

PROJECT STATUS REPORT

07/01/2021 - 12/31/2021

SECTION 1: PROJECT SUMMARY

Operation number: RG-T3255

Suboperation number: ATN/CN-17185-RG

Project Name: EcoMicro - Grenada Development Bank - Green Finance for MSMEs & Low-Income Households

Purpose:

Country admin:

BARBADOS

Country beneficiary:

Regional

Group:

C

SubGroup:

Executing Agency: Grenada Development Bank

Team Leader: RUTHH

Score Image:

Total Score: 2.36

Project cycle:

Report Date: 2022-01-04

Approval Date: 2018-12-08

Signature Date: 2019-05-28

First Disbursement Date: 2019-10-30

Original Execution End Date:

Current Execution End Date:

Original Last Disbursement Date: 2022-11-28

Last Current Disbursement Date: 2022-11-28

SECTION 2: PERFORMANCE

Project's performance summary since the beginning

The Grenada Development Bank's EcoMicro project has as its primary goal, supporting the Grenadian public by increasing access to climate finance through the provision of a suite of products which are geared towards both mitigation and adaptation interventions. While there has been significant progress on all the project components, there are also challenges which have been experienced during implementation in particular the economic downturn and protocols resulting from the Covid-19 pandemic. Grenada experienced economic decline of 13.8% in 2020 with recovery occurring slower than predicted. Real GDP growth in 2021 was 4.8% compared to original projections of 6% which has resulted in the Government of Grenada extending many of its income relief and support programs into 2022. Engagement of potential customers has revealed a consequential level of investment hesitancy that is impacting not only EcoMicro but other private sector projects under implementation. The engagement through the Beneficiary Outreach and Awareness Strategy has been compelling however there remains a low conversion rate to actual green loan applications. Even though the benefits of investing in climate mitigation and adaptation measures has been clearly articulated and are generally understood, our discussions with potential beneficiaries reveal a reticence that rationalizes cash outflows for what is deemed non-essential expenditure in the short to medium term. The delayed recovery from Covid-19 is manifesting in a significant level of reluctance to undertake these types of investments with cash flow constraints, conflicting priorities and uncertainty surrounding the duration of the economic fallout being cited as the primary reasons for the existing hesitancy. Although possible mitigation actions are being explored, projected targets would have to be adjusted given the current circumstances. While some possible adjustments are being included in this report, further discussions are underway to fully quantify this change.

Supervision Team Leader comments

Agree with the EA. The project has been making steady progress.

Project's performance summary in the last 6 months

Work continued on the implementation of the project components during the last six months. Due to COVID-19 related restrictions implementation of the envisioned Second Stage of the Beneficiary Outreach Strategy which is geared towards conversion of interest into loans and included Open Days and Expo have not taken place. A review of the planned activities was performed with the intention being to adopt a fully digital format going forward. 17.5K persons were actively engaged of which 47.25% were female and 52.75% male. The majority of these (37.2% male and 34% female) were in the 25 – 44 age group. The Climate Risk Assessment Tool (CRAT) is being prepared for submission for approval by the Bank's Board of Directors. Capacity building of a core group of GDB staff on the CRAT was carried out; additionally, supporting material, such as a user manual, final version of the decision matrix to incorporate the outputs of the tool into the Bank's loan appraisal process and a registry to monitor the use of the CRAT in the Bank's appraisal process, were created. An implementation plan is being developed by GDB to operationalize the tool post Board approval. Given the fact that loans have already been approved prior to the delivery of the tool, the intended result for indicator "% credit decisions utilizing risk management tool" needs to be reduced from 100% Although other activities are being undertaken, it has been recognised that the introduction of a Solar PV system by the Bank would be the activity which would contribute most towards emissions reduction. Discussions however continue as the Bank explores options for alleviating its space constraints which could impact the building's current design. Awareness among GDB's staff on the bank's current carbon emissions levels, the Greening Action Plan, its targets

and the measures that can implemented towards fulfilling these targets continue. During the period a Portfolio Climate Vulnerability Tool (PCVT) was developed to assess GDB's loan portfolio vulnerability to climate change. The framework for the PCVT considers two main components i) Risk from exposure to climate hazards, and ii) The impact climate change has on specific economic sectors (clustered based on GDB's loan portfolio). A Portfolio Vulnerability Assessment report was provided and the PCVT provided to GDB as an Microsoft Excel tool, along with a user manual in order that subsequent assessment can be conducted by the GDB. The PCVT will be tested and validated by GDB during Y3Q3.

