



The Southern Africa
Climate Finance Partnership

DESIGNING CLIMATE FINANCE SOLUTIONS IN A SHIFTING INVESTMENT LANDSCAPE

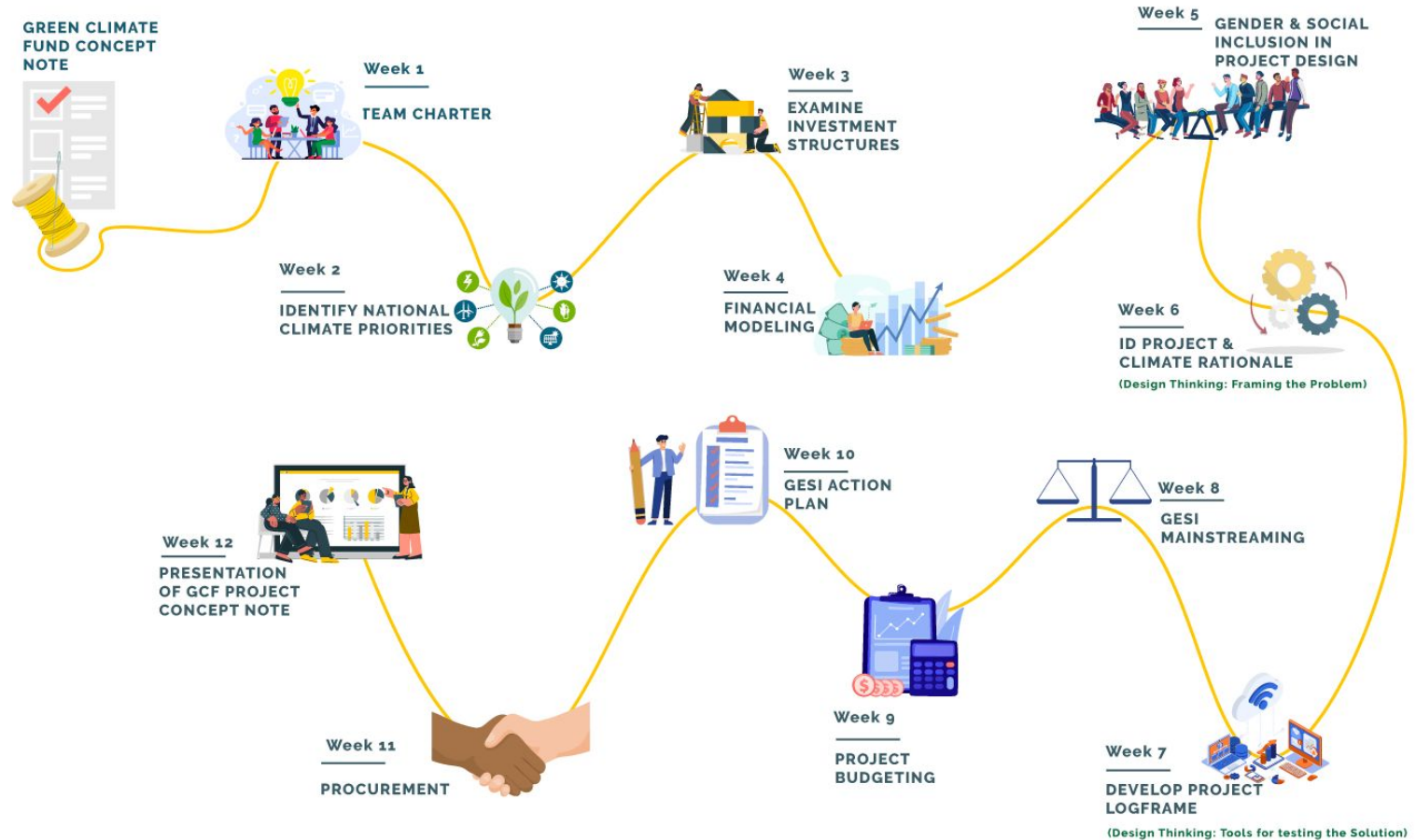
A toolbox for innovative practitioners

Learning outcomes

- Learning Theme 3 is practitioner's considerations for conceptualising a GCF project.
- Under this theme there are a number of interlinked learning outcomes, these include:
 - ***Summarise and differentiate the broad range of GCF policies and procedures*** (including the GCF Investment Criteria and Integrated Results Management Framework) that influence the type of projects/programmes that your organisation could pursue.
 - ***Outline the available financial instruments for a GCF project/programme and be able to contextualise this knowledge within the design of a GCF Concept Note.***
 - ***Demonstrate practical and applied knowledge and understanding of the GCF Project cycle***, including the distinction between, and requirements for different GCF fundings windows, and between concept notes and full project proposals.
 - ***Conceive of, and lead, discussions within your organisation regarding your institution's investment pipeline and develop a GCF Concept Note describing one of the forerunner ideas within this pipeline.***

In this week's lecture and coaching session we will look to focus *primarily* on those outcomes highlighted in **green** but will touch on others in some instances.

