

How the AfDB Finances Climate Change and Green Growth

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Policy Framework

- ❑ Long - term strategy (2013 -2022) - transition to inclusive and green growth
- ❑ High 5 operational priorities (with climate change and green growth as a cross-cutting issues). Aligned with Agenda 2063, SDGs
- ❑ Climate Change & Green Growth Policy/Strategy/Action Plan (Action Plan 2021-2025)
- ❑ Climate Change Action Plan (2011 - 2015 and 2016 - 2020)
- ❑ Green Growth Framework (2014)
- ❑ Bank Group Climate Risk Management and Adaptation Strategy (2009)
- ❑ Clean Energy Investment Framework for Africa (2008)

AfDB's High 5s



▶ Light up & power Africa



Lake Turkana Wind Power Project (300MW).
Bank financing US \$150m.



▶ Feed Africa



Malawi Sustainable Fisheries, Aquaculture & Watershed management.
Bank Financing US \$13.2m.



▶ Industrialize Africa



Egypt Industrial Waste Management and SME Entrepreneurship Hub.
Bank financing US\$ 2m.



▶ Integrate Africa



Dar es Salaam Bus Rapid Transit System Project.
Bank financing US \$141.7m.



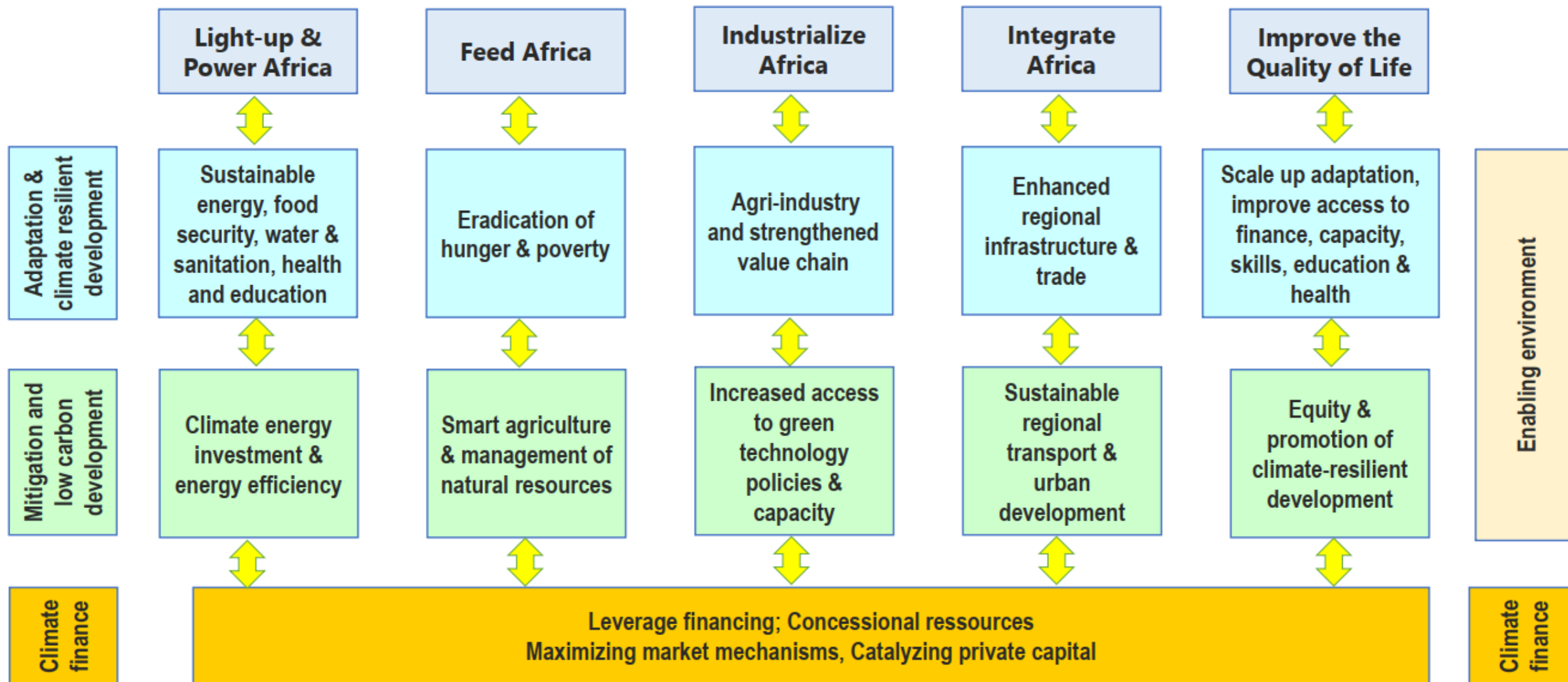
▶ Improve the quality of life for the people of Africa



Jobs for Youth in Africa - Rural Microenterprise Flagship Program Model.
Bank financing US \$54m.

