

The Covenant of Mayors in Sub-Saharan Africa

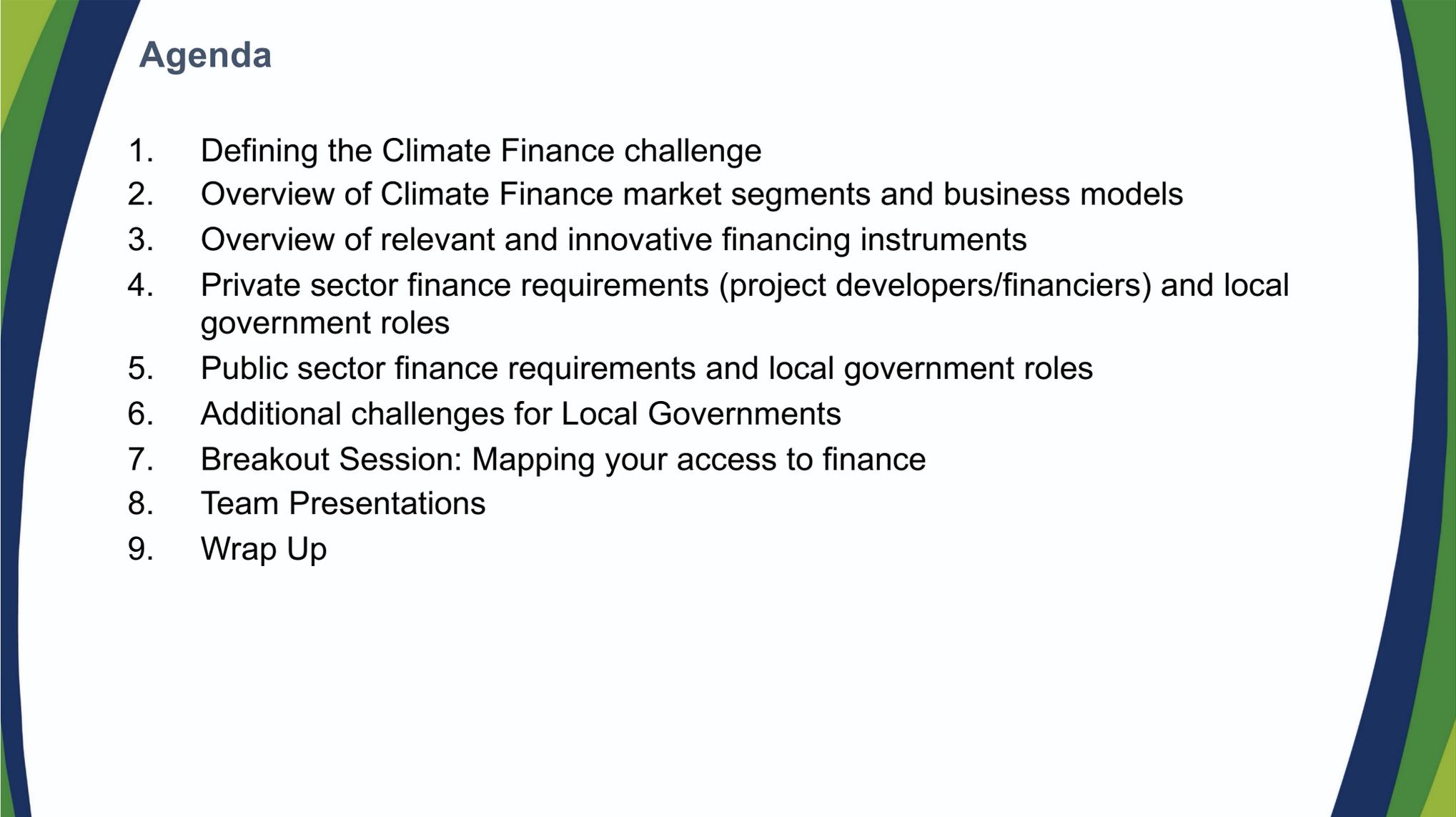
Training module 1 - Understanding Finance Options for Your Climate Actions



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Support to CoM SSA – Component III
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Agenda

1. Defining the Climate Finance challenge
2. Overview of Climate Finance market segments and business models
3. Overview of relevant and innovative financing instruments
4. Private sector finance requirements (project developers/financiers) and local government roles
5. Public sector finance requirements and local government roles
6. Additional challenges for Local Governments
7. Breakout Session: Mapping your access to finance
8. Team Presentations
9. Wrap Up

1. Defining the Climate Finance Challenge



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Defining the Climate Finance Challenge and Opportunity



Africa's infrastructure finance needs are estimated by the AfDB at between US\$ 68–108 billion/year



A key challenge is the lack of investable projects. In 2018, only US\$ 8 billion was invested in projects with private sector participation

- In 2018 only 12 countries in Africa (i.e. 22% of total) had private investment in infrastructure projects (World Bank PPI Database)
- Projects were limited to Cameroon, Ghana, Guinea, Kenya, Mali, Morocco, Namibia, Senegal, Sierra Leone, Somalia, South Africa, Zambia
- “The main reasons for Africa’s infrastructure deficit center not on a lack of funds but a lack of bankable projects” (Infrastructure Consortium of Africa’s Annual Report)
- “Inadequate project preparation support and expertise” are cited as the main impediment to securing finance

KEY CHALLENGE: FUNDING PROJECT DEVELOPMENT IN ORDER TO ACCESS FINANCE

Climate Actions identified

- 17 climate actions were identified as priorities for LGs in SSA by CoM SSA
- 10 high priority climate actions (shown in bold) were selected by applying the following factors to the long list, namely: national priority, local priority, climate and development impact, feasibility, poolability, and scalability
- Financing roadmaps were developed for each of the 10 high priority actions (highlighted in **bold**)

Energy Efficiency Actions

- **Building efficiency**
- **Solar projects (including Rooftop PV)**
- **Public Lighting Efficiencies+ Expansion**

Energy Access Actions

- **Solar mini-grids to generate and distribute**
- Mini-hydro to generate and distribute
- **Clean cooking stoves**

