



# WORKING PAPER



## Understanding 'bankability' and unlocking climate finance for climate compatible development

By Charlotte Ellis and Kamleshan Pillay



## About this Working Paper

This working paper has been prepared as part of a series of outputs from a CDKN Learning Legacy project, Lessons in Climate Finance. The paper focuses on understanding the concept of 'bankability' in support of the development of quality 'bankable' project proposals – to assist countries' access to international climate finance. It is informed by the experience of CDKN's climate finance-related support across the three regions in which CDKN operates: Africa, Latin America and Asia.

The research involved interviews with CDKN project managers, country engagement leaders, government officials and project partners. This working paper has also been informed by learning exchanges organised by CDKN. These have provided a platform for key stakeholders, including government partners directly involved in developing project proposals, to share insights, lessons, and the experiences and challenges of mobilising resources for climate compatible development.

Since 2013, climate finance has become a key thematic area for CDKN and a core aspect of its efforts within deep-engagement countries, focused on supporting developing countries' readiness to access climate finance. CDKN has published a book, *Mainstreaming climate compatible development*, which includes a chapter dedicated to finance.<sup>1</sup> Through this support it has become clear that countries are struggling to develop strong funding proposals that are 'bankable', and are battling to get to grips with what 'bankability' means for different funders in different contexts.

With the ratification of the Paris Agreement, which is now in force, countries are entering a phase in which they are focused on converting their Nationally Determined Contributions (NDCs) into investment pipelines and building the capacity to access the Green Climate Fund (GCF) and other funds for implementation. This is especially the case as we progress towards the global stock take in which countries will have to report on their progress towards meeting their obligations. Importantly, however, countries cannot do this without finance.

Given the need for countries to develop project pipelines comprising bankable projects, and to ensure the implementation of their NDCs, this learning paper presents a key contribution towards addressing the challenge of unlocking climate finance – to meet the commitments and achieve green growth and climate compatible development.

As a natural progression from NDC planning to implementation, this project represents CDKN's contribution to closing the knowledge gap in developing proposals to access climate finance for implementation action. The aim of this paper is, with a forward-looking view, to synthesise key lessons from CDKN's project experience and from practitioners in developing countries, and better inform the implementation and achievement of global goals for climate resilience and low carbon development.

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## About the authors

Charlotte Ellis and Kamlesh Pillay have been working on the above project and this report with the aim of assisting developing-country policy-makers who wish to engage with international climate funds. Charlotte, who holds a master's degree specialising in Applied Development Economics from the University of Cape Town, has a project management role with CDKN, in Negotiations Support to the Africa Group of Negotiators (AGN). Kamleshan, seconded from CDKN climate development partner SouthSouthNorth, is a climate finance specialist.

## CDKN's climate finance programme

CDKN has supported a process of building climate finance readiness in seven countries: Rwanda, Colombia, Peru, Ethiopia, Pakistan, Indonesia and Bangladesh. In addition, a number of CDKN projects have, to a certain extent, influenced the design and operationalisation of the Global Climate Fund (GCF), including the Climate Finance Advisory Service (CFAS) project, which has continued to support selected members and advisers of the GCF Board, the Adaptation Fund and the Standing Committee on Finance of the United Nations Framework Convention on Climate Change (UNFCCC).

In another project, work with Both ENDS and a consortium of five Southern Civil Society Organisations (CSOs) facilitated enhanced knowledge of participating CSOs in international climate finance issues and contributed to increased engagement by GCF negotiators on the role and opportunities for direct local access to the GCF. CDKN has also worked with Dalberg to prepare advisory documents on the role and needs of micro-, small- and medium-scale enterprises (MSMEs) and National Climate Funds (NCFs) in the climate finance landscape. In addition, in 2014, CDKN and the Adaptation Fund launched a joint website at [climatefinanceready.org](http://climatefinanceready.org).

## Acknowledgements

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## 1. Introduction

Climate change represents one of the greatest threats of the 21st Century. Many of the populations in developing countries are likely to experience the impacts of climate change more acutely, owing, in part, to higher vulnerabilities. Vulnerable countries may also lack adaptive capacity and financial resource to respond adequately to climate change impacts. The World Bank estimates that the global economy will need around \$4.1 trillion in incremental investment between 2015 to 2030 to keep the temperature rise within the internationally agreed limit of 2°C.<sup>2</sup> Meeting this target will require significant investments in climate action, and a shift in focus towards a low-carbon, carbon-resilient development future.

Developed countries have pledged that, by 2020, the annual amount mobilised from public and private sources will reach at least \$100 billion to help developing countries mitigate and adapt to climate change.<sup>3</sup> This represents a significant commitment, and speaks to the scale of funding required to meet the climate challenge. These funds will have to come not only from public finance, but private climate finance will also become an increasingly important source.

The magnitude of the challenge and the funding needed to meet it has brought international climate finance into the spotlight, particularly the role of the Green Climate Fund (GCF). The GCF was created by the United Nations Framework Convention on Climate Change (UNFCCC) in 2010 to channel a large share of new multilateral funding into addressing the adaptation and mitigation needs of developing countries. The GCF became fully operational in 2015 and has raised over \$10 billion by December of that year.

The 21st meeting of the Conference of Parties to the UNFCCC (COP 21) marked an important milestone in the history of negotiations with the signing of the Paris Agreement. This agreement recognises the need for significant reductions in global emissions to meet the long-term goal also agreed: limiting global temperatures to well below 2°C above pre-industrial levels.<sup>4</sup> The Paris Agreement has also created the political impetus for countries to translate national targets and strategies, in the form of Intended Nationally Determined Contributions (abbreviated to (I)NDCs and hereon referred to simply as NDCs).

