CLIMATE FINANCE

The global need for climate finance[1] is immense. Ghana, through its updated Nationally Determined Contributions (NDCs),[2] intends to mobilize between $9.3 and $15.5 billion[3] of investment (from public and private sources, both domestic and international) to implement 47 programs of action (13 adaptation and 34 mitigation) over a 10-year period (2020-2030). Of this amount, $3.9 billion would be required to implement the 16 unconditional programs of action until 2030. The remaining $5.4 billion for the 31 conditional programs of action would be mobilized from public, private, and international sources, as well as carbon markets.[4] Ghana will need an additional $3 million biennially to support the coordination of actions and regular international reporting of the NDCs. But successive governments have struggled to mobilize financing to implement climate change actions, for reasons that range from a lack of bankable projects to reliance on donor-driven, project-based financing.

This climate finance brief—part of a larger climate change assessment—highlights: (i) the need to scale climate finance, (ii) barriers and constraints to scaling climate finance, and (iii) recommended interventions to scale climate finance in Ghana.

Scaling Climate Finance

Transitioning to a more climate-resilient economy will require significant investment in low-carbon and climate-resilient development pathways. To meet its NDCs, Ghana must take advantage of available climate finance and use it to mobilize additional international and domestic financial resources from public and private sources that can be deployed for climate action. As part of this effort, the country should integrate climate change planning considerations into all public and private investments (e.g., priorities and standards for roads, buildings, energy, and land use, among others). This step would help Ghana manage risks in the private financial sector, while also protecting and improving public and private built and natural assets for the betterment of the Ghanaian people. To safeguard the country's people, natural resources, and economy—and make them more resilient and productive—Ghana must address climate risks, take advantage of investment opportunities, enhance data infrastructure to better forecast and monitor climate change impacts, and strengthen technical capacity to efficiently manage climate finance for effective climate actions. Below, some key aspects of the current climate finance landscape are outlined.

Climate Change Assessment

This policy brief on climate finance is part of the Ghana Policy LINK Activity's broader climate change assessment, which focused on six key areas—agriculture, water, energy, forest, coastal systems, and climate finance. The assessment methodology included a literature review as well as inclusive stakeholder consultations through interviews, focus group discussions, and sector workshops in Tamale and Accra. The Ghana Policy LINK Activity consulted 43 institutions and groups, including USAID and its implementing partners, other development partners, the Government of Ghana, academia, civil society organizations, farmer groups, the private sector, and the media. The policy briefs will be used to further engage stakeholders to prioritize transformative actions to achieve a climate resilient future.

1 Climate finance refers to local, national, or transnational financing—drawn from public, private, and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.
2 NDCs are government climate mitigation and adaptation commitments to reduce global warming.
3 Ghana's updated NDC is a reporting requirement under the Paris Agreement (2020 - 2030).
4 A conditional contribution is one that countries would undertake if international support is provided or other conditions are met.

Financial inflows for climate actions in Ghana between 2011 and 2019 totaled $15.5 billion.[5] Of that amount, grants made up the largest share (72.1 percent), followed by loans (19.1 percent), the national budget (8.5 percent), and result-based payments (0.4 percent). As this breakdown makes it clear, most of Ghana's climate finance is currently donor-driven and project-based.

Private investment is essential for financing NDC programs (and, thus, meeting targets) and driving climate action more broadly.

Financing flows through different channels. Of the different channels, financial flows through bilateral channels were the largest (45.1 percent), followed by multilateral channels (29 percent), global projects (11.6 percent), national funds (7.1 percent), and the Global Environment Facility (4.4 percent). The remaining 2.8 percent comes from private foundations outside Ghana (1.3 percent), the private sector (0.13 percent), and technical cooperation (0.02 percent). Ghana's government has benefited from other international funding sources as well, including bilateral and multilateral institutions like the World Bank, continental development banks such as the African Development Bank, and private sources. Ghana has also benefited from other United Nations Framework Convention on Climate Change (UNFCCC) institutions, including the Adaptation Fund and the Green Climate Fund (GCF), the latter of which is expected to become one of the main multilateral financing mechanisms supporting climate action in Ghana. Ghana already has six GCF projects worth approximately $89.7 million, four of which are multi-country and two are Ghana-specific.

Mobilizing domestic financial resources is promising, but unquantified. The assessment identified several domestic sources of climate finance—including the national budget; special funds such as the Ghana Green Fund, and the Environmental Protection Agency's Environmental Fund, Renewable Energy Fund, and Forest Plantation Development Fund; green bonds; and the private sector—but the value of these available resources is yet to be estimated.

