

A Roadmap for Green Finance in Mozambique

STRATEGIC INTERVENTIONS FOR
THE PERIOD 2021 - 2030



A Roadmap for Green Finance in Mozambique: Strategic Interventions for the Period 2021 - 2030

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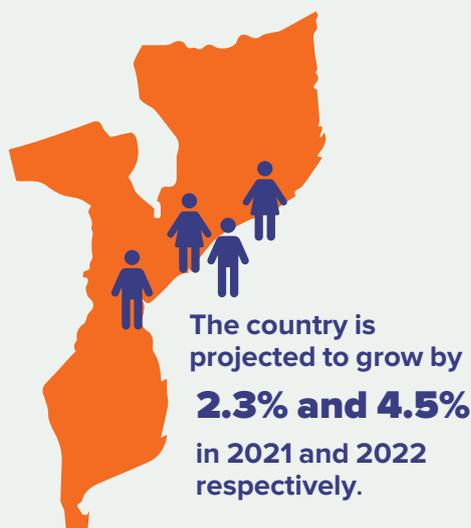
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List of Acronyms

ABS	Association of Banks in Singapore
AMBA	Mozambican Association of Business Angels
ASEAN	Association of South East Asian Nations
ASISA	Association for Savings and Investment South Africa
BASA	Banking Association South Africa
CBI	Climate Bonds Initiative
DBS	Development Bank of Singapore
DFFE	Department of Forestry, Fisheries and the Environment
DFI	Development Finance Institutions
DPME	Department of Monitoring and Evaluation
EEs	Executing Entities
ENAMMC	National Strategy on Climate Change Adaptation and Mitigation
ESG	Environmental and Social Governance
FNDS	National Fund for Sustainable Development
FSCA	Financial Sector Conduct Authority
FSDMoç	FSD Mozambique
FUNAB	Statute of the Environmental Fund
GCF	Green Climate Fund
GDN	Global Deal for Nature
GEAP	Green Economy Action Plan
GEF	Green Environmental Facility
GFT	Green Finance Taxonomy
GRI	Global Reporting Initiative
ICMA	International Capital Markets Association
IDFC	MDB-IDFC
IFC	International Finance Cooperation
ISSM	Insurance Supervision Institute of Mozambique

JSE	Johannesburg Stock Exchange
KBA	Kenya Bankers Association
KNS	Knowledge Management Systems
LSE	London Stock Exchange
MAS	Monetary Authority of Singapore
MEE	China's Ministry of Ecology and Environment
MEF	Ministry of Economy and Finance
MUFG	Mitsubishi UFJ Financial Group
NCCAMS	National Climate Change Adaptation and Mitigation Strategy,2013-2025
NDC	National Determined Contribution
NFS	Network for Greening of the Financial Sector
NIEs	National Implementing Entities
NSBP	Nigerian Sustainable Banking Principles
NSE	Nairobi Stock Exchange
OCBC	Oversea-Chinese Banking Corporation
PA	Prudential Authority
PE	private equity
PQG	5-year national plans
SBN	Sustainable Banking Network
SDG	sustainable development objectives
SECO	Swiss State Secretariat for Economic Affairs
SIDA	Swedish International Development Cooperation Agency
SIIA	Singapore Institute of International Studies
SME	Small and Medium-Sized Enterprises
ToC	Theory of Change
TSC	Technical Screening Criteria
UOB	United Overseas Bank

EXECUTIVE SUMMARY



Mozambique has experienced positive economic growth over the past three decades. The country is projected to grow by 2.3% and 4.5% in 2021 and 2022 respectively, and this positive economic outlook is supported by domestic growth and international demand for commodities.¹ Economic growth could however decline due to Mozambique's high risk of climate shocks and its weak capacity to recover from such shocks. Climate-related hazards such as droughts, floods, and cyclones are occurring with increasing frequency, causing devastating impacts on a highly vulnerable population. There is cognisance that failure to resolve the underlying causes of the described environmental challenges will hinder development efforts and compromise the achievement of sustainable development.

The financial sector can significantly contribute to a transition to cleaner, sustainable, and resilient economic growth and deliver global climatic and environmental objectives. Green finance, i.e., greening the financial sector and financing green investments and policies, has been identified as a critical tool or strategy the financial sector can utilise to support the global transition towards sustainability². As detailed

in case studies provided in this document, China, Nigeria, South Africa, and Kenya offer examples of how individual countries are adopting green finance to achieve economic and development outcomes. Some green finance activities currently exist in Mozambique, but it is a concept few stakeholders are aware of, and there is a lack of information, urgency, or coordination to progress this valuable approach to building resilience.

This report presents a roadmap to developing a vibrant green finance ecosystem in Mozambique. The roadmap supports the developmental mandate and priorities of the Mozambican government, while also drawing from the extensive knowledge and expertise of Financial Sector Deepening Mozambique (FSDMoç).

To develop the roadmap:

- A comprehensive assessment of the status of green finance in Mozambique was completed.
- Stakeholders and experts were consulted on sectoral, institutional, and developmental aspects.
- Challenges, opportunities, and actions required were identified and articulated.

A supporting landscape assessment comprehensively details this process.³ A key outcome is the provision of strategic interventions to provide a pathway for accelerating the adoption of green finance in Mozambique over the period 2021-2030. A significant multi-stakeholder and cross-sectoral collaboration effort will be required to fulfil this vision, and such an effort would involve creating synergy in knowledge, skills, objectives, and resources. Financial Sector Deepening Mozambique calls on all stakeholders to use this roadmap to facilitate action towards achieving sustainable development through green finance.

1 AfDB (2021) Mozambique Economic Outlook. Available: <https://www.afdb.org/en/countries/southern-africa/mozambique/mozambique-economic-outlook>

2 NGFS. (2018, October). First Progress Report. Banque de France. <https://www.banque-france.fr/sites/default/files/media/2018/10/11/818366-ngfs-first-progress-report-20181011.pdf>

3 FSD (2020) Mozambique Green Finance Landscape Report

1.1 Context

Green finance is a new and emerging concept in Mozambique. A few stakeholders have shown interest in better understanding and adopting this concept, and there is an opportunity to compliment and leverage policies supporting sustainable development in the country. Nevertheless, the approach to green finance in Mozambique has to date been piecemeal and uncoordinated. Specifically:

- Accurate and comprehensive data on the amount of public and private funds being directed to green initiatives is not available. This means that green financial flows cannot be analysed, and the cumulative impacts of financing green initiatives is unknown.
- The value of integrating sustainability within financial systems and processes is not well-understood and therefore has not been prioritised. Implementing green processes or investing in green projects is not a priority within the financial sector.
- There is a lack of overarching policy to guide the financial sector in adopting green finance, and a corresponding lack of urgency. The concept of green finance being new in the country, there is also a lack of knowledge and understanding of what green finance means, especially in the public sector.

1.2 Objectives

This roadmap provides a high-level overview of the efforts required to accelerate the adoption of green

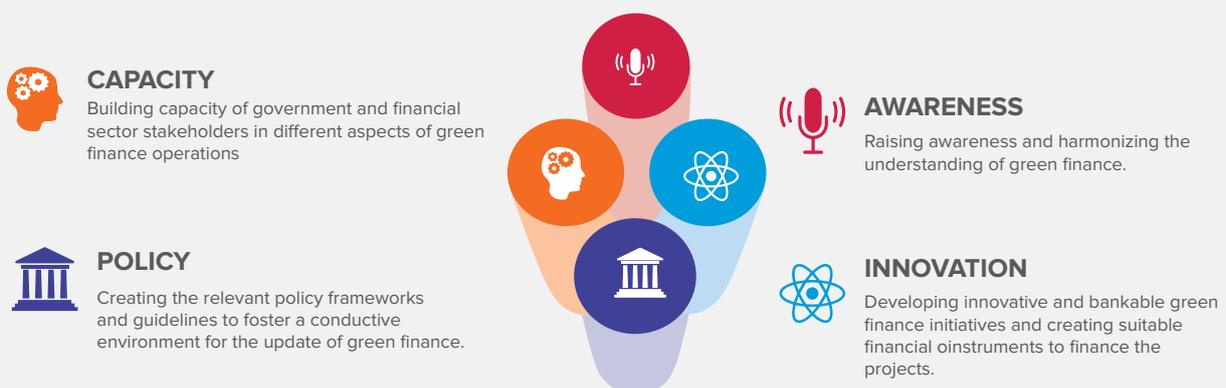
finance in Mozambique. The roadmap comprises of driving pillars and strategic interventions that respond to the challenges of adopting green finance in Mozambique, and it will position the country to effectively direct investment towards sustainable development. The objectives of this roadmap are to:

- Provide direction over time and enable communication of a vision and plans with stakeholders such that focus can be given to agreed priorities.
- Present a ten-year strategy (2021 - 2030) for green finance acceleration in Mozambique by defining strategic interventions.
- Support Mozambique's broader vision, mandate and development priorities around enhancing financial inclusion for improved economic development.
- Leverage the vision of Financial Sector Deepening Mozambique, that is *to establish a dynamic financial sector offering quality services that enable resilience and economic empowerment for all Mozambicans.*

1.3 Driving pillars

Based on an assessment of the financial, institutional and policy landscape in Mozambique, four pillars have been defined to guide the accelerated adoption of green finance.⁴ The pillars are awareness, capacity, policy and innovation, and they provide the foundational premise for developing interventions that will respond to the Mozambican context.

FIGURE 1:
The Four Driving Pillars Of Green Finance



1.4 Strategic interventions: 2021-2030

The main component of this road map is four strategic interventions that will accelerate and mainstream green finance in Mozambique. This document details the development and content of these interventions. The interventions were specified based on a Theory of Change that was developed for accelerating the uptake of green finance in Mozambique. The Theory of Change is a tool for defining, planning, and evaluating the achievement of the intervention objectives, and it provides actions over a ten-year period, 2021-2030. These are further defined for the short (2021-2023), medium (2024-2026) and long-term (2027-2030). Partnerships and extensive collaboration will be required to implement each intervention, and likely

financial requirements have been estimated. The four interventions are listed below and summarized in the section that follows.

- **Strategic intervention I:** Support and strengthen public institutions.
- **Strategic intervention II:** Support and strengthen financial sector entities and private sector players.
- **Strategic intervention III:** Identify and support the implementation of green projects.
- **Strategic intervention IV:** Support the development of green finance instruments.

STRATEGIC INTERVENTIONS TO ACCELERATE GREEN FINANCE IN MOZAMBIQUE: 2021 - 2030

➤ Strategic intervention I

SUPPORT AND STRENGTHEN PUBLIC INSTITUTIONS

TIME FRAME	MAJOR ACTIVITY	TENTATIVE COST
Short-term: 2021- 2023	Create awareness and build capacity among public sector actors.	USD 250,000
Medium-term: 2024-2026	Support the Ministry of Economy and Finance or another appropriate public institution to set an ambitious green finance agenda and develop green finance policy.	USD 150,000
Long-term: 2027-2030	Implement a green finance policy and establish green finance public institutions.	USD 300,000

➤ Strategic intervention II

SUPPORT AND STRENGTHEN FINANCIAL SECTOR ENTITIES AND PRIVATE SECTOR PLAYERS

TIME FRAME	MAJOR ACTIVITY	TENTATIVE COST
Short-term: 2021- 2023	Training and creating awareness.	USD 200,000
	Support financial and private sector institutions to align with international greening initiatives.	USD 70,000
Medium-term: 2024-2026	Co-design relevant products and initiatives.	USD 150,000
Long-term: 2027-2030	Develop a green finance taxonomy.	USD 300,000

➤ **Strategic intervention 3:**

IDENTIFY AND SUPPORT THE IMPLEMENTATION OF GREEN PROJECTS.

