WHY EQUITY FINANCE MATTERS FOR SCALING UP CLIMATE ACTION

Over the past decade, blended finance – which uses public funds to share risk and crowd-in private investment through co-financing - has usually taken the form of relatively safe senior debt rather than more risky instruments such as equity or guarantees that could have higher leveraging ratios and better meet the needs of private investors to finance the emergence, deployment and widespread adoption of new climate solutions.

Equity is essential for young companies, particularly in developing countries as they face higher default risks and have yet to establish a strong banking relationship. Private finance requires well-conceived projects that already have project equity in place in order to provide low-interest debt financing. While in mature economies, innovators can turn to accelerator and growth funds to finance the development and deployment of their products, this equity financing, critical to convert functional solutions into bankable ventures, is missing in most developing countries.

GCF’S ROLE IN CATALYSING EQUITY FINANCE FOR CLIMATE ACTION

A key objective of GCF is to develop innovative financing instruments to address this “missing middle”. GCF adds value to its partners by enabling them to raise the ambition of their climate action. By leveraging the risk management capacity of its partners and its own set of investment, risk, and results management frameworks, GCF can accept higher risks to support innovation. With its equity partners, GCF has developed a generic fund structure to mobilise private finance to support the deployment at scale of new climate solutions in early-stage markets (Figure 1)

The role of GCF catalytic capital (first loss equity position, first loss guarantee, etc.) is pivotal to unlock private capital. By taking the most junior position - the first investor to suffer financial losses if the fund underperforms – GCF de-risks the investment of more risk adverse but deep pocketed partners such as institutional investors. In doing so, GCF with its partners demonstrates the commercial viability of transformative low emission, resilient investments, establishing a track record, and enabling financiers to re-assess the risks of specific classes of climate assets. In turn, this re-assessment of the risk-reward profile of these investments will enable their market-driven diffusion and widespread adoption.

As an equity financier, GCF recovers its investment and re-invests in similar ventures, using public finance as a true catalyst to accelerate private investment. GCF is building on this generic fund structure to make blended finance work for the most vulnerable, for innovative adaptation technologies and for nature-based solutions.

Figure 1: GCF’s generic fund structure to leverage private equity to scale up climate action
GOAL
- Catalyse climate mitigation and adaptation solutions at the subnational level
- Attract public and private investment
- Deliver certified climate, SDG impacts and nature-based solutions (NbS) at global scale.

ESTIMATED PROJECT LIFESPAN
20 years

FINANCING
USD 750 million

GEOGRAPHIC FOCUS
Africa: Burkina Faso; Cameroon; Côte d'Ivoire; Democratic Republic of the Congo; Gabon; Guinea; Kenya; Mali; Mozambique; Nigeria; Rwanda; Senegal; South Africa; Togo; Uganda.

Asia-Pacific: Cambodia; Fiji; Indonesia; Myanmar.

Latin America (LAC): Bahamas; Brazil; Chile; Costa Rica; Dominica; Dominican Republic; Ecuador; El Salvador; Guatemala; Haiti; Honduras; Jamaica; Mexico; Panama; Uruguay.

Mediterranean: Albania; Jordan; Lebanon; Mauritania; Montenegro; Morocco; North Macedonia; Tunisia.

PARTNERS
Pegasus, BNP Paribas, Gold Standard, IUCN, R20

PROJECT LINK
greenclimate.fund/project/fp152

BACKGROUND
Close to 70% of known climate solutions are located within the boundaries of subnational decision-making authorities and are linked to land use planning (urban and rural) and infrastructure development for the energy, water, waste, and sanitation sectors. These climate resilient infrastructure solutions create jobs at the local level and a wide array of opportunities for growth across sectors but are perceived as too risky by commercial financing. This has led to a perpetual funding gap for subnational infrastructure projects across geographies and significant additional investment is needed in this sector to achieve the climate goals of the Paris Agreement.

At the same time, private investment is limited by several barriers that result in chronic underfunding of bankable mitigation and adaptation projects at the sub-national level, specifically at the deal size of USD 5 million to 75 million. Thousands of high merit sub-national projects are bypassed by commercial financing because investors prefer perceived safer and larger investments. Almost half of the 42 participating countries are LDCs & SIDS, which have traditionally been by-passed by private equity finance. The Sub-national Climate Fund Global (SnCF Global) catalyses private finance for transformative climate solutions at the sub-national level in the most vulnerable countries.

PROJECT DESCRIPTION
The Sub-national Climate Fund Global (SnCF Global) is an innovative, large-scale blended finance mechanism managed by Pegasus Capital Advisers, a leading global private markets impact investment manager. SNCF leverages $150 million in equity investment from the GCF to mobilize $600 million in long-term climate investment, for mitigation and adaptation solutions at the sub-national level.

