.2, the value of the core indicator “Expected tonnes of carbon dioxide equivalent (t CO<sub>2</sub> eq) to be reduced or avoided (mitigation only)”. The expected annual GHG emission reduction is 101,000 t CO<sub>2</sub> eq (2.02 Mt CO<sub>2</sub> eq, lifetime). The emission reductions are calculated based on avoided quantity of fuel consumption (coal or LFO) by multiplying baseline energy use by the relevant GHG emission factor and the lifetime of the investment (assumed to be 20 years). The AE indicates that “this approach is in line with relevant CDM methodologies for small-scale fuel-switch projects, e.g. AMS I-C ‘Thermal Energy Production with or Without Electricity’ or AMS I-I ‘Biomass Thermal Applications for Small Users’”. The proposal also provides an indication of the number of direct beneficiaries: 150,000 people – occupants and users of public-sector buildings (4 per cent of the total population), including 80,000 women.

64. The proposal also reports against the core indicator “cost of t CO<sub>2</sub> e”, estimated to be, for the total project, USD 9 (below the GCF minimum benchmark of USD 230 per tonne). In section B.1, the proposal reports that the project will leverage USD 105.22 million in co-financing from public-sector stakeholders. The breakdown by ministry/government entity is provided in section B.1. The AE is requested to ensure that the figure for co-finance is consistent across the proposal and to provide an explicit figure for “Volume of finance leveraged” in section E.6.

65. Regarding the logical framework section, the proposal does align with the climate results and indicators of the performance measurement framework of the GCF. The issues raised by the due diligence review are minor and should not affect the quality of the overall logical framework.

66. The arrangements for monitoring, reporting and evaluation are reported and consistent.

### 3.6 Legal assessment

67. The accreditation master agreement between the GCF and the United Nations Development Programme was signed on 5 August 2016 and became effective on 23 November 2016.

68. The project was approved by all final internal approvals of UNDP on 1 March 2017.

69. The proposed project will be implemented in Bosnia and Herzegovina, a country in which the GCF is not provided with privileges and immunities. This means that the GCF is not protected against litigation or expropriation in this country. The Secretariat submitted a draft of the privileges and immunities agreement and a background note to the NDA on 11 May 2016 and exchanged e-mails with the NDA. The last such e-mail was sent by the Secretariat on 14 February 2017, asking for confirmation from the NDA as to whether the draft agreement could be finalized as proposed at that time. However, no response has been received thus far.

70. The GCF is exposed to litigation risk in Bosnia and Herzegovina. Risk of expropriation needs to be further assessed. Furthermore, the Independent Redress Mechanism and the Independent Integrity Unit have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations, to the fullest extent envisaged in the Governing Instrument for the GCF and their Board-approved terms of reference, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after the GCF has obtained satisfactory protection against litigation and expropriation in Bosnia and Herzegovina, or has been provided with appropriate privileges and immunities.

71. In order to mitigate risk, it is recommended that any approval by the Board is made subject to the following conditions:



- (i) The execution of all required legal documentation in a form and substance satisfactory to the Secretariat; and
- (ii) The completion of legal due diligence to the satisfaction of the Secretariat.

## Secretariat’s review of FP052

Proposal name: Sustainable and Climate Resilient Connectivity for Nauru

Accredited entity: Asian Development Bank (ADB)

Project/programme size: Medium

### I. Overall assessment of the Secretariat

1. The funding proposal is presented to the Board for its consideration, with the remarks listed in table 1 below.

**Table 1. Summary of strengths and points of caution**

Strengths	Points of caution
The proposal is accompanied by well-developed background studies that employ cutting-edge maritime modeling and climate scenarios to justify the technical solutions proposed and the economic and financial viability of the project	The long-term sustainability of the port involved in the project carries some residual risk due to uncertainty related to the capacity of the Nauru Port Authority to implement effective port tariff reform and the possibility of external shocks (e.g. typhoons) that could exceptionally impact the operational costs
The climate rationale and business case for GCF involvement in the project, in terms of the coverage of climate-related incremental costs, are well-elaborated	

2. The Board may consider approving this funding proposal with the terms and conditions listed in the respective term sheet and document titled “List of conditions and recommendations”.

### II. Summary of the Secretariat’s review

3. Nauru, with a total population of 11,300, is the world’s smallest island country in the Pacific. It depends significantly on its port for supplies of food, energy and most other essentials its people and economy need to survive. The port, due to sea level rise that combines with climate change uncertainties, is however expected to become inoperable for longer periods every year.

4. In this context, the proposal submitted by the Asian Development Bank (ADB) seeks to address this issue by constructing a climate-resilient port that can operate year-round. The project is organized along two components as described below.

5. GCF grant financing of USD 26.91 million represents 41 per cent of the total project cost/73 per cent of the incremental cost to make the port climate-proofed. The ADB and the Government of Australia will provide grant co-financing of USD 20.7 million and USD 13.5 million, respectively. Despite of its high debt level, the Government of Nauru commits to provide a grant of USD 4.09 million, bringing the total project cost to USD 65 million. It is positively noted that the Government of Nauru also foregoes USD 6.27 million of revenues from exempted duties and taxes allowed for the implementation of this investment. The Ministry of Finance will be the executing entity for the project with support of the Nauru Port Authority (NPA) as implementing partner. The port construction will be completed in two years and the ADB will oversee the implementation of port reform and capacity-building initiatives until 2022 with a possible

extension depending on the requirements to be assessed at that time.

### **Component by component analysis**

#### *Component 1: port infrastructure constructed/rehabilitated and climate-proofed*

6. All GCF grants will be used in component 1 (i.e. the construction of a climate-proofed port). Delivery of this output will make the port facilities accessible and usable by ships year-round, and will allow ships to travel directly to Nauru's coastline instead of depending on transfers of cargo between ships and barges. This component benefits from a sound feasibility study during which six options were considered against their technical, economic, operational feasibility and resilience. The construction of this new port would mean lowered shipping costs, much fewer delays and reduced damage and danger during the port's cargo operations that ensures the maritime transport service sustainable to Nauruan residents. The GCF involvement will add value to the baseline scenario, which is not climate-resilient, and will support (1) the construction of a channel to the coast (GCF contribution: USD 4.6 million); (2) the construction of a breakwater (GCF contribution: USD 3.8 million); and (3) the construction of a new wharf (GCF contribution: USD 18.51 million).

#### *Component 2: reforms of the Nauru Port Authority*

7. Reform of port governance in component 2 is vital to ensure the financial, economic and institutional sustainability of the proposed activities. No GCF proceeds will be used for this component. While the assessment of financial capacity of MoF is satisfactory, some risks were determined that are associated with the implementing agency (NPA) as its current structure is not efficient in generating revenue for its operations and lacks the necessary capacity in operating the port. The capacity-building of NPA and reform of its tariff system aim to ensure the long-term financial viability of the project and to enhance the operational capacity of the port services provided. The reform is supported by the government that agrees to institute the necessary legislation enforcing the NPA reform. There might be residual risks that the NPA capacity to generate revenues for the long-term maintenance of the operation of the port will not be sufficient or that external shocks (e.g. a strong typhoon/storm surge) could provoke excessive maintenance/repair costs. However, it is recognized that such risks probability remain limited and that the entity provided a credible risk mitigation plan.

### **Summary of the review**

8. The project is an example of an adaptation investment that, given the nature of the project (port rehabilitation), has significant impact on greenhouse gas emissions' reduction.

9. The proposal presents an overview of the current and future climate scenarios, based on scientific studies. While recognizing the uncertainty of future climate situations (sea level rising, climate hazards, etc.), the project adopted a precautionary approach in the design of the rehabilitated port so that it could withstand possible long-term climate impacts. The feasibility study presents a credible decomposition and quantification of the incremental costs due to adaptation, which in turn solidifies the rationale for GCF contribution and involvement.

10. The proposal is accompanied by an extensive and recent feasibility study that the ADB commissioned through a highly reputable international firm. The study is exhaustive and justifies the investment proposed among different technical solutions that consider scenarios with/without climate proofing and where costs and benefits are compared. The selected investment option is the one that showed the capacity to climate-proof the port, while providing the best value for money.

11. The assessment of the performance of the project proposal against the investment criteria is positive. In particular, noted as positive is the relevant impact potential that the project could have on the Nauru's freight transport sector and the well thought additionality provided in terms of climate-resilient benefits by designing a climate-proof port infrastructure.

### III. Assessment of performance against investment criteria

#### 4.1. Impact potential

*Scale: High*

12. The project has a clear climate justification and impact potential in terms of adaptation and mitigation. Also, it has impact potential on supporting the country's economic development, given the fact that the improvements will allow cheaper transportation of goods and increased competition among the private shipping services that intend to serve Nauru.

13. The project is expected to provide benefits to the entire population of the country, estimated to be 11,300 individuals. Apart from the climate and economic benefits, the population will be able to access enhanced transport facilities that consequently improve their food, health and water security. Yet, a clear distinction between the direct and indirect beneficiaries is not elaborated. Fifty per cent of the beneficiaries are estimated to be women.

14. From the point of view of mitigation, the rehabilitation of this port will mean that ships will spend considerably less time at sea with their engines on to stay still and no more pusher barges will be needed to load/unload. A methodology for the calculation of the reduction of tonnes of carbon dioxide equivalent (tCO<sub>2</sub>eq) is provided and estimates a reduction of 10,708 tCO<sub>2</sub>eq per year and 535,400 tCO<sub>2</sub>eq over the port's lifetime.

15. The project had the potential to achieve significant climate results. They are expected in the short term for mitigation, while for the adaptation component, full appreciation of the reduced economic losses due to the impact of climate-related hazards will need a longer-term series of disaster data; therefore, it could be fully assessed in the long run.

16. The port rehabilitation is designed to avoid the negative 'lock-in' effects of the infrastructure, since resilience features are at the centre of its conceptualization. However, given the expected long lifetime of the infrastructures (the lifetime considered is 50 years, but the port can be used for much longer than that) and the uncertainty of future climate scenarios, there is a limited residual risk that in the long term the level of climate proofing obtained by the rehabilitation might be inadequate.

#### 4.2. Paradigm shift potential

*Scale: Medium*

17. Although a specific theory of change is not presented as such, the project design is clear in its logic of action, results-chain and in how barriers to transformative change are removed.

18. While the technical solutions adopted to increase the climate resilience of the port are typical in terms of disaster risk reduction practice, the way in which their choice was made and features calculated, draws from several technical and scientific sectors (modelling of wave climates, ocean dynamics, etc.) making this project innovative from the conceptualization standpoint. This approach to the preparation of the background study could be a potential model for other ports as well as other GCF-financed projects.

19. The sustainability of the outcomes is discussed from different viewpoints. While there is a draft operation and maintenance plan that shows a relatively low degree of maintenance expenditure, there is also an elaboration of how the proposed tariff reform will ensure a long-term stream of income for maintenance. Yet, the possibility that in the future exceptional circumstances such as typhoons or maritime events could cause extraordinary damage is a residual risk.

#### 4.3. Sustainable development potential

*Scale: Medium*

20. The economic co-benefits are those that emerge as the most relevant. It is expected that a more functional rehabilitated port will benefit almost all aspects of the Nauruan economy and productivity. Sectors such as the local fish industry can thrive with positive consequences on local employment. During the project implementation, a few temporary jobs will be created, considering also gender-balance.
21. The social co-benefits of the project are expected to be limited, and mainly in health and food security as the population will have easier access to fresh food.
22. Environmental co-benefits are expected in terms of reduced damages to the ocean floor compared with the current level. The full extent of these benefits is uncertain for second-level due diligence.
23. Gender consideration and a gender assessment and action plan have been duly carried out.

#### 4.4. Needs of the recipient

*Scale: Medium*

24. The project will contribute to making the overall economy of Nauru more resilient to climate change, and to the overall addressing of one of the most impelling needs for a Pacific small island developing State, which is taking tangible action in view of the impact of rising sea levels and the likelihood of more intense climate related hazards such as typhoons.
25. Nonetheless, this intervention alone cannot fulfill all the needs of Nauru in terms of climate resilience. While the project targets a specific strategic infrastructure, the level of institutional needs to build climate resilience is broader and will need to be addressed by other climate and development projects that support sectors such as ecosystem management, climate information systems, early warnings and disaster risk reduction.

#### 4.5. Country ownership

*Scale: High*

26. The proposal elaborates how the project is contributing to both the nationally determined contribution, and other major policies that the country has agreed upon to tackle climate change and disaster risk reduction.
27. The feasibility study reports consultation with the national designated authority (NDA), the relevant country's institutions and stakeholders that will be involved in the implementation (the private sector and landowners and communities that will be affected by the rehabilitation work in the port).
28. The Asian Development Bank has been extensively working in Nauru for over three decades and has relevant expertise in design, management and oversight of infrastructure projects. The proposal also elaborates on the implementation capacity of the executing entity (Nauruan Ministry of Finance) and provided an assessment of the management capacity of the ministry.
29. The ownership of the project is reflected not only in the no-objection letter provided by the NDA, but also in the implementation arrangements stipulating that the national institutions are part of the project steering committee and indicating the financial commitment of the government to the implementation which is relevant relative to the size of Nauru's economy (gross domestic product estimated to be USD 100 million in 2015).<sup>1</sup>

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<sup>1</sup> World Bank data, 2015. Available at <<http://data.worldbank.org/country/nauru>>.

#### 4.6. Efficiency and effectiveness

*Scale: Medium*

30. The funding amount requested from the GCF is estimated to cover 73 per cent of the incremental cost of making the port resilient (USD 26.91 million out of a total adaptation incremental cost of USD 36.8 million). Therefore the financial instrument is justified. Despite the port being income generating, there are few possibilities for a very small economy such as Nauru to repay the capital investment without compromising its fiscal stability. All the other co-financers, therefore, are using grants. The investment is not expected to crowd-out other public or private investments, and can contribute to more competitive market conditions.

31. The leverage of the project is estimated to be 1.44. Based on the economic and financial analysis, the project is economically and financially viable, with a projected economic rate of return of 14.1 per cent and a financial rate of return of 4.97 per cent (discount rate 9 per cent). A sensitivity analysis is performed for the worst case scenario that considers 20/20 per cent increased costs/decreased benefits. It is noted that the sensitivity analysis could have considered more conservative scenarios. The financial viability of the port beyond the project, given also the relatively low maintenance costs and the high priority for the country of the port combined with an incoming more efficient port revenue system, is expected to be viable.

32. The proposal states that the project design was informed by the evaluation of other similar projects carried out by the Asian Development Bank. In addition, new cutting-edge technologies such as the Bridge Ship Simulator were used to assess the feature needed for the port if the ships have to face extreme meteorological conditions.

## **IV. Assessment of consistency with GCF safeguards and policies**

### 5.1. Environmental and social safeguards

33. The project aims to develop a climate-resilient port with efficient and sustainable operations that provides the basis for regional and international maritime transport. The Government of Nauru with the assistance from the accredited entity (AE) conducted the environmental and social due diligence concluding that the site of proposed development is not environmentally sensitive recognizing that it is part of an existing facility the operation of which has modified the physical and biological environment as well as the social and economic settings of the area. The potential environmental and social risks and likely impacts were identified and assessed and formed the basis of the proposed measures to mitigate and manage environmental and social risks and impacts.

34. The AE, in accordance with Safeguards Policy Statement 2009 assigned the following risk categories to the project: (1) category B for environmental risk considering that the environmental impacts are minor, localized and mitigated using industry-accepted mitigation measures; and (2) category C for involuntary resettlement risk indicating that resettlement and land acquisition will not be an issue. The risk categories were validated through the environmental and social assessments conducted for the project particularly the initial environmental examination (IEE), poverty and social assessment, due diligence reports – safeguards, and specialist studies such as marine assessment reports and climate risk and vulnerability assessments. These assessments complement the other studies, including feasibility and alternatives/options conducted for the proposed development. IEE provides a detailed environmental assessment and lists potential environmental impacts that are likely to result from the design, construction and operation of the Nauruan port. IEE also presents the environmental management plan specifying the actions that will be undertaken to avoid, minimize and mitigate likely impacts generated by the project. Recognizing that a major aspect of the project is its effect

on the marine environment, a marine ecological study was undertaken within the immediate area of the site. The poverty and social assessment, on the other hand, identifies the people, social groups, vulnerable population and communities that are likely to benefit or be affected by the development of the port in Nauru. The review by the Secretariat confirms the risk categories and an overall environmental and social risk of the project to be moderate and equivalent to category B.

35. IEE identified several potential environmental impacts on the coastal and marine environment, which are associated mostly with construction and operation. However, these impacts are foreseen to be minor, restricted to the project's influence area and acceptable with the implementation of the environmental management measures. Furthermore, the coastal and marine environments have been significantly modified due to construction and from port activities. The marine ecological survey of the area indicated that there are no endemic, endangered and significant conservation status species observed and likely to be supported by the environment. The foreshore area and the intertidal reef flat have been significantly impacted by port construction and operations such that the biodiversity value was found to be low. The project is also not located within or near terrestrial and marine conservation or protected areas, or sites of cultural or customary significance. The AE safeguards policy and the Government of Nauru's laws do not require biodiversity enhancement in adjacent sites; however, the project's environmental and social management plan (ESMP) offers to replant trees in or near the project sites in order to improve the overall environmental and aesthetic quality. Other risks and impacts identified include the following:

36. **Cumulative impacts.** Adjacent to the project sites are outfall lines for sewage and the hypersaline waste of desalination plant. IEE indicated that the water quality of the area is still good due to adequate dispersion and recirculation by the water current regime. The impact of the construction on water recirculation and water quality will be studied during the detailed design. Adequate measures such as redirecting the outfall or installing treatment facilities will be considered.

37. **Associated facilities.** Due diligence will be exercised for identified associated facilities related to the construction of the port such as quarries, lay down and stockpile areas, and workers housing as part of the contractors' environmental management plan (CEMP).

38. **Cultural properties.** The project area includes an existing port facility that has been in operation since 1908. Consultations and inspections undertaken during due diligence indicated physical cultural properties in the area. A chance find procedure is incorporated in the .

39. **Land acquisition.** The proposed project intends to utilize a land area of 16,830 m<sup>2</sup> comprised of seven lots, all previously surveyed. These lots are under customary ownership, and NPA intends to enter into lease agreements with the lot owners for the entire area. The Government of Nauru has identified the owners of these lots, and leases will be prepared, consulted and finalized by Nauru's Department of Lands and Surveys before the start of construction. The AE and the Government of Nauru do not anticipate potential involuntary resettlement issues from the project. Furthermore, due diligence on the project indicates that it is not likely to restrict access to marine resources or the conduct of livelihood activities such as fishing. The AE due diligence confirmed land ownership and will ensure the proposed arrangements for land lease will be in accordance with pertinent government laws and ADB safeguard principles. The contractor land leases will be prepared and landowners will be informed before seeking signatories for leases. The contractor will also be required to reconfirm lease agreements and the availability of land or access rights for the project prior to starting construction. Adjacent residents and other key stakeholders will be consulted by the implementing agency in the pre-construction phase and during implementation.

40. Additional impacts are foreseen arising from the potential influx of migrant workers

during construction. As required in IEE, the contractors will provide adequate housing and deploy community liaison officers to ensure the integration of workers to the host communities. Indigenous peoples were not identified in the settlements within and surrounding the project site.

41. The AE included a project environmental management plan (EMP) in IEE and an overall approach in addressing the project's social risks in the social and poverty assessment. Further details on the EMP will be provided and will form part of the CEMP. An oil spill contingency plan, an early warning system, firefighting capability, occupational health and safety management, and an emergency preparedness and response plan will be included in the CEMP.

42. The project's implementing agency will be the Nauru Port Authority. NPA, together with a Project Management Unit (PMU), will manage and monitor project implementation activities, ensuring compliance with government and ADB requirements. The AE indicated that there is scope for improving the environmental management practices of NPA for port operations and will ensure that further damage to the marine environment is avoided and minimized. The project will engage the services of international environmental specialists to develop an environmental management system, which will include a policy, monitoring and reporting during construction and operation.

43. Environmental and social safeguard monitoring will be undertaken as part of the project's performance monitoring. Specific environmental parameters to be monitored during the design, construction and operation are identified in the EMP. The environmental monitoring will ensure the continuous improvement of measures in order to avoid and minimize impacts on the marine and terrestrial environment. Social safeguard monitoring reports, a stand-alone monitoring report will be prepared on a semi-annual basis by PMU.

44. As part of the stakeholder engagement process, the AE identified the stakeholders of the project which included the primary beneficiaries and those that will be potentially adversely impacted by the project activities. Consultations with the stakeholders were undertaken through meetings, group discussions and key interviews. In the course of the project's due diligence, discussions were held with government officials, civil society organizations, landowners and adjacent communities. The consultations appeared to be extensive and generated adequate information on community expectations (in terms of benefits) as well as concerns (in terms of potential nuisance, traffic, pollution and other community risks). Other concerns and issues raised during the consultations were those related to environmental damage from port operations, impacts of more efficient port operations on consumer prices, assessments of extreme events and representation on the board of the NPA. The consultation has informed the development of the EMP as well as the due diligence on government land-lease arrangements. As part of its EMP, the project communication and plan is presented describing how at the project level the stakeholders are engaged and informed routinely of the project outputs and outcomes. The project communication plan also intends to inform communities and other stakeholders on the process of dealing with complaints and grievance. The communication plan will be further developed into a communication and consultation strategy following the ADB "Guide to Participation" and shall observe and demonstrate the core principles of effective participation. Furthermore, the AE will include in the specification of the civil works contract the requirement for the successful contractor to prepare a communications plan and a grievance redress mechanism that will be communicated to the communities. The communications plan will be reviewed and approved by the AE before the start of any work. The strategy of the civil works bidder will be assessed as part of the evaluation of their technical proposal.

45. The NPA will establish a grievance redress mechanism to receive and address, in coordination with government authorities, project-related concerns, which are not only related to land issues, but also to other grievance areas such as quality of the marine environment and community risks. The grievance redress mechanism is based on accepted practices and government protocols in Nauru and aimed at providing an accessible, time-bound and

transparent mechanism through which project-affected people can raise and resolve their concerns and issues with the project, including environmental and social safeguards. The NPA and the PMU will inform affected persons about how they have access to the grievance redress mechanism. The project will employ a Community Liaison/Public Relations Officer, who will be responsible for dealing with stakeholders' issues and complaints and will have the authority to refer to authorities if issues cannot be solved. The project's due diligence report recommended a project-level grievance redress mechanism where affected persons will form a committee related to the implementation of the project. A complainant can lodge a project-related issue through the elected committee or directly to the Liaison Officer. The grievance redress mechanism will be communicated to the project's stakeholders as part of the communication and consultation strategy.

## 5.2. Gender policy

46. The proposal contains a comprehensive poverty, social and gender assessment, therefore it complies with the operating guidelines of the GCF Gender policy and Gender action plan. The proposal also contains a gender action plan with gender-performance indicators, targets, timelines and responsibility lines. The project will provide for an international expert on gender who will be charged with the responsibility of implementing and monitoring the gender action plan. Listed below are a few recommendations that might help to strengthen the gender angle of the project:

(a) In the section "C.1. Strategic context", the entity has listed important information related to the socioeconomic situation of Nauru and provided a sufficiently thorough argument of how Nauru's multiple vulnerabilities are linked to the deteriorated port facilities. However, there is scope to strengthen this argument by plugging in more statistics on, for example, the state of household-level food insecurity (including that of food insecurity among vulnerable female-headed/widowed households), and the state of energy and water security at the household level. It might, therefore, be feasible for the AE to transplant details from the poverty, social and gender assessment into this section. Some of the data listed in the section "E.4.1. Vulnerability of country and beneficiary groups" could also be shown upfront in the proposal. Doing so, would allow the Secretariat to see more clearly how the effects of climate change adversely impact on the human and social condition;

(b) The indicator of household-level food security which was present in the previous version of the logic framework seems to have been removed. In order to show clear linkages between climate-proof port development and how this might have a positive impact on communities, it is critical that the indicator of food security be reinserted. Accordingly, we would like to propose that the indicator of household-level food security be retained and reworded as: "2.1 Percentage of food-secure households, including female-headed and widowed households (reduced food gaps)";

(c) The proposal states that there will be stakeholder consultations and community engagement to outline the implementation schedule and find out what the expectations of different stakeholders are in the project footprint area. It is recommended that a stakeholder engagement framework be provided at the project preparation stage to the GCF. This framework should ideally describe the process through which the entity will undertake consultations, identify stakeholders, disclose information and set up grievance mechanisms from the standpoint of gender and social issues; and

(d) The project will undertake gender and human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS) awareness campaigns targeted at NPA/PMU/Project Implementation Unit staff. It is advised that this campaign should be extended to the wider community so that community members become more knowledgeable and sensitive towards such health and social issues. It is further recommended that the project selects a small group of

women, men and youth who can then be trained to become social change agents with the knowledge and skills to bring about social and behavioural changes related to gender equality and HIV/AIDS, among other things.

### 5.3. Risks

#### *Project-/programme-level risks*

47. Significant technical and operational risks exist due to the complexity of the infrastructure (excavation and dredging, long supply lines, rough weather, unexploded ordinances, lack of usability of an excavator, spillages and land tenure procedures). The geographical remoteness of the island may cause cost overruns, implementation delays and resource scarcity (equipment and qualified personnel). These risks have been addressed by the AE and mitigation measures and mechanisms of control have been set. The AE will hire a contractor company through a transparent tender bidding process relying on eligibility criteria (international experience as well a positive track record in the Pacific region in implementing similar projects in remote locations). In addition, the contractor will address the lack of capacity and technical knowledge of the local institutions.

48. Extreme weather events or other force majeure events may negatively affect the performance of the assets in operation during the project implementation. The current cost estimates for the insurance policy do not include an asset insurance cost as this is not required as per standard ADB procurement procedures. However, the AE has a professional liability insurance provided by the design consultant firm Cardno for USD 2.998 million.

49. The Government of Nauru supports the project by co-financing and working on institutional reforms. However, the improvement of the governance aspects will remain challenging. Operating the new protected port reliably and effectively requires improvement of the port's governance and operations (financial management, fees, storage facilities and customs services), and the capability to implement financial stability measures in time (introducing port tariff reforms, revenue collection capacity and asset management). These potential challenges will be addressed by recruiting consultancy firms that will be accountable to support the contractor in delivering the intended outcomes.

50. In addition, technical assistance to the Nauru Port Authority will be provided (co-financed by the ADB, Australia and Nauru) via consultancy firms selected by the ADB. It is expected that the services of these consultants (for capacity-building of the Nauru Port Authority) will be provided for five years until the end of 2022. At the end of 2022, the ADB will assess the acquired capacity of NPA staff in self-managing port operations and management, and will consider whether extending further support is necessary.

51. It is positively noted that the ADB will keep an active role as administrator, reviewer and approver of requests for the procurement of goods and services. The ADB will also conduct regular review of missions on site. If reviews find non-performance (e.g. of a consultant) then The ADB will ensure that adequate measures are put in place to rectify the situation. This could include financial penalties and the removal of consultants. It is recommended that the GCF receive evidence of the above AE controls and follow-ups in the yearly annual performance reports.

52. Finally, it is positively noted that the GCF grant will cover about 73 per cent of the marginal cost of the activities necessary to make the port climate-resilient. On the other hand, it is also noted that projection models point to low confidence regarding projections for "wind climate and wave climate", these projections are in fact considered "inconclusive" in the funding proposal. For example, sea level rise and projections in centimetres show large confidence ranges (5–95 per cent) in the next 50-80 years. The funding proposal states therefore that there is a relatively low likelihood of significant climate change driven impacts occurring in the next 50

years. As the GCF contribution should be linked to financing the component supporting the “additionality of climate resilience” of the project, it is recommended that this uncertainty is taken into account in the decision-making process.

53. **Compliance, anti-money laundering and countering the financing of terrorism**

54. In the absence of an executed accreditation master agreement (AMA), the risk of fraud and corruption as well as anti-money laundering and countering the financing of terrorism are not contractually addressed.

55. Those risks may be mitigated through the ADB anti-corruption policy and procurement policy, which define the eligibility of bidders to exclude a United Nations sanctioned Party and its debarred list, but should be covered in the legal arrangement.

***GCF-level risk management assessment***

**Table 2. Summary of GCF-level risk assessment**

Summary risk assessment		Remarks and mitigation strategy for the GCF
Reputational:	Low	There is uncertainty over the likelihood of severe climate change impacts affecting Nauru. Therefore the strategic fit of the project to the GCF objectives should be taken into account in the decision-making process. The geographical remoteness of the island increases the operational and performance risks of the project
Operational:	Medium	
Compliance:	Low	
Performance:	Medium	

**5.4. Fiduciary**

56. The executing entity for the project will be the Ministry of Finance of the Government of Nauru. GCF financing will be in the form of a grant for component 1 of the project for the construction of a port. The construction of port facilities will be carried out by a construction company, selected through an international competitive bidding process following ADB procurement guidelines.

57. A project steering committee and project management unit have been established to support project implementation. Overall responsibility for day-to-day project monitoring and implementation rests with the project manager who will develop quarterly and annual work plans to ensure the efficient implementation of the project, informing the implementing agency and the ADB of any delays or difficulties during implementation.

58. The Ministry of Finance, as executing agency will provide the AE with the following for next 12 months:

- (a) Quarterly progress reports in a format consistent with the ADB project performance reporting system; and
- (b) Consolidated annual reports, including:
  - (i) Progress achieved by output as measured through the indicator's performance targets;
  - (ii) Key implementation issues and solutions;
  - (iii) An updated procurement plan; and
  - (iv) An updated implementation plan.