Climate Change Action Plan II (2016-2020)

Low-Carbon and Climate-Resilient Development in Africa



Climate Change Targets

- ❑ Commit at least 40% of Bank's finance to climate change by 2020
- ❑ Invest USD 25 Bn in climate finance by 2025
- ❑ Achieve parity between investment in adaptation and mitigation
- ❑ Screen 100% of our projects with climate informed design
- ❑ Mobilize additional climate finance from external sources - multilateral funds, bilateral donors, philanthropists etc
- ❑ Align the Bank's investments with the Paris Agreement

Progress.....

Key Objectives

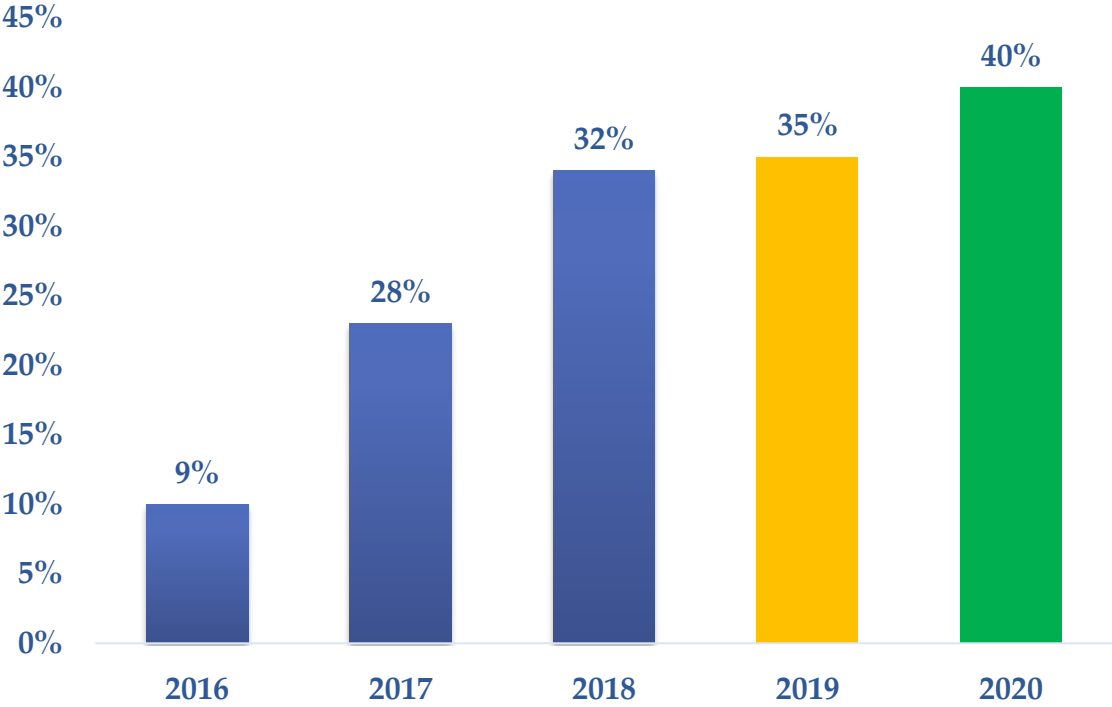
			2017	2018	2019
1	Mobilize Climate Finance	Mobilize resources from external & internal Trust Funds for co-financing and blended finance, Assist RMCs to access global funds	\$87m	\$404m	\$528m
2	Ensure climate Informed Project Designs	Screen Bank's investments for greenhouse gas emissions and climate risk, build resilience into project/program design	70%	80%	95%
3	Allocation of 40% of Approvals as Climate Finance	Mainstream climate change and adaptation in CSPs/RISPs and in Bank's projects and track Bank's climate finance in the projects	28%	32%	35%