Waste Actions

- **Wastewater Treatment & Reuse**
- **Waste-to-Energy**
- Large-Scale Bio-gas
- **Integrated Waste Management**
- Small-scale managed bio-digesters

Transport Actions

- Rapid Transit Buses

Adaptation Actions

- **Planting Trees**
- Urban food solutions
- Green urban areas
- **Disaster risk reduction (flooding)**

2. Overview of Climate Finance - *What is Climate Finance?*

- Defined as *“finance that aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts”* by the United Nations Framework Convention on Climate Change
- Climate Finance refers to local, national and international financing originating from public, private and alternative sources of financing that is aimed at supporting mitigation and adaptation actions that will address climate change
- Key terms in the context of Climate Finance include:
 - **Mitigation** - reducing, limiting or sequestering Greenhouse Gas (GHG) emissions to address the global problem of climate change
 - **Adaptation** - reducing local risks and vulnerabilities posed by climate change
 - **Leverage** - attracting additional (private) financing to support climate action
 - **Mainstreaming** - integrating climate change considerations into investment decisions by default

Need for public finance (local and international)

Climate Actions often require public funding to:

- Create the national enabling environment
- Develop investable projects
- In cases where revenues do not cover costs, to finance the capital expenditures (CAPEX) and/or the costs of operation and maintenance (O&M)

Leverage

- Public entities measure the leverage effect of their investment by quantifying how much private sector finance (local, international) is unlocked by their contribution
- Public sources of finance often have policies for the maximum % of total project costs they can finance (for example, EIB: 50%)

*Given the lack of adequate public funding, whenever possible, **public entities should seek to make climate projects commercially more attractive for private capital** - so that the overall impact of public investment is multiplied (or leveraged)*

Sources of climate finance and contribution to climate finance in 2015/2016

SOURCE	Avg. for 2015/2016 US\$ billion	%
PROJECT DEVELOPERS	118	25%
COMMERCIAL FI	48	10%
HOUSEHOLDS	42	9%
CORPORATE ACTORS	37	8%
OTHER PRIVATE	3	1%
PRIVATE TOTAL	249	54%
NATIONAL FI	132	28%
MULTI/BILATERAL FI	62	13%
CLIMATE FUNDS	2	0.4%
OTHER PUBLIC	18	4%
PUBLIC TOTAL	215	46%
TOTAL	463	100%

Source: *CPI Finance Landscape*, 2018

Private investors and funders provided 54% of all climate funding in 2015/2016

Private Sector Project Developers (e.g., ESCOs, renewable energy developers, etc.) raise debt and equity to fund climate actions (25% of total global finance)

Private commercial financial institutions provided 10% of total global finance

Public funders provided 46% of climate finance, mainly through national, bilateral and multilateral financial institutions

National financial institutions were the largest public contributors (28% total global finance)

Multilateral and bilateral financial institutions e.g., World Bank, AFD, AfDB, EIB, etc. (13% of total global finance)

Climate funds e.g., Green Climate Fund, GEF, etc. are dedicated platforms funded by commitments from developed countries that provide concessional finance and grants for climate action in developing countries (less than 1% of global climate finance)

International climate finance flows in 2015/16 (US\$ 463 billion)

SOURCES AND INTERMEDIARIES

Which type of organizations are sources or intermediaries of capital for climate finance?

INSTRUMENTS

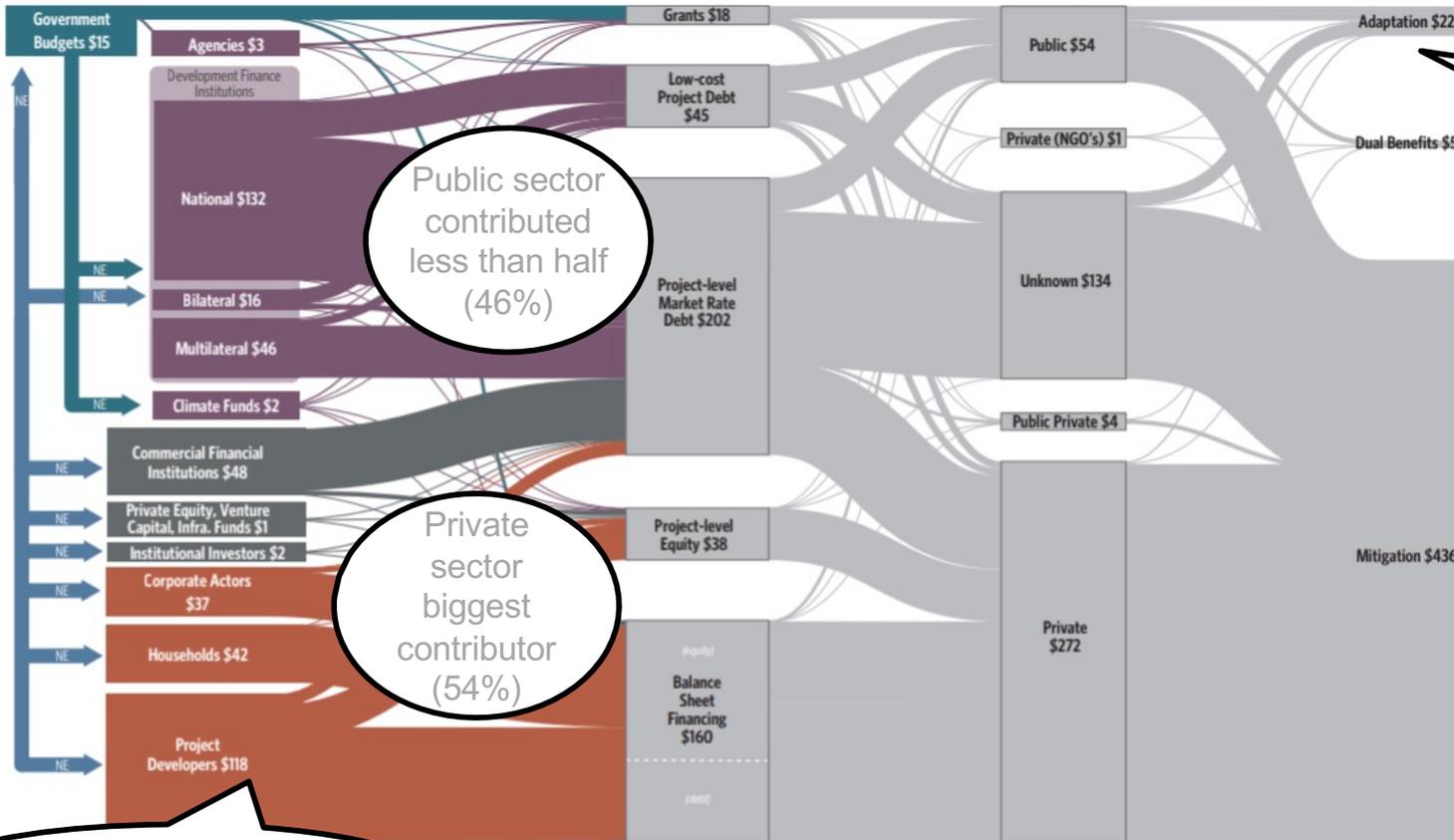
What mix of financial instruments are used?

