UNCDF

Unlocking Public and Private Finance for the Poor

JANUARY 2022

The UNCDF Climate Presentation

Overview

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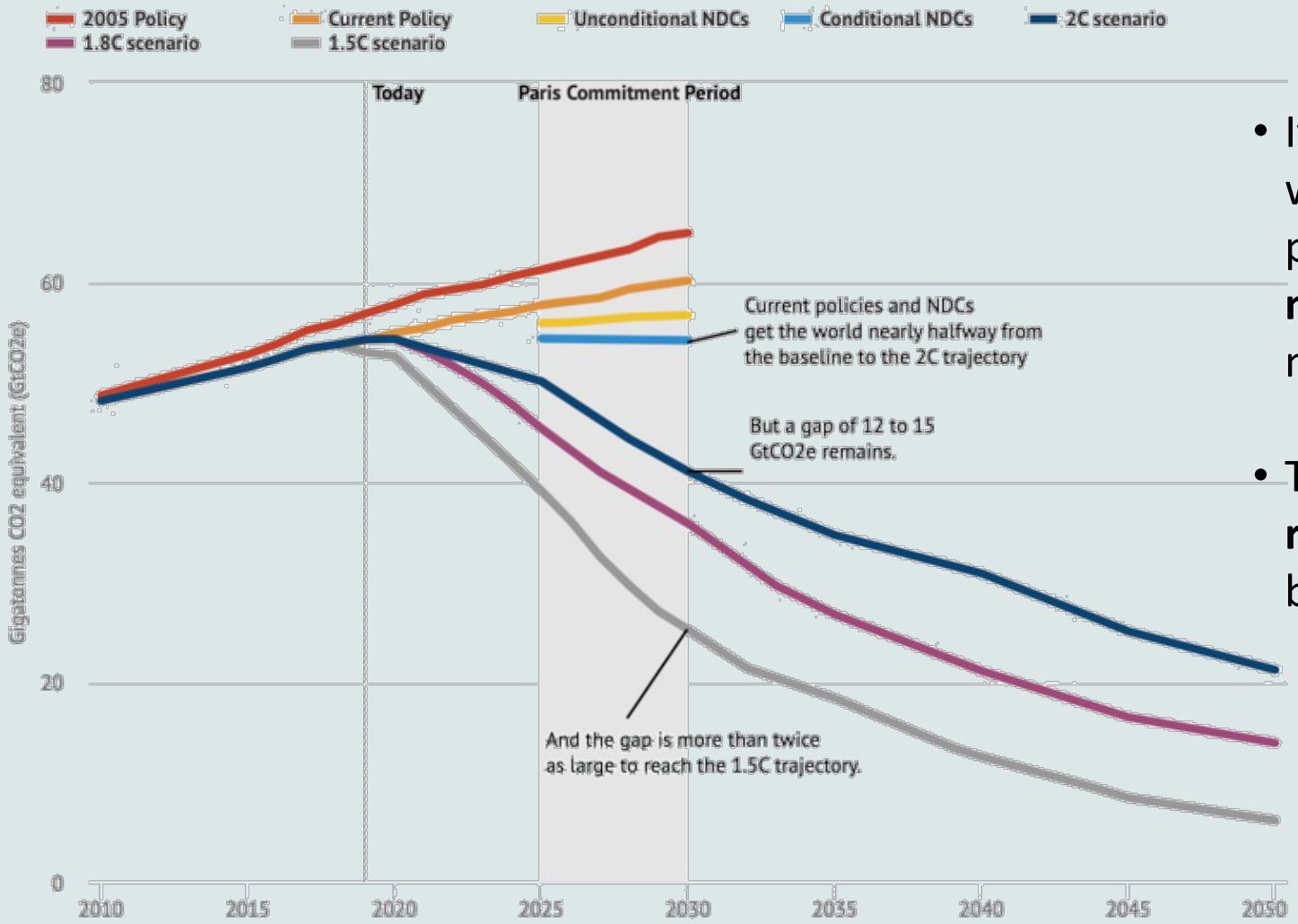
- UNCDF has been working on adaptation and mitigation over several years
  - With LoCAL having grown to be a $125M program
  - CleanStart having made a significant dent in the supply chains on clean energy

- UNCDF's new strategic framework identifies Climate, Energy and Biodiversity as a new emerging area where we aim to focus on climate and energy and add a new area of biodiversity

- Going forward we intend to focus on following interventions:
  - Scaling up LoCAL across all LDCs
  - Testing and Scaling up the Insurance program from Pacific to LDC countries
  - Systems approach to national Clean Energy markets with a strong integration into financing to "BUILD NEW BETTER" in LDCs.
  - Supporting the UNDS with our financial instruments on clean energy projects
  - Building out our biodiversity work started with Global Fund for Coral Reef and scaling it to create innovative financing structures like Blue Bonds, etc.

LDCs have contributed least to the climate crisis and are amongst the most vulnerable to its impacts

Greenhouse emissions remain far off track for global climate goals



- It is **highly unlikely** the world will limit warming to "well-below 2C above preindustrial levels" (UNEP, 2019). However, **mitigation** remains an important element of meeting the climate goals
- The LDC Vision 2050 aims to ensure that **resilience and adaptation** are consistently built over time.

Climate finance falls short in its support of unitary and cross-sectoral approaches, creating a significant financing gap

