

# Funding Proposal

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## **FP197: Green Guarantee Company (GGC)**

Multiple countries | MUFG Bank, Ltd | Decision B.34/10

14 November 2022



# Funding Proposal

|                            |   |
|----------------------------|---|
| Project/Programme title:   | Green Guarantee Company (“ <b>GGC</b> ”)  |
| Country(ies):              | <b>Africa:</b> Gabon, Rwanda<br><b>Asia:</b> India, Indonesia, Lao, Philippines,<br><b>Latin America and the Caribbean:</b> Brazil, Trinidad & Tobago |
| Accredited Entity:         | MUFG Bank, Ltd. (“ <b>MUFG</b> ”)   |
| Date of first submission:  | 2022/02/08  |
| Date of current submission | 2022/10/14  |
| Version number             | V.9   |



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### *Note to Accredited Entities on the use of the funding proposal template*

- Accredited Entities should provide summary information in the proposal with cross-reference to annexes such as feasibility studies, gender action plan, term sheet, etc.
- Accredited Entities should ensure that annexes provided are consistent with the details provided in the funding proposal. Updates to the funding proposal and/or annexes must be reflected in all relevant documents.
- The total number of pages for the funding proposal (excluding annexes) **should not exceed 60**. Proposals exceeding the prescribed length will not be assessed within the usual service standard time.
- The recommended font is Arial, size 11.
- Under the [GCF Information Disclosure Policy](#), project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Accredited Entities are asked to fill out information on disclosure in section G.4.

**Please submit the completed proposal to:**

[fundingproposal@gcfund.org](mailto:fundingproposal@gcfund.org)

**Please use the following name convention for the file name:**

“FP-[Accredited Entity Short Name]-[Country/Region]-[YYYY/MM/DD]”

| A. PROJECT/PROGRAMME SUMMARY   |   |   |  |
|--|---|---|--|
| A.1. Project or programme  | Programme   | A.2. Public or private sector   | Private  |
| A.3. Request for Proposals (RFP)   | <p>If the funding proposal is being submitted in response to a specific GCF <a href="#">Request for Proposals</a>, indicate which RFP it is targeted for. Please note that there is a separate template for the Simplified Approval Process and REDD+.</p> <p><u>Not applicable</u> <u>Not applicable</u></p>   |   |  |
| A.4. Result area(s)  | <p>Check the applicable <a href="#">GCF result area(s)</a> that the overall proposed project/programme targets below. For each checked result area(s), indicate the estimated percentage of <b>GCF and Co-financers' contribution</b> devoted to it. The total of the percentages when summed should be 100% for GCF and Co-financers' contribution respectively.</p> |   |  |
|  |   | <b>GCF contribution</b>   | <b>Co-financers' contribution<sup>1</sup></b>  |
|  | <b>Mitigation total</b>   | 80 %  | 80%  |
|  | <input checked="" type="checkbox"/> Energy generation and access  | 30 %  | 30 %   |
|  | <input checked="" type="checkbox"/> Low-emission transport  | 20 %  | 20 %   |
|  | <input checked="" type="checkbox"/> Buildings, cities, industries, and appliances   | 30 %  | 30 %   |
|  | <input type="checkbox"/> Forestry and land use  | <u>Enter number</u> %   | <u>Enter number</u> %  |
|  | <b>Adaptation total</b>   | 20 %  | 20 %   |
|  | <input type="checkbox"/> Most vulnerable people and communities   | <u>Enter number</u> %   | <u>Enter number</u> %  |
|  | <input checked="" type="checkbox"/> Health and well-being, and food and water security  | 10 %  | 10 %   |
|  | <input checked="" type="checkbox"/> Infrastructure and built environment  | 10 %  | 10 %   |
|  | <input type="checkbox"/> Ecosystems and ecosystem services  | <u>Enter number</u> %   | <u>Enter number</u> %  |
| A.5. Expected mitigation outcome<br><br>(Core indicator 1: GHG emissions reduced, avoided, or removed / sequestered) | 74.6 million tCO <sub>2</sub> e over the 20-year lifetime of GGC (based on the indicative portfolio countries)  | A.6. Expected adaptation outcome<br><br>(Core indicator 2: direct and indirect beneficiaries reached) | <p>17 million people direct and 19.9 million people indirect (at % of GCF)</p> <p>16 999 962 (of 36 906 773)      19 906 811 (of 36 906 773)</p> <p>8.81% of population of countries with adaptation investments      8.81% of population of countries with adaptation investments</p> |
| A.7. Total financing (GCF + co-finance <sup>2</sup> )  | 405 million USD   | A.9. Project size   | Large (Over USD 250 million)   |
| A.8. Total GCF funding requested   | <u>82.5 million</u> USD<br><br>For multi-country proposals, please fill out annex 17.   |   |  |

<sup>1</sup> Co-financer's contribution means the financial resources required, whether Public Finance or Private Finance, in addition to the GCF contribution (i.e., GCF financial resources requested by the Accredited Entity) to implement the project or programme described in the funding proposal.

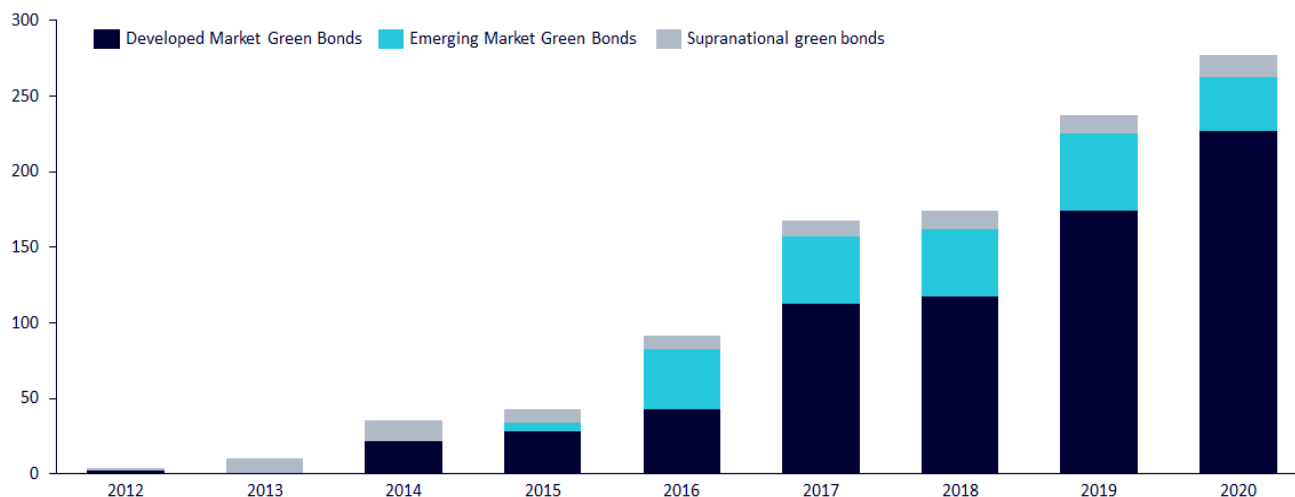
<sup>2</sup> Refer to the Policy of Co-financing of the GCF.

|   |  |   |   |
|---|--|---|---|
| <b>A.10. Financial instrument(s) requested for the GCF funding</b>  | <p>Mark all that apply and provide total amounts. The sum of all total amounts should be consistent with A.8.</p> <div> <input type="checkbox"/> Grant <u>Enter number</u> <input checked="" type="checkbox"/> Equity <u>82.5 million USD</u> </div> <div> <input type="checkbox"/> Loan <u>Enter number</u> <input type="checkbox"/> Results-based payment <u>Enter number</u> </div> <div> <input type="checkbox"/> Guarantee <u>Enter number</u> </div>   |   |   |
| <b>A.11. Implementation period</b>  | 10 years (may be extended pursuant to the terms to be agreed in the FAA)   | <b>A.12. Total lifespan</b>   | 20 years  |
| <b>A.13. Expected date of AE internal approval</b>  | <p><i>This is the date that the Accredited Entity obtained/will obtain its own approval to implement the project/programme, if available.</i></p> <p>5/18/2022</p>   | <b>A.14. ESS category</b>   | <p><i>Refer to the AE's safeguard policy and <a href="#">GCF ESS Standards</a> to assess your FP category.</i></p> <p>I-2</p> |
| <b>A.15. Has this FP been submitted as a CN before?</b>   | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>  | <b>A.16. Has Readiness or PPF support been used to prepare this FP?</b> | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>   |
| <b>A.17. Is this FP included in the entity work programme?</b>  | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>  | <b>A.18. Is this FP included in the country programme?</b>              | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>   |
| <b>A.19. Complementarity and coherence</b>  | <p><i>Does the project/programme complement other climate finance funding (e.g., GEF, AF, CIF, etc.)? If yes, please elaborate in section B.1.</i></p> <p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>  |   |   |
| <b>A.20. Executing Entity information</b>   | <p><b><u>Executing Entities ("EE")</u></b></p> <ol style="list-style-type: none"> <li>Green Guarantee Company ("GGC"), registered in the United Kingdom</li> <li>The Development Guarantee Group Limited ("DGG"), registered in the United Kingdom</li> <li>GCF Holdings, a special purpose vehicle incorporated solely for the GCF's investment in GGC</li> <li>GCF Holdings Manager</li> </ol> <p>GGC will be the Executing Entity that receives GCF proceeds and uses them for the Funded Activity of providing guarantees. GGC is incorporated in the United Kingdom as a limited liability company and will be owned by institutional shareholders, including GCF.</p> <p>The day-to-day operations of GGC will be managed by DGG, which is also incorporated in the United Kingdom as a limited liability company and is owned by its management and Cardano Development (<a href="http://www.cardanodevelopment.com">www.cardanodevelopment.com</a>), a Netherlands based foundation focused on financial markets innovation in developing countries.</p> |   |   |
| <b>A.21. Executive summary (max. 750 words, approximately 1.5 pages)</b>  |  |   |   |
| <p><b>The Climate Change Problem We Want to Solve</b></p> <p>1.1 At the 2009 Climate Summit (COP15) in Copenhagen, developed countries made a commitment to increase climate finance to developing countries (defined for the purposes of this document as countries that are eligible for Overseas Development Assistance ("ODA")) to USD 100 billion per annum by 2020.</p> <p>1.2 It's generally agreed that the COP15 target to provide USD 100 billion of climate finance a year by 2020 has been missed. In October, the UK COP presidency suggested it will be met by 2023, but even this delayed milestone would be insufficient.</p> |  |   |   |

There is an urgent need for additional international financial support requested by developing countries to reach their country-specific greenhouse gas (“GHG”) savings targets and to move to more resilient pathways based on their country specific Nationally Determined Contributions (“NDC”) under the Paris Agreement.

- 1.3 One of the most prominent financial innovations and revolutions in the area of climate finance over the past ten years has been the development and the exponential growth of the global green finance market as exemplified by the green bond market, demonstrated in Figure 1 below.

Figure 1: Global Green Bond Issuance, USD billion



- 1.4 International Capital Markets Association (“ICMA”) defines a “green” bond or loan as any type of bond or loan instrument where the proceeds will be exclusively applied to finance new and/or existing eligible “green” projects including those focused on addressing the impact of climate change.
- 1.5 Despite the unprecedented challenges for the global economy and financial markets in 2020, the global green bond market proved resilient, achieving the key milestone of USD 1 trillion in cumulative issuance since 2007, with issuance of USD 295 billion in 2020<sup>3</sup>. Of the 2020 green bond issuance approximately USD 40 billion was from developing countries – noting, however, once volume from China is excluded the balance is just USD 8.9 billion (or just 3%) from the rest of the developing world. Furthermore, as can be seen in Figure 1, the percentage of the total global volume of green bonds issuance from developing countries has been reducing over the past three years. This trend is partly due to the impact of the COVID-19 pandemic but if one looks at overall volumes between 2016 and 2019 (before the pandemic began), in value terms green bond issuance from developing countries has been static reflecting a lower level of momentum for this segment of the market than can be seen for green bond issuance from developed countries over the same period. Consequently, increasing green bond and loan issuance from developing countries represents a significant market opportunity for global investors seeking to align their investment strategies with environmental considerations. This market opportunity is however not being exploited, with the World Bank estimating that global investors allocate less than 2% of their asset base to infrastructure investment in developing countries, insufficient to meet the climate finance gap.

#### Proposed Interventions: Guarantees as A Solution

- 1.6 The OECD defines guarantees as “a type of insurance policy protecting banks and investors from the risks of non-payment”. More technically, a guarantee is a legally binding agreement under which the guarantor agrees to pay part or all an amount due on a loan, equity, or other instrument in the event of non-payment by the obligor (or loss of value, in the case of investment).
- 1.7 According to OECD data on amounts mobilised from the private sector by official development finance interventions between 2012 and 2018, guarantees mobilised more private capital than direct lending or equity investments. The amount of private finance mobilised by guarantees increased from USD 8 billion to over USD 18 billion in 2018, equivalent to an annualised growth rate of 14%. Guarantees have mobilised more private finance than any other financial instrument, representing 39% of total private finance mobilised for development over the period covered by the data. The OECD concludes that guarantees have been the most effective tool to mobilise capital in every year for which data is available. This is despite guarantees not being widely available for bonds with no hard currency guarantor focused on global capital markets to help developing country borrowers. A key reason for this significant mobilisation effect is that guarantees can help address the information asymmetry (i.e., investor perception of risk is actually greater than the actual level of risk) that typically discourages investors to invest in developing countries. By doing so guarantees can encourage replication of further transactions without credit enhancement once guarantees build the capacity of investors to the point that they are able to invest in green bonds from developing countries without any credit enhancement. This level of market transformation

<sup>3</sup> IFC, Amundi Asset Management, Environmental Finance Bond Database

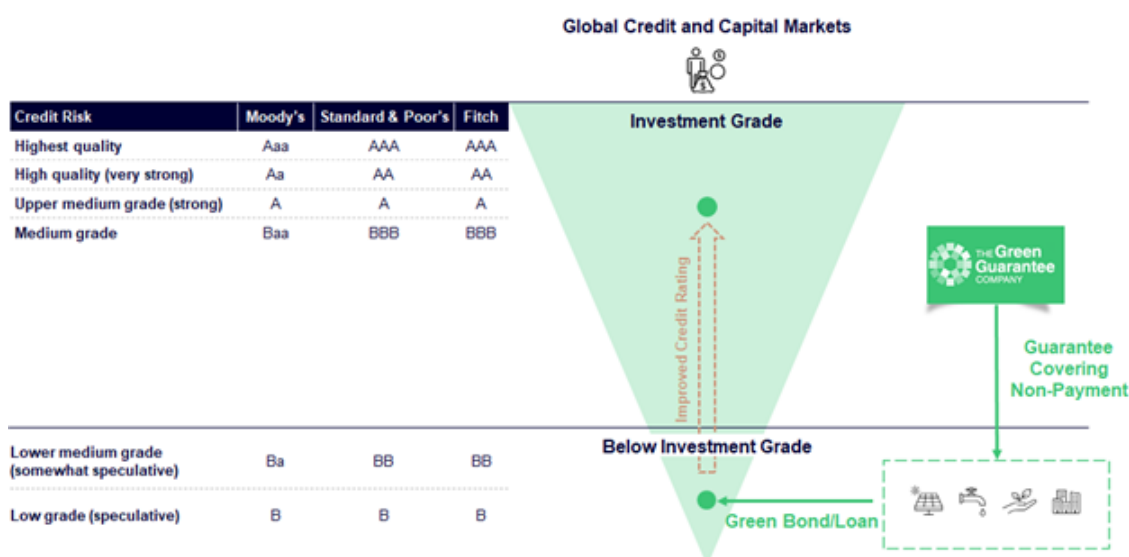
can lead to green bond issuance from developing countries scaling up to the USD hundreds of billions, closing the climate finance gap.

- 1.8 The necessity of developing countries being able to access global credit and capital markets for climate finance is exacerbated by the lack of depth in their own local capital markets. The evolution of local capital markets in developing countries is not happening at a pace that will enable them to finance their immediate climate financing needs and consequently being able to access long-term climate finance from global credit and capital markets is necessary. Ideally, developing countries would be able to borrow from global credit and capital markets in their own currencies, thereby placing the currency risk with investors, however the current status quo where global investors have yet to be convinced to lend to developing countries in hard currencies means that a transition to lending in local currencies needs to be a longer-term ambition.

## Climate Results / Benefits

- 1.9 DGG believes that guarantees can help developing countries access more climate finance from the global green financing (both bonds and loans) market and is therefore seeking to design, build and operate the Green Guarantee Company ("GGC") to act as a market champion and mobilise greater private sector climate finance into developing countries. GGC will be the first ever guarantee company to exist in the global credit and capital markets with this specific objective making it a highly innovative and ground-breaking initiative.
- 1.10 Guarantees are a credit enhancement product, meaning they can improve the credit rating of a project (see Figure 2 below). Most investors in global credit and capital markets can only invest in investment grade rated debt instruments which means that climate projects in developing countries, most of which are rated below investment grade, are not available for consideration by investors in global credit and capital markets.

Figure 2: How GGC will support climate projects in developing countries



- 1.11 GGC will seek to guarantee global investors to catalyse their investments into green bonds and green loans that are issued from developing countries in global credit and capital markets. GGC will not be providing guarantees in local capital markets in recognition that there are existing guarantors who already play that role. GGC is focusing on global credit and capital markets where no other dedicated guarantor exists (please see Section 1.38 for additional information) and thus GGC is additional in its presence.
- 1.12 To ensure speed of implementation the GGC proposition is based on working with existing global credit and capital market participants, infrastructure, and standards to deliver a proven solution, thereby reducing execution risk and increasing the opportunity to scale at speed. Initial legal advice has confirmed that there are no legal or regulatory obstacles to GGC being incorporated and operationalised in London within a three-month timescale once the required equity capital has been raised and an investment grade credit rating has been obtained from at least one of the three major rating agencies.
- 1.13 GGC will guarantee green bonds and loans from developing countries listed on the London Stock Exchange ("LSE") and other global credit and capital markets then seek to syndicate (or share) some of its guarantee exposure with the private credit insurance market (i.e., Lloyd's of London) thereby crowding-in multiple pools of capital and building an ecosystem to mobilise greater climate finance into developing countries.
- 1.14 GGC's Guarantee Policy (see Annex 23) will focus on guaranteeing green bonds and loans which enable developing countries to meet their climate adaptation and mitigation targets.



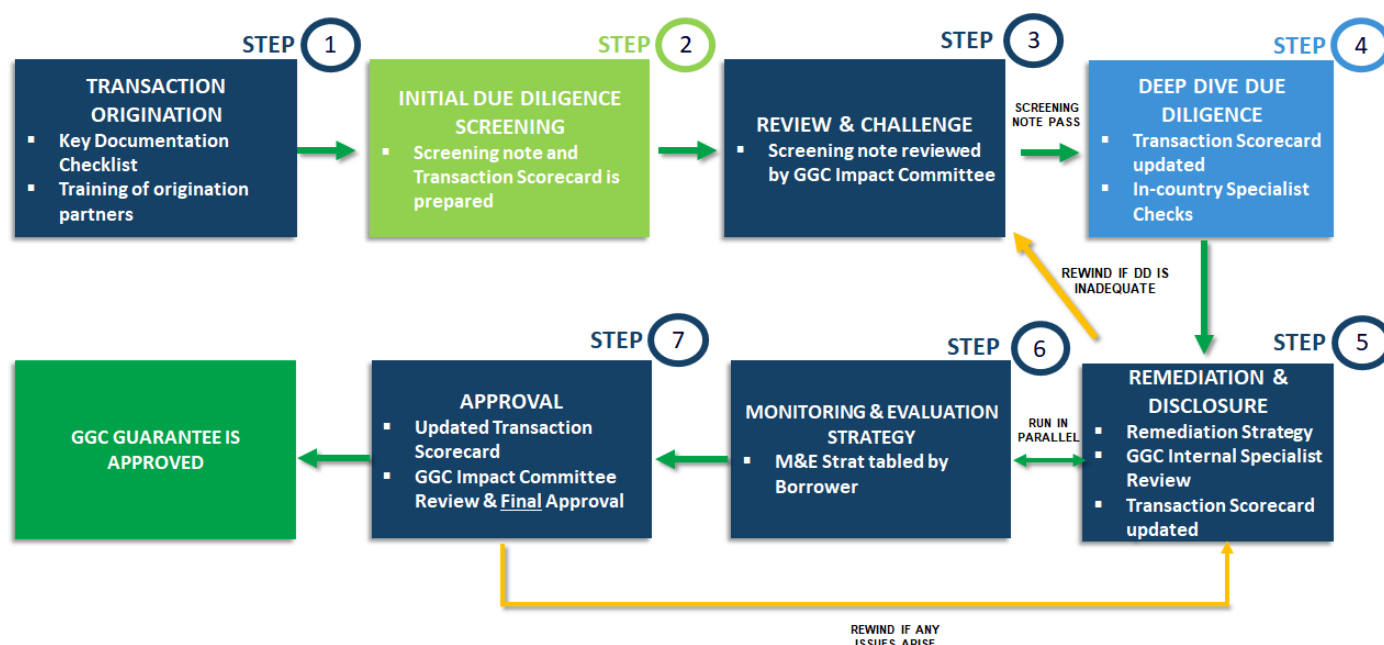
- 1.15 GGC will focus on supporting new capital expenditure in relation to climate projects but may consider a refinancing subject to two conditions being met: (1) the refinancing is a component of a larger financing that includes new capital expenditure or where the refinancing is a pre-agreed component of a shorter term financing to bridge a construction period (e.g. Bridge-to-Bond) and (2) the refinancing is mobilising global institutional investors that would otherwise not have invested in a climate project in a developing country. This flexibility is needed as in developing countries the limited availability of climate finance and high execution risk means that climate projects are frequently built-in stages, and - where the terms of financing of the first stage negatively impacts on the viability of the subsequent phases - it would make sense for GGC to support a refinancing.
- 1.16 Guarantees are in their simplest form “a promise to pay” and consequently are unfunded at the outset with funds only flowing from the guarantor if a guarantee (or promise to pay) is called. Consequently, as the capital base of a guarantor is not used unless a guarantee is called it is possible to write guarantees greater than (i.e., “leverage”) the amount of capital that the guarantor has (in the belief that only a few guarantees will be called during their lifetime and even fewer will be called at the same time). The ability of a guarantor to pay under a guarantee is analysed by a credit rating agency that then assigns a credit rating to the guarantor’s guarantees which confirms the rating agency’s view on the ability of the guarantor to honour payments under its guarantees. Typically, these credit ratings cap the ability of the guarantor to leverage its capital.
- 1.17 GGC’s business plan envisages leveraging USD 405 million of capital (split between USD 270 million of cash equity to be raised initially with a further USD 135 million of callable capital to be raised later) to provide guarantees to mobilise USD 4 billion of green bonds and loans from global credit and capital markets for climate finance in developing countries over a 10-year period.
- 1.18 For GGC it has been established that a 10x leverage multiple will allow it to maintain an investment grade credit rating and so 10 x USD 405 million of capital = USD 4 billion of guarantee capacity.
- 1.19 GGC’s Transaction Selection Process (TSP), which is summarised in Figure 3 below (see Annex 24A for a more detailed version of the TSP), guided by a Transaction Scorecard (see Annex 24B), which screens a transaction against impact criteria, and Guarantee Policy (see Annex 23) which screens a transaction against eligibility criteria (e.g. sector), will enable it to select climate mitigation projects which help deliver a net zero carbon economy and climate adaptation projects which deliver environmental and social sustainability, ensuring that climate change response is at the heart of all of GGC’s guarantees.
- 1.20 GGC assuring positive climate impact is as important to investors that look to GGC’s guarantees for comfort as is its ability to provide protection against financial loss. Therefore, GGC makes use of multidisciplinary ‘lines of defence’ through its TSP (see Annex 24A) to reduce the risk of being exposed to low climate impact on the transactions that it chooses to guarantee. These lines of defence are professional specialists and/or experts in the fields of climate and climate bond certifications. Importantly, the GGC will liaise with the GCF on the appointment of these specialists and/or experts. In terms of the climate elements, these lines of defence are as follows:
  1. **DGG Impact Team:** The DGG Impact Team will be led by the Head of Impact who will be a senior executive climate expert with at least 10 to 15 years of experience working in their respective fields with a focus on emerging markets. The Head of Impact will be supported by a team of mid-senior managerial level climate specialists, who will specialise in climate adaptation and climate mitigation.
  2. **GGC Impact Committee:** As part of the governance structure of GGC, GGC will have a five-member Board of which three members will have climate expertise and will be voting members of the GGC Impact Committee. The GGC Board members elected to sit on the GGC Impact Committee will have extensive climate adaptation and mitigation experience as well as significant E&S and gender experience and will play an essential role as a member of this committee, providing independent advice and challenge and ensuring that both DGG and GGC has access to expert climate, gender and E&S advice and are successful in delivering GGC’s climate impact and gender KPIs and objectives. The committee members will challenge the analysis and assumptions made by the DGG Impact Team to ensure there has been sufficient rigour in the various assessments’ methods, calculations, and findings. Once satisfied the GGC Impact Committee will approve the transaction to move through the formal due diligence and remediation strategy phases. GCF will also have the right to have an observer join the GGC Impact Committee to provide additional advice and support to the GGC Impact Committee in respect of the latest thinking on specific climate impact issues.
  3. **In-Country Climate Consultant:** The in-country climate consultant is expected to be a reputable local or regional climate consultancy firm that has a credible track record of at least 5 years of working with climate mitigation and/or adaptation projects in the target country. The in-country climate consultant will be able to provide on-the-ground support to the DGG Impact Team to assess and subsequently monitor the climate impact of a guarantee project.
- 1.21 While GGC’s Transaction Scorecard (Annex 24B) and Guarantee Policy (Annex 23) which together govern and underpin GGC’s TSP and provide internal assurance of climate impact, a third and final layer of assurance will be provided by external certification of the guaranteed green bond or loan by the Climate Bonds Standards and Certification Scheme (<https://www.climatebonds.net/certification>). This annual certification process will provide an external validation for investors of the transaction’s climate impact whilst the robust TSP will provide GGC’s shareholders, including GCF, of the same.
- 1.22 The development of a bankable project is typically a lengthy process, particularly if the infrastructure asset or intervention is sizable. As a guarantor, it is envisaged that GGC will be introduced to a transaction at a later stage of a project’s



development, often to assist the project achieve financial close by providing a credit guarantee to senior debt capital providers.

- 1.23 Therefore, GGC will likely not have the opportunity to influence the environment and social (“E&S”), gender, climate, and bond/loan certification of a climate project at an early stage in the project development cycle. Instead, GGC relies on having a robust TSP which will review and carry out strategic due diligence on the borrower’s existing documentation, processes, and systems to determine if they are compliant with the requirements of GGC’s Transaction Scorecard (Annex 24B). It is against this backdrop that GGC’s robust TSP has been developed and is summarised in seven (7) strategic steps (see Figure 3 below) that GGC will follow in determining whether a project meets the requisite standards. Furthermore, the TSP is a unique process that seeks to inform the selection of impactful climate projects in the absence of GGC being the project developer or sponsor. A simple illustration of the TSP and explanation of the steps is provided below (for the more detailed TSP please see Annex 24A):

Figure 3: Transaction Selection Process



- 1.24 **Step 1: Transaction Origination (1-2 weeks):** Transactions will be originated by GGC’s Origination Partners. GGC’s Origination Partners liaise with the project transaction’s borrowers to garner the latest information and documents for the project transaction.
- 1.25 **Step 2: Initial Screening (1-3 weeks):** Once an Origination Partner has introduced a transaction to DGG, as the Manager of GGC, then DGG’s Impact Team will undergo an initial screening using the screening tabs on the Transaction Selection Scorecard.
- 1.26 **Step 3: Review and Challenge (1-3 weeks):** Following a professional review of the available information and documentation, the Transaction Scorecard (Annex 24B) will be completed by DGG Impact Team. The draft Transaction Scorecard (Annex 24B) is then presented for review to the GGC Impact Committee. As set out above, three members of the GGC Board will be voting members of the GGC Impact Committee and collectively will have significant experience in climate adaptation, climate mitigation, gender and E&S. The Impact Committee will challenge the analysis and assumptions made by the DGG Impact Team to ensure there has been sufficient rigour in the various assessments’ methods, calculations, and findings. Once satisfied, the GGC Impact Committee approve the transaction to move through the formal due diligence and remediation strategy phases. GCF will also have the right to have an observer join the GGC Impact Committee to provide additional advice and support to the GGC Impact Committee in respect of the latest thinking on specific climate impact issues.
- 1.27 **Step 4: Due Diligence (2-5 weeks):** The due diligence step begins with DGG engaging an independent in-country consultant to undertake a site visit with DGG’s Impact Team and the borrower. In parallel with a physical site visit, they collectively conduct interviews with stakeholders to determine whether the submitted information provided is accurate and commensurate with aspirations and claims made in the documents. The outcome of the due diligence step will be an updated Transaction Scorecard (Annex 24B) and a detailed transaction DD report from the investment team. The report provides evidence to validate the various transaction assessments, analyses, and their underlying assumptions. Critically, it also highlights any gaps and/or meaningful deviations that have been uncovered during due diligence, which will need to be addressed by the borrower.

