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Sustainable financing mechanisms for Nationally Determined Contributions

AFF Community of Practices on NDCs

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Outline

1. Definition and sources of Climate Finance
2. How to access Climate Finance?
3. Priority sectors mentioned in African NDCs
4. NDCs finance categories of needs
5. The catalytic role of an operational National Climate Fund for NDCs implementation
6. Funds supporting climate finance in Sub-Saharan Africa
7. Key challenges for successful fund establishment and management
8. Some initiatives supporting the implementation of NDCs in Africa

What is climate finance?

» The term climate finance broadly refers to the financial resources that support climate change mitigation and adaptation. Climate finance can include both private and public sources, as well as domestic and international sources. It can be deployed through grants and non-grant mechanisms such as debt, equity, and de-risking instruments (including on market-based financial terms or concessional terms).

Where does climate finance come from?

» **International public-sector sources**: National developed country governments have pledged a collective $100 billion by 2020, with plans to set a new higher target by 2025, and the major multilateral development banks (MDBs) have made commitments to direct increased percentages of funding toward climate change by 2020.

» **Private sources**, including from commercial banks and institutional investors http://www.unepfi.org/publications/climate-change-publications/technical-advice-for-policy-makers-publications/demystifying-private-climate-finance/

How to access Climate Finance

Major multilateral climate funds

Accessibility to countries or other eligible applicants through several different modalities.

1. **Funds with direct access** (Green Climate Fund, the Adaptation Fund)

» Entities can apply for funds directly by becoming accredited as an "implementing entity" or by partnering with an accredited entity.

» They then submit a concept note, obtain endorsement from a designated authority, submit a project proposal, and then undergo project review before project approval.

2. **Funds that are coordinated through a national focal point** (Global Environment Facility, Least Developed Countries Fund, and Special Climate Change Fund)

» Project idea prepared and endorsed by the national focal point and submit for approval to the fund.

» Some funds only accept applications at specific times as part of a call for proposals.

» Additionally, some funds only accept proposals from their member' countries.

» Proposals are then evaluated and approved by the fund.

How to access Climate Finance

Multilateral Development Bank Funds:

- **Accessibility:** through existing country assistance strategies or follow more direct project application process (identification of project or strategy, preparation to evaluate feasibility, appraisal of proposed project, approval of proposal, implementation of project, and evaluation after completion to document and report on the project)
- **Example**: World Bank, the Asian Development Bank, the African Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development and the Islamic Development Bank and others.

Bilateral funds:

- sources of finance from bilateral development finance institutions.
- Eligible countries may enter direct discussions with governments distributing funds.
- Could be based on **existing relationships with the countries** whose work they fund or **could be centralized fund that** countries may apply to access.
- Private sector actors also be eligible to receive funding.

