INNOVATIVE MECHANISMS AND INSTRUMENTS TO UNLOCK PRIVATE FINANCE TO MEET AFRICA NDC TARGETS

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INTRODUCTION

- **IFC** evaluated critical investment opportunities in infrastructure and climate-smart solutions associated with NDC targets in emerging market economies in line with national climate commitments made in Paris.

- They comprise of:
  - renewable energy
  - low-carbon cities
  - energy efficiency
  - sustainable forest management
  - climate-smart agriculture

- Distinct solutions laid out in their NDC commitments include
  - scaling up solar and wind energy,
  - increase green buildings,
  - clean transport
  - implement waste solutions.

- The NDCs present a straightforward guide for companies and investors in search of looking for sound investment opportunities in climate-resilient infrastructure and assets.

INTRODUCTION

- **In Nigeria, Kenya, Cote d'Ivoire and South Africa, the overall possible investment for just clean energy amounts to about $783 billion**. IFC estimates say $123 billion will go to renewable energy generation while climate smart buildings and transportation will take $652 billion.

- Private and public investment needs are among the $783 billion estimate.

- Most of the capital for climate-smart infrastructure will have to be provided by the private sector.

- Public funds are limited and have to be spread out over the wide range of subjects the government has to deal with.

- It is therefore important that new and improved financial mechanisms and instruments are explored to stimulate private sector investments so governments can reach their NDC targets.

KEY PILLARS TO UNLOCK PRIVATE INVESTMENTS

- All other sector policies should have within them some form of climate awareness and NDC commitments should be included in national budgets and development plans.

- Private sector financing should be improved so funds can be directed towards climate- friendly investments

- Public funds should be used for:
  - de-risking and aggregate investments
  - strengthen capital markets
  - address bottlenecks
  - support project development to mobilize private capital

- Blended, concessional public financing through a variety of products and structures such as risk- sharing facilities and lower interest rates.

PUBLIC FINANCING INSTRUMENTS IN REDUCING FINANCING COST – DERISKING

- A number of different factors can affect whether risks are priced into investor's financing costs - **Corporate finance vs. project structures, Core vs. non-core investments and Unsophisticated vs. sophisticated investors.**

- **A low carbon development that is considered non-bankable could become bankable by shifting the risk-reward profile of renewable energy investment .**

- Public de-risking measures can broadly be divided into two groups: policy de-risking instruments and financial de-risking instruments:

- (1) **Policy de-risking instruments** address and attempt to remove the underlying barriers that are the root causes of risks. These instruments utilise policy and programmatic interventions to mitigate risk.

PUBLIC FINANCING INSTRUMENTS IN REDUCING FINANCING COST – DERISKING

- **Financial de-risking instruments** do not seek to directly address the underlying barrier but, instead, function by transferring the risks that investors face to public actors, such as development banks - development banks loans and guarantees, political risk insurance and public equity co-investments.

- For example, in countries with immature and under-capitalised financial sectors, local banks may be concerned about lending their limited capital to borrowers in an unproven sector such as renewable energy.

- Partial loan guarantees from a development bank can provide these local banks with the security they need to issue loans, whereby a portion of the risk of default is transferred to a public actor.

- Third group of public instruments, **direct financial incentives**, to compensate for any residual risks and costs - price premiums, tax breaks, such as production tax credits, and proceeds from carbon offsets.

EFFECTIVE USE OF LIMITED PUBLIC SECTOR FINANCING

- It is difficult to get funds from public and concessional sources because they are scarce. Therefore, an major investments in low-carbon development technologies will be needed from the private sector.

- ***Mobilizing private investments should be what public and concessional funds should be used for not paying for low carbon development technologies. This reduces the chances of the private sector being crowded out and is a lot more sustainable.***

- Financial instruments funded by the government should be more focused on finding out and addressing the issues curtailing private investment and not just funding low carbon development projects.

INNOVATIVE MECHANISMS TO UNLOCK PRIVATE FINANCE IN AFRICA

- Continuous innovation is needed to finance low carbon development in Africa. It is crucial that new and innovative financial mechanisms and instruments are found.

- ***Adaptation Levy***: In Africa primary industries, play a massive role in aiding economic growth. Innovative climate funding opportunities are presented through their corporate social responsibility agendas.

