



ENVIRONMENTAL FINANCE IN DEVELOPING COUNTRIES

CONTEXT: challenges, research directions and practice

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Theme: *Environmental Finance for Sustainable Development*

NEMA at a glance

- A state corporation established by an Act of Parliament, the Environmental Management and Coordination Act (CAP 387)
- **Mandate:** To exercise general supervision and coordination of all matters related to the environment and to be the principal arm of government in the implementation of policies related to the environment
- **Vision:** To be a world-class environmental management authority
- **Mission:** To ensure a clean and healthy environment for all

Outline

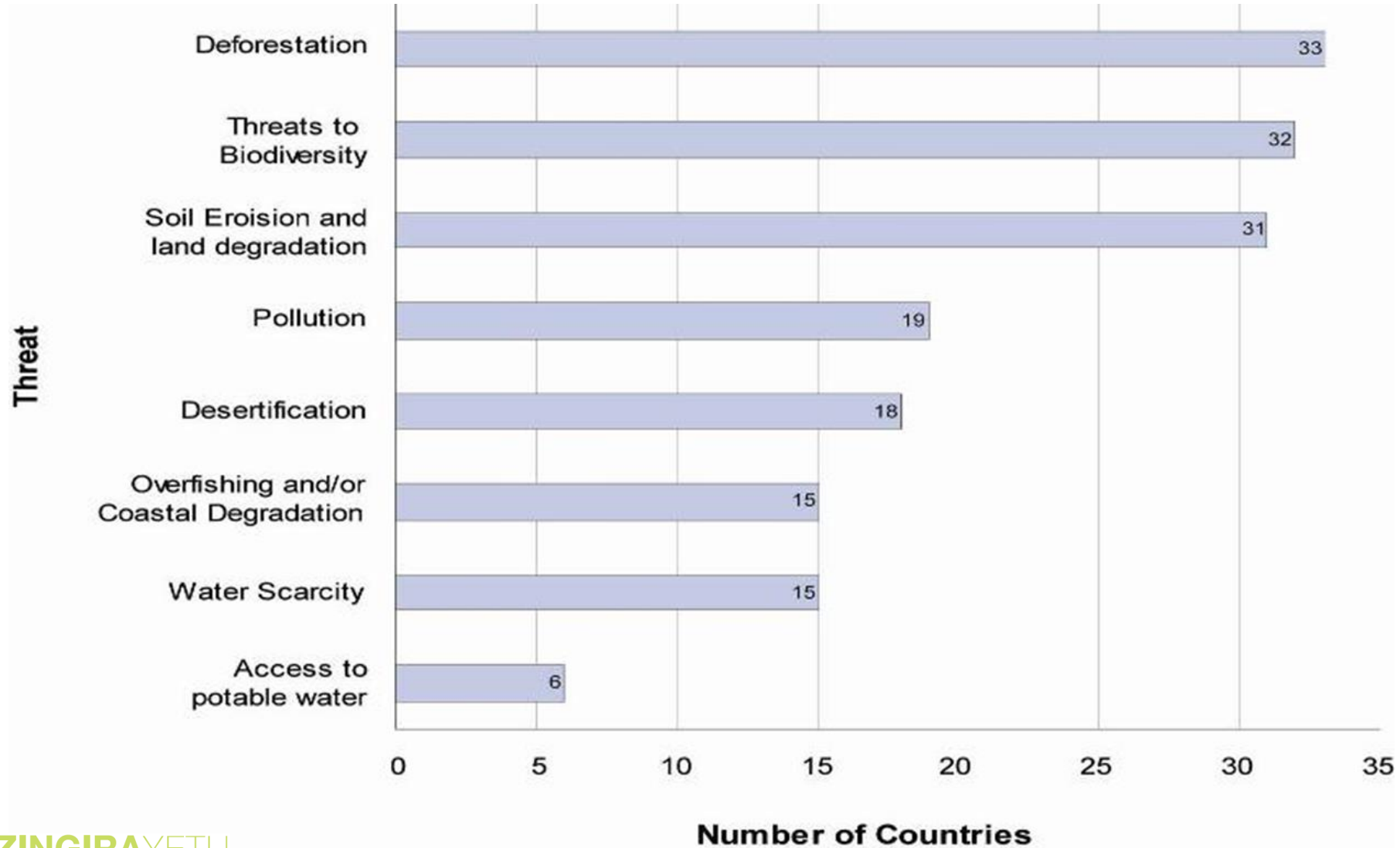
- Background
- Global Environmental Finance Regime
- Climate Change Finance
- Practice
- Challenges
- Research Directions
- Conclusion

