South-South Peer Capacity Exchange Programme [SSEP]

Rabat, Morocco

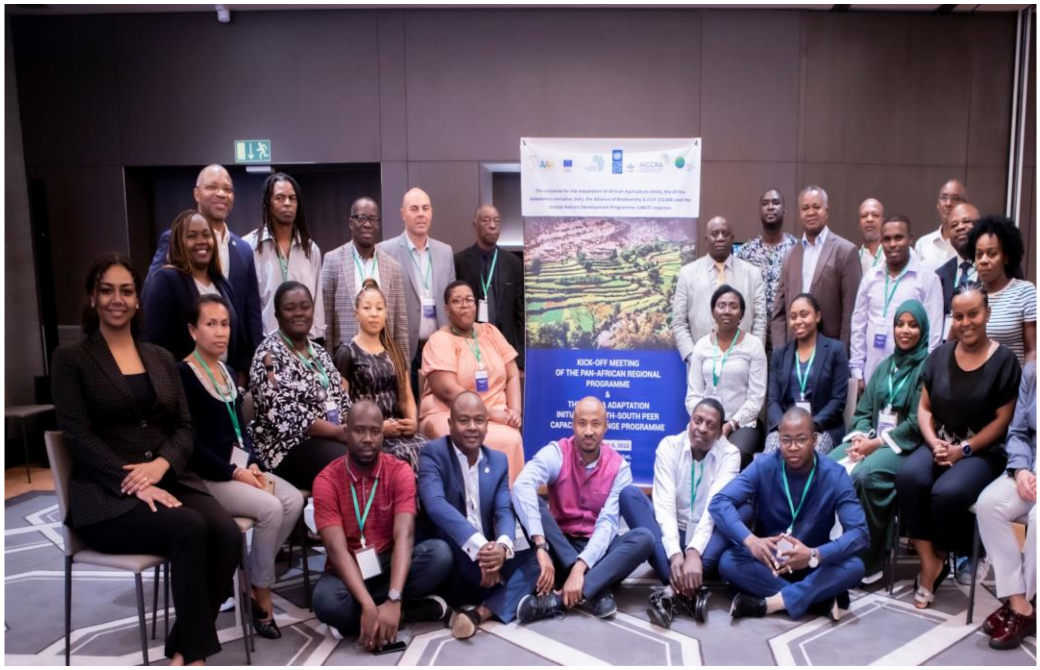
October 5th & 6th, 2022

DAY THREE

An Introduction to Climate Change and Climate Finance and the various financial instruments.

DAY FOUR

A Deep-dive into the financial instruments and scientific tools, with country-focused case studies, discussing the countries challenges to identify their needs to access financing for climate action in adaptation.



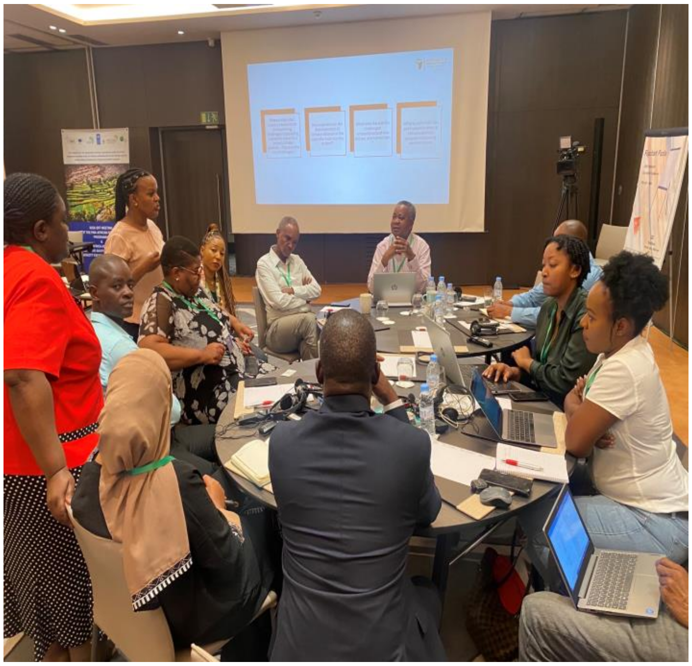
THE AFRICA ADAPTATION INTIATIVE & THE SUSTAINABLE SOLUTIONS FOR AFRICA

The programme took place in Morocco - Rabat between the **3rd and 6th of October**, with the participation of 25 countries as part of the launch of the first-ever Regional Pan-African Programme and CSAIPs beneficiaries, organized by the Initiative for the Adaptation of African Agriculture [AAA], the Africa Adaptation Initiative [AAI], the Alliance of Biodiversity, CGIAR, and UNDP.

Following the kick-off of the 23 countries Pan-African programme, and the CGIAR workshop that took place on October 3&4, 2022, the SSEP was organized on day 3 and 4 of the event (October 5 & 6, 2022) in the same place, at Marriot Hotel in Rabat.

