



# CLIMATE FINANCE LANDSCAPE FOR SUB-SAHARAN AFRICAN CITIES:

Funding opportunities and financing instruments for Sub-Saharan African cities and local governments to develop and implement Sustainable Energy Access and Climate Action Plans (SEACAPs)



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Covenant of Mayors  
in Sub-Saharan Africa

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**A mapping and scoping study carried out by  
the Covenant of Mayors in Sub-Saharan Africa (CoM SSA)**

CLIMATE FINANCE LANDSCAPE FOR SUB-SAHARAN CITIES  
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Any errors or omissions, however, remain the fault of the authors and not the contributors.

## BACKGROUND AND RATIONALE

The European Union (EU), its Member States and the European Investment Bank are together the biggest contributors of public climate finance to developing countries alongside other important international and regional Development Finance Institutions.

Despite the available support from various sources, cities in Sub-Saharan Africa face many challenges to finance both the development and implementation phases of their Sustainable Energy and Climate Action Plans (SEACAPs). In this context, all CoM SSA signatories have expressed the need for better access to information on the available funding opportunities and financing tools to unlock finance.

Affected by the form and the level of decentralisation and the national policy framework, local governments might not have human or financial capacity and/or sectoral mandate to develop low-carbon and climate-resilient actions. This underlines the importance of a national policy framework that creates an enabling environment for local governments to act. Support for local investments and implementation and addressing the need for targeted technical assistance resources for early stage projects remains crucial.

Another key difficulty for local governments often lies in the restrictive funders' criteria of eligibility that do not respond to the reality on the ground. Thus, it is essential that local governments are exposed to the available funds, mechanisms and tools, understand their criteria and are assisted in developing their project ideas into bankable projects.

By showcasing a clear landscape of accessible local climate finance in the Sub-Saharan region, this publication is a valuable resource for CoM SSA signatories. Finally, this tool aims to support them in mobilising the critical financing and needed technical assistance to develop and implement bankable projects.

This publication has been developed along with a comprehensive mapping of financial tools available at the local level in the Sub-Saharan region; this mapping exercise is both detailed in this publication and available on CoM SSA website. The online version of the mapping provides more in-depth information such as the eligibility criteria, relevant sectors and respective weblinks of each tool presented.

As a complement to this mapping exercise, a second case study publication, "Financing Climate and Energy Action in African Cities", CoM SSA, 2019, has also been produced. The case study publication provides detailed practical examples of unlocking finance at the local level in the Sub-Saharan region. The case study publication can also be found on the CoM SSA website.

"Access to finance is one of the most significant barriers that cities face in order to reach their ambitious climate goals.

I am very pleased to see that both cities and funders are more and more focusing on the need to open a discussion around the specificities of the Continent. In doing so, the initiatives will finally support cities in a way that would otherwise be challenging for them."

**Mohammed Adjei Sowah**  
**Mayor of Accra, Ghana**  
CoM SSA Ambassador  
Member of GCoM board



## KEY TERMS AND DEFINITIONS



### Guidebook

A supporting document developed by the European Commission Joint Research Centre (EC-JRC) with the support of CoM SSA partners to assist Sub-Saharan Africa local authorities in preparing their SEACAPs. It provides step-by-step guidance and examples of measures relevant for local authorities in the Sub-Saharan context.



### SEACAP

A **Sustainable Energy Access and Climate Action Plan** is each city's or region's key document which elaborates its strategies, plans and actions for low carbon, sustainable and resilient development that ensures access to secure, affordable and sustainable energy.



### Pilot city

CoM SSA is open to all Sub-Saharan African cities. However, between 2015 and 2019 thirteen pilot cities were selected to carry out capacity building activities and demonstrative actions. These pilot cities are Bangui (Central African Republic), Bissau (Guinea-Bissau), Bouaké (Côte d'Ivoire), Communauté des Communes de Zou (Benin), Communauté Urbaine de Nouakchott (Mauritania), Dakar (Senegal), Kampala (Uganda), Lubumbashi (DR Congo), Monrovia (Liberia), Pikine (Senegal), Tsévié (Togo), Yaoundé 3 and Yaoundé 4 (both in Cameroon).

## ABOUT COM SSA

The Covenant of Mayors in Sub-Saharan Africa (CoM SSA) is an initiative which aims to support Sub-Saharan cities in their fight against climate change and in their efforts in ensuring access to clean energy. Started in 2015, it is funded by the European Union (EU) and from 2019, co-funded by the German Ministry for Economic Development and Cooperation (BMZ) and the Spanish Agency for International Development Cooperation (AECID). CoM SSA is part of the Global Covenant of Mayors for Climate and Energy (GCoM) – the largest coalition of cities committed to local climate and energy action.

CoM SSA comprises local authorities in over 34 Sub-Saharan countries who have made voluntary political commitments to implement climate and energy actions in their cities and agree on a long-term vision to tackle three pillars, namely access to energy, climate mitigation and climate adaptation. The initiative is shaped by these authorities to reflect their local context and specifics. In order to translate political commitment into practical measures, CoM SSA signatories have committed to produce and implement a Sustainable Energy Access and Climate Action Plan (SEACAP).

For more information visit:



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# 1. INTRODUCTION

Sub-Saharan African cities are among the world's most vulnerable to the impact of climate change. Due to their rapid rates of urbanisation, they are also progressively becoming large emitters of Greenhouse Gases (GHG). As part of their efforts to mitigate the effects of climate change, the CoM SSA signatories have committed to develop and implement Sustainable Energy Access and Climate Action Plans (SEACAPs): key documents that outline their strategies, plans and actions for low carbon, sustainable and resilient development that ensures access to secure, affordable and sustainable energy.

This exercise requires tailored dedicated financing and investments, particularly at the local level. However, the authorities' lack of knowledge on existing funding opportunities and financial instruments has been a key barrier in their ability to engage in climate and energy planning, and they have been limited by systemic constraints in formulating and preparing projects ready for financing and in accessing climate finance (technical, financial and legal).

This publication takes a first step toward closing this gap by providing an overview of the available funding opportunities and financing instruments that will enable the CoM SSA authorities to develop and implement their SEACAPs. Furthermore, it covers other relevant information such as prerequisites and the eligibility criteria to access each financing instrument, important technical considerations and the corresponding advantages and disadvantages.

In so doing, it provides them with a *context map* of the climate finance and development grant landscape in Sub-Saharan Africa with the objective of directing them towards institutions that can provide them with the financial support necessary to develop their SEACAPs.

Section 2 provides a description of the major climate finance flows in Sub-Saharan Africa. In Section 3 some of the pertinent barriers and challenges to climate finance at the local level are detailed. Section 4 provides an overview of the current climate finance instruments and mechanisms. This is followed by a conclusion (Section 5) with key recommendations for local authorities in Sub-Saharan Africa.





## 2. OVERVIEW OF SUBNATIONAL CLIMATE FINANCE IN SUB-SAHARAN AFRICA

Between 2015 and 2050, Africa's urban population is expected to expand by almost a billion<sup>1</sup>. With an expected 1.07 billion city dwellers by 2050<sup>2</sup> in 52 metropolitan cities and a multitude of intermediary cities, this means that the continent is one of the world's few with the most potential to urbanise. The pace and scale of this urban growth creates new needs for a vast range of infrastructure and services, as well as brand new opportunities<sup>3</sup>. Already in the throes of a structural transition, by 2050 Sub-Saharan African cities will need to accommodate 900 million working-age people who will leave their employment in agriculture for jobs in services. This in turn will accelerate economic development and improve living standards across the region<sup>4</sup>.

However, ensuring that the future of these cities will be structurally supported by a secure and attractive economic environment at the national, regional, and international levels requires a current response to increasingly urgent demands created by existing urban transitions. These needs pertain to sustainable urban infrastructure, appropriate regulatory frameworks, strengthened urban, peri-urban, and rural linkages, and improved capacities of planning, management and transparency to secure the necessary investments in the long term. The increase in urbanisation described above will only become an asset if African cities are able to address their current challenges and anticipate future ones through the implementation of planning policies, better and equal access to basic services and the promotion of economic development, employment and integrated economic development, among others.

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### 2.1 URBAN TRANSITIONS AND CLIMATE CHANGE: THE NEED FOR ADAPTATION FINANCE

Responding to the current challenges of urban transitions, however, will be insufficient over the long term. At present, climate change is a real threat to cities throughout the world. Although Sub-Saharan Africa is responsible for only four percent of annual global GHGs<sup>5</sup>, the region is often described as the most at risk to the negative effects of climate change, not only because of the expected change itself but because of the perceived lack of capacity of Africans and their governments to adapt to them<sup>6</sup>. Furthermore, while Sub-Saharan Africa alone accounts for 14 percent of the world's population, at present only three percent of global climate finance and investment flows into the region<sup>7</sup>. According to the Overseas Development Institute (ODI), "current levels of climate finance directed to Sub-Saharan Africa are likely to be insufficient to meet the region's demonstrated need for adaptation finance, estimated to reach US\$ 50 billion per year by 2050 under an optimistic two-degree centigrade warming scenario."<sup>8</sup>

Mobilising such levels of investment requires the involvement of a multitude of actors and stakeholders from the public and private sectors to facilitate low-carbon, climate-resilient development of infrastructure, reduce poverty and support countries to adapt and mitigate the effects of climate change. But exactly where, how, and in which priority sectors is this investment needed?



