

SME Guide to Multilateral Climate Funds

**Dutch Climate Solutions
Research program 2014-2017**

ECN, Wageningen UR, Deltares

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Introduction

The existence of a multitude of bilateral and multilateral climate funds (MCF), each of which have been established at different times to meet various needs, means that it can be difficult for private businesses (including SMEs) to identify potential opportunities and understand how they can get involved in projects and programmes. Thus, the objective of this guide is to better inform Dutch small and medium sized enterprises (SMEs) about MCFs and the potential business opportunities that could be available for them through these funds. The guide provides information about 10 different funds, describing what each fund is, how it works, and giving examples of the types of projects they support. The guide also articulates the opportunities that might be available for Dutch SMEs to either access the funds themselves or get involved in project and programmes financed by the fund.

It is important to describe what we mean when we talk about 'climate finance'. It is a term which has no internationally agreed definition, but broadly refers to 'the flow of funds toward activities that reduce greenhouse gas emissions (GHG) or help society to adapt to the impacts of climate change'. In the context of international political negotiations on climate change, climate finance is used to describe the financial flows from developed to developing countries in order to fund climate change mitigation and/or adaptation activities (WRI, 2013). These financial flows are channeled bilaterally from developed to developing countries, and through MCFs who play an important role in using international public finance to mobilise investment into projects and programmes working on low carbon development and climate resilience.

The investment needs to combat climate change are substantial, particularly in developing countries. The World Economic Forum projects that by 2020 about US\$5.7trillion needs to be invested in green infrastructure, much of which in developing countries¹. The Carbon Brief estimates that developing countries will need approximately US\$3.5 trillion of investment in order to implement the climate pledges they made in the Paris Agreement². At the 2009 climate change summit in Copenhagen, industrialised countries committed to providing US\$100bn a year in additional climate finance to developing countries from 2020 onwards. Global annual total climate finance flows between 2011 to 2014 range from US\$342bn to US\$392bn, from both international and domestic sources and the public and private sectors³. There is an obvious financing gap between the investment needs and current financial flows to developing countries. Bridging this financing gap is a key objective of the MCFs that are presented in this guide.

In 2014, multilateral and national climate funds approved around US\$ 21 bn for projects aimed at low carbon development or climate resilience. This amount is relatively small compared to total climate finance flows in 2014 of US\$ 391 bn (international and domestic sources, from both the public and private sectors). However, funding commitments have grown since 2011 (around US\$ 1.5 bn) and are expected to continue to increase over the coming years, especially with the introduction of the Green Climate Fund (GCF).⁴

There are enormous climate smart investment opportunities over the coming decades, particularly in emerging markets and especially post the Paris Agreement. An analysis by the International Financial Corporation (IFC), the arm of the World Bank which focuses on the private sector, claims that the climate-smart investment potential between 2016 and 2030 in emerging markets is US\$ 2.3 trillion⁵. Unlocking these opportunities for private businesses is a key objective of public sector financing of projects and programmes, which includes those funded by the MCFs that are presented in this report. Thus, we hope that this guide provides some valuable insight for Dutch SMEs about the landscape of MCFs and the possibilities to get involved through the projects and programmes these MCFs finance.

¹ World Economic Forum's Green Investment Report http://www3.weforum.org/docs/WEF_GreenInvestment_Report_2013.pdf

² Carbon Brief analysis <https://www.carbonbrief.org/analysis-developing-countries-need-3-5-trillion-to-implement-climate-pledges-by-2030>

³ Climate Policy Initiative's Global Climate Finance Landscape <http://www.climatefinancelandscape.org/>

⁴ Page 12 of the Climate Policy Initiative (CPI) methodology for calculating climate finance flows in its 'Landscape of Climate Finance, 2014' <https://climatepolicyinitiative.org/wp-content/uploads/2015/11/A-Closer-Look-at-the-Landscape-2015-Methodology.pdf>

⁵ See page 2 of the IFC report o 'Climate Investment Opportunities in Emerging Markets' https://www.ifc.org/wps/wcm/connect/51183b2d-c82e-443e-bb9b-68d9572dd48d/3503-IFC_Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES

1. The Green Climate Fund (GCF)

Matthew Halstead and James Rawlins (ECN)

What is the GCF?

The Green Climate Fund (GCF) is the largest international climate change fund, and is expected to be the principal channel through which climate finance flows from developed to developing countries, potentially channeling tens of billions per year.

The GCF was established in 2010 by the United Nations Framework Convention on Climate Change (UNFCCC), but only became operational in 2015. It is an independent organisation, with headquarters in Korea, and a board made up of developed and developing country representatives. The GCF reports to the UNFCCC Conference of Parties (the 194 countries who are signatories to the UNFCCC).

Over US\$ 10bn has been pledged to the GCF so far, by around 40 developed (and some developing) nations. The largest contributions have been made by the US (US\$ 3bn), Japan, the UK and Germany (all over US\$ 1bn). The Netherlands has contributed US\$ 134m.

The GCF approved its first 8 projects in November 2015, and a further 27 projects during 2016. The total GCF funding for these 35 projects amounts to around US\$ 1.5bn. More details are provided in Section 3 about the GCF's priority areas and the projects approved so far.

Global context

The GCF sits in a fragmented and complicated global landscape of climate funds, and its relationship with other funds is not yet fully clear. The UNFCCC is also served by the Adaptation Fund, a US\$ 600m fund focused on adaptation, and the Global Environment Facility ('the GEF') manages several climate change funds that sit under the UNFCCC, in addition to serving several other environmental treaties. The Climate Technology Centre and Network (CTCN) support the UNFCCC on technology matters but are far smaller in terms of funding than the GCF, GEF or Adaptation Fund.

There are also a range of multilateral and bilateral funds that sit outside the UNFCCC. The largest of the multilateral funds is the Climate Investment Funds (CIF), hosted by the World Bank, which manages US\$ 8bn across four funds. The UK, Norway and Germany all manage large bilateral funds.

How does the GCF work?

The GCF distributes its funding to 'Accredited Entities', who use the funds to implement climate change projects or programmes that will reduce emissions or increase climate resilience, in line with the GCF's priority areas, and in support of country priorities.

Only Accredited Entities, who have proved they have the necessary fiduciary standards and environmental and social safeguards in place, are able to receive funds directly from the GCF. See Box 1 for information about the current group of Accredited Entities. Getting accredited by the GCF is a time-consuming and lengthy process, and so far, the majority of Accredited Entities are large public sector organisations. The Accredited Entities develop project concepts and then if these are approved by the GCF, they implement them, working with other organisations as necessary to deliver the project's services and achieve its objectives.

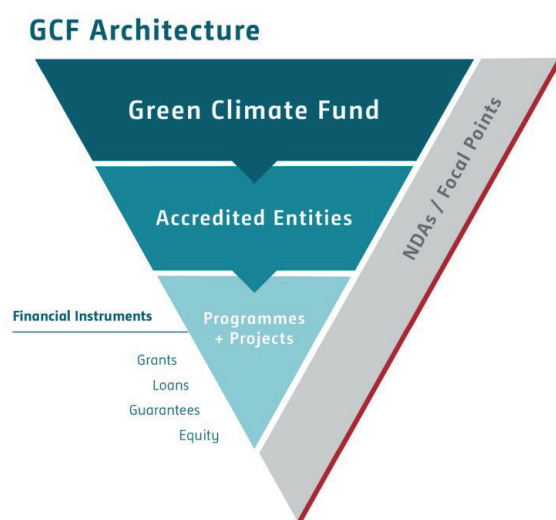


Figure 1: GCF architecture (Source: GCF website)

To secure funding from the GCF, the Accredited Entities submit funding proposals to the GCF, providing information on their proposed project, explaining why it is needed and what it will achieve. Proposals must be endorsed by the National Designated Authority (the 'NDA': the official coordinator of GCF activities in a country, usually a government ministry) of the country the project will operate in. Projects must also be aligned with the country's climate change priorities, and the project development process should engage a wide range of relevant stakeholders from across the public and private sectors. If approved by the GCF board, projects can then be implemented.

While the Accredited Entity is responsible for managing the project's funding from the GCF, they will usually work with a range of other partner organisations to implement the project, channeling the funding as required. This could mean working with local commercial banks to distribute loans, or working with local agencies or private sector organisations to provide products or services to the project's final beneficiaries. In some cases the other implementing organisations may have been involved in the proposal development process, in other cases they will be procured by the Accredited Entity after funding has been secured. Because the GCF is new, and because no projects have reached the implementation stage yet, it is not yet clear how private sector organisations and especially SMEs can get involved in projects.

Box 1: The GCF Accredited Entities

As of January 2017, 48 entities had been accredited by the GCF. Accredited Entities can be national, regional or international, reflecting the geographical scope of their operations, and they can be public, private or NGOs. National entities must be nominated for accreditation by the official GCF focal point within the country (the NDA). Of the 48 entities accredited so far, 25 are international organisations, 14 are regional, and 9 are national. Less than 20% are from the private sector. Example Accredited Entities are:

- International public: African Development Bank, United Nations Development Programme, European Investment Bank, WWF
- International private: HSBC, Deutsche Bank, Credit Agricole, PROPARCO
- National: National Environment Management Agency of Kenya, Ministry of Natural Resources of Rwanda, South Africa National Biodiversity Institute

What kind of projects does the GCF fund?

The GCF funds projects that reduce emissions (mitigation) and projects that help countries adapt to the effects of climate change (adaptation), across a wide range of sectors, including energy, transport, agriculture, forestry and water management. GCF projects will all be implemented in developing countries, with priority given to least developed countries, small island states, and African countries.

The GCF aims to fund projects across 8 result areas. Four of these are focused on reducing GHG emissions and shifting to low-emission sustainable development through:

1. Low-emission energy access and power generation;
2. Low-emission transport;
3. Energy efficient buildings, cities and industries;
4. Sustainable land use and forest management.

The other four result areas focus on increasing climate-resilient sustainable development for:

1. Enhanced livelihoods of the most vulnerable people, communities, and regions;
2. Increased health and well-being, and food and water security;
3. Resilient infrastructure and built environment to climate change threats;
4. Resilient ecosystems.

The GCF has a strategy to i) achieve an even balance between mitigation and adaptation over time; ii) allocate adaptation funding for particularly vulnerable countries including least developed, small island and African States; iii) achieve a reasonable and fair geographic balance; and iv) maximise engagement with the private sector.

GCF projects approved so far

By the end of 2016, the GCF Board had approved 35 projects with total GCF funding of US\$ 1.5bn, and total project value of over US\$ 4bn. The portfolio is fairly evenly split between mitigation (34% of total GCF funding), adaptation (29%) and 'cross-cutting' projects that cover both mitigation and adaptation (37%). The majority of projects approved so far will be implemented in Africa and Asia Pacific (28 out of 35 projects). Almost 90% of the funding approved so far has been in the form of grants (47%) and loans (42%), though the GCF can also provide funding through guarantees and equity positions (so far just 11% of approved funding).

The rest of this section provides further information on a selection of GCF projects.

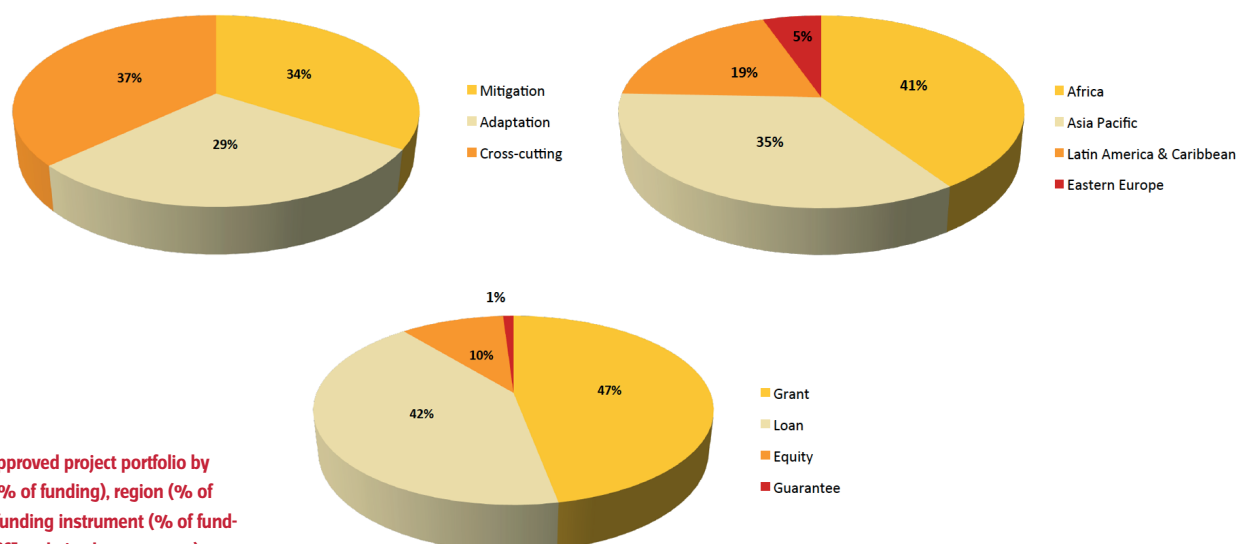


Figure 2: GCF approved project portfolio by result theme (% of funding), region (% of projects) and funding instrument (% of funding). (Source: GCF website, January 2017)

Table 1: Summary details for selected projects that have been approved by the GCF board.

Project Title	Region - country	Accredited Entity	Financing (US\$)	Description
Mitigation Projects				
Business Loan Programme for GHG Emissions Reduction	Asia - Mongolia	XacBank	20m GCF 40m co-finance	This programme will provide XacBank, one of Mongolia's leading banks, with an enhanced ability to support loans to Mongolian enterprises investing in energy efficiency and renewable energy
Climate Action and Solar Energy Development Programme in the Tarapaca Region	South America - Chile	CAF	49m GCF 216m co-finance	GCF is providing long term project financing required for this private sector-led solar PV project, facilitating further investment. The project will act as a demonstration for the region
Universal Green Energy Access Programme	Africa - Benin, Kenya, Namibia, Nigeria, Tanzania	Deutsche Bank	80m GCF 222m co-finance	An investment fund providing financing for decentralised energy service companies offering offgrid and mini-grid systems for rural households, communities and SMEs, in 5 African countries
Cross-cutting Projects (cover both mitigation and adaptation)				
Building the Resilience of Wetlands in the Province of Datem del Marañón	South America - Peru	PROFONANPE	6m GCF 3m co-finance	The project will facilitate better land-use planning and management of the region's wetlands, and strengthen commercial non-timber bio-businesses to help avoid deforestation
Development of Argan Orchards in Degraded Environment	Africa - Morocco	ADA	39m GCF 10m co-finance	The project will support rural communities through the planting of argan orchards and promotion of sustainable agriculture
Sustainable Energy Financing Facilities	Global - 10 countries	EBRD	378m GCF 1.0bn co-finance	This on-lending programme will deliver climate finance through local financial institutions in 10 countries, funding over 20,000 sustainable energy projects for households and SMEs
Adaptation Projects				
Building Resilient Communities, Wetlands Ecosystems and Associated Catchments	Africa - Uganda	UNDP	24m GCF 20m co-finance	This project will help Uganda manage and restore critical wetland areas, enhancing farming livelihoods; and helping local communities to adapt to and prepare for climate risks
Tuvalu Coastal Adaptation Project	Asia - Tuvalu	UNDP	36m GCF 3m co-finance	The project will increase coastal resilience against sea level rise on 3 islands, by building coastal protection infrastructure and enhancing national coastal management capacity
Climate-Resilient Infrastructure Mainstreaming	Asia - Bangladesh	KfW	40m GCF 40m co-finance	This project will build 45 new cyclone shelters and renovate 20 shelters, improve road access, and also develop national capacity for climate resilience

Box 2: GCF project examples

Urban Water Supply and Wastewater Management, Fiji⁶

Accredited entity: Asian Development Bank (ADB) is a regional development finance institution. ADB provides finance and technical assistance to deliver projects that create economic and development impact in developing member countries.⁷

Project sector: Water and waste water management

Project description: The project will improve access to safe water and sewerage services by building infrastructure to increase water production by 20% and wastewater treatment by 200% in the greater Suva area. The project will design and construct a new water intake by the River Rewa, with a pumping station, wastewater treatment plant, clear water reservoir, and pipeline to increase water production. Support will also be given to the government to develop and implement policy and regulatory reforms in water and sewerage.

GCF funding: US\$ 31m

Total project financing: US\$ 220m

Opportunities for SMEs: the project has identified the need for i) financial consulting services to strengthen financial management and procurement processes at the Water Authority of Fiji (WAF); and ii) construction companies in waste water and waste water treatment infrastructure development.⁸

Potential further opportunities: provision and implementation of (and technical assistance on) water production and waste water treatment technologies and techniques; consultancy services on the design and implementation of water policy and regulation to the Fiji government; provision of project management services and capacity building at WAF (by specialists in water sector projects).

Increasing resilience through restoration of salinized lands, Senegal⁹

Accredited entity: Centre de Suivi Ecologique (CSE) is a national entity located in Senegal. Its core activities include environmental monitoring, natural resource management, and environmental impact assessment.¹⁰

Project sector: Agriculture and land use

Project description: The project will increase resilience by helping communities to deal with land salinization in delta areas and estuaries. It will strengthen the capacity to develop desalinization and land management plans, raise awareness, and improve knowledge by creating maps and a real-time database of salinized land. It will reduce the impacts of salinization through the construction of small dams and artificial basins, use of drip irrigation, reforestation and mangrove restoration, and measures to increase soil protection and fertility.

