Investment and Finance impacting Ecosystems:

Links to Poverty, Gender, Climate and Sustainability

23rd Meeting of the Poverty Environment Partnership

Hosted by UN Environment and United Nations Development Programme at United Nations Office in Nairobi, 25–27 June 2018

Summary

the 23rd meeting of the Poverty Environment Partnership (PEP23), http://www.povertyenvironment.net/partnership, a network of organisations working on development and environment for the SDGs met in Nairobi to discuss investment and finance impacting ecosystems with 45 participants from six governments from Africa (Kenya, Malawi, Mauritania, Mozambique, Rwanda, Tanzania) and three governments in Asia (Indonesia, Nepal and Philippines), development agencies and civil society including the private sector. The meeting concluded that investment and finance flows impact ecosystems and poverty reduction through major schemes such as the Belt and Road Initiative, private insurance markets and public investments from budgets and international donors. Environment and climate for poor people needs to be addressed in these private and public finance flows by effective analytical work, budget tracking, safeguards for large scale investments, more finance reaching local communities, capacity building of local communities, alignment of public and private investment and actors, pro-poor insurance markets that reach poor farmers and support for small and medium scale enterprises.

Monday 25th June 2018 *Investment and finance impacting ecosystems and links to the SDGs*

Introduction: In the opening session Frank Turyatunga, Deputy Regional Director, Africa Office, UN Environment welcomed participants to UN Environment and highlighted the importance of cross country learning. Siddharth Chatterjee, United Nations Resident Coordinator, Kenya stressed the links between poverty, environment, climate change and violent conflict and crisis. He outlined the new Poverty Environment Action for the SDGs (SDGs) programme and welcomed its upcoming launch. John Carstensen, head, Environment and Climate, DFID concluded that it is not only the quantity of investment and finance that is important, but also its quality and whether it reaches the poorest people.

Poverty Environment Partnership Getting to Zero 'Call to Action' and meeting objectives
Paul Steele, Facilitator, Poverty Environment Partnership introduced the PEP Getting to Zero paper and how zero extreme poverty can be reached, whilst reducing net green gas emissions to zero and achieving zero net loss of natural assets. The objectives of this PEP23 meeting were set out to bring together public and private organisations to:

- ***Review* major finance flows and investments** impacting ecosystems and their current and potential links to poverty, environment, climate and environment with a focus on Africa. This included banking, infrastructure, tourism finance, insurance and social protection
- ***Agree* ways to make finance flows and investments better address** poverty-gender-environment-climate including decentralised finance, subsidy reform and better monitoring
- ***Promote* synergies among those working on finance and investment** for the SDGs for poverty reduction, gender equity, climate resilience and environmental sustainability

Given its location in Nairobi, the meeting focused on Africa but also covered global trends with finance and investment.

10.00 Country strategies to shape investment and finance for inclusive green & blue economies
Panel facilitated by Anne Juepner, Co-director, Poverty-Environment Initiative, UNDP

INDONESIA: Dewa Putu Ekayana, Head of Subdivision, Ministry of Finance, Indonesia
In 2009 the Government of Indonesia pledged to reduce carbon dioxide emissions by 26%, going up to 41% if it received funding from international donors. In 2016 it pledged to reduce the emissions by 29% by 2030. The government has set up a national action plan for the emissions target and for climate change adaptation. The Ministry of Finance pledged 73 million rupees to climate change mitigation. Funding is still needed, which can come also from the private sector or donor agencies. The Government's new initiative in 2018 was a Green Bond and Green Suku with five sectors for green finance: renewable energy, resilience to climate change, sustainable transport, waste-to-energy/waste management and sustainable agriculture. These should not conflict with sharia Islamic law. Financing for Green bonds and green Suku have many challenges as they have same costs of conventional Suku but require higher levels of monitoring.