- *The large number of raw materials exported from Africa should have adaptation fees paid for them not as royalties, but as part a common objective to address climate change on the African continent.*

INNOVATIVE MECHANISMS TO UNLOCK PRIVATE FINANCE IN AFRICA

- ***Greening sovereign wealth funds:*** The recent advent and increase in the amount of government investment funds operating on a worldwide scale is new, however its impact cannot be downplayed.

- The move to carbon development can be financed with these funds. SFWs should be aided so climate risk considerations can be included among their existent stock choosing and portfolio building operations.

- LSWFs normally have a long- term view. As a result of this, SWFs have a vested interest in improving the environmental performance of the industries and other investment bodies

INNOVATIVE MECHANISMS TO UNLOCK PRIVATE FINANCE IN AFRICA

- ***Greening Pension Funds**:* Pension funds are capable of having a positive impact in moving more funds towards low carbon, energy efficient assets.

- Pension funds are a large part of the financial industry and command not less than US$22 trillion worth of global. They exist all over the globe and are comprised of retirees and savers.

- For years, some of them have given low carbon, energy efficient assets more priority, and have set targets for themselves with regarding their total portfolio.

- Some pension funds are able to locate suitable investment opportunities aid the transition to low carbon and also satisfy the risk/return aspects.

INNOVATIVE MECHANISMS TO UNLOCK PRIVATE FINANCE IN AFRICA

- ***Green Bonds:*** These are instruments whose profits are directed to be used on other pre-existing or new green projects through Securitization, Direct Project Exposure or specifying Use of Proceeds.

- Climate bonds are funds completely designed to fund environmentally friendly projects and activities involved in low carbon development as well as those helping to further develop climate resilient economies.

- Projects can be financed through climate funds so long as they are combatting or involved in climate change in some way.

- Examples of possible projects include waste management technologies, renewable energy plants, forest and watershed management, energy efficiency projects, agriculture, greenhouse gas emission reduction and infrastructure to prevent climate-related flood damage.

FINANCING INSTRUMENTS FOR LOW CARBON DEVELOPMENT (LCD) IN AFRICA

- There are a large number of financing instruments that can be utilized so as to encourage the scaling up of LCD technologies.

- They can be organized into three groups namely those for:
  - overcoming financing barriers
  - addressing the specific risks of LCD investments
  - addressing both concurrently

- Each instrument can then be distinguished by how much risk the public sector funding the instrument assumes and by the level of leverage, i.e. how much private finance the public funding is able to mobilize.

- It is important that instruments that provide the largest possible amount of private funding for the smallest possible amount of public financing is utilized (this indicates that maximum leverage is achieved).

FINANCING INSTRUMENTS FOR LOW CARBON DEVELOPMENT (LCD) IN AFRICA

- *Grants and long-term equity*
- *Venture Capital Equity*
- *Debt Financing (*Senior Debt or Subordinated Debt (Mezzanine Finance).
- *Asset-backed Securities*
- *Guarantees and Insurance*
- *Resource Insurance*
- *Results-based financing*
- *Contingent Project Development Grants*
- *Small-Scale Project Financing*
- *Micro financing*
- *Portfolio Guarantees and Loss Reserves*
- *Aggregation*

CONCLUSION AND RECOMMENDATIONS

- Public financing is very important in initiating and directing a low carbon development transition but can be significantly less than private funds.

- Financial Institutions (FIs) need to become more involved and deepen their commitment to a move to low carbon development both in Africa.

- Green development can be supported by financial institutions and they can hold back funds specifically for green economy transition projects. They can also join their projects to specific goals such as trying to lessen greenhouse gas (GHG) emissions.

CONCLUSION AND RECOMMENDATIONS

- New government policies with more certainty, longevity and transparency will need to be enacted as they are essential to the shift to low carbon development.

- Local climate funding needs to be seriously pushed in order to secure the African climate response. Such funding includes:
  - pension funds
  - national budgetary processes
  - bonds and levies

- International funding is gradually getting more volatile, unreliable and inconsistent with Africa's development agenda.

- Corporate social responsibility could be considered as an intricate aspect of securing local funds.