- 1.28 **Step 5: Remediation & Disclosure (2-5 weeks):** Where gaps and/or deviations exist, the transaction will be rejected and the borrower will be required to develop a remediation strategy that satisfactorily addresses the identified gaps/deviations. Where required, the DGG Impact Team will work with the in-country specialist consultant to assist the borrower in developing the remediation strategy. Once the remediation strategy has been developed, the borrower is required to commit to delivering on the strategy, within a pre-agreed timeframe. Where a borrower does not commit or expresses a clear reluctance to developing and/or delivering a remediation strategy, the transaction will be rejected by the DGG Impact Team. To progress, a remediation strategy must be delivered to the satisfaction of the DGG Impact Team, alongside a firm commitment by the borrower to undertake the strategy.
- 1.29 **Step 6: Monitoring & Evaluation Strategy (2-5 weeks):** The M&E Strategy must receive a clear commitment by the borrower, before it is tabled alongside the Transaction Scorecard (Annex 24B), the detailed transaction DD report, and the remediation strategy, for the GGC Impact Committee's consideration. As with the remediation strategy, where a borrower does not commit or expresses a clear reluctance to developing and/or delivering the M&E Strategy, the transaction will be rejected by the GGC investment team before it is tabled with GGC Impact Committee for consideration.
- 1.30 **Step 7: Approval (1-2 weeks):** The GGC Impact Committee, which comprises independent experts (see Section 1.26), will review the updated Transaction Scorecard (Annex 24B), detailed transaction DD report, remediation strategy and M&E Strategy provided by the DGG Impact Team. Once satisfied that the transaction is compliant with GGC's Frameworks, the GGC Impact Committee will be asked to provide its approval for the transaction to progress to the determination of a guarantee issuance. However, if the GGC Impact Committee has residual concerns regarding the elements of the transaction, then the GGC Impact Committee will be required to rewind to Step 5 (Remediation & Disclosure) and work closely with the borrower to address the concerns of GGC Impact Committee. Once the GGC Impact Committee has approved the transaction it will progress to the GGC Credit Committee that will opine on the material, financial and commercial aspects of the transaction.
- 1.31 **Importantly, the GGC Credit Committee will only approve transactions that have first been approved by the GGC Impact Committee. This means that the GGC Board members who are elected to the GGC Impact Committee (and Credit Committee), have a veto over transactions and can ensure that climate impact of the GGC's transactions, alongside gender and E&S impact, are maximised.**
- 1.32 If the GGC Credit Committee is satisfied with the financial and commercial aspects of the transaction, it will issue a formal approval to provide a guarantee on behalf of the borrower.

## B. PROJECT/PROGRAMME INFORMATION

### B.1. Climate context (max. 1000 words, approximately 2 pages)

#### Climate Change Problem

The climate change problem GGC addresses is mobilising climate financing from developed countries to developing countries to support more mitigation and adaptation projects and programmes, particularly by way of private sector investment.

- 1.33 The global scientific community is in agreement that human influence on the earth's climate is clear, and that it is unequivocal that such human influence has warmed the atmosphere, ocean, and land.<sup>4</sup> The Intergovernmental Panel on Climate Change ("IPCC"), the international standard-bearer for credible climate science, has emphasized that scale of recent changes across the climate system as a whole and the present state of many aspects of the climate system are unprecedented over many centuries to many thousands of years.<sup>5</sup> According to the IPCC, global surface temperature will continue to increase until at least the mid-century under all emissions scenarios considered, and global warming of 1.5°C and 2°C will be exceeded during the 21<sup>st</sup> century unless deep reductions in carbon dioxide ("CO<sub>2</sub>") and other greenhouse gas emissions occur in the coming decades.<sup>6</sup>
- 1.34 Thus, if countries are to heed the IPCC's warning that climate change will cause further and "long-lasting changes in all components of the climate system, increasing the likelihood of severe, pervasive, and irreversible impacts for people and ecosystems,"<sup>7</sup> all communities and nations must limit climate change through substantial and sustained reduction in greenhouse gas emissions, which – together with adaptation and strengthening of resilience – is necessary to curtail and manage climate change risks.

#### Baseline

- 1.35 Actions to limit or reduce greenhouse gas ("GHG") emissions (mitigation) and to better prepare for and respond to climate risks (adaptation) demand resources, especially financial. Estimates vary regarding what the world needs to spend to meet the Paris Agreement's 1.5°C target and what the costs of adaptation may be, ranging from USD 500 billion to a trillion annually by 2050.<sup>8</sup> According to the International Renewable Energy Agency ("IRENA"), the energy transition alone needed to secure a 1.5°C future pathway could cost USD 131 trillion from the present to 2050.<sup>9</sup> The United Nations Environment Programme ("UNEP") estimates that developing countries may require between USD 155 – 330 billion a year to spend on adaptation by 2030,<sup>10</sup> and even USD 500 billion annually by 2050.<sup>11</sup> If opportunities for investment in climate change response (both mitigation and adaptation) are optimised, this could represent an opportunity at the scale of USD 23 trillion in climate-smart investments between 2016 and 2030.<sup>12</sup>
- 1.36 In recognition of the pressing need to equip developing countries with the financial capacity required to address the threat of climate change, developed country parties to the UNFCCC pledged in 2009 to collectively mobilize at least USD 100 billion annually by 2020 to support developing member-states. To date, however, this target has remained unmet.<sup>13</sup>
- 1.37 All developing countries have expressed the need for additional international financial support to reach their country-specific GHG mitigation targets and to move to more resilient pathways based on their country specific Nationally Determined Contribution ("NDC") submissions under the Paris Agreement – as there are limited public resources to do so. As such, many have made additional commitments conditional on the availability of international funding being made available. This suggests a key role for the private sector in developed countries in making investments to help these countries meet the ambitions they set forth in their NDCs. This is particularly true of local private sector and sub-sovereign climate change efforts.

<sup>4</sup> Intergovernmental Panel on Climate Change (IPCC), Sixth Assessment Report (AR6), Working Group I – The Physical Science Basis: Headline Statements (2021). Available at [https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC\\_AR6\\_WGI\\_Headline\\_Statements.pdf](https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_Headline_Statements.pdf) (last accessed February 2022).

<sup>5</sup> IPCC (2021), *ibid*.

<sup>6</sup> IPCC (2021), *ibid*.

<sup>7</sup> Intergovernmental Panel on Climate Change (IPCC), Fifth Assessment Report (AR5) - Synthesis Report (2014). Available at <https://www.ipcc.ch/report/ar5/syr/> (last accessed February 2022).

<sup>8</sup> UN News, The Trillion Dollar Climate Finance Challenge (and Opportunity), 27 June 2021. Available at <https://news.un.org/en/story/2021/06/1094762> (last accessed February 2022).

<sup>9</sup> IRENA, World Energy Transitions Outlook: 1.5°C Pathway (2021). Available at <https://irena.org/publications/2021/Jun/-/media/E39E2962B96D489BBB65DB5112DA1F2.ashx> (last accessed February 2022).

<sup>10</sup> UNEP, Adaptation Gap Report, 2021. Available at <https://www.unep.org/resources/adaptation-gap-report-2021> (last accessed February 2022).

<sup>11</sup> UN News, The Trillion Dollar Climate Finance Challenge (and Opportunity), 27 June 2021. Available at <https://news.un.org/en/story/2021/06/1094762> (last accessed February 2022).

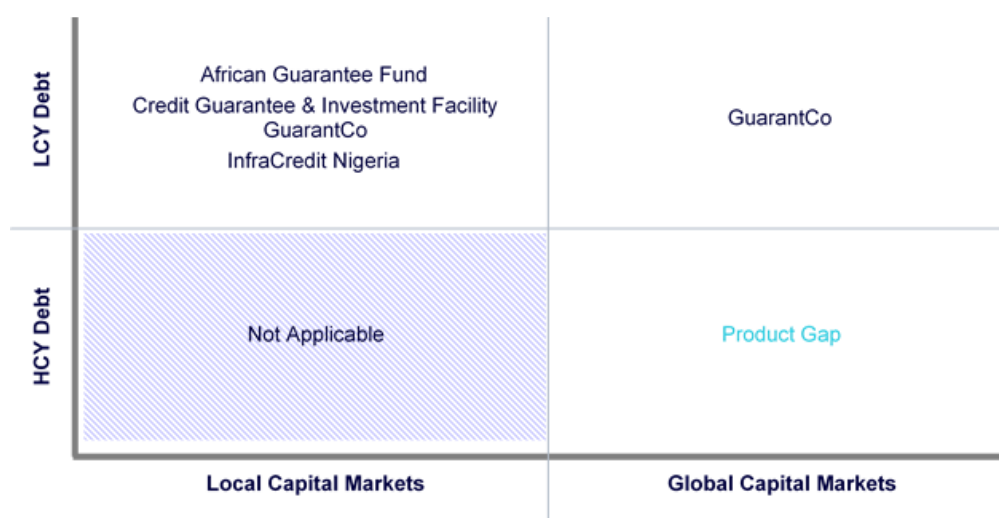
<sup>12</sup> IFC, Climate Investment Opportunities in Emerging Markets (2016). Available at [https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate\\_Investment\\_Opportunity\\_Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=IBLd6Xq](https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity_Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=IBLd6Xq) (last accessed February 2022).

<sup>13</sup> World Resources Institute, A Breakdown of Developed Countries' Public Climate Finance Contributions Towards the \$100 Billion Goal (October 2021). Available at [https://files.wri.org/d8/s3fs-public/2021-10/breakdown-developed-countries-public-climate-finance-contributions-towards-100-billion.pdf?VersionId=0luvOD5zVLLxxfRpWad\\_DyFC3Qh4sld0](https://files.wri.org/d8/s3fs-public/2021-10/breakdown-developed-countries-public-climate-finance-contributions-towards-100-billion.pdf?VersionId=0luvOD5zVLLxxfRpWad_DyFC3Qh4sld0) (last accessed February 2022).

## Proposed Intervention

- 1.38 In December 2020, the Global Financial Markets Association (“GFMA”), which represents the common interests of the world’s leading financial and capital market participants to provide a collective voice on matters that support global capital markets, commissioned and published “Climate Finance Markets and Real Economy”, a paper that focuses on providing “a roadmap for how to accelerate the evolution of climate finance”. The paper outlines a number of recommendations including that “multilaterals and development financial institutions should scale up vehicles to aggregate and deploy concessional capital in pursuit of climate-related objectives (i.e., **facilities that deploy risk guarantees**, concessionary equity or mezzanine capital, PPAs, and other mechanisms)”.
- 1.39 The GGC is a solution to this market failure and will deploy the under-used financial instrument of credit guarantees (for bonds and loans) in developing countries that face considerable shortfall of climate mitigation and adaptation finance. The GGC’s guarantees will de-risk climate change investments that would otherwise not achieve financial close, unlocking and expanding levels of private capital that are yet untapped for climate change projects and programmes in beneficiary countries.
- 1.40 As can be seen below in Figure 4, the existing dedicated guarantee providers are focused on local currency and are regional in focus. Consequently, GGC will be the **first ever** guarantee company to exist in the hard currency global capital markets focused on developing countries.

Figure 4: Market mapping of existing guarantee providers



- 1.41 Envisioned as a self-sustaining programme with no defined lifespan<sup>14</sup> (but an exit horizon for GCF within 20 years as discussed in Section B6), GGC will, at the outset, provide guarantees to investments in sectors congruent with the Green Climate Fund’s (“GCF’s”) following mitigation results areas (“MRAs”) and adaptation results areas (“ARAs”): MRA1 – energy generation and access; MRA2 – low-emission transport; MRA3 – buildings, cities, industries, and appliances; ARA2 – health, well-being, food, and water security; and ARA3 – infrastructure and built environment.
- 1.42 As such, the focus or targeting considerations for sectors, countries, types of projects (mitigation or adaptation) and project priorities should and must be broad-based, to allow for any vulnerability to be pointed to GGC to address via the issuance of green bonds or loans that deliver long term debt funding from developed countries to developing countries. Nevertheless, GGC’s limited guarantee capacity of USD 4 billion compels it to have a framework to prioritise projects that deliver significant climate impact in the relevant sectors. Hence the TSP will be guided by a Transaction Scorecard (Annex 24B), which explicitly embeds the GCF’s own investment framework into the eligibility criteria.
- 1.43 As the GGC is a global programme without specific sub-projects identified yet, detailed studies demonstrating the most likely scenario (prevailing conditions or other alternative) that would remain or continue in the absence of the proposed intervention, including baseline information and the corresponding methodologies used to derive such information, will be required for the respective feasibility studies before GGC considers supporting the sub-project. These should be aligned with GGC’s objectives as described in its Guarantee Policy (Annex 23) and with the criteria reflected in the Transaction Scorecard (Annex 24B).
- 1.44 As of October 11, 2022, we received 8 NOLs from Gabon, India, Indonesia, the Philippines, Brazil, Lao, Rwanda and Trinidad and Tobago. MUFG is in advanced discussions with several other countries, including (without limitation) Bangladesh, Egypt, Pakistan, South Africa, and Uganda. These countries, amongst others, all expressed significant interest in the GGC programme but have not been able to complete their internal sign-off processes due to COVID-19 and other

<sup>14</sup> Note that for the purposes of some calculations underpinning the funding proposal, the timeframe for the GGC’s operation was assumed, provisionally, to be 20 years. However, since the estimation of climate benefits (mitigation and adaptation) was based on indicative projects, and since the calculations are linked to the typology of the project and sector rather than a prescribed timeframe, the lifespan of the GGC is not critical to the estimations.

reasons. Nevertheless, we expect to receive NOLs from most, if not all, of these countries before the publication deadline. Additional countries may be added to the programme after initial Board approval, provided they submit an NOL, and the addition is approved by the Board.

- 1.45 As a starting point, the GGC has developed country-specific climate change analyses as part of its market studies, which identify priority sectors for climate change mitigation and adaptation interventions in each country. These are sectors and sub-sectors highlighted in the countries' most recent NDCs, and that align with the high-level status-quo review of GHG emissions and climate risks, and vulnerabilities captured in the reports. *Illustratively*, for a sample sub-set of beneficiary countries, the climate change context underpinning the GGC's approach can be summarised as follows, for mitigation and adaptation respectively:

| Country             | Hazard<br>(Through<br>2039/2040) <sup>15</sup><br><br><i>(please also refer to the full-length, individual country climate change report for each country, submitted as annexes; each report provides detail on observed and projected climate change trends and hazards)</i> | Impact (on the relevant ARA and implicated sectors)  | Potential Programme Interventions (Indicative)<br><br><i>(please also refer to adaptation transaction scorecard and the Annex with the preferred list of adaptation investments by sector)</i>   | Programme's Prioritized High-Risk Hazards <sup>16</sup> (including historic incidence) <sup>17</sup>   | Programme's High Priority Adaptation Interventions (from country NDC, linked to ARA most distinctly emphasized in the NDC)   | Potential Range of Gender-related Interventions (indicative) <sup>18</sup>                                   |  |  |  |  |
|---------------------|---|--|--|--|--|--|--|--|--|--|
|                     |   |  |  |  |  | Developing inclusive building codes and standards, and building gender-sensitive shelters for the community. | Improving access to climate infrastructure and early warning and disaster management strategies & systems. | Enabling more inclusive and efficient decision-making. | Development of gender-informed transport policies, strategies and regulations. | Provision of CSA skills upliftment for women, and unlocking bottlenecks for women's participation in rural value chains. |
| Trinidad and Tobago | Increasing trend in rising temperatures; longer heat waves; increasing rainfall variability; decrease in rainfall levels; sea-level rise; increasing frequency and intensity of tropical cyclones.  | Greater pressure on limited freshwater resources, creating risk of water stress and scarcity; greater loss and damage of infrastructure from floods, droughts, cyclones, and extreme heat. | Water storage infrastructure; water supply and reticulation systems; flood and drought control and management systems; cyclone early warning systems and climate services; water re-use and recycling mechanisms; climate-responsive urban infrastructure; | Floods (urban and riverine); cyclones; landslides; wildfires<br><br><i>Storms represent 30.77% of the country's average annual natural occurrence hazard for 1980-2020, and floods represent 23.08%.</i> | Urban flood control and management systems and structures; cyclone early warning systems and climate services.<br><br><i>(with geographic prioritization of areas identified by Trinidad and Tobago's Office of Disaster</i> | ✓  | ✓  | ✓  |  |  |

<sup>15</sup> For all countries, peer-reviewed literature synthesized includes:

- The World Bank Group's Country Climate Risk Profiles (2020 / 2021) <https://climateknowledgeportal.worldbank.org/country-profiles>
- USAID's Country Climate Risk Profiles <https://www.climateknowledgeportal.org/climate-risk-management/regional-country-risk-profiles#countries-i>
- ThinkHazard's Country Risk Profiles <https://thinkhazard.org/en/>
- The EU's INFORM Country Risk Index <https://drmc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Country-Risk-Profile>
- For countries that are covered by such reports, DRR/DRM profiles by UNDRR <http://riskprofilesundrr.org/riskprofiles/countries.html> and GFDRR <https://www.gfdr.org/en/disaster-risk-country-profiles>

- Official national government publications such as latest National Communications to the UNFCCC and updated NDCs.

<sup>16</sup> Focus is on the three top climate-driven (non geological) hazards with hazard levels identified as "very high" and/or "high" for the country by ThinkHazard (a World Bank and GFDRR resource)

<sup>17</sup> For all countries, historic disaster incidence data is sourced from the World Bank Climate Change Knowledge Portal's 'Vulnerability' section <https://climateknowledgeportal.worldbank.org>

<sup>18</sup> See Table 6 in Annex 8.1 for a more detailed framework for identifying gender interventions per sector, per country.



|        |   |  |   |  |   |   |   |   |   |  |
|--------|---|--|---|--|---|---|---|---|---|--|
|        |   |  | institutional strengthening.  | <i>In 2018 (the year with the highest number of disaster-affected population figures), an estimated 150,000 persons were affected by floods.</i>   | <i>Preparedness and Management as being at high risk and susceptibility of floods and cyclones)</i>   |   |   |   |   |  |
| Rwanda | Increasing trend in rising temperatures; increasing rainfall variability with wetter wet seasons, and an overall slight increase in precipitation; rise in heavy rainfall events and intense downpours. | Significantly increased risk of flooding as well as erosion, landslides, and landslips; more frequent and prolonged droughts, particularly in the East; damage to infrastructure due to flooding and disasters; greater pressure on limited freshwater resources, creating risk of water stress and scarcity in certain areas, especially in dry season. | Flood and drought control and management systems; resilient urban stormwater management and drainage infrastructure; Expanded early warning systems and climate services; water storage infrastructure; water supply and reticulation systems; water re-use and recycling mechanisms; climate-responsive urban infrastructure for transport and mobility. | <p>Floods (urban and riverine); cyclones; landslides; wildfires</p> <p><i>Floods represent 47.83% of the country's average annual natural occurrence hazard for 1980-2020, and landslides represent 10.87%.</i></p> <p><i>In 2020 (the year with one of the highest number of disaster-affected population figures), an estimated 22,000 persons were affected by floods. In 2016, 30,000 were affected by landslides.</i></p> | <p>Urban flood control and management systems and structures (including stormwater management and drainage); landscape-based erosion control measures; expanded early warning systems and climate services.</p> <p><i>(with geographic prioritization of areas identified by Rwanda's Ministry in charge of Emergency Management, or MINEMA, as being at high risk and susceptibility of floods and landslides)</i></p> | ✓ | ✓ | ✓ | ✓ |  |
| Laos   | Increasing trend in rising temperatures; increased frequency and intensity of heavy precipitation events; sea-level rise; increasing intensity of tropical cyclones.                                    | Increased risk of severe droughts; increased risk of river flooding along the Mekong, as well as urban flooding from heavy downpours, and coastal flooding from storm surges; greater loss   | Drought and flood control and management systems; climate-responsive urban infrastructure for transport and mobility; resilient urban stormwater management and drainage  | <p>Floods (urban and riverine); cyclones; landslides; wildfires</p> <p><i>Floods represent 47.92% of the country's average annual natural occurrence</i></p>   | Urban flood control and management systems and structures; cyclone early warning systems and climate services.  | ✓ | ✓ | ✓ | ✓ |  |

|       |  |  |   |   |  |  |  |  |  |  |
|-------|--|--|---|---|--|--|--|--|--|--|
|       |  | and damage of infrastructure from droughts, floods, cyclones, storm surges, wildfires, and extreme heat; increased cyclone risks.  | infrastructure; expanded early warning systems and climate services; cyclone shelters; institutional strengthening.                                   | <p><i>hazard for 1980-2020; storms represent 5.61% (including those caused by cyclonic activity in the region)</i></p> <p><i>In 2019 (the recent year with the highest number of disaster-affected population figures), an estimated 2 million persons were affected by storms. In 2020, 65,000 were affected by floods.</i></p>  | (with geographic prioritization of areas identified by Laos' National Disaster Management Office and National Disaster Management Committee as being at high risk and susceptibility of floods and storms)   |  |  |  |  |  |
| Gabon | Increasing trend in rising temperatures; longer heat waves; increasing rainfall variability with projected increase; sea-level rise and coastal storm surges; increasing frequency and intensity of wildfires. | Increased risk of flooding in both coastal and urban areas, plus river flooding; greater loss and damage of infrastructure from floods, coastal storm surges, and extreme heat; more damage to populations, landscapes, and settlements from wildfires | Flood and control and management measures; early warning systems and climate services; operational capacity-building and institutional strengthening. | <p>Floods (coastal, urban, and riverine); storms, extreme heat; wildfires</p> <p><i>Storms represent 23.08% of the country's average annual natural occurrence hazard for 1980-2020; floods represent 15.38%.</i></p> <p><i>In 2012 (the recent year with the highest number of disaster-affected population figures), an estimated 77,000 persons were affected by floods.</i></p> | <p>Coastal storm surge protection and embankment resilience; coastal and urban flood control management systems and structures (including stormwater management and drainage).</p> <p>(with geographic prioritization of areas identified by Gabon's National Platform for Disaster Risk Reduction as being at high risk and susceptibility of floods)</p> |  |  |  |  |  |

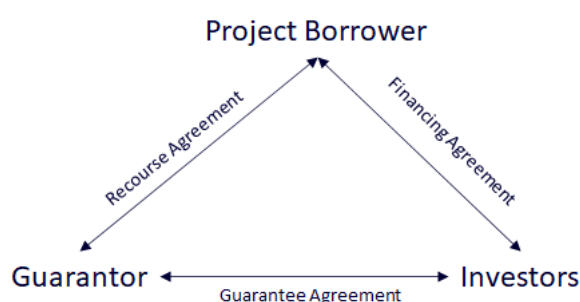


## B.2 (a). Theory of change narrative and diagram (max. 1500 words, approximately 3 pages plus diagram)

Present the theory of change (ToC) that contains a goal statement and describes how the proposed project/programme will contribute towards the goal statement by using results chain links from activities, outputs, to outcomes. By referring to the sample ToC diagram template available in the guidance note, present a ToC diagram (approximately 1 page) which visually represents the same logic in the narrative description. The ToC diagram and narrative may include a wide range of co-benefits<sup>19</sup> as applicable in the context of the project/programme. Note all co-benefits will need to be further elaborated in section D.3 (sustainable development potential) and correspondent co-benefit indicators should be provided under section E.5 (project/programme specific indicators). The theory of change should also include any relevant barriers (social, gender, fiscal, regulatory, technological, financial, ecological, institutional, etc.) that need to be addressed as well as risks and assumptions. Note that the assumptions can be elaborated further in sections E.3 (GCF outcome level: reduced emissions and increased resilience) and E.5 (project/programme specific indicators) for each relevant indicator, as appropriate.

### How GGC will issue their Guarantees:

- 1.46 Guarantees are a credit enhancement product. More technically, a guarantee is a legally binding agreement under which the guarantor agrees to pay part or all of an amount due on a loan, equity, or other instrument in the event of non-payment by the project borrower (or loss of value, in the case of investment) to an investor (also known as an issuer).
- 1.47 **As such, a typical guarantee transaction is formed via a tri-partite relationship as shown in the diagram below:**



- 1.48 To demonstrate how this works in practice, assume there is a company who wants to raise financing for a climate project that requires long-term debt from an institutional investor (such as a pension fund). The institutional investor may be concerned about the ability of the company to repay the debt due to its perception of the riskiness of the climate project or country in which the company is present. Consequently, the institutional investor is inclined to decline providing the long-term debt to the climate project unless it can be more certain that the debt will be repaid. This is where a guarantee from a reputable institution can be useful and help to address the concerns of the institutional investor by assuring them of repayment if the company and/or climate project is unable to pay.
- 1.49 Typically, the agreements that are signed when issuing a guarantee include 1) a guarantee agreement; and 2) a recourse agreement. The guarantee agreement is signed between the institutional investor and the guarantee company whilst the recourse agreement is signed between guarantee company and the borrower (being either the climate project or the company developing it). The recourse agreement ensures that if the guarantor has to pay part or all of an amount due on the debt in the event of non-payment by the borrower, the guarantor has the right to recover these amounts from the borrower.
- 1.50 Once the guarantee is issued (and the recourse agreement signed), the borrower will pay the guarantor an ongoing guarantee fee which is payable throughout the life of the guarantee, typically on a quarterly basis in advance.
- 1.51 In addition to paying a guarantee fee, the borrower may also need to adhere to financial covenants and provide relevant and up to date reports to the guarantor. This enables the guarantor to assess the likelihood of a call on the guarantee. The guarantee would be monitored by the portfolio team in the guarantee company and they will be responsible for managing the relationship with the beneficiaries of the guarantee and the borrowers.

### What happens in the event of a call? [this section covers at a high level what would happen in the event of a call on a guarantee to pay part or all of an amount due on a loan]

- 1.52 A guarantor would ensure (as part of its terms and conditions) that it is given as much notice as possible **before a call under a guarantee is made.** The call on a guarantee is initiated by the institutional investor (or an agent if there is a consortium of lenders) or bond trustees (in the event the guarantor guaranteed a bond). From an institutional investor's

<sup>19</sup> GCF categorizes co-benefits into six areas which are: environmental, social, economic, gender, adaptation (relevant for pure mitigation projects) and mitigation (relevant for pure adaptation projects). Further guidance is available in the funding proposal (FP) guidance note.

perspective, they would typically want to ensure that the underlying borrowing does not turn into a non-performing loan and therefore they would want to be paid on demand.

- 1.53 Guarantees that are on demand and irrevocable are typically paid by a guarantor as soon as they receive a demand for payment. When payments are made, however, would depend on what had been agreed at the outset. The guarantor would ask for as much notice as possible and there may be other processes to work through (e.g., remedial periods etc.) before a payment is made.
- 1.54 Through this process there is a strong investment case for private sector participation in adaptation projects and mitigation projects, as private sector actors can be incentivised to invest in adaptation activities by, inter alia, the avoidance of climate risks and the opportunities to develop new products/services and to reach new markets. **The use of guarantees is one mechanism to de-risk climate investments for the private sector, thereby encouraging the entrance of new market actors.**

***The Theory of Change is then built off of this concept:***

- 1.55 A Theory of Change is thus based on the above and encapsulates mobilising private debt capital towards climate change mitigation and adaptation projects that deliver climate change solutions and environmental benefits. The Theory of Change has been developed to stage the various outcomes the GGC aim to achieve through issuing guarantees.

***Three mechanisms the equity will be enabled:*** The equity capital received from the GCF will be enabled through three mechanisms provided by the GGC:

- 1.55.1 1) credit guarantees and associated risk management (such as active portfolio management, restructuring and recovery of paid claims);
- 1.55.2 2) financial structuring (e.g. problem-solving to bridge differing requirements of investors and borrowers); and
- 1.55.3 3) impact reporting. GGC will also seek technical assistance grants from third-parties or potentially seek to raise its own grant funded technical assistance facility to support the delivery of these mechanisms on the ground in developing countries.

