



THE SECOND SOUTH-SOUTH PEER CAPACITY EXCHANGE PROGRAMME

DRAFT REPORT

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Summary

The Second South-South Peer Capacity Exchange Programme was held from 5-6 April 2023 facilitated by Sustainable Solutions for Africa (SSA) and organized through financial and technical support from the European Union (EU), the United Nations Development Programme (UNDP), and the Africa Adaptation Initiative (AAI) under the Project “*Enhancing Knowledge and Evidence to Scale-up Climate Change Adaptation in Africa*”. The Capacity Exchange was attended by a diverse group of participants with a shared interest in facilitating climate finance mobilization in Africa. The participants included representatives from various African countries, such as the African National Designated Authorities (NDAs) for the Green Climate Fund, experts in climate finance, and other climate finance partners in Africa. It provided a safe space for them to share their experiences in accessing resources for adaptation. The Capacity Exchange consisted of keynote speeches and technical sessions, scheduled for six hours of virtual meetings over two days. The Questions and Answers (Q&A) session, a fundamental component of the Capacity Exchange, served as a valuable platform for the attendees to gain further clarity and delve deeper into the content presented by the keynote speakers. This interactive segment of the event provided a unique opportunity for participants to engage with the experts, exchange perspectives, and seek more comprehensive insights on the diverse topics discussed. Through the Q&A session, attendees could ask relevant questions, offer comments, and share feedback, all of which enriched the discourse and fostered a greater understanding of the subject.

The SSEP 2 covered the following topics related to climate finance for adaptation, including:

- Review of public expenditures in adaptation across the African continent
- Leveraging concessional capital for adaptation projects in Africa using equity and guarantee products
- Deepening African NDAs' understanding of a wide range of financial instruments to scale up adaptation finance Day II
- Cost Benefits Analysis for prioritizing adaptation projects maximizing climate, environmental, and social benefits.

Therefore, SSEP 2 delivered two critical outcomes: firstly, it allowed participants to improve their knowledge and understanding of the latest research on public spending on adaptation. It also sought to provide a platform to share knowledge and experiences on innovative financial instruments such as equity and guarantees and to share new project ideas and opportunities for future projects based on these financial instruments. Secondly, it was critical

in strengthening the knowledge and capacity for climate change and adaptation project development.

The SSEP 2 aimed to achieve multiple objectives, including contributing to the development of an African hub to share good practices and lessons learned among countries, the establishment of a South-South exchange program, and the enhancement of coordination of knowledge and capacity development activities by the AAI Secretariat. Through the reinforcement of AAI's knowledge-sharing mechanisms and coordination activities, this outcome would create an enabling environment for the further development of CCA projects in the region. AAI remains committed to strengthening efforts to build national capacities to scale up adaptation interventions in Africa, and the upcoming NDA forum is scheduled to take place in Lomé on May 23-26, 2023.

The South-South peer technical capacity exchange initiative aimed to enhance the adaptation project development skills of participating countries by leveraging existing knowledge-sharing processes established during the development of country National Adaptation Plans (NAPs). The program focused on fostering peer-to-peer learning and sharing of experiences among participating countries in the Global South, with a particular emphasis on interactive, hands-on exercises using real-life case studies. Through this approach, the initiative sought to provide practical and tangible tools and techniques for identifying and implementing effective adaptation measures in the face of climate change challenges. By building on existing processes and facilitating targeted knowledge exchange, the program aimed to promote more robust and effective adaptation planning and implementation across the participating countries.

DAY ONE OF THE SECOND SSEP

The Second South-South Peer Capacity Exchange Programme (SSEP) was organized through the financial and technical support of the United Nations Development Programme (UNDP) and the European Union (EU), which took place via Microsoft Teams on the 5th and 6th of April 2023. Over 22 countries' National Designated Authorities to the Green Climate Fund (GCF) and partner organizations attended the event.



A. Opening ceremony & welcoming remarks

During the launch of the Second South-South Peer Capacity Exchange Programme (SSEP) organized on April 5-6, 2023, through the financial and technical support of the United Nations Development Programme (UNDP) and the European Union (EU), Ms. Kulthoum Omari-Motsumi, the Special Advisor of the Africa Adaptation Initiative (AAI), delivered a welcoming remark. In her speech, Ms. Omari-Motsumi expressed her gratitude to the EU for their support in making the event possible, and to the UNDP for their partnership. She also extended her warm welcome to all the participants of the 2nd SSEP and highlighted the importance of the programme. She noted that the programme was initiated in response to the success of the first SSEP that took place in Morocco in October 2022 and was demanded by the National Designated Authorities to the Green Climate Fund (GCF) of over 22 countries.

