USAID Climate Finance for Development Accelerator (CFDA)

Addendum 001 to the Climate Finance Annual Program Statement (APS No. 0011)

Adaptation Finance Window

Funding Opportunity Title	Adaptation Finance Window
Announcement Type	Addendum under an Annual Program Statement
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Deadline For Questions	October 6, 2023
Close Date for Concept Notes	October 20, 2023
Submit Concept Notes	Submission Portal

Section I – Background

While there is a massive funding gap for both climate mitigation and adaptation, the adaptation landscape is especially daunting. Globally, less than $50 billion goes toward adaptation, and the United Nations Environment Programme forecasts that annual adaptation needs will be in the range of $160–340 billion by 2030 and $315–565 billion by 2050. Estimated adaptation needs are currently five to ten times greater than international adaptation finance flows, and the gap continues to widen. Less than 10 percent of total climate finance flows go toward adaptation, and less than 2 percent of all adaptation investments come from the private sector.

The private sector has three key roles to play in adaptation: 1) supplying private finance, 2) developing and deploying goods and services that address existing and new demands generated by climate impacts, and 3) taking voluntary action to make corporate operations, supply chains, suppliers, and customers more resilient as well as working with national governments to push for mandatory actions. However, private-sector investment in adaptation faces many barriers and market failures that hinder progress. They include:

- **Poor Credit Ratings and High Cost of Capital:** The combination of weak or undeveloped domestic financial markets; political risk; limited fiscal space; poor international credit history; and high debt burdens often lead to poor credit ratings and high borrowing costs for many public and private entities in USAID partner countries. Many high-risk geographies are unable to access the capital they need, or are forced to take on debt at high rates, which increases their liabilities and can negatively affect their credit ratings.
- **Information and Data Challenges:** Companies have limited experience and difficulties in quantifying the costs of inaction or benefits of taking action on adaptation. For commodity-driven companies, information about the climate risk that companies' supply chains, operations, and investments will face in countries most vulnerable to climate change is not necessarily available at the level of detail needed to make investment decisions.

- **High Project Risks and Low Return on Investment (ROI):** Adaptation projects in developing countries face a number of risks including geographic and political risk, investment uncertainty, small transaction sizes, high transaction costs, and a less-than-market rate of return, which limit interest by private developers and hinder the development of bankable projects.

- **Regulatory and Political Landscape:** Developing country governments often have an underdeveloped policy, regulatory, and institutional framework that is needed to incentivize investment—or give investors some confidence that their investments are fairly stable or that the risks can be mitigated. Moreover, there are often insufficient or poorly aligned incentives and regulations, limited awareness, and limited capacity of some private companies and government agencies in identifying, measuring, and reporting on sustainable investments and adaptation needs.

USAID and other development agencies can play an important role in partnering with governments, private sector, and other stakeholders to address these barriers and unlock critically needed investment.

Section II – The Adaptation Finance Window

To support the implementation of the President's Emergency Plan for Adaptation and Resilience (PREPARE), the USAID Climate Finance for Development Accelerator (CFDA) is creating an Adaptation Finance Window, herein referred to as the "Window", that will help USAID Missions, USAID Operating Units, and the U.S. interagency to mobilize private finance for climate adaptation in developing countries. This Window is responding to USG-Cabinet-level interest in increased USAID and USG engagement in this area, as well as a growing need to attract private financing for climate adaptation.

Through the Window, CFDA is soliciting concept notes from private-sector enterprises[1] for innovative concepts with the potential to be financially self-sustaining, and which will deliver significant outcomes for climate adaptation, in two priority areas:

- Developing, pilot testing, or scaling innovative products or services for potable water storage and use, water recycling technology, leak detection, and irrigation management options that are viable amidst climate extremes (e.g. chronic drought, intensive flooding due to precipitation or glacial melt, rapid oscillation between those two, and/or sea level rise/saltwater intrusion).;
- Developing or scaling parametric insurance products or mechanisms to protect businesses and farmers from extreme weather events or other climate impacts (e.g. flooding, storms, pests, spread of zoonotic diseases, extreme heat, drought, sea level rise, and their cascading effects).