MOZAMBIQUE: Maria da Nadia Felizardo Adrião, Head of Division, Ministry of Economy and Finance, Mozambique
The government is committed to a green and blue economy and this has been integrated into the 5-year national plan. One key focus has been on decentralizing environmental protection financed through fiscal revenues to local actors. Platforms to strengthen coordination are being created at local level, with local committees for environmental protection and disaster reduction.
The government has introduced climate budget tracking and this needs to be integrated into the major budget reform that is now underway. In 2012 the government allocated of 0.5% of budget to environmental issues, or 0.30% of GDP. In 2016 they increased environment spending to 4.3%. of the budget Allocation could increase further thanks to reforms in the system which allows tracking of government spend on climate change. While there are strong existing laws and strategies, the challenge lies in weak implementation. This is exacerbated by the adverse impact of corruption in the mineral resources sector. There are also challenges due to limited capacity and lack of good data on environment and climate.

MALAWI, Idrissa Mwale, Deputy Director, Department of Economic Planning and Development, Malawi
Protection of natural resources is a major issue in Malawi with 5.3% of GDP annual loss caused by unsustainable use of natural resources. The country still has not recovered yet from the 2015 floods. Environment as a key priority area in the National Development Strategy where climate change has a major role. The government spends 3.1% of its budget on environmental protection (equal to 1% of GDP). There is a strong partnership with civil society for the environment, and there are Sector Working Groups with representation of donors and private sector. The challenges include local level expenditure on natural resources being low due to local governments having other priorities in their budgets.

MAURITANIA, Khyar Fall, Director, Ministry of Economy and Finance, Mauritania
Analysis has shown that 14% of GDP loss through environmental degradation in Mauritania. A 15-year plan to fight poverty integrates the environment. A committee ensures that projects have environmental components. Challenges are to sensitize key sectors in order to integrate and implement poverty and environment into the plan and a lack of funding, as food security, education and other issues have also a priority. PEI is helping the government with assessing the issue of budget tracking for environmental expenditure.

Discussions dwelt on experiences from other African and Asian countries at PEP23.

Rwanda: the environment and climate change are priorities for the government and have already been included in the medium-term poverty reduction strategy that runs from 2017-2024. Priority number seven in the economic transformation section is promoting sustainable environment and natural resources management and transition to a green economy. Green growth and climate resilience strategy has many targets including plans to increase the percentage of public forest from 5% to 80% and reducing the number of people relying on firewood as source of energy from 83% to 42% by 2024.

Nepal: is coming out from a long conflict and has different strategies in line with SDGs that give priority to climate change and environment. Nepal has also introduced climate budget coding which shows that about 5% of the budget is allocated to projects that reduce climate change vulnerability.

Philippines: is interested in Green bonds and fiscal incentives, but after years of fiscal decentralisation, incentives are still a challenge.

Kenya: also lacks data on environmental statistics and good examples of how to ensure that the resources go to the right local level county. Kenya made a commitment of 30% reduction of carbon dioxide emissions and has an Action Plan for mainstreaming climate change.

- **Discussion** dwelt on experiences with ***budgeting tracking*** and how to link with budget reform processes and decentralization.
- There were points on the ***analytical work*** needed to make a political argument for environmental mainstreaming and the importance of environmental data and statistics including in economic form.
- Another point raised was how to balance between the focus on the quantity of financial flows (in terms of volume) and to ensure ***the quality of funding*** with tracking the quality of investments a challenge, especially monitoring the impact of investments

14.00 Making Belt and Road inclusive and sustainable: opportunities and challenges*?* *Panel discussion facilitated by John Carstensen, DFID*

UN Environment, Shigang Zhang, South-South Cooperation Principal Officer
UN Environment has been involved with the Belt and Road Initiative (BRI) which is the largest investment programme in the world. Championed by China, it involves many different partners from the global community and focuses on 5 activities: policy, investment, trade, finance, and people to people exchange. There are two new financial institutions (Asian Infrastructure Investment Bank, AIIB and Silk Road Fund) and a cumulative investment of more than 18 trillion of US$ to date generating over $USD 50 billion worth of output. Environmental sustainability should be a cross-cutting theme across these activities, so based on this the UN Environment with the Chinese government jointly launched the International Coalition on Green Development for the Belt Road. This will focus on green standards for investments in BRI guidelines. Another initiative has been the UN Environment's South-South Cooperation with China and Africa. This has newly established the China Africa Environmental Cooperation Center to be based in Kenya and strengthen Chinese-African Partnership on the environment to a strategic level. The Center focuses on four thematic areas: policy dialogue, green technology, capacity building and access of African countries to international funding.