Ms. Omari-Motsumi took the opportunity to introduce the Africa Adaptation Initiative, stating that it was established in 2015 as a response to a mandate from the African Heads of State and Government, the African Ministerial Conference on the Environment (AMCEN), and the African Group of Negotiators (AGN), during the 21st Conference of Parties, with the appointment of H.E. President Ali-Bongo, the president of Gabon, as the political champion of the Initiative in 2016. She explained that the initiative was based on the recognition by heads of state of the urgent need to support and accelerate adaptation implementation and adaptation action in Africa. Ms. Omari-Motsumi also mentioned that the Africa Adaptation Initiative would be hosted under the United Cities and Local Governments of Africa, which is based in Cairo, Egypt. This strategic move would place AAI at the forefront of the implementation of the Framework that was developed with all 54 African countries.

Furthermore, Ms. Omari-Motsumi emphasized that the programme was informed by the analysis of African countries' Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), and the National Adaptation Programmes of Action (NAPAs). The analysis revealed that adaptation finance was a crucial gap that needed to be addressed to enhance adaptation action on the ground. The Pan African Project was initiated to bridge this gap. Ms. Omari-Motsumi highlighted that the project's main aim was to support countries in understanding and developing the capacity to develop projects that enhance adaptation actions. She also noted that African countries and regions received limited funding for adaptation, citing the Green Climate Fund as an example. Recent evaluations of the fund showed that Africa had the highest number of projects that did not meet the standards for approval compared to other regions.

Additionally, **Ms. Stella Everaert Brozek (CLIMA)** represented the EU and gave a speech highlighting the European Commission's widespread support for African adaptation, as well as the specific support for the Africa Adaptation Initiative knowledge and capacity for climate change adaptation through the strategic partnership with UNDP. The EU had allocated 36 billion Euros for the Africa Envelope Programme from 2021 to 2027, and at CoP27, together with Denmark, France and Germany, Netherlands, and partners from the African Union Commission, launched the Team Europe Initiative on Adaptation and Resilience in Africa. The initiative aims to explore ways to create synergies between current and future adaptation programs in Africa, mobilize additional finance, and find new cooperation modalities between African and European institutions. The initiative will continue to mobilize support for AAI to enhance the implementation of climate actions and expand adaptation investments. The launch of this initiative has generated interest among member states and development banks to join, accelerating the coordinated approach to scale up finance for adaptation action across vulnerable sectors in Africa.

During the second session of the SSEP, Mr. **Charles Nyandiga, representing UNDP**, extended a welcome address. He stressed the importance of building on the success of the first SSEP and enhancing the understanding of the financial instruments to increase funding for adaptation projects in Africa. Mr. Nyandiga expressed optimism for the continuity of the program, either virtually or in person, to create a community of practice that can exchange ideas, experiences, and knowledge among countries in the upcoming years.

UNDP has established a strategic partnership with the AAI and the EU to support climate action and increase countries' NDC ambitions. Mr. Charles concluded his remarks by expressing his gratitude to the European Union for its financial support and to the Africa Adaptation Initiative for its strategic partnership. He also thanked the Sustainable Solutions for Africa project team for facilitating the presentations during the two-day workshop.

B. First Session: Review of Public Expenditures on Adaptation in Africa: Key Findings

Ms. Joan Manda, Senior Advisor on SDG Investment at UNDP's Sustainable Africa Finance Centre, gave a presentation on public spending on climate change in Africa. In 2018, UNDP conducted an update of its previous study on private and public spending, and Ms. Manda presented the pan-African report covering evidence on adaptation needs and spending in 51 of 54 African countries. The report aimed to assess whether existing and planned spending was sufficient to evade the economic impact of climate change. **The report's methodology** included an examination of four elements: climate change exposure, national economic structures and sensitivity, current public spending on adaptation in national budgets (the green box), foreign direct investment, official development assistance, and climate change funds.

The study aimed to contribute to the consensus on translating NDCs into action on the ground, in line with the COP negotiations, by linking adaptation gap work to advocate for mainstreaming adaptation into public budgets and integrating it into the daily work of governments. Ms. Manda emphasized that adaptation is a particularly critical issue for African countries, which are suffering the impacts of the climate crisis despite their negligible contribution to it. She presented the findings of the study on adaptation expenditures in African countries, highlighting that while **governments were spending more on adaptation than they received from international finance**, there was still a significant funding gap to effectively implement adaptation measures. The report proposed a series of recommendations including cross-sector coordination, data collection on climate public expenditure, costing NDCs for national financing strategies, and using gap analysis to guide funding strategies.

The presentation also emphasized the importance of the cost-benefit ratio perspective in evaluating **the effectiveness of public expenditures on adaptation**, as well as the fine line between adaptation and development, with good development practices contributing to resilience and adaptability. **The report highlighted the need for financing from both domestic and international sources**, as the current 3.3% of GDP available for this purpose is insufficient to meet the estimated 10.4% of GDP needed to avoid extreme climate impacts.

Ms. Freitas's presentation reinforced the report's conclusions, calling for a more balanced distribution of funds across sectors and geographic regions in Africa. The report provided recommendations on effective strategies to address the scarcity and quality issues related to

climate adaptation financing in Africa, involving both domestic and international funding sources, and focusing on the efficiency of budgeting and spending processes. In tandem, the private sector played a key role in investing in adaptation, and innovative financing instruments such as KPI bonds or thematic bonds could help raise more funds. However, **policies and reforms were needed to accelerate private sector investment**, focusing on both economic returns and adaptation benefits.