Supervision Team Leader comments

The EA has delivered important results this reporting period. The EA continues to show a strong commitment to the project and maximizes the potential benefits for their end-clients. Staff are being trained in tools and methodologies that will enable the sustainability of the project once it has been completed. Particularly commendable are the EA's efforts to commence fund-raising for scale even while the pilot green finance is ongoing. Despite the impact of COVID-19, GDB continues to place green loans in the market and has completed a solid climate risk analysis of their portfolio using the climate risk assessment tool. With further training in the use of and integration of climate risk analysis and mitigation measures into their core risk assessment - GDB will be on track for ensuring greater resiliency of their clients - and this will facilitate GDB with resource mobilization.

SECTION 3: INDICATORS AND MILESTONES

C1 : Design & Implementation of Green Finance Products

Weight 25%

Qualification High Satisfactory

| Indicators | Baseline | Planned | Achieved | Status |
|------------|----------|-----------------------|----------------------|-------------|
| I1 | 0 | 1 (2020-11-28) | 1 (2020-06-03) | Finished |
| I7 | 0 | 500 (2023-05-28) | 524 (2021-06-30) | Finished |
| I2 | 0 | 2 (2021-11-28) | 5 (2020-09-10) | Finished |
| I5 | 0 | 2400000 (2023-05-28) | 989990 (2021-12-31) | In progress |
| I3 | 0 | 130 (2023-05-28) | 24 (2021-12-31) | In progress |
| I4 | 0 | 260 (2023-05-28) | 142 (2021-12-31) | In progress |
| I6 | 0 | 28 (2023-05-28) | 23 (2021-12-31) | In progress |
| I8 | 0 | 1 (2022-12-08) | | In progress |

C2 : Analyzing the Vulnerability of the Finance Institution Loan Portfolio to Climate

Weight 25%

Qualification High Satisfactory

| Indicators | Baseline | Planned | Achieved | Status |
|------------|----------|-------------------|------------------|-------------|
| I1 | 0 | 100 (2022-11-28) | 75 (2021-12-31) | In progress |
| I2 | 0 | 1 (2022-11-28) | 0 (2021-12-31) | In progress |
| I3 | 0 | 28 (2023-05-28) | 9 (2021-12-31) | In progress |
| I4 | 0 | 100 (2022-12-08) | | In progress |

C3 : Reducing the Environmental Impact of the Finance Institution

Weight 25%

Qualification High Satisfactory

| Indicators | Baseline | Planned | Achieved | Status |
|------------|----------|-------------------|-------------------|-------------|
| I1 | 0 | 100 (2023-05-28) | 100 (2021-06-30) | Finished |
| I2 | 0 | 1 (2023-05-28) | 0 (2021-12-31) | In progress |
| I3 | 0 | 1 (2022-12-08) | | In progress |
| I4 | 0 | 0 (2022-12-08) | | In progress |
| I5 | 0 | 28 (2022-12-08) | | In progress |

C4 : Knowledge Management and Communications

Weight 25%

Qualification High Satisfactory

| Indicators | Baseline | Planned | Achieved | Status |
|------------|----------|------------------|-----------------|-------------|
| I1 | 0 | 13 (2023-05-28) | 6 (2020-12-31) | In progress |
| I2 | 0 | 1 (2022-12-08) | | In progress |
| I3 | 0 | 3 (2022-11-28) | 2 (2021-12-31) | In progress |
| I4 | 0 | 75 (2022-06-08) | | In progress |
| I5 | 0 | 1 (2022-12-08) | | In progress |

| Milestones | Planned Value | Achieved Value | Due Date | Achieved Date | Status |
|--|---------------|----------------|------------|---------------|----------|
| Conditions Prior | 1 | 1 | 2019-11-24 | 2019-10-07 | Achieved |
| Market Study (including Gender Analysis) completed | 1 | 1 | 2020-05-28 | 2020-05-04 | Achieved |

| | | | | | |
|---|---|---|------------|------------|----------|
| Operational Guide and Internal Processes for the new green finance product | 1 | 1 | 2021-08-26 | 2021-08-19 | Achieved |
| Climate Risk Assessment Tool developed and approved by Board | 1 | 0 | 2022-05-28 | | Pending |
| Plan for Scale: strategy for post-pilot roll out of the Green Finance Product | 1 | 0 | 2022-09-28 | | Pending |
| Institutional Assessment completed | 1 | 1 | 2020-11-28 | 2020-02-17 | Achieved |
| Technology Guide | 1 | 1 | 2021-11-28 | 2021-12-31 | Achieved |

Critical facts that have affected project's performance

- Purchase difficulties
- Environmental restrictions

Others, Which?

