Blueprints for Climate Finance in Kenya

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CLIMATE POLICY INITIATIVE

GNI plus
THE GLOBAL NDC IMPLEMENTATION PARTNERS

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ABOUT GNI^{PLUS}

GNI^{plus} brings together the combined expertise of AECOM, Pollination, and Climate Policy Initiative, to provide governments with the best available policy, technical, financial, governance, and legal expertise to support the implementation of their Nationally Determined Contributions (NDCs). GNI^{plus} also supports governments as they work to mobilize private investment and create long-term, sustainable growth, and development. GNI^{plus} maximizes impact by building on its partners' existing collaborations with governments, multilateral agencies, and private investors to facilitate climate action by enhancing current national strategies and initiatives. GNI^{plus} is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag. In Kenya, GNI^{plus} will work in partnership with the Government of Kenya and other public and private stakeholders to help achieve its climate and development goals.

ABOUT CPI

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, Kenya, the United Kingdom, and the United States.

FUNDERS

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1. EXECUTIVE SUMMARY

In the wake of the COVID-19 pandemic, Kenya has embarked on a low carbon, resilient recovery plan. This plan has been facilitated by a policy and legal environment that supports an effective climate change response, through the Climate Change Act 2016, Nationally Determined Contributions (NDCs), and subsequent National Climate Change Action Plans. However, the financing gap to implement these plans is still large.

A study from GNI^{plus} that tracked climate finance flows in Kenya[1] revealed that only one third of needed annual climate finance flowed to climate-related investments in 2018. Of that, 80% of the climate finance tracked flowed mostly to mitigation sectors such as energy. Kenya's NDC, however, demands more investments in adaptation sectors such as water and the blue economy, forestry, wildlife, tourism, and food security. Furthermore, there is an increased need of mobilizing not only public resources, but also private finance to achieve the transformational changes that the country requires.

Among other barriers, the main constraints that these sectors face in Kenya are: (1) limited knowledge and/or lack of information around adaptation activities at the sectorial level; (2) lack of both technical and financial capacity to implement; and (3) high setup costs and lead times that reduce the feasibility of investments.

GNI^{plus} is a program implemented by Climate Policy Initiative, AECOM, and Pollination, funded by the German International Climate Initiative (IKI), which works in collaboration with the Kenyan Ministry of Environment and Forestry, the National Treasury of Kenya, and other public and private stakeholders to help the Government of Kenya achieve its NDC goals. Based on five years of GNI^{plus} experience supporting economic benefit while improving nature conservation, this report highlights three innovative financial structures that have the potential to transform livelihoods and sustain projects at the local level. They focus on currently underfunded adaptation sectors by providing blueprints with replicable and scalable characteristics that are designed to mobilize private capital.

BLUEPRINT 1: AFRICAN CONSERVANCIES FUND (ACF)

Problem: Reduction of tourism revenue, lack of income diversification from resilient sources, and poor governance threaten the conservancy model, a key land protection model throughout Africa.

Solution: The ACF is a blended finance fund-of-funds that will invest in regional investment vehicles that provide revenue-based loans to conservancies to meet their lease payments to landowners, improve their governance, and diversify revenue.

Key Takeaways: Conservancies are over reliant on ecotourism to fund their conservation efforts. ACF will innovate the African conservancy model by supporting revenue diversification as well as improve conservancy governance structures.

1 A study by of climate finance flows in Kenya since the Paris Agreement. Available at: https://www.climatepolicyinitiative.org/publication/the-landscape-of-climate-finance-in-kenya/

BLUEPRINT 2: CHYULU HILLS PAYMENT FOR ECOSYSTEM SERVICES (CHYULU HILLS PES)

Problem: Over-reliance on philanthropic and public funding, which is uncertain and variable, threatens efforts to conserve and maintain key watershed areas that provide value to surrounding communities.

Solution: The Chyulu Hills PES is a mechanism that helps to mobilize resources in exchange for the conservation of natural areas based on creating new markets in which the beneficiaries of ecosystem services pay the providers of those services for their ongoing provision. The Chyulu Hills PES scheme is building on top of an existing REDD+ scheme and aims to provide an alternative source of finance for conservation of the watershed.

Key Takeaways: The Chyulu Hills PES scheme is aiming to monetize the services provided by ecosystems and fund the protection and improvement of these ecosystems. In turn, this will ensure sustainable provision of ecosystem services to beneficiaries.

BLUEPRINT 3: GREEN VILLAGE SAVINGS AND LOANS ASSOCIATION (GVSLA)

Problem: Limited access to formal financial services in communities for adaptation and conservation activities.

Solution: The GVSLA is a model that mobilizes finance at the micro level. The GVSLA will incentivize local communities to implement ecological actions by attaching environmental conservation requirements to micro group loans. In addition, it proposes a self-sustaining funding model that encourages local businesses to provide or supplement the upfront capital to these groups.

Key Takeaways: GVSLA promotes financial inclusion with an added benefit of having the local communities engaging in environmental implementations. It has the potential to mobilize both human and financial resources not yet tapped in combating climate change.

ADDITIONAL CONSIDERATIONS TO ACCESS CLIMATE FINANCE

Beyond specific financial structures, there are general considerations that proponents and implementing partners should address during the capital raising stage to maximize opportunities with potential climate-focused funders. To qualify for and attract climate finance, projects need to highlight and clearly articulate the project's positive climate impact. Public and private funders will often assess the following questions:

1. **What are the climate risks or challenges in that region?**
2. **How does the project address those risks and challenges through mitigation and/or adaptation action?**
3. **What metrics are being used to measure climate action and how will these be monitored and tracked?**

In addition to articulating a project's climate relevance, there are other important program considerations that should be addressed by the organization and summarized for potential

funders, as they are regularly scrutinized when evaluating potential investments. Some of these considerations include:

- **Transparency**: this includes the organization's governance, as well as having clear and attributable accounting
- **Theory of change**: a clear expression of goals, and the primary levers to achieve those goals
- **Defining relevant metrics**: KPIs that monitor and verify climate impact
- **Alignment with funder focus**: aligning instrument objectives to funder focus
- **SDG co-benefits**: Articulating other SDGs that also benefit from the project beyond climate

CONCLUSION

These three innovative blueprints for climate projects in Kenya demonstrate the opportunity for mobilizing more financial resources to priority sectors. The experiences presented also show the potential to mobilize and leverage public and private capital and create more sustainable interventions which can be replicated and scaled in Africa as well as in other regions.

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2. INTRODUCTION

2.1 CONTEXT AND OVERVIEW

In the past decade, Kenya has grappled with the increasing frequency and intensity of extreme weather events such as heatwaves, droughts, and floods. These events are taking a toll on lives and livelihoods, with an estimated annual economic liability of 2.5% of its GDP (CPI, et al., 2021). Impacts of extreme weather events significantly affect public funds as the government spends additional sums on disaster relief services, clean-up operations, and healthcare costs, diverting resources that would otherwise be used in development projects, including those that address resilience to climate change. The situation is exacerbated by Kenya's heavy reliance on climate sensitive sectors such as agriculture, forestry, and fishing which makes up a combined 34% of its GDP (CPI, et al., 2021).

The COVID-19 pandemic has put a greater strain on public resources, as well as individual livelihoods. At the leaders' dialogue on the Africa COVID-19 Climate Emergency, President Kenyatta noted that, for the first time in 25 years, the African continent is experiencing a decrease in GDP (AFDB, 2021).

For Kenya to embark on a resilient recovery there are two key considerations. First, the need for policy tools and plans that facilitate a pathway to a low carbon and climate resilient recovery and subsequent economic growth. Second, improved access to finance at scale to meet Kenya's climate needs.

Kenya already has a policy and legal environment that supports an effective climate change response: The Climate Change Act 2016 and subsequent National Climate Change Action Plans. However, the financing gap to implement these plans is still large.

The objective of this report is to highlight three examples of how innovative market-based approaches can be used to attract private capital into sectors where there is a lack of funding. Our intention is to highlight highly replicable instruments by actors in various contexts, and to illustrate that, with some out-of-the-box thinking, instruments can be designed to achieve adaptation and conservation goals without relying exclusively on concessional funding.

While the three instruments chosen are all in design and/or early implementation stage, they have already demonstrated useful lessons to further improve the implementation and future replication of these instruments. For this research, we worked closely with the instrument's proponents throughout a six-month period to clarify the concepts and investment blueprints and assist in the design phase activities where relevant.

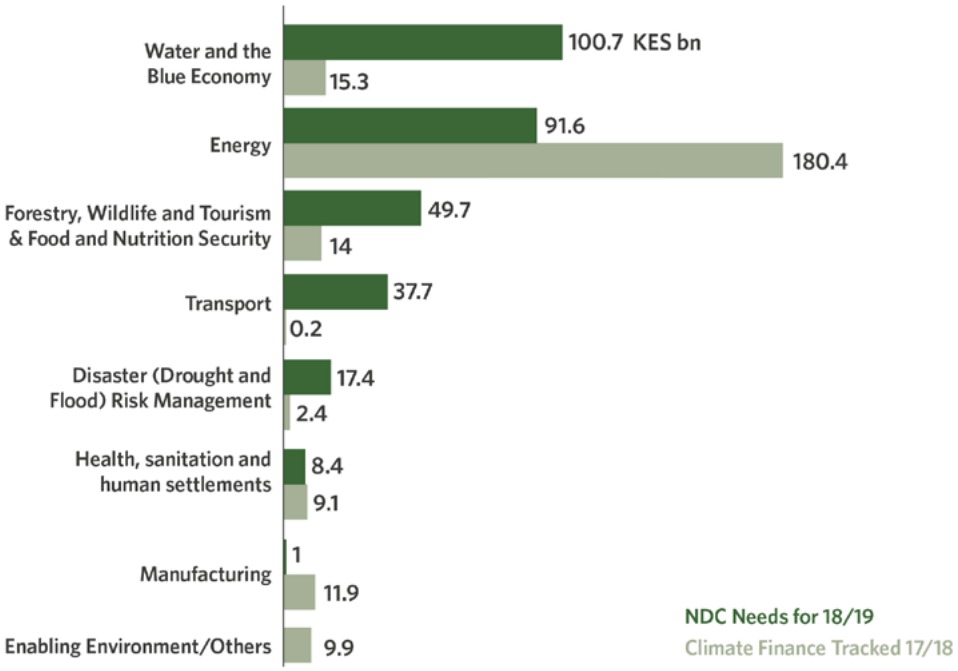
2.2 THE CLIMATE FINANCE NEEDS OF KENYA

Kenya's updated Nationally Determined Contribution (NDC) estimates that over KES 6.6 trillion (USD 65 billion) is needed up to 2030 to facilitate mitigation and adaptation efforts

in the country. The Government of Kenya has pledged to contribute 13% of the budget, while the majority is expected to be provided by international development partners.