Key Initiatives

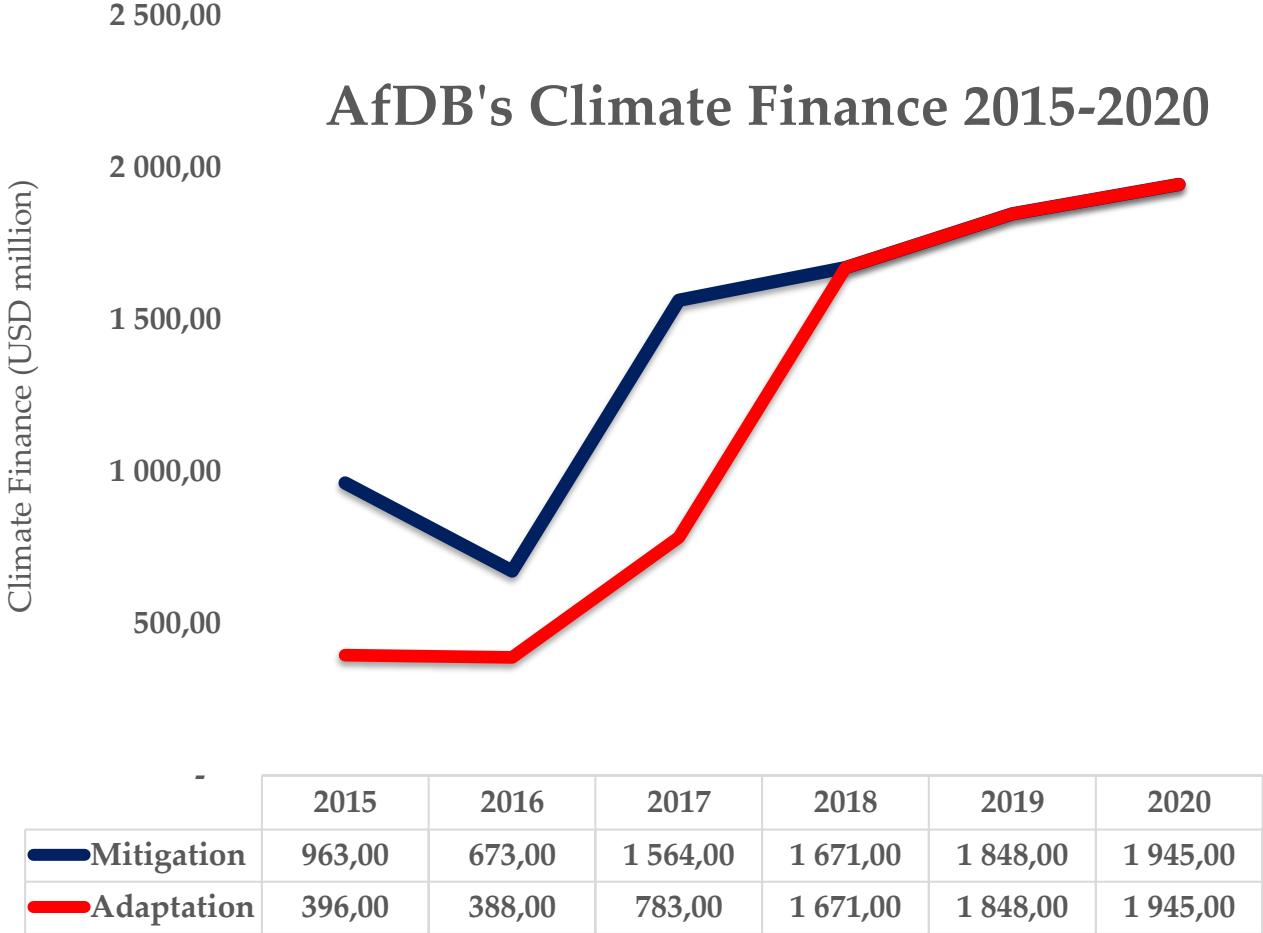
4	The African NDC Hub	Support 10 RMCs to align their NDCs with National Development Policies; support their implementation, assist 3 countries establish national climate change funds, strengthened Africa's Climate Institutions
5	New Finance Instruments	Developed new sources of finance with partners, including the ABM and supported Treasury and some African countries to issue green bonds
5	The African Financial Alliance for Climate Change	Embarked on membership drive, thus far, about 30 institutions have expressed interest with a target to register 100 in 2019.

Championing Climate-Resilient Development in Africa

Bank's resources dedicated to climate finance (%)