RECIPIENTS

Does climate finance go through public or private channels?

USES

What types of activities are financed?



Public sector contributed less than half (46%)

Private sector biggest contributor (54%)

Project developers provided 25% of funds

Mitigation projects received only 5% of funds

KEY

- PUBLIC MONEY
- PRIVATE MONEY
- PUBLIC FINANCIAL INTERMEDIARIES
- PRIVATE FINANCIAL INTERMEDIARIES
- FINANCE FOR INVESTORS & LENDERS
- NE: NOT ESTIMATED

Geographical breakdown of climate finance spend (US\$ billion)

REGION	2015	2016	2015-2016 AVERAGES
NON-OECD	270	269	270
CENTRAL ASIA AND EASTERN EUROPE	11	8	10
EAST ASIA AND PACIFIC	175	184	180
LATIN AMERICA AND THE CARIBBEAN	32	20	26
MIDDLE EAST AND NORTH AFRICA	8	7	8
SOUTH ASIA	20	24	22
SUB-SAHARAN AFRICA	13	12	12
TRANSREGIONAL	12	13	13
OECD	202	186	194
AMERICA	54	59	56
JAPAN, KOREA AND ISRAEL	36	17	26
OTHER OCEANIA	3	5	4
WESTERN EUROPE	109	105	107
TOTAL	472	455	463

Source: *CPI Finance Landscape*, 2018

SSA accounted for only 3% of global spend in 2015/2016. By contrast, SSA is likely to be most effected by urbanization in the next decades:

- The global share of African urban residents is projected to grow from 11.3% in 2010 to 20.2% by 2050
- SSA has an urban population growth rate of 4% compared to global rate of only 2.0%
- SSA's urban areas currently contain 472 million people which is expected to double over the next 25 years

Given above urbanization trends and SSA's vulnerability to climate change, climate finance for the region and its LGs will need to be prioritized

Climate finance instruments and sources (US\$ billion)

- Of the US\$463 billion of climate finance extended globally in 2015/2016, only 14% was concessionary debt (10%) or grants (4%)
- The bulk of climate funding (86%) was commercial debt and equity
- Project level debt was the largest contributor at 44%

Average (US\$ billion)	2015/2016	%
BALANCE SHEET FINANCING (DEBT)	59	13%
BALANCE SHEET FINANCING (EQUITY)	101	22%
GRANT	18	4%
LOW-COST PROJECT DEBT	45	10%
PROJECT-LEVEL EQUITY	38	8%
PROJECT-LEVEL MARKET RATE DEBT	202	44%
TOTAL	463	100%

Source: *CPI Finance Landscape*, 2018

Examples of SSA private sector funders/sources

Project developers and commercial lenders

- South Africa's Renewable Energy IPP Programme (REIPPP) has demonstrated how project developers and Commercial lenders will respond to a well-structured climate investment program. By the end of 2018, the REIPPP had unlocked investment (equity and debt) to the value of ZAR209.4 billion (US\$15 billion)
- Only 20% of this funding was provided by foreign developers and lenders, demonstrating how local project developers and commercial lenders rose to the occasion

Corporate actors

- Corporates, such as Old Mutual, made significant investments in the REIPPP both as lender and as equity provider
- These investments were used as a springboard to build up a larger infrastructure portfolio which justified hiring a team of investment professionals that can evaluate and develop infrastructure investments
- Through its subsidiaries (Futuregrowth and AIIM), Old Mutual acts as both developer and bond investor in SSA infrastructure projects

Households

- Households can make significant contributions to climate finance by funding residential interventions such as energy efficient lightbulbs, solar water heaters and rooftop PV
- Regulation such as Kenya's 2012 Energy (Solar Water Heating) Regulations which made it mandatory for all premises with hot water requirements exceeding one hundred liters/day to install and use solar water heater systems, can drive uptake at a household level

Examples of public sector funders/sources

Multilateral development banks

- In 2018 multilateral development banks committed US\$43 billion in climate finance globally of which SSA received 21% (or US\$9 billion)
- Adaptation funding accounted for US\$3.9 billion (or 43% of SSA's allocations) whilst the remaining 57% funded mitigation projects
- 71% of MDBs' commitment was in the form of investment loans, i.e. loans that attract interest whilst policy and result based financing accounted for a further 14%

Regional banks

- The Development Bank of Southern Africa is a GCF accredited entity that can on-lend GCF concessionary loans. To date, the DBSA has financed climate mitigation and adaptation projects with a total value of US\$1 billion

Local governments

- Makueni County in Kenya set up a climate fund that ringfences 1% of the county's annual budget for adaptation projects

