



Enhancing Innovative Financing Mechanisms for Ecosystem Management in Africa

Water Development and Sanitation Department



Summary of presentation:

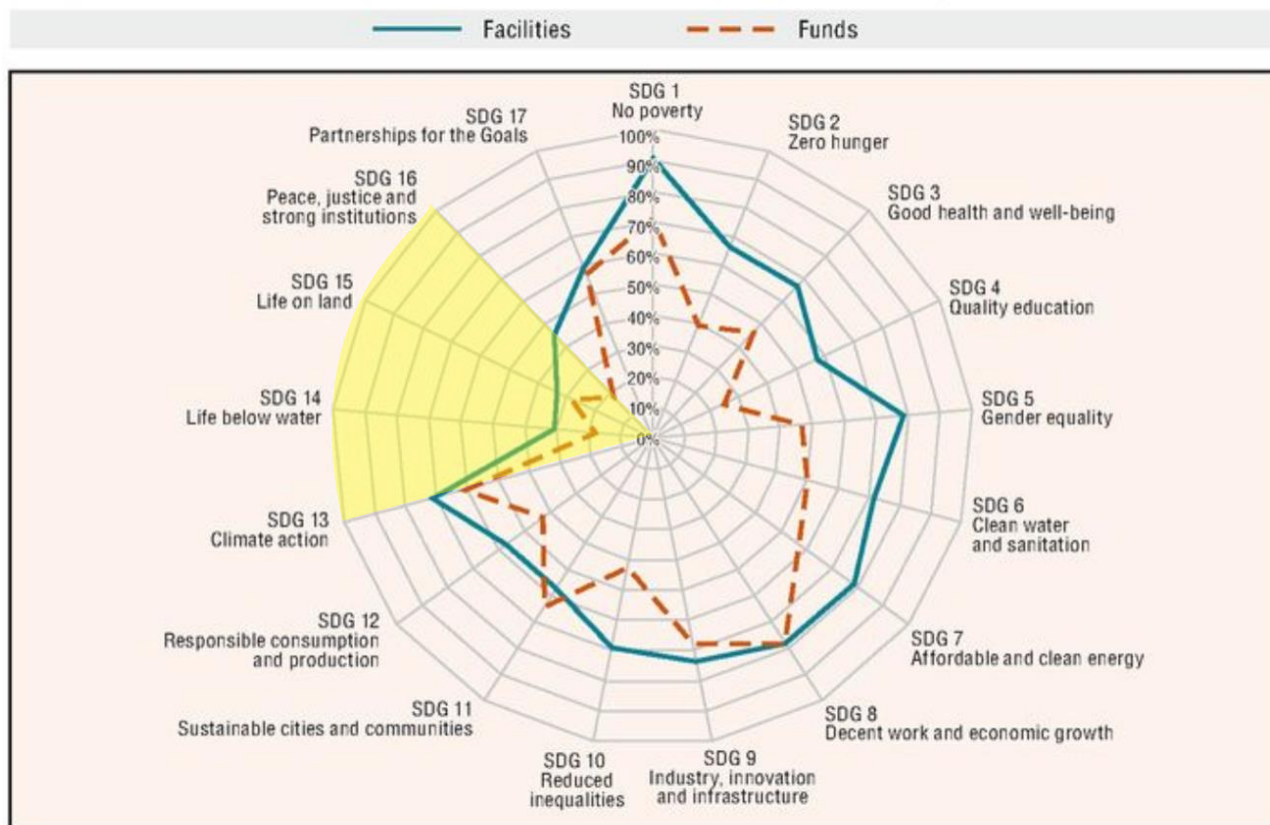
- 1) *Financing Gap?*
- 2) *Innovative approaches in African context*
- 3) *Enhancing Innovative Financing Mechanisms
(Role of Stakeholders)*

1. The Financing Gap?

- Much more finance is needed to address Sustainable Development Goals (SDGs):
 - Water, sanitation and hygiene (WASH) – investments must triple from around USD 74 billion to USD 166 billion/year (World Bank, 2016)
 - Biodiversity – investments must increase from USD 40 billion to USD 100-300 billion/year (Parker et al, 2012)
- Ongoing recognition that public funding will not suffice. Private finance can help to bridge short to medium-term gap, even when it is dealing with generic finances as opposed to ecosystem specific challenges.

... Financing gap?