International Center for Tropical Agriculture, Robin Buruchara, Director PABRA
Focused on the importance of infrastructure for farmers for their productivity and competitiveness and how improved infrastructure wold be a positive benefit from the BRI.

ECOTRUST: Pauline Nantongo Kalunda, Executive Director, Ecotrust, Uganda
Chinese investments in Uganda are not new, but started 45 years ago but were limited, and only recently are there many direct foreign investments with 22 Chinese companies present in Uganda now. There are many opportunities created by these investments, for example they provide employment and technology transfers and some community benefits. However the downside is that there are large number of small-scale farmers becoming landless and resulting land conflicts from these Chinese funded agricultural investments. This arises partly from the weakness in the capacity of the authorities to implement laws against private investors especially when such big Chinese private investments are launched by the president or ministers and therefore politically impossible to shut down or monitor properly if they prove environmentally unsustainable.

Discussion: This focused on more details of the pros and cons of the BRI, the role of the China Africa Environmental Cooperation Centre and how to engage and work with the private sector.

- The ***private sector*** is a big player in the BRI as they will implement the programme and many Chinese private sector players have already indicated a strong commitment to provide their contribution to a green BRI.
- ***Safeguards*** for the BRI are vital and there are many good practices applied by institutions, but these need to be updated and a dialogue on this has already started.
- UN Environment will appoint well reputed ***global advisors*** to ensure globally high standards.

16.00 Panel discussion: Synergies of UN programmes working on finance and the *SDGs* *facilitated by Paul Steele, PEP Facilitator*

UNDP Climate: Thomas Beloe, Lead, Governance of Climate Change Finance for Asia-Pacific, UNDP
Big shift is taking place as the UN is beginning to see itself as a catalyst of private and public financial flows to finance implementation of SDGs. There is a difficulty in taking an integrated approach to private and public investment. There is a need to help governments to avoid duplication in tracking SDCs targets and avoid too narrow a focus.

UN Environment, Tim Christofferson, Head of the Climate Change Adaptation Branch in UN Env.
Reported on their work to unlock private finance including working on inclusive wealth accounting, on issues like "Beyond GDP, on fiscal policy reforms, and financing the SDGs. He shared the example of small-holder farmers – around 900million in the world – and the importance of supporting them for food security.

PEAS, Isabell Kempf and Anne Juepner, Co-directors, Poverty-Environment Action for Sustainable Development Goals
Working currently in 23 countries, mainly with Ministries of Finance. New focus of new programme is investments to make sure the financing is available to achieve SDG targets. Programme running from 2018-22 to deepen and broaden UN engagement with government in country and with private sector, but also to respond to requests from other countries who want the findings and experience to be shared. Partnerships are planned with global and green programmes, such as BRI, regional development banks and other UN programmes/initiatives.

Finance Initiative FI, Yuki Yasui, Programme Manager, UN Environment Finance Initiative by skype
UN Environment Finance Initiative is one of the longest lasting initiatives between UN and private sectors, working with over 32 insurance banks and institutions. They pay membership fees to be part of the programme. Currently vast majority of private investments towards SDGS go to middle income countries and we want to unlock financing in least developed countries (LDCs) with

sustainable financial institutions. Initiative intends to create national Communities of Practice for financing the SDGs with the goal of private green finance flowing to LDCs.

PAGE and BioFIN, Tim Scott, Policy Advisor, UNDP by skype
Reported on the joint UN Partnership for Action for a Green Economy (PAGE) working in over 20 countries to support capacity building and technical support for policies for the transition to a green economy. He also shared experience with BioFIN, which is a global initiative to mobilize funding for biodiversity, coordinated by UNDP. BIoFIN identify what the financing needs are, then works with Ministry of Finance, Planning and Environment etc to identify the gaps, then try to close these gaps by financing and identifying fiscal resources to use existing funds more effectively and shift and mobilising new resources, including domestic, public and private, and new innovative way of closing the gaps.

