

Stakeholders' Perspectives on Carbon and Climate Finance in West Africa

BARRIERS AND OPPORTUNITIES



Imogen Long
Jean-Pierre Sfeir
Emana Nsikan-George
Szymon Mikolajczyk
Sandra Greiner
Tobias Hunzai
Maartje van den Biggelaar

10 May 2022



This technical report is a product of the West African Alliance on Carbon Markets and Climate Finance (the Alliance), developed by one of the Alliance's technical partners, Climate Focus with support from AERA group.

Authors (Climate Focus):

Imogen Long
Jean-Pierre Sfeir
Emana Nsikan-George
Szymon Mikolajczyk
Sandra Greiner
Tobias Hunzai
Maartje van den Biggelaar

Supported by:



This study is part of a project under the International Climate Initiative (IKI). The Federal Ministry for Economic Affairs and Climate Action supports this initiative. The views expressed in this publication are those of the authors and do not necessarily reflect the views of BMWK.

Stakeholders' Perspectives on Carbon and Climate Finance in West Africa: Barriers and Opportunities

10 May 2022

Acknowledgements:

The authors would like to sincerely thank the following people for sharing their insights and experiences for this scoping study: Ismene Ahamide Zounmenou (Ismast Energy, Benin), Cham cham Assadek (Conseil National de l'Environnement pour un Développement Durable, Niger), Tra Bi Boué (Societe De Forage Construction Energie Renouvelables et Equipements, Côte d'Ivoire), Rachel Boti-Douayoua (Ministry of Environment, Côte d'Ivoire), Sergi Cuadrat (Allcot Group, Spain), El hadji Mbaye Diagne (Afrique Energie Environnement, Senegal), Barassou Diawara (African Capacity Building Foundation, West Africa), Asmau Djibril (Ministry of Environment, Nigeria), Alexandre Dunod (AERA, West Africa), Alioune Fall (NC5 Mauritania), Alioune Fall (NC5 Mauritania), Eugene Itua (Natural Eco Capital, Nigeria), Christopher Kabah (Environment Protection Agency, Liberia), Muyi Kazim (Green World Consulting, West Africa), Rob Kelly (Development Contours, Global), Moubarak Moukaila (Banque Ouest-Africaine de Développement, West Africa), Sayouba Nana (Green Yellow International, West Africa), Gilles Parmentier (Africa REN, Senegal, Burkina Faso), Gareth Phillips (Banque Africaine de Développement, West Africa), Moudjahid Akorede Wabi (Ministry of Livelihood and Sustainable Development, Benin), Ousmane Fall Sarr (West African Alliance Coordinator), Samba Fall Sarr (ENDA, West African Alliance Secretariat).

Contents

Executive Summary	4
1. Introduction	10
2. Current State of Carbon & Climate Finance in West Africa	14
2.1 Climate Finance	16
2.2 Carbon Finance	27
3. Barriers to Climate Finance Access	36
3.1 Consultation Approach	38
3.2 Findings	40
4. Recommendations	59
Annex	66
Interview Questionnaire (Template for Project Developers)	67



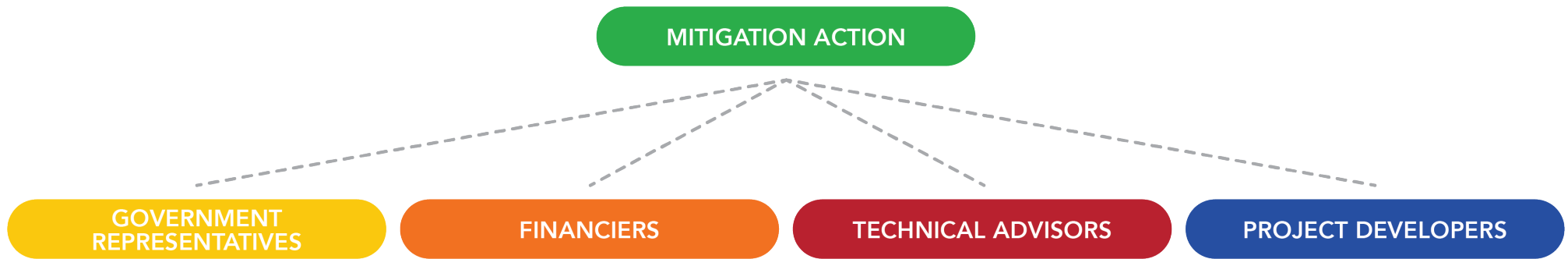
Executive Summary

Executive Summary

Africa will need to invest more than USD 3 trillion in mitigation and adaptation by 2030 in order to implement its Nationally Determined Contributions (NDCs), a sizable share of which will need to be channelled to West Africa. To date, West African countries have only accessed a small portion of global climate finance flows, with analysis suggesting the region has received only 4.4 percent of global flows from the major climate finance funds since 2006. New mechanisms introduced under the Paris Agreement, however, can play a critical role in unlocking climate change mitigation investments across the region. In particular, market mechanisms, de-risked by public climate finance can mobilise significant volumes of private sector investment for mitigation activities.

The West African Alliance for Carbon Markets and Climate Finance (the Alliance) supports the region's implementation of ambitious NDCs through, inter alia, supporting the inception of mitigation programmes and related capacity-building activities. Of the USD 864 million in international climate finance allocated to the region reached since 2006, only 30 percent has been disbursed to date, highlighting the presence of barriers hindering either the disbursement of finance, or mitigation projects on the ground. This study was developed to map the barriers withholding actors in the region from tapping into, and maximising the potential of, carbon markets and international climate finance.

A series of interviews were conducted at the start of 2022 with a range of private and public stakeholders involved in the development and implementation of climate change mitigation programmes in West Africa. The study focused on four different stakeholder groups: government representatives, development finance institutions, private investors, and technical advisors. The purpose of the interviews was twofold: to assess key barriers to the development of climate mitigation projects, as perceived by each stakeholder category; and to identify the specific needs of each stakeholder group in the context of scaling up access to climate- and carbon finance.



The results of this study suggest that barriers to the implementation of climate change mitigation projects in West Africa generally span four different areas: technical capacity, access to finance, institutional and political barriers.

Technical capacity was the most prominent theme that emerged from conversations across all stakeholder groups; evident along the entire length of the project cycle, from design through to project implementation. All interviewed project developers claimed that a lack of technical capacity was the central barrier hindering access project finance, as it prevents developers from advancing projects to a 'bankable' stage, as well as from sufficiently meeting donors' proposal requirements.

Access to finance, mainly lack of awareness about available financing opportunities, emerged as another major barrier. This was enhanced by reports that access to finance is highly dependent on specific project features such as company size, project type, and already secured pre-finance; as well as the suggestion that most banks in the region still perceive climate finance from the standpoint of traditional loans and assumption of risk is high, by default.

Institutional barriers, which prevent the creation of an enabling environment for finance flows, are also pervasive. It was found that a lack of clear, designated climate finance focal points at regional level in many West African countries limits the

flow of information between funders and project implementers. Excessive numbers of intermediaries are also preventing large volumes of allocated finance from reaching projects on the ground, often instead getting absorbed in bureaucratic processes. Limited engagement with – and awareness of – the VCM among government institutions was also reported to be limiting the scale-up of carbon mitigation activities in the region.

Political barriers were also found to shape access to finance in the region, by increasing perceived lending risk for private financiers, making loans for projects more difficult to obtain, and making borrowing and interest rates higher for developers.

The results of the scoping study indicate that barriers to climate finance in the West African sub-region are manifold, spanning a range of informational, technical capacity and financial issues. Recommendations are provided for how members of the Alliance – and the entire scope of implicated actors – can scale-up access to climate finance in the West African region.

RECOMMENDATIONS

Recommendation 1:

Increase government presence at regional levels

Increasing designated climate finance entities at regional level could help project developers better navigate the financial and bureaucratic landscape of project development. It could also help facilitate the flow of information back to institutional-level actors in charge of budget allocation, in turn enabling support to be better tailored to activity on the ground.

Recommendation 2:

Improve project developer access to technical resources

Targeted training courses – provided by government – could offer project developers a much more affordable option than private technical advisors, which are financially out of reach for many early-stage developers. Courses could cover project design, the preparation of proposals, project monitoring and evaluation, as well as national NDC priority sectors and the project types most relevant to national climate targets.

Recommendation 3:

Support finance providers to offer better tailored financing opportunities

Targeted training for finance providers can help financial providers better understand the distinct roles of carbon and climate finance, and offer project developers with better tailored finance opportunities.

Recommendation 4:

Use policy to create an enabling environment for carbon market engagement

Leveraging finance through the VCM can help unlock finance for the scale up of carbon mitigation projects. should also be a priority. A carbon market guidance document, tailored to the West African context, could help some governments in the region better understand the role of the VCM and the necessary preparatory steps for engagement.



Introduction

01

1. Introduction

West Africa has been identified as a climate-change hotspot, with climate change expected to severely impact regional weather patterns, impacting habitats and lessening crop yields, with resultant impacts on food security.¹ The region has been experiencing more frequent and intensifying climate extremes over the past decades, and the consequences of the world's warming by more than 1.5°C would have a profound effect on the region's nation states and its populations.

Africa will need to invest more than USD 3 trillion in mitigation and adaptation by 2030² in order to implement its Nationally Determined Contributions (NDCs), a sizable share of which will need to be channelled to West Africa. A recent technical assessment of the current climate finance flows to West African countries cited in the ECOWAS needs-based finance strategy report indicates that climate finance needs of ECOWAS member countries is estimated at USD 294 billion until 2030³. The Paris Agreement presents an opportunity for accessing such climate finance flows at scale, with the climate regime introducing a new set of market- and non-market mechanisms⁴ to facilitate investments in mitigation action. At the same time, developed countries are struggling to mobilise the promised USD 100 billion in annual climate financing, and West African countries to date have only accessed a small portion of global climate finance flows.

The new mechanisms introduced under the Paris Agreement can play a critical role in unlocking investments in climate change mitigation across West Africa, and the broader continent. Research shows that collaboration on Article 6 is sensible from the perspective of cost-effective global abatement as it allows participating countries to lower the overall

¹ UN (2018) Global warming: severe consequences for Africa. Available [here](#).

² AfDB (2021) Climate Change. Available [here](#)

³ ECOWAS (2021) Climate Finance Mobilization and Access Strategy. Available [here](#).

⁴ Article 6.2 establishes a decentralised mechanism through which Internationally Transferred Mitigation Outcomes (ITMOs) can be generated in one country and acquired by another. Article 6.4 creates a centralised crediting mechanism governed by the UNFCCC, in many ways akin to the Clean Development Mechanism (CDM), establishing a carbon market under international supervision where public and private actors can engage. Finally, Article 6.8 introduces a non-market approach for implementing mitigation actions.

costs of achieving mitigation targets. It further encourages international collaboration through which knowledge and technological developments can be accelerated. Market mechanisms effectively de-risked by public climate finance can furthermore mobilise significant private sector investment in mitigation action, which in the absence of markets would not be realised.^{5,6} 95 percent of West African countries already indicate in their NDC submission the intention to make use of international carbon markets, with 5 percent not yet having specified the role of markets in their NDC.⁷ This wide recognition of the role that markets will need to play in the region's climate change mitigation strategy, calls for scaled-up readiness support targeted at host country policy makers, project developers, and investors.

The West African Alliance for Carbon Markets and Climate Finance (the Alliance)⁸ supports the region's implementation of ambitious NDCs by providing assistance across three key pillars of work:

- Fostering active participation by West African delegates in the UNFCCC negotiations on market mechanisms, transparency and climate finance, thus ensuring that African priorities are reflected in the design of the new market approaches under Article 6;
- Enhancing in-country readiness for Article 6 implementation through the facilitation of capacity-building activities and the provision of hands-on advice on how to integrate Article 6 into national policy frameworks;
- Supporting the inception of mitigation activities in West Africa, including Article 6 pilot experiences, by creating a platform for member countries to connect with strategic partners of the Alliance, namely country governments, international financiers and technical experts.

⁵ IETA, University of Maryland and CPLC (2019) The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges. Available [here](#).

⁶ Climate Focus and IETA (2019) Modelling of Article 6 Implementation Scenarios. Significance for the EBRD Regions. Available [here](#).

⁷ West African Alliance on Carbon Markets and Climate Finance (2021). Article 6 Readiness in West Africa, Scoping Study.

⁸ The West African Alliance for Carbon Markets and Climate Finance. See <https://westafricaclimatealliance.org/>.

Under this framework, this study identifies the opportunities carbon markets and international climate finance can deliver to support West Africa's climate change mitigation efforts in the context of the Paris Agreement⁹. Specifically, this report serves to map the current set of barriers withholding market participants from using these two financing instruments to unlock scaled up investments in greenhouse mitigation activities in the region, and is informed by a series of interviews conducted at the start of 2022 with various private and public stakeholders in this topic.

