

# INTRODUCTION TO FINANCE MECHANISMS AND DEVELOPING BANKABLE PROJECT PROPOSALS | November 2018

## LOCAL ACTION FOR BIODIVERSITY (LAB): WETLANDS SOUTH AFRICA



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# ICLEI - LOCAL GOVERNMENTS FOR SUSTAINABILITY






**ICLEI – Local Governments for Sustainability** is the leading global network of over 1,500 cities, towns and regions committed to building a sustainable future. By helping the ICLEI Network create and build cities that are sustainable, low-carbon, eco-mobile, resilient, biodiverse, resource efficient, with healthy and happy citizens, a green economy and smart infrastructure, we impact over 25% of the global urban population.

**ICLEI Africa's** work is conducted by a dynamic and passionate team of professionals who seek to work with cities in ensuring a more sustainable future. Through our advocacy work, networking, services and projects we aim to strengthen the role cities and local governments play in the pursuit of greater sustainability and resilience through the collaborative design and implementation of integrated urban development.

ICLEI Cities Biodiversity Centre (CBC) was created in 2009 with a specific focus on urban nature and effective biodiversity management. **ICLEI CBC** is

located in Cape Town, South Africa, embedded in the Africa Regional Secretariat. ICLEI CBC promotes BiodiverCities, which promote the benefits of urban nature, including human health and wellbeing, poverty alleviation, habitat conservation, air and water quality, climate change adaptation, food provision, infrastructure resilience and the circular economy. Nature in cities provides a critical contribution towards achieving the global biodiversity targets, buffers further biodiversity loss, improves the urban standard of living, and provides local opportunities for global education and awareness. ICLEI CBC offers a range of tools and services including the Local Action for Biodiversity step wise approach and the **CitiesWithNature** initiative. CitiesWithNature is the global platform for cities and other subnational governments, their communities and experts to connect, share and learn from each other in mainstreaming nature into our cities in ways that benefit both people and nature.

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# ACRONYMS

<b>ADB</b>	Africa Development Bank
<b>BIOFIN</b>	Biodiversity Finance Initiative
<b>CBD</b>	Convention on Biological Diversity
<b>CEPF</b>	Critical Ecosystem Partnership Fund
<b>DEA</b>	Department of Environmental Affairs
<b>DGDS</b>	District Growth and Development Strategies
<b>EI</b>	Ecological Infrastructure
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit- GmbH
<b>GEF</b>	Global Environment Facility Trust Fund
<b>GCF</b>	Green Climate Fund
<b>GCF</b>	Global Conservation Fund
<b>IDP</b>	Integrated Development Plan
<b>IPBES</b>	Intergovernmental science-policy Platform on Biodiversity and Ecosystem Services
<b>MEL</b>	Monitoring, Evaluation and Learning
<b>MIG</b>	Municipal Infrastructure Grant
<b>NBSAPs</b>	National Biodiversity Strategies and Action Plans
<b>NDP</b>	National Development Plan
<b>MFMA</b>	Municipal Finance Management Act
<b>PFMA</b>	Public Finance Management Act
<b>SANBI</b>	South African National Biodiversity Institute
<b>SCCF</b>	Special Climate Change Fund
<b>SIPs</b>	Strategic Integrated Projects
<b>TAU</b>	Technical Assistance Unit
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>UNDP</b>	United Nations Development Programme

# SECTION A | INTRODUCTION

## 1. Why develop these guidelines?

The global urban population has grown rapidly from 746 million in 1950 to 3.9 billion in 2014, and is expected to surpass six billion by 2045<sup>1</sup>. By 2050, 70% of the global population will live and work in cities. This rapid urban growth places considerable pressure on city resources, particularly the natural resources that are vital to sustaining local economies, community health and well-being, food security and urban infrastructure. The [2018 World Economic Forum Global Risks Report](#) has identified biodiversity loss and ecosystems collapse as being one of the top ten risks in terms of impact. By 2020, the end of the current United Nations Decade on Biodiversity, the world's biodiversity is set to have declined by two-thirds, an unprecedented rate of destruction that jeopardises not only the amazing variety of life on Earth, but the prospects for human development and well-being<sup>2</sup>.

At the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) 6th Plenary Meeting held in Colombia in March 2018, the threats to biodiversity were highlighted, with the meeting concluding that the destruction of nature is as dangerous as climate change. In its regional assessment on Africa, IPBES points out that the decline and loss of biodiversity is reducing nature's contributions to people in Africa, affecting daily lives

and hampering the sustainable social and economic development targeted by African countries. Urban communities and cities exist at the forefront of this impact and are faced with having to deal with the resultant economic, developmental, health and social challenges on a daily basis.

Rapid urbanisation also places a burden on city's financial resources and ability to maintain existing infrastructure as well as build new infrastructure required to support the burgeoning urban populations and local economies. For example, 60 percent of the area projected to be urban by 2050 has yet to be built, more than doubling the current infrastructure<sup>3</sup>. This presents a major financial challenge:

**“The G20's global growth targets call for a global infrastructure growth program of some 80 to 90 trillion dollars to meet the United Nations Sustainable Development Goals by 2030, or roughly 6 trillion dollars per year. Seventy percent of global infrastructure demand in the next 15 years will come from cities, mainly in the developing world”.**<sup>4</sup>

Local governments across the world are increasingly recognising the ecosystem services benefits that ecological infrastructure such as wetlands,

<sup>1</sup> United Nations' World Urbanization Prospects, 2014 revision

<sup>2</sup> Statement made at the Cambridge Conservation Initiative – public lecture and panel discussion, entitled 'Setting a new post-2020 biodiversity agenda – the communications challenge', held on 12 April 2018 at the University of Cambridge.

<sup>3</sup> Andrew M. Deutz, Think piece on The Coming Rise of Urban Infrastructure - Turning Infrastructure Green, <http://cbc.iclei.org/think-piece-coming-rise-urban-infrastructure-turning-infrastructure-green/>

<sup>4</sup> Ibid.

# 1. Why develop these guidelines?

grasslands, forests and rivers provide. These include combating the effects of climate change, fostering social cohesion, creating public spaces, protecting biodiversity and promoting the green economy. Despite these benefits, little to no budget is earmarked for nature-based solutions at the local level.

Municipalities play an important role as centers of economic growth and service delivery, and are therefore seen as key to implementing growth and development strategies. In most cases, municipalities' current budgets and revenue streams are not adequate to meet the increased demand for infrastructure maintenance and development. Accordingly, municipalities will need to pursue alternative finance streams to fund additional infrastructure programmes and projects.

Municipalities' capacity to conceptualise, develop and present bankable projects is key to long-term sustainability; and requires the preparation of well-researched projects and access to various funding sources. Although there are various sources of grants, loans and funding with a mandate that is in line with municipal functions, most municipalities are either uninformed of these funding sources and/or lack the resources and capacity required to access them. Furthermore, the procedural protocols for accessing funding are often complex and time-consuming.

To support municipalities seeking additional sources of funding for their programmes and projects, ICLEI Africa has developed this introduction to the funding landscape which includes an overview on how to develop funding proposals for projects specifically geared towards protecting ecosystems and nature's benefits. This document also includes a list of financial mechanisms (e.g. donor funding, government funding, corporate social initiatives and

private sector partnerships) and practical advice on developing bankable project proposals. This document is divided into three sections:

**Section A** provides a background and context for these guidelines and a discussion on the principles for investing in ecological infrastructure;

**Section B** deals with the funding landscape, explaining how it is structured and unpacking how municipalities can navigate it; and

**Section C** provides information on applying for funding which includes details on available biodiversity funding, as well as how to apply and develop bankable proposals.

This introductory document was compiled using various sources including the work done as part of the Urban Low Emission Development Strategies I ([Urban LEDES](#)) on financing the transition to a new infrastructure paradigm in fast-growing secondary cities in South Africa, The [IPG Handbook on Environmental Funds](#), and [SANBI's Framework for Investing in Ecological Infrastructure in South Africa](#), as well as available lists, databases and directories such as those developed by the Technical Assistance Unit, GIZ and SANBI.

**It must be noted that this is not intended as an exhaustive and comprehensive guideline of finance mechanisms for municipalities.** Rather, the guideline serves as an introduction to the financing mechanisms and funding landscape by illustrating what types of funding are available and what steps need to be followed to access finance mechanisms in general.