TIME FRAME	MAJOR ACTIVITY	TENTATIVE COST
Short-term: 2021- 2023	Develop a pipeline of bankable green projects.	USD 150,000
	Support the development of a project aggregation platform.	USD 60,000
	Create awareness on project finance.	USD 200,000
Medium-term: 2024-2026	Upscale and transform existing Financial Sector Deepening Mozambique projects.	USD 60,000
Long-term: 2027-2030	Co-implement selected green finance initiatives.	Dependent on projects selected.

➤ **Strategic intervention 4:**

SUPPORT THE DEVELOPMENT OF GREEN FINANCE INSTRUMENTS

TIME FRAME	MAJOR ACTIVITY	TENTATIVE COST
Short-term: 2021- 2023	Build the capacity of financial sector entities to develop and utilize green financial instruments. This includes the National Treasury and the Bank of Mozambique.	USD 150,000
	Facilitate the development of policy frameworks for green bonds, blue bonds, social bonds and Environmental Social Governance linked loans.	
Medium-term: 2024-2026	Facilitate the launch of a green, blue and social bonds program.	USD 200,000
	Facilitate the launch of an Environmental Social Governance linked loan program.	
	Facilitate the development of a green fund.	
Long-term: 2027-2030	Facilitate the launch of a green fund.	USD 100,000
	Expand the portfolio of green finance instruments.	

02

Achieving Sustainable Development through Green Finance

2.1 What is green finance?

Green finance can be defined as comprising of three components:

- **Financing green investments.** Investing private and public capital in activities, projects, initiatives and programs that deliver sustainable development or create environmental benefits. According to the Group of Twenty (G20) Green Finance Study Group, green investments include projects that reduce air, water and land pollution, initiatives that improve energy efficiency while using existing natural resources, and activities to mitigate and adapt to climate change.
- **Financing green regulations and policies.** Financing public policies that encourage and enable sustainable development. This means, for example, financing the development and implementation of these policies. Green regulations and policies are legal instruments that lead to projects that meet objectives such as mitigating environmental damage or adapting to climate change.
- **Greening the financial sector.** Re-aligning the financial sector with regards to systems, processes, operations, products and services for the benefit of sustainable development. This includes instituting transparent disclosure and reporting, and extending the mandate of regulatory authorities. Globally, the past two decades have seen concerted efforts to green the financial sector. For example, in 2003 the International Finance Cooperation collaborated with major financial institutions to launch the equator principles on environmental and social risks. More recently, the Global Reporting Initiative developed financial sector disclosure standards to guide financial reporting. Other initiatives such as the Sustainable Digital Finance Forum, the Network for Greening of the Financial Sector, the Sustainable Insurance Forum and the United Nations Environment Programme Finance Initiative have all been established to fast-track greening of the financial sector.

FIGURE 2:
Green Finance
Components⁵



2.2 The case for green finance in Mozambique

The greatest risks to Mozambique's development are climate-related hazards, poverty, and weak institutional development. Climate shocks continue to occur in the country with increasing frequency, and the country has a heightened exposure to tropical cyclones and storm surge flooding because of its extensive coastline. In 2019 Cyclone Idai displaced 1.5 million people and caused property destruction worth \$773 million.^{6,7}

Across Mozambique weather patterns are changing. Changing rainfall patterns are projected to decrease soil water recharge and reduce transboundary river flows. This means that ground water resources and surface water resources could become less available. Climate change has also impacted biodiversity in the country. Mozambique has experienced large-scale losses in the form of a reduction in wild species, ecological communities becoming similar rather than retaining their diversity (biotic homogenization), and a reduction in the number of different species within ecological communities (species diversity).

In 2019 Cyclone Idai displaced **1.5 million** people and caused property destruction worth **\$773 million**

5 Lindenberg, N. (2014, August 2). Definition of green finance by Nannette Lindenberg. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2446496

6 ICRC. (2020, January 13). Cyclone Idai: Facts and figures. International Committee of the Red Cross. <https://www.icrc.org/en/document/cyclone-idai-facts-and-figures-0>

7 World Vision- <https://www.worldvision.org/disaster-relief-news-stories/2019-cyclone-idai-facts>



Different parts of Mozambique experience different vulnerabilities to climate change. For example, droughts, floods and uncontrolled bush fires are expected to continue causing recurrent agricultural losses in Central Mozambique, while the country's densely populated coastal lowlands will increasingly be affected by severe erosion, saltwater

intrusion, loss of vital infrastructure and the spread of diseases.

Green finance is a vehicle to building resilience in Mozambique. Through green finance the country can move forward in addressing underlying environmental challenges, achieve sustainable development and maintain or increase economic growth.

2.3 The status of green finance in Mozambique

An assessment of the country’s policy landscape, financial sector and broader macro-economy found gaps that need to be addressed in green finance ecosystem development. Table 1 summarizes the key challenges identified.⁸ The assessment process leading to the identification of these challenges

included literature reviews and interviews with relevant specialists and stakeholders. Table 1 differentiates foundational issues (primary challenges) from issues that are of secondary priority (secondary challenges).

TABLE 1: IDENTIFIED CHALLENGES TO THE ADOPTION OF GREEN FINANCE IN MOZAMBIQUE

PRIMARY CHALLENGES	
1	<p>Lack of knowledge and awareness about green finance.</p> <ul style="list-style-type: none"> • Key sector players, and particularly policymakers, lack an understanding of the critical role green finance can play in social and economic development. • Key sector players lack awareness of the opportunities that green finance can create. • General lack of knowledge and awareness about green finance has resulted in relevant policies, regulations and national or sectoral strategies not being developed or prioritized.
2	<p>Lack of skills and capacity.</p> <ul style="list-style-type: none"> • Human resource capacity to establish and operationalize green finance is lacking in both the public and private sectors. • This lack of skills and capacity has undermined progress in establishing green finance.
3	<p>Competing needs at a national level.</p> <ul style="list-style-type: none"> • Green finance is currently not a priority in Mozambique. This is because policymakers perceive challenges such as providing people with basic needs as being more urgent, and in doing so sometimes prioritize short-term efficiency over sustainable development. • Limited financial resources are available for developing and mainstreaming green finance.
4	<p>Lack of national regulatory frameworks on green finance.</p> <ul style="list-style-type: none"> • Efforts to adopt and implement green finance are made inefficient by the lack of national policies and regulations on green finance. • Existing policies that may be considered conducive to green finance are not aligned across sectors.
SECONDARY CHALLENGES	
1	<p>Risk aversion by investors.</p> <ul style="list-style-type: none"> • Many investors prefer a business-as-usual approach to the risks and uncertainties involved in adopting a new approach, especially where skills and experience are lacking (as has been the case with green finance). • Weak and unsteady financial markets have led to reduced confidence in all forms of investments. • The low levels of financial inclusion in Mozambique mean that a majority of households lack access to green finance opportunities.
2	<p>Lack of information.</p> <ul style="list-style-type: none"> • Information asymmetry is anticipated between investors and borrowers participating in green finance. Information on green investment channels and green funds is not easily accessible. • Similarly, there is a lack of information on investment portfolios, that is sectors where financial flows can and should be directed to realize green investments.
3	<p>Lack of adequate green financing instruments.</p> <ul style="list-style-type: none"> • Instruments such as green bonds, blue bonds, social bonds, sustainability bonds, sustainability linked loans, Environmental Social Governance linked loans, green finance funds and carbon markets do not exist or are underdeveloped.
4	<p>Lack of tracking and measurement of green financial flows.</p>
5	<p>Lack of cross-sectoral collaboration.</p> <ul style="list-style-type: none"> • There is a lack of interaction between stakeholders to ensure all interests are addressed in developing frameworks for green finance. • This lack of interaction means that existing skills and knowledge on green finance are not being leveraged.
6	<p>Limited innovation in developing relevant projects and harnessing finance.</p>

⁸ FSD (2020) Mozambique Green Finance Landscape Report

2.4 Developing a road map: Addressing implementation challenges

To successfully guide the adoption of green finance in Mozambique, driving pillars and strategic interventions have been identified and defined. Driving pillars provide anchoring principles and strategic interventions provide practical actions. Together, these components provide a pathway to accelerating the development and mainstreaming of green finance in Mozambique over a specified period (2021 - 2030).

2.4.1 Driving pillars

The challenges to accelerating green finance in Mozambique can be viewed as a need to respond to gaps in awareness, capacity, policy, and innovation. Addressing these themes will enable adoption of green finance in the country by providing a reference point for any interventions.

→ **Awareness.** There is a limited understanding of green finance across the financial sector in Mozambique, and this includes both the public and private sector. This lack of awareness has led to financial flows, projects and assets that represent green finance not being differentiated from other aspects of development. For example, projects and initiatives that progress sustainable development are not identified as green, and therefore stakeholders do not recognize, categorize or report on these activities. Defining green finance and creating awareness about the role it plays in achieving sustainable development will help foster interest among stakeholders and motivate implementation.

→ **Capacity.** The skills and human resource capacity required to develop green finance are currently not available in Mozambique. Training is required at all levels to establish policies, strategies, processes, products, projects, and financing vehicles. Policymakers are key to creating an enabling environment for green finance. Policymakers provide overall direction through supportive policies and regulations, and as such capacity building for these and other members of the public sector is a priority. Once direction is set, the private sector is key to operationalizing green finance. Extensive capacity building is required on aspects such as the design of green finance instruments, identifying green assets, and how to better integrate Environmental Social Governance reporting. Both public institutions

and private entities need training on how green finance operates in the market and how to track relevant financial flows.

→ **Policy.** Meaningful and well-considered policies are critical to successfully establishing green finance. This includes clear regulatory standards and procedures, clarified roles of public and private sector players, and the overall coordination of information and activities. Efforts to adopt green finance in Mozambique are currently not supported by explicit policies and legislation, and assessment shows that there is an overwhelming need to develop and institute a green finance policy framework. Such a framework would provide a nation-wide approach, and it will need to be complimented by supportive policies at the sectoral, corporation and small business level.

→ **Innovation.** Stimulating innovation will build on the foundations of awareness creation, capacity building and policy development. The greatest potential for innovation is in the design of bankable green finance projects and developing green finance instruments. Green finance is still in its early stages in Mozambique, and this creates valuable opportunities for pilot studies to begin guiding appropriate products and processes. Innovation can also be applied to policy development, and the design of awareness campaigns and capacity building programs.