The Landscape of Climate Finance in Kenya - published in March 2021 - estimates that only one third of what is needed, equal to KES 243.3 billion (USD 2.4 billion), flowed to climate-related investments in 2018 (CPI, et al., 2021, p.7). Of that amount, the finance tracked is disproportionately channeled to certain sectors that only partially address climate issues in Kenya. While Kenya's NDC requires more investment into adaptation actions, about 80% of climate finance tracked supported climate mitigation sectors, largely due to large-scale investments in renewable energy (Figure 1).

Figure 1: Financing gaps per climate sector in Kenya



Source: *CPI et al., (2021), Kenya Landscape of Climate Finance*

While investment in renewable energy is almost double what is needed as reported in the NDC, large gaps can be observed in key adaptation sectors such as water and the blue economy, forestry, wildlife, tourism, and food and nutrition security, demonstrating that the current finance flows are misaligned with both Kenya's NDC and the National Climate Change Action Plan's (NCCAP) priority sectors.

2.3 OPPORTUNITIES TO UNLOCK PRIVATE FINANCE: SECTORIAL BLUEPRINTS

As Figure 1 highlights, significant sums of investment are required, but there is not enough public funding to cover all demands. For this reason, the need to mobilize other sources of funding, such as private capital, is becoming an urgent need in Kenya and other developing economies.

Underserved sectors do not easily attract private capital due to several reasons, such as: (1) limited knowledge and/or lack of Information around adaptation activities at the sectorial level; (2) limited access and/or availability of information; (3) lack of both technical and financial capacity to implement; and (4) high setup costs and lead times that reduce the feasibility of investments. Therefore, there is a need for innovative financial instruments that address some of the inherent barriers that are keeping inhibiting investment in these crucial, yet under-financed, sectors.

Based on GNI^{plus}'s research of market-based approaches, mechanisms, and instruments that can support economic benefit while improving nature conservation, this report highlights three instruments that have the potential to transform livelihoods and sustain projects at the local level. These focus on currently underfunded adaptation sectors by providing an avenue to mobilize more private capital because of their replicability and scalability opportunities.

Table 1: Instruments to mobilize private capital

	Project	Sectors
1	African Conservancies Fund	Forestry, Wildlife, and Tourism
2	Chyulu Hills Payment for Ecosystem Services	Forestry, Wildlife, Tourism, Water, and the Blue Economy
3	Green Village Savings and Loans Association (GVSLA)	Food, Nutrition Security, Water, and the Blue Economy

The **African Conservancies Fund**, through its flexible investments, strengthens conservancies governance that facilitates funding and promotes income diversification strategies.

The **Chyulu Hills Payment for Ecosystem Services** (PES) scheme aims to increase the funding available for conservation efforts within the Amboseli-Tsavo ecosystem by creating a market whereby those who benefit from the ecosystem services pay for their continued provision.

Lastly, the **Green Village Savings and Loans Association** (GVSLA) funds local environmental activities that build resilience in small-scale communities through financial inclusion activities.

These solutions aim to tackle the sectorial investment gaps reflected in Figure 1 and are currently being designed or piloted in Kenya. The potential for scale-up depends on adequate funding and the right partnerships. The sectors covered by these instruments represent those most relevant in Kenya's context, although there are other sectors such as transport that are also relevant. However, this is a sector where proven technologies and further investments at the global level have been mobilized.

3. BLUEPRINT 1: AFRICAN CONSERVANCIES FUND (ACF)

Sector: Forestry, wildlife, and tourism

Problem: Falling tourism revenue, lack of income diversification from resilient sources, and poor governance threaten Africa's conservancy model, a key land protection model throughout Africa.

Solution: The ACF is a blended finance fund-of-funds, that will invest in regional investment vehicles that provide revenue-based loans to conservancies to meet their lease payments to landowners and improve their governance and diversify revenue.

3.1 CONTEXT

Kenya has lost nearly 70% of its wildlife during the past 30 years due to loss of space and connectivity and increasing development pressures. Sixty-five percent of the remaining wildlife in Kenya lives within territories managed by wildlife conservancies. Contrary to national parks and reserves, conservancies are managed by individual landowners or local communities. They play a key role in preventing deforestation and land conversion, while securing better livelihoods for local communities (KWCA, [date unknown]). These conservancies generally fund their conservation efforts through a license fee to an associated tourism partner. The tourism partners invest in the hospitality infrastructure and related eco-tourism services. Therefore, in essence, tourism funds the conservancy's activities.

The COVID-19 pandemic had a major impact on Kenyan conservancies. Revenues from travel and tourism suddenly halved (Obulutsa, 2020). Without the revenue provided by tourism, tourism partners were unable to meet license payments and the conservancies model came under threat, highlighting the weakness of the conservancy model being overdependent on tourism.

Without those funds, conservancies would be unable to afford the lease fees to landowners which, in turn, will cause the landowners to sell or convert their land to agriculture, distressing the conservancy model and putting one of the most promising and innovative conservation strategies in Africa under threat.

For example, in the Maasai Mara around one third of the land is leased by the Maasai people to conservancies for income, which preserves land that otherwise would be converted to cattle or maize farming. Conservation International (CI), a non-profit environmental organization, found several fundamental barriers for conservancies, especially related to legal setup and governance, that impedes efforts to create or attract alternative sources of revenue or funding.

3.2 CONCEPT

CI developed the African Conservancies Fund (ACF), a mechanism that enables capital for community conservancies and aims to achieve the triple impact of climate and biodiversity outcomes as well as social upliftment for rural communities. A community conservancy is a unique construct that can enable value to be generated from conserved landscapes while delivering the benefits into the hands of the communities that have been custodians of that nature, often for centuries. The ACF was conceived to enable conservancies to improve their governance structures and support revenue diversification activities.

The funding provided by ACF will be used to cover the immediate cashflow needs to continue the lease payments to the landowners, maintaining both the conservation activities and preventing landowners from selling or converting their land.

In addition, the funding's flexible conditions will be utilized to incentivize activities that increase the conservancies resilience to future shocks (e.g., adverse climate impacts). These activities include:

- Improving governance models, such as registering legal entities, setting up elected directors to the governance structures including women and youth in the community, holding Annual General Meetings, and improving transparency and reporting.
- Expanding or modernizing infrastructure, such as developing ranger's outposts, and improving roads and airfields to increase tourism access which will have a direct increase on revenues.
- Exploring new revenue mechanisms, such as carbon credits and sustainable livestock diversification opportunities
- Establishment of a resilience fund, whereby each conservancy commits to setting aside USD 5 per bed into a ringfenced investment fund as a savings mechanism to be used to cover up to six months of conservancy running costs in case of future economic hardship.

3.3 INSTRUMENT MECHANICS

3.3.1 PILOT - INSTRUMENT MECHANICS

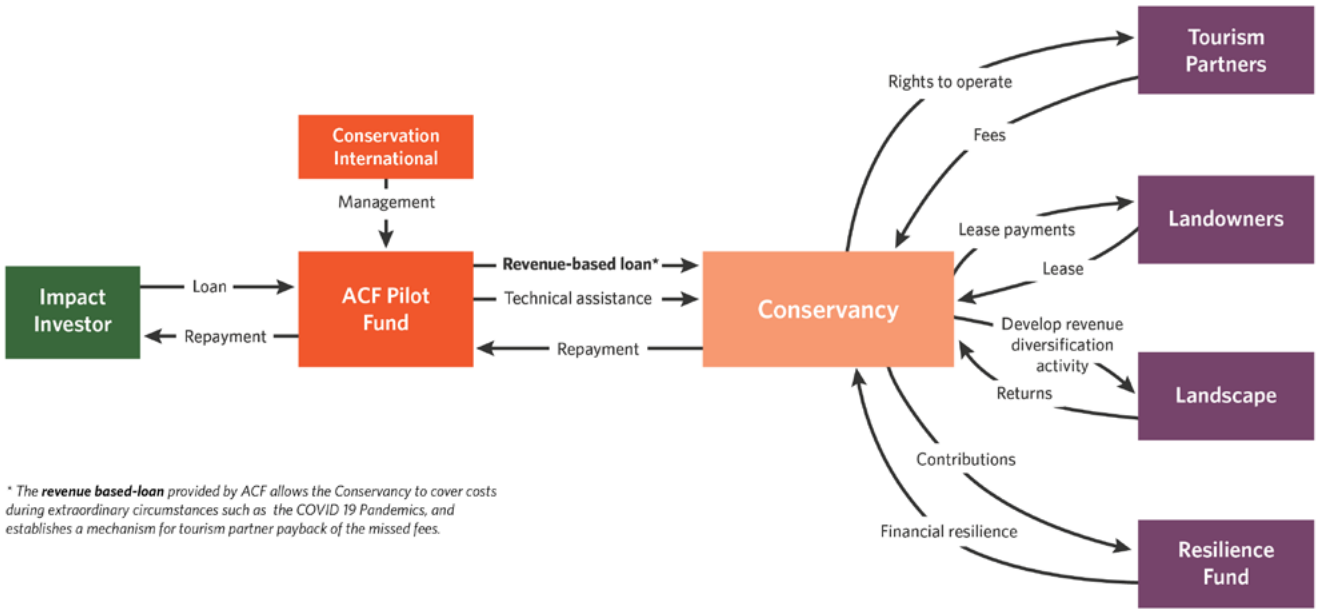
The ACF concept consists of two main parts:

i. Formation of regional funds (investment vehicles) which will offer a revenue-based loan product (in which repayment is linked to tourist occupancy levels) to existing conservancies; and

ii. A fund-of-funds that will both capitalize the regional funds and offer startup capital for the formation of new conservancies or expansion of existing conservancies to increase wildlife corridors and disbursal zones.