59. A full assessment of the financial management and procurement capacity of the executing and implementing agencies has been undertaken by the AE.

60. Financial covenants will be incorporated into the grant agreement by the AE covering the annual external audit, financial management systems, the addition of accounting and finance staff and financial performance indicators. The ADB will undertake an annual project review to assess the progress of project implementation activities and compliance with covenants and project agreements.

61. A full assessment of the project, including the financial management and procurement aspects of the AE and implementing agencies has been conducted independently for the ADB. According to the report, a project procurement risk assessment was carried out in accordance with ADB guidelines, and based on the assessment, it was determined that there “exists both strengths and weaknesses in the Government’s Procurement Process, but nothing that would put the project procurement for the project at unacceptable risk that would require ADB taking direct control of the Procurement process”.

## 5.5. Results monitoring and reporting

62. As a cross-cutting intervention, the proposal reports in section E.1.2, the value of the core indicator “Expected total number of direct and indirect beneficiaries (reduced vulnerability or increased resilience), number of beneficiaries relative to total population (adaptation only).” The proposal asserts that the project will directly benefit the entire population of Nauru: 11,300. The proposal also reports on the core indicator “Expected tonnes of carbon dioxide equivalent (tCO<sub>2</sub>eq) to be reduced or avoided (mitigation only).” Expected GHG emissions reduced annually is 10,708 tCO<sub>2</sub>eq (535,400 tCO<sub>2</sub>eq lifetime).

63. The proposal also reports against the core indicator “cost of tCO<sub>2</sub>eq”, estimated to be, for the total project financing, USD 110 per ton (below the GCF minimum benchmark of US\$ 230 per ton). “Volume of finance leveraged” is reported as amounting to 41% of the overall USD 65.21 million total project costs. The total finance leveraged is further broken down by funding source.

64. Regarding the logical framework section, the revised proposal better aligns with the climate results and indicators of the performance measurement framework of the GCF. The AE has revised the logical framework to address the issues raised by the due diligence review – the remaining issues are relatively minor.

65. The arrangements for monitoring and evaluation are appropriate and detailed. However, at the level of funding activity agreement, it should be better specified that the programme reporting system shall comply with the requirements set by the GCF monitoring and accountability framework.

## 5.6. Legal assessment

66. The accreditation process has not been completed, as the AMA has not been agreed yet between the GCF and the ADB. Consequently, it is difficult to adequately assess a funding proposal submitted by the ADB. Therefore, it is recommended that the Board should not approve this project prior to the execution of the AMA with the ADB to avoid delays in the implementation of the proposed project.

67. The ADB has not yet provided a legal opinion/certificate confirming that it has obtained all final internal approvals to implement the project. According to section A.3 of the funding proposal, the ADB expects to obtain such internal approvals by September 2017.

68. The proposed project will be implemented in Nauru, a country in which GCF is not provided with privileges and immunities. This means that the GCF is not protected against

litigation or expropriation in this country. The Secretariat submitted a draft of the privileges and immunities agreement and a background note to the NDA on 7 April 2016, of which receipt was acknowledged on the following day by the NDA. In responding to the Secretariat's follow-up inquiry on the status of the draft agreement on 17 November 2016, the NDA confirmed that it would follow up with the relevant authorities in Nauru on the following day. However, no response on the draft agreement has been received thus far.

69. The GCF is exposed to litigation risk in Nauru. Risk of expropriation needs to be further assessed. Furthermore, the Independent Redress Mechanism and the Independent Integrity Unit have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations, to the fullest extent envisaged in the Governing Instrument for the GCF and their Board-approved terms of reference, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after it has obtained satisfactory protection against litigation and expropriation in Nauru, or has been provided with appropriate privileges and immunities.

70. In order to mitigate risk, it is recommended that any approval by the Board is made subject to the following conditions:

- (i) The execution of all required legal documentation in a form and substance satisfactory to the Secretariat;
- (ii) The completion of legal due diligence to the satisfaction of the Secretariat; and
- (iii) The submission of a legal opinion/certificate in a form and substance that is satisfactory to the Secretariat within 120 days of Board approval, confirming that the ADB has obtained all final internal approvals needed to implement the project and that it has the capacity and authority to implement the proposed project.

## Secretariat's review of FP053

Proposal name:	Enhancing climate change adaptation in the North Coast and Nile Delta regions in Egypt
Accredited entity:	United Nations Development Programme
Project size:	Medium

### I. Overall assessment of the Secretariat

1. The funding proposal is presented to the Board for consideration with the following remarks:

Strengths	Points of caution
Potential for transformation from hard coastal protection structures that in some cases have demonstrated to be maladaptive to a more balanced approach that includes hard and soft measures as part of an integrated coastal zone management (ICZM) plan	Noting the lack of data and complexity of modelling processes, the problem of coastal flooding and erosion that the project interventions are trying to solve have both climate and non-climate drivers
The Nile Delta is a recognized hotspot for coastal flooding induced by sea level rise as mentioned in the Fourth Assessment Report of the Intergovernmental Panel on Climate Change	Technical evaluation of chosen hotspots and of soft coastal protection measures i.e. sand dune dykes in these locations as opposed to other alternatives lacks some evidence
Includes 70% co-financing and operations and maintenance for over 40 years from the Government of Egypt	The success of the ICZM plan to influence the development process of the Nile Delta can face challenges in view of the complex governance structure

2. The Board may consider approving this funding proposal with the terms and conditions listed in the respective term sheet and addendum XX, titled "List of conditions and recommendations".

### II. Summary of the Secretariat's review

#### Project background and summary

3. The Nile Delta faces the threat of flooding of low-lying coastlines from sea level rise and increased intensity and frequency of storm events caused by climate change. In its Fourth Assessment Report (AR4), the International Panel on Climate Change (IPCC) declared the Nile Delta to be among the top three most vulnerable regions in the world. A one metre rise in sea level is expected to submerge 20 per cent of the land area of the delta by the end of the twenty-first century.<sup>1</sup> Salinization of land and water resources is expected to have significant impacts on agriculture, fishing and the availability of freshwater resources.

<sup>1</sup> Hasan E, Khan SI and Hong Y. 2015. Investigation of potential sea level rise impact on the Nile Delta, Egypt using digital elevation models. *Environmental Monitoring and Assessment*. 187(10): p.649.

4. Human factors also contribute to coastal erosion and land subsidence. In the 1970s, the Aswan High Dam was built, and the structure has since become a barrier to sedimentation in the delta despite past and ongoing efforts by the Government of Egypt (GoE) to mitigate the dam's impacts. Over-abstraction of groundwater resources for agriculture and domestic use is also contributing to land subsidence. Maladaptive hard engineering coastal protection infrastructures have also resulted in further coastal erosion.

5. The Nile Delta region has a productive resource base. Farming in the area yields 90 per cent of agriculture sector output in the country and the region is inhabited by 40 million people or about half of the country's population. As such, adapting the region to threats of climate change is crucial to the sustainable development of Egypt.

6. The project aims to reduce coastal flooding and salinity intrusion from sea level rise and more frequent and extreme weather events by building soft structures such as sand dune dykes in five hotspots along the Nile Delta coast. Integrated coastal zone management (ICZM) planning will also be promoted, including climate risks assessments, support to regulatory and legislative frameworks, capacity-building and the creation of a national observation system for monitoring climatic impacts along the coast.

7. The GCF financing requested amount is USD 31.38 million. In the funding proposal, the proposed co-financing is USD 73.8 million, of which USD 60 million is to implement the actions in support of the ICZM plan to be developed as part of this project. The executing entity is the Ministry of Water Resources and Irrigation (MWRI). Other implementing partners involved include the Ministry of Environment, the Ministry of Agriculture and Land Reclamation, the Egyptian Meteorological Authority and relevant research institutes and universities.

8. The project is well aligned with two of the GCF result areas for adaptation (most vulnerable people and communities, and infrastructure and built environment) and with the GCF investment framework. About 768,000 people are expected to benefit directly from the project with a further 16,9 million people benefiting indirectly. The estimation of the benefits of the proposed investment project is limited to mitigating the loss of agricultural land and reducing the economic costs to exposed housing units and roads. The proposal is also compliant with the GCF policies and procedures. The environmental and social safeguards (ESS) risk category is B (moderate risk). Project risks are overall rated to be medium.

### **Component by component analysis**

9. The approach of the project is to promote an integrated approach to coastal protection and coastal management.

10. The project is structured along the two main components or outputs set out below.

#### **Output 1 – Reduced vulnerability of coastal infrastructure and agricultural assets to coastal flooding damage in hotspot locations in the Nile Delta**

11. The project will build 69 kilometres of soft engineering structures along five low-lying hotspots: Kafr El-Sheikh, Port Said, Behira, Damietta and Dakahlia. The hotspots were determined through assessment of ecological systems, planned development activities, socioeconomic characteristics and coastal processes, although the selection process appears to be influenced by topographical analysis. To determine the best solutions for these hotspots, the cost, effectiveness, sustainability and level of innovation were considered. The feasibility studies provide information related to the sites and conceptual designs of options, but with a limited level of detail.

12. Beach nourishment, sand dune dykes with a geotextile core, sand traps, revegetation and other soft engineering approaches have been selected. The structures will construct a barrier

along the coastal hotspots that will significantly reduce the risk of sea waves breaching the coastal spits and damaging the coastal road. They will minimize any risk of waves impacting villages, agricultural lands and other village infrastructure behind them. They also provide a significant amount of new material that will slow the local rates of coastal erosion and shoreline retreat. The structures have been designed by professional engineers to resist heave caused by seepage flows underneath the structures. However, the structures do not enclose areas of land in polders, the most effective way of protecting land against relative sea level rise. Anthropogenic sea level rise (due to climate change) and land subsidence (due to groundwater abstractions) will cause water to flow around the new structures. Water levels in the aquifers and the lakes inland of the structures will still gradually rise. Salinization of the delta will continue unless incoming freshwater flows are boosted and abstractions reduced.

13. Climate change modelling from the Coupled Model Intercomparison Project Phase 5 was done to look at spatial characteristics of wave action, sea level rise, storm surge and other parameters on the Egyptian coastline. In the economic analysis, it is mentioned that extreme sea level events, driven by the combination of high tides and storm surges, have led to devastating coastal flooding. While climate change impacts on the coast are clear, how these are interconnected with other non-climatic impacts and how these parameters have been factored in the structural design and related costing is less clear.

14. There are several drivers placing the Nile Delta coast under stress, and not all of them are directly linked to global climate change impacts. Global sea level rise is caused by climate change. Land subsidence is due to increasing groundwater abstractions for agricultural, industrial and municipal water use and it is affected by climate change through increased temperatures and evaporation. The reduction in freshwater flows from the Nile is caused by competing water uses along the river, and affected by climate change. The trends in groundwater and surface water uses should be analysed to examine whether these are caused by increased temperatures and longer dry spells resulting from climate change, or solely from population pressure. The erosion from waves and longshore currents in the Mediterranean is claimed to be climate change induced, but only anecdotal evidence is provided. Another important non-climatic driver is the Aswan High Dam, which has stopped the replenishment of sediments since its construction in the 1970s. Although actions focusing on hard structures to minimize the impacts have continued to be implemented for the past 30 years, residual impacts are expected to remain.

15. With regard to the targeting of this project, it is unclear whether the sites (called hotspots) and technical options (sand dune dykes, beach nourishment, sand trapping, etc.) are deemed the most effective. Further technical explanation of why the sand dune dykes are the preferred option for all the sites identified would be necessary as it is not strongly demonstrated that the sand dune dykes will withstand wave action and sea level rise, and protect against coastal flooding. Other measures include developing a 'vegetative buffer' structure for coastal protection, beach nourishment, reinforcing sand dune systems as a defence mechanism, revegetation to stabilize seabed sediment, wetlands restoration and the establishment of conservation zones to preserve essential coastal habitats. These protect against coastal flooding from sea level rise and longshore movement of sand only, and not wave action and salinization.

#### Output 2 – Development of an integrated coastal zone management plan for the entire North Coast of Egypt

16. The decision to use soft structures has been taken before the ICZM plan is ready; however, this can be explained as the project scales up from previous and ongoing Global Environment Facility (GEF) projects, in which many of the ICZM activities have been initiated.

17. It is mentioned in the funding proposal that the GCF project aims to scale up the tested pilot coastal protection techniques used in the United Nations Development Programme (UNDP)-

GEF project and to develop an ICZM plan for the Mediterranean coast of Egypt in addition to completing the implementation of the national observation system.

18. Some of the objectives of the project proposed to the GCF overlap with the intended objectives of the GEF project, such as coastal development legislation and regulation, strengthening of institutional capacity, establishment of information systems, budget planning of the Shore Protection Agency (SPA) to reflect climate change risks and integration of climate risk assessment into ICZM frameworks. However, in the absence of an evaluation report, it is difficult to say whether the objectives of the previous project have been met.

19. In response to the unclear institutional framework and poor cooperation between agencies, a clear strategy for developing the ICZM plan should describe how the governance structure of this project will overcome previous barriers such as the limited and ad hoc cooperation among different agencies.

20. Current impacts of coastal flooding and salinization on agriculture, fishing and water quality should be included as part of the ICZM plan as well as other livelihoods and socioeconomic aspects such as gender.

21. The multiple layers of data being monitored should be used to inform decision-making as part of ICZM for socioeconomic planning, early warning and economic development of new areas. Indeed, it appears that there are new developments progressing in these coastal zones (which the project claims are 'high risk'), so changed land-use policy should be part of the regulatory and legislative framework of the ICZM plan to avoid excessive future vulnerability of the population.

22. Furthermore, the ICZM plan should contribute to the updating of the National Strategy for Adaptation to Climate Change and Disaster Risk Reduction or other policy frameworks, as most relevant.

23. The role of the ICZM plan to overcome institutional barriers and promote the paradigm shift towards a more balanced combination of hard and soft structures in coastal protection should be linked to capacity-building and policy and regulatory frameworks development, which are activities planned under the ICZM plan.

### **III. Assessment of performance against investment criteria**

#### **3.1 Impact potential**

*Scale: Medium*

24. The coastal erosion and flooding are caused by both climate and non-climate drivers and the causality between coastal flooding and climate change needs to be strengthened to demonstrate the impact potential for climate change adaptation. To effectively manage overall threats to coastal flooding, actions to address the non-climate drivers and their impacts, such as the salinization of land and water from groundwater extraction, would need to be reflected in the ICZM plan. The additional funding from GoE could support this work.

25. The number of direct beneficiaries estimated for the project appears to be reasonable at around 768,000 people. The proposal targets the most vulnerable hotspots in terms of elevation. However, it is unclear how the socioeconomic profiles of beneficiary communities and their vulnerable populations were taken into account.

26. The project supports key performance management indicators of the GCF. It avoids locking in of long-lived climate vulnerable infrastructure, and supports the development of a policy environment that supports this objective. The development of institutional and regulatory systems for climate responsive planning and development is a key output of the project under output 2. Climate information for decision-making would be increased, largely through the

development of the National Observation System to monitor climate impacts, and integrated through the ICZM processes.

### 3.2 Paradigm shift potential

*Scale: Medium*

27. The paradigm shift towards climate-resilient development of this proposal is based on the shift from hard to a more balanced combination of hard and soft structures for coastal protection, the inclusion of climate change data for planning and a better coordinated approach for ICZM. While the government is committing further resources to the development and coastal protection of the Nile Delta, it is uncertain how the paradigm shift of this project will influence the overall development of the area considering the issues around co-funding and output 2.

28. The current policy discourse in coastal protection in Egypt is largely through hard engineering approaches. The change towards a balance of structural and non-structural measures and the inclusion of climate change parameters in coastal development planning support the paradigm shift potential of this project. The coastal defence structures proposed by the project are not necessarily new and innovative; however, their use and uptake in Egypt is currently limited. The theory of change is premised on the demonstration effect of implementing soft coastal defences at scale in conjunction with policy and regulatory reform. Through the ICZM planning, other non-structural approaches to mitigating the impacts and risks of coastal flooding include enhanced land-use planning and early warning to communities.

29. One concern that has not yet been fully addressed is how the current land use along the coasts will be modified to take into account climate risks, and risks mitigated through the project. There appears to be increasing investments and development transpiring near the coasts. The coastal defences can also create a false sense of security and encourage urban development in hazard zones near the coasts. These would need to be addressed through the implementation of the ICZM plan, where risks and uncertainty need to be clearly taken into account in planning.

30. If demonstrated to be successful, the activities can be further scaled up and replicated in other parts of the Egyptian coastline but this would probably require additional financing to implement. The project also advances the regulatory and legal frameworks to promote climate-resilient planning and investment in the Nile Delta. Knowledge-sharing and learning can be promoted through concerted efforts across the institutions involved in coastal management, including universities and research groups.

### 3.3 Sustainable development potential

*Scale: High*

31. The project generates significant sustainable development co-benefits as it protects economic assets and enables economic activities, such as agriculture, fishing, continued use of road infrastructure and tourism, to continue in the region. Activities under the ICZM plan can potentially ensure that future economic investment and development is done in a climate-sensitive way. Moreover, by protecting these economic activities social benefits from employment and limitation of out-migration can also transpire. Environmental benefits are expected from the project in the form of soil stabilization from the revegetation over sand dunes. Depending on the effectiveness of the coastal structures to act as a barrier, groundwater sources may also be protected from increasing salinization. In terms of gender co-benefits, the assessment is presented in section 4.2 below.

### 3.4 Needs of the recipient

*Scale: High*

32. This area of Egypt is highly vulnerable, as recognized in the IPCC AR4. As much as 20 to 30 per cent of the land area of the Nile Delta can be inundated from a one metre rise in sea level. This would include critical infrastructure (industries, tourism, road), urban development and agricultural land. Based on both direct and indirect beneficiaries, a significant size of the population appears to be vulnerable to coastal flooding. The proposal, perhaps owing to its nature and level of interventions at the physical works and institutional levels, does not target directly vulnerable populations on the ground. With that said, gender targets and indicators are included in the proposal, particularly in consultations, grievance-related processes and capacity-building. However, the ICZM plan, if well mainstreamed, has the potential to inform the future development of the area and thus respond to the needs of the vulnerable people and communities in the Nile Delta, and where 90 per cent of the agricultural sector output is produced. The project also provides strong opportunities to strengthen institutional and implementation capacity, as this is part of the objective of the ICZM plan related activities.

33. The proposal talks about the public goods nature and adaptation objectives of the project as a justification for the GCF grant resources requested, but it doesn't mentioned whether alternative sources of financing have been sought.

### 3.5 Country ownership

*Scale: High*

34. The project fits with existing country priorities as reflected in Egypt's intended nationally determined contribution and the National Strategy for Adaptation to Climate Change and Disaster Risk Reduction. ICZM processes have been ongoing since 1996. The project aims to support and expand ICZM from a climate resilience point of view. It also builds on two previous GEF projects realized with UNDP. The project involves the appropriate national executing entity and partners, which ensures sustainability and country ownership, and benefits from consultations of relevant agencies at the national and local levels, which are documented as part of the proposal. The environmental and social management framework (ESMF) provides for mechanisms for further public consultations with beneficiaries and other groups.

35. GoE has made significant investments in coastal protection, including commitments for USD 200 million in Alexandria, and about USD 40 million of hard coastal infrastructure, mostly through SPA. Moreover, investments related to the current project amounts to USD 73.8 million in co-financing. Out of this amount, USD 13.8 million is expected to support the coastal defences and activities associated with the ICZM plan. The government further commits to finance operation and maintenance of structures for 40 years.

### 3.6 Efficiency and effectiveness

*Scale: Medium*

36. More detailed technical evaluation of the effectiveness of soft vs. hard measures, and of sand dune dykes among soft structures would have strengthened the proposal. It is unclear why hard structures have failed and how soft measures are a viable alternative. Sand recharge, depending on the design of the structure and materials, may reduce impacts of coastal flooding, but will not reduce salinity, as it does not prevent the steady flow of saline water into the lagoons and nearby agricultural lands.

37. For the economic analysis, middle and high sea level rise scenarios were run and the extent of inundation was estimated. The internal rates of return were 20 per cent and 26 cent, respectively, for the two scenarios.

38. Overall, the concessionality requested may be justified given the absence of revenues. A grant structure is required to make the investment viable. While grants may be justified, it is unclear whether the requested amount is tailored to the full or incremental cost of adaptation.

The amount of financing for the coastal structures appears to be appropriate given the extent of works to be performed and length of coastline to be protected. Project management costs are about 6 per cent of the total financing.

## IV. Assessment of consistency with GCF safeguards and policies

### 4.1 Environmental and social safeguards

39. The accredited entity described the proposed project as having the potential to generate moderate environmental and social risks and impacts, equivalent to ESS category B. The risks and impacts generated by the project are likely to be spatially and temporally limited and within the project's footprint. The specific structural interventions will be spread in five locations within the identified coastlines characterized as already highly disturbed either by human activities or by natural processes such as extreme weather events. The proposed coastal protection technology involves sand dunes and are considered ecosystem-based – mirroring the area's natural processes and beach profiles. The proposed coastal protection infrastructure is expected to have benign effects on the natural coastal processes and the communities. Environmental and social impacts will be generated during construction; however, these are considered temporary. The activities supporting the development of ICZM of the region, although considered as having negligible to low environmental and social impacts, may have long-term environmental and social implications for which the accredited entity and the executing entity may need to exercise further due diligence at a later stage of the project. The assessment by the Secretariat confirms the risk category of the proposed project, noting that the likely impacts are mainly from short-term construction activities, confined within the project footprint, and readily mitigated. It notes that the proposed measures and the plans are to be developed further by the accredited entities to mitigate the environmental and social impacts.

40. The accredited entity submitted an ESMF as the project's tool for managing environmental and social risks and impacts. The ESMF described the various activities that will be conducted, the environmental and social context of the project, the potential risks and impacts, the procedures for assessment, screening and management planning. The mitigation measures that will be undertaken were also presented. The ESMF identified the development of an erosion, drainage and sediment control plan (EDSCP) that will specify the measures needed to mitigate impacts related to sediment transport, erosion of beaches and coastal fronts, and drainage, including spoils management. The scope and content of the EDSCP is included in the ESMF. As the establishment of coastal protection will require earth fill material, the ESMF provided information on the potential sources of the fill materials, including the environmental and social considerations related to the removal of fill materials. Due diligence related to the supply of fill materials identified potential environmental and social impacts such as those related to contaminated sediments, dewatering and possible effects on onshore fishing activities. The ESMF provided the performance criteria relevant to the various environmental and social aspects of the project. The performance criteria describe the various approaches to avoiding, minimizing and mitigating environmental and social risks and impacts.

41. The due diligence by the Secretariat underscored the following key environmental and social risks and impacts of the project, taking into consideration the activities that will be undertaken by the project, the type of coastal protection technology that will be deployed and the key environmental and social features of the project area.

42. **Biodiversity.** The project will be undertaken along the northern coast of the country. The soft coastal protection infrastructure will involve the use of sand dunes that will mirror the natural beach processes and coastal dynamics. The proposal and the ESMF indicated that the

construction of sand dunes would entail the use of materials extracted from lakes and lagoons south of the project sites, including the Burullus and Manzala lakes. Lake Burullus is a protected area of the country and is recognized as a RAMSAR site (a site included in the List of Wetlands of International Importance) and important bird area and seen as an important segment of the African-Eurasian flyway of migratory birds. Dredging of accumulated sediments is an ongoing activity in Lake Burullus as part of the government's efforts to alleviate the deteriorating conditions of the lake due to sedimentation. The General Authority for Fish Resources Development is undertaking regular sediment removal operations in Lake Burullus to restore the aquatic habitat, allow more water flow to various areas of the lake, remove accumulated silt and pollutants and reinvigorate the fishing industry. The project proposes to use the dredged sediments and will not require any additional dredging operations other than those currently practiced. The northern coast of Egypt is also considered as being among the feeding and nesting habitats for endangered sea turtles on the Mediterranean coasts. The ESMF provides the overall approach to mitigate any adverse impacts and protect any habitats that may be discovered during the construction works. It indicated that a biodiversity management plan will be developed when the specific locations are identified and the construction works detailed.

43. **Land and livelihood impacts.** The activities will involve the construction of sand dykes within the regulated 200-metre foreshore or setback area of the country. As such, there are no expected requirements for any lands that may be acquired through compulsory acquisition. The ESMF identified that during construction and earth-moving works there may be temporary restriction of access to the beach for certain populations such as fisherfolk or those involved in tourism activities. The construction activities may potentially adversely affect the prevailing land uses that could lead to temporary economic displacement. The ESMF identified the development of a livelihood restoration and improvement plan setting out the processes that will be undertaken by the project in such instances.

44. **Pollution and water quality.** The construction activities will involve dewatering and the use of dredged sediment, which may release sediments and pollutants to the sea. Initial sediment analysis of dredged sediments from Lake Burullus indicate varying levels of contaminants, including heavy metals, although the levels do not exceed international industry standards. The surface water, groundwater and marine water quality was also tested, indicating various levels, likely to be due to point sources. The ESMF identified the water quality monitoring measures that will be undertaken during the implementation of the project.

45. The project implementation arrangement involves a project management board consisting of MWRI and other agencies, including UNDP. The ESMF design and implementation for this project are delegated to SPA, a government authority under MWRI responsible for managing the shorelines in the country's coastal areas, whose mandate includes the planning and regulation of coastal development in the country. The implementation of specific mitigation measures will be included as part of the work of the contractors and supervised by the State Project Manager. The executing entity, having extensive experience in implementing projects supported by international financial institutions and development banks, is expected to provide additional guidance and support on the project's safeguards implementation. The activities of SPA involve designing coastal protection initiatives, monitoring coastal processes and regulating the use of coastal areas in collaboration with the environmental agency.

46. The funding proposal specified the monitoring and evaluation responsibilities of the project, which include oversight and monitoring related to the environmental and social risks, management planning, gender action plan, stakeholder engagement and addressing environmental and social grievances. SPA is responsible for developing and implementing the ESMF, including the monitoring of environmental and social risks arising from the project and the measures to address these risks and impacts. Within the overall project monitoring, reporting and evaluation framework, the accredited entity's country office and the national project

manager are tasked with the monitoring and oversight functions related to environmental and social risks, management plan implementation, stakeholder engagement and grievance redress. Specific monitoring and review functions of the contractors are further specified in the ESMF, describing environmental incident reporting, inspections and audits, review and corrective actions.

47. Several rounds of national and local consultations were undertaken to inform the design of the project and as part of the due diligence of the project by the accredited entity and the executing entity. The consultations on the proposed project were framed as part of the ongoing multi-stakeholder consultations on the protection of the northern coastal region of the country. A total of 36 consultative workshops took place from 2015 to 2016.

48. The ESMF presented the functions of SPA and the accredited entity in further engaging the various stakeholders during the implementation of the project. The stakeholders from the five hotspots were identified and included the local populations, government agencies, industries, commercial establishments, non-governmental organizations and academic and research institutions. SPA and the accredited entity will ensure continuing engagement with the stakeholders and will provide venues for the discussion of issues and concerns and communicating project status. Recognized as an important pillar within the ICZM framework is the comprehensive approach to multi-stakeholder participation and engagement. The feasibility study describes the various stages of the ICZM planning and implementation process, where multi-stakeholder engagement and consultations will be integrated.

49. The ESMF describes a two-tier complaints register and grievance redress mechanism composed of a village or Markaz-level and a national-level mechanism that will be made accessible to the stakeholders and potentially affected communities. The communities and stakeholders will be made aware of such a mechanism, including the process of lodging complaints and concerns on the project. The ESMF described the strategy and principles of complaints register and grievance redress, including the responsibilities of the Safeguards Officer of the Project Management Unit. Community project implementation committees and grievance redress committees composed of various members of the communities, including women and youth and representatives of local governments, will be formed to oversee the grievance redress mechanism.

50. The ESMF identified the budget prepared for the implementation of the ESMF, which includes ESMF updating and auditing, various monitoring regimes, including provisions for continuing ecological monitoring, water and sediment field and laboratory testing, continuing stakeholder engagement and resources for establishing and maintaining the grievance redress mechanism.

## 4.2 Gender policy

51. The proposal contains a comprehensive gender and social assessment; therefore, it complies with the operational guidelines of the GCF Gender Policy and Action Plan. The proposal also contains a gender action plan with activities, indicators and targets.

52. It is recommended that the accredited entity include more indicators with sex-disaggregated targets in the logic framework to strengthen provisions for the adequate monitoring and reporting of gendered results at the project level. For example, women's active leadership in ICZM planning can be shown as a key intermediate result area in the logic framework.

53. The proposal refers to the development of an ICZM plan for the entire northern coast of Egypt. The accredited entity is encouraged to ensure that stakeholder consultations in the

preparation of the ICZM plan allows for the equal participation of women and men of all ages and takes into serious consideration the varying levels of literacy between women and men. The accredited entity should identify ways to promote women's full participation, decision-making and leadership in ICZM planning activities. Examples of how this can be done include: a) the use of participatory resource management techniques that stimulate the participation and leadership of women; b) the provision of adequate training and awareness-raising on gender, involving all stakeholders, and the provision of periodic 'refresher' training; c) creating role models for women, encouraging leadership and promoting gender equity; and d) introducing and implementing a robust gender monitoring system in ICZM planning that is well understood, simple to use and well maintained.