GCF funding: US\$ 7.6m

Total project financing: US\$ 8.2m

Opportunities for SMEs: the project identifies the need to contract certain services through open tender including i) financial support to the project (e.g. an annual audit to be carried out at CSE); and ii) provision and implementation of new technologies, and infrastructure development and maintenance.¹¹

Potential further opportunities: provision of training to disseminate information, transfer knowledge and thus educate the local population and authorities; technical assistance on new technologies if implemented locally; capacity support (and perhaps sector-specific consultancy services) to CSE.

⁶ Full Funding Proposal https://www.greenclimate.fund/documents/20182/87610/GCF_B.11_04_ADD.08_-_Funding_proposal_package_for_FP008.pdf/bf8d61b0-3e24-4ba5-a43a-9c296c12ffab

⁷ ADB website <https://www.adb.org/about/main>

⁸ The Government of Fiji has agreed to follow ADB's Procurement guidelines and ADB's 'Use of Consultants' guidelines when contracting the services of external parties to work on implementing the project.

⁹ Full Funding Proposal https://www.greenclimate.fund/documents/20182/87610/GCF_B.11_04_ADD.03_-_Funding_proposal_package_for_FP003.pdf/ede68fb4-dfb0-436e-962f-fd533ae9f9d6

¹⁰ CSE website (Spanish language) <http://www.cse.sn/index.php/en/>

¹¹ Any procurement will be conducted following the procurement procedures manual of CSE.

Section 4: What are potential opportunities for SMEs?

GCF projects cover a wide range of sectors and will achieve their results by undertaking a great range of activities, including infrastructure development, provision of technologies, technical consultancy, provision of finance, and training. Although it is too early to tell what kinds of services the project implementers will procure externally, it is likely that there will be opportunities for SMEs in a range of areas.

The transition to a low-emission, climate-resilient future will require major changes in every aspect of our economies and societies. The GCF aims to support this by funding projects across a wide range of results areas, as outlined in Section 3, and illustrated by the selection of approved projects in Table 1. GCF projects typically will combine a number of activities to achieve their results, which may include for example the development of new infrastructure, the provision of new technologies to homes and businesses, the provision of finance, technical consultancy and training to help people and businesses change their behaviour, and technical assistance and advice to government and national agencies.

Some of these activities will be undertaken by the Accredited Entity (the organization who receives the funding from the GCF and is responsible for the project) or by other organisations identified in the project proposal (for example by public bodies with specific mandates that make them uniquely qualified). But in many cases the project will need to procure these services externally, once they are ready to begin implementing the project. The GCF's rules require Accredited Entities to follow good procurement practice, including transparent open tendering for external services. Because the GCF is so new, and because no GCF projects have begun implementation yet, such tendering has not yet started for GCF projects, so it is not yet possible to see what specific services are being procured that SMEs could provide. Organisations implementing projects financed by similar climate funds, however, such as the Adaptation Fund, have issued open procurements for services to be delivered as part of those projects, and it is likely they will do the same for GCF projects.

Section 5: How can Dutch SMEs get involved?

The cleantech and water sectors are key sectors for the Netherlands, and Dutch SMEs provide very relevant services for the implementation of GCF projects. Most GCF project services however will be implemented on the ground in developing countries and will require local presence and local knowledge. Dutch SMEs will need to compete with local SMEs and be prepared to work in developing country contexts.

The best ways for Dutch SMEs to get involved in GCF projects are not yet clear. Ultimately, participating in a GCF project will be no different to participating in most other large scale international climate projects operating in developing countries, and will offer similar challenges and opportunities to SMEs. Dutch SMEs will need to offer the services required by the project and be capable and willing to work on the ground in developing countries. In many cases they will need to work with large international public bodies such as the World Bank or UNDP, which they may not be used to.

There are a few activities SMEs can undertake to better understand the GCF and to put themselves in a good position to act on GCF opportunities as and when they start to appear:

- Read more about the GCF projects approved so far to understand the activities they will be undertaking and the kinds of services they might procure. The GCF projects are presented on the GCF website, including their proposal documents;¹²
- Look at existing procurements from organisations who are implementing projects financed by other climate funds (e.g. the Adaptation Fund, the GEF) to understand the services, eligibility criteria and qualifications required;
- Look at the list of GCF Accredited Entities and identify the ones who might implement projects in countries you are capable and interested to work in. Consider contacting them to discuss how they expect to procure services and whether there are eligibility constraints etc.;
- Monitor the procurement websites of public Accredited Entities such as UNDP or EBRD for procurements relating to GCF (and other climate fund) projects that may be of interest. NB These are not always labelled clearly as GCF projects.

Over time it will become clearer how significant an opportunity the GCF is for Dutch SMEs. While it is clear that it will channel very large sums of international climate finance into mitigation and adaptation projects in developing countries, and while it is likely that these projects will procure a range of services from third parties, it is not yet clear how practical or easy it will be for Dutch SMEs to access these opportunities.

¹² Browse projects in the GCF website <http://www.greenclimate.fund/projects/browse-projects>

2. The Clean Technology Fund (CTF)

Matthew Halstead (ECN)

What is the CTF?

The Clean Technology Fund (CTF) is a US\$ 5.8bn program that supports scaling up of clean technologies and mitigation of greenhouse gas emissions (GHGs). It is one of the four programs of the World Bank managed Climate Investment Funds (CIF).

Established in 2008, and managed by the World Bank, the US\$ 8.3bn CIF is the largest multilateral climate fund. The fund provides resources to developing and middle-income countries in the form of grants, concessional loans, risk mitigation instruments, and equity. These instruments leverage capital flows from Multilateral Development Banks (MDBs), the private sector, and other sources, to finance initiatives that address climate change challenges and mitigate greenhouse gas (GHG) emissions.

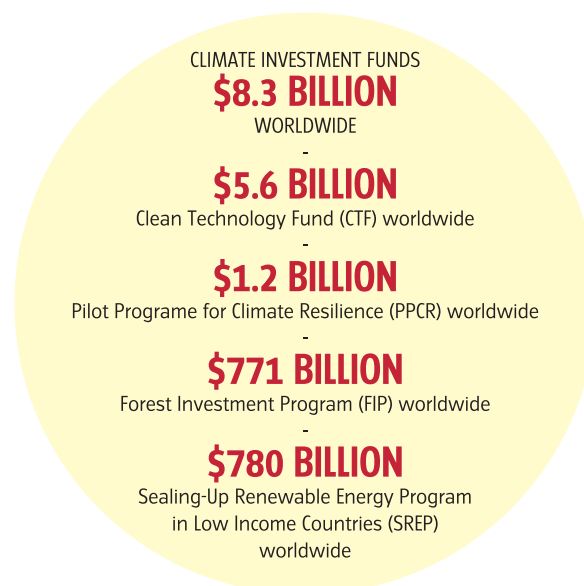
The CIF is funded by contributions from several developed countries. The top 3 contributors by total US\$ pledged are the United Kingdom (US\$ 2.8 bn), United States (US\$ 2 bn) and Japan (US\$ 1.23 bn).

The CTF Program has the largest capital base of the four CIF programs with US\$ 5.8 bn. It provides developing and emerging economies with 'highly concessional resources to scale up the demonstration, deployment, and transfer of low carbon technologies in renewable energy, energy efficiency, and sustainable transport'. Until now the CTF has allocated US\$ 5.6 bn to 121 projects with expected co-financing of US\$ 52 bn.

Created under the CTF and launched in 2013, the **Dedicated Private Sector Program (DPSP)** has an indicative allocation of US\$ 508m to finance programs that can scale up CTF impact and financing, and leverage private sector investment, as well as speed up deployment of CTF resources. Since inception, approximately US\$ 465m has been allocated to DPSPs in six thematic areas: geothermal power, mini-grids, mezzanine finance, energy efficiency, solar photovoltaic power, and early stage renewable energy.¹³

Global context

The CTF is a part of a complex global landscape of climate funds, and with the arrival of the Green Climate fund (GCF), the position of the CIF, and thus CTF, may change. The GCF has already received pledges in excess of US\$ 10bn, and has approved 35 projects amounting to approximately US\$ 1.5bn. Moreover, the UNFCCC is not only served by the GCF, but also the Adaptation Fund (US\$ 600 m) and the Global Environment Facility ('the GEF') which manages several climate change funds under the UNFCCC. It remains to be seen how much synergy there will be between these funds and whether a distinctive role emerges for each of them.



(Source: CIF website)

¹³ All data and information in this section was sourced from the CIF website, accessed March 2017: <https://www.climateinvestmentfunds.org/>

How does the CTF work?

The CTF takes a programmatic approach to development planning and financing by dividing it into two phases of programming and implementation. In the programming phase, country-specific investment plans are developed through a consultative approach involving the country government, MDBs, and other key stakeholders (including private sector entities and civil society). Once an investment plan is approved and endorsed, the project moves into the implementation phase. The CTF channels funds for project implementation through its partner MDBs.

The CTF Trust Fund Committee oversees and decides on the operations and activities of the CTF. Its responsibilities include approving programming and pipeline priorities, operational criteria, and financing modalities; endorsing further development of activities in investment plans for CTF financing; and approving allocation of CTF resources for programs, projects, and administrative budgets.

There are essentially two ways of accessing the CTF, one for the public and one for the private sector. Access by the public sector starts at the country level whereby MDBs jointly assess whether a country satisfies the CTF investment criteria. If the country fits the criteria, MDBs and development partners will discuss with the government (and possibly other stakeholders such as from the private sector) the ways in which the CTF could finance scaling up of low-carbon development activities. The country will then lead development of an investment plan which is reviewed by the CTF Trust Fund Committee. If the plan is approved, the committee will look to endorse a resource envelope for the country and authorise MDBs to proceed with development of individual projects and programs to be financed through the CTF. Private sector proposals are either submitted as individual large-scale projects or program envelopes in which aggregate small and medium sized projects all requiring less than \$US 50m of CTF funds, and having a common theme and objective.

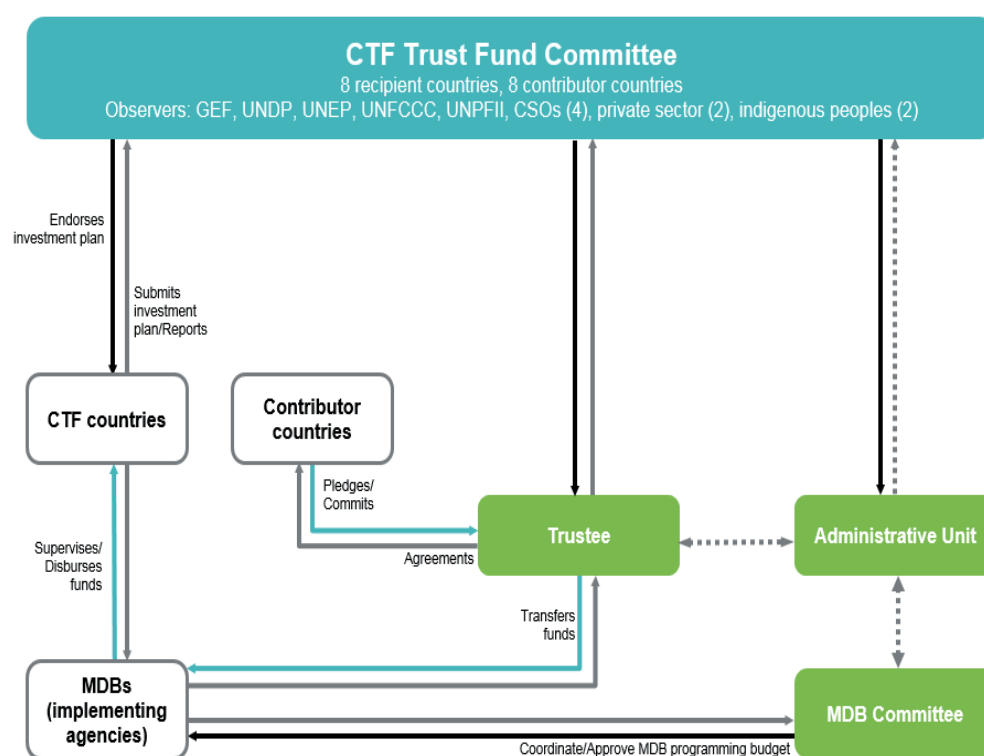


Figure 3: CTF organizational architecture (Source: An Overview of the CIF - Governance and Programming Information, 2015¹⁴)

¹⁴ http://www.climateinvestmentfunds.org/sites/default/files/knowledge-documents/cif_orientation_booklet_web_final_0_0.pdf

Box 3: The CTF MDBs

Currently, six MDBs receive funding from the CTF. These are:

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- International Bank for Reconstruction and Development (IBRD)
- Inter-American Development Bank (IDB)
- International Finance Corporation (IFC), the private sector arm of the World Bank

CTF concessional finance is channeled through these partner MDBs to support climate smart development through endorsement of 15 investment plans, including country plans in Colombia, Egypt, India, Indonesia, Kazakhstan, Mexico, Morocco, Philippines, South Africa, Thailand, Turkey, Ukraine, and Vietnam, and a regional Concentrated Solar Power (CSP) program in the Middle East and North Africa covering Algeria, Egypt, Jordan, Morocco, and Tunisia. This stimulus is leading to lower technology costs, support for innovative first-movers, providing bridge financing, creating markets and encouraging private sector financing, thus increasing investor confidence and attracting co-financing.

What kind of projects does the CTF fund?

The CTF funds projects and programs that reduce GHG emissions and help developing and emerging economies to transform by providing resources to scale up low carbon technologies in renewable energy, energy efficiency, and clean transport. The DSPS has already financed large-scale projects in geothermal power, mini-grids, mezzanine finance, energy efficiency, solar PV, and early-stage renewable energy programs

The CTF will invest in programs and large-scale projects from different implementation levels including:

1. The sectoral or sub-sectoral level in a given country;
2. Sub-nationally, by focusing activity on a particular province/state/municipality;
3. Regionally, particularly where regional cooperation is required;
4. Through the private sector or public-private partnerships.

The Fund expects projects and programs to contribute directly to the stated CTF outcomes, which are:

1. Avoided GHG emissions (tonnes GHG emissions avoided);
2. Increased finance for low carbon development mobilised (volume of direct and indirect finance leveraged through CTF funding, disaggregated by public and private);
3. Increased supply of renewable energy (RE) (installed capacity (Megawatts, MW) and annual electricity output from RE (Gigawatt hours, GWh);
4. Increased access to public transport (number of people getting access to improved (public) transport);
5. Increased energy efficiency (annual energy savings (GWh).

The Fund also places emphasis on the project or program explaining how its implementation will achieve 'co-benefits', for example:

1. Reduced cost of RE or low carbon transport: Economies of scale are expected over time in CTF countries which will contribute to RE or low carbon transport costs reductions.
2. Energy security: Increased output from RE is expected to improve the overall provision and diversification of energy sources at the country level compared to the current situation, thus improving energy reliability and security.
3. Increase consideration of GHG emissions in national planning: GHG emissions are expected to be integrated in planning documents, and considered in planning processes in national sectors or other institutional contexts.

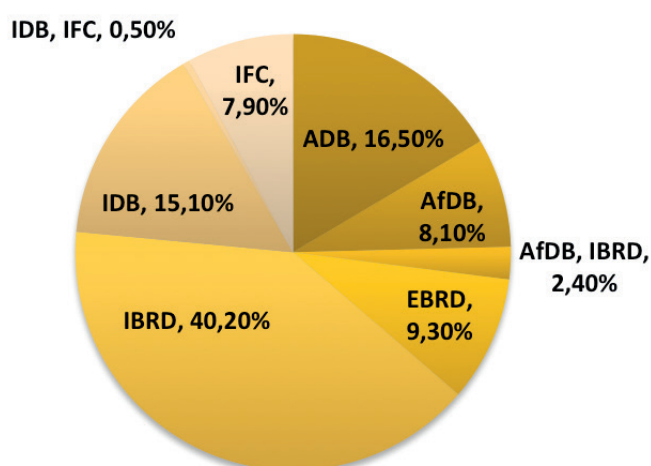
CTF countries and projects approved so far

The CTF provides resources to implement investment plans in 15 countries: Chile, Colombia, Egypt, India, Indonesia, Kazakhstan, Mexico, Morocco, Nigeria, Philippines, South Africa, Thailand, Turkey, Ukraine, Vietnam; and for one regional program in the Middle East and North Africa Region (Algeria, Egypt, Jordan, Libya, Morocco, Tunisia).

Over US\$ 3.8 bn (66 percent of CTF resources) is approved and under implementation. This is expected to leverage another US\$ 38 bn in co-financing. The project portfolio consists of various renewable energy technology-specific projects with solar technology - Concentrated Solar Power (CSP) and Solar PV - receiving the largest portion of the funding by thematic area amounting to almost US\$ 1.5 bn. Energy efficiency and Bus/Rail/Transit projects also receive large funding amounts from the CTF of approximately US\$ 760m and US\$ 690m respectively.

The three largest recipients of funding from the CTF are Mexico (US\$ 796m), India (US\$ 675m), and Morocco (US\$ 585m). The international Bank for Reconstruction and Development (IBRD) channels approximately 40% of CTF funds to projects, followed by the Asian Development Bank (ADB) at 16.5% and the Inter-American Development Bank (IDB) at 15%. The ratio between funding channeled from the CTF to public sector projects compared to private sector projects is approximately 2:1 in favour of public projects (see Figure 4 below).