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## 2.2 THE INFRASTRUCTURE GAP IN SUB-SAHARAN AFRICA

As data that approximates the climate infrastructure needs of Sub-Saharan African cities at the subnational level is not available, this section examines the needs of the region as a whole and at country level.

An examination of public investments and quality of infrastructure in the region shows that “Sub-Saharan Africa has made great progress in telecommunications coverage in the past 25 years, expanding at a fast pace across both low- and middle-income countries in the continent. Access to safe water has also increased, from 51 percent of the population in 1990 to 77 percent in 2015.”<sup>9</sup> However, a 2017 World Bank study of per capita electricity-generating capacity over 20 years shows that “only 35 percent of the population has access to electricity, with rural access rates less than one-third urban ones. Transport infrastructure is likewise lagging with Sub-Saharan Africa being the only region in the world where road density has declined over the past 20 years.”<sup>10</sup>

According to the BOOST Initiative<sup>11</sup> public capital spending levels among 24 countries in Sub-Saharan Africa remains too low to address the region's infrastructure needs, with an annual public spending on infrastructure of only two percent of GDP from 2009 to 2015. It is estimated that closing the infrastructure quantity and quality gap, particularly in electricity-generating capacity, could increase regional growth of GDP per capita by 2.6 percent per year.<sup>12</sup> Low investments in these sectors can be attributed to countries' underspending allocated budgets on projects and structural inefficiencies. Ineffective spending by countries does not result in sufficient infrastructure being delivered.

According to lead economist and author of the World Bank's 2017 report, “Africa's Pulse”, Punam Chuhan-Pole, “analysis shows that the impact of public investment on economic growth can be improved if countries implement policies that make public investment more efficient [...] There is evidence that countries with sound public investment management systems tend to have even more private investment.”<sup>13</sup> For example, it has been shown that there is a correlation between countries' governance standards and control of corruption and overall infrastructure and electricity quality. Especially in low-income countries, the quality of infrastructure is highly influenced by sound and effective governance practices.<sup>14</sup> Transposing this even at subnational levels can reap long-term benefits.

Closing the infrastructure gap in the region, particularly in the energy and transport sectors, will require an improvement in governance practices, project management and monitoring, and overall public investment systems at all government levels to drive economic growth and diversify investment opportunities for the private sector.

Project Preparation Facilities (PPFs) and early stage project preparation support in particular, play a vital role in unlocking climate finance at the subnational level. At present, many such efforts depend on grants provided by public institutions, particularly Multilateral Development Banks (MDBs). However, the effectiveness of these facilities is still in question particularly due to their over reliance on external expertise, conflict of interests of the involved parties, lack of institutional appropriation (including from the project leader) and financial stability, and lack of communication and information-sharing between Project Preparation Facilities (PPFs), and the overall inadequacy of financial and human resources.<sup>15</sup> According to a 2016 report by Fonds Mondial des Villes -FMDV and ICLEI-Local Governments for sustainability entitled “*A Review of International Project Preparation Facilities Best Practices and Scoping Analysis of Opportunities in West Africa*,” West Africa does not have a project preparation facility especially dedicated for local and subnational governments. Although other multilateral climate funds also channel resources to close or at least narrow the financing gap, they remain minimal.

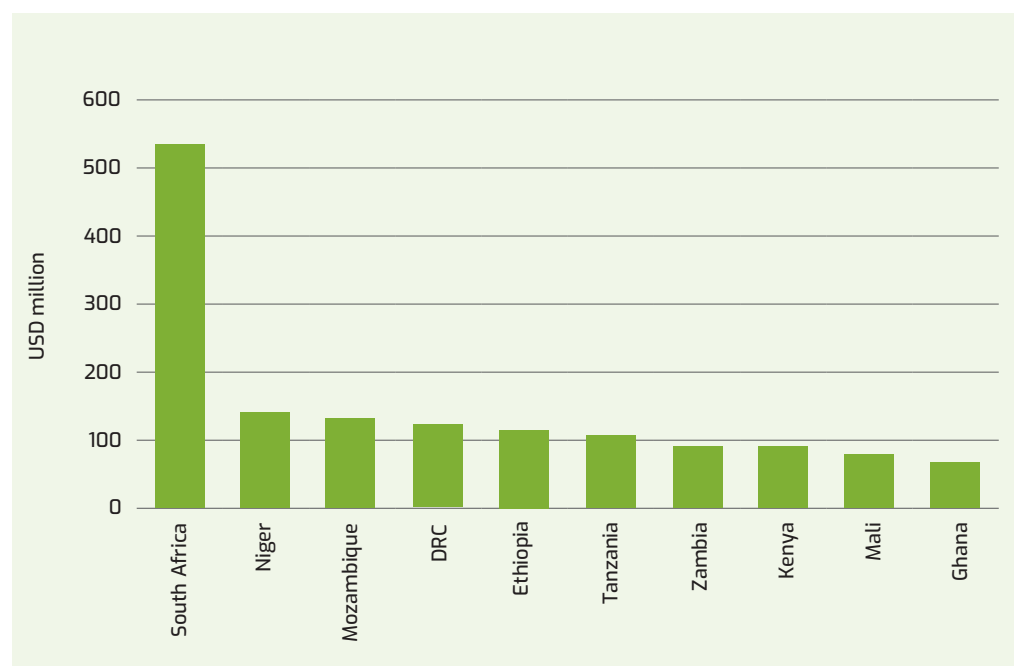
While the improvement of the governments' capacity to manage infrastructure remains a priority, several financing mechanisms have already been used to address urgent infrastructure needs such as Public-Private Partnerships (PPPs), private investment/equity for projects led by local governments, bond and pooled bond issuances and land based financing, among others. These, however, remain concentrated in only a few countries experiencing a development of domestic capital markets such as Nigeria, Kenya, Ethiopia and South Africa.

## 2.3 MAJOR CLIMATE FINANCE FLOWS: WHERE DO THEY COME FROM? AND WHERE DO THEY GO?

Globally, there are no precise estimates available on the amount of climate finance targeted specifically for local and subnational projects, nor is there a localised assessment of investment needs based on their strategic development plans.<sup>16</sup> The Institute for Environment and Development estimates that out of the US\$ 17,4 billion total investments in climate finance between 2003 and 2016, less than 10 percent (US\$ 1,5 billion) was approved for locally focused climate change projects.<sup>17</sup> Similarly, the available data on major climate finance flows to Sub-Saharan Africa focuses only on flows to recipient national governments and does not include the amount that flows directly into subnational governments.

A 2016 report issued by the ODI, for example, has revealed that although “the Least Developed Countries Fund (LDCF) and the World Bank administered Clean Technology Fund (CTF) are the biggest cumulative funding providers in the region... the new Green Climate Fund (GCF) approved the most new funding in 2016. CFU data indicates that US\$ 3,3 billion has been approved for 517 projects and programmes throughout Sub-Saharan Africa since 2003. Only 45 percent of approved funding has been provided for adaptation measures.”<sup>18</sup> With the amount approved by twenty climate funds active in the region from 2003 to 2016, South Africa accounts for 19 percent (Figure 1) largely in support of the CTF Eskom renewable energy programme which aims to facilitate the accelerated development of large-scale renewable energy generation capacity as part of its long-term strategy to reduce carbon emissions.<sup>19</sup>

**Figure 1: Top ten recipient countries by amount approved (2003–2016)**

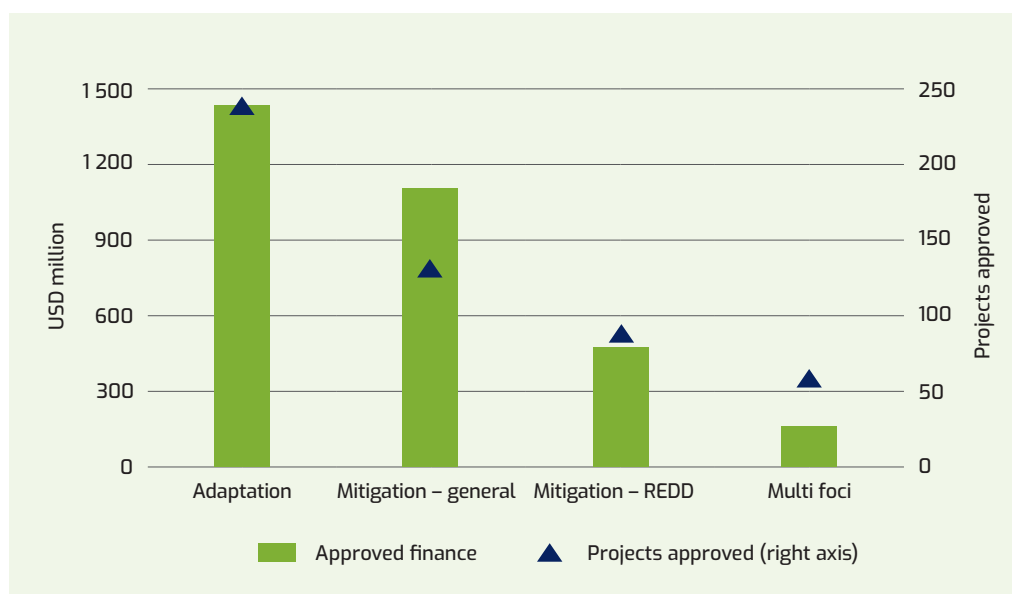


Source: Climate Finance Regional Briefing: Sub-Saharan Africa (ODI, 2016)

The ODI report further reveals that, "although forty-two countries in Sub-Saharan Africa have received some funding, outside of a few countries this money has been spread quite thinly. While most funding is at the country level, US\$ 342 million has been approved for over 60 regional or multi-country projects. This reflects the strategy of bilateral contributors such as Germany or the UK as well as multilaterals such as the Global Environment Facility (GEF) and the Green Climate Fund (GCF) to support similar climate change objectives across multiple countries."<sup>20</sup>

Figure 2 illustrates the fact that 50 percent of climate finance in the region accounts for mitigation and Reducing Emissions from Deforestation and forest Degradation, plus the sustainable management of forests, and the conservation and enhancement of forest carbon stocks (REDD+) activities. However, as the report shows, this spending is concentrated in just a few countries.