Examples of Global Climate Funds - The NAMA Facility

Overview

- Launched at the Bali Conference (2007), the NAMA Facility funds selected proposals that reduce GHG emissions submitted by national governments of developing countries
- The [NAMA Facility](#) finances innovative projects that have strong potential for scale-up and replication, inducing sectoral change that:
 - Are country-led and embedded in national development strategies and sector-wide programs
 - Tackle wider policy, regulatory or other barriers inhibiting investment in low-carbon development
 - Develop innovative financing mechanisms attracting both public and private investments

Opportunity

- Up to EUR20 million can be applied for in grant funding

Examples of SSA NAMA applications

- Kenya's program titled "Circular Economy Solid Waste Management Approach for Urban Areas" makes use of funding from the NAMA funding (US\$ 25 MM), national government grants (US\$ 10 MM) and private sector funding (US\$ 4 MM). The program will facilitate the diversion of 90% of collected waste away from disposal sites and towards various recycling practices.
- South Africa's Energy Efficiency in Public Buildings Program makes use of NAMA funding (EUR 20 MM) and National Government Grants (EUR 20 MM) to implement a guarantee fund that will unlock loans for ESCOs from a portfolio lender.

Examples of Global Climate Funds – Green Climate Fund (GCF)

Overview

- The GCF provides resources to countries that are particularly vulnerable to climate change impacts, supporting a shift toward low-emission and climate-resilient development. It aims to deliver equal amounts of funding to **mitigation** and **adaptation** initiatives. GCF also comprises a Readiness Fund, which provides resources for strengthening the institutional capacities of National Designated Authorities and Direct Access Entities to engage efficiently with the Fund.

Nature of support

- Multilateral grants, loans, equity and guarantees to support public entities at a regional / national level, private sector, international organization, NGO, or CSO.

Examples of GCF funded projects

- A GCF funded project aims to accelerate the growth of clean cooking stove markets in Kenya and Senegal and significantly increase the level and quality of production and sales, particularly in remote rural areas. The program makes use of EUR38.4 MM of grant funding.
- South Africa's Waste Diversion Program makes use of GCF Project Preparation Funding to develop a standardized procurement process for alternative waste treatment facilities at 40 municipalities. The program has been structured to access US\$50 MM in grants and concessional loans from the GCF.



Examples of Global Climate Funds – Global Environment Facility (GEF)

Overview

- The goal of the GEF-7 Adaptation strategy is to strengthen resilience and adaptive capacity, and reduce vulnerability to the adverse impacts of climate change in developing countries. This overarching objective is achieved through several GEF funding mechanisms.

Nature of support

- Multilateral grants to support public entities at a regional/national level, private sector, NGO or CSO
- The facility has funded 6 windows to date and its about to commence its 7th funding window (i.e., GEF-7)
- Funding is allocated to each qualifying country under each window.



Examples of GEF funded projects

- Cameroon has received US\$ 69 MM of GEF grant funding across 33 projects and has benefited from \$413 MM of grant funding allocated to regional/global projects. US\$5 MM is yet to be allocated to projects under GEF-6.
- Burkina Faso has received US\$ 53 MM of GEF funding across 27 national projects and has benefited from a further US \$416 MM of grant funding allocated to regional/global projects.
- Kenya has received US\$100 MM in grant funding across 39 projects and has benefited from a further US\$ 645 MM of grant funding allocated to regional/global projects.

2. Overview of Climate Finance market segments and business models



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Climate finance mechanisms

- **Support for policy development** - Grants to help countries develop and implement policies that that will make investment into target areas attractive to the private sector.
 - *e.g. technical assistance funding was made available to South Africa by various bi-lateral donor agencies, including those representing Denmark, Germany, Spain and the UK to develop the country's renewable energy IPP programme (REIPPP).*
- **Green credit lines** - Finance is provided to local financial institutions to on-lend to 'green' projects and programs that otherwise would struggle to get finance.
 - *e.g. France's SUNREF program has made EUR45 million available to 3 local banks to on-lend to the private sector via Namibia's Environmental Investment Fund.*
- **Blended finance** - Addresses market failures by mitigating risks for private-sector investors and or improving returns. Blended finance can take various forms, including:
 - *Interest rate subsidies or concessional loans*
 - *Risk mitigation measures such as partial credit and political risk guarantees*
 - *First-loss facilities and subordinated financing*

Blended finance – interest rate subsidies & concessional loans

- An **interest rate subsidy** makes use of public grants to reduce a project's debt service payments.
 - *Example: NamPower raised €105 MM in debt from the EIB, KfW, AFD to fund the construction of the Caprivi Transmission line, unlocking hydropower imports for Namibia. To meet NamPower's investment hurdle rate, the Infrastructure Trust Fund (ITF) provided a €15 MM grant to reduce NamPower's debt service obligations and to increase the project's internal rate of return.*
- **Concessional loans** can be structured to offer the following benefits:
 - Longer maturities than those offered by private banks, allowing annual repayments to be reduced and spread over a longer period
 - Longer grace periods
 - Reduced security requirements, allowing commercial co-funders to enjoy more security
 - Lower leverage ratios (i.e. DSCR,LLCR and debt/equity ratios)
 - Fewer negative covenants (e.g. restrictions on working capital, future borrowing etc.)
 - *Example: The IRENA/Abu Dhabi Fund for Development's Project Facility offers renewable energy loans with a tenor of up to 20 years and interest rates of between 1 - 2%. A 3.6 MW solar mini-grid project in Burkina Faso received a US\$ 10 million concessionary loan from the facility*

Blended finance – guarantees

- Guarantees issued by public finance institutions such as **political risk insurance**, **partial risk guarantees**, and **export credit guarantees** can mitigate various types of investment risks, including political, policy, regulatory, credit and technology risk.
- **Currency risk mitigation measures** include hedging instruments which resolve currency mismatches (e.g. dollar-based debt that needs to be repaid with local currency tariffs), as well as mechanisms that deal with the high cost of hedging.
- The table below illustrates what risk each type of insurance or mitigation product is likely to cover