By MDB



Share of public and private

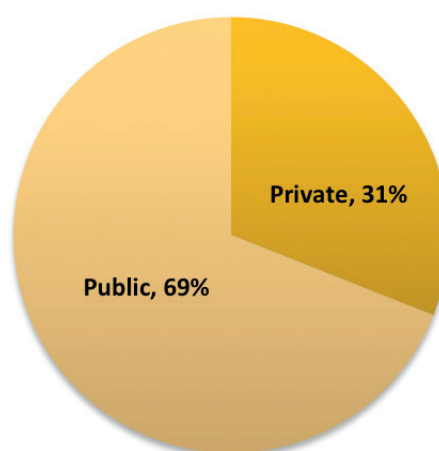
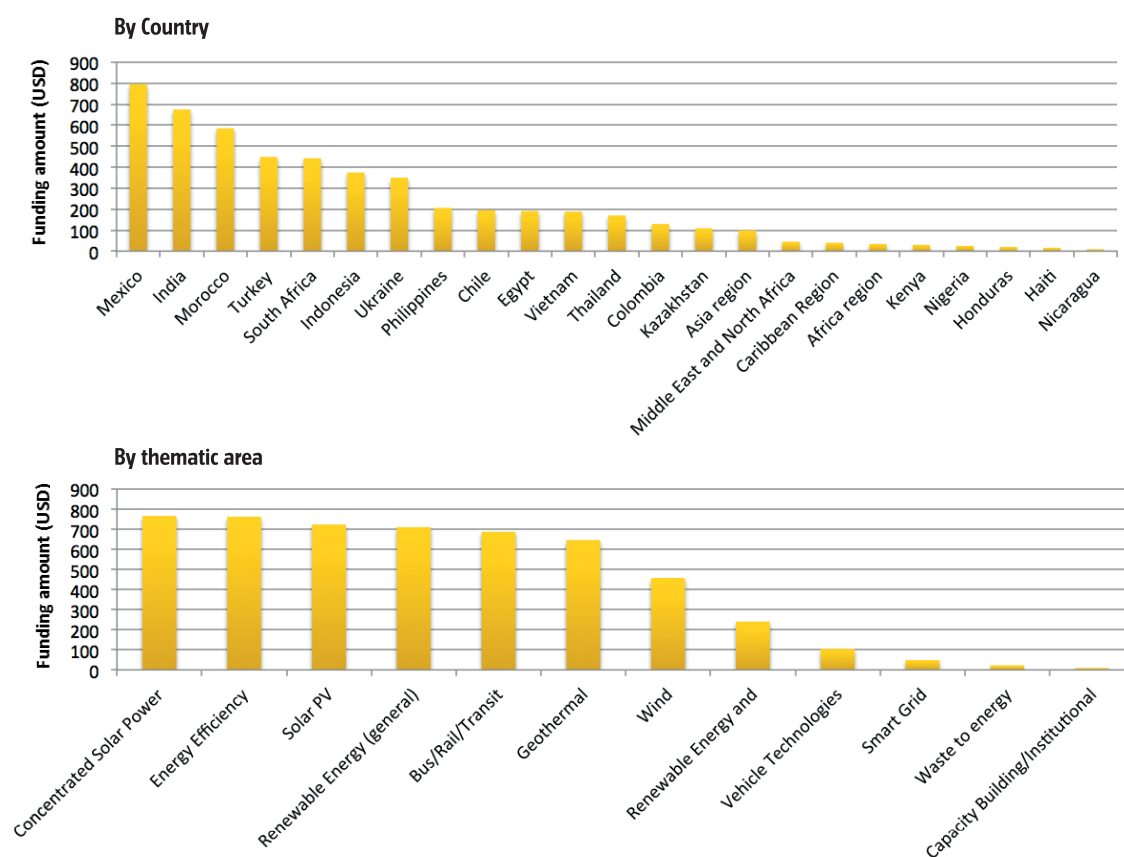


Figure 4: share of CTF projects by MDB, public vs private sector, country, and thematic area (Data source: CTF website, accessed March 2017)

Continue on next page >>



The remainder of this section provides further information on a selection of CTF projects.

Table 2: Summary of selected CTF projects (Source: CIF website, accessed March 2017)

Project Title	Region - country	MDB	Financing (US\$)	Description
Sustainable Energy Acceleration Program	Sub-Saharan Africa - South Africa	IFC	42.5m CTF; 1.4bn co-financing	Renewable Energy IPP Procurement Program (REIPPP) was launched by Government of South Africa in 2011, which provides feed-in tariff incentives for the development of RE projects. Under REIPPP, IFC and AfDB have directed CTF SEAP resources to support REIPPP's efforts to promote Concentrated Solar Power (CSP) technology, which was allocated 600MW of capacity. So far, this support has led to three groundbreaking CSP sub-projects, totaling 250 MW of installed capacity.
Geothermal Financing and Risk Transfer Facility	Latin America - Mexico	IDB	20m CTF	This project will encourage private investment in geothermal energy through financial and risk transfer mechanisms to reduce investment costs, mobilize private capital for projects and ensure a sustainable growth in the long term.
Renewable Energy Mini-grids and Distributed Power Generation	South-east Asia - Philippines, India, Indonesia	ADB	34.3m CTF; 60m co-financing	Under the CTF Dedicated Private Sector Program, this sub-program seeks to catalyze growth in access to electricity by addressing primarily financial barriers to private sector led distributed power generation and "mini grid" development from renewable energy (RE) in the CTF pilot countries of India, Indonesia and the Philippines.

One Wind Energy Plan (WEP)	Middle East and North Africa (MENA) - Morocco	AfDB, IBRD	125m CTF; 2.3bln co-financing	The WEP comprises of two main components: a wind energy generating system with hydro-storage energy generating system, and a rural electrification plan. WEP will enable Morocco to increase energy security and green employment while decreasing fossil fuel dependency and CO ₂ emissions.
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What are potential opportunities for SMEs?

CTF projects cover a range of sectors and will achieve their results by undertaking a wide spectrum of activities, including infrastructure development, provision of technologies, technical consultancy, provision of finance, and training.

The transition to a low-emission, climate-resilient future will require major changes in every aspect of our economies and societies. The CTF aims to support this by funding projects across a range of results areas, which is illustrated by the selection of projects in Table 2. CTF projects typically will combine a number of activities to achieve their results, which may include for example the development of new infrastructure, the provision of new technologies to homes and businesses, the provision of finance, technical consultancy and training to help people and businesses change their behaviour, and technical assistance and advice to government and national agencies.

Some of these activities will be undertaken by the MDB or by other organisations identified in the project proposal (for example by public bodies with specific mandates that make them uniquely qualified). But in many cases the MDB will need to procure these services externally, once they are ready to begin implementing the project. Examples of procurement notices of MDB's for CTF funded projects are shown in Table 3 below.

Table 3: Summary of selected procurement notices of MDB's for CTF funded projects

Project Title	Country	MDB	Topic	Procurement notice summary
Second Power Transmission Project	Ukraine	IBRD	Smart Grids	Consulting services are sought to prepare and agree the bidding documents for procurement of working design, equipment, software, hardware and services (including instructions to bidders, price schedules, draft contracts and technical specifications) based on the guidelines for procurement under IBRD loans. ¹⁵
Geothermal Financing and Risk Transfer Facility	Mexico	IDB	Geothermal energy	The IDB seeks consultancy firms with proven international experience and expertise in the development of geothermal energy projects, with extensive experience in practical evaluation of geothermal projects and/or design of feasibility studies (technical and economic) of geothermal fields. ¹⁶
Turkey Sustainable Energy Finance Facility (TurSEFF) III	Turkey	EBRD	Renewable energy and energy efficiency financing	The EBRD seeks to engage a Project Consultant to provide capacity-building to Partner Financial Institutions (PFIs) to institutionalise the know-how required to support investments in renewable energy and energy efficiency projects. The consultant will provide support to PFIs to build a pipeline of eligible sub-projects for financing and help sub-borrowers develop and prepare their Sub-projects for financing by PFIs. The PC will also ensure that visibility of the Facility and the donors. ¹⁷

How can Dutch SMEs get involved?

The cleantech and water sectors are key sectors for the Netherlands, and Dutch SMEs provide very relevant services for the implementation of CTF projects. Most CTF project services however will be implemented on the ground in developing countries and will require local presence and local knowledge. Dutch SMEs will need to compete with local SMEs and be prepared to work in developing country contexts.

There are a few activities SMEs can undertake to better understand the CTF and to put themselves in a good position to act on CTF opportunities as and when they start to appear:

- Read more about the CTF projects approved so far to understand the activities they will be undertaking and the kinds of services they might procure. The CIF projects are presented on the CTF website: <https://www-cif.climateinvestmentfunds.org/projects>;
- Look at the list of MDB's and identify the ones who might implement projects in countries you are capable and interested to work in. Consider contacting them to discuss how they expect to procure services and whether there are eligibility constraints;
- Monitor the procurement websites of MDB's for procurement notices relating to the CTF projects that may be of interest.

¹⁵ The IBRD procurement notice can be accessed here: <http://projects.worldbank.org/procurement/noticeoverview?lang=en&id=OP0034446>

¹⁶ The IDB procurement notice can be accessed here: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=393200>

¹⁷ The EBRD procurement notice can be accessed here: <http://www.ebrd.com/work-with-us/procurement/pn-64597.html>

3. Scaling-up Renewable Energy Programme (SREP)

James Rawlins (ECN)

What is the SREP?

The Scaling Up Renewable Energy in Low Income Countries Program (SREP) is an US\$ 839m program that supports the development of renewable energy in a select number of the world's poorest countries. It is part of the World Bank managed Climate Investment Funds (CIF).

Along with the Forest Investment Program (FIP) and the Pilot Program for Climate Resilience (PPCR), the SREP is one of three programs under the Strategic Climate Fund (SCF), one of the two multi-donor funds that make up the CIF (the other being the Clean Technology Fund, or CTF). The structure of the CIF is shown below.

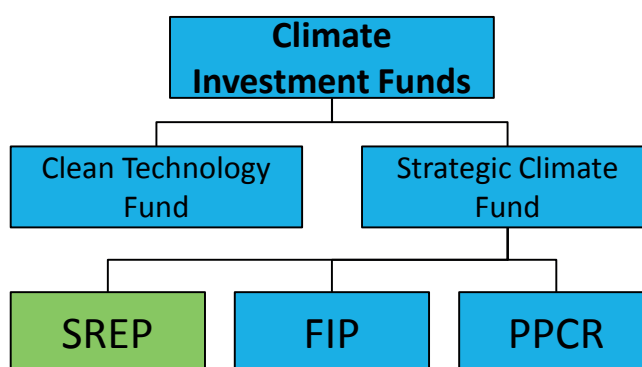


Figure 5: structure of the CIF (Source: CIF website)

The SREP was established in 2010 and aims to demonstrate the economic, social and environmental viability of renewable energy in low income countries, helping partner countries to increase energy access and stimulate economic growth. 12 countries joined the SREP initially and a further 14 joined in 2014. The SREP principally finances solar, geothermal and small hydropower projects, but has also approved waste to energy, wind and cook stoves projects.

How does the SREP work?

In common with the other funds under the CIF, SREP follows a programmatic approach. There are two main phases – programming, and then implementation. During the programming phase, country-specific ‘Investment Plans’ are developed through consultation with a range of country stakeholders. Once the plans are approved, specific projects that are in line with the investment plan can be further developed, and if they are approved, implemented. As with the other CIF funds, the Multilateral Development Banks (MDBs) play an important role as the implementing agencies of the SREP, through whom the funds are channeled. SREP projects are typically co-funded by MDB and other sources with SREP normally providing less than half of the total funding.

The governance and processes of the SREP are similar to the other CIF Funds. The key decision making body is the SREP Sub-Committee, which is responsible for overseeing and approving the actions of SREP, and is made up of six representatives from SREP contributor countries, and six from recipient countries (observers from the MDBs and various UN bodies may also attend). The diagram in Figure 6 outlines the SREP’s governance structure and the key interactions between the countries, the Sub-Committee and the other key actors.

To access funding from SREP, countries must follow the steps of the programmatic approach, of which the first ‘programming’ phase centers around the development of the Investment Plan, before they can submit specific projects for funding, and implementation, in the second phase. The relevant regional MDB is heavily involved in all stages.

The programming phase runs as follows. Potential recipient countries are first invited to submit an Expression of Interest to participate in SREP, which needs to be approved by the Sub-Committee, following recommendations from a group of experts. Once approved, the country government works with the relevant MDB to develop its Investment Plan. These documents describe the situation in the country, the renewable energy resources, the existing policies and programs, and identify projects for SREP support¹⁸. The Sub-Committee then reviews and endorses (or requires changes to) the Investment Plan. At this point the Sub-Committee will endorse a total resource amount that could be made available for the investments in the plan, and will approve project preparation grants (if requested).

Once the plan is approved, the ‘implementation’ phase can begin, and the country and MDB can begin developing specific project proposals to be submitted for approval by the Sub-Committee. For the development of these proposals, the MDB’s existing procedures are followed, including their environmental and social safeguards and fiduciary policies. The MDB can choose when to submit the investment proposal to the SREP Sub-Committee, but this should always be before the MDB’s own final approval has been sought. Once the SREP Sub-Committee has approved an investment, then the MDB can follow its own normal process to gain final approval from the MDB side.

Once the project, including other funding sources, is fully approved, then funds can be disbursed as per the project design, and where required, the involvement of the privates sector can be sought. Typically this will be done on an open competitive basis, with procurement notices issued for specific activities as required by the project. Some examples of services procured as part of SREP projects are given in Table 4.

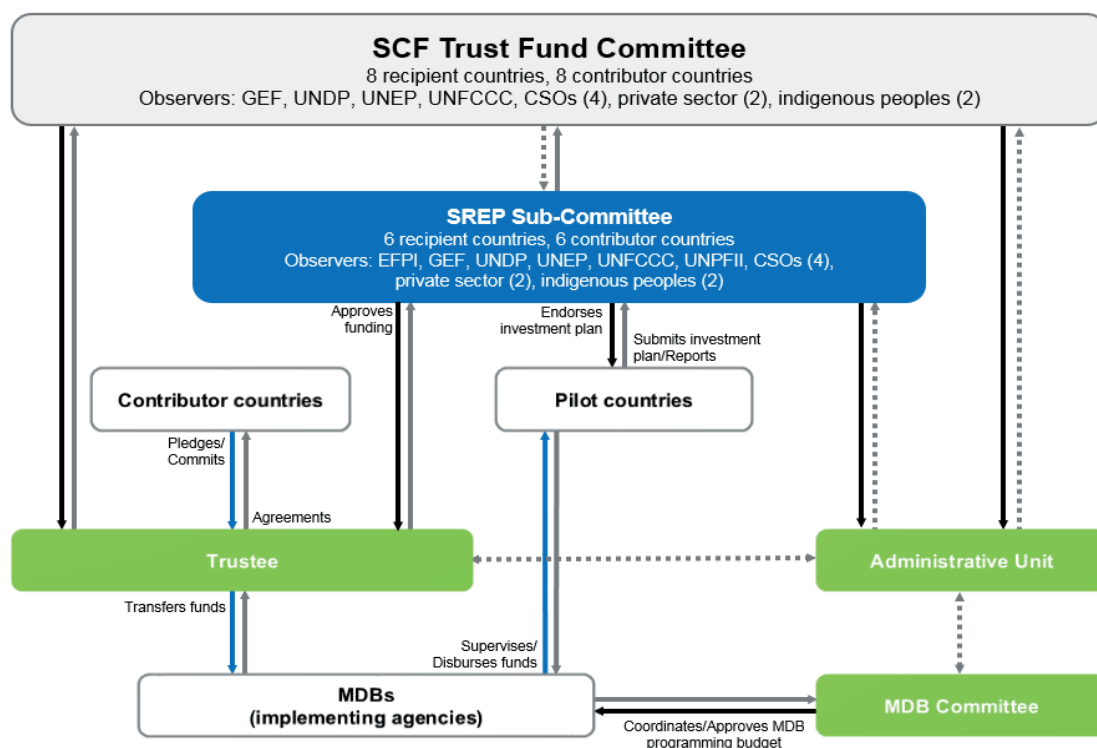


Figure 6: SREP governance structure (Source: CIF website)

¹⁸ SREP investment plans are available here: <https://www-cif.climateinvestmentfunds.org/country>

Box 4: The SREP MDBs

Currently six MDBs receive funding from the SREP. These are:

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- International Bank for Reconstruction and Development (IBRD), part of the World Bank Group
- Inter-American Development Bank (IDB)
- International Finance Corporation (IFC), the private sector arm of the World Bank Group

SREP finance is channeled through these partner MDBs to deliver the projects outlined in the country investment plans and subsequently approved by the Sub-Committee and relevant MDB.

What kind of projects does the CTF fund?

SREP funds projects that support the scaled-up deployment of renewable energy solutions, in low income countries, to increase energy access and economic opportunities. SREP funds two main types of project: capacity building and advisory services; and investments in the deployment of renewable energy. SREP funds are channeled through MDBs and co-fund projects alongside MDB funds and other sources including host governments. 26 countries currently participate in SREP and are eligible for SREP funding.

The aim of the SREP is to pilot and demonstrate the economic, social and environmental viability of low carbon development in the energy sector, by creating new economic opportunities and increasing energy access through the use of renewable energy. SREP aims to overcome economic and non-economic barriers in order to scale-up private sector investments that contribute to the fund's objectives.

SREP funds both capacity building and advisory services, and actual investments. The capacity building and advisory services should help create favourable local conditions for the scale up of renewable energy, and should support the investments identified in the investment plan. The capacity building and advisory support should be integrated with the investment projects as far as possible and the two types of activity should reinforce each other. Country governments take the lead in identifying their needs, and how they should be met. The following types of activity can be supported through capacity building and advisory support:

- development of energy policies and legislation;
- assessment of technical resource potential for renewable energy sources;
- strengthening governance and institutional capacity;
- improved planning and regulation;
- design of incentive schemes to improve financial viability of renewable energy.

SREP investments support increased generation of renewable energy. The key technologies include:

- solar thermal and solar PV systems;
- wind energy;
- bio-energy (biogas, gasification, cogeneration, bio-fuels);
- geothermal energy; and
- hydropower below 10MW per facility.

Projects can be for various applications of renewable energy (e.g. thermal as well as electricity generation), and connected to the main national or regional grid, or in distributed mini-grid or off-grid settings. Enabling investments such as improved interconnection may also be considered, if directly relevant to scaling up of renewable energy.