Countries are now focusing on the implementation of their NDCs. As submitted, however, they vary in content, and some lack technical information about how these targets will translate into implementation on the ground. A number of development partners have analysed NDCs, including the Overseas Development Institute (ODI).<sup>5</sup> CDKN has developed an NDC Quick Start Guide to provide detail on the activities that developing countries can include in their NDC implementation plans.<sup>6</sup>

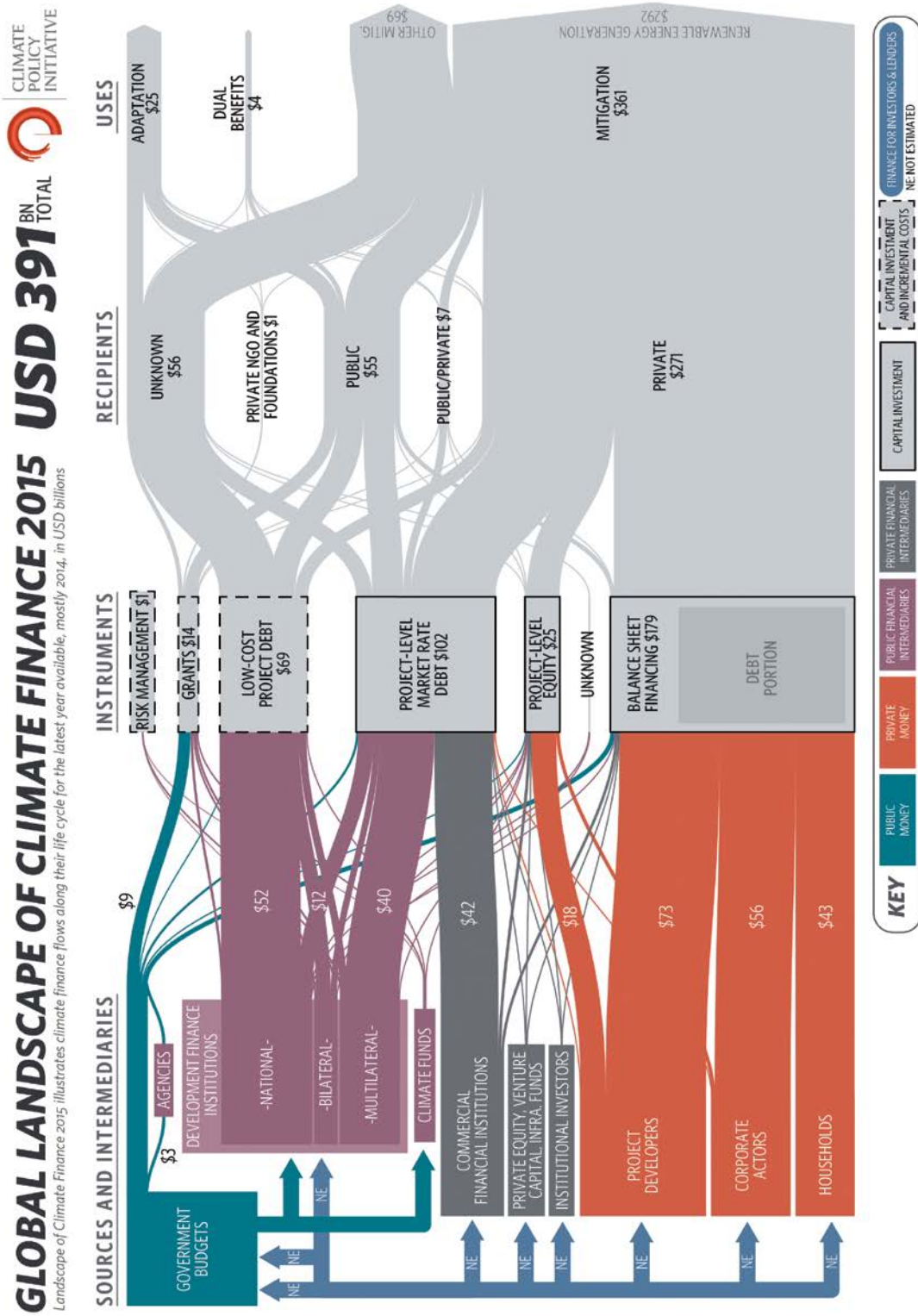
In delivering national promises on climate and development, the implementation of the Paris Agreement will form a major contribution by individual countries towards a safer global climate outcome. Climate finance will play a critical role in the implementation of these NDCs, and building the capacity of developing countries to access climate finance is of paramount importance.

### The complexities of the climate finance landscape

The GCF is currently the largest multilateral climate fund, and climate change and development practitioners alike are focused on seeing these resources flow. The GCF represents a critical source of climate finance for developing countries and the fund has been at the centre of future prospects for financing climate change action. The climate finance landscape extends beyond the parameters of the GCF, however, and the availability of funding from various sources – national and international, public and private – means that the climate finance arena is a complex and dynamic one to navigate (Figure 1).

If countries are going to access the scale of funding required, it is critical to consider the full spectrum of funding sources and their requirements, as well as the different mechanisms available from them, and how they can be combined. This makes the process of accessing climate finance especially complex.

Figure 1. The climate finance landscape



Courtesy of the Climate Policy Initiative

The critical challenge remains for developing countries to ensure access to those funds, in order to adapt to the impacts associated with the current and future climate, and to support the implementation of their NDCs. This challenge, particularly in relation to meeting the stringent requirements of prominent funds like the Adaptation Fund and the GCF in particular, is evident in the slow absorption of the available finance flows.

## 2. Demystifying bankability

The first step in readiness for climate finance is an ability to identify suitable sources of finance. Second, the development of strong, fundable proposals requires a sufficient understanding of bankability. In 2013-2014, a CDKN project supported Indonesian and West African national climate change policy-makers to better understand how to ensure local access to the Green Climate Fund at the national and international level.<sup>8</sup> This process revealed that governments are not adequately prepared in terms of developing bankable projects, yet continue to invest significant resources in proposal development for various climate finance sources, including direct access.

CDKN's thinking around 'bankable proposals' progressed further in 2015, with the realisation that while national accreditation is the first piece of the puzzle, the capability to mobilise resources for climate compatible development relies, in turn, on an ability to develop 'bankable projects'. For most countries, this often presents a challenge. In 2015, CDKN hosted a South-South learning exchange in Kigali, Rwanda, where participants highlighted the difficulty of developing suitable funding proposals without first having clarity on the use and meaning of 'bankable'.

The term 'bankability' originated in the finance sector and typically refers to projects that have a return on investment or positive Net Present Value (NPV). Its use in the international climate finance space has become increasingly popular, although it is also often used interchangeably with words like fundability and eligibility. These latter terms do though have very different meanings for different funders and stakeholders, and in different contexts. It is therefore necessary to make clearer distinctions between the various terminologies associated with the term bankable, and to clarify what bankable means in the context of developing project proposals for different sources of climate funds.

Recognising the need for a more nuanced definition of bankability, CDKN hosted a brainstorming lunch at COP 21 in Paris (2015) with various stakeholders, including government, private sector and National Implementing Entities (NIEs). Factors considered relevant to a definition of project bankability included vision and transformation, and time and scale, with strong reference to a project's ability to contribute to paradigm shifts and long-term transformation. These initial discussions were instructive, and paved the way for future enquiries into the topic.