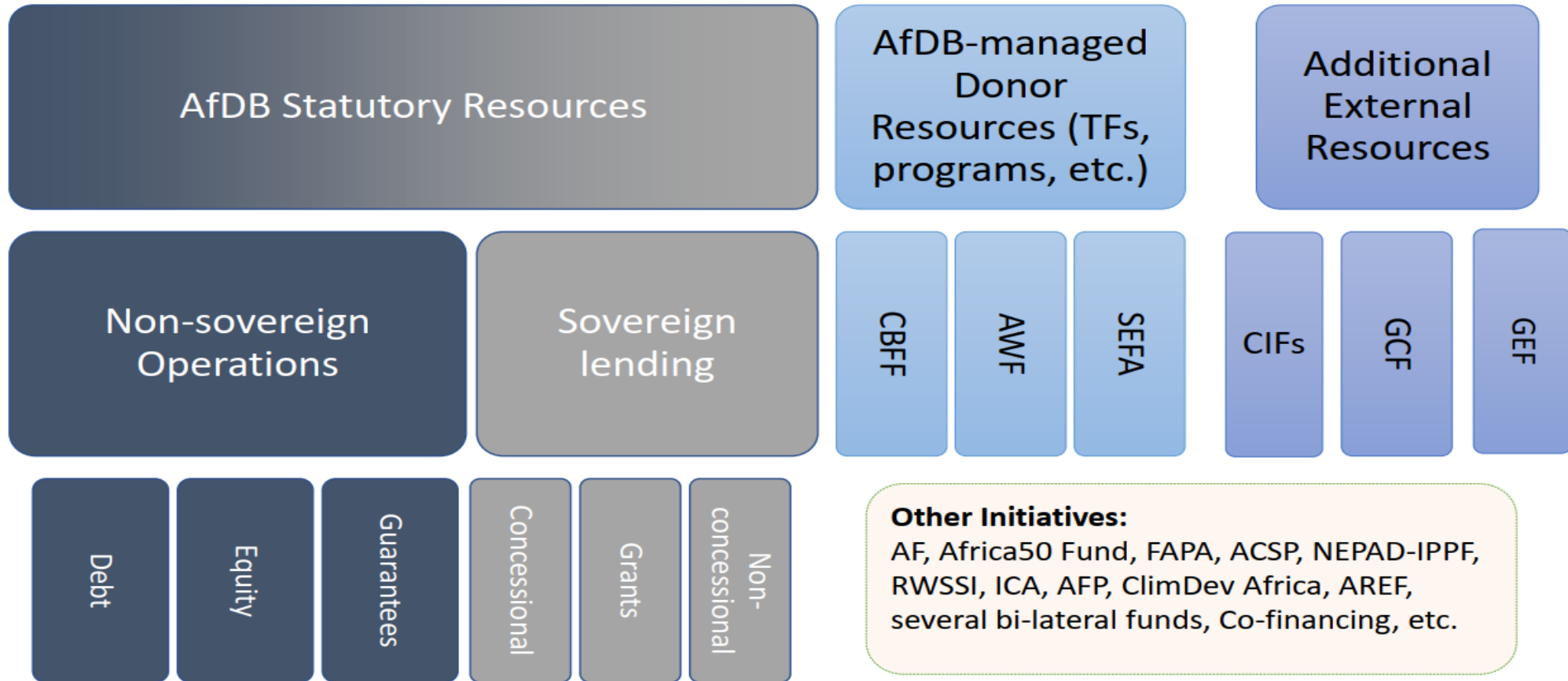
AfDB's Climate Finance 2015-2020



Special Initiatives

- Desert to Power
- ClimDev Special Fund
- Adaptation Benefit Mechanism
- African Financial Alliance on Climate Change
- Circular Economy Facility
- Hosting the Africa Regional Office of the Global Centre on Adaptation

Financing Architecture



Financial Instruments

These are targeted at different stages of the project development cycle and up to financial close. These range from preparation grants to long-term project financing instruments as well as equity and risk mitigation products (e.g. guarantees).