	Political risk	Policy & regulatory risk	Counterparty risk	Technology risk	Currency risk
Political risk insurance	×	×			×
Partial risk/credit guarantee	×	×	×		
Export credit guarantee	×	×	×	×	
Currency risk mitigation measures					×

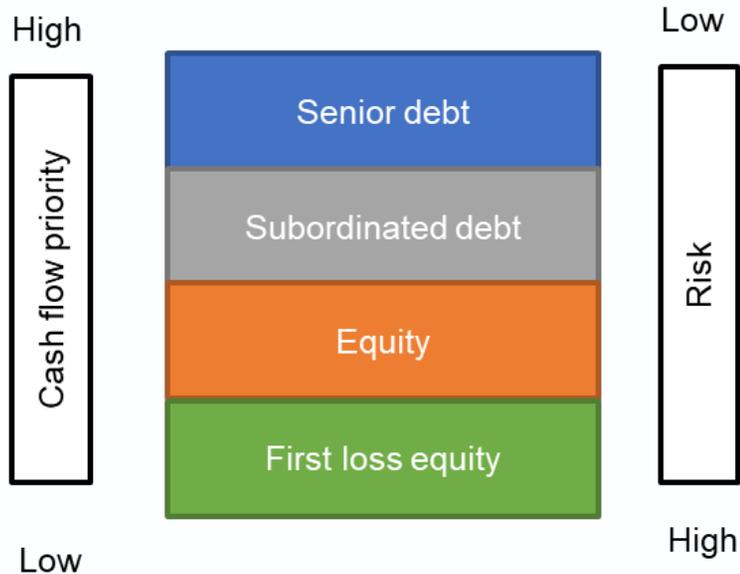
Source: Adapted from IRENA risk mitigation and structure finance, 2016

Blended finance – guarantee providers

- GuarantCo provides partial credit and partial risk guarantees, first loss guarantees, tenor extension or liquidity guarantees, thus loosening constraints in local currency debt finance to infrastructure projects
- The TCX Currency Fund offers financial instruments (i.e. swaps & forward contracts) that enable TCX's clients to provide their borrowers with financing in their own currency, while shifting the currency risk to TCX.
- The Multilateral Investment Guarantee Agency (MIGA) is the largest public provider of political risk insurance in terms of volume. It can guarantee equity in addition to debt and does not require a counter-guarantee from the host government.
- Export credit guarantees cover default on any debt service regardless of the cause, thereby offering a comprehensive risk coverage to private exporters or their lenders. USEXIM, JBIC, KSURE, EULER HERMES, China-Exim and Sinosure are the 6 largest export credit agencies in the world.
 - *Example: The 250 MW Bujagali hydropower project in Uganda made use of a MIGA guarantee to unlock a higher level of private investment than any other comparable hydropower project in the region.*
 - *Example: GuarantCo provided a KES 2.5 billion partial credit guarantee in 2019 to investors in Kenya's first green bond that will fund green student accommodations. The bond achieved a B1 credit rating from Moody's.*

Blended finance – first-loss facilities and subordinated financing

- **Subordinated debt** is a form of debt that ranks behind 'senior debt' (e.g. bank loans) but before equity providers. It can help to insulate senior debt investors from unacceptable risks and reduces the cost of capital in cases where equity is too expensive.
- **First loss equity** shields investors from a pre-defined amount of financial losses, making it more attractive for the private sector to fund the project's remaining equity.



- *Example: Municipalities in India's Tamil Nadu state lacked funding for infrastructure investments. To unlock funding, the government created TNUIFSL, an asset manager jointly owned by the government and private financial institutions.*
- *KfW provided a EUR 10 MM loan to fund the subordinated debt (35%) of an existing Special Purpose Vehicle, the Water and Sanitation Pooled Fund (WSPF), managed by TNUIFSL, and designed to disburse loans to urban local bodies. The structure unlocked finance for almost 300 small projects at reduced financing costs*

Private sector models for funding or delivering climate projects

- The term **Public Private Partnership (PPP)** is often used to describe a range of models where the private sector delivers a service/function that is considered to be a public function. A PPP is defined by legislation at a country level; not all private sector participation models qualify as PPPs
- Examples of models/contracts used to unlock private sector funding and expertise:
 - **Service Level Agreements (SLAs)** – Private sector operates/maintains a LG asset, such as a composting facility located at a landfill site over a period of 1 to 9 years. The private sector may also fund some equipment
 - **ESCO Funded** – Private sector installs, funds, operates/maintains energy efficiency equipment installed in LG buildings or along LG owned roads over a period of 3 to 7 years
 - **Independent Power Producer (IPP)** – Private sector designs, builds, finances and operates/maintains a renewable energy power plant and sells electricity under a power purchase agreement (PPA) over 20+ year period. At the end of the PPA, the asset does not transfer to the public sector
 - **Private Sector Owned** – Private sector designs, builds, finances, and operates/maintains (for example, a recycling plant that makes use of municipal waste as feedstock)
 - **Build Operate Transfer (BOT)** – Private sector designs, builds, finances, operates/maintains a public sector asset (e.g. wastewater treatment plant), but is required to transfer it to the public sector at the end of the contract

Sources of private sector finance

The private sector can access/provide various sources of funding to implement projects, including:

- **Equity and shareholder loans** – Financing provided by a company's shareholders or parent company
- **Debt raised via its own balance sheet** – This is known as corporate finance as the company that raises the debt remains liable to repay the debt. Unless a company has a strong balance sheet and credit rating it may not be able to raise significant amounts of debt in this way
- **Project finance debt** – Debt raised for a specific project and that is secured against the cashflows of the project. Due to the risks involved for lenders, the due diligence process is expensive and not justified for smaller projects and loans.
- **Blended finance from development finance institutions** – This could include a combination of grants, concessionary loans, guarantees and other risk mitigation measures structured to reduce the cost of funding
- **Capex grants** – Funds to reduce the capital expenditure (CAPEX) of the project provided by the public sector to make a project more affordable by reducing the amount that the private sector needs to borrow

3. Overview of relevant and innovative financing instruments



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Overview of relevant and innovative financing approaches