Beyond these priority areas for which funding is currently available, applications are encouraged in other sectors of private-sector-led climate adaptation, such as health, climate information services and early warning, infrastructure, and nature-based solutions. These applications will be reviewed as additional funding becomes available for this Window.

CFDA catalytic grant funding is intended to provide bridge capital for private sector applicants to get from concept or pilot to launch, or to scale products and services in new markets. As such, enterprises should have a product or service that is ready to launch or expand into a new market. Catalytic grant funding may be used by private-sector enterprises to support market testing for expansion, product

[1] In this context private sector enterprises can include both for profit and non-profit organizations. See section V below for more information.

development, prototyping, legal structuring, fundraising, startup/working capital, as well as investment readiness technical assistance (such as preparing financial statements and business plans).

Geographic Scope:

Applicants must be developing a solution in a country where USAID is present, or the application must have a clear potential benefit to one or more USAID presence countries.

Current Funding:

Under this funding window, CFDA anticipates issuing grant awards that range from $100,000 to $500,000 USD with the possibility of follow-on grants or additional grantees should additional funding become available. CFDA may consider grants over this value if they present opportunities to leverage significantly larger amounts of private finance for adaptation outcomes. US-based firms are restricted to awards up to $500,000.

Additional Considerations:

Evaluation criteria for the Adaptation Finance Window can be found in the CFDA Annual Program Statement (APS) application instructions section. Additional consideration and evaluation weighting under evaluation criteria #4 "Relevance" will be given to concepts that do the following:

- Identifies the main climate impact(s) specific to the geography in which it will work, and articulates how the product, service, or approach addresses those impact(s)
- Presents a unique or innovative approach or investment philosophy that contributes to significant climate adaptation outcomes in one of the priority areas mentioned above
- Demonstrates a clear pathway to a financially sustainable business model. For those that are fundraising, applicants ideally have already raised a seed round by the time of application.
- Demonstrates a clear pathway to scaling the solution beyond the current target market or geography in which the proposed work will take place
- Demonstrates how the grantee will meet or exceed a 5:1 mobilization target (i.e., for every $1 of CFDA grant funding, the grantee will mobilize $5 or more of non-U.S. government, non-grant funding) with particular emphasis on private sector, commercial capital

Concepts that support adaptation solutions for Africa are particularly encouraged, though concepts are welcome for all USAID presence countries.

Further, under evaluation criteria #3 "Additionality," the selection process will focus in particular on additionality of the provision of USG funds, specifically the extent to which USAID funding will help leverage financing that would otherwise not be available; and whether climate vulnerability will be reduce and/or resilience increased as a result of USAID financial or technical assistance.

Section III – Information on Applying

To apply for funding, interested applicants must submit a concept note via the concept note submission portal. For more information on evaluation criteria and submission instructions, please reference the entire Climate Finance Annual Program Statement (APS) No. 0011, linked here, which includes evaluation criteria, eligibility requirements, and additional key information.

For any questions related to this APS Addendum during the APS process please submit questions to the Solicitation Questions Submission Form. For general inquiries please email info@cfdaccelerator.com.

Section IV – Other Notes

The U.S. government acknowledges current gaps in funding for innovative, financially sustainable approaches to addressing climate adaptation globally, but particularly in low- and lower-middle-income countries. To augment its contribution to building the pipeline for bankable adaptation projects in those contexts, USAID may refer eligible concepts sourced through the APS process under the Window to other U.S. government agencies for their consideration.

Section V – Additional Eligibility Requirements

For a full list of eligibility requirements, please look at Section II Eligibility Information under APS No. 0011. There are no additional eligibility restrictions for this addendum. All for-profit organizations, non-profit organizations, U.S. and non-U.S. entities are eligible to apply if they meet the eligibility criteria.