The report is structured in three main sections:

- **Chapter 2** sets the stage by providing a detailed overview of the current state of the carbon market and climate finance in West Africa, analysing mobilised funding volumes, the types of mitigation actions that have been benefitting from these financial resources since the early 2000's, and the key actors that are deploying the finance.
- **Chapter 3** presents the outcomes of the interviews held with over 30 stakeholders, including government representatives, development finance institutions, private investors, and technical advisors. These insights relate to the barriers observed by these market actors, and reflect views from different West African countries.
- **Chapter 4** concludes this study by offering an overview of sectors, programmes and projects that stand to benefit from increased flows of carbon- and climate finance. This discussion serves to inform local policy makers and investors on the opportunities that these financing channels can deliver, and how best existing barriers to access may be overcome.

⁹ The countries analysed in this assessment correspond to the members of the Economic Community of West African States (ECOWAS): Benin, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Mali, Niger, Nigeria, Liberia, Burkina Faso, Sierra Leone, Senegal and Togo, plus Mauritania.

Current State of Carbon & Climate Finance in West Africa

02

2. Current State of Carbon & Climate Finance in West Africa

This chapter maps international climate finance and carbon finance flows to the West African region, tracking publicly available information from multilateral finance funds and carbon market registries. To our knowledge, this is the first publicly available analysis of the aggregate climate- and carbon finance flows to the region, serving to inform policy makers and investors on the historical and current state and trends of climate change mitigation finance in West Africa.

With an estimated cumulative carbon- and climate financing of USD 964 million, the region has benefitted from investments from a diversified portfolio of climate financiers and carbon market participants. Funding has supported a wide range of GHG mitigation activities, ranging from large-scale renewable energy investments to decentralised community-level activities and Nature-based Solutions. At the same time, when looking at the international climate finance flows channelled through selected multilateral climate finance funds¹⁰, West Africa as a whole was the recipient of only 4.4¹¹ percent of total international climate finance flows globally since 2006, pointing towards the presence of barriers (institutional, market-access, technology) withholding the scaled-up deployment of resources.

In terms of the carbon market, the region is currently hosting 367 registered activities registered under both the CDM and selected voluntary carbon standards¹². This is equivalent to 0.3 percent of all carbon projects registered to date globally. Data shows that carbon financing has been particularly effective at unlocking investments in mitigation actions like clean cookstoves and clean water, yet other sectors remain underrepresented, indicating that hurdles remain for the carbon market to unlock GHG mitigation potentials across different economic sectors.

¹⁰ The multilateral funds included in this analysis include the CIF, GCF, GEF, FCPF-RF, GCCA, UN-REDD, MDG-AF.

¹¹ For the following figure, we include global, regional, and multi-country projects which expands the list of funds. Adaptation remains excluded from this analysis.

¹² Besides the CDM, this analysis also includes Verra's VCS and the Gold Standard.

2.1 Climate Finance

- **There are currently around 1034 GHG mitigation programmes funded through international climate finance funds in West Africa.**
- **As of Q1 2022, the total allocated financing to these programmes was USD 864 million, 30 percent of which has been disbursed.**
- **There are considerable differences in the allocation and disbursement rates per country, owing to a combination of factors including approval timelines and sectoral scopes.**

This first part offers an overview of the international climate financing trends that the region has observed over the past two decades¹³, highlighting the types of GHG mitigation measures that have benefitted from such financing and quantifying aggregate finance flows to date. This analysis focuses specifically on international climate financing channelled through multilateral climate finance funds.¹⁴ All other forms of bilateral and international sources of climate finance to the region is also excluded in this analysis, due to the complexity of segmenting financial flows through these other sources of climate financing. Adaptation measures have also been excluded, given the focus of this report on climate change mitigation efforts (which according to global data represent around 7% of total climate finance flows¹⁵).

The presented climate finance flows refer to public sources of climate finance only. Where data is available, we do provide additional details on the co-financing unlocked from private and other public sources of finance (including domestic

¹³ The analysis presented in this report covers the period 2006 – 2021 and is informed by publicly available information referenced throughout this chapter.

¹⁴ More information on domestic climate finance funds in West Africa is available [here](#).

¹⁵ Climate Policy Initiative (2021). Global Landscape of Climate Finance 2021. Available [here](#).

sources). Given this assessment incorporates flows from a number of different multilateral climate finance funds, the assessment includes different financing instruments, including grants, concessional loans, and guarantees.

2.1.1 Overview of Climate Finance Funds

For the purpose of this assessment, we have extracted data from the Climate Funds Update (CFU)¹⁶ database which tracks data from 27 funds that have been active in the period 2006 to 2021. Applicable to the West African region are 14 of the 27 funds, following the exclusion of adaptation funds and facilities that have another geographical focus. In addition to making this selection, programmes that target entire regions have also been excluded from this analysis, given the complexity around dissecting which share of the total allocated climate financing should be attributed to a particular West African country. Typically, regional programmes cover regions that span across entire continents, creating a risk that inclusion of such flows would overestimate the investments that are attributed to the West African region specifically. As such, the presented investment volumes can be treated as conservative estimates.

Some of the funds from the CFU database were also aggregated since they fall under the same overarching funding structure. These include the following financing vehicles:

- The Clean Technology Fund (CTF), the Forest Investment Programme (FIP), the Pilot Program for Climate Resilience, and the Scaling Up Renewable Energy Program (SREP), all four of which are represented under the 'Climate Investment Funds' (CIF) overseen by the World Bank

¹⁶All global projects and programmes in the CFU database from 2006 to 2021 have approved around USD 1.68 billion in funding of which 9% has been disbursed. Projects are sourced from the Climate Updates Fund. Available [here](#).
All multi-country projects and programmes in the CFU database from 2006 to 2021 have approved around USD 254 million in funding 32% has been disbursed.
All regional projects and programmes in the CFU database from 2006 to 2021 have approved around USD 780 million in funding of which 8% has been disbursed.

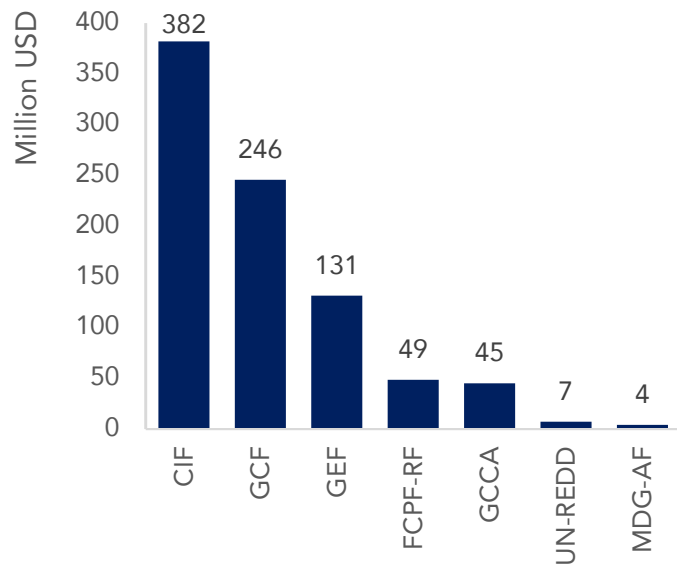
- The various Global Environment Facility (GEF) replenishment periods – from GEF4 (2006) to GEF7 (2021) – represented under 'Global Environment Fund'¹⁷

While the data covered in this section features flows channelled through large funds such as the GEF, CIF, and Green Climate Fund (GCF), it also includes more specialised funds such as the UN REDD+ Programme, the MDG Achievement Fund (MDG-AF), the Least Developed Countries Fund (LDCF), the Forest Carbon Partnership Facility – Readiness Fund (FCPF-RF), and the Global Climate Change Alliance (GCCA).

As visualised in Figure 1, the total aggregate of international climate financing allocated to the West African region amounts to USD 864 million over the period 2006 to 2021. The leading funds in terms of allocations include CIF, the GCF, and the GEF, which combined are responsible for 88 percent (Figure 1) of the total climate financing disbursed through multilateral climate funds to the region.

When assessing the historical financing trends behind these leading funds, it is important to note that they have varying lifespans. The GEF has been funding projects in West Africa since 1991 for example, whereas the GCF was officially launched in 2014 and only approved the first West African programme in 2017. As such, the GCF has managed to allocate larger amounts of climate finance funding to the region despite the fairly short operating timeline. One of the reasons for this has been the GCF's ability to reach a broader constituency, including the private sector with more than fifty accrediting entities that represent interests across different sectors.

¹⁷ The GEF, operational since 1991, underwent a total of seven replenishment phases. This report captures data from 2006 onwards, as this is the start date from which the CFU databases lists disbursements. The GEF, however, has been offering climate finance to the West African region since its inception.

Figure 1: Overview of allocated climate finance in the West African region (Million USD)¹⁸

The historical climate finance flows to date show (see Table 1) there is a strong tendency of the covered funds to use grants (60% of total funding) and concessional loans (39% of total funding) to support project implementation. Guarantees, which account for less than 1 percent of total allocated financing, are impactful financial instruments but due to donor reporting requirements present a challenging instrument for climate financiers to deal with. The same can be said about direct equity investments, which in the West African region are absent.

¹⁸ Data sourced from the Climate Funds Update. Available [here](#).

Table 1: Climate finance flows per financing instrument (Million USD)¹⁹

TOTAL FUNDING		
864		
GRANTS	CONCESSIONAL LOANS	GUARANTEES
521.1	339.7	3.2
60%	39%	0.36%

2.1.2 Sectoral Impact

The CFU data used to inform this analysis allows for the segregation of climate finance flows per GHG mitigation sector. For the purpose of this report, our analysis covers agriculture, energy, forestry, industry, and transportation. The broad categories are represented by the following sub-categories:²⁰

- Energy, energy distribution, and energy generation renewables have in our analysis been combined to 'Energy';
- Agriculture and agriculture, forestry, and fisheries are combined to 'Agriculture';
- Transport and storage are renamed to 'Transportation';
- Industry was not renamed;

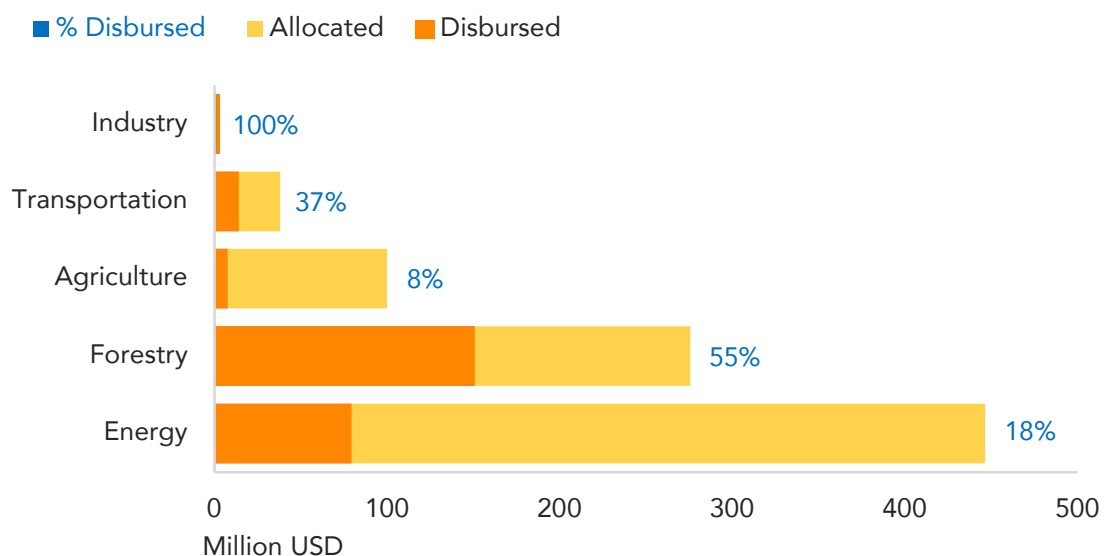
¹⁹ Data sourced from the Climate Funds Update. Available [here](#).

²⁰ The following climate finance flows reported in the CFU database have been excluded in this analysis: banking and financial services, business and other services, government and civil society, disaster prevention and preparedness and unallocated/unspecified projects.

- All other sectors are combined as 'Technical Assistance'.²¹

As visualised in Figure 2, while all the sectors represent important emission sources of GHGs, there is a clear imbalance between the historical climate finance flows across the sectors. There is a strong trend towards energy and forestry projects, with these sectors receiving approximately USD 447 million and USD 276 million, respectively. Combined, this represents four-fifths of all the climate financing delivered to West African project implementers since 2006. The aggregate amount allocated to the agriculture, industry, and transportation sectors amount to USD 141.4 million.

