USAID Climate Finance for Development Accelerator (CFDA)

Addendum 002 to the Climate Finance Annual Program Statement (APS No. 0011)

Adaptation Finance Window – Investment Funds

Funding Opportunity Title	Adaptation Finance Window – Investment Funds
Announcement Type	Addendum under an Annual Program Statement
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Oral Presentations for Select Applicants	O/A January 29 - February 9, 2024
Finalists Notified	O/A February 23, 2024
Due Diligence and Co-Creation Begins	O/A March 8, 2024

Section I – Background

Globally, less than $50 billion of tracked climate finance goes toward adaptation, yet the United Nations Environment Programme estimates that the amount needed to implement domestic adaptation priorities will reach US$387 billion per year by 2030. Between 2016-2020, on average, only $1.9 billion/year of adaptation investments have come from the private sector. Investors are increasingly recognizing the business opportunities from adaptation investments and the ways they can support the flow of finance into the adaptation investment ecosystem, yet private sector adaptation investment continues to face many barriers and market failures that include:

- **Poor Credit Ratings and High Cost of Capital:** 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 often have limited experience and difficulties in quantifying the costs of inaction or benefits of taking action on adaptation.
- **High Project Risks and Low Return on Investment (ROI):** Adaptation projects in developing countries face geographic and political risk, investment uncertainty, small transaction sizes, high transaction costs, and a less-than-market rate of return, which deter investor interest.
- **Regulatory and Political Landscape:** Developing country governments often have an underdeveloped policy, regulatory, and institutional framework that is needed to incentivize investment.

USAID, other U.S. Government agencies, and Nordic government partners are seeking to collaborate with private sector investors to address these barriers and streamline access to a broad range of finance instruments to accelerate the pace of investment into adaptation.

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) created the Adaptation Finance Window, herein referred to as the "Window", to help to mobilize private finance for climate adaptation in developing countries. Addendum 001 of the Adaptation Finance Window closed on October 20, 2023, and solicited concept proposals from private sector enterprises developing innovative services and products for adaptation solutions. More information is here.

Through this Addendum 002, CFDA is soliciting concepts from investment managers seeking grant capital, technical assistance, and guarantees (to cover credit risk) to support the launch of innovative funds or investment vehicles that will deliver significant outcomes for climate adaptation, as measured, but not exclusively, by the Green Climate Fund (GCF) Integrated Results Management Framework indicators (P. 9-11 in link) in **Section V.** Areas of adaptation may include, but not be limited to, increasing the climate resilience of vulnerable people and communities; health; food and water security; infrastructure and the built environment, and; nature-based solutions.

Geographic Scope

Only funds investing 100 percent of their capital in OECD DAC countries are eligible for support from the Window. Funds must have a multi-continent reach (i.e., at least two countries in two different continents). There are no requirements in terms of how much of the fund's capital needs to be deployed in each of these two continents. (e.g., 90% of a fund could be invested in Africa with 10% invested in Asia). A substantial Africa nexus is strongly preferred (i.e., > 50% deployment in Africa). Single-country funds will not be considered.

Current Funding

Under this Addendum, CFDA anticipates issuing **1-3 awards** that amount to **$5M USD** total, contingent on internal USAID funding approvals. The final number and amount of each award will be dependent upon grant activities and negotiations and may be lower or higher than that range. US organizations are restricted to grant awards up to **$500,000.** Catalytic grant funding may be used by investment partners to cover start-up costs, operational expenses needed to launch a new fund, build pipeline needed to secure investor commitments to launch a new fund, technical assistance, or other catalytic uses in support of launch and investment. The US International Development Finance Corporation (DFC) will review the most competitive applications received and consider them for potential investment against its own standards for support, separate from CFDA's grant award process.