- In a finance survey launched early 2018, the OECD found that biodiversity-related SDGs remain the least funded



.... **Why financing gap?**

- **Unfavourable conditions:** (sector specific)
 - Weak Legal and institutional frameworks
 - Difficult Cost recovery
 - Weak Project pipeline
- **High Financing costs:** (finance)
 - Risks (Extra risks in the water sector)

2. Innovative approaches in African context?

- Innovative Financing:
 - **Novel approaches or financing products;**
 - **Proven financing products;**
 - **New types of investors or sources of capital.**
- **Blended Finance** (public + private).
 - Public resources to **leverage private capital**
-public funding ► ecosystem services

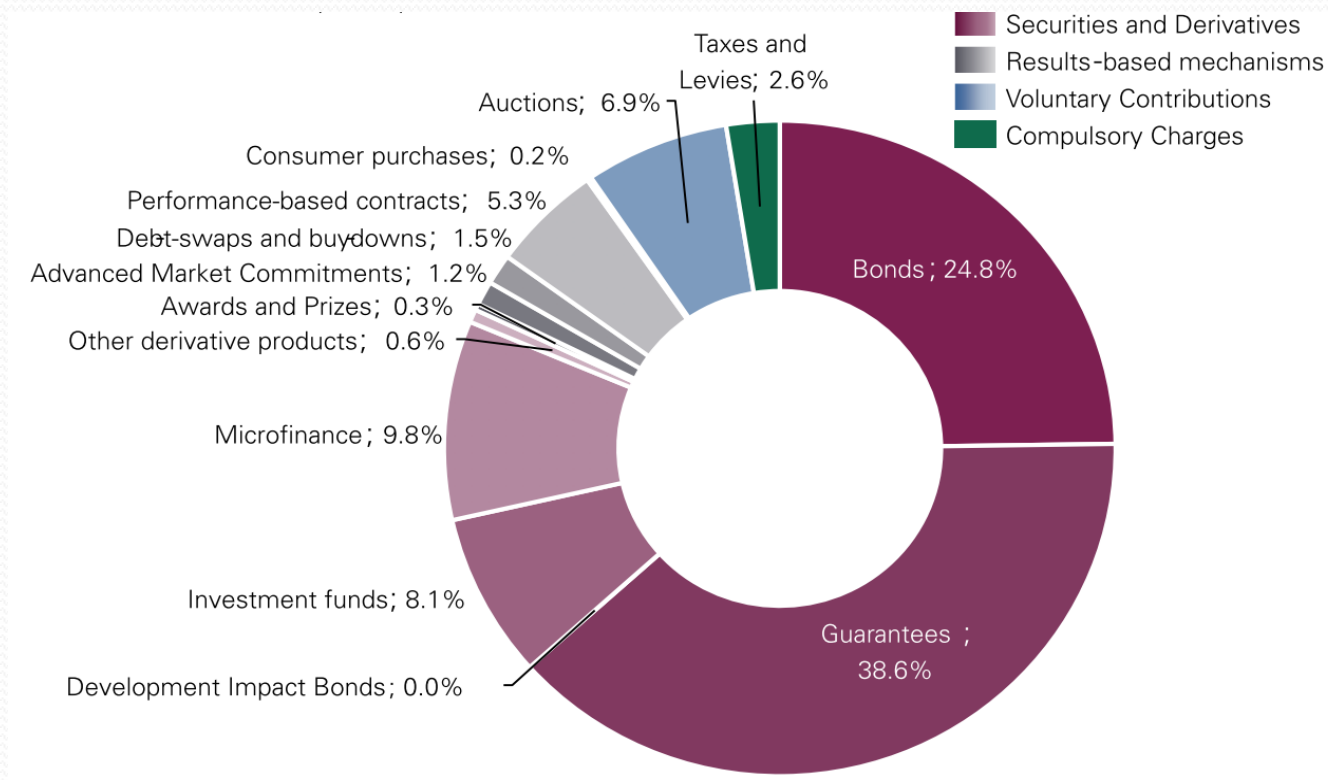
.... *2 Innovative approaches in African context?*

- Assessment of ten mechanisms and structures:
 - Environmental impact investing
 - Venture capital
 - Green levies
 - Payment for ecosystem services
 - Results-based financing
 - Green bonds
 - Pooled financing
 - Climate funds
 - Green microfinance
 - Guarantees and de-risking products

.... 2. Innovative approaches in global landscape for ecosystem management

Resources mobilized by innovative financing mechanisms, 2000-2013 (Global)

Percent of total mobilized (n=278)



Source: Guarnaschelli *et al.*, 2014

.... 2 Innovative approaches in African context?