**Figure 2: Approved funding across themes (2003–2016)**



Source: Climate Finance Regional Briefing: Sub-Saharan Africa (ODI, 2016)

Further, funding for adaptation measures is expected to increase. In 2016, the GCF approved US\$ 79,5 million for five adaptation projects in Mali, Gambia, Senegal. Two of these (via direct access) were for Namibia. In 2019, GCF funding for adaptation projects amounting to US\$ 1,8 billion was allocated for Least Developed Countries (LDCs), SIDS and/or African States.<sup>21</sup> However, the total amount channeled directly to the subnational level remains unclear.

It would appear that in broader terms, **the majority of climate funds are channeled to cities through national governments.** This further sends a message that while cities' and local governments' direct access to funds is important, vertical integration between multiple levels of governance remains vital in successfully channeling funds to the local level where actions are implemented.



### 3. BARRIERS AND CHALLENGES TO SUBNATIONAL CLIMATE FINANCE

In the Sub-Saharan African region, donor institutions are an important source of funding for the development of low carbon, climate-resilient infrastructure. However, reliance on donors is unsustainable in the long run. In most cases, even when funds are available, including those from the private sector, most local governments are ill-equipped to facilitate successful access to and management of them, or design and prepare 'bankable' projects. This is due to their lack of efficient regulatory frameworks, competencies and systems. In addition, many cities have limited capacity for budgeting and collecting domestic revenues, which often leads to poorer basic public services and limited maintenance of infrastructure.<sup>22</sup>

In 2015, the Cities Climate Finance Leadership Alliance (CCFLA) published a report<sup>23</sup> on the global state of city climate finance. The report identified a set of key areas where the risks and challenges associated with city finance meet those of climate finance. These barriers evidently also apply to the Sub-Saharan context, although not all of them are equally relevant for every city and development context. The report identifies six key barriers that fall into three main categories. These are described below:

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#### 3.1 REGULATION AND GOVERNANCE

**3.1.1 Uncertainty over regulatory and tax policies that affect low-emission, climate-resilient infrastructure** – increased risks associated with shifts in national, state, regional, or city-level climate policies (such as carbon-emissions taxes, energy efficiency incentives or fossil-fuel subsidies) and other political risks (electoral cycles, political regimes etc.) often deter private sector investors. Private sector reluctance also dampens investment from public institutions and development banks, which often employ PPP agreements or co-financing arrangements with private-sector investors. Cities and local governments are sensitive to national policy frameworks and some countries have weak regulatory environments and investment frameworks for public and private investments, private property rights, and foreign investment compacts, which compounds the problem.

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#### 3.2 INFRASTRUCTURE PLANNING

**3.2.1 Difficulty in incorporating climate goals into urban infrastructure planning**, as these are given lower priority by local authorities than initiatives that address shorter term needs (i.e. education, healthcare and public safety). Due to complex governance and institutional arrangements and the limited availability of information, political leaders in various levels of government fail to align their overall climate commitments with national targets and cannot agree on standards and performance indicators for low-emission, climate-resilient infrastructure in project design and planning. Infrastructure planning that incorporates key climate components is crucial for local governments to prepare upfront capital expenditure for their development, especially because low-emission, climate-resilient infrastructure can cost an extra five to 10 percent or more.<sup>24</sup>

### **3.2.2 Lack of city expertise in developing low-emission, climate-resilient infrastructure projects that attract financing**

– very few local governments have the expert capacity to plan and develop climate projects only because compared to national governments, they have fewer projects developed (and thus less experience). Furthermore, only a limited number of cities have the capacity to evaluate climate benefits at a financial and technical level. With pre-existing limitations in project management and a lack of experience in various climate finance instruments, the majority of cities also struggle with building a feasible economic model for infrastructure investment and coordinating cohesive urban planning that integrates climate objectives across a diverse set of stakeholders. Foremost among these problems are institutional and regulatory constraints that hinder coordinated infrastructure investments, fragment physical development and limit overall economic productivity. While most projects are urgent, especially those for adaptation, few have the potential to generate sufficient revenue streams to pay back capital costs and are thus not considered as 'bankable' for investors within the current policy environment.

### **3.2.3 Insufficient city control over infrastructure planning and complex stakeholder coordination**

– cities frequently lack the necessary control to direct investment to low carbon, climate-resilient infrastructure because they are often subject to national or provincial supervision. For instance, the majority of their carbon emissions are planned and controlled by national, state or regional governments (such as in the case of energy production). This affects a city's creditworthiness and its ability to borrow.

Creditworthiness – a proven capacity to repay financial obligations – is crucial in adopting market-based approaches to raising finance, and there are only a few Sub-Saharan African local authorities with the capacity to do so. The creditworthiness of a city or of a project leader is usually assessed and awarded by a credit rating agency, and there are currently only a very limited number of cities in Sub-Saharan Africa with such a rating.

There are a number of initiatives which provide support to issue sub-sovereign bonds such as the City Creditworthiness Academy (led by the World Bank). The majority of cities in Sub-Saharan Africa lack the creditworthiness to access loans and other debt instruments from private lenders, and loans require a stable and functioning financial market. In addition, available credit is often expensive. Finally, project design and feasibility assessments are needed to satisfy investors' financial requirements and due diligence processes.<sup>25</sup>

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## **3.3 FINANCIAL PREPARATION**

### **3.3.1 High transaction costs for low-emission, climate-resilient infrastructure in cities**

– transaction costs for low-emission, climate-resilient infrastructure are inherently higher compared to other asset classes. In addition to the real and perceived challenges of new green technology, the small scale of some projects, the lack of credit rating and the complexity of cities' project development and financing systems, this increases overall project costs, which in turn deters investment in cities by external investors. Complex and time consuming project coordination processes which arise from the fragmented nature of decision ownership in cities make it difficult to advance projects through their planning phase at a pace that investors consider reasonable. The complicated processes involved in securing funding from development banks and other investors can also create bureaucratic hurdles that slow project preparation and drive up transaction costs. Capital markets risks related to currency fluctuations and depreciation, as well as limited market liquidity contribute to overall investment risks in climate infrastructure.

### 3.3.2 Lack of proven funding models for low-emission, climate-resilient infrastructure at the city level

– investors are often unfamiliar with climate projects and find it difficult to incorporate reductions in operating costs, improvements in air quality, increased resilience and other relevant factors into their cost/benefit analyses. Furthermore, many urban infrastructure projects lack the clear revenue streams that allow investors to recover their full costs over the lifetime of an asset. This is particularly true for adaptation projects which can incur high upfront costs while delivering benefits that are environmental and social rather than financial, with no specific business models presented. There is therefore a need for innovative instruments and mechanisms to help improve the risk/return profile of low-emission, climate-resilient infrastructure, especially adaptation projects. However, even where proven funding models for climate related infrastructure projects exist, many investors continue to feel that the returns do not compensate for the higher risks.



## 4. CURRENT AND EXISTING CLIMATE FINANCE INSTRUMENTS AND MECHANISMS

While international donors and multilateral climate funds play a key role in bridging the infrastructure finance gap, cities in Sub-Saharan Africa have a wide range of other opportunities and instruments to engage external finance in financing their climate adaptation and mitigation projects. Available throughout the entire process of preparation to investment, these can be used to augment low public expenditure and poor investment in urban infrastructure.

In this section, the climate finance instruments and mechanisms presented are limited to those that directly concern and are accessible to cities and local governments in the region, and are focused ultimately on leveraging private sector capital (full list in Annex 5). Initiatives dedicated to cities and local governments that are accessible only through intermediary entities such as national governments and financial institutions are listed in Annex 6. City-to-city decentralised cooperation is not included here as it requires more in-depth mapping and analysis, for which data is not yet readily available.

Using the main results of the mapping study, this section presents examples from institutions that provide financing support. It also describes a number of key finance mechanisms currently being used by local governments in Sub-Saharan Africa and the rest of the world as these are deemed most appropriate to respond to their present financing needs.



### 4.1 FOREIGN AID AND PUBLIC SECTOR GRANT FINANCE

Foreign aid and grant finance flowing into Africa originates mainly from bilateral aid and international development programmes such as those offered by the World Bank and the International Monetary Fund, which act as a channelling intermediary between the donor and receiving governments<sup>26</sup>. It is important to note, however, that recipients are often national governments that hold the discretionary power to decide how these funds are spent or allocated (or if at all) to subnational governments.

