INVESTING IN CLIMATE RESILIENCE: CHALLENGES AND OPPORTUNITIES FOR THE DEVELOPMENT OF A GREEN AND BLUE ECONOMY

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Changing the financial system to bridge the gap in Africa climate finance

- While Africa has 23% of official climate finance, it has less than 1% of global green bond issuances for more than twice the price.

40% of African countries are in, or at high risk, of debt distress.

Seven of the 10 countries that are most vulnerable to climate change are in Africa.

Africa is the most vulnerable continent to climate change impacts.
CLIMATE FINANCE NOT SUFFICIENT TO MEET NEEDS OF AFRICAN COUNTRIES;
Need to tap into other sources and develop innovative financing

• 50% of climate finance to adaptation (currently 25%)

• Debt restructuring (debt forgiveness, debt for adaptation swaps)

• Green and Blue Bonds

• Carbon trading
Green and Blue Bonds
AFRICAN COUNTRIES NEED TO CATCH UP IN TERMS OF GREEN BOND ISSUANCES

<table>
<thead>
<tr>
<th>Country</th>
<th>Green Bonds</th>
<th>Amount (USD m)</th>
<th>First Issuance</th>
<th>Use of proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>1</td>
<td>41</td>
<td>Sep. 2019</td>
<td>Buildings</td>
</tr>
<tr>
<td>Namibia</td>
<td>1</td>
<td>5</td>
<td>Dec. 2018</td>
<td>Energy, buildings, transport, water, waste, land use, adaptation &amp; resilience</td>
</tr>
<tr>
<td>Seychelles</td>
<td>1</td>
<td>15</td>
<td>Oct. 2018</td>
<td>Land use &amp; marine resources</td>
</tr>
<tr>
<td>Nigeria</td>
<td>4</td>
<td>136</td>
<td>Dec. 2017</td>
<td>Energy, transport, water, land use</td>
</tr>
<tr>
<td>Morocco</td>
<td>4</td>
<td>356</td>
<td>Nov. 2016</td>
<td>Energy and buildings</td>
</tr>
<tr>
<td>Egypt</td>
<td>1</td>
<td>750</td>
<td>Sep. 2020</td>
<td>Transport, energy, energy efficiency</td>
</tr>
<tr>
<td>South Africa</td>
<td>6</td>
<td>1554</td>
<td>Apr. 2012</td>
<td>Energy, buildings, transport, water, waste</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>2857</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UN Global Compact Sustainable Finance, HSBC December 2020

Share of Sustainability-linked Issuance by Region

- **Global**: USD 539 bn
- **Middle East & Africa**: USD 8 bn

African Green Bonds Issuance as of October 2020 - Source Climate Bonds Initiative and UNECA, October 2020

Source: UN Global Compact Sustainable Finance, HSBC December 2020

Changing the financial system - Africa has low private sector investment and high costs of capital to respond to the climate crisis.

While Africa has 23% of official climate finance, it has less than 1% of global green bond issuances and is paying more than twice more than similarly rated peers to access markets.

African share of global green bond issuances

<table>
<thead>
<tr>
<th>Country</th>
<th>Green Bond Issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>127</td>
</tr>
<tr>
<td>Greece</td>
<td>463</td>
</tr>
<tr>
<td>South Africa</td>
<td>653</td>
</tr>
<tr>
<td>Senegal</td>
<td>565</td>
</tr>
<tr>
<td>Kenya</td>
<td>754</td>
</tr>
<tr>
<td>Nigeria</td>
<td>772</td>
</tr>
<tr>
<td>Egypt</td>
<td>820</td>
</tr>
<tr>
<td>Angola</td>
<td>948</td>
</tr>
<tr>
<td>Ghana</td>
<td>1051</td>
</tr>
</tbody>
</table>

Share of climate finance per region 2019-2020 (OECD2021)

- Asia 43%
- Africa 23%
- Americas 17%
- Others 12%
The LSF will help drive a virtuous cycle for Africa

The LSF could save African issuers an estimated $11bn in interest costs over a five-year period.
The objectives of the LSF

The Liquidity and Sustainability Facility (LSF) was established by the United Nations Economic Commission for Africa in November 2021 at the COP 26 in Glasgow with two objectives:

1. Support the liquidity of African Sovereigns Eurobonds
2. Incentivize SDG-related investments such as SDG, Green and Blue bonds in the African Continent.