Background

Environmental challenges in developing countries have a profound impact on:

- Meeting the development agenda for most developing countries
- Achieving the Sustainable Development Goals
- Economic growth rate
- peace, social stability and poverty eradication

Key environmental challenges in Africa



Ref: UN Environment

Domestication and implementation of Multilateral Environmental Agreements (MEAs)

- Individually, or in collaboration with others, parties may:
 - adopt policies, or legislation
 - set up or strengthen institutions
 - take administrative action like prepare national or regional action plans, designate sites, “take measures”,
 - appoint focal points
 - Mobilize means of implementation – finance, technology and capacity building
 - Report to the relevant national and international bodies in charge of the respective MEA
- According to the Kenya Constitution, any global or regional treaty that Kenya ratifies becomes law nationally
- There are over 1100 MEAs and 250

Relevant Multilateral Environmental Agreements

- Convention on Biological Diversity (CBD)
- UN Framework Convention on Climate Change (UNFCCC)
- UN Convention to Combat Desertification (UNCCD)
- Ramsar Convention on Wetlands of International Significance
- Vienna Convention on control of substances that deplete the ozone layer
- Minamata Convention on management of Mercury
- Chemicals Conventions – Rotterdam, Stockholm, Basel
- UN Convention on Sustainable Development (Rio+20)

Guiding Principles for Multilateral Environmental Agreements

- i. Common but differentiated responsibilities and respective capabilities
- ii. Right to Sustainable Development
- iii. Partnership and cooperation
- iv. Special needs and circumstances
- v. Avoiding mal-adaptation (for climate change interventions)
- vi. Integrity and transparency

Common but differentiated responsibility in the pursuit of sustainable development: the crux to environmental finance

Definition: "In view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command."

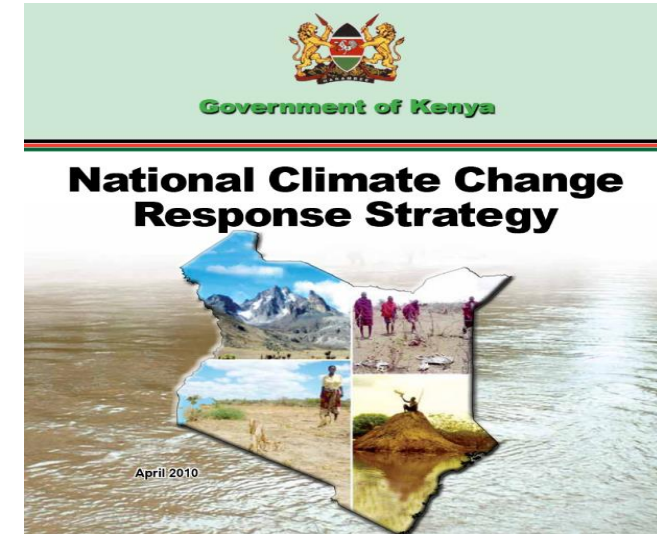
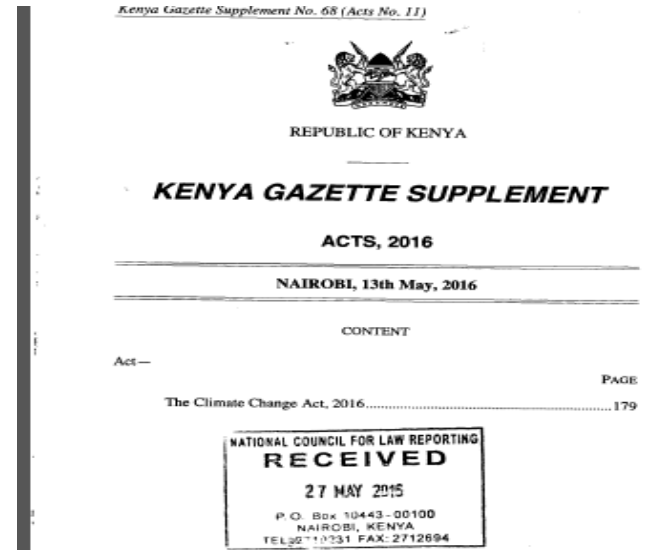
(Rio Declaration on Environment and Development, 1992 United Nations "Conference on Environment and Development" (UNCED))