- **Discussion** focused on more details of the respective UN programmes and what country experience there was of developing public and private ***systems for financing the SDGs***. Mexico and Bangladesh were identified as examples of finance systems set up to achieve SDGs including a focus on private financing.
- The role of ***small holder farmers*** was highlighted as they are often marginalised by governments.
- One overall conclusion was the need to ***stop subsidising*** dirty non-green sectors, which stops sustainable investment.

<u>Tuesday 26th June: Investment & Finance for Ecosystems for SDG 14 & 15</u>

9.30 Money where it matters: finance to local level in Africa *facilitated by Dilys Roe, Principal Researcher, IIED*

SOUTH AFRICA: Errol Douwes, Manager, Restoration Ecology Branch, eThekwini Metropolitan Municipality, South Africa
He outlined work done for the local environmental department with projects on climate change adaptation and mitigation systems, ecosystems restoration, conservation planning, policy development. This includes lots of focus on job and business creation and skills creation, due to high level of unemployment. The Municipality complies with a consolidated legal framework for democratic, accountable and developmental local government formed through its Municipal Finance Management Act (MFMA). This ensures compliance with the five principles of sound financial governance by clarifying the roles and responsibilities of council and officials, Key to correct use of budgets is through adherence to the strategic approach of budgeting accordingly to allocated roles and responsibilities. The municipality has received funds from national government for reforestation projects as well as some funds from international donors and NGOs. Challenges include pressure for development in urban areas; integration of projects with other functions and departments; poor capacity; lack of internal support structures especially in accounting and supply chain management; lack of political support as main focus is on development which diverts funding from environmental issues.

UGANDA: Pauline Nantongo Kalunda, Executive Director, Ecotrust, Uganda
Developed several mechanisms to channel funds to local communities, such as the Trees for Global Benefit scheme involving small-holder farmers in the conservation areas. Each community identifies the activities they want to do in a specified period of time and Ecotrust provides technical assistance, approves the activity and then starts their payments. Ecotrust have been working for 15 years, working with about 600 farmers. Last years they sold one million tonnes of CO_2.

KENYA: Nicholas Abuya, Christian Aid, Adaptation Consortium, Kenya
He highlighted the creation of the County Climate Change Fund, to finance priority climate change activities – a mechanism for climate change financing which started in 2013 - and enactment of a national Climate Change Act in 2016. This was because of inadequate technical and financial capacitiy for climate change and adaptation of climate financing. DFID agreed to finance a pilot scheme in five counties, which are more prone to the effects of climate change, to mainstream climate change into planning using an integrated approach that consists of four components including Local Climate Change Planning committees, Participatory resilience planning tools including the integration of climate information into planning processes and Monitoring through training county government in the Tracking Adaptation and Measuring Development (TAMD) framework.

Discussions

- Questions were asked on ***coherence*** in terms of the schemes fitting in the bigger financial flows at a national level. South Africa responded that it is often difficult to ensure coherence among different financial flows. Municipalities try to work with other departments but still hard to be aware of all funding available Sometimes the funds are too small to be worth the admin work required.
- Also there were concerns on the ***capacity of the local communities*** to manage the funds as most of them are illiterate and the speakers argued that it is a mistake to use education to measure leadership capacities but also stressed that there has been investments in capacity building of communities to manage climate change fund and also recommended the bottom up approach as it has proven desirable for Kenya. Local communities are often very knowledgeable of local problems so we should not assume that the local community does not have the required capacity.
- Entrance of the ***private sector*** in the local finance schemes was raised to which the panellists highlighted how the private sector has been involved as suppliers and providers of climate information services.
- The role of ***international donors and aid*** was questioned in delivery to the local communities and panellists stressed that it is always not easy to get donors to finance local level projects as they are risk averse and biased towards larger commercial channels which should be challenged.