***Climate and mitigation potential***

- 1.56 It is important to note that a guarantee does not in itself make an unviable project a good one. As such GGC's focus will be to identify viable climate adaptation and mitigation projects in developing countries which are not perceived as being viable by global credit and capital markets due to some level of information asymmetry. Using the three mechanisms described above, GGC's guarantee will seek to crowd-in investors and shift their understanding of the true level of risk associated with the climate project with the expectation that as investors become more educated about the risks, they will gain the confidence to invest in future climate projects in developing countries without the need for guarantees. As mentioned earlier, it is expected that the annual climate finance need in developing countries will be USD 500 billion by 2050, as such starting to educate investors in global credit and capital markets today is paramount to meeting the climate finance needs of tomorrow.
- 1.57 Indeed, a guarantee also has the potential to deliver on both direct and indirect climate outcomes for the participating countries adaptation/mitigation goals as outlined in the Nationally Determined Contributions (NDC). If GGC receives equity to operationalise and issue guarantees, participating countries will have reduced barriers (including investors' low risk appetite, investors' interest in large-scale projects only, and a lack of policy incentives (Climate Policy Initiative, 2021) to invest in climate mitigation and adaptation interventions. With decreased barriers to receive investment for the interventions, participating countries will have access to cost-efficient technologies, projects/programmes geared to increase resilience and the adaptive capacity of communities in the project region and mitigation interventions tailored to reduced GHG emissions. While there are facilities providing guarantees, they aim to mobilise finance from local capital markets whereas GGC's novel approach intends to unlock finance from global capital markets. There is thus a growing demand for climate finance guarantees, GGC aims to fill this significant to scale the private sector investment needed to prepare and implement much needed climate related project/programmes.
- 1.58 Through its guarantee, GGC indirectly aims to reduce climate vulnerabilities for beneficiaries by guaranteeing projects with an adaptation or mitigation impact potential that will amount to a paradigm shift in the participating countries. An example project which illustrates such benefits is shown below:

| # | Project Example & Sector  | Climate Adaptation or Mitigation Potential or benefit   | GGC Guarantee Additionality Potential  | Additional Co-Benefits   |
|---|---|---|--|--|
| 1 | <p><b>INDONESIA:</b> The example project aims to improve access to finance to finance climate-smart projects geared to improving access to transport. Building on IFC's successful effort on investing in Indonesia's first non-sovereign green bond, the Project is expected to further deepen the climate finance market and encourage other financial institutions to replicate the issuance of green financing instruments. Further, the Program is expected to reinforce market standards in line with international green lending principles.</p> | <p>The project will contribute to the overall reduction in the GHG emission in the transport sector</p> <p>In the transport sector, support for clean fuels and improved public transport</p> <p>Decarbonizing transport into urban areas by switching to lower-carbon fuels and improving vehicle efficiency</p> <p>Reducing pollutants and CO<sub>2</sub> emissions caused by burning fossil fuels</p> <p>Reducing major air pollutants like NO<sub>x</sub>, SO<sub>2</sub>, PM<sub>2.5</sub>, and other pollutants, providing health benefits</p> <p>Reducing reliance on imported fossil fuels, thereby improving energy security</p> | <p>GGC would support the development of a climate smart finance market in Indonesia</p> <p>Knowledge sharing and capacity building through technical assistance provided</p> <p>Unlock funding to global capital market that couldn't be secured through the local market</p> <p>In addition, GGC and the issuer would also support the structuring of the privately placed debt instrument to finance projects that are in compliance with Global Green Bond Principles and Social Bond Framework, a new financial instrument</p> | <p>Contribution to Market Creation Inclusiveness</p> <p>The project would support improvement of access to finance for women owned SME and expected to demonstrate to other market participants the viability of differentiated financial products for the benefit.</p> <p>Technological innovation</p> <p>Transition to a low carbon economy</p> <p>Demonstratable new business model for mitigating negative environment impacts by applying renewables into the auto industry</p> <p>Opportunity to reduce the running cost of vehicles, improving the accessibility of transport</p> |

**Capacity building, training, and knowledge generation:**

- 1.59 GGC will work with Origination Partners (see Annex 23 for key characteristics/capabilities) to identify and build a pipeline of transactions that are aligned with the eligibility criteria in the GGC Guarantee Policy (Annex 23) and using the TSP (Annex 24A) and Transaction Scorecard (Annex 24B) to ensure that climate impact is both prioritised and maximised.
- 1.60 GGC will also be able to support Origination Partners and Borrowers in developing countries with its own internal expertise in climate impact and financial structuring (i.e., problem-solving to bring the requirements of investors and Borrowers closer together) and use its global nature to share best practice in terms of overcoming the challenges that are experienced by climate projects between different countries and global capital markets. Indeed, GGC's unique global nature positions it well to become in time a centre of expertise for climate finance solutions across developing countries. Certainly, it is core to GGC's mission to become an advocate and voice for developing countries seeking a more equitable share of the climate finance available in global credit and capital markets. The fact that GGC can also "put its money where its mouth is" by risk-sharing with investors through its guarantees will bestow credibility with global credit and capital markets.
- 1.61 The main activities of GGC will include working with Origination Partners (see Annex 23 for key characteristics/capabilities) to identify and build a pipeline of transactions that are aligned with the eligibility criteria in the GGC Guarantee Policy (Annex 23) and using the TSP (Annex 24A) and Transaction Scorecard (Annex 24B) to ensure that climate impact is both prioritised and maximised. GGC will invest in the capacity building for the Origination Partners which will emphasise key components of GGC's Guarantee Policy and Transaction Scorecard.

- 1.62 As mentioned above, knowledge generation and education of investors in global credit and capital markets is the overarching sustainable impact that GGC expects to deliver through its activities. Thus, a key element of GGC's value proposition (but not funded out of GCF's equity which will be used solely for supporting the creation of a portfolio of guarantees) will be the use of a digital platform (e.g., [www.esgbook.com](http://www.esgbook.com)) that will help borrowers and investors communicate more transparently about the performance of both the borrower and the underlying projects supported. This database of climate projects in developing countries will expand the body of data available for global investors to be better informed about their performance shift their risk appetite.
- 1.63 GGC will also require that all the bonds and loans it guarantees are certified by the Climate Bonds Standard and Certification Scheme ("Scheme"). The Scheme has a two-stage certification process with a pre- and post-issuance step that involves an independent Approved Verifier that has been accredited by the Climate Bonds Initiative, the owner of the Scheme. A comparative analysis of the Scheme versus other standards available in the global green finance market is provided in Annex 28.
- 1.64 Recognising that borrowers may be willing to meet the reporting requirements of GGC but simply lack the capacity to do so, GGC will seek to work with borrowers, using in-country consultants where necessary, to help them implement the necessary gender, environmental and social, and climate assessments, action plans and reporting frameworks. The data generated by these monitoring and reporting tools will also be aggregated on the digital platform thereby allowing GGC to track its own performance in respect to building a portfolio which promotes clear gender, environmental and social and climate parameters. This information then feeds into the annual review of GGC's Transaction Scorecard (Annex 24B) and Guarantee Policy (Annex 23) enabling a process of continuous incremental improvement.

Figure 5: Theory of Change



- 1.65 Research by the International Finance Corporation and Amundi Asset Management identifies the following as being the key barriers to greater investment being mobilised from the global green finance market into developing countries.

*Table 1: Key Barriers to green bond and loan issuance from developing countries*

| Market barrier            | Description  |
|---------------------------|--|
| <b>Transparency</b>       | The limited capacity of borrowers in developing countries to provide reporting to identify, measure, and track green investment which meet global market standards.  |
| <b>Supply constraints</b> | Limited availability of labelled green assets and a pipeline of green projects of scale.   |
| <b>Capacity</b>           | Lack of awareness and know-how of developing country borrowers and investors about issuing and investing in green products.  |
| <b>Stability</b>          | Negative perception of investors in global credit and capital markets of the overall macroeconomic and policy instability of developing countries  |
| <b>Liquidity</b>          | In combination the above four barriers create information asymmetry between borrowers and investors which reduce market appetite and thus liquidity for green bonds and loans issued from developing countries. This consequently impacts the issuance frequency of such bonds and loans curtailing their potential to be an asset class within investors' portfolios. |

Source: IFC, Bloomberg, Environmental, Finance, Climate Bonds Initiative

- 1.66 The market barriers identified above combine to erode confidence and disincentivise investors in global credit and capital markets, diminishing their consideration of developing countries a viable investment destination. Confidence is an essential ingredient for building and transforming markets and in its absence a void form between the institutional capital in global credit and capital markets and developing countries. A proven solution to address this absence of confidence is to use credit enhancement to help investors in global credit and capital markets to overcome the barriers and bridge the void that keeps institutional capital from reaching the developing world. Credit enhancement refers to the use of credit enhancement products (e.g., guarantees) or credit enhancement techniques (e.g., over-collateralisation) which results in the improvement of the credit rating of a capital markets instrument (e.g., a bond). In simple words, if a bond was issued by an entity with a BB credit rating, it can use credit enhancement products and/or techniques to increase its credit rating to BBB- (the threshold investment grade credit rating) or better. The link below provides an example of how Assured Guaranty, a guarantor of bonds issued in developed countries, has provided credit enhancement to a solar project in Spain taking its project credit rating from BBB to AA by providing a guarantee for its bond.
- 1.67 Table 2 below provides an overview of how GGC will help address the market barriers identified in Section 1.65.

*Table 2: How GGC will address market barriers between global credit and capital markets and developing countries*

| Market Barrier:     | Transparency  |
|---------------------|---|
| <b>Description</b>  |   |
| <b>GGC Solution</b> | <p>GGC will become a risk-sharing partner for investors by providing them with a total investment proposition better suited to their investment appetite and drive quality reporting on the financial performance and impact of the borrower or the underlying projects to help address information asymmetry and build confidence.</p> <p>Additionally, a key element of GGC's value proposition will be the use of a digital platform that will help borrowers and investors communicate more transparently about performance of both the borrower and the underlying projects supported. This database of climate projects in developing countries will expand the body of data available for performance and shift their risk appetite.</p> |



**Market Barrier: Supply Constraints**

**Description** Limited availability of labelled green assets and a pipeline of green projects of scale.

**GGC Solution** Just by existing GGC creates an incentive for strong borrowers to consider developing green projects in their countries which they may have not previously thought they could access funding for. Section 4 of this document provides an indicative pipeline sourced from arrangers of transactions in developing countries which highlights USD 2 billion of immediate guarantee opportunity for GGC. Once GGC is operational and creating demonstration effect by closing transactions it is expected that this will generate confidence amongst developers of green projects to build more pipeline. The sponsors of DGG have seen this effect occur in local capital markets through their past work via GuarantCo and CGIF.

Using guarantees to mitigate barriers (risk appetite and pricing) to financial close of an issuance in developed markets, GGC can build and deliver a pipeline of guaranteed transactions to turn green bonds from developing country borrowers into a commoditised asset class leading to scale as opposed to ad-hoc opportunistic issuances. GGC will also work with arrangers to guarantee warehouses of green loans to smaller projects which might not have the scale to issue green bonds and once a critical mass has been achieved to refinance these portfolios via the global capital markets through green securitisations.

**Market Barrier: Capacity**

**Description** Lack of awareness and know-how of developing country borrowers and investors about issuing and investing in green products.

**GGC Solution** GGC will work with borrowers in developing countries to help them build the necessary assessment and reporting frameworks and their capacity to engage constructively with investors in global capital markets.

Additionally, GGC will use its guarantee to help investors in the City of London to better understand the risk profile of borrowers so that they better understand the risk profile of a borrower and thereby adjust their risk vs reward perception of investing in developing countries over time. The presence of frequency of primary issuance combined with scale will allow for secondary trading activity which results in propagation of capacity amongst a wider pool of investors in global capital markets.

**Market Barrier: Stability**

**Description** Negative perception of Green Bond investors in developed markets of the overall macroeconomic and policy instability of developing countries.

**GGC Solution** GGC will obtain an international credit rating from at least one of the international credit rating agencies and use its guarantees to provide investors with greater confidence that they will be protected from the perceived greater risk and volatility associated with borrowers from developing countries.

**Market Barrier: Liquidity**

**Description** In combination the above four barriers create information asymmetry between borrowers and investors which reduce market appetite and thus liquidity for Green Bonds issued from developing countries. This consequently impacts the issuance frequency of such bonds curtailing their potential to be an asset class within Green Bond investors' portfolios.

**GGC Solution** GGC will provide guarantees of up to USD 200 million per issuance and build a USD 4 billion portfolio to help create more investment opportunities of scale for investors in the global capital markets. The presence of frequency of primary issuance combined with scale will allow for secondary trading activity which results in propagation of capacity amongst a wider pool of investors in the City of London thereby leading to increased issuance from developing countries and creating a virtuous circle from a liquidity perspective.

The additionality of guarantees lies in their unparalleled ability to build the capacity of global investors to overcome information asymmetry and for them to invest in future green bonds from developing countries without the need for credit enhancement.



- 1.68 An example of this additionality is seen in the case of InfraCredit Nigeria who guaranteed three infrastructure bonds in the energy sector in Nigeria between 2017 and 2019. These bonds had been guaranteed 100% to achieve the AAA rating that initially risk averse Nigerian institutional investors required to invest. In 2020 an energy company issued an infrastructure bond without any guarantee from InfraCredit, and which was consequently rated BBB, significantly lower than AAA. The bond was over-subscribed by 25% including many of the same institutional investors in the first three guaranteed energy infrastructure bonds. These investors now had the confidence to take more risk and receive a higher coupon. In 2021 one of the borrowers who had used InfraCredit to wrap their first bond issued a second bond without a guarantee, also rated BBB, and also achieved an oversubscription. This level of market transformation was achieved in just three years, and it is the ambition of GGC to achieve similar market transformation in global credit and capital markets.

### B.2 (b). Outcome mapping to GCF results areas and co-benefit categorization

Fill in the GCF results area table below to map each project/programme outcome identified in section B.2(a) to the contributing GCF results area(s) by referring to the description of eight results areas provided in the guidance note.

| Outcome number  | GCF Mitigation Results Area (MRA 1-4) |                                     |   |                                | GCF Adaptation Results Area (ARA 1-4)           |  |   |  |
|---|---------------------------------------|-------------------------------------|---|--------------------------------|---|--|---|--|
|   | MRA 1<br>Energy generation and access | MRA 2<br>Low-emission transport     | MRA 3<br>Building, cities, industries, appliances | MRA 4<br>Forestry and land use | ARA 1<br>Most vulnerable people and communities | ARA 2<br>Health, well-being, food and water security | ARA 3<br>Infrastructure and built environment | ARA 4<br>Ecosystems and ecosystem services |
| Outcome 1: Mitigation                                   | <input checked="" type="checkbox"/>   | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/>               | <input type="checkbox"/>       | <input type="checkbox"/>                        | <input type="checkbox"/>                             | <input type="checkbox"/>                      | <input type="checkbox"/>                   |
| Outcome 2: Adaptation                                   | <input type="checkbox"/>              | <input type="checkbox"/>            | <input type="checkbox"/>                          | <input type="checkbox"/>       | <input type="checkbox"/>                        | <input checked="" type="checkbox"/>                  | <input checked="" type="checkbox"/>           | <input type="checkbox"/>                   |
| Outcome 3: Enabling environment (market transformation) | <input checked="" type="checkbox"/>   | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/>               | <input type="checkbox"/>       | <input type="checkbox"/>                        | <input checked="" type="checkbox"/>                  | <input checked="" type="checkbox"/>           | <input type="checkbox"/>                   |
| Outcome 4: Enabling environment (knowledge)             | <input checked="" type="checkbox"/>   | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/>               | <input type="checkbox"/>       | <input type="checkbox"/>                        | <input checked="" type="checkbox"/>                  | <input checked="" type="checkbox"/>           | <input type="checkbox"/>                   |

If any co-benefits have been identified in section B.2(a), fill in the Co-benefit table below to map each co-benefit to the corresponding category as defined in the FP guidance note.

| Co-benefit number  | Co-benefit                          |
|--|-------------------------------------|
|  | Environmental                       |
| Co-benefit 1: reduction in air pollution   | <input checked="" type="checkbox"/> |
| Co-benefit 2: reduction in exposure to natural resources to threats and health impacts | <input checked="" type="checkbox"/> |

### B.3. Project/programme description (max. 2500 words, approximately 5 pages)

Define the project/programme.

Describe the proposed set of components, outputs and activities that lead to the expected Fund-level impact and outcome results. Components should reflect the project/programme level outcomes.

This should be consistent with the financing by component in section C.2, the results and performance indicators provided in section E.5, and the implementation timetable in annex 5.

- 1.69 To address the climate financing gap explained above, GGC will be established as the world's first specialist green guarantor to deliver private sector climate financing from developed countries to climate projects in developing countries.

*Table 4: GGC will be established based on the following design principles*

| Design Principle   | Description  |
|--|--|
| <b>Cross-cutting support as a programme with scale</b>                           | Instead of focusing on a limited number or certain types of projects, GGC is designed to support various types of projects for both mitigation and adaptation purposes on a global basis and once established can deliver sizable scale to build a portfolio of USD 4 billion. |
| <b>Multi-jurisdictional and anticipated wide coverage of countries</b>           | GGC to support the highest of the respective countries' climate priorities (with NDA inputs) with the greatest climate impact by selecting from a large pool of projects seeking offshore funding assistance.  |
| <b>Improved financing terms</b>  | Delivery of lower "all in" interest costs at fixed rates for long term funding of 10 to 20 years unmatched by other financing modalities or sources for most projects in developing countries.   |
| <b>Seeking to make projects bankable instead searching for bankable projects</b> | Combining project and credit structuring capabilities to make projects viable for guarantee GGC aims to be seen as a credible partner, capable of delivering high additionality to the climate financing space, in both developing countries and global capital markets.       |
| <b>Support capacity to implement, monitor and report on Climate Impact</b>       | GGC aims to drive the standards and quality of assessment and reporting of KPIs via a digital platform, supporting developing country borrowers meet developed market investors' standards.  |
| <b>Inclusive support for smaller projects of high priority</b>                   | GGC will look to support smaller countries (including Small Island Nations) to access global credit and capital markets by exploring aggregation structures and vehicles that can help create the scale required.  |

## **Component 1 – Equity Investment**

### **1.70 Activity 1.1 – Formation and capitalisation of Green Guarantee Company Limited**

GGC has been incorporated as a legal entity which can provide guarantees to institutional investors in global credit and capital markets. GGC has been formed as a private limited company in England and will be eventually capitalised with USD 270 million of equity. The equity will be raised in two tranches with an initial tranche of USD 100 million raised to enable GGC to commence operations and the second tranche of USD 170 million raised within 36 months to support GGC's growth. DGG will be the manager of GGC (running the day-to-day operations of GGC) and there will be a management agreement between GGC and DGG which outlines the services that will be provided by the latter party and on what terms (the "GGC Management Agreement").

### **1.71 Sub-Activities:**

- 1.1.1 Ensure GGC is compliant with all necessary legal and tax filings
- 1.1.2 Procure legal services
- 1.1.3 Develop and negotiate GGC equity documentation and management agreement with DGG.
- 1.1.4 Close GCF, Foreign, Commonwealth & Development Office ("FCDO") into first tranche of equity for GGC.
- 1.1.5 Close management agreement between GGC and DGG.

### **1.72 Indicators:**

- 1.1.1 GGC incorporated
- 1.1.2 Number of proposals for legal services received
- 1.1.3 GGC incorporated and investment ready.
- 1.1.4 Financial close achieved with GCF and FCDO funding the first tranche of equity for GGC.
- 1.1.5 Execute management agreement between GGC and DGG.

**1.73 Activity 1.2 – Secure investment grade credit rating for Green Guarantee Company Limited**

To be able to play its role as a guarantor and to credit enhance the debt instruments issued by Borrowers from developing countries it will be necessary for GGC to have obtained an investment grade credit rating from one of the three international credit rating agencies, Fitch, Moody's or Standard and Poor's. This investment grade credit rating will provide institutional investors in global credit and capital markets with the assurance that GGC is a creditworthy counterparty on whose guarantees they can rely.

**1.74 Sub-Activities:**

1.2.1 Procure (annually) credit rating service from one or more of the international credit rating agencies.

**1.75 Indicators:**

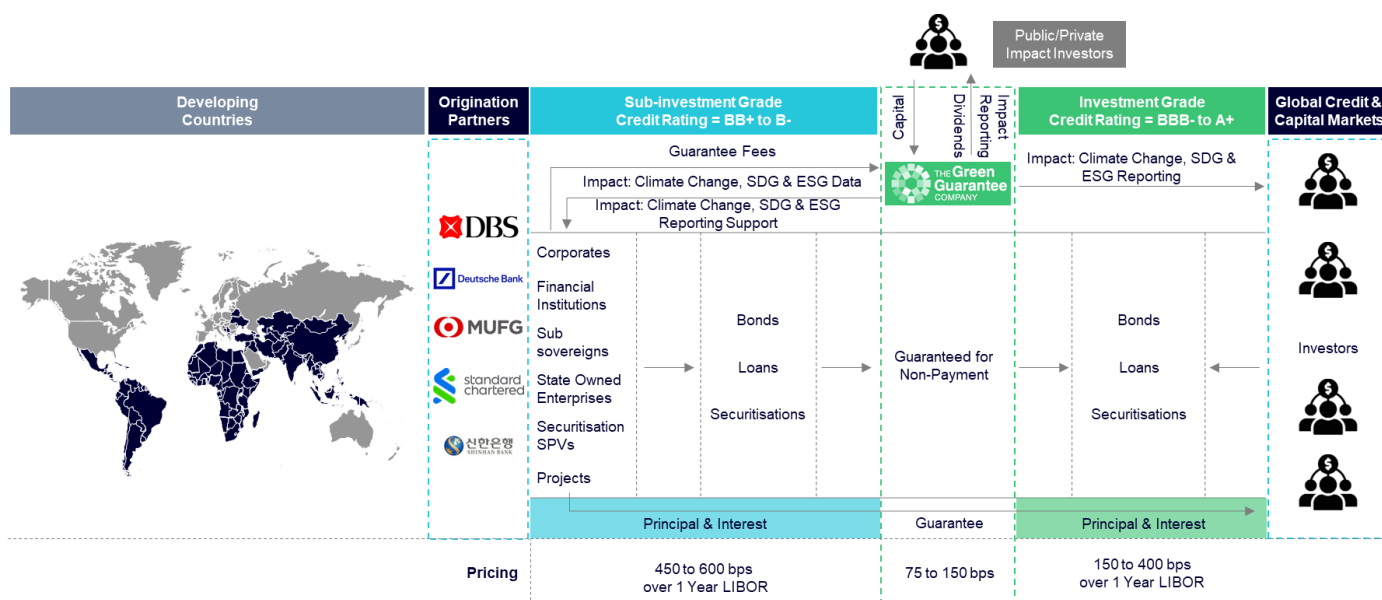
1.2.1 Secure investment grade credit rating.

**1.76 Activity 1.3 – Identify, execute and financially structure guarantees that mobilise institutional capital in global credit and capital markets to fund climate mitigation and adaptation projects in developing countries.**

GGC expects to leverage (as explained earlier in section 1.13) the first tranche of USD 100 million of equity capital provided by GCF (USD 40 million), FCDO (USD 40 million) and at least one other investor (USD 20 million) by 10x to create an initial guarantee capacity of USD 1 billion.

GGC will then undertake the activities outlined in the diagram below to work with origination partners to identify climate mitigation and adaptation projects which are aligned with the initial eligibility criteria set out in Annex 23 (the "Initial Eligibility Criteria") which will be finalised prior to the first disbursement under FAA and which shall be consistent with the Initial Criteria (the "Eligibility Criteria") and will approve, provide financial structuring support, and execute transactions in accordance with the Transaction Selection Process (Annex 24A). GGC will only enter into guarantee transactions for Eligible Debt Instruments (as defined in the GGC Guarantee Policy). Each Eligible Debt Instrument may contain one or multiple Eligible Climate Projects (as defined in the GGC Guarantee Policy) (or "Sub-Projects").

Figure 6: How GGC will work



**1.77 Sub-Activities:**

1.3.1 Build network of Origination Partners

1.3.2 Provide financial structuring support to Origination Partners and Borrowers to build a pipeline of potential guarantee transactions which are aligned with the GGC Guarantee Policy (and in line with the Transaction Selection Process designed to optimize climate change benefits)

1.3.3 Progress transactions through the GGC guarantee process as outlined in the GGC Guarantee Policy

1.3.4 Execute transactions

**1.78 Indicators:**

- 1.3.1 Number of partnership agreements signed with Origination Partners
- 1.3.2 Number of transactions screened and submitted for review by the GGC Impact and Credit Committees
- 1.3.3 Number of transactions which are approved by the GGC Impact and Credit Committees
- 1.3.4 Number of guarantees issued

**1.79 Activity 1.4 – Manage and report on portfolio of guarantees for risk management, performance, and impact.**

GGC will actively manage the credit risk of the portfolio of guarantees seeking to proactively take action to support Borrowers that are at risk of a potential payment default by facilitating communication with investors and arranging a restructuring of the debt obligation to avoid a payment default and if unavoidable paying any claim under the guarantee and taking steps to recover GGC's capital from the Borrower.

GGC will work with Borrowers in developing countries, where needed mobilising technical assistance grants from third parties (and potentially from a dedicated technical assistance grant facility within GGC) to help them build their own capacity and capabilities to report on the performance, ESG and climate impact of their mitigation and adaptation projects.

Over the life of a guarantee, GGC will also drive the monitoring and reporting of ESG and climate impact KPIs to investors and its shareholders at both a transaction and portfolio level. A key element of GGC's value proposition will be the use of a digital platform (e.g. GGC will also become a vocal and visible advocate for developing countries in global credit and capital markets using its ability to share risk with investors to become a thought-leader and influencer in this space and seek to partner with the Climate Bond Initiative, whose Climate Bonds Standards and Certification Scheme will be used to certify all the debt instruments that GGC guarantees.

In combination these activities will help build greater understanding and capacity amongst institutional investors in global credit and capital markets to understand the actual level of risk associated with climate mitigation and adaptation projects in developing countries thereby increasing their risk appetite and their capacity to provide greater volumes of climate finance without the need for guarantees.

**1.80 Sub-Activities:**

1.4.1 Provide active risk management of guarantee portfolio including guarantee claim payment, restructuring and claim recovery by GGC entering into a recourse agreement with the borrower which creates an obligation for the borrower to repay GGC any payments made on its behalf under claims on the guarantee.

Where a borrower is in financial difficulty this can involve GGC participating in a restructuring of the business to ensure its interests are protected and getting repaid over a longer period of time.

- 1.4.2 Provide support to borrowers to develop impact reporting frameworks and where needed mobilise technical assistance grants from third parties to enable capacity-building for borrowers
- 1.4.3 Regularly monitor and prepare reporting documentation on performance, ESG and climate KPIs of borrowers
- 1.4.4 Advocate publicly at industry events, conferences and thought leadership initiatives for global credit and capital markets to provide greater climate finance to developing countries
- 1.4.5 Identify sources of technical assistance funding to support Borrowers in accessing global credit and capital markets

**1.81 Indicators:**

- 1.4.1 No indicator
- 1.4.2 Number of Borrowers onboarded on to digital reporting platform and achieving reporting KPIs
- 1.4.3 Number of invitations to participate in industry events, conferences and thought leadership initiatives
- 1.4.4 Number of technical assistance donors/providers committed to support Borrowers

**1.82 Activity 1.5 – Establish commercial viability of GGC and facilitate exit for GCF and FCDO**

GGC's activities in Activity 1.3 and Activity 1.4 are directed towards generating a return on equity that would be attractive to private sector investors to facilitate an exit for anchor investors (which include GCF and FCDO) via either a listing the shares of GGC on a public market or via a sale to a private sector third party. The ability to access larger pools of equity capital from private investors is going to be essential for GGC's ability to scale its activities and accelerate the paradigm shift in global credit and capital markets to increase flows of climate finance into developing countries.