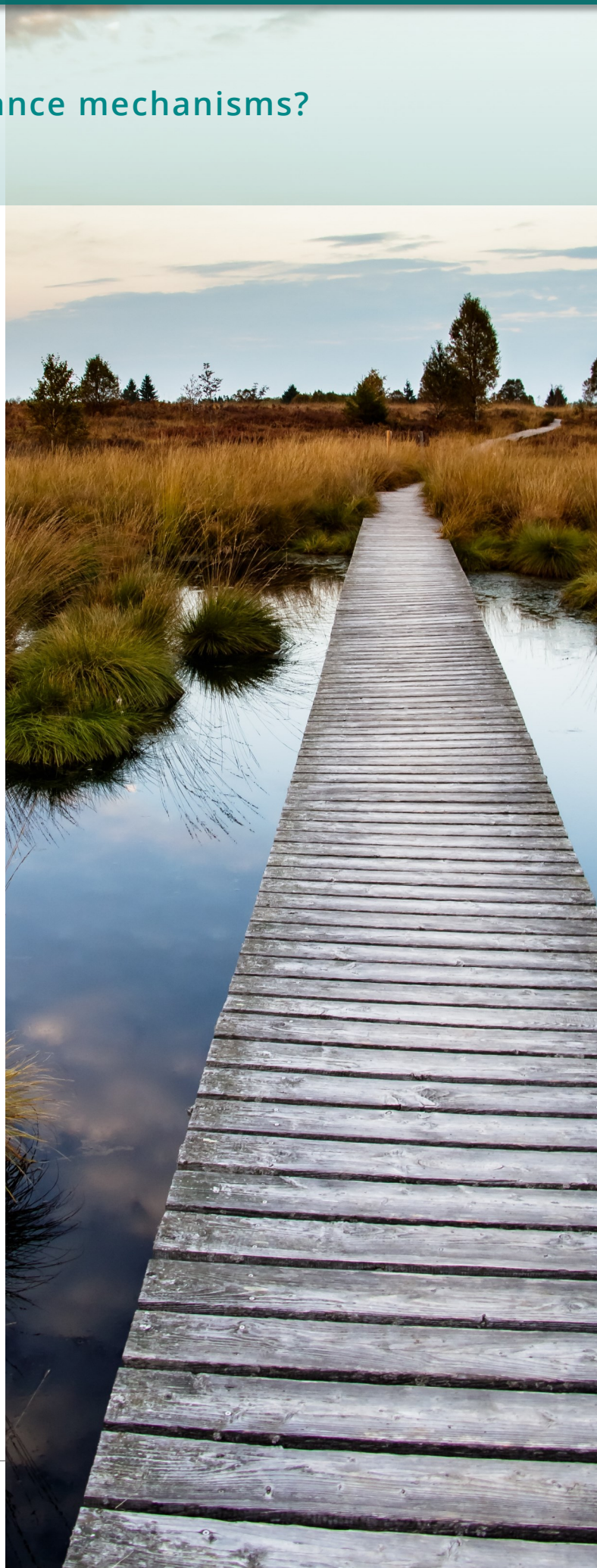
## 2. Why is there a need for finance mechanisms?

Urbanisation and rapid population growth in cities are widely regarded as the defining characteristics of the current era; it is projected that by 2050 around 70% of the world's population will live in cities. In South Africa, more than half of the population is currently urbanised, with up to 64% of South Africans living in the country's urban centres. The result of this expansion is an increased demand for food, water, air land, housing, infrastructure etc.

According to the National Development Plan (NDP), the result of market and policy failures have resulted in the global economy entering a period of "ecological deficit", as natural capital (ground water, marine life, terrestrial biodiversity, crop land and grazing) is being degraded, destroyed, or depleted faster than it can be replenished."

It is common cause that at the local level, budgets, policies and strategies for addressing development and infrastructure challenges, climate change adaption and disaster risk reduction are determined by a complex mix of growth and development priorities, fiscal systems, legal mandates, institutional factors and political will. Financing for infrastructure development and service delivery in municipalities relies largely on intergovernmental transfer payments, grants, subsidies, taxes and other sources that are unsustainable in the long run. Although it is commonly recognised that the "money is there", actual investment into "green" infrastructure and low carbon climate resilient projects remains very low and often completely out of reach for most municipalities<sup>5</sup>.

<sup>5</sup> K Brand & I Coetzee, Think piece on Plotting a new course: Towards external financing for nature-based solutions in cities, <http://cbc.iclei.org/think-piece-series-investing-nature-resilient-cities/>



## 2. Why is there a need for financial mechanisms?

The reasons for this are complex and may include:

- 1) Ability of local municipalities to secure additional external funds is often hampered by a lack of capacity and limited access to external funding due to poor credit ratings and a lack of “bankable” projects;
- 2) Municipalities’ appetites for venturing outside of their normal revenue streams and fiscal allocations, with associated budgeting and reporting processes and cycles, remain relatively low;
- 3) Supported by traditional public service planning frameworks and a “business as usual” outlook, municipal officials are often not expected nor encouraged or equipped to create attractive, innovative, profitable and sustainable business propositions which would draw new public and private investors to the table;
- 4) Traditionally, the focus is more on day-to-day basic service delivery and maintenance than to test, transform, disrupt and co-create innovative projects that would redefine cityscapes and systems; and
- 5) In some cases, public finance policy and regulatory requirements also contribute to low external investment at municipal level.

In recent years municipalities have come to understand the value of creative Integrated Development Plans (IDPs) that can give them a competitive edge, create sustainable value and increase the quality of life for their communities. Many of the IDPs now recognise that working with nature, in providing basic services and infrastructure, is imperative to a thriving and resilient city. Increasingly the provision and maintenance of green corridors; healthy functioning ecosystems; ample, easily accessible and safe green open spaces for daily community engagement with nature; food gardens; and green and blue infrastructure are becoming embedded in the vision of local municipalities.

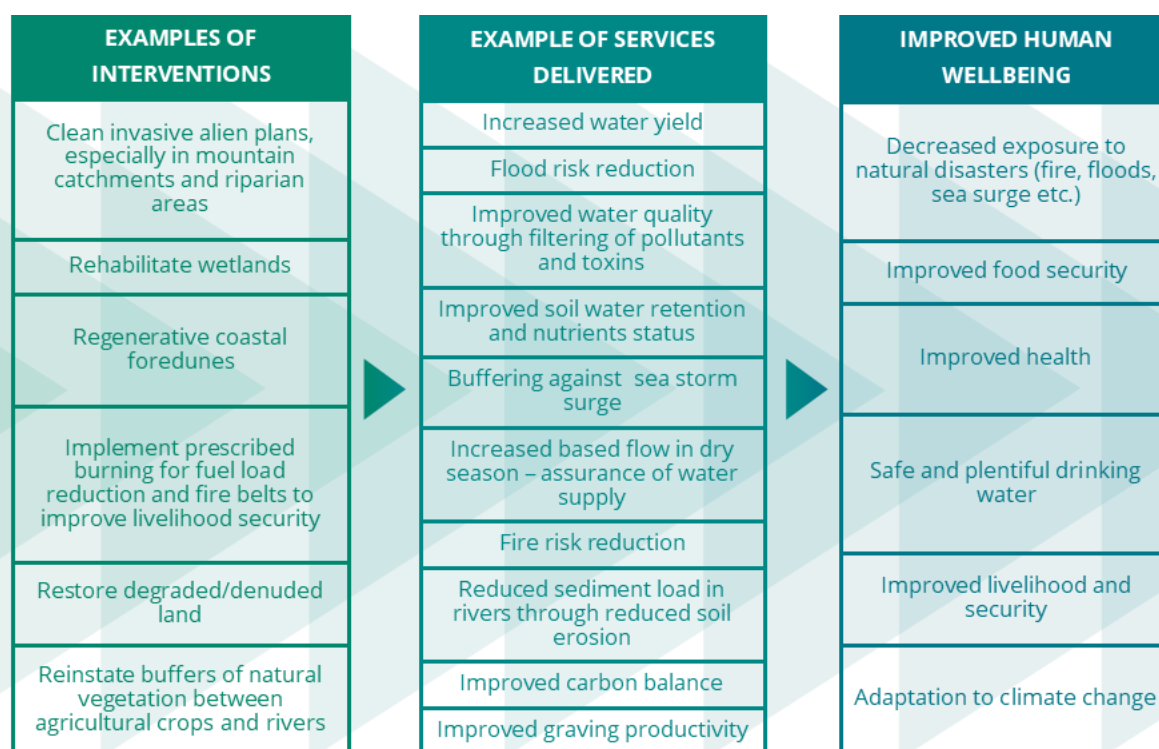
To ensure nature’s benefits are mainstreamed into land use and development planning at the local level, municipalities’ fiscal policies and budgets need to embrace principles such as decoupling natural resource use and environmental impacts from economic growth and recognise the interdependence of people, nature and the economy. Greening fiscal policy opens the door for innovative fiscal reforms that can introduce new revenue streams for nature-based solutions. Municipalities can also expand the available funding envelope by sharing the financial burden through collaboration and adopting nature-based solutions.