Figure 2: Allocated versus disbursed climate financing per sector in the West African region (Million USD)²²

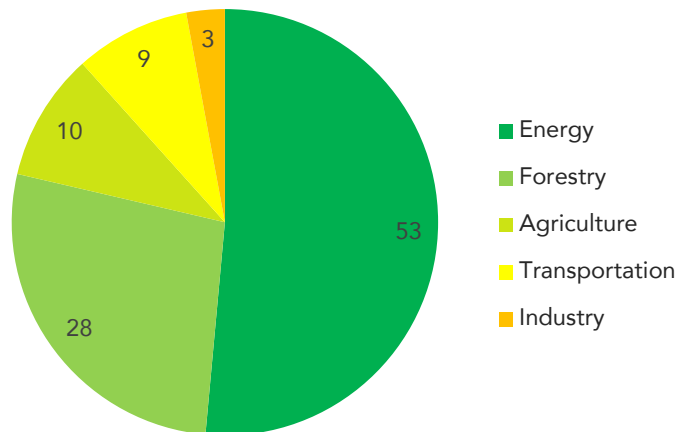


²¹ The total Technical Assistance allocated to West Africa from 2006 to 2021 amounts to USD 112 million, of which USD 51.3 million (46 percent) has been disbursed.

²² Data sourced from the Climate Funds Update (2022). Available [here](#).

The above Figure 2 also highlights significant differences in actual disbursement of climate finance resources to the beneficiary sectors. While the industry sector leads in terms of disbursement versus allocations, this sector is represented by only three mitigation projects implemented between 2010 and 2014 (in Gambia, and Senegal). Disbursements in sectors with a higher number of projects (and therefore more representative) range between 8 percent (agriculture) and 55 percent (forestry). It is unclear why such large differences in disbursement rates exist, but several explanations for this may include approval timelines, ability of projects to achieve disbursement millstones, or institutional factors impacting the channelling of financial resources. For example, a large share of the agricultural projects in the region have only been approved in recent years, explaining at least in part the relatively low disbursement shares to date.

Figure 3: Overview of approved climate finance projects in West Africa, per sector (mitigation only)²³



The data represented in Figure 3 complements the data shown in Figure 2, highlighting again the direction of

²³ Data sourced from the Climate Funds Update (2022). Available [here](#).

sectoral climate finance flows. Nearly half of all approved GHG mitigation activities (53) fall in the energy sector, with another one-third (28) being attributed to the forestry sector. As indicated in Chapter 3, one of the reasons for the overrepresentation of energy project is the fact that both public and private sector actors have an established track record in energy sector investments, and the revenue-generating nature of many of these projects make it easier to unlock private sector co-financing to support their roll-out.

2.1.3 Geographic Trends

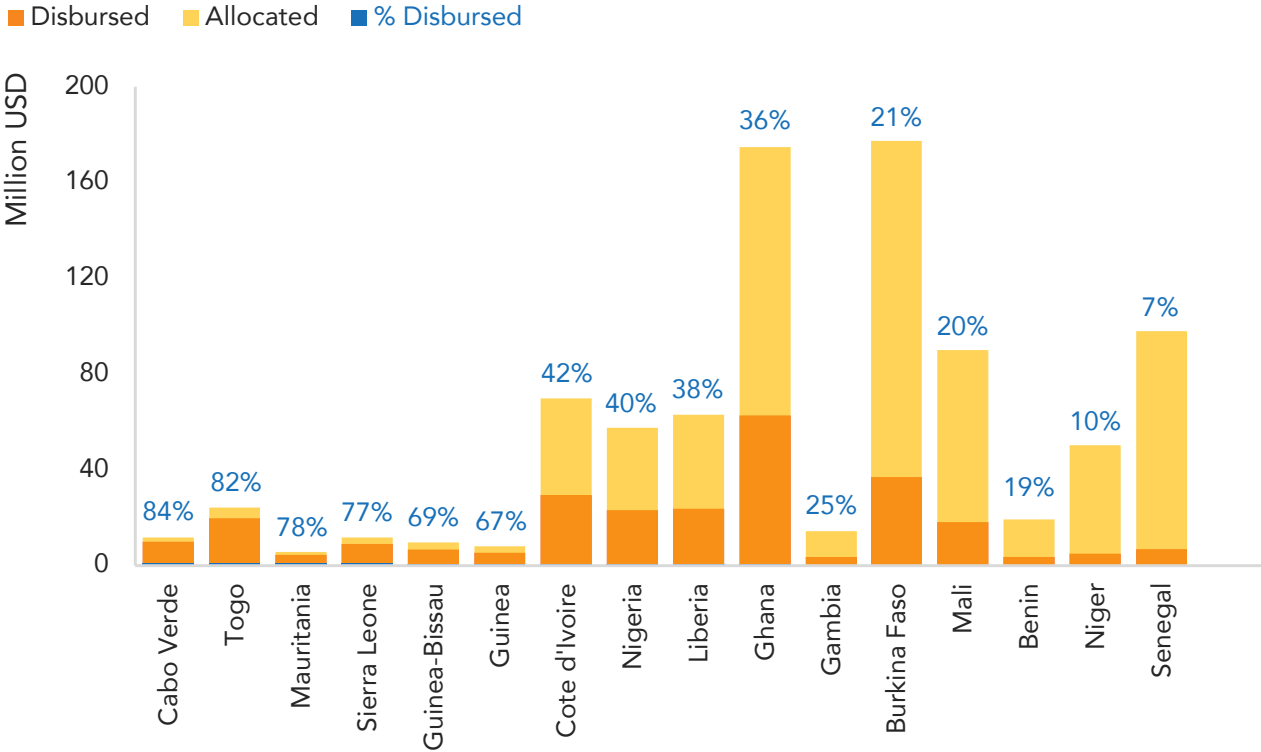
Figure 4 presents the tracked climate finance flows across the various West African countries covered in this report. Cabo Verde has 84 percent disbursement since one forestry project initiated in 2021 is already fully disbursed. On the other hand, Senegal has initiated a large solar energy project in 2020 that has not been disbursed yet, which explains the low disbursement percentage. Low disbursements could be due to the type of sector, the type of project, to country readiness, and to the timeline of the project implemented. Furthermore, constant features of recipient countries such as loan disbursement profiles could play an even bigger role in explaining disbursement rates than sectoral effects²⁴.

Figure 4 also highlights the aggregate allocation and disbursements per country in West Africa. The top three countries with a substantial amount allocated are Ghana, Burkina Faso, and Senegal with USD 177 million, USD 175 million, and USD 98 million respectively and 14, 11, and 5 projects respectively. Figure 5 indicates the number of approved climate finance programmes in all three countries previously mentioned. One of the reasons for the high amounts allocated to Ghana, Burkina Faso, and Senegal is the overrepresentation of energy projects, with 5, 4, and 2 energy projects respectively. A large sum is allocated to the Senegal-based ASER energy project to which finance has yet to be disbursed, which justifies

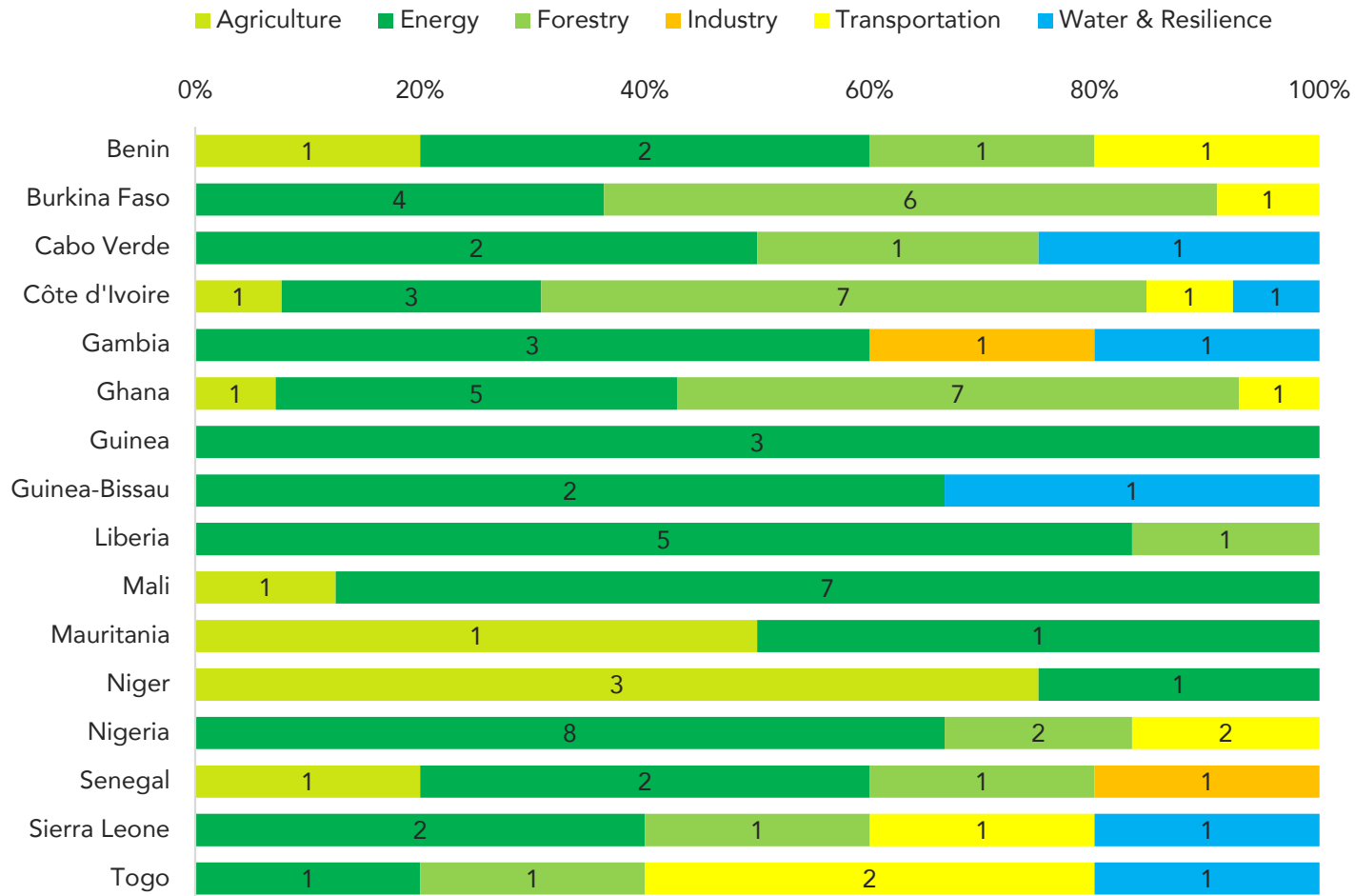
²⁴ Inter-American Development Bank. Why Do Some Development Projects Disburse Funds Faster than Others? Available [here](#).

the low percentage of disbursements. In conclusion, it appears that the presence of energy projects has a significant impact on the allocation of funds to countries in West Africa.

Figure 4: Representation of allocated funds and disbursed funds in West Africa, per country²⁵



²⁵ Data sourced from the Climate Funds Update (2022). Available [here](#).

Figure 5: Dashboard of approved climate finance programmes per West African country, by mitigation project type²⁶

²⁶ Data sourced from the Climate Funds Update. Available [here](#).

In terms of country project mitigation portfolio, some countries receive a diverse portfolio while others receive a more homogeneous one. This could be attributed to several factors such as regulatory barriers, technology-specific risks, access to finance, political risks, lack of enabling factors, and data gaps (see Chapter 3). Many West African countries do not have a diversified project portfolio. This could be due to the country's political situation, the readiness potential, natural landscape or other.

As previously mentioned, the total climate finance flows to the West African sub-region are approximately USD 864 million. The total global climate finance flows channelled through multilateral climate finance funds over the period 2006 to 2021 are approximately USD 19.570 million.²⁷ The climate finance flows to the West African sub-region represent 4.4 percent of the total global climate finance flows. Therefore, when compared to the global context, the West African region is underrepresented in climate financing.

Beyond the scope of this report, it could be interesting to conduct a deeper analysis to understand the difference between disbursements across West African countries. Different reasons that might come into play when analysing disbursements, such as projects, sectors, pipeline, host country readiness for project approval, loan disbursement profiles, and the type of funds being targeted.

²⁷ This figure includes global, regional, and multi-country programmes that were previously omitted in the targeted analysis of each West African country.