54. ICZM planning is not just about creating shoreline infrastructure and engineering solutions. It also requires softer approaches like, for example, making local populations and national authorities aware of the broader implications of environmental protection and climate change adaptation. It is, therefore, recommended that the accredited entity work with relevant authorities and communities to promote awareness at all levels of government and community about the concepts of climate change, sustainable development and the significance of environmental protection. Such an approach is proactive (i.e. it incorporates a development planning element) rather than reactive (i.e. waiting for development proposals before taking action). Women, men, and youth from affected areas can, and should, participate and/or take up a leadership role in spreading awareness on environmental issues.

55. The proposal mentions that a regulatory and legislative framework will emerge from the ICZM plan development process and that this will be gender-responsive in that it will be based on stakeholder participation plans that include equitable representation of women and men in the development of the ICZM plan. Solutions to gender equality and inclusion in coastal management, or, for that matter, in any other sector come not so much from a top-down, regulatory approach as from the grass-roots level, which – for the most part – is context specific. Skewed gender systems also determine to a very large extent uneven power relations between men and women in the context of access and utilization of resources, assets and built infrastructure. Best practice examples show (something the accredited entity should demonstrate) that the pursuit of common goals and dialogue, social innovation and behavioural change, participation and collaboration results in the breaking down of barriers based on prevailing traditional gender paradigms and responses that suit the differential needs of women and men in the context of sustainable and environmentally sound infrastructure/services.

## 4.3 Risks

### **Project-level risks (medium risk)**

56. Inconsistency of government interventions on the northern coast: Egypt has no overarching resolutions that provide guidance on the methodology used to assess its coastal threats. It has demonstrated inconsistent institutional coordination in building coastline resilience to sea level rise impacts, as several different approaches are implemented (heavy infrastructure vs. mangroves) for interventions on the coast. Unless consistent guidance is given by the government, there will be a significant probability of decreased effectiveness of interventions.

57. Complex project governance: the project will rely on the coordination of several government agencies; however, the schedule of activities is not fully detailed. It is recommended that a clear disbursement schedule, linked to the costs breakdown and the milestones foreseen for the project, be provided to the GCF.

### **Accredited entity and executing entity capacity to execute the project (medium risk)**

58. UNDP specializes in sustainable development, disaster resilience and governance. It has a relatively successful track record in implementing mitigation and adaptation projects in developing countries. The funding proposal provides sufficient details on how UNDP will carry out its responsibilities in programme supervision and reporting of milestones to the GCF.

59. The executing entity and implementing partners targeted in the programme lack sufficient institutional capacity for implementation. The track record of similar projects executed by MWRI and the other partners (Coastal Research Institute, SPA, etc.) lacks sufficient details to assure reliability of performance at this point in time.

**Project-specific execution risks (medium risk)**

60. Economic viability (high risk): the rationale and the assumptions underlying the net present value and internal rate of return calculations and the related assumptions are unclear; a sensitivity analysis of the results has not been provided. For example, the project assumes that the interventions will produce benefits for 27 years (until 2044) without offering a clear explanation on how this time frame was calculated. The responsible parties to implement the operation and maintenance programme are not defined and a plan to manage this programme for the 27 years (as reported by the economic model) has not been provided. The differences between the scenarios and the assumption of 35 per cent additional benefits coming from the project are also unclear.

61. Funding structure (medium risk): given the strategic importance of the project for the country, the split GoE ~70 per cent and GCF ~30 per cent (grant) seems balanced. A reimbursable grant or a concessional loan could be considered given the project potential to avoid large losses for Egypt. On the other hand, it is noted that GoE relies exclusively on international grants (not loans) for coastal protection related to climate change adaptation. Given the non-revenue generating nature of the project, loan financing is not considered by GoE. The cash co-financing by GoE (soft coastal protection construction) covers the estimated costs that would have been incurred nonetheless (e.g. site preparation, engineering drawing development, etc.), leaving the GCF grant for the specific adaptation interventions of output 1.

**GCF portfolio concentration risk (medium risk)**

62. In case of approval, the impact of this proposal on the GCF portfolio concentration remains non-material.

**Compliance, anti-money laundering and countering the financing of terrorism (low risk)**

**Recommendation**

63. It is recommended that this funding proposal be approved by the Board.

Summary risk assessment	
Overall programme	Medium
Accredited entity/executing entity capability to implement this programme	Medium
Project specific execution	Medium
GCF portfolio concentration	Medium
Compliance	Low

## 4.4 Fiduciary

64. The project will be implemented following the UNDP National Implementation Modality (NIM) according to the Standard Basic Assistance Agreement between UNDP and GoE with specific letters of agreement between MWRI and the relevant agencies for the implementation of the project.

65. As the executing entity, MWRI will be accountable to UNDP for managing the project, including the monitoring and evaluation of project interventions, achieving project outcomes and for the effective use of GCF resources. MWRI is required to implement the project in compliance with UNDP rules and regulations, policies and procedures, including the NIM guidelines, which include fiduciary and procurement related requirements.

66. During implementation, UNDP as the accredited entity will provide GCF-specific oversight and quality assurance services in accordance with its policies and procedures, and any specific requirements in the accreditation master agreement (AMA), including day-to-day oversight supervision, oversight of project completion and oversight of project reporting.

67. All GCF resources will be made available to the executing entity under the NIM, less any agreed cost recovery amount. In this particular project there will be no advance or cash transfer to the government but disbursement will be done through direct payment requests. Any additional requirements will be as in accordance with the FAA as and when it is agreed.

68. The project will be audited in accordance with UNDP policies and procedures on audits, informed by and together with any specific requirements agreed in the AMA. In accordance with the current audit policies, UNDP will be appointing the auditors.

## 4.5 Results monitoring and reporting

69. As an adaptation intervention, in section E.1.2 the proposal reports the value of the core indicator “Expected total number of direct and indirect beneficiaries” with gender disaggregation. The estimated number of direct beneficiaries is 768,000 people and the estimated number of indirect beneficiaries is 16.9 million people. The methodology used for determining direct/indirect beneficiaries was not fully reported.

70. Regarding the logic framework section, the proposal partially aligns with the climate results and indicators of the performance measurement framework (PMF) of the GCF. Although the accredited entity chose result 1.0 and result 3.0 in section A.1, no indicator for result 1.0 is provided in the logic framework. It was noted that impact level indicator 1.1 could be considered as “agricultural assets to coastal flooding damage in hotspot locations in Nile Delta”. For the other result, result 3.0, impact level adaptation indicator 3.1 needs reformulation with the original language of the GCF PMF and as per the GCF PMF, and an additional report on baseline/targets as to the value of physical assets made more resilient to climate variability and change is needed. The mid-term target was also not reported and no justification is provided as to why it is marked as not applicable (its construction starts in year 2). The outputs provided in the logic framework do not encompass all its subordinate activities. For some outputs, the unit of measure of the indicator does not match with that of the baseline/targets reported, while the current layout at output level makes cross-checking the indicator and its associated baseline/targets difficult. In addition, it is hard to ascertain clear progress between baseline, mid-term target and final target. Quantification is recommended not only for baselines/targets of the indicators proposed but also for inputs, to the extent possible. It is recommended that the accredited entity revise the logic framework to ensure result management at the project level and the fund level as well as to show a clearer cause-effect relationship.

71. While the arrangements for monitoring and reporting are provided and appropriate, it was noted that the timing of the interim independent evaluation provided in section H.2 is not synchronized with the information projected onto the implementation timetable/plan in section C.8/annex X.

## 4.6 Legal assessment

72. The AMA between the GCF and UNDP was signed on 5 August 2016 and became effective on 23 November 2016.

73. UNDP has provided a certificate dated 5 June 2017 confirming that it has obtained all final internal approvals to implement the project.

74. The proposed project will be implemented in Egypt, a country in which the GCF is not provided with privileges and immunities. This means that the GCF is not protected against litigation or expropriation in this country.

75. The GCF is exposed to litigation risk in Egypt. Risk of expropriation needs to be further assessed. Furthermore, the independent Redress Mechanism and the independent Integrity Unit have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations, to the fullest extent envisaged in the Governing Instrument for the GCF and Board-approved terms of reference, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF be made only after the GCF has obtained satisfactory protection against litigation and expropriation in Egypt, or has been provided with appropriate privileges and immunities.

76. In order to mitigate risk, it is recommended that any approval by the Board be made subject to the following conditions:

- (a) Execution of all required legal documentation in form and substance satisfactory to the Secretariat; and
- (b) Completion of legal due diligence to the satisfaction of the Secretariat.

## Secretariat's review of FP 054

Proposal name:	Implementation Project of the Integral Management Plan of the Lujan River Basin
Accredited entity:	Corporación Andina de Fomento (CAF)
Project/programme size	Large

### V. Overall assessment of the Secretariat

1. The funding proposal titled "Implementation Project of the Integral Management Plan of the Lujan River Basin" is presented for the consideration of the Board with the following remarks:

**Table 1. Summary of strengths and points of caution**

Strengths	Points of caution
The project's structural and non-structural elements have been well integrated in response to a problem with clear climate dimensions (flooding of the Lujan River Basin)	The knowledge dissemination subcomponent (5.3), the only part of the project to receive GCF grant funding, would benefit from greater clarity on how experiences and lessons learned can be shared beyond the project
GCF low-concessional lending will go towards clear climate change related measures for adaptation, while other co-financiers will finance more traditional measures	
As part of the project implementation, broad and comprehensive stakeholder consultations will increase engagement with local people, civil society organizations and non-governmental organizations	

2. Project-specific terms and conditions are listed in the term sheet and the addendum titled "List of conditions and recommendations", for the consideration of the Board.

### VI. Summary of the Secretariat's review

#### Project background

3. Argentina's Province of Buenos Aires (PBA) has suffered increasingly intense rainfalls, which have impacted and continue to impact the Lujan River Basin, which surrounds the PBA metropolitan area. Flooding has increased, presenting economic and social challenges for PBA and the basin area.

4. Flooding in the basin has multiple drivers, including the basin's physical characteristics (slope and shape of the basin, water-storage of the soil and water conveyance of the river) and anthropogenic factors (land-use changes and urbanization), in addition to climate change drivers (increasingly frequent and intense rainfall).

5. In response to these challenges, the PBA Government has developed the Lujan River Comprehensive Plan to increase climate resilience to flooding in the basin. As part of the plan, this project has been developed. The project proposes measures designed to reduce or prevent river flooding, as well as control stream-flows and mitigate the impact of floods in the Lujan River Basin.

6. The project follows an integrated project approach combining structural measures together with non-structural measures. Project components are as follows:

- (a) Component 1: Engineering studies and other studies;
- (b) Component 2: Water conveyance works – enlargement of the river channel and of water retention basins;
- (c) Component 3: Construction of the retention basins and replacement of lock gates;
- (d) Component 4: Works for the replacement and enlargement of bridges;
- (e) Component 5: Environmental and land-use issues;
- (f) Component 6: Early warning system;
- (g) Component 7: Strengthening, supervision and auditing; and
- (h) Component 8: Administrative costs for CAF financing.

7. Structural measures are expected to increase the water-conveying capacity of the Lujan River. Related structural measures to increase water retention are planned along with non-structural measures such as land-use management enhancement, development of an early warning system and strengthening of a recently created Committee of the Lujan River Basin.

8. The total project cost of USD 315.3 million makes this a large project by the GCF project size category definition. The proposed financial structure requests a low-concessional loan from GCF to the PBA, backed by a sovereign guarantee, for an amount of USD 56.96 million plus a grant request of USD 1.57 million. GCF co-financing represents 19 per cent of the total project cost.

9. Co-financing is provided by PBA (29 per cent of total project cost) and CAF (52 per cent). PBA co-financing, while listed in the proposal as equity, is a contribution through PBA's own budget and tax reduction. CAF's co-financing of USD 164.9 million will be provided to PBA as a concessional loan. CAF approved USD 100 million of its concessional loan package in July 2016 and approved a second concessional loan funding tranche of up to USD 120 million in July 2017.

### Component-by-component analysis

10. **Component 1** (total component cost: USD 1.2 million; requested GCF funding: USD 0; GCF funding as a percentage of total component cost: 0 per cent) finalizes the detailed engineering designs for the structural measures of Components 2, 3 and 4. The component is necessary to prepare the tender documents to begin the engineering works.

11. The project's second, third and fourth components set in place the project's structural measures. The financing requested from GCF reflects the incremental cost of climate change of the different components.

12. **Component 2** (total component cost: USD 205.3 million; requested GCF funding: USD 10.3 million; GCF funding as a percentage of total component cost: 5 per cent) enlarges the river channel and water retention basins. GCF resources contribute to the substitution of inflatable dams for lock gates, which is an adaptive measure to cope with flooding and to increase resilience. CAF and PBA finance the other water-conveying works, the enlargement of river channels, under the component.

13. **Component 3** (total component cost: USD 48 million; requested GCF funding: USD 37 million; GCF: 77 per cent) constructs the retention basins, which represent a new approach to flood management in the Lujan River Basin. The retention basins will permit increased infiltration and water retention, thereby reducing the impact of more recurrent and strong precipitation events and increasing the resilience to climate change downstream in the basin.
14. **Component 4** (total component cost: USD 22.6 million; requested GCF funding: USD 0; GCF 0 per cent) replaces and enlarges bridges.
15. Non-structural measures, the fifth, sixth and seventh components, are well designed and complement the structural measures. The scope of activities under these components is relatively large and complex.
16. **Component 5** (total component cost: USD 17.5 million; requested GCF funding: USD 3.6 million; GCF funding as a percentage of total component cost: 21 per cent) contains two main groups of activities: environmental and land use measures; and support to the recently established Committee of the Lujan River Basin (COMILU):
- (i) *Environmental and land use measures:* As part of its core project responsibilities, COMILU must comprehensively review municipalities' land-use plans and elaborate any necessary adjustments for inclusion to the Lujan River Master Plan. As a result of a comprehensive land-use planning, boundaries for public domain, private property and flood zones will be determined, all which may be subject to administrative restrictions or even easements. GCF is not requested to co-finance the environmental and land use measures (USD 13.3 million; USD 0; GCF 0 per cent); and
  - (ii) *Support to COMILU:* GCF financing will support COMILU in the implementation of its project responsibilities. The level of financing to support COMILU in subcomponent 5.2 (USD 2.6 million; USD 2 million; GCF 77 per cent) in the form of a GCF concessional loan is reasonable taking into account the critical role played by COMILU in implementing critical land-use activities in component five. In addition, COMILU will be responsible for building a knowledge creation and dissemination platform in subcomponent 5.3 (USD 1.57 million; USD 1.57 million; GCF 100 per cent) to share lessons and enhance replication potential. This subcomponent is the only activity that is proposed for GCF grant financing, and the amount and the instrument are acceptable given the strong interest of the GCF to promote behavioural change. However, the communication and dissemination strategy are unclear.
17. **Component 6** (total component cost: USD 10.7 million; requested GCF funding: USD 7.5 million; GCF funding as a percentage of total component cost: 70 per cent) will upgrade early warning systems and integrate them into the Provincial Early Warning System. This component has a strong climate change adaptation rationale and is adequately justified for GCF financing.
18. In addition to the technical components, the project will finance two additional components:
19. **Component 7** (USD 8.5 million; USD 0; 0 per cent) contains project management costs, which represents a reasonable 2.7 per cent of total project costs, to cover equipment and expertise for the technical, social and environmental supervision of the project works, as well as an external audit of the project. Component 8 (USD 0.9 million; USD 0; GCF 0 per cent) covers the evaluation expenses and funding fees of CAF's loan and is fully financed by CAF.

## Summary of the review

20. The project's components have been thoughtfully considered and soundly supported from a technical perspective. Climate change considerations have been thoroughly integrated into project design in both the structural and non-structural measures. The substitution of inflatable dams for lock gates in Component 3 specifically takes climate change into account, because the feasibility study explored other technical options and chose the design based on technical and climate considerations. The project has been well-formulated by integrating in its design hydrological mathematical modelling and assessment of different options and trends.

21. The requested level, instrument and concessionality of GCF financing are reasonable in light of the strong climate change rationale of the proposed GCF interventions and the strong co-financing commitment from CAF and the PBA. GCF is being requested to finance the incremental cost of the adaptation interventions with a concessional loan on low-concessionality GCF terms.

## VII. Assessment of performance against investment criteria

### 7.1 Impact potential

*Scale: High*

22. The project will significantly contribute to increased climate resilience in the Lujan River Basin in response to three key drivers of basin vulnerability: climatic, physical and anthropogenic. The project proposes measures to address these drivers, and the impact potential of GCF funding to address strengthen climate resilience is high.

23. The project is expected to perform well against GCF's results indicators relevant to impact potential, particularly its contribution to increased resilience of infrastructure and the built environment. The project will significantly contribute to increasing the resilience of more than 2.8 million people (1.6 million direct and 1.2 million indirect beneficiaries) representing 16.7 per cent of the population of PBA.

24. For the structural measures, project results will be tangible during project implementation. Achievement of expected results for non-structural measures is not guaranteed. Long-term results from land-use planning measures will depend on compliance with the plans and boundaries, including in flood-prone areas, after the project implementation period.

25. Potential externalities such as maladaptation risk in other areas have been assessed from a hydrological perspective. Hydrological studies on the cumulative effect of the structural measures of the project confirm that water transfer between the Lujan River and the Parana de las Palmas River will not result in maladaptation. From a safeguards perspective, the possible resettlement as a result of the new delimitation of flood-prone areas and protected areas presents a risk of maladaptation. The project must ensure that measures and actions to ensure that the resettled population and/or assets will not face maladaptation (i.e. resettling vulnerable people in possible flood-prone areas).

### 7.2 Paradigm shift potential

*Scale: Medium*

26. The project is well-formulated with structural and non-structural measures, and is expected to contribute to paradigm shift in the Lujan River Basin. In some aspects the project takes a business-as-usual approach, but in others it incorporates elements that promote paradigm shifting elements, including land-use planning, early warning systems and the enhanced role of a basin committee.

27. Nevertheless, additional non-structural upstream measures could have enhanced paradigm shift potential. Such upstream measures could have included:
- (a) Reducing run-off and increasing infiltration through basin production diversification, spatial-temporal land-use considerations and measures to increase soil organic material;
  - (b) Guaranteeing the enforcement of land-use planning measures for compliance with plans and boundaries, including those for flood-prone areas; and
  - (c) Engaging with the private sector, particularly with agriculture producers, real estate companies and others, with outreach events embedded in a communication strategy of best practices.
28. The project's potential for scaling up and replication is moderate. In order to maximize the potential replicability of the approach, the subcomponent on knowledge and learning (5.3) will identify potential basins for replication of key structural elements of the project. While this activity is justifiable as a basis for GCF funding, the proposal fails to clearly articulate the approach and expected impact. Scalability and replicability potential may increase later depending upon the effectiveness of the study to identify potential sites and communicating the findings.
29. The innovative features of the project are somewhat limited, but GCF will co-finance the relatively more innovative measures in the project. Development of areas for temporary retention of surplus water and the substitution of inflatable dams for lock gates in Component 3 is innovative in the sense that previous projects in the basin were too focused on water-conveying measures, neglecting water retention measures. The more significant innovation is operationalization of COMILU, the river basin committee with an expanded mandate for stakeholder engagement and land-use planning. The expanded mandate of COMILU makes it relatively innovative compared with other national river basins committees.
30. Sustainability of project results is difficult to assess. The reinforcement of the institutions responsible for project outputs, such as COMILU, and the identification of the agencies responsible are not detailed enough to evaluate the sustainability of outcomes. Operation and maintenance (O&M) costs, assessment of the O&M capacities and other key aspects are not presented. CAF will develop an O&M plan as detailed engineering designs are finalized, and this plan should be shared with the Secretariat.

### 7.3 Sustainable development potential

*Scale: Medium*

31. Environmental co-benefits are not particularly well documented in the proposal, which cites the number of hectares benefited by early warning systems and the reduction of hectares considered as flood plains. Though not discussed and quantified in the funding proposal, the establishment of protected areas and the reduction of wetlands encroachment are expected to deliver positive environmental co-benefits, particularly on biological conservation.
32. The proposal's discussion of economic benefits in the avoidance of damages resulting from floods reduction is generic, making reference to damage reduction of assets, services, urban infrastructure and historic and architectural heritage of places. A more precise estimation of economic benefits is difficult to quantify.
33. Based on the flood recurrence assumptions made, the expected reduction of losses as a result of the project is significant, between 55 and 60 per cent. This reduction in expected losses represents avoided damages of USD 52–72 million. From a social co-benefits perspective, the reduction of floods will improve beneficiaries' quality of life through a reduced disruption of access to social facilities.

## 7.4 Needs of the recipient

*Scale: Medium*

34. People and assets, particularly on the lowland areas of the Lujan River Basin, are significantly exposed and vulnerable to flood risk, driven in part by climate change factors. Poverty levels within the project area are significantly higher than in other parts of the Province, with 11.4 per cent of households in the basin having at least one indicator of unsatisfied needs. In the rest of the PBA, this figure stands at 8.2 per cent, thus showing a relatively stronger need in the local context.

35. Moving from the project area to a higher level, GCF funding is needed and justified from the climate change perspective. It has not been confirmed that other sources of financing at less concessional terms could not be found, but the match between needs, concessional terms and climate change rationale is adequately justified.

36. In terms of the need to strengthen institutions and implementation capacity, the project proposes resources to strengthen the recently established COMILU, in light of their limited experience. A detailed capacity assessment has not been prepared. The new legal authority given to COMILU to formulate environment policies, issue land-use plans and oversee expropriation and resettlement are well identified as a key factor for establishing the regulatory framework and policies needed to achieve a paradigm shift. Corresponding action plans or mechanisms to achieve those results are not clear at this stage.

## 7.5 Country ownership

*Scale: Medium to High*

37. The project is aligned with the priority adaptation measures presented under Argentina's national communications to the United Nations Framework Convention on Climate Change (UNFCCC) and fully responsive to the adaptation component of Argentina's intended national determined contribution, particularly with regard to early warning systems and structural and non-structural measures to address extreme climate events. The project is also aligned with Argentina's National Strategy on Climate Change, which calls for "infrastructure planning and strengthen[ing] the systems of monitoring, measurement and modelling of environmental variables" especially in the hydrological and meteorological sectors.

38. The project is well integrated into the institutional framework of PBA and adequately uses and strengthens existing bodies.

39. CAF, the accredited entity (AE), has significant experience with projects in Argentina, with an expected annual approval of USD 500 million. CAF has a field office in Argentina and the requisite staff to oversee project implementation, particularly for the structural measures. For the non-structural measures, evidence of internal capacity to oversee and to provide advice to the executing entity and responsible parties have not been provided.

40. The Executing Entity, the Subsecretariat of Finance of the Ministry of Economy of the Province of Buenos Aires, will work with the Ministry of Infrastructure and Public Services of the PBA, which itself has the adequate experience and capacity for the civil works. For the non-structural measures, COMILU's capacity is less known but the project has built in reinforcement of the committee as a sub-component.

41. Stakeholder engagement has been conducted through consultations with a range of stakeholders. Analysis of stakeholder consultations is contained in the section on environmental and social safeguards (section 8.1) below.

## 7.6 Efficiency and effectiveness

*Scale: Medium to High*

42. The amount requested is reasonable and justified taking into consideration the scale of the project, the co-financing and the comprehensive activities that will be implemented. The proposed instrument, a concessional loan from GCF, is in line with the proposed instrument from CAF, a concessional (though less concessional) loan. The level of concessionality is adequate and justified, as it is a public sector project at the lowest GCF concessional level to cover the incremental cost associated with climate change.

43. The economic model shows that the project expects an economic internal rate of return (EIRR) of 20.2 per cent (net present value (NPV) of USD 116 million). The results of the sensitivity test provided by the AE are consistent. The model was stress-tested with increase in investment cost (10, 25 per cent), a decrease in the level of expected benefits (10, 25 per cent) and a combination of the two variables (10 per cent, 10 per cent). The results of the stress tests still show a reasonable economic return.

44. In terms of applying best practices, a thoughtful set of options has been assessed during the feasibility phase of the project. However, those options were focused on the structural measures. The incorporation of non-structural measures is the result of lessons learned from previous project experiences in the Lujan River Basin and additional efforts to increase the potential paradigm shift. In addition, technical lessons learned are also identified on the approach to flood management by integrating water retention measures as a complement to the classic water-conveying measures.

## **VIII. Assessment of and consistency with the safeguards and policies of the GCF**

### **8.1 Environmental and social safeguards**

45. The programme was considered by the AE as having moderate environmental and social risks and impacts, equivalent to Category II of its environmental and social risk classification. The project will implement the integrated management plan for the Lujan River Basin and will involve approaches to preventing floods in the basin through a combination of structural and non-structural activities. The environmental and social impacts associated with the activities that will be supported by the GCF are likely to be moderate considering that the impacts will be contained within the development footprint, reversible and mitigated through industry standard practices. The structural flood prevention activities proposed for GCF support and expected to generate risks and impacts include: the construction water retention basins (Component 3) and the substitution of lock gates with inflatable locks (subcomponent 2.7). Non-structural flood prevention activities proposed for GCF funding are not expected to have direct environmental and social impacts; however, these activities may have implications on environmental and social safeguards applications, for example on land acquisition and involuntary resettlements. Considering the other components of the project including those not supported by the GCF, the overall risks and likely impacts of the project are likely to be moderate, localized and temporary in nature resulting mostly from construction activities. The due diligence by the GCF Secretariat confirms the environmental and social risks and impacts of the proposed project taking into account the scale of the activities and the nature of these risks and impacts. The key environmental and social issues considered were those related to land use and rights, potential restriction of access to natural resources, natural habitats and natural resources management, management of waste and spoils, and construction-related risks and impacts.

46. The AE provided an environmental and social management framework (ESMF) describing the due diligence process that will be undertaken by the AE and the implementing

entities. The ESMF presents the risk management processes such as the environmental and social screening and assessment of subprojects, development and implementation of mitigation measures, compliance of local and national policies and regulations, monitoring and reporting of results, community relations and grievance management. As the locations and activities have yet to be detailed, the specific environmental and social impacts assessments (ESIAs) and environmental and social management plans (ESMPs) will be undertaken by the contractors taking into account the final configuration of the right-of-way, easements and other considerations including government requirements and the views and inputs of the communities and stakeholders. To support the ESMF, the AE provided the GCF with the result of its environmental and social due diligence through an assessment document. The due diligence by the AE indicated that involuntary resettlement would be unlikely because this will be actively avoided by the project. However, should involuntary resettlement be unavoidable and necessary, the resettlement process shall be governed by the resettlement policy framework (RPF) provided by the AE that describes the specific steps to be taken to manage such risks, including the formulation of resettlement action plans.

47. The programme will be implemented in the PBA. The scale and scope of the proposed structural activities are considered limited, and consist of activities identified in the Lujan River integrated master plan. The key prevailing environmental and social settings of the project and the types of activities that are likely to generate environmental and social risks and impacts are described below.

48. **Involuntary resettlement.** The due diligence conducted by the AE identified the activities that may potentially generate impacts related to land acquisition or resettlement (although the AE anticipates the probability to be low). Two activities that may result to involuntary resettlement were identified as: (a) the acquisition of lands that may be needed by the project's structural solutions (enlargement of canals, bridges, retention infrastructure), although due diligence by the AE indicates that resettlement will be avoided in the course of implementing the works; and (b) delineation of river bank boundary and land-use planning where there is recognition of a potential, although relatively small likelihood, of resettlement from the delineation of the river bank boundary. The determination of the identified communities that may be potentially affected by the project will be undertaken during the detailed due diligence of the activities. The RPF describes the processes to meet the local, national and entity requirements related to involuntary resettlement that are also consistent with the requirements of the GCF environmental and social safeguards standards. The RPF identified the processes and requirements related to involuntary resettlement due to project activities, where such situations arise, including restriction of access to natural resources leading to economic displacement. The RPF anticipates any physical and economic displacement of people and asset loss or access restriction due to the activities of the project. The principles, elements, design considerations, implementation, and monitoring of resettlement and livelihood restoration activities and plans are described in the RPF.

49. **Natural habitats.** The AE identified two ecologically important areas within the project area: the Otamendi Natural Reserve and the Arroyo Balta Natural Reserve. The works related to the Lujan River as it drains into the Parana de las Palmas River will include the rehabilitation of the Santa Maria Canal that runs through the Otamendi Natural Reserve, either through the widening of the existing canal or through a parallel channel. Approximately 2 km of the 7 km long Santa Maria canal pass through the Otamendi Natural Reserve, also designated by the Government as an internationally important conservation site under the Convention on Wetlands of International Importance especially as Waterfowl Habitat of 1971 (Ramsar Convention). The Otamendi Natural Reserve was created in 1990 through a national executive decree, while the Santa Maria canal is a channel built in 1966 to drain excess rainwater to the Paranas River. The PBA is coordinating with the National Protected Areas Administration on the

integration in the specific due diligence of the works on the Santa Maria canal, including the conditions and management plans to avoid damages to the natural reserve and to enhance the drainage effectiveness while maintaining the ecological/ecosystem services of the area. The detailed ESIA and ESMP of the works related to the Santa Maria canal will include the conditions provided by the National Protected Areas Administration as well as the stakeholder engagement related to the natural reserve.

50. **Construction-related impacts.** The structural component of the project involves activities such as civil works, earth moving, and removal of sediments and desilting. Impacts related to these activities include temporary restrictions to traffic, ambient noise elevation, generation of waste including contaminated waste and general community nuisance, among other things. The management of these risks and impacts will form part of the obligations of the contractors. Similarly, risks related to the influx of migrant labourers, community health and safety, and occupational health and safety will be managed through the construction environmental and social management plan.