2.4.2 Ten-year strategic interventions

To move from the principles supporting a road map to practical pathways, the vast knowledge and expertise of Financial Sector Deepening Mozambique was utilized to identify four strategic interventions. The strategic interventions are expected to embed green finance in Mozambique over a ten-year period. The strategic interventions are:

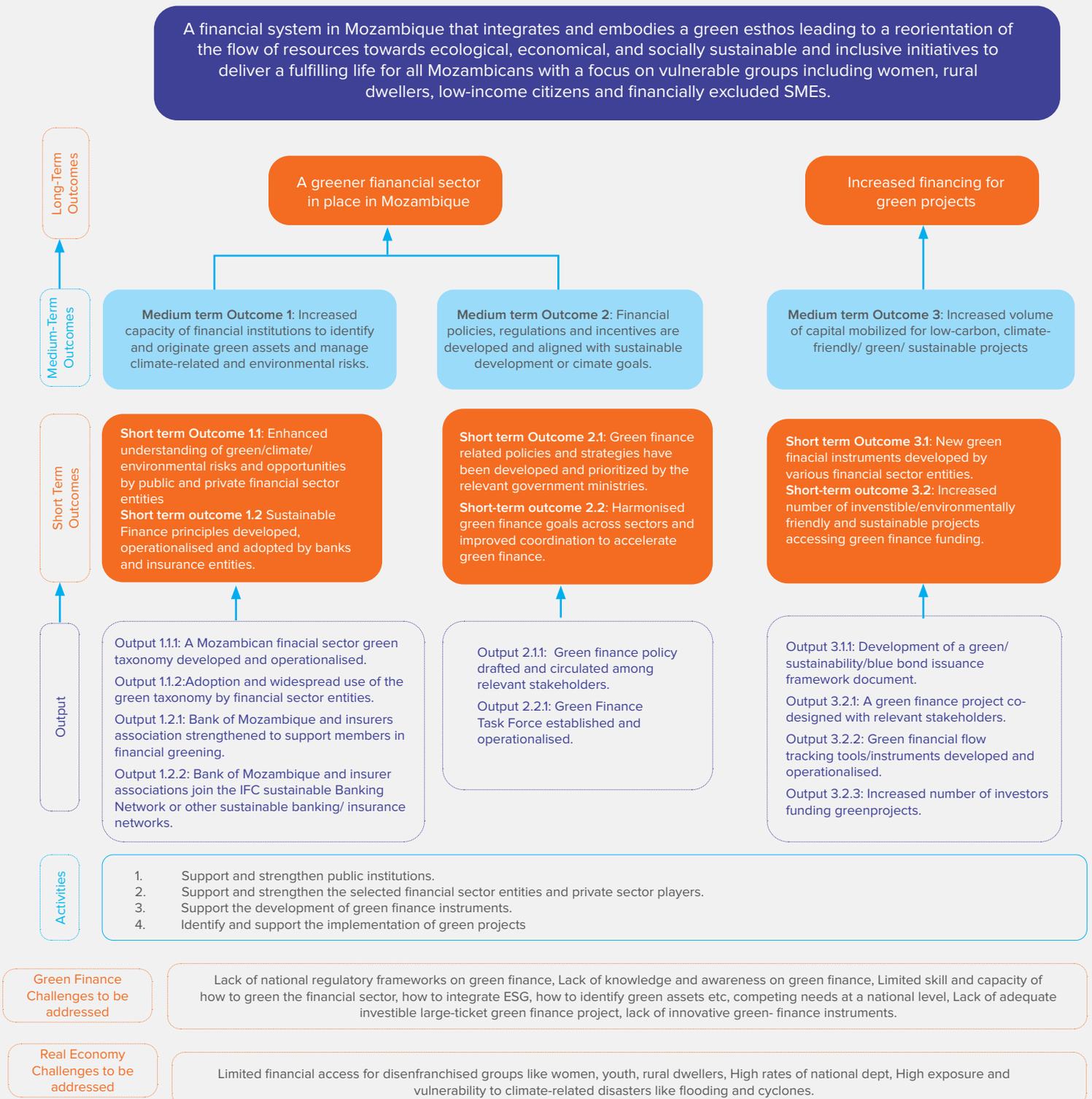
- Support and strengthen public institutions.
- Support and strengthen financial sector entities and private sector players.
- Support the development of green finance instruments.
- Identify and support the implementation of green projects.

The strategic interventions are built around a Theory of Change (ToC) that is summarized in Figure 3. The ToC shows linkages between existing challenges, the identified strategic interventions, and projected outcomes.

The end goal is to deliver social, economic and environmental results for Mozambicans through green finance. Most urgent needs and priorities have been

defined as short-term (2021-2023) interventions, and reviews are required at the completion of this. Medium-term (2024-2026) and long-term (2027-2030) interventions to assess progress and incorporate new developments or changes shall follow. To attain the full vision of the four strategic interventions, a large and multi-stakeholder collaboration effort will be required.

FIGURE 3:
Theory of Change for the Development of Green Finance in Mozambique



Strategic Intervention I: Support and Strengthen Public Institutions

3.1 Justification

Mozambique does not have an overarching national policy to mobilize and coordinate the adoption of green finance. Policy is foundational to providing direction for the public and private sector. This includes achieving systems-level change in current thinking around green finance and establishing a green finance market. A national policy framework would signal to all stakeholders the intent and seriousness to incorporate green finance in Mozambique's economy. This will create the necessary momentum for accelerated adoption across the financial industry. The framework would specifically aim to build institutional capacity and guide the design of systems and processes that enable transparent access, disbursement, absorption, management, monitoring and reporting of green finance activities. It is likely that such a framework would require a new public entity focused on green finance.

3.1.1 Existing policies and institutions

Mozambique already has in place initiatives and institutions that link the broader agenda of addressing climate change with the role of finance. In 2016 the country established a National Fund for Sustainable Development (FNDS) to:

- Promote and finance programmes and projects that ensure sustainable, harmonious, and inclusive development.
- Meet present needs without compromising the ability of future generations to meet their own needs.

FNDS is coordinated by the Ministry of Land, Environment, and Rural Development. The fund finances research, environmental management programmes, adaptation and mitigation of climate change, sustainable forest management, biodiversity conservation, land use planning, technology transfer and activities with a rural focus. More than 80% of FNDS is funded by the World Bank.

A pre-requisite for a strong national policy framework is the strengthening of the capacity across relevant government agencies and policy makers. FNDS

provides an example of the level of collaboration required for policy processes and actions related to sustainable development. The Board of FNDS has representatives from:

- The Ministry of Land, Environment and Rural Development
- The Ministry of Economy and Finance
- The Ministry of Industry and Trade
- The Ministry of Culture and Tourism
- The Ministry of Sea, Inland Waters and Fisheries
- The Ministry of Mineral Resources and Energy
- The Ministry of Education and Human Development
- The Ministry of Science, Technology, Higher, Technical and Professional Education
- The Ministry of Public Works, Housing and Water Resources

The Ministry of Economy and Finance has the biggest influence on national budgetary allocations in Mozambique, and these allocations are based on 5-year national plans. The Ministry of Economy and Finance has the mandate of formulating financial and economic policies and overseeing effective coordination of public sector finances. There is no specified target by law for budgetary allocations for green finance. The Ministry of Economy and Finance has a budget classification code to measure the flow of finances from the National Treasury towards green projects, however it does not have a strategy, process or dedicated capacity to promote green finance. For example, green funds that do not pass through the National Treasury are currently unaccounted for. In developing a national policy framework it would be useful to consider institutional options to steer green finance given the limited skills, capacity and tracking ability within the Ministry of Finance.

Broader environmental policies, strategies, and plans by the Mozambican government include the Green Economy Roadmap, the Green Economy Action Plan and the National Climate Change Adaptation and Mitigation Strategy, 2013-2025. At a sectoral level, strategies such as the Climate Smart Agriculture Action Plan and the Renewable Energy Strategy 2011-2025 exist and are being implemented. The overarching green finance policy framework must align to these and other existing policies and strategies.

3.1.2 Actions required to support and strengthen the public sector

The following activities are required to move forward in supporting and strengthening public institutions for the purpose of accelerating the adoption of green finance.

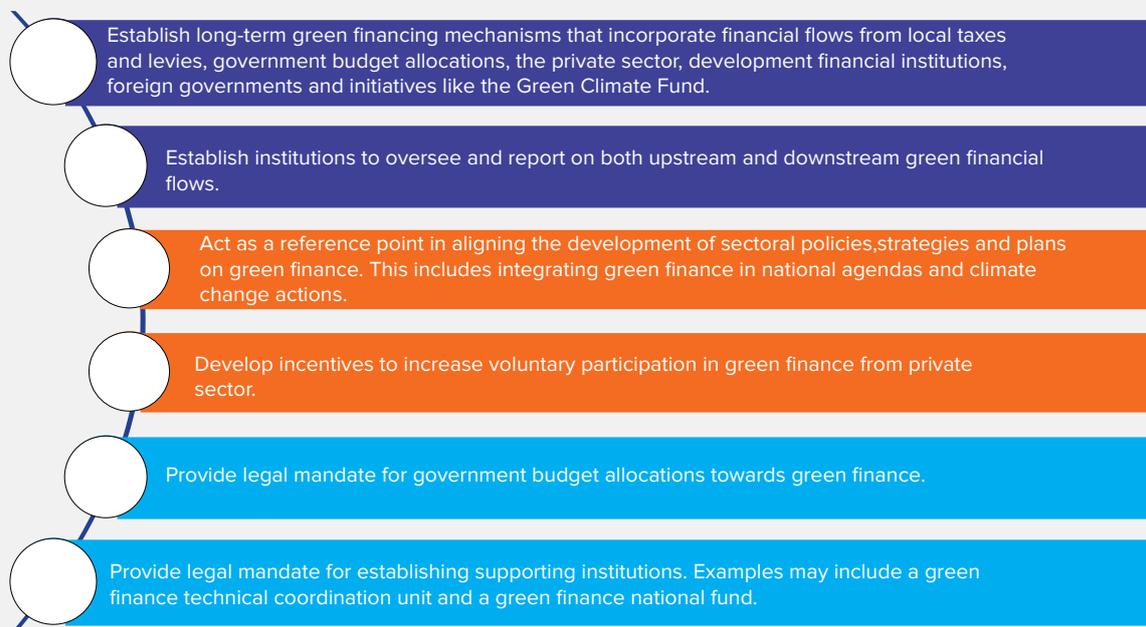
- Increasing knowledge and awareness on green finance, and providing training on how to establish green finance processes and instruments. This is particularly relevant to policy makers.

- Strengthening national capacity to integrate green finance in bilateral and multilateral development finance negotiations.
- Strengthening national capacity to identify and evaluate financing mechanisms for green initiatives, whether internationally (international loans and grants) or locally (funding from businesses).
- Strengthening national capacity in integrating financial flow tracking systems both for upstream and downstream financial flows.
- Providing technical support to establish national institutions that advocate green finance.
- Providing technical support to develop an overarching national green finance policy framework.

A key outcome of these activities is a green finance national policy that seeks to achieve the objectives summarized in Figure 4.