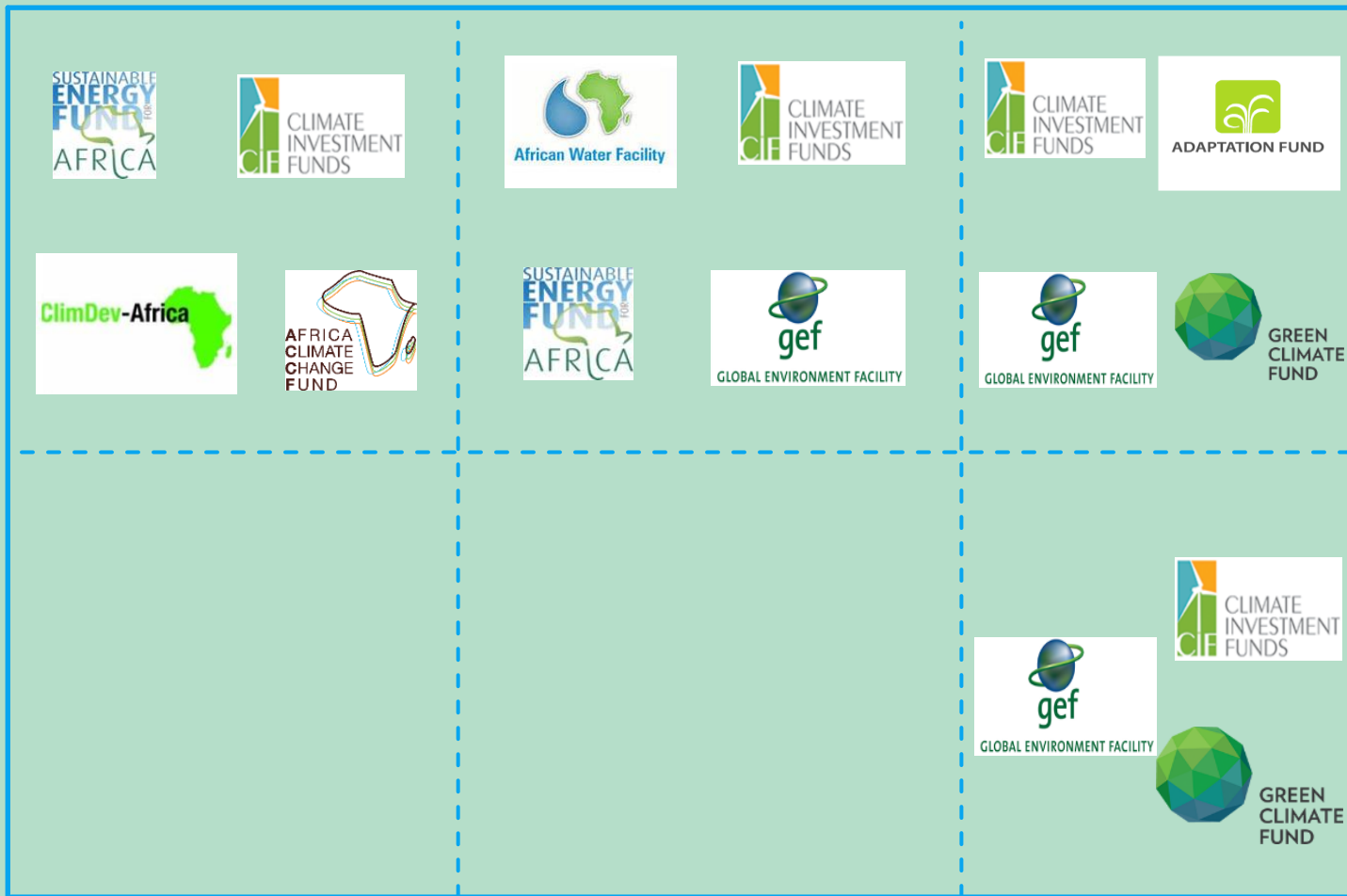
AfDB maximizes value-added by ensuring complementarity across different facilities and its own financial products.





**Grants/
TA**

**Concession
al
Debt/other
instruments**



Green Bonds, Social Bonds, SDG-linked Bonds

- ❑ Green bond issuances in 2018 reached **US\$ 167 billion**, up from a mere US\$ 13 billion in 2013; **Bank green bond issuance: \$2.2 billion; 31 project in the portfolio** (as of end 2019). Typology of eligible projects:
 - ❑ Greenfield Renewable Energy Generation (e.g. solar, wind, geothermal and ocean power);
 - ❑ Demand-side Brownfield and Greenfield Energy Efficiency (e.g. energy efficiency improvements in lighting and equipment; retrofit of transmission lines, substations or distribution systems to reduce technical losses);
 - ❑ Vehicle energy efficiency fleet retrofit or urban transport modal change;
 - ❑ Biosphere conservation projects (reduce emissions from deforestation and degradation of ecosystems);
 - ❑ Solid Waste Management (e.g. incineration of waste, landfill gas capture and landfill gas combustion);
 - ❑ Industrial Processes (reduce GHG emissions from industrial processes improvements and cleaner production);
 - ❑ Fugitive emissions and carbon capture (e.g. carbon capture and storage, reduction of gas flaring or methane fugitive emissions in the oil and gas industry, coal mine methane capture);
 - ❑ Urban Development (e.g. rehabilitation and upgrade of urban water drainage systems in areas vulnerable to frequency and/or severity of flash floods and storm surges brought by climate change);
 - ❑ Water Supply and Access (e.g. water saving measures such as introduction of less water intensive crops or preservation of soil moisture and fertility).
- ❑ African Development Bank concluded R2 billion investment in Nedbank South Africa SDG-linked bonds in July 2020. The investment, listed on the green bonds segment of the Johannesburg Stock Exchange, will strengthen Nedbank's capital base and enable it to generate R12 billion (\$696 million) in new loans and investments in environmentally friendly and climate-sensitive projects in areas such as renewable energy and affordable housing.