GROUP ASSIGNMENT: GOLDEN THREAD

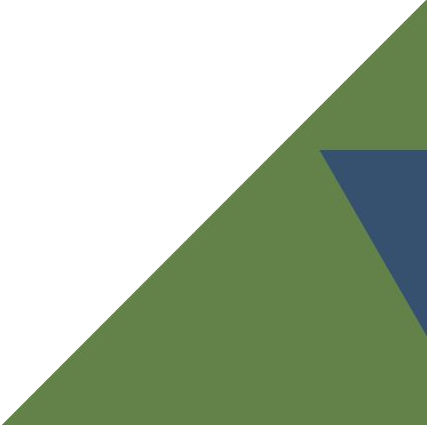


Session summary

Relevancy to concept note design

1. Recalling previous sessions
2. Budgeting within the GCF Concept Note

Investment management in relation to GCF

- Practical tips to structuring concept note budgets & how this differs from the process of a full proposal budget
 - Project vs. programme
 - Financial risk management
 - Alignment of a portfolio of GCF project(s) against organisational profile
 - Operational considerations when considering GCF co-financing for a climate related project (including reporting and disclosure)
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Key guidance & reference resources

TABLE 5. POLICIES RELATING TO THE TERMS AND CONDITIONS OF GCF FINANCIAL INSTRUMENTS

POLICY	KEY PRINCIPLES AND TOOLS FOR CONSIDERATION OF TERMS AND CONDITIONS
Terms and conditions of financial instruments	- Principles and factors for determining the terms and conditions of grants and concessional loans (decision B.05/07) - Guidelines for the financial terms and conditions for public and private sector projects (decision B.09/04) - Use of financial terms and conditions (decision B.17/08)
Investment framework	- Investment criteria indicators (annex VII to decision B.22/15) - Indicative assessment factors for the GCF investment criteria (decision B.09/05)
Risk management framework	- Risk guidelines for funding proposals - Foreign exchange risk - Use of grant equivalent calculator

Source: [GCF Programming Manual](#)

TABLE 6. HOW TO ESTABLISH THE APPROPRIATE LEVEL OF CONCESSIONALITY

	WHAT TO CONSIDER	HOW TO DETERMINE THE LEVEL OF CONCESSIONALITY	POLICY GUIDE
CHOICE OF FINANCIAL INSTRUMENT	- Grant - Reimbursable grant - Loan - Guarantee - Equity	- Financial analysis - Economic analysis - Strategic context	- Investment criteria indicators (decision B.22/15, annex VII) - Indicative assessment factors for GCF Investment criteria (decision B.09/05)
ESTABLISHMENT OF CONDITIONS	- Interest rate - Tenor - Grace period - Local currency - Others, including disbursement-related conditions and covenants	- Qualitative and quantitative analysis - Market overview - Technical, risk or financial assessment	- Principles and factors to determine terms and conditions (decision B.05/07) - Guidelines for public and private sector projects (decision B.09/04) - Use of financial terms and conditions (decision B.17/08)

Source: [GCF Programming Manual](#)



Section C: Concept Note

C. Indicative Financing/Cost Information (max. 3 pages)						
C.1. Financing by components (max ½ page)						
Please provide an estimate of the total cost per component/output and disaggregate by source of financing.						
Component/Output	Indicative cost (USD)	GCF financing		Co-financing		
		Amount (USD)	Financial Instrument	Amount (USD)	Financial Instrument	Name of Institutions
Indicative total cost (USD)						

Proposed financial structure (funding amount, financial instrument, tenor and term) is **adequate and reasonable** in order to achieve the proposal's objectives, including addressing existing bottlenecks and/or barriers.