**1.83 Sub-Activities:**

- 1.5.1 Assess and develop an exit strategy for anchor investors (which include GCF and FCDO)
- 1.5.2 Execute exit strategy

**1.84 Indicators:**

- 1.5.1 Listing of GGC by Year 5 of operations
- 1.5.2 Exit for GCF and FCDO by Year 10 of operations (please see Section B6)

*Referring to the feasibility study, describe why this set of interventions was selected instead of alternative solutions and how the project/programme can help unlock the needed support in a sustainable manner. Also identify trade-offs of the selected interventions, if applicable.*

1.85 It is noteworthy to point out that, the green bond and loan issuance process is consistent with the existing practices of the markets and save for the introduction of a guarantor promising to pay when the borrower does not, the delivery of climate financing from investors in developed countries into developing countries will be based on established market mechanisms without any need for any other invention or intervention. In 2019 a market study commissioned by the United Kingdom's Department for International Development ("DFID") and carried out by the international development consultancy, Palladium, titled "Barriers to Investment in Emerging and Frontier Markets for Institutional Investors" identified the same barriers discussed earlier in Section 1.65 of this Funding Proposal and consequently led FCDO (the successor to DFID) to launch a competition called MOBILIST in 2021 focused on mobilising public markets to catalyse new scalable and replicable financial products that support the Global Goals and net-zero transition. GGC was submitted as an idea to MOBILIST and was selected as a finalist (<https://www.ukmobilist.com/press-release/>) with the fundraising process for GGC being launched at COP26. GGC's ability to be sustainable is also founded on the sizable demand or opportunity for GGC to provide guarantees and economics of the guarantee fees it can earn relative to the risks of the underlying projects that it guarantees. Detailed analysis points to the following findings on GGC's sustainability.

- There is a large opportunity for targeted climate project segments across the developing countries totaling hundreds of USD billions which is large multiples of GGC's targeted portfolio size of USD 4 billion
- The correlation of the green bond and loan issuances in the past to countries with higher sovereign ratings; point to large scope for GGC to support projects from many developing countries which are below investment grade and due to higher debts levels post Covid, are likely to remain non-investment grade
- Notwithstanding the non-investment grade ratings of the sovereigns, the risk of supporting infrastructure projects as well as green infrastructure projects have been statistically proven to be lower than comparable ratings from other asset classes like corporate lending. Moody's studies show that project finance ratings cross a 10-year horizon (with most infrastructure debt being 15 to 20 years in tenor) exhibit real default rates in Africa and Asia that are below the threshold to be rated "A" or investment grade by Moody's. GGC's guarantee fees are expected to cover any anticipated losses as well as deliver commercial returns.

1.86 A possible trade-off of GGC's intervention is that the projects will not be funded indigenously by local capital and its respective financial sectors, perhaps at the outset. However as explained in Section 1.8 there is presently insufficient liquidity in most local capital markets to fund the climate finance gap, therefore global credit and capital markets need to be incentivised to provide solutions.

*For Enhanced Direct Access (EDA) proposals and projects/programmes with financial intermediation (loans or on-granting), describe the selection criteria of the sub-project and types.*

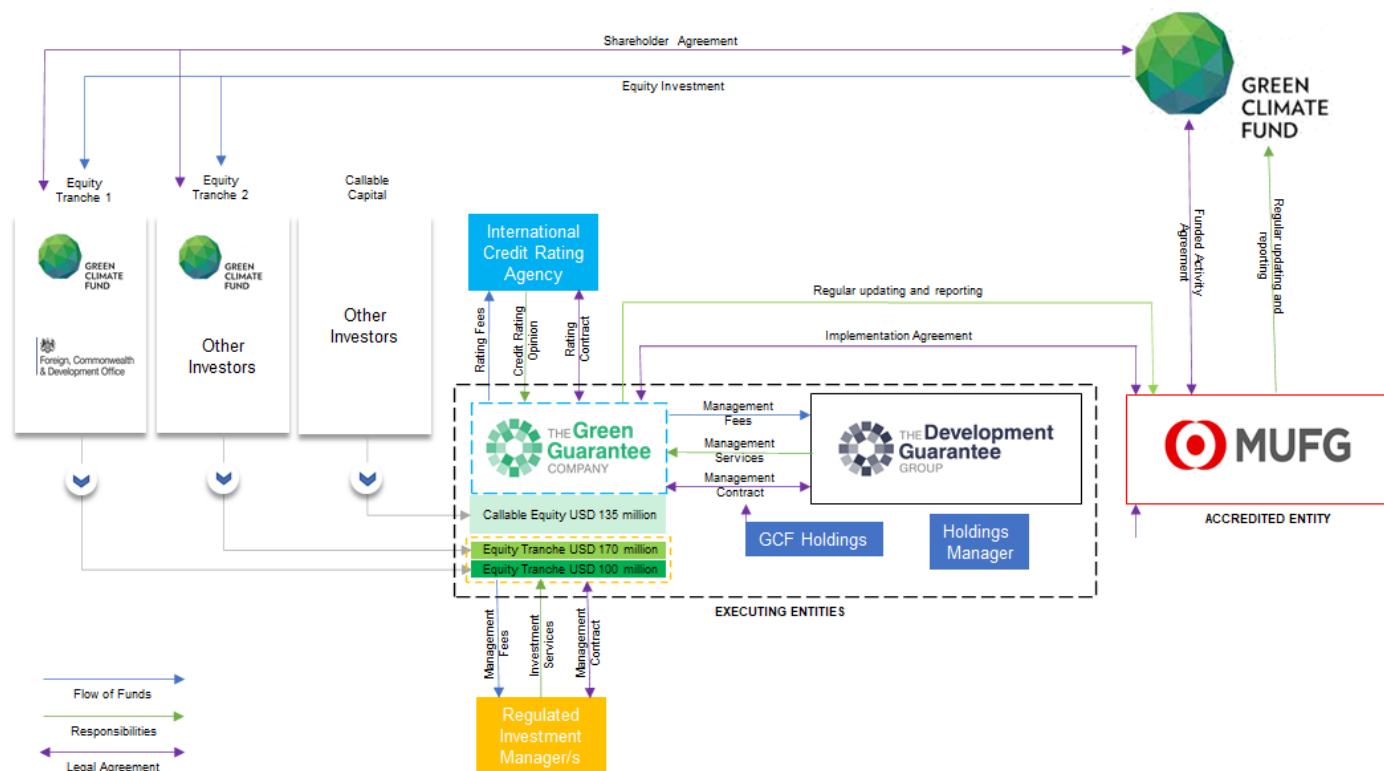
**B.4. Implementation arrangements (max. 1500 words, approximately 3 pages plus diagrams)**

*Provide a description of the project/programme implementation structure, outlining legal, contractual, institutional, and financial arrangements from and between the GCF, the Accredited Entity (AE) and/or the Executing Entity(ies) (EE) or any third parties (if applicable) and beneficiaries.*

- Provide information on governance arrangements (supervisory boards, consultative groups among others) set to oversee and guide project implementation. Provide a composition of the decision-making body and oversight function, particularly for Enhanced Direct Access (EDA) proposals.
- Provide information on the financial flows and implementation arrangements (legal and contractual) between the AE and the EE, between the EE or any third party and beneficiaries. For EEs that will administer GCF funds, indicate if a Capacity Assessment has been carried out. Where applicable, summarize the results of the assessment.
- Describe the experience and track record of the AE and EEs with respect to the activities (sector and country/region) that they are expected to undertake in the proposed project/programme.

Provide a diagram(s) or organogram(s) that maps such arrangements including the governance structure, legal arrangements, and the flow and reflow of funds between entities.

Figure 7: Implementation Structure



## Key Implementation Entities

### 1.87 Accredited Entity (AE)

MUFG Bank ("MUFG") - MUFG Bank, formerly the Bank of Tokyo-Mitsubishi UFJ, Ltd., is an international private-sector entity headquartered in Japan. As one of the largest commercial banks in Japan. MUFG Bank provides comprehensive financial services and products globally through a variety of financial instruments. It has funded sustainable development and climate projects with a focus on renewable energy, including hydropower, geothermal, solar power and wind, and infrastructure including railways, with a goal to contribute towards solving social issues through core financial businesses, as well as realising a sustainable society. MUFG has two GCF-funded projects; FP115 and FP128.

MUFG, as AE will oversee and monitor the project implementation and will ensure project compliance with MUFG's own relevant policies as well as from the perspectives of GCF's interest in the project. MUFG will execute a subsidiary agreement (Implementation Agreement) with EE (DGG, GGC, GCF Holdings and GCF Holdings Manager) and this agreement passes down the GCF requirements to EE. By the legal arrangements, AE will make sure that EE will be responsible for the obligations which the AE has under the Accredited Master Agreement and the Funded Activity Agreement. GCF Holdings will sign shareholder's agreement. Besides, MUFG plans to appoint its employee to a Board of Director of GGC. MUFG as an AE can directly receive information only relevant to shareholders and review the information and report it to GCF. In addition to a Board of Director role, MUFG will try to get involved in the project such as by capturing more substantive information related to GGC's operation. First, MUFG's Emerging Market team based in London would be an Originating Partner of GGC. This team will present potential projects to GGC and if such project is awarded, the team will act as a bond originator. Also, MUFG is in discussion with its affiliate company to become the third-party investment managers of GGC subject to a procurement process. MUFG will receive GCF fund in an existing GCF Bank Account which has been established in MUFG's Head Office in Tokyo. The GCF Account will be jointly used with other GCF-funded projects.



In order for GCF not to be a direct shareholder of GGC, MUFG will incorporate a special purpose company (GCF Holdings) along with Holdings Manager. GCF Holdings as well as Holdings Manager will be EE. Holdings Manager will be selected from administrative perspectives. GCF Holdings will open a bank account .

#### 1.88 **Executing Entities (EE):**

DGG was founded by Boo Hock Khoo, Dale Petrie and Lasitha Perera and Cardano Development BV ("CD"), a Netherlands based foundation and fund manager focused on frontier markets, thereby uniting the collective experience of a global network of experts in setting up and running guarantee companies and programmes focused on addressing development challenges globally.

CD is the manager for several existing specialist guarantors focused on emerging markets such as GuarantCo and Frontclear, as well as developing new specialist guarantors, such as Agri3 and Octobre. CD will be involved in the governance of both DGG and GGC, with subject matter experts from across the CD group being available to support the activities of GGC and to participate in its operations. A key strength of CD is its risk management expertise, both from a financial and a governance perspective which is why it is trusted by multiple donors and development finance institutions globally, and has over USD 3 billion of capital under management. CD will be an active rather than passive shareholder in DGG and will be involved in the management of GGC including ensuring continuity in terms of management personnel. CD frequently creates independent management companies to house the teams of different initiatives that it is supporting and as such DGG represents the CD management company for GGC.

Boo Hock used to be Vice President, Operations, at the Credit Guarantee & Investment Facility ("CGIF") a guarantor set up under the auspices of the Asian Development Bank and was previously Deputy CEO of Danajamin, an infrastructure guarantee company based in Malaysia.

Dale and Lasitha were previously employees of CD and acted as CFO and CEO of GuarantCo respectively, a specialist local currency focused guarantor focused on developing local capital markets in Africa and Asia, that is part of the Private Infrastructure Development Group, a multilateral development finance institution. At GuarantCo, Lasitha conceptualised the InfraCredit strategy, which resulted in the setting up of specialist infrastructure guarantors, InfraCredit Nigeria and InfraZamin Pakistan.

GGC will also be an EE, together with GCF Holdings and GCF Holdings Manager.

#### 1.89 **Activity 1.1 – Formation and capitalisation of Green Guarantee Company Limited – (Implemented by DGG, GGC,)**

Following the completion of a procurement process conducted by the EEs the international law firm, Gowling WLG, has been selected to advise GGC on the equity documentation and management agreement with the potential shareholders.

GGC has been incorporated in United Kingdom as a limited liability company and will have two core activities.

1. To issue shares to its equity shareholders and on the back the equity available.
2. Issue guarantees on behalf of Borrowers in developing countries seeking to raise green bonds or loans to finance climate mitigation and adaptation projects.

GGC itself will not have any full-time employees or staff but will have a Board of Directors (the "Board") appointed by GGC's shareholders following a selection process run in partnership with DGG.

The Board will be responsible for appointing, approving and delegating decision-making authority to DGG (the "Manager") to manage GGC's guarantee operations on a day-to-day basis. The on-going role of the Board will be to review, challenge and approve the annual strategy and budget for GGC proposed by the Manager and to monitor and review the performance of the Manager in delivering on the strategy and budget. The Board will also be responsible for communication with GGC's shareholders and providing them with periodic progress updates and ensuring their priorities are appropriately considered in the context of setting strategy for GGC. It has been proposed that the Board have up to five members to allow for a mix of experience, with at least three members expected to have relevant climate impact experience in addition to E&S and gender experience.

The three GGC Board members with climate, E&S and gender experience will be independent members of the GGC Impact and Credit Committees providing review and challenge to the DGG Impact Team in their assessment of potential climate projects and have a veto over which projects are progressed to a final approval. The anticipated profiles of the Board



members are provided in the TSP (see Annex 24A) and the Terms of Service are included in the Operations Manual (Operating Plan) (Annex 21). GCF will also have the right to have an observer join the GGC Impact Committee to provide additional advice and support to the GGC Impact Committee in respect of the latest thinking on specific climate impact issues.

GCF Holdings will be incorporated as a special purpose vehicle. GCF Holdings will be solely owned by GCF. GCF Holdings will execute a management agreement with Holdings Manager so that Holdings Manager will be responsible for daily operations of GCF Holdings including establishing a bank account, preparing financial statements, and receiving and sending dividends, etc.

Both GCF Holdings and GCF Holdings Manager will be EE.

DGG will negotiate service contracts with the following key service providers for GGC:

1. **An international credit rating agency** – GGC requires an investment grade credit rating from one of the three international credit rating agencies (Fitch, Moody's and S&P Global) to support its guarantee activities. GGC will pay an annual rating fee for the credit rating. The credit rating opinion provided by the international credit rating agency will determine whether GGC is rated as investment grade and under what conditions (e.g., capital adequacy ratio), which will establish what GGC's guarantee capacity is. The Manager will be responsible for managing the day-to-day relationship between GGC and the international credit rating agency, being responsible for explaining strategy and meeting any reporting requirements and information requests.
2. **Third party investment managers** – as guarantees are unfunded until called GGC's equity capital and retained earnings (to the extent not distributed to shareholders) will be invested conservatively via a third-party investment managers of strong repute (for example PIMCO). The investment managers will be given an investment mandate by the Board of GGC and would be expected to act on this. The Manager will receive reports from the investment manager demonstrating that the portfolio of investments has been invested in line with the investment mandate and the Manager will circulate these to the Board of GGC for their review and action (if required). Capital preservation will be the primary goal for the investment managers. An indicative investment mandate has been included in GGC's Treasury Policy which is attached as an annex to this proposal (see Annex 27). GGC's investment portfolio is expected to be highly rated and highly liquid. Prior to and upon any claim of a guarantee, the Board of GGC shall instruct the investment manager to raise funds to allow for GGC to meet any claims on its guarantee obligations. The selection of the investment manager will be based on a competitive selection of experienced firms with strong reputation and track record of managing funds and providing the required accounting and reporting data to prepare GGC's financial statements and reports.

GGC is targeting to leverage its equity capital up to 10x, meaning for every USD 1 of capital GGC will write USD 10 of guarantees. Given this unique ability to leverage, GGC does not require to raise all of the capital envisaged in its 10-year business plan all at once. Consequently, the capital raise has been structured across three or more stages as follows:

1. Stage 1: Raise USD 100 million of paid-in equity capital to enable commencement of operations
2. Stage 2: Raise USD 170 million by Year 3 of the business plan to support growth to USD 2 billion portfolio
3. Stage 3: Raise up to USD 135 million of callable capital (which when called will crystallise as equity) in Year 2 - Year 5 of the business plan to support growth to USD 4 billion portfolio

#### Stage 1

GGC has obtained approvals-in-principle from FCDO for USD 40 million and is actively working to raise a further USD 20 million of equity to support its first tranche of equity, which with a contribution of USD 40 million from GCF, puts GGC in a position to achieve its first close by the end of 2022 and to commence writing guarantees in early 2023 with a guarantee capacity of USD 1 billion (10x USD 100 million – explained in Section A21).

#### Stage 2

GGC is expected to commit most of its initial guarantee capacity of USD 1 billion within two years of commencing operations and consequently the Manager will continue to fundraise in parallel to issuing guarantees with a further USD 170 million of paid-in equity targeted for a second close. This will give GGC a total guarantee capacity of USD 2.7 billion. GCF is being asked to be the anchor investor and to help attract additional investors into the second tranche of equity. Early discussions have been had with a couple of developed country governments who have expressed an interest in investing in the second close.

### Stage 3

As GGC nears achieving a guarantee portfolio of USD 2 billion by circa Year 5 it is expected to be generating profits which can either be distributed to shareholders or retained to support the further growth of GGC. Given that GGC's business model is expected to be sustainable at this point the focus will shift from raising additional funded equity to looking at callable (or unfunded) capital which can be structured so that when undrawn the capital attracts a return which is lower than when funded. The callable capital is typically structured so that it can be called at the point that a pre-agreed trigger event has occurred (e.g., GGC's cash equity has reduced down to USD 100 million). The capital is then "called" and crystallises as either equity or debt depending on what has been agreed with the callable capital provider. FCDO has provided callable capital for other guarantors (e.g., GuarantCo) and could be a future callable capital provider for GGC as well.

#### 1.90 Activity 1.2 – Secure investment grade credit rating for GGC – (Implemented by DGG and GGC)

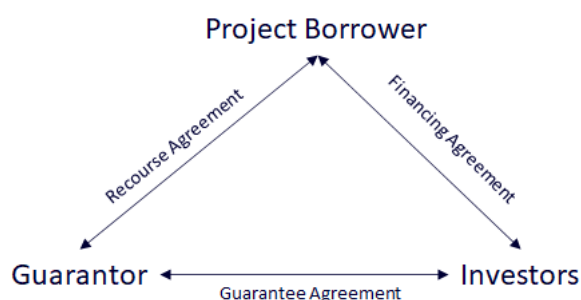
To obtain a credit rating for GGC it will be necessary for the Manager to engage one or more international credit rating agencies to undertake a rating assessment process where they will review the fundamental assumptions underpinning GGC's business plan and how those assumptions align with the rating methodology that has been chosen. The outcome of this process will be an indicative rating which GGC will then need to decide if it wishes to use as a public rating. The process of converting an indicative rating to a public rating is quick as essentially most of the analysis has been carried out by the rating agency during the initial rating assessment. To make a rating public it will be necessary for GGC to enter into a rating agreement with the international rating agency and pay an annual rating fee.

#### 1.91 Activity 1.3 – Identify and execute guarantees that mobilise institutional capital in global credit and capital markets to fund climate mitigation and adaptation projects in developing countries – (Implemented by DGG and GGC)

The process for identifying and executing guarantees is detailed in the GGC Transaction Selection Process (Annex 24A), the Transaction Scorecard (Annex 24B) and its Guarantee Policy (see Annex 23).

A typical guarantee transaction is formed via a tri-partite relationship as shown in the diagram below.

Figure 8: Contractual Structure of Typical Guarantee Transaction



Once the transaction selection process explained in Annex 24A has been completed and a guarantee has been issued there is no immediate flow of funds from GGC but rather from the guaranteed Investors to the Borrower via a debt instrument as it would in a conventional financing.

#### 1.92 Activity 1.4 – Manage and report on portfolio of guarantees – (Implemented by DGG and GGC)

As mentioned above, liquidity management and maintaining confidence are both critical to the success of a guarantor such as GGC, consequently active portfolio management is needed to be able to anticipate potential guarantee claims in advance of them materialising and to be prepared to make payments when they become due in a timely manner, thereby establishing confidence in GGC's guarantee and protecting its reputation.

Effective portfolio management is based on strong lines of communication with the Borrower through regular monitoring of its financial and impact KPIs. GGC will benefit from proven portfolio management systems and processes that have been used by the Manager in managing other guarantors and are straight-forward and cost-effective to implement and manage. This proactive relationship management means that GGC can foresee in advance whether the Borrower will encounter difficulties in meeting the payment obligations on the debt instrument and if a payment default by the Borrower is unavoidable then GGC steps in and makes payment on its behalf. The trigger for a claim under a GGC guarantee will

typically be the failure of a Borrower to fund a Debt Service Account in advance (typically 30 days) of a debt service payment date.

GGC will usually only make the scheduled payment due to avoid an acceleration of the full principal value of the debt instrument. This creates a window of time in which the GGC can work with the Borrower and Investor to restructure the financing and find a more sustainable basis (e.g., longer tenor) on which the Borrower can meet its payment obligations. Once the Borrower has stabilised then GGC will request repayment of the amounts it has paid under the guarantee along under the terms of the Recourse Agreement which will have been agreed with the Borrower ahead of GGC issuing its guarantee.

As claims under guarantees are unpredictable and ad hoc in nature, GGC's cash equity is invested in highly liquid investment grade debt instruments by a professional third-party fund manager (e.g., PIMCO) on GGC's behalf. This allows GGC to earn an income on these investments which contributes to covering its operating expenses as it builds its guarantee portfolio. When a claim is made under a guarantee GGC will typically get 10 business days to pay the beneficiary and consequently liquidity management becomes critical to ensuring that GGC is able to obtain funds from its investment portfolio within a short timescale. GGC's business model is built on the confidence that it can and it would pay under its guarantees if the conditions required to do so are met.

**1.93 Activity 1.5 – Establish commercial viability of GGC and facilitate exit (Implemented by DGG, GGC, FCDO, and other investors)**

Commercial viability of GGC will largely be established by the effective implementation of Activities 1.1 to 1.4.

Activities in relation to enabling an exit for GGC are discussed in Section B6.

**1.94 AE – Implementation Arrangement**

As noted above, MUFG is serving as the AE to the GCF, and the Programme will be implemented through a Funded Activity Agreement (FAA) between GCF and MUFG. MUFG, DGG, GCF Holdings, GCF Holdings Manager and the GGC will enter into an Implementation Agreement whereby MUFG, as AE, will pass through obligations in the FAA to GGC and DGG as the EE by signing subsidiary agreements with both. DGG will then implement the activities in the FAA and provide reporting to MUFG and thereon to the GCF.

MUFG, as per will be responsible for:

- Overall implementation, oversight, and coordination GCF's commitment to GGC.
- Proper use of GCF's commitment to GGC.
- Ensure compliance of GGC activities with the FAA.
- Ensure investments performed by GGC respect GCF policies.
- Reporting and Accounting of GGC

**B.5. Justification for GCF funding request (max. 1000 words, approximately 2 pages)**

*Explain why the project/programme requires GCF funding, i.e. Why is the project/programme not currently being financed by public and/or private sector?*

**1.95** In the aftermath of the Global Financial Crisis, privately capitalized guarantors in the form of monoline guarantors all collapsed due to their excessive leverage (30-50 times) and exposures to US sub-prime mortgages save for Assured Guaranty whose exposures to this toxic asset class was kept to the minimum. Since then, the guarantee modality has been championed by very few Government-funded initiatives tasked to develop local currency infrastructure financing (GuarantCo and InfraCredit Nigeria) and local currency bond markets (Danajamin and Credit Guarantee and Investment Facility). Although these guarantors have performed well and have experienced very low levels of claims and losses, their low leverage allowed by their rating agencies to maintain their high ratings have not allowed the demonstration of commercial rates of return to attract private capital.

**1.96** GCF and the other Government's equity contribution to start-up GGC also provides confidence to rating agencies that rate GGC as the pedigree of ownership is a key rating factor at least at the early stage. For a guarantor to commence operations and succeed, it is critical for the rating agencies to be convinced of GGC's commitment towards its objectives and the policy importance of its mandate to its shareholders. Given the green financing focus of GGC, there is no equivalent shareholder to GCF to accomplish this.

*Which market failure is being addressed with GCF funding? Are there any other domestic or international sources of financing?*

**Mobilising Private Capital into Developing Countries**

**1.97** The development finance world has long sought to find a solution to best mobilise the abundant savings in developed countries to support the financing (particularly infrastructure) needs of developing countries. Core to this problem is the mismatch between the appetite of the fund managers (mostly into investment grade opportunities) and the risk ratings of

bond issues from the developing world (with many of the developing countries rated low investment grade or non-investment grade). Bonds issued by the developing market borrowers would be predominantly non-investment grade – at best capped by or worse notched down from their own sovereign's rating. Of the 8 Beneficiary Countries, only 3 are investment grade – Indonesia, Philippines, and Trinidad & Tobago. GGC will be able to uplift the issuances to investment grade with its guarantees – channelling greater amounts of capital which would otherwise not be able to flow into the developing world.

### Reviving Guarantors

1.98 As proven, specialist guarantors as financing mobilization mechanism, can be a viable tool if utilized with due care even for supporting infrastructure financing in developing countries as evident by GuarantCo's accomplishments (see <https://guarantco.com/impact/> for more information). Current donor Governments remain committed with the initial objectives to use their existing guarantors for local currency savings mobilisation given increasing demand for their guarantees and the success of these institutions. At present, with their limited resources available, they do not have sufficient allocations to fully support the establishment of a new hard currency guarantor for green financing. As such, GCF's contribution of a substantial amount of the capital needed to help GGC attain a minimum size of equity will be critical towards getting it operational. The remaining amounts are expected to be contributed by Governments including the UK and US Governments via their respective departments.

1.99 It is anticipated that GGC's public capital equity base needed to start-up its operations will be progressively combined with private sector capital partially as it matures and eventually with a strong track record established, fully replaced when commercial returns are proven. When this occurs, GCF and GGC's Government shareholders would not only have successfully developed a vehicle to mobilise the financial support into the Beneficiary Countries to meet their climate commitments but also revived the guarantee modality sufficiently to attract private capital. New guarantors can then follow to address other climate change financing or other pressing challenges (Social, Blue, Transition bonds) in our world.

*Explain why the proposed financial instruments were selected in light of the proposed activities and the overall financing package. i.e., What is the coherence between activities financed by grants and those financed by reimbursable funds?*

1.100 With the goal of reviving the guarantee modality and attracting private capital, it is important for GGC to deliver financing solutions that are market based with as minimum concessionality in each of the transactions as well as operating as a guarantor. While at the on-set GGC will tap on grants and Technical Assistance to help borrowers better prepare their projects and reporting capabilities, these would be ancillary to the main solution of uplifting the credit profile of the bonds via the issuance of guarantees, of which requires equity contributions from GCF.

*How were co-financing amounts and prices determined?*

1.101 The equity of GGC from each contributor will be determined based on the respective Government's ability and investment policies while the pricing for each participant will be at par with each other.

1.102 For the projects that will be supported by GGC, it is anticipated that there will not be any co-financing for most instances. If there are other co-financiers, the amounts will be driven by GGC's single risk capacity relative to the size of funding needed and/or availability of co-financiers. In such instances, pricing of financing will be arranged on a parity basis as a principle across various financing solutions subject to adjustments for tenor and ranking considerations.

*How does the concessionality of the GCF financing compare to that of the co-financing? If applicable, provide a short market read on the prevailing of the pricing and/or financial markets for similar projects/programmes.*

1.103 As GGC will operate on commercial terms, the minimum concessionality of GCF's equity contribution as with GGC's other shareholders is in the form of "shareholder patience" with respect to returns on equity. This is important to allow GGC to carefully build up the portfolio with strong emphasis on the quality of the borrowers it guarantees with respect to their credit and green credentials including focusing on critical of projects in developing countries. With ample time to build up the business and processes, GGC will be able to deliver the anticipated commercial like returns if allowed sufficient time to mature.

1.104 GCF's support in providing equity as with the other contributors to GGC's capital base also allows for GGC to issue longer term guarantees to support longer termed bonds – potentially up to 20 years. While minimum concessionality in terms of pricing is anticipated, the availability of long-term financing to allow for climate projects that have longer payback periods will be extremely beneficial to the project sponsors and the end beneficiaries or users with less pressure to increase prices in the immediate term to pay for the project.

*Justify why the level of concessionality of the GCF financial instrument(s) is the minimum required to make the investment viable. Additionally, how does the financial structure and the proposed pricing fit with the concept of minimum concessionality? Who benefits from concessionality? In your answer, please consider the risk sharing structure between the public and private sectors, the barriers to investment and the indebtedness of the recipient. Please reference relevant annexes, such as the feasibility study, economic analysis, or financial analysis when appropriate.*

1.105 The concessionality explained above is at the minimum with none amongst other equity providers as well as in the operations of GGC. The beneficiaries of the minimum concessionality however, will be cutting across all stakeholders.

- Investors in the guaranteed bonds, will benefit from the safety of the guarantee and a yield pick-up from alternative higher rated Green Bonds from Multilateral Banks as well as quality monitoring and reporting and avoid having to take non-investment grade risks on their green bond portfolios
- Borrowers will benefit from appropriate funding terms, tenor, and costs for their projects
- Countries will benefit from having access to financing to meet their higher the climate commitments as per their NDCs
- Users will benefit from lower or no unit price increases whilst knowing that their consumption moving forward will be beneficial to the climate
- GGC will benefit from the stronger portfolio and greater impact of its operations

GGC's shareholders will benefit from an eventual exit that bears greater return from the successful guarantor as well as the ability to further deploy similar support to address other challenges.