Examples

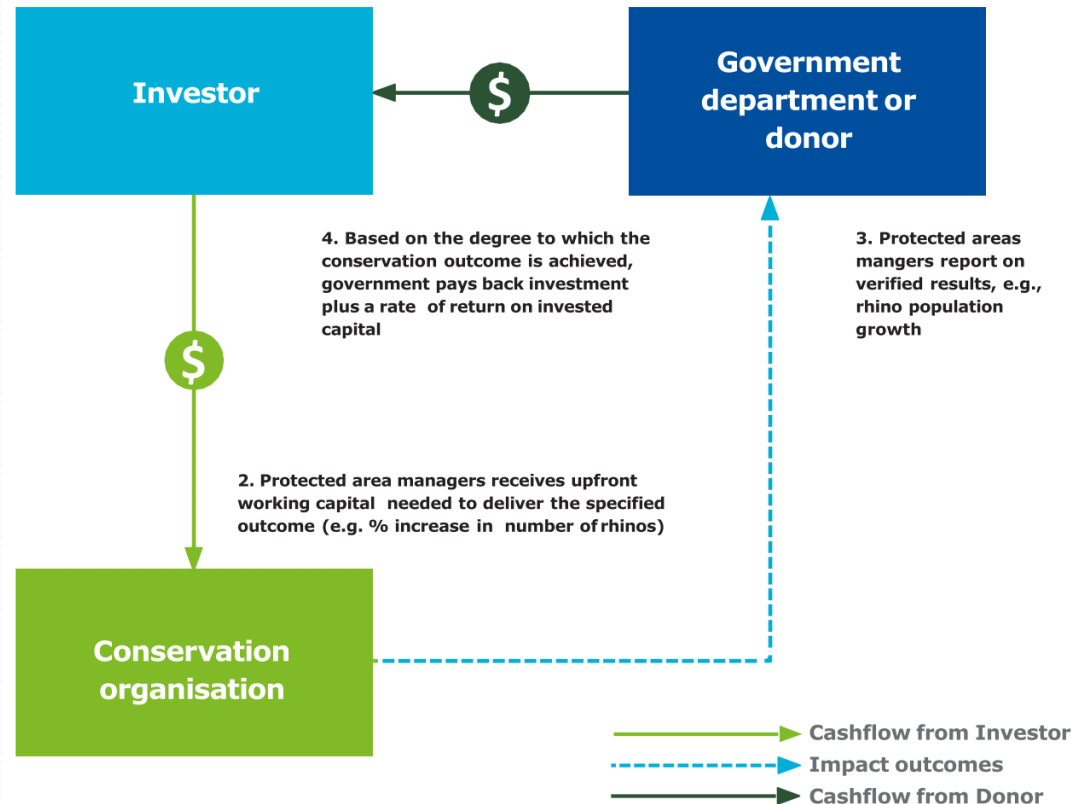
Case study: Results Based Financing

Rhino Impact Investment (RII) Project

Kenya, South Africa, Zimbabwe

- Mix of innovative financing Investing and Output-Based Aid (ObA)
- I. Setting of key performance indicators for later assessing outputs
- II. Private impact investors provide upfront capital (project assumes risks)
- III. Donors pay for it only after results are deemed successful

1. Investor provides up-front working capital to fund conservation activities based on a long-term contract expected to be 10 years