In May 2016, CDKN partnered with the Ministry of Environment of Peru to host a South-South learning exchange in Lima, as part of ongoing learning to inform CDKN's focus on climate finance and its role in supporting the development of bankable project proposals. It provided a platform for CDKN project partners to discuss their understanding of the bankability theme and share what they considered to be important aspects of bankability. *This paper will highlight the seven lessons that form the outcomes of these Lima discussions.*

### Bankability and challenges in accessing GCF funds

While the GCF has approved significant amounts of funding to support country readiness,<sup>9</sup> the approval of actual project funding has been lower than anticipated. Moreover, GCF funding support for country readiness has mostly been in two of the activity areas of the GCF readiness framework – support for National Designated Authorities (NDAs) and strategic frameworks for investment – and fewer funds have gone towards project proposal preparations. Nevertheless, the GCF is making a concerted effort to provide countries with preparatory support in several ways, for example through this readiness funding, but also in support of enhanced direct access. This enhances country ownership of projects via Requests for Proposals (RFPs) for pilot projects, which, if supported by a good project concept note, present opportunities for national entities to be fast-tracked through the GCF accreditation process.

The GCF remains constrained, though, in its ability to disburse funding as a result of the poor quality of project proposals in the pipeline. Where projects have been approved, it has been with conditions, which is directly linked to poor project design. These conditions often make the project difficult to implement, and may lead to significant delays in this actual implementation. Delays may in turn affect the bankability of the project as market conditions and/or opportunity costs may change. They also pose significant risk, therefore potentially discouraging private sector investment. The pipeline of concept notes is thus significantly longer compared with the approvals pipeline since projects approvals are slower.<sup>10</sup> Lastly, there is a considerable length of time between countries developing a concept note and developing a full project proposal.

To some extent, the problem demonstrates the lack of capacities to develop bankable projects – that is, projects that are able to attract funding – as well as to fulfil the GCF's fiduciary standards and requirements in the fund's investment framework (see the criteria for the GCF framework in the checklist on page 15). The GCF places emphasis, for example, on the development and submission of country programme approaches as an important consideration for the proposal approvals process.<sup>11</sup> While countries have developed national policies and strategies, these do not always meet the criteria for a programmatic approach.

As a result of the complex and stringent requirements, countries have spent a significant amount of resources on various aspects of climate finance readiness. However, this has been focused mainly on building the necessary institutional, technical and fiduciary capacities associated with the four pillars of climate finance (planning, access, delivery and monitoring, reporting and verification), as opposed to understanding how to make climate projects bankable. What is missing in terms of readiness is a nuanced understanding of the term bankability and what it means for various funders.

This paper seeks to begin to explore these aspects, to provide some useful insight into the key determinants of bankability. It is hoped that further understanding bankability, and the key factors that go into developing a bankable project within the context of the different funds, will improve the success rate of proposals, but also limit the waste in significant costs and resources associated with developing unsuccessful proposals.

### **3. Bankability – lessons from CDKN's climate finance support**

The remainder of the paper explores the elements of 'bankability' to provide a better understanding of how conceptions of bankability differ by funder, and to develop a framework of key criteria for bankability and the required capacities in each case.<sup>12</sup> The different elements of bankability discussed below represent the perspectives of climate funds, as well as public and private stakeholders, and provides some preliminary insight into the elements that are commonly considered in terms of supporting the development of bankable projects.

#### **Lesson 1. The definition of bankability for climate change projects goes beyond the standard/traditional definition of bankability**

As outlined above, the traditional definition of bankability refers mainly to financial returns and determining whether the project will be profitable for an investor. Bankability in the context of climate change goes beyond this to encompass socioeconomic/social metrics, including, for example, improvements in the resilience of communities, and/or alignment with national priorities. In many instances, these additional elements are not easily quantified, which contributes to the grey area between bankability and eligibility, another term commonly referred to in relation to accessing finance. Eligibility in this context refers to the degree to which the project fits the criteria of the specific fund in question.

However, while bankability is typically defined with reference to the financial returns on investment, in contrast, the indicators for eligibility typically refer to more dimensions, for example whether or not the project complies with strategic objectives of the fund in question. Therefore, in the context of



climate change projects, the definition of bankability should be wider and encompass both financial returns and capture the social/environmental benefits of projects.

It should also be noted that the financial returns aspect of bankability is often associated more with mitigation projects, while adaptation projects are typically concerned with the socioeconomic dimensions associated with eligibility.

## **Lesson 2. Bankability is understood and perceived differently among stakeholders, yet is at the core of developing successful project proposals**

One of the challenges with developing bankable project proposals is that the definition varies between stakeholders including project proponents, project developers and funders.

### **Bankability from the perspective of international climate funds**

Most climate funds – the Adaptation Fund and the GCF in particular – place emphasis on a project's **scalability and contribution to long-term transformation at country level**, and consider these to be important determinants of a project's bankability. Moreover, projects and programmes that can be delivered at scale will be more likely to contribute to transformational change and a paradigm shift, and are therefore more likely to be considered 'bankable'.

Similarly, **ownership** at national and subnational level is another key determinant of project bankability. National ownership relates directly to the potential sustainability of projects because it implies that national resources will be invested into sustaining the project beyond the lifetime of donor funding. It also plays a key role in reducing the perceived risk of investment to potential financiers.

One of the challenges to preparing bankable projects relates to skills and capacity to write strong project proposals, including access to data and information to support this process. As a result, most governments rely extensively on the expertise of international consultants in planning and accessing climate finance and, as a result, there is often a fine balance between country ownership and being able to develop good project proposals. Direct access is another important consideration that emphasises the importance of country ownership because it enables the receipt and disbursement of finance resources by national entities and/or institutions. The GCF does not make specific reference to projects as being bankable per se, because this would imply that the private sector were willing to finance them, and therefore that GCF funding was not necessary. However, the GCF can assist in making a project bankable and help to explore opportunities to engage the private sector by doing so. The GCF does nevertheless have a set of criteria and indicative assessment factors with which it assesses projects (Box 1).

