



PRIVATE SECTOR PRIORITIES FOR CLIMATE FINANCE

**Ideas for Discussion in the lead up to the
Africa Climate Summit**

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Impacts of Climate Change to Economic Growth and Welfare

- 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.





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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)

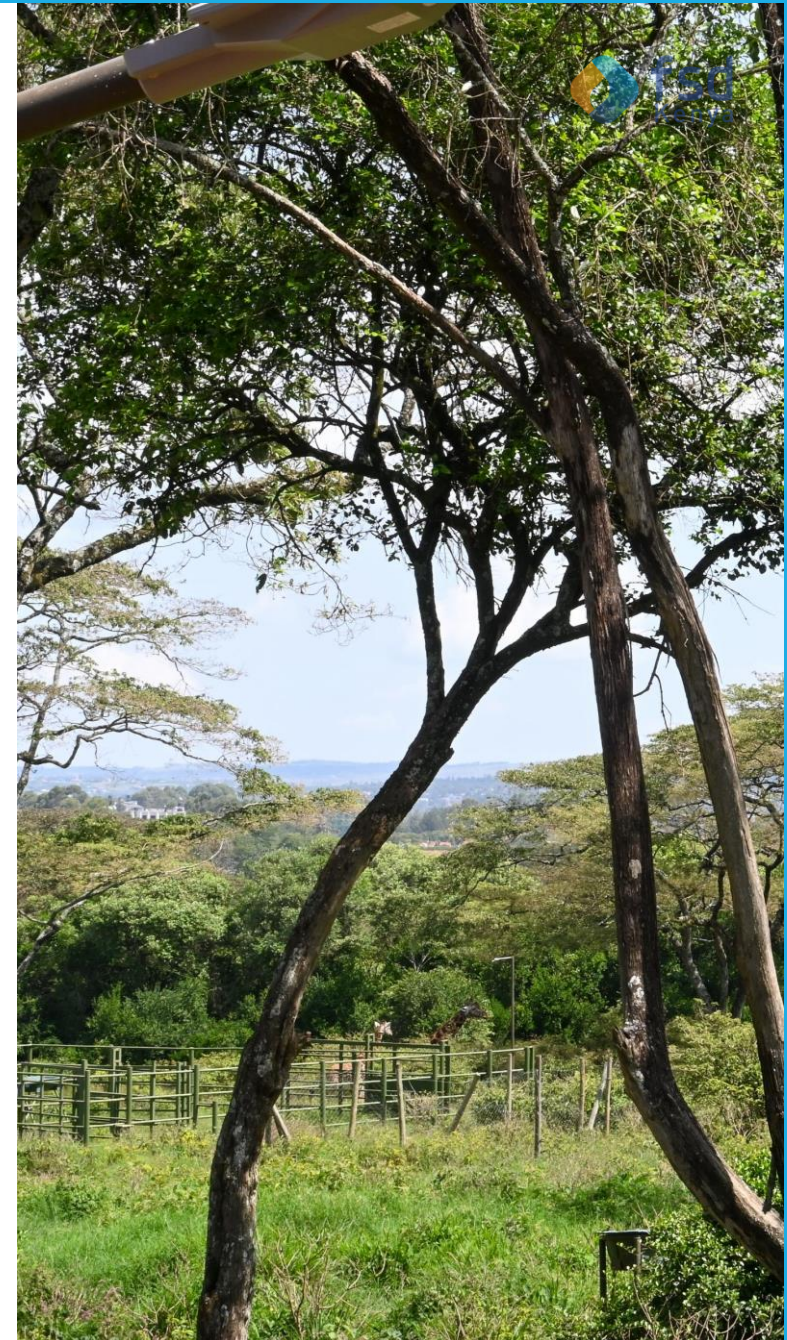




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Kenya's Climate Finance requirements

- 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.





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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.

Environmental, social and governance (ESG) aspects of sustainable finance



Environmental

- Climate
- Biodiversity
- Greenhouse gas emissions
- Water consumption
- Pollution
- Waste management
- Use of renewable energy



Social

- Inequality
- Human rights
- Labor relations
- Community impacts
- Supplier relationships
- Working conditions
- Health and safety
- Diversity



Governance

- Executive compensation
- Transparency
- Board independence
- Shareholder rights
- Taxation
- Anti-corruption
- Political contributions

Source: [Sustainable finance 101](#), Global Landscapes Forum

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

Definitions

- **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.
- **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.