The report highlighted the need to integrate social protection programs with climate and environment programs to take a holistic perspective on adaptation financing. **Ms. Manda also discussed the implications of scaling up adaptation financing and its relationship to loss and damage financing.** While the African governments were making significant contributions to adaptation financing, a holistic approach to development with a focus on adaptation was needed.

It underscored the importance of data and called for an update on climate-related public spending and institutional reviews. Governments needed to publish data on their spending within these thematic classifications to inform national decision-making and policymaking. The overriding goal of mobilizing finance was to move to the implementation of adaptation and engage the private sector for a portion of the needed funds. Ms. Manda emphasized the use of gap analysis to guide funding strategies and collaboration with NDCs and adaptation gap-filling strategies. Rigorous MRV for adaptation funding was also needed. Ms. Manda expressed her gratitude to the AUC for partnering with UNDP in developing the report and adopting its data at COP27.

C. Second Session: Climate finance scarcity and the need for innovation - Snapshot of studies on needs-based finance and climate access

This presentation was facilitated by Sandra Freitas, the team leader of Sustainable Solutions for Africa (SSA), where she shared the results of reviewing studies on the state of adaptation financing in Africa over the past months and years. For instance, **the IPCC report on adaptation placed adaptation in Africa as a priority** and emphasized the need to have this reflected in mobilizing financing for adaptation to accelerate the implementation of concrete adaptation measures and interventions in Africa, but the reality is, we are not seeing this.

Another study published last year by the Climate Policy Initiative (CPI) highlighted that the needs are greater in trillions 2.5 between 2022 and 2020, translated into a need of 200 billion

a year. In comparison, flows are 30 billion, representing almost 10% of what is needed. So, when we look at the flow, we see that almost 50% is going to mitigation, 39% to adaptation, and crosscutting represents 20%, which shows that even when we say that Africa plays a little role in mitigation, and that adaptation is the priority, it is still not translated in the numbers.

Ms. Freitas also demonstrated a breakdown of needs by sector according to the CPI report, which showcased that adaptation is at 24% across different sectors, including Agriculture, Forestry and Land Use, and water from a funding perspective, these two sectors were the ones that receive the largest proportion of funding almost 50% of the need, but the rest of the sectors receive significantly less, **as it is seen that no funding is getting through to the other sectors, including ecosystem, biodiversity, health, coastal zone infrastructure, and others, which means that some of these sectors are truly at risk** and critical sectors should be receiving equitable attention.

During the session, Ms. Freitas provided an overview of sub-regional financing. It was clear that there was significant regional and geographic diversity, and are aware that some regions, particularly in West and North Africa, had higher funding needs but that the amount of money flowing to these countries was limited. According to the stated needs, this necessitated greater regional and financial balance in the distribution of government funds. This illustrates how many of these nations struggle to articulate their adaptation needs due to methodological and capability constraints.

Ms. Freitas highlighted that the fundamental question at the core of her discussion with the participants considering the limited funds being allocated for adaptation was **how to address the question of scarcity and quality of climate finance**. The presentation was followed by a Q&A session, during which questions were raised by participants from the National Designated Authorities and partner organizations for both Ms. Freitas and Ms. Manda on their respective presentations:

Question: "I wanted to get a clarification on one point that Ms. Manda raised around the 10.4% of GDP, as indicated that Africa needs about 10.4% of GDP to avoid extreme climate impacts. I am wondering if this 10.4% comes from African countries from their public expenditure, or is this something that would have to come from donor countries? And then the second question is about how are you able to analyze expenditure on adaptation given the very thin line between adaptation and development? And where did you make that distinction, if at all? And was there any sort of an additional climate resilience aspect that you were trying to analyze from a development perspective? I wanted just to understand how you did that Thank you very much".

Answer: “When looking at the 10.4% gap, there is a need to mobilize domestic and international sources of funding. The point of this specific number is to showcase the significance of the gap, which is quite large if we're only at 3.3 from the current expenditure. Hence, it is not expected that African governments to cover the whole remaining amount. It just points out that we only have it in our hands and the gap remains significant while there is a need to identify strategies at the national level, there is no doubt that the majority of funding will have to come from international sources.

The report aims to establish a clear connection between adaptation and development, emphasizing that effective development should position a country on the path of being adaptive and resilient hence, there would be similar activities that aim to reduce risks. In addition, through publicly available databases and climate public expenditure reports or the national climate strategies of countries, it is recognized that most adaptation expenditure has routine development objectives. For example, economic growth, including reducing existing climate risks as you cannot have growth without reducing some of those risks. reducing loss and damage, etc. There are two main international approaches to defining adaptation. the adaptation element of expenditure, The OECD Development Assistance Committee uses the Rio markers with their associated weights, and the Climate Public Expenditure Institution reviews use a more detailed system that is negotiated at the country level.”

Question: “What do you mean by the uncoverable gap and how it relates to loss and damage Fund?”

