Module 5.4: Categorising actions to access external finance
CoM SSA
SEACAP Toolbox

What you will learn in this module:

• Grouping SEACAP actions into different climate project categories
• Pooling SEACAP actions for greater project size and impact
• Different funding models commonly used for climate projects
• Different actors involved in climate finance landscape
• Proactive steps local governments can take to overcome barriers to project development and implementation and start engaging with relevant actors

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What is climate finance?

“Climate finance refers to local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change. The Convention, the Kyoto Protocol and the Paris Agreement call for financial assistance from Parties with more financial resources to those that are less endowed and more vulnerable. This recognizes that the contribution of countries to climate change and their capacity to prevent it and cope with its consequences vary enormously. Climate finance is needed for mitigation, because large-scale investments are required to significantly reduce emissions. Climate finance is equally important for adaptation, as significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate.”
Grouping SEACAP actions into different climate project categories

- If individual actions cannot be integrated into existing plans, they are unlikely to be funded on their own because of upfront costs.

- The results of the project or action must make these costs worthwhile for whoever funds them.

- For actions that require external technical assistance and finance and involve external actors, what next steps can you take towards implementation?
Grouping SEACAP actions

One of the next steps is to group actions in the SEACAP not embedded into municipal plans into different climate project categories, like the following:

- Wastewater treatment and reuse
- Improved and clean cooking stoves
- Flood risk management
- Integrated waste management
- Solar mini grids
- Integrated waste management
- Public street lighting efficiencies and expansion
- Waste-to-energy
- Solar projects
- Building efficiencies
- Tree planting and reforestation

Do two or more of your actions under different SEACAP pillars fall under the same climate project category?

e.g. Sequestering carbon through tree planting (mitigation) and reforestation to reduce erosion associated with flooding (adaptation) could both fall under ‘Tree planting and reforestation’
Pooling SEACAP actions for greater project size and impact

Another step would be to identify whether different actions could be pooled together into one project for greater size and impact.

Example:

The following action: ‘Construct a new wastewater treatment and reuse facility with a total treatment capacity of 20,000m³/day potable water and 10,000m³/day non-potable water’ will reduce energy consumption and GHG emissions through energy and nutrient recovery processes.

This action could then be paired with another action such as: ‘Introduce climate-resilient irrigation structures on 50 farms’ where the non-potable water can be used for irrigation.

In this way, the two paired actions can result in a larger climate project more likely to attract finance.
Different funding models commonly used for climate projects

- The type of action/climate project will determine what pathway the project takes to get funded.
- It is important to understand the potential of each project to generate revenue/be self-financing (i.e. cost recovery) to predict what pathway a project will take.
**Different funding models commonly used for climate projects**

<table>
<thead>
<tr>
<th>Funding model</th>
<th>Description</th>
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<tbody>
<tr>
<td>Public sector</td>
<td>Where the local government (LG) uses its own funds, (or those of an LG-owned utility), raises debt itself, or is able to mobilise funds from the national government or development partners.</td>
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<tr>
<td>Private sector</td>
<td>Where private sector entities contract debt (commercial and concessional debt) themselves, and therefore take on the project risk themselves.</td>
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<tr>
<td>Public-private partnership</td>
<td>This is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.</td>
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<tr>
<td>Pooled approaches</td>
<td>This includes pooling together projects for higher impact and ticket size, as well as pooled development funding, pooled financing facilities and pooled procurement.</td>
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<tr>
<td>Contract option</td>
<td>This is where contracts are needed to develop and operate climate projects, leveraging private sector expertise and capital through, e.g. service-level agreements or engineering procurement construction contracts.</td>
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<tr>
<td>Other public sector support</td>
<td>In some cases, the LG and the private sector investors can mobilise grant funding from national and international programmes. National programmes provide the greatest level of public funding support to climate projects. Additional finance from national and international climate funds (e.g. the GCF, GEF, AF) can sometimes be accessed by projects.</td>
</tr>
</tbody>
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*Source: GIZ Covenant of Mayors in Sub-Saharan Africa (CoM SSA) Finance Roadmaps for Climate Projects (2020)*
Different stakeholders involved in climate finance landscape

- The type of action/climate project will also determine what stakeholders need to be involved (e.g. private sector, national government, multilateral funds, etc.)