While trends show that some Sub-Saharan governments are increasingly using market-based approaches to finance development projects, most continue to rely on foreign aid and grant finance. This is because even when aware of other climate project funding opportunities (which are mainly with international funds), they are often stymied by insufficient capacity to successfully prepare projects, secure funding and manage the subsequent required reporting. In addition, market-based financial instruments often stipulate co-financing from other sources or the necessity of ensuring the 'bankability' of the potential investment/s. Complying with these requirements may be difficult for local administrations with limited budgets or administrative capacity.

According to the ODI, due to these 'technical' reasons as well as other 'return on social investment' requirements, "public sector grant finance will continue to play a crucial role in allowing for significant environmental, developmental, social and gender equality co-benefits of climate actions in the region to be realised, particularly for adaptation measures."<sup>27</sup>

Kenya's County Climate Change Fund (CCCF) for example, has been funded by the governments of the United Kingdom and Sweden to support its local governments (counties) through the establishment of reporting frameworks and indicators to track budget allocations and progress on the implementation of its National Action Plan. This enables them to attract international climate finance. The Kenyan government's commitment to provide domestic budget allocations via the CCCF serves as a lesson for other governments in the region on how to channel domestic public finance towards the local level by establishing county financing mechanisms for adaptation measures.



## BOX 1

### **The County Climate Change Funds in Kenya**

In Kenya, counties (local governments) enjoy a fair degree of independence in diversifying funding for climate activities. The County Climate Change Fund (CCCF) comprises decentralised climate funds which build on existing local governance systems to disburse funds in a way that empowers communities and builds climate resilience. Started in Isiolo County (2009–2013), it was thereafter replicated in the counties of Kitui, Makueni, Wajir and Garissa.

For more information on decentralised climate funds, refer to the case study publication: "*Financing Climate and Energy Action in African Cities*", CoM SSA, 2019.

Other examples include:



## BOX 2

The **Global Environment Fund's Small Grants Programme**, which was used to support a project to accelerate development in a village in Mkuranga, Coast District (Tanzania) through the provision of solar Photovoltaic (PV) electricity.

From July 2017 to December 2018, a grant amount of US\$ 47,052 was used to install solar PV in the village hospital, community centre, shops and kiosks, and in at least 30 households. It was also used to demonstrate entrepreneurship activities such as phone charging, solar cookers and salt driers for small scale salt producers. These activities benefitted all of the village residents, particularly the youth.



### BOX 3

The Local Climate Adaptive Living Facility (LoCAL) of the United Nations Capital Development Fund (UNCDF) is not a fund and does not work with calls for proposals or project by project, but entails the establishment of a national mechanism to work with local governments on climate financing.

LoCAL operates through performance-based climate resilience grants (PBCRGs), which consist of a financial top-up to cover the additional costs of making investments climate resilient and/or of additional investments for climate change adaptation. These grants complement regular allocations made by the central level to local governments through the respective intergovernmental fiscal transfer system. Their technical features include a set of minimum conditions, performance measures and a menu of eligible investments.

The LoCAL mechanism and its PBCRGs have supported projects such as: Agriculture, livestock, LULUC, energy, water & sanitation, waste transportation, climate proofed infrastructure, for example.

For more information on the achievements of LoCAL in Copargo, refer to the case study publication: *"Financing Climate and Energy Action in African Cities"*, CoM SSA, 2019.



A key success in Copargo was the construction of a water retention basin and a water levee. This infrastructure increased the availability of water for farmers, allowed diversification and contributed greatly to the local economy. @LoCAL – UNCDF Photo Joel Bekou



### BOX 4

The **Cities and Climate Change in Sub-Saharan Africa Initiative (CICLIA)** of the **French Development Agency (AFD)** allocates grants to a limited number of priority countries.

In December 2016, the EU, the Swiss State Secretariat for Economic Affairs (SECO) and AFD launched a four year programme with EUR 10,5 million. Amongst the grants offered by AFD, the CICLIA facility aims to assist between 20 and 25 Sub-Saharan African cities to (1) finance feasibility and vulnerability studies; (2) support existing projects to maximise their impact; and (3) support urban areas in the preparation of their climate strategies.

Five cities that have received support include:

- Kampala (Uganda): preparation of a street lighting master plan for the city
- Kano (Nigeria): feasibility study for solid waste management
- Cape Town (South Africa): a study on the vulnerability and risks related to climate change and an economic and financial study on a sustainable energy supplies for poor households
- Kinshasa (Democratic Republic of Congo): urban and social pre-feasibility study in the outlying neighborhoods of the N'Djili River
- Ganvie (Benin): additional study for the 'Reinvent Ganvie' project and for the environmental and social impact study

Despite criticism of foreign aid and public sector grant finance, notably because they do not create long-term investment capacity, it remains widespread both in Sub-Saharan Africa and in the developing world. It is thus important to support cities and local governments in incentivising market-based approaches and fair commercial and trade engagements to finance their development needs and to strengthen their domestic financial institutional frameworks and fund channeling towards them.





## 4.2 CLIMATE FINANCE INSTRUMENTS FOR CITIES

The World Resources Institute has published a working paper that provides a glossary of financing instruments and the mechanisms available to support private sector climate change mitigation projects in developing countries.<sup>28</sup> Using it as a key resource, this section provides an overview of climate financing instruments available to Sub-Saharan cities and local governments as presented in the database with specific examples from cities or institutions that manage them.

Unfortunately, while many of these finance options are currently being used by local governments to finance large infrastructure projects and other initiatives, they are not necessarily climate adaptation or mitigation undertakings, including access to sustainable energy.

It is important to note that the financing instruments presented below are more appropriate for long-term priorities, particularly for climate change mitigation actions and access to sustainable energy, for the main reason that these projects tend to be more attractive to private sector investors. For the most part, local governments tend to continue to rely on bilateral or multilateral funds, or dedicated adaptation funds to finance adaptation projects.

It is vital to reiterate that these financing instruments cannot stand alone in bridging the financing gap in Sub-Saharan cities without the necessary improvements in the regulatory environment for investments, capital markets and increased efficiencies in domestic revenue generation.

Local governments, using the support of national government agencies, need to define their short-term and mid-term priorities focused on increasing local revenue generation through more efficient services and management of infrastructure, and improved financial management systems and processes.<sup>29</sup> Building this capacity goes hand in hand with improving their ability to integrate climate components into the financial and technical elements of municipal planning and delivery of public services.

### 4.2.1 De-risking instruments

De-risking instruments are geared towards helping investors reduce or manage investment risks, typically in exchange for a fee, and thus improve the risk-return expectations of an investment. There are four main types, as follows:

- **Insurance and guarantees** – insurance and guarantee products safeguard investors from a borrower's failure to repay. A guarantee can be a partial – protecting a portion of the investment through its lifetime, or back-end – covering the entire investment after a pre-specified timeframe. Insurance and guarantees can be divided into three categories:
  - **Political risk insurance/guarantee** protects against the failure of a borrower to repay as a result of political events and circumstances such as governmental expropriation of assets, currency transfer restrictions or inconvertibility, breach of contract, war and other civil disturbances etc. Should repayments be disrupted due to such occurrences, political risk insurance/guarantees pay out all or a portion of the losses
  - **Partial risk guarantees** cover the risks of a local government failing to perform its contractual obligations in respect of a private sector project. These obligations are most often political or regulatory in nature
  - **Partial credit guarantees** support commercial borrowing for public investment projects by partially covering private sector lenders in the event of a debt service default by the local government



## BOX 5

### The European Fund for Sustainable Development (EFSD) Guarantee of the EU External Investment Plan (EIP)<sup>30</sup>

Worth EUR 1,5 billion, the EFSD Guarantee scheme, one of the pillars of the EU External Investment Plan (EIP) can (1) attract financing for some of the initial capital ('equity' or 'risk capital') a project needs to get off the ground and (2) serve as a pledge (guarantee) to pay back part or all of a loan if a borrower incurs losses and defaults on it. Twenty eight guarantees, including at least three specifically aimed at cities in Sub-Saharan Africa, are proposed under the EFSD thanks to its cooperation with national financial institutions in EU countries and Multilateral Development Banks.

Amongst them, the Sustainable Cities Investment Fund Platform led by the European Investment Bank (EIB), which notably covers climate action, offers investment guarantees for regional investment funds providing loans, equity, mezzanine, guarantees (EFSD guarantee up to EUR 37 million). This guarantee mobilises private and public capital in cities where resilient municipal infrastructure and services are scarce, including those in fragile and least-developed countries. By coupling investments with technical assistance (up to EUR 8 million) to transform sustainable urban development strategies into projects, and to prepare and develop them, the guarantee aims to participate in the improvement of local governance and tackle impediments to private investment in infrastructure projects.

- **Local currency loans and facilities** – are disbursed in local currency, thereby protecting the borrower from foreign exchange risks that arise from the mismatch of generating revenues in local currency while repaying debt in foreign currency



## BOX 6

The Local Currency Lending in Sub-Saharan Africa of the **KfW Group and AfDB**, part of the **EFSD guarantees scheme**, offers local currency lending<sup>31</sup> with a total EFSD guarantee of up to EUR 27,5 million and technical assistance of up to EUR 2 million.

