TAAS-0072: Support for Strengthening Climate Finance Activities in Nepal

Concept Note on Selection of Potential National Implementing Entities for Green Climate Fund Accreditation

Submitted by:

Nepal Development Research Institute (NDRI), Nepal

in collaboration with:

Prakriti Resources Centre (PRC), Nepal

April 2017

Table of Contents

Acronyms 1
1 Introduction 2
2 Green Climate Fund (GCF) and objectives 2
3 Who can apply for GCF funding? 2
4 Accreditation requirements 3
4.1 Fiduciary standards (Basic) 3
4.2 Fiduciary standards (Specialized) 4
4.3 Environmental and social safeguards (ESS) 4
4.4 Gender policy 5
5 Diversity of GCF accredited entities 5
6 GCF’s impact areas and national context 6
7 Criteria for selection of potential NIEs 7

List of Figures

Figure 3-1: Fit-for-purpose approach to accreditation 3
Figure 5-1: Diversity of GCF accredited partners 6
Figure 6-1: Results management framework 6

List of Tables

Table 4-1: Funding Proposal Risk Categories 4
Table 4-2: Required Gender Capacities 5

This project, TAAS-0072: Support for Strengthening Climate Finance Activities in Nepal, was undertaken in close coordination with the Government of Nepal and the private sector, and was supported by Climate and Development Knowledge Network (CDKN).

The work is led by Nepal Development Research Institute (NDRI) in collaboration with Prakriti Resources Centre (PRC).

For further details, contact the team leader: Dr Divas Basnyat, NDRI
divas@ndri.org.np
Telephone: +977-1-5537362, 5554975

Acronyms

AE	Accredited Entity
CDKN	Climate and Development Knowledge Network
DFID	UK Department for International Development
DGIS	the Netherlands Directorate-General for International Cooperation
ESMS	Environmental and Social Management System
ESS	Environmental and Social Safeguards
GCF	Green Climate Fund
IFC	International Finance Corporation
INGO	International Non-Governmental Organization
LDC	Least Developed Countries
MoF	Ministry of Finance
MoPE	Ministry of Population and Environment
NDRI	Nepal Development Research Institute
NIE	National Implementing Entity
PRC	Prakriti Resources Centre
RMF	Results Management Framework
SIDS	Small Island Developing States
UNFCCC	United Nations Framework Convention on Climate Change

1 Introduction

This project on "Support to Strengthening Climate Finance Activities in Nepal" is led by Nepal Development Research Institute (NDRI), working in collaboration with Prakriti Resources Centre (PRC) and funded by Climate and Development Knowledge Network (CDKN). CDKN is a project funded by the UK Department for International Development and the Netherlands Directorate-General for International Cooperation (DGIS) and is led and administered by PricewaterhouseCoopers LLP.

The overall objective of this project is to support the Government of Nepal, particularly the Ministry of Finance (MoF) as well as the Ministry of Population and Environment (MoPE), in enhancing their understanding and capabilities towards accessing and utilizing Climate Finance to implement climate actions in the country. Specific objectives of the project are:

- Support and train potential National Implementing Entities (NIEs) to enhance understanding with regards to accessing international climate finance through direct access modality
- Specifically focus on bridging divergent views /understanding among senior government officials from the MoF, the MoPE and others
- Additionally, training will focus on awareness raising regarding barriers towards accessing Climate Finance both within Nepal (delivery mechanism) and internationally (access). It is expected that the training will provide a broader understanding of the climate finance landscape at a global level
- Publication of knowledge products that enhance the understanding of climate finance and its utilization in the country.

This document is part of a compendium of project knowledge products prepared under this project, which deals with a concept paper on selection of potential NIEs for Green Climate Fund (GCF) accreditation.

2 Green Climate Fund (GCF) and objectives

Green Climate Fund is a unique global initiative to respond to climate change by investing in low-emission and climate-resilient development. GCF was established by 194 governments to limit or reduce greenhouse gas emissions in developing countries, and to help adapt vulnerable societies to the unavoidable impacts of climate change. Given the urgency and seriousness of the challenge, the Fund is mandated to make an ambitious contribution to the united global response to climate change. As an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC), the Green Climate Fund (GCF)'s objective is to promote the paradigm shift towards low-emission and climate-resilient development pathways. In allocating its resources, the GCF aims for a 50:50 balance between mitigation and adaptation over time. The GCF also aims to allocate a minimum of 50% of the adaptation allocation particularly for vulnerable countries, including least developed countries (LDCs), Small Island developing states (SIDS) and African states.