The **3rd and 4th** day of the programme were the key days in which the south-south exchange programme took place. It was mainly led by the AAI **Coordinator** – Seyni Nafo and the exchange programme was presented by the **Chief Executive Officer** of SSA, Sandra Freitas, with her team of senior experts; Anna Katsantonis and Elidaa Daku.

DAY THREE

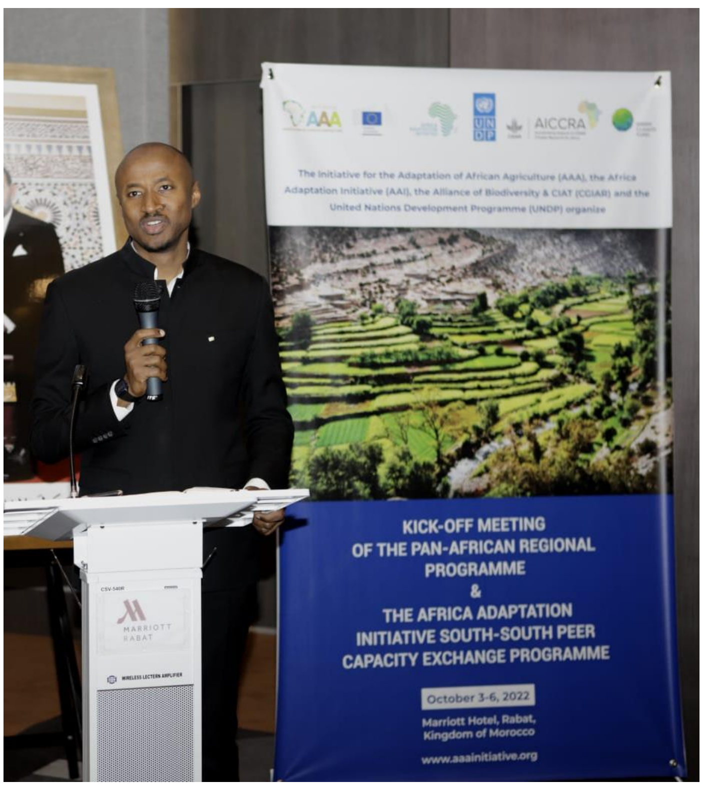


INTRODUCTION TO CLIMATE SCIENTIFIC TOOLS AND CLIMATE FINANCE INSTRUMENTS

The day was launched by remarks from the AAI Coordinator – Seyni Nefuno, and the CEO of SSA, Sandra Freitas. Seyni spoke of the urgency of climate action for the African continent, and how timely this regional readiness programme is in raising ambitions. He confirmed that "*this regional country readiness programme has set an example for other countries and continents on the importance of working together for climate action*".

He also stressed on the importance for countries to take ownership and pragmatism in organizing their institutions to understand this urgency and get practical in addressing the challenges of adaptation in Africa.

"Understanding the power of the National Designated Authorities is key to take ownership and champion thoughts & actions"



He mentioned that this 2-day programme will be an opportunity to hear from the countries, of the challenges and the role that can be played by African organizations in advocating for African Adaptation. He highlighted that the role of AAI would be to speak for countries that won't be at the COP this year in Egypt, to be their voice and to stress on AAI role for coordinating the advocacy as well as the mobilization of resources for these countries.

Ms. Freitas reaffirmed that her team would introduce key climate scientific tool and climate finance instruments with a focus on GCF financing requirements. In addition, the sessions will allow for the two organizations (AAI and SSA) as well as the countries to identify the obstacles that the countries are facing in designing and financing climate adaptation.

Some of the key factors that play into accessing GCF, Adaptation Fund or other financing channels is the issue of the climate rationale and baseline methodology in which a project is formulated around. Additionally, Sandra spoke of the specific criterion for selecting projects that can be funded by the public or the private sector, and in consideration of the limited public funding, the shift is towards private sector financed projects. Hence, group work will be organized around countries' issues of accessing and mobilizing private financing.