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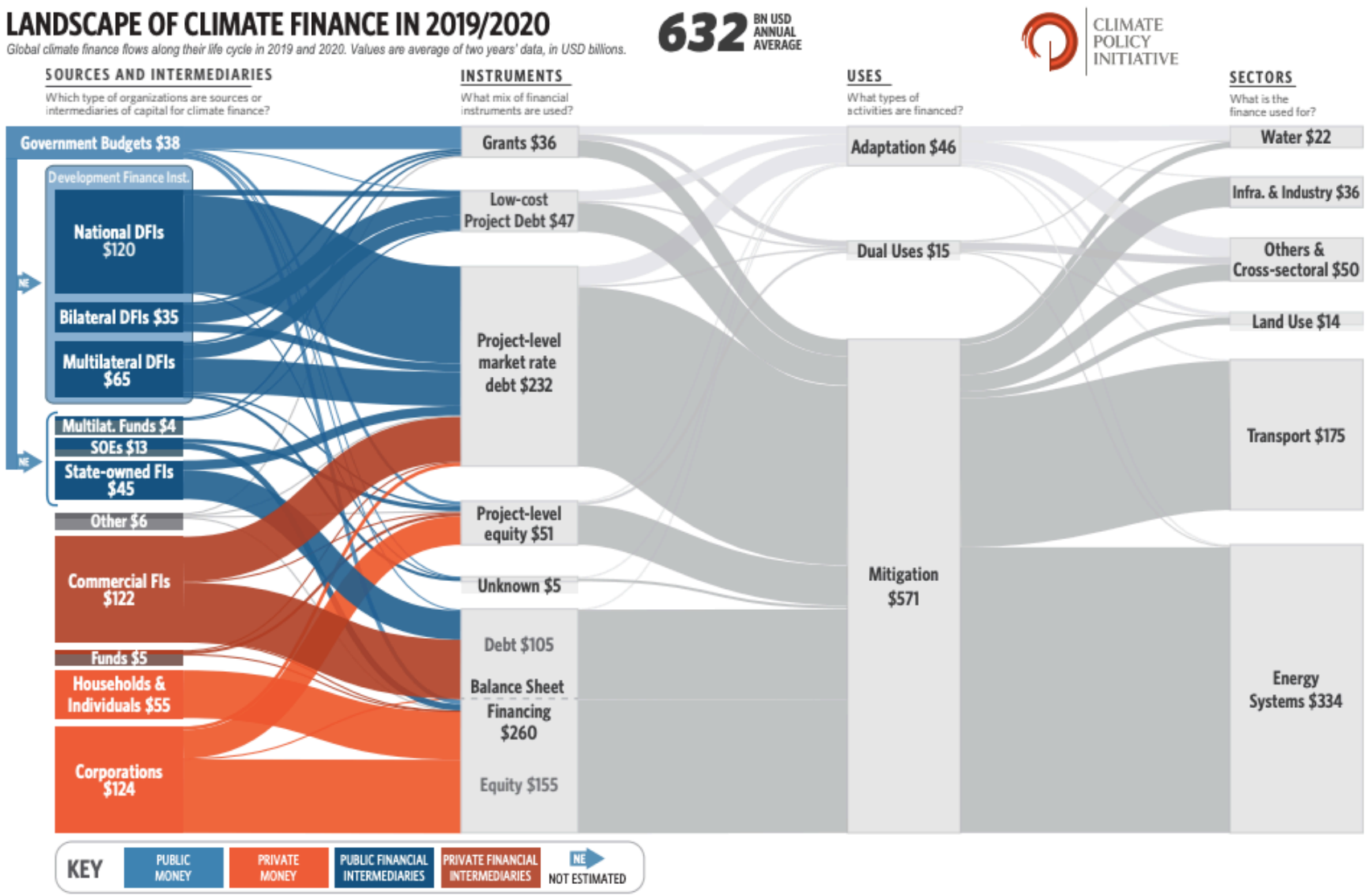
Global climate finance flows along their life cycle in 2017 and 2018. Values are average of two years data, in USD billions.

Figure 1: Global climate finance flows in 2019/2020[1]



Source: *Climate Policy Initiative*

UNCDF bridges this financing gap by working directly with local governments to catalyze both adaptation and mitigation

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	Adaptation	Mitigation
The intervention	Systemic adjustment in natural or human systems in response to climate stimuli	Reducing emissions sources or enhancing sinks of greenhouse gases
Support we've given	Performance-based climate resilience grants (PBCRG), climate-risk insurance instruments	Grants, loans, and guarantees, incl those financed by reputable donors e.g. NAMA Facility
The role we've played:	Capacity building, performance assessments, deploy financing, scale projects, generate awareness	Source, incubate, expand, and scale programmes, spur private capital investment
Sample outcomes:	Financed 1,600+ adaptation measures, improved government disaster responsiveness, Reached over 16M people, used digital tools to improve population awareness	1 Million tons of CO2 offset, over 30,000 KW clean renewable energy to be added to the country's national grid, 100M+ liters of fossil fuel savings over the programme's tenure

ADAPTATION

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Our interventions address 8 key adaptation issues

1. Insufficient national/ local budget allocations

2. Inability to absorb the additional cost of climate change adaptation

3. Lack of Climate finance access at the local level

4. Insufficient funding for private and income-generating projects

5. Lack of climate disaster risk financial instruments

6. Limited ex-ante financial instruments

7. Limited management capacity after a disaster.

8. Limited ex-post financial instruments reallocated

Intervention 1: LoCAL - Using the PBCRG* mechanism to attract large scale climate financing at the sub-national level

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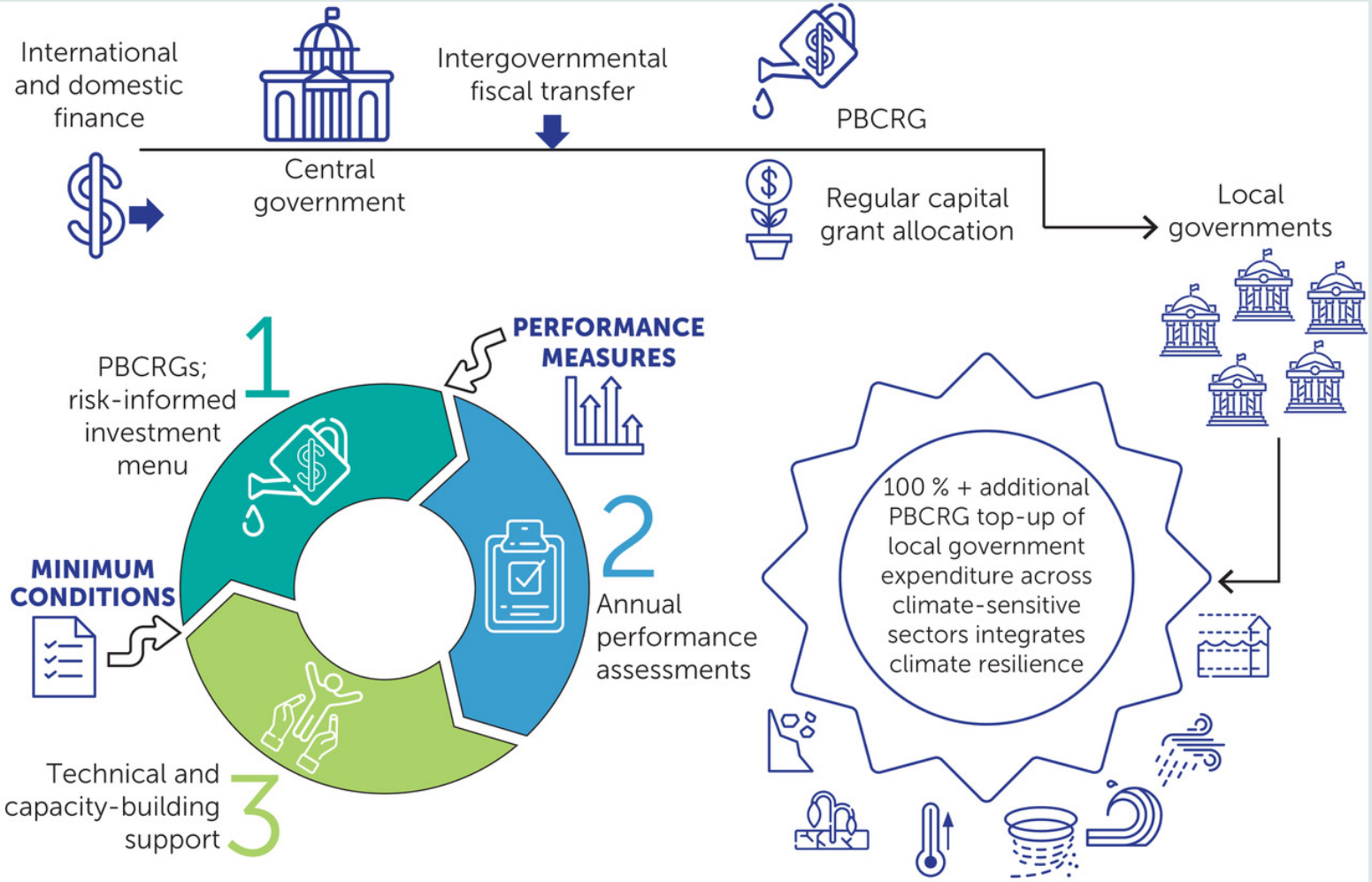
INTERVENTION:



OUTCOMES:

13
Countries Receiving Direct Support to Green Climate Fund & Adaptation Fund

29
countries across Africa, Asia, Caribbean and the Pacific where LoCAL is engaged

11.5 million
people reached by LoCAL programme

1,600+
adaptation measures financed

Currently developing national scientific **climate change reports** to inform future planning

*Performance-based climate resilience grants (PBCRG)

LoCAL is a key testament to UNCDF's scaling capabilities

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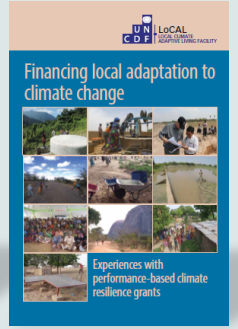

LoCAL is recognized as part of the UNFCCC National Adaptation Plans (NAP) Technical Guidelines

Investment menu aligned with NAP and NDCs for multi-sectoral impact

LoCAL Will Be Expanded Across Eligible Countries and at Least Double the Volume of Finance Mobilized by 2025

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Objective: Integrate climate change adaptation into local governments' planning and budgeting systems, increase awareness of and response to climate change at the local level, and increase the amount of finance available to local governments for climate change adaptation.

Sida
European Union
Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
UNCDF Unlocking Public and Private Finance for the Poor
African Development Bank Group
Africa Climate Change Fund
GCCA+ The Global Climate Change Alliance Plus Initiative
Funded by the European Union
Generalitat de Catalunya Government of Catalonia
ACCD Agència Catalana de Cooperació al Desenvolupament
The Belgian Development Cooperation .be
Italian Development Cooperation Ministry of Foreign Affairs and International Cooperation
Ministry of Environment
NDC Partnership

Local Climate Adaptive Living Facility (LoCAL)

- LoCAL combines performance-based climate resilience grants (PBCRGs), which ensure programming and verification of climate change expenditures at the local level, with technical and capacity-building support
- LoCAL aims to promote climate change–resilient communities and economies by increasing financing for and investment in climate change adaptation at the local level in LDCs and other countries.

Intervention 2: An insurance response mechanism that improves local communities' resilience against extreme climate events

(pilot phase)

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INTERVENTION:

Climate risk insurance to provide **immediate liquidity post disaster.**

Market-based climate risk insurance and other disaster risk financing instruments targeted at:

- low income households & communities
- SMEs & organisations
- Co-ops & agri-agency associations and unions

OUTCOMES:

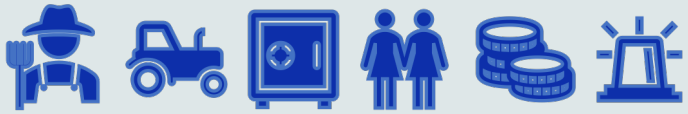
Enhanced understanding by Government and private sector of disaster financing.

Improved disaster responsiveness financial policies, enabling environment for market-based instrument deployment.

Agile local recovery from disasters with the support of CDRF instruments, including **access through digital linkages**

Improved local understanding of accessibility and the use of market-based CDRF instruments.

Improved awareness through digital tools and e-learning interfaces.



PICAP aims to reach 66,500 individuals by 2024

Objective: To improve the financial preparedness of Pacific households, communities, small businesses, organizations, and Governments to deal effectively with effects of climate change and natural hazards.