FIGURE 4:

Proposed Objectives of a National Green Finance Policy for Mozambique

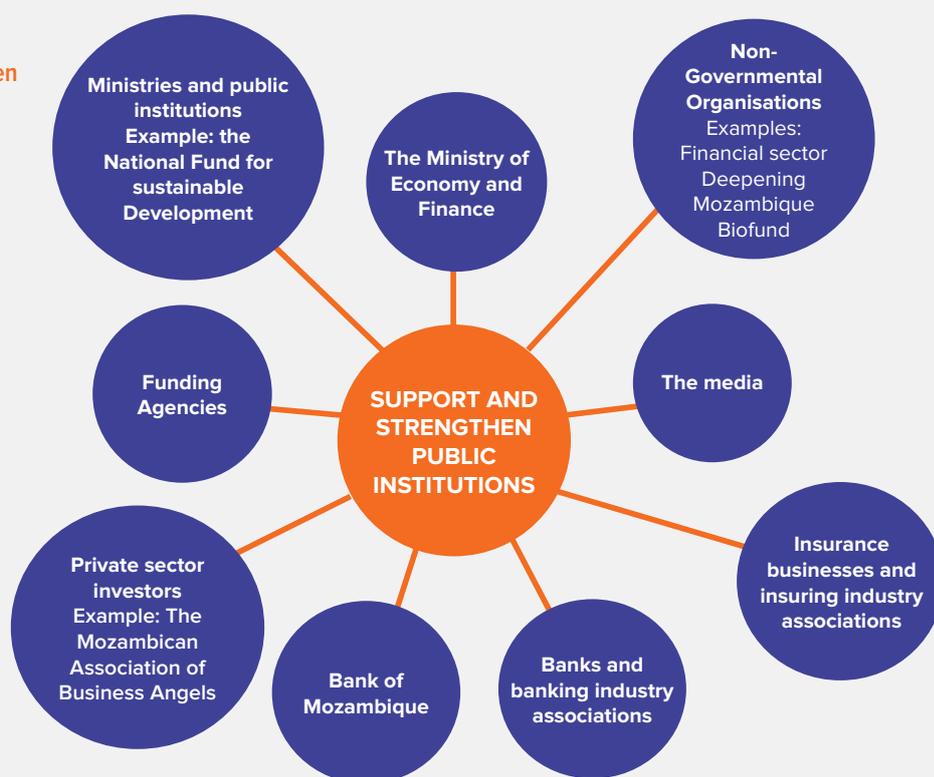


3.2 Intervention partners and stakeholders

Establishing effective public policies and institutions on green finance will require the involvement of various partners and stakeholders. Early collaboration and continuous engagement can ensure

that the diverse needs of public and private sector players are considered. Figure 5 provides an overview of institutions, organisations and groups that have a role to play in adopting green finance.

FIGURE 5:
Stakeholders
in effectively
establishing a green
finance policy for
Mozambique



Each of the stakeholders identified in Figure 5 has different but complimentary interests in progressing green finance. The following roles can be considered for each player or interest group:

- **The Ministry of Economy and Finance:** Coordinate and draft green finance policy. Review and revise this policy over time. Finance institutions established through the policy.
- **Ministries and public institutions:** Provide expert knowledge and sectoral experiences to inform the development of a green finance policy. Guide policy formulation to ensure that the needs and interests of various players are considered. Help in ensuring synergy in activities and avoiding duplication of roles.
- **Funding agencies:** Help finance policy development and implementation.
- **The Bank of Mozambique:** Participate in policy development with the objective of ensuring alignment with existing monetary and system-wide financial frameworks. Update existing processes to incorporate climate change risk.
- **Private sector investors:** Participate in policy development with the objective of helping to guide

implementation and make decisions relating to the flow of financial resources to green projects.

- **The banking and insurance industry:** Participate in policy formulation for example through green finance working groups or committees. Influence the flow of financial resources and investment to green finance.
- **Media:** Participate in policy development and adoption for the purpose of engaging the broader public, disseminating information, and creating awareness.
- **Non-Governmental Organizations:** Participate in policy development and adoption for the purpose of representing groups such as vulnerable populations and small and medium-sized enterprises. Create awareness on green finance.

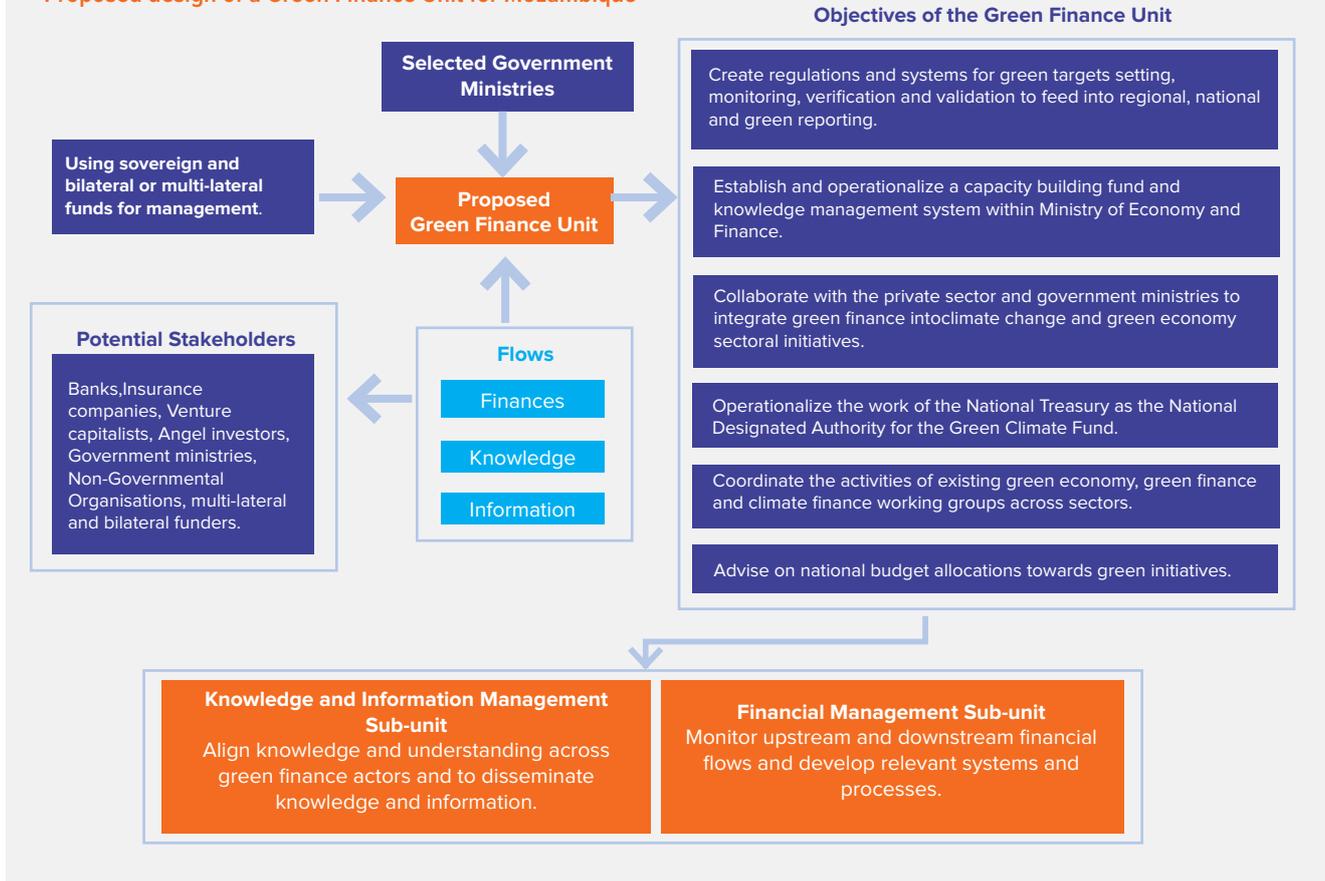
3.3 Designing a public institution dedicated to green finance

A dedicated public institution can provide focused action and coordination for the accelerated adoption of green finance. Such an institution would be designed to achieve specific objectives that are the next step from a national green finance policy.

Figure 6 provides a conceptual design of a public entity dedicated to green finance. This entity may be named the Green Finance Unit and it can be housed within a suitable government ministry.

FIGURE 6:

Proposed design of a Green Finance Unit for Mozambique



3.4 Intervention activities

Table 2 specifies the activities, partners and financial resources that can support and strengthen the public sector to deliver green finance.

TABLE 2: INTERVENTION ACTIVITIES TO SUPPORT AND STRENGTHEN PUBLIC INSTITUTIONS.

MAJOR ACTIVITY	SUB-ACTIVITIES	PROPOSED PARTNERS	TENTATIVE COST ESTIMATE
Short-term activities: 2021 - 2023			
Create awareness and build capacity among public sector actors.	<ul style="list-style-type: none"> Conduct a comprehensive human resource capacity study of selected public institutions on green finance, for example the Ministry of Economy and Finance, Ministry of Land, Environment and Rural Development, Ministry of Industry and Trade, Ministry of Sea, Inland Waters and Fisheries, Ministry of Mineral Resources and Energy, Ministry of Science, Technology, Higher, Technical and Professional Education and Ministry of Public Works, Housing and Water Resources. Training to create awareness and build the capacity of public sector employees and policymakers. 	<ul style="list-style-type: none"> Ministry of Economy and Finance Think tanks and Technical Consulting Firms Media 	USD 250,000

Medium-term activities: 2024 - 2026			
<p>Support the Ministry of Economy and Finance or another appropriate public institution to set an ambitious green finance agenda and develop green finance policy.</p>	<ul style="list-style-type: none"> Support the Ministry of Economy and Finance (or another appropriate public institution) to develop strategies for internal reforms on integrating green finance activities and procedures. Support the establishment of a green finance working group to drive the roadmap agenda. Support fundraising to get financial resources to draft a green finance policy, seek, incorporate stakeholder reviews, and revise, finalize and implement the policy. FSDMoç can contribute to the drafting of a green finance policy by representing the views of financially excluded members of society. This can be done through representation in a green finance working group. FSDMoç can lead or assist in fundraising and facilitating public participation through forums for feedback on a draft policy. 	<ul style="list-style-type: none"> Policy Makers Ministry of Economy and Finance Green finance Non-Governmental Organizations All relevant Ministries Media The private sector 	<p>USD 150,000</p>
Long-term activities: 2027 - 2030			
<p>Implement a green finance policy and establish green finance public institutions.</p>	<ul style="list-style-type: none"> Establish a Knowledge and Information Management System within a dedicated public institution on green finance such as the proposed Green Finance Unit to provide (i) ongoing capacity development of public sector actors and (ii) access to knowledge and information to all financial sector players. Once a green finance policy has been finalized, approved, and released, FSDMoç can take up its popularization through policy dissemination forums. This can include webinars, seminars and workshops with key stakeholders and the drafting and dissemination of popular versions of the policy. FSDMoç can support the establishment of the proposed Green Finance Unit as a dedicated green finance catalysing vehicle within a relevant ministry. FSDMoç can assist in strengthening and progressing working groups set up to support the green finance policy. For example, an ad-hoc green finance working group can be converted to a technical working group coordinated by a body such as the Green Finance Unit. 	<ul style="list-style-type: none"> Ministry of Economy and Finance Non-Governmental Organizations All relevant Ministries Think tanks and specialists such as the Green Growth Working Group The private sector 	<p>USD 300,000</p>

3.5 Case study: Sectoral reforms to boost green finance in China

BOX 1

GREEN FINANCE SECTOR REFORMS IN CHINA



China is currently the most proactive country in the world in pursuing a coordinated and comprehensive approach to greening its financial system. The impacts of green reforms in China include doubling of green finance investments between 2011 and 2015, and the country establishing itself as the largest green bond market with **\$30.2 billion** issuances by 2016.

China has and continues to achieve green finance objectives through reforms to its financial system over the past decade aimed at stimulating investments that promote green finance. The country specifies national and sectoral climate change priorities through 5-year national plans. These plans are part of a comprehensive policy blueprint to guide overall economic and social development and they have been used to provide guidance on sustainable development. The 2021-2025 national plan, for example, is the 14th to be issued by the government and it signals the intended direction for economic policy while providing clear indicators on the approach to climate, energy and biodiversity. National government agencies and other

stakeholders are required to build on this plan by specifying corresponding sectoral and in some cases institutional plans. For example, the national level Climate Change Special Plan, which is being drafted by China's Ministry of Ecology and Environment, is being developed to align with the 14th national plan.

At the sectoral level, Guidelines for Establishing the Green Financial System were launched in 2016 to guide the financial sector in developing and adopting green finance activities. These guidelines include statements designed to incentivize private capital to invest in eco-friendly industries.