Answer: “It's definitely about loss and damage. There are some aspects that governments will not be able to recoup as a result of climate change, and as I said in my presentation, you need to be thinking more of transitional finance as opposed to just adaptation.”

D. Third Session: Understanding Financial Instruments - Reflection on available instruments and their relevance to projects and programs.

This session was a dive deep into the available financial instruments that were beyond concessional and grant elements. It was presented by Ms. Freitas who focused her presentation on the importance of addressing the issue of scarcity and availability of funding. The presenter investigated the funding flow for adaptation in Africa, and it was clear that loans and grants were the primary instruments being used.

A study by the World Economic Forum indicated that there were more loans than grants and only two sectors; agriculture, water supply, and sanitation, received half of the relative funds they needed, while other sectors were limited.

Moreover, grants are the most desirable instrument for adaptation, but under some conditions, loans could be an option when it came to suitability for adaptation, and that's why the whole discussion around loans was needed, to have a full understanding of concessional, what it means and how it can be expressed even with non-grant instruments. However, this was a discussion to have with the National Designated Authority and with various countries and other stakeholders who were trying to mobilize resources for climate finance, as many funding proposals were looking for grants.

Therefore, what were the other alternatives for funding adaptation? To start answering this question, there was a need to define what concessional finance was; a resource is made available at a rate that is below what the market provides. Major financial institutions were using this instrument. Hence, providing resources, of whatever the instrument being used is, at a below-market interest rate because the project being financed was of high impact potential for development, from a climate perspective and they respond to global challenges including mitigation and adaptation.

In addition, the degree of concessional was measured by the grant element contained in the overall finance. It is important to indicate that there is not a single type of financial support, but an entire range of instruments can also have this attribute of being concessional, so how do we measure it? If we take, for example, the grant instrument, we understand this is a non-repayable fund, which has the highest levels of loan that can be provided. They include 100% grant elements. Additionally, we have the loan instrument, what are the atypical features of this loan to be made concessional? The interest rate is one element, if the interest rate is below

what the market offers in a certain condition, then we have a certain degree of loan associated with it.

The payback period, if this loan is prolonged over a longer period and offers repayment flexibility, is another factor in determining the degree of the concession. For instance, before a main payment can be made, there may be provisions like grace periods. These are a few areas where loans may be granted with some concessions that benefit the borrower nations. When represented as a percentage of the loan face value, the grant element is the difference between the loan nominal value and the total of the discounted future debt service payments that the borrower would make at present value. Furthermore, when we consider a guarantee, which can also be constructed to have some concessionality, these instruments allow a lender to be compensated if a borrower fails on a loan or other commitment. As a result, a guarantee can be designed as a first loan guarantee to recompense the lender if the borrower defaults. This is a desirable instrument to have in the private sector since it lowers the risk connected with the default of the repayment.

A conventional financial instrument that can be made more affordable is equity investment. With the help of this instrument, investors can become shareholders of a firm by buying shares or a specific investment vehicle. This has long been the model for concessional funds. **Concessional features, which can be structured as first-loss equity, are more successfully incorporated thanks to the seniority of these equity instruments.** It can also be set up as a grant for the investment stage, which is incredibly useful for start-ups. Grants are preferable since the return on equity may be lower than what the market will bear, particularly in LDCs and Africa's climate-vulnerable nations. Grants are needed to support adaptation, and public and governmental intervention is required. **However, to extend the resources pie, we need to look at other instruments and how they can be structured to ensure the effectiveness of investment in adaptation.**

In consideration of these three instruments – loan, guarantee, and equity – we can see which elements or features of those instruments can relate to concessionality to enable more effective adaptation measures. Grants remain the most relevant, concessional, and desirable instrument, especially for activities that have no financial flow and are being implemented by government agencies, non-governmental organizations, or startups. However, sometimes activities are larger and require a significant amount of capital, making it difficult to make the same case for a grant. This is when we can look at a combination of instruments like debt that can be used for a large-scale project with a mature stage of development.

Equity and concessional loans are two diverse ways of raising capital for a business or project. Equity means selling shares of ownership of a company or a special vehicle to an investor and receiving capital in return. Concessional loans, on the other hand, are offered at below-market rates and need to be repaid. Principal and interest rates need to be repaid, and in their structure, they can be less cumbersome than commercial loans. Some options may be more suitable for specific factors, such as the financial or banking system. It is not good practice to give banks grants because there is an elevated risk of market distortion and unfair competition. Hence, the key message is to investigate the different instruments available for adaptation and what type of interventions they may fit.

Ms. Freitas explained the relevance of concessional loans and grants when a project requires an investment of **1 billion USD** in capital. If the project can serve its debt by generating reflows to pay for the principal and interest rates, then it can be suitable for a loan. The terms offered for the loan, such as the interest rate, repayment period, and grace period, enable the project activity and the adaptation intervention to happen with impact, as well as be repaid. **However, when a project is not generating a sufficient return to attract investors, a loan is preferable to an equity investment.** Concessionality is needed when this investment is going to deliver social and environmental benefits, in addition to or rather than financial return.

