Climate Finance Architecture and Resource Mobilization for Adaptation Planning and Action

Ms. Daisy Mukarakate and Ms. Gelila Terrefe

UNDP Africa
Climate Finance Architecture

Source: ODI, UK
Complex architecture (maze)
• Not easy to navigate
• Implications on access by developing countries (Africa)

Myriad of Global funding sources
• (UNDP, 2015) 60 international public funds, 60 c-markets, 6000 private equity funds.
• Why Africa’s limited success in RM for transformational impact?
UNFCCC Financial Mechanism

UNFCCC market mechanism
CDM (main SoF for AF)
JI
Overview

Number of Projects

- Approved: 14
- FP: 7
- CN: 3
- PPF: 2
Total: 30

GCF Financing

- Approved: 97
- FP: 304
- CN: 43
- PPF: 1.1
Total: 668M

Status of Projects

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<td>PPF</td>
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Upcoming Submissions
(Expected during the next 3 months)

<table>
<thead>
<tr>
<th>FP Submission</th>
<th>Zimbabwe</th>
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<tbody>
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<td>Number of Projects</td>
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<tr>
<td>GCF Financing</td>
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<td>Total</td>
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### UNDP-GCF Pipeline Data
Regional Bureau of Africa (RBA)

Table 1: UNDP-GCF Full Funding Proposal Pipeline

<table>
<thead>
<tr>
<th>Type</th>
<th>Focus</th>
<th>Country</th>
<th>GCF Amount Requested (USD)</th>
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<td>Liberia* (PPF approved)</td>
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<td>Uganda **</td>
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<td>Benin</td>
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<td>Regional (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda)</td>
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<td></td>
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<td>Congo Republic</td>
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Total: 30 Projects, 667.6M

* The PPF has been approved for Liberia and currently FP development is underway
** The PPF/CN has been submitted for Uganda however the NDA has decided to pursue FP development
*** This project covers a majority of countries from the RBA region and 3 Arab States
Overview

- Number of Projects: 21
- Approved Readiness: 5
- Readiness: 2
- Approved NAP: 3
- NAP: 11

Total: 36M

Status of Projects

- Approved Readiness: 5
- Approved NAP: 3
- Readiness: 2
- NAP: 5

GCF Financing

- 6.1
- 1.5

Readiness Pipeline

As of 10th September 2018

Upcoming Submissions
(Expected during the next 3 months)

- Guinea Bissau
- Equatorial Guinea
- Guinea Conakry
- Mozambique
- Namibia
- Senegal

Total: 36M
**Table 2: UNDP-GCF Readiness Pipeline**

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<th>Status</th>
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| Total        |      | 21 Projects      | 35.6M                       |

As of 10th September 2018
Non-UNFCCC mechanisms
UN Agencies
MDBs (WB, AfDB, DBSA)

Regional Sources
Africa Risk Capacity.
RECs (COMESA)

Bilateral Sources
Japan, Nordic COs, Germany, UK, France, Canada, EU, Australia, BRICS

Philanthropic
Funds - experiences??
National Budgets
• CPEIR
• Africa Public Expenditure on Adaptation (UNDP, 2017)

National Climate Funds
• Ethiopia, Benin, Rwanda, South Africa,(S-S exchange with FONERWA)
• DRR (developmental i.e. preparedness, response, recovery & resilience)
  • Innovative Idea (ARC Premium Window)

Private Sources
Navigating the Maze

- Climate Finance Governance - Get policy, legal institutions frameworks right!
  - NDCs (NDC-P partnership plan UG), CFFs
  - NDA (GCF), OFP (GEF), DA (AF), NCDMA, MoF or MoE or NEMA (???)