### **Bankability from the perspective national funds**

For a national funds like Rwanda's FONERWA, a bankable project is one that **responds to national priorities** as well as the fund's priorities, which in FONERWA's case is conservation and resource use, technology transfer and mainstreaming climate change into development. In addition, FONERWA looks at projects that are sustainable, in the sense that they will be self-sufficient once it stops funding them, and at projects of sound quality.

Ministerio del Ambiente in Peru (MINAM) focuses on developing a pipeline of 'bankable' projects to support the implementation of the country's NDC. An assessment of MINAM's use of the term bankable presents potentially valuable lessons on bankability. MINAM looks for both eligibility and bankability criteria in assessing projects. In terms of eligibility, the **strength of the project team** and stakeholder engagement in project design and implementation are considered. In terms of bankability, **financial soundness and cost-effectiveness, emissions reductions potential and national ownership** are considered. The paradigm shift potential of the project is an additional consideration, which in the case of MINAM is an assessment of the contribution to national priorities, additionality<sup>13</sup> and associated co-benefits<sup>14</sup> of the project.

### Box 1. The GCF's investment criteria

Funding requirements differ widely between various climate funds. As such, the definition of bankability will also depend on the multilateral fund in question. For the Global Climate Fund (GCF), a project is likely to be perceived as bankable if it aligns with the GCF's strategic objectives. A good proposal is one that considers the criteria outlined in the GCF Investment Framework. This includes consideration of the following factors:

- potential for impact in adaptation and mitigation
- opportunity to provide a paradigm shift
- sustainable development potential and co-benefits
- needs of recipients
- country ownership promotion
- efficiency and effectiveness in terms of the technical, economic and financial soundness
- cross-cutting approach in terms of both mitigation and adaptation.

The fund has also approved a gender policy that weights a project favourably if gender equity is considered. In the context of the GCF, these are the elements that must be considered to have a bankable proposal. In terms of what is bankable, the GCF also considers this to be a project that is of high quality and validated by different stakeholders as well as the National Designated Authority (NDC).

### Lesson 3. The determinants of bankability vary depending on whether the source of funding is public or private

Factors that contribute to the bankability of a project will depend largely on whether the source of finance is from the public or private sector, and its respective objectives.

#### Bankability from the private and public sector perspective

From the private sector perspective, the costs and benefits of the project, and hence the **profitability and potential financial returns** of the project are key aspects of bankability and are given prominent weighting. These factors, together with the **potential risk-return ratio**<sup>15</sup> are those often considered by private sector actors and are likely to determine private sector interest in climate-related investments. For this sector, however, ensuring a project is bankable requires that it fits into the fund's mandate, in addition to it being able **to leverage funding and have a minimum equity commitment**.<sup>16</sup>

Moreover, the **project risks must be clearly identified and mitigated** and the **project cost** must also be considered. The financial profits (returns) likely to be yielded by an investment will be more heavily weighted by the private sector, compared with public sector stakeholders and multilateral donor funders. The latter may place more emphasis on social returns and developmental potential, and environmental benefits such as contribution to emissions reduction.

Understanding these project aspects is therefore key to being able to leverage investment from the private sector. For example, in the case of CDKN's project in Colombia – which involved evaluating the feasibility of green bond issuances – the government's assessment of the private sector's appetite for green bond issuances was important to determine how rapidly a green bond market could be developed.

There is also a notable difference in the language used by the public and private sectors with reference to bankability. Government stakeholders in the public sector, for example, typically use more conventional development language compared with the private sector, which uses more financial terminology. In emphasising the social impacts and social returns on investment more strongly, the public sector also gives higher weighting for gender considerations and for the consideration of indigenous peoples' rights and privileges. In the case of the Rwandan national fund,

FONERWA's criteria include the potential social and environmental impact in addition to the potential returns on investment.

Language around bankability thus differs according to different stakeholders, but also according to the broader classifications of the public and private sectors. Understanding the differences in the use of the term bankability, and the language surrounding it, presents a unique opportunity to explore how overlaps can support and strengthen public-private partnerships.

#### **Lesson 4. Successful access to climate finance depends on understanding the funder's perspective of 'bankable'**

The Adaptation Fund does not typically refer to projects as being 'bankable' because the focus of the fund is on grants, which implies that there is no need for projects to be bankable in the financial sense of the word. Instead, the Adaptation Fund refers to projects as being '**fundable**' or '**financeable**' and describes a successful project as one that has impact, contributes to longer-term resilience in the project area, and one that has considered possible project risks. Factors that the Adaptation Fund considers in relation to fundability include sustainability and cost-effectiveness, as well as whether or not the project has a strong project team for implementation. Therefore, considering the varying priorities of different climate funds makes developing bankable project proposals an increasingly complex task.

The following are case studies from CDKN's work that highlight the aspects of bankability identified as important in the particular context of the project.

##### **Good project preparation is key to bankability**

In 2016, CDKN funded a project to support the Inter-Governmental Authority on Development (IGAD) in the design of a new approach to address the lack of access to climate finance in support of 'on-the-ground' implementation of water infrastructure projects in the IGAD region in the Horn of Africa (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda). IGAD has a mandate to address water security and regional development, and to develop and support the implementation of comprehensive, regional programmes for water security and climate resilience – the IGAD Drought Resilience Strategy Initiative (IDDRSI). This project involved designing a mechanism to support project preparation activities, given the slow rate of preparing bankable infrastructure projects (a mechanism called the IGAD/IDDRSI Climate Resilience Infrastructure Facility).

One of the lessons that emerged from this project is that **bankability requires adequate project preparation**, and one of the reasons for the lack of access to climate finance for water infrastructure development is the lack of expertise to develop bankable projects. The project team identified that for a project to be bankable by a range of public and private institutional funders it must undergo a high-quality project preparation process. This includes consideration of risks, support for feasibility and engineering studies, environmental impact assessments, public-private partnerships, financing plans, and legal analysis. The IGAD project identified the six phases of the project preparation cycle, as outlined in Figure 2, to support the development of bankable projects.