2.2 Carbon Finance

- **There are currently around 367 carbon market activities in West Africa, one-third of which have issued carbon credits under either the CDM or voluntary standards**
- **As of Q1 2022, these activities have collectively issued 24.7 million credits**
- **We estimate a cumulative sum of carbon financing of USD 100 million flowing to the region since 2010, half of which can be linked to 2021 issuances alone.**

This second part presents an overview of the current state of carbon market activities in the region to provide insight into the role this mechanism is playing in channelling financing to GHG mitigation activities in West Africa. This analysis complements the financial flows presented in the previous section on international climate finance flows.

The analysis presents data from both the Clean Development Mechanism (CDM) and the voluntary carbon market (VCM). Project implementation under the CDM started as early as 2005 in West Africa, with the first project being registered in 2006. Just short of 20 years later, CDM activity has now largely stalled, with the outcome of COP26 clarifying the future faith of existing CDM projects and limiting post-2020 credits issuance for activities that are transitioned to Article 6. This introduces uncertainty with regards to their future emission reduction generation potential, and the expectation is that future financing flows from a share of the currently registered CDM projects will only re-surface once these activities are authorised by the host countries. At the same time, the VCM has been gaining ground, scaling rapidly in recent years with demand being driven by corporate net-zero commitments and associated voluntary offsetting commitments. As such, the graphics below capture both data from the CDM and the VCM, with a few exceptions where corresponding CDM data was not publicly available.

2.2.1 Overview of the Current Project Pipeline

To present an up-to-date overview of the carbon market state and trends in the West African region, we have evaluated the publicly available project registries of the CDM²⁸ as well as the two leading voluntary carbon standards – the Gold Standard²⁹ and Verra's³⁰ Verified Carbon Standard (VCS). The presented data concerns all recorded project activity until start of Q1 2022, covering a period of 15 years since the market's inception in the mid 2000's.

As of January 2022, a total of 254 activities are currently registered across the region. This includes both stand-alone projects and individual CPAs/VPAs included in Programmes of Activities (PoA), with two-thirds of these projects having been developed under the CDM.³¹ Burkina Faso has the largest share of active activities, with 25 activities to date consisting of decentralised, small-scale activities mainly in the efficient cookstove space. Nigeria and Senegal follow with 23 activities registered each, similarly dominated by decentralised, household-level interventions.

In terms of new activities entering the pipeline, a further 107 projects are currently under validation in the region, 92 percent of which are being developed under the VCM. With 38 activities under validation, a large share of these new projects is attributed to Nigeria. This is followed by Burkina Faso (35 new activities) and Togo (21 new activities). As with the registered projects, here again a vast majority of the activities being validated relate to safe water and efficient cookstove activities included into existing programmes. Figure 6 visualises the current project pipeline, indicating both registered projects (green) and activities that are currently being validated (blue).

While the project pipeline has been growing steadily over the years, in terms of registered projects, the West African

²⁸ UNEP Copenhagen Climate Centre CDM/JI Pipeline Analysis and Database (2022). Available [here](#).

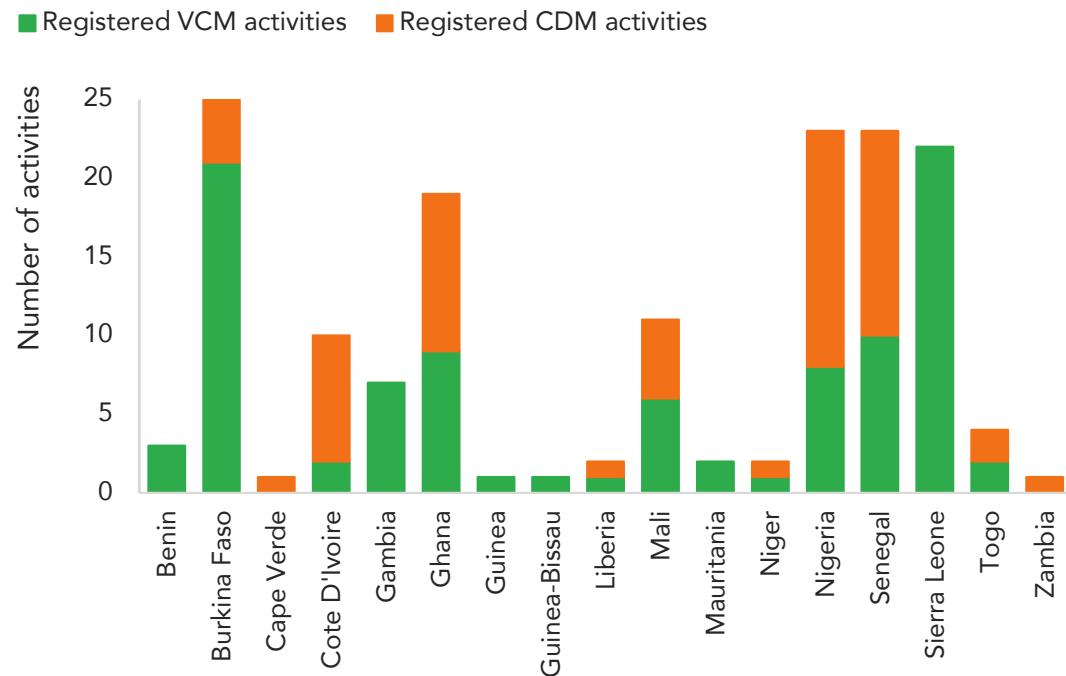
²⁹ Gold Standard Impact Registry (2022). Available [here](#).

³⁰ Verra Registry System (2022). Available [here](#).

³¹ Projects are defined as i) stand-alone projects; and iia) VPAs included under PoAs hosted under the Gold Standard; and iib) Grouped Projects hosted under the VCS. As such, PoAs under the Gold Standard are itself excluded, as all their underlying VPAs are counted individually in the presented results.

region only hosts less than 1 percent of all registered CDM activities, and around 2.5 percent of all registered global VCM activities hosted under the Gold Standard and Verra. When excluding the safe water and efficient cookstove activities, with only 26 registered activities the region's share of all registrations to date reaches less than 1 percent for the VCM as well. This significant representation of these two project categories shows that while the voluntary carbon market has been successful at mobilising financing flows to these decentralised, small-scale technologies, the market has to date not unlocked material investments in other GHG mitigation categories.

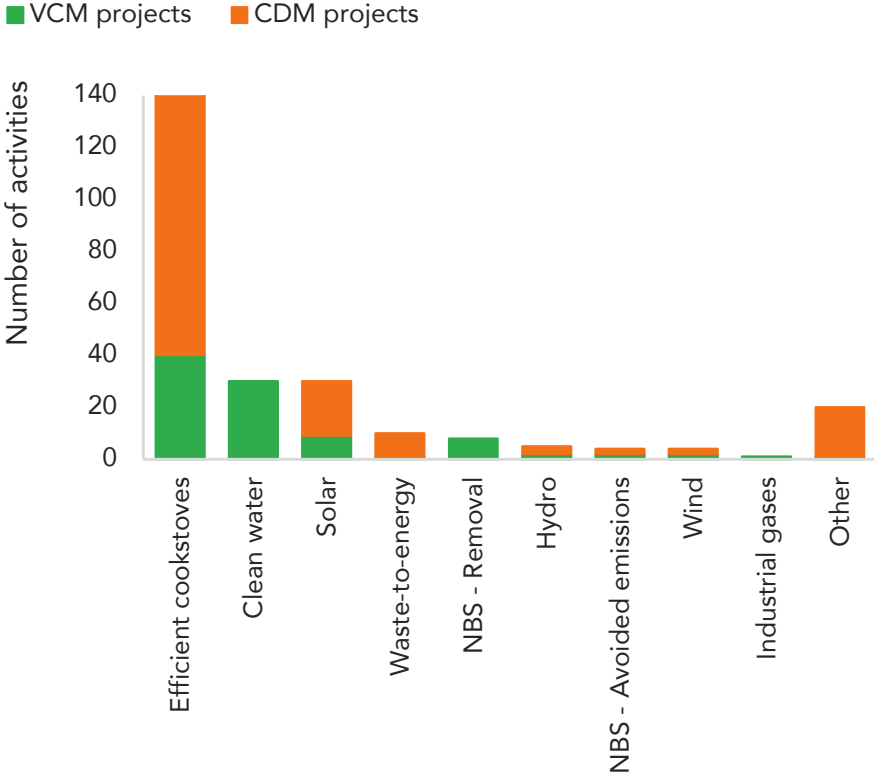
Figure 6: Overview of registered carbon market activities in the West African region, distinguishing between the CDM and VCM³²



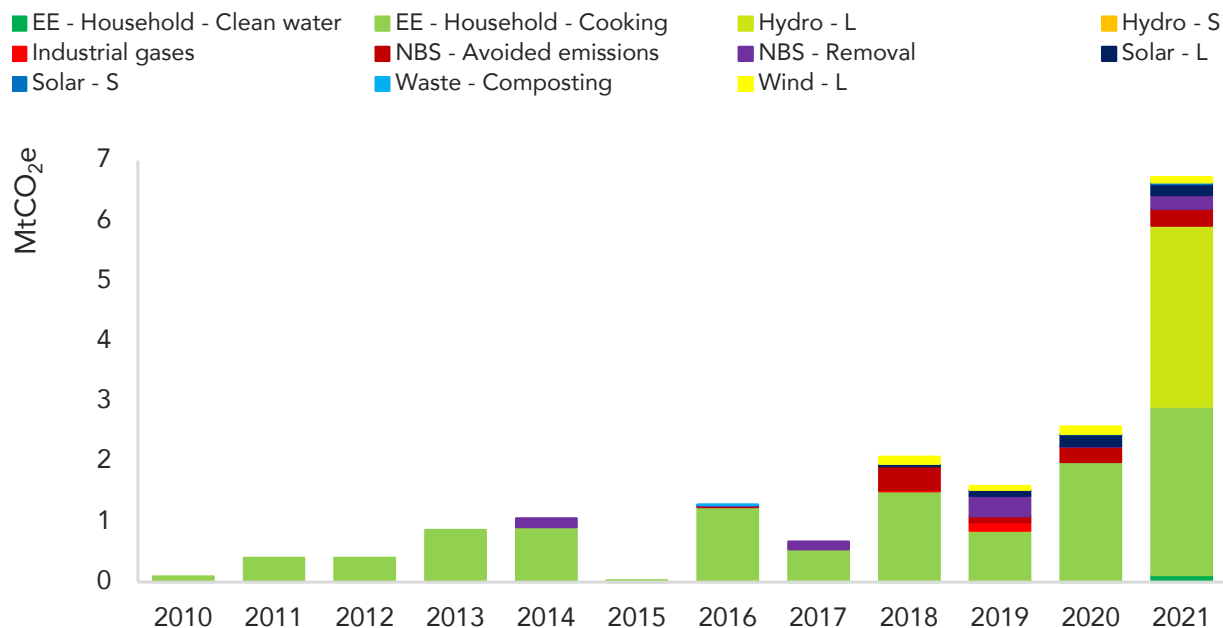
³² Data sourced from the Gold Standard Impact Registry ([here](#)), Verra's Registry System ([here](#)), and CDM ([here](#))

Figure 7 below highlights the dominance of only three project categories: efficient cookstove projects accounting for more than half of all registered activities, followed by clean water projects and solar (both at 12%). Other project categories lag behind in terms of the number of projects, including nature-based removal activities (5%) and waste-to-energy (4%).