FACT: Independent projects & mechanisms have mobilized US\$ billions in subnational finance through well-structured financial *structures*

- Successful worldwide even in countries considered unbankable
- Proven financial structures include:
 - **Independent Legal Entities** providing finance or essential public services (Utility Companies, PPPs and Local, Metropolitan and Regional Government Financing Institutions)
 - **Subnational Pooling Mechanisms** (e.g., Local Government Funding Agencies, Municipal Banks, State Bond Banks, etc)
- New Approaches can crowd in local long-term support from pension funds – for example contingent refinancing facilities
- Political Foundation: “Blended Finance,” “Pooled Finance,” “Innovative Finance” are key financial solutions cited in Addis Ababa Action Plan

Opportunity: Build on Long History > 100 years: Worldwide Use of Subnational Financial Mechanisms

- Since 1898 over **US\$ 1 trillion** mobilized for large & small local projects in Europe and United States, financing over 40,000 local projects
 - **Europe - Use of Local Government Funding Agencies:**
 - In 2014 alone, the Scandinavian and Dutch agencies issued bonds in various capital markets for a total estimated value of €70 billion (specific asset class very much in demand in international markets)
 - **US: Use of State Bond Banks and State Revolving Funds** (water, energy, etc.)
 - New York State Environmental Facilities Corporation –US\$24 billion for over 2,000 projects (1970)
 - US Water: Over last 25 years, over 30,000 subnational publically-owned water projects financed by US\$100 billion (federal, state, private sector)
- Since 2002 over **US\$ 2.6 billion** mobilized for subnational projects in developing countries
 - Mexico (US\$1.1 billion), **South Africa (US\$744 million)**, India (US\$458 million), Philippines (US\$179 million), Colombia (US\$215 million), Czech Republic (US\$44 million), **Kenya (US\$4 million)**

Source: *Creating the Local Financing Framework for Sustainable Development Goals: The Potential Catalytic Role of Subnational Pooled Financing Mechanisms*, 2015, AFD, FMDV

Subnational Bond Markets for Public and Private Sector Projects

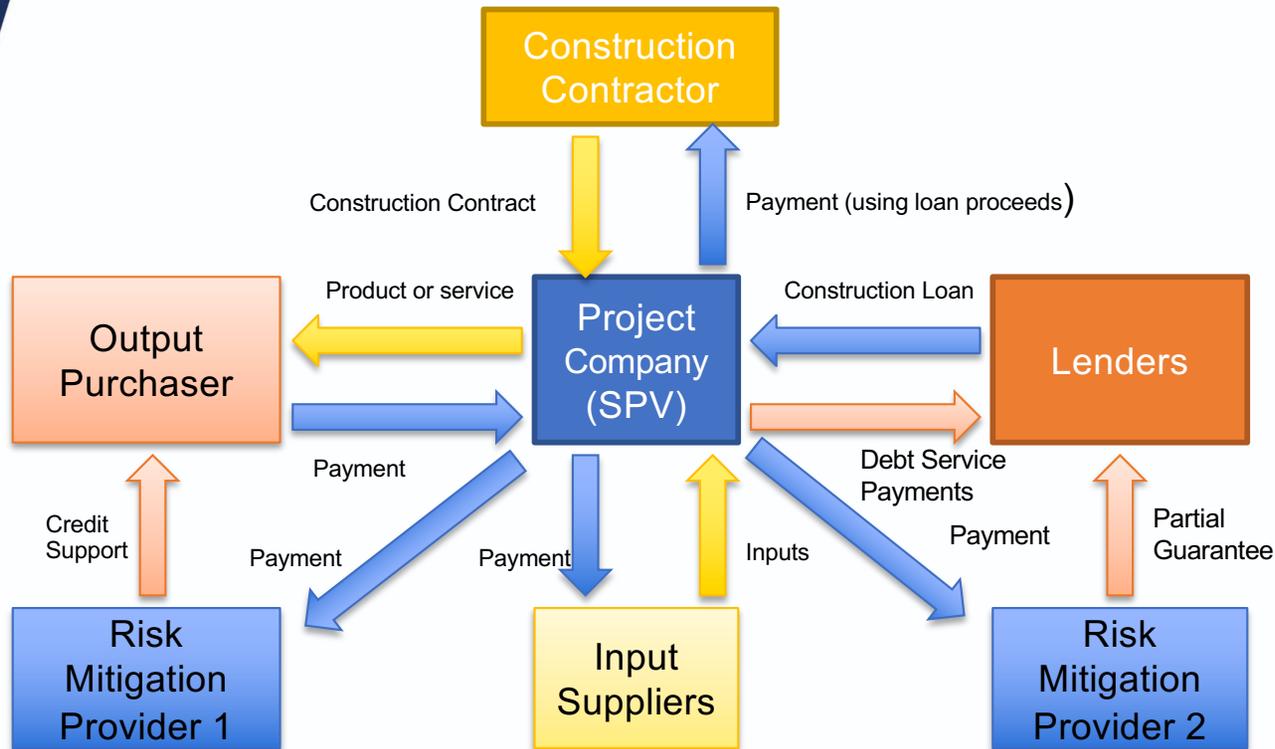
- **Bond borrowing by Subnational Entities in developed countries*:**
 - United States is the largest subnational bond market, with annual issuance of about \$400 billion
 - 5 countries -- Germany, Japan, Canada, China & Spain -- account for about 85% of the remaining global bond market (\$310 billion)
- **Bond borrowing by Subnational Entities in developing countries*:**
 - Subnational governments in various countries have issued bond instruments (e.g., China, Colombia, India, Mexico, Poland, Russia, **South Africa**)
- Bonds are also issued by **Subnational Special Purpose Vehicles** in both developed and developing countries
 - Credit-enhanced separate legal entities with ring-fenced revenues: intergovernmental financial transfers, debt reserve funds, escrow accounts, partial credit guarantees
 - Can be 100% owned municipal service companies, PPPs, or 100% owned private companies
 - Especially important for developing countries, as low national and Subnational creditworthiness often blocks access to private finance