.... 2 Innovative approaches in African context? examples

Green bonds

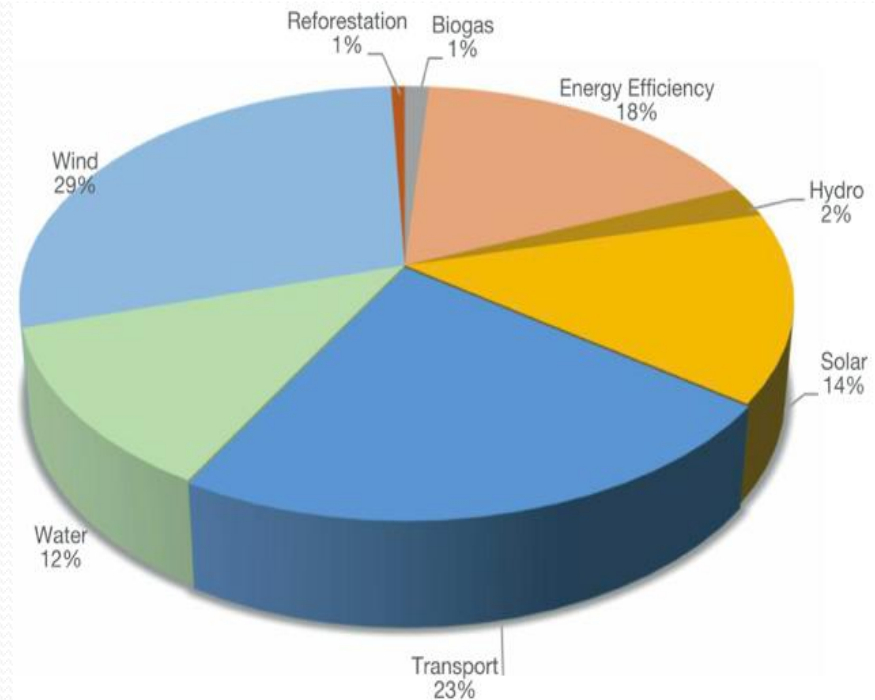
- Debt instrument -**tapping into financial market's private capital** ► 'ring-fenced green projects'
- Currently issued by national **governments**, municipalities, **development banks**, commercial banks, corporations
- Need of big **volumes** to reach key investors: Not available for small projects
- Increased Legitimacy ► **Participatory** process: of ecosystem

.... 2 Innovative approaches in African context? Examples

.... *Green bonds*

- African Development Bank issued its green bonds in 2017
 - USD 500 million, with value going to a liquidity portfolio until projects are selected in two phases
- Nigeria was fourth country in the world to issue sovereign green bonds.
 - USD 29 million in local currency (NGN 10.69 billion) – 5 years maturity
- IFC issued forest bonds, with proceeds used in projects in Kenya
 - USD 152 million – 5 years maturity

Outstanding AfDB green projects by sector (2017)



.... 2 Innovative approaches in African context? Examples

..... ***Pooled financing***

- Bundling of credit needs of several smaller-scale projects or entities within a greater ensemble
- Offers access to private capital markets that would otherwise not be available for these projects, or only available at less favourable terms – risk mitigation, lower transaction and borrowing costs, access to new sources of funding
- Some initiatives in Africa, but still nascent for ecosystem management.
 - E.g.: Central African Forest Initiative: Trust Fund by partner countries Cameroon, Central African Republic, Republic of Congo, the Democratic Republic of the Congo, Equatorial Guinea and Gabon. Predominantly focused on REDD+ projects

.... 2 Innovative approaches in African context? *Examples*

..... ***Climate funds***

- A type of pooled finance that channel financial resources towards adapting to and mitigating the impacts of climate change
- Useful source of additional financing for ecosystem management influence or be affected by climate change
- Can be multilateral, bilateral, regional or national
- When focusing on the most vulnerable, the non-concessional and financial sustainability balance and the specific climate impact mandate.
- Continuous improvement of indicators making it dynamic and participatory

.... 2 Innovative approaches in African context?

Examples

..... ***Guarantees and de-risking***

- Guarantees and de-risking: **coverage against some risks;**
- Reduced risks -more attractive to investors and less costly;
- Risk mitigation -must be strategic and focus on effectiveness, delivery not only on the financial side;
- Examples from Africa?

3) Enhancing Innovative Financing Mechanisms (Roles of Stakeholders)

Stakeholders

- **International organisations**
- **Development Banks and international financial institutions**
- **National governments**
- **Local financial institutions**
- **Philanthropists and bilateral development aid**
- **Non-Governmental Organisations**
- **Institutional investor initiatives**

.....How to Enhance Innovative Financing mechanisms?

- Roles of Stakeholders
 - MDBs
 - Governments
 - NGOs/Philanthropist
 - Private Sector
- What the AfDB is doing and the desire to scale up?

.....AfDB Contribution to Innovative Financing

- AWF**
- Guarantee & De-risking products**
- MIC TF**
- Institutional Support**
- Leveraging climate/Environment Funds**
- Leveraging other DFI funding**



THANK YOU
for your
ATTENTION

o.chanda@afdb.org

+225 75750094