SREP countries

SREP works with 26 low income countries. 12 were involved in the first pilot phase and 14 joined in 2014. The countries are listed in the Table 4 below. Most countries have an approved Investment Plan (available on the CIF website) but some are still under development.

Table 4: SREP countries (Source: CIF website)

Initial countries	Joined in 2014
Armenia; Ethiopia; Honduras; Kenya; Liberia; Maldives; Mali; Mongolia; Nepal; Tanzania; Yemen; Solomon Islands & Vanuatu	Bangladesh; Benin; Cambodia; Ghana; Haiti; Kiribati; Lesotho; Madagascar; Malawi; Nicaragua; Rwanda; Sierra Leone; Uganda; Zambia

Projects approved so far

SREP has approved 23 projects and programs, together accounting for US\$ 264m. The vast majority (almost 90%) is in the form grants, with use of concessional loans or guarantees in a few projects. These approved projects expect US\$ 1.9bn in co-financing from other sources. Total funding endorsed by SREP across the country investment plans totals US\$ 839m.

The split of approved funding across region, MDB, and main technology is as shown in Figure 7 below. 50% of approved funding is for projects in Africa, with Asia the second largest region (34%). The World Bank Group is implementing the greatest value of projects at around half the total, with the other half fairly equally split between the AfDB, ANB and IDB.

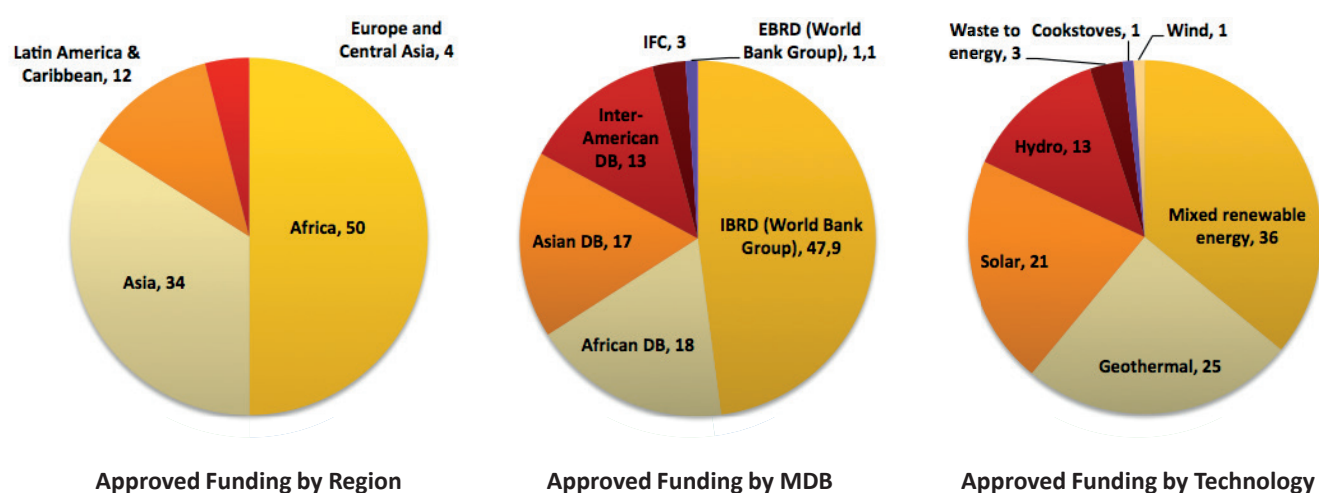


Figure 7: SREP approved funding by region and technology. (Source: SREP Factsheet, November 2016¹⁹; SREP project data from CIF website, accessed March 2017).

¹⁹ https://climateinvestmentfunds.org/sites/default/files/knowledge-documents/srep_fact_sheet_nov_2016.pdf

Table 5: Summary details for selected approved SREP projects

Project	Country/region	MDB	Financing (US\$)	Description
Low-cost electricity for the rural poor in Tanzania	Africa - Tanzania	IFC	5m SREP	Strengthens the enabling environments for crucial investments in energy access, including through preparation and adaptation of the technical standards for mini grids, to allow the private sector to invest
Expanding geothermal energy in Kenya	Africa - Kenya	AfDB	25m SREP 360m co-funding	Supports the expansion of the Menengai geothermal power plant and establish a strong basis for private sector participation in Kenya's emerging geothermal energy market by removing investment barriers
Segou solar PV plant in Mali	Africa - Mali	AfDB	25m SREP	SREP supports first-mover private sector investment in a project to design, construct and operate a 33 MW solar PV power plant and 2.8 km of 33kV transmission line
Enhancing renewable energy development in Nepal	Asia - Nepal	ADB	12m SREP	Provides access to electricity and facilitates productive uses of energy in rural locations through renewable energy-based mini-grid systems and capacity development
Preparing Outer Islands for Sustainable Energy Development Program	Asia - Maldives	ADB	13m SREP 100m co-funding	The project will install solar-diesel hybrid grids on outer islands and the greater Male region. Skills development support will also be given to the Ministry of Environment and Energy and the main power utilities for the hybrid rollouts
Honduran self-supply renewable energy guarantee program	Central America - Honduras	IDB	5.5m SREP	SREP funds a guarantee scheme to provide first-loss guarantees for IDB direct loans to corporations, improving the credit profile of the projects and allowing access to appropriate finance for self-supply renewable projects

What are potential opportunities for SMEs?

The implementation of SREP projects will require a range of services that could be provided by SMEs, including the design, construction, operation and maintenance of renewable energy infrastructure, as well as capacity building and advisory services designed to improve the enabling conditions in the SREP countries, and consulting services required to prepare for project implementation.

Opportunities for SMEs to participate in SREP funded activity could cover various services and occur during the programming and implementation phases. During programming, consultancy support may be required to support some countries in developing their SREP investment plans. In the implementation phase the opportunities will be more varied in nature. Some will require very specific capabilities and track record, such as highly technical consultancy services focused on technical aspects of renewable energy, or the design and construction of renewable energy projects or supporting infrastructure. Others may be applicable to SMEs from outside the renewable sector, e.g. for programs focused on increasing the uptake of small scale technologies among households or small businesses, more general awareness raising and marketing services may be needed. Table 6 below includes some example procurements from the World Bank for SREP projects and activities, covering different technologies, regions and service types.

Table 6: Summary of selected procurement notices from MDBs for SREP projects (NB. all now closed)

Opportunity	Country	MDB	Topic	Procurement notice summary
Preparation of SREP Investment Plan	Vanuatu	World Bank	SREP Investment Plan	To support the Government of Vanuatu to prepare a renewable energy investment plan for consideration by the SREP for funding, including work to assess the potential and costs of applicable renewable energy technologies, prioritize potential interventions and facilitate discussions of these results with stakeholders. ²⁰
Feasibility studies and resource mapping	Armenia	World Bank	Solar PV	To support a utility scale solar PV project, the Armenia Renewable Resources and Energy Efficiency Fund [implementer of the SREP funded project] seeks consultancy services to develop solar resource maps, to design and implement ground based solar resource measurement activities, to identify the most suitable sites for PV plants, and to undertake capacity building. ²¹
Design, Build, Finance, Own, Operate, and Transfer of Grid-tied Solar PV system	Maldives	World Bank	Solar PV	The Government of the Republic of Maldives is implementing the Accelerating Sustainable Private Investment in Renewable Energy (ASPIRE) Project with the support of SREP, with the objective of scaling up Solar PV generation in the Maldives through a public-private partnership (PPP) approach, and invites investors for the Design, Build, Finance, Own, Operate, and Transfer of Grid-tied Solar PV system in the Greater Male region. ²²
Technical consultancy for geothermal drilling operations	Armenia	World Bank	Geothermal	The Armenia Renewable Resources and Energy Efficiency Fund [implementer of the SREP funded project] is looking for a Technical Supervision and Support Consultant (TSSC) to provide technical supervision of the drilling operation; review of the results and findings of well logging, mud logging, flow testing, and chemical analyses of cuttings, onsite geology; as well as provision of other technical advice and support related to the assignment, including evaluation of bids for drilling contractor and other specialty contracts. ²³

How can Dutch SMEs get involved?

Dutch SMEs working in the renewable energy sector and a few other professional services sectors provide relevant services for the implementation of SREP projects. SREP projects however will be implemented on the ground in a relatively small number of low-income countries and thus will require local presence and local knowledge. Dutch SMEs will need to compete with local SMEs and be prepared to work in developing country contexts.

Participating in an SREP project will be no different to participating in most other large scale international climate projects operating in developing countries, and will offer similar challenges and opportunities to SMEs. Dutch SMEs will need to offer the services required by the project and be capable and willing to work on the ground in developing countries. As all SREP funds are channeled through MDBS such as the World Bank or Asian Development Bank, SMEs will need to work with these organisations, which they may not be used to, and in many cases the procurement exercise will be run by the host country government, so SMEs may need to deal with government departments or agencies in the host countries too.

²⁰ Original procurement notice available here: <http://projects.worldbank.org/procurement/noticeoverview?lang=en&id=OP00024646>

²¹ Original procurement notice available here: <http://projects.worldbank.org/procurement/noticeoverview?lang=en&id=OP00033362>

²² Original procurement notice available here: <http://projects.worldbank.org/procurement/noticeoverview?lang=en&id=OP00032203>

²³ Original procurement notice available here: <http://projects.worldbank.org/procurement/noticeoverview?lang=en&id=OP00036058>

There are a few activities SMEs can undertake to better understand the SREP and to put them in a good position to act on SREP opportunities:

- Read more about the SREP projects approved so far to understand the activities they will be undertaking and the kinds of services they might procure. The SREP projects are presented on the CIF website, where the project documents are also available²⁴;
- Read SREP Investment Plans for countries you are interested in to understand the technology focus and specific projects that have been identified. These plans give an indication of the projects that will be developed and thus where procurement opportunities should appear²⁵;
- Based on the Investment Plans and projects, identify which regions and countries you are most interested in SREP projects in, and consider contacting the relevant MDB to discuss how they expect to procure services and whether there are eligibility constraints etc.; Contact names are usually available in the Investment Plan or project documents. Similarly it may be worth contacting relevant officials in host country governments so they are aware of the services you offer;
- Monitor the procurement websites of the MDBs relevant to your region(s) of interest for procurements relating to SREP projects. NB These are not always labelled clearly as SREP projects (because SREP is usually a co-financier of larger projects).

²⁴ <https://www-cif.climateinvestmentfunds.org/projects>

²⁵ The plans are available at <https://www-cif.climateinvestmentfunds.org/country>

4. The Pilot Program for Climate Resilience (PPCR)

Monica Altamirano and Hugo de Rijke (Deltares)

What is the PPCR?

The Pilot Program for Climate Resilience (PPCR) is a US\$ 1.2bn program that sits under the Climate Investment Funds (CIF) framework. The PPCR aims to integrate climate risk and resilience into core development planning and implementation in a programmatic manner.

The PPCR's programmatic approach targets nation- and/or sector-wide transformations through the establishment of an investment portfolio that links strategic objectives. The coordination of activities should result in large-scale, long-term, systemic impacts and multiple co-financing opportunities. As of November 2016, US\$ 910m has been approved and is being implemented in 54 projects. US\$ 1.3bn is expected in co-financing from other sources.

In order to stimulate private sector participation, concessional financing is allocated to innovative private sector projects in line with the PPCR's objectives. Project concepts from the private sector that have been endorsed for further preparation and approval amount to US\$ 65.3m. The PPCR covers many facets of climate resilience and programs are intended to be country-led, taking into account NAPAs and other (national) aspirations.

How does the PPCR work?

The PPCR is implemented in two phases, led by a Multilateral Development Bank (MDB). First, countries are supported in developing a Strategic Programme for Climate Resilience (SPCR). Second, the implementation of the SPCR is supported and coordinated.

The SPCR covers climate resilience priorities across key economic sectors and stakeholder groups, whilst considering existent NAPAs and complementing other adaptation initiatives. In order to realise a solid (institutional) foundation for further implementation, SPCRs contain technical analysis, policy reform, capacity building, and long-term institutional strengthening among other aspects. Furthermore, the analysis of risks, impacts and adaptation arises from a socially inclusive process that includes specifically vulnerable groups and sectors. Construction of SPCRs is aimed to be finished within one year.

Private sector set asides

The private sector set asides (i.e. funds reserved for allocation to the private sector) were developed in order to counterbalance the share of public sector projects in PPCR and other CIF funding windows. A review of the private sector set-asides of the found that "as of September 2014, less than 5 per cent of the funding approved by MDBs in each of the three programs has been for private sector projects" (Strategic Climate Fund, 2014). This limited share of private sector projects could be due to an overwhelming demand of public sector needs, limited private sector capacity and/or lack of climate risk awareness, among other things. Currently, around US\$ 175m in concessional funding has been allocated through the set-asides in order to increase private sector investment.

Private sector parties are eligible for the set asides when their investments comply with the objectives of a countries' SPCR. Investment activities need to provide quantifiable results and preferably incorporate innovative business models, technologies and/or financing mechanisms. Also, "projects must be implemented by private sector clients working through a MDB private sector arm or by public sector entities working through a MDB public sector arm (so as to achieve, indirectly, an increase in private sector investment)" (Vivid Economics, 2014).

Currently, the PPCR has 11 endorsed and active concepts supported by near-zero interest credit resources from the private sector set asides mechanism. Sectors covered by set-aside programs are; agriculture and landscape management (US\$ 34m), enabling environment (US\$ 15m), urban development (US\$ 6m) and water resources management (US\$ 5m), see the Appendix to the PPCR section for a complete overview.

What kind of projects does PPCR fund?

The PPCR funds a wide range of activities that contribute to climate resilience, such as:

- Stakeholder engagement through knowledge building activities that strengthen the understanding of climate change impacts on (economic) development.
- Analytical capacity building that supports information services, e.g. early warning systems and hydro metrological networks.
- Institutional strengthening aimed at the integration of climate resilience into development planning and policy reform across sectors.
- Concessional financing to attract private sector investments.
- Investments that mitigate climate risks in key sectors (see Figure 14 below) and ecosystems.

Figure 14 shows PPCR projects by sectoral focus. Around 28% of the indicative allocation is for agriculture and landscape management. 15-20% is allocated to climate information systems and disaster risk management, enabling environment, infrastructure, and water resources management. Coastal zone management and urban development receive around 2% and 7.5% respectively.

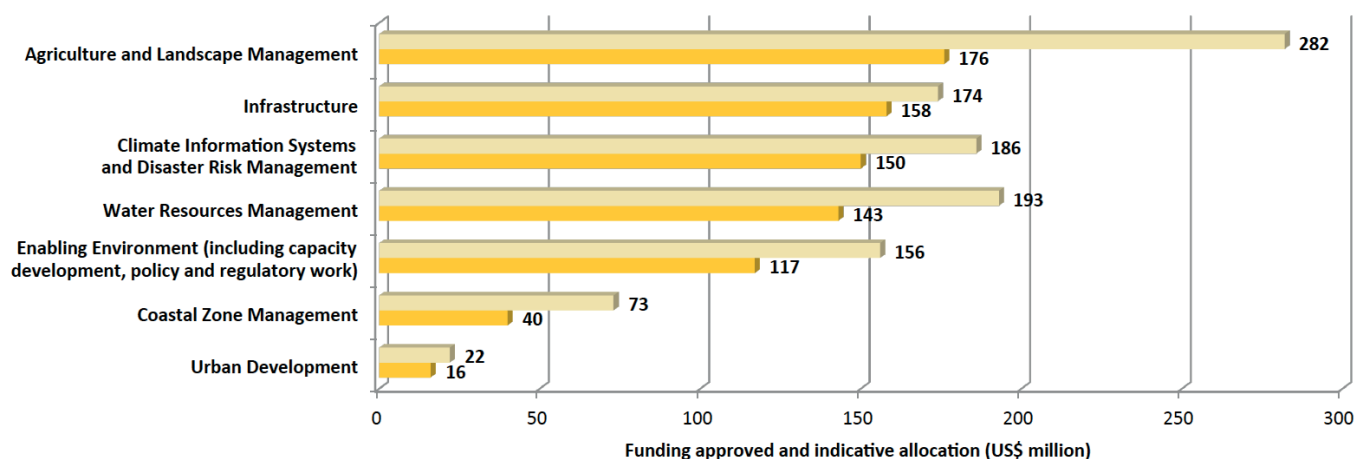


Figure 8: Indicative Allocation of PPCR funding and approvals by sectoral Focus (Source: PPCR, 2015)

Box 5: PPCR project examples

Zambia

Accredited entities: IBRD, AfDB & IFC

Sector: Climate proofing and capacity development, private sector engagement

Description:

The Kafue and Barotse sub-basins of the Zambezi River are areas inhabited by vulnerable communities living in poor socio-economic conditions. Furthermore, vulnerability to floods and droughts is prevalent. Investment focus areas include climate proofing, capacity development and private sector engagement. Activities cover, among others, the following: technical assistance, policy guidance, capacity building, road improvement, flood and drainage infrastructure, sustainable land and water management practices. The project also includes a feasibility study on the engagement of the private sector in enhancing climate resilience in the agriculture sector and in the natural capital of priority sub-basins. At least 50% of these activities have to be directed towards vulnerable groups. Funding is allocated in the form of grants, concessional loans and co-financing.

PPCR funding: US\$ 86m

Total project financing: US\$ 116.5m

More information: https://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/ppcr_zambia_0.pdf

Mozambique

Accredited entity: AfDB

Sector: Forestry

Description:

Deforestation in Mozambique has resulted in climate vulnerability, e.g. through increased flood risk. Lurio Green Resources (LGR), a subsidiary of the Norwegian Green Resources AS, proposes to develop afforestation in the Nampula Province, in northern Mozambique. The plantation is to be developed on currently degraded or abandoned agricultural land and will generate revenues through the sale of different forest products. Moreover, the project will employ local employees and enable learning-by-doing and sharing of lessons at country, regional and global levels.