*Source: World Bank

Examples of Successful Developing Country Subnational Approaches

- **Empresas Públicas de Medellín (EPM):** Owned by the municipality; operates in water & sewerage, electricity, gas sectors, telecommunications (44 companies); secured investment grade credit ratings for bond finance (1955)
- **SABESP - Sao Paulo State (Brazil):** Majority-owned firm largest water company in world, 49% owned by private sector (capitalization US\$ 4 billion, listed NYSE, 1973)
- **Bond Bank of Hidalgo (Mexico):** US\$213 million for 12 projects (2007)
- **Manila Water:** Provider of water and wastewater services to 6 million people; a subsidiary of the country's oldest conglomerate Ayala Corporation in partnership with British & Japanese investors; increased 24 water availability to 99% (1997)
- **Municipal Infrastructure Investment Unit (South Africa):** Raised US\$720 million in bank finance for 230 projects in 95 municipalities (1998)
- **Tamil Nadu Pooled Funds** provided finance for almost 300 small projects at reduced financing costs
 - **2002 Fund** US\$ 36 MM financed 55 projects (7.25 – 10.6% interest rate for 10 years)
 - **2004 Fund** US\$ 154 MM financed 224 projects (5.59% interest rate for 15 years)

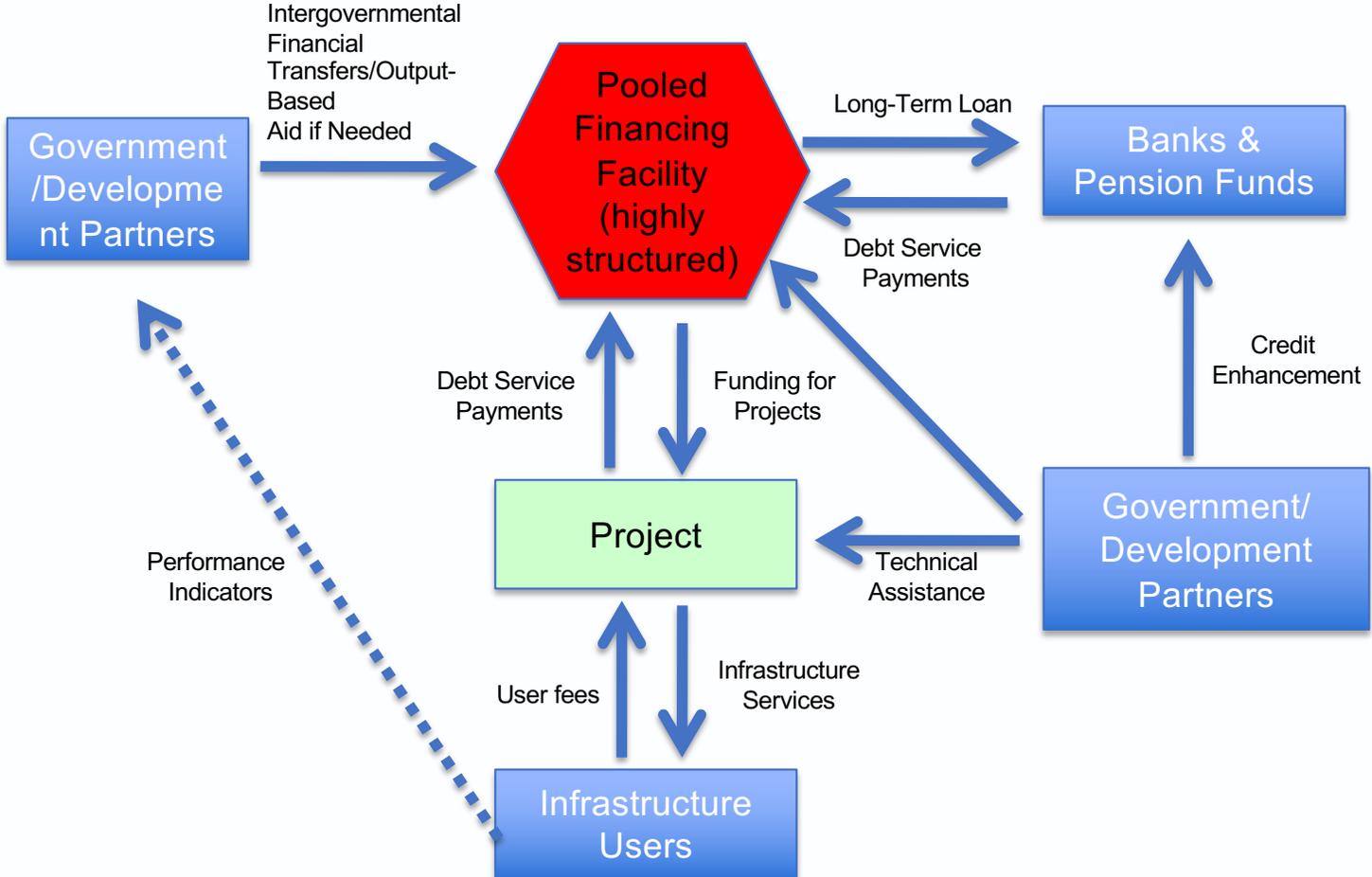
Global Financing Solution to meet Investment Criteria: Project Finance Approach



Examples of risk mitigation:

- SPV/ring-fenced revenues
- Technical Studies that confirm debt service projections
- Credit support in the form of a guarantee of payment by the
- Output Purchaser “Offtake contract”)
- A partial guarantee of the project’s debt

Structure of a pooled financing facility



Opportunities to achieve scale for the financing of Subnational Climate Actions

- **Opportunity for blended finance structures** that use grants and other risk mitigation measures to achieve bankability, thereby unlocking private sector finance
 - *Solutions and examples: partial credit guarantee used to structure Kenyan Green Bond*
- **Creating economies of scale** for small transactions from both a project development and procurement perspective
 - *Solutions and examples: pooled finance (Tamil Nadu), pooled procurement (RSA's waste diversion program), expanding strong utilities (example EPM)*
- **Opportunity to structure risk mitigation structures/instruments** that could unlock funding from local commercial banks
 - *Solutions and examples: RSA's Energy Efficiency in Public Buildings Program that makes use of a guarantee mechanism to unlock loans for ESCOs.*