The SnCF Global works to: (a) target climate finance at the subnational level focused on mid-sized projects that have historically been underfunded; (b) responds to project areas defined by the subnational regions themselves; (c) links climate mitigation with adaptation / resilience, based on NbS and (d) measures impact of sustainability co-benefits.

Projects for SnCF Global will include resilient infrastructure in the fields of water and sanitation; restorative agriculture/aquaculture; urban development solutions; waste optimization; renewable energy generation and energy efficiency retrofits while promoting nature-based solutions.
GCF’S UNIQUE AND INNOVATIVE ROLE

GCF anchor funding and first-loss equity coverage will unlock both public investors and more importantly, private institutional investors, who with GCF support, have expressed willingness to co-invest. This is the first time an impact equity fund mobilizes public (20%) and private sector (80%) funding at scale to de-risk sub-national middle scale infrastructure projects.

EXPECTED RESULTS AND IMPACTS

GCF’s equity commitment is planned to catalyse equity contributions of an additional USD 600–750 million from private investors (USD 750-900 million total Fund size), who have historically viewed mid-sized subnational projects as too risky. SnCF Global will make investments in up to 45 subnational mid-size (USD 5-75 million) low carbon and climate resilient infrastructure projects in Africa, Asia - Pacific, Latin America, the Caribbean and the Mediterranean basin. The Fund will only invest in public – private subnational climate projects for which there is a clear pathway toward financial, social and environmental viability. In addition, projects will be aligned with country-driven priorities that can be integrated into national reporting on Nationally Determined Contributions (NDCs) and SDGs.

The Fund expects to invest primarily in equity of the underlying projects but may invest in debt or convertible debt on a case-by-case basis. It will use commercially reasonable efforts to invest in at least one project in each country. Each of the individual projects in which the Fund invests will have its own capital structure, with the Fund typically providing the equity portion (potentially with co-investors at the project level as well) and third parties providing the debt. As a result of this multiplier effect at both the Fund and project levels, each dollar of GCF’s commitment to the Fund has the potential to generate as much as USD 25 in private funding.

VOICES OF PARTNERS

The UN Permanent missions of Fiji, Jamaica and Rwanda co-hosted a virtual briefing to over 100 representatives of governments and other partners focused on the SnCF. Below are some of their thoughts.

"The financing gap just cannot be closed or bridged solely by reliance on public funds, so the private sector has an indispensable role to play in closing this gap through exploring new and innovative mechanisms for finance to reach developing countries especially the poor and vulnerable communities."
-Ambassador Rattray, Permanent Representative of Jamaica

"Every meeting on climate I have attended over the last number of years has emphasized climate finance for developing countries", Ambassador Rugwabiza, Permanent Representative of Rwanda said. She highlighted the opportunity to discuss public-private finance to support developing countries who are playing an active role in trying to limit global warming to 1.5 degrees Celsius. She also noted the partnerships critical in the initiative – GCF, Pegasus, IUCN, BNP Paribas, R20 and fold Standard – emphasizing the power of partnership to achieve the breakthroughs on climate investments.

"The GCF is doing fantastically in leveraging and catalyzing finances that are on the table to open up other resources, while additional financing is important, [the SnCF Fund] is a helpful and important start to promote transformative climate action."
-Ambassador Prasad, Permanent Representative of Fiji said

"I am thrilled to announce our partnership with GCF to anchor and provide the concessional capital tranche for the SnCF. We believe SnCF's blended finance approach, together with the strength of our consortium partners, will allow us to attract and deploy private capital to finance climate resilient solutions and scale innovation in key sectors." - Craig Cogut, Founder and Chairman of Pegasus

"Not only do we have a moral obligation to nature, but nature is a functioning ecosystem which can deliver real benefits to society."
-Stewart Maginnis, Global Director of the Nature-based Solutions Group at IUCN
**GOAL**

To mobilise scalable funds across a suite of green infrastructure assets and to transfer knowledge and build local technical capacity for accelerating India’s transition to a low carbon and climate resilient economy.

**ESTIMATED PROGRAMME LIFESPAN**

10 years

**FINANCING**

**TOTAL**: USD 944.5m  
**GCF FINANCING**: USD 137M

**GEOGRAPHIC FOCUS**

INDIA

**PARTNERS**

FMO NETHERLANDS  
EVERSOURCE CAPITAL PRIVATE LIMITED  
INDIA’S NATIONAL INVESTMENT & INFRASTRUCTURE FUND  
FCDO

**PROJECT LINK**

greenclimate.fund/project/fp164

**BACKGROUND**

India is one of the most vulnerable countries to climate change. This includes increasingly frequent extreme weather events, shifts in precipitation patterns and projected temperature increases ranging from 2.4°C to 4.7°C by the end of the 21st century.