### 3. The rationale for investing in ecological infrastructure

Ecological infrastructure (EI) can be seen as the natural equivalent of built infrastructure. It has the potential to supplement, sustain and in some cases, even substitute built infrastructure solutions. EI (such as wetlands and rivers) is useful, for example, for the provision of water-related services to people that are not served by built infrastructure and can assist in the mitigation of the impacts of droughts and floods. Additionally, the use of EI can support municipalities within increasing their resilience to the impacts of climate change, supporting biodiversity conservation, ensuring food security and creating green jobs. Investing in ecological infrastructure improves the flow of services to society, thereby improving human wellbeing.

**Ecological infrastructure** refers to naturally functioning ecosystems (pristine, restored or artificially constructed) that deliver benefits to people such as fresh water, clean air, food and disaster risk reduction. It is the nature-based equivalent of built or hard infrastructure, and is just as important for providing services and underpinning socio-economic development.



**Figure 1 |** Examples of services and benefits flowing from investment in ecological infrastructure

<sup>5</sup> K Brand & I Coetzee, Think piece on Plotting a new course: Towards external financing for nature-based solutions in cities, <http://cbc.iclel.org/think-piece-series-investing-nature-resilient-cities/>

<sup>6</sup> SANBI, A framework for investing in ecological infrastructure in South Africa, 2014, pp13 - 15.



### 3. The rationale for investing in ecological infrastructure

The South African National Biodiversity Institute (SANBI) has developed [A framework for investing in ecological infrastructure in South Africa](#).<sup>6</sup> The framework includes a useful diagrammatic representation of some examples of the services and benefits flowing from investment in ecological infrastructure, captured in [Figure 1](#).

Although urbanisation has resulted in some benefits, such as economic development and improved quality of life, there have been significant negative impacts on ecosystems, which often results in the degradation or collapse of ecosystems and loss of biodiversity. For example, according to the [2011 National Biodiversity Assessment](#), “wetlands are the most threatened of all of South Africa’s ecosystems with 48% of wetland ecosystems being critically endangered.” This is significant as wetlands are considered high-value ‘ecological infrastructure’, as they provide critical ecosystem services to South

African Municipalities and vital habitat for flora and fauna. The ecosystem services include: flood attenuation and stream flow regulation; water filtration and purification; erosion control; water storage; food and medicinal plant provision; supply of raw materials; and clean drinking water. The wetlands within South African Municipalities also play a pivotal role in disaster risk management as well as reducing the impacts of climate change. It is important therefore that South African Municipalities have the capacity and resources to protect and manage the ecosystems within their areas of jurisdiction.

According to the SANBI’s ‘[A framework for investing in ecological infrastructure in South Africa](#)’, when investing in ecological infrastructure, a number of principles can be used to set out and guide project development and implementation of ecological infrastructure<sup>7</sup>.



<sup>6</sup> SANBI (2014) "A framework for investing in ecological infrastructure in South Africa"

<sup>7</sup> SANBI, A framework for investing in ecological infrastructure in South Africa, 2014, pp13 - 15.

### 3. The rationale for investing in ecological infrastructure

**PRINCIPLE 1** *Investment in ecological infrastructure should focus on achieving clearly defined benefits and outcomes*

The desired outcomes, objectives and goals of any investment in ecological infrastructure should be clearly defined by the investor. For example, particular objectives around water service delivery, disaster mitigation or climate change adaptation, the

desired state of ecological infrastructure, as well as any additional socio-economic desired benefits, should be clearly defined. This will help to avoid wasteful expenditure, and assist with identifying exactly how and where the investment should take place and what aspects should be monitored ([see principle seven](#)). It will also help to avoid setting unrealistic expectations on what ecological infrastructure interventions can achieve.

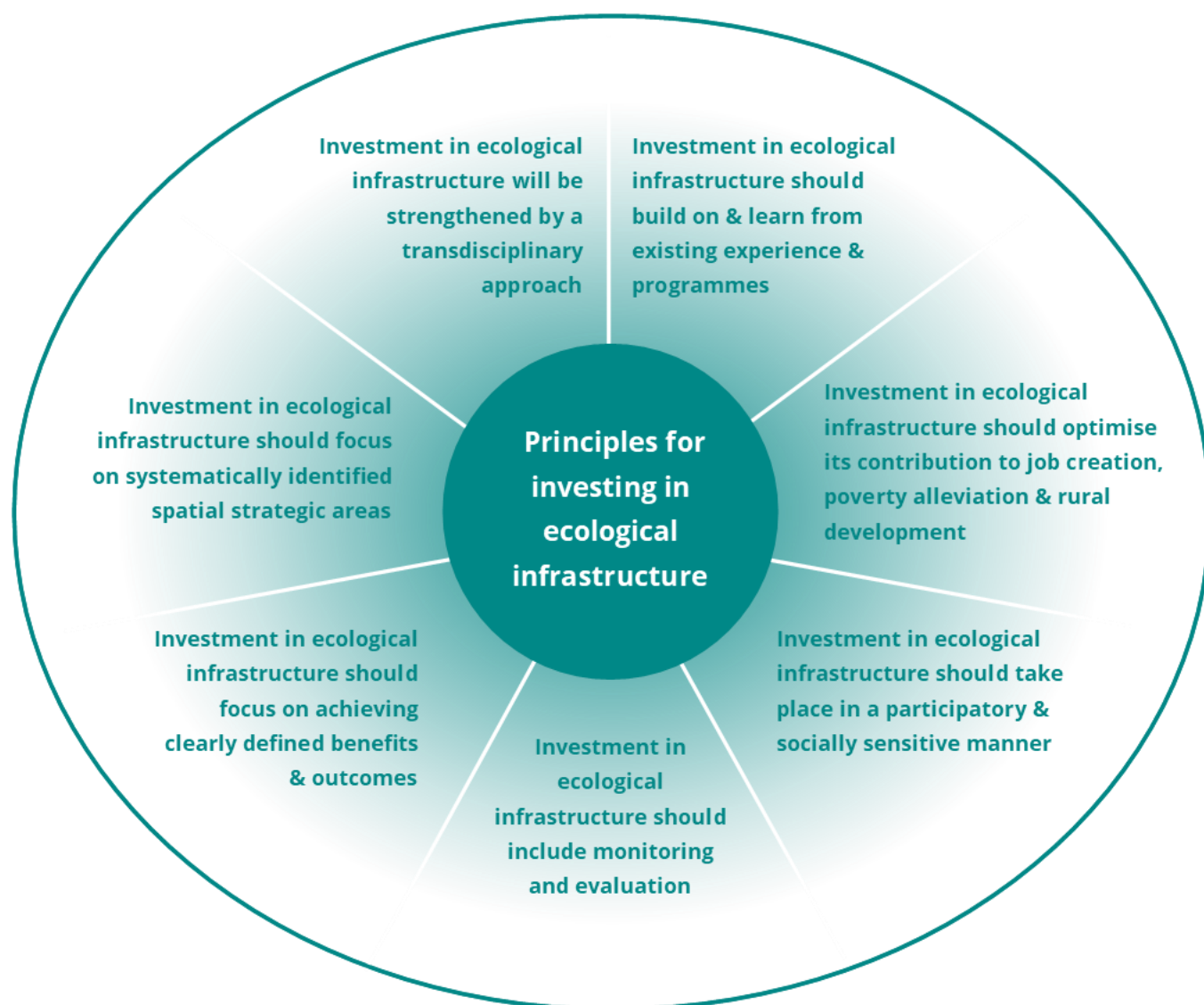


Figure 2 | Principles for investing in ecological infrastructure (SANBI, 2014)

### 3. The rationale for investing in ecological infrastructure

#### **PRINCIPLE 2** *Investment in ecological infrastructure should focus on systematically identified spatially strategic areas*

Investment in ecological infrastructure should focus on spatially strategic areas that have been identified systematically using best available science. South Africa has highly developed spatial biodiversity planning methods and techniques that are at the forefront of international practice. These should provide the basis for mapping and prioritising ecological infrastructure, recognising that priority ecological infrastructure may vary according to the particular service that is of interest. For example, a map of priority ecological infrastructure supporting water services may identify different landscape features compared to a map of priority ecological infrastructure for disaster risk reduction. Prioritisation methods should include both ecological and socio-economic factors, considering the relevant beneficiaries and the providers of the ecosystem services.