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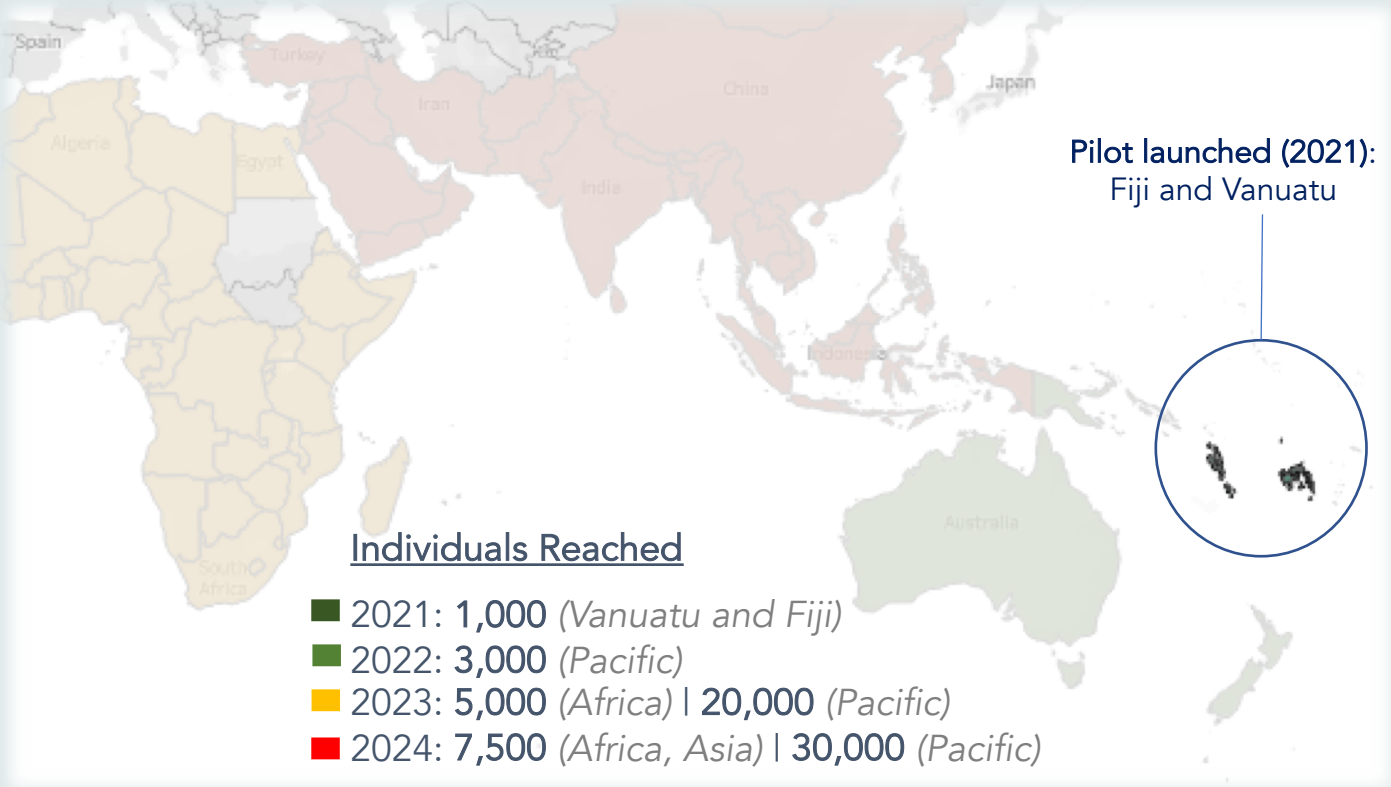
Focus Sectors:

Agriculture | **Fisheries** | **Retail** | **Tourism**



Pacific Insurance and Climate Adaptation Programme (PICAP)

- Launched under "Leaving No One Behind in the digital era" Inclusive Digital Economies strategy in **December 2020**.
- Pilots, tests, and scales **innovative market-based climate and disaster risk financing solutions including index-based (parametric) insurance** targeted at the micro- and meso-levels.
- **Cross-cutting Segments**: women, youth, people with disabilities, migrants, MSMEs
- 40% of results will be operated by women

ENERGY / MITIGATION

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Our interventions also address 7 key mitigation issues

1. Lack of financing for early-stage decentralized energy solutions and companies

2. Lack of enabling policies and regulations, impact data, and digital payment infrastructure.

3. Lack of capabilities, consumer awareness, and industry associations.

4. Unfavourable tariff, tax structures, etc…

5. Financial constraints by national energy companies and governments

6. High costs to develop clean energy projects (pre-finance stages)

7. Limited access to domestic capital by local project developers

Intervention 3: IDE Energy - flagship program supporting SMEs to scale up energy access chain with renewable energy

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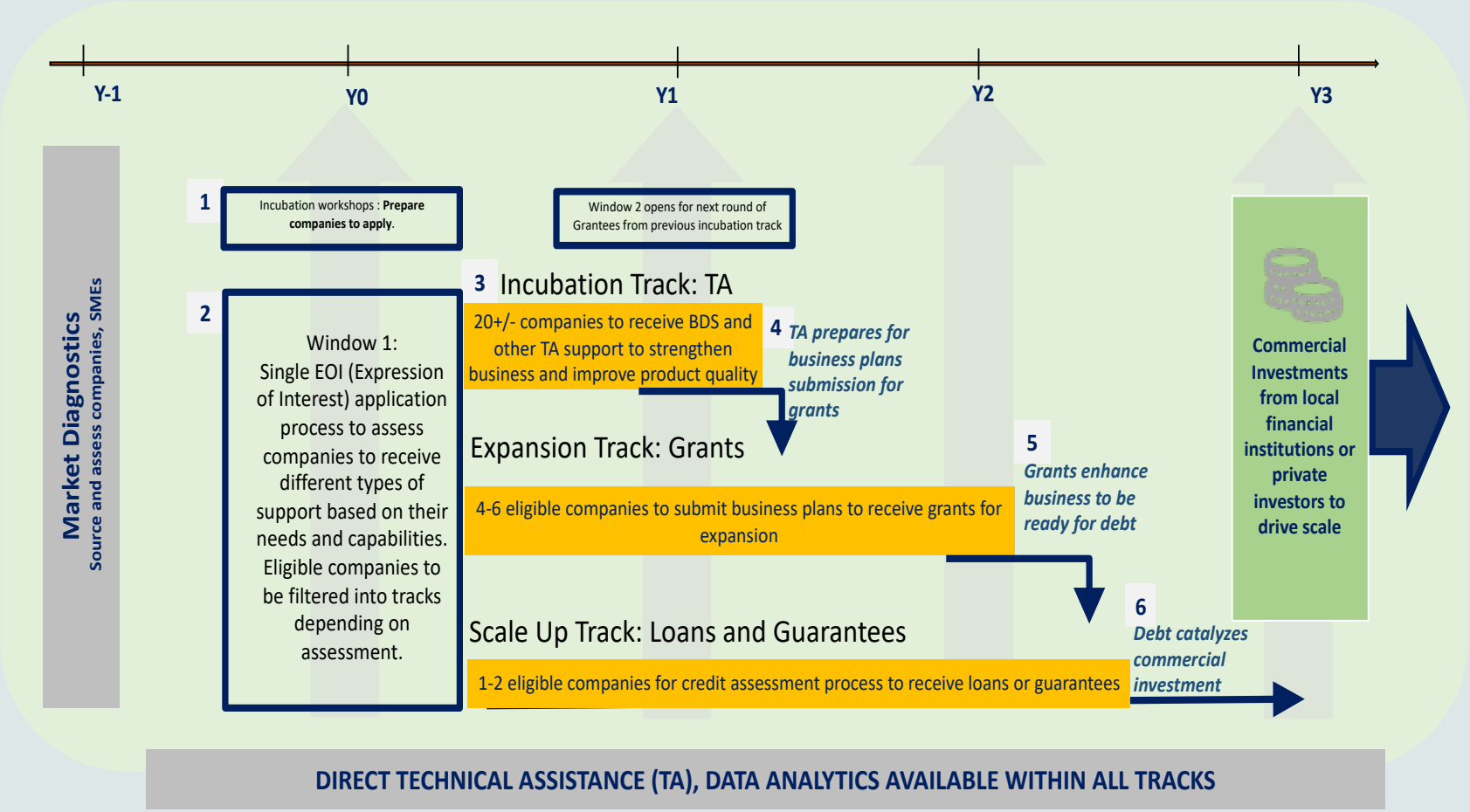
INTERVENTION:



CAPITAL DEPLOYED:

- Grants USD8.2M
- Debt/G USD2M
- TA USD4M
- Ecosystem grants USD1M

OUTCOMES:

7M+ women, men and children
Accessing and benefitting from clean energy

1.2M tonnes CO2 offset
Estimate calculation using CDM and other methodologies

420K tonnes wood saved
Estimate based on Uganda statistics

70 ESCOs financed & USD14M+ leveraged

IDE Energy will focus on scaling, consolidating, and early stage activities through 2025

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Scale

DESCRIPTION

- Market Development Facility (10 countries)
- Performance Grants Loans/Guarantees
- Incubators
- Other UN agencies/development partners

→ Commercially-viable Enterprises

Consolidation

DESCRIPTION

- Market Systems Development Measurement Platform
- Columbia University
- Climate Smart Agriculture
- PURE

Early Stage

Description

- Other UN Agencies
- D-REC
- CAP
- FMO
- GOGLA
- IFC
- CDC

→ PAYGO Performance Platform

Increased investments into Renewable Energy

IDE Energy aims to reach at least 5.5M individuals by 2025

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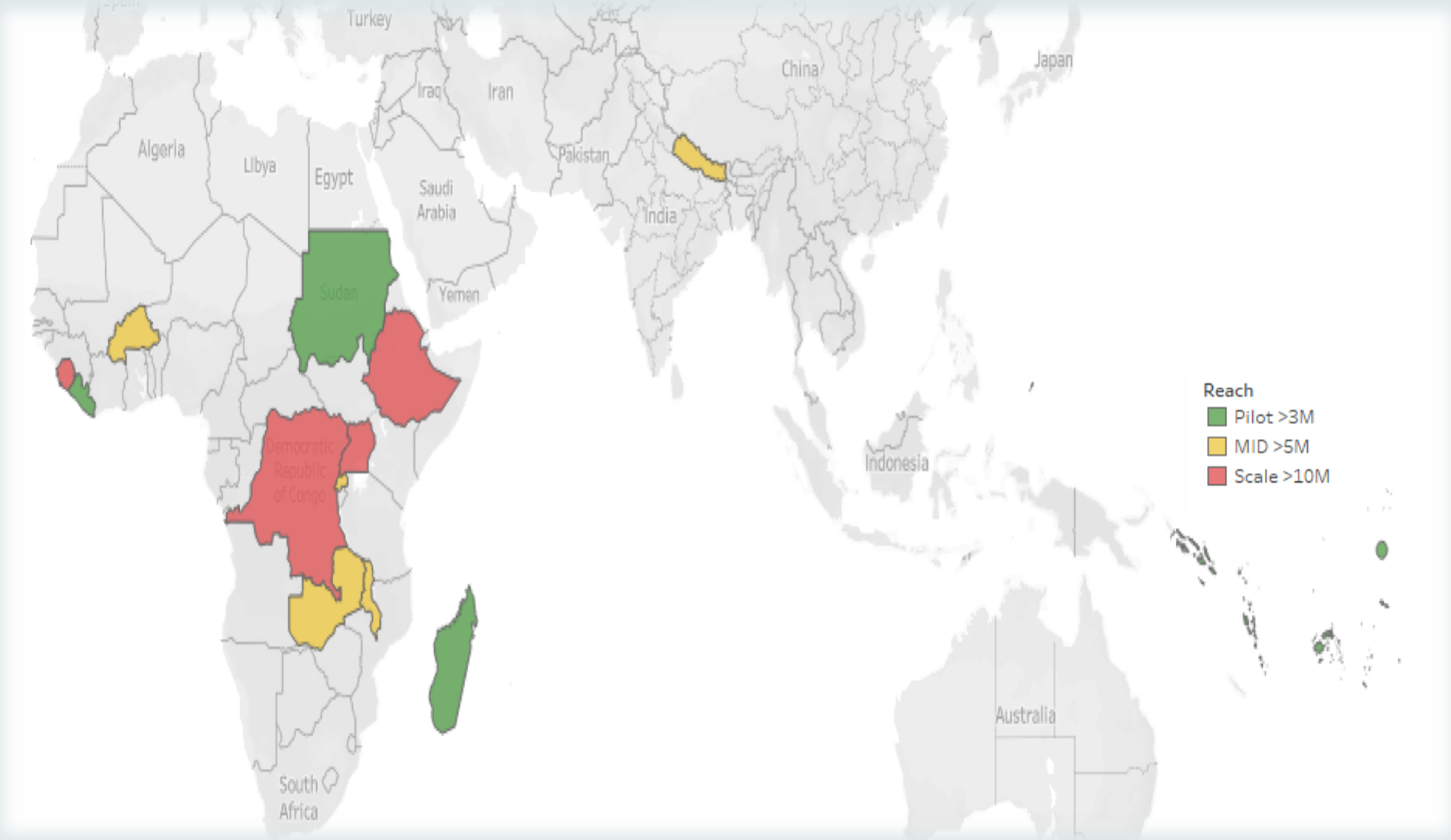
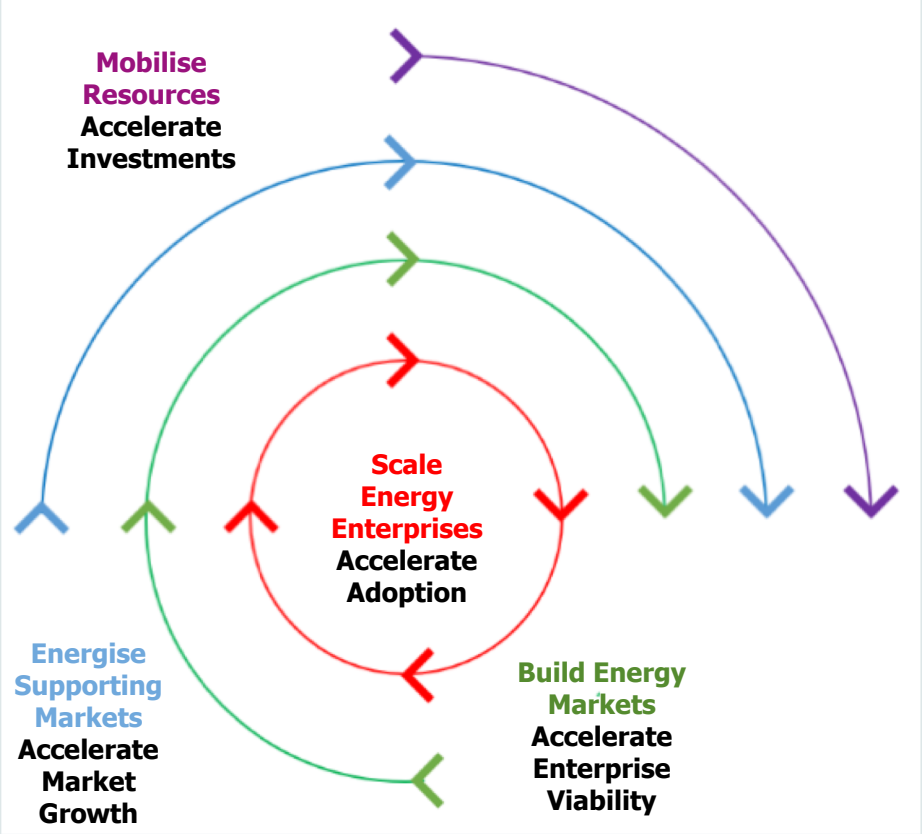
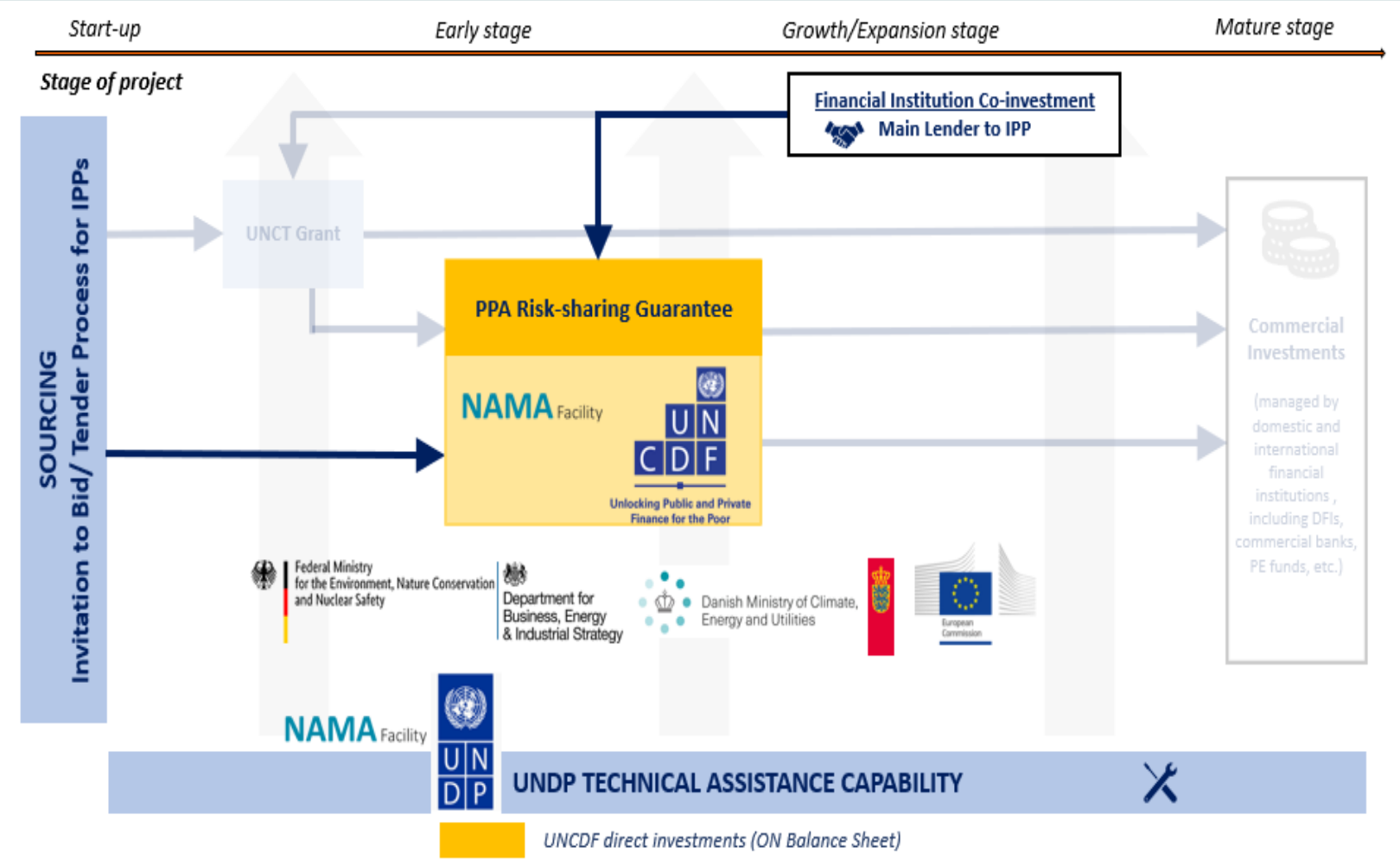
Objective: The goal of UNCDF is to **empower millions of people by 2025 to use services daily that leverage innovation and technology and contribute to the SDGs**. To achieve this vision UNCDF uses a market systems development approach and continuously seeks to **address the financing gap by crowding in capital** from national and international markets through a range of instruments



Market Systems Intervention Logic



Intervention 4: Blended Finance for Grid Scale Projects



OUTCOMES:

It will help The Gambia **contribute towards its NDC targets** + address **several SDGs**

322,019 tons CO2 emission reduction across the 26-year lifetime

103,088,466 litres of fossil fuel savings across the 26-year lifetime.