CI is currently piloting its regional fund concept in the Maasai Mara in Kenya (called the "Mara Relief Fund"). The fund covers the area of the Greater Mara Ecosystem, which spans over a 450,000-hectare area of both community and government-protected savannah wilderness, which is home to 25% of Kenyan wildlife.

Figure 2: ACF PILOT – "Mara Relief Fund" instrument mechanics



Source: *CPI, based on interviews with Conservation International*

The pilot project, illustrated in Figure 2, works as follows:

1. Impact investors provide loans to the ACF, managed by CI.
2. The ACF on-lends to conservancies, with governance strengthening and revenue diversification conditions. CI and leading partners in the Mara (Maasai Mara Wildlife Conservancies Association (MMWCA) and Maliasili) will support the conservancy on meeting these conditions with Technical Assistance. The development of a carbon project and diversified livestock revenue streams is supported by a range of investors and is ongoing over the life of the transaction and intended to continue long beyond the term of the loan.
3. The conservancy borrower uses the loan from ACF to cover lease payments to landowners to implement the previously mentioned interventions required.
4. In parallel, the conservancy borrower signs an agreement with the Tourism Partner for revenue-based repayment of the conservancy fee that has been covered by the loan.
5. As tourists return to the Mara, tourism partners make repayment contributions to the conservancy based on occupancy levels achieved.
6. The conservancy borrower will repay loans to the ACF on a quarterly basis.

FURTHER INFORMATION ON LOAN PRODUCT REPAYMENT

The revenue-based loan concept is the cornerstone of the ACF instrument. The loans are designed to act as patient capital for the conservancies with the contributions received from the tourism partners being the source of repayment. The contribution amount will be a function of an occupancy-level threshold.

For example, if a tourism partner can offer 150 beds a day, and the contribution occupancy threshold is set at 30%, once the tourism partner has achieved 45 beds a day, they will

have to contribute USD 20 for each additional bed above that threshold to the conservancy. This methodology allows for payback of the outstanding license fee amount and potentially a rapid repayment if occupancy levels soar. The conservancy, together with the ACF, will negotiate this agreement with the tourism partner on a case-by-case basis.

Table 2 illustrates the average characteristics of a single loan based on modelling of the occupancy rates of tourism partners located in several different conservancies.

Table 2: Modelled average revenue-based loan terms

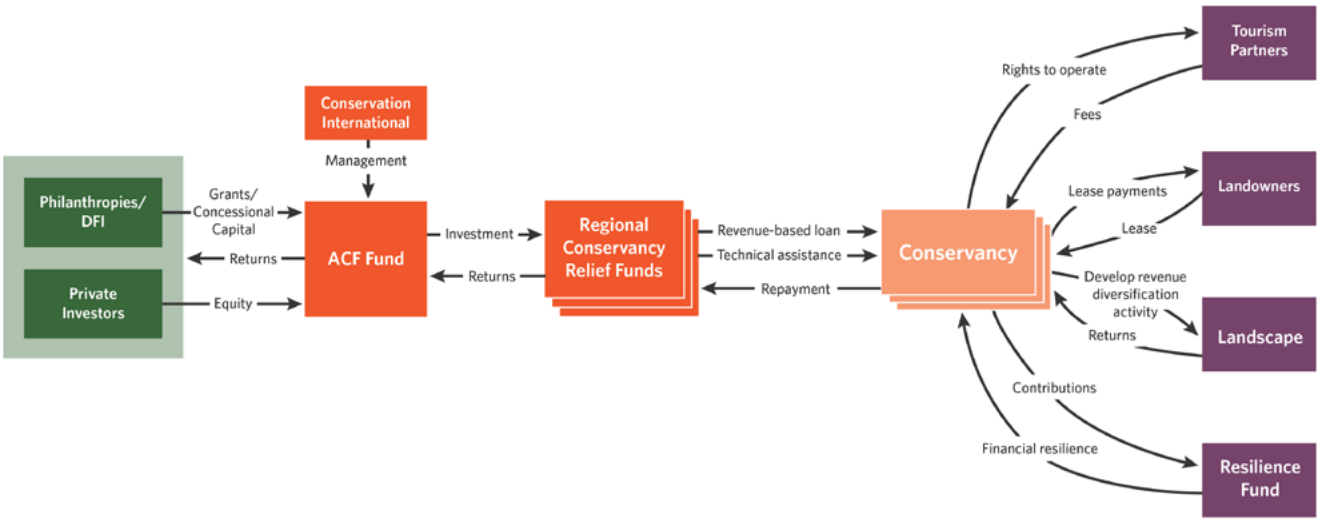
Item	Characteristic description
Amount:	Avg. USD 475,000 (loan amount is set between 25% and 50% of annual lease costs paid to landowners paid by tourism partner)
Term:	5-7 years (a function of occupancy level performance)
Rate:	2% - 5% (determined by CI investment committee)
Repayments:	Quarterly basis (when occupancy levels are met)
Security:	Resilience Reserve Fund pledged for loan duration

Source: *CPI research*

3.3.2 FULL DEPLOYMENT - INSTRUMENT MECHANICS

In full deployment, the ACF acts as a fund of funds to achieve scale. Figure 3 illustrates how funding may be channeled through the ACF into the regional conservancy funds that, in turn, will work closely with the individual conservancies to maintain conservation efforts and strengthen their revenue streams.

Figure 3: Proposed ACF full deployment instrument mechanics



Source: *CPI, based on interviews with Conservation International*

The payback for each of the regional conservancy relief funds will be the basis for returns of the ACF. It is envisioned that each regional fund will be able to achieve returns that are acceptable on a risk-return basis, yet there is still uncertainty on key issues such as repayment ability and revenue diversification success. Therefore, in its first iteration the African Conservancies Fund will be capitalized on a blended finance basis that attracts impact investors leveraged by philanthropic grants and donors to allow a risk-adjusted return to cover the uncertainty.

3.4 IMPLEMENTATION PATHWAY

3.4.1 PILOTING THE ACF IN THE MAASAI MARA (MARA RELIEF FUND)

CI's strategy was to execute a pilot fund to test the appetite for the loan product and to gather information and lessons learned to inform the wider ACF ambition. To achieve this, CI partnered with the Maasai Mara Wildlife Conservancies Association (MMWCA), tourism partners, landowners, and international funding organizations. The ACF Pilot was set up in January 2021 with a target size of USD 5 million. As of August 2021, the fund has deployed USD 1.95 million to four conservancies: Mara North (USD 1 million), Olare Motorogi (USD 250,000), Ol Kinyei (USD 200,000), and Mara Naibosho (USD 500,000).

3.4.2 AFRICA CONSERVANCIES FUND

After data is gathered and some historical payback history from the conservancies is established, CI plans to secure design stage funding from a development finance institution for the wider ACF design and deployment. Activities they seek to inform with such funding include developing and stress testing their financial model, fundraising efforts, and identifying the best blended finance instruments that could catalyze investment from the private sector.

CI aspires to raise USD 50 million to capitalize the ACF to be invested in 5-10 regional conservancy funds throughout Africa in a structure that suits both CI and the funding partners.

3.5 IMPACT

The ACF is expected to result in avoided and reduced emissions. Protecting and strengthening the existing conservancies that are under pressure from the collapse of eco-tourism brought on by the COVID-19 pandemic will avoid emissions that would occur from conservancy land being converted for other land uses. Financing the creation of new conservancies that are financially self-sustainable from eco-tourism and other revenues, including carbon credit sales, will provide opportunities for reduced emissions through restoration (through natural regeneration) of degraded lands and avoided emissions through protection of land under threat. For example, the ACF pilot can potentially protect 1,400 km2 of community conservancies across the Mara from the threat of land conversion.

3.6 KEY TAKEAWAYS

Conservancies are established in a way in which they rely on grant revenues or tourism partner license fees. There is a need for conservancies to diversify their revenues and improve their economic sustainability. Given the number of conservancies across Africa and the similarity of their business models, the opportunities for the 'Africa Conservancies Fund' are vast.

CHALLENGES

- **Limited sources of finance**: Conservancies generally rely solely on a tourism partner or small group of partners, resulting in over-reliance on eco-tourism as a single revenue stream and inadequate eco-tourism revenues flowing down to the conservancies and the ultimate landowners.
- **Capacity of conservancies**: Setting up the legal, financial, and governance capacity of conservancy legal entities is a challenging and expensive process. Therefore, it is important to determine an estimated economic valuation of conserved landscapes for all stakeholders quickly and easily.
- **Lack of repayment**: Sometimes there is uncertainty around the actual returns each fund can produce. Therefore, it is challenging to acquire fully commercial capital until the fund has a track record and demonstrable returns.