“Climate change increasingly poses one of the biggest long-term threats to investments.”

Christiana Figueres on Climate Change

secretary of the UNFCCC

Kenya's Regulatory and Policy Documents addressing climate change



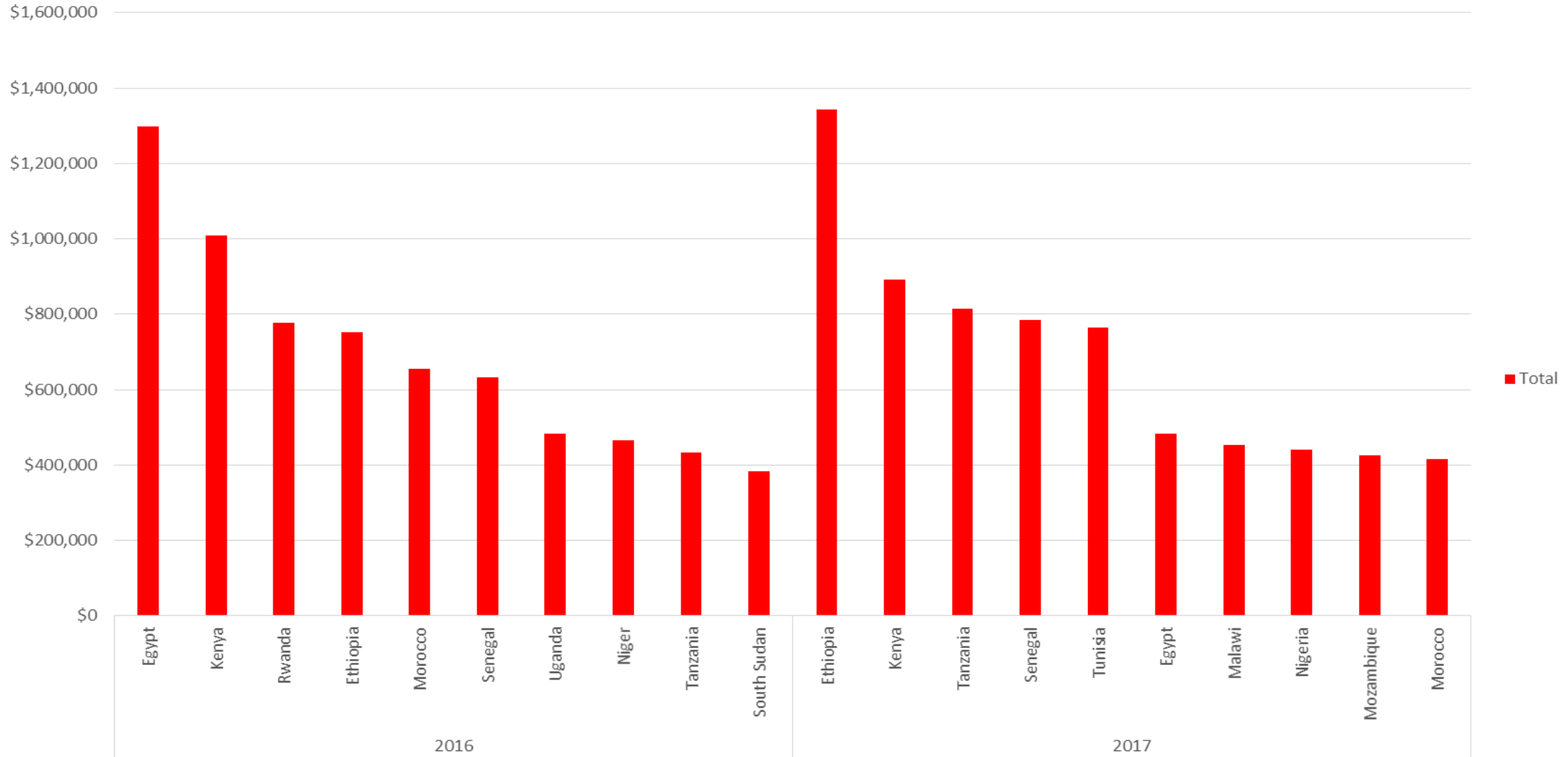
Case: UN Framework Convention on Climate Change (UNFCCC)