Figure 7: Overview of registered activities under the CDM and VCM, by category (Q1 2022)³³



³³ Data sourced from the Gold Standard Impact Registry ([here](#)) and Verra's Registry System ([here](#))

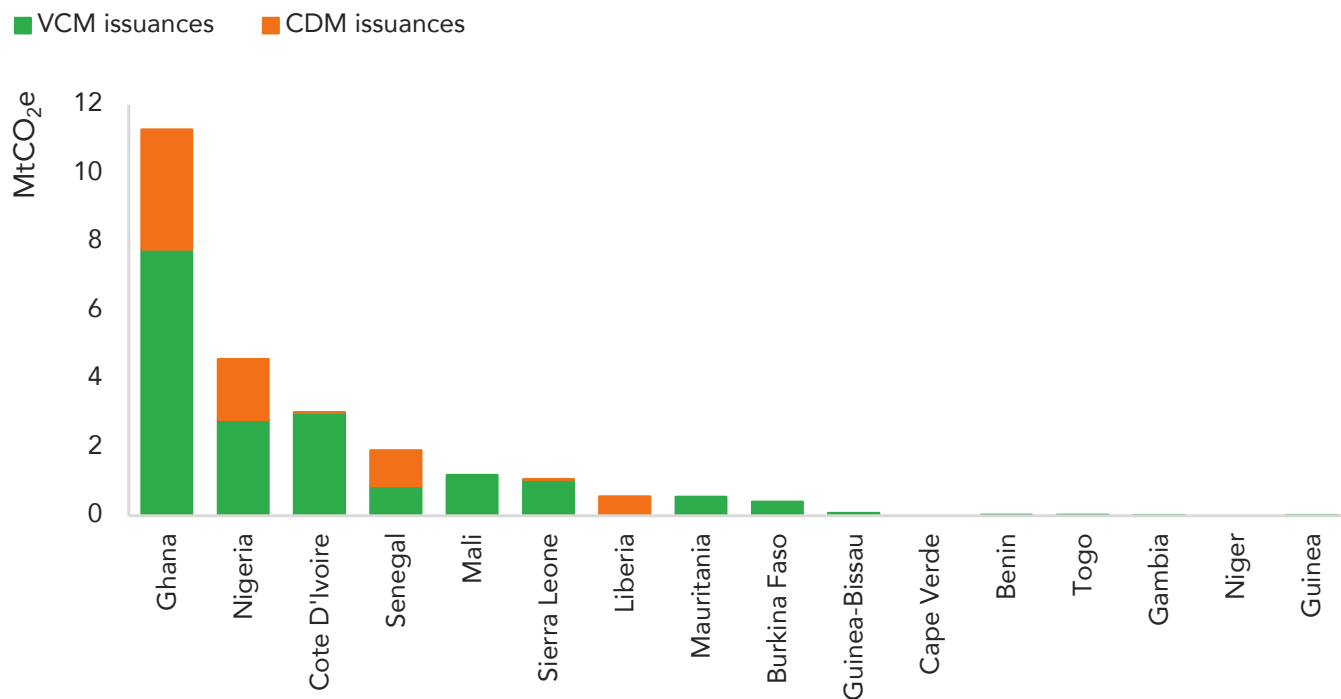
Figure 8: Historical VER issuances of carbon credits in West Africa, per project type³⁴

Clean cooking is not only the biggest project category in terms of registered activities, but also leads in terms of cumulative issuance of carbon credits. Since 2010, VCM cookstove activities issued a total of 11.58 MtCO₂e of credits, while CDM registered activities added a further 4.5 MtCO₂e (see Figure 8 above). This represents 90 percent of all issued carbon credits in the region. This is followed by hydropower projects that have issued a total of 4 MtCO₂e. Nature-based solutions (NBS) projects follow, with avoided emissions from forestry being responsible for cumulative issuances of around 1 MtCO₂e, while removal activities accounting for a further 0.9 MtCO₂e. Clean water projects, while constituting around one-third of all registered project, have issued only around 1 percent of all credits to date. Figure 8 presents a summary of

³⁴ Data sourced from the Gold Standard Impact Registry ([here](#)) and Verra's Registry System ([here](#)). CDM issuance data per year could not be sourced from the publicly available databases, and therefore has been excluded from this graphic.

historical issuance trends per project category, highlighting issuance activity observed per project category for the VCM specifically (aggregate CDM issuance data could not be disaggregated to yearly issuances). The outsized impact of VER issuances represented in 2021 is due to one hydropower project in Côte d'Ivoire, which alone is responsible for 3 MtCO₂e.

Figure 9: Historical issuance trends of carbon credits in West Africa for the VCM and the CDM, by country³⁵



When we turn to country-level issuance trends combining both the VCM and CDM data, as visualised in Figure 9, Ghana holds the biggest share with 11.3 MtCO₂e. This is followed by Nigeria (4.6 MtCO₂e) and Côte d'Ivoire (3 MtCO₂e). These

³⁵ Data sourced from the Gold Standard Impact Registry ([here](#)), Verra's Registry System ([here](#)), and CDM ([here](#))

three countries combined are responsible for nearly three-quarters of all issued voluntary carbon credits in the region. The projects registered under the Gold Standard and Verra are responsible for 40 percent and 22 percent of all issued credits, respectively, with the remainder having been issued under the CDM (35%).

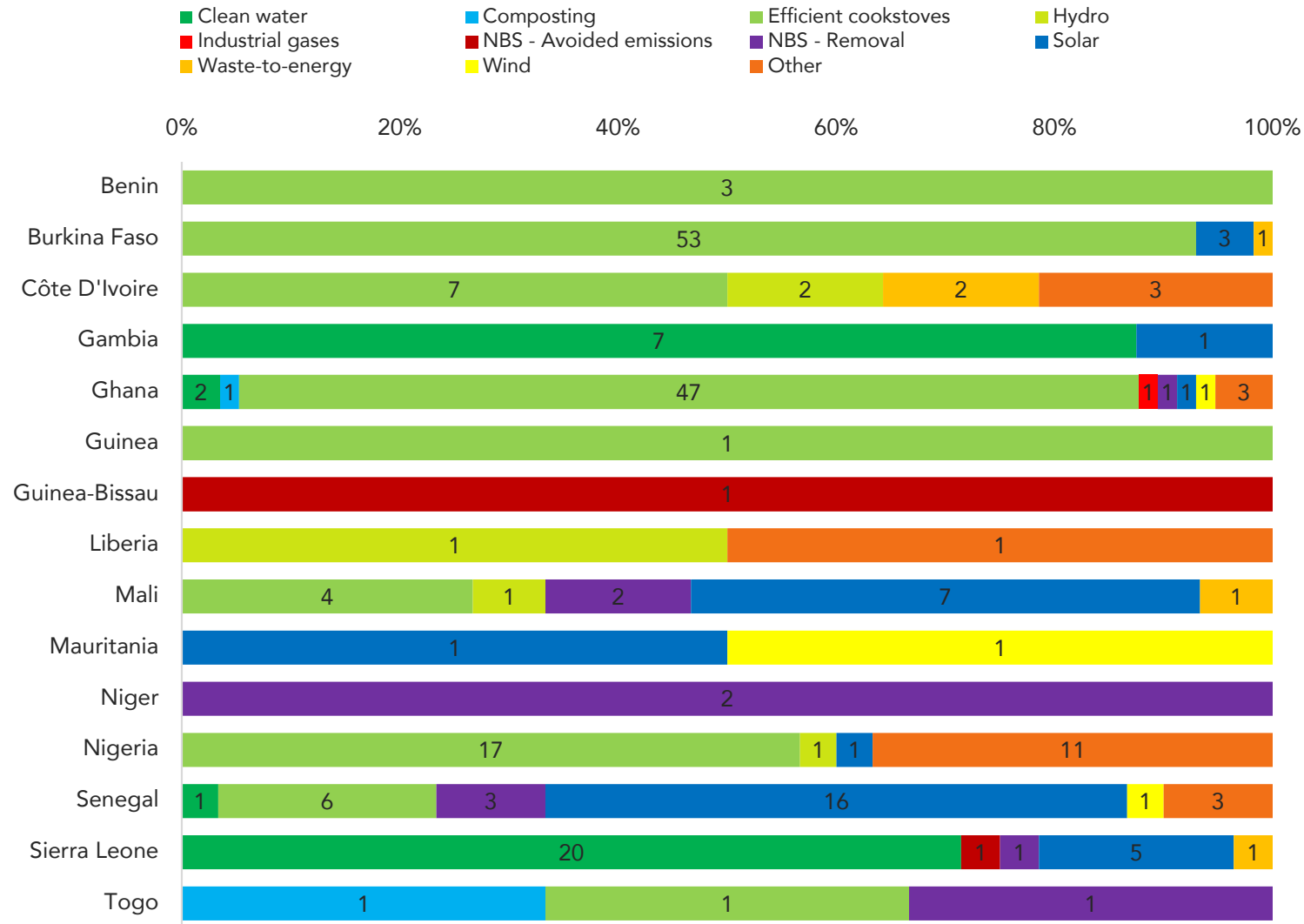
Although the issuance levels are rising as new projects are entering the West African pipeline, it is important to place these numbers into a global perspective. For the VCM, the total issuance volume of 17.8 MtCO₂e to date is equivalent to 1.52 percent of all issued voluntary carbon credits issued by the two leading standards to date. In terms of safe water and clean cooking activities, the West African region claims 1.4 percent and 24.5 percent of the global totals, respectively. For all other categories, these shares are minor, again pointing towards only selective impact the voluntary carbon market has had on the region's GHG mitigation activities. Under the CDM, West African projects are even less well represented, with aggregate CER issuance to date from the region representing less than 0.3 percent of the global total.

Given the fact that a vast majority of the carbon credit sales in the voluntary carbon market are handled over-the-counter, it is challenging to quantify precisely the level of financial resources that these ongoing carbon market activities have mobilised for project developers and investors. When attributing the historical average voluntary carbon offset prices as reported over the years by Ecosystem's Marketplace³⁶ to the annual issuance levels observed for the region as per Figure 11, we derive a cumulative sum of carbon financing of USD 80 million since 2010 for the VCM alone.³⁷ Nearly half of this sum could be attributed to the year 2021 alone, recognising the high level of issuances observed over the past year. For the CDM, it is more difficult to quantify the financing potential, given that CER trading has been latent and has only started to pick up recently. Assuming average prices half of those observed in the VCM, the additional CER issuances observed in the region to date would result in aggregate CDM-related carbon financing flows of a further USD 20 million.

³⁶ Forest Trends' Ecosystem Marketplace (2019) State of the Voluntary Carbon Market Reports 2019; pre-liminary release of updated 2019 data (2020); Forest Trends' Ecosystem Marketplace (2020) State of the Voluntary Carbon Markets 2020. Available [here](#). State of the Voluntary Carbon Markets 2021. Available [here](#).

³⁷ This is a conservative estimate, provided that many of the certified activities highlighted in this section have likely transacted at a market premium, given the combination of geographical attributes (e.g., many Least Developed Countries) and project types linked to broader contribution to Sustainable Development Benefits (e.g., efficient cookstoves, clean water).

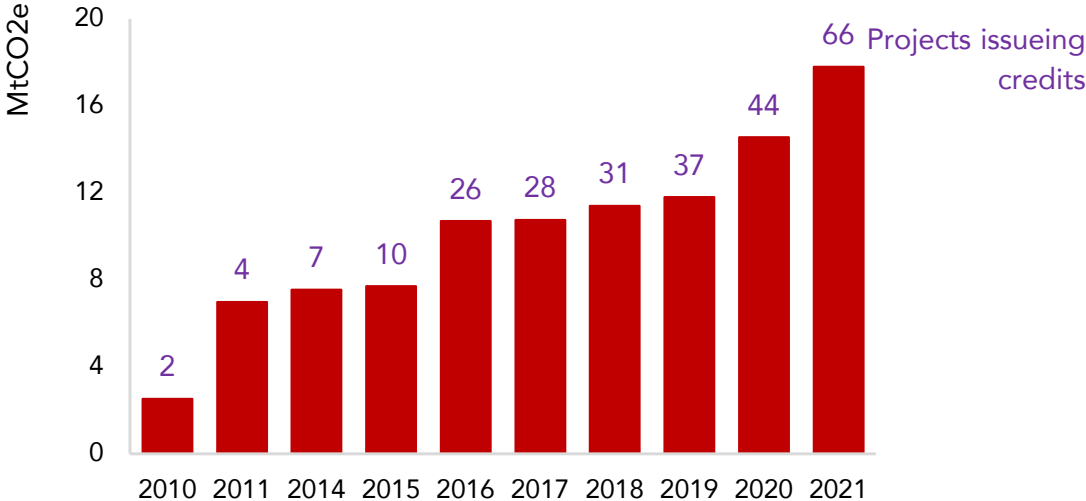
Figure 10: Dashboard of registered activities under the CDM and the VCM per West African country, by project type³⁸



³⁸ Data sourced from the Gold Standard Impact Registry ([here](#)), Verra's Registry System ([here](#)), and CDM ([here](#))

Based on the price estimates and the current portfolio of active projects hosted in the region, around USD 60 million of the total would be attributed to efficient cookstove and clean water projects alone. This implies only a small aggregate of carbon financing is being channeled to other GHG mitigation categories under both the VCM and the CDM, and that to date the carbon market has had a relatively minute impact on mobilising investments in the region's climate change mitigation.

Figure 11: Cumulative issuance of carbon credits in the VCM over time, including issuing activities³⁹



³⁹ Data sourced from the Gold Standard Impact Registry ([here](#)) and Verra's Registry System ([here](#)). CDM issuance data per year could not be sourced from the publicly available databases, and therefore has been excluded from this graphic.

Barriers to Climate Finance Access

03

3. Barriers to Climate Finance Access

Analysing the historical flows of finance into the West African region is essential for understanding barriers that currently exist in the market and identifying actions that will help strengthen the role of carbon markets and climate finance in the region. The analysis presented in Chapter 2 indicates that while both carbon- and climate financing have allowed project developers to successfully unlock mitigation potentials across a basket of different measures, when put in perspective against global data, West Africa lags behind.⁴⁰

International climate finance allocated by multilateral funds has reached USD 864 million since 2006, representing 4.4 percent of global multilateral climate finance recorded over the 2006-2021 period. From this total, only 30 percent has been disbursed to date, highlighting that a myriad of factors impact the readiness of climate finance programmes to be implemented successfully. Similarly, international carbon markets have also played a negligible role, with our estimates pointing to a total sum of USD 100 million being mobilized through both the CDM and voluntary carbon markets.