Over **144,500** people gaining improvement in quality of life

Intervention 5: National Blended Finance Mechanism for Energy

The **SOVEREIGN FUND**, the **DERISKING FACILITY** and the **ENERGY LAB** are the 3 key pillars that will transform the **local financial system**, unlocking Madagascar's investment potential, leading to the structuring and funding of private-led initiatives in the **Sustainable Energy** sector

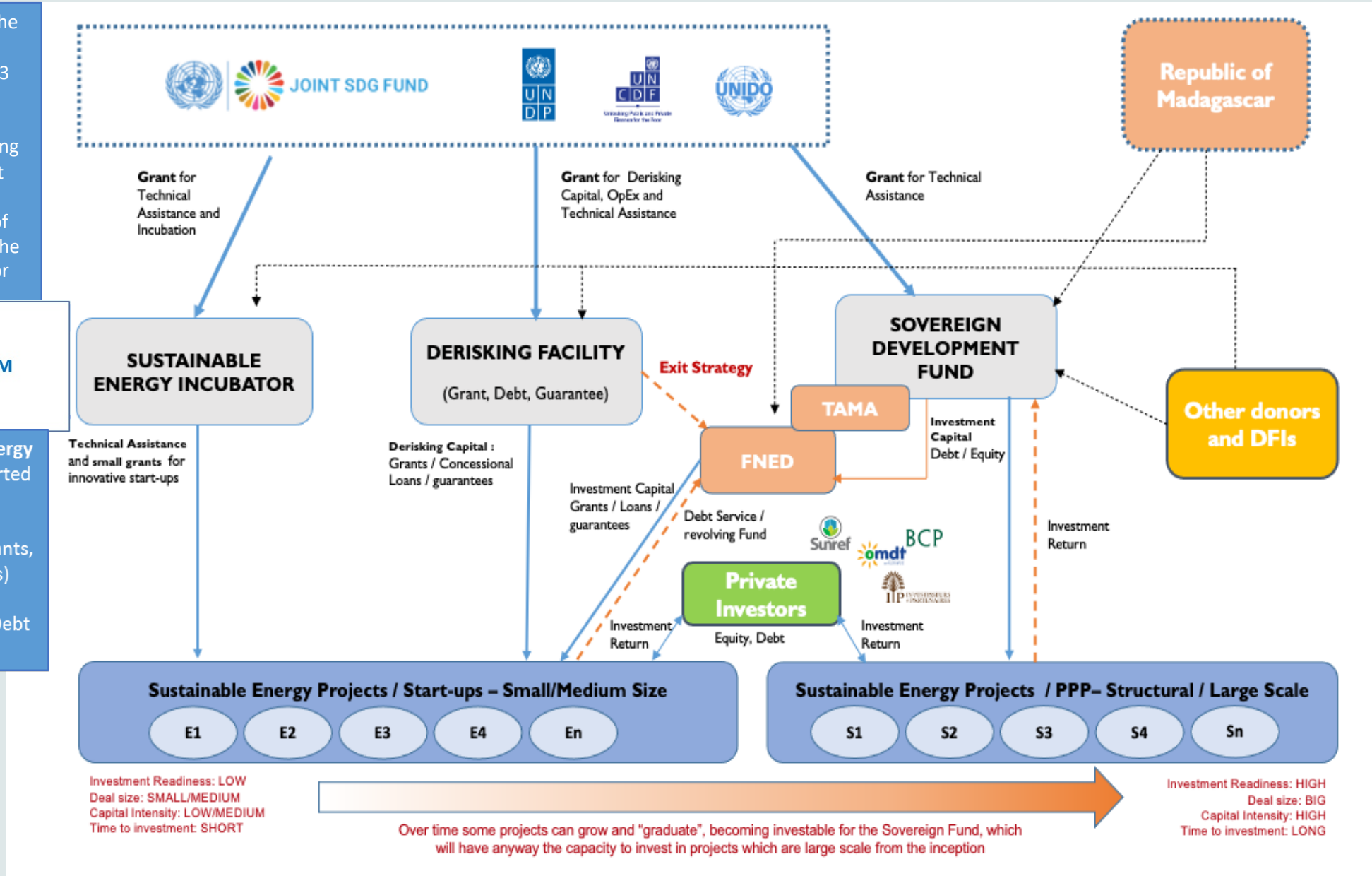
4 years: 2022-2026

SDG Fund budget: $8.7M

Private Leverage: 3.5x

The local **Sustainable Energy** ecosystem will be supported by a mix of:

- **Technical Assistance**
- **Derisking Capital** (Grants, Guarantees and Loans)
- **Public and Private Investment Capital** (Debt and Equity)



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UNCDF Mitigation and Energy

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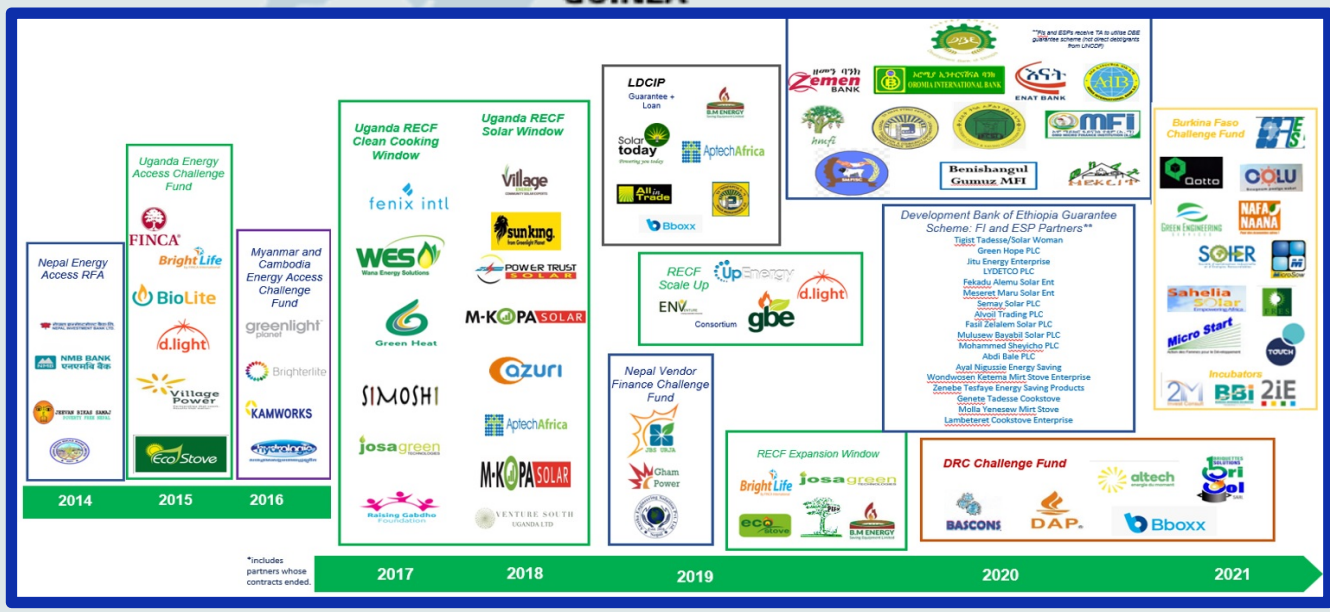
- Stand alone projects
- Mini-grid projects
- Large scale projects