- An international environmental treaty concluded at the United Nations Conference on Environment and Development (UNCED) aka Earth Summit, held in Rio de Janeiro from June 3 to 14, 1992
- **Objective of the treaty:** stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system
- A Conference of the Parties under the UNFCCC (COP) is held annually, it is the highest decision making organ of the convention. *2019 host – Chile, venue Spain*
- Decisions of UNFCCC are informed by two subsidiary bodies; SBSTA, SBI
- Kenya ratified the UNFCCC on 30th August 1994 and the Kyoto Protocol on 25th February 2005 with entry into force on 26th May 2005

Paris Agreement under the UNFCCC

- Historic first ever global agreement on climate change on 12 December 2015 in Paris France as a major outcome of COP 21
- Has 29 articles in total; main substantive elements and commitments are in articles 4-12 that address:
 - Mitigation (article 4)
 - Greenhouse gas sinks & reservoirs & REDD+(article 5)
 - Cooperative approaches(article 6)
 - Adaptation(article 7)
 - Loss and Damage(article 8)
 - **Finance(article 9)**
 - Technology development & transfer(article 10)
 - Capacity building(article 11)
 - Climate change awareness & education(article 12)

Top 10 Countries Attracting Investments - USD Thousand



Environmental Finance: Sources

Financial Mechanisms

Mechanisms implemented by States, international organizations, or NGOs providing for disbursement or withholding of financial means in order to prevent or redress environmental damage (bilateral or multilateral)

Types:

- **Incentive mechanisms:** financial means to encourage environmental objectives (e.g. from Multilateral Funding Agencies, debt-for-environment swap, etc.)
- Often preceded by a Party/State ratifying a particular environmental agreement and taking steps to domesticate it