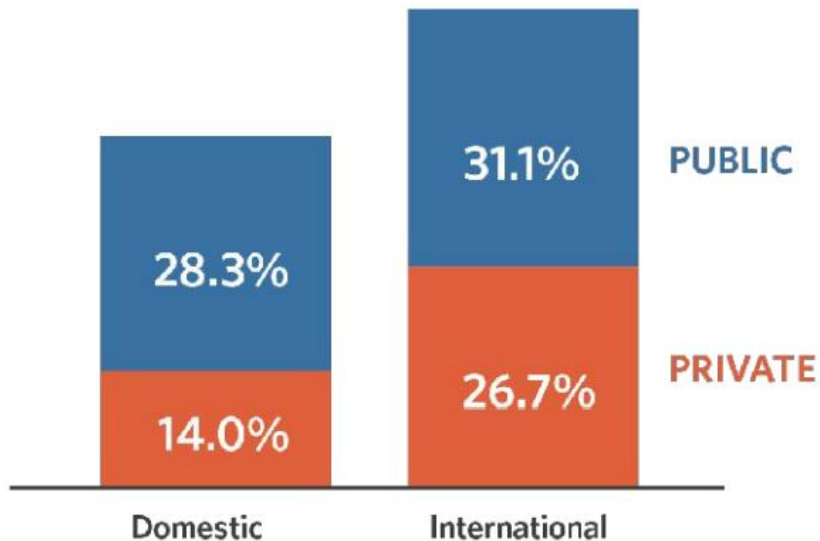
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Climate Finance Flows in Kenya

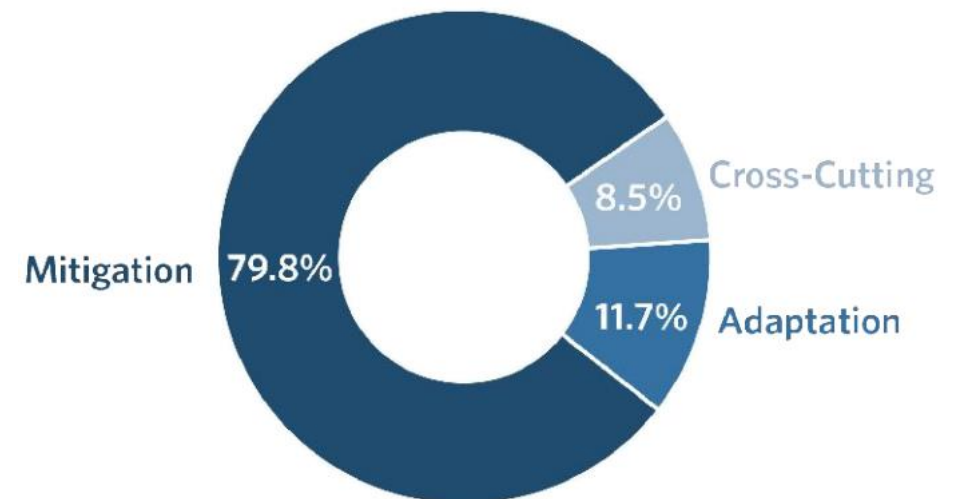


- In 2018, KES 243.3 billion of public and private capital was invested in climate-related activities. This is approximately half of the financing that Kenya needs annually to meet the targets set in its NDC.
- Overall, public investment (from domestic and international providers) totaled KES 144.3 billion (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)



Climate finance uses in Kenya (2018)



Source: The National Treasury and Planning, [The Landscape of Climate Finance in Kenya](#), 2021



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Catalyse Private Sector Climate Investment