For private sector proposal, provide an overview (diagram) of the proposed financing structure.
C.2. Justification of GCF funding request (max. 1 page) Explain why the Project/ Programme requires GCF funding, i.e. explaining why this is not financed by the public and/ or private sector(s) of the country. Describe alternative funding options for the same activities being proposed in the Concept Note, including an analysis of the barriers for the potential beneficiaries to access to finance and the constraints of public and private sources of funding. Justify the rationale and level of concessionality of the GCF financial instrument(s) as well as how this will be passed on to the end-users and beneficiaries. Justify why this is the minimum required to make the investment viable and most efficient considering the incremental cost or risk premium of the Project/ Programme (refer to Decisions B.12/17; B.10/03; and B.09/04 for more details). The justification for grants and reimbursable grants is mandatory. In the case of private sector proposal, concessional terms should be minimized and justified as per the Guiding principles applicable to the private sector operations (Decision B.05/07).
C.3. Sustainability and replicability of the project (exit strategy) (max. 1 page) Please explain how the project/programme sustainability will be ensured in the long run and how this will be monitored, after the project/programme is implemented with support from the GCF and other sources. For non-grant instruments, explain how the capital invested will be repaid and over what duration of time.

C. Indicative Financing/Cost Information

C1. Financing by Components

- The 'Indicative total cost' should be the sum of 'GCF financing' amount and the 'Co-financing' amount.
- On the 'GCF financing', provide a breakdown by component and financial instrument. For each financing instrument, specify the amount. If you select 'senior loans' and/or 'subordinated loans', specify tenor in years and pricing in percentage.
- On the 'Co-financing' section, specify financial instrument; provide amount and indicate currency; list the name of institutions that provide support for the proposed project/programme.

C.2 Justification for Funding request

- Strong **economic and financial** justification for the grant elements and concessionality level that GCF provides
- Grant elements tailored to incremental cost or the risk premium required to make the investment viable
 - The grant element of concessional finance tailored to provide the appropriate incentive
- The subsidy element provided through grants and/or concessional lending will be the **minimum amount necessary** to make the project or programme viable and help achieve the GCF's paradigm shift objective.
- Level of concessionality, will not displace investments, including for private sector investment and avoid crowding out commercial financing.
- The expertise and capacity of financial intermediaries and implementing entities in implementing similar projects successfully.

C.2 Justification for Funding request

- Structure terms on a case-by-case basis to address specific barriers.
- Levels of indebtedness capacity of the recipient should be taken into account so as not to encourage excessive indebtedness.
- Leveraging of other financing, seeking to maximize potential leverage in the case of private financing.

Example: Building the climate resilience of grain farming in northern Kazakhstan

With regards to alternative private sources of capital, agriculture only represents a fraction of the total loan book of the banking system in Kazakhstan (just over 5% in 2016.)

And, commercial banks only lend to the large farms and, even if available, their terms would be prohibitive for SME farms (17-21% interest rates.)

GCF grants for technical assistance, which represent just 18% of the total project budget, are necessary to enable the design and disbursement of these low-concessionality loans , as well as other capacity building, awareness and governance activities that are crucial to the overall success of the GCF project and its ability to address climate change additionality affectively

C3. Sustainability & Replicability

- Monitoring of the project to ensure sustainability requirements are met
 - E.g. how will project/programme will be implemented/continued after full disbursement of grant
 - For non-grant instruments, explain how the capital invested will be repaid and over what duration of time. The monitoring procedures should comply with GCF requirements.

Example: DBSA-SADC Hydrological Cycle Observation System (SADC-HYCOS IV Project)

“SADC and its member states are committed to ensuring the success and sustainability of the proposed project. Specifically, member states will co-finance the project by taking responsibility for the civil works of monitoring stations, as well as the operation and maintenance of equipment...”

*..The involvement of the SADC secretariat.....will ensure the **efficiency of project funding provided by the GCF. Additional co-financing options** for the project will be explored during the funding proposal development phase. This will include engaging with: i) private sector entities that have an interest in using hydrological information products or supporting EWS; and ii) SADC's International Cooperating Partners.*

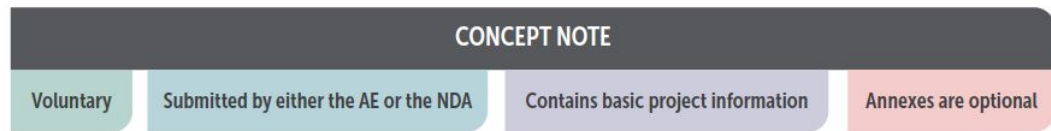
Investment management in relation to the GCF