As one of the world’s most populous countries and growing economies, India’s expanding demand for power and transport has led to high GHG emissions from both sectors due to their reliance on coal and oil, respectively. Coupled increasing GHG emissions, water scarcity is a key concern in India. Water sources, including groundwater and the Himalayan glaciers, have been shrinking due to shifts in precipitation patterns and increases in temperature. The government of India has identified green technologies and infrastructure interventions to help address these concerns. However, it faces major challenges in obtaining financing, limited capacity in transitioning to low carbon development pathways, and a lack of policies offering climate focused infrastructure projects that are attractive to investors.

**PROGRAMME DESCRIPTION**

The Green Growth Equity Fund (GGEF) is India’s first climate-focused fund. Its primary objective is to bring long term institutional capital into the Indian green growth sector to invest in low-carbon and climate-resilient platforms across the energy value chain. This includes renewable energy generation, energy efficient technologies, low carbon transport and resource conservation - including water and waste management.

To support the capitalisation of GGEF, GCF is providing USD 132.5 million in junior equity to help bring in additional investors and drive innovation and climate impact at scale. GGEF is especially innovative as it looks to transform projects to be more operationally independent of fixed assets by introducing long term fees for service contracts and making green infrastructure projects more viable for investors.

To address capacity and policy development, GCF is also providing a USD 4.5 million grant. The grant component will ensure sustainability beyond GCF’s intervention. It encompasses knowledge and capacity building on structuring green infrastructure projects - as well as policy dialogue and regulatory framework development with local stakeholders to become advocates and proponents of interventions across the green infrastructure value chain. Lastly, it will support the creation of standards and mechanisms for monitoring, reporting, and verifying GHG emissions for GGEF and its portfolio companies throughout the duration of the programme.
GCF’S UNIQUE AND INNOVATIVE ROLE

Through GCF’s support, GGEF can fill the financing gap stemming from limited local financial market capacity, a low risk appetite for India’s green infrastructure asset class, and the adverse impacts COVID-19 has brought to investment activity in India. GCF’s level of concessional is especially important as it helps de-risk and protect other investments through its “first loss” position – catalysing participation of public and private investors who would normally have turned a blind eye to the green infrastructure asset class in India. GCF’s support also enables GGEF to establish a complimentary Technical Assistance Facility to address technical, policy and knowledge gaps. This will create an enabling environment to facilitate the rapid deployment of innovative green technologies and business models in India.

EXPECTED RESULTS AND IMPACTS

GGEF is expected to help address the green infrastructure financing gap by bringing equity capital at scale (up to USD 940 million) to catalyse green infrastructure investments. Specific results include:

- For every 1 dollar of GCF, the Fund will mobilize an additional 3 dollars of capital commitment from other investors.
- It will leverage a total of USD 4,615 million of which USD 1,153.5 million will be public finance with a co-financing ratio of 8.7, and USD 3,462 million will be from the private sector with a co-financing ratio of 26.12.
- The project is expected to reduce GHG emissions by 166 million tCO2 eq during the fund term and over 400 million tCO2 during the project lifetime – the equivalent of avoiding GHG emissions from close to 79 million passenger vehicles driven in one year.
- Through its investments, GGEF will:
  - Finance development of the largest operator(s) of e-buses and shared electric transport in India and achieve scale through intercity contracts to expand the platform to include e-2 wheelers once suitable products are available – benefiting 33 million people.
  - Finance the replacement of energy consuming equipment to reduce the energy intensity of buildings, cities, industries, and appliances - leading to better air quality and more efficient cities.
  - Increase the number of small, medium, and large low-emission power suppliers to create 6+GW of low emission energy capacity in India.

VOICES OF PARTNERS

“We are excited to announce our second GCF project, with such a substantial contribution to sustainable development goals, across economic, environmental and social dimensions. Apart from contributing to India’s climate goals, GGEF contributes to job creation and increased economic activity. This stimulus is particularly timely now, in a covid19 pandemic environment, which is threatening India with the economic slowdown, job losses and negative implications for businesses.”
- Linda Broekhuizen, CEO ad interim at FMO

“We are delighted to receive GCF Board approval for an investment in GGEF. This is the largest single country amount approved by GCF ever for a private sector equity fund focused on climate mitigation. This investment commitment strengthens our resolve and ability to work towards supporting India’s climate objectives and Sustainable Development Goals along with creating impact and value in India’s clean energy ecosystem.”
- Dhanpal Jhaveri, CEO, EverSource Capital
EQUITY CASE STUDIES WITH THE ACUMEN FUND

The Acumen Fund, Inc. is an impact investment fund with almost 15 years’ experience in small and medium-sized enterprises (SMEs) that serve low-income communities in developing countries primarily in Sub-Saharan Africa and South Asia. Acumen has a successful track record in sourcing and executing equity investment opportunities in the clean energy, agriculture and health-care sectors, which provide environmental and livelihood impacts. GCF has three equity financed projects with Acumen.