The Global Environment Facility

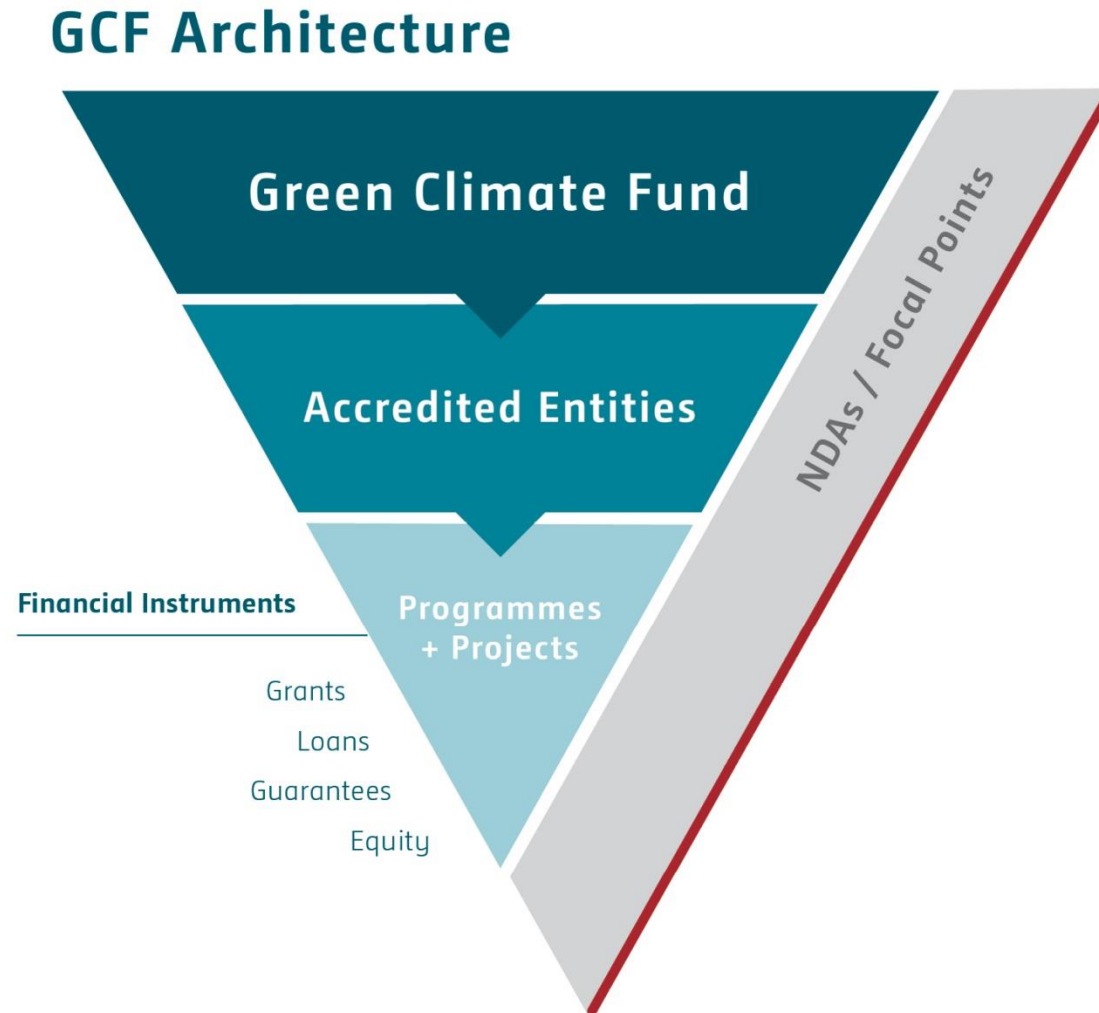
- Established in 1991 to assist developing countries by funding environmental projects and programs
- Thematic areas of focus:
 - Biodiversity
 - Climate change
 - Chemicals
 - International waters
 - land degradation
 - Sustainable forest management /REDD+
 - Ozone layer depletion
- GEF funds are contributed (“replenished”) periodically by donor countries