Through these initiatives China become the first country in the world to establish a national green financial system, and the green finance ecosystem in the country has grown quickly over the past decade. By the end of 2018, the **green loan balance was 1.16 trillion USD**, accounting for 9.24% of total loans in China. In addition, China issued **264 green bonds worth 84 billion USD** and 33 Asset-backed Securities of **5 billion USD** from 2016 to 2018.

04

Strategic Intervention II: Support and Strengthen Financial Sector Entities

4.1 Justification

The financial sector in Mozambique is yet to embrace green finance. The main reasons for this are:

- Major stakeholders in the banking, capital markets and investment sub-sectors lack adequate knowledge of green finance and the capacity to drive adoption. This has led to a lack of awareness of green finance or its potential across the private sector. For example, some players in the insurance industry view greening of the industry as a removed concept likely to take place after several years. This is despite acknowledging the risks created by climate change.
- Capital markets in Mozambique are generally underdeveloped and shallow.⁹ This has contributed to limitations in the movement of financial resources (illiquidity) and the existence of high transaction costs. Both factors discourage local and foreign investment.¹⁰
- The private sector in Mozambique is still young and developing. The sector mainly consists of

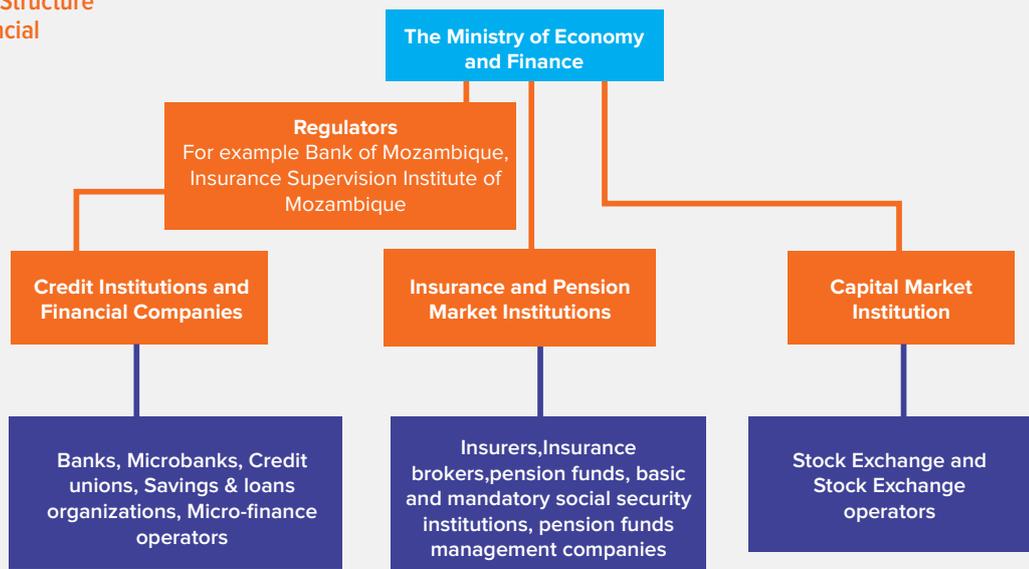
informal and small-scale enterprises.¹¹ There are less than 50,000 formal companies in Mozambique, 75% of which are micro-enterprises. These micro-enterprises typically employ fewer than five people and currently have an average age of six years.¹² Only 2% of legal firms in Mozambique have more than 100 employees. Domestic growth is further limited by a monopoly of commercial banks which impose prohibitive interest rates.

A fundamental realignment of operations, procedures, products and services within the financial and private sectors is required to develop green finance. Financial sector entities and private sector players need support to better understand, adopt and promote green finance.

4.1.1 Major stakeholders in the financial sector

Financial entities in Mozambique are categorised under the regulatory structure summarized in Figure 7.

FIGURE 7:
Regulatory Structure
of the Financial
Sector



9 FSDMoc (2015) Capital Markets Overview - Analysis of the Mozambican Financial Markets

10 International Finance Corporation (IFC) (2016)-Developing Domestic Capital Markets- https://www.un.org/esa/ffd/wp-content/uploads/2016/01/Developing-domestic-capital-markets_IFC-World-Bank-Group_IATF-Issue-Brief.pdf

11 International Finance Corporation (IFC) 2021 Mozambique Country Private Sector Diagnostic Report

12 ibid

Major stakeholders in the Mozambique's financial sector are:

- **The Bank of Mozambique (Banco de Moçambique).** As Mozambique's central bank, the Bank of Mozambique develops and regulates monetary policy in the country. This includes adjusting interest rates, altering the amount of cash circulating in the economy and purchasing and selling government securities. The bank supervises and monitors the 20 local and international commercial banks operating in Mozambique. The Bank of Mozambique is an instrumental and influential entity in establishing green finance within the banking industry. The bank also supervises and regulates the country's capital markets in collaboration with the Ministry of Economy and Finance, further positioning it to assist in incorporating the principles of green finance.
- **The Mozambican Banking Association (Associação Moçambicana de Bancos).** This association brings together and coordinates the activities of local and international banks in Mozambique. It currently has 13 bank members, about 6 of which are large banks while the rest are smaller banks. The association provides thought-leadership and keeps its members up to date on industry-wide opportunities and challenges. This includes regulatory compliance, consumer payment strategies and advances in technology. In collaboration with the Bank of Mozambique, the Mozambican Banking Association is best placed to promote green finance within the banking industry.
- **The Insurance Supervision Institute of Mozambique (Instituto de Supervisão de Seguros de Moçambique).** This institute regulates and supervises insurance companies, reinsurers, and other authorised insurance-related entities. The institute can play a key role in sensitizing the insurance sector on what green finance is and the multiple benefits that can be accrued by adopting it. For example, micro-insurance plays a pivotal role in building resilience particularly for communities and sub-sectors vulnerable to climate change. Financial Sector Deepening Mozambique (FSDMoç) can offer a useful partnership to this institute by making available knowledge and expertise on financial resilience and collaborating on initiatives such as incorporating green finance into micro-insurance products.

- **The Mozambican Association of Business Angels (AMBA) (Associação Moçambicana de Business Angels).** AMBA is a group of high-net worth individuals who invest private equity Mozambican start-ups. The association has the potential to influence redirection of capital to activities to green finance. Because AMBA focuses on new ventures, its impact on small and medium-sized enterprises, which form the bulk of Mozambique's private sector, could have accumulative benefits in achieving the green finance agenda. AMBA can also help to mitigate the challenge of underdeveloped and shallow capital markets in Mozambique by stimulating local investment. AMBA is an important stakeholder in unlocking private sector finance for green projects.

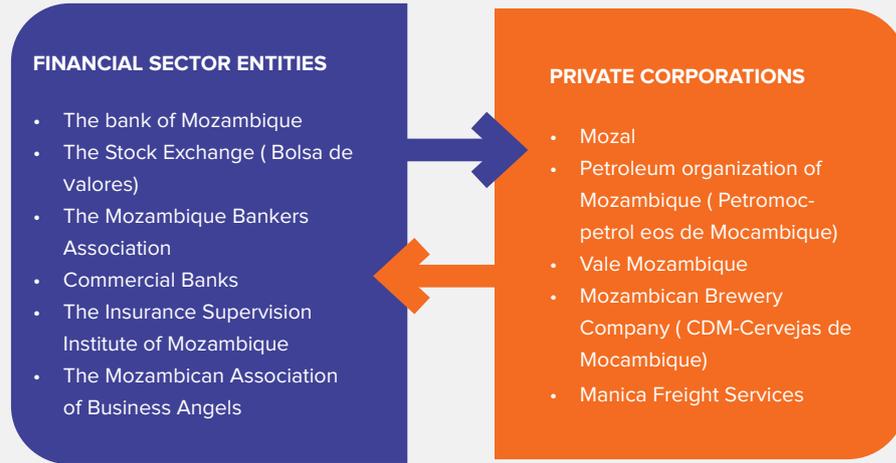
- **The Stock Exchange (Bolsa de Valores).** Mozambique's stock exchange can be a useful partner in promoting green finance in the country's capital markets. For example, it can collaborate with the Bank of Mozambique in seeking to grow and further develop capital markets while achieving green finance objectives.

- **Private sector corporations.** There is widespread agreement that the public sector can only meet the massive funding gap required to achieve sustainable development by directing financial flows managed by the private sector to low emission and climate resilient investments. The private sector in Mozambique needs strengthening and support to contribute to financing green projects. The youthfulness the sector and the lack of multiple large-scale corporations present both opportunities and challenges. There are valuable opportunities to teach and incorporate greening and sustainability principles as the sector grows. Players in the sector, from large-scale corporations to micro-enterprises, need support to:

- i. Develop sustainable projects that can receive green financing from private sector institutions.
- ii. Channel resources into sustainable projects through private-public partnerships.
- iii. Integrate and report on Environmental Social Governance (ESG).

Figure 8 summarizes the major financial entities in Mozambique and provides examples of private corporations.

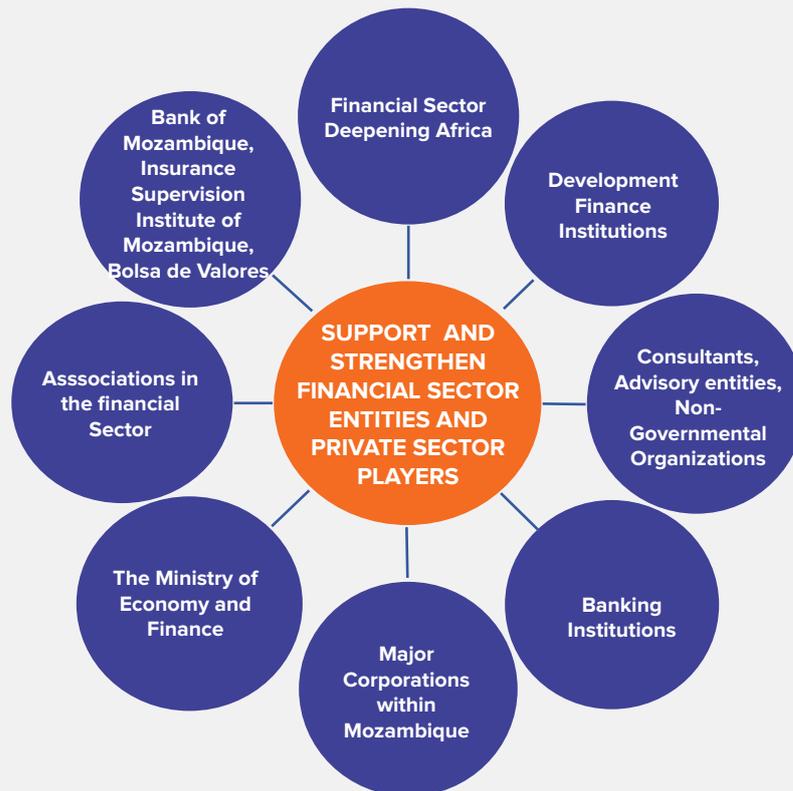
FIGURE 8:
Major financial sector entities in Mozambique and examples of private sector corporations



4.2 Intervention partners and stakeholders

Stakeholders and partners who can support strengthening of financial sector entities and private sector players are summarized in Figure 9.

FIGURE 9:
Key stakeholders in strengthening of financial and private sector stakeholders



4.3 Intervention activities

Table 3 specifies the activities, partners and financial resources that can **support and strengthen financial sector entities and private sector players** to deliver green finance.

TABLE 3: INTERVENTION ACTIVITIES TO SUPPORT AND STRENGTHEN FINANCIAL SECTOR ENTITIES AND PRIVATE SECTOR PLAYERS.