Considerable action is needed to scale up investment in climate mitigation actions in West Africa. Tackling the barriers that currently withhold regional market participants to tap into the financing potential of international climate- and carbon finance mechanisms is necessary to book progress and facilitate the region's transition to a sustainable development path in line with the climate goals of the Paris Agreement.

This chapter presents the outcomes of a series of interviews held with over 30 stakeholders in late 2021 and early 2022, including government representatives, Development Finance Institutions, private investors, and technical advisors. The focus of these interactions was to generate insights from diverse market participants on the types of barriers that are

⁴⁰ The West Africa region's GHG emissions represent 2% of global emissions. Considering that West Africa represents around 5% of the global population, the per capita emissions are approximately six times below the world average. Available [here](#).

being encountered, across the different West African countries.

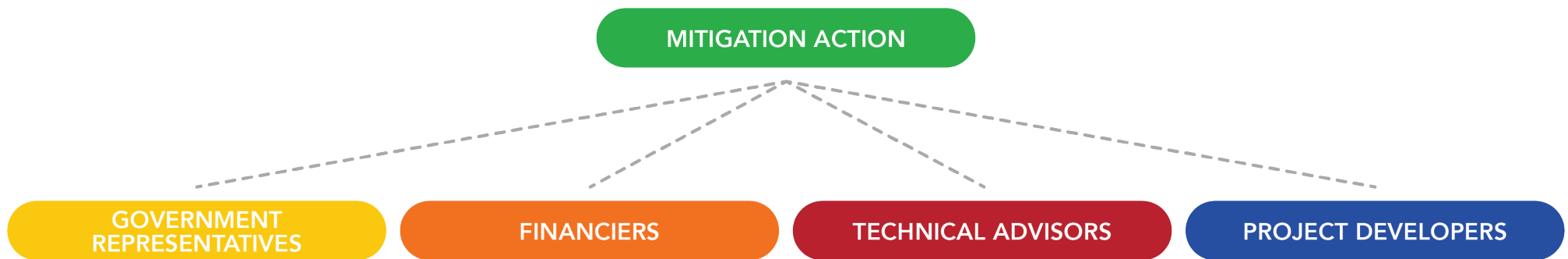
3.1 Consultation Approach

Different stakeholders are involved in the design, development, and operation of climate change mitigation programmes, and as a consequence, the factors with potential to shape or hinder the role carbon- and climate finance flows into the region is diverse. To understand the barriers preventing project developers from accessing finance and scaling up climate mitigation projects to the extent needed to meet climate objectives, our study involved a broad selection of stakeholders to help map these diverse barriers and initiate a discussion about how best they can be overcome.

A matrix of stakeholders was developed with the aim to reflect the full range of actors involved in the allocation, management or disbursement of carbon- and climate finance to climate mitigation activities in West Africa. The categories identified are as follows:

- Financiers from distinct entities such as multilateral development banks, ministries, and the private sector.
- Project developers from both the public and private sectors.
- Public sector actors that encompass government authorities and those with implementation power.
- Technical advisers that include development agencies and consultants.

Figure 12: Graphic showing the categorisation of stakeholders identified as relevant to the allocation, management or disbursement of climate finance to climate mitigation activities in West Africa.



To understand perspectives 'on the ground', the scoping study sought to gather data through interviews with key stakeholders. Taking advantage of the Alliance's network structure and its stakeholder composition, a database of relevant contacts was developed, which involved mapping actors according to their institutional function or strategic responsibility in the development of climate mitigation activities. Stakeholders included non-Alliance stakeholders with interests and strategic roles in carbon markets and climate finance; those with relevant roles and active participation in Alliance projects; or those with direct responsibilities in the allocation, disbursement, and management of climate finance. A key goal of the scoping study was to diverge from routinely implemented research on climate finance in sub-Saharan Africa by interviewing actors across both the demand and supply sides of climate finance. Understanding both sides is essential to developing a comprehensive picture of where key barriers exist; finance suppliers are an as-important component as finance cannot exist in isolation with a corresponding supply component.

A collection of four interview questionnaires were designed, informed by practitioner's experience with the Alliance. The aim of the questionnaires was to:

- assess key barriers to the development of climate mitigation projects, as perceived by each stakeholder category;

- identify the needs of all implicated stakeholders involved in the development of mitigation projects;
- understand which mitigation measures and activities have the most potential for impact in the region, and/or which are most in need of additional support.

Questions with cross-cutting relevance were adapted for each stakeholder group. To support the objective of the scoping study and help with identifying areas of common or divergent views among respondents, the questionnaire was divided into two sections comprising both open-ended and closed, rating questions. 20 interviews were successfully conducted, comprising 8 project developers, 7 public actors, 2 financiers and 3 technical advisors. The subsequent section will present the findings of the research.

3.2 Findings

The results of this study suggest that barriers to the implementation of climate change mitigation projects in West Africa generally span four different areas: technical capacity, access to finance, institutional and political barriers. These can be divided into those directly hindering project developers' implementation of projects (**technical** and **financial barriers**), and those hindering government representatives, financiers, and technical advisors from creating an enabling environment for project implementation (**institutional** and **political barriers**).

While barriers were expressed to varying degrees by different stakeholders, there were notable similarities in the issues raised by interviewees across all stakeholder groups. Moreover, a consistent theme emerging from all interviews was the degree to which these issues are interlinked, with almost all respondents highlighting how at least one barrier was the product of another. This section will explore the different barriers identified by interviewees and crucially, draw attention to how they do not represent mutually exclusive issues.

3.2.1 Technical Capacity Barriers

- **Technical capacity barriers take on different forms for different stakeholders, but were acknowledged to be a major constraint by all stakeholders.**
- **Lack of technical capacity was found to present barriers along the entire length of the project cycle: from design, to financing, right through to project implementation.**
- **Technical knowledge and capacity barriers were found to be most acute for project developers, with significant implications for their ability to design bankable projects.**

Lack of technical capacity and limited awareness of technical requirements among project developers was perhaps the most prominent theme that emerged from conversations across all stakeholder groups. All interviewed project developers claimed that a lack of technical capacity was a key barrier to designing and developing mitigation projects, primarily due to its role in limiting access to project finance. The study showed that lack of technical capacity was not a barrier unique to project developers; it also hindered the participation of financial providers in the international climate financing sector, having impacts on finance disbursement.

Many developers lack the technical capacity or knowhow for developing projects to even a 'pre-finance' stage that is attractive to investors. Technical assistance is a key component of the project development process, evidenced by the USD 112 million that was allocated for such activities in the region by climate funds between 2006-2021. This total, which covers activities such as policy, administration, and research and development, is equal to over 10 percent of the total mitigation finance committed by climate funds during the same period. Conceptually, there is a nexus between limited technical capacity and the availability of inputs and resources. In addition, the ability to access available resources even

when they are made available is key. Owing to a lack of resources, many developers are unable to consult potential investors, or understand their requirements, until a relatively late stage in the project development process. While this is often necessary in order to present investors with a concept that is already 'bankable', it also means that by this point, there are elements in the project design that are too far advanced to be changed, in the case that an investor may desire it. This includes certain design or monitoring elements that may be desirable from a private financier perspective, but also certain conditions that are necessary to meet the funding restrictions of a public donor. Such a situation is a catch-22 for developers, who can see significant volumes of resources wasted over 2-3 years of project development for an end product that is ultimately deemed unsuitable for potential investors.

"Many very good projects fail – with developers losing up to 50k of inputs – because the core structure does not meet investor requirements at the point of 'pitch'. In the absence of technical assistance during development phases, at least early engagement with investors can go some way in ensuring projects align with investor expectations further down the line."

Project Developer

Almost all project developers also cited the complex technical and bureaucratic requirements of funding proposals as a key barrier to project development. This barrier, while relevant in the context of both public and private finance, is felt most acutely by developers applying for finance from institutional development funds. Specific hurdles cited include lengthy application processes combined with large and complex documentation requests. In addition, a lack of transparency and communication leaves many developers uncertain about whether further action is needed, or how long they will be required to wait for an outcome of their application.

“Clients lack confidence in the process due to the cumbersome and complexity of the documentation and application process. The faith in securing climate finance is not there and people can’t wait for a longer time due to the uncertainty of the process.”

Government Representative

For project developers in West Africa, these issues can be exacerbated by the existence of language barriers, which can add additional administrative and financial burdens to the project development process. In French-speaking regions, early-stage project design and development documents may be completed in French or local dialects. Later down the line, when applying for finance or other services such as auditing or verification, developers can be impeded by the requirement to work in, and translate, project documents for service providers that – in the case of many large institutional donors – work primarily in English.

These findings suggest that the technical capacity barriers facing project developers are threefold. Firstly, there is a considerable lack of information available to project developers on how to design projects that meet financier’s expectations and requirements. Secondly, even when equipped with this knowledge, many project developers lack the in-house technical capacity to design and implement projects that meet financier requirements. Finally, even with an understanding of donor project requirements and the technical means to implement them, developers can be stalled by a final informational hurdle, that is, a sufficient understanding of funders’ administrative and procedural requirements, to see a project through the funding application process.

3.2.2 Access to Finance

- Limited knowledge of the options available for financing climate and carbon projects was reported as a major barrier, most significantly by project developers, but also by other stakeholders.
- In addition to informational barriers, access to finance can be hindered by a range of project elements including project size, type, and secured pre-finance.
- Stakeholders' views suggest strong perceptions about the type of projects that will easily secure financing, and those that will not.

An overarching barrier highlighted by interviewees from all groups was lack of awareness about the financial resources that are available to project developers. This includes limited awareness of the difference between climate and carbon finance, as well as the range of funds and financing mechanisms that are available to them.

“My clients do not see the opportunities to access climate finance due to lack of knowledge.”

Technical Advisor

“Generally in the project development sphere there is insufficient knowledge of alternative funds and financing mechanisms.”

Government Representative

“Developing a finance guidebook or a blueprint would help. There is a plethora of public/ philanthropic finance instruments available, but the availability of information is poor. An online guide mirroring e.g. the WB’s guide on ‘how to structure a bankable PPA’ would be very useful for climate finance. It could provide strategic and practical guidance including a description of the characteristics of different financing instruments and how they can be accessed.”

Government Representative

In addition, project developers expressed frustration at the variable availability of finance, depending on project features such as company size, project type, and what kind of pre-finance the project has secured in its early stages of development.

Respondents claimed that smaller companies representing smaller projects find it more difficult to secure initial funds for project design, which limits the volumes of climate finance they are later able to access. Smaller companies are generally limited by capacity constraints, which makes them less able to fulfil the technical and procedural requirements of funding application processes. They are often more successful in accessing large funds after teaming up with larger companies, though this can necessitate compromising on certain design or operational project features.

Access to pre-finance was also found to be highly dependent on project type. Renewable energy projects in particular were perceived to have easier access to funding overall, as well as different kinds of funding, given their appeal to private sector funders. This is reflected in the strong trends of climate finance towards energy projects in West Africa, which account for approximately 50 percent of all flows (see section 2.1). The diversity of finance such projects can access also makes them less sensitive to carbon revenues, which in turn further contributes to their investment case. Comparatively, projects which require more complex monitoring and auditing, such as cookstoves, are perceived to be less viable for private investors and typically have no finance alternatives other than carbon revenues and ERPA. These perceptions

are somewhat reflected in the findings of our regional finance assessment in sections 2.1 and 2.2. Energy projects – including both large- and small-scale installations – account for over half of all projects approved for funding by the major multilateral climate funds, and exist in the project portfolio of almost all West African countries, suggesting access to climate finance for these project types is relatively straightforward.

In the context of carbon finance, however, it is actually small-scale energy projects – specifically, cookstoves – that have benefitted most from finance in the studied time period. Clean cookstove activities account for more than half of all registered activities under the CDM and VCM, as well as being the largest category with regard to carbon credit issuances. These findings suggest a misalignment between the perceived bankability of small-scale energy projects by stakeholders and actual investor interest. Nonetheless, the actual implementation complexities that may arise from limited technical capacities remain.

Projects with complex implementation processes or weak monitoring and certification processes are also perceived to find access to finance more difficult. This is typical for projects aimed at gaining carbon (emission reduction) credits, which often require frequent and complex monitoring and verification processes. Similarly, projects with delayed carbon certification benefits or an elongated implementation process are also considered less likely to qualify for financing, in light of the fact that they do not offer short term returns. Although interviews conducted with financiers during this research did not suggest that this was a major concern for banks, it seemed to be a persistent concern for project developers.