The scheme offers and manages two guarantees which aim to reduce funding costs, tackle the risks associated with currency depreciation and encourage lending in local currencies for projects in Sub-Saharan Africa. They are:

- The KfW Group guarantee, which aims to support Sustainable Energy for All (SE4ALL) projects, Micro, Small & Medium Enterprises' growth and investment in the energy sector (up to EUR 15 m EFSD guarantee)
- The AfDB guarantee, which aims to provide affordable long-term local currency loans to local enterprises (including Small and Medium Enterprises (SMEs) in key sectors, including least developed and fragile countries (up to EUR 12,5 million EFSD guarantee)

- **Liquidity facilities** – are a line of credit aimed at providing critical short-term cash flow to a project or entity through a foreign exchange liquidity facility that allows borrowers to manage fluctuations in foreign exchange rates
- **Swaps/Derivatives** – are financial agreements that help manage different types of risks faced by an investor or borrower in exchange for an upfront fee or ongoing premium, while involving an exchange of cash flows with a third party entity or financing mechanism.

### 4.2.2 Lending or debt instruments

Lending or debt instruments provide borrowers with upfront funding in exchange for repayment of the 'principal' along with interest, based on predetermined timeframes and interest rate terms. Here, the focus is on concessional instruments proposed by Development Financial Institutions (DFIs) and donors rather than commercial investors as these are more adapted to the needs and context of Sub-Saharan African cities. There are two types:

- **Concessional/Flexible loans** – loans that have no or low interest rates, extended repayment schedules and interest rate modifications during the life of the loan
- **Concessional/Flexible loans through financial intermediaries** – loans provided for projects through financial intermediaries, either public such as Subnational Development Banks or private such as commercial banks



## BOX 7

The **International Municipal Investment Fund of the United Cities and Local Governments (UCLG)**, the **Global Fund for Cities Development (FMDV)** and **United Nations Capital Development Fund (UNCDF)** are key components of UCLG's renewed global strategy on localising financing for sustainable urbanisation. Adopted in May 2018, their objective is to facilitate access to financing for local governments' investment projects on national and international financial markets. They aim to support the structuring of innovative investments in cities in the Global South through a technical assistance component and an investment component. The first round of financing aims to mobilise US\$ 250 million.

All cities, regardless of their size, are eligible for the Funds insofar as the investment project or programme is of general benefit and contributes to achieving the Sustainable Development Goals (SDGs). The Funds plan to support each city to finalise their investment project/s by contributing up to 30 percent of their financing and help them mobilise the remaining financing on the national and international capital markets.

A call for initiatives launched in early 2019 by the UCLG World Secretariat led to the identification of 14 cities (including five African cities) that are eligible to benefit from the Funds for a first pilot phase. Among the projects submitted by African cities for the pilot phase are the development of autonomous public lighting networks, the construction and rehabilitation of markets and the decongestion of transport networks.



## BOX 8

The **Rainwater Drainage project of the City of Cotonou, Benin** was financed by loans from the EIB. As climate change leads to more extreme weather events, the water and sanitation sector has become one of their priorities.

In 2010, following the West African floods, Benin's government developed a rainwater collection master plan, which gave birth to a new programme for dealing with floods in Cotonou. This project – which is also supported by the World Bank, the Agence française de développement, the AfDB, the Islamic Development Bank and the West African Development Bank – aims to protect Cotonou from the cyclical flooding it experiences in its annual rainy season by constructing 34 retention basins in different locations around the city. The EIB financing covers 20 of these. In December 2018, the EIB agreed to invest EUR 50 million in loans to the project, which has a total cost of EUR 128 million.

### 4.2.3 Equity and quasi-equity investments

Equity investments provide a critical capital base for an entity or project to grow its operations, access other sources of finance and reduce investment risks faced by other project/company investors, especially debt investors who are repaid before equity investors. The different types are listed below:

- **Direct equity investment** – a direct capital contribution to a project without the guarantee of repayment. Returns depend on the performance of the project over the investment period
- **Quasi-equity** – these investments have a mix of debt and equity characteristics in terms of ownership and claim to assets in the case of default. Some types of quasi-equity may be converted from possessing debt to equity characteristics, and vice versa. There are two types of quasi-equity investments:
  - **Convertible bonds** – these can be converted into shares of common stock in the issuing entity (such as a local government) or into cash of an equivalent value. Because interest is paid before any stock dividends, convertible bonds are a safer instrument for the lender relative to a direct equity investment
  - **Subordinated debt** – has a lower claim on assets; if a local government or project falls into bankruptcy, subordinated debt will be repaid only after other, more senior debt is repaid



## BOX 9

The **Green Climate Fund** approved project '**Climate Investor One**' (**CIO**) has been created to fund renewable energy infrastructure projects in the form of concessional loans in eleven countries with a total investment of US\$ 100 million.

Some of the beneficiary countries include Burundi, Cameroon, Djibouti, Kenya, Madagascar, Malawi, Nigeria and Uganda. At this point, cities and local governments are not eligible to access these loans directly.

Climate Investor One is a blended finance facility managed by Climate Fund Managers, an investment fund held by the Dutch Development Bank (**FMO**) and Sanlam InfraWorks, a subsidiary of Sanlam, a South African group.



Nairobi, Kenya

### 4.2.4 Funds and structured products

Funds and structured products, which are especially useful for smaller projects, allow investors to diversify their investments (thereby improving their aggregate risk-reward profile) and reduce investment transaction costs. They thus improve borrowers' access to finance. There are three types:

- **Debt and Equity Funds** are pooled investments in debt or equity of several projects and/or local governments. Debt funds allow investors to preserve capital and generate income, while equity funds are aimed at investment growth through capital gains or dividends
- **Structured/Securitised Products** are highly customised investments in which pools of assets, such as mortgages, are aggregated to create a new security, and then divided up and sold to investors with different risk-return tolerances
- **Pledge Funds** are targeted private equity funds dedicated to a specific investment goal that is defined by contributors to the investment pool



## BOX 10

The **Climate Finance Facility (CFF)** of the **Development Bank of South Africa (DBSA)** is the first private sector climate finance facility in Africa to use a pioneering green bank model. The CFF, into which GCF is investing US\$ 56 million, provides credit enhancements such as subordinated debt tranches and tenor extensions to de-risk and increase the bankability of climate projects so as to crowd-in significant investments from commercial banks and project sponsors. The programme targets South Africa, Namibia, Lesotho and Eswatini (previously Swaziland), but has significant potential for replication in other developing countries.



## 4.3 CLIMATE FINANCE MECHANISMS

Aside from using their own financial resources (mainly intergovernmental transfers, taxes collected, tariffs, asset revenues, external grants and subventions), local African governments typically finance urban capital investments by 1) borrowing; 2) PPPs; and 3) land value capture (land based financing).<sup>32</sup> Within these mechanisms, a number of innovations such as green bonds have evolved by which local governments can benefit from additional investments and capital, particularly from the private sector. Some of these are being utilised by cities and local governments around the world and may equally be applicable to the Sub-Saharan context. They are described below:

### 4.3.1 Borrowing

Local government borrowing may be undertaken either by means of loans or the issuing of debt obligations (bonds). Although these instruments have been addressed in more detail in Section 4.2.2, two variations thereof are highlighted here: green bonds and Subnational Pooled Financing Mechanisms (SPFMs). Both have been identified by the New Urban Agenda as potential catalysers to finance its implementation at the local level and as accelerators to mobilise capital markets to finance cities' low-carbon transition activities.

- **Green bonds** are debt obligations issued by local governments to raise capital specifically for climate-related or environmental projects, and can be certified as such using existing international standards such as the Green Bond Principles or Climate Bond Standards<sup>33</sup> As the green bond market is fairly new and related risks are perceived to be high, especially in developing countries, assurance is required by investors either from the country's central bank or MDB. Furthermore, as issuing bodies, local governments need a credit rating and an independent certification for the investment. At present, most local Sub-Saharan governments have poor credit scores and the legal and regulatory frameworks concerning their borrowing capacities are limited by national governments, making it more difficult for them to issue green bonds.

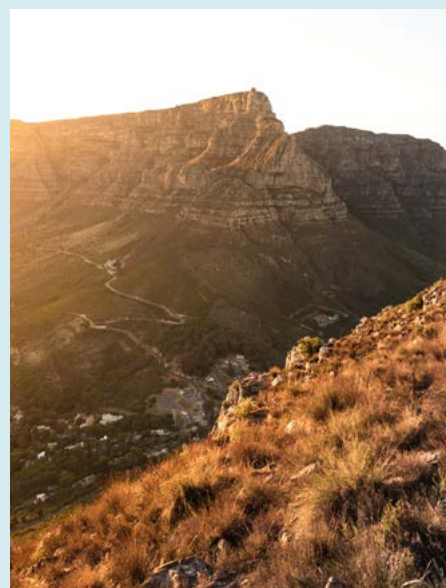


#### BOX 11

In July 2017, the city of **Cape Town** issued a **Green Bond** for a value of ZAR 1b billion (US\$ 76 million)<sup>34</sup>. It did so using the services of a suitably qualified intermediary to market the bond and register it with the Johannesburg Stock Exchange (JSE). The reaction from the market was deemed very positive as within two hours, 29 investors made offers totalling ZAR 4,3 billion in response to the inaugural ZAR 1 billion bond that was being auctioned.