MAJOR ACTIVITY	SUB-ACTIVITIES	PARTNERS	TENTATIVE ACTIVITY COST
Short-term activities: 2021 - 2023			
Training and creating awareness.	<ul style="list-style-type: none"> Facilitate training for financial sector institutions and private sector organisations on aspects of Environmental Social Governance disclosure, green taxonomies and how to identify and apply for funding. FSDMoc can collaborate with the Bank of Mozambique and the Bolsa de Valores to offer support and training on improving capital markets and developing green bonds through the FSD Africa Southern African Development Community green bond program. FSDMoc can anchor trainings with a relevant task force, committee or working group such as described under Strategic Intervention I. 	<ul style="list-style-type: none"> Ministry of Economy and Finance Ministry of Lands, Environment and Rural Development Financial Sector Deepening Africa International Finance Corporation United Nations Environment Programme Inquiry Confederation of Trade Organisation 	USD 200,000
Support financial and private sector institutions to align with international greening initiatives.	<ul style="list-style-type: none"> Support the Bank of Mozambique to become signatory to the Equator Principles and the Principles for Responsible Banking. Provide continuous support to financial institutions and interested private sector organisations to align with international sustainability initiatives. FSDMoc can work directly with the Mozambican Banking Association to ensure it joins the International Finance Corporation sustainable banking network. This would give the association access to human and capital resources to support greening of the sector. FSDMoc can also support the association to craft a sustainable finance policy and develop sustainable banking principles for members. Provide continuous support to financial institutions and interested private sector organisations to align with international sustainability initiatives. 	<ul style="list-style-type: none"> International Finance Corporation Confederation of Economic Associations 	USD 70,000
Medium-term activities: 2024 - 2026			
Co-design relevant products and initiatives.	<ul style="list-style-type: none"> Develop micro and large-scale insurance products in collaboration with the Insurance Supervision Institute of Mozambique to build resilience to climate change. Examples of micro-insurance products include weather-based index insurance and power insurance for off-grid solar home systems. Partner with the Bank of Mozambique, the Banking Association of Mozambique, the Association of Business Angels and a Development Finance Institution to offer commercial financing to small and medium sized enterprises. Support the formation of a capital markets authority to regulate and oversee capital markets in Mozambique and allow the Bank of Mozambique to focus on developing and regulating monetary policy. A regulatory entity solely focused on capital markets can be instrumental in driving capital market deepening. 	<ul style="list-style-type: none"> Development Finance Institution 	USD 150,000
Long-term activities: 2027 - 2030			
Develop a green taxonomy.	<ul style="list-style-type: none"> Advocate and lobby for the development of a green finance taxonomy. House the development of a green finance taxonomy in an appropriate public institution such as the national treasury or a proposed green finance unit. Support the contracting of suitable expertise to lead the development of the green taxonomy. Circulate the drafted taxonomy to sensitize financial and private sector players. 	<ul style="list-style-type: none"> Financial Sector Deepening Mozambique Development Finance Institution such as Swedish International Development Cooperation Agency, International Finance Corporation Ministry of Economy and Finance Ministry of Lands, Environment and Rural Development, Bank of Mozambique Sustainable Banking Network 	USD 300,000

4.4 Developing a classification system: Green taxonomy

A green taxonomy is ‘a classification system for identifying activities or investments that will move a country towards meeting specific targets related to priority environmental objectives’ (International Capital Markets Association).¹³ A Green taxonomy provides a way to develop clarity on what constitutes green finance activities and consistently and accurately track the flow of finances towards green activities.

In developing a green taxonomy, it is important to consider Mozambique’s development agenda, the

priorities of its financial sector and international best practice. For definitions to be effective they should reflect the right context and make it easy to compare activities across institutions and markets.¹⁴ The process to develop the taxonomy should be inclusive and incorporate the needs of public and private financial sector players.

A green taxonomy can benefit stakeholders in green finance in different ways. Table 4 summarizes potential uses of a green taxonomy.¹⁵

TABLE 4: POTENTIAL USES FOR A GREEN TAXONOMY

STAKEHOLDER	POTENTIAL USES FOR A GREEN TAXONOMY
Banks and financial institutions	<ul style="list-style-type: none"> • Ease the structuring of green banking products by different industry players. • Lower transaction costs by identifying legible products and activities and financial flows to green finance. • Reduce the uncertainty and reputational risk associated with green investments. • Understand and disclose exposure to sustainable investments.
Financial regulators	<ul style="list-style-type: none"> • Support regulatory interventions based on the taxonomy to encourage funding to compliant companies and organizations. • Develop reporting guidelines for financial sector actors on interventions and activities that are climate or sustainability related. • Help in measuring financial flows that are directed to sustainable development.
Investors	<ul style="list-style-type: none"> • Aid in identifying opportunities for high impact investments in line with sustainability objectives as defined by the taxonomy. • Disclose exposure to sustainable investments as required by regulators. • Understand the exposure associated with green investments and design policies in line with the preferences of clients and beneficiaries. • Support investor engagement on business models.
Green and Sustainability bond issuers	<ul style="list-style-type: none"> • Help identify activities that can be easily financed within identified national priorities.
Policy makers	<ul style="list-style-type: none"> • Facilitate the development of suitable green projects in line with national sustainable development priorities and objectives. • Identify areas that need more funding and ways of bridging funding gaps • Provide a reference for developing green finance policies, strategies and financial flow measuring and tracking systems.
Others	<ul style="list-style-type: none"> • Provide a starting point for setting standards and developing products.

4.5 Case Studies

The first case study below showcases how a strengthened and autonomous financial sector entity (the Central Bank of Nigeria) can spearhead the greening agenda. The second case study describes the process of developing the South African Green Taxonomy.

13 International Capital Market Association. (2020, May). Sustainable Finance High Level Definitions. Green Finance Platform. <https://www.greenfinanceplatform.org/sites/default/files/downloads/resource/Sustainable-Finance-High-Level-Definitions-May-2020-110520v4.pdf>

14 The World Bank Group. (2020, June). Developing a National Green Taxonomy: A World Bank Guide.

15 The World Bank Group. (2020, June). Developing a National Green Taxonomy: A World Bank Guide.

BOX 2

NIGERIAN SUSTAINABLE BANKING PRINCIPLES

Since its inception in 1890, the Nigerian banking sector has been prone to illiquidity, insolvency, and bank closures that have had devastating knock-on effects on the economy. This includes business losses, unemployment and reduced foreign investment. In 2009, a major banking sector upheaval forced the Central Bank of Nigeria to bail out eight commercial banks and initiate several mergers. Soon after, on 22 July 2012, the Central Bank of Nigeria launched the Nigerian Sustainable Banking Principles, a set of nine principles to stabilize and guide the financial sector. The principles were approved by the Nigerian Bankers Committee and are targeted at banks, discount houses and development finance institutions.

The nine principles are anchored on promoting sustainable banking by integrating Environmental Social Governance objectives into lending decisions and bank transactions. The principles also aim to promote women empowerment, improve financial inclusion, and guide risk assessment processes in the high-risk sectors of oil, gas and power. The principles borrow from international standards such as the Equator Principles while being contextualised for the Nigerian financial system.

The Nigerian Sustainable Banking Principles:

1. Integration of environmental and social considerations into decision-making processes related to business activities to avoid, minimize or offset negative impacts.
2. Avoid, minimize or offset the negative impacts of business operations on the environment and local communities in which the banking entity operates, and where possible, promote impacts.
3. Respect human rights in business operations and business activities.
4. Promote women's economic empowerment through a gender-inclusive workplace culture in business operations and seek to provide products and services designed specifically for women through business activities.
5. Promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.
6. Implement robust and transparent environmental social governance practices within the institution and assess the environmental and social governance practices of banking clients.
7. Develop individual, institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with business operations.
8. Collaborate across the sector and leverage international partnerships to accelerate collective progress and move the sector as one, ensuring the approach is consistent with international standards and Nigerian development needs.
9. Regularly review and report on meeting these principles at the individual institution and sector level.

Financial institutions that are signatory to these principles commit to a timeline of implementation with annual deadlines and milestones. The Central Bank of Nigeria monitors these institutions to ensure that they fulfil these commitments. Currently, all commercial banks in Nigeria have signed off on the principles.



BOX 3

DEVELOPING A GREEN TAXONOMY IN SOUTH AFRICA



In June 2021, South Africa's National Treasury launched a draft green taxonomy, to provide a regulatory framework for the country's Environmental Social Governance goals.

The Development Process

The draft taxonomy began with a technical paper on financing a sustainable economy published by the treasury. One of the paper's recommendations was to "*develop or adopt a taxonomy for green, social and sustainable finance initiatives, consistent with international developments to build credibility, foster investments and enable effective monitoring and disclosure of performance.*" To fulfil this and other recommendations, a steering committee and working groups were established to focus on implementation. Specifically, a taxonomy working group was established and chaired by the national treasury with representatives from:

The taxonomy was also supported by the Green Bond Development Program with stakeholders including the International Finance Corporation, the Swedish International Development Cooperation Agency, the Swiss State Secretariat for Economic Affairs and the Sustainable Banking Network.

Designing the Taxonomy

Globally, green taxonomies are country-specific but have a relationship to either the European Union sustainable finance taxonomy, the Climate Bonds taxonomy, the Multilateral Development Banks-International Development Finance Club (MDB-IDFC) asset type catalogue or International Capital Market Association's (ICMA'S) green project mapping. South Africa's draft taxonomy is based on the European Union sustainable finance taxonomy, international practice, the local policy landscape and national priorities. The taxonomy provides a definition of green assets, sectors and projects, and currently classifies economic activities as either contributing to climate change adaptation or contributing to climate change mitigation. There are plans to incorporate additional classification categories in the future including sustainable resource use, pollution prevention, and ecosystem protection and restoration among others. The draft taxonomy outlines principles to classify economic activities including contribution to climate mitigation and adaptation, harm caused to other taxonomy objectives, applicable screening criteria and meeting social safeguards.

Structure of the Taxonomy

The draft taxonomy has three main sections:

- A matrix that provides a high-level overview of eligible economic activities in the relevant sectors.
- A catalogue that indicates basic attributes and environmental objectives of eligible economic activities.
- Technical screening criteria to provide in-depth information on criteria to be met by eligible activities.

The taxonomy clarifies green activities, reduces financial sector risk, reduces costs associated with labelling and issuing green financial instruments and unlocks investment opportunities for green assets. It was launched with a user guide and a listing of developmental aspects.