Ref: <https://www.thegef.org/>

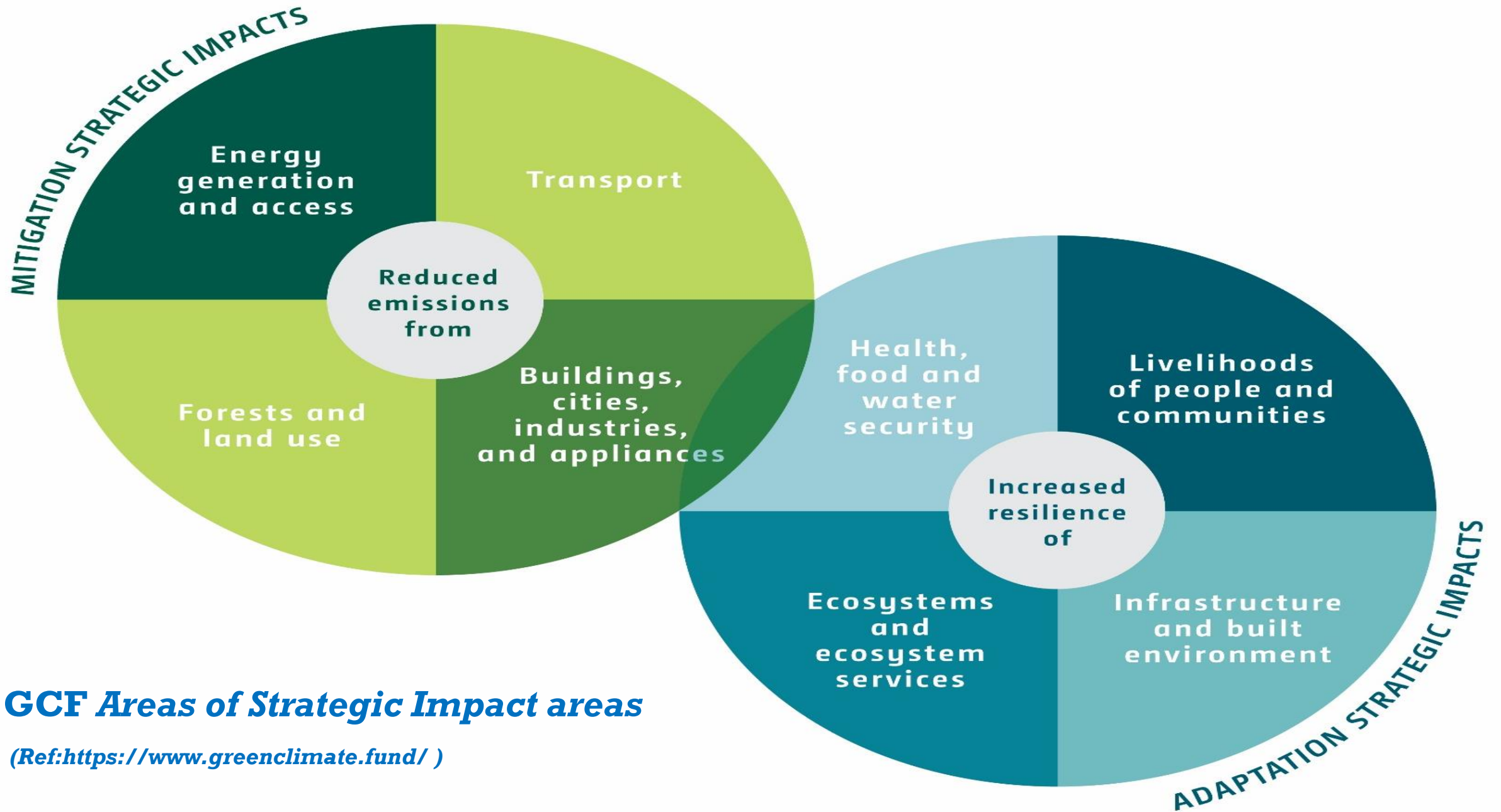
The Green Climate Fund

- Established by the Conference of Parties to the **United Nations Framework Convention on Climate Change (UNFCCC)** in 2010 as the long term climate finance instrument
- Advanced economies have formally agreed to jointly mobilize USD 100 billion per year by 2020 for adaptation and mitigation actions that address climate change
- The Paris Agreement on enhanced Action to Climate Change acknowledges GCF as one of the main finance instrument for its implementation
- Access preceded by Accreditation of Entities in accordance with stringent fiduciary standards

Green Climate Fund – Business model



www.greenclimate.fund



GCF Areas of Strategic Impact areas

(Ref:<https://www.greenclimate.fund/>)

Investment Framework of the Green Climate Fund

Impact Potential	<ul style="list-style-type: none">• Potential to the achieve the Fund's objectives and result areas
Paradigm Shift Potential	<ul style="list-style-type: none">• Potential to catalyse impact beyond a one-off project or programme investment
Sustainable Development Potential	<ul style="list-style-type: none">• Potential to provide wider benefits and priorities
Needs of Recipient	<ul style="list-style-type: none">• Vulnerability and financing needs of the beneficiary country
Country Ownership	<ul style="list-style-type: none">• Beneficiary country ownership of and capacity to implement funded activities
Efficiency & Effectiveness	<ul style="list-style-type: none">• Economic and, if appropriate, financial soundness of the programme/project