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

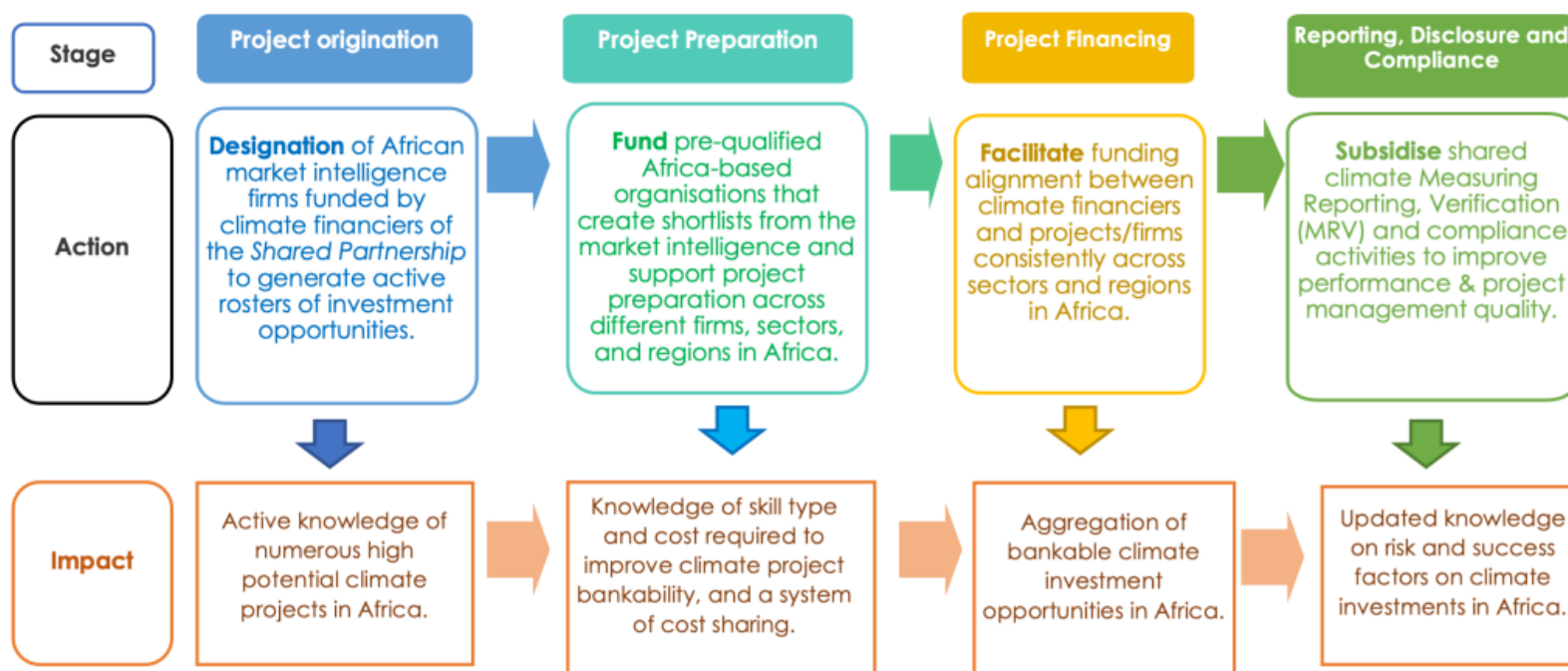
- **Green project pipeline development:**

- Structure technical assistance funds, aggregation structures, project management support and Guarantees.

- **Greening Kenya's Financial Sector:**

- Policy-driven transition of domestic financial sector (banking, insurance, capital markets and pensions) to manage climate-related risks.
- Software, hardware and climate finance skills, include sectoral focus for portfolio management.

Financial Architecture for Green Project Pipeline Development



Source: Were, A., How to develop a green project pipeline in Africa, British International Investment, 2022