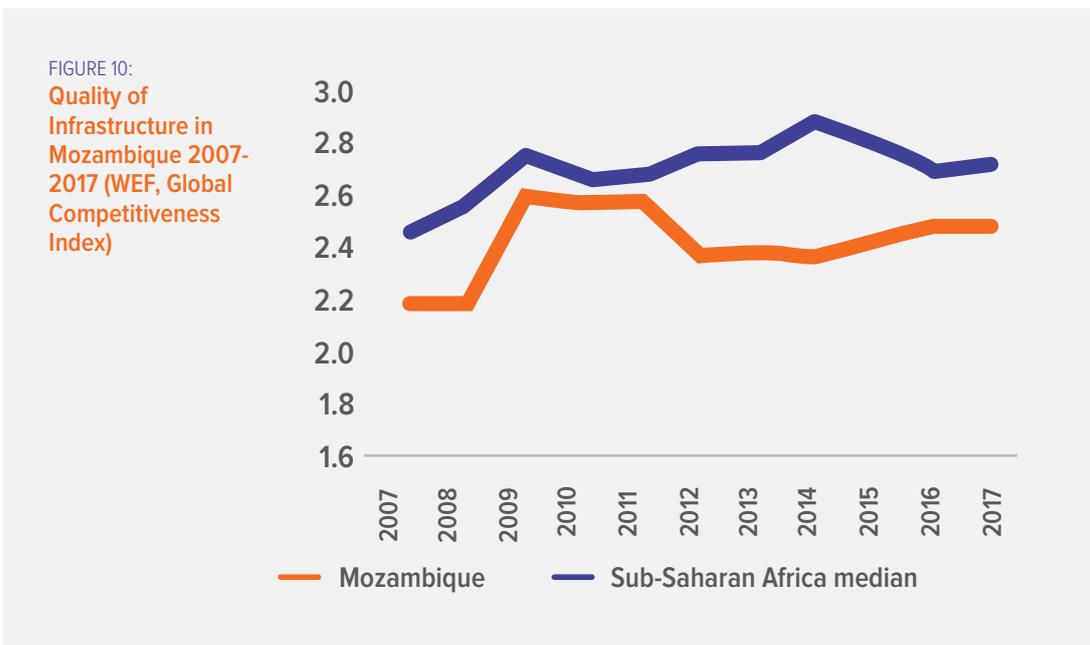
Strategic Intervention III: Support the Development of Green Financial Instruments

5.1 Justification

Mozambique is uniquely vulnerable to climate change owing to a combination of weak institutions, widespread poverty, heightened exposure to tropical cyclones and storm surge flooding because of its extensive coastline, and protracted conflict in the Northern region of Cabo Delgado. This creates an imperative to build resilience among individuals, households, communities, and businesses to ensure they can respond to the frequent climate shocks. Achieving this, will require the sustainable financing of development projects that will increase the incomes of individuals and households and ensure they have access to basic amenities to withstand the regular climate disruptions and economic challenges. It thus becomes necessary

to develop instruments or vehicles to harness the finance for such projects.

In the same line of thought, a world bank report underscores the need for investment in basic infrastructure to attain more inclusive growth and curb inequalities¹⁶. The infrastructure is required to improve transport connectivity and increase access to basic amenities like electricity, water, healthcare, and education. Generally, Mozambique still has substantive infrastructure gaps due to years of conflict and ranks below its peers on infrastructure quality, as indicated in Figure 10 below. This indicates the need for large scale infrastructure investment which can be financed in part through green finance.



The volume of green financial flows in Mozambique, just like other developing markets, is relatively low. This can be partly attributed to the supply-side challenge of inadequate green financial instruments. Green financial instruments include debt, equity, grants, and subsidies whose proceeds are directed towards sustainable projects and the creation of policies geared at fostering inclusive and sustainable development. These instruments provide a vehicle for Mozambique to secure financial resources to accelerate the development and implementation of projects that progress sus-

tainable development. In doing so the country will also be building economic resilience. This intervention aims to support this process, however there are two pre-requisites for its implementation:

- The development of a green taxonomy as described in Strategic intervention II.
- The availability of a pipeline of bankable projects to channel the funds that will be raised.

¹⁶ World Bank (2019) Mozambique Economic Update: Mind the Rural Investment Gap

5.1.1 Suitable green financial instruments

The purpose of green finance instruments is to finance or refinance green projects. In Mozambique, bonds, loans, and funds may be considered suitable. Bonds and loans are both debt instruments, with the difference being bonds can be issued by banks, corporations, government, councils and municipalities, transferred across owners (new bond-holders) and, if publicly issued, traded in capital markets.

Resources are available on the nature and function of different green financial instruments, for example the *2020 Africa Green Bond Toolkit: A practical guide to issuing green bonds for Africa* (Financial Sector Deepening Africa). More generally, Table 5 provides an overview of instruments that can be considered for adoption in Mozambique.

TABLE 5: EXAMPLES OF GREEN FINANCE INSTRUMENTS

INSTRUMENT	DESCRIPTION
Green bonds	Green bonds are bonds whose proceeds must be exclusively channelled to projects with environmental benefits, for example biodiversity conservation initiatives, water supply system expansion or the provision of renewable energy services. ¹⁷
Blue bonds	Blue bonds are a sub-category of green bonds. They refer to bonds whose proceeds are directed to marine and coastal industries and the conservation of ocean ecosystems. Given Mozambique’s extensive coastline (estimated at 2,700 Km) and growing reliance on the marine environment, blue bonds can play a relevant role as a green finance instrument. ¹⁸
Social bond	Social bonds are debt instruments whose proceeds are channelled to projects that improve social outcomes for vulnerable populations in society. This may include healthcare, education and social welfare projects, and the corresponding bonds would be healthcare bonds, education bonds, gender bonds, housing bonds and so forth.
Sustainability bonds	Sustainability bonds are a “bond instrument where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects. Sustainability Bonds are aligned with the four core components of the Green Bond Principles and Sustainability Bond Principles. The former is relevant to underlying green projects and the latter to social projects”. ¹⁹ Sustainable bonds are an intersection of green and social bonds. ²⁰
Environmental Social Governance (ESG) linked loans and Sustainability linked loans	ESG and Sustainability linked loans are loans where the borrower is incentivized to maintain a pre-determined ESG or sustainability performance target. Failure to meet these targets can lead to penalties in the form of an increased cost of capital (higher loan interest rates), while attaining or surpassing the required targets can be rewarded by reduced loan interest rates. This type of green financial instrument can be particularly effective in motivating both small and medium-sized enterprises and corporations to integrate and adhere to ESG principles.
Green funds	Green funds are a type of investment vehicle whose proceeds are only invested in companies or firms that offer or develop environmentally sustainable products. Green funds present an opportunity to grow businesses, new or established, large or small, while ensuring investors make a return on their investment sustainably.

5.1.2 Further benefits of green financial instruments

The past decade has seen explosive growth in the allocation of green bonds globally, with a 300-fold increase in issuance between 2007 and 2019.²¹ While adoption in the African continent has been low (16 green bonds or 1.5% of global green bond issuance as at May 2021), several activities to support the issuance of green bonds are currently being rolled out by development finance institutions.

This includes the International Finance Corporation, the Climate Bonds Initiative and Financial Sector Deepening Africa.²² These organisations and others are supporting governments, national treasuries, and financial sector stakeholders to build capacity, structure green bonds and create a pipeline of green assets and bankable projects.

17 Ibid

18 ASCLME 2012. National Marine Ecosystem Diagnostic Analysis. Mozambique. Contribution to the Agulhas and Somali Current Large Marine Ecosystems Project (supported by UNDP with GEF grant financing).

19 ICMA Group (2021) Sustainability Bond Guidelines.

20 Asseline, F. and B. Hiller. 2021. Green, Social, and Sustainability Bonds: Market Overview and ADB’s Participation. Asian Development Bank.

21 Stockholm Sustainable Finance Centre (2020), Scoping the Sustainable Finance Landscape in Africa: The Case of Green Bonds.

22 Overseas Development Institute (ODI) (2021), Green Bonds in Sub-Saharan Africa.

For example, the Southern Africa Development Community (SADC) Green Bond Market Development Program which was developed in collaboration with Finance Sector Deepening Africa and launched in March 2021. There is an opportunity for Mozambique to leverage on the growing support and programming around green finance bond issuance in Africa by accelerating the development of green bonds.

Developing and tailoring green instruments for Mozambique is expected to increase the volume of financial flows to environmentally friendly projects. This intervention has the potential to create cumulative effects, for example:

- Building resilience among low-income households and communities.

- Contributing to the development of the domestic capital market.
- Improving environmental outcomes including the enhancement of biodiversity.

5.2 Intervention partners and stakeholders

Developing green financial instruments in Mozambique will require engagement and collaboration across a range of stakeholders to benefit from expertise and gain momentum for uptake. Figure 11 provides an overview of the stakeholders likely to be involved.



5.3 Intervention activities

Table 6 specifies the activities, partners and financial resources that can **support and facilitate the development of green financial instruments** to deliver green finance.

TABLE 6: INTERVENTION ACTIVITIES TO SUPPORT AND FACILITATE THE DEVELOPMENT OF GREEN FINANCIAL INSTRUMENTS

MAJOR ACTIVITY	SUB-ACTIVITIES	PARTNERS	TENTATIVE ACTIVITY COST
Short-term activities: 2021 - 2023			
Build the capacity of financial sector entities to develop and utilize green financial instruments. This includes the National Treasury and the Bank of Mozambique.	<ul style="list-style-type: none"> Create linkages with Financial Sector Deepening Africa and the Climate Bond Initiative to facilitate training for the Bank of Mozambique and the National Treasury. Facilitate the development of training materials and online modules tailored to the Mozambican financial sector. 	<ul style="list-style-type: none"> Financial Sector Deepening Africa The Climate Bond Initiative Ministry of Economy and Finance 	USD 150,000 -
Facilitate the development of policy frameworks for green bonds, blue bonds, social bonds and Environmental Social Governance linked loans.	<ul style="list-style-type: none"> Facilitate the development of frameworks and guidelines for issuing listed and unlisted green, blue and social bonds. Support the Bank of Mozambique and the Mozambican Banking Association to map out progressive banks and engage them in developing frameworks for Environmental Social Governance linked loans. Examples include Access bank (which issued a green bond in Nigeria), Banco de Crédito e Inversion and Absa Group Limited 	<ul style="list-style-type: none"> Access Bank, Banco de Crédito e Inversion, Absa Group Limited Financial Sector Deepening Mozambique International Capital Market Association Bank of Mozambique 	
Medium-term activities: 2024 - 2026			
Facilitate the launch of a green, blue and social bonds program.	<ul style="list-style-type: none"> Develop a pipeline of green and blue investment projects with support from the Southern Africa Development Community green bond development program. Support the launch of a green, blue and social bonds programme by an interested party. This can be done as part of this intervention or Strategic Intervention IV. 	<ul style="list-style-type: none"> Southern Africa Development Community Financial Sector Deepening Mozambique International Capital Market Association Bank of Mozambique 	USD 200,000 - -
Facilitate the launch of an Environmental Social Governance linked loan program.	<ul style="list-style-type: none"> Support the launch of Environmental Social Governance linked loans by selected local banks. 	<ul style="list-style-type: none"> Access Bank Banco de Crédito e Inversion Absa Group Limited Financial Sector Deepening Mozambique Bank of Mozambique. 	
Facilitate the development of a green fund.	<ul style="list-style-type: none"> Liaise with the Mozambican Association of Business Angels or stakeholders such as ministries to collaborate on the design of a green fund. This will include identifying the right organization to be the custodian of the fund, for example a private equity or venture capital entity or a public institution. 	<ul style="list-style-type: none"> Mozambican Association of Business Angels Development Finance Institutions Commercial Entities Financial advisory organizations 	
Long-term activities: 2027 - 2030			
Facilitate the launch of a green fund.	<ul style="list-style-type: none"> Support the launch of a green fund within an identified anchor organization. 	<ul style="list-style-type: none"> Mozambican Association of Business Angels Development Finance Institutions Commercial Entities Financial advisory organizations 	USD 100,000
Expand the portfolio of green finance instruments.	<ul style="list-style-type: none"> Include more local banks to expand the Environmental Social Governance linked loan program. Commission a study to track the number of Environmental Social Governance linked loans issued by banks engaged under the program. 	<ul style="list-style-type: none"> Access bank Banco de Crédito e Inversion Absa Group Limited Financial Sector Deepening Mozambique International Capital Market Association Bank of Mozambique 	

5.4 Case study: The first green bond in Kenya

BOX 4

GREEN BOND ISSUANCE IN KENYA



In 2017 Kenya launched a Green Bond Program, to develop a local green bond market and catalyze innovation in the financial sector.