OPPORTUNITIES

- **Replicability**: In African alone, two thirds (or 1.7 million square kilometers) of protected areas fall outside of national parks, many of which consist of areas under threat of degradation and land conversion due to economic pressures facing Africa's population. These include Virunga Park in Rwanda and Uganda covering 770,000 hectares, Kaza Trans-frontier conservation area in Botswana and Zambia covering 52,000,000 hectares, and multiple conservancy concessions in Mozambique bordering Kruger Park in South Africa covering 220,000 hectares. These all exist in scientifically determined biodiversity hotspots most in need of protection. CI is in the process of identifying funding opportunities across Sub-Saharan Africa to scale this mechanism.
- **Diversification**: CI and other NGOs offer technical assistance for a diverse set of topics such as governance, which can support the diversification of investments to maximize the benefits of the mechanism. Similarly, conservancies can offer diverse underlying revenue streams to generate value to attract investment beyond tourism and carbon revenues that are currently being explored. Conservancies can enable sustainable offtake models and non-timber forest products too, as well as a host of SME business activities on the conservation value chain to further leverage impact and uplift communities.

4. BLUEPRINT 2: CHYULU HILLS PAYMENT FOR ECOSYSTEM SERVICES (CHYULU HILLS PES)

Sectors: Forestry, wildlife, tourism, water, and the blue economy

Problem: Over-reliance on philanthropic and public funding, which is uncertain and variable, threatens efforts to conserve and maintain key watershed areas that provide value to surrounding communities.

Solution: Chyulu Hills Payment for Ecosystem Services (Chyulu Hills PES) is a mechanism that helps to mobilize resources in exchange for the conservation of natural areas. It is based on creating new markets in which the beneficiaries of ecosystem services pay providers of those services for their ongoing provision. The goal is to achieve this through securing financial investments to protect the bundle of non-carbon related ecosystem services provided by the forests within the watershed. It will also price the water services provided to Mombasa by phasing in a unit water pricing model in the next 10 years.

4.1 CONTEXT

In the last 40 years, Africa has lost the highest percentage of tropical forests globally. Kenya itself has lost over 80-90% of its tree cover because of the severe pressure from human activities, including charcoal burning, illegal logging, and overgrazing (Komaza, 2021). Kenya's wood deficit is projected to accelerate due to booming demand, growing 300% by 2030 to 35 million cubic meters every year. Such a rate will be equivalent to cutting 35% of Kenya's wood resource in a year. In over three years, every single dryland tree in the country could be consumed (GOK, 2019).

Currently, Kenya's forest cover is estimated at 7.4% of the total land area; well below the constitutionally mandated goal of achieving and maintaining a 10% forest cover by 2022 (GOK, 2010). To achieve this goal, Kenya needs to plant 2.5 million hectares (GOK, 2019). Public funding resources, including those provided from international development partners, are far from being enough to close the investment gap.

The only remedy to both Kenya's and Africa's forest crisis is to conserve existing forested areas and develop successful financial solutions to mobilize private capital to plant trees. One such solution is Payment for Ecosystem Services (PES). PES schemes are defined as voluntary transactions where a land or resource manager (the seller) provides a well-defined ecosystem service, such as climate regulation, water quality regulation, or habitat for wildlife, to an ecosystem services beneficiary (the buyer), who pays periodically for the service because they are being supplied a service superior to what would otherwise be provided in the absence of the payment.

The services most often secured through PES schemes include:

- **Carbon storage and sequestration**: This includes land use practices that conserve or increase carbon stocks, such as those supported through REDD+ schemes.
- **Biodiversity**: This includes land use practices that promote the conservation of biological diversity and promote ecotourism opportunities.
- **Water supply and water quality management**: This includes land use practices that promote the conservation of watershed functions, particularly in terms of water quality and water supply.

In Kenya, at least 13 PES schemes have been set up to date, mostly focused on carbon storage, followed by water quality and water supply. Of these schemes, nine were found to be currently functioning, two in the piloting stage, one in the early design stage, and one that had failed (AECOM, 2021).

Despite their potential, PES schemes can be complex to set up mainly due to barriers such as high setup costs, difficulty in developing a clear business case due to lack of information, unexpected impacts leading to changes in the demand or supply of ecosystem services, and limited willingness to pay the end users in the long term.

4.2 CONCEPT

After hearing about the PES concept, the Chyulu Hills Conservation Trust (CHCT) conceived a PES scheme to help fund protection of the forests of the Chyulu Hills based on payments from downstream water users.

Located between the Tsavo West and Amboseli National Parks, the Chyulu Hills are covered with biodiversity-rich cloud forests, a unique ecosystem that provides a home to hundreds of species of birds as well as endangered mammals such as black rhinos, African elephants, lions, leopards, and cheetahs. The Chyulu Hills are recognized as a "water tower," as these unique cloud forests produce the perfect conditions for trapping moisture, creating clouds, and generating rainfall. The water captured by the forest infiltrates into a vast underground aquifer, storing up to 600 million cubic meters of water that flows downwards to form the Mzima Springs.

These springs provide the city of Mombasa with 15-30% of its water. However, Mombasa is considered a water-scarce city, increasingly looking for options for the additional water needed to support its growing population and industry. In fact, to help meet this demand, a second pipeline is being planned from Mzima Springs (to be completed by 2030) taking the total water supply capacity up from 35,000 m3/day to 105,000 m3/day. Additionally, the water sourced from the springs has low treatment costs as compared to other sources due to its naturally high quality. If the Mzima Springs supply comes under threat, vast investment would be needed to make up for the shortfall.

The Chyulu Hills area is currently protected by the Chyulu Hills Conservation Trust (CHCT), whose funding stems from philanthropic sources and a REDD+ program.[2] However, these funding sources are variable and uncertain, and it is projected that in order to fully protect the

2 The project is being led by the Chyulu Hills Conservation Trust (CHCT), a consortium of nine local stakeholder organisations and the Maasai Wilderness Conservation Trust (MWCT) who act as 'Project Office' for the REDD+ project (hereafter referred to as CHCT).

forests of the Chyulu Hills an extra USD 6.3 to USD 11.8 million annually is needed. It is from this vantage point that CHCT embarked on the design of the Chyulu Hills PES.

4.3 INSTRUMENT MECHANICS

To be able to meet its needed budget to halt deforestation in the Chyulu Hills the CHCT plans to secure revenues from (1) donors and philanthropists, (2) REDD+ carbon credit sales through the voluntary carbon market, and (3) the Chyulu Hills PES scheme. If the annual target budget is not met, there is a risk that insufficient funds will lead to the forest cover gradually being depleted over time. This is a particular risk once the REDD+ project ends, and the budget becomes entirely dependent on donations. The Figure 4 illustrates the proposed financial instruments that will be set up to halt deforestation within the Chyulu Hills.

At this stage of the scheme design, it is proposed that:

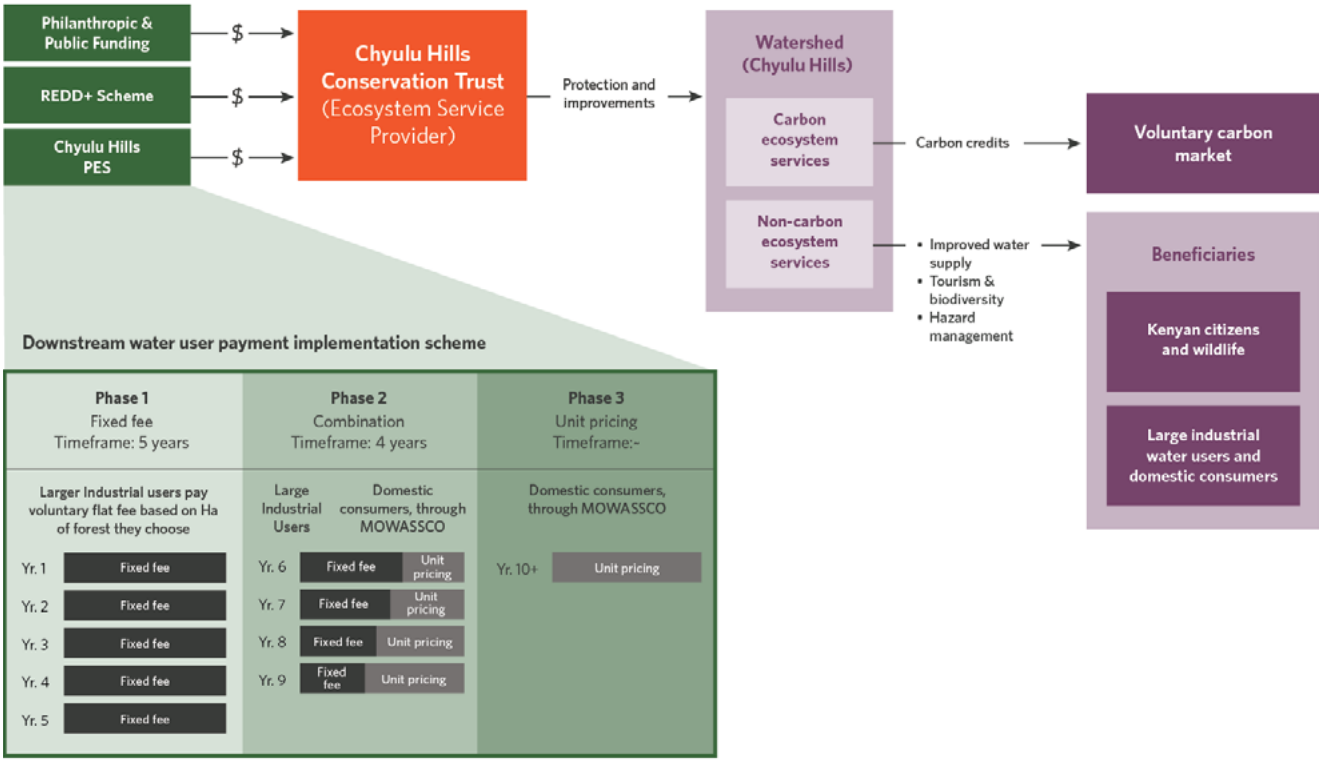
Phase 1 would see a voluntary flat fee donation for the first five years of the instrument based on the area of forest to be protected. This funding would help to secure the broad range of ecosystem services provided by the forests of the Chyulu Hills and would be targeted to large, industrial water users within the area, as well as a broader a range of different buyers who are interested in the bundle of non-carbon ecosystem services being provided (e.g., biodiversity, disease and pest control, and flood regulation). The aim would be to tie the PES scheme in the Chyulu Hills with the Mombasa Water Fund (MWF) which is currently being designed by The Nature Conservancy. The MWF is looking to secure and improve the quantity and quality of source water for Mombasa City by channeling investments into source protection and catchment conservation measures for the watersheds that provide water to the city, with the Chyulu Hills/Mzima springs water source being a key target area.