Investments in South Africa

The Bank has been supporting private sector investment in renewable energy since 2011 - when South Africa put in place key energy transition policies and renewable energy procurement processes.

- ❑ **Sere wind (USD 235m AFDB)(CIF), 2011.** 1st Utility scale Power Plant now complete. 100MW saving 4.5 million T of GHG over 20 years. CTF covered incremental cost (89% of volume leveraged through CTF). - as demo case did not include private sector participation;
- ❑ **Xina Solar One, 2014, 100MW(CSP, designed to store energy and dispatch during both peak demand and base load.** 9.5 Billion ZAR (debt/ equity ratio75:25). Blended finance - AFDB, DBSA, IDC, IFC, SA commercial Banks. 18 year tenor (long term tenor) and also concessional financing from CTF
- ❑ **Redstone most recent (2019/20) 100 MW; ZAR 3 Billion (senior loan) - to offset diesel-fuel open cycle gas turbine generation.** Private sector investment/participation
- ❑ **On hold - Battery Storage Programme (estimated (R15 Billion) and CTF (USD 58 million) .** To dispatch energy from the REI4P plants to improve dispatch-ability and as alternative to solutions of grid support to distribution- constrained networks.
- ❑ **Loans/ Lines of credit to private sector entities (e.g. financial intermediaries)**
- ❑ **The Bank is diversifying its portfolio to include investments in agro- industrial parks as well as water resources management.**

Private Sector eligibility criteria

The company must be incorporated in a member country of the Bank (whether regional or non-regional). The project for which Bank financing is sought must be located or implemented in one or more of the Bank's regional member countries in Africa.

The company must be majority owned by private investors or publicly owned investors with proven autonomy.

The project must be commercially viable with long term financial sustainability.

The project sponsor company must operate under competent management and good corporate governance. It must be in good standing with the Bank and the relevant member country of the Bank.

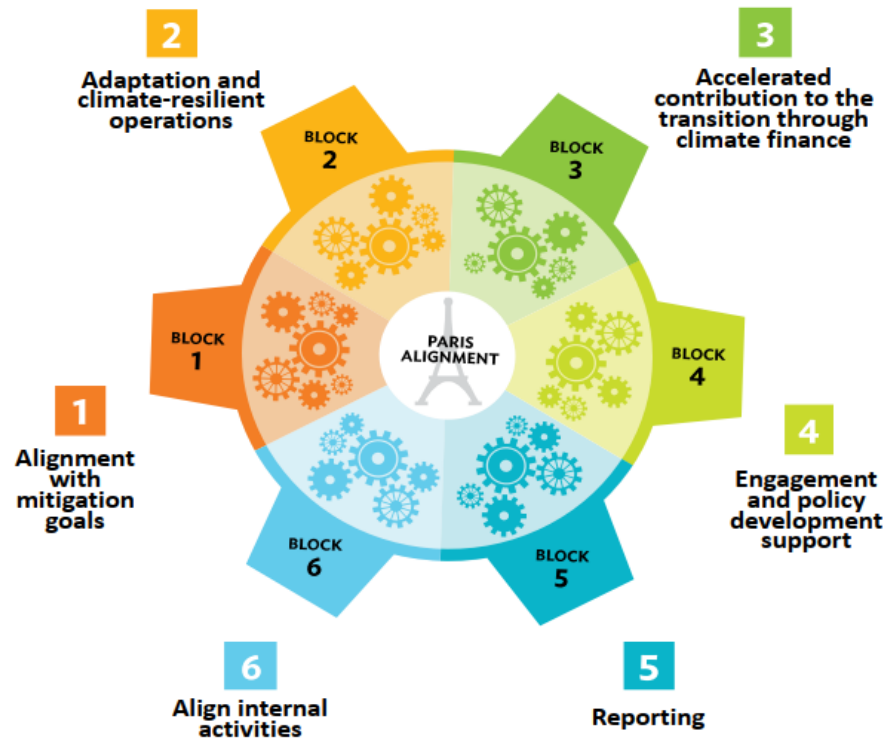
The project company must demonstrate the capacity for environmental and social responsibility.

The project must aim to maximize development impact in line with the country's strategic priorities.