PPCR Funding: US\$ 11m (concessional loan)

More information: http://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/ppcr_set_aside_-_lurio_project_mozambique_public_version.pdf

How is procurement arranged?

PPCR is to be implemented by Multilateral Development Banks (MDB), therefore procurement policies will be undertaken through the MDB's usual procurement procedures. For example, the procurement framework of the World Bank is arranged according to 7 core principles, as listed on its website (2016): 1) Value for Money 2) Economy (sustainability, quality, and non-price attributes and/or life cycle costs that support value for Money). 3) Integrity; 4) Fit for Purpose; 5) Efficiency; 6) Transparency and 7) Fairness. For more details on the meaning of each criteria visit the PPCR website or see Table 11 at the end of this section.

What is the potential for larger companies and bringing about transformative change?

According to ODI (2014, p. 3), the PPCR “has potentially been the most significant mobilizer of public climate finance for adaptation and has had a disruptive influence on the adaptation finance landscape. It has challenged understandings of what it takes to finance developing country adaptation. Its programmatic nature advocates a participatory approach with civil society and local stakeholders but there is a need to deepen this engagement”. The programmatic approach also enables PPCR to be effective in acting as an umbrella framework that can link and leverage investment outcomes through ‘collective financing’²⁶ of projects. This increases the PPCRs potential to co-finance (in phase 2) country plans that have shown commitment in phase 1 (World Bank, 2015).

Furthermore, all PPCR countries requested financing for strengthening their hydro meteorological services in order to refine their understanding and management of risks. Better observations, improved equipment, early warning systems and capacity building among other things contribute to an advanced understanding of risks, which is a requisite for identifying effective measures. Improved risk awareness in combination with an SPCR's ability to spur policy reforms through incorporation of resilience in national and sub-national development planning can result in effective long-term risk reduction management (World Bank, 2015).

Limited private sector capacity and difficult business environments in low income countries coupled with the novelty of adaptation can constrain private sector interest to invest. PPCR-funded advisory services and technical assistance projects have been demonstrated as essential to address private constraints by piloting new modalities of climate adaptation, validating their commercial viability, and creating an enabling environment for successful investments. For example, in Nepal and Bangladesh, one of the PPCR objectives is to increase farmer productivity and revenues through the adoption of climate smart agribusiness (CSA) technologies and practices. Thereby demonstrating the business case for CSA in order for it to be scaled up with private investments and help increase the agriculture sector's capacity to cope with climate change (World Bank, 2015).

Creating an enabling environment in which private sector parties are incentivised to contribute to public welfare is a crucial element in achieving transformative change, since it can result in a financially viable approach to climate adaptation in resource-constraint countries. However, ODI (2014) states that the PPCR has struggled to engage the private sector in practice, especially if measures in terms of financial contributions. Only 10 private sector projects have been developed out of core country allocations for SPCRs.

An effort to counterbalance this public sector dominance has been the development of private sector-set asides, which are allocated through near-zero interest credit resources. According to Vivid Economics (2014) the mechanism spurred an uptake of private sector investment in the PPCR portfolio. Currently, 50% of the total value of private projects stems from this mechanism. Several set-aside projects have provided innovative results in terms of financing and business models, among other things. The uncertainty around final project approval and relatively small project sizes has hindered integrating set-asides into MDB processes. Moreover, potential project developers often lack knowledge of specific procedures and capacity to successfully engage in acquiring set-aside funding. Furthermore, the lack of grant resources restricted the financial viability of potential projects.

²⁶ Collective financing here means financing multiple projects under one programme, thereby being able to link and leverage project outcomes.

Appendix

Table 7: Private sector set-aside projects (PPCR, 2016)

Country	Project title	Thematic focus	MDB	Funding (US\$ m)
Bolivia	Financial risk management for climate resilience in the agriculture sector	Agriculture and landscape management	IDB	10.0
Bolivia	Microfinance and climate resilience for smallholder farmers in Bolivia.	Agriculture and landscape management	IDB	4.0
Bolivia	Building Climate Resilience in Small Livestock Producers in the Bolivian Chaco Region (IDB) in Bolivia	Agriculture and landscape management	IDB	TBD
Bolivia	Inclusive Finance to Improve Climate Resilience of Bolivian Agricultural Producers in Bolivia	Agriculture and landscape management	IDB	TBD
Mozambique	Lurio Sustainable Forestry Project	Agriculture and landscape management	ADB	11.0
Haiti	Support for the Building of a Climate Resilient Sorghum Supply Chain in Haiti	Agriculture and landscape management	IDB	3.0
Jamaica	Financing Water Adaptation in Jamaica's New Urban Housing Sector	Urban development	IDB	5.8
Cambodia	Rainwater Harvesting and Drip Irrigation for High-Value Crop Production in Cambodia	Water Resources Management	ADB	5.0
St. Lucia	Supporting climate resilient investments in the agricultural sector in Saint Lucia: provision of small to medium sized loans to farmers, farmer associations, distributors/wholesalers and processing companies.	Agriculture and landscape management	IDB	6.1
Tajikistan	Enhancing the Climate Resilience of the Energy Sector	Enabling environment	EBRD	10.0
Tajikistan	Small Business Climate Resilience Financing Facility	Enabling environment	EBRD	5.0

World Bank procurement framework core principles:

- 1. Value for money.** The principle of value for money means the effective, efficient, and economic use of resources, which requires an evaluation of relevant costs and benefits, along with an assessment of risks, and non-price attributes and/or life cycle costs, as appropriate. Price alone may not necessarily represent value for money.
- 2. Economy.** The principle of economy takes into consideration factors such as sustainability, quality, and non-price attributes and/or life cycle cost as appropriate, that support value for money. It permits integrating into the Procurement Process economic, environmental, and social considerations that the Bank has agreed with the Borrower. It also permits augmenting identified sustainability criteria with specific criteria in support of the Borrower's own sustainable procurement policy. Moreover, only local companies are eligible for procurement and procurement should not lead to unfair competition and/or market distortion.

3. **Integrity.** The principle of integrity refers to the use of funds, resources, assets, and authority according to the intended purposes and in a manner that is well informed, aligned with the public interest, and aligned with broader principles of good governance. The Bank therefore requires that all parties involved in the Procurement Process, including without limitation, Borrowers and sub-Borrowers (and other beneficiaries of Bank Financing); bidders, consultants, contractors, and suppliers; any sub-contractors, sub-consultants, service providers or suppliers; any agents (whether declared or not); and any of their personnel, observe the highest standard of ethics during the Procurement Process of Bank-financed contracts, and refrain from fraud and corruption, as that term is defined in the Anti-Corruption Guidelines.
4. **Fit for Purpose.** The principle of fit for purpose applies both to the intended outcomes and the procurement arrangements in determining the most appropriate approach to meet the project development objectives and outcomes, taking into account the context and the risk, value, and complexity of the procurement.
5. **Efficiency.** The principle of efficiency requires that Procurement Processes be proportional to the value and risks of the underlying project activities. Procurement arrangements are generally time-sensitive and strive to avoid delays.
6. **Transparency.** The principle of transparency requires that the Borrower and the Bank enable appropriate review of the procurement activities, supported by appropriate documentation and disclosure. Transparency requires (i) that relevant procurement information be made publicly available to all interested parties, consistently and in a timely manner, through readily accessible and widely available sources at reasonable or no cost; (ii) appropriate reporting of procurement activities; and (iii) the use of confidentiality provisions in contracts only where justified.
7. **Fairness.** The principle of fairness refers to (i) equal opportunity and treatment for bidders and consultants; (ii) equitable distribution of rights and obligations between Borrowers and suppliers, bidders, consultants, and contractors; and (iii) credible mechanisms for addressing procurement-related complaints and providing recourse. Open competitive procurement is the Bank's preferred procurement approach, whenever possible, to maximize fairness of opportunity to bid. Whenever possible, the Bank requires that eligible individuals and firms be given the same opportunities to compete for Bank-financed activities.

5. The Adaptation Fund (AF)

Monica Altamirano and Hugo de Rijke (Deltares)

What is the Adaptation Fund?

The Adaptation Fund (AF) finances projects that support developing countries' efforts to adapt to climate change. Activities are based on the needs, views and priorities of vulnerable communities.

The AF was established in 2001 under the Kyoto Protocol of the UNFCCC. The rationale for its creation stems from the prediction that climate change will greatly affect the world's poorest communities, who have contributed the least to global warming relative to other nations, yet lack the means to adequately adapt. This inability to adapt increases vulnerability, which causes the world's poor to carry the largest burden of climate change. The AF funding aims to (partly) relieve this burden.

The AF's capital is derived from a two percent share of proceeds of Certified Emission Reductions (CERs), and public and private donations. Since 2010 the AF has committed US\$ 354.9m to climate adaptation and resilience activities in 61 countries²⁷.

How does the Adaptation Fund work?

The Adaptation Fund is supervised and managed by the Adaptation Fund Board (AFB), which consists of 16 members and 16 alternates representing Annex I countries, Non-Annex I countries, Least Developed Countries (LDCs), Small Island Developing States (SIDSs), and regional constituencies (see the annex for the current composition of the AFB). The AFB meets three times per year in Bonn, Germany and has been granted legal capacity by the German Parliament.

The World Bank serves as trustee of the Adaptation Fund on an interim basis. The Global Environment Facility serves as interim Secretariat. On behalf of the Fund, the World Bank performs two core functions; it sells the Certified Emission Reduction certificates that support the fund and manages the Adaptation Fund trust fund.

A unique feature of the Adaptation Fund is its direct access mechanism, which enables local institutions in developing countries to become accredited as national implementing entities (NIEs)²⁸. All developing country Parties to the Kyoto Protocol are eligible to nominate an entity for accreditation. After accreditation these institutions can directly access financing and manage all aspects of adaptation projects, from design to implementation to monitoring and evaluation (See Figure 8 below). Funding is arranged according to performance-based tranches, which are allocated based on achievement of key performance indicators. Additionally, projects can be implemented by (existing) multilateral implementing entities (MIEs)²⁹ and regional implementing agencies (RIEs)³⁰.



Figure 9: Overview of direct access mechanism (Source: Adaptation Fund³¹)

²⁷ Adaptation Fund (2016). Adaptation-fund.org. Retrieved 22 November 2016: <http://www.adaptation-fund.org/wp-content/uploads/2015/01/AF%20Readiness%20Flyer%2008.20.2014%20updated.pdf>

²⁸ For a full list of NIEs see <https://www.adaptation-fund.org/apply-funding/implementing-entities/national-implementing-entity/>

²⁹ See <https://www.adaptation-fund.org/apply-funding/implementing-entities/multilateral-implementing-entities/> for a full list of MIEs

³⁰ See <https://www.adaptation-fund.org/apply-funding/implementing-entities/regional-implementing-entities/> for a full list of RIEs

³¹ <https://www.adaptation-fund.org/wp-content/uploads/2016/11/Direct-Access-English-Nov2016-WEB.pdf>

Direct access is aimed to improve intergovernmental collaboration and address local stakeholder needs. Additionally, the Adaptation Fund states that it might bolster transparency and competition in project formulation and can contribute to national institutional expertise and capacity. The Adaptation Fund requires countries to have strong fiduciary systems and processes in place. Therefore, countries have assessed their capacities and subsequently initiated reforms and capacity building programmes.

Readiness Programme

The readiness programme³² aims to strengthen the capacity of accredited entities with respect to receiving and managing climate financing. The programme also provides grants for countries seeking accreditation with the fund, which are categorised as follows:

- **South-South cooperation grants** enable accredited implementing entities to provide assistance to countries that wish to gain accreditation with the Fund. The maximum grant is US\$ 50,000 per applicant.
- **Project formulation assistance (PFA) grants** are grants that fund activities which are complementary to the project formulation phase. These grants provide funding for specific technical assessments during the project preparation and design phase, e.g. an environmental impact assessment. PFA grants are capped at US\$ 15,000.
- **Technical assistance (TA) grants** can support accredited entities in addressing and managing environmental, social and gender associated risks within their activities based on the Fund's environmental and social policy (ESP) and gender policy. A maximum TA grant amounts to US\$ 25,000.

Funding cap

Funding per country from the AF has been capped at US\$ 10m, to ensure there can be an even distribution of available adaptation funding across countries. However, as some of the first funded projects reach completion, a country cap might discourage new applicants to become accredited as a NIE, since they cannot apply for funding once the cap is reached.

As of March 2016, ten countries have nearly reached the country cap limit and another six are approaching it. Therefore, these sixteen countries are precluded from asking for additional support from the Fund and their NIEs are unable to continue implementing national projects funded by the AF. However, by implementing regional projects covering multiple countries, countries have been able to circumvent the US\$ 10m cap³³.

What kinds of projects are funded by the Adaptation Fund?

The Adaptation Fund finances climate adaptation projects in nine sectors.

³² See <https://www.adaptation-fund.org/readiness/> for more information.

³³ E.g. Ecuador & Colombia (see project database)

Table 8: Project themes and components of the Adaptation Fund by sector (Adaptation Fund, 2016)

Sector	Project themes & components
Agriculture	Increased probability of extreme events (floods, droughts), erratic rainfall and temperature patterns. Components cover climate resilient technologies and practices such as drought tolerant seeds, improved irrigation systems, sustainable land management practices.
Coastal Zone Management	Sea-level rise, coastal erosion, higher probability of extreme events such as tropical cyclones. Activities typically focus on ecosystem-based adaptation measures (e.g. mangrove reforestation) and physical infrastructure (e.g. sea walls).
Disaster Risk Reduction	Increased occurrences and intensities of natural hazards due to climate change. Disaster risk reduction spans a wide array of adaptation activities such as risk and vulnerability assessments, strengthening climate information and early warning systems.
Food security	Food supply chains are complex, far-reaching and vulnerable to disruption from climate change. Activities focus on farmer capacity building, adequate government policy, and institutions among other things.
Forestry	Forests provide energy, flood protection and species habitat among other things. Afforestation captures carbon emissions and deforestation emits carbon. Activities focus on forests' role in improving adaptive capacity of communities.
Multi-sector	The wide-reaching impacts of climate change require working across development sectors. Activities aim to find synergies, such as those between agriculture and water management, which will enable projects to target the vulnerabilities that cross traditional boundaries.
Rural development	Rural populations lack resources, information and institutional capacity to adapt. Integrating climate change adaptation into traditional development reduces the vulnerability of rural populations and increases adaptive capacity. Activities entail reversing land degradation, enhancing ecosystem services, capacity building and improving income security, among other things.
Urban development	(Informal) urban settlements are particularly vulnerable to climate change induced hazards such as flooding. For example, effluent overspill from poor sanitation infrastructure during river and sea flooding events can lead to disease. Activities aim at improving climate resilience of urban settlements.
Water management	A more volatile supply of water leading to floods and droughts is one of the greatest global risks to economic growth and social stability. Water is a production factor for energy, agriculture and industry. Furthermore, water hazards damage assets and lives. Adaptation can target households, e.g. employing techniques to harvest rainwater, and/or watersheds, e.g. securing water resources through ecosystem based adaptation that improve the ability of natural systems to function effectively.

Adaptation Fund Project Status

As of October 2016, the Adaptation Fund had approved 55 projects with a total funding of US\$ 338.5m. The projects span 61 countries, of which 13 are SIDS and 22 are LDCs. There are up to 3.57 million direct beneficiaries and 38,516 people have been trained in climate resilience measures. Furthermore, 99 early warning systems have been installed, 121,025 meters of coastline is protected and 119,845 hectares of natural habitat is either restored or preserved. The distribution of projects over the eligible sectors is fairly equal, as depicted in Figure 9 below. As of May 2016, 46% of the individual country projects were implemented by NIEs, 14% by RIEs and 29% by MIE³⁴.

³⁴ <https://www.adaptation-fund.org>

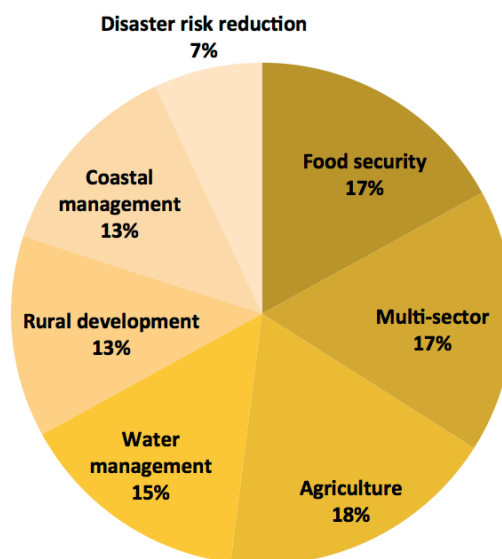


Figure 10: Distribution of Fund investments according to eligible sectors (Source: Adaptation Fund, 2016)

Box 6: Adaptation Fund project examples³⁵

Adaptation to the Impacts of Climate Change on Coastal Marine Ecosystem and Fisheries, Peru

Accredited entity: Profonanpe

Sector: Coastal Management

Description: The overall objective of the project is “to reduce the vulnerability of coastal communities to impacts of climate change on the coastal marine ecosystems and fishery resources”. Implemented adaptation measures cover; adaptive capacity building of artisanal fishing communities in order to increase their income and participation in managing and protecting natural resources, deployment of a surveillance, prediction and information system that supports fishing, aquaculture and ecotourism activities, development of a knowledge framework to disseminate lessons learned, adjustment of the institutional framework to facilitate marine EBA and integrate an Ecosystem Approach to Fisheries.