Phase 2, covering the following four years, would then start to target specific payments from water users benefiting from the water related services provided through the Mzima Springs. It is expected that this stage will continue to seek voluntary flat fees from large industrial water users and other beneficiaries, but these voluntary payments would reduce as the years progress. In addition to this funding stream, it is planned that water consumers served through Mombasa Water Supply & Sanitation Co. (MOWASSCO) will be charged a small fee (less than USD 10 cents per cubic meter consumed) that will slowly increase on a yearly basis. This will mean that the reliance on voluntary funding will decline over time, replaced with a long-term fixed unit pricing mechanism.

Phase 3 will see voluntary flat fee phased out with all domestic water users paying a unit pricing fee for the water they consume, providing a long-term sustainable funding stream to help manage the Chyulu Hills ecosystem.

It is important to note that once a PES scheme is established and agreements are settled, the Chyulu Hills Conservation Trust can use the contractual cashflow to access debt or equity funding. This can be beneficial to the trust in the case that more investment is needed sooner rather than later.

Figure 4: Proposed Chyulu Hills PES scheme and wider funding sources for CHCT



***Source**: CPI, based on interviews with AECOM*

4.4 IMPLEMENTATION PATHWAY

In the design stage, CHCT considered a single payer approach focused on charging the total cost to the MOWASSCO, transferring that cost to water users. However, the estimated cost increase in water tariff was deemed unacceptable by the proponents which led to the consideration of a multi-payer model that also includes NGOs, other water users, and donors.

As part of this multi-payer model, the Chyulu Hills PES scheme includes two distinct pricing schemes:

1. **Flat fee**: Beneficiaries (large users) pay an agreed flat fee per hectare protected to conserve the cloud forest providing water to Mzima springs
2. **Unit pricing**: Beneficiaries (domestic consumers) pay a price per cubic meter of water consumed

The benefit of this two-tiered approach is that it allows for a broad, flexible approach to secure funding in the early stages of the scheme when data on the impacts of forest cover on the ecosystem service provision are limited. The flat fee approach is easier to set up than a fully functioning water market and allows the scheme to target a broad range of potential buyers that may be interested in investing, although in the long term it may struggle in terms of sustaining the required level of financing in a fixed and regular manner given that it relies on voluntary donations.

As data is collected and a solid business case identifying the benefits of protecting Chyulu Hills is made, the two-tiered approach allows for the transition away from voluntary

donations towards a fully functioning market where water users pay. The development of such a market is complex and will require solid data and trust between all sides. However, it offers the opportunity to secure a long-term approach to the financing challenges facing the Chyulu Hills.

PHASED INTRODUCTION OF THE UNIT PRICING SYSTEM

In designing the pricing system, the project proponents knew that adding a new price per cubic meter of water would be a paradigm shift for users. In addition, the knowledge that the completion of an existing expansion plan of the pipeline by 2030 will reduce the price per cubic meter needed to be raised (through economies of scale) led them to decide on a phased implementation approach.

- Phase1: In the first five years (2022-2026) there will be a flat fee (to be paid by donors, philanthropy, or through large water users). This period will allow for the PES organizers to start educating users and the public in general on the importance of pricing ecosystem services and their role in providing water supplies.
- Phase 2: The next 4 years (2027-2030) will see a phase-in of unit pricing for water users' year-on-year by decreasing the proportion of the funding gap paid by flat fee payers and increasing the proportion allocated to unit payers.
- Phase 3: After 2030, all financing will come from water users (covering 100% of the funding gap). This phase is introduced at the same time as the additional provision of water to Mombasa through the second pipeline to take advantage of the fact that a lower fee per unit of water used would be required to meet the funding gap.

Table 3 illustrates the projected price each buyer would pay in the Chyulu Hills PES in the next 10 years.

Table 3: Example Unit pricing introduction using a phased approach to address a funding gap of USD 6.3 million funding gap (Scenario 1)

Scenario 1	Phase 1					Phase 2				Phase 3
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Flat Fee ($/Ha)	$23.72	$23.72	$23.72	$23.72	$23.72	$22.54	$21.35	$20.17	$19.20	$9.49
Unit Pricing ($m3)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.02	$0.05	$0.07	$0.09	$0.10
Unit Payer	0%	0%	0%	0%	0%	5%	10%	15%	19%	60%
Total raised from flat fee	$6.3M	$6.3M	$6.3M	$6.3M	$6.3M	$5.985M	$5.670M	$5.355M	$5.1M	$2.520M
Total raised from unit pricing	$0	$0	$0	$0	$0	$315k	$630k	$945k	$1.2M	$3.780M
Total	$6.3M	$6.3M	$6.3M	$6.3M	$6.3M	$6.3M	$6.3M	$6.3M	$6.3M	$6.3M

Source: *CPI, based on interviews with AECOM*

4.5 IMPACT

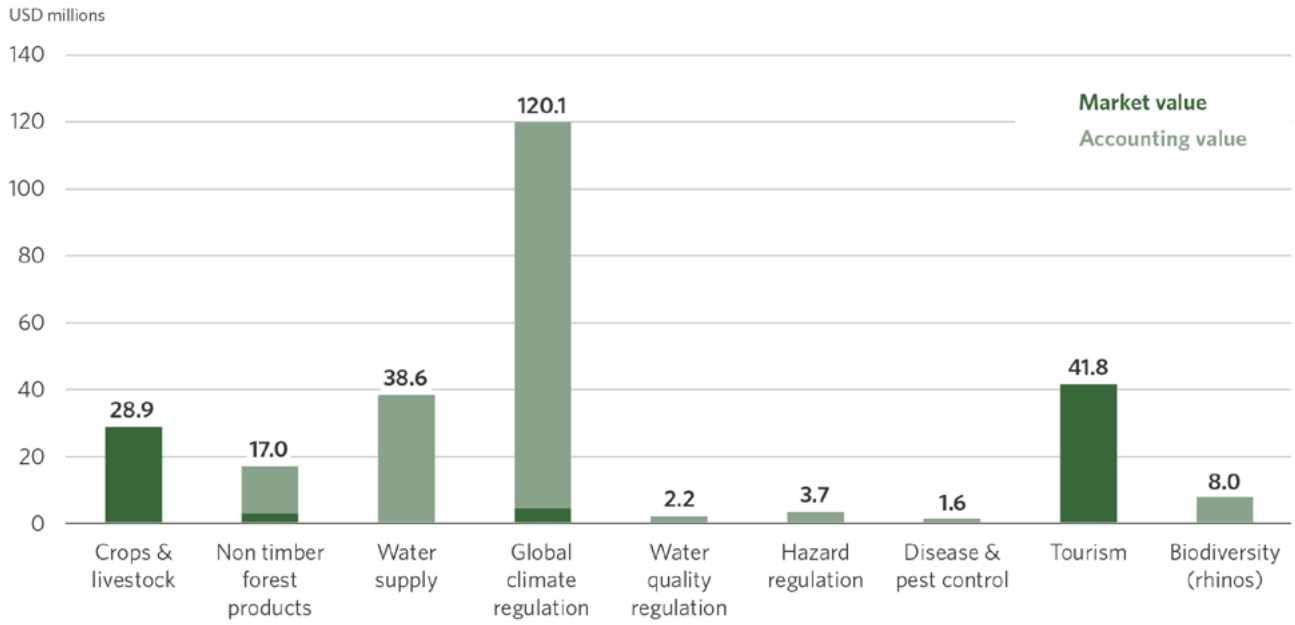
The Chyulu Hills PES scheme aims to halt deforestation effectively conserving the current value of the ecosystem. The natural capital assets of the Chyulu Hills provides a number of ecosystem services including crops and livestock, non-timber forest products (NTFPs), water supply, global climate benefits, water quality regulation, hazard management, disease and pest control, tourism, and biodiversity. The total annual value of these services is estimated to be USD 260 million (Figure 5).

While the value to society of these ecosystem services is significant, much of this value is not captured in currently existing markets leading to an ongoing challenge to secure the finance needed to incentivize landowners and managers to facilitate their provision. Access to a sustainable source of funding in the Chyulu Hills would allow sufficient financing to fully protect this important regional ecosystem, and the ecosystem services provided. Critically, this source of funding would be a stable and predictable revenue stream leading to the funding of longer-term management activities needed to protect the area.

A key part of achieving this sustainable source of funding is developing the evidence base to allow for the transition away from voluntary donations and towards a fully functioning marketplace. To support this, a natural capital accounting framework provides a quantitative, data led approach to measure on-the-ground impacts of the project in terms of the extent and condition of the natural capital assets protected, the quantity of ecosystem services being provided each year, and the value of those services to their beneficiaries.

As part of the PES scheme, it is intended that a natural capital account will be produced on a regular basis and presented on an accessible digital platform allowing buyers, sellers, and wider stakeholders to understand the on-the-ground environmental, social, and economic impacts of the project.

