

CLIMATE CHANGE CASE STUDY: UK International Climate Finance in Action

Mobilising the Private Sector to Benefit the Poor

Only around 5 per cent of the rural population in East African countries has access to power. Many of the poorest are dependent on livelihoods that are especially vulnerable to climate change, such as livestock rearing and rain-fed farming. Increased investment in renewable energy and agricultural technologies will help vulnerable communities adapt to climate change, provide new sources of income and employment and enable them to develop in a cleaner, greener way. There is a huge opportunity for the private sector to develop new markets that spearhead a major change in how Africa deals with climate change.

UK International Climate Finance

The UK Government established the **International Climate Fund (ICF)** in 2011 as part of its commitment to reduce poverty by helping developing countries adapt to climate change, take up low carbon growth and tackle deforestation. The ICF will provide **£3.87 billion of climate finance** from within the existing UK aid budget from **2011 to 2016**.

The ICF contributed to the UK delivering its pledge of almost **£1.55 billion "Fast Start" finance between 2010 - 2012**.

A challenge fund to stimulate private sector innovation

REACT (Renewable Energy and Adaptation to Climate Technologies) is a special funding window of the Africa Enterprise Challenge Fund, which supports businesses who wish to implement innovative, commercially viable high impact projects in Africa. REACT aims to stimulate private sector investment in developing and delivering low cost, clean energy and climate change technologies and

services, such as **solar power, biomass energy, irrigation and crop insurance products for small holder farmers**.

REACT was launched in November 2010 for **Kenya, Tanzania, Rwanda, Uganda and Burundi**. It is run as a competitive process which is open to business ideas based on low cost, clean energy and climate change technologies. To qualify for support, a business must provide matching funds which are at least equal to the awarded amount. The business idea must show an environmental benefit and demonstrate a positive impact on the rural poor through either increased incomes, employment and productivity or reduced costs. Challenge funds like REACT stimulate private sector investment by reducing the financial risks of pursuing new business ideas.

“This is an excellent initiative that will leverage significant private sector investment into rural areas, it will drive growth in our renewable energy sector and spark innovations that will help our farmers adapt to the uncertainties of climate change.”

- Right Honourable Raila Odinga, the then Prime Minister of Kenya at the launch of REACT in Nairobi, in November 2010.



© World Bank 2008. Mali Solar Power Project. (Curt Carnemark)

The UK Government will provide a total of **£11 million** to the REACT fund over a period of 6 years (2011 - 2016).

Catalysing green growth and supporting adaptation

Since being launched, REACT has run two competition rounds and attracted additional investment into the fund. As a result, by the end of 2012, it is estimated that matching funds of approximately \$9m have been invested in businesses across the East African Community.

The businesses can be grouped in clusters that respond, with innovative business models, to some of the most pressing challenges facing access to energy and climate change adaptation for low income consumers. Examples of such clusters are:

- Businesses with highly promising “pay-as-you-go” models which use mobile payment and delivery systems to allow customers who previously could not afford

them to access and purchase solar home systems;

- Renewable energy power generation combined with mini-grids for power distribution in areas hard for the main grid to reach;
- The use of biomass energy resources for the mass production and distribution of plastic biogas systems, modern alternatives to charcoal and firewood as cooking fuels and the industrial production of briquettes from large scale agricultural waste.

REACT also supports the private sector to develop and introduce new products and services that help smallholder farmers adapt to climate change. Examples are:

- Agribusiness: “climate-smart” interventions such as solar concentrated power pumping for water irrigation; technology for improved soil tillage and conservation agriculture; satellite index-based weather risk insurance for smallholder farmers.
- Forestry: sustainable forestry products that reduce the transaction costs of small holder farmers accessing the carbon markets for planting trees.

The fund is also helping to create a market in new financial services products to help consumers and small businesses in rural areas access clean energy products.

By 2015, it is estimated that REACT will have helped to deliver the following benefits:

- **An extra 200,000 people will have access to cheaper, cleaner energy technologies**
- **Installed 7 MW (equivalent) off-grid clean electricity**
- **250,000 tonnes of carbon emissions will be avoided**

About AECF

The Africa Enterprise Challenge Fund (AECF) is a US\$200 million private sector fund, backed by some of the biggest names in development finance and hosted by the Alliance for a Green Revolution in Africa (AGRA). Its aim is to encourage private sector companies to compete for investment support for their new and innovative business ideas. The fund manager of the AECF is KPMG Development Advisory Services.