Throughout the duration of its investment, the Bank's financial participation in debt will not exceed 33% of the total project cost, or 50% of equity in the case of Financial Institutions (FIs). The Bank's equity participation will not exceed 25% of the total amount of the fund raising for investment funds, and 25% of equity for FIs. *The Bank's interventions are generally in excess of USD 10 million.*

Domesticating “Paris Alignment”

- **Paris Alignment:** Making Financial Flows consistent with the objectives of the Paris Agreement (Art.2.1c)
- Work with MDBs to operationalize the **Paris Alignment Framework through Six Building blocks:**
 - **One:** Alignment with mitigation goals
 - **Two:** Adaptation and climate-resilient operations
 - **Three:** Accelerated contribution to the transition through climate finance
 - **Four:** Engagement and policy development support
 - **Five:** Reporting
 - **Six:** Align Internal Activities



Six Building Blocks for Alignment with the Paris Agreement

Domesticating “Just Transition”

“A framework for facilitating equitable access to the benefits and sharing of the costs of sustainable development such that livelihoods of all people, including the most vulnerable, are supported and enhanced as societies make the transition to low carbon and resilient economies. A Just transition affirms Africa’s right to development and industrialization based on the Paris Agreement negotiated language of equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances”

- **working definition**

Due Diligence Tools and Procedures

- ❑ **Integrated Safeguards System (2014)** - Policy Statement and OS's (1 EIA; 2 involuntary resettlement, land acquisition, population displacement and compensation; 3 biodiversity, renewable resources and ecosystem services; 4 pollution prevention and control, hazardous materials and resource efficiency; 5 labour conditions, health and safety), ESAP, Operational Guidance. The ISS is under review
- ❑ **Climate Safeguards** - Climate Risk Screening, Green House Gas Accounting
- ❑ **Joint MDB Decision trees on Mitigation and Adaptation Finance (Operationalizing Paris Alignment)**
- ❑ **Joint MDB Climate Finance Tracking Methodologies**
- ❑ **Other:**
- ❑ **Operational guidance on greening lines of credit (WIP)**