#### B.6. Exit strategy (max. 500 words, approximately 1 page)

*Explain how the project/programme will successfully exit once implementation is completed, including how results and benefits will continue beyond the project/programme period and how the contribution to paradigm shift will be maintained.*

*Include information pertaining to the longer-term ownership, project/programme exit strategy, operations, and maintenance of investments (e.g., key infrastructure, assets, contractual arrangements). In case of private sector, please describe the GCF's financial exit strategy through Initial Public Offerings, trade sales, etc.*

*Provide information on additional actions to be undertaken by public and private sector or civil society as part of the project/programme to ensure sustainability of the results attained.*

#### **Sustainability of Impact**

- 1.106 Unlike a fund, GGC is not being set up with a defined lifespan but as a self-sustaining corporate that will seek to grow its guarantee activities based on market demand and need. Given that over USD 500 billion of climate finance per annum is estimated to be required by developing countries to invest in climate adaptation and mitigation projects up to 2050 it can be assumed that GGC could have a role to play until at least that point and possibly beyond.
- 1.107 Consequently, GGC's impact potential could last for a significantly longer period than the envisaged investment from GCF and GGC's other founding shareholders. The sustainability of GGC's impact will be demonstrated in the following ways:
1. By using a digital platform to report on ESG and climate impact of the projects that GGC is guaranteeing it is anticipated that Borrowers in developing countries will understand better the positive relationship between transparency and impact with availability and cost of capital. This could have a trickle-down effect to the governments of the developing countries, with the scale of the transactions that GGC is seeking to support (i.e., average guarantee size of USD 200 million) incentivising them to adopt international standards at a national level to facilitate greater flows of capital.
  2. Once this data is added to the platform it becomes part of a growing body of evidence as to the true underlying risks associated with climate infrastructure in developing countries and over time the trends that emerge from this body of evidence can help future climate projects in developing countries to attract capital from global credit and capital markets on fairer terms.
  3. Resulting from the combination of (1) and (2) above GGC expects that over time market transformation will take place with investors in global credit and capital markets increasing their own capacity to understand and evaluate the risks associated with climate projects in developing countries and thereby needing less or no guarantees from GGC to invest. In such a scenario an exit will come through GGC stopping issuing new guarantees and managing down its portfolio. An example of this can be seen from the evolution of guarantors in the United States. In the 1960s municipal infrastructure in the United States was not viewed as an attractive investment by investors who did not understand how to evaluate the risks associated with the asset class. This led to the creation of the monoline insurers in the 1970s – effectively investment grade guarantee companies with the mandate to credit enhance municipal infrastructure bonds and make them attractive for investors. The success of this innovation can be judged today by the fact that in developed markets municipal infrastructure is now a highly liquid asset class and of the several monoline insurers created only one is left as demand for guarantees in developed markets has fallen in line with growing investor confidence. This is the kind of market transformation that GGC hopes to emulate through providing guarantees to global investors to help them support climate adaptation and mitigation projects in developing and emerging markets. The true power of the guarantee is not in the financing that it mobilises on a transactional basis but rather the capacity it creates amongst investors to learn about an asset class and build their confidence to invest without guarantees in the future. This kind of market transformation is going to be essential to addressing the scale of the climate finance gap discussed earlier and so positions GGC as a globally scalable and transformative climate finance solution.



**Exit Strategy**

- 1.108 The business plan anticipates that GGC will be able to deliver a return on equity that will be attractive to commercial investors by Year 10 of operations. Consequently, GGC will seek to prepare an exit for the founding shareholders, including GCF, in two steps:
1. GGC will seek a public listing of its equity in a global capital market (e.g., LSE) by Year 5 of operations. It is not anticipated that this will create an exit for the founding shareholders but is more an intermediary step and creates a “shop window” for potential private sector investors to observe how GGC performs over a period of time.
  2. Between Year 5 and Year 10, private sector investors will be sought to acquire the listed shares from the founding shareholders with the ambition of them having exited in full by Year 10.
- 1.109 Should a public listing of GGC's equity be deemed not viable at a future date then an alternative exit strategy will be for GGC to develop a share buy-back programme (where the number of issued shares is reduced on a pro rata basis, being bought by GGC at a premium from the shareholders, thereby increasing the economic value of the remaining shares, with no dilution in percentage ownership). In GGC's financial model (Annex 3) it is forecasted that the average Profit before Tax will be USD 20 million by Year 10 of operations. Conservatively assuming that GGC does not grow its portfolio beyond the USD 4 billion projected for Year 10 of operations, GGC is still able to generate sufficient cash to return USD 200 million of cash to shareholders over the following 10 years of operations. Consequently, GCF should at least have its initial capital investment returned within this period of time.
- 1.110 Should GGC prove unsuccessful in achieving its business plan then an option available to its Board and shareholders will be to stop writing new guarantee business and to move the portfolio into run-off. As existing guarantees mature/expire over time and GGC's capital is deleveraged it can be returned to the shareholders on a pro rata basis, thereby ensuring an orderly exit.

| C. FINANCING INFORMATION   |   |                    |                    |                                  |           |                   |
|--|---|--------------------|--------------------|----------------------------------|-----------|-------------------|
| C.1. Total financing   |   |                    |                    |                                  |           |                   |
| (a) Requested GCF funding<br>(i + ii + iii + iv + v + vi + vii)                                | Total amount  |                    |                    | Currency                         |           |                   |
|  | 82.5  |                    |                    | million USD (\$)million USD (\$) |           |                   |
| GCF financial instrument   | Amount  | Tenor              | Grace period       | Pricing                          |           |                   |
| (i) Senior loans   | <u>Enter amount</u>   | <u>Enter years</u> | <u>Enter years</u> | <u>Enter %</u>                   |           |                   |
| (ii) Subordinated loans  | <u>Enter amount</u>   | <u>Enter years</u> | <u>Enter years</u> | <u>Enter %</u>                   |           |                   |
| (iii) Equity   | 82.5  |                    |                    | 6 % equity return                |           |                   |
| (iv) Guarantees  | <u>Enter amount</u>   | <u>Enter years</u> |                    |                                  |           |                   |
| (v) Reimbursable grants  | <u>Enter amount</u>   |                    |                    |                                  |           |                   |
| (vi) Grants  | <u>Enter amount</u>   |                    |                    |                                  |           |                   |
| (vii) Results-based payments   | <u>Enter amount</u>   |                    |                    |                                  |           |                   |
| (b) Co-financing information   | Total amount  |                    |                    | Currency                         |           |                   |
|  | 322.5   |                    |                    | Options                          |           |                   |
| Name of institution  | Financial instrument  | Amount             | Currency           | Tenor & grace                    | Pricing   | Seniority         |
| FCDO   | <u>Equity</u>   | <u>40</u>          | <u>Options</u>     | <u>Enter years</u>               | <u>6%</u> | <u>pari passu</u> |
| Other  | <u>Equity</u>   | <u>147.5</u>       | <u>Options</u>     | <u>Enter years</u>               | <u>6%</u> | <u>pari passu</u> |
| Other  | <u>Equity</u>   | <u>135</u>         | <u>Options</u>     | <u>Enter years</u>               | <u>3%</u> | <u>pari passu</u> |
| (c) Total financing<br>(c) = (a)+(b)   | Amount  |                    |                    | Currency                         |           |                   |
|  | <u>405</u>  |                    |                    | <u>million USD (\$)</u>          |           |                   |
| (d) Other financing arrangements and contributions<br>(max. 250 words, approximately 0.5 page) | <p>Please explain if any of the financing parties including the AE would benefit from any type of guarantee (e.g., sovereign guarantee, MIGA guarantee).</p>  |                    |                    |                                  |           |                   |
|  | <p>1.111 Taking the lead in structuring the guaranteed green bond and loan transactions, GGC aims to “crowd in” other risk participants into the transaction to share and reduce GGC’s risks exposure in a transaction. It can anchor a transaction with up to a 100% guarantee and work with partners and interested public and private sector co-participants to share risks where possible.</p>  |                    |                    |                                  |           |                   |
|  | <p>1.112 To support more challenging projects where repayment certainty is less pronounced but are critically needed for adaptation purposes for example, sovereign guarantees or other forms of sovereign support (such as first loss capital) may be sought on a case-by-case basis to allow for the project to be supported.</p> <p>Please also explain other contributions such as in-kind contributions including tax exemptions and contributions of assets.</p>  |                    |                    |                                  |           |                   |
|  | <p>1.113 While not needed for GGC on an institution basis, specific projects may benefit from contributions in-kind and tax exemptions including withholding tax on interest payments and guarantee fees to allow for savings to be transferred to the users and beneficiaries of the projects in the communities. This will be solely the prerogative of the respective Sovereigns to support projects which are critical to their climate change mitigation and adaptation goals. GGC can then complement the support for the projects by raising long term funding at more affordable funding costs to make them bankable.</p> <p>Please also include parallel financing associated with this project or programme (refer to the co-financing policy).</p> |                    |                    |                                  |           |                   |



1.114 By drawing support from other co-participants as explained above, GGC's risk exposure on a gross (partial guarantee) and net basis (if insured) will reduce by the introduction of other participants to take up or share risks to the projects guaranteed. Their participation will be backed by their own equity and risk capacity that will be sitting in parallel with GGC's guarantee exposures. While it is not possible to quantify this at this moment, any risk sharing, and co-participation of risks will be reported to GCF on an on-going basis when GGC is operational. As an indication of the levels possible, CGIF has successfully implemented a quota share reinsurance treaty from private reinsurers for 25% of their portfolio since 2016.

**Target size** 4 billion USD (\$)

**Leverage multiple** 10 times

| Classes of interest | Equity                    | Equity and callable capital  |
|---------------------|---------------------------|--|
| <b>Funding</b>      | 82.5 million USD (\$) GCF | 322.5 million USD (\$) FCDO and other public and private investors |
| <b>Return</b>       | Equity: 6% (IRR)*         | Equity: 6% (IRR)*<br>Callable capital: 3%                          |
| <b>Term</b>         | [10 years]                |  |

**Asset allocation**  
**No. investments** 30-55  
 max 200 million USD (\$) per investment (average 150 million USD (\$) per investment)

**Target geography** Africa; Asia, Latin America, and Caribbean

**Target sectors** Energy generation (30%);  
 Low emission transport (20%);  
 Buildings, cities and industries and appliances (30%);  
 Health, well-being, food and water security (10%); and  
 Infrastructure and built environment (10%)

\*there can be no guarantee that the stated return will be achieved. IRR at the investment level cannot be determined without making arbitrary assumptions regarding allocation of fee and expenses and therefore is not included.

## C.2. Financing by component

Please provide an estimate of the total cost per component and output as outlined in section B.3. above and disaggregate by source of financing. More than one co-financing institution can fund a single component or output. Provide the summarised cost estimates in the table below and the detailed budget plan as annex 4.

| Component                      | Output   | Indicative cost Options | GCF financing  |                      | Co-financing   |                      |   |
|--------------------------------|--|-------------------------|----------------|----------------------|----------------|----------------------|---|
|                                |  |                         | Amount Options | Financial Instrument | Amount Options | Financial Instrument | Name of Institutions                        |
| Component 1: Equity Investment | Activity 1.1 - Formation and capitalisation of GGC | 3,850,000               | 1,058,294      | Equity               | 2,791,706      | Equity               | FCDO and other public and private investors |
|                                | Activity 1.2 - Secure investment                   | 1,190,000               | 294,022        | Equity               | 895,978        | Equity               | FCDO and other public                       |

|                                    |   |                                   |                   |               |                    |               |  |
|------------------------------------|---|-----------------------------------|-------------------|---------------|--------------------|---------------|--|
|                                    | <u>grade credit rating for GGC</u>  |                                   |                   |               |                    |               | <u>and private investors</u>                       |
|                                    | <u>Activity 1.3 – Identify, execute and financially structure guarantees that mobilise institutional capital in global credit and capital markets to fund climate mitigation and adaptation projects in developing countries.</u> | <u>387,322,724</u>                | <u>78,179,837</u> | <u>Equity</u> | <u>309,142,888</u> | <u>Equity</u> | <u>FCDO and other public and private investors</u> |
|                                    | <u>Activity 1.4 - Manage and report on portfolio of guarantees for risk management, performance, and impact</u>   | <u>10,597,094</u><br>Enter amount | <u>2,492,520</u>  | <u>Equity</u> | <u>8,104,574</u>   | <u>Equity</u> | <u>FCDO and other public and private investors</u> |
|                                    | <u>Activity 1.5 - Establish commercial viability of GGC and facilitate exit for GCF and FCDO</u>  | <u>2,040,182</u>                  | <u>475,327</u>    | <u>Equity</u> | <u>1,564,855</u>   | <u>Equity</u> | <u>FCDO and other public and private investors</u> |
| <b>Indicative total cost (USD)</b> |   | <u>405,000,000</u>                | <u>82,500,000</u> |               | <u>322,500,000</u> |               |  |

*This table should match the one presented in the term sheet and be consistent with information presented in other annexes including the detailed budget plan and implementation timetable.*

*In case of a multi-country/region programme, specify indicative requested GCF funding amount for each country in annex 17, if available.*

- 1.115 Note: For illustrative purposes only. Actual budget by component is subject to change. GCF's allocated financing amount for activities is equal to 21% of total indicative cost assuming GCF commits \$82.5 million. For breakdown of component 1 expenses, please see Annex 4 set-up costs. It should be further noted that any costs incurred (including management fees) are anticipated to be covered first by operating cashflows.

| C.3 Capacity building and technology development/transfer (max. 250 words, approximately 0.5 page)  |   |
|---|---|
| C.3.1 Does GCF funding finance capacity building activities?  | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| C.3.2. Does GCF funding finance technology development/transfer?  | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| <p><i>If the project/programme is expected to support capacity building and technology development/transfer, please provide a brief description of these activities and quantify the total requested GCF funding amount for these activities, to the extent possible.</i></p> |   |

## D. EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA

*This section refers to the performance of the project/programme against the investment criteria as set out in the GCF's [Initial Investment Framework](#).*

### D.1. Impact potential (max. 500 words, approximately 1 page)

- 1.116 The GGC will contribute to five of the GCF's results areas: MRA1, MRA2, MRA3, and ARA2 and ARA3.
- 1.117 In terms of contribution to the shift to low-emission sustainable development pathways, the GGC will have an estimated mitigation impact of 74 MtCO<sub>2e</sub> over the course of the programme's lifetime (based on the 5 result areas calculated), across all beneficiary countries (CORE 1; kindly refer to calculation methodology in Annex 22). It is anticipated that many mitigation projects will have useful lifetimes and benefits beyond the GGC's plan. Further, there should be an additional catalysing impact due to the GGC stepping in, with increased technology transfer of low-carbon, mitigation-supporting technologies.
- 1.118 In terms of contribution increased climate-resilient sustainable development, the GGC will have an estimated adaptation impact of 16,295,956 direct beneficiaries and 18,343,300 indirect beneficiaries over the course of the programme's lifetime, across all participating countries (CORE 2: kindly refer to calculation methodology in Annex 22).
- 1.119 The GGC will also have a positive impact on the enabling environment for climate finance in participating countries, and across developing economies more broadly. It will do so by contributing to a high degree to market development and transformation (CORE 7), making guarantees more viable and frequently used financial instruments to de-risk climate change mitigation and adaptation investments, expanding private capital flows in the markets. Furthermore, the GGC will contribute to a high degree to effective knowledge generation and learning processes, and the use of good practices, methodologies, and standards (CORE 8) by virtue of the lessons learnt through its operations and its capturing and sharing of its 'learning-by-doing' insights into the use of guarantees to accelerate and scale-up private sector capital for climate mitigation and adaptation investments.

### D.2. Paradigm shift potential (max. 500 words, approximately 1 page)

*Describe the degree to which the proposed activity can catalyze impact beyond a one-off project or programme investment. Describe the following, if applicable:*

- Potential for scaling up and replication; Potential for knowledge sharing and learning; Contribution to the creation of an enabling environment; Contribution to the regulatory framework and policies; Overall contribution to climate-resilient development pathways consistent with relevant national climate change adaptation strategies and plans*
- 1.120 GGC's ability to leverage its equity 10x (i.e., every USD 1 of additional equity contribution enabling USD 10 of guarantee capacity) means that it is able to scale quickly and thereby mobilise large amounts of private sector climate finance than would typically be possible via direct investment models. Furthermore, GGC's construct as a corporate allows it to be able to accept different types of capital (e.g., callable capital) and still achieve leverage, meaning it is able to look at attracting a broad range of public and private sector investors. Once established as a demonstrated guarantee company able to accomplish its objectives, there is the possibility for other guarantors to be established to address similar or more specific climate challenges (for example Climate Investor One, a climate focused fund supported by GCF has now created Climate Investor Two to focus on ocean-based initiatives). GGC is therefore both highly scalable and replicable.
- 1.121 While GGC is not expected to participate in transactions directly involving other GCF initiatives, to avoid double-counting of impact, GGC still expects to be highly complementary to other initiatives supported by GCF. For example, GGC's ability to mobilise private sector climate finance at scale could enable the pathways to success established by other GCF backed initiatives such as the Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries or the Sub-National Climate Fund Global to be replicated by other private sector actors and scaled. GGC will establish an ongoing dialogue with other GCF supported initiatives which operate at global, regional and/or national levels

to explore opportunities to share their knowledge and learning at a project level more widely with global credit and capital markets thereby enabling replication and maximising the initiatives' collective impact.

- 1.122 In the context of green financing, a key challenge faced at the national level in GGC target countries is the limited local climate finance market depth and underdeveloped financial market infrastructure and frameworks to identify, certify and price green debt instruments. GGC will be focusing on enabling those borrowers that are already active in their local credit and capital markets (so investment grade at a local level) to access global credit and capital markets (where they would be considered sub-investment grade). This will require a process of education for these borrowers in terms of understanding and meeting the international standards required by global credit and capital markets in terms of quality and availability of information and identifying, measuring, and tracking green assets. Having been through this education process with the support of GGC, these borrowers, given their high profile in local credit and capital markets, can play an important advocacy role to enable the replication and/or alignment of national financial markets infrastructure and frameworks with international standards. The success of local borrowers raising long-term climate finance from global credit and capital markets can provide a powerful and needed stimulus to national governments to create similar enabling environments needed to scale local climate finance markets which both local and, in time, global institutional investors can participate in.
- 1.123 Following from the last point above, for sub-projects and borrowers, following the successful guaranteed bond or loan, they will have the ability to issue bonds or loans on their own without support from GGC mirroring the terms of the earlier bond or loan once investors have gain confidence and comfort with the borrower and transaction. Additional phases of the same project or new projects replicating the earlier design and transaction terms can be supported without GGC's guarantee – a product of its prior financial structuring efforts and the confidence building impact of the guarantee.
- 1.124 Global institutional investors in the guaranteed bonds and loans will invariably learn more about the borrower, sector, and country they are in when they buy the guaranteed bond or loan. This knowledge can then be applied in a cross-cutting manner – by these global institutional investors to support other climate projects in the same country or to similar projects in different countries – anchored by GGC's demonstrative effect in each of the guaranteed transactions. GGC will also seek to use a digital platform (e.g., [www.esgbook.com](http://www.esgbook.com)) to make the performance and impact data of the debt instruments that it guarantees available to institutional investors that may not have participated in the guaranteed bonds or loans so that they can track the performance and impact over time, thereby building their confidence to participate in future.
- 1.125 An important feature of global credit and capital markets is the high degree of transparency and information sharing that occurs on transactions via the use of transaction information memorandums, finance industry conferences, financial information platforms such as Bloomberg or the financial press (e.g., Financial Times or Wall Street Journal). GGC intends to embrace this feature to advocate for climate projects in developing countries and to help replicate successfully executed transactions by sharing knowledge about the financial structuring (i.e., solutions developed to overcome risks/barriers) used. GGC will also help develop case studies on transactions which can be used by Origination Partners, NDAs, and others to facilitate knowledge-sharing and encourage replication at scale, both in global and local credit and capital markets.
- 1.126 Another longer-term impact that GGC would be seeking to enable is the migration of global institutional investors into providing climate finance in local currency. As mentioned earlier, GGC providing guarantees in hard currency will be an important "stepping stone" to get global institutional investors to learn about the actual risks of investing in climate projects in developing countries versus their perceived risk which is presently high enough to discourage any investment. Over time, as investors become more educated with the actual risk then it is possible that their appetite to accept local currency risk may also increase thereby increasing liquidity in local capital markets. As part of its strategy, where possible, GGC will look at supporting synthetic local currency (i.e., hard currency denominated but indexed to local currency so that investor takes the currency risk) climate finance debt instruments to support this migration of global investors from global to local capital markets.
- 1.127 The preference of global credit and capital markets to focus on scale, with minimum transaction sizes being typically set at USD 100 million, means that for smaller developing countries, particularly Least Developed Countries ("LDC") and Small Island Developing States ("SIDS"), it may be more challenging for GGC to find individual transactions which meet the minimum size requirement. That said, the opportunity exists for GGC to guarantee transactions which raise capital on an aggregated basis to finance smaller transactions in LDC and SIDS. For example, GGC has been in discussion with both a green investment fund and a national development bank in a target LDC which have requested support from GGC to help them raise either a green bond or syndicated loan in the global credit and capital markets. These local financial institutions will then on-lend the proceeds of the green bond or loan to smaller climate mitigation and adaptation projects in their country. In parallel, GGC is in dialogue with a member of the Glasgow Financial Alliance for Net Zero ("GFANZ") that is interested in creating a debt fund focused on providing climate finance or SIDS. Again, GGC would seek to guarantee large size green debt instruments issued by the fund which would then be on-lent to SIDS as smaller size loans but benefiting from better terms and tenor that tend to be given to financings of scale. This proposed on-lending structure is replicable, scalable and a powerful tool for mobilising climate finance to LDC and SIDS. With credit enhancement from GGC to help demonstrate their viability, these on-lending structures offer an effective solution to support LDC and SIDS in a way which meets the requirement for scale from the global capital and credit markets.

*Describe the wider benefits and priorities of the project/programme in relation to the Sustainable Development Goals and provide an estimation of the impact potential in terms of:*

- *Environmental co-benefits; Social co-benefits including health impacts; Economic co-benefits; Gender-sensitive development impact*

- 1.128 Capital markets represent an important capital mobilization and deployment mechanism in the financing of the SDGs. Recent estimates place global bond markets outstanding value at over USD 100 trillion which present a major opportunity to deploy capital at scale by harnessing the cumulative firepower of institutional investors.
- 1.129 While the public sector and public finance will be core to the implementation of the SDGs, it is widely acknowledged in the international community that the private sector and capital markets must also play a key role. GGC therefore seeks to support the many ways the private sector and public sector entities in developing countries can contribute to climate-related SDGs, while creating a large and diversified green bond market for global investors. In addition, GGC seeks a paradigm shift where borrowers from developing countries can compete for global institutional capital based not only on their investment thesis, but also on their impact thesis and how they will use funds to contribute to the SDGs.
- 1.130 The “Mapping Table” below has been compiled by the ICMA having reviewed the 17 SDGs to identify those that may be aligned with the ICMA’s Green Bond Principles. According to the ICMA thus far 12 of the SDGs have been identified as being relevant to the Green Bond Principles.

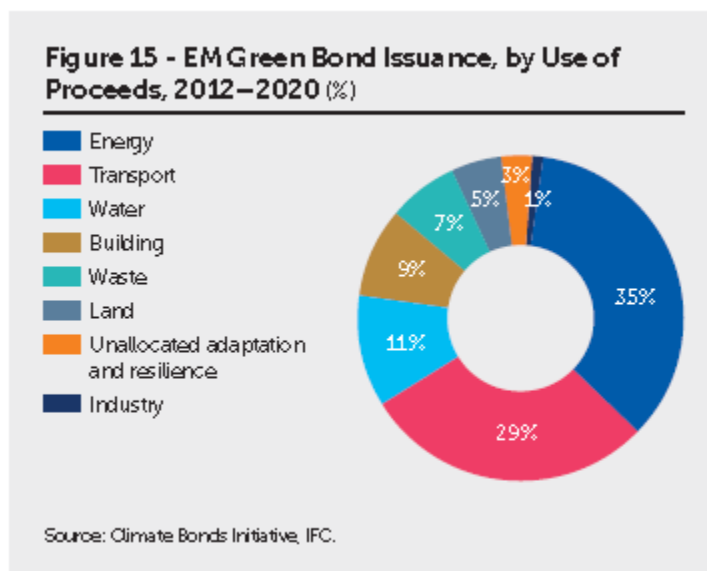
**Table 5: Mapping of the SDGs against the ICMA’s Green Bond Principles**

| SDG  | Green Bond Principles – Project Categories  | Example Indicators   |
|--|---|--|
| <b>SDG 1 – NO POVERTY</b>                              | <ul style="list-style-type: none"> <li>Climate Change Adaptation (Target 1.5)</li> </ul>  | <ul style="list-style-type: none"> <li>Number of people provided with basic service</li> <li>Number of people benefitting from measures to mitigate the consequences of climate change as natural disasters</li> </ul>   |
| <b>SDG 3 – GOOD HEALTH AND WELL BEING</b>              | <ul style="list-style-type: none"> <li>Pollution Prevention and Control (Target 3.9)</li> <li>Renewable Energy (Target 3.9)</li> </ul>  | <ul style="list-style-type: none"> <li>Amount of wastewater treated, reused, or avoided before and after the project</li> <li>Amount of raw/untreated sewage sludge that is treated and disposed of</li> </ul>   |
| <b>SDG 6 – CLEAN WATER AND SANITATION</b>              | <ul style="list-style-type: none"> <li>Sustainable Water and Wastewater Management (Target 6.1, 6.2, 6.3, 6.4, 6.5, 6a, 6b)</li> <li>Terrestrial and Aquatic Biodiversity Conservation (Target 6.6)</li> </ul>  | <ul style="list-style-type: none"> <li>Number of people provided with safe and affordable drinking water</li> <li>Number of people provided with adequate and equitable sanitation</li> <li>Volume of water saved</li> <li>Volume of wastewater treated for reuse</li> <li>Area covered by sustainable land and water resources management practices</li> <li>Potable water produced</li> </ul>  |
| <b>SDG 7 – AFFORDABLE AND CLEAN ENERGY</b>             | <ul style="list-style-type: none"> <li>Energy Efficiency (Targets 7.3, 7a)</li> <li>Renewable Energy (Targets 7.2, 7a)</li> </ul>   | <ul style="list-style-type: none"> <li>Renewable energy produced</li> <li>Avoided greenhouse gas emissions (tonnes CO<sub>2</sub>eq)</li> <li>Number of people with access to clean energy services</li> </ul>   |
| <b>SDG 8 – DECENT WORK AND ECONOMIC GROWTH</b>         | <ul style="list-style-type: none"> <li>Eco-efficient and/or Circular Economy Adapted Products, Production Technologies, and Processes (Target 8.4)</li> <li>Energy Efficiency (Target 8.4)</li> <li>Renewable Energy (Target 8.4)</li> </ul>  | <ul style="list-style-type: none"> <li>Number of jobs created</li> <li>Number of jobs supported</li> </ul>   |
| <b>SDG 9 – INDUSTRY, INNOVATION AND INFRASTRUCTURE</b> | <ul style="list-style-type: none"> <li>Energy Efficiency (Target 9.4)</li> <li>Renewable Energy (Target 9.1)</li> </ul>   | <ul style="list-style-type: none"> <li>Reduction in industry related GHG</li> </ul>  |
| <b>SDG 11 – SUSTAINABLE CITIES AND COMMUNITIES</b>     | <ul style="list-style-type: none"> <li>Clean Transportation (Target 11.2)</li> <li>Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes (Target 11b)</li> <li>Environmentally Sustainable Management of Living Natural Resources and Land Use (Targets 11.7, 11a)</li> <li>Green Buildings (Target 11c)</li> <li>Pollution Prevention and Control (Target 11.6)</li> </ul> | <ul style="list-style-type: none"> <li>Number of people with access to safe, affordable, and sustainable housing</li> <li>Number of people with access to sustainable transport systems</li> <li>Floor space of green real estate</li> <li>Waste that is prevented, minimized, reused, or recycled before and after the project</li> <li>Number of people benefitting from selective collection of recyclables</li> <li>Number of electric vehicles deployed</li> <li>Number of electric vehicles charging points installed</li> </ul> |

|  |  |  |
|--|--|--|
|  | <ul style="list-style-type: none"> <li>Renewable Energy (Target 11c)</li> <li>Sustainable Water and Wastewater Management (Target 11.5)</li> </ul>   |  |
| <b>SDG 12 – RESPONSIBLE CONSUMPTION AND PRODUCTION</b> | <ul style="list-style-type: none"> <li>Eco-efficient and/or Circular Economy Adapted Products, Production Technologies, and Processes (Target 12.5)</li> <li>Environmentally Sustainable Management of Living Natural Resources and Land Use (Target 12.2)</li> <li>Pollution Prevention and Control (Targets 12.4, 12.5)</li> <li>Renewable Energy (Target 12.4)</li> <li>Wastewater Management (Targets 12.2, 12.5)</li> </ul> | <ul style="list-style-type: none"> <li>Avoided resource waste</li> <li>Avoided emissions to air (other than greenhouse gases)</li> <li>Reduction of food losses</li> <li>Material sourced sustainably or recycled</li> <li>Absolute or % reduction in local pollutants</li> <li>Reduction of hazardous materials used</li> </ul> |
| <b>SDG 13 – CLIMATE ACTION</b>                         | <ul style="list-style-type: none"> <li>Climate Change Adaption (Targets 13.1, 13.2, 13.3, 13b)</li> <li>Climate Change Mitigation (Targets 13.1, 13.3)</li> </ul>  | <ul style="list-style-type: none"> <li>Water storage capacity</li> <li>Reduction in weather-related disruption (days p.a.) and/or risk frequency (%)</li> <li>Flood-resilient floor space</li> <li>High-risk assets with climate insurance cover</li> <li>GHG emissions reduced</li> </ul>                                       |
| <b>SDG 14 – LIFE BELOW WATER</b>                       | <ul style="list-style-type: none"> <li>Environmentally Sustainable Management of Living Natural Resources and Land Use (Target 14.4, 14.6, 14a)</li> </ul>   | <ul style="list-style-type: none"> <li>Avoided or reduced marine and freshwater pollution (ecotoxicity, eutrophication)</li> </ul>   |

1.131 Figure 10 below is data provide by the Climate Bond Initiative and IFC and shows the use of proceeds for emerging market green bonds between 2012 and 2020. As can be seen Energy, Transport, Buildings and Water projects account for more than 80% of the use of proceeds historically.