The projects to be funded by this green bond are in part adaptation and mitigation initiatives, as deemed by the standards of the certification body, the Climate Bonds Initiative (CBI), and are aligned with the City's Climate Change Strategy. Some of them include: the procurement of electric buses, energy efficiency measures in municipal buildings, water management initiatives, sewage effluent treatment and rehabilitation and protection of coastal structures.

For more information on the City of Cape Town's Green Bond, refer to the case study publication: *"Financing Climate and Energy Action in African Cities"*, CoM SSA, 2019



Cape Town, South Africa

- **Subnational Pooled Financing Mechanisms (SPFMs)** provide subnationals (local and regional governments) with similar missions and credit characteristics that lack the financial scope and scale, expertise and credit history to access credit markets on their own<sup>35</sup> with joint access to private capital markets (bank finance and bonds) and public sector funding at advantageous terms. It is a particularly interesting mechanism for local governments of intermediary cities whose individual investment needs do not reach the expected market level, and can only do so when pooled together. However, SPFMs are envisageable only for cities operating in a similar legal, regulatory and monetary context, and are therefore mostly for cities in the same country or region such as the Western African Economic and Monetary Union (WAEMU).



## BOX 12

In Africa, **Kenya** and **South Africa** have used Pooled Financing Mechanisms to secure finance through bank loans and bonds. In many developing countries, pooled funds use partial credit guarantees, such as the **USAID partial credit guarantees**, to attain market confidence. An example of this would be the K-Rep pooled fund in Kenya.

Despite some success in a small number of countries, the scaling up of SPFMs has not occurred due to specific limitations in national legal and financial frameworks and the lack of creditworthiness of most local governments.

It is important to note, however, that access to financing instruments varies across countries and contexts in Sub-Saharan Africa. Although engaging the private sector is crucial in closing the financing gap for subnational climate projects, in order to do so, local governments must prove their capacity (i.e. their skills) to design, prepare and operationalise projects in accordance with the standards employed by the private sector. This is necessary to enable them to become 'bankable.' In Sub-Saharan Africa, very few cities are considered creditworthy and are therefore unable to issue bonds or borrow capital. Weak regulatory and investment frameworks for local government lending adds a layer to this incapacity to access credit markets that ultimately limits or deters private sector investment.

### 4.3.2 Public-Private Partnerships

Aside from intergovernmental transfers and municipal revenue generation,<sup>36</sup> PPPs are one of the most appropriate financial mechanisms for local governments to mobilise finance in the short term. In Sub-Saharan Africa, total financing for infrastructure PPPs increased from US\$ 40 million in 1990 to US\$ 174,5 billion in 2017, with South Africa and Nigeria leading in the number and value of deals followed by Kenya, Uganda, Rwanda and Tanzania.<sup>37</sup>

In a PPP, the private sector provides infrastructure or services that have traditionally been delivered by the public sector.<sup>38</sup> PPPs experienced great popularity around the world at the beginning of the 1990s, but later on showed rather disappointing results due to unanticipated exchange-rate fluctuations in foreign currencies, institutional and rate reforms, regulatory requirements that impose subsidies on certain services, the inability of private operators to recover investments through user fees alone, a lack of flexibility and capacity from international private operators to adapt to local contexts in Africa, and the 2008 financial crisis. However, new models of PPPs are being explored and tested with an increasing interest from both cities and the private sector to expand the use of these mechanisms, particularly with regard to innovative solutions such as energy production, public lighting, waste management, etc.

According to the French Development Agency (AFD), a second-generation PPP model is emerging with new configurations that include different types of partners (particularly local businesses) and is based on the quality of the contracts and in the trusting, long-term relationships between residents, local officials and their private sector partners. Second-generation PPPs "appear especially suitable for Sub-Saharan Africa, where local governments often remain relatively weak; the private sector

little-developed and mostly informal; and the residents poor, badly represented and unheeded."<sup>39</sup> PPPs can significantly strengthen a municipality's ability to implement climate resilience projects as long as the risks are carefully considered. They are often managed by a dedicated PPP unit, within local governments, that ensures that the agreements adhere to local requirements or contexts and provides policy, legal and technical support for their design and implementation. To be fair and successful, PPPs in the Sub-Saharan African context need to be designed to address local climate needs, attract investors' interest and align with governmental capacity to design, tender and manage them.



### BOX 13

The **iShack Project** of the **Sustainability Institute Innovation Lab** of The Sustainability Institute (South Africa)<sup>40</sup> is a social enterprise developed in 2013 to provide off-grid solar energy to the residents of informal settlements in Stellenbosch (South Africa). Thus far, over 1 600 residents have been provided with solar home systems and training from the Sustainable Institute to install and maintain the service.

The project received initial investments from the Bill and Melinda Gates Foundation, and the national Green Fund. However, its business model relies on a PPP as since its implementation, its long-term running costs are largely covered by the end-users, coupled to subsidies from the Municipality of Stellenbosch, which provides a 'Free Basic Electricity' subsidy to the benefit of each participating household in the scheme.

For more information on the iShack model, refer to the case study publication: *"Financing Climate and Energy Action in African Cities"*, CoM SSA, 2019.

### 4.3.3 Land-value capture

Land-value capture or land-based financing is predicated upon the recognition that property owners and developers benefit from the rising value of land and are willing to pay for these gains. Local governments use a wide range of planning tools and instruments to capture the rising value of land and thereby collect revenue for urban investment. This requires direct investment from developers, or using the revenue stream to leverage the finance needed for larger investment projects.<sup>41</sup>



### BOX 14

In **Addis Ababa, Ethiopia**, all land is owned by the national government and managed by the Addis Ababa City Administration. Serviced land is leased to developers and public institutions through either direct allocation or auction.

Direct allocation refers to a procedure whereby land is transferred for the construction of buildings or infrastructure that is of public interest such as government office buildings, places of worship and community housing projects, among others. Through allocation, land is offered at a reduced price of between two and seven times lower than the prices offered at auction.<sup>42</sup> Through auctioning, land is offered for public bidding through criteria set out by the state. Less than 10 percent of serviced land in Addis Ababa is auctioned.<sup>43</sup>

Due to land-based financing mechanisms such as these, the ongoing scale of urban renewal in Addis Ababa has been unprecedented, with six percent of the city's total revenue arising from land leasing.<sup>44</sup> While this practise may reap benefits, certain negative externalities may also arise due to the limited amount of serviceable land and gaps in the city's technical and professional capacity to service it.

The case of Addis Ababa, however, is unique mainly because of land is owned by the state. Harare and Nairobi provide further examples of this type of financing in Sub-Saharan Africa. While applications of land-based financing in Sub-Saharan Africa refer mainly to general infrastructure, the potential to incorporate climate components is also huge.

Beyond the financing mechanisms mentioned above, cities and local governments can use a number of other strategies to attract additional financial resources. Some of these are listed below:

- **Crowdfunding** is based on individuals' efforts to support other people's initiatives or projects by investing small sums of money in them. Crowdfunding appeals use the Internet to showcase projects. They can take the form of donations, equity or debt
- **A participatory budget** is a tool that directly involves citizens in local budgeting decisions by allowing them to have a say on how local policies are shaped and resources are allocated. It has been observed that projects selected through participatory budgeting attract more capital since donors and investors are reassured of support from users
- **Revolving funds** use repayments on previous loans and new funds for their periodic replenishment



## BOX 15

### Local revolving funds

The municipality of Kasese, in Uganda, has developed a revolving fund called the 'Energy Access Fund'. This capital pool provides residents with affordable payment options to purchase improved cookstoves and solar PVs. Its success can be ascribed to the fact that it allows for bulk purchasing of Solar Home Systems (SHSs), which reduces unit costs, thereby partially subsidising each system. Residents repay their SHSs over time through micro-finance, which eliminates high up-front costs, and as systems are repaid, the fund is replenished, making it able to finance more SHSs and community-based organisations.

### Crowdfunding models in Sub-Saharan Africa

Although crowdfunding models are developing in Africa, they could be further used by African cities. Some For example, SunExchange, a private company based in South Africa, facilitates crowdfunding of solar PV installations. SunExchange offers investors the opportunity to purchase as little as a single solar PV cell, at a cost of about ZAR 80 (EUR 5). The solar energy is then sold to schools, companies or supermarkets to generate revenue. System ownership resides with the pool of investors, with each investor being repaid according to their share of solar cells. SunExchange takes a marginal fee for installation, maintenance and facilitating payments.

For more information on innovative models developed by cities in Sub-Saharan Africa, refer to the case study publication: *"Financing Climate and Energy Action in African Cities"*, CoM SSA, 2019.



## 4.4. CLIMATE FINANCE OPPORTUNITIES FOR SUB-SAHARAN CITIES AND LOCAL GOVERNMENTS

Several initiatives managed by various types of institutions around the world can also provide options and opportunities for cities and local governments in Sub-Saharan Africa to support the financing of their climate projects. For example, in 2017 the Cities Climate Finance Leadership Alliance (CCFLA) conducted a mapping study of climate finance initiatives by its 50 members and found that of the 90 initiatives listed, nearly one-fourth (22.2 percent) were dedicated to Sub-Saharan cities and local governments. However, the study does not delve deeper into the various requirements and eligibility criteria for cities to engage in this type of support.