Fit-for-Purpose Accreditation requirements

Mandate & track record

- Alignment with Fund objectives
- At least 3 year of operations

Project size

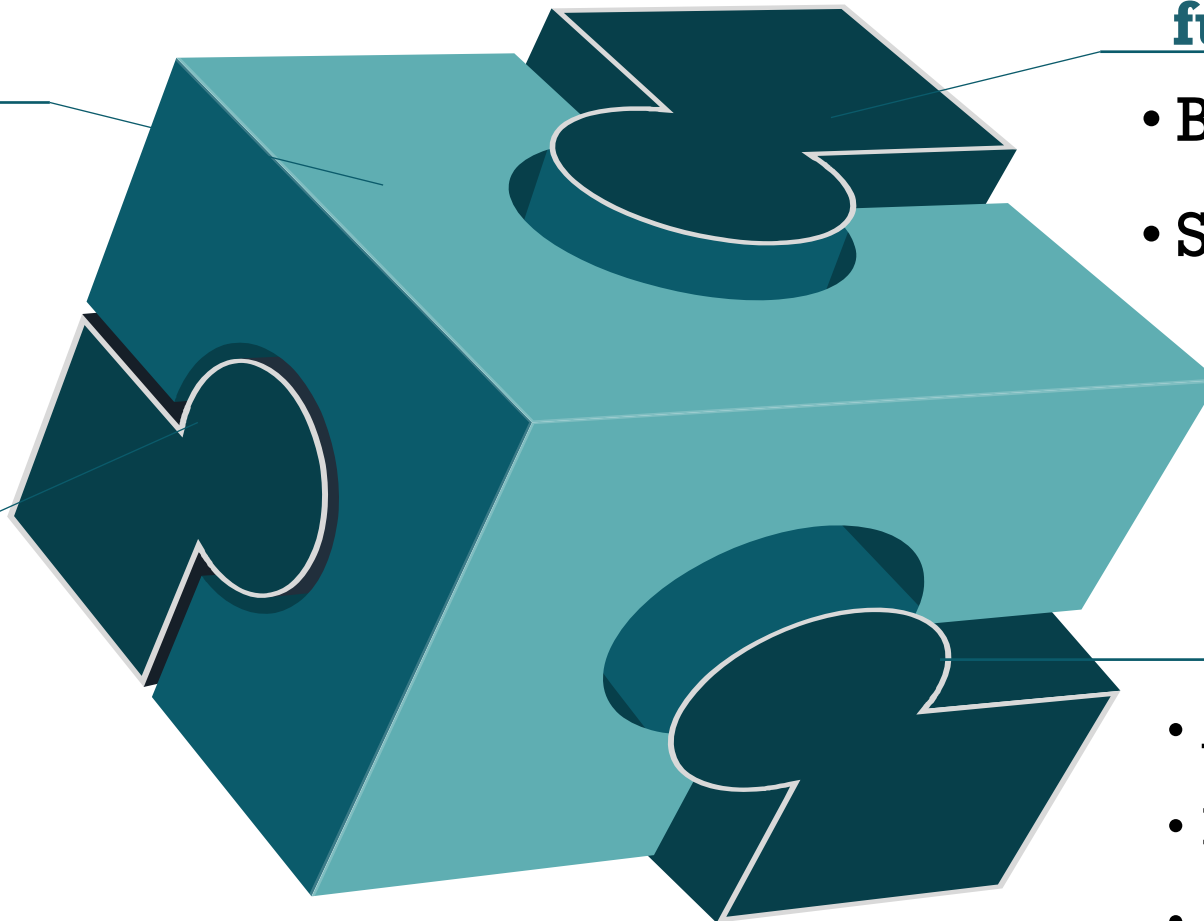
- Micro (<10M)
- Small (10-50M)
- Medium (50-250M)
- Large (>250M)

Fiduciary functions

- Basic
- Specialized

Environment & social risk category

- A (high)
- B (medium)
- C (minimal or no)



The Adaptation Fund

- Established under the Kyoto Protocol of the UN Framework Convention on Climate Change
- **Goal:**
 - Increase resilience through **concrete adaptation** projects & programmes
 - Focus on **most vulnerable countries and communities**
- **Innovative Features:**
 - Governed by **majority of developing countries under the AF Board**
 - Financed from a 2% share of the CER proceeds on the Clean Development Mechanism (CDM) project activities and other sources of funding
 - **Direct access** alongside conventional access through international orgs
- Access requires accreditation of National Institutions in accordance with AF fiduciary standards
- Ref: <https://www.adaptation-fund.org/>