Figure 10: Emerging Market Green Bond Issuance



D.4. Needs of recipient (max. 500 words, approximately 1 page)



- 1.132 Benchmarking the target countries, relative to all countries, in terms of their climate change vulnerability, adaptive capacity, and risk levels (using the ND-GAIN vulnerability and readiness index rankings, the German watch global climate risk index, and the INFORM risk index) indicates that most of the countries selected fall within the world's top third or top half of most climate-vulnerable nations, or within the bottom third or bottom half of the world's most climate-ready nations. Thus, they have pressing needs for investments that will reduce climate change vulnerability and/or enhance adaptive capacity and resilience.
- 1.133 The flexibility of the guarantee product means that GGC represents a unique opportunity for GCF to catalyse a programme which can consider and address multiple needs of developing countries across Africa, Asia, and Latin America, thereby being cross-cutting and global in its mandate. For example, GGC has been asked to consider supporting the development of climate resistant affordable housing in Indonesia (focused on the smaller and more vulnerable islands in the archipelago) and Rwanda. Equally, opportunities have been identified for GGC to support the propagation of electric vehicles in India (with the government seeking to deliver an ambitious target of electrifying 30% of its vehicle populations by 2030). GGC is therefore able to help countries to raise climate finance in a targeted way and help them address specific vulnerabilities identified in their NDCs. As explained earlier, in GGC's Transaction Selection Process (see Annex 24A) a key early step in its guarantee process will be to consider how a potential transaction aligns with the priorities identified in the NDC of target countries (see Annex 2).
- 1.134 At COP26 developing countries were vocal about their need for greater volumes of climate finance to be mobilised from developed countries to help them deliver the targets in their NDCs and in response to the IPCC's Working Group II most recent report<sup>20</sup> "Climate Change 2022: Impacts, Adaptation and Vulnerability", the Least Developed Countries Group on Climate Change, a lobby group of 46 nations that identify themselves as being especially vulnerable to climate change, stated "It was confirmed last year that developed countries failed in their commitment to deliver USD 100 billion in climate finance by 2020. The short fall must be made up urgently, to support our people to adapt to the worsening impacts the report confirms are coming."
- 1.135 Unfortunately, global and geopolitical events such as the COVID-19 pandemic and conflict in Eastern Europe have put significant fiscal strain on both developed and developing countries alike, resulting in the former having to reduce the amount of climate finance that they can provide to the latter on a concessional basis. Conversely, whilst sovereign balance sheets are constrained the assets of private sector institutional investors continue to grow and demand for attractive investment opportunities remains strong as demonstrated by the fact that despite the pandemic the global green bond grew exponentially in both 2020 and 2021. Consequently, the most credible opportunity to scale climate finance for developing countries exists in mobilising global institutional investors from global credit and capital markets, and this is where guarantees have proven to be the most cost effective and efficient tool in doing so. This belief is supported by the statements made by Larry Fink, CEO of Blackrock, the global institutional investor with over USD 9 trillion of assets under management, in which he proposed that existing multilateral development banks be repurposed as credit enhancement providers rather than lending institutions to help mobilise more climate finance into developing countries on affordable terms.
- <https://www.bloomberg.com/news/articles/2021-07-11/blackrock-s-fink-urges-world-bank-imf-overhaul-for-green-era>
- 1.136 As the first and only guarantor dedicated to supporting developing countries to build bridges with global capital and credit markets GGC will help address the following financing barriers:
1. Perceived lack of investible climate projects in developing countries. GGC will help identify and structure climate projects which are aligned with a developing country's NDC and combine financial viability with delivering significant climate mitigation and/or adaptation benefits in the developing country. This will include aggregation structures which will help mobilise climate finance at scale to LDC and SIDS as discussed in Section 1.127.
  2. Perceived risks of investing in developing countries generally. By providing its guarantee GGC is risk-sharing with the investors in the global credit or capital market which is a credible and powerful way of helping them gain confidence to overcome any concerns about investing in a developing country. GGC's unique ability to leverage its equity 10x means that it can multiply the impact of USD 1 of capital from GCF in a way that direct investing initiatives are unable to and can help mobilise the global credit and capital markets to help deliver the USD 100 billion target of annual climate finance from developed countries to developing countries.
  3. Low capacity of local credit and capital markets in developing countries to understand and/or meet international standards on reporting about performance and impact. GGC will support borrowers in developing countries and educate them in terms of understanding and meeting the international standards required by global credit and capital markets in terms of quality and availability of information and identifying, measuring, and tracking green assets. As mentioned earlier, the success of local borrowers raising long-term climate finance from global credit and capital markets can provide a powerful demonstration effect and needed stimulus to national governments to create similar enabling environments needed to scale local climate finance markets which both local and, in time, global institutional investors can participate in.

#### D.5. Country ownership (max. 500 words, approximately 1 page)

<sup>20</sup> <https://www.ipcc.ch/report/sixth-assessment-report-working-group-ii/>

*Please describe how the beneficiary country takes ownership of and implements the funded project/programme. Describe the following:*

- *Existing national climate strategy; Existing GCF country programme; Relevance to and alignment with existing policies such as Nationally Determined Contributions (NDCs), Nationally Appropriate Mitigation Actions (NAMAs), and National Adaptation Plans (NAPs); NDCs, NAMAs, and NAPs; Capacity of Accredited Entities or Executing Entities to deliver; Role of National Designated Authority; Engagement with civil society organizations and other relevant stakeholders, including indigenous peoples, women, and other vulnerable groups*
- 1.137 Engagement with the NDA and relevant stakeholders in a target country will be a continuous and ongoing process for GGC given that it is not limited to a single transaction in each target country but is able to consider multiple projects over several decades. Consequently, GGC will work to ensure that guarantee transactions are undertaken in consultation with the NDA and relevant local stakeholders as well as considering each country's NDC and Country Programme.
- 1.138 To date, GGC, in partnership with its AE, MUFG, has begun consultations with Bangladesh, Brazil, Cambodia, India, Indonesia, Kenya, Laos, the Philippines, Rwanda, South Africa, Trinidad & Tobago and Uganda. These consultations, several of which have involved local stakeholders alongside the NDA, have been very helpful in shaping GGC's Guarantee Policy (Annex 23) which, as mentioned earlier, seeks alignment with a target country's NDC and Country Programme, where appropriate, as part of its selection criteria for selecting a guarantee opportunity. Additionally, the engagement with Bangladesh, Laos, Rwanda, and Trinidad & Tobago influenced GGC's decision to include support of aggregation structures focused on financing smaller climate projects that are more prevalent in LDC and SIDS as a key element of its growth strategy as discussed in Section D2.
- 1.139 From a transaction perspective, GGC will be conducting in-country due diligence on every guarantee opportunity it considers, which will include assessing the transaction against GGC's E&S Management Framework (which is aligned with GCF's own Environmental and Social Standards) and will engage with local stakeholders, including vulnerable communities (e.g., indigenous peoples) and vulnerable groups (e.g., women). GGC will also prioritise transactions where a Gender Assessment and Action Plan is in place and in alignment with the requirements set out both by the GCF (GCF & UNWOMEN 2017) and the prevailing international ratified legal frameworks, regional and national gender policies, or other public policy for gender equality and women's empowerment. To ensure that the local perspective on a potential climate project is understood, GGC will seek to engage in-country consultants where necessary to help GGC communicate effectively with local stakeholders, including NGOs and civil society organizations where appropriate. As explained in Section A21, GGC will typically get involved in a transaction at a later stage of its development, as such its ability to influence change may be limited, however where a transaction is unable to demonstrate that it meets or will meet within an acceptable timeframe the requisite E&S and gender standards the GGC will not provide a guarantee.

#### **D.6. Efficiency and effectiveness (max` . 500 words, approximately 1 page)**

*Describe how the financial structure is adequate and reasonable in order to achieve the proposal's objectives, including addressing existing bottlenecks and/or barriers, and providing the minimum concessionality to ensure the project is viable without crowding out private and other public investments. Refer to section B.5 on the justification of GCF funding requested as necessary.*

- 1.140 The targeted equity capital for GGC of USD 250 million is sized as the optimal amount on the assumption that with 10 times leverage, a USD 2.5 billion portfolio of guarantees can be supported at GGC inception. On the basis that single guarantee exposures should be around 5-10% of the portfolio to allow for diversification, USD 100 million to USD 200 million per transaction ticket size will allow for GGC to support sizable bond and loan issuances as too small a transaction would not be cost effective for a bond issuance after incorporating the arranger fees and other transaction costs.
- 1.141 As minimum concessionality is expected from GCF in its equity investment save for the provision of patient capital as with the other contributors, GCF will not be crowding out any private sector or public sector guarantors or financiers especially when the anticipated projects will not have access to long term funding from the capital markets without GGC's assistance.

*Please describe the efficiency and effectiveness of the proposed project/programme, taking into account the total financing and mitigation/ adaptation impact the project/programme aims to achieve, and explain how this compares to an appropriate benchmark.*

- 1.142 Overall, USD 82.5 million GCF funding will deliver mitigation benefits at USD1.95 per tCO<sub>2</sub>eq (GCF contribution / expected lifetime emission reductions).
- 1.143 If taking into account revolving use of GCF equity contribution to support a revolving guarantee portfolio (maturing and/or amortised guarantees recycled to support new guarantees), the efficiency ratio improves further. On the assumption that each guarantee amortises 10% per year and based on a conservative build-up of the portfolio in the initial years, GGC is expected to issue USD 4.9 billion of guarantees in total over the first 10 years. From this 22.5% increase in total guarantees issued against the USD 4 billion guarantee portfolio limit on a rolling basis, GGC has the potential to deliver mitigation

benefits at USD 1.59 per tCO<sub>2</sub>eq (GCF contribution/ expected lifetime emission reductions based on total guarantees issued (64 million x 1.225).

- 1.144 Taking into account total project costs, the program will support projects that will deliver climate change mitigation benefits at an estimated USD 89.2 per tCO<sub>2</sub>eq (total project costs (USD 5.71 billion if debt is USD4 billion / expected lifetime emission reductions), based on the same assumptions used as well as a 70:30 debt to equity ratio for the sub-projects supported. If calculated on total guarantee issued basis of USD 4.9 billion, the total investment costs of benefits reduce to USD 72.8 per tCO<sub>2</sub>eq.

#### **Leverage**

- 1.145 The programme will use USD 82.5 million from GCF up to a rolling portfolio of USD 4 billion- or 48-times leverage. Based on total guarantee issued and the assumptions of GGC's conservative portfolio growth in the initial years of USD 4.9 billion, the leverage increases to 59 times.
- 1.146 This total leverage is enabled by three factors i) additional contributions from other investors as co-equity providers, ii) additional unfunded leverage to be sought by GGC as its operations mature and iii) 10x leverage over its total equity and unfunded leveraged capital.

#### **Mobilization of private insurance and reinsurance markets**

- 1.147 Although not yet certain, plans to introduce private insurance cover for both political risks and quota share credit risk cover will also see GCF's equity catalysing risk appetite and partial risk participation from the commercial insurance and reinsurance markets. This cannot be accurately measured at this moment but will certainly encourage insurers to expose their liability side instead of just the asset/investments part of their business as green bond investors.

*Please specify the expected financial rate of return with and without the Fund's support to illustrate the need for GCF funding to illustrate overall cost effectiveness.*

- 1.148 There is no ability to compare rates of return with and without GCFs support as there would be minimum concessionality as equity providers to GGC are providing the valuable support of patient capital for GGC to build up its operations and focus on supporting the most critical climate interventions needed.

*Please explain how best available technologies and practices have been considered and applied. If applicable, specify the innovations/modifications/adjustments that are made based on industry best practices.*

GGC will be looking to deploy technological tools as they become available not only for mitigation projects like low carbon transportation but also for adaption projects – assisting with the forestry conservation efforts and more effective monitoring and enforcements by local authorities like drones and use of Internet of Things to deliver better monitoring of the environment, early warning systems or communications systems/channels to protect the vulnerable communities and environment.

## E. LOGICAL FRAMEWORK

*This section refers to the project/programme's logical framework in accordance with the **GCF's Integrated Results Management Framework** to which the project/programme contributes as a whole, including in respect of any co-financing.*

### E.1. Project/Programme Focus

*Please indicate whether this proposal is for a mitigation or adaptation project/programme. For cross-cutting proposals, select both.*

- ☒ Reduced emissions (mitigation)  
☒ Increased resilience (adaptation)

### E.2. GCF Impact level: Paradigm shift potential (max 600 words, approximately 1-2 pages)

*This section of the logical framework is meant to help a project/programme monitor and assess how it contributes to the paradigm shift described in section D.2 above by applying three assessment dimensions - scale, replicability, and sustainability. Accordingly, for each assessment dimension (see the definition per assessment in the accompanying guidance note), describe the current state (baseline) and the potential scenario (target) and rate the current state (baseline) by using the three-point-scale rating (low, medium, and high) provided in the guidance note. Also describe how the project/programme will contribute to that shift/ transformation under respective assessment dimensions (scale, replicability, and sustainability). In doing so, please refer to section B.2(a) (theory of change).*

| Assessment Dimension | Current state (baseline)  |            | Potential target scenario (Description)   | How the project/programme will contribute (Description)   |
|----------------------|---|------------|---|---|
|                      | Description   | Rating     |   |   |
| <b>Scale</b>         | Mitigation and Adaptation: adaptation finance globally, and particularly in developing countries, lags considerably behind the level of need. UNEP estimates <sup>21</sup> that annual adaptation costs in developing countries will range between \$155 - \$330 billion a year by 2030, yet in 2019-2020 average annual adaptation finance only amounted to \$46 billion a year. <sup>22</sup> Mitigation costs range between \$140 billion to \$175 billion annually by 2030 (World Bank). Guarantee finance presently plays a very marginal role in unlocking private capital in climate adaptation. | <u>Low</u> | Mitigation and Adaptation: paradigm shift would involve a measurable increase in the volume of guarantee finance provided to private sector investors in the participating developing countries and would be linked to a demonstrable scale-up of climate adaptation and mitigation finance in these countries by virtue of adaptation investments – related to GCF's MRA 1-3 and ARA2 and ARA3 -- being de-risked by guarantees. | <i>Describe key applicable outputs and or resulting outcomes relevant to increasing (scaling up) quantifiable results within and beyond the scope of the intervention.</i><br><br>Adaptation: the intervention is projected to deliver immense financial and direct benefit directly in the form of guarantees (to bonds and loans) for climate change adaptation and will leverage in catalytic private finance for adaptation and mitigation investments over 20 years. |
| <b>Replicability</b> | Mitigation and Adaptation: Despite the existence of the Multilateral Investment Guarantee Agency (MIGA), <sup>23</sup> and proposals to operationalize entities such  | <u>Low</u> | Mitigation and Adaptation: If the GGC's model markedly increases private capital invested in climate change adaptation investments – related to GCF's MRA 1-3 and ARA2 and ARA3 – in the  | <i>Describe key applicable outputs and resulting outcomes that will be replicated to other sectors, markets, geographical regions, or countries.</i>  |

<sup>21</sup> UNEP, Adaptation Gap Report, 2021 <https://www.unep.org/resources/adaptation-gap-report-2021>

<sup>22</sup> Climate Policy Initiative, Global Landscape of Climate Finance 2021 <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/>

<sup>23</sup> MIGA <https://www.miga.org/>

|                       |   |               |  |  |
|-----------------------|---|---------------|--|--|
|                       | as the African Guarantee Fund's Green Guarantee Facility, guarantees are not widely used instruments for private investments in adaptation. Thus, current baseline levels of proven replicability of guarantees in the adaptation sphere are low. <sup>24</sup> Further, NDAs and other stakeholders (including banks that benefit from GGC's loan guarantees), can replicate GGC's successfully executed transactions especially for adaption projects with the introduction of "out of the box" solutions or components in developing the transaction |               | participating developing countries, it could be replicated within other Mitigation and Adaptation Results Areas, and exponentially across a number of other developing countries with high climate change risks and pressing adaptation finance needs.   | Mitigation and Adaptation: lessons learnt through the GGC's model will directly inform the work of other institutions exploring the use of guarantees to boost climate finance,  |
| <b>Sustainability</b> | Mitigation and Adaptation: as financial instruments, guarantees are proven to be sustainable and effective. <sup>25</sup> A well-structured guarantee is regarded as attractive in terms of financial sustainability for investment flows. <sup>26</sup>  | <u>Medium</u> | Mitigation and Adaptation: paradigm shift would see guarantees being regarded as extremely reliable and highly sustainable financial instruments for climate change adaptation investments and would become a preferred and well-accepted approach to de-risking climate adaptation investments – such as those under the GCF's MRA 1-3 and ARA2 and ARA3 – in developing countries. | <i>Describe key applicable outputs and resulting outcomes that will be sustained beyond the project/programme period.</i><br><br>Mitigation and Adaptation: As the programme unfolds over time, the GGC will share its experience with national financial institutions, both public and private, to increase their awareness of the role and functionality of guarantees for private capital directed at climate change adaptation investments, thereby facilitating more sustainability in the markets for guarantee finance. |

**E.3. GCF Outcome level: Reduced emissions and increased resilience (IRMF core indicators 1-4, quantitative indicators)**

Select appropriate IRMF core and supplementary indicators to monitor project/programme progress. More than one IRMF (core and or supplementary) indicators may be selected as applicable for each GCF results area and project/programme outcome (as defined in the table in section B.2(b)). If IRMF indicators are unable to measure any given project/programme outcomes, project/programme-specific indicators should be developed under section E.5 (project/programme specific indicators).

<sup>24</sup> OECD, Climate Finance Provided and Mobilized by Developed Countries: Aggregate Trends Updated with 2019 Data, 2021. <https://www.oecd-ilibrary.org/docserver/03590fb7-en.pdf?expires=1644155109&id=id&accname=quest&checksum=1FFB1EBDA0C696909327EB729D9D8C57>

<sup>25</sup> Bhandary, Gallagher, and Zhang, Climate Finance Policy in Practice: A Review of the Evidence, *Climate Policy* Vol. 21 No. 4, pp. 529-545 (2021). <https://www.tandfonline.com/doi/pdf/10.1080/14693062.2020.1871313?needAccess=true>

<sup>26</sup> The World Bank Group, Enabling Private Investment in Climate Adaptation and Resilience, 2021. <https://openknowledge.worldbank.org/bitstream/handle/10986/35203/Enabling-Private-Investment-in-Climate-Adaptation-and-Resilience-Current-Status-Barriers-to-Investment-and-Blueprint-for-Action.pdf?sequence=5>



| GCF Result Area                             | IRMF Indicator   | Means of Verification (MoV)  | Baseline             | Target                       |                               | Assumptions / Note   |
|---|--|--|----------------------|------------------------------|-------------------------------|--|
|   |  |  |                      | Mid-term                     | Final <sup>27</sup>           |  |
| MRA1<br><u>Energy generation and access</u> | <u>Core 1: GHG emissions reduced, avoided or removed/sequestered</u> | Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors (and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)<br>Potentially supplemented by additional independent verification programmes where applicable, such as Verra, CDM or Gold Standard. | 0 tCO <sub>2</sub> e | 6 865 554 tCO <sub>2</sub> e | 18 346 413 tCO <sub>2</sub> e | Assumed three-year implementation period, and linear growth and adoption of guarantees thereafter.<br><br>Methodology: Emissions reductions calculated based on planned performance of underlying reference projects. Impact results scaled based on local conditions (e.g. grid emission factors), proposed project financing, and other indicators where relevant.<br><br>Lifetime: Various based on project |

<sup>27</sup> The final target means the target at the end of project/programme implementation period. However, for core indicator 1 (GHG emission reduction), please also provide the target value at the end of the total lifespan period which is defined as the maximum number of years over which the impacts of the investment are expected to be effective.



|  |   |   |       |  |   |  |
|--|---|---|-------|--|---|--|
|  |   |   |       |  |   | <p>type.<br/>Median<br/>project<br/>lifetime of<br/>20 years</p> <p>Annual<br/>emission<br/>reduction<br/>s:<br/>2 296 172<br/>tCO<sub>2</sub>e</p> <p>Lifetime<br/>emission<br/>reduction<br/>s: 57 066<br/>295<br/>tCO<sub>2</sub>e</p> <p>Cost of<br/>emissions<br/>reduction<br/>s: \$40,69<br/>per<br/>tCO<sub>2</sub>e</p> |
| <u>MRA1<br/>Energy<br/>generation<br/>and access</u> | <u>Supplementary 1.3:<br/>Installed renewable<br/>energy capacity</u> | <p>Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors (and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)</p> <p>Potentially supplemented by additional independent verification programmes where applicable, such as Verra, CDM or Gold Standard.</p> | 0 MWh | 343 MW                                     | 1000 MW   | <p>Assumed three-year implementation period, and linear growth and adoption of guarantees thereafter .</p>   |
| <u>MRA1<br/>Energy<br/>generation<br/>and access</u> | <u>Supplementary 1.4:<br/>Renewable energy<br/>generated</u>          | <p>Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors (and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)</p> <p>Potentially supplemented by additional independent</p>  | 0 MWh | 9 837 521 MWh<br>cumulative at<br>mid-term | 26 288 226<br>MWh<br>cumulative<br>at full-term | <p>Assumed three-year implementation period, and linear growth and adoption of guarantees thereafter .</p>   |

|                                    |  |  |                      |                            |                            |  |
|------------------------------------|--|--|----------------------|----------------------------|----------------------------|--|
|                                    |  | verification programmes where applicable, such as Verra, CDM or Gold Standard.   |                      |                            |                            | <p>Methodology:<br/>Emissions reductions calculated based on planned performance of underlying reference projects. Impact results scaled based on local conditions (e.g. grid emission factors), proposed project financing, and other indicators where relevant.</p> <p>Annual generation:<br/>3 290 141 MWh</p> <p>Lifetime generation:<br/>26 288 226 MWh</p> |
| <u>MRA2 Low-emission transport</u> | <u>Core 1: GHG emissions reduced, avoided or removed/sequestered</u> | <p>Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors (and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)</p> <p>Potentially supplemented by additional independent</p> | 0 tCO <sub>2</sub> e | 270 081 tCO <sub>2</sub> e | 721 722 tCO <sub>2</sub> e | <p>Assumed three-year implementation period, and linear growth and adoption of guarantees thereafter.</p>  |

|  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|
|  |  | verification programmes where applicable, such as Verra, CDM or Gold Standard. |  |  |  | <p>Methodology:<br/>Emission reductions calculated based on planned performance of underlying reference projects. Impact results scaled based on local conditions and other relevant indicators, and proposed project financing.</p> <p>Lifetime:<br/>Various based on project type.<br/>Median project lifetime of 30 years</p> <p>Annual emission reductions:<br/><br/>90 328 tCO<sub>2</sub>e</p> <p>Lifetime emission reductions: 4 516 411 tCO<sub>2</sub>e</p> |
|--|--|--|--|--|--|--|

|  |  |   |                      |                                      |  |   |
|--|--|---|----------------------|--------------------------------------|--|---|
|  |  |   |                      |                                      |  | Cost of emissions reductions: \$121.78 per tCO <sub>2</sub> e   |
| <u>MRA2 Low-emission transport</u>                       | <u>Supplementary 1.1: Annual energy savings</u>                      | <p>Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors (and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)</p> <p>Potentially supplemented by additional independent verification programmes where applicable, such as Verra, CDM or Gold Standard.</p> | 0 MWh                | 5 714 577 MWh cumulative at mid-term | 15 270 725 MWh cumulative at full-term | <p>Assumed three-year implementation period, and linear growth and adoption of guarantees thereafter .</p> <p>Annual energy savings: 1 911 230 MWh/y</p> <p>Lifetime energy savings: 95 561 484 MWh</p> |
| <u>MRA3 Buildings, cities, industries and appliances</u> | <u>Core 1: GHG emissions reduced, avoided or removed/sequestered</u> | <p>Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors (and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)</p> <p>Potentially supplemented by additional independent verification programmes where applicable, such as Verra, CDM or Gold Standard.</p> | 0 tCO <sub>2</sub> e | 11 215 542 tCO <sub>2</sub> e        | 11 956 789 tCO <sub>2</sub> e          | <p>Assumed three-year implementation period, and linear growth and adoption of guarantees thereafter .</p> <p>Methodology: Emissions reductions calculate</p>   |

|  |  |  |  |  |  |   |
|--|--|--|--|--|--|---|
|  |  |  |  |  |  | <p>d based on planned performance of underlying reference projects. Impact results scaled based on local conditions and other relevant indicators, and proposed project financing.</p> <p>Lifetime: Various based on project type. Median project lifetime of 15 years</p> <p>Annual emission reductions:</p> <p>2 302 705 tCO<sub>2</sub>e</p> <p>Lifetime emission reductions: 12 996 018 tCO<sub>2</sub>e</p> <p>Cost of emissions reduction</p> |
|--|--|--|--|--|--|---|

|  |   |  |   |   |   |   |
|--|---|--|---|---|---|---|
|  |   |  |   |   |   | s: \$71.91<br>per tCO <sub>2</sub> e  |
| <u>MRA3<br/>Buildings,<br/>cities,<br/>industries<br/>and<br/>appliances</u> | <u>Supplementary 1.1:<br/>Annual energy<br/>savings</u>               | Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors (and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)<br><br>Potentially supplemented by additional independent verification programmes where applicable, such as Verra, CDM or Gold Standard. | 0 MWh   | 11 215 542<br>MWh cumulative<br>at mid-term   | 11 956 789<br>MWh cumulative<br>at full-term                          | Assumed three-year implementation period, and linear growth and adoption of guarantees thereafter<br><br>Annual energy savings: 2 302 705 MWh/y |
| <u>MRA3<br/>Buildings,<br/>cities,<br/>industries<br/>and<br/>appliances</u> | <u>Supplementary 1.3:<br/>Installed renewable<br/>energy capacity</u> | Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors (and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)<br><br>Potentially supplemented by additional independent verification programmes where applicable, such as Verra, CDM or Gold Standard. | 0 MWh   | 13 MW   | 34 MW   | Assumed three-year implementation period, and linear growth and adoption of guarantees thereafter<br><br>.                                      |
| <u>ARA2<br/>Health, well-<br/>being, food<br/>and water<br/>security</u>     | <u>Core 2: Direct and<br/>indirect<br/>beneficiaries<br/>reached</u>  | Ex-ante and ex-post analyses of the GGC's guarantees, conducted by project or programme investors and implementation entities), as part of required MERL   | 0<br><br>(As the investments to be targeted by the GGC's guarantees would, by definition, not | 7 694 263 direct beneficiaries (3 847 132 male and 3 847 132 female) and 7 256 713 indirect beneficiaries (3 628 357 male | 15 388 526 direct beneficiaries (7 694 263 male and 7 694 263 female) | Please refer to Annex 22 for a description of assumptions   |



|  |  |  |   |   |   |   |
|--|--|--|---|---|---|---|
|  |  | systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor)  | materialize or proceed in the absence of the de-risking by the guarantee)   | and 3 628 357 female)   | and 14 513 427 indirect beneficiaries (7 256 713 male and 7 256 713 female)   | underpinning the estimation of direct and indirect beneficiaries reached, under each ARA, and the excel spreadsheet with back-end calculations.<br><br>The estimations pertain to the beneficiaries over the entire lifecycle of the investments (i.e. their operational lifetime.) |
| <u>ARA3</u><br><u>Intrastructure and built environment</u> | <u>Core 2: Direct and indirect beneficiaries reached</u> | Ex-ante and ex-post analyses of the impact of GGC's guarantees, conducted by project or programme investors and implementation entities), as part of required MERL systems put in place by investors; to be compiled into annual country performance reports for the GGC (by third party contractor) | 0<br><br>(As the investments to be targeted by the GGC's guarantees would, by definition, not materialize or proceed in the absence of the de-risking by the guarantee) | 805 718 direct beneficiaries (402 858 male and 402 858 female) and 2 696 692 indirect beneficiaries (1 348 346 male and 1 348 346 female) | 1 611 434 direct beneficiaries (805 717 male and 805 717 female) and 5 393 385 indirect beneficiaries (2 696 692 male and 2 696 692 female) | Please refer to Annex 22 for a description of assumptions underpinning the estimation of direct and indirect beneficiaries  |

|  |  |  |  |  |             |  |
|--|--|--|--|--|-------------|--|
|  |  |  |  |  | 692 female) | reached, under each ARA, and the excel spreadsheet with back-end calculations.<br><br>The estimations pertain to the beneficiaries over the entire lifecycle of the investments (i.e. their operational lifetime.) |
|--|--|--|--|--|-------------|--|

No supplementary indicators have been selected for ARA2 and ARA3 due to the lack of universal applicability of any of the IRMF's supplementary indicators (2.1 through 2.7) to the potential GGC adaptation portfolio as a whole.