THIRD DAY

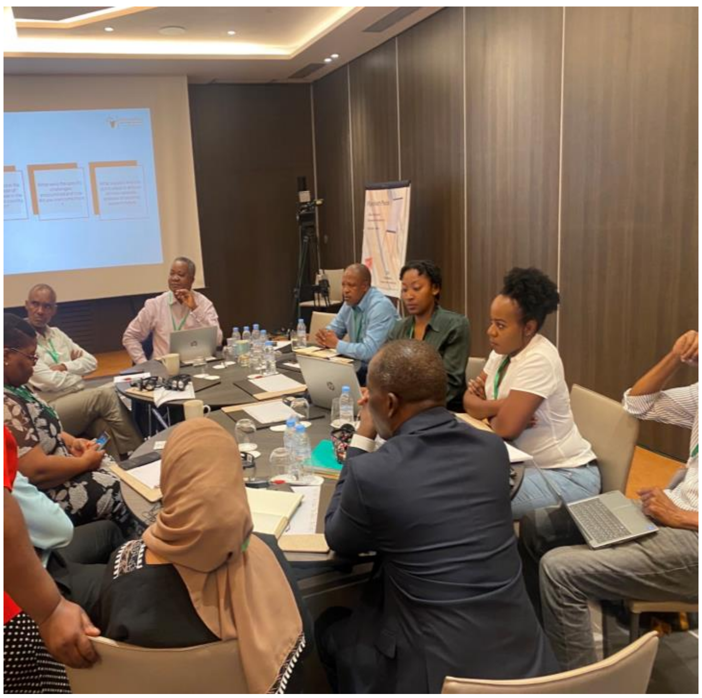
CLIMATE RISKS AND ASSESSMENTS FUNDMENTALS

Elidaa Daku, led the session with a presentation of the fundamentals of the climate risk and climate assessments, beginning with what is the climate system, what drives the climate, introduction to greenhouse effect and radiative forcing, as well as why our world is getting warmer. Then the presentation tapped into how all of these are impacting the climate risks and indicators for Africa's climate. The second part of the presentation was focusing on the understanding of climate analysis, in terms of the historical and projection of future climate under various scenarios and time horizons, to properly assess and integrate climate risks into the development of projects and programmes.

The session allowed participants to exchange comments and ask as well as answer questions at the end of the presentation were also raised around the access and accuracy of the climate data available online. They can be summarized as below:

- At the minimum level, farmers should have better access to data in order to anticipate climatic risks, and for a better understanding and assessing of production, we need to have **adequate collection of data and simple data analysis tools**, that can demonstrate indicators and projections over a longer period of time.
- There is a need to combine socioeconomic and climate indicators as they go hand-in-hand to create better projections over at least 40 years to create this important connection between socioeconomic and climatic impacts on production levels.
- **When do we observe weather impacts over production and identify that as a result of climate change?** We need to look at climate change from a vulnerability perspective, because at least 30 years of persistent weather events can then be identified as significant changes in the climate, and it is considered a variability when it happens over a long period of time and not for standalone events. For example, one of the concerns to be taken into account is the change of rainfall patterns and intensity and frequency of extreme events, in East Africa, the occurrence of two drought seasons and then major flooding can cause crop failures due to soil fail, it is like an insurance to showcase those impacts and to what level of impact too.

- Therefore, accurate data is important for the need of attribution in analyzing this data through connecting specific reoccurring weather events and identify wither these events are climate changes. Hence, an action that can be taken to strengthen the data collection and analysis, is to set up “**weather/ climate data units**” in the project site to be able to look at historic data, current data as well as the occurring weather events to showcase the connection and increase the level of awareness to avoid “**the paradox of east Africa climate**” for example, as the confusion or the paradox comes from the fact that some agree that crops fails are coming from climatic impacts, while others believe that of these changing climates are increasing the level of production, hence data climate units should be the main reliable source of information.
- Another point that was raised by the same country representative, is the importance of including socioeconomic data into the analysis of climate change impacts, because to develop strong climate rationales for projects, it is key to showcase the **socioeconomic impacts of climate change** through reliable scientific data.



- Another country representative also highlighted the important role that is and can be further played by **civil society organizations**. As many CSOs are playing an effective role in the data collection and in conducting studies that have raised awareness on various issues, hence countries and national institutions should be encouraged to work with the civil society to synthesize people as they are considered an important source of data.

- A country representative highlighted the need for relying of **Climate Smart Agriculture** practices, in view of the increase of drought seasons and the lack of capacity to stop or decrease these events. Hence, CSA can be a step towards decreasing the sensitivity against climatic shocks, and the importance of **building the infrastructure, and the capacity for adaptation and acquiring the necessary knowledge.**

- A participant stressed on the importance of **integrating climate change planning at the microlevel**, to ensure that plans, strategies, and budgets are integrating CC especially in budgeting projects from the beginning considering budget restrictions. The presenter further commented that if we as countries want results then we must position **climate change as the backbone of our developmental policies,** which should help streamline climate change into strategies and budget plans.
- A final comment also reaffirmed the need to restructure African policies to modernize Agricultural practices to become self-sufficient and ensure food-security. Climate change is half the answer, we must take into consideration other structural challenges.

DISCUSSION GROUPS

What are the challenges that you as a country encountered in the project development process?