51. **Cultural heritage.** The initial assessment by the AE indicates potential cultural, archaeological and paleontological properties in the project area. Consultations with civil society also confirm the cultural properties and heritage of the area, including old bridges located on the project site. The assessment, management, conservation and procedures for the chance finding of cultural properties of specific sites will be undertaken as part of the more detailed ESIA and ESMPs of the works.

52. The project will be implemented through the current structure of the provincial government of Buenos Aires. Specifically, the implementation will involve the various units of the local government including those related to finance, infrastructure and public services, coordination unit for civil works, technical and environmental inspection works, and financial audit. The river basin body, COMILU, has also been established to coordinate the implementation of the integrated management plan and to support the necessary policy and regulatory framework. The PBA has extensive experience in programmes supported by international financial institutions and multilateral organizations, including those related to water and sanitation. The Work Project Coordination and Execution Unit (UCEPO) of the Ministry of Infrastructure will be responsible for the adequate management of environmental and social safeguards of the project. UCEPO will have the role of supervising compliance with local regulations and applicable policies. An Environmental and Social Management Team formed within UCEPO will coordinate the implementation of the ESMF and the corresponding ESMPs of each work. Included as a GCF-supported component of the project is the strengthening of COMILU, to further enhance its skills to manage environmental and social risks.

53. A series of meetings were held from 2015 involving the specialists working on the environmental and social assessments, the Advisory Commission on the Lujan River Basin, and in 2016 with the COMILU. The consultations conducted in 2015 were framed on the environmental studies related to the Integrated Master Plan for the Lujan River. In 2016, COMILU conducted a series of meetings in three of the municipalities within the basin. In August 2017, the PBA and the AE conducted further consultations with the key stakeholders of the project including local and national government, academe, civil society, neighbourhood associations, real property sector representatives, and the advisory and basin organizations. The consultations yielded various concerns and issues related to the overall design of the project, the basis of design, relocation issues, issues around the natural reserve, environmental quality and recommendations for further studies and considerations. The PBA and the CAF have taken note of the issues and concerns and committed to integrating these into the detailed ESIA and ESMPs of the relevant works. The proposal highlights the intention of the Integrated Master Plan to conduct continuing consultation and stakeholder engagement in the area of influence of the project. The ESMF provided a community relations plan that will apply to the relevant

components and included a strategy for citizen participation and engagement. Further detailed consultations related to the subproject will be undertaken as part of the due diligence and included in the specific ESIA and ESMPs.

54. A programme-level grievance redress mechanism will be established and implemented by the micro-region associations and supervised by the AE. The steps and ways for filing claims and grievances are presented and include letters and complaint boxes, telephone, emails and regular meetings. The grievance redress mechanism will be disseminated to the communities through various communication and outreach activities. The procedures for evaluating concerns, responding and resolving grievances, and monitoring are also described.

## 8.2 Gender policy

55. The proposal contains a gender assessment which describes gender-related policies, legislation, laws and regulations in the PBA or at the national level. Therefore, it complies with the operational guidelines of the GCF Gender policy and action plan. The proposal also contains a gender action plan.

56. Below are some recommendations that might help to make the project more gender responsive:

57. A number of construction activities will be undertaken as flood proofing/control measures. These are water retention works, the replacement and expansion of bridges, and works on the enlargement of the river channel at strategic points/intersections. There is ample scope for women and youth from the project footprint area to be provided employment opportunities with equal pay for work of equal value. It is advised that, apart from ensuring equal and fair wages for women, the AE should implement the principles of 'decent work', that is: safety and security in the workplace; social protection for workers and their families; better prospects for personal/professional development; social integration; and equality of opportunity and treatment for all women, men and youth working in various capacities under this particular component. The project developers should also provide separate sanitary and make-shift child care facilities for women on construction sites;

58. Inappropriate environmental management practices have degraded natural ecosystems along the Lujan River Basin and its catchment areas. These practices include deforestation, agricultural expansion into vulnerable areas, and rapid urban development. Degraded ecosystems are therefore less capable of acting as a buffer against the effects of flooding. It is therefore advised that the project puts in place a social forestry scheme, wherein the Government and local communities come together to increase afforestation efforts in the upper and mid-catchment areas of the Lujan River;

59. Uncontrolled run-off, under- or over-irrigation, soil erosion or degradation, and deforestation occur mainly due to lack of community-level involvement in the control and management of river waters, especially in the upper catchment areas. It is advised that the project takes a community-driven watershed approach to ensure increased water holding capacity, to check soil erosion and to increase water infiltration. A few watershed-related measures that could be considered include: construction of check dams; construction of farm (or local) ponds; construction of earth embankments; construction of rock dams; construction of vegetative and stone barriers; construction of silt tanks; plantations; grassland farming; pasture cropping; and strip cropping. Women play an important role in the development and management of watershed-related activities because they are – for the most part – directly involved in the management of natural resources, and their participation is indispensable for the effective implementation and equitable distribution of the benefits of watershed management. Accordingly, it is advised that the following measures are introduced by the AE to

ensure women’s more effective participation in the proposed watershed management component: (a) preparation of a watershed plan with an understanding of gender needs and gender-responsive implementation strategies; (b) developing watershed plans on the basis of existing use and dependence pattern; (c) reformulation of watershed guidelines to specify mechanisms for institutional arrangements for the involvement of the poor and women; (d) development of micro-credit /women’s self-help groups; (e) shifting the focus from watersheds to a community-led (and more holistic) livelihood development plan; and (f) and organizing gender sensitization programmes.

## 8.3 Risks

### Project/programme-level risks

60. The first-level risk assessment described in the funding proposal is focused on the operational, technical, environmental and social aspects and the performance of the executing entity in the implementation and delivery of the project. These risks have been identified and assessed in a comprehensive manner and the AE has displayed appropriate mitigation measures to address each one. However, there is a risk factor related to the country-related risk which should be highlighted.

61. GCF is assuming a high country risk. The AE has assured the GCF in the funding proposal that its “preference credit status” would benefit the GCF funding; thus mitigating this risk. Nonetheless, it is recommended that this assurance is included in the funded activity agreement between the GCF and the AE.

62. Economic viability: The AE provided an economic cost–benefit analysis that compares the investment cost and the potential economic benefit from flood damage avoided through this project. The EIRR of this project is 20.2 per cent, NPV of USD 116 million at a discount rate of 12 per cent. The AE ran a scenario test to find out the required investment for different levels of flood control and opted for ‘alternative 7’, which consists of bridges enlargement, medium channel enlargement and the development of areas for temporary retention of surplus water. The financial model shows that this project is economically viable under a stress-test with different scenarios, including 10.25 per cent increase in investment, 10.25 per cent benefits decrease and a combination of 10 per cent increase in investment and 10 per cent decrease in benefits.

63. Concessionality: Having taken into account that the GCF offers two types of concessional loan for the public sector, the AE and PBA requested a ‘low-concessionality’ loan of USD 56.96 million from the GCF, 0.75 per cent with a 20-year tenor and a 5-year grace period. Although the GCF is requested to provide more concessional pricing than the AEs, the requested concessionality can be justified because this project is a non-revenue generating adaptation one. The funding proposal also indicated that this is the first adaptation project in Argentina to be financed with reimbursable resources.

Summary risk assessment	
Strategic:	Low
Reputational:	Low
Operational:	Low
Compliance:	Low

Performance:	Low
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## 8.4 Fiduciary

64. The executing entity for the project will be the sub-secretariat of finance from the Ministry of Economy and the Ministry of Infrastructure and Public Services (MISP) in PBA. MISP will be technically responsible for the implementation and follow-up of the project operating through the Works Projects Coordination and Execution Unit (UCEPO).

65. CAF as the AE will follow provisions agreed in the accreditation master agreement (AMA), the funded activity agreement and their related policies. The AE will play a control role, both prior to and during the project implementation.

66. The project will comply with all CAF administrative and financial management standards, which are international standards. The project will submit the tender documents to CAF for review regarding compliance with the standard and guidelines. Prior to the first disbursement CAF funding requires the receipt of a project operative manual detailing all operative processes and setting out financial administrative aspects, including procurement processes.

67. Internal control function will be undertaken by the Comptroller General of PBA, while internal audit will be conducted by an independent third-party entity which will be contracted solely for the project. Financial reports will be audited in compliance with generally accepted accounting practices (GAAP) and presented to CAF in accordance with the stipulations of the loan agreement.

68. The banking arrangements for GCF funding will be independent handled by CAF and will comply with the CAF standards and agreement provided for in the AMA. As such, a separate bank account will be opened solely for GCF resources.

## 8.5 Results monitoring and reporting

69. As an adaptation intervention, the proposal reports in section E.1.2, the value of the core indicator “Expected total number of direct and indirect beneficiaries (reduced vulnerability or increased resilience), number of beneficiaries relative to total population (adaptation only)”. The number of beneficiaries is provided: 1.58 million direct and 1.21 million indirect. The proposal does not include a disaggregation of beneficiaries by gender.

70. Regarding the logical framework section, the proposal generally aligns with the climate results and indicators of the performance measurement framework (PMF) of the GCF, and the logic framework is satisfactory. However, further improvement could be made. PMF indicator 7.2 (Number of males and females reached by climate-related early warning systems and other risk reduction measures established/strengthened) is measured by economic/financial damages avoided, but does not include or measure the number of people reached. PMF indicators 5.1 and 5.2, meanwhile, would benefit from more quantified baselines and targets.

71. The arrangements for monitoring and reporting would benefit from additional detail. There is no mention of how the AE will comply with GCF specific reporting requirements. It is recommended that the AE provide details of the evaluation system of the AE and how it complies with the requirements set by the GCF monitoring and accountability framework.

## 8.6 Legal assessment

72. The AMA between the GCF and CAF was signed on 15 November 2016. However, the AMA is not yet effective as CAF has not delivered to the Fund the legal opinion/certificate which is a condition for the effectiveness of the AMA in accordance with Clause 2.02 of the AMA.

73. CAF has not yet provided a legal opinion/certificate pursuant to Clause 4.13(b) of the AMA confirming that it has obtained all final internal approvals to implement the project. According to section A.3 of the funding proposal, CAF expected to obtain such internal approvals on 30 March 2017.

74. The proposed project will be implemented in Argentina, a country in which GCF is not provided with privileges and immunities. This means GCF is not protected against litigation or expropriation in this country. The Secretariat has held meetings with the Argentine delegation during Songdo's Readiness Week in April 2016 and also with the Argentine New York Mission in October 2016, and a draft of the privileges and immunities agreement and a background note, both in English and Spanish, were sent to such representatives; however, no formal response has been received so far.

75. The GCF is exposed to litigation risk in Argentina. Risk of expropriation needs to be further assessed. Furthermore, the Independent Redress Mechanism (IRM) and Independent Integrity Unit (IIU) have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations, to the fullest extent envisaged in the GCF Governing Instrument and Board-approved terms of reference, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after the GCF has obtained satisfactory protection against litigation and expropriation in Argentina, or has been provided with appropriate privileges and immunities.

76. In order to mitigate risk, it is recommended that any approval by the Board is made subject to the following conditions:

(a) The execution of all required legal documentation in form and substance satisfactory to the GCF Secretariat;

(b) The completion of legal due diligence to the satisfaction of the GCF Secretariat; and

(c) The submission of a legal opinion/certificate in a form and substance that is satisfactory to the GCF Secretariat within 120 days after Board approval, confirming that CAF has obtained all final internal approvals needed to implement the project and it has the capacity and authority to implement the proposed project.

## Secretariat's review of FP055

Proposal name:	Poverty, Reforestation, Energy and Climate Change PROEZA Project
Accredited entity:	The Food and Agriculture Organization of the United Nations
Project size:	Medium

### I. Overall assessment of the Secretariat

1. The funding proposal is presented to the Board for consideration with the following remarks:

Strengths	Points of caution
Large scale of impact: The project is proposed to be implemented in 64 districts with an establishment of 50,700 hectares of climate-smart agroforestry and close-to-nature planted forests	The incremental contribution by public and private sources will need to be monitored and secured through performance disbursements
Performance-based funding from the GCF with a set of tangible activities as conditions for disbursement	Careful consideration and review needed in environmental and social assessment, as the project involves medium size plantations
The project will catalyses large public contribution for sustaining the project until positive cash flow is made by beneficiaries	The expected positive impacts of the environmental cash transfers need to closely monitored to achieve expected outcomes
Solid sustainability strategy of financing for continuing sustainable management of forests and long term impact	The estimation of sequestered emissions reductions will need to be revised according to the activities proposed since the expected use of the wood is for biomass with short rotation period, while the estimates assume timber production.
Linking beneficiaries in extreme poverty to bioenergy market	
Contributes to the implementation of the National Climate Change Action Plan, including REDD+	

2. The Board may consider approving this funding proposal with the terms and conditions listed in the respective term sheet and addendum XX, titled "List of conditions and recommendations".

### II. Summary of the Secretariat's review

#### Project background

3. The PROEZA project aims to benefit the poorest communities in the eastern Paraguay through providing financial incentives for afforestation and reforestation, and technical support for capacity building of the implementing partners. It will also support small and medium land owners in the regional bioenergy markets. The project seeks to foster the development of a sustainable value chain for firewood and charcoal and improve the country's energy efficiency. The project will build on REDD+ progress with inter-agency coordination.

4. The project is structured into three components: (a) “Planting the future” that will benefit poor and extreme poor households to establish climate-smart agroforestry production system and multifunctional “close-to-nature” planted forests; (b) Sustainable landscapes and responsible markets for medium sized landowners; and (c) Good governance and law enforcement for implementing partners, mainly government ministries.

5. The proposal provides climate benefits for mitigation and adaptation. Through afforestation and reforestation activities, the project will reduce, avoid and sequester 10 million tCO<sub>2</sub>eq over the 30-year lifetime.

6. The project requests USD 44.5 million of grant funding which is 39 percent of the total financing cost. Co-financing will be provided by four different government agencies. During the project implementation period, the project will leverage USD 74.1 million incremental funding from the government of Paraguay. GCF proceeds will be disbursed contingent upon the achievement of specific performance-based milestones.

### **Component by component analysis**

#### *Component 1 – Planting the future (Total Cost: US\$ 65.7M; GCF US\$ 40.9M, or 62%)*

7. The proposed interventions are assessed to be adequate and reasonable for target beneficiaries to overcome systematic barriers in accessing bioenergy market and credit lines. This component provides strong development benefits. As a cross-cutting project, explanation of the adaptation needs and gains is provided to a certain extent, but the proposal lacks strong adaptation rationale for the project-specific sector and beneficiaries.

8. Given that significant amount of GCF funding will be used for conditional cash transfer, a concrete and sustainable exit strategy is the major issue in this component. Commitments by the government of Paraguay for sustainability of the project should be carefully monitored through tangible performance-based milestones for each disbursement.

#### *Component 2 – Sustainable landscapes and responsible markets (Total: US\$ 49.4M; GCF US\$ 0M or 0%)*

9. Component 2 does not involve GCF participation and can be seen as a parallel financing that will create enabling conditions for beneficiaries in component 1 to move on to concessional debt financing after the completion of component 1. Mitigation benefits of this component should be carefully observed given that forest plantation will be used for bioenergy and timber production.

#### *Component 3 – Good governance and law enforcement (Total cost: US\$ 3.5M; GCF US\$ 3.5M or 100%)*

10. The rationale for this component is well described in the proposal. However, given the strong willingness of the government to increase forest cover, justification for requesting GCF grant rather than national budget should be improved.

### **Alignment with Investment criteria**

11. Overall, the proposal is well aligned with the six investment criteria. The assumptions provided properly justify GCF contribution to the proposed project as it targets results areas in mitigation of: forest and land use and energy generation and access; and in adaptation: most vulnerable people and communities and ecosystem and ecosystem services.

## **2.2 Impact potential**

*Scale: High*

12. The estimation of mitigation impact potential is based on credible assumptions of tree growth and environmental conditions in the project area. The values used are adequate for the project characteristics which include small and medium scale plantations (from 0.8 to 300 hectares) as well as replacement of fuelwood consumption from natural forest to use of biomass from forestry plantations. Overall, the total estimates of sequestered and reduced emissions from these two interventions contributes to a total amount of 10 million tCO<sub>2</sub>eq over a 30-year period.

13. In terms of adaptation impact potential, the maintenance and restoration of natural forest as well as recovery of degraded lands will increase resilience of the population living in these forested landscapes through the regulation of microclimate and increasing the income generation opportunities by participating in the value chain of biomass production from a commercial perspective.

### 2.3 Paradigm shift potential

*Scale: High*

14. Conditional cash transfers to the poorest families in rural areas is a standard social protection program used in several developing countries to reduce poverty and increase social welfare. Nonetheless, the proposal presents reasonable justification for the innovativeness of the project, by highlighting the building on of the existing CCT programme with environmental criteria and outcomes. Considering that transfers will be made only upon the achievements of tangible milestones, such as afforestation/reforestation of certain hectares, the project will have some degree of innovativeness if successfully achieved. The proposal shows strong scaling up and replication potential in the country, supported by government funding commitment for continuation of the project.

15. It is important to highlight the expected transition of the population in extreme poverty to be able to access to credit lines after the CCT have been disbursed after 5-year period. That will provide additional economic opportunities for this group of beneficiaries which will continue incentivizing them to maintain and increase forest cover based on the perceived income.

### 2.4 Sustainable development potential

*Scale: Medium*

16. Producing economic benefits is one of the biggest strengths of the proposed project, as provision of financial incentives will enable poor and vulnerable families to gain access to credit lines (which will be the phase 2 of the programme) and lead to sustainable financing. The proposal argues that the proposed project will produce positive environmental benefits through planting native species, including soil stability, protection of watersheds, reduced emission from and fuel consumption. Nonetheless, a careful assessment of the impacts of such production systems particularly the planting of fast-growing exotic trees in such a scale and on important biodiversity conservation areas will need to be conducted.

### 2.5 Needs of the recipient

*Scale: High*

17. Vulnerability of the country and people to the impacts of climate change is generally explained in the proposal, using the study conducted by the Corporación Andina de Fomento. How these impacts affect the target beneficiaries and the sector is however not provided. While Paraguay is classified as an upper middle income country, the target beneficiaries are those in extreme poverty. Financial needs of the recipient through an analysis of alternative financing options is also not provided. Need for strengthening institutions implementation capacity is presented in general, and the lack of implementation capacity of the implementing agencies particularly on climate change projects can be a point of caution.

## 2.6 Country ownership

*Scale: High*

18. The proposal demonstrates the project's alignment with the NDCs and national development plan which the project is expected to directly address the objectives of these national goals. Engagement and consultation with stakeholders is not described in a sufficient manner, and the proposal should clearly present detailed consultation processes and results in developing the proposed project. Nonetheless, relevant documentation of consultation processes was provided in Spanish which shows a process of involvement with communities in the design of the proposal. Additionally, the commitment from the central government to increase resources over time until the financial mechanism is financed entirely by domestic budget shows strong commitment from the country to this project.

## 2.7 Efficiency and effectiveness

*Scale: Medium*

19. The proposal provides sound justification for the requested grant funding, supported by economic and financial analyses. The economic model shows positive societal benefits with the net present value of USD 178 million with a discount rate of 10%. The financial model shows that component 1 would not be financially feasible without grant financing. The proposal is assessed to be highly cost-effectiveness with an estimated GCF cost per tCO<sub>2</sub>eq of USD 4.4. Considering that the target beneficiaries are strictly narrowed down to the poorest and the most vulnerable populations in the country, the request for high concessionality is also justified.

20. GCF funding will leverage public resources of USD 74.13 million during the project implementation, corresponding to the ratio of 1:1.6. The proposal shows strong potential to catalyse private investment in the fuelwood and timber production and climate-smart agroforestry, once there are cash flows generated through this project. The proposal explains that the project activities have been developed based on lessons learned from previous projects with other financiers, demonstrating that it attempted to apply best practices from previous experiences.

### **III. Assessment of consistency with GCF safeguards and policies**

#### 3.1 Environmental and social safeguards

21. The accredited entity has classified the project as having potentially moderate environmental and social risks and impacts based on risk screening exercise and environmental and social analysis. The likely environmental and social impacts associated with the components of the project and the applicable Environmental and Social Standards (ESS) of the accredited entity were identified. The potential risks and impacts are anticipated to affect the project's influence area of approximately 24,460 hectares under Component 1 and another approximately 24,000 hectares under Component 2. Support is sought from the GCF for the smallholder agroforestry farm development (average of 0.8 hectare per farmer and through the existing conditional cash transfer program of the Government) under Component 1 and the corresponding technical assistance to strengthen the capacities of government units to support the project under Component 3. Component 2 is supported through parallel financing using national budget resources. The accredited entity considered the potential impacts of Component 1 activities to be localized, small-scale, and manageable since the reforestation activities by smallholder farmers are designed to cover approximately 1 hectare per farmer and include mostly native species. Component 2 activities involve medium scale plantations (composed of several hundreds of hectares) spread across the Eastern Paraguay landscape. The accredited

entity considered the potential adverse risks and impacts of the project as moderate at the scale of the project footprint. Any potential impacts from the project are not considered unprecedented since similar afforestation and reforestation projects have been undertaken in various scales in Paraguay including the Government led National Reforestation Program. Equivalently, Environmental and Social Safeguards (ESS) standards of the GCF pertaining to biodiversity, land, indigenous peoples apply to the project based on the environmental and social analysis provided by the accredited entity.

22. The accredited entity prepared an environmental and social management framework (ESMF) for the project since the specific subprojects including the locations, beneficiaries, and producers have yet to be determined. The ESMF described the project and its components, the high-level environmental and social baseline, and the results of the project's risk screening. Based on the environmental and social risk analysis, several mitigation measures were identified in the ESMF, and the implementation and monitoring of the measures were provided. Capacity development activities targeting the beneficiary families, implementing entities and supporting institutions, and the project management agency was also described. The ESMF also described the various risk management processes that will be undertaken by the project. These processes including risk screening and assessment at the farmer-beneficiary level, further detailed due diligence and determination of management plans that will be required for higher risk subprojects particularly under Component 2, the selection of activities and beneficiary smallholder farmers and producers, implementation arrangements including description of roles and responsibilities, gaps assessment of the environmental and social safeguards requirements of the country and accredited entity, and continuing stakeholder engagement. In addition, management plans addressing some of the key identified impacts are elaborated in the accompanying indigenous peoples planning framework, stakeholders engagement framework including grievance redress, pesticide management strategy and biodiversity management plan annexed to the ESMF.

23. The key environmental and social impacts and the proposed mitigation measures are described below:

- (a) **Use of pesticides:** The project anticipates the use of agrochemicals particularly pesticides and fertilizers in the establishment and maintenance of plantations. A pest management strategy is provided in the ESMF specifying the preference for an integrated pest management as the project's main mechanism to address potential pest issues related to the agroforestry production. However, where the use of pesticides cannot be avoided, a specific risk assessment will be carried out following the accredited entity's guidance and best practices. Additionally, the project-specific guidelines on the storage of pesticides and disposal of containers must be developed following the national regulations and international best practices. Organic fertilizers will be promoted among the participating farmers.
- (b) **Biodiversity:** The activities to be supported involve reforestation and afforestation using a combination of native and exotic species within the identified project sites in Eastern Paraguay. Exotic Eucalyptus trees, which are extensively used in the country, will be utilized and mixed with several native tree species as part of the production systems. The ESMF noted potential impacts of introducing fast-growing tree species such as Eucalyptus on the ground water hydrology, soil quality, and allelopathic interactions with other floristic components of the habitat. While Paraguay has extensive experience in re-establishment of forest cover, the accredited entity is cognizant that a careful assessment of the impacts of such production systems particularly the planting of fast-growing exotic trees in scale will need to be conducted following the accredited entity's Environmental and Social Standard 3: Plant Genetic Resources for Food and Agriculture and its Voluntary Guidelines on Planted Forests. The project will support agroforestry production system

that will enable the regeneration of degraded forests at the same time provide economic resilience of poor and extremely poor beneficiaries. Component 2 activities shall avoid the establishment of monoculture plantations. Instead, the activities shall maintain the ecosystem integrity and protect and enhance conservation values. To be eligible for support under Component 2, the proposed plantations should maintain biological connectivity, should have a larger proportion of native species, and should have a bigger portion of the land for riparian and native forest zones. A biodiversity management plan has been formulated by the accredited entity describing the potential risks and the measures that will be undertaken to avoid and minimize such risks related to the establishment of plantations and use of exotic tree species as part of the production systems. The biodiversity management plan indicates that no activities will be conducted within the protected areas located in the project sites. Where the activities are located within the buffer zones of the protected areas, these activities will need to meet the existing national policies and regulations. The agroforestry production areas, as well as plantations that utilize exotic species, will be located only in already degraded areas and those that have been used for agriculture and livestock areas. The biodiversity management plan further indicates that no new exotic species will be utilized. The technical assistance under Component 3 will include developing the capacities of the implementing entities and beneficiaries on integrated pest management and forest fire management. Further guidance will be developed and promoted using the accredited entity's ESS and guidance on planted forests. The smallholder agroforestry plots and the medium scale plantations will be interspersed along the forest landscape of Eastern Paraguay. The biodiversity management plan indicates the landscape planning that should be undertaken by INFONA and SEAM that takes into consideration the likely environmental and social risks and impacts described in the ESMF and how these are aggregated in a broader scale. The landscape planning will need to consider the ecological corridors within the buffer zones, the aggregated impacts benefits, and the implication in terms of management planning and the overall risk profile of the project.

- (c) **Indigenous peoples:** The project recognizes the presence of indigenous communities with a total indigenous peoples population of 14,800 in the eight departments where the project will be implemented. The indigenous peoples population in the eight departments belonging to the five linguistic groups of the country. An indigenous peoples planning framework (IPPF) was developed by the accredited entity describing the processes of developing specific indigenous peoples plan, the potential impacts of the projects, and the mitigation measures taking into consideration the indigenous system of decision-making, participation mechanisms, meaningful consultation and grievance redress. The indigenous households are given the opportunity to choose the agroforestry production system that they will implement with the technical support from the accredited entity and the implementing institutions. The project has started the process towards free, prior and informed consent (FPIC) through a number of consultations with indigenous peoples communities and groups. A project working group, composed of representatives from various agencies and stakeholders, provided a consultation roadmap that was agreed with the indigenous communities and supported by the Government's National Institute for Indigenous Development (INDI) leading towards obtaining the FPIC. Two consultations were undertaken with representatives of indigenous organizations providing their recommendations to the project and expressing their agreement and consent. They have agreed also to continue with the consultations in each of the eight departments with the view of obtaining further agreements and consent at the community level. The consultation plan is integrated into the IPPF and elaborates further the process for obtaining, maintaining and operationalizing the FPIC following the accredited entity's Framework for Operationalizing Free, Prior and Informed Consent

(Annex 8 of the Environmental and Social Management Guidelines). Further assessments of the impacts of subprojects such as those under Component 2 on the indigenous peoples will need to be undertaken, and evidence of FPIC shall be provided by the accredited entity.

- (d) **Tenure:** The project recognizes the importance of secure rights in sustaining the benefits of the project. Within the project area, approximately 60% of the households have access to land and land rights. Through the technical assistance, the project will promote and support the resolution, acknowledgment, and recognition of the communities and indigenous peoples legitimate rights to their land. Due diligence on land tenure situations including assessment of potential conflicts over rights to lands will be undertaken as part of the technical assistance and risk management activities of the project and following the guidance provided by the accredited entity's Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forest in the Context of Food Security. By supporting the resolution of this issue, the ESMF of the accredited entity and that of the project demonstrates a positive and transformative safeguards system that not only protect from and mitigate potential harm to the communities and environment but also addresses one of the causes of environmental and social issues of the project.
24. The assessment notes the environmental and social benefits provided by the project which include the revegetation and environmental stabilization of degraded lands, improvement of livelihoods of communities living in and around the areas that will enhance the protection zones.
25. The Executive Committee (EC) comprised of the representatives from the Government's key agencies involved in the project will be responsible for operational day-to-day decisions including the implementation of the ESMF and the accompanying planning frameworks. The EC will be composed of the ministries and institutions relevant to planning and social and economic development (STP), indigenous development (INDI), forestry (INFONA), agriculture and livestock (MAG), social action (SAS), environment (SEAM), mines and energy (VMME), and the accredited entity serving as the technical secretariat. The institutions comprising the EC have been involved in similar projects supported by multilateral development banks with environmental and social safeguards as among their key requirements. The EC is supported by a programme management agent that will oversee the implementation, supervision, work planning, and procurement including activities related to the ESMF.
26. The accredited entity will monitor and evaluate the performance of the project against the objectives and requirements of its environmental and social standards and those of the GCF's ESS standards. Specific monitoring and evaluation for each stage of the project are identified in the ESMF. The monitoring and evaluation process as described in the ESMF will need to be elaborated further to present the roles and responsibilities, monitoring and reporting requirements for the various types of subprojects, the frequency of monitoring, and operational changes.
27. A total of eight workshops in each of the departments were conducted from the last quarter of 2016 to the first quarter of 2017. The workshops targeted various sectors including public, private, NGOs, civil society, and potential beneficiaries. These workshops were led by the project's working group comprised of the various institutions. The project background, structure and components were presented to the stakeholders during the workshops. The workshops generated views and suggestions on the project which include additional environmental and social considerations, benefits sharing, technical assistance, project controls and compliance with national policies and regulations. The project's overall stakeholder engagement plan has been developed incorporating the project's overall strategy, governance, principles, information dissemination activities. The stakeholder engagement plan also included the project and entity-level grievance mechanisms and identified the five levels of grievance handling and redress

structures, the contact information (email addresses, websites, and telephone numbers) of the various agencies comprising the project's Executive Committee and Steering Committee, the accredited entity's country and regional representative offices as well as its Office of the Inspector-General. The grievance redress mechanism described the process of lodging complaints and how the complaints will be registered, addressed, tracked and communicated. The process for disseminating the grievance redress mechanisms are also presented in the stakeholder engagement plan.