Its aim is to improve African Sovereign debt sustainability by providing African governments and private investors with a liquidity structure on par with international standards. And by improving the terms of new issuances of SDG- or climate-linked bonds of African nations, the LSF seeks to dramatically increase the volume of green and blue bond financing, and at more affordable rates.

- Crowd in more investors and increase demand
- Reduce costs for borrowers through higher demand
- Mobilise private sector capital to help close the gap
- Incentivize sustainability linked investments

We can unlock this liquidity by creating a Repo Market
DEBT SWAPS CAN BE PART OF THE SOLUTION TO INCREASE INVESTMENT IN CLIMATE RESILIENCE

POST COVID RECOVERY

THROUGH FLEXIBILITY ON COUPON PRICE AND REDUCTION OF PRINCIPAL

REUCED DEBT COST

THROUGH INVESTMENTS THAT STIMULATE JOB CREATION AND IMPROVING NATURAL CAPITAL

ACHIEVE GREEN OBJECTIVES

ECONOMIC RECOVERY

HOW?

PERFORMANCE GUARANTEE FOR CLIMATE AND NATURE

POSSIBLE USE OF LSF TO RECUCE COST OF NEW BOND ISSUANCES

BY PROVIDING BUDGET SUPPORT

BY PROVIDING INCENTIVES TO ATTAIN THE SOCIAL, CLIMATE AND NATURE BASED OBJECTIVES
Good examples of Key Performance Indicators for issuance of green/blue bonds

- km² of marine protected areas for fish breeding
- Ha of watersheds afforested
- Ha of land restored
- km² of marine area protected areas for ecotourism
- Tonnes of CO₂ equivalent sequestered
- % of population with access to renewably sourced energy
- Recovery in numbers of endangered species
- Improving soil fertilization rates
- Restoring critically endangered vegetative species

Source: BwB
Through nature-based carbon removal, Africa can generate a revenue of $15 – 82 bln/ year and support 35 – 167 mln jobs and livelihoods.

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**Annual potential for NCS removal**

- CO$_2$e / year
- <$50/ ton$^1$
- 308 Mt CO$_2$e
- <$120$/ ton$^1$
- 680 Mt CO$_2$e

**Revenue potential from NCS removal**

- USD/ year
- $15 bln
- $82 bln

**Job creation$^2$ and livelihood improvement from NCS removal**

- People impacted
- 35 – 86 mln
- Of which 19 mln livelihoods$^3$
- 88 – 167 mln
- Of which 46 mln livelihoods$^3$

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1 All pricing and costing is for the intervention only – costs for MRV and any further margins need to be added to this

2 Range is driven by uncertainty on the job potential of one particular pathway (Natural Forest Management) which requires further analysis. Some of this potential may be related to emission avoidance which would come with lower job numbers

3 These refer to grazing interventions (optimal grazing and grazing legumes – with overlap removed to avoid double-counting livelihoods), and biochar. Trees in agricultural land is counted under direct jobs given the additional effort associated with tree planting and maintenance which could be organised separately from the farming activity
Why absence of harmonized protocols for GHG accounting will harm carbon market integrity

• Credits must be gained based on transparent and genuine efforts to reduce GHG emissions.

• Emission reduction claims eligible for certification leading to issuance of credits must be credible enough, verifiable, and reported in transparent manners, to allow a market integrity

• In the African context, regionally harmonized protocols help to address those issues. They improve GHG accounting, verification, and reporting.

➢ informed by the gaps and constraints in member States, and based on the best internationally available practices, covering
  • Project phase, ownership structure, site/area, eligibility
  • Credit conditions, solutions to leakage
  • GHG assessment boundaries and quantification/modelling
  • Reporting principles/rules; verification […]

• Regional harmonized protocol will also reduce the costs of carbon certification (next step of ECA’s support): certification of verified GHG emission reduction.

• Absence of harmonized protocols will riddle the markets with those vast uncertainties known to discourage public/private investors, who will very likely redirect their investments in more efficient markets.
Major gaps and constraints

• Lack of harmonized protocols for GHG accounting, that make it possible to member States from a same sub/region to follow different norms, methodologies, guidance, standards, practices, some of which do not speak to each-others…

➢ This can give rise to double-issuances, double use, double claiming of credits, and dimmish of credibility of programmes.
➢ It can also discourage buyers, investors, developers willing to accrue revenues while responding to development needs.

• Limited access to green investment capital needed to improve the human and institutional capacities to scale-up GHG emission reduction projects.

• Unambitious carbon price is regressive and inconsistent with the current ambition to keep global warming below 1.5 degrees C.
THANK YOU!