FIGURE 4. GCF PROGRAMMING FRAMEWORKS



Relevancy to the GCF Concept Note

FIGURE 9. DEVELOPMENT AND SUBMISSION OF CONCEPT NOTES



Abbreviations: AE = accredited entity, NDA = national designated authority

FIGURE 10. DEVELOPMENT AND SUBMISSION OF FUNDING PROPOSALS



Abbreviations: AE = accredited entity, ESS = environmental and social safeguards

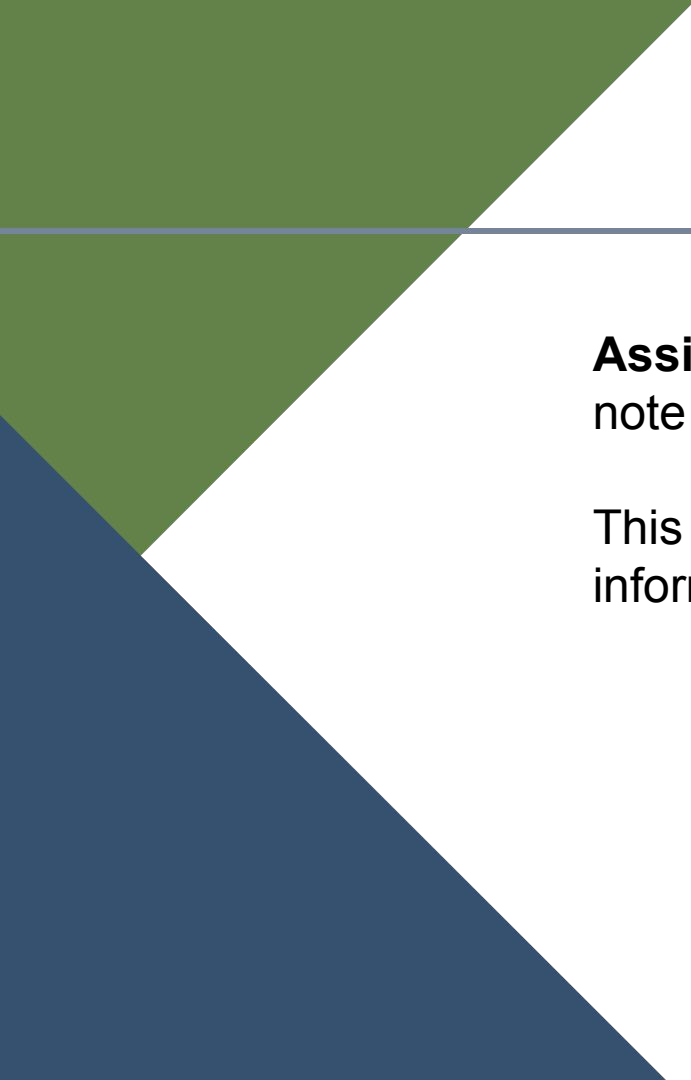
Guest lecture

Dr. Muhammed Sayed



Dr. Muhammed Sayed is a Specialist in the Climate Finance Unit at the DBSA. Muhammed's role is to provide strategic advice to the bank regarding access to various climate financing mechanisms (e.g. GCF etc.) which includes conceptualization and development of proposals responsive to the priorities of the DBSA such as the establishment of a Climate Finance Facility. He provides advisory services to all the Bank's sectors regarding Climate Change matters and maintains continuous dialogues with relevant external climate change partners on behalf of the bank.

Before joining the Climate Finance Unit , he was a Principal Investment Officer for the National Green Fund in South Africa which was managed by the DBSA. Muhammed has extensive experience in Venture Capital and assisted numerous high growth SMMEs and innovators across diverse sectors including Advanced Manufacturing, ICT, Energy and Biotechnology. He holds a PhD in Biochemistry from the University of Cambridge and a MBA from the Gordon Institute of Business Science.



Group exercise

Assignment: Complete Sections C of the GCF Concept note for your particular project idea and submit as a group.

This section covers indicative financing and cost information.

Additional reading

- GCF Programming Manual
 - <https://www.greenclimate.fund/document/programming-manual>
- GCF Handbook of Decisions, Policies and Frameworks
 - <https://www.greenclimate.fund/document/gcf-handbook>
- GCF Concept Note User Guide
 - <https://www.greenclimate.fund/sites/default/files/document/gcf-concept-note-user-s-guide.pdf>
- Useful video series on the the Cost-Benefit Analysis approach (series of 15 videos from the Conservation Strategy Fund)
 - <https://www.youtube.com/playlist?list=PLBfu1mD9hk67Vrm0SPK-fmQgmzWQ2zvNA>



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Canada

THIS PRESENTATION IS AN OUTPUT OF THE SOUTHERN AFRICA CLIMATE FINANCE PARTNERSHIP (SACFP). THE SACFP LOOKS TO SUPPORT THE DEVELOPMENT OF A REGIONAL PARTNERSHIP PROGRAMME TO IMPROVE COUNTRY-OWNED CLIMATE FINANCE PORTFOLIOS. THE INTERNATIONAL DEVELOPMENT RESEARCH CENTRE (IDRC) PROVIDES FINANCIAL SUPPORT FOR THE CURRENT PHASE OF THE SACFP.

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