As we have covered previously, government and international organizations offer this kind of concessional loan, and it's increasingly being used for climate change projects, particularly mitigation projects with higher repayment potential. However, for adaptation, caution must be exercised, and the unique circumstances must be considered. **However, it is not impossible and there are considerations to be made to specific interventions. There is the issue of the caliber of the climate scientific analysis, the issue of adaptability, and then private sector interventions in specific sectors.**

The presentation also described a guarantee as a tool and how it functions as a type of insurance to shield investors from pecuniary loss if the project is unsuccessful. Because there is a guarantee who agrees to pay the losses totally or substantially if the project does not generate its expected financial return, it serves as a de-risking instrument and encourages the private sector to take financial risks. With a high appetite for risk, this tool can aid in luring investors to highly inventive adaptation initiatives. This tool has been employed in development projects and is still being utilized, however, it is not always simple to comprehend.

The discussion continued on the advantages and disadvantages of these tools, to support the NDAs of the GCF in understanding the potential benefits of these instruments. As

previously mentioned, **equity is capital given to an investor in exchange for shareholding rights in a company** for a specific project through a special investment vehicle. The investors are then entitled to receive dividends from the profit that remains after paying shares and debts. When it is concessional equity that accepts to be junior to others, then the preference shares and debts can be paid, and the junior equity provider which is a concessional equity provider can be paid. **This gives flexibility to the project developer when it comes to financial structure.** That is a principle of equity, but from the perspective of the present developer, it doesn't add a burden from a debt perspective. Hence, **the equity instruments provide the investor with capital, once again, they have limited liability and control of their company, and they can claim income as part of the shares.** The shares can be bonus shares and the right to own part of the assets. It is understandable why it is a riskier instrument, but institutions like private climate finance institutions, **especially the GCF, are willing to provide it, which makes it interesting for some adaptation and other interventions** that have the potential to generate profit and give comfort to the project developer when it comes to pressure on debt service. Nevertheless, by accepting equity, the project developer accepts losing part of its assets and reduces control over the company or shares the control with other stakeholders and actors. However, it can be great from a governance perspective in the form of guidance and advice received when it comes to the management of the company.

In the case of the guarantee, it helps to improve the risk profile of a deal that is attractive but poses hesitation for investors. For instance, there may be issues with lack of clarity with the business model, or innovation is there but it is not tested. Hence, a guarantee enables lenders to be comfortable when taking such risks and bringing in their investments. In addition, fees are to be paid to the guarantor, and the capital raised from other investors or debt providers must also be paid. Nevertheless, a guarantee is a great option if the deal has a high potential to make revenue, and the borrower shows a good history and credit to repay all commitments. In cases where the borrower is unable to pay the loan, then the guarantor will be required to pay the loan either fully or partially.

Ms. Freitas also covered the benefits of these different instruments by looking at the mobilization factor. Grants as an instrument do not provide leverage, as the basis of the grant is that beneficiaries lack resources, and the resources are provided under full concessional and within the specific scope and objectives of the projects. However, when it comes to general equity or equity mixed with a debt portfolio, it already has a better ratio to attract investments of up to four times as many resources from other investors. However, a guarantee has a higher mobilization effect that ranges from ten to one, and references showcase that some

guarantees can go up to 24 to one. This shows how these instruments can play a certain role in helping mobilize capital at scale for adaptation interventions.

E. Fourth Session: Case Studies for Equity & Guarantee

1. Infrastructure Climate Resilient Fund (ICRF) and Sub-National Climate Fund:

Ms. Freitas presented three GCF-approved case studies that utilized equity and guarantees as their primary financial instruments. The first case study was the Infrastructure Climate Resilient Fund, approved during the GCF's 36th board meeting in March 2023. The Africa Finance Corporation (AFC) in Nigeria brought this project to the GCF for financing climate-resilient infrastructure in three African countries.

The AFC is a prominent private-sector financier for infrastructure in Africa. It was established by African member states and institutions to bridge the gap in infrastructure financing. Traditionally, infrastructure was financed by public institutions under public interventions. However, due to the shortage of investment from public actors, governments and public institutions believe that the AFC can play a crucial role in leveraging private capital to fill the gap and complement public interventions. The AFC uses non-grant financial instruments to finance its operations and interventions.

Furthermore, **there was a need to rethink the implementation of high-impact and resilient infrastructure projects** and to incorporate resilience into construction and financing. This often meant incurring additional costs for resilience measures associated with infrastructure, which can range from millions to billions of dollars. Due to the portly size of the investment, a grant was not a viable option. Therefore, **the AFC mobilized private sector capital for infrastructure financing through debt and equity, obtained from the GCF.**

The Infrastructure Climate Resilient Fund has four teams, the first of which is transport and infrastructure. This team focuses on ports, airports, roads, railways, and bridges, as these are extremely sensitive to climatic impacts and require resilient construction. **The second team is renewable energy generation, transition, and distribution**, not from a mitigation perspective, but from a resilience and adaptation perspective. Extreme climatic events can harm renewable energy efficiency and performance, and therefore, incorporating resilience measures is crucial.