4. Private sector finance requirements (project developers/financiers) and local government roles



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Private sector's requirements for providing funding

- Private sector funders and investors will assess whether a project is bankable by considering several risk and revenue factors. However, **revenue certainty** is likely to be a **key determinant** in whether commercial debt will be extended.
- **Key factors determining whether a project is bankable/investable** or not:
 - Enabling environment (national/subnational regulatory & legal framework, political support)
 - Well-structured legal vehicle managed by professionals with excellent track records
 - High levels of revenue certainty as a result of payment guarantees by creditworthy entities (government or private), documented in offtake agreements. If the off taker is not considered creditworthy, the project will need a comprehensive guarantee from a highly-rated development institution to ensure bankability.
 - High levels of input certainty (e.g., guaranteed minimum levels of feedstock for projects that process waste streams).
 - Use of credible equipment and service providers with known, proven technologies
 - Predictable CAPEX and OPEX not subject to foreign exchange risk
 - Acceptable level of CAPEX (e.g., may require in-kind contributions such as land, grants)

Private sector's key criteria and metrics

Market Segment	Key Criteria	Key Metrics	Unlocking Actions
Project developers (start up costs, equity and debt)	Profitability over long term without political interference	Projected demand or revenues versus costs	Project pipeline, well understood procurement processes, standardized contracts, guarantees (e.g. REIPPP, scaling solar)
Commercial Banks	Ability to collect full interest and principal on time	Debt service ratio, escrow accounts, collateral, etc.	Proven project developer & management, guarantees (strong balance sheet, Project finance techniques, etc.)
Institutional & LT investors	Track record of profitability that meet internal targets	Projected revenues, use of guarantees	High-quality credit rating, well-structured legal vehicle & finance, management
Social Impact Investors	Alignment with criteria of investors	Impact, sustainability	Credible project management & legal vehicle

5. Public sector finance requirements



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Public sector's requirements for providing funding

- Since most public sector sources require private finance to achieve leverage, the public sector's requirements are largely aligned with that of the private sector. In addition, the following additional climate impact criteria will also need to be met to satisfy public funders:
- **Criteria related to the National Government and LG** that will be implementing the project:
 - Creation of an enabling environment (from both a policy and capacity point of view)
 - Support and commitment for the project/program, demonstrated via inclusion in strategies/budgets
 - Political support for programs that intend to apply for GCF funding (via no objection letter)
- **Project-related criteria**
 - Assessment of development impact and risks (economic cost benefit analysis, social and environmental risk assessments, social and environmental mitigation strategies, strategies to maximize local content and job creation)
 - GHG emissions saved per US\$ of funding provided
 - US\$ of private sector finance leverage per US\$ of public funding provided
 - Gender strategy and approach
 - Co-funding contributions by LG/national government (monetary or in-kind)
 - Opportunities to achieve scale

Public sector's key criteria and metrics

Entity	Criteria	Metrics	Unlocking Actions (examples)
National Government Program	Related to national development plan, NDC	Sustainable jobs created GHG emission savings forecast Tax revenues that will be generated by the project	LGs lobby existing national program, partner with appropriate expert and finance partners to develop proposals that meet requirements
International Funding	Related to organization's mission	GHG emission savings per US\$ of funding provided Scalability of project Ability to replicate the project Sustainability of project once operational	LGs partner with appropriate expert and finance partners to develop proposals that meet requirements

6. Additional Challenges for Local Governments



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Additional Challenge of Financing Subnational Climate Actions

- Political window (i.e. before next local election and leadership change) is often too short to plan and implement infrastructure projects
- Limited capacity at a LG level to develop projects and funding strategies
- Poor understanding at a LG level of alternative funding approaches and options
- Lack of public finance to support capacity building and project development
- Development architecture that is based on sovereign finance rather than LG finance
- MOFs concerned with creation of additional public debt and fiscal liabilities (explicit and implicit national guarantees)
- Local governments have mandated functions without adequate resources
- Personal political rivalry between national and sub sovereign leaders
- Lack of political will to introduce cost reflective tariffs or to grow other sources of own revenue

7. Breakout Session: Mapping your access to finance



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7. BREAKOUT SESSION

Assignment: Given your country, what could be proactive steps taken by your local government to facilitate the financing of Climate Action(s)?

1) What is the role of your LG given the national regulatory, legal, and policy framework?

[Each person to be given a national scan template with key variables - e.g., right to borrow, own, raise taxes, etc.]

2) What opportunities already exist in your country for financing your priority Climate Actions?

[Each person given list of potential opportunities like national programs, project developers, international initiatives, etc]

3) What are the possible roles for your LG?

[Each person has list of roles to choose from]

4) Imagine you are the leader accountable for raising finance. What would your political advocacy and financial strategy be?

[Each person has list of political advocacy and financial strategies to choose from]

Each Team reports back using a standardized template

CLIMATE ACTION / ROLE OF LC/ OPPORTUNTIES/ PROACTIVE STEPS/ADVOCACY AND FINANCIAL STRATEGY

8. Team Presentations



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8. Wrap Up



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ADDITIONAL TOOLS & INFORMATION



How to Finance Roadmaps
for 10 Climate Actions

See COM SSA GlobalDF Climate Finance
(authored by GlobalDF; sponsored by GIZ,
EU)
on GlobalDF website www.globaldf.org



6 Training Modules for LG
(including this one)

See other training modules
(authored by GlobalDF; sponsored by
GIZ, EU)
on GlobalDF website www.globaldf.org

For more information, please contact GlobalDF through the website contact form on www.globaldf.org

*If interested in supporting the use of the training modules and their improvement, please contact
Dr. Barbara Samuels, Executive Director of GlobalDF at barbara@globaldf.org*