“Banks and other financial providers are mostly worried about the market value of climate change products.”

Project Developer

Securing pre-finance to develop projects to at least a scalable level is crucial if full climate finance is to be accessed. More than one project developer claimed that project proposals without already secured equity shares face greater challenges in accessing climate finance or most other forms of loans. From the perspective of developers, this problem is exacerbated by the fact that many banks still perceive climate finance from the standpoint of traditional loans and assumption of risk is typically high, irrespective of the size of the company. This may provide another explanation – in addition to environmental and political factors – as to why some project types and countries benefit significantly more from climate finance than others. The industry, agriculture and transport sectors combined represent only 16% of all climate finance flows to project implementers in West Africa. Established successes with energy projects in the region and a limited proof-of-concept for projects in these other categories may be hindering banks' willingness to expand their services to new sectors. The experiences shared by interviewees suggest that in general, banks are reluctant to lend to small-scale projects and certain level of pre-finance can go a long way in mitigating perceived risk. Pre-finance itself, however, is a challenge for many developers, owing to technical capacity barriers.

“Accessing finance becomes easier when projects have got to a certain scale – a scale that promises maturity for end users' value – that can attract financing instruments.”

Project Developer

“The understanding that institutional investors are easily accessible solution-providers for project financing needs of project developers is misplaced. This is because institutional investors only show up when the project is at an advanced stage – usually during construction phase.”

Project Developer

The overriding barrier to accessing finance, for project developers, is an informational one. Developers' limited awareness of the climate and carbon financing opportunities available to them was expressed not only by developers themselves, but by interviewees from across all other stakeholder groups. Other than informational barriers, access to finance appears to be shaped significantly by specific project elements. Developers may be unsuccessful in funding applications owing to their company size or project type, or even if these criteria are satisfied, may be refused on the basis that they have not secured sufficient 'pre-financing'. The interlinkage of these barriers paint a complex picture and indicate that access to finance is indeed a major barrier to the scale up of carbon mitigation projects in the region.

3.2.3 Institutional Barriers

- **A lack of regional-level government presence in many West African countries is limiting the flow of information both to and from project developers.**
- **Large volumes of climate finance often fail to reach their intended target, getting absorbed in bureaucratic processes, or by other intermediaries, before reaching project developers on the ground.**
- **Limited engagement with – and awareness of – the VCM may be limiting the scale-up of carbon mitigation activities and the potential role of private finance.**

In contrast to technical and capacity barriers, which directly hinder project developers' implementation of projects, a range of barriers exist at the institutional level, which prevent the creation of an enabling environment for technical and financial support to reach projects on the ground. Cited barriers largely relate to governments' capacity and willingness to support project implementation. In particular, respondents claimed that the lack of a clear, designated climate

finance focal point at regional (or even national) level is a significant barrier to project development, limiting developers' awareness of, and access to, project support. This was a concern expressed by both project developers and public institutions themselves.

“That’s something the ministry wants to work on, so that information and guidance about what’s being done on climate change trickles down to the local level. Sometimes we discover fully developed projects that we were not even aware of, and vice versa – developers are not aware of the support that is available to them.”

Government Representative

Other interviewees went further to claim that even when finance is made available, it rarely meets projects on the ground. This was claimed to be true of both finance allocated by government at the national level, as well as finance pledged by institutional donors. These suggestions may be considered supported by the findings of the literature review, specifically, the gaps observed between the finance allocated and actually disbursed by major climate funds. Disbursement falls as low as 8 percent for the agriculture sector, and 18 percent in the energy sector, two key sectors in the region from a mitigation perspective. While there a range of additional factors at play here, including the varying number of projects per sector, and considerable differences in the implementation challenges presented by different project types, the evidence presented by stakeholders suggest that barriers to disbursement are also significant at the institutional level. Barriers were largely attributed to a lack of organizational capacity within donor institutions, or the distance that finance needs to travel – often through a number of intermediaries before reaching the hands of project developers, who themselves have no direct access to the actual donor. At least a handful of interviewees emphasized just how little exposure some of the major climate funds have outside the core climate finance ‘community’.

"[x] fund exists only on webpages and within the community of those managing the fund. Project developers on ground have barely had access to funds from [x]."

Project Developer

"The challenge with funds like the [x] is that there is no direct access to climate finance. Funds are only channeled through operating entities and awarding of funds is call-based."

Government Representative

"International climate finance and grants are usually trapped and held up in Ministries without being remitted to project developers"

Project Developer

In addition to capacity barriers, there was general consensus from project developers over the unwillingness of governments to support early-stage or small-scale projects. For some, this amounted to feelings of competition with government ministries, who were felt to be absorbing resources through bureaucratic processes that could otherwise be channeled to project implementation on the ground.

"Governments in West Africa are acting as competitors with parallel interests. They are neither supporting them to raise funds, nor providing capacity building resources for meeting the technical requirements of banks"

Project Developer

“MDBs are channeling more finance and grants to government than to small project developers. International financial institutions should recreate their roles in a way that allows them to be seen as partnering stakeholders so that there is a shared buy-in. States become very strong competitors in international financing applications (especially those with prospects for better financial incentives including higher grant values), making it difficult for private developers with limited capacity to compete favourably”

Project Developer

An issue exacerbating this was claimed to be the fact that many government ministries still approach climate change mitigation as a purely environmental, rather than development, problem. As a result, their proposed solutions can fail to attract additional funding from, for example, MDBs, because they do not offer multi-impact development solutions. This can be a particularly significant barrier for the many governments in the region that have a limited domestic budget for climate change mitigation activities and rely heavily on external inputs. Moreover, without the involvement of institutional investors, the risk environment for investors remains high, reducing its attractiveness to potential private sector contributors.

“Finance providers and enablers/facilitators (such as government) fail to recognize the potential socio-economic benefits or contributions that small project ideas and concepts from project developers can add to the national development.”

Project Developer

“The readiness of banks to bear risks in climate finance is currently very low. Banks are not ready and/or are unwilling to take risks.”

Project Developer

It was acknowledged by stakeholders from across the spectrum that the majority of governments do not have the financial nor technical resources to support climate mitigation projects alone, and as such, incentivising private sector engagement should be a priority. Respondents also claimed, however, that many governments in the region lack an understanding of how the VCM could be leveraged to achieve these goals. Governments were said to have limited awareness of the VCM’s potential to contribute to national climate targets, and even with this, have limited awareness of how to engage with the market. Unless acting as a project co-implementer or permit-provider, governments are largely unaware of domestic VCM activities, given that there is no requirement for projects to be registered in a central database. As a consequence, the potential for the VCM to contribute to national climate targets – particularly by leveraging private sector engagement – remains untapped. Respondents suggested that improved connectivity between ground-level project developers and national governments could help highlight to public actors the potential of the VCM to contribute to domestic climate progress. This could help government actors prioritise and leverage finance into mitigation sectors and activities that are strategically important from an NDC perspective, as better clarity from government on priority sectors can signal government ‘buy-in’ and help to steer project developers towards activities that can most effectively contribute to national NDC achievement.

“The synergy with private sector is not there and the government alone cannot support climate finance. There is a need to engage the private sector.”

Project Developer

These suggestions align with other frustrations expressed by public sector actors that there is little communication of national priorities to project developers, in many cases leaving a landscape of projects on the ground that align poorly with NDCs and broader sustainable development targets. Both financiers and public actors expressed an explicit preference for supporting projects already embedded in national climate strategy – both in the interest of securing the most cost-effective mitigation, but also in the interest of efficiency, given that laws and regulatory frameworks for these project types are most likely to already be in place. It was also mentioned that in-country capacity to utilize project outputs is often a determinant of whether or not a project is prioritized for financing.

“Projects are unable to access finance due to the weak elaboration or lack of integration of mitigation component in the project idea.”

Financier

“Lack of understanding of national development and policy needs of the country or government client is a major barrier. Understanding which projects fit policy priorities is important. Such an understanding supports the right decision-making in terms of appropriate technologies and project ideas - an ability to connect the dots.”

Government Representative

Similarly, access to finance can also depend on the priorities of funders, many of whom have restrictions on funding certain project types seen to be inconsistent with their approach to sustainable development, or are specialised in one particular sector. Of the 14 major climate funds active in the region since 2006, at least four – the Forest Investment Program (FIP),

Scaling Up Renewable Energy Program (SREP), Forest Carbon Partnership Facility (FCPF), and UN-REDD Programme – are each focused on a single sector.

“International donors should relax their restrictions around gas-based mitigation projects. Nigeria is highly reliant on gas and oil, and as such natural-gas based mitigation projects are an essential component of their energy transition, to move away from kerosene. The unwillingness of [x] in particular to fund natural gas projects is a significant finance barrier.”

Project Developer

Overall, stakeholders from groups are unsatisfied with the way governments in the region are supporting the scale up of carbon mitigation projects. The absence of regionall-level designated entities is limiting the flow of communication between project enablers and project implementers, particularly, limiting project developers' understanding of available financing opportunities, and how to access them. In addition, even when financial or technical support is committed at the high level, it often does not reach its intended beneficiaries on the ground, instead getting absorbed or delayed in operational procedures at institutional level. Stakeholders from across groups claimed that a better understanding of projects' potential contributions to the wider sustainable development agenda would benefit governments' approach to supporting these activities.

3.2.4 Political Barriers

- **Political instability emerged as a significant factor shaping the investment behaviour of both private investors and institutional donors.**
- **Perceived risk of investment shapes not only investor behaviour, but also the willingness of developers to engage with certain project types.**

Political risks were not explicitly raised as a significant barrier to mitigation project development, though they were acknowledged to hold some weight in shaping access to finance in the region. Political instability was generally considered to increase perceived lending risk for private financiers, thus making loans for (especially early-stage) projects more difficult to obtain, as well as making borrowing and interest rates higher for developers. A possible explanation for this lies in the intangibility of return on investments; experiences with the Clean Development Mechanism (CDM) suggest that international investors and providers of climate finance perceive the sub-region as a risky territory for investment, particularly for new project types with hard-to-guarantee returns. Similar studies have shown that the impact of political barriers on mitigation project investments account for higher frequency counts than other category of risks.⁴¹ Political instability was also highlighted as a deterrent to international donors, who, even without the desire for returns, are often unwilling to fund or lend in regions where there are security risks.

Perceived risk was also found to vary considerably between different project types, with many stakeholders suggesting that accessing climate or result-based carbon finance is highly dependent on investors' unique experiences or knowledge of different project types – factors which vary considerably between countries and sectors.

⁴¹ Komendantova, N., Patt, A., Barras, L., & Battaglini, A. (2012). Perception of risks in renewable energy projects: The case of concentrated solar power in North Africa. *Energy policy*, 40, 103-109. Available [here](#).

“Climate finance faces the same sort of challenges as other types of finance: corruption, currency flexibility, political instability, ease of doing business, etc. All can serve as a constraint to climate finance just as they can for other more orthodox types of finance”

Technical Advisor

Political risks were linked to institutional sabotage through service agreements by host governments, as well as pressure from interest groups. As such, while political barriers were not explicitly mentioned as risks, stakeholders' accounts suggest that the way they shape perceived lending risk for donors and investors makes them a meaningful barrier.

3.2.5 Summary

This section provides an overview of the main constraints identified by each category of stakeholder, presented against their key roles and responsibilities in the development of climate mitigation projects

Project Developers

ROLES AND RESPONSIBILITIES

- Source, design and initiate projects
- Manage pre-commercial and operational phases of projects
- Facilitate interface between implementing partners and finance institutions
- Develop mitigation projects for demonstration and commercial purposes

CAPACITIES AND CONSTRAINTS

- Limited or lack of technical capacity
- Limited network of contacts knowledgeable in project design & documentation
- Lack of seed or own capital
- Poor investment readiness
- Unfamiliarity with criteria for green or climate financing

Technical Advisors**ROLES AND RESPONSIBILITIES**

- Interface between project developers and financiers
- Assess the sustainability and mitigation potential of a project
- Improve the quality of project proposals hence, their bankability and approval prospects
- Develop mitigation projects for demonstration and commercial purposes
- Support with developing project ideas into concrete proposals

CAPACITIES AND CONSTRAINTS

- Limited experience in some high carbon sectors
- Limited knowledge of principles of safeguards
- Insufficient experience with requirements and working templates of most climate finance providers
- Non-familiarity with certain geographical and political contexts

Financiers**ROLES AND RESPONSIBILITIES**

- Issuing credits and investment loans to project developers
- Managing the administration and disbursement of climate finance
- Improve the financial system to mobilize green capital for low carbon investment
- Promoting through new lines of credits, business innovations
- Easing of capital for green lending
- Promoting green banking policy instruments

CAPACITIES AND CONSTRAINTS

- Limited leadership and capacity in integrating environmental and climate change into banking and investment portfolio
- Lack of confidence and leadership in climate financing mandate
- High perception of risks in climate financing and green investment
- Low volumes of climate finance to bridge supply and demand
- Lack of capacity in assessing the bankability of low emission projects

Government representatives**ROLES AND RESPONSIBILITIES**

- Enabling macro-economic policies and regulatory frameworks (lower investment risks)
- Promoting strategies for mitigation projects & resilient infrastructure
- Facilitating private-public dialogue and synergies
- Policy making and green budgeting
- Mobilizing climate finance and unlocking private sector potential

CAPACITIES AND CONSTRAINTS

- Lack institutional capacity in mobilizing and scaling up private sector finance
- Lack capacity in realigning macroeconomic policies to offer incentives for risk
- Weak knowledge on the potential of climate finance in funding infrastructure
- Capacity limitations with aligning green strategies to development plans
- Insufficient capacity with the assessment and implementation of green budgeting needs

Recommendations

04

4. Recommendations

The results of the scoping study indicate that barriers to climate finance in the West African sub-region are manifold, spanning a range of informational, technical capacity and financial issues. This section builds on the interview findings by proposing recommendations to tackle the barriers to climate finance identified by stakeholders.