Given the thematic focus of sub-indicators 2.1 through 2.7, each is applicable to certain investments within the linked sector and sub-sector, and would be relevant depending on the investment's design and functionality. But any such indicator would, by its nature, not be applicable to a large proportion of the potential investment portfolio that falls outside the linked sector and sub-sector (for instance, a sub-indicator on early warning systems (2.4) would not be an appropriate metric to gauge and measure results for an investment on climate-resilient building standards, if early warning systems are not inherent in the investment design, and in such a case sub-indicator 2.6 is more likely to be applicable).

This is not to say that there may not, plausibly, be a sub-set of potential investments that are brought to the GGC to seek guarantees, to which one or more of the sub-indicators may apply -- depending on the very specific nature and design of that investment. The sub-indicators may very well be relevant on a case-by-case basis. However, given the GGC's programmatic nature, plus the absence of an indicative portfolio with identifiable projects and programmes, opting for any one of the sub-indicators would be inapplicable to the mock portfolio as a whole.

Thus, choosing a sub-indicator to evaluate all adaptation projects against, when it will not apply across the board and be misaligned with several of the investments that emerge, is deemed sub-optimal. However, Annex II (M7E framework) does take cognizance of these sub-indicators and directs those responsible for M&E of GGC-supported investments to examine the IRMF's list of supplementary indicators and, on a case-by-case basis, select and integrate into the project-specific M&E the particular sub-indicator of relevance in each instance.

#### E.4. GCF Outcome level: Enabling environment (IRMF core indicators 5-8 as applicable)

Select at least two relevant IRMF core (enabling environment) indicators to monitor and elaborate the baseline context and project/programme's targeted outcome against the respective indicators. Rate the current state (baseline) vis-à-vis the target scenario and select the geographical scope of the outcome to be assessed. Describe how the project/programme will contribute towards the target scenario. Refer to a case example in the accompanying guidance to complete this section.

| Core Indicator   | Baseline context (description)  | Rating for current state (baseline) | Target scenario (description)  | How the project will contribute   | Coverage                      |
|--|---|-------------------------------------|--|---|-------------------------------|
| <p><u>Core indicator 7:</u><br/><u>Degree to which GCF Investments contribute to market development/transformation at the sectoral, local, or national level</u></p>                                   | <p>Mitigation and Adaptation: Climate finance markets in developing countries have not yet optimized the deployment of guarantees to the full potential of the instrument. Even at the GCF itself, while approximately 2% of the GCF's portfolio comprises of guarantees, virtually all of it is for mitigation projects and programmes.<sup>28</sup></p> | <p><u>low</u></p>                   | <p>Mitigation and Adaptation: the GGC's efforts will stimulate financial markets in all the participating countries, in terms of unlocking greater volumes of guarantee finance to de-risk private sector investments in climate change.</p>             | <p>Mitigation and Adaptation: The GGC's work will demonstrate, through concrete actions and results, the strategic use of guarantees and the financial utility thereof. It will serve as proof-of-concept in many markets. Lessons learnt through the GGC's model will directly inform the work of other institutions exploring the use of guarantees to boost climate finance.</p> | <p><u>Multi-countries</u></p> |
| <p><u>Core indicator 8:</u><br/><u>Degree to which GCF investments contribute to effective knowledge generation and learning processes, and use of good practices, methodologies and standards</u></p> | <p>There is very little existing practice related to the use of guarantees to generate greater financial flows of private capital into climate change adaptation investments, and therefore ineligible knowledge and awareness.</p>   | <p><u>low</u></p>                   | <p>The GGC's efforts will generate a wealth of knowledge for national and global financial institutions, in terms of the efficacy and operationalization of guarantees to unlock private sector investment in various climate change thematic areas.</p> | <p>As the programme unfolds over time, the GGC will share its experience with national financial institutions, both public and private, to increase their awareness of the role and functionality of guarantees for private capital directed at climate change mitigation and adaptation investments.</p>   | <p><u>Multi-countries</u></p> |

<sup>28</sup> GCF, Status of the GCF Portfolio: Approved Projects and Fulfillment of Conditions, September 2021.  
<https://www.greenclimate.fund/sites/default/files/document/gcf-b30-inf12.pdf>

### E.5. Project/programme specific indicators (project outcomes and outputs)

*This section should list out project/programme-specific performance indicators (outcomes and outputs) that are not covered in sections above (E.1-E.4). List down tailored indicators to monitor /track progress against relevant project/programme results (outcomes/outputs). AEs have the freedom to decide against which outcomes they would like to set project/programme specific indicators. If any co-benefits are identified in sections B.2(a)(b), and D.3, AEs are encouraged to add and monitor co-benefit indicators under the "Project/programme co-benefit indicators" section in table below. Add rows as needed.*

*Please number each outcome and output as shown below to indicate association of outputs to the contributing outcome. The numbering for outputs under this section should correspond to the output numbering in annex 4 (detailed budget plan).*

| Project/programme results (outcomes/ outputs)   | Project/programme specific Indicator                               | Means of Verification (MoV)                 | Baseline | Target   |       | Assumptions / Note   |
|---|--|---|----------|----------|-------|--|
|   |  |   |          | Mid-term | Final |  |
| <b>Outcome 1 Mitigation: shift to low-emission sustainable development pathways with a corresponding mitigation impact (GHG emissions reduced)</b>  | <i>No. of guaranteed projects received with a mitigation focus</i> | <i>Official documents tracking progress</i> | 80%      | 40%      | 80%   | <i>All guaranteed projects will achieve GHG emission targets</i>                             |
| Output 1.1 <i>Borrowers have increased access to green bonds and loans to implement climate-related, mitigation projects</i>  | <i>Number of Borrowers increased</i>                               | <i>Official documents tracking progress</i> | X        | X+25%    | X+50% | Projects are available in the country that are viable and meet the GGC's policy requirements |
|   | <i>Number of Borrowers that have a gender related focus</i>        |   |          | X+5      | X+8   |  |
| <b>Outcome 2 Adaptation: Increased climate-resilient sustainable developmental impact and improved adaptive capacity are achieved in the supported projects that successfully contribute to the NDC of selected countries</b> | <i>No. of projects guaranteed with an adaptation focus</i>         | <i>Official documents tracking progress</i> | 20%      | 10%      | 20%   | <i>All guaranteed projects will achieve adaptation interventions</i>                         |
| Output 2.1 <i>Borrowers have increased access to</i>  | <i>Number of Borrowers increased</i>                               | <i>Official documents tracking progress</i> | X        | X+25%    | X+50% | Projects are available in the country that are viable and                                    |

|  |  |                                      |   |                                     |                                     |  |
|--|--|--------------------------------------|---|-------------------------------------|-------------------------------------|--|
| green bonds and loans to implement climate-related, adaptation projects  | Number of Borrowers that have a gender related focus                 |                                      |   | X+5                                 | X+8                                 | meet the GGC's policy requirements                           |
| <b>Outcome 3: Enabling Environment: Market transformation by providing a de-risking mechanism that leads to an increase in green bonds and loans being issued by developing countries. This includes borrowers accessing an improved credit rating that closes the climate finance gap and drives financial sector development and stability</b> | No. of borrowers with an improved credit rating                      | Official documents tracking progress | X | X+3                                 | X+5                                 | Credit borrowers are willing to participate in the programme |
| Output 3.1 - A credit guarantee portfolio of green bonds and loans issued by developing countries to borrowers by the capitalized GGC  | No of green bonds and loans issued                                   | Official documents tracking progress | X | To be determined                    | To be determined                    |  |
| Output 3.2 - Local and international partnerships on climate solutions aiding access to global capital markets   | No. of local and international partnerships forged                   | Official documents tracking progress | X | X+8                                 | X+15                                |  |
| <b>Outcome 4: Enabling Environment: Increased access to effective knowledge generation and learning processes into the use of guarantees to accelerate and scale-up private sector capital for</b>   | No. of monitoring and evaluation reports<br>No. of quarterly reports | Documentation stored                 | 0 | 20 years: 4 reports:<br>X+borrowers | 20 years: 4 reports:<br>X+borrowers |  |

|   |  |  |  |      |       |   |
|---|--|--|--|------|-------|---|
| <b>climate mitigation and adaptation investments</b>  |  |  |  |      |       |   |
| Output 4.1. Training and capacity building leads to a robust portfolio of projects leading to investment-ready, high-integrity projects | <i>No. of participants attending training</i>  | <i>Official documents tracking progress</i>    | X                                      | X+50 | X+100 |   |
| <b>Project/programme co-benefit indicators</b>  |  |  |  |      |       |   |
| Co-benefit 1 – (A)<br><i>Reduction in air-pollution impacts, technological innovation; employment and public health benefits</i>        | <i>Proportion of the fund portfolio that reduce air-pollution impacts, technological innovation; employment and public health benefits</i> | Workshops<br>Official national , local reports | 0 (reductions and not absolute levels) | 10%  | 15%   | There will be no other significant polluting factors                            |
| Co-benefit 2 – (B)<br><i>Reducing exposure to natural resource and biodiversity threats and health impacts</i>                          | <i>Proportion of the fund portfolio that reduce exposure to natural resource and biodiversity and health impacts</i>                       | Workshops<br>Official national , local reports | 0 (reductions and not absolute levels) | 10%  | 15%   | There will be no other significant polluting factors                            |
| Co-benefit 3 (C)– Market development  | <i>Number of small and medium sized enterprises assisted by the investment</i>   | Annual reporting by Borrower                   | 0                                      | 2%   | 5%    | Transactions with a gender focus are closed and proceed to implementation phase |
| Co-benefit 4 (D and F) – Social inclusion   | <i>Number of people from a marginalized or vulnerable group reached via a targeted project deliverables (disaggregated by gender)</i>      | Annual reporting by Borrower                   | 0                                      | 2%   | 5%    | Transactions with a gender focus are closed and proceed to implementation phase |
| Co-Benefit 5 (E) – Gender   | <i>Percent of investors that are led by women</i>  | Annual reporting by Borrower                   | 0                                      | 8%   | 10%   | Transactions with a gender focus are closed and proceed to implementation phase |
| Co-Benefit 6 (E) – Gender   | <i>Number of investments to women-led businesses</i>   | Annual reporting by Borrower                   | 0                                      | 5%   | 8%    | Transactions with a gender focus are closed and                                 |



|                           |   |                              |   |    |     |   |
|---------------------------|---|------------------------------|---|----|-----|---|
|                           |   |                              |   |    |     | proceed to implementation phase   |
| Co-Benefit 7 (E) – Gender | <i>Percent of portfolio companies that meet both the climate finance and 2X direct criteria</i>   | Annual reporting by Borrower | 0 | 3% | 5%  | Transactions with a gender focus are closed and proceed to implementation phase |
| Co-benefit 8 (E) – Gender | <i>Share of women in the fund's senior management or share of women on the fund's Board, where the fund invests in companies providing mitigation and/or adaptation solutions</i> | Annual reporting by Borrower | 0 | 8% | 10% | Transactions with a gender focus are closed and proceed to implementation phase |

#### E.6. Project/programme activities and deliverables

*All project activities should be listed here with a description and sub-activities. Significant deliverables should be reflected in annex 5 implementation timetable. Add rows as needed.*

*Please number the activities as shown below to indicate association of activities to the related outputs provided above in section E.5. Similarly, please number sub-activities as shown below to associate to the related activity.*

| Activities   | Description  | Sub-activities  | Deliverables   |
|--|--|---|--|
| Activity 1.1. Formation and capitalization of GGC (Yr 2022-2025)       | GGC has been incorporated as a legal entity which can provide guarantees to institutional investors in global credit and capital markets. GGC has been formed as a private limited company in the United Kingdom and will be eventually capitalised with USD 270 million of equity. The equity will be raised in two tranches with an initial tranche of USD 100 million raised to enable GGC to commence operations and the second tranche of USD 170 million raised within 36 months to support GGC's growth. DGG will be the Manager (running the day-to-day operations of GGC) and there will be a management agreement between GGC and DGG which outlines the services that will be provided by the latter party and on what terms. | 1.1.1 Ensure GGC is compliant with all necessary legal and tax filings<br>1.1.2 Procure legal services<br>1.1.3 Develop and negotiate GGC equity documentation and management agreement with DGG.<br>1.1.4 Close GCF and FCDO into first tranche of equity for GGC.<br>1.1.5 Close management agreement between GGC and DGG | A. Incorporation<br>B. Equity Documentation and management agreement<br>C. Proposals |
| Activity 1.2 Secure investment grade credit rating for Green Guarantee | To be able to play its role as a guarantor and to credit enhance the debt instruments issued by Borrowers from developing countries it will be necessary for GGC to have obtained an investment grade credit rating from one of the  | 1.2.1 Procure (annually) credit rating service from one or more of the international credit rating agencies.  | A. Proof of investment grade rating  |

|  |  |   |   |
|--|--|---|---|
| Company Limited (Yr 2022-2023)   | three international credit rating agencies, Fitch, Moodys or Standard and Poors. This investment grade credit rating will provide institutional investors in global credit and capital markets with the assurance that GGC is a creditworthy counterparty on whose guarantees they can rely.   |   |   |
| Activity 1.3 Identify, execute and financially structure guarantees that mobilise institutional capital in global credit and capital markets to fund climate mitigation and adaptation projects in developing countries (Yr 2023-2042) | GGC expects to leverage (as explained earlier in sections 1.16 to 1.18) the first tranche of USD 100 million of equity capital provided by Green Climate Fund (USD 40 million), FCDO (USD 40 million) and at least one other investor (USD 20 million) by 10x to create an initial guarantee capacity of USD 1 billion. GGC will then undertake the activities outlined in the diagram below to work with Origination Partners to identify climate mitigation and adaptation projects which are aligned with the Eligibility Criteria outlined GGC's Guarantee Policy (see Annex 23) and will approve, provide financial structuring support, and execute transactions in accordance with the guarantee process articulated in the Guarantee Policy. | <p>1.3.1 Build network of Origination Partners</p> <p>1.3.2 Provide financial structuring support to Origination Partners and Borrowers to build a pipeline of potential guarantee transactions which are aligned with the GGC Guarantee Policy (and in line with the Transaction Selection Process designed to optimize climate change benefits)</p> <p>1.3.3 Progress transactions through the GGC guarantee process as outlined in the GGC Guarantee Policy</p> <p>1.3.4 Execute transactions</p>  | <p>A. Partnership Agreements</p> <p>B. Transaction Scorecard</p> <p>C. Due diligence report</p> <p>D. Disclosure reports</p> <p>E. Remediation Strategy</p> |
| Activity 1.4 Manage and report on portfolio of guarantees for risk management, performance, and impact (Yr 2023-2042)  | GGC will actively manage the credit risk of the portfolio of guarantees seeking to proactively take action to support Borrowers that are at risk of a potential payment default by facilitating communication with investors and arranging a restructuring of the debt obligation to avoid a payment default and if unavoidable paying any claim under the guarantee and taking steps to recover GGC's capital from the Borrower.  | <p>1.4.1 Provide active risk management of guarantee portfolio including guarantee claim payment, restructuring and claim recovery</p> <p>1.4.2 Provide support to Borrowers to develop impact reporting frameworks and where needed mobilise technical assistance grants from third parties (and potentially a dedicated technical assistance grant facility within GGC) to enable capacity-building for Borrowers</p> <p>1.4.3 Regularly monitor and prepare reporting documentation on performance, ESG and climate KPIs of Borrowers</p> <p>1.4.4 Advocate publicly at industry events, conferences and thought leadership initiatives for global credit and capital markets to provide greater climate finance to developing countries</p> <p>1.4.5 Identify sources of technical assistance funding to support Borrowers in accessing global credit and capital markets</p> | <p>A. Monitoring and Evaluation Progress Report</p> <p>B. ESG and climate impact reports</p>  |
| Activity 1.5 Establish commercial viability of   | GGC's activities in Activity 1.3 and Activity 1.4 are directed towards generating a return on equity that would be attractive to private sector investors to facilitate an exit for  | <p>1.5.1 Assess and develop an exit strategy for GCF and FCDO</p> <p>1.5.2 Execute exit strategy</p>  | A. Exit strategy  |

|   |   |  |  |
|---|---|--|--|
| GGC and facilitate exit for GCF and FCDO (Yr 2028-2042) | GCF and FCDO via either a listing the shares of GGC on a public market or via a sale to a private sector third party. The ability to access larger pools of equity capital from private investors is going to be essential for GGC's ability to scale its activities and accelerate the paradigm shift in global credit and capital markets to increase flows of climate finance into developing countries. |  |  |
|---|---|--|--|

#### E.7. Monitoring, reporting and evaluation arrangements (max. 500 words, approximately 1 page)

##### Purpose of the M&E Plan:

GGC's monitoring and evaluation plan is intended to help investors and project teams (i.e. Borrowers) to establish effective monitoring and reporting protocols that provide consistent, accurate data and information. The plan seeks to generate evidence on achieving specific climate-related outcomes, as well as co-benefits from the investments such as those related to gender and market transformation. GGC will also track their progress to meet their programme specific indicators. The system will require real-time monitoring approach to complement the quarterly and annual results reporting cycles as the projects evolve. Borrowers will be required to capture, analyze and learn in real-time from their investments. This approach is based on proactive monitoring of key issues, challenges and risks that may arise during the transaction selection process.

##### Parties responsible:

**GGC** is ultimately responsible for overseeing and reporting to the investors (for example to GCF) on the progress made in the monitoring and evaluation plan. This task will be supported by the **AE** who will submit the overarching, aggregated data report to the relevant stakeholders. GGC is also responsible for managing the system design, execution and monitoring of the reporting platform while the project owner or borrower will be responsible for contributing to the expected results and submitting the achieved results to GGC for their review. To ensure that any social, economic climate agenda indicators or targets are reported adequately and fairly, a **Climate Advisory Team** will be appointed to assist with ensuring that the estimated and analyzed outcomes are as realistic and translatable as possible before investors such as the Green Climate Fund receive the data. The Climate Advisory Team will also assist with collecting baseline data at a country level to ensure that recipient countries are designing projects which are country relevant. The team will not rely on established partnership and networks but also on official documentation and research. An additional third party reviewer or auditor will also be appointed to verify the aggregated outcomes in the report submitted to the investors. **Borrowers** will be expected during any reporting period to account for expected results targets as indicated per in their logframe/M&E plan. It is intended that in time, all applications will be submitted online through a digital platform created by GGC which will assist with collecting the relevant data aggregating it and thus allowing for a more streamlined approach to reporting to the various investors. Borrowers will be tasked to devise a full data collection protocol for their projects at the time of approval. This will ensure that they are adequately collecting data sources, incorporating timelines and have the systems in place to ensure that the data is readily available during the quarterly and annual reporting cycles. Borrowers will also be encouraged to consider the data they need to adequately and robustly complete reports. Wherever possible, all indicators will be disaggregated by sex, and subpopulation by subcategory. In addition, data on progress to meet the various indicators will be collected at the field level during workshops hosted in various countries every quarter whereby Participants are encouraged to share their lessons learned challenges and experiences with implementing projects to determine the impact of the programme.

##### The process to monitor, evaluate and report is as follows:

- Once subprojects are identified and transactions are closed, Climate Advisory team will be appointed to update Annex 11 with relevant baseline data and logframe targets.
- Borrowers will be required to complete the updated in Annex 11 (Monitoring and Evaluation) and Climate Impact reports as per the instructions and as adapted to suit the project needs. The reporting function will occur on a **quarterly** and **annual** basis whereby the annual report will contain greater detail of achievements, milestones and challenges that may have occurred in the reporting period while the quarterly report showcases progress made against specific indicators.
- GGC will receive the annual E&S Risks Standards (Assessment and Management of Environmental and Social Risks and Impacts) and Climate Impact reports and monitoring data from the Borrowers of the bonds. GGC assesses the E&S Risks Standards and Climate Impact reports and monitoring data, the use of proceeds and

compares actual results with the set of pre-determined targets. If a material factor is not covered or omitted, GGC will take the appropriate remediation steps which may include assisting the Borrower to commission or undertake an independent assessment with the support of a network of independent local and international verifying firms.

- GGC will evaluate and aggregate the data received from the Borrowers into a consolidated format.
- The data collated will be reviewed by an appointed Climate Advisory Team to verify the information and provide an independent analysis of the outcomes received in the report.
- GGC will review the consolidated report and if required, appoint a third party review or auditor to review the outcomes (on an annual basis).
- GGC will submit the consolidated report to MUFG.
- MUFG will review, comment and ensure and offer feedback on the report, where required.
- Once approved, the consolidated report will be submitted by MUFG to the GCF.
- The final report will be stored on a shared database for ease of reference by investors and GGCs internal team.

#### Certification and annual reporting standards

Annual Reporting will be done according to GGC investors requirements including:

- E&S Risks Standards Reporting
    - a. E&S risks and safeguards reporting includes: Business description, Use of Proceeds, Applicable E&S Performance Standards, Corporate Governance practices, stakeholder consultations and stakeholder engagement process, and grievance redress mechanisms.
    - b. In case of a Category A guaranteed project by GGC, the Access to Information Policy of the IFC will be followed.
  - Climate Impact reporting
    - a. Climate KPIs. Key Performance Indicators (KPIs) for mitigation and adaptation for each investment including the nature of and number of beneficiaries and including the actual annual results with the targets on guarantee portfolio and individual bond level.
    - b. SDGs and NDCs. Actual SDG-related as well as NDC-related investment results (quantitative and qualitative) vs. expected results for each project sector and type will be reported.
- GGC aims to actively support the borrowers in the developing countries in following best practices for the adoption of the Green Bond Principles, Green Loan Principles and the Climate Bonds Standard and Certification Scheme. GGC also supports the borrowers in their E&S reporting to the buyers of the bonds and loans (the lenders).

The bonds will be pre- and post-issuance (ongoing) be certified by independent Approved Verifiers of the list of the Climate Bonds Standard and certification process of the Climate Bonds Standards (version 3.0). The Climate Bond certification includes the analysis of the compliance with the Green Bond Principles and the Green Bonds will be part of the Climate Bonds Green Bonds Database. Post-issuance Use of proceeds reporting, and Climate Impact reporting are core components of the Green Bond principles.

The Climate Bonds Taxonomy identifies the assets and projects needed to deliver a low carbon economy and gives GHG emissions screening criteria consistent with the 2-degree global warming target set by the COP 21 Paris Agreement. The Taxonomy is the foundation used by the Climate Bonds Initiative to screen bonds to determine whether assets or projects underlying an investment are eligible for green or climate finance. Where detailed analysis of a sector has been undertaken and specific eligibility Criteria have been developed the Taxonomy is the foundation used by the Climate Bonds Initiative to screen bonds to determine whether assets or projects underlying an investment are eligible for green or climate finance. Where detailed analysis of a sector has been undertaken and specific eligibility Criteria have been developed, bonds in that sector can be Climate Bonds Certified. Where detailed sector-based Criteria for Certification are still under development, these sectors cannot yet be certified under the Climate Bonds Standard and we will accordingly not provide our guarantees.

GGC's Guarantee Policy is aligned with the Climate Bonds Taxonomy.

## F. RISK ASSESSMENT AND MANAGEMENT

### F.1. Risk factors and mitigations measures (max. 3 pages)

Please describe financial, technical, operational, macroeconomic/political, money laundering/terrorist financing (ML/TF), sanctions, prohibited practices, and other risks that might prevent the project/programme objectives from being achieved. Also describe the proposed risk mitigation measures. Insert additional rows if necessary.

For probability: High has significant probability, Medium has moderate probability, Low has negligible probability

For impact: High has significant impact, Medium has moderate impact, Low has negligible impact

Prohibited practices include abuse, conflict of interest, corruption, retaliation against whistle-blowers or witnesses, as well as fraudulent, coercive, collusive, and obstructive practices

Each project in the Fund portfolio will have its own Risk Assessment and Management performed at feasibility stage. At Due Diligence stage, the Fund teams will thoroughly review and assess the risk and take appropriate mitigation measures before submitting any project to the GGC Credit Committee.

Main Risks and Risks at Fund level may be summarized as following:

#### Selected Risk Factor 1: Pipeline

| Category                         | Probability   | Impact        |
|----------------------------------|---------------|---------------|
| <u>Technical and operational</u> | <u>Medium</u> | <u>Medium</u> |

#### Description

Please describe the risk to the best of your knowledge at this point in time.

GGC can only scale-up as quickly as it finds suitable transactions. Failure to scale will impact profitability and the ability to absorb ECL losses.

#### Mitigation Measure(s)

Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?

GGC will develop a network of Origination Partners globally which will help grow the portfolio. GGC is able to operate in any ODA eligible country which means that its addressable market is significant. If GGC is unable to scale-up as quickly then GGC and DGG will review and revise origination strategy, prioritize high return transactions to maximize revenue and DGG will delay recruitment and rationalize cost base.

#### Selected Risk Factor 2: Credit rating

| Category                         | Probability   | Impact (should be high) |
|----------------------------------|---------------|-------------------------|
| <u>Technical and operational</u> | <u>Medium</u> | <u>Medium</u>           |

#### Description

Please describe the risk to the best of your knowledge at this point in time.

GGC will need to obtain and maintain an investment grade credit rating from an international rating agency which will mean that its ability to leverage its capital will depend on the confidence that the credit rating agency has in the operations and management of GGC. Failure to obtain this will undermine the business model.

#### Mitigation Measure(s)

Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?