## 3.2 Gender policy

28. The proposal contains a poverty, social and gender assessment both in the funding proposal (FP) and as a standalone narrative. It also contains a gender action plan. Therefore, it complies with the operational guidelines of the GCF Gender Policy and Action Plan.

29. Below are a few recommendations that might help to mainstream gender more strongly in the funding proposal:

- (a) An innovative project governance, execution and implementation structure is planned to ensure inter – sectorial coordination, swift execution and transparent management. Six line agencies responsible for agriculture, forestry, social protection, indigenous peoples, environment and energy will oversee and control project execution through an inter – institutional Executive Committee chaired by the NDA. Because this project lays strong emphasis on reaching out to vulnerable women and excluded groups through various interventions, it is advised that the Ministry of Gender/Women Affairs/Minority Affairs or their equivalent are included in the inter – institutional Executive Committee. Capacity development and knowledge sharing programs should be organized to ensure that personnel belonging to these Ministries are up to speed on climate change related programming.
- (b) The project proposes to incentivize forest conservation and sustainable land use management by introducing environmental conditional cash transfers (E – CCTs). Payment of E – CCTs to beneficiaries at any given year will be linked to key indicators like productive agroforestry, survival rate of plants, species mix and composition, pruning activities etc. These E – CCTs are bound to have a positive impact on the income of most vulnerable households, including female – headed households. While this is encouraging especially when you consider that social protection programs, when employed against the backdrop of environmental shocks, help to develop the resilience of people living in chronic poverty or those who are resource – poor, it is advised that the AE takes into close consideration (Y-on-Y) inflation indices and rise in household demand for goods, services and food which could generate price effects and hence compromise the benefit the measure for the beneficiary whose real income might not increase as expected. This is derived from findings from several social protection programs in the world where the same amount of cash transfer is provided to beneficiaries throughout the project life, and thereby, remains non – responsive to fluctuating market prices and inflationary behavior. The AE should also create incentives – in the form of E – CCTs – for beneficiaries participating in community – led land stewardship programs.
- (c) The proposal states that the GCF grant funding will support the establishment of multi – functional forests that provide both economic and multiple co – benefits (climate resilience, diversified income sources, increased well – being of beneficiaries, including gender and social inclusion). Because sustainable land use management, restoration of forest eco – systems, promotion of climate – resilient agriculture practices can be very time consuming especially when you consider multi – variate complexities associated with REDD+; the amount of resources required; behavioral change and social norms that

need to be embedded in the system; and that recent work on the adaptation of forests to climate change has generated evidence that the scale of natural disasters at local levels are causing widespread and unusual changes in forests, it is strongly advised that the AE considers non – farm/non – land/non – forest based income generation activities for farming, forest – dependent and resource – poor households. Studies suggest that livelihood diversification to non – farm/non – land activities is increasingly becoming common among majority of rural, impoverished and resource – poor households, including households that live in and around standing forests. Therefore, the project should be able to support poor, female – headed/adolescent – headed/widowed - headed households/women farmers/landless farmers by building their human capital through education, skill – based training in various non – farm trades and strengthen their access to financial capital by increasing access to easy credit.

### 3.3 Risks

#### **Overall Programme assessment (medium risk):**

30. Encouraging government support to the project: Paraguay's 2016 growth rate was among the highest in the region, reaching 4.1% from 3% in 2015. In the coming years, the country's economic activity is likely to be supported by higher value-added agricultural sector and increased private consumption and public investment. The Government of Paraguay (GoP) has made progress on the reform agenda presented in the 2014-30 "National Development Plan". The growth strategy outlined in the plan emphasizes infrastructure investment, particularly improving transportation and electricity distribution. This encouraging trend is backed-up by the GoP's USD 24.8M contribution to the project. A risk to growth could materialize as a result of the continued weak growth in Brazil or slower execution of public investments in Paraguay.
31. Complex project governance: The governance structure of the programme relies on multiple government line agencies that may fail to coordinate efforts and implement their respective legal mandates, as also pointed in the Funding Proposal. PROEZA institutional architecture relies on contracted financial and technical services to deliver the project activities to the rural recipients while government agents focus on policy, legal frameworks and compliance. Line agencies will work in several sub-national jurisdictions and may fail to collect or share information on the project physical and financial progress in a timely, complete and verifiable manner. FAO's supervision and advice will be critical to improve the efficiency of the PROEZA Executive Committee (sharing knowledge and data, capacity building).
32. On the positive side, PROEZA will support the auditing and strategic planning of both INFONA and SEAM, aiming to obtain ISO 9001 certification for all the processes related to the Project. Financial audits will also be undertaken on an annual basis. The PROEZA Executive Committee will check a random sample (~10%) to monitor the progress indicators on the field on an annual basis, and take follow-up administrative actions as necessary. On the other hand, the project targets a broad range of stakeholders; including national agencies, CSO participants, and Indigenous Communities, and this could cause delays in coordination and effective decision-making.
33. Weak institutional incentives: GoP's specific incentives or subsidies in favour of investments for forestry remain weak. GoP does not support measures that discourage the use of wood and firewood as energy sources in favour of other sources (electricity). Although GoP has prioritized the concrete outcomes of this project in the NDP and the NDCs, filling the gaps in terms of technical skills is largely left to the capacity building activities of the programme. The reliability of Paraguay's institutional governance is low as the country is starting to improve its

fiscal framework and economic policy effectiveness. The World Bank Governance Indicators scores for Paraguay (government effectiveness, rule of law and control of corruption) are consistently among the lowest 15% of Moody's rated sovereigns and are weaker than peers. However, Paraguay's institutional framework has improved with the passage of a number of new laws including the Fiscal Responsibility Law, the Law to Modernize the State's Financial Administration, and the PPP Law, among others. In addition, the government's recent track record of sound fiscal management signals a higher degree of government effectiveness than suggested by the country's governance indicators alone. These developments have contributed to improve the business environment, which is reflected in higher ranking in the 2016 World Bank 'ease of doing business' indicator. Paraguay's ranking has moved up from 124 in 2010 to 106 in 2016.

34. Given the programme risks pointed out above, it is recommended that GCF implements a mechanism of grant disbursements in tranches, subject to verification of the milestones of the project being achieved, to be delivered by FAO yearly in the APRs (1).

**AE / EE capability to execute the current programme (medium risk):**

35. FAO develops and implements country-led projects on adaptation, climate-smart agriculture, land and forest degradation. FAO's expertise in the area of sustainable management and utilization of land and water resources is considered adequate to supervise the delivery of the specialized technical assistance and the implementation of the current programme.

36. The EEs targeted in the programme lack sufficient institutional capacity for implementation. These agencies need to be supported with human and financial resources to complete the tasks required for the beneficiaries.

**Project specific execution risks (medium risk):**

37. Economic viability (high risk): The project will generate public goods that are not yet recognized by the local and national markets (climate benefits, carbon sequestration and storage benefits, watershed values). The economic viability relies on the assumptions taken for the quantification of the project benefits. "Shadow values" are therefore assumed for carbon (USD 70/tCO<sub>2</sub>) and watershed (US \$27/ha/year), in line with the World Bank guidance (2016), since the market price of carbon does not reflect the "social value" of carbon storage of forests. While there are considerable uncertainties over these values, they can be considered conservative based on available literature. Economic benefits are assumed to be generated much beyond the Project implementation (15/ 20-years), which seems optimistic in the absence of a proper rationale. The economic analysis shows positive results, also under most of the "stress scenarios" (50% benefit reduction, 20% discount rate).

38. Financial viability (high risk): The financial cost-benefit of each of the ten production models proposed by the Project was assessed. Most models under the 10-year horizon scenario are financially unfeasible. This supports the idea that the GCF grant may support the establishment of production systems until revenues normalize over time.

39. Procurement (medium risk): FAO covenants, rules and standards have to be applied to ensure that the primary fiduciary responsibilities of PROEZA will be carried out in an efficient and professional manner. FAO will review the TORs and evaluate the human resources (acquisition of goods or services) selection process to ensure sufficient qualifications are available to carry out the deliverables. It is recommended that FAO shares their view on the results of the procurement process with GCF.

40. Funding structure (low risk): The programme is supported by a balanced contribution of the GoP. However, the consequences of the details of the equity positions taken by BNF and AFD have to be clarified before approval.

**GCF’s portfolio concentration risk (low risk):**

41. In case of approval, this impact of this proposal on the GCF portfolio risk remains non-material and within the risk appetite in terms of concentration risk, results area or single proposal.

**Recommendation:**

42. It is recommended that this Funding Proposal is approved by the Board subject to implementation of (1) above.

<b>Summary Risk Assessment</b>	
Overall Programme	Medium
AE / EE capability to implement this program	Medium
Project specific execution	Medium
GCF’s portfolio concentration	Low
Compliance	Low

### 3.4 Fiduciary

43. The Executing Entity (EE) for the project will be the Food and Agriculture Organization of the United Nations (FAO). FAO will act as Executing Entity of PROEZA and will coordinate the implementation with the Executive Committee (EC), whose membership is comprised of representatives of Paraguayan institutions with legal mandates relating to project implementation plus FAO.

44. FAO will provide the EC with technical assistance, project supervision, implementation and fiduciary support. More specifically, FAO will be responsible for funds disbursement from the GCF to Paraguay, as well as accountability and reporting. FAO will ensure the technical secretariat of the EC and will provide technical assistance in the various fields of PROEZA, including financial auditing and monitoring and evaluation (M&E). FAO will manage and coordinate reporting to the GCF according to its standards and procedures.

45. In addition, to ensure continuous project implementation support, timely and accurate reporting on implementation progress and address emerging issues expeditiously, FAO will as Technical Secretariat, provide a team of experienced support staff from within its FAO offices. FAO will also conduct at least two monitoring and technical support missions to Paraguay per year throughout the period of project implementation.

46. In order to implement the project FAO will contract a Project Management Agent (PMA) and manage its contract for the full length of the project. The PMA will be hired through an open bidding process by FAO to manage the entire procurement of goods and services of the project. The reason for this decision is that the involved government agencies do manage these subordinate supporting processes with the cost effectiveness, efficiency and scale that this project requires.

47. Grant funds for the PROEZA project will flow from the GCF to the FAO and the PMA will operate according to approved annual working plans and budget. Fund flow will be regulated by FAO covenant, rules and standards. Acquisitions of goods or services, including inputs for the

implementation of the project, training and consulting, and financial services done by the PMA will be governed by applicable guidelines, in accordance with the procurement plan presented in this proposal, and in accordance with the Procurement Manual to be developed prior to project effectiveness. The PMA will produce quarterly financial and procurement reports and send them to the EC and FAO for review and action, as necessary. Every year, FAO will present the Green Climate Fund with the annual report as well as the yearly replenishment plan prepared jointly with the EC.

48. With regard to Procurement, an assessment will be conducted to ensure that the primary fiduciary responsibilities assigned to the PMA will be carried out in an efficient and professional manner according to FAO covenants, rules and standards. Quality and quantity of staffing will be evaluated as part of this assessment. FAO will act as Accredited Entity and fiduciary agent to the GCF, and as such will be responsible for funds disbursement from the GCF to the project, as well as accountability and reporting on use of financial resources via review of scheduled internal bi-annual and external annual auditing reports. Financial audits will also be undertaken on an annual basis.

49. It is recommended as a condition of project effectiveness that a Procurement Manual be developed to help guide the PMA as suggested in the Funding Proposal. Furthermore, as a condition of first disbursement, that the AE completes its financial management and procurement capacity assessment of the PMA. Finance has also sought some clarifications on some aspects of the FP and budget that was submitted in the 6th submission. The draft assessment may need to be revised based on the AE response.

### 3.5 Results monitoring and reporting

50. As cross-cutting intervention, the proposal reports values of core indicators in mitigation and adaptation in section E.1.2, the core indicator on the “Expected total number of direct and indirect beneficiaries (reduced vulnerability or increased resilience), number of beneficiaries relative to total population (adaptation only)” is reported (153,000 direct, 141,306 indirect). The data on beneficiaries is disaggregated by gender but the methodology and calculation used for the estimates have not been provided in the funding proposal. The value of the core indicator “Expected tonnes of carbon dioxide equivalent (tCO<sub>2</sub>eq) to be reduced or avoided” annually is 315,965 tonnes of CO<sub>2</sub> (9,478,962 tCO<sub>2</sub>eq for lifetime). For GHG emission measurement, the EX-Ante Carbon-Balance Tool (EX-ACT methodology developed by FAO and World Bank was used to estimate the net carbon balance from emissions from inputs and carbon sequestration/GHG emission to be reduced/avoided. The proposal also reports against the core indicator “cost per tCO<sub>2</sub>eq”, estimated to be USD 13 per ton for the total financing and USD 5 per ton for GCF financing. “Volume of finance leveraged” has been reported as USD 74.1M.

51. Regarding the logical framework section, The proposal aligns with the climate results and indicators for the performance measurement framework of GCF. The accredited entity has addressed the issues raised in the Secretariat’s due diligence review. PMF indicators are selected and there is no major issue on logframe in terms of its structure. However, the funding proposal still has a few remaining issues. As midterm target is not provided and final target reported is not quantified for adaptation PMF indicator 5.1, the information provided for adaptation dimension is relatively weak and it is recommended to report quantified progress/outcome and detailed updates as to adaptation related work during its implementation. Activity level also needs further elaboration with quantification and more input details other than financial inputs, especially for component 3, is requested.

52. The arrangements for monitoring, reporting and evaluation are reported but it was noted that the further discussion between AE and GCF Secretariat as to reporting and evaluation arrangement is required as per GCF relevant policies, MAF and AMA.

### 3.6 Legal assessment

53. The AMA has not been agreed yet between GCF and FAO, therefore the accreditation process has not been completed. Negotiations are on-going based on FAO's proposed changes to the AMA, which the Secretariat is currently assessing.

54. FAO has not yet provided a legal opinion/certificate confirming that it has obtained all final internal approvals to implement the project.

55. The proposed project will be implemented in Paraguay, country in which GCF is not provided with privileges and immunities. This means GCF is not protected against litigation or expropriation in this country. The Secretariat submitted a draft of the privileges and immunities agreement and a background note to the NDA in December 2015 and meetings were held with the Paraguayan delegation during COP21 and with AILAC countries during COP22 to discuss the terms of the agreement; however, no response on the draft agreement has been received thus far.

56. The GCF is exposed to litigation risk in Paraguay. Risk of expropriation needs to be further assessed. Furthermore, the Independent Redress Mechanism (IRM) and Independent Integrity Unit (IIU) have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations, to the fullest extent envisaged in the GCF Governing Instrument and the Board-approved terms of reference, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after the GCF has obtained satisfactory protection against litigation and expropriation in Paraguay, or has been provided with appropriate privileges and immunities.

57. In order to mitigate risk, it is recommended that any approval by the Board is made subject to the following conditions:

- (a) the execution of all required legal documentation in form and substance satisfactory to the GCF Secretariat;
- (b) the completion of legal due diligence to the satisfaction of the GCF Secretariat; and
- (c) the submission of a legal opinion/certificate in a form and substance that is satisfactory to the GCF Secretariat within 120 days after Board approval, confirming that FAO has obtained all final internal approvals needed to implement the project and it has the capacity and authority to implement the proposed project.

## Secretariat’s Review of FP056

Proposal name:	Scaling up climate-resilient water management practices for vulnerable communities in La Mojana
Accredited entity:	United Nations Development Programme
Project/programme size	Medium

### I. Overall assessment of the Secretariat

1. The funding proposal titled “Scaling up climate-resilient water management practices for vulnerable communities in La Mojana” is presented for the consideration of the Board, taking note of the remarks listed in table 1 below.

**Table 1. Summary of strengths and points of caution**

Strengths	Points of caution
Very elaborate climate change analysis. Strong rationale for investment: average reduction in precipitation of 14% by 2040, and up to 35% in some areas, with increased frequency of extreme events.	Downstream benefits could be considered to assess viability of watershed-based domestic payment scheme for flooding risk reduction, which would increase long-term sustainability.
High number of beneficiaries in one of the most climate-vulnerable and economically depressed areas in the country.	Illegal gold mining upstream is a potential threat to the ecological stability of La Mojana. The Government of Colombia (GoC) is addressing this issue – of which the extent and magnitude is not specified – but risk mitigation strategies may need to be strengthened.
Important environmental co-benefits from the restoration of ecological functions of the wetlands. These co-benefits relate to the ecological properties of the wetlands itself and other ecosystem services such as local hydrology, but also to increase levels of household food security and resilience to climate change through, for example, increased fisheries options.	In the original proposal, there was a potential element of economic displacement of cattle ranchers who may face restricted access to water resources in the dry season. The current proposal incorporates the Cattlemen’s Association as a relevant stakeholder to harmonize the needs of the cattle ranchers with those resident in La Mojana.
Substantial co-financing from the country (nearly 66% of the project cost) to all components, with wetland hydrology restoration (dredging) fully funded by the GoC.	The initial grant request of USD 74.6 million has been reduced by half to USD 38.5 million and a user fee for the water services has been introduced. The modalities for the fee management need to be clarified.

2. The Board may consider approving this funding proposal with the terms and conditions listed in the respective term sheet and document titled “List of conditions and recommendations”.

### II. Summary of the Secretariat’s review

#### Project background

3. The region of La Mojana is a highly vulnerable floodplain between the Andes and the Caribbean Sea, frequently impacted by floods and prolonged droughts, and among the poorest in Colombia. The adaptation needs are well established.
4. Climate change analysis forecasts that a substantial part of the La Mojana region will see reductions in precipitation of 14 per cent on average by 2040, with some areas experiencing reductions of 35 per cent (Representative Concentration Pathway 4.5). Extreme precipitation events are predicted to increase in frequency and intensity, coupled with an increase in the duration of the dry season.
5. UNDP proposes an ecosystem-based intervention aimed at restoring the natural flow of water in the wetlands, to develop ecosystem-compatible livelihoods (avoiding conflict with existing cattle ranching), as well as to provide a safe drinking water source to the local households and communities. The project would also finance the expansion of the hydromet network to improve early warning systems, and promote research and knowledge-sharing on adaptation solutions to improve adaptation decision-making in the region and the country.
6. Provision of potable water infrastructure, based predominantly on rainwater harvesting for isolated households and improved distribution infrastructure for villages, to the local population is justified because lower predictability of rainfall as a result of climate change is likely to exacerbate an already difficult situation of periodic droughts.
7. Rehabilitation of the natural hydrology of the La Mojana wetland system is expected to increase the capacity of the system to buffer peak run-off, leading to reducing flooding risk locally and in downstream areas.
8. UNDP requests a USD 38.5 million grant from the GCF, covering 33 per cent of the project cost. USD 78.7 million in co-financing will be provided, of which USD 61.8 million are from the executing entity, the National Adaptation Fund (NAF), and USD 16.9 million – mostly in-kind – from a range of stakeholders, including the municipalities, universities and other sub-national government bodies.
9. The largest costs are water tanks for households and communities, and the development and implementation of community restoration plans, which includes sediment and vegetation removal and riparian buffer restoration at a cost of USD 21,410 per kilometre. These costs are in line with those of similar projects. The drinking water infrastructure is largely funded through the GCF grant, while the major investment in wetland hydrology restoration is borne by the GoC. The implementation of the community restoration plans will also be financed integrally by the local environmental ministries and the NAF.
10. Environmental and social safeguards have been adequately addressed. They are predominantly those that relate to potential economic displacement of households and upstream impacts of gold mining on water quality.

### **Component-by-component analysis**

#### *Component 1 – Systemizing knowledge management and dissemination of the impacts of climate change on water management for planning (total cost: USD 6.47 million; GCF cost: USD 3.58 million)*

11. This component ensures the effective management and dissemination of knowledge to enhance decision-making and long-term planning in a manner that streamlines adaptation to identified climate risks in the region. This will be done through the development of technical models and guidelines. It will also include a knowledge management programme and capacity-building system that will be cross-cutting and will ensure the systemization of knowledge for use as a planning tool, not only in the region but also nationally. The output is structured across two activities.

12. A groundwater flow and quality model will be developed to ascertain the long-term dependability of groundwater solutions. The analysis for this model will include information on aquifer dynamics (recharge and yield capacity) to understand long-term sustainability in view of the existing demand as well as an inventory of legal and illegal (artisanal built) water wells to measure current demand. In addition, a guide will be developed for decision makers in the region (Corporaciones Autonomas, local mayors) to help them use this model in future planning and decision-making; thus ensuring that the technical results are transferred into practical planning actions and decision-making.

13. A knowledge management programme will be implemented for adaptive water management; organization of lessons learned; and training and capacity-building programmes targeting relevant stakeholders at the national, regional and local levels. Knowledge management tools will be created to target stakeholders in the region such as municipal authorities, community councils, community leaders, extension workers, productive associations and national authorities. This will include the development of training material (web courses, workbooks, planning guides, etc.) and targeted workshops. A knowledge management databank will be maintained by a service provider. Local universities have been identified as potential service providers and could act collaboratively to conduct this activity. Both institutions have enough access to research facilities, staffing and funding necessary to continue the performance of this service once the programme ends. They have both stated their interest to continue their participation in this project and beyond the lifetime of the project. The selection of institutions will follow UNDP procurement rules.

*Component 2 – Promote climate resilient water resources infrastructure and ecosystem restoration for vulnerable households and communities (total cost: USD 81.30 million; GCF cost: USD 18.70 million)*

14. Activities under this output are focused on diffusing regionally appropriate, climate change risk-sensitive water management solutions among rural communities in La Mojana (both rural disperse and rural nuclei). Funds will procure goods and services to put in place flood-resilient water infrastructure and undertake wetland restoration works. These solutions will advance climate-resilient, sustainable and safe water access to La Mojana's most water-vulnerable communities and be congruent to regional climate projections. Sub activities are adapted and differentiated to address the different access needs based on the level of dispersion and water vulnerability of the population.

*Drinking water supply*

15. The GoC is looking to implement long-term, regionally appropriate, integrated water solutions that look to multiple water supply sources to address this vulnerability, including the use of rainwater harvesting technology and the adaptation of current water infrastructure to be made climate resilient.

16. In dispersed, rural households, rainwater harvesting tanks will be established to provide sustainable drinking water access for a 4-month typical dry season in 4,878 households (19,512 people) that currently have no access to water infrastructure in seven of La Mojana's most water-vulnerable municipalities. Installation of one 5,000 litre tank per household will ensure year-round access to safe drinking water for these households. In more concentrated communities, drinking water supply solutions target an additional 8,560 households with no access to water infrastructure, which will have access to communal tanks (one per four households). A total of 2,514 rain water harvesting tanks, of 20,000 litres each, will be installed in 2,140 households, 334 existing schools in rural areas and 40 buildings that will be built through GoC co-financing funds through the NAF (12 health centres and 28 schools). This infrastructure will also serve as shelters in case of climate contingencies, further ensuring access to water in such circumstances.

17. Additionally, 96 existing mini aqueducts in rural areas in seven of the most water vulnerable municipalities in La Mojana will be upgraded to withstand climate change-induced pressures. These micro aqueducts, that currently provide water to 48,840 people, have been failing regularly (60 days a year on average), causing shortages in the daily supply of water required to meet the needs of the communities and, particularly during the long summer dry seasons, leaving communities without water for long periods of time. With the increasing needs for water due to longer dry periods, the current systems are becoming more prone to functional failure and increasingly vulnerable to flooding and contamination. Repairs will be made to these mini aqueducts to ensure that they are more resilient to climate change so as to provide sufficient water according to current and future needs, to better withstand flooding and operate at full capacity. Pumping facilities will be outfitted with solar panels leading to reduced use of electricity.

#### *Ecosystem restoration*

18. Community restoration plans for 40,000 ha of the wetlands (lentic ecosystems) will be prepared and implemented. The main underlying causes of wetland degradation – livestock use and overgrazing – will be addressed. GoC co-financing funds will restore 50 km of wetland channels to re-establish the natural water flow of the three rivers in La Mojana. Restoration will ensure community participation and ownership through strategies aimed at reincorporating the wetlands into their livelihoods. A guide and prioritization plan for future restoration work by the GoC will be developed.

19. The National Restoration Plan has prioritized the restoration of 121,614 ha of wetlands in La Mojana. Community consultation will be used to prioritize more areas for restoration. Satellite imaging has already identified key areas with potential for restoration based on the impacts of past flooding, the potential for ecological connectivity opportunities and evidence of severe transformations due to land degradation and land-use change. Through these processes, wetlands in Guaranda, San Jacinto del Cauca, Majagual and Achi have been identified as areas of intervention. A wetland restoration and monitoring plan will be developed with the cooperation of multiple national and local stakeholders, including: the Ministry of Environment, the NAF, the Alexander von Humboldt Biological Resources Research Institute – the research arm of the Government's National System of Environment (SINA) – and the local environmental authorities (Corporaciones Autonomas). The plan will employ a landscape analysis approach and consultation with communities to guide the recovery of the wetland areas. Rehabilitation efforts will be carried out through the joint participation of local environmental authorities and landowners of the areas selected for rehabilitation. Furthermore, rehabilitation efforts will include the establishment of permanent conservation areas, protection of stream banks and buffer areas, reforestation of the riparian forest, and improvements in connectivity among forest and other ecosystem remnants.

20. Out of the 121,614 ha of wetlands prioritized for restoration, the project will restore 40,000 ha through reforestation and the reintroduction of native species to natural ecosystems that are resilient to both flooding and climate change. Buffer areas will include the establishment of natural (and temporary) physical fencing. Restoration areas will include both zapal and riparian forest areas that provide valuable water management services to the region. Direct restorative work will be developed by the communities themselves, thus ensuring that the knowledge of wetland management will be retained within the communities. While restoration of wetland areas with GCF funds will not include wetland channel dredging, it will be coordinated directly with the work of the NAF restoring 50 km of wetland channels that will be undertaken through government co-financing.

*Component 3 – Improved early warning systems for climate resiliency (total cost: USD 4.54 million; GCF cost: USD 2.94 million)*

21. The current early warning system will be enhanced through improved monitoring and forecasting capacities, increased hydrological coverage, and the dissemination of regional and productive activity-relevant alerts that are tailored to users' needs and communication channels. With respect to the baseline, GCF funding will allow the tailoring and delivery of enhanced agro-meteorological information and alerts for the communities, enhancing their usefulness in conjunction with the other project activities. Management arrangements for the implementation process will include national government agencies such as IDEAM, the local environmental authorities, and the Universidad de Cordoba (University of Cordoba) who will be in charge of managing the regional forecasting centre that is being created with co-financing from the GoC through the NAF.

Component 4 – Enhance rural livelihoods through climate-resilient agroecosystems (total cost: USD 17.38 million; GCF cost: USD 11.08 million)

22. This component focuses on the promotion of agro-diverse and climate-resilient crops in the region and the implementation of climate-adapted productive practices to enhance rural livelihoods and enable resiliency to future climate outlooks for La Mojana. Funds will be used for research and implementation of adaptive local agriculture and livestock practices to favour correct water management at a household, productive and landscape level. The output will enable water resiliency in the region to ensure that livelihoods are adapted to climate projections.

23. To support climate-resilient agriculture practices in the region, research on adapted agro-ecosystems will be undertaken. Local universities (e.g. the universities of Cordoba and Sucre) will act as a service provider to the project in consultation with productive associations that will engage in researching water-efficient best practices for adapted agriculture, crop rotation and livestock production adapted to the region and their market impact. Both universities have demonstrated their interest to participate in this project and to continue this programme beyond the lifetime of the project. As the selected institution will receive GCF funds for this action, selection will follow UNDP procurement rules to ensure compliance with UNDP criteria. The service provider will be instructed to directly support at least nine indigenous associations to ensure that local knowledge, particularly that associated with indigenous groups, is collected and further improved. This includes identification of traditional productive practices relevant for climate change adaptation as well as facilitation of the in-field testing of those production practices in their communities.

24. Another activity will support the establishment of home gardens as sustainable household food systems to reduce household vulnerability during extreme events such as floods and droughts. These gardens will not only address immediate household climate vulnerability but will also diversify food consumption in the region thus addressing region-wide climate vulnerability. The gardens will be built using techniques to reduce drought risks (e.g. irrigation, soil and water conservation and agro-ecological practices), as well flood damages (e.g. using elevated garden beds or linear dikes). Through the use of water-efficient practices, such as drip water irrigation and reusing grey water, households will ensure correct water management to address the water scarcity in the region.

25. All agro-ecosystem activities will be supported by a strengthened extension service, providing specific support in managing the changing hydrology of the region.

Component 5 – Project management (total and GCF cost: USD 2.21 million)

26. All project management expenditures have been grouped into this component.

### **III. Assessment of performance against investment criteria**

### 3.1 Impact potential

*Scale: Medium/high*

27. The project has a solid theory of change. It responds to current and future climate vulnerabilities faced by the economically depressed La Mojana region, in particular an increase in the severity of floods and droughts, and has great potential to enhance the resilience of its population and ecosystems. The project will reduce the vulnerability to climate change of the whole population of La Mojana (405,625 inhabitants) through the following means:

(a) Strengthening the knowledge base to take informed decisions in adaptation, leveraging resources in the local universities of Cordoba and Sucre and national research institutes for the generation and dissemination of research and lessons learned on adaptive water management, hydromet data analysis, and climate products (e.g. agro-meteorological alerts, early warning systems).