A loan for this type of intervention would not be suitable as the resilience measures do not generate reflow, as they are meant to protect the infrastructure and ensure its ability to withstand current and future climatic changes. Since the GCF is not a commercial institution, the return on investment was further below what any other commercial institution would require.

2. The Green Guarantee Company (GGC):

Ms. Freitas presented the second case study that the GCF approved during its 31st board meeting. The case study outlined how the Green Guarantee Company (GGC) planned to provide guarantees for investments that target both adaptation and mitigation efforts. The company aims to mobilize up to 600 million USD with a capacity to mobilize up to 6 billion USD in loans and bonds for the interventions. This is because a guarantee can mobilize from 1 up to 10 in leverage. For each transaction, **the company can lend a private investor up to 200 million USD in guarantees. For example, a partial guarantee of 40% or 50% can enable an investment size of up to 400 or 500 million USD.** It is challenging to obtain grants for large-scale transactions, making guarantees an attractive option. However, the company will still provide an adaptation component for those who can lend themselves to generate revenue, which can help support transformational adaptation measures, using instruments that are not granted in nature.

The GGC covers energy access and power generation at 40%, industrial appliances at 20%, transport at 5%, and forestry. Brazil, India, Indonesia, Philippines, Trinidad, and Tobago primarily supported the project. Fortunately, two African countries, Gabon, and Rwanda, recently joined the project. However, it raised the question of why more African countries were not participating. **One probable reason was that the instrument was not well known in African countries.**

Moreover, the company planned to mobilize additional finance from various actors, including development assistance institutions, commercial investors, and the GCF in the form of technical assistance. In exchange, the company would pay dividend interest and fees. The company provided guarantees to lend to bond issuers, usually those who lack market experience due to their remote geographic focus, relative newness, or lack of a track record. This enabled international investors to invest and earn attractive interest rates on the bond. Thus, this guarantee provided capital to bond issuers at a scale to fund their interventions. **Although complex, this structure allows access to resources at scale and gives confidence to financial actors to invest in green and climate-resilient interventions.**

3. A proposal for an African Catalytic Guarantee Fund for climate change by the African Adaptation Initiative (AAI):

This is not an approved project; it is a concept note developed by AAI. As previously mentioned, the second case study of the Green Guarantee Company features two African countries. **Therefore, AAI is proposing a green guaranteed structure or scheme to help**

African countries mobilize resources and scale up the capital market for bonds and other investments for adaptation, beyond the efforts deployed by grants. In addition, pricing for climate resilience bonds in African countries can be expensive due to the distinct types of risks involved, and most of these countries do not have a high investment rating with a high-risk profile. Hence, the idea is to create a company that can provide a guarantee and cash capital investment for countries or institutions with an AAA rating. This will encourage investment in adaptation, **and GCF resources can be mobilized as seed capital for this type of structuring.**

Developed sovereign countries will provide guarantees and resources in the form of grants, equity, etc., but the GCF and philanthropies can also invest. Currently, a concept note is being developed for feasibility studies and the identification of a technical partner to support this structure.

Ms. Freitas concluded by affirming that while grants remain the instrument of choice when necessary and relevant, there was a need to focus on other instruments such as equity and guarantees to mobilize resources on a larger scale for other sectors with potential leverage.

A Q and A session following the case studies presented, to hear participants' questions, comments, and feedback:

Question: "Kenya (represented by the NDA) is thinking of having a nationally guaranteed company that is addressing financial needs in Africa but also building the local markets, looking at the local private sectors, etc. that are very vibrant in terms of the financial aspects, however, investments are not necessarily aligned with climate change adaptation. Hence, the need for a company that is specific to the climate angle that targets climate financiers available. Kenya has provided an objection letter to become a part of the infrastructure Climate Resilience Fund (first case study project), and the subnational climate fund project, the issue is looking at the eligible project developers that are aligned with adaptation. Hence, we hope that the fund currently developed for African countries can help to ensure ownership in co-designing and partnership creation. Although Kenya has many projects under its pipeline with the GCF, the issue remains that these projects are under the control of international organizations applying for GCF funding, and not directly under the control of national institutions. Therefore, as a country, we are extremely interested in keeping the conversation moving forward and looking into all these instruments, but clearly, there is an issue of building the capacity of African countries around these instruments and how they can be leveraged at the national level for different projects for adaptation. The NDA also raised the question of how countries can be supported to develop strategies that address the adaptation finance gap based on the adaptation gap analysis beyond NAPAs and NAPs."

Answer: “Ms. Freitas addressed the question and the comment from the NDA of Kenya, by mentioning how enlightening it was to hear a country's experience, and agreed that the issue was definitely with capacity barriers, but also with the pipeline, it was critical that the sub-projects financed by the resources mobilized be identified so that those projects meet the requirements of the bonds and deliver on the impact, especially for adaptation and financial flow. We look forward to working with you and supporting countries to look at complementary resources.”