Figure 5: High-level estimate of the income and value of ecosystem services provided by the Chyulu Hills each year (USD million)



Source: *AECOM, Design and Implementation of a Water Payment for Ecosystem Services Scheme in the Chyulu Hills: Baseline Report 6, July 2021*

4.6 KEY TAKEAWAYS

PES schemes monetize the benefits provided by ecosystems, while also protecting and improving them. Understanding the benefits of preserving the ecosystem services and the associated costs if the ecosystem fails could hopefully be an incentive for beneficiaries to contribute to its upkeep.

CHALLENGES

- **The costs of setting up a PES scheme are high**: In almost all the schemes identified, significant start-up funds were required from partnering institutions to get the scheme up and running, as well as to cover ongoing monitoring and enforcement costs.
- **Unanticipated impacts can arise**: Schemes can generate unanticipated issues such as perceived or real issues around inequality and fairness. Additionally, unanticipated environmental changes and events such as droughts or floods, wildfires, and the spread of pests and diseases can impact the ability of a scheme to provide the agreed service. Legal and political changes can also affect a scheme. PES schemes therefore need to be sufficiently flexible to adapt to constantly changing circumstances.
- **Long term sustainability is difficult to achieve**: An ongoing challenge with PES schemes is being able to attract and maintain the interest of sufficient buyers to make the schemes sustainable over the longer term.
- **Effective monitoring and enforcement are important**: To demonstrate the effectiveness of a PES scheme, a monitoring system must be developed. It can, however, be expensive and requires substantial planning.

OPPORTUNITIES

- **PES schemes are an attractive option for sustainable finance**: There is growing interest and demand for ecosystem services by beneficiaries who have the capacity to pay. PES schemes offer a chance to secure financing outside typical arrangements led by governments and NGOs.
- **Proven replicability**: PES schemes are highly replicable and have been implemented globally.
- **Income reliability**: Relying on a market solution where payments are made for services delivered rather than a system of voluntary donations from philanthropists provides an opportunity for secure financing arrangements that are not dependent on individuals or organizations.
- **PES schemes provide wider community benefits**: PES schemes can be designed to improve livelihoods and reduce poverty amongst rural communities who live within such ecosystems.

5. BLUEPRINT 3: GREEN VILLAGE SAVINGS AND LOANS ASSOCIATION

Sectors: Food and nutrition security, water, and the blue economy

Problem: It is difficult to mobilize funding for adaptation and conservation activities in communities that lack access to formal financial services.

Solution: The Green Village Savings and Loans Association (GVSLA) will incentivize local communities to implement ecological actions by attaching environmental conservation efforts to micro group loans. In addition, it proposes a self-sustainable funding model that encourages local businesses to provide or supplement the upfront capital to these groups.

5.1 CONTEXT

Kenya is dependent on many climate-sensitive sectors, making adaptation to climate change vital for its economic resilience. Therefore, Kenya has an adaptation-focused NDC with ambitious targets for water and the blue economy, as well as food and nutrition security. Many of the climate interventions needed to build resilience in these sectors are implemented at the community scale (e.g., mangrove planting or irrigation technology).

However, mobilizing investment into communities is challenging because public funds are limited and many small-scale producers are neither sufficiently organized nor bankable to attract external capital investment on a debt finance basis. This is partly due to cash flow fluctuation, which leads to irregular repayments that do not meet the requirements of commercial lenders. These fluctuations are increasing with climate volatility, compounding the problem.

Improving credit access is an important component to increasing resilience of small-scale producers because access to capital is a key driver of communities' ability to implement adaptation strategies (Di Falco, et al., 2011). Therefore, innovative financing instruments that reduce "smallholder" risk are critical.

5.2 CONCEPT

The GVSLA adapts the village savings and loans associations (VSLAs) concept that addresses lack of access to credit in low-income communities by adding a feature that makes environmental conservation efforts by each borrower a prerequisite. In addition, it proposes a self-sustainable funding model that attracts private capital.

VSLAs are designed to support those whose income is irregular and unreliable or do not have access to formal financial services. The basic principle of the VSLAs is that funding is provided to communities which then self-manage the funds through a community bank. These self-managed groups lend this money to one another on appropriate terms.

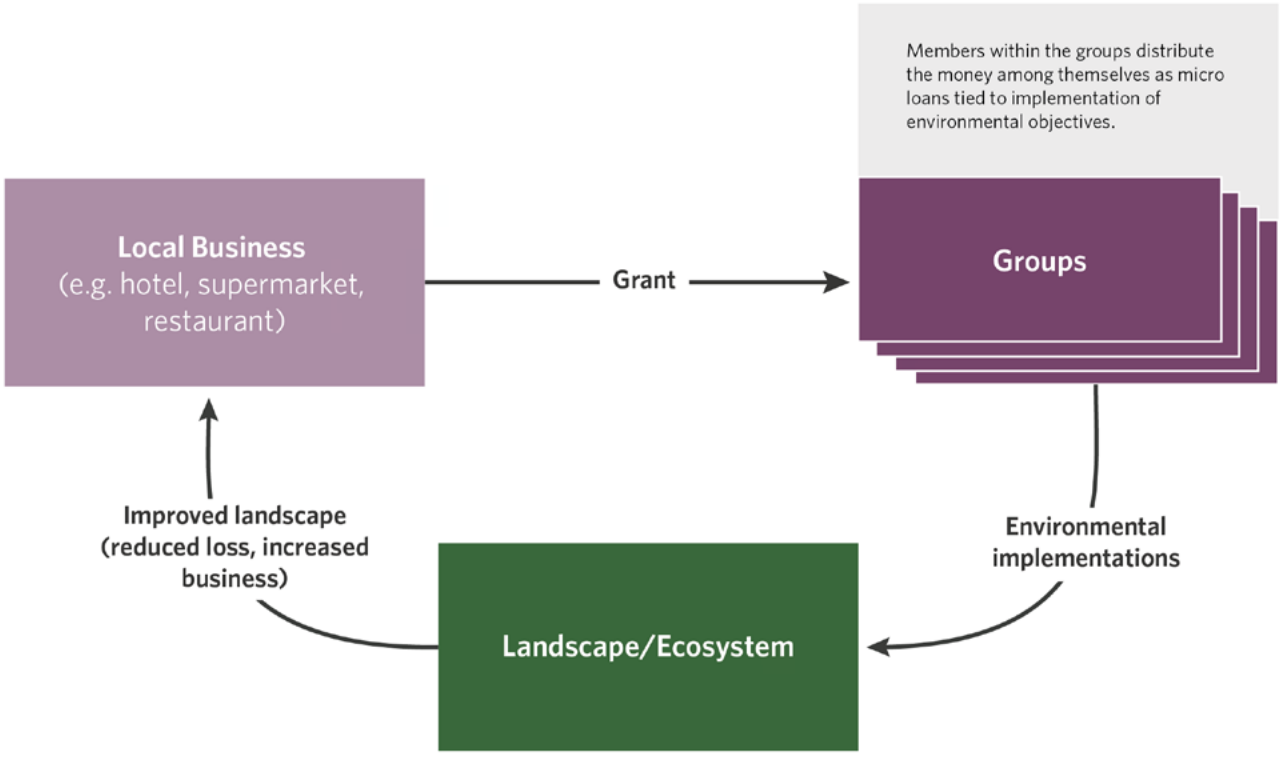
In the GVSLA, the group's loans will require climate-smart interventions as a prerequisite for the loan. Members repay their loans with interest to the group while also undertaking environmental actions (e.g., planting mangroves, installing irrigation ditches).

Communities have multiple ecosystems in their jurisdictions which, through this mechanism, they can be incentivized to restore, protect, and utilize sustainably. For example, coastal fishing communities may be over-fishing local reefs to earn a daily income. This reduces the reefs' attractiveness for tourists, which subsequently impacts local hotels. However, with loans tied to better fishing management (e.g., implementation of voluntary no-fishing zones along with loans that allow fishers to acquire equipment that facilitates further offshore fishing), the reefs can be better protected for tourism.

Traditionally, the initial capital for a community lending scheme would be a development grant. However, in the GVSLA concept, local businesses (e.g., a local hotel operator), will provide the groups with this capital. This is feasible because the groups will be implementing environmental practices that are financially beneficial to the local businesses and therefore increase its bottom line.

As illustrated in Figure 6, groups of small-scale producers in the value chain of a supermarket are organized to receive grants. Members within the groups distribute the money among themselves as micro loans tied to environmental implementations. These "climate-smart" environmental implementations improve the landscape which benefits supermarket. For example, the supermarket could improve its financial performance using sustainable agriculture product labeling to attract environmentally conscious consumers.

Figure 6: Local business funding for the group



Source: *CPI, based on interviews with GreenFi*

The GVSLA concept addresses the key barrier of businesses being reluctant to provide funding for communities to undertake environmental activities, whether it be due to lack of funds before the financial benefit has been realized, or uncertainty about the performance of the services. The concept also includes the formation of an adjacent impact fund that will allow the local businesses interested in the scheme to borrow the amount they would be providing to the group.

Box 1: GreenFi data tools solution

It is expected that local businesses would be reluctant to participate in providing grants to communities for this purpose. Therefore, a key success factor for scaling an idea like this is that activities need to be carefully monitored and accounted so the local businesses can be assured of their performance and value.

GreenFi provides environmental project developers and impact investors with digital tools for project design, management, and impact monitoring and accounting. These tools speed up and reduce the cost of implementing projects for ecosystem restoration and protection.

GreenFi has developed a mobile application to pilot along with the GVSLA. The app enables users to track financial performance – like loan repayments – as well monitor progress against conservation and natural resource management objectives. In addition, GreenFi's tools have the potential to enable individuals to build credit history, which can then be used to access financing from the formal banking system.