(b) The restoration of wetlands and the development of ecosystem-compatible livelihoods will reverse historical flaws in water infrastructure that resulted in the siltation of channels and loss of the drought and flood regulation functions of the wetlands, creating areas of high vulnerability. Community restoration plans implemented with GCF funds will reach 40,000 ha of the wetlands (lentic ecosystems). Co-financing from the GoC will also allow the restoration of 800 additional hectares of wetlands and 50 km of wetland channels, which is necessary to restore the original water flows in the wetlands and reduce impacts of floods in the most vulnerable areas. Co-financing from local environmental authorities will also target wetland restoration, prioritizing wetland channels.

(c) The rehabilitation of water infrastructure (133 small aqueducts) and the installation of household or community water tanks to 23,350 households without access to water infrastructure (estimated 93,400 beneficiaries), providing them with capacity storage of over 40 litres per day during the four months of the dry season, will help to mitigate the impacts from more severe droughts during El Niño years.

28. While the climate rationale for all components is present, the impacts that water channel restoration tries to resolve are more a result of poor infrastructure planning than of increased climate change. The component, which at over USD 15 million constitutes a substantial part of the budget, will be mostly financed by the country, including provincial and local governments.

### 3.2 Paradigm shift potential

*Scale: Medium/high*

29. The proposed project revolves around restoring the original hydrology of the wetlands of the La Mojana region, adapting the local economy and livelihoods to the natural variation in the level of water in the wetlands through the seasons. This is a clear paradigm shift towards resilience in the context of climate change, away from the historical rationalization of water management, wherein water was evacuated rapidly from the region to allow for agricultural intensification.

30. Through the investments in each sub-component, the project provides a model for preventive risk management through ecosystem-based adaptation and the development of compatible livelihoods. This constitutes a departure from traditional infrastructure-focused flood protection and disaster recovery.

31. This approach is the first of its kind for Colombia. While the challenges in La Mojana are largely region specific, the GoC has stated the ambition to replicate such ecosystem and community-based approaches to adaptation through the existing National Adaptation Plan and its coordination mechanisms. It also identifies policies through which the lessons learned and knowledge generated by the project would be mainstreamed. Strong support of key national

agencies, the Rural Development Agency, Ministry of Housing, City and Territory agencies, and the Ministry of Rural Development, provides an encouraging sign that means the uptake and further replication of results and experiences will be available.

32. The proposal, through component 1, places strong importance on the set-up of institutional knowledge generation structures, including partnerships between local universities and national research institutes (e.g. in the areas of agro-ecosystems livelihood diversification research, agrometeorological information or early warning systems) and institutional coordination mechanisms between public and private actors. These systems are well embedded in the existing institutions and are likely to deliver the envisaged paradigm shift. Human resources and funding for the research institutions have been assessed as sufficient to ensure their continued and effective operation beyond the conclusion of the project. These institutions may also be able to play an ongoing advocacy role to ensure continued ownership of this adaptation approach.

33. The rehabilitation of potable water infrastructure and the improvement of the early warning systems and meteorological information (data collection, analysis and delivery) are not truly innovative but respond to needs of the local communities. Considering the local communities' willingness to pay, there would possibly be scope for elements such as user fees that, using a revolving fund, would increase cost-efficiency for the GCF and their sustainability and replication after the project. Despite these shortcomings, however, the project generates a sufficient paradigm shift in Colombia's approach to adaptation.

### 3.3 Sustainable development potential

*Scale: Medium/high*

34. The ecosystem-based approach proposed by UNDP has the potential to deliver substantial co-benefits to the environment and communities. Environmental co-benefits include soil conservation, increased vegetation cover and overall restoration of the ecosystem integrity in biodiversity-rich Colombia. The project includes measures to maintain water quality by reducing fertilizer and other chemical inputs.

35. Gold mining upstream and economic displacement is a matter of concern and may need further work; although the issue is being addressed by the GoC, mitigation measures may need to be further developed.

36. Communities will benefit in particular in terms of health (as a result of the provision of safe drinking water to 157,200 beneficiaries), reduction in expected annual losses from floods (78%), and livelihood sources from home gardens and for cattle ranchers. Households that receive water tanks, which are currently spending up to USD 600 per year to access drinking water from the nearest mini-aqueduct, will see those costs vastly reduced.

37. The restoration of the natural buffering capacity of the wetlands reduces the risk of seasonal flooding downstream, with the city of Barranquilla at the mouth of the Magdalena River – with a population of 1.2 million – being a prominent beneficiary.

### 3.4 Needs of the recipient

*Scale: Medium/high*

38. The proposal targets the highly vulnerable floodplain region of La Mojana, one of the poorest in the country, predominantly rural and dependent on agriculture and livestock. It is regularly affected by flooding (especially in La Niña years) and droughts during the dry season (in El Niño years), both of which are increasing in frequency and intensity (see figure 1 in the Funding Proposal), affecting households' access to clean water in a context where 42 per cent of the population already lack this basic need. An average reduction of 14 per cent in the levels of

precipitation is foreseen by the year 2100, combined with a temperature increase of 0.9°C to 2.2°C, which can result in drought periods extending to over 100 days a year.

39. UNDP notes that the region and its Government also have a low level of financial and institutional capacity, with low levels of tax revenues. The project's inclusion of user fees for water services, in addition to institutional capacity-building, may have a strong impact in strengthening revenue collection and ensuring that operations and maintenance and other adaptation costs are incorporated into government budgets.

### 3.5 Country ownership

*Scale: Medium/high*

40. The project is well aligned with the priorities of the GoC on adaptation, builds on the National Adaptation Plan for Climate Change, and contributes to the implementation of Colombia's nationally determined contribution. Colombia places importance on the reduction of its fiscal vulnerability to natural disasters and events, and has guidelines for the sectors and regions of the country in order to prioritize their actions to reduce vulnerability and include climate change and variability. The project is seen as an important testing ground for comprehensive and integral territorial level adaptation initiatives.

41. Governments at the national, regional and local levels show a high level of ownership. There is substantial co-financing from municipalities and regional governments (USD 16.9 million), in addition to the NAF (USD 61.8 million), fully funding the implementation of key components to the project such as the integrated wetland restoration plans and hydrology restoration. In addition, the project leverages human and financial resources from a diversity of stakeholders, including local universities and research institutes, which will play a strong role in the generation and mainstreaming of knowledge and lessons learned into local planning.

42. The proposed approach to ecosystem restoration through community restoration plans, by having local stakeholders (e.g. communities, cattle rancher associations) participate in decision-making and stewardship of the restored lands, is well considered in the project design, and is expected to make a significant contribution to the generation of ownership at the local level.

### 3.6 Efficiency and effectiveness

*Scale: Medium*

43. The project requests a grant of USD 38.5 million from the GCF. Co-financing from the governments and associated agencies at the national and local levels, as well as universities, amounts to USD 73.4 million, a ratio of USD 1.9 per USD provided by the GCF. The restoration of wetland channels, a highly costly component whose need is related to previous infrastructure and planning deficiencies, will be funded exclusively through co-financing. The financial structure, level of GCF concessionality and co-financing are considered adequate taking into account the activities proposed and Colombia's income level and financial capacity.

44. Although there may be scope to increase cost-effectiveness through a more extensive use of user fees, coupled with a revolving fund to replicate investments in water infrastructure at a moderate cost, the high levels of poverty in the region are a reasonable argument against such a scheme.

45. The project builds on best practices and lessons learned from a previous UNDP risk reduction and water supply project in La Mojana, as well as best rice and livestock production techniques developed by national producer organizations. Refurbishment of micro-aqueducts and rainwater harvesting and storage will use up-to-date technical elements.

46. Project management costs of USD 2.2 million (2% of the total project cost) are considered adequate and sufficiently justified.

## **IV. Assessment of consistency with the safeguards and policies of the GCF**

### **4.1 Environmental and social safeguards**

47. The accredited entity (AE) provided the overall environmental and social risk level of the project as category B; that is, having potential mild adverse environmental and social risks and/or impacts. Some of the key environmental and social issues considered by the AE include the potential release of contaminants into water during earthworks and access to project benefits by indigenous peoples. The impact of potential environmental and social risks is expected to be reduced with the implementation of mitigation measures according to the assessment conducted by the AE. Due diligence by the GCF Secretariat confirms the moderate environmental and social risks and impacts of the proposed programme considering the scale of the activities and the nature of these risks and impacts.

48. The AE has provided an environmental and social management system (ESMF) as the main environmental and social safeguards document with further details on potential impacts and proposed mitigation measures. Additionally, the AE provided a stakeholder engagement report with details of consultations undertaken during the project preparation stage. An indigenous peoples' report and planning framework (IPPF) to support the differential approach to design and implement the project in an effort to ensure that project benefits are also enjoyed by indigenous peoples in the project area. Both the stakeholder engagement report and the IPPF have been annexed into the ESMF which will be disclosed.

49. The ESMF contains an assessment of the impact and probability of potential environmental and social impacts and risks that were identified by the AE. Key impacts that may result from the project include potential heavy metal contamination of groundwater, surface water and soil from mining in upland areas due to significant earth works that will be undertaken to restore the wetlands. Mitigation measures proposed to address these impacts include developing and implementing site-specific erosion, drainage and sediment control plans. The AE has also outlined in the ESMF measures for soil and silt removed in the earth works that involves reusing it for composting and returning to farm land for home gardens after testing to confirm suitability for re-use. On the other hand, the project has the following environmental and social co-benefits: improved water supply and improved access to climate information and restoration of wetlands. A budget for the implementation of environmental and social measures proposed has been included in the ESMF. The AE has provided an environmental and social code of practice for the rainwater harvesting component of the project. The code of practice includes construction, operation, maintenance and, as necessary, the decommissioning of the rainwater tanks.

50. In relation to indigenous peoples, the AE provided an IPPF that describes the prevailing conditions of the indigenous peoples within and outside the project area and the processes that will be undertaken to meet the requirements of the environmental and social safeguards standards of the AE and the GCF. Literature cited in the IPPF indicates that there are 87 indigenous peoples' groups in the country officially recognized with an estimated population equivalent to 3.43 per cent of the population. Within the project site, the indigenous Zenú population is found scattered in the region of La Mojana. The Zenú population self-identify as indigenous to the area and practise their own customs and traditions within their occupied territories. Approximately 900 indigenous families reside in nine settlements within the project

area and are organized into six indigenous councils in the towns in which they are located. The assessment by the AE suggests that the indigenous peoples' population in the project site are marginalized and the settlements made fragile due to a lack of facilities, and the impacts of climate, environmental, socio-economic and conflict conditions. Consultations and dialogues with the indigenous population during project design and due-diligence yielded recommendations for implementing the project with differential approach. The recommendations are incorporated in the components of the project which include design of training and communication activities, a choice of planted crops that recognizes the indigenous peoples' diet, promoting education programmes that recognize cultural identity and traditional knowledge, among others. The mechanism for creating the free, prior and informed consent (FPIC) through meaningful consultation and engagement is presented in the IPPF. It provides information on consultations held with the indigenous councils and supported by the legitimate Zenú Indigenous Peoples representation, high regional council of the Zenú people, and the Principal Council of the Indigenous Peoples of Colombia. The FPIC was obtained with 11 conditions that integrated the differential approaches to the various components and activities of the project.

51. The AE will maintain oversight and provide quality assurance for the project. The accredited entity's implementing partner/executing entity (EE), the NAF, will be responsible for the implementation with the ESMF. The NAF will assess the environmental and social performance of the delivery organizations, such as contractors in charge of delivering each component throughout the project, and ensure compliance with the ESMF. The NAF will also be accountable for the environmental and social monitoring and reporting for the project. The EE has demonstrated its capacity for implementing long-term projects through its current implementation of a climate change adaptation project in La Mojana. Training will be received by personnel involved in activities to implement the ESMF.

52. The AE has provided information on environmental inspection checklists and how corrective actions will be taken to administer the ESMF. Additionally, the AE will ensure the monitoring of parameters, including groundwater, surface water and soil for potential contamination with heavy metals during the implementation of the project. The AE will maintain oversight of implementation of the project, including execution of the ESMF. The implementation of the indigenous peoples' planning framework will be undertaken by an expert who will carry out monitoring and write progress reports on its implementation of the programme with indigenous peoples.

53. The stakeholder engagement process involved multi-stakeholder meetings that were conducted between November 2016 and February 2017. National government agencies, local government authorities, non-governmental organizations and community-based organizations, including women's organizations and fishermen and farmers' organizations, have also been engaged in the process. The stakeholder engagement report provides information that was disclosed to stakeholders during the consultation meetings, locations and dates of meetings undertaken, groups and individuals consulted and issues and concerns raised by the participants. Particular attention was given to indigenous peoples who are in the project area. Consultations with the Zenú people were undertaken by the AE. The report contains a summary of the issues discussed, as well as the recommendations and conclusions made by the indigenous councils in the project area. Stakeholder engagement will continue during the mid-term and final evaluations to assess the progress of the project, enable adaptive project management and ensure the project responds to the needs and priorities of the communities. In addition, stakeholders, such as the high regional council of the Zenú people, will receive quarterly progress reports with details of the implementation of the planning framework.

54. The project-level grievance redress mechanism will be administered by a safeguards officer of the project management unit and grievances received will be addressed in

coordination with the EE. Details of how the project-level grievance redress mechanism can be contacted or how contact details will be shared with stakeholders have not been provided in the ESMF submitted by the AE. In addition to the project-level grievance redress mechanism, the AE has provided the option in the ESMF to access its institutional-level grievance redress mechanism to receive and address concerns and grievances from affected communities. The weblink to the accredited entity's institutional-level grievance redress mechanism and guidance on submitting a request have been included in the ESMF which will be disclosed.

## 4.2 Gender policy

55. The proposal contains a comprehensive gender assessment; therefore, it complies with the operational guidelines of the Green Climate Fund's "Gender Policy and Action Plan". The gender assessment provides an outline of the situation of men and women in Colombia in terms of: poverty levels; access to basic services; access to resources; participation in decision-making in the political arena and at the household level; and participation of women and men in the formal/informal labour force. Additionally, the gender assessment provides a context of gender issues in rural areas of Colombia, including involvement of men and women in agricultural production units. However, information has not been provided on other livelihood opportunities, such as fishing, that communities in La Mojana are engaged in. The gender assessment also provides information about vulnerable groups such as female-headed households, national strategies and laws for promoting gender equality in Colombia, and issues raised in project stakeholder consultations in relation to challenges faced by women in water management issues. The AE has made good use of the assessment by identifying opportunities in the project for promoting gender equality and addressing the needs and priorities of men and women through project design, implementation, and monitoring and evaluation.

56. The proposal contains an indigenous peoples' report and planning framework. Consultations held with indigenous peoples identified opportunities that the project presents to ensure that project benefits are also enjoyed by indigenous peoples and contributions the project can make to strengthen their capacities for adapting to climate change.

57. The proposal contains a project-level gender action plan (GAP) with: gender-oriented actions in each of the proposed activities; indicators with sex-disaggregated targets for some indicators; responsible institutions; and timelines for implementation. A gender action plan budget has been included with a cost estimate for each activity. Notably, gender-related activities will be implemented by a gender specialist.

58. In the proposal (i.e. section E.1. Impact potential), the AE has included core indicators of the number of direct and indirect beneficiaries, disaggregated by gender.

59. Consultations conducted included both men and women from the 16 municipalities and indigenous peoples. Details were provided on information disclosed and issues raised by those who were consulted regarding the project. Consultations were also undertaken with women's organizations and community-based organizations in the project area.

60. **Recommendations to help strengthen the gender lens of the proposal:**

- (a) Training women in the communities through rural extension programmes focusing on the maintenance of water supply systems.
- (b) Engaging established community groups such as the community water boards, where they exist, in participating in the maintenance of the water supply solution, and ensuring women and vulnerable groups are sufficiently represented.

- (c) Setting up a mechanism to preferentially target water access for the most vulnerable households (in particular, households headed by women, children, widowed and the elderly), those living below the poverty line, and indigenous peoples.

## 4.3 Risks

### *Project-level risks*

#### **Overall programme assessment (medium risk):**

61. Complex project governance: La Mojana is an isolated region of Colombia, which was affected in the past by the armed conflict in Colombia. This legacy still impacts the local governance conditions of the region and has hindered the development of the communities inhabiting the territory. Between 1999 and 2012, the surrounding regions were affected by the disputes between different guerrilla groups for the control of the territory and the drug trafficking routes. Consequently, an average of 4,000 displaced people per year arrive in La Mojana. Poverty and limited access to government support have increased the vulnerability of these populations, making them unprepared to manage development and climate change interventions.

62. Part of the challenge for UNDP is to create a governance structure and a strict reporting system that enables local community organizations to understand and manage water sources and natural ecosystems. The knowledge management service (Activity 1.2) has to ensure that correct governance capacity exists within the community assemblies so that “water associations” can establish community agreements in fee collection and maintenance plans.

63. In order to be successful, UNDP will have to ensure that these water associations are attached to existing community governance structures. UNDP should also have oversight of the election of community members to the water associations by the assembly of a Communal Action Committee. An operation and maintenance manual, which is yet to be finalized, has to define and apply minimum charges (according to economic possibilities of the community) to cover costs, as well as support arrangements harmonized between the community associations and the municipalities. It is recommended that UNDP shares the finalized manual and the GCF approves it to provide assurance of project performance, as a condition prior to the first disbursement (1).

64. Stable country outlook: Colombia is implementing tax reforms (passed at the end of 2016) that provide credibility of the fiscal framework and authorities are implementing structural adjustments to withstand the impact of the oil price shock. A peace agreement to end the decades-long armed conflict with the Revolutionary Armed Forces of Colombia (Farc), is underway and, if well implemented, would be a positive development. The Colombian economy has grown at an average annual rate of 3.7 per cent for the last five years compared to 3.1 per cent for its peers in the region. The authorities’ medium-term fiscal targets call for further consolidation of 2-3 per cent of GDP growth between 2016 and 2022. However, the country continues to score relatively poorly on the World Bank’s governance indicators.

65. Given the programme risks identified above, it is recommended that the GCF implements a mechanism of grant disbursements in tranches, subject to verification of the milestones of the project being achieved, to be delivered by UNDP yearly in the annual project reports (2).

#### **AE / EE capability to execute the current programme (medium risk):**

66. UNDP specializes in sustainable development, disaster resilience and governance and has a relatively successful track record of implementing transformational impact in the areas of mitigation and adaptation in developing countries. The funding proposal provides sufficient

details on how UNDP will carry out its responsibilities of programme supervision and reporting of milestones to the GCF.

67. The Fondo Adaptación is a relatively experienced EE that is considered well positioned to deliver successfully to the project. It has previously operated four projects, related to housing, restoration of degraded ecosystems, flood risk and ecosystem management. Progress reporting has been steady to date with positive results in the previous projects.

**Project specific execution risks (medium risk):**

68. Economic viability (high risk): The economic viability of the entire project remains positive, including under the worst-case scenarios, which are, however, not fully explained in terms of assumptions. The economic efficiency of the project depends on the benefit assumptions and calculations, which should be described in more detail. In many stress scenarios, the viability remains barely positive and a combination of the negative factors could make the project economically unviable. For example:

- (a) In the water supply tranche, the project aims to provide an additional 20 litres of water per household per day. The recipient “willingness-to-pay” is assumed to be in the range USD 0.02 to USD 0.08. The net present value is barely positive with decreasing willingness to pay at 0.06 and becomes negative at 0.04 (using a 10% discount rate in line with the existing UNDP practice).
- (b) Economic analysis of the early warning systems accounts for the benefits of saving statistical lives by assuming an average mortality rate due to floods each year in the targeted region and assuming an economic value of the lives expected to be saved as a result of the interventions. It is assumed that the numbers of statistical lives saved is proportional to the cumulated share of capital spent from 2018 to 2021, which might prove to be unrealistic or over-optimistic.

**GCF’s portfolio concentration risk (medium risk):**

69. In case of approval, the impact of this proposal on the GCF portfolio concentration is not material.

**Recommendation:**

70. It is recommended that this Funding Proposal is approved by the Board subject to verification of conditions (1) and (2) above.

**Table 2. Summary of GCF-level risk management assessment**

Summary risk assessment	
Overall programme	Medium
AE / EE capability to implement this program	Medium
Project-specific execution	Medium
The GCF’s portfolio concentration	Medium
Compliance	Low

**4.4 Fiduciary**

71. The Executing Entity (EE) for the program will be the National Adaptation Fund, a public entity of the Government of Columbia (GoC). The project will be implemented following UNDP’s

Support to National Implementation Modality (NIM), according to the Standard Basic Assistance Agreement signed between UNDP and the GoC.

72. As the Executing Entity, NAF is required to implement the project in compliance with UNDP's rules and regulations, policies and procedures including the NIM Guidelines. The NAF will be accountable to UNDP for managing the project including the achieving of project outcomes, and for the effective use of UNDP resources. The accountability of the EE is to report fairly and accurately, project progress against agreed work plans in accordance with the reporting schedule and formats included in the project agreement.

73. UNDP will be part of the board that will provide quality assurance for the project, ensure adherence to the NIM guidelines and ensure compliance with GCF and UNDP policies. Project Board decisions will be made in accordance with standards that shall ensure management for development results, best value money, fairness, integrity, transparency and effective international competition.

74. UNDP's overall role as an Accredited Entity is to provide oversight and quality assurance through its Headquarters, Regional and Country Office units. This role includes: (i) project preparation oversight; (ii) project implementation oversight and supervision, including financial management; and (iii) project completion and evaluation oversight. The UNDP Country Office in Colombia will oversee the implementation of the proposed project.

75. The financial management and procurement of this project will be guided by UNDP financial rules and regulations. UNDP will perform monitoring and reporting throughout the Reporting Period in accordance with the AMA.

76. UNDP has ascertained the national capacities of the implementing partner by undertaking an evaluation of capacity following the Framework for Cash Transfers to Implementing Partners (part of the Harmonized Approach to Cash Transfers - HACT).

## 4.5 Results monitoring and reporting

77. As an adaptation intervention, section E.1.2 of the proposal reports the value of the core indicator; the expected total number of direct and indirect beneficiaries disaggregated by gender. There are 203,918 direct and 201,707 indirect beneficiaries. Direct beneficiaries are rural residents with a high level of climate vulnerability, a proximity to flood-prone areas, and limited access to sustainable alternative water sources; the total coverage of year-long access to drinking water is targeted for these beneficiaries. Indirect beneficiaries will be residents in predominantly urban areas who will benefit from early warning system alerts.

78. Regarding the logical framework section, the proposal aligns with the climate results and indicators of the performance measurement framework of the GCF. The accredited entity has addressed the issues raised in the Secretariat's due diligence review. The funding proposal still has a few remaining issues, including:

- (a) A lack of a midterm target for outcome and output indicators.
- (b) Indicators need to be SMART so they demonstrate a clear difference/progress between baseline, midterm and final targets.
- (c) Some discrepancies in the unit of measurement between the indicator/baseline and targets.
- (d) More detail and quantification at the activity/input level is also encouraged.

79. The arrangements for monitoring, reporting and evaluation are provided. It is note that the timing of midterm/final independent evaluation is not projected onto the implementation timetable but it could be set out in termsheet/FAA.

## 4.6 Legal

80. The AMA between the GCF and UNDP was signed on 05 August 2016 and became effective on 23 November 2016.

81. UNDP has provided a certificate pursuant to Clause 4.13(b) of the AMA confirming that it has obtained all final internal approvals to implement the project on 28 July 2017.

82. The proposed project will be implemented in Colombia, country in which GCF is not provided with privileges and immunities. This means GCF is not protected against litigation or expropriation in this country. The Secretariat submitted a draft of the privileges and immunities agreement and a background note to the NDA in August 2015 and meetings have been held with the Colombian delegation at COP21 and COP22, and with the Colombian mission in New York in October 2016, to discuss the terms of the agreement; however, since November 2016 no substantive communication on the draft agreement has been received.

83. The GCF is exposed to litigation risk in Colombia. Risk of expropriation needs to be further assessed. Furthermore, the Independent Redress Mechanism (IRM) and Independent Integrity Unit (IIU) have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations, to the fullest extent envisaged in the GCF Governing Instrument and the Board-approved terms of reference, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after the GCF has obtained satisfactory protection against litigation and expropriation in Colombia, or has been provided with appropriate privileges and immunities.

84. In order to mitigate risk, it is recommended that any approval by the Board is made subject to the following conditions:

- (a) the execution of all required legal documentation in form and substance satisfactory to the GCF Secretariat; and
- (b) the completion of legal due diligence to the satisfaction of the GCF Secretariat.

## Secretariat's review of FP057

Proposal name:	Climate Action for Rural Development: community-based adaptation and mitigation in Argentina
Accredited entity:	UCAR – Unit for Rural Change of Argentina
Project/programme size:	Small

### I. Overall assessment of the Secretariat

1. The funding proposal titled “Climate Action for Rural Development: community-based adaptation and mitigation in Argentina” is presented for the consideration of the Board, with the following remarks:

**Table 1. Summary of strengths and points of caution**

Strengths	Points of caution
The proposal matches the design and spirit of enhanced direct access (EDA). It has at the centre of its action the local public institutions and smallholder farmers, and it empowers the national designated authority and other national and local actors in its oversight mechanism	Several of the subprojects to be financed by the EDA facility (Component 2) will need to have their climate rationale carefully reviewed to ensure that GCF proceeds cover the additional costs due to climate change
The logic of the action and integration of the component is clear and there is clear understanding that it builds on the experience of UCAR in community-based action	The sustainability of the action will depend on the quality of the subprojects' design and capacity to sustain credible operation and maintenance plans
	If the EDA subprojects under Output 2.1 (public institutions) will be focused on mitigation and financially viable, UCAR should seek a higher level of co-financing than the proposed 20 per cent from the institutional grantees

2. Project-specific terms and conditions are listed in the term sheet and the addendum titled “List of conditions and recommendations”, for the consideration of the Board.

### II. Summary of the Secretariat's review

3. This proposal is submitted as an enhance direct access (EDA) pilot programme.<sup>1</sup> It matches the EDA design and terms of reference. The logic of the action is coherent and builds on the knowledge of its beneficiaries and the targeted local institutions. The proponent, Unit for Rural Change of Argentina (UCAR), has demonstrated extensive experience in the administration of similar types of community-based projects in Argentina.

4. For this project, UCAR is also the executing entity. It intends to cover five microregions in five provinces in the north of Argentina, which are particularly vulnerable to the impact of climate

<sup>1</sup> Annex I, GCF/B.10/17.

change. The rural population in these microregions is also assessed to be below economic and social development national averages.

5. The project is envisaged to serve 28,750 beneficiaries (direct and household members of the direct beneficiaries) and, in the long term, to potentially reduce and avoid 1.2 Mt CO<sub>2</sub> eq of greenhouse gas (GHG) emissions. The accredited entity (AE) seeks grant finance from GCF amounting to USD 22.06 million. The total project cost is USD 26.83 million.

### **Component-by-component analysis**

*Component 1: Capacity-building and community-based planning. (Total financing: USD 1.9 million, GCF financing: USD 1.69 million in grants)*

6. This component supports the capacity-building and climate awareness of local institutions and beneficiaries in dealing with climate change projects. In particular, it will provide technical assistance to local institutions, cooperatives and farmers' associations for preparing the EDA subprojects that will be financed by Component 2 (EDA facility). It also includes a planning component for developing local mitigation and adaptation plans that in turn will support the identification of the most relevant subprojects that the EDA facility will finance.

7. The conceptualization and design of this component is sound. Its successful timely implementation is considered key for the impact potential this EDA pilot[ programme].

*Component 2: Mitigation and adaptation actions (Total financing: USD 20.91 million, GCF financing: USD 17.55 million in grants)*

8. This component is the core of the EDA approach. It establishes the facility that will finance the actual climate subprojects. It is composed of two outputs: Output 2.1 will focus on subprojects proposed by local institutions; Output 2.2 by those submitted by smallholder farmers' organizations.

9. Output 2.1, EDA subprojects on mitigation and adaptation for local public institutions absorbs most of the budget. UCAR states that the subprojects will be evaluated paying attention to their climate additionality and that GCF proceeds will be devoted to covering the incremental costs due to adaptation and mitigation impacts. This analysis will be carried out by the project's Technical Implementation Unit and the Evaluation Committee. UCAR has also detailed the subprojects cycle, which includes emphasis to the sustainability of the subprojects as operation and maintenance plans will be required for each of them.

10. The level of co-finance required by this public institution is 20 per cent per subproject. In this process, it is pivotal to ensure a careful evaluation of the subprojects by UCAR to ensure that GCF proceeds are additional to the proposed baseline investments. If there are EDA subprojects within mitigation projects that are financially viable, it is recommended that UCAR increase its co-finance request, even up to 50 per cent of the total project costs, especially for the Output 2.1 window, which provides direct support to public local institutions.

11. Output 2.2 provides EDA finance to smallholder farmers' associations and cooperatives. It also establishes revolving funds to be managed operating through microfinance modalities. The proposal states that GCF proceeds channelled through the EDA facility cover 90 per cent of the subprojects and, as in the case of the 2.1 activities, the analysis of the incremental costs to be covered by GCF proceeds is to be assessed by the EDA evaluation committee. As 10 per cent could be suboptimal for those projects that can mainly support adaptation and development outcomes, it is recommended that UCAR seek other potential national and local institutional donors that support the non-climate related activities.