##### **Lessons from developing bankable climate finance projects in Kenya**

The Enhancing Direct Access to Adaptation Funding in Kenya project funded by CDKN aimed to provide support in developing climate finance proposals. The project supported GCF proposal development, which included economic and financial analyses as key aspects of bankability. CDKN supported the government of Kenya in a process led by the National Treasury (the national NDA), the Ministry of Environment, and the country's National Environment Management Authority (the National Implementing Entity). Four proposal development teams were formed as part of the process, with representation from different stakeholders, including civil society and the private sector, which ensured country ownership throughout the process. Moreover, the GCF investment criteria were used in developing the full proposals, while capacity-building simultaneously helped to ensure understanding of the GCF investment framework and approval criteria. All this helped to ensure adherence to the bankability aspects that are important to the GCF.<sup>17</sup>

**Figure 2. Stage of project preparation cycle**

1. Enabling environment	2. Project definition	3. Project feasibility	4. Project structuring	5. Transaction	6. Project implementation
<ul style="list-style-type: none"> <li>• Designing legislation and regulatory approaches</li> <li>• Reforming policy and institutions</li> <li>• Building capacity and consensus to support the project</li> </ul>	<ul style="list-style-type: none"> <li>• Prioritising projects</li> <li>• Identifying project outputs and project champions</li> <li>• Conducting pre-feasibility studies</li> <li>• Preparing action plans and terms of reference</li> </ul>	<ul style="list-style-type: none"> <li>• Conducting environmental, technical, social, and economic studies</li> <li>• Performing financial modelling</li> </ul>	<ul style="list-style-type: none"> <li>• Structuring project finance</li> <li>• Designing legal entities</li> <li>• Evaluating public versus private options</li> <li>• Marketing the project and assessing private-sector interest</li> </ul>	<ul style="list-style-type: none"> <li>• Designing legislation and regulatory approaches</li> <li>• Reforming policy and institutions</li> <li>• Building capacity and consensus to support the project</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring and evaluating project performance</li> <li>• Conducting tariff reviews</li> <li>• Renegotiating or refinancing project</li> </ul>

Through this process, the project team identified a number of lessons associated with the demonstration of bankability, including:

- **The need for coordinated climate project identification and appraisal structures at national level.** Efforts have been for institutions to be able to take the lead in identifying and developing bankable projects for the GCF, for example through National Implementing Entities (NIEs) (in Kenya’s case, the National Environment Management Authority). However, more needs to be done to coordinate identification and appraisal of bankable projects that both meet climate financiers’ requirements and benefit vulnerable communities by enhancing their climate resilience.
- **The need to enhance national capacity for financial and economic analysis.** Potential executing entities in the country have, for example, limited capacity in articulating the financial risks and returns of proposed projects through cost-benefit and economic analyses. Climate funds such as the GCF require as part of the project preparation process, comprehensive financial and economic analyses as well as, in some cases, pre-feasibility and feasibility studies.
- **Costing and availability of climate data.** Challenges associated with financial costing, cost-benefit analysis, and with availability of data impact the ability to demonstrate project bankability. Data availability is critical to developing bankable project proposals. Feasibility studies, and a calculation of returns on investment, are also important in assessing the bankability of proposed interventions. This is especially the case for ‘soft’ interventions, where it is difficult to measure some returns, such as capacity-building, awareness-creation and public-good investments.

**Lesson 5. Bankability of a project depends on the structure of the finance model and the selection of financial instruments**

**Rwanda**

Rwanda, one of CDKN’s focal countries, has received support in establishing its national climate fund, FONERWA.<sup>19</sup> The capitalisation of the fund was initially through earmarked public funds and from the UK’s Department for International Development (DFID), which provided £22.5 million in seed funding. CDKN funded elements of the Ministry of Natural Resources’ (MINIRENA) proposal to the GCF, ensuring that the proposal was developed in line with GCF requirements.

The proposal is still under development and has received funding from the GCF’s Project Preparation Facility to assess the feasibility of the proposed interventions and the financial models proposed. So far, this experience has shown that some types of project need to be designed for financing through a combination of both grants and loans to ensure their long-term financial viability and their bankability. Blending of different types of funding instruments can contribute to the bankability of project proposals from the perspective of the funder.

In addition, **it can be argued that all projects must be fundable, but not all projects need to be bankable**, and this is determined by the type of financial instrument and structure of the financial model. For example, a project proposal for grant funding need not be bankable in terms of providing a return on investment, yet it must be fundable in the sense that it adheres to the various eligibility criteria.

### **Lesson 6. The definition of bankability depends on the type of project, whether mitigation or adaptation**

Another key consideration in defining the bankability relates to whether the project is a mitigation or adaptation project. The characteristics making mitigation or adaptation projects bankable may be fundamentally different. In a case of mitigation, emissions reductions would be an essential characteristic to assess, while in an adaptation context, risk and vulnerability reduction are attributes that could contribute to a project being bankable. As discussed previously, mitigation projects are typically more likely to be revenue-generating and therefore likely to be aligned with financial indicators. Adaptation projects are more likely to be associated with non-financial indicators of bankability, such as social impact and potential for emissions reduction.

Therefore, whereas bankability usually refers to the financial returns on investment, in contrast, the indicators for eligibility typically refer to whether or not the project complies with national strategies and whether the project meets the requirements of the investment framework of a particular fund. In that light, it can be said that mitigation projects lend themselves to factors of bankability, whereas adaptation projects lend themselves to factors associated more with eligibility.

#### **Pakistan community disaster risk insurance**

A CDKN supported project on Disaster Risk Insurance for Vulnerable Communities in Pakistan looks at ways of creating disaster risk insurance – to allow communities to better respond to the impacts of climate disaster by improving local capacity and reinforcing or adapting the existing infrastructure. Pakistan has relied historically on its domestic budget and international aid during natural disasters. This over-reliance on these sources of disaster risk financing has limitations in terms of the efficiency, effectiveness and sufficiency of financing. Disaster risk insurance ensures liquidity immediately after a disaster, to ensure when government funds are scarce that essential needs are managed by vulnerable communities and a speedy recovery is ensured.

There is a significant gap in the disaster risk reduction capacity at the district level in Pakistan where, even in highly vulnerable districts, part-time officials are managing disasters. Given this lack of capacity, the effectiveness of this financial instrument may be reduced if parameters such as the exposure of different districts to hazards has been captured incorrectly. Understanding hazard characteristics such as exposure and vulnerability is crucial in determining the insurance premiums offered by a disaster risk insurance scheme.

Determining whether or not a disaster risk insurance scheme is bankable is dependent on whether the insurance product is being developed by the public or private sector. For a disaster risk insurance scheme implemented by a public actor, a project would be considered bankable if it were able to demonstrate that the vulnerability of communities receiving payouts had been reduced following the disaster. If a private-sector actor were implementing the disaster risk insurance scheme, bankability criteria would be related more to the potential revenue generation from the policies purchased. It is important to note that bankability is often intertwined with aspects of feasibility: in this case, issues related to the spatial distribution of hazards across districts, and the insurance penetration rates of a given region, would be of interest to both public and private actors implementing insurance products.