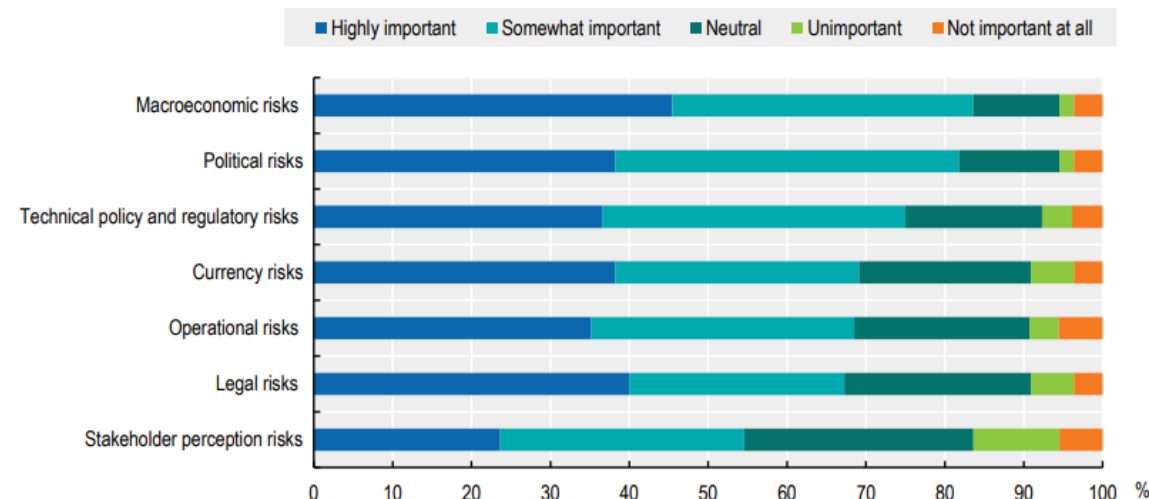
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Catalyse Private Sector Climate Investment

- **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?



Source: AU and OECD, *Africa's Development Dynamics 2023: Investing in Sustainable Development*, 2023



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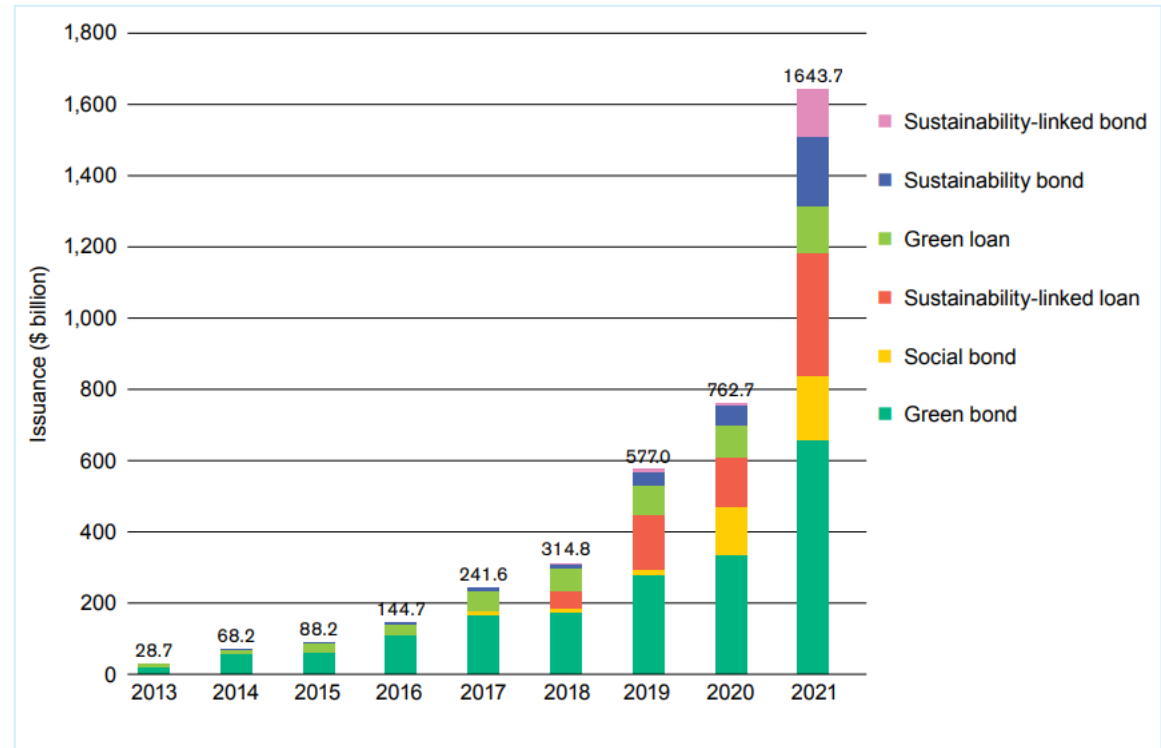
Priority Green & Climate Finance Instruments for Kenya: Focus on Private Sector



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 \(CCCCF\): An opportunity for county governments to attract climate finance](#)