Total project financing (grant): US\$ 7m

Addressing Climate Change Impacts on Marginalized Agricultural Communities Living, Sri Lanka

Accredited entity: World Food Programme (WFP)

Sector: Rural Development

Description: The overall objective of the project is “to secure community livelihoods and food security against climate change-induced rainfall variability leading to longer droughts and more intense rainfall”. The project aims to develop strategies to overcome dry season food and income security, introduce a diversification of income sources to mitigate hazard risk domination, improve water retention capacity and build village, local and regional institutional capacity that is able to reduce risks regarding with climate-induced rainfall variability.

Total project financing (grant): US\$ 8m

³⁵ For a full overview see <https://www.adaptation-fund.org/projects-programme>

How is procurement arranged?

Procurement is arranged according to the procurement policy of the implementing entity or any of their implementing partners. Implementing entities are expected to adhere to the highest ethical standards during the procurement and execution of the concrete adaptation projects. The AFB can investigate any anomalies that may occur with respect to procurement if necessary³⁶.

What are potential opportunities for (Dutch) SMEs?

On the one hand possibilities are endless since these funds span many facets of development and (infrastructure) investment, as shown by the sectors in Table 7. On the other hand, transforming possibilities into funding for SMEs can be complicated since SMEs would need to become acquainted with procurement policies and processes of MDBs and other implementing entities. Also, the upfront investment (writing proposals, getting acquainted with funds structures and processes etc.) and the uncertainty of eventually getting a return by being able to partly implement a project might be too much to cope for SMEs. Moreover, these funds aim at local inclusive development; therefore hiring Dutch SMEs for implementation might not be desired in terms of project objectives, assuming local SMEs can do the same.

What is the potential for larger companies and bringing about transformative change?

Tango and ODI (2015) jointly performed an independent evaluation of the AF. They found that the **Direct Access Modality** has been a major innovation in climate finance and is appropriate to meeting countries' needs. Direct access has been replicated by other funds (i.e. GCF and GEF), and has led to development of partnerships with an increasingly diverse number of international and developing country based institutions (e.g., regional development banks, national ministries, trust funds, NGOs), increased country ownership and technical capacity, and South-South cooperation

However, Tango and ODI (2015) also state that the AFs resource mobilisation strategy, as it was initially designed and the subsequent efforts to secure voluntary contributions, has not been effective in generating adequate, predictable, and reliable funding. While appropriate at the outset, the main income source (2% share of proceeds from Certified Emission Reduction (CERs)) has been ineffective due to the collapse of carbon market prices. In total, the Adaptation Fund has mobilised US\$ 471.63m in support of its activities. While this total is not insignificant, the AF states that it remains far below what is needed for the Fund to fulfil its objectives.

An earlier review by Trujillo & Nakhooda (2013) suggests that the AF has had an important role to play in raising awareness of climate change and the need to adapt within recipient countries. The review states that the process of accrediting NIEs has had an important catalytic effect by demonstrating that it is possible for institutions based in developing countries to meet required fiduciary standards. They also report that accredited entities stimulate other institutions within recipient countries to invest in strengthening their financial management capacities.

A potential driver of transformative change is private sector engagement in climate change activities. Trujillo & Nakhooda (2013) find that in general, mobilising private investment is not a particular focus of the fund, and applicants do not need to demonstrate that they will be mobilising co-finance, or private sector action. Nonetheless, many Adaptation Fund supported projects do engage the private sector. For example, several programs have sought to combine climate adaptation efforts with protecting livelihoods stemming from fishing, aquaculture and ecotourism. One example is the 'Climate Change Adaptation Programme in the Coastal Zone of Mauritius' which aims to demonstrate how new technologies can be used in planned private investments in coastal restoration. The project also supports the development of a handbook on improved engineering techniques for coastal restoration that is aimed at supporting future (private) investments in such activities.

³⁶ Adaptation Fund Handbook (2016). Retrieved 12 December 2016, from <http://www.sanbi.org/sites/default/files/documents/documents/adaptation-fund-handbook.pdf>

The long-term financial opportunities for larger companies and potential to bring about transformative change seem limited by uncertainty with respect to the financial viability of the Adaptation Fund, which cannot be guaranteed due to the volatility and small scale of CER income.

Table 9: Countries that have accessed more than US\$ 8m from the AF (Source: Adaptation Fund).

Countries that have accessed in excess of US\$ 9m of AF funding (11 countries)		
Country	Funding accessed (US\$)	Has an NIE? (yes/no)
Argentina	9,966,817	yes
Chile	9,990,000	yes
Costa Rica	10,000,000	yes
Jamaica	9,995,000	yes
Jordan	9,255,500	yes
Kenya	9,998,302	yes
Mauritius	9,119,240	no
Morocco	10,000,000	yes
Nepal	9,527,160	no
Rwanda	9,999,619	yes
Uruguay	9,997,678	yes
Countries that have accessed between US\$ 8m and US\$ 9m of AF funding (6 countries)		
Country	Funding accessed	Has an NIE?
Colombia	8,518,307	no
Ghana	8,293,972	no
Maldives	8,989,225	no
Mali	8,533,348	no
Samoa	8,732,351	no
Senegal	8,619,000	yes

6. Climate Investor One (CIO)

Peter Reffeltrath (ECN)

What is Climate Investor One?

Climate Investor One (CIO) is an innovative infrastructure financing modality aimed at establishing renewable energy projects in emerging markets. CIO was created through a proposal by FMO for The Global Innovation Lab for Climate Finance³⁷, an initiative that selects and pilots new climate financing approaches. CIO aims to reduce 1.5 million tonnes of CO₂ per annum by mobilising around US\$ 1bn in funding.

CIO's funding partners are the Dutch Development Bank (FMO) and Phoenix Infracore, an infrastructure investment business. CIO provides investment opportunities based on emerging market growth, energy demands and renewable energy potential coupled with policy support regarding climate change mitigation. Its principal objective is to "develop projects and achieve medium to long-term investment returns through private sector participation in a portfolio of renewable energy assets in emerging markets" (CIO website). CIO's geographical scope covers Africa, Asia and Latin America

How does Climate Investor One work?

CIO is a fund with a total targeted endowment of US\$ 1bn and has a 25 year lifetime horizon. It consists of three separate funds:

1. **The Development Fund:** aimed at developing projects and improving their bankability (donor funding, US\$ 50m total).
2. **The Construction Equity Fund:** aimed at progressing projects to an operational stage through equity financing. The fund consists of three tiers reflecting project progress and diminishing risks over time. These are tier 1 donor funding (up to US\$100m); tier 2 commercial/DFI funding (US\$ 200m); and tier 3 commercial funding (US\$ 200m).
3. **The Refinancing fund:** aimed at providing long-term and low risk debt during the operational phase (commercial or DFI funding; US\$ 500m).

The development fund shares the development risk of projects by offering capital during the project development stage. This can be in the form of technical, financial, environmental, and social development and structuring support. The construction equity fund (partially) provides the equity share of a project's financing. The refinancing fund mobilises debt for operations through its own funding and third party commercial lenders.

By linking different funds to different sources of finance and different project development stages CIO can deliver 5 different risk-return investment options. In short, donor funding is used for the project development stage which is the most risky, and for which returns are too uncertain for commercial parties to invest in. As projects mature, risk-return profiles become less uncertain and projects can qualify for other funding sources, e.g. the refinancing fund which targets the operational phase and provides commercial funding.

The development fund finances up to 50% of a project development budget, up to a maximum of US\$2.5m. The construction equity fund finances up to 75% of a project's construction stage, up to a maximum of US\$100m. The refinancing fund finances up to 50% of long-term debt. The lifetime is 20 years for the Development and Construction Equity Fund and 25 years for the Refinancing Fund.

³⁷ See <http://climatefinancelab.org>

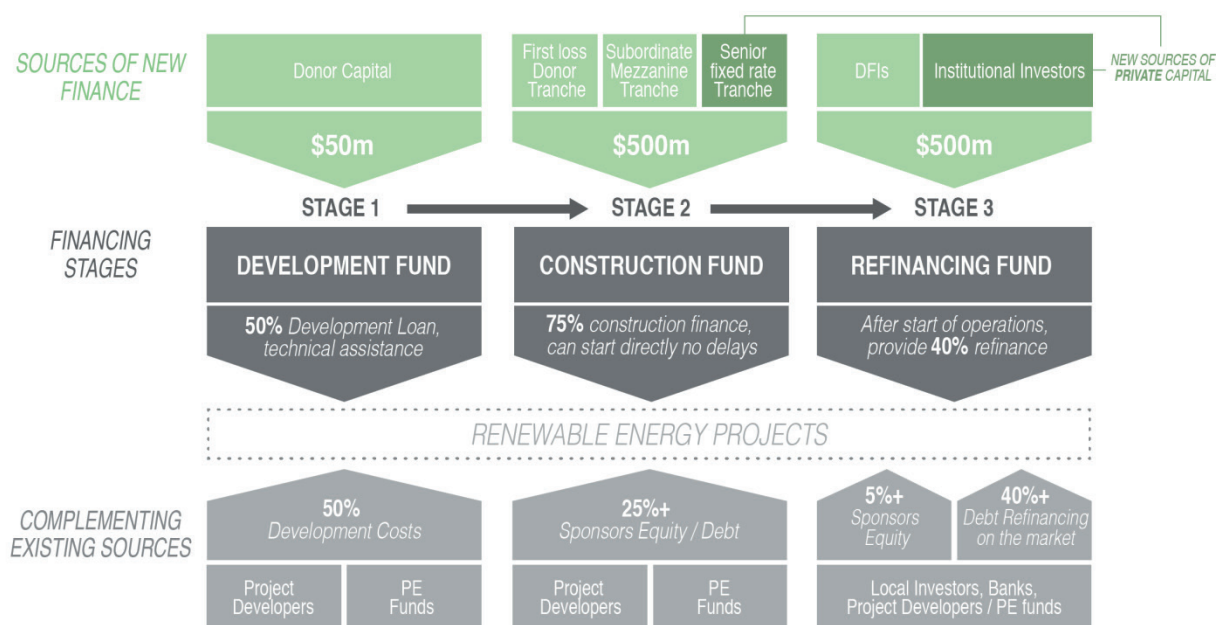


Figure 11: Framework of the CIO (Source: Climate Finance Lab³⁸)

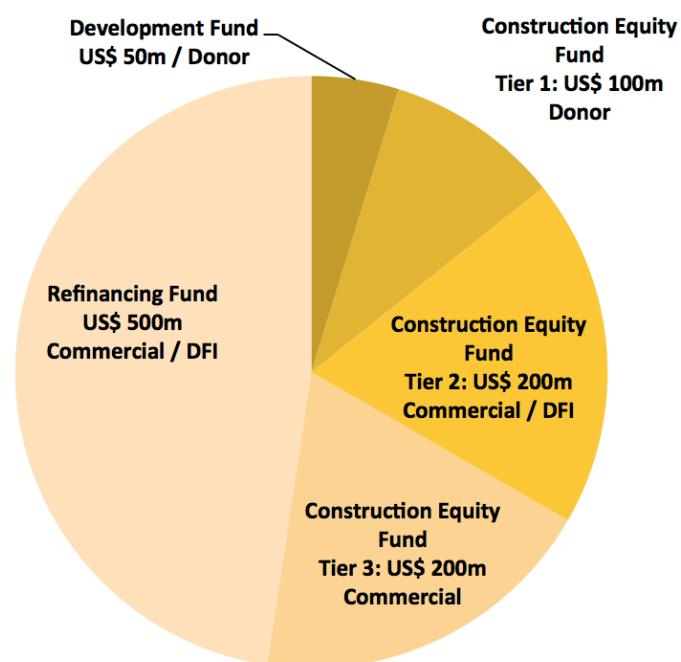


Figure 12: Funding amounts for the 3 CIO Funds (Source: Climate Investor One website³⁹)

³⁸ <http://climatefinancelab.org/wp-content/uploads/2014/08/Climate-Development-and-Finance-Facility-Lab-Phase-3-Analysis-Summary.pdf>

³⁹ <http://www.climatefundmanagers.com/investors/>

What kind of projects does Climate Investor One fund?

CIO targets medium-sized renewable energy projects, from a capacity of 25 Megawatts (MW) to 75MW. The preferred technologies are on-shore wind, solar Photovoltaic power and run-of-the-river hydro.

Renewable energy assets should exhibit some of the following characteristics⁴⁰:

- They provide an essential service to the community
- They are built on greenfield or brownfield sites with the capability to expand
- Demonstrate a preferred cash flow profile
- Demonstrate a need for significant capital expenditure
- Anticipated project returns are commensurate with the investment risk
- Projects must adhere to CIO's responsible investment framework that consists of environmental and social guidelines for its 'do no harm' pillar and socio-economic guidelines for its 'do good' pillar⁴¹.

Box 7: project example from the Philippines

Project developers: Sindicatum Renewable Energy Company (Singapore) and CIO

Type: 25MWp fixed ground-mounted Solar PV

Description: First phase of a larger wind 100MWp solar farm. The project is expected to provide power to 50,000 beneficiaries and will contribute to the Philippines renewable energy aspirations.

Funding: From CIO's Development Fund; amount unknown.

What are potential opportunities for (Dutch) SMEs?

Direct funding opportunities for SMEs are expected to occur mostly in the project development phase, as it provides funding for the development of promising projects up to US\$ 2.5m. Construction equity and/or refinancing debt is expected to be relatively large compared to the balance sheet of an SME, which is below US\$ 43m according to the EU definition of an SME⁴². Therefore, debt and equity stakes might be too large for an SME to lead such projects.

Additional opportunities for SMEs can be found in the provision of advisory services concerning the technical, financial, environmental and social development aspects of the project and/or structuring support. There are also opportunities perhaps in supplying specialised small-scale goods or services relevant to the project, such as for example component suppliers of solar PV modules in the case of the Philippines example in Box 6.

⁴⁰ <http://www.climatefundmanagers.com/>

⁴¹ For CIO's environmental and social management system see <http://www.climatefundmanagers.com/files/170307-cfm-esms-v-1-10-for-disclosure.pdf>

⁴² http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_nl

What is the potential for larger companies and bringing about transformative change?

CIO generates new market potential for renewable energy services due to donor funding supporting the preparation and structuring of new projects. It provides opportunities for developing new projects, blending commercial finance with donor funding make possible the development of projects that would otherwise be considered not feasible by regular commercial financing. Participating in CIO projects is also expected to have positive branding effects for companies involved due to the high social and environmental standards they require. CIO provides several alternative investment options for large companies according to their risk-return appetite.

The potential for transformative change is high due to the blended finance approach of CIO. Blended finance is defined by OECD as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets", which therefore results in positive results for both investors and communities.

7. The Dutch Good Growth Fund (DGGF)

Monica Altamirano and Hugo de Rijke (Deltares)

What is the DGGF?

The Dutch Good Growth Fund (DGGF), which started mid-2014, is a program funded by the Dutch Ministry of Foreign Affairs that targets Dutch and local SMEs who operate, or want to operate, in 68⁴³ developing countries. DGGF intends to support companies that want to invest in low- and middle-income countries in development-related, sustainable and inclusive growth projects and programs. It is a revolving fund and to manage risk DGGF diversifies loans and financing across many different companies and sectors.

DGGF is executed by the Netherlands Enterprise Agency (RVO), Atradius Dutch State Business, PwC and Triple Jump (an impact-focused investment manager). No results or outcomes can be reported yet due to the fund's recent creation. DGGF operates as a revolving fund with a total budget of US\$ 700m.

DGGF provides four types of financial support:

- **Up to €10m in loans, guarantees and repayable equity for Dutch SMEs** that want to invest in projects in developing countries and cannot obtain financing from regular banks;
- **Export credit insurance and export finance for Dutch SMEs** that want to export capital goods to developing countries. Insurance covers the payment risk associated with the export of capital goods up to a maximum of €15m. Export financing supports local buyers that cannot receive financing from their local bank for the transaction up to €2m; and
- **Financial support to existing or new intermediary funds that target local SMEs in developing countries.** Besides helping local SMEs to finance their business operations, this category aims to develop local capital markets. Financing instruments support demonstration projects, feasibility studies, investment preparation studies and matchmaking activities between entrepreneurs from developing countries and Dutch entrepreneurs.

How does the DGGF work?

To be eligible for the DGGF, initiatives must meet the following general criteria⁴⁴:

- The project contributes to the sustainable development of the local economy, for example: by creating job opportunities, by increasing the production capacity of local industry, and by transferring knowledge to the developing country;
- The company must meet the International Corporate Social Responsibility (ICSR) guidelines⁴⁵;
- Guarantee sufficient earning capacity and continuity to justify and repay loans;
- DGGF financing is additional to the market and is not expected to create market distortion or crowd out commercial finance;
- Dutch SMEs that want to invest in projects in developing countries and/or receive export support must conform to the European SME definition, have substantial business activities in the Netherlands, and adhere to the ICSR guidelines (Internationaal Maatschappelijk Verantwoord Ondernemen, IMVO in Dutch);

⁴³ Eligible countries: <http://www.dggf.nl/landenlijst>

⁴⁴ www.dggf.nl

⁴⁵ DGGF Track 1 - ICSR Policy is available at: <http://english.dggf.nl/file/download/47342782>

- Projects must have a business plan that shows the project can repay the loan/equity and that Dutch SMEs bear a share of the risk, e.g. by investing equity. In order to apply Dutch SMEs must complete a quick scan⁴⁶;
- In order to be eligible for export support SMEs must export capital goods, have a financially viable buyer, and preferably have co-financing from a commercial bank. Export insurance covers up to a maximum of €15m, export finance covers up to €2m and includes export credit insurance.

What kind of projects does DGGF fund?