Other funds: A range of other funds for which the steps to access vary widely

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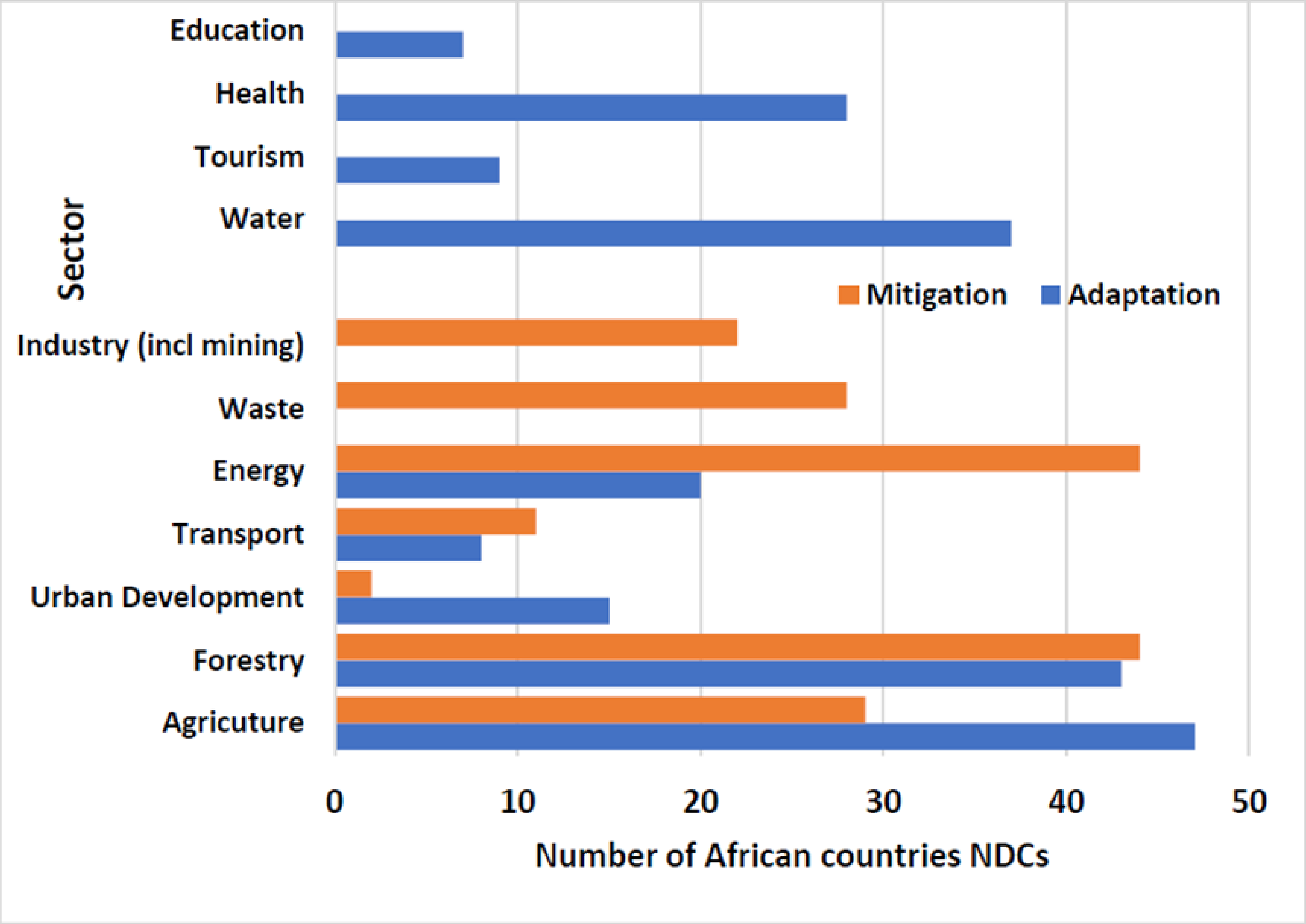
Priority sectors mentioned in African NDCs (Fobissie et al., 2021)



NDCs finance categories of needs (NDC Partnership)

1. Developing climate finance strategies and financial roadmaps, including national, local and sectoral NDCs investment Plans and financial roadmaps
2. Integrating NDCs into national planning, budgets and revenue, including integration of climate finance into public budgets and expenditure frameworks, climate finance tracking, sustainable public procurement guidelines and regulations, carbon pricing, taxes and trading;
3. Project and programme financing and resource mobilization, including blended finance mechanism, financial mechanisms or vehicles such as the national climate funds, green bonds and access to capital markets;
4. Developing bankable projects and pipelines: project feasibility assessment; project financial structuring; accessing international sources of finance through the development of projects concept notes and proposals
5. Private Sector engagement: assessment of private sector needs, mapping of private sector partners and assessment of private capital markets

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The catalytic role of an operational National Climate Fund for NDCs implementation

