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# Operational guidelines for the Project Preparation Facility

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## **Summary**

This document provides an overview on the operationalization of the Project Preparation Facility (PPF) following the decision B.12/25.

The Board is requested to take note of this document and approve the decision on the operationalization of the PPF included in Annex I.

## I. Introduction

1. At its eleventh meeting (B11) in Livingston, Republic of Zambia, the Board established (Decision B.11/11) the Project Preparation Facility (PPF). Subsequently, at its twelfth meeting (B12) in Songdo, Incheon, Republic of Korea, the Board requested the Secretariat to create guidelines for the PPF. The Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change, in Decision 7/CP.21, also welcomed the establishment of a PPF and requested the Board of the GCF to consider lessons learned from other relevant facilities.

### 1.2 Lessons learned from existing project preparation facilities

2. **PPFs are evolving in a fragmented landscape and few of them are dedicated to climate finance.** Their total amount is limited compared to the demand and only a fraction is targeted to climate-related projects.

3. In addition, existing PPFs are either for large or micro projects. As evidenced in Annex 1, the project preparation facilities of multilateral development banks' (MDBs) are primarily targeted at large-scale infrastructure projects while climate funds provide financing mainly to micro activities. As such, countries struggle to find financing for the development of climate-related projects, in particular small- and medium-size projects.

4. **The review of various reports highlight the fact that PPFs have faced some challenges in achieving their desired impacts<sup>1</sup>.**

- (a) Lack of country ownership has sometimes hindered the development of projects, especially in the area of public private partnerships;
- (b) Providing resources to prepare studies may not be sufficient if other obstacles are not addressed, including the enabling environment and efficiency of procurement processes, in particular for the selection of private operators; and
- (c) Lastly, achieving scale and limiting transaction costs—as the fragmentation of the PPFs did not foster the elaboration of standards and tools, the development of programmatic approaches, and the replication of successful models across geographies.

5. **The GCF can overcome these challenges by creating synergies between its project preparation activities and the Readiness Programme** in order to ensure country ownership, help establish an enabling environment, facilitate the development of standard tools, methods and project documents, and increase efficiency by building institutional capacity in implementation, in particular in procurement practices.

## II. Proposed modalities for the Project Preparation Facility

### 2.1 Purpose

6. The PPF will support the development of projects and programmes and will enhance their quality at entry into the Fund's pipeline.

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<sup>1</sup> Assessment of African Project Preparation Facilities, the Infrastructure Consortium for Africa, 2015; Private Infrastructure Development Group 2014 Annual Report.

## 2.2 Request and implementation

7. All accredited entities, in particular accredited direct access entities, may submit PPF requests to the Secretariat for projects in the micro-to-small size categories in accordance with decision B.10/17.

8. The accredited entity (AE) will be responsible for the preparation and submission of PPF requests to the Secretariat.

9. In accordance with the Board's initial no-objection procedure, approved by decision B.08/10, a no objection from the national designated authority (NDA) or focal point is required for all PPF requests.

10. The Secretariat will develop a PPF request template by also modifying the concept note template to include information on the underlying project and provide information on the following elements:

- (a) Objectives of request
- (b) Description of the activities
- (c) Key deliverables
- (d) Detailed cost estimates
- (e) Implementation schedule
- (f) Arrangements by the accredited entity to implement or coordinate activities
- (g) Terms of reference of studies to be undertaken
- (h) Overview of the procurement process
- (i) No objection from NDA

11. The PPF request will indicate the financial instrument to be used. Support for PPF requests will generally be in the form of grants. For PPF requests targeting private sector projects, grants with repayment contingency and equity instruments may also be considered.

12. The AE will be responsible for the implementation of the activities upon approval. The Secretariat may also assist accredited entities in procuring qualified expertise to facilitate the speed of delivery and quality of the outputs.

13. The PPF activities implemented by the AE will be subject to the monitoring and evaluation procedures of the Fund, and the frequency of reporting will be agreed in the PPF request approved by the GCF.

## 2.3 Funding thresholds

14. The PPF will follow the funding thresholds agreed in decision B.11/11. Thus, support for each PPF request will be limited to a maximum amount of USD 1.5 million, not exceeding 10 per cent of the total GCF funding volume to be requested for the underlying project.

## 2.4 Approval process

15. The PPF approval process will be as follows:
- (a) Step 1. Development and submission of PPF requests by the AE in consultation with the Secretariat and in conjunction with a no-objection letter consistent with the initial no-objection procedure approved by decision B.08/10.
  - (b) Step 2. The Secretariat will assess the PPF request against the investment criteria of the GCF as defined in decision B.07/06, a justification of needs, and consistency with relevant GCF policies for consideration by the Executive Director or designee.
  - (c) Step 3. The decision to fund a PPF request will be approved by the Executive Director or designee, and the Secretariat will report at each Board meeting on the pipeline of requests received, as well as requests approved and under implementation.

## III. Eligible activities for financing under the PPF

16. Based on the justification of need, the PPF will support the following activities:
- (a) **Pre-feasibility and feasibility studies and project design** including baseline data, technical studies, and detailed designs, financial and economic analysis, etc.;
  - (b) **Environmental and social, gender studies** including environmental and social impact assessments, environmental and social management plans, resettlement action plans, and gender assessments and action plans;
  - (c) **Risk assessments** including technical, institutional, operational, financial, social and environmental components;
  - (d) **Identification of programme and project level indicators** aligned with the results management framework of the Fund, and support for the monitoring and evaluation of impacts;
  - (e) **Pre-contract services including revision of tender documents**, consultancy services required to carry out the preparation of project tender documents, selection of contractors, etc.; and
  - (f) **Other project preparation activities** where necessary and with sufficient justification.
17. PPF support can also be used to promote a participatory approach in project formulation and design, costs of development and presentation of workshops, seminars and conferences involving stakeholders.
18. The Fund will work with the network of accredited entities and other project preparation facilities to offer templates and standardized documents, building on existing platforms.