3 Who can apply for GCF funding?

The funds from the GCF will flow directly to Accredited Entities (AEs) for project/programme implementation. AEs can be sub-national, national, regional and international entities which are public, private or non-governmental. Therefore, the GCF has adopted “fit-for-purpose” application procedures for entities seeking accreditation.

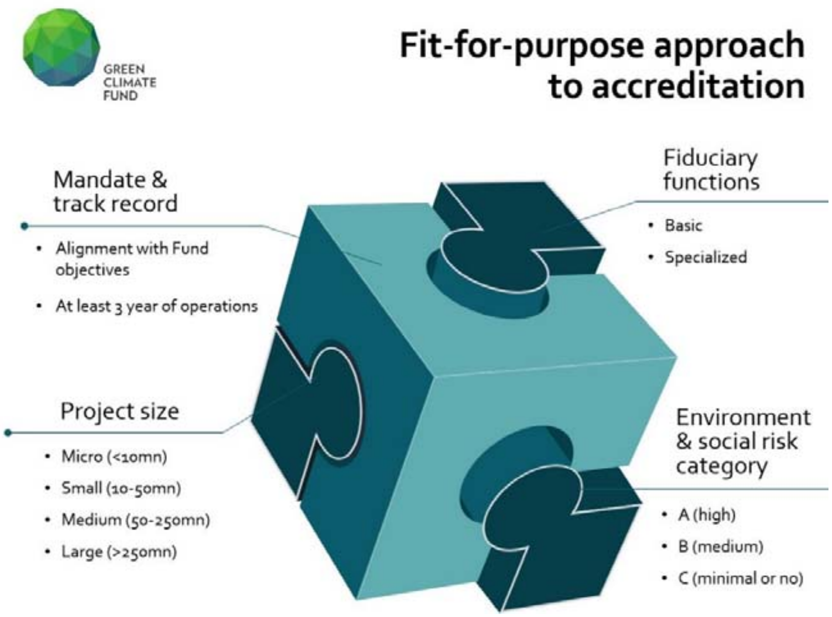

Figure 3-1: Fit-for-purpose approach to accreditation

The fit-for-purpose approach allows AEs who will implement smaller, financially simpler and less environmentally and socially risky project/programmes to meet less stringent or fewer accreditation requirements. This means that application requirements change as a result of the level of accreditation selected. Entities seeking accreditation can select the level of accreditation from the “menu of options” as shown in the **Figure 3-1**.

4 Accreditation requirements

All entities seeking accreditation are required to meet the Basic Fiduciary Standards, while Specialized Fiduciary Standards are optional. Entities can select one or more from among the three specialized standards (project management, grant award mechanism, and on-lending or blending) as appropriate for their institution. In addition, all entities will need to meet Gender and Environmental and Social Safeguard Standards up to the level of risk for which the entity is applying (category A, B, or C).

4.1 Fiduciary standards (Basic)

Basic Fiduciary Standards are standards that set a reasonable baseline for fund management. The underlying principles for Basic Fiduciary Standards include the ability to demonstrate that financial inputs and outputs are properly accounted for, reported, and administered transparently in accordance with pertinent regulations and law, and with due accountability; information relating to the overall administration and management of the entity is available, consistent, reliable, complete and relevant to the required fiduciary standards; and that operations of the entity show a track record in effectiveness and efficiency.

The GCF also requires all entities to meet basic ‘Transparency and Accountability’ standards which include protection and commitment against mismanagement and fraudulent, corrupt and wasteful practices; disclosure of any form of conflict of interest (actual, potential or perceived); and code of ethics, policies and culture that drive and promote full transparency and accountability.

4.2 Fiduciary standards (Specialized)

Entities can select, at their own discretion, to apply for one, two or three of the specialized fiduciary standards. The specialized fiduciary standards are: 1) project management 2) grant award mechanisms and 3) on-lending and/or blending.

