Unlocking investments: De-risking Strategies for Climate Adaptation Finance

1 Overview of climate finance in Africa

Significant unmet climate financing needs in Africa

A highly vulnerable continent	3%	• Africa contributes only **3–4% of total global carbon emissions**, but remains among the **world's most vulnerable regions to the effects of climate change** • **53 African countries submitted Nationally Determined Contributions (NDCs)**, of which 51 submitted cost estimates for NDC implementation
Significant climate financing needs	$2.8tn	• The cost of implementing NDCs of African countries is estimated to reach approximately **$2.8 trillion by 2030** • African governments have so far committed c. $300 billion of domestic public resources, leaving **$2.5 trillion needs** to be covered by international public sources and domestic and international private sectors
Climate investment gap threatening Africa's climate resilience	5%	• Climate finance flows in Africa remain insufficient: only **$30 billion** were mobilized in 2021, representing **less than 5% of total of world climate investments** • Private sector mobilization falls short of expectations, representing **less than 15% of total climate finance flows** throughout the continent

Sources African Development Bank, Climate Policy Initiative, Global Center on Adaptation

2 AfDB Initiatives promoting Climate Adaptation finance

Initiative to tackle the pressing issue of climate finance mobilization and investments in African countries

- **AfDB Climate Change Action Plan**
- **Climate Action Window (CAW)**

- **Africa Adaptation Acceleration Program (AAAP)**

- **African Climate Resilience Co-Investment Programme (ACRCP)**

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- The **Africa Climate Risk Insurance Facility for Adaptation (ACRIFA)** is a facility currently under design to mobilize $1 Billion of concessionary, high-risk capital and grants to stimulate the development and uptake of targeted climate insurance solutions delivered through African primary insurers and regional reinsurers across the continent.

- **Adaptation Benefits Mechanism (ABM)**
- Create Business Opportunity for Adaptation projects. A result-based payment instrument which will shifts fundamentally the way that adaptation projects are financed

- **The African Green Banks Initiative (AGBI)**
- AGBI will develop **an ecosystem of local or regional Green Finance Vehicles ('GFVs') -** to facilitate investment into domestic low-carbon, climate-resilient projects. In 2023, **launch of the AGBI's pilot phase** which will lead to the creation of the first GFVs

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ACRIFA will:

- Leverage the network of primary insurers across the continent, ensuring capital, capacity, and commercial opportunity flows through them to continental and international re-insurers.
- Solve the client acquisition challenge through aggregation to improve uptake and achieve scale and support portfolio diversification of risks that limit insurance industry investment in the climate-vulnerable agri-food sector.
- Support the design and scaling of climate insurance solutions covering a range of risks affecting agri-food actors that include production, drought, flood, pest, credit, price and transition risk, among others.
- Facilitate investments in the data, digital and human capacity required to meet ACRIFA's goals, and support efforts to create an enabling policy and regulatory environment.
- Channel climate financing resources into investments and programs that harness insurance products to de-risk finance, accelerate climate adaptation and advance net-zero goals within the agri-food system.

ACRIFA builds on the Bank's existing work in climate and disaster risk under the Africa Disaster Risk Financing Initiative (ADRiFi)

ACRIFA has a unique de-risking mandate which will enable it to expand the scale of existing related climate insurance initiatives which focus on the sovereign level (such as ADRIFI) but which also operate at meso and micro levels

Macro level

ACRIFA will build on ADRiFi's experience and network of partners to broaden and accelerate the climate insurance solutions sovereigns can deploy to offer protection to climate vulnerable communities and enterprises

Meso-level

ACRIFA will build systematically organize the insurance industry to de-risk investments in closing the financing gap for agricultural producers and SMEs across the value chain. The World Bank's DRIVE program has made inroads at the meso level

Micro-level

ACRIFA will build on work done by programs such as IBLI to close the insurance protection gap for climate-affected risks faced by smallholder producer which include yield, drought, flood, pest, input credit, price and storage risks

ACRIFA will revolutionize the insurance space in the continent by focusing industry capacity development at the primary level, by solving the chronic lack of quality data for efficient product design, and by helping the Africa insurance industry scale uptake of insurance and increase business volume

Objectives of the ABM

- Many impactful adaptation projects deliver to the public good, but do not generate revenues and are not financially attractive
- ABM aims to achieve for adaptation what the carbon markets have been achieving for mitigation in the past two decades:
  - Powerful incentive for private sector engagement and finance
  - ► Massive deployment of climate change technologies and solutions
  - ► Billions of new investments in climate action
  - ► Major leaps towards tackling climate change
- This will be done through:
  - Rewarding of climate-proof action upon delivery of benefits
  - ► New non-market approach for financing resilience

How is the ABM intended to work?

Creates a new commodity	Certified Adaptation Benefits based on ABM methodologies in the public domain
Facilitates contracts for payments upon delivery	Measurable, verified and reportable information on resilience, adaptation finance and other co-benefits is of value to climate actors with commitments
Contracts used as collateral to obtain loans/pre-payments for investment	This can be facilitated with guarantees or other financial instruments, such as climate bonds and impact investment portfolios
Payments upon delivery used to pay back loans and other project costs	Reporting by the host country and the purchasers, for instance on adaptation finance provided and received or on progress towards achieving the national needs and priorities of Ethiopia

4 The African Green Banks Initiative

Unleashing climate investments in Africa by the creation of an ecosystem of local GFVs

The AGBI sets up GFV

- AGBI is promoting the **Green Bank Model,** a **'blended finance'** approach, to accelerate private sector mobilization by de-risking investments
- The GFV can be created from scratch (a Green Banks) or hosted in an **existing local financial institution as a green financing window** and benefit from the FI's market expertise, network, liquidity, financing capacity and build on existing processes and experienced staffs
- The vehicle will be **the green investments arm of the country**. Its investment strategy will follow country's priorities in term of green transition and growth
- The GFV has a project preparation facility and a project lending facility. It follows specific investments criteria's based on country's climate and green growth strategy

The mechanism of the Green Financing Vehicle

Governments | **MDBs, NDBs and DFIs** | **Climate & Env. Funds** | **Host Institution**

Capitalize through Grants, equity, line of credits, guarantees

Local Green Financing / Blended vehicle

Project Preparation Facility [1]
- *Technical Assistance, Project Preparation Grants*

Project Lending facility [1]
- *Concessional loan, long maturity loan, guarantee*

Arrange and invest

Eligible Green Projects following country's NDCs & SDGs

- *Renewable Energy and Energy Efficiency*
- *Smart Agriculture*
- *Resilient Infrastructure*
- *Smart Cities*
- *Biodiversity Protection*

Deal Origination & Co-funding
- *Climate Funds*
- *DFIs, MDBs*
- *Private capital: financial institutions, investment banks, asset managers, business angels…*

Note 1. The non-lending and lending facilities are distinct funding pools

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THANK YOU