12. Overall, the design of Component 2 is sound in relation to the EDA terms of reference. The role of the AE in ensuring that GCF proceeds cover climate-related activities in the subprojects is

central. It is recommended that emphasis is paid to ensuring high-quality independent evaluations. The mid-term project evaluation is especially relevant, because it can determine whether the EDA-financed subprojects are appropriate to satisfy the climate needs identified in the mitigation and adaptation plans.

*Component 3: EDA programme management and monitoring and evaluation (Total financing: USD 3.52 million, GCF: USD 2.82 million)*

13. This component refers to project management. The elements described are sound. Given the fact that UCAR is both the AE and executing entity, the financial reports provided with the annual performance reports should provide specific clarity on the use of the fees.

### **III. Assessment of performance against investment criteria**

#### **3.1 Impact potential**

*Scale: Medium*

14. Being an EDA pilot programme, the actual impact potential is based on the portfolio of subprojects that will be submitted. In this proposal, the subprojects broadly vary across different mitigation and adaptation sectors. Risk related to potential maladaptation or lock-in effect of the infrastructure provided will depend on the capacity of UCAR to support the grantees appropriately and to identify projects that can reliably offer the best climate results based on the needs identified in the planning stage (Component 1).

15. The core indicators are reported, and the methodologies applied for the estimation of the GHG reduction potential are documented. The degree of benefits for those classified as indirect beneficiaries is high.

16. As in all EDA interventions, the evaluations will be instrumental to the assessment of whether the GCF proceeds have been used to produce tangible climate results. It is recommended that the GCF Secretariat include this project in the basket of those to be closely monitored during its implementation and for an ex-post analysis [to be conducted ] of the results in the long term.

#### **3.2 Paradigm shift potential**

*Scale: Medium*

17. This EDA pilot programme proposes an overall broad approach, tackling mitigation and adaptation actions at the grass-roots level. Although there is no presentation of a structured theory of change, the proposal appears to have a sensitive phased approach. Component 1, through the development of the mitigation and adaptation plans with the communities, should be able to ensure that the subprojects (Component 2) are directed to where the climate and development needs are more relevant.

18. There are elements that can contribute to an optimal paradigm shift potential. The overall EDA approach, if well delivered, can support behavioural change and, in this case, truly empower the local institutions in managing climate finance.

19. The sustainability of the outcomes is difficult to appraise at the second-level due diligence stage. Following interactions with the Secretariat, UCAR has strengthened the requirements in terms of financial viability and operation and maintenance plans to be required when the subprojects are presented. However, if the appropriate resources for sustaining the outcomes of the subprojects are to be mobilized and delivered by the EDA facility, grantees can only be known at the final evaluation stage.

20. The proposal builds on similar community-based and planned initiatives already implemented by UCAR. Nevertheless, it does have an innovative approach, given the specific EDA

implementation arrangements that deliver further responsibilities to the local institutions and support climate awareness among the smallholder farmers.

21. The level to which new technologies will be successfully applied will depend on the subprojects proposed. UCAR provides evidence that the promotion of suitable new technologies for the smallholder farmers will be at the centre of the planning process to define which subprojects will be financed.

22. The proposal intends to set a solid monitoring, evaluation and knowledge management system. This is considered to be positive, given the importance of assessing the overall performance of the EDA pilots at the GCF level.

### 3.3 Sustainable development potential *Scale: Medium/High*

23. There are several co-benefits that can be expected by the implementation of the subprojects. It is difficult to assess them at this stage, because they will depend on which subprojects the EDA facility will finance. Several of the envisaged mitigation and adaptation subprojects can contribute to income generating sectors the benefits of which are likely to be directly harvested by the communities. Job creation could also be expected in the local market.

24. The same applies to the environmental co-benefits. A number of subprojects are likely to target soil conservation and disaster risk reduction interventions.

25. Gender issues have been considered during the design. The proposal considers indigenous people and their needs, and it is positively noted that representatives of indigenous peoples are present on the EDA Pilot Steering Committee that provides oversight functions. During the implementation of Component 1, which will target the areas of intervention of the EDA subprojects, it is particularly important that indigenous people are appropriately consulted.

### 3.4 Needs of the recipient *Scale: Medium/High*

26. The needs of the beneficiaries and their vulnerability to climate change is well documented in the proposal and its feasibility study.

27. The financial needs and how GCF proceeds can overcome the barriers provided by the lack of financial means of local institutions and rural dwellers is carefully explained, as is the lack of credit access for smallholder farmers.

28. In terms of institutional needs, Component 1 can support mainstreaming of climate change policies and interconnection among different type of institutions and governance levels. However, this is not one of the main outcomes of the EDA pilot programme, which rather targets the promotion of adaptation and mitigation measures among the population.

### 3.5 Country ownership *Scale: High*

29. The proposal and the feasibility study elaborate sufficiently on the alignment of the activities that can be financed by Component 2, (EDA facility) with the unconditional commitments (both in mitigation and adaptation) in the nationally determined contribution, the national communications to the United Nations Framework Convention on Climate Change (UNFCCC) and the national adaptation plans.

30. The feasibility study and the proposal also elaborate on how the project builds on the experience of other national rural development interventions implemented by UCAR.

31. UCAR also acts as the executing entity. The proposal showcases the track record of UCAR in managing projects in the targeted areas with comparable approaches and budgets.
32. The national designated authority is part of the Steering Committee that provides oversight to the project, this reflect the EDA implementation arrangements as highlighted in the terms of reference.
33. Communities and other local institutions have been consulted. The feasibility study reports a track record of the priorities and needs identified by the stakeholders. Nevertheless, Component 1 is key to better define the climate needs and consequently to address the EDA subprojects' call for proposals so that they can cover sectors with maximum climate impacts.

### 3.6 Efficiency and effectiveness

*Scale: Medium/Low*

34. Component 3, which reflects project management costs of UCAR, accounts for 13.1 per cent of the total budget and is mainly financed by GCF. UCAR is also the executing entity and might require an additional 9 per cent from GCF for AE fees. As even the subprojects are likely to require additional resources for their transaction costs (and this estimation is not quantified in the proposal), it is difficult to assess whether the overall operational cost-effectiveness is in an optimal range.
35. The concessionality requested is justifiable for those EDA subprojects that will operate to provide public goods, especially in adaptation, and those that support smallholder farmers that are not able to access formal credit to adapt to new green technologies. However, from the proposal, it emerges that the EDA facility might also be able to finance local public institutions for mitigation projects that can have a certain level of financial viability. In those cases, it is recommended that UCAR exercise a level of responsibility in ensuring that at least an appropriate level of co-finance, above the proposed 20 per cent, is leveraged by the beneficiary Argentine institutions.
36. Component 2 (which effectively finances the EDA subprojects) has an allocation of 79.8 per cent of the budget, and this is considered an optimal choice.
37. The economic internal rate of return is assessed to be 22 per cent. Few details are provided on the economic analysis assumptions. This is justifiable because, for EDA pilot programmes it is not possible to exactly pre-determine what the portfolio of subprojects will contain. The aspects of the actual estimation of the economic internal rate of return can be further assessed at the mid-term evaluation stage when the most of the portfolio of subprojects should have been defined.

## IV. Assessment of consistency with the safeguards and policies of the GCF

### 4.1 Environmental and social safeguards

38. The programme is considered by the AE as having moderate environmental and social risks and impacts, equivalent to Category B of its environmental and social risk classification. The AE characterized the likely environmental and social risks and impacts as limited in scale, localized, and mostly temporary in nature resulting mostly from construction and installation works. The due diligence by the GCF Secretariat confirms the moderate environmental and social risks and impacts of the proposed programme considering the scale of the activities and the nature of these risks and impacts. The key environmental and social issues considered were those

related to indigenous peoples and local communities, natural habitats and natural resources, land availability and rights, and potential restriction of access to natural resources. The environmental and social safeguards (ESS) requirements to address the potential risks and impacts were examined in the due diligence of this proposed programme.

39. The AE has prepared an environmental and social management framework (ESMF) recognizing that the specific locations of the subprojects have yet to be identified. The requirements specific to the GCF interim ESS standards on involuntary resettlement and indigenous peoples, such as the resettlement policy framework (RPF) and the indigenous peoples planning framework (IPPF) were incorporated in the ESMF. The ESMF provides relevant information related to the prevailing environmental and social conditions in the five priority microregions and describes the high-level environmental and social risks and impacts that are likely to be generated by the programme. The ESMF likewise presents the risk management processes, such as the environmental and social screening, classification and assessment of subprojects; the development and implementation of mitigation measures; the implementation, monitoring and reporting of results; stakeholder engagement; and grievance redress. The types of environmental and social assessments based on the likely risks and impacts are provided in the ESMF including sample formats, references and guidance documents. The list of subprojects that are not eligible for programme support is also provided in the ESMF and includes: those activities where the adverse effects on natural habitats and cultural heritage cannot be mitigated; projects that present loss or degradation of natural habitats, conversion or unsustainable utilization of forests; and projects that have potentially adverse impacts on indigenous peoples.

40. The programme will be implemented in five microregions located in the five provinces in northern Argentina. The scale of the potential public infrastructure projects is considered to be small (pico-scale for hydropower projects) and the overall environmental and social impacts are likely to be limited. The prevailing environmental and social conditions in these locations and the types of activities are likely to generate the key environmental and social risks and impacts described below.

41. **Indigenous peoples.** The ESMF and its IPPF section indicate the presence of indigenous communities in the microregions where the programme will be implemented, making up the significant number of indigenous communities relative to the entire country. The indigenous communities were characterized as either groups that have integrated into the “criolla” population (locally born Argentine people sharing similar conditions and vulnerability), and groups that have maintained differentiated cultural patterns. The IPPF is incorporated into the ESMF and describes the national and institutional context of the indigenous peoples in Argentina. As the specific subproject sites and indigenous communities that will be involved or affected by the activities have yet to be identified, the IPPF describes the processes that will be undertaken to ensure that the programme meets the requirements of the ESS standard on indigenous peoples. The IPPF presents the likely benefits as well as adverse effects of the programme to the indigenous communities and the various measures to ensure that the adverse impacts are mitigated and the positive benefits enhanced. The IPPF provides the elements of the social assessment of activities and the indigenous peoples plan that will be developed and carried out. The mechanisms for permanent participation by representatives of the indigenous peoples in the programme’s various decision-making processes including: meaningful and informed consultations; and the formulation of proposals (including those for indigenous peoples’ own subprojects), approvals, implementation and monitoring. The ESMF presents a list of activities that will not be eligible for support by the programme and includes activities that: have adverse impacts on lands and natural resources subject to traditional ownership or under customary use; involve relocation of indigenous peoples from lands and natural resources that are subject to traditional ownership or under customary use; and have significant impacts on critical cultural heritage or use cultural heritage, including knowledge, innovations or practices of indigenous

peoples for commercial purposes. However, given that the various types of subprojects may generate adverse impacts that could still potentially affect the indigenous communities and their territories, the process for meeting the requirements for free, prior and informed consent will be necessary. The process towards meeting the requirements for free, prior and informed consent is elaborated in the ESMF and IPPF. Consultations with the indigenous communities undertaken by the AE and implementing entity are documented and included in the ESMF.

42. **Involuntary resettlement.** The programme may support a suite of community infrastructure (including access roads, irrigation, flood protection, erosion control, wastewater treatment, renewable energy generation, among others) which would require lands or rights to these lands, easements and rights of way. The ESMF describes the key challenges that may be faced by the programme related to land tenure governance, informal land occupancy, weaknesses in planning, and the delivery and availability of rural lands. Activities that may lead to physical dislocation and involuntary resettlement of communities will not be eligible for support under the programme. The RPF provides the processes and requirements that will be met by the programme to address impacts related to involuntary resettlement of people due to project activities where such situations arise, including restriction of access to natural resources leading to economic displacement. The RPF anticipates that the likely social impacts of the programme will be mostly economic displacement of people because of asset loss or restriction of access. The principles, elements, design considerations, implementation and monitoring of resettlement and livelihood restoration activities and plans are described in the RPF section.

43. **Natural habitats.** The ESMF indicates that the programme will not affect protected areas in proximity to the region. However, in two of the five microregions, forests that are low to moderate conservation values (based on Argentina Law 26331 on Minimum Budgets for the Environmental Protection of Native Forests) may be affected. The programme will ensure that the specific requirements of the Province of Chaco and La Rioja are met, regarding activities within forests of low to moderate conservation values. The ESMF further provides the list of activities that will not be eligible for support, including activities that promote further conversion of forested areas and degradation of protected areas and natural habitats.

44. The AE will rely on its Environmental and Social Unit to ensure that the environmental and social responsibilities of the programme are carried out and monitored based on the requirements of the ESS of the GCF and the AE. The AE and its Environmental and Social Unit have had experience in designing and implementing ESMFs from the programmes and projects previously executed.

45. The monitoring and reporting of the results of ESMF implementation will be integrated into the overall monitoring and reporting of the programme. The environmental and social impact and monitoring indicators, including the tools to gather information, are presented in the ESMF.

46. Multi-stakeholder consultations were carried out at different levels during programme design and due diligence by the AE. In each of the five microregions, participatory consultation processes were conducted attended by key institutions at the national and provincial levels, representatives of smallholder farmers and the private sector, and representatives from indigenous communities. Workshops were also held in the microregions to elaborate the local climate related adverse effects previously identified. The summary of stakeholders' consultations is included as an annex to the ESMF. A stakeholder engagement plan is also provided in the ESMF, illustrating the process for continuing stakeholder engagement including meaningful consultation and participation by the indigenous peoples and local communities. Expressions of interests have been received by the project from the different authorities following the consultations.

47. A programme-level grievance redress mechanism will be established and implemented

by the microregion associations, supervised by the AE. The steps and ways for filing claims and grievances are presented and include letters and complaint boxes, telephone, emails and regular meetings. The grievance redress mechanism will be disseminated to the communities through various communication and outreach activities. The procedures for evaluating concerns, responding and resolving grievances, and monitoring are also described in the ESMF.

## 4.2 Gender policy

48. The proposal contains a gender evaluation; therefore, it complies with the operational guidelines of the GCF Gender policy and action plan. The evaluation gives an overview of the situation of women in rural areas where the project will be implemented in terms of access to resources, information, technologies and education.

49. The proposal contains a project-level gender action plan with gender-responsive activities for each project component and sex-disaggregated targets for some of the activities. The AE has identified in the gender action plan a number of activities to ensure that the project benefits are realized by both men and women and to promote gender equality, for example, by promoting the leadership of women in managing revolving funds.

50. In the proposal (i.e. section E.1. Impact potential), the AE has included core indicators of the number of direct and indirect beneficiaries, and the number of beneficiaries relative to the total population, disaggregated by gender. In the logic framework of the proposal, the AE has included gender-informed targets; for example, targets for female-headed households who can benefit from activities related to awareness-raising and self-managed revolving funds for smallholder farmers. In addition, social inclusion targets have been provided to ensure that indigenous people in the project area benefit from the project. Arrangements for monitoring, reporting and evaluation include monitoring and reporting on gender-related targets and indicators in project implementation reports, and an assessment of the implementation of the gender action plan. Multi-stakeholder consultations, including with women, men and indigenous groups, have been held in the process of formulating the programme.

51. Recommendations that could help to strengthen the gender angle of the proposal include the following:

- (a) The AE is recommended to ensure that an increasing number of women beneficiaries become farm or non-farm based entrepreneurs, particularly those who will benefit from activities that will support smallholder farmers.

## 4.3 Risks

### **Project-level risks**

52. The programme success will depend mainly on the efficient coordination of the entities in charge of the subprojects (UCAR, farmers, the grantees, the formulation team (UCAR or external), the Technical Implementation Unit and technical experts). Terms of reference for the professional profiles of the technical experts and the Technical Implementation Unit will need to be developed within the definition of the programme's Operations Manual, and the manual is yet to be developed.

53. The programme's subprojects target a wide range of asset classes (awareness-raising, energy access, buildings' energy efficiency, ecosystems, soil regeneration, low-carbon agriculture). However, only examples of projects are currently described in the UCAR pipeline. Therefore, there is uncertainty on the grantees' (public institutions) quality and capacities to deliver and comply with technical, economic and socioenvironmental requirements. It is

recommended that, before the first disbursement GCF receive and approve: (a) the Operations Manual; (b) documentation on the selection criteria for grantees; and (c) documentation describing compliance of the selected subprojects' pipeline from UCAR (Condition 1).

54. As the programme targets public institutions, the country's institutional strength is a crucial factor. The Argentine economy is expected to start reporting a positive growth, because economic policies introduced have increased investor confidence and the authorities will reduce the Government deficit after the October 2017 mid-term elections, extending fiscal consolidation into 2019. However, Argentina's economic development has ongoing weaknesses resulting from a history of unsustainable economic policies and limited funding options. It is recommended that GCF grant disbursements for both Components 2 and 3 are made in tranches, disbursable subject to evidence of achieved milestones received in the annual performance reports, along the five years of the programme lifespan (Condition 2).

55. The proposal is based on community-planning and local ownership of the projects, which assumes ability and willingness to invest in the subprojects by rural smallholders. Smallholders have to co-finance at least 20 per cent of the total cost of the public investment projects and at least 10 per cent (money or in-kind) for the self-managed revolving funds (SMRF) supporting their associations. In order for smallholders to have the ability to co-finance, the income level of smallholders will need to be adequate. Argentina's inflation rate was 40 per cent in 2016 and, although the rate is falling (20–15 per cent expected by the end of 2017), it remains one of the highest among the rated sovereign governments in the region, and is an indication of historically weak monetary policy implementation. The Argentine real gross domestic product (GDP) growth was negative in 2016; however, economic growth is expected to return in 2017, encouraged by public and private investments and the authorities' interventions to reduce inflation and contain the fiscal deficit. Given these developments, the community-planning and local ownership of the projects may have challenges to work effectively towards the success of the programme.

**Capability of the accredited entity and the executing entity to execute the current programme (medium risk):**

56. UCAR brings to this programme its experience in the microregions of north Argentina (based on the IDEMI and PISEAR programmes). UCAR's experience lies mainly in the implementation of projects at the national and provincial levels, specializing in agriculture and infrastructure. UCAR is co-financing the programme with USD 1.77 million to be channelled to development outcomes in the microregions; this shows a fair commitment to the programme, given the small size of the organization. Therefore, UCAR can be considered to be well suited to implement the proposed programme.

**Project-specific execution risks (medium risk):**

57. **Economic and financial viability (high risk):** A budget of foreseen expenses is available but no analyses of net present value or internal rate of return were provided. The justifications given to ensure viable economic or financial results therefore have room for improvement. The funding proposal states that the expected benefits are difficult to quantify for the present EDA programme because the subprojects are not yet defined, which is understandable. However, no estimated quantification or scenario simulations are currently available. The interventions are expected to generate externalities with positive benefits for the community purely based on previous experiences. The internal rate of return is expected to exceed 22 per cent and the net present value to be positive; however, this is purely based on the experience of another support programme (Family Agriculture) the implementation of which was managed by UCAR.

58. **Funding structure (medium risk):** The Government's co-financing level can be considered insufficient (USD 1 million), given that it represents approximately 3 per cent of the total project costs. On the other hand, there is a positive incentive for the beneficiaries because they are asked to co-finance at least 10 per cent and 20 per cent of the total project costs for

Components 2 and 3, respectively. Overall, however, the financing split (GCF approximately 80 per cent vs. 20 per cent) can still be considered unbalanced.

59. **Monitoring of compliance of SMRF (medium risk):** UCAR on-grant resources to these funds which are partially supported by smallholders' co-finance (resources in money or in-kind). The funds are not generating reflows to UCAR and will be managed by an organization of rural producers with a degree of institutional maturity, previously evaluated and trained. The SMRF will disburse small loans to its associates and the reflows are lent again for new loans (revolving nature of the fund). Although the objective of the SMRF is clear (empower local associations to finance diverse mitigation investments), the eligibility criteria of the underlying borrowers and the loans structures are not sufficiently detailed. It is recommended that GCF receive and approve full disclosure on the regulations governing the SMRFs targeted by this EDA programme before the first disbursement (relating to Condition 1, para. 53 above).

60. **Overall programme compliance (low risk):** The risks related to anti-money laundering and countering the financing of terrorism are expected to be mitigated by: (a) UCAR policy and procedures on financial management and procurement for activities to be financed by the grant, which are considered appropriate; and (b) every grant disbursement for each subproject will be regulated by a legal arrangement that will have to comply with the country's laws and regulations.

61. **GCF portfolio concentration risk (low risk):** In case of approval, the impact of this proposal on the GCF portfolio risk remains non-material and within the risk appetite in terms of concentration risk, results area or single proposal.

**Recommendation:**

62. The proposal is recommended for Board approval subject to the above-mentioned Conditions 1 and 2 (paras. 53–54).

Summary risk assessment	
Overall programme	Medium
Accredited entity/executing entity capability	Medium
Project-specific execution	Medium
GCF portfolio concentration	Low
Compliance	Low

#### 4.4 Fiduciary

63. UCAR will be both the AE and the executing entity for the programme. UCAR is under the purview of the Ministry of Agroindustry, Government of the Republic of Argentina.

64. As the executing entity, UCAR will execute the programme with the support of its administrative, accounting and financial, human resources, monitoring and evaluation areas. It will be responsible for the administration of the grants and will carry out such administration with the same degree of care used in the administration of its own funds.

65. UCAR as the AE will be responsible for ensuring that the objectives and components of the programme are delivered, and that resources are allocated and disbursed in an efficient and

effective manner. UCAR will be responsible for the timely delivery of programme inputs and outputs, and for the coordination of all other responsible parties.

66. For this programme, UCAR will be responsible for fiduciary aspects and will be accountable for all financial and investment activities. UCAR's authorities and members of the programme will perform regular visits to the programme areas based on a schedule agreed in the annual work plan, including the financial monitoring of the implementation.

67. The procurement of goods and services for activities financed by the GCF will be carried out in accordance with UCAR standard practices and procedures, including its procurement and consultants' guidelines, which are aligned to the GCF requirements and national laws, including its procurement and consultants' guidelines.

68. UCAR will provide to GCF annual progress reports on the status of the project implementation, including the disbursements made during the relevant period or more frequent progress reports if requested; this includes annual audited financial statements of the Implementing Entity Grant Account, prepared by an independent auditor or evaluation body.

69. It is recommended that, as a condition of project effectiveness, the AE complete the financial management and procurement operational manual.

## 4.5 Results monitoring and evaluation

70. As a cross-cutting climate change intervention, the proposal reports values of core indicators in mitigation and adaptation. In section E.1.2, the value of the core indicator "Expected total number of direct and indirect beneficiaries (reduced vulnerability or increased resilience), number of beneficiaries relative to total population (adaptation only)" is reported as 3,550 direct and 17,750 indirect. The data on beneficiaries is disaggregated by gender and the methodology used for defining direct and indirect beneficiaries (including the calculation on how the targeting figure is derived) is provided in the funding proposal.

71. The value of the core indicator "Expected tonnes of carbon dioxide equivalent (t CO<sub>2</sub> eq) to be reduced or avoided (mitigation only)" annually is 27,106 t CO<sub>2</sub> eq/year and 731,851 t CO<sub>2</sub> eq for its lifetime. The funding proposal explains the assumptions/methodology with fundamental equations used for the estimates, and the calculation detail for the final figures reported has been provided. For GHG emission measurement in RE, CDM methodology is used. The sequestration of GHG emissions by afforestation or reforestation projects has been estimated based on standard methods published by the Intergovernmental Panel on Climate Change. The proposal also reports against the core indicator "cost per t CO<sub>2</sub> eq", estimated to be USD 37.07 per tonne for the total project financing and USD 30.55 per tonne for GCF financing. "Volume of finance leveraged" has been reported at a ratio of 1.17 to 1.

72. Regarding the logical framework section, the proposal aligns with the climate results and indicators of the performance measurement frameworks of the GCF. It is noted that it is currently hard to anticipate which/how impacts/outcomes are actually to be achieved because of the nature/modality of the EDA programme. As estimation may be changed based on the composition of the portfolio of subprojects during the implementation, it is to be noted that close monitoring by the GCF Secretariat is of importance. The AE addressed feedback from the Secretariat's second-level due diligence, namely that it will enhance its results management and implementation timetable as per the logical framework. The arrangements for monitoring and reported are delineated.

## 4.6 Legal assessment

73. The accreditation master agreement (AMA) between the GCF and UCAR was signed on 28 October 2017. However, the AMA is not yet effective because this is the first funding proposal from UCAR to be submitted to the Board. If approved, the GCF Secretariat will request UCAR to fulfil the applicable condition(s) for effectiveness of the AMA.

74. According to section A.3 of the funding proposal and a letter provided by UCAR, UCAR approved the programme on 26 July 2017. However, UCAR has not yet provided the legal opinion/certificate pursuant to clause 4.13(b) of the AMA confirming that it has obtained all final internal approvals to implement the project as of 9 September 2017.

75. The proposed project will be implemented in Argentina, a country in which GCF is not provided with privileges and immunities. This means that GCF is not protected against litigation or expropriation in this country. The GCF Secretariat submitted a draft of the privileges and immunities agreement and a background note to the national designated authority in April 2016 and meetings were held by the Secretariat with the Argentine delegation in Songdo in April and September 2016, as well as with the Ambassador and Permanent Representative of the Argentine mission in New York in October 2016, to discuss the terms of the agreement; however, no response on the draft agreement has been received so far.

76. The GCF is exposed to litigation risk in Argentina. Risk of expropriation needs to be further assessed. Furthermore, the independent Redress Mechanism and independent Integrity Unit have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations to the fullest extent envisaged in the Governing Instrument for the GCF and the Board-approved terms of reference, in countries where the GCF is not provided with the relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after the GCF has obtained satisfactory protection against litigation and expropriation in Argentina, or has been provided with appropriate privileges and immunities.

77. In order to mitigate risk, it is recommended that any approval by the Board is made subject to the following conditions:

- (a) The execution of all required legal documentation in form and substance satisfactory to the GCF Secretariat;
- (b) The completion of legal due diligence to the satisfaction of the GCF Secretariat; and
- (c) The submission of a legal opinion/certificate in a form and substance that is satisfactory to the GCF Secretariat within 120 days after Board approval, confirming that UCAR has obtained all final internal approvals needed to implement the project and it has the capacity and authority to implement the proposed project.

## Secretariat’s review of FP058

Proposal name:	Responding to the increasing risk of drought: building gender-responsive resilience of the most vulnerable communities
Accredited entity:	Ministry of Finance and Economic Cooperation (MOFEC)
Project/programme size:	Small

### I. Overall assessment of the Secretariat

1. The funding proposal titled “Responding to the increasing risk of drought: building gender-responsive resilience of the most vulnerable communities” is presented for the consideration of the Board, with the following remarks:

**Table 1. Summary of strengths and points of caution**

Strengths	Points of caution
The proposal address immediate and medium-term adaptation needs of the vulnerable part of the rural population	Component 1 could have better quantified the climate additionality to be covered by GCF resources
The project builds on the experience of the accredited entity and executing entities in delivering community-based interventions in a complex governance architecture and a wide geographical area of operation	During project implementation, monitoring the groundwater abstraction and quality will need to be done in accordance with the operations and maintenance plan to avoid maladaptation risk

2. Project-specific terms and conditions are listed in the term sheet and the addendum titled “List of conditions and recommendations”, for the consideration of the Board.

### II. Summary of the Secretariat’s review

#### Project background

3. The proposal is for an integrated water resource management (IWRM) approach that can respond to the adaptation needs of 330,000 individuals residing in drought-vulnerable areas.

4. Component 1 specifically looks at delivering water systems (e.g. wells, irrigation schemes). Its delivery can support immediate and medium-term adaptation needs. However, the development outcomes regarding livelihoods, food security, health and agricultural production are considered the most relevant.

5. Component 2 is mainly undertaking activities related to land use, ecosystems and forestry. It brings cross-cutting benefits in mitigation and adaptation. While supporting ecosystem-based disaster risk reduction for drought management purposes, its connection with an overall IWRM approach is suboptimal.

6. Component 3 is supporting the creation of an enabling environment through capacity-building of the beneficiaries and local governments and it is logically integrated with the other two components and the overall objective.

#### Component-by-component analysis

*Component 1: Improved access to water to build resilient livelihoods (total cost USD 29.309 million;*

*GCF contribution 91 per cent of the total amount)*

7. This component mainly delivers two outputs. The first output focuses on the construction of shallow and deep wells in areas hydrologically investigated during the project preparation; other activities concern the creation of springs wells, water ponds and water access points in 66 communities (kebeles) covering several regions (woredas). The water extraction will be powered by solar-powered pumps. The second output intends to upgrade and construct small-scale irrigation (SSI) schemes which would use the water extracted by the wells.

8. The feasibility study provides accurate specifications of the type of infrastructures and solutions that will be provided and a detail analysis of the communities pre-identified as beneficiary of the intervention.

*Component 2: Management of natural resources for improved water availability (total cost USD 15.427 million, GCF contribution 88 per cent of the total amount)*

9. Despite the title, this component is mainly focused on land management, ecosystem conservation and forestry. It aims to rehabilitate 7,850 ha of land, of which 5,000 ha are reforested. It also supports livelihoods with the use of off-farming/forest products. This component has mitigation benefits and could be a driver for considering the proposal as cross-cutting rather than adaptation only. This component is linked to the first by a general argument that functional ecosystems support water retention.

*Component 3: Enabling environment (total cost USD 1.893 million, GCF contribution 72 per cent of the total amount)*

10. This component is delivering capacity-building for communities, and to operate and maintain the water systems delivered. Also, it intends to mainstream climate change into the operations and policies of the local government bodies. Its success is considered pivotal for the project because, for the sustainability of the outputs of Components 1 and 2, behavioural change and ownership of the communities and local governments is of central importance.