The underlying principles for Project Management are the ability to identify, formulate and appraise projects or programmes; competency to manage or oversee the execution of approved funding proposals, including the ability to manage executing entities or project sponsors and to support project delivery and implementation; and capacity to consistently and transparently report on the progress, delivery and implementation of the approved funding proposal.

The underlying principles for Grant Awarding include specific capacities for grant award and funding allocation mechanisms such as transparent eligibility criteria and an evaluation process, grant award decision and procedures, public access to information on beneficiaries and results, transparent allocation and implementation of financial resources, and good standing with regard to multilateral funding.

The underlying principles for Lending and Blending include appropriate registration or licensing, track record of success, creditworthiness, due diligence practices, public access to information, investigative capacities, financial risk management, transparency and governance.

4.3 Environmental and social safeguards (ESS)

The interim GCF ESS is comprised of 8 “performance standards” modeled from the International Finance Corporation (IFC) standards. Entities seeking accreditation must demonstrate compliance with the Performance Standards. The performance standards are areas of environmental and social consideration and protection in project design. The stringency of requirements for the ESS relevant policies/systems/structures that the entities are required to have in place is based on the level of potential ESS risk associated with the projects/programmes that are to be implemented. The level of potential ESS risk falls into one of three categories: a) high b) medium and c) low. (**Table 4-1**)

During the accreditation process, the applicants will specify the level of expected potential project/programme risk. The applicant must then provide proof of policies/systems/structures that are detailed and complex enough to minimize the applicable level of risk and a track record of having dealt with this level of risk. These policies/systems/structures fall under an overarching Environmental and Social Management System (ESMS) which the applicant must have established.

For Low level risk no policy is needed. However, the applicant is required to be able to demonstrate the ability to appraise projects as low, medium and high risk. For applicants seeking a Medium or High risk level of accreditation, the GCF requests the applicant to demonstrate use of an Environmental and Social policy with a three-year track record.

Table 4-1: Funding Proposal Risk Categories

Funding Proposal Risk Categories

Category	Risk level	Activities	Examples
A	High	Potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented	Large infrastructure projects such as large dams which require relocation or extensive coastal protection activities
B	Medium	Potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures	Small infrastructure projects such as construction of a new road to replace an existing road
C	Low	Minimal or no adverse environmental and/or social risks and/or impacts	Project/programmes such as distribution of improved cook stoves, installation of community level water purification systems or improved land management

4.4 Gender policy

The GCF requires that the entity possess the specific capacities to meet the requirements outlined in **Table 4-2**. This ensures that the entity contributes to the objectives of the GCF Gender Policy.

Table 4-2: Required Gender Capacities

Specific capacity required	Examples of Supporting Documentation
Demonstrate competencies, policies and procedures to implement the GCF's Gender Policy	• Extract from entity's operational policies/documentations and procedures relating to gender
Demonstrate experience with gender and climate change, including a track record of lending to both men and women	• Examples of 2 activities (e.g. projects/programmes undertaken, on granting, on-lending, etc.) that specifically target women among beneficiaries • Evidence to show that the entity's activities (e.g., projects/programmes undertaken, on-granting, on-lending, etc.) have non-discriminatory practices in terms of benefits and remuneration for both men and women employees

5 Diversity of GCF accredited entities

To date 48 entities are accredited for the Green Climate Fund (GCF). These entities have different characteristics (**Figure 5-1**). They are government ministries, environmental authorities, and various types of funds, trusts, public sector entities, private sector banks or institutions for direct access and for indirect access they are UN agencies, multilateral development banks, and INGOs.

Figure 5-1: Diversity of GCF accredited partners

6 GCF's impact areas and national context

The Fund is meant to finance projects and programmes in line with its Results Management Framework (RMF), which defines eight strategic impacts to be achieved at the Fund level – four mitigation and four adaptations (**Figure 6-1**).