Protocols enforced as a result of Covid-19 continue to restrict gatherings and the free movement of people. As a result some activities have not been completed particularly related to outreach and awareness

SECTION 4: RISKS

| Impact Area | Severity | Prob. | Date | Responsible | Mitigation action |
|---|--|------------|--------------|-------------|-------------------|
| Limited appetite among MSMEs and low-income households for green financing. | Final Outcome, Intermediary Outcome, Design & Implementation of Green Finance Products | (4) High | High 80% | 2021-01-18 | Executing Agency |
| Limited number of RE/EE and climate smart agriculture technology suppliers. | Design & Implementation of Green Finance Products | (2) Low | Very Low 20% | 2021-01-18 | Executing Agency |
| Low Quality of EE/RE Equipment | Final Outcome, Design & Implementation of Green Finance Products | (3) Medium | Medium 60% | 2021-02-03 | Executing Agency |

This project has addressed potential limited demand by devoting significant resources to an initial market study, review of technologies and technology suppliers and product design. While this has helped to determine local demand for green lending as well as to establish strategic alliances and partnerships with local suppliers and other key actors, the Covid-19 pandemic has exasperated the limited appetite for green financing. The project has been unable to conduct direct outreach and training within beneficiary communities to stimulate awareness and demand for the new green finance products and intend to ramp up its digital outreach activities. In order to mitigate this risk, the GDB has made available with funding provided by the Government of Grenada concessional financing for businesses at 1% interest and up to 3 years grace (on interest and principal) in an effort to stimulate economic recovery and encourage new private sector investment. Other initiatives targeting various categories of residential property owners would be launched early in 2022.

The market is dominated by a limited number of key suppliers and their respective distribution agents. Given that new green finance will result in an increase in the demand for RE/EE and climate-smart agriculture technologies by low-income households and MSMEs (including smallholder farmers), the project will establish alliances between GDB and leading suppliers to ensure that this increasing demand can be met. In addition, the market study will assess the potential for GDB to encourage new technology entrants and distributors into the local market, through tailored products to finance green suppliers.

Presently there are no regulations relating to the standards and labeling of EE/RE equipment. While there is an Energy Policy which addresses the general enabling environment details of related standards are in draft form. This process is being driven by the Division of Energy of the Ministry of Finance in collaboration with the Grenada Bureau of Standards and there are projects being implemented to support this activity. A time frame for completion of this activity is not available at the moment..

TOTAL RISKS QUANTITY: 3

IN EFFECT RISKS: 3

NOT IN EFFECT RISKS: 0

MITIGATED RISKS: 0

SECTION 5: SUSTAINABILITY

Indicate likelihood of project sustainability after project completion: HP

Justification:

All EcoMicro projects are designed to ensure sustainability. The project will pilot test new green finance products in the market and train staff in the operational manuals for new green loan placement - this is done with support from green finance consulting experts. Following the pilot, the EA will have had sufficient experience and training to scale up the green finance products. The EA is progressing well in all aspects of the project including staff training and adoption of toolkits and manuals to sustain operations once the project has been closed. GDB have been especially focused on mobilization of funds to scale green finance, with the possibility of establishing a USD1.8 MN revolving fund in 2022.

Aspects that put the project sustainability at risk

| Factor | Comments |
|---------------------|----------|
| Others, Which?: N/a | |

Actions related to sustainability which have been implemented in the project:

The GDB continues to actively engage in the realisation of the projects objectives and outcomes with climate finance now being embedded in the Bank's core product offerings. The Bank continues to partner with various entities on the development of related projects in order to obtain concessional funding and further scale this project. As part of these efforts, it is anticipated that during the second quarter of 2022 US\$1.8M would be obtained to create a revolving fund targeting both households and MSMEs with financing for adaptation interventions. Additionally, all funding proposals being submitted to development partners and lenders now include climate finance in their intended use of funds. During 2022 the Bank would also be the delivery partner to Government of Grenada on a project to increase the engagement of the local private sector including financial institutions, in climate mitigation and adaptation actions.

SECTION 6: PRACTICAL LESSONS

[There were no lessons learned reported during this period]