The representative of the National Designated Authority of Somalia opened the conversation with the fact that until today, Somalia was unable to develop or submit a funding proposal to the Green Climate Fund due to the lack of a national institution to lead the process. Then, the NDA of Liberia led the discussion on introducing the entire process of accessing GCF funding, considering that there are some countries that have newly established or appointed NDAs, and Liberia has 5 nationally-led readiness programmes and several cross-cutting funding proposals. There are different levels and categories to access GCF funding, starting with the Readiness Preparatory Support Programme, which can also be accessed as a multiyear readiness grant, or a standalone, or even at a regional level, such as the current Pan-African Readiness Programme. There is also Project Preparation Facility [PPF], that is uniquely directed to project preparation, and is designed to allow the countries to have funding to provide or fund all the annexes and the supporting documentation for the funding proposal [climate rationale, baseline studies, etc.] which usually goes to the Accredited Entities to do the job, then we have the National Adaptation Planning, and those are categories that countries can access readiness support, all of this aims at preparing countries to develop their funding proposals.

Another category of funding is the Simplified Approval Process [SAP] used to provide 10 million for funding proposals, and now it went up to 25 million. In addition, you have big proposals, and that is considered the largest funding channel from 25M and above. However, to access such a large funding channel, countries must champion their own documentation on climate rationale. These developing countries and African states are compromised because the funding proposals are mostly targeting adaptation, and one of the things that the board looks at as a major requirement, is for countries to provide evidence and research on how climate change has been impacting the socieonomic livelihoods in the last 30 years or so. Hence, countries cannot produce data in order to clearly provide evidence for what the climate rationale is.

The below is an account of the various experiences that the countries have gone through and what can be learned from other countries experiences as well:

SPOTLIGHT ON LIBERIA

The Challenges:

- ✓ In Liberia, there are readiness proposal and Funding proposals developed. Two FPs are currently under implementation for 40M for adaptation. However, it took more than 4 years to build a coastal defense, the country applied for a 60M funding however the GCF came back requiring a revision of the climate rationale. For example, evidence that can showcase the impacts of the sea level rise and how they are induced due to climate change. The issue is that we as countries do not have such data, and the GCF requested that we produce this data at the national level to develop a strong climate rationale and receive approval.
- ✓ The second project was aiming to build climate information services, and while there is some evidence and the literature that is available can provide some guidance for countries to understand and develop the climate rationale, however a lot remains to be done in regards to data collection and analysis.

The Lessons Learnt:

- ✓ When developing an adaptation project, the Accredited Entity must be continuously engaged with the GCF throughout the development stage. As there will be numerous requirements from the GCF in terms of questions and justifications to be provided, and in which wouldn't be provided by the AE but should be country specific, and hence the NDA must be engaged continuously.

SPOTLIGHT ON THE OTHER COUNTRIES:

The Challenges:

- For **East Africa**, we always struggled with showcasing attribution with the climate information, and it has been quite difficult to collect data that is timely and accurate.
- For **Zimbabwe**, it has been a challenge of additionality and the need for it is key to drive the work of our institutions and develop a climate rationale.
- For **Eswatini**, we are trying to look at investing or advocating for the investment in climate date. If our countries and governments realized the importance of climate data to access funding, AAI can help in advocating for these issues at the high political level. In addition, we haven't been able to integrate climate information within our institutional frameworks, as this would ensure that all relevant institutions are speaking the same language.
- For **Kenya**: we tried to mainstream CC as we have two FPs with two different AEs, and yes while the data is important, we still have fundamental issues in relation to the technical and institutional capacities of our institutions, as an NDA I have other obligations to fulfil and we don't have the capacity to develop a CN ourselves, so we seek and rely on international consultants, which is challenging the sustainability of our activities. How do we package the data in terms of creating communities of practice? the link between the data and the project development units is not there, we have advocates yes, but we need those who develop the projects.
- For **Sierra Leone**, our country's issue is with the availability of data, we have up to 5 years ago of reliable data sources, however we don't have historic overview for the past 30 years for example, we eventually use data from the World Meteorological Organization, but this data is not refined or tailored enough to build a solid climate rationale.
- For **Zambia**, we had one water project that is now put on hold due to the lack of necessary hydrological data, how can we move forward without the needed core data.

For Madagascar, Djibouti and other francophone representatives expressed the following challenges:

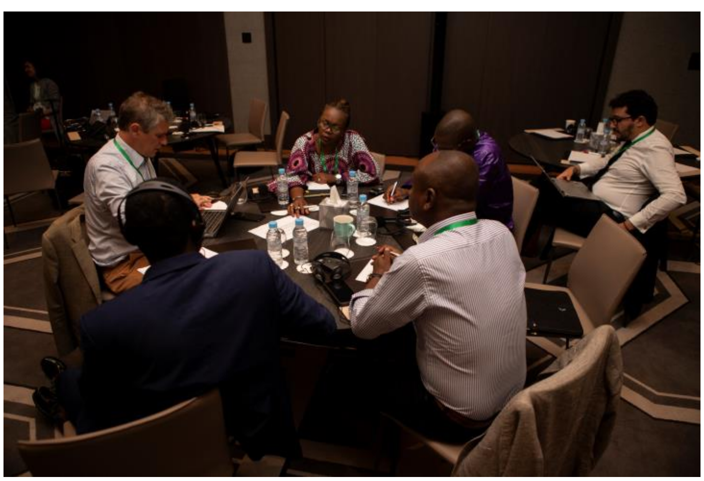
- Data collection frameworks are non-existing or not tailored to reflect the truths and realities on the ground, the data processing is an issue to access information, as well as language barriers standing in the way of data availability and usage.
- There is a weak capacity at the national level to access or process or use data, hence there is high dependency on external services.
- The issue with the data collection methodology is reflected in the poor dissemination is effective or efficient.
- Most of the data are dedicated to specific programs, but with the local level we have issues with coordinating data collection with the different regions, that reflect the needs for tailored data.
- Another issue that facing these countries is the technical capacity to track and follow the GH methodology or how reliable it is, not all the countries have the same level of understanding or experiences, hence there is a need to capitalize on other countries' knowledge and successful experiences.

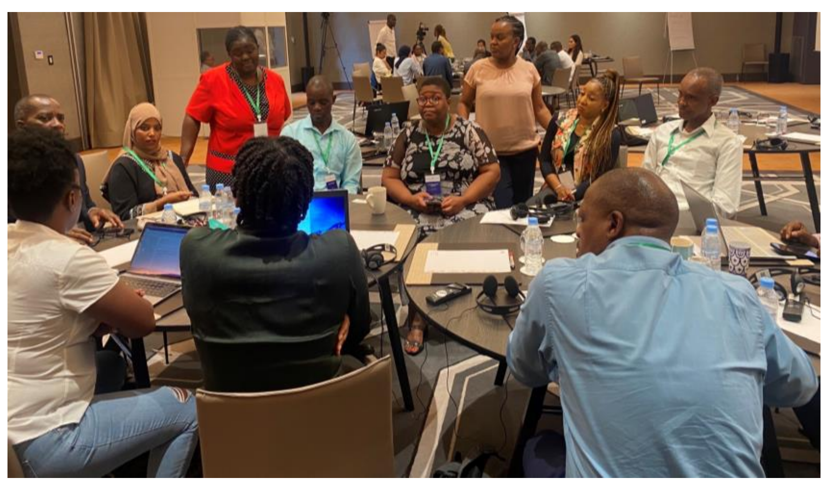
The Lessons Learnt:

- ✓ There is a need to create a network of experts and specialists and connect them with the GCF and the project developers, to work together in developing these projects.
- ✓ It is crucial for all the countries to sign a Financial Management Capacity Assessment with the GCF (FMCA), to control, manage and build inhouse capacity. E.g., for Liberia, there are 5 readiness programmes that have been approved and is now being managed by the NDA. It is a lengthy process that will go back and forth, but countries will then be able to get the funding, develop reports, and then get a close-up and full understanding of the entire GCF processes, and build inhouse capacity.
- ✓ Countries must set objectives and develop readiness plans for the next few years, to benefit from the 300k support provided annually.
- ✓ The need to develop a framework for coordination with AEs to ensure that the NDAs are included in the engagement.

SESSION 3 - THE FUNDAMENTALS OF CLIMATE FINANCE

Anna Katsantonis led the session with a presentation of the fundamentals of climate finance and the various climate financing instruments under the GCF funding framework. A Mentimeter quiz was used as an icebreaker, followed by an overview of the most recent landscape of the climate finance in Africa with Multilateral Climate Funds investing 3.5% of total climate finance and only 7% of the total climate grants provided to Africa. The emphasis was made on the capacity and importance of the private sector participation in accelerating climate adaptation action. And at the same time, only 14% (USD 4.2 billion) of total climate finance contributions were made by the private sector in Africa, in mitigation at large. Solutions were discussed with the NDAs in response to the key risks identified, which affect the private investors' appetite for climate investments in Africa. These risks include currency volatility, regulatory and





governance problems, lack of bankable project pipelines, counterparty risks, lack of technical capacity, transparency, and accountability mechanisms, information asymmetries.

The session objective was to remind the participants about alternative GCF financial instruments to non-reimbursable grant (reimbursable grant, junior first loss equity, subordinated loan, guarantee). Various forms of concessionally of GCF financial instruments were discussed with the NDAs in an interactive form, such as: lower market rates and fees, longer grace period and loan tenor, subordinated position of a loan and junior first loss equity, lending in local currency etc. Concessionally has the de-risking effect for co-financiers, and therefore it has a high potential in catalyzing private finance for both mitigation and adaptation. Therefore, consideration of various GCF financial instruments with different forms of concessionally is fundamental in creating viable and fit-for-purpose financial structure in climate finance.

