



CLIMATE ADAPTATION NOTES

TYPE: SUSTAINABLE INFRASTRUCTURE, WATER AND WASTEWATER

GEOGRAPHY: SOUTHERN AFRICA

LAB CYCLE: 2020

PROPONENT: GFA CLIMATE & INFRASTRUCTURE AND RENEWABLE BY NATURE

Southern Africa—already one of the world’s most water-scarce regions—faces increasing intensity and frequency of severe drought, extreme precipitation, flash flooding, and water shortages.

Investments in water treatment and distribution, sanitation, water re-use, and wastewater treatment are urgently needed, but the public sector is limited in its ability to fund projects due to severely constrained government fiscal budgets. The COVID-19 crisis intensifies the need for improved water and wastewater infrastructure and exacerbates the public funding gap for those projects.

There is an abundance of private capital available in local debt capital markets, but these funds are not typically invested in infrastructure-related adaptation projects. A recent Intellidex report, however, indicates that that demand is growing: water-based solutions are now considered the highest priority sector for pension funds.

Climate Adaptation Notes is the first instrument to address water scarcity in Southern Africa by streamlining adaptation project financing into a single instrument through a partnership between commercial banks and institutional investors.

INNOVATION

Climate Adaptation Notes aims to increase the flow of funding into water and wastewater adaptation projects by **combining construction financing and post-construction refinancing phases into a single instrument.**

Combining short-term construction financing from commercial banks with long-term post-construction refinancing allows long-term funders to leverage the commercial banks’ construction project expertise, mitigating project performance risk and enabling investment in sectors previously seen as too risky by institutional investors. This new approach also reduces the time and cost involved in financing such projects and would enable climate adaptation projects to tap into the nearly 550 billion US dollars domestic institutional savings pool in the region.

IMPACT

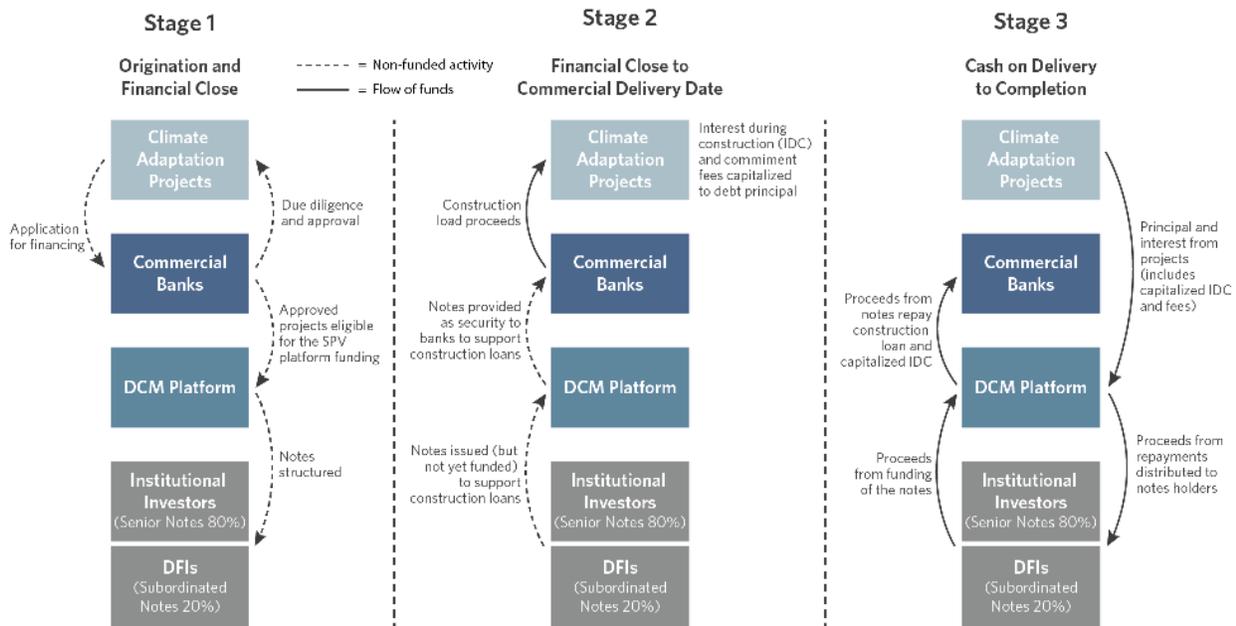
Based on a pilot issuance of USD 125 million targeting projects in Botswana, Eswatini, Lesotho, Namibia and South Africa, Climate Adaptation Notes could increase water and wastewater treatment capacity by approximately 90 megaliters per day, reaching an additional 90,000 or more municipal residents.

At scale, Climate Adaptation Notes could generate tens of millions of additional cubic meters of safely treated water and wastewater and could benefit hundreds of thousands of households facing water shortages and

DESIGN

Climate Adaptation Notes works through a three-stage process, implemented through an independently managed and regulated Debt Capital Markets platform.

In Stage 1, the manager of the Platform works predominantly with local commercial banks to identify and screen suitable projects. Criteria for selection include commercial viability as well as adaptation criteria, to ensure projects reduce climate-related risk. Once



selected, these projects are marketed to institutional investors and DFIs. No funding takes place at this point. Instead, the Notes represent a commitment to refinance the commercial bank construction loans after each project’s commercial operation date.

In Stage 2, commercial banks provide short-term construction loans. The commitment of the Notes allows the banks to provide more competitive loan pricing, as they have a commitment of refinancing and are therefore not subject to the capital costs imposed on commercial banks under Basel III for longer-term funding.

In Stage 3, after projects reach commercial operation, the Notes are funded. The proceeds are used to repay

the short-term construction loans. The long-term investors assume the credit risk, and the projects benefit from the more favorable terms of the Notes.

TEAM



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INVESTMENT OPPORTUNITIES			
PHASE	TYPE	ROLE OF CAPITAL	AMOUNT
STRUCTURING	FOUNDATIONS AND OTHER DONORS	TA for preparation work	US\$ 1MN
CONSTRUCTION FINANCE	PROJECT DEVELOPERS	Project equity towards infrastructure development	US\$ 50MN
CONSTRUCTION FINANCE	COMMERCIAL BANKS	Loans towards construction finance	US\$ 110MN
OPERATIONS FINANCE	INSTITUTIONAL INVESTORS	Post-construction debt refinancing in senior tranche	USD\$ 100MN
OPERATIONS FINANCE	DFIs	Post-construction debt refinancing in subordinated tranche	USD\$ 25MN

The Global Innovation Lab for Climate Finance identifies, develops, and launches innovative finance instruments that can drive billions in private investment to action on climate change and sustainable development. The Lab is funded by the Australian Department of Foreign Affairs and Trade, Bloomberg Philanthropies, the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMU), GIZ, the International Fund for Agricultural Development (IFAD), the Netherlands Ministry for Foreign Affairs, The Rockefeller Foundation, Shakti Sustainable Energy Foundation, and the UK Department for Business, Energy & Industrial Strategy. Climate Policy Initiative serves as Secretariat.