*Project management cost (USD 3.331 million, fully covered by GCF)*

### **III. Summary of the review**

11. The proposal has an understandable logic of action in relation to the barriers that it intends to address. However, Component 2 could be considered targeting mainly outcomes that are related to forestry, land use and ecosystem management.

12. Component 1 delivers mainly development benefits. Although the adaptation gains are clear, a higher level of ambition in mobilizing non-GCF resources, including from development donors active in Ethiopia, would have been desirable.

13. Given the mitigation benefits provided by Component 2, this proposal could also have been considered cross-cutting rather than adaptation only.

14. The proposal could have explored the application of technologies and irrigation practices such as localized irrigation, which could have enhanced the adaptation and paradigm shifting potential of the proposed project. Also, during the implementation, the quality and quantity of the groundwater yield through the construction of deep wells should be carefully monitored.

15. The sustainability of the project will depend on the delivery of the committed resources on the operations and maintenance (O&M) plan, as well as the buy-in and contribution of the communities, as described in the proposal and plan.

16. The technical readiness and the performance against the GCF investment criteria are, overall, satisfactory. Most of the activities proposed are undertaken at the grass-roots level, so the determination of cost-efficiency relies on the quality of the first level due diligence of the

accredited entities (AEs) and the extensive knowledge of the accredited entity of the Ethiopian context.

## IV. Assessment of performance against investment criteria

### 4.1 Impact potential

*Scale: N/A*

17. The AE considers this project an adaptation intervention. However, the mitigation co-benefits of the proposal are considered relevant; for example, the overall estimated greenhouse gas (GHG) reduction was estimated at 1.14 megatons of carbon dioxide equivalent (Mt CO<sub>2</sub> eq.) over fifteen years.<sup>1</sup> The relevance of the mitigation component is also reflected in the economic analysis presented, which has positive economic internal rate of return (EIRR) in part due to the mitigation benefits.

18. Component 1 (improved access to water) accounts for 58 per cent of the project budget and 91 per cent of the component is proposed to be financed using GCF resources. Although it is fully acknowledged that, in the context of a least developed country (LDC) such as Ethiopia, the boundaries of what constitutes adaptation versus development are blurred, and that the proposal answers to immediate adaptation needs, the primary expected results seem related to development benefits (e.g. agricultural productivity, potable water, hygiene). To a certain extent, the proposal could have attempted to quantify the incremental costs of the component activities (water supply and SSI), comparing the standard costs in a “without climate impact” scenario versus a scenario where certain features need to be upgraded to stand against the current and projected climate impacts.

19. The core indicator for adaptation is reported with an explanation that the way in which indirect beneficiaries were estimated would need further clarifications.

20. Climate and development results are likely to be appreciated in the immediate and short-term for Component 1 and the medium to long term for Component 2. The degree to which Component 3 could have an impact will depend upon the uptake of the knowledge transferred to the institutions and beneficiaries. This could be appreciated by the final evaluation of the project.

21. During the Secretariat’s review, risks of maladaptation were highlighted to the AE. The risk stems from inadequate recharge of the groundwater sources harvested by the wells constructions as part of the project. Subsequently, the AE provided further technical explanations on how the hydrological balance will be assured by pumping tests that will be performed and by monitoring of the water levels. It is recommended that the mid-term and final evaluations report on the status of the quantity and quality of the water extracted and recharged for agricultural and potable purposes. In addition, it is recommended that particular attention be paid by the project’s implementation team to ensuring close routine monitoring of these activities.

22. The type of irrigation systems that the intervention intends to deploy have also been discussed with the AE during the course of the Secretariat’s review. In drought-prone areas vulnerable to the effects of climate change, water-efficient irrigation systems such as localized irrigation technologies are instrumental to adaptation. However, the proposal and the feasibility study suggest that traditional surface irrigation will be pursued by this project. It is recognized that surface irrigation activities are easier to maintain and are familiar to the local population.

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<sup>1</sup> This estimate is based on a combination of afforestation/reforestation and management of degraded lands (1.03 Mt CO<sub>2</sub>eq.) as well as replacement of diesel generators by solar PV pumps (0.11 Mt CO<sub>2</sub> eq.) over 15 years.

## 4.2 Paradigm shift potential

*Scale: N/A*

23. Following the observation from the Secretariat's review, the AE has added an essential diagram presenting a theory of change.

24. In terms of innovation, the use of solar pumps for potable water provision is positively considered. Nevertheless, the solutions and the approach proposed for all the three components can be considered as standard in rural development (Component 1: improved access to water) and ecosystem management (Component 2: management of natural resources).

25. Behavioural change of the beneficiaries and institutions is mainly related to the uptake of Component 3 (enabling environment), and could be appreciated at the stage of final and ex-post evaluation of the project. In addition, the fact that the proposal hinges around the contribution of Ethiopia towards its Paris Agreement commitments, and therefore is involved in institutional changes at all levels of the Government, is considered important in terms of contributing to long-lasting transformational change.

26. The sustainability of the outcomes will depend on the actual realization of the financial commitments from the Government of Ethiopia in the post-implementation phase and the capacity to mobilize the contribution expected from the beneficiaries. Particularly critical will be the retention of the large number of workers which are employed by the project at woredas and kebeles level, the maintenance of the SSI systems and the solar-powered pumps and the avoidance of exploitative practices (unsustainable firewood collection) in the areas reforested and upgraded. In the funding proposal there is limited elaboration on how these risks will be mitigated.

27. The potential for knowledge development and transfer is well highlighted and developed.

## 4.3 Sustainable development potential

*Scale: N/A*

28. The calculation of carbon emissions avoided resulting from the solar PV pump activities and Component 2 amount to over 1 Mt CO<sub>2</sub> eq., as well the area reforested account 5,000 ha. This is a significant mitigation co-benefit.

29. The project has the potential to deliver benefits in terms of livelihoods and food security and to contribute to the sustainable development agenda of the country.

30. The environmental benefits are embedded in Component 2 of the project, which works on ecosystem restoration. However, attention should be paid to the maintenance of the appropriate safeguards for the activities related to the water drills in terms of preservation of groundwater and quality of the potable water.

31. The socioeconomic benefits are elaborated with further details in the economic analysis. They can be expected to be relevant, especially in terms of increasing the agricultural productivity, food security and health and well-being of the rural dwellers. Job creation is also estimated to be positively affected.

32. Gender elements are considered throughout the proposal and in the selection of the beneficiaries.

## 4.4 Needs of the recipient

*Scale: N/A*

33. The funding proposal contributes to the resilience of the beneficiaries, in particular reducing the level of vulnerability of their livelihoods and assets to the current and future impact of climate change.

34. It is acknowledged that Component 3 can support the institutions and strengthening their understanding and mainstreaming of climate change. This is a need to be addressed in the context of Ethiopia, a country that has already moved ahead compared with several other sub-Saharan states in terms of green growth strategies and integration of resilience in their development planning.

#### 4.5 Country ownership

*Scale: N/A*

35. The implementation arrangements show the experience of the AE and the executing entities (EEs) in operating community-based interventions involving the multiple level of governance of the Ethiopian system (national, regional, woreda and kebele). This is considered a key element for implementation and increases the likelihood that the project will deliver the expected results in the timeframe allocated. This track record is particularly important considering the large area in which the project will operate. The proposal offer provides details of the structure and track record of the entities involved.

36. The proposal highlights the contribution to Ethiopia's nationally determined contribution and national adaptation programme of action. Explanations on how the proposal is framed in relation to regional and international policy frameworks are limited.

37. In terms of stakeholder consultation, there is reference to the broad range of actors engaged and a detailed description of the consultation with the national designated authority.

#### 4.6 Efficiency and effectiveness

*Scale: N/A*

38. The main reasoning beyond the concessionality requested (grants) is the 'public good' nature of the activities and the fact that the beneficiary country is an LDC. Component 1 requests capital investment for irrigation schemes. These are intrinsically a productive asset that increases agricultural output, yet it is understood from the proposal that the beneficiaries are poor rural dwellers of an LDC country who will not have the capacity to repay the capital invested. Co-financing is provided in the form of USD 5 million from the Government of Ethiopia, corresponding to 10 per cent of the project's budget. Given the development benefits that the project entails, especially in relation to Component 1, co-finance from other development donors is not provided.

39. Financial viability is difficult to assess. An O&M plan was provided, including an O&M budget. The plan details what will happen to the water supply and irrigation infrastructure (Component 1), but does not mention what is needed for long-term maintenance of the ecosystem/forestry activities (Component 2).

40. After the project implementation period, maintenance costs for the water supply and irrigation infrastructure will be covered by water user associations. These associations will receive capacity-building and will be charged with operating and maintaining infrastructures and, critically, managing the water fees collected by the respective associations. The collective success of the associations will depend on the capacity-building they receive and the financial management of both the associations and their support structures at the woreda level. The O&M plan assigns the long-term maintenance of groundwater monitoring devices to the regional Bureau of Irrigation, Water and Energy, but these costs are not reflected in the corresponding budget. As groundwater monitoring is critical to both water quality and managing the risk of maladaptation, it is critical that there is budget allocated to maintain this activity.

41. In terms of the EIRR, the project is positive, despite uncertainty in certain assumptions on the economic benefits (mainly related to agricultural increased productivity, potable water and tree planting) and the quality of available data. A sensitivity analysis is also provided, but it does

not consider worse case scenarios such as a 10 per cent of reduction in benefits and increase in costs simultaneously.

42. The proposal stated that best practice from landscape approach and IWRM projects in Ethiopia have been considered.

## **V. Assessment of consistency with the safeguards and policies of the GCF**

### **5.1 Environmental and social safeguards**

43. Due diligence conducted by the AE has classified the overall environmental and social risk category for the project as Category B, moderate risk, because the likely environmental and social impacts of the project will be restricted to the project's influence area and are readily addressed through the implementation of mitigation measures. The overall environmental and social risk category for the project was confirmed by the Secretariat as being equivalent to Category B, considering the scale of the activities and the localized nature of associated risks and impacts. Residual impacts are expected to be minimal following the implementation of the mitigation measures.

44. The Ministry of Finance and Economic Cooperation (MOFEC) has provided an environmental and social management plan (ESMP) as the main environmental and social safeguards document, with further details on potential impacts and proposed mitigation measures. MOFEC has also provided, in the ESMP, the cost of implementing the mitigation measures that have been outlined in the ESMP to manage potential environmental and social impacts arising from the project. A separate annex with details on stakeholder consultations has been prepared together with the funding proposal.

45. The safeguards review of the funding proposal underscored the potential environmental and social risks and impacts associated with the project, which are expected to be moderate. The ESMP of the project provided a comprehensive set of measures addressing key environmental and social risks and impacts. The project will not involve any physical or economic displacement of people, because the aim of the project is to improve water availability to farmers. Communal lands may be utilized for small-scale community water impoundments and reservoirs as is the practice in the country. The safety of communities from the communal infrastructure construction and operation will also be assessed and managed through village-level project coordination. The use of communal lands will undergo a consultative process and will ensure that community consent is obtained. The rehabilitation of degraded lands will consider the natural habitats of the areas, the ecosystem services and the natural balance of flora and fauna. Activities will not be conducted in areas that are considered ecologically sensitive and important, such as wetlands and forests, to avoid adverse impacts on these areas. The project will have minimal adverse social impacts including impacts on cultural heritage. The project is anticipated to enhance the overall ecosystem services of the project area leading to the improved availability of water and productivity of the lands.

46. The project will be executed by two line ministries: the Ministry of Agriculture and Natural Resources (MOANR) and the Ministry of Water, Irrigation and Energy (MOWIE). Ethiopia's Ministry of Environment, Forests and Climate Change (MEFCC) will be responsible for the implementation of the ESMP of the project, including the management of environmental and social issues. MEFCC will coordinate with MOANR and MOWIE to ensure that the ESMP is implemented at the bureau and woreda level. Both MOANR and MOWIE have extensive experience in executing environmental and social safeguards of projects, including those supported by various development organizations and financial institutions. MOFEC, as the AE,

will maintain project management oversight and quality assurance for all aspects of the project. Responsibilities concerning environmental and social matters during project implementation have been delegated to woreda-level committees with officers from relevant ministries.

47. Mitigation measures, assigned responsibilities, and monitoring and reporting requirements have been outlined in the ESMP for potential environmental impacts on, for example, biodiversity and water quality, and for potential social impacts related to benefit sharing and changes in land use. MEFCC will be responsible for the supervision of implementing the ESMP in coordination with the contractors who will be responsible for compliance with the ESMP, including monitoring and reporting. Monitoring and reporting programmes have been developed for key environmental and social indicators.

48. Consultations with stakeholders were undertaken in the preparatory stages of the project. Stakeholders who were consulted include national and local government institutions, civil society organizations, private companies, research organizations and universities, and local communities. In addition, the ESMP contains a summary of consultations on the ESMP which were conducted in 2016, including concerns raised by local communities, responses by the AE to issues raised, and participants from woredas and kebeles who attended the public consultations and focus group discussions. Furthermore, the proposal itself also mainstreams participation and engagement of local community members especially women in planning, implementing and maintaining the proposed activities. A stakeholder engagement plan is also presented that detailed the various stakeholders of the project and the strategies for engaging with the stakeholders during project implementation. The plan identifies the stakeholders that will be engaged in subsequent stages of the project, meetings that will be convened to consult stakeholders (e.g. the bi-annual participatory community project planning and monitoring meetings) and expected timelines in the project duration when such meetings will be held.

49. The project-level grievance redress mechanism that will be employed includes national systems and public grievance hearing offices, which can all receive and handle grievances from the public. In addition, the project coordination unit will also receive grievances from local communities and other stakeholders. Grievances will be received at the kebele, woreda, regional and federal state level. Grievances will be channelled to MEFCC, the line ministry responsible for implementation of the ESMP and the project-level grievance redress mechanism, which will be responsible for the initial screening of complaints received, and will work with the Ethiopian Institute of the Ombudsman to resolve complaints. Information on the grievance redress mechanism and contact details of MEFCC for lodging complaints have been provided in the ESMP which will be disclosed. The AE has been requested to ensure that its institutional-level grievance redress mechanism, when it has been established and deemed sufficient to fulfil the accreditation-related condition, is accessible to communities in the project area and other stakeholders to receive and address complaints related to the project, in an effort to complement the project-level grievance redress mechanism.

## 5.2 Gender policy

50. The proposal contains an in-depth gender assessment; therefore, it complies with the operational guidelines of the GCF Gender policy and action plan. The gender assessment provides a context of the situation of men and women in Ethiopia. The assessment includes an outline of poverty levels, access to health services, educational status, decision-making in politics and at the household level, and participation in the labour force of men and women in Ethiopia. In addition, the gender assessment provides a context of gender issues in rural areas of Ethiopia regarding education levels and participation in agriculture-related employment, which is the main type of employment in the country. Furthermore, the assessment presents details of the vulnerabilities that women face in light of climate change, issues raised in stakeholder consultations, and opportunities that the project presents to address needs and priorities of

men and women in relation to drought caused by climate change.

51. The project intends to hire male and female project officers to conduct regular monitoring, supervision and oversight of project execution. In addition, half of the community facilitators that will be hired to provide advisory support and extension services to local beneficiaries will be women. Men, women, women's associations, youth and vulnerable households such as those living below the poverty line were consulted during the project formulation phase.
52. Consultations with stakeholders, including women's groups will be organized by the AE during project implementation.
53. The proposal contains a project-level gender action plan (GAP) with gender-responsive objectives, actions and indicators. The GAP contains sex-disaggregated targets and information on institutions responsible for implementing activities, timelines for the implementation of activities, and a cost estimate for each activity.
54. In the proposal (section E.1. Impact potential), the AE has included core indicators of the number of direct and indirect beneficiaries and the number of beneficiaries relative to the total population; however, these have not been disaggregated by gender.
55. Recommendations that could help strengthen the gender angle of the proposal include the following:
  - (a) In terms of SSI, the AE should emphasize gender-friendly design features in the layout of the irrigation facilities. In many cases, irrigation technologies are designed with little thought given to who will manage/maintain them. It is therefore recommended that the AE promote a 'design for management' approach, that is, the adaptation of irrigation technologies to match the preferences of users, including adaptation measures that enable women and girls in project areas to benefit fully from them. Such adaptation measures could include localized water harvesting structures, putting steps in irrigation structures and consideration of factors such as irrigation schedules (e.g. to align with time available for access for livestock or household needs, or avoiding night irrigation schedules because of women's increased risk of harassment after dark). Regarding irrigation infrastructure, a critical issue is ease of access to irrigation facilities for water for household use. If this use, which would be very important to women and girls, is not considered as part of the design, the irrigation infrastructure design is unlikely to include steps to facilitate proper and more equitable access;
  - (b) The project will promote improved technologies for on-farm production, considering factors related to climate variability and change. Since the project will work with different types of farmers, including smallholder farmers, many of whom are women, it is important to point out that women-friendly agricultural technologies and innovations are needed to bridge the gender gap in sustainable agricultural production and food security. Therefore, the AE should enable women farmers to gain easier access to gender-friendly farming technologies that will: reduce drudgery; be safe and secure to use; are economically viable and environmentally friendly; are socially acceptable; and will empower women in decision-making processes. The AE could team up with agricultural research/engineering institutes to develop cheap and gender-friendly farming tools that consider the different needs and capacities of women. It is also important to point out that agricultural development has been dominated by men and has largely ignored women's role in crop production and has not focused on women's needs for technology, information and services. Social norms and cultural practices can prevent women from participating in development interventions or information campaigns. The AE is therefore advised to use more appropriate and gender-friendly information channels to address this situation. Another strategy the AE could use is to provide more relevant information by specifically addressing gender aspects of crop production (e.g. the production of 'female' vs. 'male' crops); and

(c) While recognizing that the project will put in place an O&M plan, it is important to reiterate the need for community-driven O&M plans to be developed at the beginning of the project, especially since the project will focus on the development of public/common goods such as water supply and irrigation. These plans should: contain clearly defined roles and responsibilities of different community-level stakeholders; include a schedule of routine maintenance activities; outline initial user tariffs (where applicable and depending on willingness and ability to pay mechanisms); outline collection mechanisms for at least the first few years after construction; and draw out estimated O&M costs for the lifespan of the infrastructure. O&M training should be provided to select community groups (including women) and the distribution of simple pictorial manuals or guides to help communities to carry out O&M activities will prove valuable. Post-construction training and technical support to community-based O&M groups should be allocated within the project budget. Capacity-building activities should include communication materials to inform communities on O&M issues and behaviours. This point is emphasized because O&M efforts have been more successful for investments in infrastructure such as water supply and irrigation, where communities and households will more readily pay for such services. Reviews undertaken worldwide (e.g. from community-driven development projects funded by the World Bank) found that rural communities more commonly carry out routine maintenance of infrastructure, to which they contribute either in-kind (through labour or materials) or in cash.

## 5.3 Risks

### *Project/programme-level risks*

#### **Overall project assessment (medium risk)**

56. The project will be managed by Government ministries and will rely on the performance of local institutions (woredas). The country's institutional strength is therefore a crucial factor. Similar to other Sub-Saharan African peers, Ethiopia scores poorly in the Worldwide Governance Indicators and performs in line with peer countries when it comes to Government effectiveness, rule of law and control of corruption. This project falls under the wider development plan for climate change of Ethiopia, which increases the likelihood of success of the project. The Government produces five-year development plans (Growth and Development Plan (GTP)), which support policy continuity, and the administration has demonstrated a track record of fulfilling or even outperforming the targets set out in these plans. Ethiopia is one of the largest aid recipients in nominal terms in Africa, mainly on account of its achievements from donor programmes on key social indicators such as education, health, water and transportation sectors, alongside its relative stability within the Horn of Africa – a region characterized by political instability.

57. However, its monetary policy track record is mixed. Inflation has remained volatile and elevated over the past decade, averaging 10.9 per cent per annum, driven largely by weather-related food price shocks. A period of sustained high inflation may prove challenging for the smallholder farmers who are targeted by this project. The success of the project fundamentally relies on their willingness and ability to pay for improved water technologies and inputs that community-based organizations (and later private companies) will supply. The rationale supporting the creation of this market under a high inflation environment deserves a more in-depth explanation in the funding proposal.

58. Although the Government budget has been widely affected by the recent droughts and food security shocks, a robust real growth in gross domestic product (GDP) is expected in the medium term (approximately 8 per cent in fiscal year 2017/18). This is the result of following prudent fiscal management, strategic infrastructure assets and revenue generation facilities (hydroelectricity dams, railways, strong agricultural output, foreign direct investment,

development of the banking system). Smallholders' available income is expected to be positively impacted by these developments, which increases the chances of success of this project.

**Accredited entity/executing entity's capability to execute the current programme (medium risk)**

59. The AE, MOFEC, is the ministry responsible for driving the economic policy of Ethiopia and overseeing national financial management and development planning. In 2012 MOFEC established a Climate Resilient Green Economy (CRGE) Facility, a national fund to mobilize international climate finance resources. The secretariat of the CRGE Facility operates under MOFEC and carries out project management, appraisal, review and monitoring of projects. MOFEC is therefore considered a reliable partner in the country to implement this project.

60. Two line ministries, MOANR and MOWIE, will execute the project directly under the overall guidance and oversight of the CRGE Facility Management Committee, co-chaired by state ministers of MOFEC and MEFCC (which is the national designated authority). MOANR oversees the implementation of agricultural development strategies and ensures the food security of the country at a federal level, with good experience in SSI and monitoring of agricultural development (rural technology training) in the regions (woredas). MOANR has an operational structure that extends to the sub-village level and reaches the majority of farmers, so is well suited to deliver the impact of this programme.

61. MOWIE undertakes management of water resources, water supply and sanitation, large- and medium-scale irrigation via planning and the implementation of guidelines, policies, sectoral laws and regulations. Therefore, the two ministries have responsibilities to coordinate similar programmes (related to the CRGE initiative). However, the track record of success currently present is not encouraging. The CRGE Water Sector Strategy has been unsatisfactorily implemented at the local level. The woreda-level development plans are being developed annually in Ethiopia but do not manage to properly mainstream the CRGE strategy.

**Project specific execution risks (medium risk)**

62. Financial viability (high risk): the economic net present value (ENPV) is calculated using a 10 per cent discount rate, resulting in USD 14 million and an EIRR of 19 per cent. Sensitivity tests of the ENPV and EIRR show that a decrease in total benefits by 10 per cent makes the NPV <0 (8 per cent IRR). These tests do not consider a combination of "stressed" scenarios and are already showing potential difficulties. If a combination of adverse effects were to occur, the project is likely to be unviable, which shows the high risk of its financial viability.

63. Funding structure (medium risk): given the strategic importance of the project for the country, a more balanced co-financing structure would strengthen the proposal. The funding proposal states that the Government invests its resources in a number of competing activities that have higher priorities than water infrastructure, which leaves doubts over its commitment to the ultimate project success.

64. Governance risk (medium): there are several coordination and governance challenges to be resolved effectively by the EEs in the project. For example, the strict supervision of woredas' operations will be a crucial task. A finance officer will be hired within each targeted woreda to ensure that funds are effectively disbursed, utilized, monitored and reported back to the CRGE Facility. Further details on these controls are necessary (e.g. on how these officers are selected and supervised under the scope of their responsibilities).

**GCF portfolio concentration risk (low risk)**

65. In case of approval, the impact of this proposal on the GCF portfolio risk remains non-material and within the risk appetite in terms of concentration risk, results area or single proposal.

**Compliance risk (low risk)**

66. No material concerns are raised regarding anti-money laundering (AML) or countering the financing of terrorism (CTF) in the funding proposal. Ministries within the Cabinet of the Federal Democratic Republic of Ethiopia will execute the project in compliance with public finance management and public procurement regulations of Ethiopia. However, Ethiopia is a country with unresolved strategic AML/CFT deficiencies and corruption, as noted by international organizations. Therefore, compliance with AML/CFT international standards may require close project monitoring and reporting by MOFEC.

<b>Summary Risk Assessment</b>	
Overall programme	Medium
AE/EE capability	Medium
Project specific execution	Medium
GCF portfolio concentration	Low
Compliance	Low

## 5.4 Fiduciary

67. The EEs for the project will be MOANR and MOWIE of the Government of Ethiopia.

68. The EEs will jointly execute the project directly under the overall guidance and oversight of the CRGE Facility Management Committee, co-chaired by state ministers of MOFEC and MEFC.

69. As the AE, MOFEC will assume full financial and programmatic management accountability for the funds disbursed from the GCF. The AE, through its CRGE Facility, will be responsible for the day-to-day management of funds released to the EEs. MOFEC, through its Channel One Programmes Coordination Unit, will be responsible for fiduciary assurance.

70. The CRGE Facility has adopted an operations manual that articulates the overall governance and implementation frameworks as well as the fiduciary standards that need to be adhered to by EEs. CRGE will disburse GCF funds to the AEs from the CRGE Facility national account for activities, which will be implemented by the federal executing entity directly; and for regional institutions, funds will be transferred to the respective Bureaus of Finance and Economic Development on a regular basis. Project finance will be disbursed to the EEs based on approved quarterly work plans.

71. The project's financial management and procurement will be guided by the public finance management and public procurement regulations of the Government of Ethiopia. The project finance will be subject to the financial regulations and management including auditing by an independent auditor in line with Auditors General requirements of the Government of Ethiopia.

72. The EEs will submit aggregated quarterly physical progress reports to the CRGE Facility, which will coordinate the overall implementation and delivery of the project. The CRGE Facility will aggregate and submit a consolidated report (both financial and physical) to GCF.

73. It is recommended that as a condition of the first disbursement that the project should address the completion of a project implementation manual (known as a PIM) and the financial management and procurement risk assessment of the EEs.

## 5.5 Results monitoring and reporting

74. As an adaptation intervention, the proposal reports against the adaptation core indicator, “Expected total number of direct and indirect beneficiaries”. The number of direct/indirect beneficiaries disaggregated by gender (330,000 direct and 790,000 indirect) and its detailed calculation showing how the figures are derived are provided, but methodology used for defining indirect beneficiaries requires further elaboration.

75. Regarding the logical framework section, the proposal aligns with the climate results and indicators for the adaptation performance measurement framework of the GCF. The AE has addressed the issues raised in the Secretariat’s due diligence review but the funding proposal still has a few minor remaining issues, as follows. Adaptation indicator 2.3 is placed under Result 1.0 at the impact level. For the two indicators selected for Result 5.0 (strengthened institutional and regulatory systems), it should be clarified whether and how the targeted 22 woreda offices related to institutional/regulatory strengthening (indicator 5.1) are to be differentiated from the 22 woreda offices for the effective coordination mechanism (indicator 5.2).

76. The funding proposal annex on the implementation timetable shows greater granularity and structure than the project-level logic framework in section C.8. From the funding proposal’s logic framework, it is sometimes difficult to see a clear cause–effect relationship among activities, outputs and outcomes. Also, it is noted that Output 1.3 (water resource monitoring instruments installed and used) is not projected onto the implementation timetable and some outputs still need clarification on its baseline/targets. Although the AE proactively reports other relevant indicators in section E.1.2, those indicators have not been reflected into the current logic framework. The assumptions column designated to report externalities/risk factors that can affect the proposed result(s) of project (but cannot be controlled by the project) is left in blank for some indicators.

77. The arrangements for monitoring, reporting and evaluation are reported in compliance with relevant GCF policies.

## 5.6 Legal assessment

78. The accreditation master agreement (AMA) between the GCF and MOFEC was signed on 26 January 2017. However, the AMA is not yet effective as MOFEC has not submitted the legal opinion or certificate for the effectiveness of the agreement pursuant to clause 2.02(b) of the AMA.

79. MOFEC has not yet provided a legal opinion or certificate pursuant to Clause 4.13(b) of the AMA confirming that it has obtained all final internal approvals to implement the project. According to feedback from MOFEC during the review process, such internal approvals were obtained on 07 June 2017.

80. The proposed project will be implemented in Ethiopia, a country in which the GCF is not provided with privileges and immunities. This means that the GCF is not protected against litigation or expropriation in this country. The Secretariat submitted a draft of the privileges and immunities agreement and a background note to the Government of Ethiopia in November 2015, and meetings have been held with the Ethiopian delegation at the twenty-first meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change and during the GCF Readiness Week in April 2016. The Secretariat has had various exchanges with the Government of Ethiopia since then; however, no formal response on the draft agreement has been received since August 2016.

81. The GCF is exposed to litigation risk in Ethiopia. Risk of expropriation needs to be

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further assessed. Furthermore, the Independent Redress Mechanism (IRM) and the Independent Integrity Unit (IIU) of the GCF have both indicated that it may not be legally feasible to undertake their redress activities and/or investigations, to the fullest extent envisaged in the GCF Governing Instrument and the Board-approved terms of reference, in countries where the GCF is not provided with relevant privileges and immunities. Therefore, it is recommended that disbursements by the GCF are made only after the GCF has obtained satisfactory protection against litigation and expropriation in Ethiopia, or has been provided with appropriate privileges and immunities.

82. In order to mitigate risk, it is recommended that any approval by the Board is made subject to the following conditions:

- (i) The execution of all required legal documentation in form and substance satisfactory to the GCF Secretariat;
  - (ii) The completion of legal due diligence to the satisfaction of the GCF Secretariat; and
  - (iii) The submission of a legal opinion or certificate, in a form and substance that is satisfactory to the GCF Secretariat, within 120 days after Board approval, confirming that MOFEC has obtained all final internal approvals needed to implement the project and it has the capacity and authority to implement the proposed project.
-