Several participants raised questions around the differences from one instrument to the other and how can the country select a specific instrument that works best for the country's specific needs and context.

In the next part of the discussion, the participants were suggested to consider different financial instruments within the same project depending on the nature of the activities and AE accreditation. Examples of adaptation and crosscutting projects with alternative financial instruments to non-reimbursable grant were provided: FP114, FP179, FP181, FP188, FP189 and others.

The session was concluded with interactive discussion about potential alternative financial instruments to non-reimbursable grant based on real projects approved by GCF. The final activity asked the Anglophone and the Francophone groups to suggest a list of the barriers hindering private sector participation in climate finance in Africa from NDAs perspective:

GROUP ONE:

- ✓ Lack of knowledge and awareness from both the public and private sector of the various financial mechanisms.
- ✓ The inability to access funding for accredited entities, the preference is to work with the governments and not the private sector.
- ✓ Weak financial markets, and counter ratings due to poor governance structures.
- ✓ The visibility of adaptation impacts due to the lack of adaptation data.
- ✓ Lack of methods and instruments for MRV, and the human capital is not skilled to face these challenges. There are no private sector incentives to showcase profitability.
- ✓ The private sector in many countries doesn't feel concerned or involved in CC, they are not aware of the opportunities if they were to invest in climate finance, it is also important to show to the private sector the importance of climate risks which can be an opportunity for business.
- ✓ Better capacity and adequate planning to access the GCF complex funding channels.
- ✓ The need to develop Local capital markets.
- ✓ The need to establish national climate funds to leverage private investment.

GROUP TWO:

- ✓ Lack of an enabling environment to attract private sector finance.
- ✓ Currency and political instabilities are major contributors to the issue.
- ✓ Non harmonized policy frameworks. E.g., there are times that some ministries would not for any interference with their respective mandates, and hence there is no clear mandate for private sector engagement.
- ✓ Lack of profitability for adaptation-focused projects. There is a disconnection between the local private sector and the international private sector.
- ✓ There is a high cost with project preparation, feasibility studies and time-consuming conditions. Lack of structures and fiscal policies required to access the GCF (ESS and Gender policies).
- ✓ The private sector doesn't have the capacity to mobilize financing, the definition of the PS is very different at the local level than global standards like the SMES. Set up attractive and appropriate tax systems.
- ✓ Limited private sector financing in small-scale projects.
- ✓ The lack of an enabling legislative and regulative frameworks.

SESSION 4 - CASE STUDY: CLIMATE PROPOSAL DEVELOPMENT CYCLE

The session was led by Sandra, in which she elaborated on the GCF requirements to concept notes and funding proposals. the GCF project appraisal areas were presented to the NDAs and its application on each of the project cycle. The emphasis was made on the vital role of NDAs in project endorsement. Once a Concept note can provide a climate impact potential, the AE can benefit from the GCF Project Preparation Facility support in project design, feasibility, and pre-feasibility studies, environmental, social, gender assessments, and management/action plans, project risks, project IRMF indicators, legal, regulatory, and other due diligence required to be conducted by the AE. The NDAs were walked through the appraisal framework with a deep dive into seven areas: climate impact, additionality, innovation, scalability, sustainability, concessionally, financial structuring.

The session was followed by Q&A and a project design simulation.

Sandra stressed on the fact that the GCF does not reject a proposal or denies a funding, it sends it back for a reposition and a restructuring of the climate rationale of the proposal to build a strong baseline narrative. She also reaffirmed on the role of innovation and its importance to the GCF, developing countries can package innovation at a small-scale, for example bringing together the private sector such as private banks, etc. would be essential, however the business model and the management system must also ensure the sustainability of the project.

Day 1 was resumed by the closing remarks.

DAY FOUR

SESSION 1 – CLIMATE FINANCE INSTRUMENTS AND MODALITIES

This session was built on the Day 3 introduction to alternative GCF financial instruments to non-reimbursable grants. Examples of potential modalities of the core four GCF financial instruments were listed: adaptable programme loans, development policy loans, sector investment loan, credit lines, concessional payment for waterfall financial mechanism, debt swaps, performance-based payments, public-private partnerships, blending with finance from multilateral development banks, bilateral agencies and market sources, advance market commitments, discounted grants (greenclimatefund/document/gcf-b04-06).

Result based payments instrument and stages of its implementation were presented to the NDAs with project examples. NDAs raised few questions to better understand the different mechanisms. The audience was referred to the GCF webpage for additional resources: 'GCF results-based payments: Steppingstone to unlock private finance at scale, June 2022 - https://www.greenclimate.fund/insights/gcf-results-based-payments-stepping-stone-unlock-private-finance-scale#main-content.

The next topic was dedicated to green bonds and the GCF support of AEs in mobilizing capital through green bonds. **FP156 and FP173 were presented** followed by an interactive Q&A session.