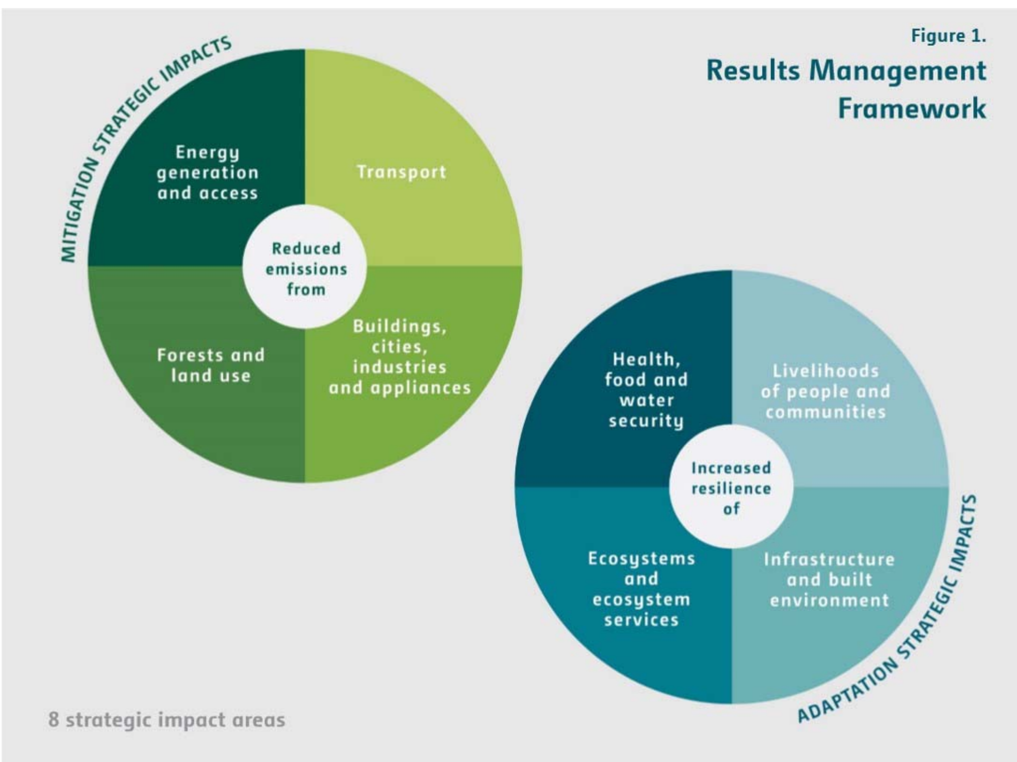

Figure 6-1: Results management framework

In the process of identifying the potential national entities, it is important to list out the national institutions with mandates to work in these impact areas. Looking at the diversity of institutions already accredited by the GCF, Nepal can get an idea of the government ministries/departments, public and private sector institutions, etc. that are suitable for the long list according to the above impact areas. The long lists will be on potential executing entities (EEs) in each impact area or combination of impact areas. And from the lists of EEs, potential NIEs will be selected considering the need of diversity to cover all the impact areas and with highest possibilities of meeting the GCF accreditation requirements.

7 Criteria for selection of potential NIEs

The following criteria will be used to identify the potential NIEs:

- Institutional mandate on the GCF strategic areas, past experiences on these strategic areas and organizational set-up (national level, subnational, and local)
- Systems on GCF fiduciary standards (basic + specialized)
- Systems on GCF environmental and social safeguards (low risk, medium risks and high risks) and gender policy
- Institutional experiences on the implementation of donor funded projects (compliance with fiduciary standards and ESS, and gender policy of multilateral and bilateral development partners)
- Potential to generate co-benefits (both mitigation and adaptation)
- Diversity of potential institutions (government ministries/departments, public sector institutions, private sector institutions including commercial banks, non-governmental organizations)

8 Green Climate Fund: Potential National Implementing Entities

An initial list of executing entities (EEs) for each GCF Strategic Impact Areas is presented in **Annex 1**. At present, two national institutions (Alternative Energy Promotion Centre -AEPC, and Nepal Trust for Nature Conservation- NTNC) have applied for the GCF accreditation and one bank (Agriculture Development Bank-ADB) has applied to the Adaptation Fund. Looking into the institutional mandates of these three institutions, access to funds through these institutions will be on renewable energy, ecosystem based adaptation measures and promotion of livelihoods at local level. Nepal needs investments in nationally prioritized infrastructure development to reach the status of a developing country and middle income country by 2030. Therefore, to maximize benefits from the GCF, Nepal also needs to promote development ministries, major national fund providers, and commercial banks to apply for GCF accreditation in addition to the above institutions. As per the criteria developed for the identification of the NIEs for GCF, it is recommended to select at least one from each of the following categories of institutions and to support in accreditation to GCF.