In addition to US government support, Nordic government partners from the recently launched Investment Mobilization Collaboration Arrangement (IMCA) may provide up to **$100M in credit risk guarantees** to mobilize additional private financing into the adaptation funds selected through this competitive solicitation (see below). IMCA is a global partnership between the United States and Nordic countries that will provide new catalytic capital for blended climate finance structures, aiming to mobilize billions in private capital for climate investments in mitigation, adaptation, biodiversity and nature before 2026. **Concepts must integrate IMCA's guarantees into the proposed fund structure.**

IMCA's Guarantee Instrument. The purpose of IMCA's guarantee instrument is to promote sustainable development, inclusive economic growth, and poverty reduction by unlocking financial resources and facilitating access to finance. The instrument is designed to share risk with mainly private actors in order to de-risk investments, mobilize additional capital and bring in more partners to reach development impact. Through this risk-sharing, implementing partners will be able to raise and deploy additional capital and take on additional risks for investments in climate adaptation that otherwise would not be possible.

IMCA's guarantees are triple-A rated, unfunded sovereign and state-backed guarantees. The guarantee is a loss protection instrument that shields investors from a predefined amount of financial loss thus reducing the risk and improving the financial profile of an investment or an investment portfolio. Also note:

- The guarantee covers only credit risk. In the case which the applicant has a portfolio consisting of other types of investments (i.e. equity) a structure will be considered where the guarantee coverage is only applied to the debt portion of the overall portfolio
- The guarantee risk coverage is always partial and can never be 100% of the underlying investment risk
- Coverage is normally limited to principal amounts.

Requirements and Limitations. The guarantees must not result in negative market distortion. This will include an assessment of how the underlying loan conditions for the guaranteed loans are planned, including pricing, and comparing it with general conditions on the market for similar instruments. Furthermore, the guarantee should be structured in such a way that it modifies the financial profile of the underlying portfolio until it meets the risk-return requirements of prospective investors. The guarantee may not be structured and/or implemented in such a way that it provides the implementing partner with an excess or above market rate return. See **Annex 2** for additional requirements and limitations on using IMCA's guarantee instrument.

The following presents the types of guarantees available under this opportunity:

- **Loan Portfolio Guarantee:** Covers part or all of a lender's loan portfolio against default or non-payment on a loan-by-loan basis.
- **Fund Structure Guarantee**: Covers an entire fund structure or specific risk-tier. Covers against default and non-payment risk at the end of fund term up to a certain amount of total fund size.
- **Bond Guarantee**: De-risks the borrowing entity by backing principal capital deployed. Applied to the entire issuance or riskier tranche.
- **Counter-Guarantee:** De-risks underlying guarantees issued by the counterparty.

Additional Considerations

Concepts submitted in response to this funding opportunity will be reviewed against the evaluation criteria for the broader Adaptation Finance Window found in Section III of **Climate Finance Annual Program Statement (APS) No. 0011**. Additional considerations specific to this Addendum are outlined below.

Addendum 002 - Additional Evaluation Considerations

Evaluation Criterion 1: Relevance
Portfolio Allocation. Proposes a target fund portfolio that has a strong and clear focus on climate adaptation, preferably with 75% or more of the fund's capital deployed for climate adaptation investments, within the GCF definition mentioned. 100% of the target portfolio must fall within the definitions and eligibility criteria for climate change adaptation and mitigation results areas outlined in the GCF's Integrated Results Management Framework.
Geographic Scope. Proposes a fund or comparable investment vehicle to be deployed in two or more OECD DAC countries. Funds must have a multi-continent reach (i.e. at least two countries in two different continents). There are no requirements in terms of how much of the fund's capital needs to be deployed in each of these two continents. (e.g., 90% of a fund could be invested in Africa with 10% invested in Asia). A substantial Africa nexus is strongly preferred (i.e., > 50% deployment in Africa).
Target Fund Size. Proposes a fund with a minimum size of $50M or larger.
Evaluation Criterion 2: Scale of Impact
Climate and Development Impact. Integrates climate adaptation for reducing climate-related vulnerabilities and supporting development progress (e.g. creation of decent jobs with living wages in line with ILO's Decent Work Agenda) into the fund's proposed investment thesis and process, including adaptation-related impact measurement integrated in fund management.
Evaluation Criterion 3: Additionality
Additionality. Demonstrates additionality of the provision of USG and Nordic government funds, specifically the extent to which this funding will help mobilize private (non-DFI) capital financing that would otherwise not be mobilized, and the extent to which climate vulnerability will be reduced and/or resilience increased as a result of this assistance. Early-stage concepts are welcome as long as there is a clear path for rapid deployment.
Evaluation Criterion 4: Gender and Social Inclusion
Gender, Social Inclusion. Demonstrates an approach that is gender-responsive and recognizes and addresses issues faced by local communities, indigenous people, and/or other marginalized and underrepresented groups. The approach should be aligned with the principles for locally led adaptation.
Conflict Sensitivity. Demonstrates a conflict-sensitive approach, indicating how activities and investments are planned and implemented to prevent or minimize negative and maximize positive effects on peace and security.
Evaluation Criterion 5: Private Sector Engagement
Private Capital Mobilization and Deployment. Demonstrates a strong probability of raising private (non-DFI) capital and building pipeline for capital deployment.
Evaluation Criterion 6: Activity and Approach
Clarity of Structure. Proposes clear and transparent investment structures and concept models that facilitate the participation of private capital providers and use of IMCA's guarantees. Concepts must