The data gathered in the current mapping study will therefore be used to provide an overview and information on the key eligibility criteria (particularly those required by private investors) for Sub-Saharan cities and local governments to access financing support from various types of institutions and partners.

Broadly speaking, public sector institutions such as bilateral and multilateral agencies and development finance institutions examine the nature of the project and the most urgent needs of the recipient in order to allocate funding.



#### 4.4.1 The nature of the financed project

Cities and local governments should be able to demonstrate that the project/programme to be financed is of general benefit to its territory, stakeholders and above all its citizens based on their expressed needs and urgencies. They need to further demonstrate that it strongly contributes to the achievement of SDGs and if possible, to NDCs. Finally, they should be able to show a potential climate co-benefit either in respect of adaptation or mitigation measures. Most importantly, the project leader should express how financially sustainable the project is and how it will be financed.

In order to benefit from a grant, the applicant often needs to emphasise on at least one of two specific focuses:

- A local focus – the investment project must have a knock-on effect on local economic development and on mobilising local actors
- A national focus – the investment project must develop a national existing expertise, contribute to the development of the recipient country/city or contribute to the national influence in economic, ecological diplomacy or policy terms

While also a consideration for public sector institutions, these funding requirements are a major criteria for most private sector finance institutions, which tend to consider risk-return indicators more carefully.

#### 4.4.2 The requirements for external funding

In general, external funding does not usually exceed 30 percent of the overall project cost, although this number greatly depends on the type of financing (debt, equity, grants) and its sources. The average loan ranges from EUR 300 000 to a million and can reach 10 million per city. The project owner or local government must be able to provide background information on the project, outline its level of preparation, including its technical readiness and cost, and prove a multi-year financial repayment. The effect of high transaction costs that can drive up even a minimum project scale must be taken into consideration.

A number of funds can enlarge their funding criteria to:

- Small projects that are strongly focused on the fund's policy objectives or those that contribute to the development of a specific innovation
- Projects that present a higher risk profile compared to classic investment policies or projects that are implemented in a region that features a level of exposure to major shock (endogenous or exogenous)

With regards to private investors, cities should also be aware and able to distinguish between commercial and institutional investors, and their respective expectations. Commercial investors such as banks and private equity firms have shorter time repayment horizons and are willing to invest in projects that have already addressed early stage risks coupled with higher returns. Institutional investors have a lower risk-return profile and are attracted to projects with reliable long-term cash flows that match their long-term liabilities.<sup>45</sup> To attract this financing, cities and local governments should prioritise working with national governments, intermediary financial institutions and other stakeholders on early stage climate project preparation measures that lower the investment risk and ultimately enhance returns.



## 5. CONCLUSION AND KEY RECOMMENDATIONS FOR SUB-SAHARAN CITIES AND LOCAL GOVERNMENTS

Although finance options to implement SEACAPs and climate infrastructure in general are widely available, their conditions of engagement, eligibility and specific criteria limit the number of Sub-Saharan cities that are able to successfully engage them. Furthermore, few of the finance opportunities presented here are directly accessible to local governments, as most require the engagement of intermediary entities such as national or regional governments or financial institutions.

The difficulty that local governments face in securing access to finance is an indicator that needs to be taken heed of, particularly by national governments, as it illustrates the necessity of developing and/or reinforcing mechanisms to catalyse climate finance and channel it to cities. This would not only have significant climate impacts but also reduce poverty. At the country level, a conducive policy and regulatory environment for private sector engagement must be created to attract private sector investments, particularly in climate mitigation actions. Finally, national governments also need to support local governments through domestic financing such as national budget reallocations, the establishment of dedicated national climate funds and providing de-risking instruments such as insurance and guarantee financing for local projects, among others. In order to connect the missing link in the local climate finance value chain, national intermediary institutions such as Subnational Development Banks (SDBs) should be strengthened. Already present in Sub-Saharan Africa<sup>46</sup>, these are designed to address all local governments' specific needs and seize domestic opportunities for local investment structuring and financial landscape transformation for the implementation of the Paris Agreement.

Development partners and the international community also have a role to play in pursuing additional technical assistance programmes that focus on improving local governments' capacity for project design, preparation and implementation and in planning and operationalising climate action, managing infrastructure and providing services, and conducting capital investment planning.

Through the support of national governments, development partners and the international community, Sub-Saharan African local governments will increase their access to available finance options, although they need to consistently work with partners across all sectors, particularly in the areas of: **project preparation, local policy planning and design, and use of innovative climate finance approaches.**

- Project preparation and capacity building support for cities is widely available and local governments need to work hand in hand with technical assistance providers to ensure that their efforts in this regard are sustainable. Project preparation not only serves as a key enabler in the delivery process of a pipeline of projects but also for aggregating cooperation efforts and commitments from a wide range of stakeholders. The capacitation of local governments is highly dependant on the tenure of their technical and financial officers. In many cases, local technical and financial officers are co-terminus with the incumbent city mayor and their tenure is therefore subject to electoral cycles and political administrations. Local officers who have received project preparation and capacity building training do not stay for longer periods in their positions, while the transition between and turn-over of officers is often not effective, nor is it efficient. Local governments must therefore establish systems and processes that ensure that project preparation skills are appropriately shared and transferred to relevant human resources across time. Only then will they be able to develop the capacity to comply with the requirements, standards and procedures of funding sources, develop 'bankable' projects and successfully absorb the necessary finance support.
- Local governments also have to operationalise actions related to national commitments and those that are signatories to CoM SSA must action their commitments to the Global Covenant of Mayors by systematically incorporating climate change issues into their policies and regulations, and in their planning and design activities. Similarly, they have to account for the costs of planning for climate action and building climate infrastructure into their budgets. Beyond their reliance on foreign aid and grants, this will of course entail a blend of municipal funding sources such as local revenues, intergovernmental transfers, risk-sharing agreements, dedicated adaptation funds, and over time, access to domestic debt capital markets through the issuance of municipal, infrastructure or green bonds, for example.
- Relying on sound policy and regulatory frameworks set by national governments, Sub-Saharan African local governments, particularly in more advanced economies, should also begin to look into market-based approaches and expand their use of innovative climate finance tools and mechanisms to raise capital, especially for climate mitigation actions, with an effective track record of deals, by harnessing the potential of the private sector to deliver climate investments. Several of these innovative financing mechanisms such as SPFMs, green bonds, land-based financing, crowdfunding and participatory budgeting, among others, are already being used.

In all these efforts, Sub-Saharan local governments can also learn from other local governments in the region by connecting with city associations and networks, peer-to-peer learning or city-to-city cooperation arrangements.

Ultimately, any local government with good governance practises, sound planning systems and adequate revenue will always have more success in their climate change adaptation and mitigation actions, than a city with poor leadership, planning and resources. It follows that beyond any climate resilience objective, the goal of adaptation and mitigation initiatives should always be to improve the overall functioning of a city.<sup>47</sup>



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# ANNEXURES

## Annex 1 – Mapping methodology

### 1. Development of the matrix

The development of the matrix was initially undertaken through desk reviews on existing mapping studies previously developed by FMDV – Global Fund for Cities Development. These are:

- "Localizing Climate Finance, Mapping Gaps and Opportunities, Designing Solutions" (November, 2017)
- "Mapping Finance for Community Land Trusts in the North West European Region" (October, 2018)
- "National-Subnational Climate Finance: Country Profiling – Kingdom of Morocco & Hashemite, Kingdom of Jordan" (December, 2018)
- "Mapping of Climate Finance Actors and Flows in Morocco and Integration in the Subnational Level" – internal report (April, 2019)

The NDC's Climate Finance Explorer public database was also consulted in the development of the matrix.

### 2. Development of the questionnaire

A brief questionnaire (Annex 1) was prepared to collect information from relevant partners and stakeholders. The questionnaire observes a similar structure and frame to the matrix and is divided into the following four key sections:

- Basic information on the financial tool and instrument, and the managing institution
- Access modality to financing tools and instruments, and eligibility criteria for local governments
- Relevance to the three CoM SSA pillars
- Key contacts and other useful information

The questionnaire was circulated on 6 August 2019 to key partners and institutions identified by the Council of European Municipalities and Regions (CEMR), ICLEI and Global Fund for Cities Development (FMDV). Respondents were given three weeks to submit their answers.

Of the 16 institutions (in some instances, several teams were contacted within the same institution or several institutions within the same financial initiative) that were contacted, 12 team representatives responded. The completed questionnaires were submitted by the following types of organisations:

- 6 multilateral development banks
- 1 NGO/Foundation/Research organisation
- 4 UN agencies
- 1 financing mechanism
- 1 local and regional government association

The full list of partners and institutions that responded can be found in Annex 2.

### 3. Phone interviews

Phone interviews were conducted to complement the responses from the questionnaires and the desk research. These were as follows:

- UNCDF, LoCAL – Sophie de Coninck, LoCAL Global manager
- European Commission, the External Investment Plan (EIP), European Fund for Sustainable Development (EFSD) – Marc Tissot Favre, EIP EFSD Secretariat
- The African Development Bank Partial Risk Guarantees – Mbaye Gueye, Financial Technical Services Division

Questions specific to these interviews are detailed in Annex 3.