- **The National Climate Funds** aims to mobilize, pool and blend both domestic and external sources of finance, to support more coordinated programming of resources across stakeholders, and to ensure national ownership of climate finance
- **The Rwanda Green Fund (FONERWA)** as raised nearly US$ 176 million from international sources (DFID, KfW Group, Green Climate Fund, World Bank and AfDB) as well as from domestic sources (contributions from the government, environmental fines and fees, like forestry and water usage fees). FONERWA has been able to support 38 climate mitigation and adaptation projects in the public and private sectors, and through non-governmental organizations; created over 130,000 green jobs, improved nearly 60,000 households' access to off-grid clean energy, protected approximately 20,0000 hectares of land against erosion.
- **The Climate Resilient Green Economy Facility (CRGE Facility) of Ethiopia** mobilized almost US$ 200 million from international partners (DFID, Adaptation Fund, Green Climate Fund, Norway, Austria, and Denmark). Projects funded focus on agriculture, forests, urban development and housing, transport, livestock, institutional strengthening, and adaptation

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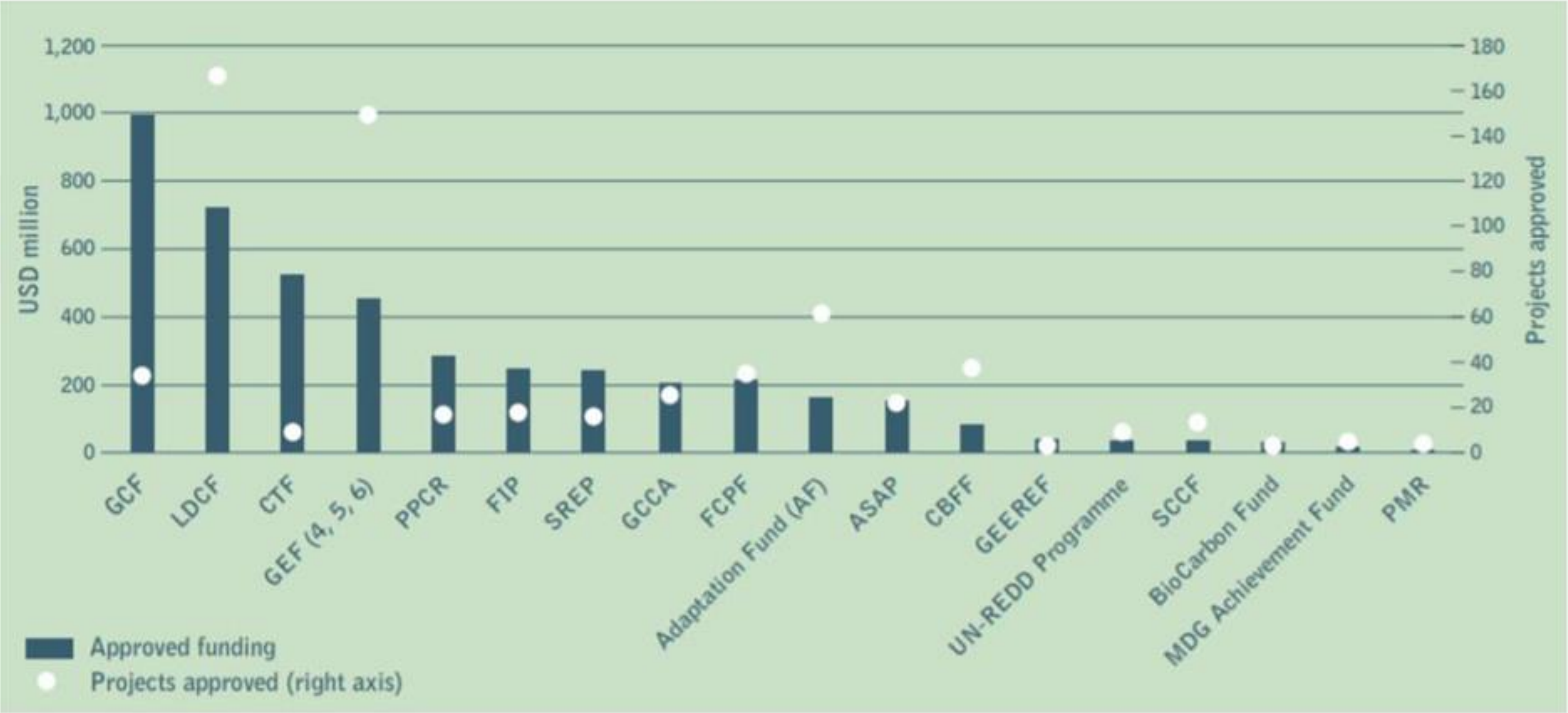
Funds supporting climate finance in Sub-Saharan Africa from 2003 to 2018 (CFU 2018)