integrate IMCA's guarantees into the proposed fund structure.
Track Record. Sponsored by experienced fund managers with demonstrated track record of raising and deploying capital, as well as successfully exiting investments. This should include successful experience launching at least one investment fund (or comparable) with private sector participation. First-time fund managers with principals and key staff that have experience raising and deploying emerging markets funds may be assessed on a case-by-case basis if they have sufficient support infrastructure from a parent or partner entity.

Section III – Information on Applying

To apply for funding, interested applicants must submit a concept note via the submission portal. For more information, please reference the entire APS No. 0011 which includes evaluation criteria, eligibility requirements, submission instructions, and additional key information.

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

Section IV – Additional Eligibility Requirements

For a full list of eligibility requirements, please look at **Section II Eligibility Information** under APS No. 0011. Potential applicants are encouraged to closely read the Additional Considerations section above to determine whether the concepts are a strong fit for this opportunity.

Section V – Additional Indicators and Requirements

Successful applicant(s) will be required to report on performance indicators on a semi-annual basis and agree to the requirements listed in the table below. Performance indicators will include CFDA standard indicators, as well as specific climate adaptation indicators. Applicants will be required to report on at least one indicator that reflects (1) the creation of new employment opportunities; and (2) the quality of those jobs created (e.g., number of jobs created with living wages). The Green Climate Fund (GCF) Integrated Results Management Framework indicators listed below (pp. 9-11 in link) are suggested for the climate adaptation indicators. Applicants may propose additional as well as alternative indicators. The full set of required indicators will be developed at the co-creation phase.

- **Core Indicator 2**: Direct and indirect beneficiaries reached
- **Core Indicator 3:** Value of physical assets made more resilient to the effects of climate change and/or more able to reduce GHG emissions
- **Core Indicator 4:** Hectares of natural resource areas brought under improved low emission and/or climate resilient management practices

CFDA will seek to streamline reporting requirements with other investors but may require supplemental indicators and/or request other reporting requirements during negotiation and prior to making the award.

Addendum 002 - Additional Requirements
People's Republic of China (PRC) Restrictions. USAID funding under this grant may not support any PRC government-linked entity (including PRC-controlled enterprises) nor support any transaction involving co-investment from a PRC government-linked entity with a Controlling stake, "Control" is defined in accordance the federal securities laws and regulations. Therefore, the grantee must undertake

reasonable steps to determine that no collaboration with or exploitation by the People's Republic of China (PRC) or any PRC government-linked entity (including PRC-controlled enterprises) takes place with U.S. Government (USG) funding. Lastly, recipients are prohibited from collaborating with entities included in the Uyghur Forced Labor Prevention Act (UFLPA) Entity List.[1]
Adherence to Performance Standards. The successful investment manager(s) must adhere to the IFC Environmental and Social Performance Standards and exclusion list in **Annex 1.**
Adherence to IMCA's Guarantee Requirements. The successful investment manager(s) must adhere to the requirements and limitations on using IMCA's guarantee instrument, as outlined in **Section II** and **Annex 2.**

Section VI – Oral Presentations

Chemonics anticipates inviting a select group of applicants to participate in virtual oral presentations and an interview with the evaluation committee. Only select applicants will be invited to the oral presentation stage. Oral presentations will focus on applicants' proposed activities and approaches in line with the program description and evaluation criteria outlined in this solicitation, as well as time for follow-up questions. At a minimum, key individuals who will be playing a critical role in launching and managing the fund may be requested to participate in the presentations.