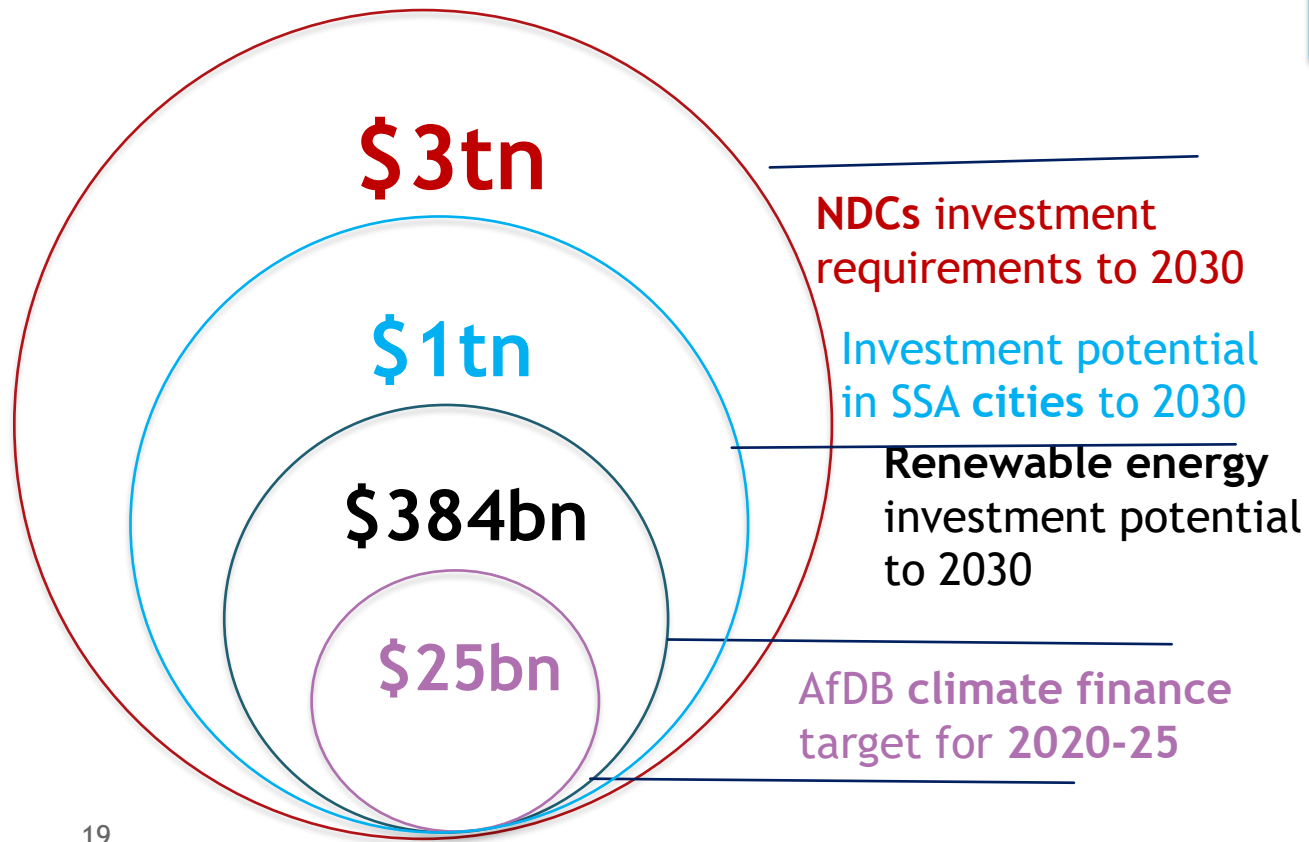
Thank you

<https://www.afdb.org/en/topics-and-sectors/sectors/private-sector/how-to-work-with-us>

PrivateSectorHelpDesk@afdb.org

Opportunities to Green the Financial Sector

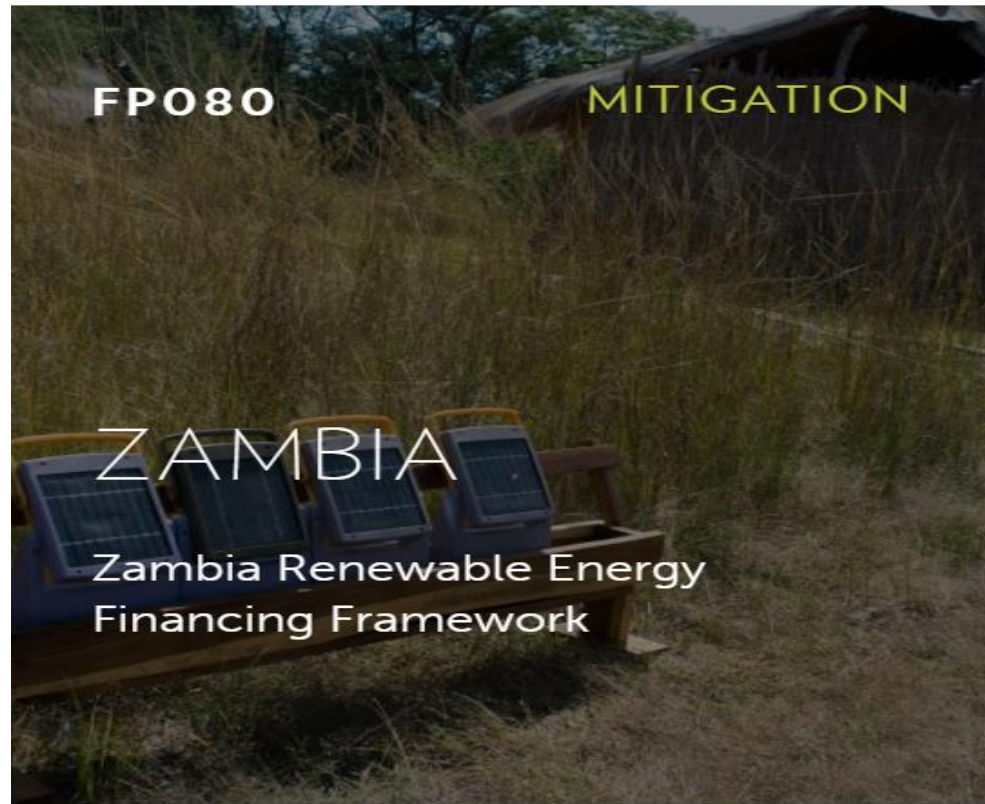
The Case for Sustainable Finance in Africa



The Paris Agreement and Nationally Determined Contributions (NDCs) come with great investment opportunities.

- Green investments opportunities could be up to US\$ 23 trillion by 2030 in emerging markets
- Dedicated Global Climate Funds to address climate change
- Enhanced MDB Climate Finance
- Green bond issuances in 2018 reached **US\$ 167 billion**, up from a mere US\$ 13 billion in 2013; **Bank issuance \$1.5 billion.**

AFDB/GCF Private Sector Projects



Total Investment \$ 154 million
GCF Financing \$ 50 million loan and \$2.5 million grant.

Zambia
About 500,000 Direct beneficiaries
About 4 m Tonnes of CO₂ avoided



Total Investment \$ 89 million
GCF Financing \$ 20 million loan and \$ 1 million grant.

Democratic Republic of Congo
600,000 Direct beneficiaries
About 560,000 Tonnes of CO₂ avoided