1. Development Ministries

- Ministry of Physical Infrastructures and Transport
- Ministry of Energy
- Ministry of Irrigation

The above three ministries have the experience of managing major development projects funded by World Bank, Asian Development Bank, and other development partners. As such, with some technical support from GCF readiness program, these ministries can be encouraged to apply for GCF accreditation.

2. National Funds:

- Employees Provident Fund
- Citizen Investment Trust

These two institutions currently have made major investments in big infrastructure projects in Nepal. Looking into the list of already accredited entities by GCF, these two institutions can qualify for on-lending or blending purposes. However, they need technical support to prepare for accreditation to the GCF.

3. Commercial Banks:

There are around 30 commercial banks that can qualify with some technical support from NDA, but their selection should be based on their willingness and commitment. At least two or three banks are to be encouraged to apply.

Annex 1: GCF Strategic Impact Areas and Potential NIEs and EEs

Mitigation Strategic Impacts Area: Transport

Ministries	• Ministry of Physical Infrastructure and Transport • Ministry of Urban Development • Ministry of Federal Affairs and Local Development • Ministry of Tourism and Civil Aviation
Departments	• Department of Road • Department of Railways • Department of Transport Management • Department of Urban Development and Building Construction • Department of Local Infrastructure and Agriculture Roads
Subnational or Local Bodies	• Metropolitan Cities • Sub metropolitan Cities • Municipalities • Village Development Committees
Public Sector Institutions	• Kathmandu Valley Development Authority • Nepal Oil Corporation • Shajha Yatayat • Employees Provident Fund • Citizen's Investment Fund
Private Sector Institutions	• Federation of Nepalese Chamber of Commerce and Industries • Federation of Contractors Association of Nepal • Federation of Nepalese National Transport Entrepreneurs • National Federation of Nepal Transport Entrepreneurs • Commercial Banks

Mitigation Strategic Impacts Area: Energy Generation and Access

Ministries	• Ministry of Energy • Water and Energy Commission Secretariat • Ministry of Population and Environment
Departments	• Department of Electricity Development
Public Sector Institutions	• Nepal Electricity Authority • Alternative Energy Promotion Centre • Employees Provident Fund • Citizen's Investment Fund
Private Sector	• Independent Power Producers Association of Nepal

Institutions	• Hydroelectricity Investment and Development Company Limited • Private Companies involved in renewable energy sector • Commercial Banks

Mitigation Strategic Impacts Area: Buildings, Cities, Industries and Appliances

Ministries	• Ministry of Urban Development • Ministry of Federal Affairs and Local Development • Ministry of Energy • Ministry of Industry • Ministry of Commerce
Departments	• Department of Urban Development and Building Construction • Department of Industry • Department of Small and Cottage Industries
Subnational or Local Bodies	• Metropolitan Cities • Sub metropolitan Cities • Municipalities • Village Development Committees
Public Sector Institutions	• Kathmandu Valley Development Authority • Nepal Electricity Authority • AEPC • Small and Cottage Industries Development Committee • Industrial Enterprises Development Institute • Employees Provident Fund • Citizen's Investment Fund
Private Sector Institutions	• Federation of Nepalese Chamber of Commerce and Industries • Confederation of Nepalese Industries • Federation of Nepalese Cottage and Small Industries • Handicrafts Association of Nepal • Commercial banks

Mitigation Strategic Impacts Area: Forests and Land use

Ministries	• Ministry of Forest and Soil Conservation • Ministry of Land Reform and Management • Ministry of Agriculture Development • Ministry of Urban Development • Ministry of Federal Affairs and Local Development
Departments	• Department of Forest • Department of Soil Conservation and Watershed Management • Department of Plant Resources • Department of National Parks and Wildlife Conservation • Department of Forest Research and Survey • Department of Land Reform and Management

Subnational or Local Bodies	• Metropolitan Cities • Sub metropolitan Cities • Municipalities • Village Development Committees
Public Sector Institutions	• REDD Implementation Centre • National Trust for Nature Conservation • President Chure-Terai Madesh Conservation Development Board
Private Sector Institutions	• Federation of Community Forestry User's Nepal • Commercial Banks
Non-Governmental Organizations	NGOs