1 UFLPA Entity List | Homeland Security (dhs.gov)

Annex 1 – Exclusions

Operations or activities that include the production, promotion or financing of the following products and services are not eligible for financing:

- Weapons, ammunition and products used as a platform for weapons and military strategic products.
- Chemicals not approved within the EU.
- Fossil fuels for electric and heat production (extensive); including new investments or support which directly prolongs or expands the use of existing fossil fuel-based alternatives.
- Medicines or pharmaceutical products that are falsified or not quality assured.
- Illegal drugs.
- Alcoholic beverages (extensive).
- Tobacco and tobacco products (extensive).
- Pornography.
- Racist or antidemocratic media.
- Commercial gambling/betting activities.
- Companies or organizations listed on the EU sanction list.
- Forced labor[2] or child labor[3]
- Activities or materials deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs or bans, such as:
    - Ozone depleting substances, PCB's (Polychlorinated Biphenyls) and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals;
    - Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES); or
    - Unsustainable fishing methods (e.g. blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 km in length)
- Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
- Destruction[4] of High Conservation Value areas[5]
- Radioactive materials[6] and unbounded asbestos fibres
- In the event that any of the following products form a substantial part of a project's primary financed business activities[7]:
    - Alcoholic Beverages (except beer and wine);
    - Tobacco;
    - Weapons and munitions; or
    - Gambling, casinos and equivalent enterprises.
- Standalone fossil fueled power plants
- Drilling, exploration, extraction, refining and sale of crude oil, natural gas and thermal coal

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2 Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

3 Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply.

4 Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

5 High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See http://www.hcvnetwork.org).

6 This does not apply to the purchase of medical equipment, quality control (measurement) equipment or any other equipment where the radioactive source is understood to be trivial and/or adequately shielded.

7 For companies, "substantial" means more than 10% of their consolidated balance sheets or earnings. For financial institutions and investment funds, "substantial" means more than 10% of their underlying portfolio volumes.

- Storage, supporting infrastructure (pipelines etc.), transportation and logistics, and services primarily related to fossil fuels
- Any business using captive coal for power and/or heat generation
- Electricity generation from peat and activities leading to deforestation
- Investments and/or other projects that aim to produce or make use of agricultural or forestry products associated with unsustainable expansion of agricultural activity into land that had the status of high carbon stock and high biodiversity areas
- Biomaterials and biofuel production that make use of feedstock that could otherwise meaningfully serve as food or compromise food security
- Export-oriented agribusiness models that focus on long-haul air cargo[8] for commercialisation
- Meat and dairy industries based on production systems that involve unsustainable animal rearing and/or lead to increased GHG emissions as compared to best industry, low-carbon standards/benchmarks.[9]

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[8] Following Eurocontrol's definition, long-haul is taken to be longer than 4 000 kilometres (The EIB Group Climate Bank Roadmap 2021- 2025).

[9] For agrifood value chain projects in countries with vulnerable food supply systems, benchmarking of GHG emissions of agro-industry projects on local instead of international best standards is possible on a case-by-case basis. This would apply in particular to smallholder and agriculture microfinance schemes or agrifood industries that target local demand and may involve derogation of general carbon footprint thresholds related to power and heat generation established in this bioeconomy section and under the industry and energy tables above (The EIB Group Climate Bank Roadmap 2021-2025).