DGG, the manager of GGC, has significant experience of working with the major international credit rating agencies and balancing portfolio growth with maintenance of credit ratings.

| Selected Risk Factor 3: Human resources  |             |               |
|--|-------------|---------------|
| Category   | Probability | Impact        |
| <u>Technical and operational</u>   | <u>Low</u>  | <u>Medium</u> |
| Description  |             |               |
| <p><i>Please describe the risk to the best of your knowledge at this point in time.</i></p> <p>The scarcity of guarantee companies focused on developing countries means that there is a very shallow market for experienced investment professionals with guarantee experience. This means GGC will need to train up new guarantee professionals which could impact its ability to scale.</p> |             |               |
| Mitigation Measure(s)  |             |               |
| <p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>The co-founders of DGG have a proven track record in establishing and scaling guarantee companies including building teams of guarantee professionals.</p>  |             |               |

| Selected Risk Factor 4: Lower Guarantee Capacity   |             |               |
|--|-------------|---------------|
| Category   | Probability | Impact        |
| <u>Technical and operational</u>   | <u>Low</u>  | <u>Medium</u> |
| Description  |             |               |
| <p><i>Please describe the risk to the best of your knowledge at this point in time.</i></p> <p>GGC's inability to meet market demand will inhibit GGC from scaling-up as quickly as forecasted. Failure to do this will impact profitability and the ability to absorb ECL losses.</p>   |             |               |
| Mitigation Measure(s)  |             |               |
| <p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>If GGC is unable to scale-up as quickly as forecasted then GGC and DGG will review and revise origination strategy, initiate strategy to minimize any reputational risk and prioritizing high return transactions to maximize revenue. DGG will also delay recruitment and rationalize cost base.</p> |             |               |

| Selected Risk Factor 5: Lower climate impact   |             |               |
|--|-------------|---------------|
| Category   | Probability | Impact        |
| <u>Other</u>   | <u>Low</u>  | <u>Medium</u> |
| Description  |             |               |
| <p><i>Please describe the risk to the best of your knowledge at this point in time.</i></p> <p>GGC will need to ensure transactions that it invests do indeed mitigate climate impact either through mitigation or adaption. Failure to achieve this will undermine the business model.</p>  |             |               |
| Mitigation Measure(s)  |             |               |
| <p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>If GGC's transactions do not meet key climate key performance indicators ("KPI"), GGC to review and revise origination strategy and review and revise GGC's Guarantee Policy (Annex 23), Transaction Selection Process (Annex 24A) and Transaction Scorecard (Annex 24B).</p> |             |               |
| Selected Risk Factor 6: Liquidity  |             |               |
| Category   | Probability | Impact        |



| <u>Other</u>  | <u>Low</u> | <u>Medium</u> |
|---|------------|---------------|
| Description   |            |               |
| <p><i>Please describe the risk to the best of your knowledge at this point in time.</i></p> <p>Impaired ability to meet guarantee call obligations because GGC does not have sufficient liquid assets. This could impact GGC reputation. Also, GGC may crystalize mark to market losses which would impact profitability.</p> |            |               |
| Mitigation Measure(s)   |            |               |
| <p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>GGC to ensure it has robust treasury management strategy is in place.</p>  |            |               |

| Selected Risk Factor 7: Treasury Income   |               |               |
|---|---------------|---------------|
| Category  | Probability   | Impact        |
| <u>Technical and operational</u>  | <u>Medium</u> | <u>Medium</u> |
| Description   |               |               |
| <p><i>Please describe the risk to the best of your knowledge at this point in time.</i></p> <p>GGC's investment book generates lower returns than forecasted. This will reduce profitability.</p>   |               |               |
| Mitigation Measure(s)   |               |               |
| <p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>If GGC earns less finance income from its investment book GGC will review and revise treasury management strategy to ensure higher returns, ensuring at all times capital preservation is prioritized.</p> |               |               |

| Selected Risk Factor 8: Higher expenses   |             |               |
|---|-------------|---------------|
| Category  | Probability | Impact        |
| <u>Technical and operational</u>  | <u>Low</u>  | <u>Medium</u> |
| Description   |             |               |
| <p><i>Please describe the risk to the best of your knowledge at this point in time.</i></p> <p>Higher expenses incurred by GGC or DGG could impact GGC's profitability.</p>   |             |               |
| Mitigation Measure(s)   |             |               |
| <p><i>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</i></p> <p>IF GGC or DGG's expenses are higher than forecasted, GGC and DGG to review and revise budgeting process and rationalize cost base.</p> |             |               |

| Selected Risk Factor 9: Money laundering, terrorist financing, sanctions and prohibited practices  |             |                     |
|--|-------------|---------------------|
| Category   | Probability | Impact              |
| <u>Technical and operational</u>   | <u>Low</u>  | <u>MediumMedium</u> |
| Description  |             |                     |
| <p>Please describe the risk to the best of your knowledge at this point in time.</p> <p>inadequacy or absence of sound anti-money laundering and combatting terrorism risk management exposes institutions to serious risks, especially reputational, operational, compliance and concentration risks.</p>   |             |                     |
| Mitigation Measure(s)  |             |                     |
| <p>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</p> <p>GGC and DGG have a very good understanding of money laundering and terrorist financing risks and the risks associated with sanctions and prohibited practices. DGG and GGC have a suite of policies and robust procedures in place to ensure any individual or entity who is sanctioned or is involved in prohibited practices is not financed or supported.</p> |             |                     |

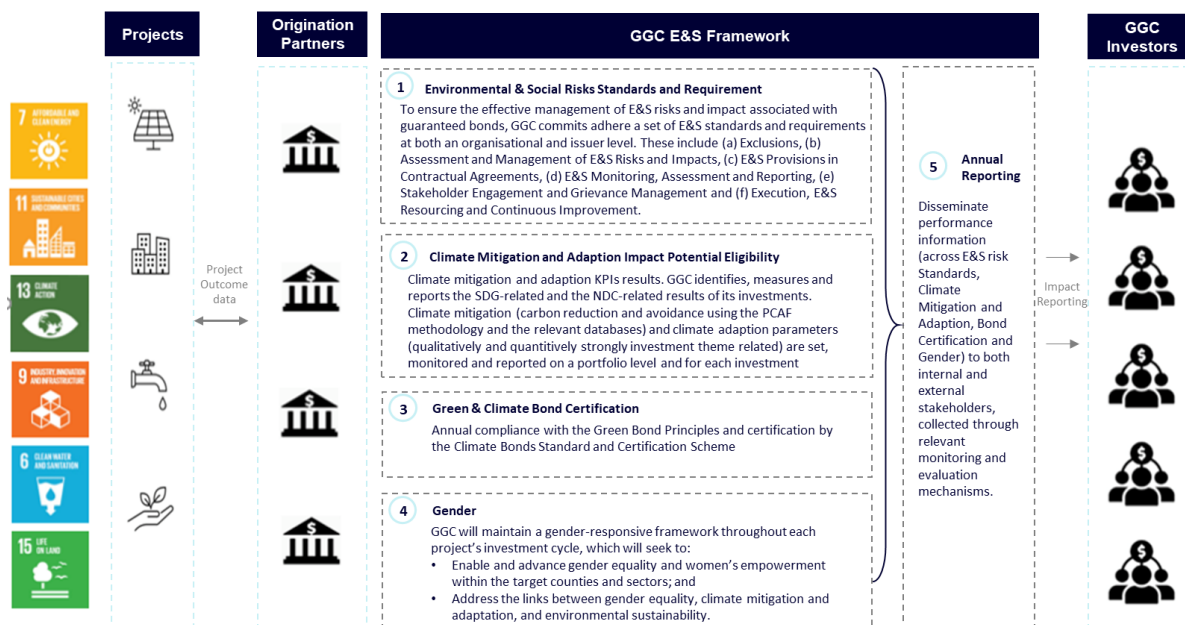
| Selected Risk Factor 9: Gender and social inclusion  |             |            |
|--|-------------|------------|
| Category   | Probability | Impact     |
| <u>Other</u>   | <u>Low</u>  | <u>Low</u> |
| Description  |             |            |
| <p>Please describe the risk to the best of your knowledge at this point in time.</p> <p>Low uptake of investments with a gender related focus or with no senior management or share of women on the fund's Board, where the fund invests in companies providing mitigation and/or adaptation solutions</p>   |             |            |
| Mitigation Measure(s)  |             |            |
| <p>Please describe how the identified risk will be mitigated or managed. Do the mitigation measures lower the probability of risk occurring? If so, to what level?</p> <p>GGC and will ensure that a gender related assessment, intervention and plan is in place for their investments that promote gender equity in the operation of the programme. GGC can also elicit interest in the programme amongst women-led organizations to gain traction on receiving more proposals with a gender-related focus as well as a green-climate nexus.</p> |             |            |

| G. GCF POLICIES AND STANDARDS   |
|---|
| G.1. Environmental and social risk assessment (max. 750 words, approximately 1.5 pages)   |
| <p>Provide the environmental and social risk category assigned to the proposal as a result of screening and the rationale for assigning such category. Present also the environmental and social assessment and management instruments developed for the proposal (for example, Environment and Social Impact Assessment (ESIA), Environment and Social Management Framework (ESMF), Environmental and Social Management Plan (ESMP), Environmental and Social Management System (ESMS), environmental and social audits, etc.). Provide a summary of the main outcomes of these instruments. Present the key environmental and social risks and impacts and the measures on how the project/programme will avoid, minimize and mitigate negative impacts at each stage (e.g. preparation, implementation and operation), in accordance with GCF's Environmental and Social Safeguard (ESS) standards. If the proposed project or programme involves investments through financial intermediations, describe the due diligence and management plans by the Executing Entities (EEs) and the oversight and supervision arrangements. Describe the capacity of the EEs to implement the ESMP and ESMF and arrangements for compliance monitoring, supervision, and reporting. Include a description of the project/programme-level grievance redress mechanism, a summary of the extent of multi-stakeholder consultations undertaken for the project/programme, the plan of the Accredited Entity (AE) and EEs to continue to engage the stakeholders throughout project implementation, and the manner and timing of disclosure of the applicable safeguards reports following the requirements of the GCF <a href="#">Information Disclosure Policy</a> and <a href="#">Environmental and Social Policy</a>.</p> <p>Describe any potential impacts on indigenous peoples and the measures to address these impacts including the development of an Indigenous Peoples Plan and the process for meaningful consultation leading to free, prior and informed consent, pursuant to the GCF <a href="#">Indigenous Peoples Policy</a>.</p> |

Attach the appropriate assessment and management instruments or other applicable studies, depending on the environmental and social risk category as annex 6.

GGC has developed an E&S Framework based on international best practice which outlines the methodology of GGC to select bond investments in developing countries that significantly contribute to climate mitigation and adaption, whilst mitigating and managing any E&S risks and impacts. In addition to, enabling GGC to demonstrate the impact outcomes it has on climate through its guarantee. The framework, policy and system include screening, risk categorization, due diligence and guidance materials and reporting protocols. The framework comprises of five core pillars, which together form the overarching framework, and equally contribute to GGC's overall goals and objectives, as outlined in Figure 10 below.

Figure 2 GGC and E&S Framework



Pillar one, Environmental & Social (E&S) Risks Standards and Requirements, focuses on how GGC's TSP (Annex 24A) guided by its Transaction Scorecard (Annex 24B) integrates E&S risk management into every stage of its financing lifecycle and decision-making processes. As part of this, GGC shall identify, monitor, and report on E&S risks and impacts associated with the bonds and loans that are made possible through the provision of guarantees by GGC. This involves conducting rigorous screening and due diligences of all opportunities presented by Origination Partners to ensure alignment with set E&S standards and requirements, including providing recommendations and guidance to borrowers in order to rectify any issues / gaps identified and improve E&S performance. GGC requires guaranteed bonds and loans to adhere to the GGC Exclusion List, applicable local and national E&S laws, and regulations, the International Finance Corporation Performance Standards on Environmental and Social Sustainability (IFC PS) (2012), the World Bank Environmental, Health and Safety (EHS) guidelines and sector specific guidelines, and the core labour conventions of the International Labour Organisations (ILO). Refer to Annex 6 of the GGC Funding Proposal for further details on the GGC E&S Framework. GGC has developed a tailored E&S Management System (ESMS) to ensure the systematic operationalization of its commitments set as part of its E&S Framework. Furthermore, GGC will build a dedicated and competent E&S team and digital systems in order to effectively implement GGC's E&S risk management, and overall E&S framework.

Key guidelines for applying the E&S framework are as follows:

- GGC's Guarantee Policy (Annex 23), Transaction Selection Process (Annex 24A) and Transaction Scorecard (Annex 24B) will be followed to screen potential investments to ensure that no investment is made in projects or companies that are operating with excluded activities. The screening process permits the interim categorization of proposed projects into higher, medium, and lower risk (Category A, B or C respectively) projects and that then determines the level of E&S due diligence required and the actions to be taken to minimize potential impacts. All projects guaranteed by GGC shall comply with host country regulatory requirements and the relevant IFC Performance Standards.
- GGC will conduct a rigorous assessment, guided by its Transaction Selection Process (Annex 24A) and the Transaction Scorecard (Annex 24B), of all opportunities presented by Origination Partners to ensure alignment with set E&S standards and requirements. The Transaction Scorecard includes an initial screening to filter non-compliant transactions out early in the **Transaction Selection Process (TSP)**,
- GGC will likely not have the opportunity to influence the **E&S assessment** of a climate project at an early stage in the project development cycle. Instead, GGC relies on having a robust **TSP** which will review and carry out **strategic due**

**diligence** on the borrower's existing **E&S** documentation, processes, and systems to determine if they are compliant with the requirements of GGC's **E&S Management Framework**.

- In-country E&S specialist consultants will also be used where necessary to assist GGC in conducting ad hoc monitoring and evaluation (M&E) of a selected transaction project, post financial-close, as well as working with a borrower to improve their E&S Management competencies.
- A version of the due diligence report (compliant with GCF's disclosure requirements) will be disclosed on the GGC website and sent to GCF with a 30-day (calendar day) review period.
- Stakeholder engagement is an essential part of the Framework to facilitate the integration of gender considerations into GGC's financing lifecycle and decision making. In this context, stakeholder engagement denotes proactive ongoing dialogue, information sharing and interactions between GGC and its stakeholders such as women led organizations. As such, GGC commits to developing and implementing effective stakeholder engagement mechanisms (internally and externally and as noted in Annex 7) to support a culture of transparency and accountability and learning and continual improvement.
- Concerning external communication mechanisms, an important mechanism that will be implemented and maintained is a grievance mechanism. This will support the process to effectively identify, receive, register, screen and evaluate, track, and formally address complaints or feedback from stakeholders regarding the subproject activities.
- GGC will ensure that necessary and qualified E&S resources are employed at an organisational level to implement its E&S Framework, and the commitments contained within.

## G.2. Gender assessment and action plan (max. 500 words, approximately 1 page)

*Provide a summary of the gender assessment and project/programme-level gender action plan that is aligned with the objectives of GCF's [Gender Policy](#). Confirm a gender assessment and action plan exists describing the process used to develop both documents. Provide information on the key findings (who is vulnerable and why) and key recommendations (how to address the vulnerability identified) of the gender assessment. Indicate if stakeholder consultations have taken place and describe the key inputs integrated into the action plan, including: how addressing the vulnerability will ensure equal participation and benefits from funds investment; key gender-related results to be expected from the project/programme with targets; implementation arrangements that the AE has put in place to ensure activities are implemented and expected outcomes will be achieved, monitored, and evaluated.*

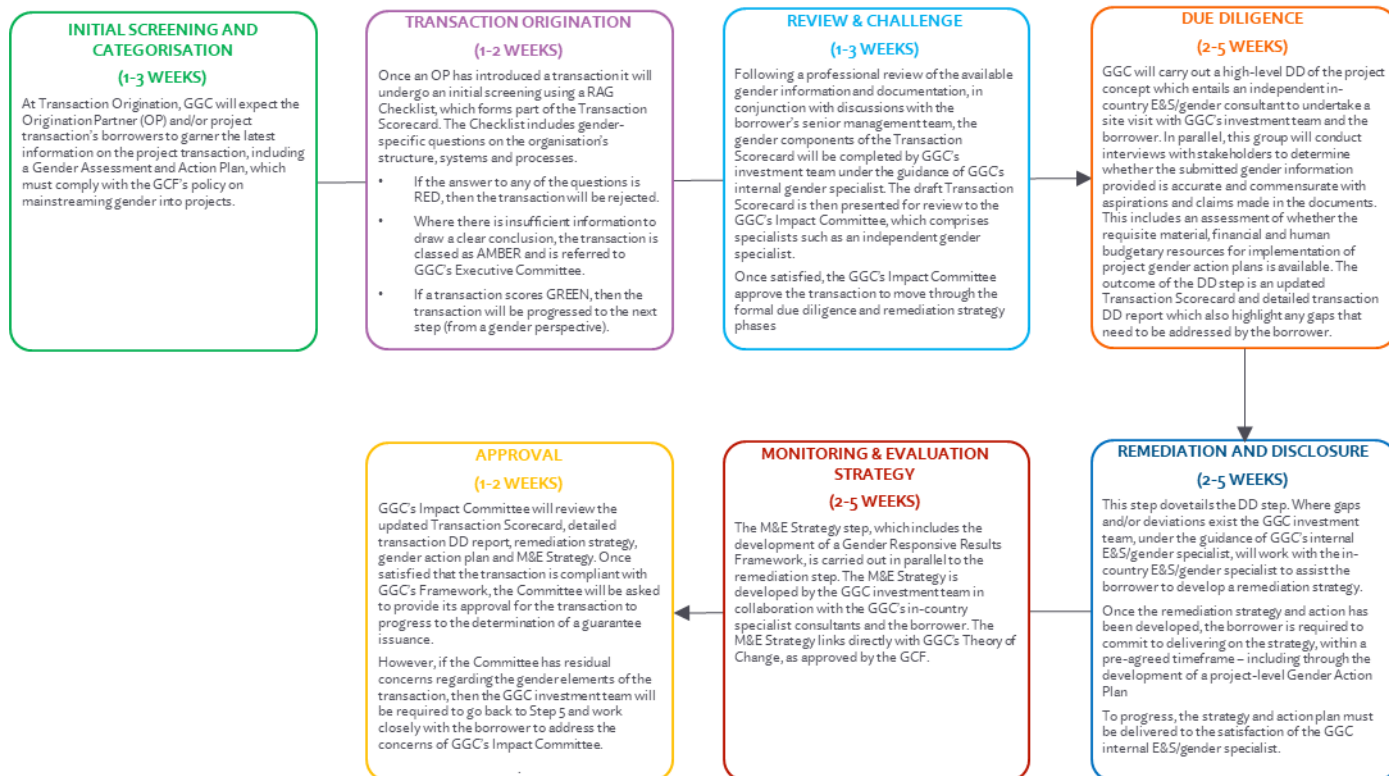
The GGC fully adheres to the principle of country ownership, meaning that for each project that receives a guarantee, the GGC will ensure that a Gender Assessment and Action Plan will be in place and in alignment with the requirements set out both by the GCF and the prevailing international ratified legal frameworks, regional and national gender policies, or other public policy for gender equality and women's empowerment. More specifically, the GGC will ensure that:

- Project level gender assessments are conducted to inform the project design, budgeting, staffing, implementation, monitoring and evaluation. These assessments must be underpinned by collection and analysis of sex disaggregated data and meaningful gender sensitive stakeholder engagements, and must comply with the GCF's Gender Policy requirements.
- Project level action plans define the target population, and whether it is direct or indirect. Where possible, groups should be disaggregated further (to identify vulnerable sub-groups, such as women-headed households).
- Project level risks are analyzed to ensure that activities do not exacerbate existing gender-related inequalities.
- Project owners have the requisite material, financial and human budgetary resources for the development and implementation of project gender action plans and assessment (including resources for continued, meaningful gender-sensitive stakeholder engagements during project implementation and operation). Where technical assistance needs are identified to support a project owner in this regard, the GGC will look to provide such support.

Given the GGC has not yet identified a pipeline of projects, it is not possible — to develop focused and detailed gender analyses, assessments, and action plans that the GCF would typically require of a Full Funding Proposal. The GGC has however conducted assessments on i) the gender-related vulnerabilities and capacities for change for each of the **five results areas** that GGC will look to support; and ii) the key gender commitments, responsible institutions, and considerations (i.e., pressing issues that influence gender equality and women's empowerment issues) in each of the GGC's **8 countries** of focus. These assessments informed the development of a gender framework (Table 6, Annex 8.1) that the GGC will use to identify potential gender-responsive interventions that should be considered as part of the project design process to maximise the gender benefits of a specific project. The framework also informed the project level quantitative and qualitative indicators that will be tracked in the GGC's Gender Action Plan

In the context of the above, the GGC recognizes the importance of ensuring sound gender practices to avoid and/or minimize potential financial and reputational liabilities and ensure benefits to women and girls are realized (and enhanced) through project delivery. Consequently, the consideration of gender factors and safeguards forms an integral part of the GGC's Transaction Selection Process (Annex 24A) and related Transaction Scorecard (Annex 24B) which is used to select transactions that ensure key gender risks and impacts have been identified and are effectively managed throughout the transaction lifecycle. Some of the key factors

include the appointment of an internal E&S/Gender expert and in-country gender specialists to be appointed on a project by project basis. The gendered elements of this lifecycle are illustrated in the graphic below and elaborated in more detail in Annex 8.



In addition to this due diligence process, the GGC has made provisions for ensuring gender issues are adequately factored into, and addressed, through the GGC's stakeholder engagement and grievance processes. Both processes are designed to ensure that engagement with, communication to/with, and participation of women (and other vulnerable groups) on both a project and organizational level is suitably tailored (and transparently monitored and reported on) to local contexts as well as the GCF's relevant guidelines. Gender mainstreaming will be considered in all stages of the project cycle (design, formulation, implementation, monitoring, and evaluation) by the project owner while GGC ensure that they are suitable 'gender mainstreaming' procedures, checklists, and forms throughout the Environmental & Social Management System (ESMS) including checklists, gender assessment and stakeholder consultation. GGC will also relay those projects must align to prevailing national and international strategies and laws or other public policy for gender equality and women's empowerment and will seek to align the project with other national development strategies that promote equal opportunities, whether in the intervention region or the sector.

### G.3. Financial management and procurement (max. 500 words, approximately 1 page)

*Describe the project/programme's financial management including the financial monitoring systems, financial accounting, auditing, and disbursement structure and methods. Refer to section B.4 on implementation arrangements as necessary.*

*Articulate any procurement issues that may require attention, e.g., procurement implementation arrangements and the role of the AE under the respective proposal, articulation of procurement risk assessment undertaken and how that will be managed by the AE or the implementing agency. Provide a detailed procurement plan as annex 10.*

All GGC's management and reporting would be contracted to DGG. This will include delegated authority to make investment decisions on behalf of GGC in line with a mandate approved by the GGC Board, to maintain GGC's books of accounts, and to ensure GGC's policies and procedures are operationalized, including GGC's procurement policy. This policy reflects the GGC's commitment to fair practices and sets out the objectives, the overall approach, key principles, and guidance for the acquisition of works, supplies and services by GGC and related to the GGC's activities. It is intended to control, guide, and serve as a reference for all procurement within GGC. A copy of GGC's proposed procurement plan is attached in annex 10.

GGC will appoint its auditor, tax advisors, fund administrators and a corporate secretary. These services will be procured in line with GGC procurement policy and will be approved by the Board of GGC.



There will be a clear delegation of authority to DGG which will be described in a Management Agreement and DGG will be staffed by a dedicated team of professionals with extensive experience in writing guarantees and development impact and will be managed by Lasitha Perera, Boo Hock Khoo and Dale Petrie with oversight and support from CD.

GGC will invest initial capital in highly rated, highly liquid securities. This would be a regulated activity within the UK; however, the commercial intention is for GGC to outsource investment activities to fully regulated third-party investment manager (e.g., PIMCO, Fidelity etc.). This out-sourcing model is not uncommon and would negate the need for DGG or GGC to seek direct regulatory authorisation. Depending on the type of investments made by the third-party investment manager, GGC may also need to appoint a custodian. GGC is yet to appoint a third-party investment manager and custodian (if required). These services will be procured in line with GGC's procurement policy prior to GGC being capitalised and the successful firms will be approved by the Board of GGC. The regulatory standing of third-party providers will be reviewed as part of the tender process and suitable asset management agreements, including a detailed investment policy, will be agreed prior to onboarding the third-party investment manager.

The DGG Executive team will meet regularly with the GGC Board to review the performance of GGC against key performance indicators (which will include, amongst other things, delivery against GGC's mandate and financial performance).

The Chairperson of GGC and the Managing Partner of DGG will meet regularly with GGC's shareholders to discuss, amongst other things, the performance of GGC and investors will have the ability to request information from DGG (with respect to GGC) as required.

GGC and DGG will have a Code of Conduct (setting out the minimum standards of ethical behavior required of both entities) which will be supported by a suite of operating policies and procedures to ensure compliance with the Code.

To ensure DGG acts on the delegated authority provided to it by GGC in the interest of GGC, DGG will set up four committees ((1) Asset and Liability Committee, (2) Impact Committee, (3) Credit Committee, and (4) Risk and Audit Committee) to provide oversight of these activities. These committees will also manage the risks that GGC will be exposed to, which could include reputational, operational and compliance, capital and liquidity, credit, market, and political risks. All committees will have terms of references which will be approved by the GGC Board, and the minutes of these committees will be accessible by the GGC Board. Further details of the four DGG Committees are set out in the Operations Manual (Operating Plan) (see Annex 21).

DGG will seek to monitor and control GGC's risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems, and risk management frameworks in line with GGC's Risk Management Framework. Further details of GGC's Risk Management Framework are set out in Annex 26.

#### G.4. Disclosure of funding proposal

*Note: The Information Disclosure Policy (IDP) provides that the GCF will apply a presumption in favour of disclosure for all information and documents relating to the GCF and its funding activities. Under the IDP, project and programme funding proposals will be disclosed on the GCF website, simultaneous with the submission to the Board, subject to the redaction of any information that may not be disclosed pursuant to the IDP. Information provided in confidence is one of the exceptions, but this exception should not be applied broadly to an entire document if the document contains specific, segregable portions that can be disclosed without prejudice or harm.*

*Indicate below whether or not the funding proposal includes confidential information.*

☐ **No confidential information:** The accredited entity confirms that the funding proposal, including its annexes, may be disclosed in full by the GCF, as no information is being provided in confidence.

☒ **With confidential information:** The accredited entity declares that the funding proposal, including its annexes, may not be disclosed in full by the GCF, as certain information is being provided in confidence. Accordingly, the accredited entity is providing to the Secretariat the following two copies of the funding proposal, including all annexes:

- full copy for internal use of the GCF in which the confidential portions are marked accordingly, together with an explanatory note regarding the said portions and the corresponding reason for confidentiality under the accredited entity's disclosure policy, and
- redacted copy for disclosure on the GCF website.

The funding proposal can only be processed upon receipt of the two copies above, if containing confidential information.



## H. ANNEXES

### H.1. Mandatory annexes

- ☒ Annex 1 NDA no-objection letter(s) [\(template provided\)](#)
- ☒ Annex 2 Feasibility study - and a market study, if applicable
- ☒ Annex 3 Economic and/or financial analyses in spreadsheet format
- ☒ Annex 4 Detailed budget plan [\(template provided\)](#)
- ☒ Annex 5 Implementation timetable including key project/programme milestones [\(template provided\)](#)
- ☒ Annex 6 E&S document corresponding to the E&S category (A, B or C; or I1, I2 or I3):  
[\(ESS disclosure form provided\)](#)
  - ☐ Environmental and Social Impact Assessment (ESIA) or
  - ☐ Environmental and Social Management Plan (ESMP) or
  - ☒ Environmental and Social Management System (ESMS)
  - ☒ Others (please specify – e.g. Resettlement Action Plan, Resettlement Policy Framework, Indigenous People's Plan, Land Acquisition Plan, etc.)
- ☒ Annex 7 Summary of consultations and stakeholder engagement plan
- ☒ Annex 8 Gender assessment and project/programme-level action plan [\(template provided\)](#)
- ☒ Annex 9 Legal due diligence (regulation, taxation, and insurance)
- ☒ Annex 10 Procurement plan [\(template provided\)](#)
- ☒ Annex 11 Monitoring and evaluation plan [\(template provided\)](#)
- ☒ Annex 12 AE fee request [\(template provided\)](#)
- ☒ Annex 13 Co-financing commitment letter, if applicable [\(template provided\)](#)
- ☒ Annex 14 Term sheet including a detailed disbursement schedule and, if applicable, repayment schedule

### H.2. Other annexes as applicable

- ☒ Annex 15 Evidence of internal approval [\(template provided\)](#)
- ☐ Annex 16 Map(s) indicating the location of proposed interventions
- ☒ Annex 17 Multi-country project/programme information [\(template provided\)](#)
- ☐ Annex 18 Appraisal, due diligence, or evaluation report for proposals based on up-scaling or replicating a pilot project
- ☐ Annex 19 Procedures for controlling procurement by third parties or executing entities undertaking projects financed by the entity
- ☒ Annex 20 First level AML/CFT (KYC) assessment
- ☒ Annex 21 Operations Manual (Operating Plan)
- ☒ Annex 22 Assessment of GHG emission reductions and their monitoring and reporting (for mitigation and cross cutting-projects)<sup>29</sup>
- ☒ Annex 23 Guarantee Policy
- ☒ Annex 24A Transaction Selection Process
- ☒ Annex 24B Transaction Scorecard
- ☒ Annex 24C Example Transactions (adaptation and mitigation)
- ☒ Annex 25 Theory of Change
- ☒ Annex 26 Risk Management Framework

- |                                     |          |   |
|-------------------------------------|----------|---|
| <input checked="" type="checkbox"/> | Annex 27 | Treasury Policy   |
| <input checked="" type="checkbox"/> | Annex 28 | Review of Green and Climate Bond and Loans Standards and Certifications |

*\* Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents.*

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<sup>29</sup> Annex 22 is mandatory for mitigation and cross-cutting projects.