#### **PRINCIPLE 3** *Investment in ecological infrastructure will be strengthened by a transdisciplinary approach*

Investment in ecological infrastructure requires people from different disciplines to work together (such as engineering, planning, environmental and water sectors), each drawing from their own knowledge, experience and networks. Ideally, investing in ecological infrastructure will be transdisciplinary – with the creation of a new intellectual framework drawing from different existing disciplinary perspectives. The integration of knowledge systems will strengthen the role of ecological infrastructure as a fundamental component of the broader infrastructure landscape in the country.

#### **PRINCIPLE 4** *Investment in ecological infrastructure should build on and learn from existing experience and programmes*

There are a number of existing programmes of work that can support and complement investing in ecological infrastructure, both within the biodiversity sector and within other sectors. These include the Natural Resource Management programmes (such as Working for Water and Working for Wetlands), biodiversity stewardship, and the Department of Agriculture, Forestry and Fisheries' LandCare programme. There are also existing mechanisms of funding delivery, such as the Municipal Infrastructure Grant (MIG), that could be used to deliver funding for investing in ecological infrastructure along with the more traditional funding for built infrastructure. Developing a programme of work for investing in ecological infrastructure need not require the development of a new suite of mechanisms or programmes. Rather, wherever possible, it should be aligned and mainstreamed into appropriate existing programmes of work.

#### **PRINCIPLE 5** *Investment in ecological infrastructure should optimise its contribution to job creation, poverty alleviation and local economic development*

It is important that job creation and poverty alleviation goals are factored into programme design when planning for investment in ecological infrastructure in South Africa. Locating projects where there are clear socio-economic benefits as well as ecosystem service provision benefits is important, as are the methods that are employed in any work that is required. For example, Working for Water projects focus on labour intensive practices in order to increase job creation.



### 3. The rationale for investing in ecological infrastructure

**PRINCIPLE 6** *Investment in ecological infrastructure should take place in a participatory and socially inclusive manner*

Investment in ecological infrastructure should always be context specific, and take cognisance of the socio-economic factors and needs of the area and the beneficiaries. Relevant stakeholders should be involved in integrated adaptive planning, implementation and monitoring of the project where appropriate. This should include stakeholder engagement in the development of goals, outcomes, and the implementation and monitoring plan. Appropriate resources, both time and money, should be allocated for this and appropriate skills should be incorporated into the project team.

**PRINCIPLE 7** *Investment in ecological infrastructure should promote an adaptive management and co-production approach*

The urban environment is dynamic and complex in nature and often subject to rapid change. Therefore, investment in ecological infrastructure should encourage an adaptive management and co-production approach. Adaptive management is a management response approach to planning, decision-making and operating in a context of complexity and uncertainties. At its core it involves a structured, iterative process of robust decision making, monitoring, learning and co-production through stakeholder participation. Co-production recognises the importance and value of cross-sectoral and multi-stakeholder engagement and use of methodologies that provide a platform for generating knowledge in a safe, open and interactive space. Furthermore, co-production acknowledging that there are many sources of expertise, and that the knowledge of city practitioners and community members is as valid and important, as scientific or academic knowledge.

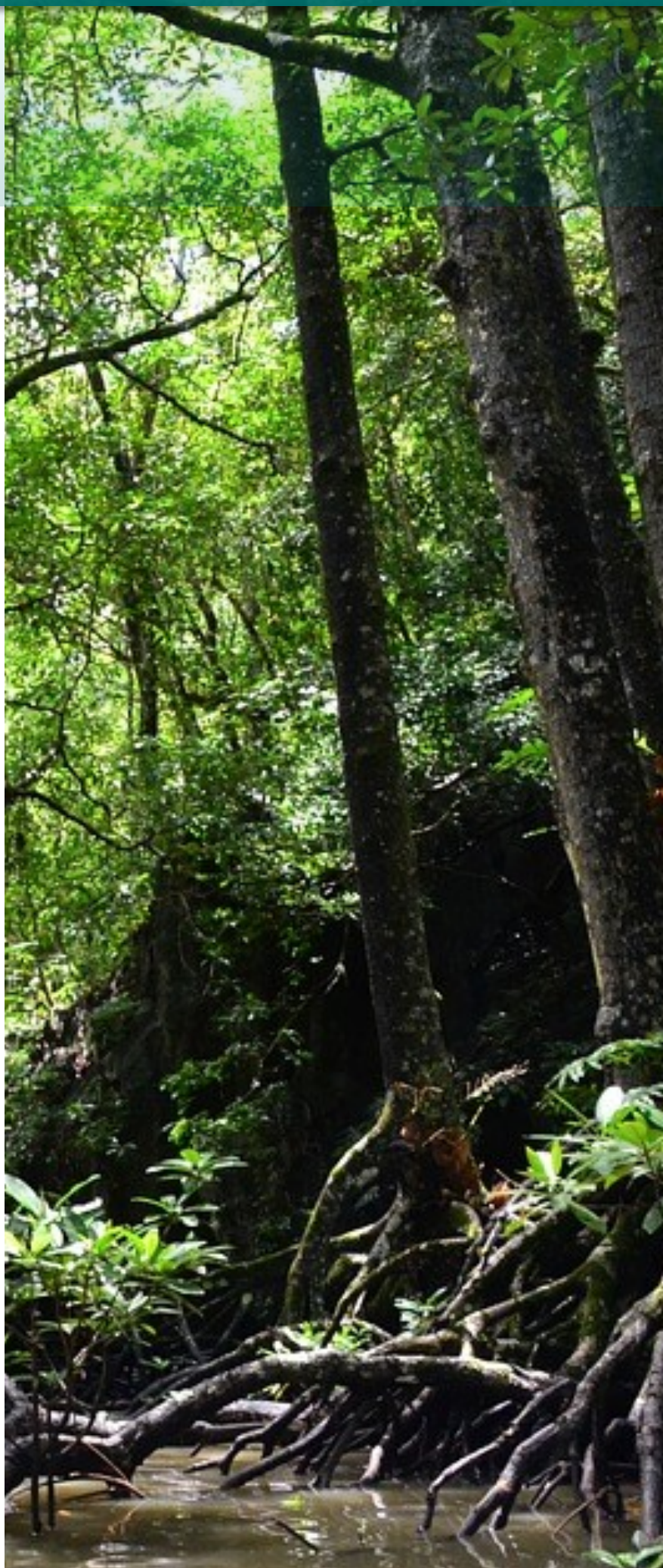
Green infrastructure can best be defined as infrastructure either built or natural that reduces the human impact on the environment. Key examples include public transport systems that reduce/ eliminate the use of fossils fuels, renewable energy infrastructure such as wind and solar farms and environmentally-friendly components of built-infrastructure such as permeable pavements, green roofs and artificial ecosystems such as constructed wetlands.

Natural infrastructure differs slightly in that it comprises of natural ecosystems such as wetlands, rivers, forests, green open spaces etc. which provides specific functions (such as stormwater regulation, stream flow regulation, cleaner air etc) that can support urban development and human livelihoods.

### 3. The rationale for investing in ecological infrastructure

**Principle 8** *Investment in ecological infrastructure should include monitoring, evaluation and ongoing learning*

As stated in [principle one](#), investment in ecological infrastructure should be done with a clear understanding of the desired outcomes, or desired return on investment. Baseline data should be collected, and additional data should be gathered throughout the project to track improvements in the state of restoration measures, infrastructure and the services that would be improved. Monitoring should apply to biophysical data, as well as data on any additional socio-economic benefits that the project is aiming to achieve. Adaptive management and co-production approaches encourage ongoing monitoring, evaluation and learning (MEL); leading to interactive reflection and improvement over time. Where relevant, existing monitoring and evaluation structures or processes should be adapted, used and linked to ongoing learning opportunities and networks. This includes the monitoring and evaluation monitoring framework. Monitoring and evaluation of ecological infrastructure projects should provide information that can be synthesised across multiple projects, so that overall results can be assessed. This could support broader arguments for increased resources for investing in ecological infrastructure.