	TARGET GROUP	BENEFICIARY
Recommendation 1: Increase government presence at regional levels	● ●	● ●
Recommendation 2: Improve project developer access to technical resources	● ●	●
Recommendation 3: Support finance providers to offer better tailored financing opportunities	● ●	●
Recommendation 4: Use policy to create an enabling environment for carbon market engagement	● ●	● ●

Key:

- project developers
- public actors
- technical advisors
- financiers

Recommendation 1: Increase government presence at regional levels

Interviewees from across stakeholder groups highlighted lack of knowledge about available financing opportunities and associated application processes to be a key barrier to developers accessing finance for mitigation projects. As such, support measures which target informational barriers could be transformative. Better access to information could help project developers better understand the landscape of finance mechanisms and opportunities available to them. Interventions for tackling this barrier could focus both on the channels by which information is communicated, as well as on the information itself.

A significant number of project developers reported a lack of government representatives active at the regional level through which they might obtain information about technical or financial support opportunities. These sentiments were echoed by public sector actors, some of whom expressed frustration at the lack of communication between institutional and ground level actors about the development of carbon mitigation projects. The appointment of designated climate finance entities at the regional level could help tackle these barriers, by providing a first port-of-call for project developers trying to navigate the financial and bureaucratic landscape of project development. It would also help facilitate the flow of information about ground-level activity back to institutional-level actors in charge of budget allocation, which in turn could then be tailored to better support activity on the ground. Targeted training could help to equip public sector actors with an understanding of climate and carbon finance mechanisms – as well as the wider project development process – that could enable them to more effectively support project developer needs. It would also facilitate better communication of finance and technical support opportunities to ground level, to allow information to reach project developers whose access to information is hindered by geographic or capacity barriers.

In addition, even where finance is made available at higher levels by government or institutional donors, barriers can prevent large volumes from reaching their designated recipients. Interviewees from across stakeholder groups claimed that in more cases than not, considerable finance gets stuck – or absorbed – by intermediaries before it can reach project

developers. Reasons cited for this largely related to over-complex funding application processes or other bureaucratic procedures. These barriers highlight the need for public funding application processes to be simplified, as well as the need for better transparency. More designated, regional climate finance entities can account for and manage the distribution of allocated finance to ground-level actors, thus support improved transparency in the sector.

Recommendation 2: Improve project developer access to technical resources

Designated local climate finance representatives, as recommended above, could also advise on and provide the key technical support that is so desired by project developers, providing a much more affordable option than private technical advisors which are financially out of reach for many early-stage project developers. Many project developers are dearly in need of resources and training that can provide them with basic technical capacities. Targeted training courses – provided by government – could cover a range of topics, from project design, to the preparation of proposals, to project monitoring and evaluation. Such courses would help to better capacitate project developers to anticipate and manage risks during the development process, as well as help them increase the innovation value of their projects and thus more successfully secure financing. Courses could also be provided on national NDC priority sectors and the project types most relevant to national climate targets. The findings of the scoping study suggest there is little clarity at both national and local levels on which activities should be prioritized, and therefore this training would offer project developers with practical guidance on project types that are most likely to secure government (and subsequently private sector) buy-in. An alternative to training courses on the above subjects could be the production of a suite of resources: country- or regional-level 'guidebooks', which provide developers with technical guidance that is specifically tailored to the needs of the region, including case studies and project 'success stories'.

Recommendation 3: Support finance providers to offer better tailored financing opportunities

A better understanding of the role of climate finance in scaling up climate mitigation activities could enable financiers to offer more suitable and tailored financing solutions. The experiences of project developers suggest that access to finance is limited by financial institutions who lack the knowledge or capacity to develop funding channels fit for purpose. There are many restrictions on project developers by commercial banks, who themselves are restricted by the terms provided by development banks. On top of this, commercial banks add their own margins to the cost of loans: in the absence of climate finance expertise in-house, often the same terms that are used for any commercial loan are applied, bringing the ultimate rates of the loan up significantly. What results from this is funding opportunities that are largely only accessible to project developers with sufficient personal finance reserves, or with already secured pre-finance.

Interviewees across groups also stressed the need for climate finance from all sources to be offered with better conditions. Prominent barriers that emerged included unfeasibly short repayment periods; high interest rates; complex collateral or guarantee requirements and burdensome application processes. Project developers in particular stressed the need for less stringent repayment schemes, with payback periods of at least up to ten years. Regarding interest, it was also suggested that interest rates should remain below two digits, offer the option of self-adjustment, or be mitigated by less burdensome collateral requirements. Such adjustments, it was claimed, would give developers more flexibility and allow repayment plans to be better tailored to specific project types.

Finally, in addition to more accessible terms and conditions, finance must be made available with simplified technical and bureaucratic requirements. The complexity of the application process for loans from both private and public sources was cited as a major – if not the dominant – barrier for project developers to access finance. While some technical support is needed at ground level to help some developers with basic inputs, action is needed at the other end to minimize the size of this hurdle.

Creating better tailored finance opportunities for project developers requires increasing support to financial institutions. Targeted training for finance providers is one mechanism for achieving this. Training can not only help financial providers better understand the distinct roles of carbon and climate finance, but also understand the project development process from the developers' perspective, both of which can enable them to design more accessible funding opportunities for early-stage projects. It could also include elements relating to social and environmental risk assessment, to help financiers make better informed investment decisions.

A better understanding of climate finance could also help public sector actors. Many interviewees – even those representing public institutions themselves – either showed a limited understanding of different climate finance mechanisms or expressed frustration at the limited awareness within their institution. Targeted training for public sector actors engaged in climate and carbon finance activities can, as with financial actors, support the creation of better funding terms and conditions for project developers on the ground.

Recommendation 4: Use policy to create an enabling environment for carbon market engagement

Stakeholder responses suggest that the policy environment in many West African countries is currently insufficient at supporting the scale-up of carbon mitigation projects. Given that many West African governments are limited by technical and financial constraints, leveraging-in private sector finance should be a priority. Enhancing linkages with the private sector to promote the transfer of technology or finance could be one way to achieve this, through information campaigns that promote investment in climate action, as well as the facilitation of increased public-private partnerships.

In addition to direct private investment, leveraging finance through the VCM should also be a priority. To achieve this, most governments will firstly need an improved understanding of the VCM's potential to contribute to their specific

country context and climate targets. A carbon market guidance document, tailored to the West African context, could help governments in the region to understand the role of the VCM and the necessary preparatory steps for engagement. These steps include the development of a national project registry and other elements such as domestic accreditation standards, which enable a government to record all emission reductions that are being generated and traded, as well as ensure that their integrity is maintained. A domestic registry is also necessary if domestic projects are to be used for compliance purposes with accompanying corresponding adjustments, as required by the finalised Article 6 rulebook, or if the VCM is to be integrated into any domestic carbon pricing scheme.

Public sector engagement with the VCM should be complemented by public communication strategies that help provide better clarity for project developers on priority sectors for climate action. This would provide developers with a clearer understanding of those activities more likely to secure government 'buy-in', and thus those more likely to attract private finance or co-finance later down the line. These steps could be enhanced by the creation of a match-making facility, which could further facilitate the flow of finance to priority sectors; the development of green finance initiatives to attract private sector investments; or in general, creating an enabling environment for the private sector by mainstreaming market-based approaches into broader environmental policies and regulations. As mentioned by one project developer, however, enabling policies alone will not be sufficient, and must be complemented with practical and technical support being provided to project developers on the ground.



Annex



Interview Questionnaire (Template for Project Developers)

Scoping study on replicable programs for carbon markets and climate finance in West Africa: Interview questions for developers of mitigation projects

Background and purpose of the interview

The West African Alliance on Carbon Markets and Climate Finance seeks to support West African countries in accessing carbon markets and climate finance under the framework of the Paris Agreement (PA), in order to implement and strengthen their Nationally Determined Contributions (NDCs). In 2017, 16 West African countries formed the Alliance to enhance sub-regional cooperation, build capacity and strengthen the West African voice in the UNFCCC negotiations. Since then, the Alliance has striven to promote member participation in international cooperation under Article 6 of the PA and ensure that African priorities are reflected in the design of the new carbon market approaches. One of the goals of the project is to support the implementation of mitigation activities by creating a platform for member countries to connect with strategic partners of the Alliance, namely country governments, international financiers and technical experts.

The Alliance is now embarking on the development of a scoping study which aims at identifying and prioritizing private sector needs for engaging with carbon markets and climate finance in West Africa. The scoping study will also focus on the main challenges experienced in the sub-region related to the development of mitigation programs and dissemination of mitigation technologies in key sectors, barriers to sustainable practices and best practice solutions. By identifying

potential recipients of carbon or climate finance, the study will provide a knowledge base for the Alliance to pursue its goal to support the incubation of mitigation projects in the region.

To assess the needs of the private sector in terms of accessing carbon and climate finance, the Alliance is conducting qualitative interviews with actors relevant for the development of mitigation programmes in West Africa. These include project developers, financiers and technical advisors.

The interviews aim to:

- Assess the current situation in the region in terms of the barriers to developing climate change mitigation projects and programmes;
- Identify the needs of private stakeholders involved in the development of mitigation projects and programmes, including both financing and non-financial (e.g. technical, institutional, policy) aspects;
- Understand which mitigation measures and technologies present potential, and to what extent these measures are reflected in host country NDCs;
- Showcase success stories where key barriers identified in bullet 1 have been overcome;
- Shortlist, to the extent possible, promising mitigation programmes that are in need of carbon and/or climate finance support.

Planned duration of the Interview: 30 to 45 minutes

Questionnaire

Interviewee(s)
Name; organisation / institution; position

Open questions

Q: What is the role your organization plays in supporting the development of GHG mitigation projects in your country, or the wider West African region?

A:

Q: Is access to finance for GHG mitigation project development an important barrier to the types of projects you are developing?

A:

Q: What are the current sources of financing that the GHG mitigation projects you are able to access? Please describe both the type of instruments, and their level of concessionality.

A:

Q: Do you see opportunities in accessing climate/carbon finance, or are these mechanisms perceived as complex and inaccessible? If so, what are the barriers to access?

A:

Q: Do you see a distinction between the role climate finance has to play, versus carbon finance?

A:

Q: What terms and conditions would you like to see in climate finance offered? Please consider the cost of finance, repayment terms, level of non-repayable financing, or tenures on loans.

A:

Q: In your experience, what type of targeted support would private sector project developers benefit from to be able to more effectively access climate/carbon finance?

A:

Q: Are there any country-specific barriers (financial and non-financial) that you can identify that are making it more challenging to access climate/carbon finance in the West African region?

A:

Q: Are you currently working on a project that is in need of carbon/climate finance support?

A:

Rated questions

	1 Strongly disagree	2	3	4	5 Strongly agree
Accessing finance is a leading barrier to scaling GHG mitigation measures in the West African region					
Climate finance is perceived by project developers as an accessible financing opportunity					
Climate finance and carbon finance should be used in tandem to allow for scaling of investments					
Climate finance should be made available equally across different sectors of the economy					
A dedicated private sector match-making facility would greatly help connecting projects to climate finance					
Climate finance resources should be non-repayable, and come in grant form only					



The West African Alliance on Carbon Markets and Climate Finance aims to enhance the position of West African countries to participate in international carbon markets, benefit from technology transfer and access result-based climate finance for NDC implementation.

WESTAFRICAclimatealliance.org