Annex 2 - Non-Exhaustive List of General limitations and Provisions to IMCA's Guarantees

1. **Pricing**: A guarantee fee will be charged, consisting of two components, an administrative fee and a risk fee. The administrative fee is a fixed fee which covers costs for origination and monitoring of the guarantee. The risk fee is based on an external risk assessment and is quantified in an amount defined as expected loss. Based on the expected loss, a risk fee will be charged to the financial intermediary or organization receiving the guarantee.
    - When deemed necessary, the guarantee fee could be partly subsidized by grants, subject to a financial assessment of the guaranteed party. The expected loss amount including subsidy is deposited into the state guarantee reserve account. The funds from the service account are used to make payments in case of defaults. No other resources for grants are used for the repayment of defaults.
    - To calculate the risk fee, a forecast of debt exposure under the guarantee will be required, displaying number of loans including loan sizes, tenors, amortization schedule, country and sector allocation.
    - The final guarantee structure will successively be designed during the selection process which is typically done by jointly formulating a guarantee term sheet with the applicant. The final structure of the guarantee will, in turn, determine the guarantee fee.
2. **Transparency requirements**: Guarantee contributions are to be managed in a way that enables transparency, as far as possible considering secrecy and protection of personal data.
3. **The guarantees cover only credit risk:** In the case of which the applicant has a portfolio consisting of other types of investments (i.e. equity) a structure will be considered in which the guarantee coverage is only applied to the debt portion of the overall portfolio.
4. **The guarantees cover only new lending/exposure:** Already deployed lending/investments cannot be covered under the guarantee.
5. **Risk sharing**: IMCA seeks alignment of interest and must ensure that the risk in relation to the structure/portfolio is 1) shared with other actors and 2) can be motivated.
6. **State aid**: the guarantees must not result in state aid prohibited by EU law. This assessment is given particular attention whenever subsidies are provided (so as to reduce the fee burden) if any of the key parties are located in the EU. Essential is to ensure that subsidies (if any) are transferred for the benefit of the underlying borrowers.
7. **Market distortion**: The guarantees must not result in negative market distortion.
8. **Additionality**: The guarantees must provide a financial additionality to the guaranteed party through the mobilization of capital that would otherwise not be deployed, and/or by enabling new lending and investments that would in the absence of the guarantee not be issued, due to a perceived high investment risk.
9. **Loss determination and recovery requirements**: Guarantee events may only be declared when the responsible party has taken all appropriate collection/recourse steps to recover the relevant amounts (i.e. when a loss has been determined and/or been provisioned, not necessarily at the point of default).
10. **Claim payments**: In general, at least sixty (60) days following a claim request will be required to make a guarantee payment.
11. **Domicile**: The guarantee cannot be part of structures where the guarantee is channeled through or directed to international intermediaries (e.g. funds and fund managers) that are domiciled in any of the countries seen on the Common EU list of third country jurisdictions for tax purposes

or that are currently rated as Non-Compliant or Partially Compliant in the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes (this will be covered in due diligence, which also covers ESG matters).

12. **Reporting**: Access must be granted to financial reports of relevance (e.g. annual report, audit statements) and reports (semi-annually) should be provided setting out information in relation to the guaranteed portfolio (including e.g. exposures, arrears, defaults, losses, recoveries) and the agreed development indicators. Reporting to monitor the development results will also be required.
13. **Audit rights**: The guarantor must have the right to conduct site visits and to require that external auditors conduct an audit of the guarantee recipient or any portfolio investment (with the costs of such audits to be borne by the guarantor). In addition IMCA members:
    - Prefer to mobilize new and private capital (rather than capital from MDBs or DFIs);
    - Prefer guarantees referencing portfolios (rather than individual projects);
    - Need stronger arguments for the need/rationale to support guarantee features/conditions implying higher levels of risk level (e.g. large guarantee amounts, high risk coverage, first loss tranches, long maturity, revolving features);
    - Can in general guarantee only new investments (not previously originated transactions);
    - Need to secure subrogation rights, ensuring that whatever is recovered (after payment of a claim) is shared as per relative share;
    - Need ability to, for monitoring purposes, have the right to carry out audits/reviews /controls
    - Need the counterparty to the guarantee agreement (e.g. a Fund Manager or a bank) to be a legal person.