# SECTION B | FUNDING LANDSCAPE

## 1. How are funding opportunities and streams structured?

South Africa's public financial management policy focuses on outputs and responsibilities and is part of a broader strategy on improving municipal and public sector financial management. This is achieved through the Municipal Finance Management Act (MFMA), 2003, (Act 56 of 2003), which applies to local government, and the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) which applies to national and provincial governments. These Acts collectively give effect to good financial management practice in order to maximise delivery through the efficient and effective use of limited resources including the effective management of all revenue, expenditure, assets and liabilities. These Acts further aim to ensure transparency, accountability and sound financial management in government and public institutions. In particular, the MFMA places local government on a financially sustainable footing

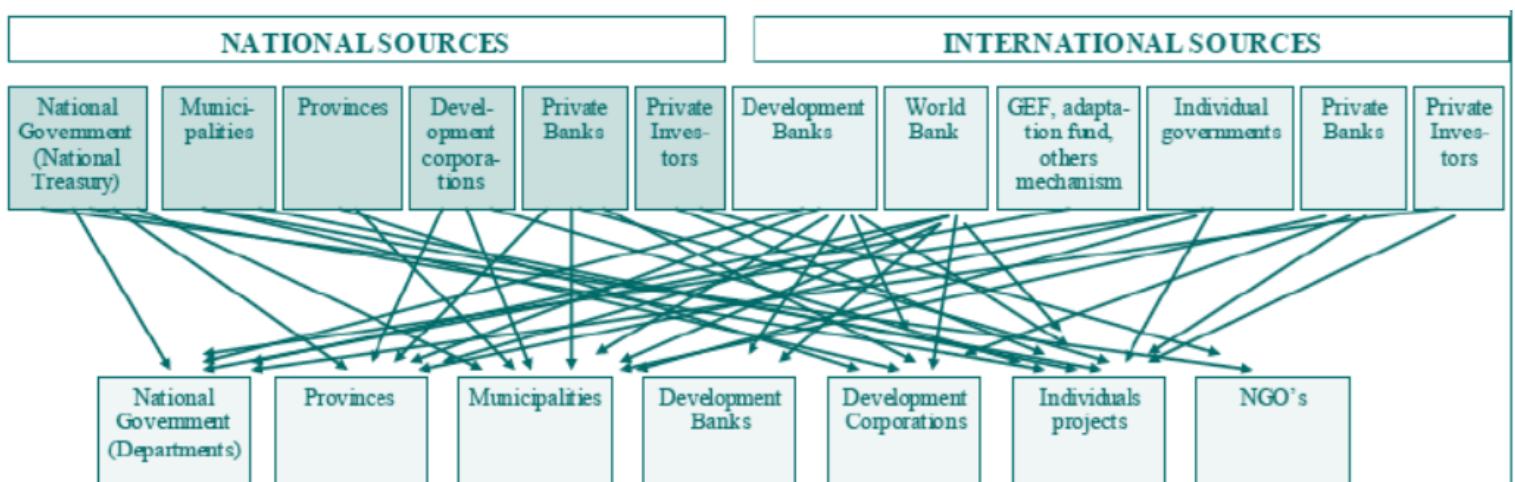
and supports cooperative governance between the spheres of government in order to maximise the capacity of municipalities to deliver services to its residents, users and customers.

Within this context, municipalities can mobilise resources for financing investment in infrastructure development and ecological infrastructure from both the public and the private sector. There are three main sources of potential funding, namely:

- 1) International climate and donor funding;
- 2) Public sector funding through various revenue streams; and
- 3) Private sector financial resources

These can further be categorised into funding from national and international sources. The main national and international funding sources are illustrated in

**Figure 3.**



**Figure 3 |** Complexities in accessing and tracking finance in South Africa (Herr et al., 2014)



# SECTION B | FUNDING LANDSCAPE

## 1. How are funding opportunities and streams structured?

In the international landscape, funding is available through “multilateral donors” such as banks (for example the World Bank, International Finance Corporation, Inter-American Development Bank, Africa Development Bank, Asia Development Bank, etc.) and international agencies (for example the United Nations Development Programme, European

Community, etc.). These institutions provide funding to support economic development by channelling resources from the developed world. These resources come in the form of loans to central governments, special projects, grants, and sometimes support for private-sector activities.

## 2. Overview of biodiversity finance mechanisms

Globally, there are various funds linked to specific conventions, such as the United Nations Framework Convention on Climate Change (UNFCCC), Convention for Biological Diversity (CBD) or Ramsar Convention. Other funds can be accessed from multilateral development banks, non-market mechanisms, including traditional grant types funding such as philanthropic donors and debt-relief agreements and others including payment for ecosystems services and offsets.

**Figure 4** gives an overview of the main climate and biodiversity-related finance mechanisms relevant to projects and programmes aimed at protecting ecological infrastructure. The main climate finance are highlighted in dark green and the biodiversity-related finance mechanism are highlighted in lighter green.



## 2. Overview of biodiversity finance mechanisms

Additionally, there is BIOFIN, a global partnership addressing the biodiversity challenge finance in a comprehensive manner. BIOFIN is coordinated by the United Nations Development Programme (UNDP) and is currently operating in 30 countries. The objective of BIOFIN is to provide an innovative methodology enabling countries to measure their current biodiversity expenditures, assess their financial needs in the medium term and identify the most suitable

finance solutions to bridge their national biodiversity finance gaps.

As mentioned, there is a plethora of funding mechanisms which municipalities can access. [Table 1](#) provides a high-level overview of the main funds and is by no means exhaustive. Additional information and resources can be found in [the IPG Handbook on Environmental Funds](#).

Conventions	UNFCCC • REDD • NAMA • CDM	CBD Wetland biodiversity and conservation activities	Ramsar Wetland biodiversity and conservation activities
(1) Convention Specific Funds	LDCF SCCF FA Climate Change Adaptation fund Green climate fund	GEF FA Biodiversity FA Int. Waters Other FAs	Small Grants Fund Wetland for the Future Initiative Swiss Grant for Africa
(2) National Funds	National climate funds	National biodiversity/environmental funds ODA	
(3) Other Funds	Multilateral development banks' climate funds	Multilateral development bank's biodiversity funds	
(4) Other Non-market Mechanisms	Philanthropy		
	Debt-relief and conservation initiatives		
(5) Market Mechanisms	Voluntary Carbon Market	PES	
	Regulated Carbon Market	Other offset/market mechanisms	



**Figure 4 |** Overview of the main climate and biodiversity-related finance mechanisms for projects and programmes to protect ecological infrastructure (Herr et al., 2014)

**Environmental funds (EF)** are long-term financing mechanisms that have a long time horizon and provide grants and technical assistance to community based groups, indigenous people's organisations, NGOs, and in certain cases (especially protected areas funds), to government agencies. Typically, EFs secure funds from international and in country sources and then disburse them through open or focused conservation and sustainable use programs that answer to thematic and geographic national and in some cases regional priorities.

## 2. Overview of biodiversity finance mechanisms

**Table 1** | Overview of main climate and green international funds

Fund name	Description	Criteria	Access/modality	Web reference
Global Environment Facility (GEF) Trust Fund	Under the United Nations Framework Climate Change Convention ( <b>UNFCCC</b> ) it finances activities in seven main focal areas: biodiversity, climate change (mitigation and adaptation), chemicals, international waters, land degradation, sustainable forest management/ REDD+, and Ozone layer depletion.	Supports 'signature-integrated projects' that both serve multiple environmental benefits at the global scale in addition to carbon emission removal benefits Eligible topics include sustainable forest management ( <b>SFM</b> ) and land use-related carbon management.	Country-driven and have a formal endorsement from the country.	<a href="https://www.thegef.org/about/funding">https://www.thegef.org/about/funding</a>
Special Climate Change Fund (SCCF)	The <b>SCCF</b> exists to finance programs relating to capacity-building, adaptation, technology transfer, and climate change mitigation and economic diversification for countries highly dependent on income from fossil fuels.	Financing is directed towards enhancing the resilience of water resources management and agriculture.	Via GEF agencies	<a href="https://www.thegef.org/topics/special-climate-change/">https://www.thegef.org/topics/special-climate-change/</a>
Green Climate Fund (GCF)	The <b>GCF</b> is a mechanism to transfer money from the industrialised to the developing world, in order to assist the developing countries in adaptation and mitigation practices to counter climate change. The <b>GCF</b> will support projects, programs, policies and other activities in developing country Parties and will aim for a 50:50 balance between mitigation and adaptation over time.	Priority will be given to results-based approaches, in particular for incentivizing mitigation actions, and payments for verified results, where appropriate.	National Designated Authorities ( <b>NDAs</b> ) for each developing country act as the country's interface with the Fund, and are involved closely in all of GCF's funding processes. National Designated Authorities must approve all <b>GCF</b> project activities within the country.	<a href="https://www.greenclimate.fund/home">https://www.greenclimate.fund/home</a>
Adaptation Fund	The aim is to finance practical adaptation projects and programs in developing countries and support capacity-building activities.	Must be Party to the Kyoto Protocol and particularly vulnerable to the adverse effects of climate change, such as: low-lying coastal and other small island countries, and countries with fragile mountainous ecosystems, arid and semi-arid areas, and areas susceptible to floods, drought and desertification.	Via implementing agencies	<a href="http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/">http://unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/</a>