11.30 Money where it matters: finance to the local level in Asia Pacific and Latin America
facilitated by Jonathan Gilman, Regional Office for Asia and the Pacific, UN Environment

PHILIPPINES: Niño Raymond B. Alvina, Executive Director, Bureau of Local Government Finance, Department of Finance, Philippines
In the Philippines there are 1400 municipalities and 40,000 villages in the country. In environment and natural resources local governments play important role and share responsibilities with national government, for example, on mining development, waste disposal and sanitation. Philippines Poverty Environment Initiative (PPEI) supports the government, the civil society and the private sector to utilise the benefits from sustainable environmental management for poverty reduction and environmental protection. The focus has been on natural resources revenues including sharing with local governments and associated issues around lack of transparency and accountability in revenue sharing. On climate change he stressed the challenges in financing the effects of climate change and the need to improve domestic resource mobilization. This includes helping local authorities to diversify their funding and incentives to business for renewable energy. On biodiversity, BioFIN identified that the Philippines need $US 430 million annually to implement the biodiversity strategy and action plan.

NEPAL: Narayan Poudel, Programme Director, National Planning Commission, Nepal
SDGs are a big challenge for Nepal and it has been estimated that 15% of GDP should be invested to achieve the goals. Currently the government is decentralising powers to seven new provincial areas. Local level government generate their own revenue to supplement fiscal transfers from national government in the form of grants. Communities also can play a role in co-financing through contributions from community participation in environment activities like afforestation. Decisions about local level spending priorities are managed through a participatory planning process.

DOMINICA: Pilar Roman, Regional Programme Officer, Poverty Environment Initiative, Latin America
She presented Latin America as having grown economically in the last 15 years and reduced poverty, but still remaining very unequal and disaster prone. Almost 20% of people benefit from conditional transfers in various countries. The social protection budget in Dominica Republic is about 1% of the budget which is about what national disasters cost. She introduced a new tool developed four years ago and implemented since 2015 to bring together humanitarian and development actors – known as the IVACC – or Index of vulnerability climate change hazard. This tool based in the cabinet of social policy in the Dominican Republic allows coordination of social protection departments and manages to identify risks at the household level. This is now linked to a
contingency fund of 1% of national budget which World Food Programme has signed an agreement with the cabinet of social policy to fund the scheme. Other countries are building similar indices based on their own needs.

Discussion focused on how the **IVACC operates.** IVACC can identify who will be affected in the area where a hurricane will pass through. Financing of the tool is done by humanitarian and international agencies and there is either reallocation of budget or donor funds and cash transfers are made to the affected people

14.00 Banking, Microfinance and insurance for ecosystems *Panel discussion facilitated by Barbara Cheshire-Chabbaga, Director and Lead Consultant, AB Consultants*

UN ENVIRONMENT FINANCE INITIATIVE: Wakesho Sonje, Coordinator, UN Environment FI
FI works with financial institutions, insurance companies and investments banks.
FI launched in 2012 a set of principles for sustainable insurance to ensure that the world is risk aware and have lots of members globally that signed to these principles.
Partnered with ILO to give access to insurance to low income and vulnerable activities. Also partnered with local governments to address issues faced by cities. Launched positive impact in 2017 for SDGs and working on the global principles to be launched in 2019.
Working also on sustainable banking principles. In 2017 Land Degradation Neutrality Fund to combat desertification was launched. Partnered with RED Initiative - in Ivory Coast where many small-scale farmers live below poverty line and the country has sustained intense deforestation – due also to cocoa over-farming. In Kenya with KCP Foundation they introduced hydroponic farming to address youth unemployment (providing training).

DEVELOPMENT ALTERNATIVES: Anshul Bhamra, Manager, Development Alternatives, India
Anshul also highlighted work on insurance and microfinance prices where challenges were limited capacities for banks and enterprises, little access to information and a lack of business management. She also stressed what has been done to bridge these gaps where Saving groups were formed becoming a multi-enterprise facility helping to secure loans.

ACRE AFRICA: Rahab Kariuki, Manager Director, Acre Africa

They design agricultural insurance products and work with local insurers and small farmers who otherwise would not be able to access insurance. In the last 9 years they have insured about 1.6 million farmers in Kenya, Tanzania and Rwanda. Struggling to find the right incentives. Tried the model for a few years in which insurance has been provided to small agrobusinesses. Keen on developing a business model to show the insurance companies. Challenges are lack of data on rainfall patterns, also problem for farmers who are affected by rainfall shortages. Built insurance products linked to seeds with more investments in weather data required as this is needed to profile risks. Climate change poses a threat to the governments' efforts to support sustainable development. The main challenge is how do we incentivise small business to invest in sustainable insurance?