Incentivizing private sector investment is critical. Private investment is essential for financing NDC programs (and, thus, meeting targets) and driving climate action more broadly. To encourage the private sector to invest in climate change mitigation and adaptation actions, the Government of Ghana (GoG) must improve the enabling environment for private sector participation and investment, including offering incentives such as tax credits and rebates.

Ghana is making progress in facilitating access to carbon credits and green bonds. Numerous ongoing efforts in the country will make it easier to tap into carbon credits and green bonds. The GoG is finalizing a national framework to govern the process and institutional arrangements for approving eligible carbon market projects. The GoG has also signed a framework agreement with Switzerland and is in negotiations with Sweden and Singapore around International Transference Mitigation Outcomes (ITMOS),[6] with several projects already in the pipeline. In addition, in 2019, Ghana became the third country in Africa to sign an Emission Reductions Payment Agreement with the Forest Carbon Partnership Facility, which is administered by the World Bank. In July 2022, the Securities and Exchange Commission approved rules for issuing green bonds and sustainability-themed products in Ghanaian capital markets, providing an opening for mobilizing new sources of climate finance.

Climate investment opportunities exist in energy and other critical economic sectors. Private sector investment opportunities in the energy sector related to NDC implementation for on-grid and off-grid solutions are estimated to be $306.1 - $1,208.8 million and $191.7 - $400.7 million, respectively, depending on how much energy demand increases. In the agriculture and forest sectors, meanwhile, private sector investment opportunities can be found in organic fertilizer, afforestation and agroforestry, the development of woodlots, sustainable land management, and solar-powered irrigation pumps, irrigation systems, food storage systems, resilient fisheries and aquaculture, drought-tolerant and high-quality seeds, climate-smart production technologies, agro-processing, and community forests for carbon markets.

Barriers to Climate Finance

Several barriers impede access to climate finance, as outlined below.

Donor-driven, project-based climate financing. The nature of most climate finance in Ghana—primarily from donors in the form of programs and projects—is the main factor limiting the implementation of climate change interventions in the country. Project-based financing comes with many constraints regarding the use and amount of funding; the time-bound nature of donor projects is also a constraint. Over the years, the lack of continuity in financing has made it difficult to meet long-term climate objectives.

Financial and private sector actors have limited capacity to undertake climate risk assessments. Climate risk assessments are required when planning and financing climate interventions. Investors need a sound estimate/valuation of climate risk as part of the due diligence process, not least because climate-related projects tend to have long time horizons and are perceived to have uncertain outcomes. In Ghana, financiers and would-be investors often do not understand the risk/return profile of climate investments; moreover, they have limited capacity to assess climate risks and integrate outcomes and averted climate impacts into project assessments or return calculations.

Lack of awareness of policies and opportunities. Stakeholders in Ghana are largely unaware of climate finance policies and opportunities. This lack of awareness is a result of ineffective information dissemination, limited dialogue in the policy process, and inadequate

5 Ministry of Environment, Science, Technology, and Innovation (MESTI) (2020). Ghana's Fourth National Communication to the UNFCCC.

6 Internationally Transferred Mitigation Outcomes (ITMO) are units from the new mechanism for the international emissions trading between Parties to the Paris Agreement.

financial resources to engage stakeholders. While some private sector umbrella organizations (e.g., the Private Enterprise Federation, the Association of Ghana Industries) have started sensitizing their members about climate opportunities and funding, more than half of the 20 private sector institutions interviewed as part of the assessment said they were unaware of government policies on climate finance. They also reported not knowing how the private sector could participate or invest in climate-smart interventions. Awareness is much better in the banking sector, where several institutions have taken steps to access government and donor climate funds.

Lack of clear incentives. Despite GoG's stated desire to support the climate finance agenda—specifically by scaling private finance—current policies to do so are insufficient. The country's lack of tax incentives and rebates, for example, makes investing in capital-intensive climate actions less attractive than investing in lower-risk projects. While some private sector actors have said they are committed to investing in adaptation and building resilience with or without government incentives, other would-be investors are deterred, especially from investing in sectors that are already perceived to be risky (e.g., agriculture).

Weak capacity to develop bankable projects. Ghana has a limited pipeline of potential climate investments in large part because the local capacity to develop bankable projects is weak. Government and private sector institutions alike need technical assistance and support to develop bankable projects that can meet the specific requirements of various financiers.

Lending maturity mismatch and high interest rates. Lending maturity mismatch (i.e., short-term deposits versus longer-term climate financing needs) and high interest rates are problematic for financiers and project developers. Unfortunately, lending maturity mismatch is a structural feature of the Ghanaian financial system due to the dominance of relatively short-term bank financing. In addition, high interest rates are misaligned with projected returns on climate action making the private sector wary of these investments. This misalignment prevents the private sector from seeking external financing to implement climate actions that will not generate sufficient returns in a reasonable timeframe.