Incentive Mechanisms: Debt swaps

Debt-for-Nature Swaps

- First conceived in 1984 (by Thomas Lovejoy), and used frequently since the 1990s
- A mechanism for enhancing conservation efforts in developing countries
- Involves purchasing foreign debt, converting debt into local currency, and using proceeds to fund conservation activities
- Key to transaction: willingness of commercial banks (or governments) to sell debt at less than the full value of original loan
- NGO-Government
- Bilateral (government-government)

Kenya National Climate Change Fund

- Established under section 25 of the Climate Change Act 2016
- Purpose of the Fund – financing mechanisms to priority climate change actions and interventions
- Climate Change Fund Taskforce established by the National Treasury in 2017
- Taskforce Deliverables:
 - Draft Public Finance Management (Climate Change Fund) Regulations, 2019
 - Draft Resource Mobilization Strategy (RMS)
 - Draft Monitoring and Evaluation Framework

National Climate Change Fund: Objects

- provide loans, grants or equity for climate change research and innovation, in the following fields: industrial research; technological research; policy formulation; and academic research;
- provide loans, grants or equity for the development of innovative actions that benefit climate change responses in Kenya;
- finance, through loans or grants, the implementation of climate change adaptation and mitigation actions;
- provide technical assistance to county governments
- provide training and capacity building on climate change

Domestic mechanisms for environmental finance

- Fees, licenses and levies to address environmental challenges and monitor implementation operationalized through laws and regulations
- Economic instruments - (fiscal, financial, liability systems, deposit and refund bonds, market creation techniques)
- Penalties that are channeled to restoration funds such as court fines, enforcement fines
- Pollution taxes (based on polluter pay principle)
- Consolidated funds - often risk being used for non-environmental actions depending on need

Progress on implementation

- Establishment and operationalization of the Multilateral Environmental Agreements and Climate Change Directorates at Min of Env't and Forestry
- Establishment and operationalization of Climate Change Units in all MDA in the greater Environment Sectors including the National Treasury
- Policy, legislative and institutional climate change structure in some counties
- Periodic Multilateral Reporting on progress of implementation to relevant global bodies
- Active engagement in the Conference of Parties negotiations and regional forums
- Accreditation of NEMA as the National Implementing Entity for the Adaptation Fund and the Accredited Entity for the Green Climate Fund

Progress contd..

- Mobilizing of environmental finance under various MEAs for implementation of projects and programmes – GEF, AF, GCF
- Development of the National Climate Change Finance Policy and other sector climate change policies and strategies
- Mainstreaming of environmental studies into the school curricular
- Mainstreaming of Climate Change into MTP III and budget coding
- Mainstreaming of Climate Change in EIA/EA regulations

Challenges

- Inadequate trained staff in the unique fields of various MEAs (continuously evolving)
- Inadequate means of implementation to address identified priority actions. This include finance, technology and capacity building
- Complex access structure and modalities that deter countries
- Varied accounting systems – lack of global methodologies
- Most environmental financing is externally sourced calling to question the place of environment in the development agenda
- Challenges related to Monitoring, Reporting and Verification (MRV) at global scale on support needed and received:
 - tracking action and tracking finance needed and received outside of the national governments e.g. private finance; private sourcing from multiple sources
 - targeting environmental goals versus other development goals

Possible research areas

- Development of finance reporting tools or methodologies that support comparability of efforts at scale
- Use of carbon pricing instruments to achieve environmental goals and mobilize domestic resources
- Use of economic instruments (incentives and disincentives) to spur sustainable development. These include:
 - fiscal instruments, financial instruments, liability systems, charge systems, bond systems, deposit and refund systems, *inter alia*

Way forward

- Enhance collaboration with environmental actors in their unique niche - global, regional, local, state and non state
- Position Kenya for access to the environmental financing to address environmental challenges through a finance readiness process
- Continuous capacity building, awareness, training and public participation in climate change to lead Kenya towards a low carbon-climate resilient country
- Research and development into the emerging environmental challenges and their related financing needs



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Thank you for your kind attention!!

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