DGGF funds any type project that contributes to development and adheres to ICSR standards. DGGF provides loans and financing across a wide range of companies and sectors as can be seen from recent transactions:

Dutch SMEs investing abroad

- Aquaculture Ethiopia (<http://english.dggf.nl/file/download/50649122>)
- Sustainable starch production facility on Sumatra, Indonesia (<http://english.dggf.nl/file/download/47845762>)
- Processing groundnuts, Senegal (<http://english.dggf.nl/file/download/47845752>)
- Software implementation services, India (<http://english.dggf.nl/file/download/47723992>)

Investment funds for local SMEs

- Novastar Ventures East Africa Fund (<http://english.dggf.nl/file/download/47725772>)
- Grofin Small and Growing Business (SGB) Fund (<http://english.dggf.nl/file/download/48070802>)
- Credo (<http://english.dggf.nl/file/download/47762032>)
- Dolma Impact Fund I (<http://english.dggf.nl/file/download/47726822>)

Exporting Dutch SMEs

- Electrical power tools Vietnam (<http://english.dggf.nl/file/download/48556622>)
- Poultry slaughter line in Ethiopia (<http://english.dggf.nl/file/download/48049752>)
- Food processing equipment in Angola (<http://english.dggf.nl/file/download/48015352>)
- Ambulances in Mali (<http://english.dggf.nl/file/download/47823992>)

⁴⁶ See <http://www.dggf.nl/file/download/30428682>

How is procurement arranged? How are grants allocated?

The allocation of grants is based on the quality of proposals. Proposals are reviewed on a project-by-project basis. Proposals from Dutch SMEs that want to receive financial support for foreign investments in, or export to, one of the DGGF countries are evaluated according to the criteria below⁴⁷. Proposals for financial support to existing or new intermediary funds that target local SMEs are also evaluated on these criteria:

- Commercial, financial and political risks;
- Destination market, commercial opportunities and business case;
- Increase in local employment;
- Sustainable transfer of knowledge, skills technology and innovation;
- Stimulation of local production capacity of local SMEs; and
- Other positive developments related to the environment, health, young entrepreneurship and gender equality.

Furthermore, SME financing products need to be innovative and/or additional to existing market initiatives⁴⁸.

Additional characteristics of a potential export transaction are taken into account such as:

- Buyer reliability;
- Export product details;
- Price and financing arrangements; and
- Collateral options.

What are potential opportunities for (Dutch) SMEs?

- The fund is specifically designed for Dutch SMEs. Doing business in developing countries is challenging and regular funding sources are cautious in allocating resources to risky projects. DGGF can enable Dutch SMEs to expand their business abroad and export additional products, while simultaneously contributing to development goals.
- Dutch SMEs develop their own proposals and thereby define the risk profile that suits them. In combination with DGGF's risk mitigating measures they can limit their exposure.
- SMEs that are uncertain about the viability of their business plan can appeal to one of DGGF's project feasibility instruments such as the DHK scheme or the MMF matchmaking facility.

What is the potential for larger companies and bringing about transformative change?

Larger companies cannot apply to the DGGF since applicants must adhere to the European definition of an SME; e.g. a maximum turnover and balance sheet of €50m and €43m respectively.⁴⁹

There is a lot of interest for the fund, 280 SMEs and 200 funds showed interest in the fund since the start of the fund on July 1st 2014⁵⁰.

A joint paper by ActionAid, Both ends and SOMO (2013), released before the final DGGF guidelines were published, states that 'the fund mostly focuses on enhancing employment and production capacity, thereby neglecting other development needs. Moreover, export financing does not have a development goal and only benefits Dutch SMEs, among other things. Nevertheless the instrument may still have a transformative change potential since DGGF is supposed to be additional to the

⁴⁷ Based on a quick scan of proposals <http://english.dggf.nl/file/download/40084342>

⁴⁸ For a full list of conditions see: <http://english.dggf.nl/investment-funds-local-smes-conditions>

⁴⁹ For more criteria see http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_nl

⁵⁰ Rijksoverheid (2015) Kamerbrief mid-term review of the Fund. Retrieved 19 April 2017 from <https://www.rijksoverheid.nl/documenten/kamerstukken/2015/10/01/kamerbrief-over-mid-term-review-dutch-good-growth-fund>
Recommendations NGOs <https://www.somo.nl/wp-content/uploads/2013/11/The-Dutch-Good-Growth-Fund.pdf>

market; thereby bridging current market gaps and strengthening local markets. DGGF is therefore expected to incentivise private sector development in the receiving country and cause spin-off effects in the local economy in the short and long term.'

DGGF has created 11,000 jobs. The Fund has attracted an average of 4.5 euro of additional co-financing per one DGGF euro⁵¹.

DGGF is purely demand driven and allocated on a competitive basis which should result in the most effective projects being financed.

Box 8: Forest Effect Fund (FGR)⁵²

Intermediary fund (IF): Forest Effect Fund (FGR, "Fonds voor Gemene Rekening") is domiciled in The Netherlands

Geographic focus: East-Africa, West-Africa, Latin America and potentially Asia.

Size of investment

The DGGF provides a loan of €4m and there is a €4m contribution from private investors. The Fund envisages to make at least 7 acquisitions of Dutch SMEs and locally established companies to facilitate the expansion of these companies into DGGF-countries.

Website: www.foresteffectfund.com

Short description

The strategy of the Fund is to make investments in the food commodities sector with the purpose of improving the sustainability of the food value chain. In addition, stopping further deforestation is a key element to the approach of the Fund. The Fund sees good management and a sound business strategy as being the value drivers. In addition, local impact is important where investments should create jobs, transfer knowledge to the local population, and ensure production growth. This impact will be reported and monitored on an annual basis.

⁵¹ <https://www.rijksoverheid.nl/documenten/kamerstukken/2015/10/01/kamerbrief-over-mid-term-review-dutch-good-growth-fund>

⁵² <http://english.dggf.nl/file/download/44625622>

Box 9: DGGF project example⁵³

Title: Tanzania Raspberries – DGGF115/TZ/1

Company: Kilihortex Holding BV

Country: Tanzania

Sector: Agriculture

Amount of the investment: DGGF guarantee of EUR 720,000 and co-finance EUR 1,000,000

Period: 2016-2023

Involved parties: Rabobank Zaltbommel

Development impact

This investment will lead to significant employment growth in Arusha region. Furthermore, it helps to strengthen and diversify the local economy, which is highly dependent on the tourism sector.

Employment

Additional employment of 200 permanent full-time equivalent (FTE), and 300 seasonal workers. Most of the workers are female (90%).

Transfer of knowledge

All workers will obtain the necessary skillset to perform their work duties.

Production capacity

This sizeable investment in 45 hectares of cultivation of raspberries will substantially contribute to the export volume of Tanzania. During the development phase an EIA (Environmental Impact Assessment); analysis of the water quality, to obtain the land deed and certification for production and export, was performed with provided Technical Assistance.

IMVO

Risks related to land lease, water usage and food security are present. However, these risks are properly mitigated by cooperation with the local community and precautionary measures regarding water usage. Finally, the entrepreneur and local community are supported in the above mentioned process by Technical Assistance provided by DGGF.

Short description

Kilihortex Holding BV will be able to extend an existing raspberry farm in Arusha, North Tanzania with a financial guarantee from the DGGF and co-financing from Rabobank. An additional 45 hectares and cool storage capacity will be gradually realised, to satisfy the growing demand for fresh berries in Europe. The raspberries will be cultivated near the existing farm at a new location with the help of 500 fte new staff.

⁵³ <http://english.dggf.nl/file/download/46642782>

8. Subsidy scheme for demonstration projects, feasibility and investment preparation studies (DHI)

Monica Altamirano and Hugo de Rijke (Deltares)

What is the DHI?

DHI is a subsidy programme for demonstration projects, feasibility studies and investment preparation studies established by the Dutch Ministry of Foreign Affairs. The program aims to strengthen Dutch SMEs export position, and has a budget for 2017 of €2m for DGGF-countries⁵⁴ and €3.75m for others.

How does DHI work?

DHI is supervised and managed by the Netherlands Enterprise Agency (RVO) and offers support for three modules:

1. Demonstration project: demonstration of a technology, capital good or service of a Dutch SME.
2. Feasibility study: assessment of the feasibility of foreign investment in a Dutch SME product.
3. Investment preparation study: assessment of the commercial and technical viability of an investment of a Dutch SME abroad.

Applicants need to fulfil several criteria including:

- Sufficient relevant experience and knowledge to implement the project;
- Guaranteed continuity of the SME and its activities;
- The project has the potential to generate an export amount of at least ten-fold the allocated subsidy;
- Projects in DGGF countries provide a positive contribution to sustainable local development;
- Projects last no longer than 3 years;
- Costs to be subsidized have a minimum of €50,000 and do not exceed 25% of the SME's average annual revenue.

DHI covers 50% of the project costs up to a maximum of €200.000.

What types of projects are funded by DHI?

DHI funds any kind of project in any sector aimed at increasing the export potential of Dutch SMEs, except for projects aimed at direct export of agricultural and fishery products, since these sectors already receive EU support through other instruments.⁵⁵

⁵⁴ Eligible countries can be found here; <http://www.dggf.nl/landenlijst>

⁵⁵ <http://www.rvo.nl/subsidies-regelingen/dhi/steunbeperkingen-specifieke-sectoren>

How is procurement arranged?

Allocation of DHI funds is based on a competitive application procedure that takes approximately 6 weeks. RVO evaluates the proposal based on a number of quality criteria, and awards proposals points in several categories⁵⁶. The highest ranking proposals that fulfill the quality criteria are awarded the requested subsidy.

What are potential opportunities for (Dutch) SMEs?

DHI specifically targets financial support to Dutch SMEs and therefore provides ample opportunity if the SME undertakes one of the three modules and is able to finance the remaining 50% of the project costs. Opportunities are limited to SMEs that have an exportable product, since the project needs to result in an export potential with a financial value that is 10 times the allocated subsidy amount.

What is the potential for larger companies and bringing about transformative change?

Consortiums cannot be led by any company larger than an SME. However, larger companies are allowed to join a consortium as long as this is necessary for the SME and the focus remains on the SME (degree of necessity and focus are evaluated on context-specific circumstances). Therefore, potential for larger companies is limited.

The demonstration project and feasibility study modules are mostly focused on setting international financial flows in motion which benefit Dutch SMEs. Therefore, the transformative change potential of these modules is linked to economic expansion and further maturing of Dutch SMEs.

The investment preparation study module can generate foreign investment aimed at generating export capacity that might otherwise not have been realised. Again, this is expected to contribute to the economic expansion of Dutch SMEs. Further, the local economy of the country receiving the investment can receive an economic boost.

Transformative change in terms of socio-economic development is expected when the recipient country is a DGGF country; in this case investments need to have explicit development relevance in order to be eligible for the DHI programme.

⁵⁶ See <http://www.rvo.nl/subsidies-regelingen/dhi/beoordelingscriteria>

9. The Global Environment Facility⁵⁷ (GEF)

Dr. Jan Verhagen (Wageningen UR)

What is the GEF?

The Global Environment Facility (GEF) is an international partnership to address the protection of the global environment.

The GEF is an independent mechanism for international cooperation and part of the World Bank group. Its purpose is to support developing countries by providing grants or concessional funding that has the objective of covering incremental costs of measures to achieve global environmental benefits in biodiversity, climate change, land degradation, international waters, and chemicals and waste. GEF projects and programs address global environmental challenges while promoting national sustainable development initiatives.

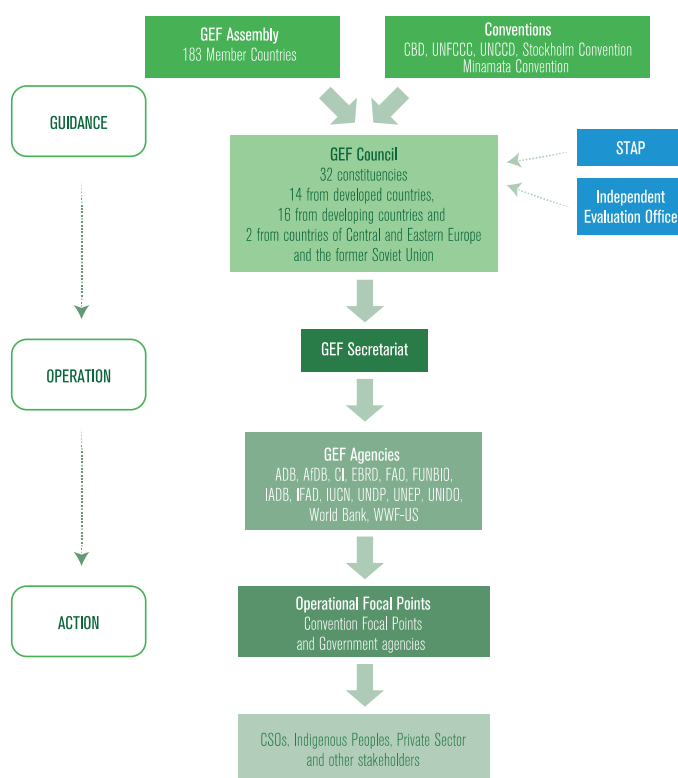


Figure 13: GEF Architecture (Source: GEF website)

The GEF was established in 1991 as a pilot program to assist in the protection of the global environment. The United Nations Development Programme, the United Nations Environment Programme and the World Bank were the three initial partners implementing GEF projects. The GEF serves as a financial mechanism for the UNFCCC.

⁵⁷ based on <https://www.thegef.org> and <https://www.thegef.org/publications/a-z-gef>

Its governing structure is composed of the Assembly, which includes all 183 member countries, the Council which is the main governing body, the Secretariat which coordinates the activities of the GEF, the GEF Agencies, a Scientific and Technical Advisory Panel (STAP), and the Independent Evaluation Office. The Conference of the Parties (COP) from the Conventions the GEF serves provides strategic guidance to the Council.

Section 2: How does the GEF work?

Application for funding

In most cases, the GEF provides funding to support government projects and programs. Governments decide on the executing agency (e.g. civil society organizations, private sector companies, and research institutions). The GEF encourages the engagement of private sector partners but the main entry for GEF funded projects and programmes is the national GEF focal point. Thus, private sector partners can cooperate as a partner in project proposals prepared by countries and GEF agencies.

The GEF has three special dedicated climate change funds: the Special Climate Change Fund (SCCF), the Least Developed Countries Fund (LDCF) and the Adaptation Fund (AF).

The SCCF finances adaptation and technology transfer in all developing countries that are parties to the UNFCCC. It provides support for the additional cost of adaptation to generate measurable adaptation benefits. The two funding priorities of the SCCF are:

Adaptation (SCCF-A) targets the implementation of adaptation activities in the following areas: water resources management; land management; agriculture; health; infrastructure development; fragile ecosystems and integrated coastal zone management. In addition, priority is given to the improvement of monitoring of diseases and vectors affected by climate change, and the support for capacity building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change.

Technology Transfer (SCCF-B) focuses on the transfer of environmentally sustainable technologies to reduce emissions or atmospheric concentrations of greenhouse gases, in line with the recommendations from the national communications to the UNFCCC, technology needs assessments (TNAs), and other relevant information. Activities that can receive support include: the implementation of the results of technology needs assessments; technology information; capacity-building for technology transfer; and creating enabling investment environments.

The Least Developed Countries Fund (LDCF) is designed to finance the urgent and immediate adaptation needs of the Least Developed Countries (LDCs) that are especially vulnerable to the adverse impacts of climate change. The LDCF is financing the preparation and implementation of National Adaptation Plans of Action (NAPAs). Key sectors that emerge in NAPAs include: water; agriculture and food security; health; disaster risk management and prevention; infrastructure; and fragile ecosystems.

The NAPAs and National Adaptation Planning (NAP) are two processes that LDCs can use to define short, medium and long term adaptation needs and actions.

The GEF provides secretariat services, on an interim basis, for the Adaptation Fund. The Adaptation Fund (AF) supports adaptation projects and programs in developing countries that are Parties to the Kyoto Protocol and are particularly vulnerable to the adverse effects of climate change. The AF is financed in part by government and private donors, but mainly from sales of Certified Emission Reductions issued under the Protocol's Clean Development Mechanism projects. It is supervised and managed by the Adaptation Fund Board.

Concluding remarks

The GEF acknowledges the importance of the private sector in making progress on mitigation and adaptation to climate change and therefore encourages the engagement of private sector partners to become actively involved. To scale up mitigation activities (specifically in the areas of renewable energy and energy efficiency) the use of non-grant financial instruments are being explored. In the field of adaptation, no clear mechanisms for the private sector are available. The private sector can cooperate as partner in project proposals prepared by countries and GEF agencies. The main entry for GEF funded projects and programmes is the national GEF focal point⁵⁸.

⁵⁸ https://www.thegef.org/focal_points_list

10. The Forest Investment Program (FIP)

Arend Jan van Bodegom (Wageningen UR)

What is the FIP?

The US\$ 758m Forest Investment Program (FIP), a funding window of the Climate Investment Fund (CIF), provides direct investments to benefit forests, development and the climate. FIP grants and low-interest loans, channeled through partner multilateral development banks (MDBs), are empowering countries to address the drivers of deforestation and forest degradation both inside and outside of the forest sector to achieve the triple win of being good for forests, good for development and good for the climate.

The FIP⁵⁹ supports developing countries' efforts to reduce deforestation and forest degradation (REDD+) and promotes sustainable forest management. This helps make forests a central component of low-carbon development. It also contributes to other benefits such as biodiversity conservation, poverty reduction and protection of the rights of indigenous peoples and local communities.

FIP has four objectives⁶⁰:

- Initiate and facilitate transformational change in developing countries' forest related policies and practices;
- Facilitate the leveraging of additional and sustained financial resources for REDD, including through a possible UNFCCC forest mechanism, leading to an effective and sustained reduction of deforestation and forest degradation, and enhancing the sustainable management of forests;
- Pilot replicable models to generate understanding and learning of the links between the implementation of forest-related investments, policies and measures and long-term emission reductions and conservation, sustainable management of forests and the enhancement of forest carbon stocks in developing countries; and
- Provide valuable experience and feedback in the context of the UNFCCC deliberations on REDD.