Recommendations

The following recommendations would advance climate finance by taking advantage of the opportunities and addressing the constraints discussed above. Recommendations are organized by intervention type and aligned with Ghana's NDCs and other relevant policy frameworks.

Convene the public and private sectors. The GoG can strengthen private sector engagement in climate finance in the country both by highlighting win-win solutions and by identifying enabling environment and policy process improvements that could unlock climate finance for priority actions. Donors can help build bridges between public and private sector stakeholders so that they can work together to overcome the barriers described above (e.g., by raising awareness of climate opportunities, improving policies, and developing effective incentives). Together, the public and private sectors can move beyond analysis and proposals and start implementing climate change investment policies, plans, and roadmaps.

Develop pipeline and investment readiness. Capital seekers would benefit from technical assistance to prepare and present viable projects and enhance investment readiness and bankability through investment acceleration. Technical assistance should target stakeholders in the energy and agriculture sectors, as well as other sectors that could significantly reduce greenhouse gas emissions or enhance adaptation resilience through strategic climate action, demonstrate a viable project pipeline, make an important contribution to employment and income, and demonstrate a financing need and gap. Technical assistance should help stakeholders to understand and access loans and equity financing as well as newer sources such as:

- ***Carbon credits.*** Support for project development could help the private sector take advantage of enabling conditions to turn Article 6 of the carbon markets framework[7] into commercially viable projects that take advantage of international carbon markets. Support could facilitate the mobilization of additional international climate finance while advancing equitable benefits sharing among project participants on the ground. In addition, the GoG may benefit from assistance to establish its proposed mitigation ambition fund to support new project generation.
- ***Green and blue bonds.***[8] New rules issued in July 2022 create opportunities for investors, companies, and government entities to build a pipeline for green and blue bonds. Access to technical assistance, credit ratings, and credit enhancements such as guarantees could improve and speed up access to this nascent market and ensure proceeds are well-managed.

Mainstream climate change into banking portfolios. Donors and development finance institutions (DFIs) can support banks and other financial institutions to mainstream sustainability issues into their business models and lending portfolios to scale climate finance. For example, donors and DFIs can build on banks' ongoing efforts to incorporate economic, social, and governance practices into their portfolios and adhere to the Principles for Responsible Investment. In addition, the USAID Climate Finance team's Climate Finance Accelerator | Building Capacity in Partner Countries concept may be useful when supporting financial institutions that are interested in expanding their climate finance portfolios. The Accelerator would provide training and tools to increase green lending capacity and, eventually, encourage local banks to set net-zero targets. It would also help the GoG capture data and report on the sources and uses of private sector finance and potentially help the financial sector access new sources of finance while better managing climate risks.

Customize financial instruments. New instruments are under development to mobilize and deploy climate finance and mitigate climate risks. Customizing these instruments, however, requires highly specialized expertise that can be expensive and hard to access in a developing market like Ghana. Moreover, the risk mitigation tools that support the use of these instruments (e.g., credit guarantees, catalytic capital, and climate risk insurance) can be difficult to access. Facilitating access to these investment services and instruments would help manage climate risks and support climate finance innovation and expansion. In addition, given Ghana's current macroeconomic conditions—which have pushed up interest rates and reduced liquidity—other interventions to increase the availability and reduce the cost of private finance would also benefit climate action.

Support climate finance accreditation and management. Support for accreditation and efficient management of climate trust funds would increase access to and the use of climate finance in Ghana. Currently, Ecobank Ghana is the only institution in the country accredited with the Green Climate Fund. To increase access to climate finance, donors should help other institutions in Ghana gain accreditation and develop capacity in project preparation and implementation for the GCF and other climate-related trust funds. The recently launched Ghana National Development Bank, for example, intends to make long-term financing available to the private sector and develop the ecosystem for market access, technology, and innovation. It has not yet mapped out its role in climate financing, however, creating an opportunity for engagement and support.

7 Article 6 of the Paris Agreement allows countries to voluntarily cooperate with each other to achieve emission reduction targets set out in their NDCs. This means that, under Article 6, a country (or countries) will be able to transfer carbon credits earned from the reduction of greenhouse gas emissions to help one or more countries meet climate targets.

8 Green bonds raise capital for projects with dedicated environmental benefits. Blue bonds are a relatively new type of sustainability bond which finance projects related to ocean conservation. See https://www.morganstanley.com/content/dam/msdotcom/ideas/blue-bonds/2583076-FINAL-MS_GSF_Blue_Bonds.pdf.