## IV. Synergies with the Readiness Programme

19. The Readiness Programme will operate in a complementary manner to the PPF. The Programme may continue to foster pipeline development through support for enabling environment, market creation activities, and other activities that may not be requested by accredited entities under the PPF but deemed necessary for the development of the GCF's pipeline of projects and programmes. By providing such complementary support, the GCF can

address the challenges identified through the lessons learned from other PPFs. Such activities may include, but will not be limited to:

- (a) in the context of developing country programmes, drawing from Intended Nationally Determined Contributions (INDCs) and other climate strategies and plans, formulating priority projects and programmes up to a stage where an accredited entity is identified and they may be considered by the PPF;
- (b) developing financing strategies for the implementation of INDCs and country programmes, including to crowd-in financing from the private sector and other capital market sources;
- (c) developing standard tools, methods, and templates to scale up successful models through programmatic approaches and across geographies; and
- (d) enabling private sector participation, including for the establishment of public private partnerships in cases where accredited entities may not be in a position to submit such requests under the PPF, and providing institutional support to enhance efficiency of procurement processes.

## **V. Monitoring and evaluation**

20. At each Board meeting, the Secretariat will report on the status of requests received, approved or under implementation.

21. As the Fund is a continuously learning institution, the Secretariat will initiate regular updates of these guidelines to incorporate lessons learned and adapt to the needs emerging through dialogue with national designated authorities and accredited entities, including through a formal review of the PPF no later than the end of the Initial Resource Mobilization (IRM) period.

## Annex I: Draft decision of the Board

The Board, having considered document GCF/B.13/XX titled “Operational guidelines for the Project Preparation Facility”:

- (a) Decides that the Project Preparation Facility (PPF) will support project preparation requests for funding from all accredited entities, in particular direct access entities, for projects in the micro-to-small size category in accordance with the decision B.10/17;
- (b) Requests the Secretariat to manage PPF requests with a view to seeking geographic balance and a balance between national, regional, and international accredited entities;
- (c) Decides that the PPF will support the following activities:
  - (i) Pre-feasibility and feasibility studies, and project design;
  - (ii) Environmental and social, gender studies;
  - (iii) Risk assessments;
  - (iv) Identification of programme and project level indicators;
  - (v) Pre-contract services including revision of tender documents; and
  - (vi) Other project preparation activities where necessary and with sufficient justification;
- (d) Also decides the following operating modalities:
  - (i) The Secretariat will develop a PPF request template by also modifying the concept note template to request information on the underlying project;
  - (ii) PPF requests will be developed by accredited entities in consultation with the Secretariat and submitted in conjunction with a no-objection letter consistent with the initial no-objection procedure approved by decision B.08/10;
  - (iii) PPF requests will be approved by the Executive Director based on an assessment of the request against the investment criteria of the GCF as defined in decision B.07/06, a justification of needs, and consistency with relevant GCF policies;
  - (iv) Support for each PPF request will be limited to a maximum amount of USD 1.5 million, not exceeding 10 per cent of the total GCF funding volume to be requested for the underlying project;
  - (v) Support for PPF requests will be in the form of grants, and repayable grants and equity may also be considered for private sector projects;
  - (vi) The Secretariat will report at each Board meeting on the pipeline of PPF requests received, and requests approved or under implementation; and
  - (vii) Sufficient staffing and resources will be provided to the Secretariat to ensure the PPF operates effectively; and
- (e) Further decides to review the operational guidelines of the PPF in order to draw lessons learned no later than the end of the IRM period.

## Annex II: Experiences of other institutions on project preparation support

Entity	Eligibility	Project preparation facility limits	Type of projects	Approving authority	Approval process	Initial capitalization
Global Environment Facility (GEF)	All accredited multilateral and regional implementing entities	<ul style="list-style-type: none"> <li>- USD 50,000 for projects up to USD 1 million</li> <li>- USD 100,000 for projects up to USD 3 million</li> <li>- USD 150,000 for projects up to USD 6 million</li> <li>- USD 200,000 for projects up to USD 10 million</li> <li>- USD 300,000 for projects above USD 10 million</li> </ul>	Climate and environmentally beneficial projects	Secretariat	Request to be included as part of the concept note/ funding proposal	No limit specified
Adaptation Fund	Accredited entities under direct access	<ul style="list-style-type: none"> <li>- Pre concept: USD 20,000 per project</li> <li>- Concept stage: USD 80,000 per project</li> </ul>	Public sector adaptation projects	Board	Request to be included as part of the concept note/ funding proposal	USD 100,000
Clean Technology Fund (CTF)	Multilateral development banks	<ul style="list-style-type: none"> <li>- Up to USD 1 million per project</li> </ul>	Public and private climate mitigation projects	Trust Fund Committee	Submission of a CTF preparation grant request to the Trust Fund Committee on a rolling basis	No limit specified
Global Infrastructure Facility (World Bank Group)	Asian Development Bank (ADB); European Bank for Reconstruction and Development (EBRD); European Investment Bank (EIB); InterAmerican Development Bank (IDB); and the World Bank Group (WBG)	<ul style="list-style-type: none"> <li>- No technical limit, however largest PPF approved is USD 5 million</li> </ul>	Large scale infrastructure	Governing Council	Submission of a project overview concept note, followed by a separate PPF application	USD 100 million