BIODIVERSITY

Intervention 6: Global Fund for Coral Reefs- Blending at Scale

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MEMBER STATES

PRIVATE FOUNDATIONS

Concessional Capital

IMPACT INVESTORS

De-risking

ROI

Private investment

GRANT WINDOW

MOU

Cross-check between the two windows

INVESTMENT WINDOW

Grants for pipeline building, research, and impact assessments

UNCDF

Early-stage concessional loans and guarantees to accelerate private investment readiness of revenue generating projects

ROI

Repayment of UNCDF concessional loans repurposed for other GFCR programming

De-risked Impact Investment

ROI

- Financial structuring
- Technical Assistance
- Capacity development
- Develop policy
- Background research
- M&E
- "Blue" stimulus packages in times of crisis

Revenue Generating Projects

- Eco-tourism
- Sustainable fisheries and aquaculture
- MPAs with user fees
- Blue Carbon
- Waste management
- Recycling
- Water treatment
- Alternative activities for subsistence and income
- Other

ROI

Portfolios of Investment Opportunities

- Debt for SMEs
- Debt for start-up of investable MPAs
- Equity
- Bonds

GLOBAL FUND FOR CORAL REEFS

CASE STUDIES (ENERGY)

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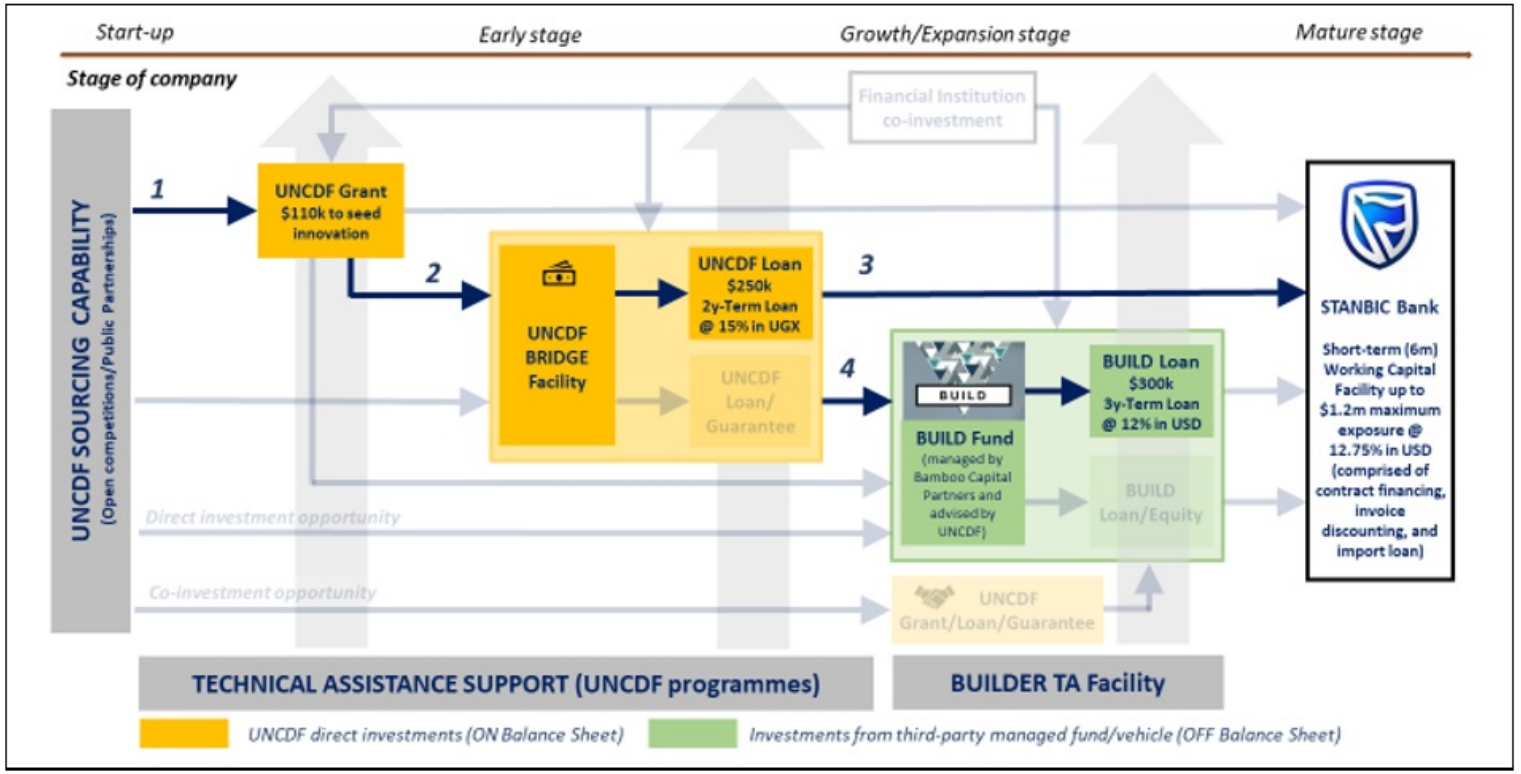
Case study: Uganda_APTECH_ Combination of UNCDF financial instruments to support SME (sequential unlocking)

Theme: Access to Off-grid Renewable Energy off-grid



UNCDF support 2018-2021

1. UNCDF provided US$110k **innovation grant** (H1 2018)
2. UNCDF provided **first loan** ever (H2 2018)
   - 2-year unsecured senior loan for Working Capital
   - U$250k in UGX at 15% p.a. concessional interest rate
   - Loan fully repaid in February 2021
3. UNCDF support unlocked US$700k **follow-on financing from Stanbic Bank**, then increased to US$1.2m (short-term working capital facility, multiple instruments)
4. **BUILD Fund** considering new US$300k **long-term loan** for financing capital expenditures

Case study: DRC_Challenge Fund with Incubation, Technical Assistance and Financial Instruments

Theme: Access to Clean Cooking Solutions

PROGRAMME FUNDS

BRIDGE FACILITY

CLEAN COOKING INCUBATION AND CHALLENGE FUND

(GRANT IN)
For Technical Assistance
$ 1,2 M

(GRANT IN)
For Technical Assistance and Small Grant
$ 4,9 M

(GRANT IN)
For Loan and Technical Assistance
$ 0,9 M

Incubation with
+ 122 Start-ups & SMEs

+ 44 Start-ups & SMEs
ellgible for grants / loans

12 Performance-based Grant Agreements

(+20 pipeline)

± 2 Active Loan Agreements

(+ 3 pipeline)