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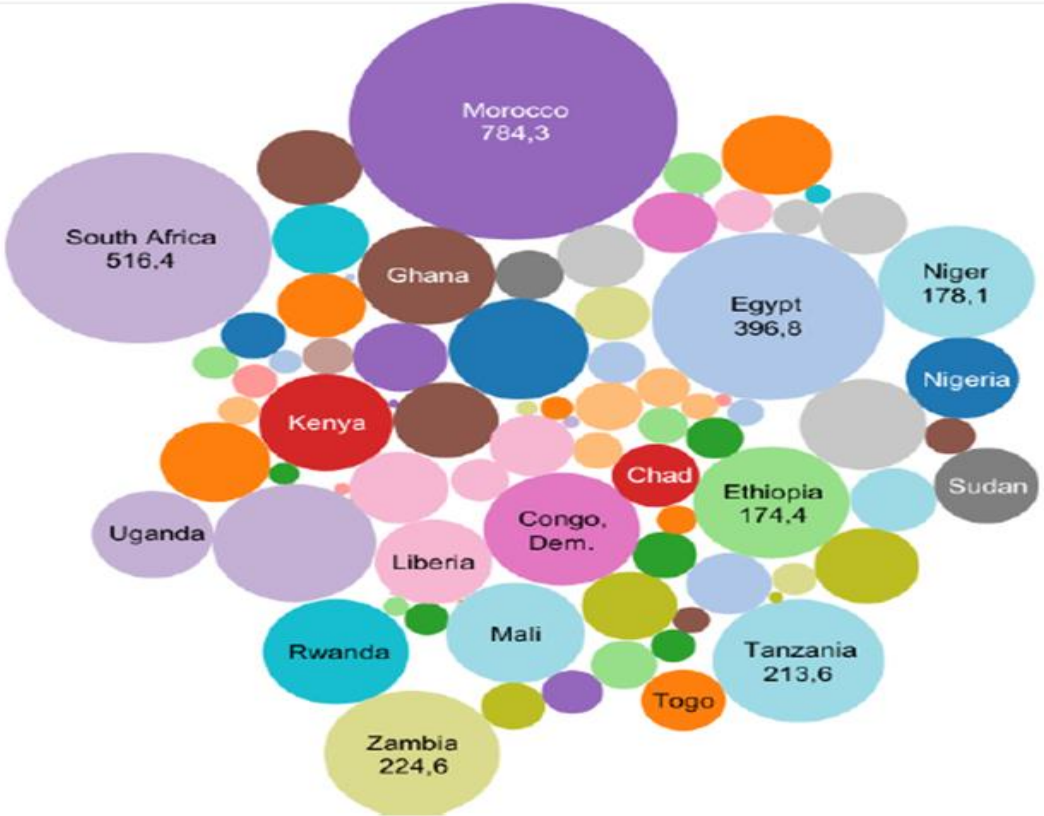
Amount of climate finance approved by countries in $ millions (CFU, 2019)



Top recipients of climate finance in Africa: **Morocco** (North Africa), **South Africa** (Southern Africa); **Democratic Republic of Congo** (Central Africa); **Tanzania** (East Africa); and **Niger** (West Africa)

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Key challenges for successful fund establishment and management