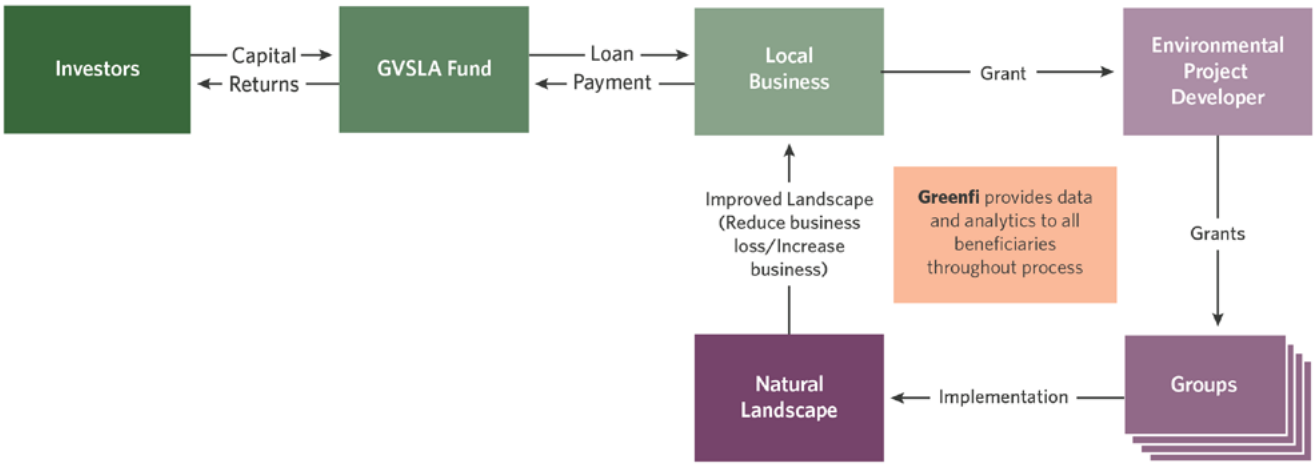
5.3 INSTRUMENT MECHANICS

In the GVSLA fund model (Figure 7), investors provide debt and/or equity to the fund. The fund then lends to local businesses who benefit from the conservation or improved management of natural resources. The local business is a key actor and could be, for example, a hotel, restaurant, tour services company, or any other local business that benefits from an improved natural landscape. The local business then distributes the loan received to relevant community groups as a grant, which is channeled through a local implementing partner (i.e., NGO). The local business will rely on the NGO to work with the groups and organize the specific activities that are to take place, but local businesses can also participate directly by communicating the environmental activities that it expects the groups to undertake, for example, the introduction of no-fishing days on the local reef and/or community patrols to ensure compliance.

The grants are received by each group, who distribute the money among their members as micro loans tied to implementation of environmental objectives. The implementing NGO helps the group members monitor financial and environmental progress using the GreenFi mobile application.

As mentioned in the concept section, the local business' benefit is that the improved landscape enhances its financial performance. Improved financial performance will facilitate repayment of the loans received from the GVSLA fund. Note, the repayment of the loans is not tied to the group microlending activity.

Figure 7: GVSLA Fund mechanics



***Source**: CPI, based on interviews with GreenFI*

In essence, the GVLSA is a SME loan fund with the added benefit of direct, multi-stakeholder local community involvement as well as the ability to directly measure ecological impact resulting from the loans. It is envisioned that impact investors will have appetite to be involved in earlier stages, with private investors participating once there is proof of concept and returns are more transparent.

5.4 IMPLEMENTATION PATHWAY

To implement this instrument, the proponents of the GVSLA are executing a pilot in three stages to establish proof of concept.

Stage 1: Testing the role of the community

In this phase, the grant is provided by and channeled through the NGO, which is then distributed to each group in the community. This will enable the proponent to gather information on group members':

1. Willingness to participate and take up loans
2. Ability to undertake conservation and environmental management efforts
3. Ability to make repayments

Stage one of the pilot is illustrated in Figure 8.

Box 2: Mwambao Coastal Community Network GVSLA Pilot (Community Eco-Credit)

The current pilot is being implemented by the project developer MCCC Ltd[3] on Pemba Island, in Tanzania. MCCC has been testing the concept of GVSLA since 2018.

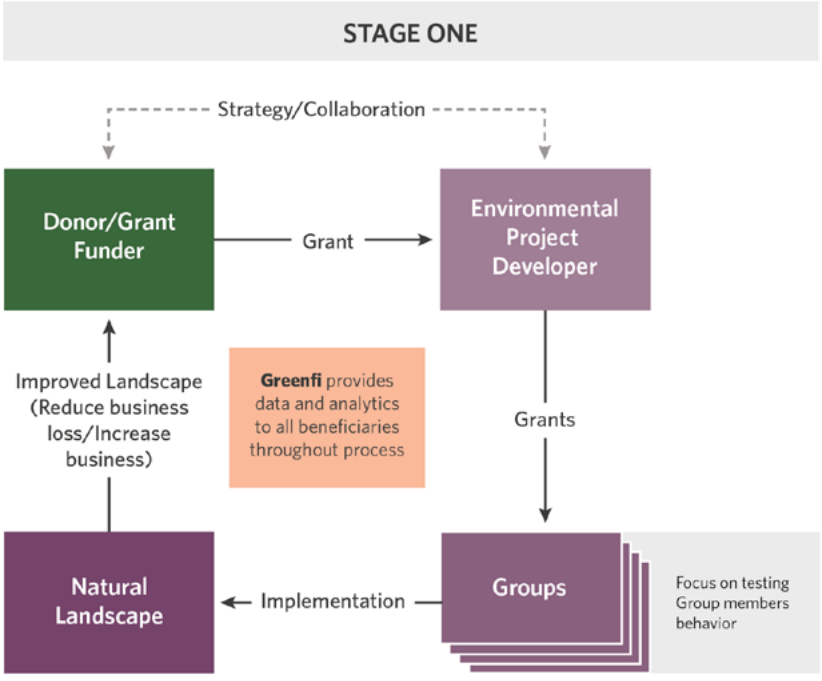
It was set up by capitalizing five groups of 25 members each with a grant of USD 4,000. The groups are self-governed which is key to the model, encouraging trust between members before lending begins. Each approved borrower then receives an average loan of USD 75 which is repayable between 3-12 months. Within that time frame the borrower needs to complete the environmental commitment they made as part of the loan prerequisite. The groups meet regularly, with profits earned rechanneled to group members, beginning a new cycle. By the end of 2020 total fund size had grown 30%.

Stage 2: Testing local business participation

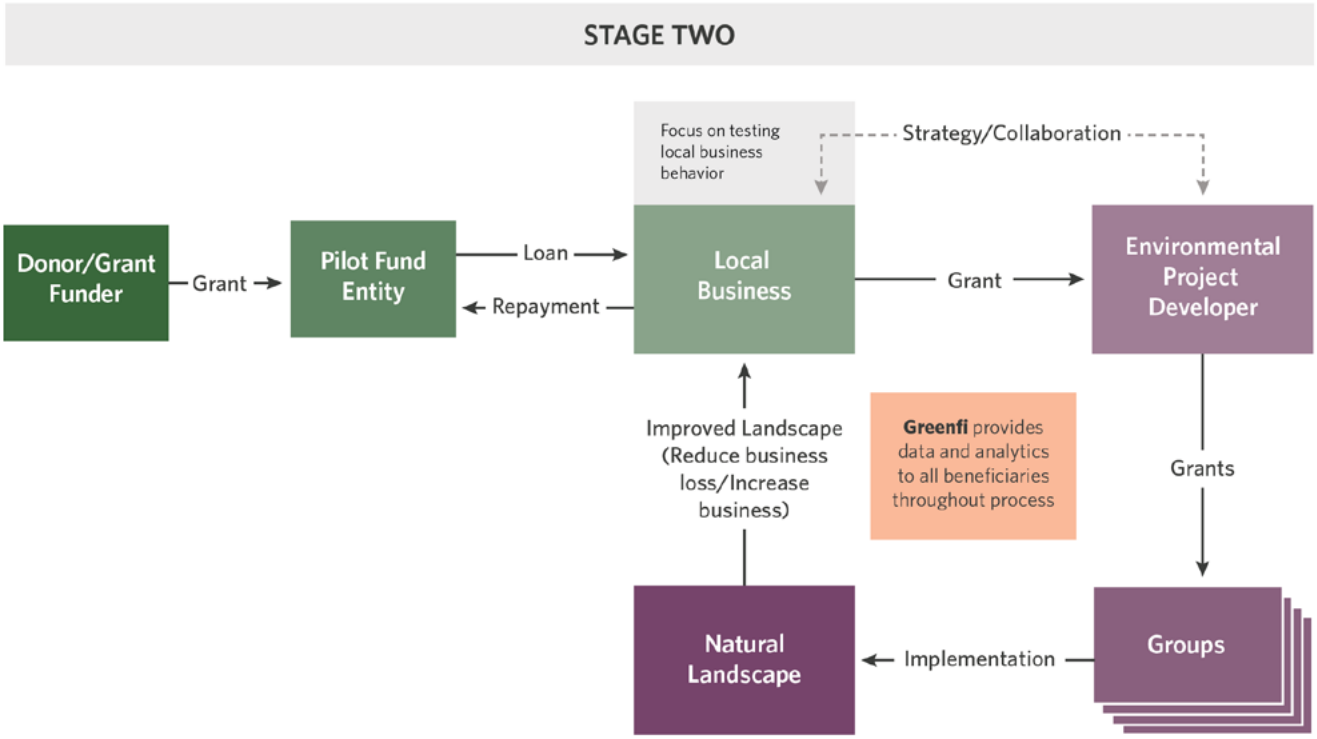
In this stage, the proponents test the willingness of local businesses to participate. At the same time, they will provide useful data on the business' ability to repay loans and their perception of the environmental implementations undertaken by the groups.