After a Mentimeter quiz on the preceding topics, components of GCF financial structuring were presented such as a financial structure, choice of financial instruments, justification for the GCF funding amount, co-financing, pricing, subordination, scenario stress testing, where applicable. Potential list of deliverables for financial structuring assessment was provided including, but not limited to: comprehensive justification of the financial instruments and hurdle rates, grant equivalent calculator, flow of funds from GCF through AE to ultimate beneficiaries, ratio of co-financing, cost of mitigation and adaptation potential, justification of the amount requested, economic and financial analysis models, financial modeling on sub-project level, detailed budget, market studies etc.

The final topic of the session was dedicated to economic and finance analysis (EFA) and its key ratios (IRR, NPV, EIRR, ENPV) with a mock case displayed to better understand EFA's role in a GCF funding proposal package.

The session was concluded with a Q&A and reflections by the NDAs.

SESSION 3 - GREEN CLIMATE FUND SESSION – Q&A

The GCF representative from the Africa Regional Desk at the Division of Country Programming, has allowed the opportunity for participants from the NDA offices to ask questions around the GCF's requirements and conditions and overall expectations from the GCF and the countries.

- **Q:** A country representative opened the floor with a question on the role of the NDA within a project development and implementation, highlighting that the NDA is being overlooked by international organizations once project approval is received from the GCF, they proceed with the implementation without allowing or coordinating with the NDA to play an effective role in the process, can the GCF empower the NDA to ensure that these entities understand the importance of engaging with the NDA at all stages of the project cycle?

- **A:** The GCF representative, Kabishi addressed this question by reaffirming on the role of the NDA as an ambassador to the GCF. The GCF positions the NDA as the main source of information into the country's priorities, and to be the voice of the GCF in their respective countries. There are many aspects to this, when we are referring to projects, the No-Objection Procedure [NOP) is where the NDA would have the country committee speaking to the accredited entities, and adequate time should be taken to ensure that the priorities are communicated to the AEs. The GCF does not consider this as a simple endorsement procedure, it is seen as country ownership that the GCF need to see, because the GCF informs these entities NDAs must be involved and a clear plan of engagement must be provided. For example, Accreditation Master Agreement [AMA], is the legal obligation from the entities side to the NDAs, where they commit to providing more support in terms of capacity building, etc. the NDA hence should express the needs and priorities very clearly to improve the project.

  In addition, no project will receive approval if there is no national entity involved, and that the NDA has also confirmed their agreement with the project activities and objectives. Hence, this ensures that no AE has any power over the NDA. Therefore, the NDA must setup the necessary process, such as the readiness units, which can guarantee up to 1 million in funding that is available for the countries, 300K of that funding will be directed for capacity building, while it is an available resource, it is not reserved, and hence we encourage the countries to make use of it and build inhouse capacity.

- **Q:** Since the purpose of readiness is to lead to bankable projects, what guidance can you give to the countries in this room to prepare bankable projects?

- **A**: As the GCF, we want countries to access our funding because the aim of this funding is to support the countries. When dealing with projects, you should ensure that the projects proposals are aligned with countries priorities, its important to conduct necessary analyses and to ensure that they are reflecting countries' needs and priorities, climate rationale as mentioned before is a major category for funding, and country ownership. The GCF can support before project phase by providing technical assistance to the local DAE, to develop the Concept Note [CN] and the Funding Proposal [FP]. The Project Preparation Facility [PPF] is accessible for all the activities related to conducting studies, etc. the countries need to ensure that the projects should meet the minimum terms and here comes the important role of the NDA, to ensure that it is well written properly packaged and meets the GCF criteria of funding.

- **Q**: The GCF sometimes takes up to 3 years to approve a project that aims to fight the urgent impacts of climate change, how can this be justified? Also, we need the GCF to be more inclusive when it comes to the geographical distribution of some countries that has several islands for example such as the Comoros Islands.

- **A**: The GCF criteria of funding must be taken into account, there are many aspects that goes into this from M&E, evaluation, etc. and because these countries haven't managed to comply with the criteria that usually the process is lengthy, and it is a continuous learning. We are trying to make this as user-friendly as possible; we share the information needed to access funding, and we are upstreaming the conditions, as well as co-developing and supporting the countries hand-in-hand to develop projects.