- Project Management Capacity (raison d'être!)
  - Full project cycle management (technical & financial delivery)
  - Absorption capacity

- Ready consensus-based pipeline
  - Think tank group (ideas prioritization)
  - Sectoral (key sector that has multiple developmental benefits – agric, water)
  - Subnational levels or Resilient Cities (SDG11)
  - Scaling up pilots (GCF transformational, SGP, AAP-GCF)
  - Co-financing arrangements

- Systemic Capacity Development for RM
  - GoX CC learning Strategy (should take into account evolving nature of CC finance)
  - Reduce dependency on external consultants

- S-S Exchange with Early Movers (DAEs, NCFs e.g FONERWA)
➢ ACCREDITATION, DAE African experiences

➢ Key Global Funds Websites

1. Green Climate Fund:  https://www.greenclimate.fund/

2. Adaptation Fund:  https://www.adaptation-fund.org/

3. SCCF:  https://www.thegef.org/topics/special-climate-change-fund-sccf

4. LDCF:  https://www.thegef.org/topics/least-developed-countries-fund-lDCF
Blended Finance refers to flows combining

- market (or concessional) loans and other financial instruments with
- accompanying grant (or grant equivalent) components

- The scope is to leverage additional non-concessional public and/or private resources with different financial terms and characteristics.

Basic characteristics of blended finance

Debt Instruments (Loan and bond)

- Repayment is required in fixed schedule with different cost according to the risk profile of the borrower
- Usually a guarantee is required to minimize default risk of borrower
- Debt is normally less than total project cost to ensure ownership of the borrower and increase incentive to complete the project
- Debt size is up to the repayment ability of the borrower and capital of the lender
- Debt maturity period should match with the project life and cash-flow for repayment

Grant

- Grant normally does not require repayment however, it could be made based on certain criteria (output-based-aid)
- Guarantee is not required
- Counterpart funding (in-kind and in-cash) is usually required to ensure ownership of the project proponent
- Grant size is usually small as no repayment is needed
- Grant financed project is usually short-term as the size of fund is small

Equity

- Funds provided by a private firm’s owners (investors and stockholders/shareholders) that are repaid subject to the firm’s performance
- The investors normally have only expectation to be repaid.

Partial Risk Guarantee*

- Partial Risk Guarantees cover private lenders, or investors through shareholder loans, against the risk of a government (or government-owned entity) failing to perform its contractual obligations with respect to a private project.

*World Bank Guarantee Products: IBRD Partial Risk Guarantee (PRG)

Reference: Gitman, Lawrence J. and Chad J. Zutter, 2015, Principles of Managerial Finance, 14th Eds., Pearson
Guiding Questions for the Exercise

• What risk should be managed by which party?
  – Government
  – Private Party
  – Financial Intermediary (National and International)
  – Development Partner (National and International)

• What financing sources are available?
  – Government Budget
  – Grant (e.g., GEF, GCF, Adaptation Fund, Philanthropic Entity, bilateral and multilateral organization, ...)
  – Debt (National and International FI)
  – Equity ((National and International Firm)

• How and when each financing source should be used during the project cycle?
Example of Blended Finance

Global Environment Facility (GEF) 
Multilateral Fund (MLF) 

Made Grant Available through MDB 
Made concessional fund (0% interest) Available to Local FI 
Made loan available only to purchase a qualified chiller but charged only management fee 

MDB 

Local FI repaid concession fund within 3 years 
Loan repayment calculated from energy savings i.e., lower electricity bill 

Local FI 

Upgrade chiller 
Chiller Supplier 

Used loan proceeds to upgrade chiller and auxiliary system 
Supplier guaranteed energy efficiency level 

Global Benefits 
Reduced GHG 
Reduced ODS 

Global Benefits 
Reduced GHG 
Reduced ODS 

Local Benefits
- Leverage private capital
- Create market for replacing old chillers
- Enhanced competitiveness of facility owners

Source: Implementation Completion Report, 2006, Thailand Building Chiller Replacement Project, the World Bank 
How different risks can be addressed by different financial instruments

- Facility owner is reluctant to change their old inefficient chiller because
  - High upfront cost
  - High cost of borrowing
  - The new chiller may not provide sufficient savings (i.e., returns on investment may not be justifiable)
- **Grant** was used to
  - structure the business model, project management, monitoring and evaluation and
  - buy down the cost of borrowing
- **Loan** was used reduce high upfront investment cost
- **Equity** was required as the loan only cover the purchase of the chiller. The facility owner had to finance other required auxiliary equipment and related services.
- **Guarantee** was provided as a part of the package from qualified suppliers to ensure sufficient fund for loan repayment