PRIVATE SECTOR PRIORITIES FOR CLIMATE FINANCE

Ideas for Discussion in the lead up to the Africa Climate Summit
Hosted by The National Treasury and Economic Planning and Financial Sector Deepening (FSD) Kenya
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The combined macroeconomic effects of climate change could lower the continent’s GDP by up to 3% by 2050.

Climate change has reduced economic output and growth in Africa more than other regions in the world.

The African Development Bank estimates that loss and damage costs due to climate change in Africa is between $289.2 billion to $440.5 billion.

Global warming has increased economic inequality between temperate regions in the northern Hemisphere and Africa.

In Kenya, climate-related disasters, such as droughts and floods, are estimated to create an economic liability of 2-2.8% of GDP every year.

This is largely due to the climate-sensitive nature of Kenya’s economy with the agriculture, water, energy, tourism, and wildlife sectors as key.
**Layered economic impacts of climate change**

**• Macro**
  - Lost and lowered economic growth and activity
  - Fiscal and monetary policy impacts

**• Sectoral**
  - Lower agricultural production and increased food insecurity
  - Increased water scarcity
  - Lower tourism receipts
  - Increased disease burden

**• Micro**
  - Involuntary displacement, damage to homes, property and sources of livelihood
  - Climate-induced conflict
  - Disruption in firm activity and lower income earning from firm activity in key sectors
  - Increased household expenditure on basic food items

(source: Were, A., *How climate finance can address the layered economic impacts of climate change in Africa*, British International Investment)
Kenya’s Climate Finance requirements

• In 2015, the Government of Kenya submitted its nationally determined contribution (NDC) to the Paris Agreement, a landmark agreement to combat climate change.

• Kenya pledged to reduce its greenhouse gas (GHG) emissions by 30% by 2030 relative to the business-as-usual scenario.

• As of 2020, the estimated cost of implementing Kenya’s mitigation and adaptation actions stands at KES 6,775 billion for 2020-2030.

• Given Kenya’s exposure to the effects of climate change, adaptation finance a priority for the country.
**Definitions**

- **Sustainable finance** takes environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.

- **Environmental considerations** can include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy.

- **Social considerations** refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, and human rights issues.

- **Governance considerations** in management structures, employee relations and executive remuneration in ensuring the inclusion of social and environmental considerations into decision-making.

**Examples:** Gender Bonds, Sustainability-Linked Loans and Bonds, Social Bonds, Sustainable investment funds, Social venture capital.

Source: Sustainable finance 101, Global Landscapes Forum
Climate Finance supports mitigation and adaptation actions that will address climate change.

Mitigation finance directs resources to interventions that reduce and avoid GHG emissions, or to maintain/enhance the sinks of emissions and reservoirs.

Examples: Investments in renewable energy, energy efficiency, e-mobility; solar bonds, carbon finance; removal of fossil fuel subsidies.

Adaptation finance directs resources to activities aimed at reducing the vulnerability of human or natural systems to the impacts of climate change and climate-related risks.

Examples: Finance to protect & restore forests, drought-tolerant crops, disaster risk management; investments in water infrastructure.

Green finance: Structured financial activity created to ensure a better environmental outcome.

Green finance activities aim to increase level of financial flows from the public, private and not-for-profit sectors to green development priorities.

Green finance includes climate finance but is not limited to it as it encompasses a wider range of other environmental objectives, such as industrial pollution control, water sanitation, biodiversity protection and environmental benefits.

Examples: Green Bonds, eco-tourism investment, green insurance, green mortgages, finance for green infrastructure and buildings.

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In 2018, KES 243.3 billion of public and private capital was invested in climate-related activities. This is approximately half of the financing that Kenya needs annually to meet the targets set in its NDC.

Overall, public investment (from domestic and international providers) totaled KES 144.3 billion (59.4%) while investment from the private sector totaled KES 98.9 billion (40.7%).

In order to meet the climate ambitions outlined in the NDC, both public and private climate finance needs to be scaled-up significantly by 2030.

Sources of climate finance in Kenya (2018)

- Public: 31.1%
- Private: 26.7%

Domestic: 28.3%
International: 14.0%

Climate finance uses in Kenya (2018)

- Mitigation: 79.8%
- Adaptation: 11.7%
- Cross-Cutting: 8.5%

Catalyse Private Sector Climate Investment

Focus on improvements in the business environment, and domestic & external investor confidence to attract climate investment

• **Green project pipeline development:**
  o Structure technical assistance funds, aggregation structures, project management support and Guarantees.

• **Greening Kenya’s Financial Sector:**
  o Policy-driven transition of domestic financial sector (banking, insurance, capital markets and pensions) to manage climate-related risks.
  o Software, hardware and climate finance skills, include sectoral focus for portfolio management.

Catalyse Private Sector Climate Investment

- **Policy Stability and Clarity**: A predictable investment environment-- green-related legislation, law and reform i.e. CBK Guidance on Climate-Related Risk Management; cost of business factors, macroeconomics etc.

- **Data and Information**:  
  - Improve information availability and transparency of general investment conditions & better aligning risk perceptions and realities.
  - Regularly generate green and climate data and information on Kenya; Green Finance and Sector Specific Data Infrastructure

- **Skills and Jobs Opportunity**: Climate finance and sector Technical Skills and capabilities i.e. Climate Verifiers, Standards/ Accreditors, Monitoring & Reporting, Climate Finance Data collection & analysis.

Which of the following risks have been most important for your investments in African countries?

Priority Green & Climate Finance Instruments for Kenya: Focus on Private Sector

Increase Green and Climate Finance activities and instruments relevant to Kenya

- Financing. Locally-Led Climate Action Program (FLLOCA)
- Green and Sustainability Bonds: Only one Green Bond so far
- Green Climate Fund
- Sectoral focus on adaptation finance
- Guarantee Funds for Kenyan projects
- Concessional climate financing linked to climate targets
- Grant funding for technical assistance, direct funding of programs etc.
- International carbon credit schemes and Carbon Markets

Global annual green and sustainable debt issuance, 2013-2021

Source: IEED, *Kenya climate and nature financing options analysis*, 2023
Useful links

- What does Climate Risk really mean for African economies?
- How climate finance can address the layered economic impacts of climate change in Africa
- How the County Climate Change Fund mechanism is empowering Kenyan communities to adapt to climate change
- Innovative lending product improves access to water and sanitation in Nairobi’s Mukuru informal settlement
- Creating an enabling environment for a voluntary carbon market in Kenya
- The Impacts of Climate Change on Fiscal and Monetary Policy in Africa
- How to develop a green project pipeline in Africa
- Climate Finance: Four ways Africa can secure this new wave of financing
- How Africa can benefit from the private sector’s growing interest in climate finance
- Green Finance in Kenya Report
- Environmental risk exposure in the Kenyan banking sector
- Financing affordable and climate resilient feeds for dairy farmers in Kenya
- Climate risk and finance: The banking industry’s sensitisation on climate-related risk management
- Is the Task Force on Climate-related Financial Disclosures (TCFD) the right climate risk reporting standard for Kenya?
- Climate action in Africa: Pathways towards resilient sustainable cities
- Institutionalising County Climate Change Fund (CCCF): An opportunity for county governments to attract climate finance