Adaptation Strategic Impacts Area: Health, Food and Water Security

Ministries	• Ministry of Health • Ministry of Agriculture Development • Ministry of Cooperatives and Poverty Alleviation • Ministry of Irrigation • Ministry of Livestock Development • Ministry of Water Supply and Sanitation • Ministry of Forest and Soil Conservation • Ministry of Federal Affairs and Local Development • Water and Energy Commission Secretariat • Ministry of Population and Environment
Departments	• Department of Health Services • Department of Agriculture • Department of Irrigation • Department of Food Technology and Quality Control • Department of Water Supply and Sewage • Department of Cooperatives • Department of Forest • Department of Soil Conservation and Watershed Management • Department of National Parks and Wildlife Conservation • Department of Water Induced Disaster Management
Subnational or Local Bodies	• Metropolitan Cities • Sub metropolitan Cities • Municipalities • Village Development Committees
Public Sector Institutions	• Nepal Health Research Council • National Agriculture Research Centre • Rural Water Supply and Sanitation Fund Development Board

	• Nepal Water Supply Corporations • Kathmandu Valley Water Supply Management Board • National Trust for Nature Conservation • President Chure-Terai Madesh Conservation Development Board
Private Sector Institutions	• Private Hospitals • Commercial Banks
Non-Governmental Organizations	NGOs

Adaptation Strategic Impacts Area: Livelihoods of People and Communities

Ministries	• Ministry of Agriculture Development • Ministry of Cooperatives and Poverty Alleviation • Ministry of Irrigation • Ministry of Livestock Development • Ministry of Water Supply and Sanitation • Ministry of Forest and Soil Conservation • Ministry of Federal Affairs and Local Development • Ministry of Energy • Ministry of Population and Environment
Departments	• Department of Agriculture • Department of Food Technology and Quality Control • Department of Cooperatives • Department of Forest • Department of Soil Conservation and Watershed Management • Department of National Parks and Wildlife Conservation • Department of Forest • Department of Soil Conservation and Watershed Management • Department of Plant Resources • Department of National Parks and Wildlife Conservation • Department of Forest Research and Survey • Department of Land Reform and Management
Subnational or Local Bodies	• Metropolitan Cities • Sub metropolitan Cities • Municipalities • Village Development Committees
Public Sector Institutions	• Poverty Alleviation Fund
Private Sector Institutions	• Federation of Community Forestry User's Nepal • Commercial Banks

Non-Governmental Organizations	NGOs

Adaptation Strategic Impacts Area: Ecosystem and Ecosystem Services

Ministries	• Ministry of Forest and Soil Conservation • Ministry of Agriculture Development • Ministry of Cooperatives and Poverty Alleviation • Ministry of Irrigation • Ministry of Livestock Development • Ministry of Water Supply and Sanitation • Ministry of Federal Affairs and Local Development • Ministry of Population and Environment
Departments	• Department of Forest • Department of Soil Conservation and Watershed Management • Department of National Parks and Wildlife Conservation • Department of Agriculture • Department of Cooperatives
Subnational or Local Bodies	• Metropolitan Cities • Sub metropolitan Cities • Municipalities • Village Development Committees
Public Sector Institutions	• Nepal Trust for Nature Conservation
Private Sector Institutions	• Federation of Community Forestry User's Nepal • Commercial Banks
Non-Governmental Organizations	NGOs

Adaptation Strategic Impacts Area: Infrastructure and Build Environment

Ministries	• Ministry of Physical Infrastructure and Transport • Ministry of Energy • Ministry of Tourism and Civil Aviation • Ministry of Urban Development • Ministry of Irrigation • Ministry of Water Supply and Sanitation • Ministry of Federal Affairs and Local Development • Ministry of Population and Environment
Departments	• Department of Roads • Department of Railways • Department of Irrigation

	• Department of Water Supply and Sanitation • Department of Water Induced Disaster Management • Department of Urban Development and Building Construction
Subnational or Local Bodies	• Metropolitan Cities • Sub metropolitan Cities • Municipalities • Village Development Committees
Public Sector Institutions	• Nepal Electricity Authority
Private Sector Institutions	• Commercial Banks
Non-Governmental Organizations	NGOs