## 2. Overview of biodiversity finance mechanisms

**Table 1 (cont.)** | Overview of main climate and green international funds

Fund name	Description	Criteria	Access/modality	Web reference
JRS Biodiversity Foundation	To increase the access to and the use of information for biodiversity conservation and sustainable development in sub-Saharan Africa. Proposals should focus on increasing the access to biodiversity data and knowledge of freshwater systems that is valuable and relevant to near-term decision-making for conservation and sustainable development.	JRS seeks projects that increase the access to and use of biodiversity information relating to freshwater biodiversity assessment and the conservation of freshwater ecosystem services in targeted countries.	Direct	<a href="http://jrspbiodiversity.org/how-to-apply/current-opportunities/2018rfp/">http://jrspbiodiversity.org/how-to-apply/current-opportunities/2018rfp/</a>
Small Grants Fund for Wetland Conservation and Wise Use	The Small Grants Fund assists developing countries and economies in transition to implement wetlands projects in accord with the Convention's Strategic Plan.	Eligibility extends to government agencies, NGOs, and individuals in developing and emerging countries. The Small Grants Fund relies entirely upon voluntary contributions from governments and individuals. Support for projects is accepted year-round.	Direct	<a href="https://www.ramsar.org/activity/small-grants-fund">https://www.ramsar.org/activity/small-grants-fund</a>
GLOBAL CONSERVATION FUND (GCF)	The investments of the <b>GCF</b> protects critically important natural areas, benefiting communities around the globe that rely on nature for clean air, fresh water and food. Through targeted funding and technical support, the <b>GCF</b> empowers local communities, NGOs and governments to protect their natural assets.	Projects that supports expansion and long-term management of protected areas in biodiversity hot spots, wilderness areas, and important marine regions. The <b>GCF</b> makes grants for planning, project implementation, long-term financing, and technical assistance.	Direct	<a href="https://www.conservation.org/projects/Pages/global-conservation-fund.aspx">https://www.conservation.org/projects/Pages/global-conservation-fund.aspx</a>
Critical Ecosystem Partnership Fund (CEPF)	Support civil society organizations of all sizes—from farmers' cooperatives and community groups to universities and international nongovernmental organisations with proposals for conservation projects in and near the world's biodiversity "hot spots" (i.e., places of high biodiversity, and high risks of losing it).	Priority is given to projects that are the closest fit to the investment strategy set out in the <b>CEPF</b> ecosystem profile, to projects that demonstrate a leading role for local organisations and/or an explicit focus on capacity building for local civil society, endorsement from relevant government authorities and clear plans for continuing the project after the <b>CEPF</b> funding is complete.	Direct	<a href="https://www.cepf.net/grants">https://www.cepf.net/grants</a>



## 2. Overview of biodiversity finance mechanisms

In South Africa, public sector funding for investing in ecological infrastructure is limited but includes several innovative finance mechanisms. This includes a tax reform which introduced a biodiversity tax incentive as a benefit for landowners who declare protected areas on their land, through the Biodiversity Stewardship initiative, thereby reducing the state's conservation burden<sup>9</sup>. Work has also been undertaken in investigating and piloting ways in which to increase resource allocation to biodiversity management through water pricing under the national Water Pricing Strategy for Raw Water. Other mechanisms exist through biodiversity offsets, the Municipal Infrastructure Grant (MIG), Strategic Integrated Projects (SIPs) – specifically SIP 19 which focuses on green infrastructure, disaster risk reduction funding, and social safety-net funds, such as the Working for programmes under the Natural Resource Management and Community/Public Works Programmes). Furthermore, one of the ways to

achieving biodiversity conservation is making its value known - that is the value and the importance of the services that nature provides and to get these services to be accounted for in the cost of production and even paying for these services. The private sector can contribute to the cost of the latter as they have a major role to play in creating markets for ecosystem services, due to the possible benefits business which may derive from effective biodiversity conservation. To this end, the Department of Environmental Affairs (DEA) is in the process of finalising the [Draft National Biodiversity Offset Policy](#) which aims to encourage private sector participation, especially those companies whose activities have a significant negative impact on biodiversity. Their participation is important given the major potential biodiversity has for job creation and business also rely on ecosystem services but rarely account them as part of their production costs.

**Ecosystem services** are the direct and indirect services provided by nature, that both directly and indirectly support human livelihoods and well-being. Ecosystem services can be categorised in four main types namely: provisioning services (e.g. food, fresh water, wood, fibre, genetic resources and medicines); regulating services (e.g. climate regulation, natural hazard regulation, water purification and waste management, and pollination or pest control); habitat services; and cultural services (include spiritual enrichment, intellectual development, recreation and aesthetic values). In the current globally accepted definition of ecosystem services and nature's contributions to people, there is an additional emphasis on culture and local context as important mediators of the relationship between people and nature (Díaz et al., 2018).

<sup>9</sup> This tax incentive was introduced into national legislation leading by the inclusion of section 37D in the South African Income Tax Act. Section 37D is designed to give landowners a tax deduction for their conservation commitment. The incentive allows South African landowners to claim a reduced tax based on the value of the area of their land formally protected as a Nature Reserve or National Park.

## 2. Overview of biodiversity finance mechanisms

Various research, undertaken by institutions such as SANBI, DBSA and the National Treasury's Technical Assistance Unit (TAU), has found that in order to accelerate access to different sources of funding and improve the funding landscape, there is a need for legislative changes, policy changes, or operational changes, or a combination of these. There is also a need for the creation of a comprehensive and strategically aligned approach of mobilising resources for investing in ecological infrastructure across sectors. [Figure 3](#) illustrates the complexities of accessing and tracking finance both from national and international sources. While municipalities can access funding from national and international sources, there are often complicated processes to be followed. For example, in some cases municipalities are not able to apply for funding directly from international funders and have to do it through the provincial governments and/or national implementing entities.

A study undertaken by the Department of Environmental Affairs in 2016, which attempted to document South Africa's strategy on climate finance for example, found that South Africa lacks a strategy and an institutional framework for climate finance<sup>10</sup>. This study in particular points out that "no funding gap has been determined and no official estimates of the expected or required contribution of public, private and donor finance is available". This in turn, presents major constraints in the alignment of national priorities to available financial resources and needs.

Another option which municipalities can use is project preparation which is a process of taking a project from the project definition stage, to post implementation and includes feasibility, structuring, transaction and post implementation. It introduces a document that demonstrates the bankability of the



project, creates an elevated level of institutional learning which can be translated into projects. It also overcomes issues of creditworthiness by allowing a municipality to raise funding based on the merits of the project.

Given that project preparation is a very complex process, municipalities can make use of project preparation facilities; these play a role as a formal platform for financial and technical support for municipalities. They have flexibility to directly engage with the private sector, are free to engage with financiers, not just about going to development finance institutions, multilateral banks, but also to explore alternative options. There are many ways to structure a project and get it financed e.g. social impact bonds and other bonds to attract retail investors. Municipalities need to see what works best and ascertain what will be in the best interest of the municipality to bring to bring projects to a financial close. Bankability is closely tied to institutional capacity of the municipality. Doing rigorous project development ensures that municipal priorities can become tangible projects that can attract finance and achieve financial closure.