#### 4. Scope of the mapping study

Given the rationale of this exercise, the mapping has the following three main inherent criteria set in order to clearly define the tools and instruments to be included:

- The mapping only considers current and available funding opportunities and financing instruments directly accessible to local governments. It does not include those that already have reached expiration, nor does it cover those that are yet to be launched publicly
- Funding opportunities and financing instruments offered by external partners that target the local level and are directly available and accessible to Sub-Saharan African cities and local governments. Although these instruments are the main highlights of the mapping, those that are likewise available to cities through an intermediary (such as a national or regional government, or a financial institution) are also listed
- The funding opportunities and financing instruments included in the mapping study are all aligned with CoM SSA's pillars. They have a strong climate change adaptation and/or mitigation component, and consider access to clean, safe and affordable energy<sup>48</sup>. Although not necessarily targeted to the financing of SEACAPs, the tools and instruments included in the mapping are targeted towards the financing of low carbon, climate-resilient urban infrastructure.

The initiatives that were initially identified by CEMR that did not meet the criteria are listed in Annex 4.

## Annex 2 – Questionnaire on existing funding opportunities and available financing instruments for Sub-Saharan African cities and local governments to develop and implement Sustainable Energy Access and Climate Action Plans (SEACAPs)

### I. Basic instrument on the financial tool and instrument, and the managing institution

1. Name of the instrument
2. Name of the leading institution
3. Type of lead or managing institution
  - a. Multilateral and Development Bank
  - b. NGO/Foundation/Research
  - c. Private Investor/Insurance
  - d. UN Agency
  - e. Government Entity
  - f. Commercial Bank
  - g. Other
4. If applicable, other key partners or implementing institutions involved in the financial tool or instrument.
5. When was the financial tool or instrument launched by your institution?  
Specify termination date if applicable.
6. Main objectives of the financial tool or instrument
7. Type of financial tool(s) or instrument(s)
  - a. Grant (technical assistance, project development and implementation, loan-softening programmes)
  - b. Loan (concessional, microcredit, interest-free, direct, market rate, corporate)
  - c. Guarantee and Insurance
  - d. Bonds (green, social impact)
  - e. Equity (direct equity investments, private equity funds, venture capital funds)
  - f. Long-term debt
  - g. Donations
  - h. Other
8. What is the financial tool or instrument's size (total capitalisation or maximum financing amount per city)?

## **II. Accessibility to cities**

9. What are the eligibility criteria (for example, in terms of city size, city creditworthiness, availability of guarantees, required co-financing etc.) for cities to have access to the financial tool or instrument?
10. If applicable, does the tool or instrument have a regional scope or geographic focus?
  - a. Western Africa
  - b. Eastern Africa
  - c. Central Africa
  - d. Southern Africa
  - e. Country specific, please specify.
  - f. Other
11. Briefly describe the application process, and how the financial tool or instrument operates.

## **III. Relevance to CoM SSA Pillars**

12. Which sectors does the financing tool or instrument cover?
  - a. Energy
  - b. Water & sanitation
  - c. Waste
  - d. Transportation
  - e. Housing
  - f. Agriculture
  - g. Rural
  - h. Forestry & REDD+
  - i. Industry/Industrial processes
  - j. Land use
  - k. Coastal Resources/Oceans
  - l. Ecosystem Adaptation
  - m. Other
13. What is the tool or instrument's climate objective(s)?
  - a. Climate change adaptation
  - b. Climate change mitigation
  - c. Both

## **IV. Other useful information**

14. If applicable, please provide key examples of local projects financed or funded by the tool or instrument.
15. Please provide the relevant contact(s) and any information (website, relevant documents, etc.) you deem useful for cities and local governments.



## Annex 3 – Full list of responding partners and institutions

Name of Initiative	Managing or Lead Institution	Key Respondent	Designation
Local Climate Adaptive Living Facility	UNCDF	Sophie de Coninck	LoCAL Director
International Municipal Investment Fund	UCLG	Serge Allou	Technical Adviser
External Investment Plan and European Fund for Sustainable Development (EIP)	European Commission	Neven Mimica	Commissioner for International Cooperation and Development
Cities and Climate Change in Sub-Saharan Africa Initiative (CICLIA)	AFD and EU	Audrey Chenevoy	Project officer
Transformative Actions Program (TAP)	ICLEI	Maryke van Staden	Director of the Bonn Center for Local Climate Action and Reporting (CarBonn Center) and Manager of ICLEI's Low Carbon City Agenda
Global Environment Facility	The World Bank	–	–
The Small Grants Programme	The Global Environmental Facility (GEF) and UN Development Program (UNDP)	–	–
Technical Cooperation	UN Habitat	Marco Kamiya	Head of Urban Economy and Finance Branch
Clean Ocean Initiative	AFD, EIB, KfW	Klaus Gühr	Head of Division
Loans	EIB	–	–
Loans	AFD	–	–
Loan, Guarantee, Syndication, Risk Management Products	African Development Bank	–	–

## Annex 4 – Telephone interview frame questionnaire

1. Verify if any answer/information from the mapping needs precision/clarification
2. According to you, what are the main assets of the fund/initiative?
3. What are the main difficulties encountered?
4. What is the level of engagement/disbursement so far (in terms of percentage of the total budget and in term of project supported in Sub-Saharan Africa)?
5. As of today, what are the current perspectives for the fund/initiative (new call for proposals, deadlines, evolution, new programmes)?
6. Do you have anything to add, especially with Sub-Saharan cities in mind?

## Annex 5 – Excluded initiatives

Name of Initiative	Managing or Lead Institution	Reason for Exclusion
The Neighborhood Investment Platform (NIP)	European Commission	Does not cover Sub-Saharan Africa
Maximizing Finance for Development (MFD)	The World Bank	Not a financing mechanism or fund
The Africa Climate Business Plan	The World Bank	Delivery of projects is completed through financial flows directly handled by the bank (i.e. IDA, IBRD, and some trust funds (GEF, GFDRR, carbon finance)
The Climate Investment Funds	The World Bank	Not dedicated to cities
The Debt Reduction-Development Contract (C2D)	French Development Agency (AFD)	Tool used to restructure the debt of certain countries, not cities
AGREENFI	French Development Agency (AFD)	Rural and agricultural sectors only
Municipal & Environmental Infrastructure Sector Policy	European Bank for Reconstruction and Development (EBRD)	Does not cover Sub-Saharan Africa

## Annex 6 – Financing options directly available and accessible to Sub-Saharan local governments

- AFD loans
- EIB loans
- CICLIA (AFD)
- Peace and Resilience Fund (MINKA, AFD)
- The C40 Cities Finance Facility (CFF)
- The International Municipal Investment Fund – IMIF
- The Urban and Municipal Development Fund (UMDF)
- Transformative Action Program
- The Clean Ocean Initiative

## **Annex 7 – Financing options dedicated to local governments that can only be accessed through intermediary entities (i.e. national governments and financial institutions)**

- The Global Energy Efficiency and Renewable Energy Fund (GEEREF)
- The Adaptation Fund
- Global Environment Facility
- The Small Grants Program
- African Development Bank's Loan, Guarantee, Syndication, Risk Management Products
- Technical Cooperation
- The Africa Climate Change Fund (ACCF)
- The French Facility for Global Environment (FFEM)
- ARIZ (Support for the Risk of Financing Private Investment in AFD's Areas of Operation)
- FP – various programmes led under GCF
- The Readiness Programme
- The Climate Finance Facility
- Islamic Development Bank
- Project Preparation Facilities Network (PPFN)
- The European Fund for Sustainable Development (EFSD) – (part of The EU External Investment Plan, EIP)
- The Africa Investment Platform (AIP) – (part of The EU External Investment Plan, EIP)
- The Fund for Technical Expertise and Experience Transfers (FEXTE)
- Private Sector Study and Assistance Fund (FASEP)
- Financing Facility of French Local Authorities (FICOL)
- Local Climate Adaptive Living Facility (LoCAL)
- The Municipal Investment Finance (MIF) Programme

## **Annex 8 – List of initiatives listed with information gathered from desk reviews**

- The Africa Investment Platform (AIP) (part of The EU External Investment Plan, EIP)
- The Fund for Technical Expertise and Experience Transfers (FEXTE)
- Private Sector Study and Assistance Fund (FASEP)
- Financing Facility of French Local Authorities (FICOL)
- Peace and Resilience Fund (MINKA)
- The C40 Cities Finance Facility (CFF)
- The Municipal Investment Finance (MIF) Programme
- The Global Energy Efficiency and Renewable Energy Fund (GEEREF)
- The Adaptation Fund
- The Africa Climate Change Fund (ACCF)
- The French Facility for Global Environment (FFEM)
- ARIZ (Support for the Risk of Financing Private Investment in AFD's Areas of Operation)
- FP – various programmes led under GCF
- The Readiness Programme
- The Climate Finance Facility
- Islamic Development Bank
- The Gap Fund
- Project Preparation Facilities Network (PPFN)



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48. Many of the finance options available to cities are not yet specific to address climate resilience, this is particularly true in Sub-Saharan Africa.





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