Ultimately, this stage will test the hypothesis that the business stands to benefit from ecosystem improvements and will be sufficiently incentivized to take on a loan to achieve these environmental benefits. Depending on the area and activity, there is a risk of freeriding among actors that will gain from restoration or improved practices but may not be willing to take on the risk to achieve this. In contrast, there is also a risk of joint liability if more than one local business participates in the scheme. Testing the key actor's willingness to participate in the community lending scheme, and implement mitigation strategies against these anticipated risks, is a critical step to a full scale up.

Figure 8: Stage one pilot design and stage two local business pilot design



3 To learn more about Mwambao Coastal Community Network, visit https://mwambao.or.tz/



Source: *CPI, based on interviews with GreenFI*

Stage 3: Full scale-up

The final step is full scale up. Having the information from Stages 1 and 2, the proponent will have a stronger case to apply for design-stage grant funding to explore the possibility of forming a fund that provides loans, and therefore, replaces the donor as the provider of capital to local businesses.

5.5 IMPACT

Through this mechanism, communities will be incentivized to restore, protect, and sustainably utilize multiple ecosystems. This will lead to recovered ecosystem productivity, supporting livelihoods and biodiversity.

The exact impacts per community are hard to quantify before implementation as each micro region is so diverse and environmental needs vary drastically. For example, this instrument can be implemented in coastal communities, rural agricultural settings, and/or urban settings.

However, through the modelling of GreenFi's pilot project in Pemba Island the implementation will increase financial, social, and natural capital of the local populations.

5.6 KEY TAKEAWAYS

GVSLA promotes financial inclusion with an added benefit of having the local communities directly engaged in which environmental projects are selected and how they are implemented. It has the potential to mobilize resources not yet tapped to combat climate change.

CHALLENGES

- **A complex scheme for local business**: Local businesses and key actors' willingness to participate in the community lending scheme can be a complex undertaking.
- **No immediate benefits**: In some cases, the results of the environmental implementations are not immediate, which would not translate into a short-term financial gain for the local business.
- **Unpredictable returns**: For full scale up, potential returns would need to be significant to attract commercial capital, therefore concessional funding would be required until actual returns are demonstrated.
- **Lack of willingness to invest**: Businesses dependent on natural resources are frequently not interested in investing in those resources because of near-term investment horizons and high discount rates.

OPPORTUNITIES

- **Direct funds**: Through this mechanism, funding will be given directly to small-scale adaptation action at the local level and empower communities to implement adaptation actions required to build resilience.
- **Versatility**: The GVSLA model can be very versatile and fit into multiple different landscapes, which allows for not only scalability but also replication in other areas or countries with similar challenges.
- **Transparency**: The financial inclusion and the data generated from the instrument can provide further transparency to the model, incentivize or provide local lenders the information required to participate.
- **Engagement**: The GVSLA model engages the communities that are most vulnerable to climate change and provides them with the tools and financing appropriate to their needs.

6. ADDITIONAL CONSIDERATIONS TO ACCESS CLIMATE FINANCE

The previous sections detailed three distinct, innovative instruments structured to attract and accelerate climate finance. Each instrument has unique characteristics, as do many other instruments looking to attract funding that include climate mitigation or adaptation purposes.

Beyond these specific financial structures, there are general considerations that proponents and implementing partners should address during the capital raising stage to maximize opportunities with potential climate-focused funders. For example, to qualify and attract climate finance, projects need to highlight and clearly articulate the project's positive climate impact.

Framing these aspects of their project in a document dedicated to drawing attention to the climate aspect of their projects a "climate positioning paper"[4] can serve this purpose (i.e., evaluating what the organization does, how they do it, and how it relates to climate action) and can be submitted as a complementary document when applying for funding. Based on the experience of GNI^{plus}, a document such as this can tackle the following questions:

1. **What are the climate risks or challenges in that region?** This demonstrates a clear understanding of what climate problem the organization or project is addressing. It is important to point out that the organization can address a climate issue even if the primary focus of the institution or project is not climate change.
2. **How does the project address those risks and challenges through mitigation and/or adaptation action?** Provide clear, thorough statements about how the project or program reduces greenhouse emissions, supports conservation and sustainability, reduces vulnerability, or increases resilience to the negative impacts of climate change.
3. **What metrics are being used to measure climate action and how will these be monitored and tracked?** The determination of the current status quo or baseline, as well as metrics and a monitoring system during the course of the program or project, is important to ensure that the interventions are having a clear impact and that the investment will produce an acceptable level of improvements aligned with funder expectations.

In addition to articulating a project's climate relevance, whether through a climate positioning paper or by other means, there are other important program considerations that should be addressed by the organizations and summarized for potential funders, as they are regularly scrutinized when evaluating potential investments. Some of these considerations are outlined in Table 4.

4 Position paper definition available at https://www.merriam-webster.com/dictionary/position%20paper

Table 4: Key considerations to set up a program that attracts climate finance

Transparency	Perhaps the most important consideration when seeking, and then receiving, external funding is transparency. This includes the organization's governance, as well as having clear and attributable accounting that can be matched with past expenses and interventions, and easily reported to funders on a regular basis.
Theory of change	Organizations will want to go through a "theory of change" exercise where the organization's goals are clearly expressed, the primary steps it will take to meet those goals are articulated, and how those steps will influence the relevant stakeholders to achieve the stated goals.
Defining relevant metrics	Creating KPIs that monitor and verify climate impact are essential. It is very important to strike a balance between simplicity and rigor, so that the organization has the internal capacity to monitor and communicate those KPIs to funders.
Alignment with funder focus	Many climate funders receive large volumes of applicants, so aligning instrument objectives to their funding objectives is key to standing out and fitting their mandate. Polished, targeted communication during the capital raising phase also builds confidence with potential funders that the organization has the internal capacity and expertise to meet ongoing reporting requirements.
Co-benefits	Climate finance funders are increasingly looking at projects with multiple development outcomes in the funding screening process. Articulating other SDGs that also benefit from the project beyond climate can be key to standing out from other potential funding opportunities.

Aside from these recommendations, an important step is to conduct a first mapping of the funds and institutions that are available in the proposed geographic area or sector of interest. This mapping is critical to identify gaps and opportunities in both public and private funds. Most of the funds and institutions dedicated to these matters are public funds that have specific schemes and procedures to allocate the resources, by public calls or dedicated allocations of money that can be designed through specific public programs.

Another important step is to conduct a stakeholder mapping that provides further information about organizations, companies, and other relevant actors working in the same area or sector, including NGOs and small and medium enterprises, among others. These can be key partners in the implementation of the programs, projects, or specific actions, and can build confidence with funders that the program or project is focused on the necessary networking and collaboration to increase the chances of success.

7. CONCLUSIONS

Due to the COVID-19 pandemic, Kenya (as in other countries in Africa and the world) is experiencing new challenges in key sectors for the country's economy, such as tourism, water, and forestry. These challenges also present an opportunity: leveraging the momentum around climate action to attract new sources of funding that both rebuild revenue while addressing climate change. Understanding how to attract climate finance and using innovative finance structures that appeal to both public and private funders, can diversify funding sources and provide more sustainable revenue, and overall organizational resilience, for years to come.

For this reason, GNI^{plus} analyzed mechanisms that can accelerate this diversification, identifying three innovative projects in Kenya that demonstrate the opportunity to mobilize finance into more challenging sectors:

1. **African Conservancies Fund (ACF)**: a blended finance fund-of-funds that provides revenue-based loans to conservancies to meet their lease payments to landowners, improve their governance, and diversify revenue.
2. **Chyulu Hills Payment for Ecosystem Services (PES)**: a mechanism that helps mobilize additional sources of revenue for the conservation of natural areas, based on ecosystem services payments that beneficiaries pay to the providers of those services.
3. **Green Village Savings and Loans Association (GVSLA)**: a model that mobilizes micro finance in local communities to implement ecological actions by attaching environmental conservation requirements to micro group loans, while encouraging local businesses to provide or supplement the upfront capital to these groups.

These blueprints use innovative approaches to mobilize private funding sources, to ensure more self-sustaining business models that support key sectors of the economy. These three blueprints show that, while there are significant opportunities to mobilize private sector investment, concessional finance is a key ingredient to develop these models at the earliest stages. Due to their innovative nature, these models are less familiar to public and private investors, and there can be perceived as having higher risk. Organizations proposing these ideas need to understand the current areas of interest and analysis from climate financiers, and develop concept narratives that address these issues, and considered phased development that helps prove the concept in earlier stages before pursuing additional rounds of capital. This challenge shows a need to have climate finance strategies that can leverage public, private, national, and international sources of funding in developing economies.

Following this approach, these blueprints highlight concepts in the pilot stage. They have already encountered challenges, but, more importantly, they have used these challenges to learn key lessons for their next stage of development, scaling up, and replicability. Through this analysis, we hope these blueprints provide usable guidance to project implementors and investors, who can leverage and iterate them to replicate new mechanisms that increase sustainable finance in Africa and other parts of the world.

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APPENDIX

Different scenarios for raising $11,800,000 (Higher End)

	A	B	C	D	E	F
Allocation						
Flat Fee ($/Ha)	100%	80%	70%	50%	30%	10%
Unit Pricing ($m3)	0%	20%	30%	50%	70%	90%
Total	100%	100%	100%	100%	100%	100%
Allocated Revenue from source						
Flat Fee ($/Ha)	11,800,000	9,440,000	8,260,00	5,900,000	3,540,000	1,180,000
Unit Pricing ($m3)	0	2,360,000	3,540,00	5,900,000	8,260,000	10,620,000
Total	$11,800,000	$11,800,00	$11,800,00	$11,800,00	$11,800,00	$11,800,00
Required price unit						
Flat Fee ($/Ha)	44.44	35.55	31.11	22.22	13.33	4.44
Unit Pricing ($m3) before pipeline	0	0.18	0.28	0.46	0.65	0.83
Unit Pricing ($m3) after pipeline	0	0.06	0.09	0.15	0.22	0.28

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