The conversation continued with a representative from one of the accredited entities to the GCF from Morocco, raising the question of the issue of delaying accreditation and re-accreditation which consumed an extended period with hundreds of organizations waiting for accreditation. Hence, the solution is to either go with the Project Specific Approval Approach (PSA) in which an institution could produce a sole case to approve a project.

The GCF is prioritizing national, regional, and direct access entities, as well as those operating at the local level. However, due to the expected high number of applications, only 10 pilot projects will be launched in the first stage. The added value of each project will be evaluated based on its level of innovation and potential for creating real transformation and delivering long-lasting impact in the specific sector(s). The Fund will also consider how the proposed project complements similar activities being implemented in the country, making innovation a crucial factor in the selection process. **The second option is to select institutions that are already accredited, including international organizations, to implement projects.**

The session concluded with Ms. Freitas outlining how the Global Climate Fund (GCF) engaged with National Designated Authorities (NDAs) through its various country programs and dialogue workshops. These meetings and workshops were held before the Covid-19 pandemic but will resume this year to support countries in enhancing their access to the GCF's financial channels, enabling them to benefit from its offerings.

DAY TWO OF THE SECOND SSEP

First Session: Understanding the Application of Cost Benefit Analysis (CBA) for Climate Investment Prioritization:



- **Recap of Day One.**

The first session began with a recap of Day One of the Second SSEP given by Ms. Sandra Freitas. This was followed by a presentation on the application of Cost-Benefit Analysis (CBA) by Dr. Elidaa Daku and Mr. Arnold Agbessi from the Sustainable Solutions for Africa team. The presentation started by defining CBA and its rationale. It aimed to provide examples of CBA and its relevance and uses.

- **Introduction to CBA.**

The presenter highlighted the benefits of using Cost Benefit Analysis (CBA) as a pre-investment analysis tool to aid investment decisions and select the best technology or option for a project. CBA, also known as an economic analysis tool, estimates the costs and benefits generated by a project, even if some are intangible, and translates them into monetary units. While commonly used for infrastructure projects, CBA is also relevant for the efficient allocation of resources from the public and private sectors. Effective allocation of resources can create better living conditions and lasting impacts, especially when public sector resources aim to benefit people's well-being.

The private sector is currently looking for profit while considering social, environmental, and climate impacts, **and CBA can measure these impacts for a specific project.** Finance analysis tools cannot capture the social and environmental impacts of a project, and CBA addresses this gap. CBA ensures that the project's benefits are compared to any losses the project might induce. Traditional CBA only accesses direct costs and benefits, but for a complete range of outcomes, externalities (indirect costs and benefits) must be monetized using market or non-market evaluation methods.

Externalities, like hectares of forests destroyed, can be translated using CBA into carbon emitted and monetized using the carbon price on the market. **The CBA includes investments, avoided costs, and added benefits.** Investments cover the capital invested in project activities and related maintenance and operating costs. Avoided costs, both monetized revenue and monetized externalities, include additional product and income generation. For example, if a project replaces a generator with solar panels, avoided costs include the avoided carbon emissions from the generator.

- **Model Cases and Interpretation.**

- ❖ **First Example of CBA - Sustainable Buildings:**

The presenter provided an example of a sustainable building project that focuses on designing and constructing buildings in a way that minimizes negative environmental impacts, improving people's living conditions. During the presentation, the audience was prompted with interactive questions to consider the costs of investment, the avoided costs, and the added benefits associated with this project. With **the question of the investment cost, the design of the buildings itself**, which includes clean energy, etc. falls under the project's investment cost. **The avoided cost** generated under such a project would be, for example, **generating a reduction in the operating and maintenance cost** during the building's lifespan, and generating a reduction of the electricity bill as such buildings are oriented to optimize energy usage. The added benefit of this project would be improving air and water quality. **This is how the CBA works in identifying indicators that fit into these three aspects, investment cost, avoided cost, and added benefit.**

❖ **Second Example of CBA – Halfmoon in Agriculture:**

During the presentation, the speaker mentioned a second example of the application of the Halfmoon project in the field of agriculture to maximize the productivity of farmers in countries such as those in the Sahelian zone. The technique had proven to be effective in reducing soil erosion and improving soil fertility. **Dr. Daku then asked the participants about the investment cost, avoided cost, and additional benefits of this project.**

Regarding the investment cost, expenses such as fertilizers and feasibility studies are included to identify the appropriate crop for a specific area. **The avoided cost generated by this project included the reduction in water consumption compared to other practices** and the reduction in fertilizer use since it is organic fertilizer. Additional benefits of this project included farmers' access to seeds and control over production, which allowed families to generate more income and achieve food security. In addition, the project promoted wise land use, soil replenishment and conservation, and the intelligent use of rainwater.