Discussions

- ***Public investment***- Questions were asked on the public investment in insurance to which Rahab stressed that government involvement is crucial specifically in subsidies, education/capacity to the farmers and provision of data and records for farmers. Private insurers need the involvement of the government as these schemes have to be subsidised. Another way for the local/central government to support insurance schemes is to provide the data. To provide weather insurance, private insurance companies need at least 15 years of data.
- ***Premiums vs pay-outs***. They pay on average $1.5 premium, but they're not insured for their overall harvest. For every $1 insured, insurers pay out 64%. Typically inputs providers have paid the insurance premium for their clients (farmers). For weather insurance, all people in the affected area are paid out regardless of how they claim, which reduces monitoring and compliance costs.

<u>Wednesday 27th June, Summary and close of PEP 23 meeting</u>

9.30 Report back from break out groups on Poverty Environment Partnership ongoing work

(I) Institutions and mainstreaming *facilitated by Michael Stanley-Jones, Programme Management Officer, Poverty Environment Facility*

What the counties are doing, what the institutions are doing? Lessons learned. From PEI, engaged with a number of countries and developed knowledge material that's been disseminated. Also developed tools that can help. Personnel has moved to help mainstream this in the institutions.

Establishment of Climate Change fund in some countries. Some counties have pledged 2% of funding coming from National governments. Lessons: this fund has been ringfenced to discourage government to use the fund for not climate change related purposes. Potential to scalability and replicate in other sectors, for example in Kenya. Capacity needed for mainstreaming

What PEI can do in the future for mainstreaming?

1. Continuing the partnership and advisory support provided by PEI
2. Continuing capacity building
3. More networking that brings more partnerships

(II) Fiscal reforms *facilitated by Tom Beloe, UNDP*

Tanzania, Philippines, Mozambique and Nepal.

In Nepal local governments are starting to exercise their rights with central government transfers 15% of corporate taxes. In Mozambique decentralising is important to help people and to use tax revenues more efficiently and equitably. In Indonesia, fuel subsidy policy is criticised. In Tanzania, they need to catalyse local development. In the Philippines, local fiscal incentives hamper tax revenue at national level. More transparency needed.

Effects of tax reforms on poverty was discussed and needs close attention. In Mozambique, this year they changed fuel subsidies to transport services, i.e. subsidies were used to buy buses for public transport which helped people. They reckon 2.7% of national budget goes directly to community.

(iii) Local green enterprises *facilitated by Anshul Bhamra, Manager, Development Alternatives, India and Peter Hazlewood, consultant*

This PEP working paper focuses on the potential for 'local green enterprises' – defined as formal and informal micro and small enterprises of the poor engaged in sustainable agriculture, forestry and fisheries; ecotourism; renewable energy; water and sanitation; waste management and other sustainable production and service sectors – to deliver integrated poverty, environment and climate solutions at scale for the SDGs. Will include a draft framework for assessing local green enterprise solutions and potential for scaling. Issues discussed by the breakout group included:

- Difficult to differentiate between aggregators and enterprises – where a larger enterprise acts as an aggregator for smaller enterprises. Instead of differentiating it at the definition level, the paper should concentrate on the functions performed by an aggregator
- How to mainstream LGEs in the development agenda of the country – is this the main target question for the paper?
- Aim for a good mix of different models and contexts to give flavor of the diversity of LGEs, and the need to synchronize efforts in up-scaling them.
- Outreach/follow-up – the working paper should provide a basis for wider dialogue and consultations beyond the PEP on how to improve country support and the potential for bringing key actors and stakeholders together to forge a global action agenda.

General discussion:

- What's the difference between difficulties facing local green enterprises and local enterprises more generally? In terms of barriers, they are the same. The rational for the paper is to focus on micro/small green enterprises as they present opportunities to deliver innovative and integrated poverty, environment and climate solutions at the local level, and how to address the scaling up challenge in the context of .
- There remains a need to improve the evidence base on their contribution to local people and if they improve their well being, and to effectively communicate this evidence to decision-makers.