<sup>10</sup> Montmasson-Clair (2013)

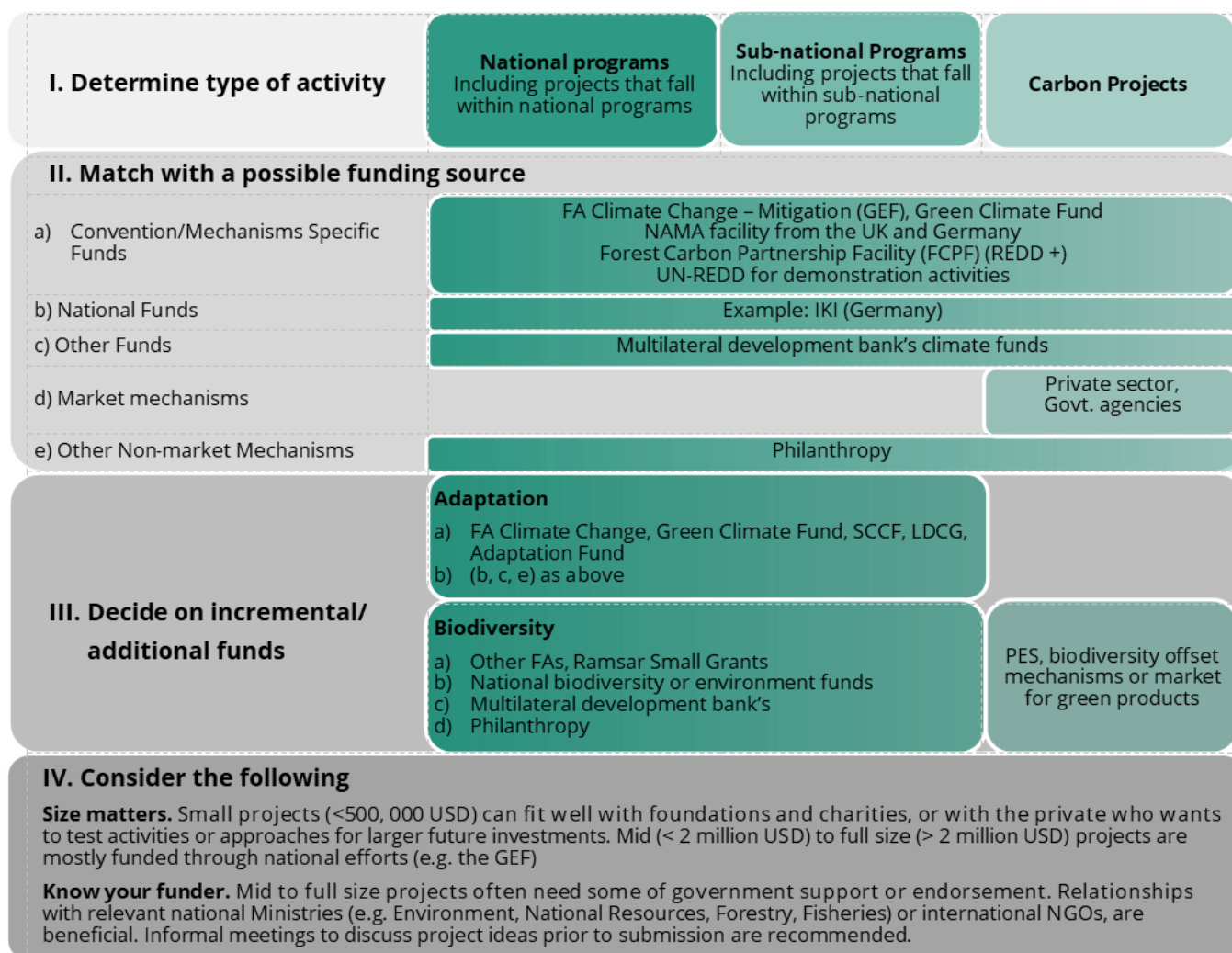
### 3. Navigating the funding landscape: an overview of biodiversity-related funding mechanisms

Although there are various funding mechanisms both locally and internationally, municipalities often struggle to navigate the funding landscape including the identification of relevant projects and matching them with available funding. For example, when seeking finance from alternative sources, Herr et al (2014) suggest the following four steps:

- I. Determining the type of activity:
- II. Matching with a possible funding source:
- III. Decide on incremental/additional funds:
- IV. Consider the size of the project and the knowledge of the funder's requirements:

This is a useful approach that can be applied across all municipal focus areas. However, it must be recognised that there are other factors that come into play. These include that some funds cannot be accessed directly by municipalities and are channelled through the designated national implementing entities (NIE). For example, SANBI is the designated NIE for the Adaptation Fund and is also accredited as a Direct Access Entity of the Green Climate Fund (GCF). Municipalities thus have to apply for funding from the Adaptation Fund and GCF through SANBI.

The four steps to be followed in seeking funding are illustrated in **Figure 5**.



**Figure 5** | Steps to follow in accessing external funding

# SECTION C | APPLYING FOR FUNDING

## 1. How to apply for funding?

The section below provides guidance on how to develop bankable project proposals. Developing a proposal is an integrated process which requires a number of steps to be executed.

Amongst others, it requires the identification of a relevant project for which funding is required, identification of relevant funders that can fund the project and ensuring that the proposal meets all the

requirements – see [Figure 5](#). It must be noted that there is no universal or ‘one-size-fits-all’ project proposal and funders sometimes provide the preferred proposal layout/template. However, there is standard information that is required. This has been included below and is based on research and experiences collated from various sources.

### a) Things to consider when developing a funding project proposal

- It must be clear what the proposed project **seeks to achieve**, i.e. vision, objective and goals as well as the intended outcomes and impacts and who the beneficiaries will be. See [Figure 4](#) for examples of interventions, the related services they will deliver and the benefits on beneficiaries.
- There must be a detailed **implementation plan** including timeframes, budget and the implementation team.
- As there is no ‘one-size-fits all’, finance will have to be a combination of four mechanisms; public, donor, private and community finance. This strategic **combination of finance instruments** has proven to have the potential to unlock funding.
- Demonstrating a **proven record for implementation and creditworthiness** will increase the chances of a municipality getting funding both from donors and private sector as a result of the perceived confidence.
- Demonstrate **horizontal and vertical integration** of policies into national development plans (e.g. National Development Plan), provincial plans (e.g. District Growth and Development Strategies) and the Integrated Development Plan (IDP).
- Mention and demonstrate **partnerships and collaborations** that will contribute to the successful delivery of the project and the potential benefits to the funder.
- Shift towards working with nature and adopting **nature-based solutions** by reviewing the principles that underpin planning, budgeting and fiscal policy.
- Be innovative and implement **‘out of the box’** projects when developing the proposal, this requires, for example commissioning a highly skilled team of people to conceptualise the proposal.
- In addition to a **strong technical** team, there must be **political buy-in and good governance** to create an enabling environment to implement the proposed project. This can be demonstrated through a letter from Council indicating support from the proposed project.



# 1. How to apply for funding?

## Gaps between municipal financing needs (demand) and financing institutions/funders (supply)

**Project gap:** The scale of many municipal projects is often too small to attract interest from financial institutions and investors. In addition, projects are poorly prepared, making them unable to attract investment.

**Skills gap:** Municipal officials have limited skills to develop 'bankable' projects that can attract investment. Project preparation facilities are therefore key resources to support municipalities, but these are not easily accessible at present.

**Process gap:** A project is bankable if it provides clear incentives for lenders to consider financing it. However, the pressure for service delivery within short timeframes, as well as limited financial support for project preparation, can prevent municipalities from spending the time needed to adequately prepare projects.

**Risk gap:** While municipal credit-worthiness is an issue that can be overcome with sufficient project preparation of individual projects, too often the projects are presented with insufficient thought given to sustainable funding streams to pay back investments made.

**Integration Gap:** Municipalities receive grant funding, but these grants meet needs in isolation. There is a need to integrate the planning of existing grants and budgets that are available to municipalities, as well as to make strategic use of all municipal spending through procurement. Planning is key to realise integration within the IDP and SDFs to allow for political commitments.

**Innovation gap:** The demand for financing is currently not met by the supply of financing, and vice versa. Municipal decision-makers are not familiar or aware of the types of funding and financing available, the requirements to access these, and conditions of these types of investment. Financiers are not regularly engaging directly with municipalities, so they do not understand the challenges and types of financing products that could be developed to best suit the needs of municipalities. Innovation is therefore needed by both the suppliers of finance, investors and institutions, and those that demand the finance, municipalities and governments.