It is necessary for governments to understand the financial instruments in this way, and the technical aspects of those instruments, in order to ensure the project is sustainable and thus bankable.

An additional lesson that emerged from the project relates to the need for national ownership and the importance of working with local partners, who have the required local knowledge and generally

operate at lower levels of cost than INGOs. This reinforces the need for national ownership and the need for capacity-building of local institutions to develop proposals and reduce reliance on external consultants.

### **Lesson 7. Bankability of a project depends on the ability to demonstrate a programmatic approach and the potential for a paradigm shift**

The GCF promotes a programmatic approach to funding proposals, and provides support in the development of country programmes through its Readiness Programme. Any programme developed and submitted for GCF consideration, including the individual projects within it, should contribute to the GCF's ultimate objectives, as defined in the Governing Instrument<sup>19</sup> – including the promotion of a paradigm shift towards low-emission and climate-resilient development pathways. Achieving a paradigm shift includes the achievement of climate outcomes that extend beyond the desired outcomes a stand-alone project might achieve.<sup>20</sup> The GCF's investment framework defines the paradigm shift potential of projects as opportunities for scaling up and replication; innovation; potential for knowledge and learning, and for sustainability; and creation of an enabling environment and regulatory framework. An innovative project in the case of the GCF is one that demonstrates an opportunity to target new market segments, to develop or adopt new technologies, or to provide for a shift in business models and/or processes.<sup>21</sup>

A transformative and paradigm-shifting potential is context-specific, but requires a cross-sectoral approach and national ownership.

#### **Water sector proposals in Ethiopia**

In trying to understand what is required in developing bankable projects for the GCF, CDKN and LTS International supported the Government of Ethiopia with GCF pipeline investment planning for the water sector, to ensure high-quality projects are submitted to the GCF. Four key lessons emerged from the project. 1) Important to enabling bankable proposal development, is communication and awareness-raising about GCF procedures among line ministries and other units tasked with the development of climate plans and programmes. Moreover, although meeting the stringent requirements of funds like the GCF can appear taxing, often what is more important is ensuring good programme design. 2) There is a fine balance between technocratic 'best fit' and pragmatic national priorities. It is often difficult to identify ideas that represent the best fit for both national priorities and those of the funder. Finding a pragmatic way through this challenge requires a high level of flexibility, and a willingness to listen and support national priorities and processes. This emphasises the importance of building 'adaptive management' systems for learning and evaluation. 3) A cross-sectoral approach that involves technical staff across various sectors is important when planning and developing project proposals. 4) Finally, it is important to ensure that national government experts take ownership of the process of developing proposals, while supporting continued dialogue with external consultants. That way, capacities for proposal development are harnessed and national experts are encouraged to develop proposals independently over time. The experience from Ethiopia helps to identify these key considerations when developing bankable project proposals, whether for the GCF or any other fund.

However, working with sectoral proposal development demonstrated the risk of siloed approaches, which can miss opportunities for truly transformational approaches. As a result, CDKN subsequently supported Ethiopia's consolidation and repackaging of sector proposals into programmatic GCF proposals. This had the aim of strategically merging project proposals prepared by individual sectors, into two broad-based programmes. The overall aim of the project was to produce bankable programmatic proposals that were transformative and aligned with the national Growth and Transformation Plan II. An important aspect of developing cross-sectoral programmatic proposals is ensuring line ministries across all sectors have knowledge of climate funds and their requirements.

#### **Overall insights from the lessons learned**

Based on the insights emerging from the case studies and discussions on bankability, it is clear that there are various complexities surrounding any attempt to define bankability. As a result, there is

no accurate and holistic definition that can adequately take into account the various perspectives and contexts in which the term is understood. This discussion has shown, however, that there is nonetheless a number of common criteria forming the prerequisite, determining characteristics of bankability. These are outlined in the following section, which aims to provide a guiding checklist.

## 4. Reaching an understanding of what determines bankability for international multilateral climate funds

### Common aspects

While bankability has different meanings for various funds and stakeholders, there are a number of common aspects that represent the key determinants of bankability.

Our development of a set of criteria seeks to address the need for a standardised set of indicators of bankability. The checklist we have drawn together (see page 15) aims to provide some guidance on what constitutes bankability and the key considerations when developing bankable project proposals. It represents an initial effort towards filling the gap of understanding bankability and promises long-term impact by supporting the development of proposals that can unlock finance for climate compatible development.

A number of issues determine bankability, some of which are specific to the project context and this checklist does not claim to provide a panacea for bankability. Nor does it aim to provide the full range of bankability determinants. It simply provides a list that is indicative of bankability, and a point of departure from which to start understanding the indicators that need to be considered when developing bankable project proposals. Moreover, it brings to light the need for further inquiry when in discussions involving the term bankable, which need to recognise the nuances of its definition.

A key lesson is that bankability is not an absolute term and cannot be measured directly; instead, bankability is assessed on the basis of the extent to which the determinants are fulfilled, noting that some of these can be measured directly, while others are a matter of objective opinion.

Nevertheless, in developing project proposals, project developers need to consider all the determinants of bankability in order to improve their prospects of access to climate finance. The aim of this paper has been to provide guidance in designing project proposals. It is targeted at teams involved in developing project proposals to funding mechanisms like the Green Climate Fund and Adaptation Fund, among others. While the checklist does include some aspects of bankability important to the private sector, it mainly outlines criteria that are a high priority for international multilateral funds.

The checklist can be used to guide the appraisal and screening of proposals in relation to the extent to which they can be considered bankable, as well as to compare the potential bankability across different project proposals.

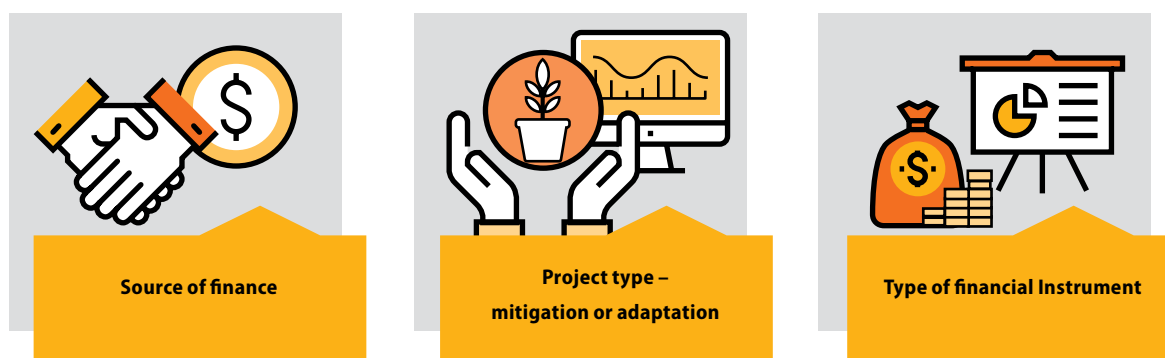
### What are the determinants of bankability?