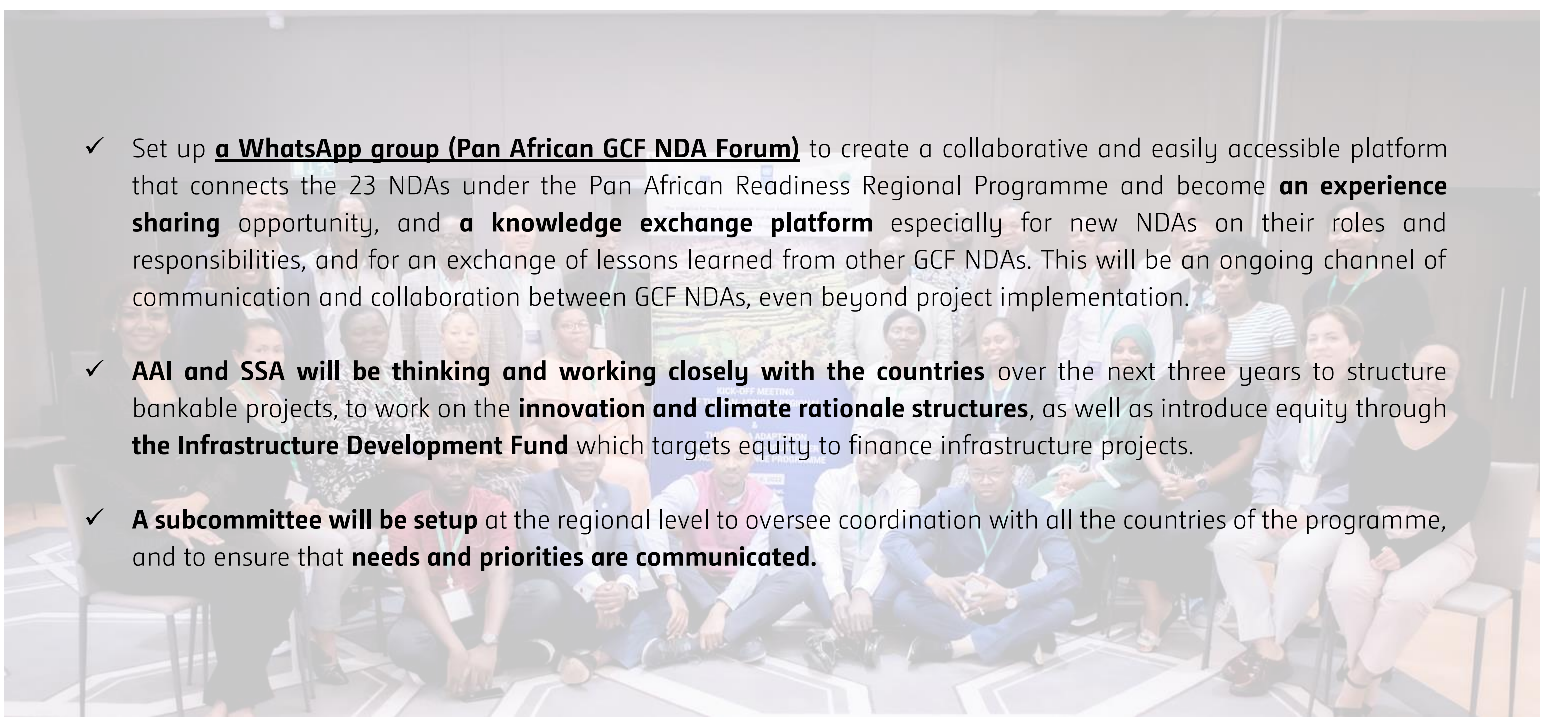
- **Q**: Can the GCF provide onboarding programmes for new NDAs, where NDAs can go and learn about their roles and responsibilities as well as future engagements?

- **A:** This is well noted, and a suggestion would be to set up a platform of all the participating NDAs in this programme, because all the countries are not all at the same level of information and knowledge, and hence one country can benefit from the other.

SESSION 4 – PAN-AFRICA GUARANTEE FUND

The last session provided an opportunity to introduce to NDAs a concept of a Pan-African Guarantee fund 'Hyphen, Catalytic Guarantees for Climate' addressing barriers of raising climate finance at scale in Africa: the chronic lack of cash of the PPP long-term off-takers (LTOs), the lack of sovereign guarantees to de-risk private and public investments. The project envisages a multiple potential for climate PPPs in Africa accounting up to 10-15 Bn USD. The audience warmly welcomed the initiative through positive reflections and comments.

NEXT STEPS



- ✓ Set up **a WhatsApp group (Pan African GCF NDA Forum)** to create a collaborative and easily accessible platform that connects the 23 NDAs under the Pan African Readiness Regional Programme and become **an experience sharing** opportunity, and **a knowledge exchange platform** especially for new NDAs on their roles and responsibilities, and for an exchange of lessons learned from other GCF NDAs. This will be an ongoing channel of communication and collaboration between GCF NDAs, even beyond project implementation.

- ✓ **AAI and SSA will be thinking and working closely with the countries** over the next three years to structure bankable projects, to work on the **innovation and climate rationale structures**, as well as introduce equity through **the Infrastructure Development Fund** which targets equity to finance infrastructure projects.

- ✓ **A subcommittee will be setup** at the regional level to oversee coordination with all the countries of the programme, and to ensure that **needs and priorities are communicated.**