❖ **Third Example of CBA – Infrastructure, Resilient Road:**

The presenter applied the same CBA analysis method to this example, which included identifying the three aspects of CBA: investment cost, avoided cost, and added benefits. **The investment cost of the project included conducting a design study** to optimize the road's conception based on factors such as soil characteristics, topography, and movement. **The avoided cost included reducing the expenses associated with weather changes or climate risks and the resulting damage.** **The project could bring about additional advantages, such as enhancing small businesses' accessibility to both services and markets.**

❖ Fourth Example of CBA – Water Purification and Quality:

Dr. Daku outlined the latest example of a project to improve water quality through the implementation of water purification and conservation activities. The capital cost of this project includes a study to identify water quality improvement options, as well as the implementation of those options. The avoided cost includes a reduction in water-related damage and the opportunity to mitigate those risks. Other benefits include revenue generation through the sale of clean water and ecosystem services, which can increase agricultural production.

Dr. Daku and Mr. Agbessi concluded the case study presentation by discussing how CBA can evaluate the costs and benefits of various investments. However, it could be difficult to pinpoint the details, especially when attaching a monetary value to intangible outcomes such as social and human aspects. A sensitivity analysis should be conducted to accurately estimate these components. Some projects may be complex and require different analyses to determine all the indicators to be considered. In addition, if the data is not available or accurate, the analysis may not result in the right investment decision.

Mr. Agbessi continued the presentation by showing an Excel sheet that illustrated the three aspects of cost-benefit analysis: investment cost, avoided cost, and incremental benefit. **Three performance indicators were also discussed, namely net present value, benefit-cost ratio, and internal rate of return.** These indicators assessed the performance of the investment, including social externalities such as carbon sequestration and its impact on society. This provided a satisfactory level of predictability of co-benefits and externalities, which could be considered an integrated CBA that included other analyses and scenarios.

❖ Method and Model Estimation of CBA Input:

Mr. Agbessi gave practical examples of how an integrated assessment approach could be used in different contexts, such as wetland restoration and climate-smart agriculture. He presented two cases that showed how costs, benefits, and social impacts could be estimated using different modeling tools such as financial models, system dynamics, and ecosystem service modeling tools. These tools were particularly useful for monetizing the social cost of carbon emissions, ecosystem services, flooding impacts, and labor economic impacts. Incorporating these tools into the cost-benefit analysis process provided a better understanding of the potential costs and benefits of a project, especially for complex projects that involved multiple interventions. Accurate analysis of multiple socio-environmental outcomes and project

performance indicators could inform decision-making and determine which financial instruments were appropriate for each intervention.

Concluding the session, the presenters were open to questions and comments from participants.

Question: “If we compare only the net value, we will not see how feasible the project is, and sometimes the most valuable projects have certain aspects that are complicated to implement. So, if we take only the financial aspects, how do we make sure that we integrate the feasibility aspects of the project? Those projects that are high in impact are usually the ones that are harder to implement on the ground.”

Answer: “For feasibility, taking social and environmental impacts, we consider the use of other benefit estimations, which is using an integrated approach to assessing social aspects such as jobs, income generation, etc. to become social externalities added to the benefits generated by the investment. In addition, if we identify that farmers for example are identified as main stakeholders, then the decision is taken using an integrated approach including sustainability indicators, to see what the impact would be in terms of welfare. It is particularly important in these cases to consider all aspects of the analysis. In addition, the implementation potential is an important aspect, however, CBA might not be the suitable tool to assess the implementation potential of the project. There is a need for other tools such as institutional arrangements, feasibility studies, etc.”

Question: “An environmental impact analysis is also needed to complement the financial analysis so the Project can be selected as feasible.”

Answer: “This is indeed an important analysis, and this is usually done under the feasibility study which can inform the implementation aspect of the project.”

Question: “The question is regarding the CBA and specifically the avoided costs, etc. How can we as a bank assess these costs?”

Answer: “For avoided costs, these tools might not be commonly used by banks, and to assess real situations, you will need to mobilize support from a third party, as some of these assessments will need technical expertise. In addition, those studies are mandatory annexes to access the GCF such as social and economic analysis, financial modeling, etc. as part of a superior quality funding proposal.”

Question: “What about uncertainties in decision-making?”

Answer: “Uncertainty in decision-making is a particularly important part that crosscuts the assessments, including CBA and climate analysis, impact analysis, and all the other scenarios. In the case of the GCF, we usually run two scenarios and assess the most pessimist scenario. We also assess what is known as the stabilization scenario, which means that if all the current policies in place are implemented then where will we be? As it’s understood that we need to raise ambition when it comes to the NDCs.

Hence, we assess the scenarios believing that the future will be somewhere between these two scenarios. This is work done on predictions and far from perfect, and the question is under this uncertainty, how do we take a decision tomorrow that will still be relevant? The risk here is not to over-invest in adaptation but to under-investment which leads to maladaptation. However, if you also over-invest then you are wasting resources.

Therefore, this is a method being promoted today and there is an effort to see what kind of recommendations on adaptation measures can be made so these uncertainties can be captured. At the end of the day, the analysis that we undertake for the climate practice is that these results should inform the socioeconomic analysis, and financial analysis to see how climate change might discount future projected financial performance for projects. All these are new areas of work, and we follow to reflect them in our analysis when we are preparing GCF’s funding proposals.”

Day Two of the Second South-South Peer Capacity Exchange Programme was concluded with remarks and notes of appreciation from the UNDP, the SSA team and the participants.