The FIP is operational since July 2009. Originally eight pilot countries were identified from 45 expressions of interest. FIP has ongoing projects in the following countries: Brazil, Burkina Faso, Ivory Coast, Democratic Republic of Congo, Ghana, Indonesia, Lao People's Democratic Republic, Mexico, Mozambique and Peru. Programmes and projects are planned to be implemented in the following countries, where FIP is active only since 2015: Bangladesh, Cambodia, Cameroon, Congo Republic, Ecuador, Guatemala, Guyana, Honduras, Nepal, Rwanda, Tunisia, Uganda, Zambia. The FIP is subject to the CIFs 'sunset clause' which enables closure of funds once a new financial architecture becomes effective under the UNFCCC regime. Pending final agreement on the future of the climate change regime, the FIP will provide financing to pilot new approaches with potential for scaled-up, transformational action aimed at specific climate change challenges or sectoral responses.

⁵⁹ <http://www.climateinvestmentfunds.org/cif/node/5>

⁶⁰ <http://www.climatefundsupdate.org/listing/forest-investment-program>

Box 10: REDD+

FIP supports efforts to reduce REDD+. Reducing Emissions from Deforestation and Forest Degradation (REDD) is an effort to create financial value for carbon that is stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low carbon pathways to sustainable development. “REDD+” goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks.

How does the FIP work?

The World Bank is the Trustee and Administrating Unit of the FIP. The World Bank Group, the African Development Bank, the Asian Development Bank, the European Development Bank, and the Inter-American Development Bank (the Multilateral Development Banks – MDBs) are the implementing agencies for FIP investments.

Once a country has been selected under the CIF program, a project/program must go through the following phases to be approved:

1. Country-led joint MDBs mission to assist the development of the country's Investment Strategy.
2. Endorsement of Investment Strategy by FIP Sub-Committee (FIP-SC) followed by further development of programs/projects concepts.
3. Preparation of FIP investment programs and projects.
4. Decision(s) on financing for programs and projects by FIP-SC.
5. Further processing of projects in accordance with MDB procedures, including final approval.

Two approvals are needed: first by the FIP-SC and then by the multilateral bank that will manage the project/program. Once a project or program is approved, a project manager within one of the MDBs is responsible for its implementation.

A FIP Sub-Committee (FIP-SC) oversees and decides on the operations and activities of the FIP. The FIP Sub-Committee is composed of:

- Up to six representatives from donor countries to the FIP.
- Six representatives from eligible recipient countries, selected through consultation with the recipient countries.

Decisions are made by consensus. Members of the FIP Sub-Committee serve for one year term, and may be reappointed.

Representatives from all FIP pilot countries, members of the MDB Committee and the Trustee may attend the FIP-SC as active observers. Active observers for the FIP-SC also include representatives from:

- Four civil society representatives (from Asia, LAC, Africa and developing countries respectively);
- Two private sector representatives (one from a developed country and one from a developing country);
- FCPF secretariat;
- Global Environment Facility;
- UNFCCC;
- UN-REDD technical secretariat; and
- Two indigenous peoples representatives.

An Expert Group was established by the FIP-SC to make recommendations on the selection of pilot programs for the FIP. The Expert Group includes eight individuals, acting in their personal capacities, chosen on the basis of their expertise, strategic and operational experience and diversity of perspectives, including knowledge of scientific, economic, environmental and social aspects of conservation and sustainable use of forest ecosystems and climate change, governance and institutional and development planning.

At the end of 2015 the FIP portfolio contained a total of 47 projects and programs in three categories:

1. 27 projects and programs agreed in the endorsed (country) investment plans;
2. 16 projects in the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM);
3. Four projects in the FIP private sector set-aside (PPSA).

The Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM) aims to enable the full and effective participation of these groups in REDD+ and FIP processes at local, regional, and global scales. It is funded under the FIP with US\$ 80m allocated for country projects in 14 FIP countries and a Global Learning and Knowledge Exchange Project. Through the DGM, mitigation and adaptation solutions established by forest communities will be supported, shared, and elevated to the global policy arena.

The three countries that have contributed the most funding to the FIP are the United Kingdom (US\$ 310 m), United States (US\$ 167 m) and Norway (US\$ 142 m).

The actual disbursement of funds to projects and programs is low. At the end of 2015 the total allocation of funds was US\$ 555.2m. Of this US\$ 291.8m has been approved by the MDBs. Only US\$ 36.1m had been disbursed, which is 12.3% (FIP Semi-annual operational report May, 2016).

What kind of projects does the GCF fund?

Activities supported by the FIP include:

- Investments that build institutional capacity, forest governance and information;
- Investments in forest mitigation efforts, including forest ecosystem services; and
- Investments outside the forest sector necessary to reduce the pressure on forests such as alternative livelihood and poverty reduction opportunities.

FIP investments also mainstream climate resilience considerations and contribute to multiple co-benefits such as biodiversity conservation, protection of the rights of indigenous peoples and local communities, and poverty reduction through rural livelihoods enhancements.

FIP projects approved so far

By mid-2016 the total value of the FIP portfolio was US\$ 603.2m. There are four categories of programs/projects.

Table 10: FIP approved project portfolio by theme (% of funding).

Category	Indicative activities included	Percentage of total funding
Capacity Building / Institutional Strengthening and Governance Reform	Strengthening and maintaining the capabilities of institutions and government to set and achieve development objectives over time; e.g. training to government staff, participatory processes and analysis to develop new policies	31%
Forest Monitoring/ MRV	Producing forest data about the characteristics and health status of forest ecosystems, such as information on forest area and forest area change; e.g. forest inventories, geo-spatial mapping	8%
Sustainable Forest Management	Stewardship and sustainable use of forests and forest lands, e.g. reforestation, afforestation, preparing forest management plans	17%
Landscape Approaches	Addressing multiple land uses beyond purely forests, considering both the natural environment and the human systems; e.g. improved agricultural practices, livelihood activities	44%

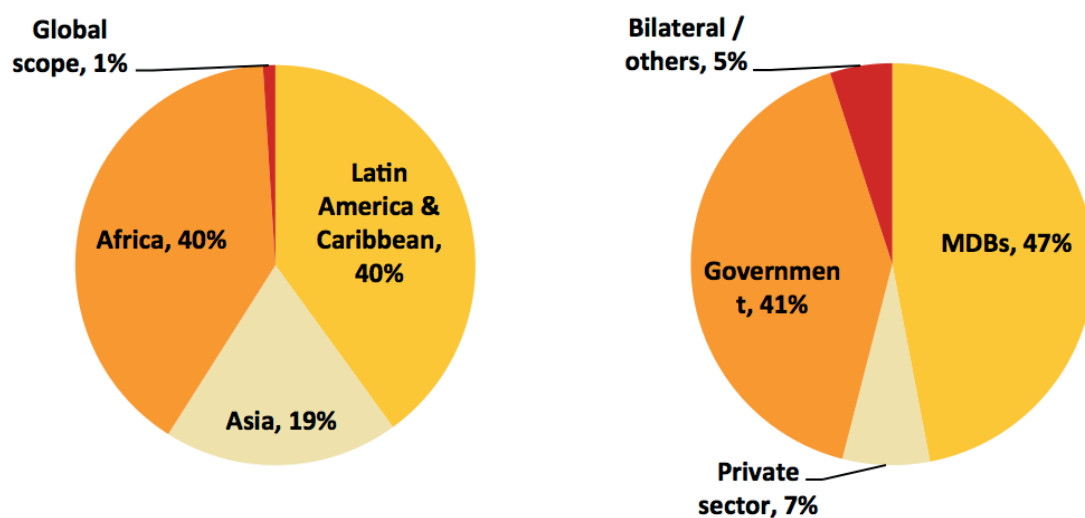


Figure 14: FIP approved project by region and category (Source: FIP website)

Table 11: Summary details for selected FIP projects

Project Title	Region - country	Implementing MDB	Financing (US\$)	Description
Capacity Building / Institutional Strengthening and Governance Reform				
Gazetted Forests Participatory Management Project for REDD+	Burkina Faso	African Dev Bank	11.5m	Policy design and implementation
Landscape approaches				
Forest-dependent Community Support project	Democratic Republic of Congo	World Bank	6.0m	(i) large audience trainings and seminars for the communities; (ii) study tours, virtual discussions, development of community/ farmer demonstration plots, community level internships to support a practical transfer of knowledge nationally, regionally, and internationally, (iii) selected scholarships, technical training in specialized institutes, and (iv) setting up cultural center to support knowledge transfer among the generations and promotion of the forest-dweller culture. Small grants (approx. US\$3m) aiming at promoting economic activities and rural livelihoods that enhance climate change adaptation and support the sustainable management of forest landscapes, including non-timber products
Forest Monitoring/MRV				
Development of Systems to Prevent Forest Fires and Monitor Vegetation Cover in the Brazilian Cerrado	Brazil	World Bank	9.3m + 6.5m co-finance	Component 1: Design and Implementation of a model for monitoring changes in the vegetation cover. Component 2: Implementation of an early-warning system for the prevention of forest fires. Component 3: Project Management and Implementation.
Sustainable Forest Management				
Community-focused investments to address deforestation and forest degradation	Indonesia	ADB	17m	Output 1: Community-focused and gender-responsive REDD+ pilots in Kapuas Hulu and Sintang districts implemented. Output 2: Provincial REDD+ strategy in West Kalimantan effectively implemented. Output 3: Sub-national fiscal policies on REDD+ harmonized with national policies.
Forests and Climate Change Project	Mexico	World Bank	42m + 577m co-finance	To support rural communities in Mexico to sustainably manage their forests, build social organization, and generate additional income from forest products and services including from reducing emissions from deforestation and degradation. There are three components to the project. The first component of the project is policy design and institutional strengthening. The second component of the project is consolidation of priority community-based programs at national level. The third component of the project is innovation for Reduction of Emissions from Deforestation, Forest Degradation, Conservation of Forest Carbon Stocks, Sustainable Management of Forests, and Enhancement of Forest Carbon Stocks (REDD+) in early action area

Box 11: FIP project example**Ghana Public-Private Partnership for the restoration of Degraded Forest Reserve⁶¹**

MDB: African Development Bank⁶²

Project sector: Public Private Partnership

Project description: The project aims at establishing 6,700 ha and maintaining a total of 11,700 ha of sustainable commercial forest plantation composed of 10% indigenous tree species and 90% teak. It is being implemented by Form Ghana Ltd, in close collaborating with the GoG through the FC. Form Ghana is the first FSC and VCS certified Plantation Company in Ghana and West Africa.

FIP funding: US\$ 10m

Total project financing: US\$ 46.4m

Opportunities for SMEs:

A Dutch company, FORM, is the implementer of the project. Communication with stakeholders in the area is a key element of their approach and could be a success factor for Dutch SME to become involved in other FIP projects. Several meetings with different stakeholders were organized throughout the different stages of project preparation. For example, during the field work that led to the development of both the Environmental and Social Impact Assessment, a total of 34 communities / groups were consulted. In addition, several government institutions, traditional rulers and other organizations active around the project locations were consulted. These consultations aimed at obtaining the opinions and views of stakeholders and local communities on the proposed project with the main focus being put on social, cultural, economic and conservation aspects as well as the perceived associated impacts. Stakeholders were also asked about any concerns and expectations they have regarding the project. Most of the identified concerns are based on assumptions inspired by previous bad experiences with external organizations to the project. Form Ghana explained what it expects to do and what the consequences of their activities would be for these stakeholders. Form Ghana made clear that there will be an end to illegal activities around the project areas, but those that shall be impacted by that can find jobs with Form Ghana as the company is hiring several hundreds of individuals on a permanent and temporary basis. It was also made clear that the company has procedures in place that facilitate interaction between people and management to solve any issue. Through intercropping activities, availability of farm land is assured for several years.

Stakeholder engagement is a continuous process for Form Ghana. Stakeholder engagement will be done through (a) In depth information sharing (provision of reports and meetings with individuals), (b) Active engagement with community representatives, (c) Active engagement through central stakeholder meetings, (d) Active engagement through inter-cropper meetings, (e) Active engagement through school visits (f) Information sharing through the company website and newsletters, (g) Grievance and redress mechanism (h) Capacity building for the people that deal with stakeholders directly.

⁶¹ Full Funding Proposal https://www.cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/fip_-_form_ghana_project_proposal_public_document_august_2016.pdf

⁶² AfDB website <https://www.afdb.org>

What are potential opportunities for SMEs?

The FIP aims to support this by funding projects across a wide range of results areas, as outlined in Section 3, and illustrated by the selection of approved projects in Table 10. FIP projects typically combine a number of activities to achieve their results, which may include for example the plantation of trees and forests, the conservation of forests, the provision of finance, technical consultancy and training to help people and businesses change their behaviour, and technical assistance and advice to government and national agencies.

Every project is supervised by a MDB, and each MDB appoints a project manager for each project. This person could be the first person to contact in order to get more information about a project. The disbursement from the FIP to projects is still very low (at the end of 2015 only 6.5% of the allocated funds had been disbursed). This means that in many FIP projects there might still be opportunities to become involved as the procurement for services may not yet have taken place.

How can Dutch SMEs get involved?

Most FIP project services will be implemented on the ground in developing countries and will require local presence and local knowledge. Dutch SMEs will need to compete with local SMEs and be prepared to work in developing country contexts.

Based on experience in Ghana we can identify some success factors:

- Have good technical experience on forestry, but also experience in the country.
- Take stakeholder relations very seriously and explain clearly how you approach stakeholder engagement.
- For new projects if you are able to bring in funds from private investors, you will probably have a better chance.
- You will need to work with large international public bodies such as the World Bank or the three Regional banks and governments.

There are a few activities SMEs can undertake to better understand the GCF and to put themselves in a good position to act on GCF opportunities as and when they start to appear SMEs can read more about the FIP projects approved so far to understand the activities they will be undertaking and the kinds of services they might procure. The FIP projects are presented on the FIP website, including their proposal documents.

Over time it will become clearer how significant an opportunity the FIP might be for Dutch SMEs. While it is clear that it will channel large sums of international climate finance forestry projects in developing countries, and while it is likely that these projects will procure a range of services from third parties, it is not yet clear how practical or easy it will be for Dutch SMEs to access these opportunities.

Summary of Multilateral Climate Funds

Table 12: key characteristics of Multilateral Climate Funds.

Climate Fund	Objective(s)	Budget US\$ m	Type of support	Regional focus	Entry point	Potential business opportunities for SMEs
GCF	to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change	1,000 annually by 2020	Grants, concessional loans	world-wide	Accredited entity	Low: in general project size too big for SMEs
CTF	To scale-up deployment of clean technologies	5,800	Concessional loans/grants/ risk mitigation/ equity	world-wide	MDB country office	Medium/High: includes private sector window but local presence absolutely needed
SREP	To Increase energy access and economic growth	839	Mainly grants, occasionally concessional loan or guarantees.	26 countries	MDB country office	Medium: mainly technical consultancy services. Frequent local presence necessary.
PPCR	PPCR aims to integrate climate risk and resilience into core development planning and implementation in a programmatic manner.	1,200	Concessional financing, technical assistance and advisory services	World-wide	MDB country office	Medium; mainly technical consultancy services. Frequent local presence necessary.
AF	To Build resilience to climate change	355	Performance-based grants	61 countries	National implementing entity	Low: when considering SMEs only but not in general for all private sector as regional and local banks could function as regional implementing agencies and the projects they formulate often involve a higher participation of the private sector.

CIO	To Support the financing of the full project cycle (development, construction and operation) of RE projects.	1,000	Grant for project development and risk mitigation; commercial loans for construction	New facility; currently limited number of countries	FMO, entrepreneurial development bank	Medium/High: especially for developing project ideas
DGGF	To Support Dutch SMEs who operates in developing countries on sustainable development projects	700	Loans, guarantees and equity	68 countries	RVO, Netherlands Enterprise Agency	Medium: specifically targeted at Dutch SMEs but procedures are cumbersome
DHI	To strengthen SME's export position by supporting demo projects and feasibility studies	5.75	Grant up to 50% of total project costs	32 countries	RVO, Netherlands Enterprise Agency	High: specifically targeted at Dutch SMEs with export potential
GEF	To Support projects in developing countries that achieve environmental benefits by financing the incremental costs	-	grants	world-wide	National GEF focal point	Low: no private sector window
FIP	To Support efforts that reduce deforestation and promote sustainable forest management	758	Grants and concessional loans	23 countries	MDB country office	Low: there is a private sector set-aside, but until June 2017 only US\$ 4m has been approved under this heading.

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Online resources and websites

Adaptation Fund (AF): <http://www.adaptation-fund.org/>

African Development Bank (AfDB): <https://www.afdb.org>

Asian Development Bank (ADB): <https://www.adb.org/>

Centre de Suivi Ecologique (CSE): <https://www.cse.sn/index.php/en/>

Climate Finance Lab: <http://climatefinancelab.org>

Climate Investment Funds (CIF): <https://www.climateinvestmentfunds.org/>

Climate Investor One (CIO): <http://www.climatefundmanagers.com/investors/>

Dutch Good Growth Fund (DGGF): <http://www.dggf.nl>

Dutch Enterprise Agency (RVO): <http://www.rvo.nl>

European Commission (EC) – definition of an SME: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_nl

Global Environment Facility (GEF): <https://www.thegef.org>

Green Climate Fund (GCF): <http://www.greenclimate.fund>

International Bank for Reconstruction and Development (IBRD): <http://www.worldbank.org/en/who-we-are/ibrd>

International Bank for Reconstruction and Development (EBRD): www.ebrd.com

Inter-American Development Bank (IDB): <http://www.iadb.org/en/inter-american-development-bank,2837.html>

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