- Insufficient climate financing to reach NDC targets and Paris Agreement goals;
- Limited private sector engagement in climate projects;
- Lack of multisectoral coordination needed for more aligned and impactful climate action;
- Appropriate political will to implement climate mitigation and adaptation projects;
- Governance issues such as limited independence in the management of funds;
- Need for more stakeholder engagement and involvement;
- need to explore innovative revenue and financing modalities.
- Need for capturing and communicating climate impact to support government buy-in and to attract donor and private investment;
- The importance of keeping the green economy and climate change relevant in context of wider development challenges and humanitarian crises;
- Technical capacity for documenting and justifying the project’ contribution to climate action

Some initiatives supporting the implementation of NDCs in Africa

- » Africa NDC Hub, https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa-ndc-hub
- » NDC Support Program, https://www.ndcs.undp.org/content/ndc-support-programme/en/home.html
- » Climate Promise, https://www.undp.org/content/undp/en/home/climatepromise.html
- » • NDC Partnership, https://ndcpartnership.org/
- » • NDC Support Facility, https://www.worldbank.org/en/programs/ndc-support-facility

Specific initiatives to promote green investment via private sector in Africa and championed by the African Development Bank

- ➢ African Financial Alliance on Climate Change (AFAC)
- ➢ Developing guideline to greening line of credits (LOCs)
- ➢ Technical assistance to develop concept notes for green projects
- ➢ Developing climate screening tools for small and medium size enterprises (SMEs) Adaptation Benefit Mechanisms (ABM)
- ➢ Green bonds
- ➢ Africa Disaster Risk Financing (ADRiFi) Program

Questions for discussion

- What is the finance mechanism for NDC in your country?
- What are the financial partners targeted?
- How is the amount already mobilized as compared to the total investment needed for the implementation of the NDCs?

Key issues

- Ethiopia confirmed that more than US $300 millions have been mobilized with Norway being the main donor.
- Very good pledges but the funding passed through banks that have very high percentage of overhead and the amount really reaching countries for implementation is something very far below what has been mobilized
- What is the sustainability system in place to make sure that Ethiopian will sustain these investments. A high proportion of the money from these funding's is sometime used for technical assistance and very less to for real climate action.
- In order to get the maximum from the fundings for effective climate action, there is need to avoid investing in expensive technology that may not raise expected climate outcomes
- Passing through international partners is sometimes important for accountability, given the problem of governance in many African countries. DRC can be a good example on how to balance the involvement of international partners to support implementation of project in the ground

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Key issues

» There is a value to involve accredited and international partners because they also contribute in documenting very well in-country situation that could be of help in developing similar projects going forward.

» Are local communities and NGOs well informed and capacitated on how to develop bankable projects?

» Underestimation of some data available to support the contribution of the national government to climate action through some small-scale initiatives such as production and distribution of improved drought resilient seeds and tree seedlings

» The funding sources determine which proportion of the resource could be available for implementation at national level. Bilateral funding should be prioritized as compared to multilateral sources;

» There is a need for technical capacity and also for good data that could support development of project proposals, some good contacts such like Prof Noel Fonton of the University Abomey Calavi in Benin, who leaded the Pre-REDD project in the Congo Basin and contributed in developing allometric equations being widely used in assessing carbon stocks in the Congo Basin landscape. The contact of the Climate Analytics in Togo was proposed.

Key issues

- The Central African Forest Initiative (CAFI) is a joint collaboration between UNDP, FAO, the World Bank, six Central African countries and a coalition of donors, including the Kingdom of Norway, France, Germany, and the United Kingdom. The six participating Central African countries—Cameroon, the Central African Republic, the Democratic Republic of Congo, Equatorial Guinea, Gabon, and the Republic of Congo—will develop investment frameworks to support the sustainable use and conservation of their forest resources, notably through the implementation of REDD+ activities.
- Shared Botswana Green Climate Fund FP158 : Ecosystems Based Adptation and Mitigation in Botswana. The challenge with these multilateral funds is accessibility by CSOs May be even by Governments because of capacity required for these. Currently Botswana has used external facilitators to access the fund and thus CSOs cannot participate. https://www.greenclimate.fund/project/fp158