In assessing the bankability of a project, there are three key overarching considerations that underpin bankability:

- the source of the finance – whether the funding is from the public or private sector, or includes a public-private partnership
- the type of project – whether adaptation or mitigation
- the type of financial instrument being used.

Among the several key determinants of bankability shown in the checklist on page 15, the characteristics most often referred to include impact (social and environmental), effectiveness, efficiency, and alignment with recipient needs. Aspects of bankability should be taken into account after considering the three overarching concerns of bankability shown in Figure 3. These

**Figure 3. Important aspects that underpin the determination of bankability**



determinants of bankability are not weighted in order of importance, and should be viewed as being of equal importance and in parallel. The self-assessment scoring columns (fully, mostly or not met) are an opportunity to mark the extent to which bankability criteria have been met, and should be done on a project-by-project basis.

The content and development of this checklist has been informed by the lessons and practical experiences of development practitioners and national governments that have developed project proposals. It has also been informed by the practical experiences of the CDKN team providing technical support to in-country proposal development processes.

With the GCF being the most prominent climate fund of its kind, the checklist includes aspects of GCF Investment Criteria. Moreover, the GCF has developed a set of rigorous criteria for developing project proposals, and therefore provides a benchmark for starting to understand what goes into developing bankable project proposals. As the checklist title suggests, however, it is not unique to GCF-targeted work; it is also relevant to multilateral public funds more generally. The bankability checklist can be used to guide the self-assessment of the level of bankability of a project. Any determinants assigned the red colour need to be addressed to improve the bankability of the project proposals. Projects that score green on most determinants can generally be considered to be good or bankable proposals. These proposals are those that are most likely to be accepted by funders, and given that they meet a wide range of criteria, they can be submitted to more than one potential funder or donor with minimal adjustments.

What is clear is that bankability can be improved by ensuring there is a combination of the different dimensions of bankability: and they can be aligned with the targeted funder or source of funding. We hope that use of the checklist will improve the ease of developing project proposals that incorporate dimensions of bankability of importance to more than one funder – thus improving the potential for recycling proposals. This will in turn contribute to reducing the significant costs associated with project proposal development.

## 5. Conclusion

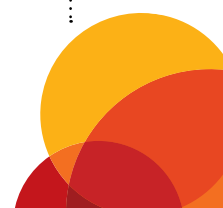
Significant amounts of financial support will be needed for developing countries to meet their climate change ambitions and to support progress towards their achievement of their Nationally Determined Contributions under the Paris Agreement. Access to climate finance, and the ability to unlock various sources of finance, will be critical. This will require a better understanding of how to develop project proposals that are bankable, which also requires an understanding of the term ‘bankability’ often used in the climate change and development space. The meaning of bankability, however, is very much dependent on the perspective of the stakeholder and the specific context, and while importance is placed on this term, there is no commonly agreed definition. Due to the various determinants and considerations associated with the term, any reference to ‘bankability’ requires a more detailed explanation to account for its nuances.



## Bankability good practice: a checklist

### Key determinants of bankability for international climate funds

	Fully met	Mostly met	Not met
<b>1. National ownership</b>			
The project proposal demonstrates national ownership and national direction on climate change: proposal is guided by existing national policy, as well as capacity for national entities to see the project through to implementation			
The proposal aligns with national strategic priorities: extent to which the objectives of the proposal align with those of key national climate change and development policies			
The project proposal has been informed and developed on the basis of multi-stakeholder engagement			
<b>2. Alignment with fund or donor priorities</b>			
The proposal aligns with the priorities and objectives of the specific fund/donor			
<b>3. Effectiveness</b>			
The project proposal demonstrates potential to achieve the intended objectives			
<b>4. Economic efficiency</b>			
The proposal has determined the cost-effectiveness and cost-benefit ratio of the project			
<b>5. Environmental and socioeconomic impact</b>			
The project proposal demonstrates potential for improvement in environmental indicators and meets the environmental safeguards and standards			
The proposal demonstrates potential for improvement in socioeconomic indicators and meets the social safeguards and standards			
<b>6. Strength of financing model</b>			
The project proposal has an appropriate financing strategy and the most appropriate financial instruments been explored and identified			
The project provides a reasonable and measurable return on investment that could promote private-sector investment			
The project proposal's Financial Proposal shows sustainability: the proposal incorporates aspects of long-term finance, and considers potential options for refinancing			
<b>7. Paradigm shift potential</b>			
The proposal demonstrates potential for achievement of sustainable development impact beyond the lifetime and/or ambit of the project e.g. through replicability or scalability <sup>22</sup>			
<b>8. Technology and innovation</b>			
The proposal incorporates innovative solutions and strengthens potential for future innovations <i>This factor is often considered but certainly not used as one of the hard criteria – a lack of new technologies and innovations does not rule out a project as being bankable</i>			
<b>9. Project team and track record</b>			
The project proposal has a strong project team that is capable of seeing the project through to implementation and completion			
<b>10. Gender equality</b>			
The proposal explicitly integrates gender and demonstrates adoption of a gender-sensitive approach, including specific gender elements to be included in the project activities			



In addition to understanding and meeting the complex funding requirements of multilateral funds, developing countries especially need to ensure a good understanding of the bankability and eligibility criteria of funding proposals. These proposals should take into account aspects outlined in this paper's checklist (see above), which include both explicatory aspects that can be measured directly, and other aspects that can be measured only subjectively and are open to interpretation. Nevertheless, taking into account all aspects of bankability presents an opportunity to ensure the advantages of unlocking climate finance.

