EAC Climate Finance Strategy - elements

Virtual Pre-validation Workshop

14-15 December 2020

Key areas of a climate strategy

Inter alia:

Limit complexity, increase capacities, project/programme/ platform preparation

Scaled-up finance, approaches & incentives, incl. private sector, gender, poor communities

Responsive climate finance fund/facilities

Enhanced coordination of climate finance

Transboundary, initiatives mechanisms & instruments, alliances

Monitoring & tracking of finance (also for private sector)

Thought material for an EAC strategy

In order to address the barriers listed in section 7 solutions may include:

- (a) Improved use of existing data and analytical tools;
- (b) Establishment of national finance coordination committees/mechanism;
- (c) Involvement of mitigation/adaptation practitioners and expert institutions and experienced non-governmental actors in project design;
- (d) Exploring links with mitigation finance and other types of finance other than from the traditional financial institutions;
- (e) Identifying and developing adaptation measures in which the private sector and national private financial institutions could invest;
- (f) Sharing best practice through training using experienced training institutions and policy briefings;
- (g) Use EAC secretariat and local facilitation mechanisms to track finance flows and offer matchmaking and coordination services between projects and funding sources;
- (h) Use Climate Innovation Centres to promote adaptation/mitigation technologies;
- (i) Strengthen the roles of the EAC secretariat to improve coordination among member states, to develop regional and cross-border programs;
- (j) Adequate catalytic capital that can bear higher risk and/or seek lower returns than the market would accept to attract private sector.

Proposals

- An EAC climate finance fund modelled after the IFC Managed Co-Lending Portfolio Program (MCPP) to make previously ‘unbankable’ projects viable and facilitate donor organization and multilateral development bank support.
- An EAC carbon price compatible with a net-zero trajectory, both to correct the price signal and to increase regional government revenues and help carbon-intensive industries transition, diversify the sources of government revenues
- Climate finance skills gap could be filled through training, education, and EAC certification programme - enhancing sustainability knowledge also in the finance sector.
- EAC technical assistance for climate finance tracking (requested, approved, received and impact), domestic expenditures as well as data reporting, climate tagging and transparency criteria.
- Harmonize guidelines for public-private partnerships (PPPs) to promote private sector involvement

Options: Mitigation finance

- **Enabling environment**
  - Create incentives for competitive markets;
  - Promote favourable fiscal, investment, and regulatory policies;
  - Develop standardized contracts;
  - Foster public-private partnerships;
  - Align investments with development strategies and plans;
- **Information and capacity development**
  - Assess and develop individual and institutional capacity;
  - Improve quality, access, and use of energy resource information;
  - Increase bank willingness and capacity to lend;
  - Support financing networks and platforms;
  - Support innovation labs and business incubators.
- **Financial instruments and markets**
  - Assess and mitigate financing risks;
  - Support specialized lending facilities or funds;
  - Support green credit lines in commercial or development banks;
  - Support development of green bonds;
  - Support innovative payment systems for off-grid energy users.

Options: Adaptation finance

- **Enabling environment**
  - Improve policies and incentives for adaptation investments;
  - Align adaptation financing with strategies, plans, and targets;
  - Support PPPs for climate resilience.
- **Information and capacity development**
  - Increase readiness for climate adaptation finance;
  - Increase willingness and capacity of FIs to provide finance;
  - Improve quality, accessibility, and use of climate, weather, and hydrological information for adaptation investments.
- **Financial instrument and markets**
  - Provide technical assistance or grants for pre-investment work;
  - Support investment funds and credit lines for adaptation investments;
  - Support insurance mechanisms.

Options: Land use-finance

- **Enabling environment**
    - Support certifications and sustainability standards;
    - Improve policies and incentives;
    - Develop investment strategies and financing plans.
    - Support PPPs for land-use.
- **Information and capacity development**
    - Support innovation through labs and technology;
    - Develop capacity in financing, implementation, and reporting;
    - Improve information collection, analysis, and dissemination on investments;
    - Support climate finance readiness;
    - Improve quality, accessibility, and use of climate information.
- **Financial instrument and markets**
    - Assess and mitigate risks;
    - Support investment funds and credit lines;
    - Support payments for environmental services;
    - Promote reducing emissions from deforestation and forest degradation (REDD+).

Enabling environment

Informational

Undertake mitigation and adaptation studies on a sectoral basis to identify priority options in accordance with key development initiatives and policies.

Building of networks to facilitate the sharing of climate related information and experiences.

Enhancement of education related to climate change at all levels.

Development of activity databases for all key socioeconomic sectors.

Improve analysis and tracking of public and private climate finance flows.

Institutional

Strengthening domestic institutional arrangements within relevant line ministries to address climate change related issues in a coordinated manner.

Technological

Establish incentives schemes targeted at the private sector to encourage uptake of climate friendly technology.

Regulatory

Support the development of enabling national policy frameworks to facilitate the implementation of identified adaptation and mitigation strategies and plans, this would include sectoral action plans and strategies;

Mainstream climate action into sectoral development plans;

Review existing legislation and regulation to ensure they are facilitative of climate action and contribute to the mobilization of finance.

Financial

Enhance availability and access to low-cost financial resources;

Provide an incentives framework to enhance private sector investment.

Fiscal tools

Policy	Instrument	Example
Carbon pricing regulations	Carbon taxes, cap and trade and emissions trading's systems, emissions, or efficiency standards	South African carbon tax, EU ETS, Korean ETS, national feebates
Public spending and investment	Public investment, social spending, lower labour or capital taxes	Regional infrastructure investment plans
Public private partnerships	Partnership between private sector, government, development bank, long-term institutional investor	African Trade Insurance Agency, African Guarantee Fund for MSME's, World Bank Multilateral Investment Guarantee Agency (MIGA), African Export-Import Bank

Monetary tools

Policy	Instrument	Example
Integrate climate risk analysis into collateral frameworks, central bank portfolio management and quantitative easing	Development of risk assessments, ensuring climate risks appropriately reflected in central bank portfolios	Bangladesh Bank
Climate QE, debt for climate swops, collateral frameworks, and credit allocation frameworks	Better access to central bank funding schemes for banks that invest in low carbon projects, central bank purchases of low carbon bonds issued by development banks, credit allocations and adopting monetary policy frameworks	Bank of India, Bangladesh Bank, PBoC