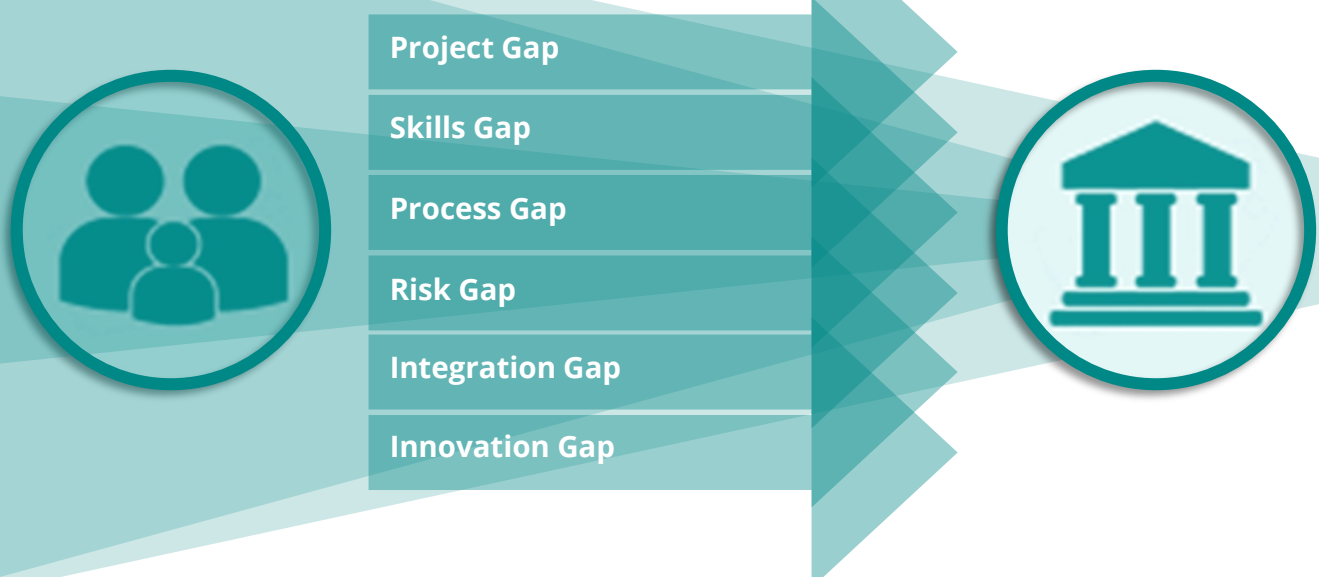


Figure 6 | Gaps between municipal financing needs (demand) and financing institutions/funders (supply)

# 1. How to apply for funding?

## b) Reasons why proposals can be unsuccessful

**Below is a list of the top reasons why proposal submissions can be unsuccessful, thereafter is a list of the main 'do's' and 'don'ts' when submitting to a proposal:**

- Lack of evidence, research, or knowledge of the donor i.e. mass-mailed and not tailored to the donor's specifications nor does it follow donor guidelines.
- Incomplete proposal or does not stick to the format required by the funder.
- Unclear project objectives, goals and aims and therefore not convincing on the need for such a project/proposal.
- Poor design, layout of the proposal with a lack of a careful thought process and the impression that the project is impractical and difficult to carry out.
- Unsuitable project team, lack of partnerships or relevant stakeholders.
- Poor governance and a bad or no track record.

**Table 2 | Do's and Don'ts when submitting a project proposal**

DO	DON'T
✓ Keep it short & concise – not more than 10 pages.	✗ Assume the funder has background on the project or knowledge of a specific topic covered by the project.
✓ Use the right tone, i.e. be practical rather than academic and tell a 'story' about the project.	✗ Use a standard/one-size-fits all proposal template.
✓ Demonstrate your capacity and capability to deliver the project, e.g. project team and previous projects.	✗ 'Thumb-suck' the budget, timeframes for delivery and impact of the project.
✓ Include relevant supporting documents such as Feasibility	✗ Don't hide information the funder should know.
✓ Read the instructions carefully and respond accordingly	
✓ Ensure that the proposal addresses everything & meets all the requirements, i.e. activities, deliverables, work plan etc.	



# 1. How to apply for funding?

## c) Guidance on structuring of a funding proposal

The purpose of this section is to provide practical guidance and tips on developing funding proposals. It is important to keep in mind that each donor/funding entity will have its own funding proposal requirements, criteria and specifications. It is crucial

that these are followed meticulously in developing the funding proposal. What follows below is not intended to be a template, but rather provide some guidance on the possible structure.

**Table 3** | Overview on what to include in a proposal for funding

SECTION & LENGTH	NOTES ON THE CONTENT OUTLINE
Cover letter	<ul style="list-style-type: none"><li>• To appraise the receiver of the proposal<ul style="list-style-type: none"><li>· This page should explain if the application is in response to a solicited or unsolicited proposal and give an overview of the content and documents contained in the proposal.</li></ul></li></ul>
Title page	<ul style="list-style-type: none"><li>• The title should be succinct and captivating<ul style="list-style-type: none"><li>· State the title of the proposal.</li><li>· Name of funder to whom the proposal is being submitted.</li><li>· Name, address and logo of your municipality.</li><li>· Contact person with whom the proposal can be discussed.</li><li>· Date of submission.</li></ul></li></ul>
Summary page	<ul style="list-style-type: none"><li>• Provide a brief summary of the proposal and briefly state the following:<ul style="list-style-type: none"><li>· The status-quo, problem statement &amp; context.</li><li>· Proposed solution as presented in the proposal and reasons for selecting that solution.</li><li>· The envisaged impact and project beneficiaries.</li><li>· Timeframes and cost of the project.</li></ul></li></ul>
Content page	<ul style="list-style-type: none"><li>• Headings and page numbers<ul style="list-style-type: none"><li>· For ease of reference to specific pages.</li></ul></li></ul>



# 1. How to apply for funding?

## c) Guidance on structuring of a funding proposal

**Table 3 (cont.)** | Overview on what to include in a proposal for funding

SECTION & LENGTH	NOTES ON THE CONTENT OUTLINE
<b>Body of the proposal</b>	<ul style="list-style-type: none"> <li>• Set the scene and give context.</li> <li>• Explain the existing opportunities and challenges.</li> <li>• Statement of need &amp; objectives of the proposed project including the beneficiaries.</li> <li>• Theory of change.</li> <li>• The process plan/method of implementation, i.e. what you are proposing to do, how you will do it, when, where etc.               <ul style="list-style-type: none"> <li>· Use relevant data to describe the context.</li> <li>· Substantiate how the problem/opportunity was identified, e.g. feasibility study.</li> <li>· Explain your municipality's interest and capacity to undertake the project, e.g. need identified by community/multi-stakeholder involvement.</li> <li>· Explain the possible risks and how these will be overcome and the sustainability of the project in the long run.</li> <li>· Have a clear process plan from inception to completion (add further details as appendices).</li> </ul> </li> </ul>
<b>Budget</b>	<ul style="list-style-type: none"> <li>• Provide a breakdown of all project costs, including staff costs associated with each activity, disbursements, equipment, printing/publications, communications, procurement of external expert service providers, overhead costs and value added tax. In the case of multi-year projects it is important to include an annual increase.</li> <li>• Some calls require financial and technical submissions to be in two separate documents.</li> <li>• Some calls/donors require co-finance commitments. Also indicate co-financing options if available.</li> </ul>
<b>Conclusion</b>	<ul style="list-style-type: none"> <li>• Provide a summary of what you are proposing and why.</li> </ul>
<b>Work plan</b>	<ul style="list-style-type: none"> <li>• This should be as detailed as possible and should include description of the project work packages and activities, timeframes, milestones, deadlines, outputs.</li> </ul>
<b>Reference list As required</b>	<ul style="list-style-type: none"> <li>• Acknowledge the sources of information.               <ul style="list-style-type: none"> <li>· These should preferably be recognised and official sources.</li> </ul> </li> </ul>

# CONCLUSION

This introduction to finance mechanisms and developing bankable project proposals in municipalities is part of ICLEI's ongoing work to assist municipalities to navigate the finance landscape, develop bankable projects and access funding. Through ICLEI's ongoing projects, ICLEI will be taking this work forward by building the capacity of municipalities to access finance and facilitate

learnings and sharing of good practices between municipalities. In addition, ICLEI will facilitate engagements between financiers and municipalities, where amongst other things, a match between the financial needs of municipalities (demand for finance) and what finance is available (supply of finance) will be matched, therefore municipal finance needs expressed and financiers can provide experts advice.





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