## Further reading

Fayolle, V., Odianose, S., Soanes, M. (2017) 'GCF project toolkit 2017: guide to develop a project proposal for the Green Climate Fund (GCF)'. London: Acclimatise ([http://www.acclimatise.uk.com/login/uploaded/resources/GCF%20project%20Toolkit\\_20.01.2017\\_For%20Publication.pdf](http://www.acclimatise.uk.com/login/uploaded/resources/GCF%20project%20Toolkit_20.01.2017_For%20Publication.pdf)).

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GCF (no date) 'Readiness tools and guidebooks | GCF Readiness Programme'. Incheon: Green Climate Fund (GCF) (<http://www.gcfreadinessprogramme.org/readiness-tools-and-guidebooks>).

Limaye, D. R., Zhu, X. (2012) 'Accessing international financing for climate change mitigation – a guidebook for developing countries'. Roskilde: United Nations Environment Programme (UNEP) Risø Centre on Energy, Climate and Sustainable Development ([http://www.tech-action.org/-/media/Sites/Uneprioe/Publications%20\(Pdfs\)/TNA%20Guidebooks/TNA\\_Guidebook\\_MitigationFinancing.ashx](http://www.tech-action.org/-/media/Sites/Uneprioe/Publications%20(Pdfs)/TNA%20Guidebooks/TNA_Guidebook_MitigationFinancing.ashx)).

## Endnotes

1. CDKN (2017) 'Chapter 4: Resourcing climate compatible development' in *Mainstreaming climate compatible development*. London: Climate and Development Knowledge Network (CDKN) (<http://www.cdkn.org/mainstreaming/book/climate-compatible-development/resourcing-climate-compatible-development>).
2. The World Bank (2015) 'Mobilizing the billions and trillions for climate finance'. The World Bank Group (<http://www.worldbank.org/en/news/feature/2015/04/18/raising-trillions-for-climate-finance>).
3. Nakhooda, S. (2015) 'Climate finance: what was actually agreed in Paris?'. London: Overseas Development Institute (ODI) (<http://www.odi.org/comment/10201-climate-finance-agreed-paris-cop21>).
4. UNFCCC (2015) 'Historic Paris agreement on climate change: 195 nations set path to keep temperature rise well below 2 degrees Celsius'. Bonn: United Nations Framework Convention on Climate Change (UNFCCC) secretariat, UN Climate Change Newsroom (<http://newsroom.unfccc.int/unfccc-newsroom/finale-cop21>).
5. ODI (no date) 'COP21: ODI at the Paris climate conference: Our latest research and analysis on the global climate deal agreed by governments at the UN summit in Paris'. London: Overseas Development Institute (ODI) (<http://www.odi.org/cop21-odi-paris-climate-conference>).
6. More information on our NDC Quick Start Guide is available at the CDKN website (<http://www.cdkn.org/ndc-guide/book/planning-for-ndc-implementation-a-quick-start-guide/introduction/#about-this-quick-start-guide>).
7. Graphic with permission under Creative Commons licence (<http://creativecommons.org/licenses/by-nc-sa/3.0>). Credit: Buchner, B.K., Trabacchi, C., Mazza, F., Abramskiehn, D., Wang, D. (2015) 'Global landscape of climate finance 2015'. London: Climate Policy Initiative (CPI) (<http://climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2015>).
8. CDKN (no date) 'PROJECT: ensuring local access to the Green Climate Fund at the international and national level'. London: CDKN (<http://cdkn.org/project/local-access-green-climate-fund>).
9. Country readiness refers to a GCF programme that gives, through a dedicated funding window, support to developing countries. The programme helps to prepare countries for capacity to then access the main GCF global fund directly. More information is available at the website for the GCF readiness programme (<http://www.gcfreadinessprogramme.org/what-climate-finance-readiness>).
10. While concept notes do provide room for amendments to be made to the proposed project, concept notes are significantly less detailed than full proposals, which are expected to meet more criteria and checks and balances than concept notes.
11. GCF (2016) 'Programmatic approach to funding proposals' (report GCF/B.13/18). Incheon: Green Climate Fund (GCF) ([http://www.greenclimate.fund/documents/20182/226888/GCF\\_B.13\\_18\\_-\\_Programmatic\\_approach\\_to\\_funding\\_proposals.pdf/b97ef633-96c7-490f-84bf-304bb852980c?version=1.0](http://www.greenclimate.fund/documents/20182/226888/GCF_B.13_18_-_Programmatic_approach_to_funding_proposals.pdf/b97ef633-96c7-490f-84bf-304bb852980c?version=1.0)).
12. CDKN bankability discussion at COP 21 in Paris on 3 December 2015 (<http://www.cop21paris.org>).
13. Additionality in this context refers to the additional benefits that would not have otherwise happened in the absence of the investment in the activity.
14. Co-benefits refer to the additional, unintended outcomes and/or impacts of the project.
15. Risk/reward ratio refers to the relationship between the risk and potential reward in a particular investment.
16. Minimum equity commitment refers to the specific fund's requirement for minimum equity contribution to finance the project.
17. CDKN Africa project, 'Building the investment case for adaptation in Kenya' (see <http://cdkn.org/2016/06/film-building-adaptation-investment-case-africa>).
18. FONERWA presents a good example of getting the private sector involved in financing climate action but also includes involvement of a long-term strategy, which speaks to transformation.
19. Conference of the Parties to the UNFCCC (2011) 'Governing instrument for the green climate fund'. Durban, South Africa: Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) ([http://www.greenclimate.fund/documents/20182/574763/Governing\\_Instrument.pdf/caa6ce45-cd54-4ab0-9e37-fb637a9c6235](http://www.greenclimate.fund/documents/20182/574763/Governing_Instrument.pdf/caa6ce45-cd54-4ab0-9e37-fb637a9c6235)).
20. GCF (2016) *ibid*.
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22. Harmeling, S., Griebhaber, L. (2013) 'How can the Green Climate Fund initiate a paradigm shift?'. London: CDKN; Bonn: Germanwatch (<http://germanwatch.org/en/download/8382.pdf>).

## About CDKN

The Climate and Development Knowledge Network (CDKN) supports decision-makers in developing countries in designing and delivering climate compatible development. It does this by combining research, advisory services and knowledge-sharing in support of locally owned and managed policy processes. CDKN works in partnership with decision-makers in the public, private and non-governmental sectors nationally, regionally and globally.

## About SouthSouthNorth

SouthSouthNorth supports the transition towards climate compatible economies and societies in developing countries. This is facilitated through collaborative and stakeholder-driven country processes, as well as local-level actions, that address climate change and promote equitable access to sustainable development.



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