**FINANCING**
GCF: USD 30 million in equity; Total value USD 60 million

**GEOGRAPHIC FOCUS**
Africa: Democratic Republic of Congo, Kenya, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, Uganda, Zambia

**TONNES OF EMISSIONS AVOIDED**
1.3 million

GCF invests USD 30 million in equity to the USD 60 million Energy Access Relief Facility (EARF) which will provide energy access companies in nine African countries with low-interest, unsecured loans to enable them to remain solvent, continue operations, and maintain staff and supply lines. Without relief, dramatic COVID induced reductions in sales and collections may lead current operations and renewable energy sales to cease or slow. As a result, 16.3 million people could be prevented from accessing renewable household energy with a resulting decrease in incremental emissions of 1.33 million tons of carbon compared to a pre-COVID-19 baseline. This project will avoid related regression and position these countries to drive the post-COVID-19 recovery and transition to an increased use of renewables.

**FINANCING**
GCF: USD 23 million in equity, USD 3 million in grant; Total value USD 56 million

**GEOGRAPHIC FOCUS**
Africa: Ghana, Kenya, Nigeria, Uganda

**BENEFICIARIES**
10 million

The Acumen Resilient Agriculture Fund (ARAF) is a USD 56 million facility - with a USD 23 million equity investment and USD 3 million grant from the GCF – that is improving the climate resilience of agriculture and the income of small holder farmers in Africa. The ARAF shift the pattern of investment in climate change adaptation activities in Africa from grants to a long-term capital approach, enabling smallholder farmers to respond to climate change more efficiently and effectively. It supports innovative private social entrepreneurs in micro-, small, and medium-sized enterprises (MSMEs) by providing aggregator and digital platform and innovative financial services to smallholder farmers.

**FINANCING**
GCF: USD 20 million in equity, USD 5 million in grant; Total value USD 110 million

**GEOGRAPHIC FOCUS**
Africa: Kenya, Rwanda

**BENEFICIARIES**
15 million

**TONNES OF EMISSIONS AVOIDED**
1.5 million

GCF has invested USD 20 million in equity and USD 5 million in grant to the USD 110 million KawSiSafi Ventures Fund. The KawSiSafi Fund makes investments of USD 2-10 million in 10 to 15 clean energy small- and medium-sized enterprises in Kenya and Rwanda. Lack of electricity and high kerosene use will be addressed through affordable clean household solar energy solutions such as solar lanterns, solar home systems, and solar mini-grids. KawSiSafi also invest in other parts of the ecosystem such as consumer finance, mobile payment, and metering/monitoring technologies. Grant funding through the Technical Assistance Facility identifies and addresses core needs of portfolio companies to support their scale and financial viability.
NEW EQUITY CASE STUDIES - ADAPTATION

By 2030, up to USD 300 billion per year will be needed for climate adaptation in developing countries alone, but adaptation receives only 5% of all climate finance – and almost no tracked private investment. This “Adaptation Gap” cannot be met by government alone: There is an urgent need to mobilise private sector capital and innovation to enable climate adaptation in developing countries.

Specific barriers to private sector investment in adaptation include perceived lack of investible opportunities, whether in technologies or projects. Businesses and communities are not able to identify the technologies, products, and services that can help assess and manage climate vulnerabilities they face. Companies with technologies that can support adaptation often are not aware of the potential demand for their products and services from climate-affected potential customers. Two new initiatives with Pegasus Capital Advisors approved in October 2021 will help meet this gap.

GCF has committed USD 100 million in catalytic capital to CRAFT (Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries), the first private sector investment fund for adaptation. CRAFT mobilises capital to scale up technologies for climate resilience and adaptation and applies them in developing countries using a south-south technology transfer mechanism.

Implemented with Pegasus Capital Advisors, the programme supports investment in six technologies (agricultural analytics, water harvesting and irrigation, food systems, geospatial mapping and imaging, catastrophe risk modeling, supply chain analytics) in six countries in Africa, Latin America and the Caribbean.

As GCF’s first at-scale private sector programme in the blue economy, the Global Fund for Coral Reefs Investment Window (GFCR), implemented with Pegasus Capital Advisors, will create a private equity fund to encourage investments in the blue economy, protecting coral reefs.

Targeting 17 countries in Africa, the Asia-Pacific, Latin America and the Caribbean, it aims to address critical financing and private investment barriers centred around the blue economy. GCF will act as anchor investor with its USD 125 million investment commitment, encouraging further public and private sector investment in the following areas: sustainable ocean production, ecotourism, and sustainable infrastructure and waste management. Additionally, the programme will benefit from synergies with the GFCR Grant Window, which aims to mobilise USD 125 million of concessional capital from philanthropies and other agencies in order to foster an enabling environment for seeding a pipeline of investment-ready projects.