- Identify co-benefits, such as gender empowerment, that may unlock particular national or international funding.

Refer back to your stakeholder maps and detailing of roles and responsibilities
Different stakeholders involved in the climate finance landscape

Local level
- Local government
- Local community organisations
- Local businesses
- Households

National level
- National government

International level
- International climate funds and development partners

Both national and international level
- Project developers
- Providers of services/equipment
- Commercial banks and impact investors
- Technical experts
Barriers faced by local governments

• Local governments (LGs) usually face a number of common barriers to project development and implementation
Barriers faced by local governments

- Lack of funds for project identification and development
- Lack of funds for project operation and maintenance
- Lack of technical expertise for project development
- Lack the mandates to undertake projects and serve as “project owner”
- Need to ensure the success of projects, but in many cases have limited control

Project development and implementation
Proactive steps local governments can take to overcome different barriers

- There are proactive steps local government can take to overcome each of these barriers
Proactive steps LGs can take to overcome different barriers

**Barrier 1: Lack of funds for project identification and development**

**Proactive steps: Identify possible financing models and sources of funding from across the public and private sectors**

- Identify initial amounts of funding from LG budget that could be used to assess options (e.g., future budget savings, potential direct and indirect LG income, developmental benefits)
- Identify possible support (technical, funding) from existing national budgets and programmes, international climate funds
- Assess the potential for project to generate income streams
- Identify potential private sector actors that could provide expertise, development and operational support, finance

Project development and implementation
Proactive steps LGs can take to overcome different barriers

**Proactive steps:** Identify sources of finance to operate and maintain climate projects (e.g., costs of staff, operations, finance, etc.)

**Barrier 2: Lack of funds for project operation and maintenance**

- Identify possible direct income from user fees and indirect funds from related activities
- Identify the level of potential support from local and national government
- Identify potential private sector funding sources

Project development and implementation
Proactive steps LGs can take to overcome different barriers

Barrier 3: Lack of technical expertise for project development

**Proactive steps:** Train finance and technical staff and engage external specialised experts

- Engage national and international technical assistance and funding programmes (provide capacity building support and experts, fund technical studies)
- Engage private sector developers to provide experts and fund technical studies

Project development and implementation
Proactive steps LGs can take to overcome different barriers

Barrier 4: Lack the mandates to undertake projects and serve as “project owner”

- National Government programmes and agencies
- Private Sector Companies
- Local Community Organisations and NGOs
- International Climate Funds

Project development and implementation

Proactive steps: Facilitate other actors (alone or in a coalition) to undertake the implementation of the climate project
Proactive steps LGs can take to overcome different barriers

**Proactive steps LGs can take to overcome different barriers**

**Barrier 5: Need to ensure the success of projects, but in many cases have limited control**

- **Proactive steps:**
  Maximise the proactive leadership role of the LG as a “Project Champion” across the project development cycle and operation. Possible actions include
  
- Assist in securing the specialised technical experts needed for project identification
- Provide or arrange for land needed for site of climate project (if any)
- Secure support of local communities, project developers, investors, providers of technical support, finance, equipment, services, etc.
- Secure needed approvals from national government agencies and programmes
- Implement local regulations and actions required for financial sustainability (such as collection of fees, achieve committed budget support from LG and national government, conduct effective community outreach meetings...)
- Facilitate meetings and approvals between all stakeholders
CoM SSA SEACAP Toolbox

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Please note:
This module has been designed for local government officials and partners who are developing their SEACAP.

This module is one component of the SEACAP Toolbox. For the full Toolbox, please visit: https://comssa.org/
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Contact: helpdesk@comssa.org