The program's core objectives are to:

- Investigate the potential for green bond issuance in the country.
- Develop a pipeline of green investments and engage local and international investors.
- Support demonstration green bond issuance from leading banks and corporates.
- Promote green Islamic finance.
- Develop a pool of Kenyan-based licensed verifiers.
- Develop a cooperative fixed income fundraising facility that allows smaller banks and corporates to take advantage of wholesale debt capital markets.
- Leverage the Kenyan experience to catalyze similar programs across the East Africa Community.

The program was established by a consortium consisting of the Kenya Bankers Association, the Nairobi Securities Exchange, Climate Bonds Initiative, Financial Sector Deepening Africa and FMO Dutch Development Bank, and it is supported by partners such the International Finance Corporation and the World Wide Fund for Nature Kenya who provide technical assistance. The Kenya Bankers Association serves as the secretariat carrying out administrative duties and coordinating the program.

The Kenya Green Bond program has achieved three important milestones so far.

- i. Successfully releasing a *policy guidance note* on green bonds and developing a *green bond issuers' guide*. Among other things, these documents provide guidance on the procedures for issuing green bonds, steps to listing a green bond, and the disclosure and continuous reporting obligations required.
- ii. Facilitating the issuance of Kenya's first green bond in October 2019 totalling USD 40 million. This bond was issued by Acorn Holdings, a Nairobi-based property developer, and was certified by the United Kingdom Climate Bonds Initiative. A third entity, GuarantCo guarantees the bond to reduce risk for investors. The bond was cross listed on the Nairobi Stock Exchange and the London Stock Exchange in January 2020, and its purpose is to raise funds to provide 5,000 university students in Nairobi with environmentally friendly affordable housing.
- iii. Launching Kenya's Green Bonds Legal and Regulatory Framework in 2019.

Strategic Intervention IV: Identify and Support the Implementation of Green Projects

6.1 Justification

Investors might currently be hesitant to launch green finance projects in Mozambique due to the lack of identified and commercially viable green investment opportunities. For example:

- Financial Sector Deepening Africa has indicated that a pre-requisite to establishing a successful green bond is having a strong green assets or projects base to support green bonds.
- The Mozambican Association of Business Angels has indicated that it is challenging to find start-ups, small and medium sized-enterprises or individuals launching green ventures.
- The few available and promising green finance project ideas are not large enough to attract investors. The transaction costs for processing many small-ticket initiatives are prohibitive and dampen investor interest regardless of how beneficial the projects may be to the community.

Developing a pipeline of viable green projects and providing opportunities that are attractive to investors is critical to accelerating the adoption of green finance in Mozambique. In developing this pipeline, it is important to address the challenge of supporting green projects that are considered small investment opportunities.

A key benefit of identifying and supporting the implementation of green projects is that compared to the preceding strategic interventions, I, II and III, this intervention presents a demand-driven strategy. This intervention enables organic and grassroots level growth of green finance projects and initiatives. This approach further justifies the need to provide access to funding for small-scale green projects and build knowledge and awareness at the small and medium size business level.

6.1.1 Opportunities available through Financial Sector Deepening Africa and Financial Sector Deepening Mozambique

Financial Sector Deepening Africa (FSD Africa) is well-positioned to support this strategic intervention because of its relevant and ongoing work in developing green financial instruments. For example, one of the main activities of the Southern African green bond development program is to develop a pipeline of potential green bond issuers and assets across countries within the Southern African region. FSD Africa has expertise in the green bond market in sub-Saharan Africa having supported various countries to issue their first green bonds. This expertise can be leveraged to develop a pipeline of attractive green bond assets in Mozambique.

Financial Sector Deepening Mozambique (FSDMoç) also has a variety of projects it is implementing that can be transformed or adjusted to prioritize sustainability objectives and attract green financing. There is an opportunity to include these projects in the development of a green assets and projects pipeline.

6.1.2 Available green projects and initiatives

In addition to opportunities available through FSD Africa and FSDMoç, various ongoing projects in Mozambique relating to financial inclusion, agriculture and energy could form part of a green projects assets and projects pipeline. Finance, agriculture and energy are sectors that have a critical impact on growth and resilience in Mozambique. By further developing these sectors using the principles of green finance, the country will be well-placed to meet multiple sustainable development objectives. Table 7 provides an initial list of projects and initiatives being carried out in Mozambique by various entities that have relevance for green finance.

TABLE 7: ONGOING GREEN PROJECTS IN MOZAMBIQUE

Finance Sector Projects
 Agriculture Sector Projects
 Energy Sector Projects

ENTITY	GREEN PROJECT OR INITIATIVE	TIME PERIOD
World Bank	<p>The Financial Inclusion and Stability Project</p> <p>This World Bank-funded project aims to increase financial inclusion among underserved groups and micro, small, and medium sized enterprises (MSMEs) while strengthening overall financial safety nets. There are three components to the project:</p> <ul style="list-style-type: none"> Increasing usage of transaction accounts and access to finance for MSMEs. The objective of this component is to support increased use of transaction accounts (bank or mobile money accounts) in remote and underserved areas. This component includes three subcomponents: digitizing government payments, promoting financial education and awareness, and creating an enabling environment for access to credit. Strengthening financial safety nets. The objective of this component is to increase the capacity of deposit insurance schemes to protect individual small depositors and contribute to overall financial stability. Project management, monitoring, and evaluation. The project will establish a dedicated program implementation unit within the Ministry of Economy and Finance where individuals can work full time on implementing the project. 	2019 - 2024
International Fund for Agricultural Development	<p>The Rural Enterprise Finance Project</p> <p>This project aims to ensure that rural financial services reach underserved communities and financially excluded groups. The project will operate across ten provinces in Mozambique and is expected to directly benefit more than 287,700 rural people engaged in agriculture, fisheries, and small and medium-sized enterprises. This benefit will be achieved by improving access to national and regional markets, and the project also aims to increase financial literacy.</p>	2018 - 2024
Feed the Future and United States Agency for International Development (USAID)	<p>Improving Food Security</p> <p>Feed the Future and USAID are working together to help vulnerable households in Mozambique improve their food security by:</p> <ul style="list-style-type: none"> Adopting more productive agriculture technologies. Improving nutrition and health. Connecting farmers to markets in Zambezia and Nampula provinces. 	Long term engagement

ENTITY	GREEN PROJECT OR INITIATIVE	TIME PERIOD
Government of Mozambique and International Fund for Agricultural Development	<p>Inclusive Agrifood Value Chain Development Programme (PROCAVA)</p> <p>A partnership between the Government of Mozambique and International Fund for Agricultural Development has developed the Inclusive Agrifood Value Chain Development Programme (PROCAVA), a project that aims to increase incomes, improve food and nutrition security, and build the resilience of at least 902,500 rural Mozambican farmers.</p>	Launched in 2020
African Development Bank	<p>Grants for Agriculture Value Chains (USD 1.1M)</p> <p>Africa Development Bank has received a grant from the Italian Technical Cooperation Fund which will benefit about 300 agro-processing and agribusiness small and medium-sized enterprise (SME) associations in Mozambique. This will be particularly focused on youth and women-led SMEs that operate along the Nacala-Beira-Pemba-Lichinga development corridors.</p>	2021
African Development Bank	<p>The Mozambique - Agricultural Value Chain and Youth Empowerment Project (AVACYEP)</p> <p>This project aims to reduce rural poverty by ensuring food, income, and nutrition security sustainably. The specific objectives are to:</p> <ul style="list-style-type: none"> Increase horticultural crop production through value chain improvement. Contribute to the introduction of best practice technologies to improve productivity in the red meat (cattle and goats) value chain. Establish incubation centres for youth and women to promote entrepreneurship and agribusiness. The purpose of this is to create an appropriate and conducive environment for business development through advisory services, and to transfer technology to the beneficiaries of the program. Through the activities mentioned above, enhance resilience to climate change and climate variability and risks. 	2018 - 2023

ENTITY	GREEN PROJECT OR INITIATIVE	TIME PERIOD
SNV Netherlands Development Organisation	<p>The BRILHO Energy Mozambique project</p> <p>This project aims to catalyze Mozambique’s off-grid energy market to provide clean and affordable energy solutions for the country’s off-grid population. The main objective is to improve and increase energy access for people and businesses, leading to money-saving, better well-being and livelihood opportunities for the low-income population.</p> <p>The program offers selected companies a unique mix of structured non-reimbursable funding and specialized support to de-risk business initiatives. This will help to achieve competitive commercial returns and provide off-grid energy solutions in low income markets. BRILHO will also support development of the energy sector by improving access to information, setting quality benchmarks, and advocating for a better regulatory framework.</p>	2019 - 2024
The Global Environment Facility	<p>The Towards Sustainable Energy for All project.</p> <p>This project promotes market-based dissemination of integrated renewable energy systems for productive activities in rural areas. The project identifies three supporting components: policy and regulatory framework, capacity building and knowledge management, and scaling through the installation of demonstration projects, solar water pumps and digesters.</p>	2015 - 2022

6.2 Intervention partners and stakeholders

Developing a pipeline of green projects and initiatives in Mozambique provides an opportunity to collaborate and build partnerships. It also allows stakeholders to co-create and sequence projects. Sequencing is the facilitation of continuity between projects such that as an initiative or project ends a new one is introduced which can build on its

success and achievements. In this way community resilience is built and long-term impact is maximised. Project co-creation and sequencing is vital for incremental and sustainable developments. Likely stakeholders who can support this process are identified in Figure 12.



Potential collaboration opportunities with selected stakeholders are listed in Table 8. This Table is based on currently available information, and more in-depth research is required to better scope of collaboration avenues.

TABLE 8: POTENTIAL COLLABORATORS TO CO-CREATE AND PILOT PROJECTS

ORGANIZATION	POTENTIAL COLLABORATION AREAS
Biofund	For-profit climate interventions targeting farmers and households.
Results for Development	Interventions that aim to develop a carbon trading mechanism or platform targeted at individuals to incentivize uptake of environmentally sustainable solutions in transport and energy.
World Bank	Interventions geared at mobilizing biodiversity conservation at a household and intervention level through already existing interventions.
The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) Get.Invest	Interventions aimed at increasing the uptake of solar/renewable energy solutions through working with financial service providers and product manufacturers.
Climate Bonds Initiative	Interventions seeking to launch climate friendly bonds in Mozambique following the climate bonds initiative taxonomy.

6.3 Intervention Activities

Table 9 specifies the activities, partners and financial resources that can **identify and support the implementation of green projects** to deliver green finance.

TABLE 9: INTERVENTION ACTIVITIES TO TO IDENTIFY AND IMPLEMENT GREEN PROJECTS.

MAJOR ACTIVITY	SUB-ACTIVITIES	PARTNERS	TENTATIVE ACTIVITY COST
Short-term activities: 2021 - 2023			
Develop a pipeline of bankable green projects.	<ul style="list-style-type: none"> Commission a study to generate a comprehensive list of all ongoing and planned sustainable projects across the public and private sectors. Partner with Financial Sector Deepening Africa on the Southern African Development Program. Partner with the Mozambican Association of Business Angels and selected venture capitalist firms within Mozambique to identify promising green start-ups and develop funding for small-ticket projects. 	<ul style="list-style-type: none"> Financial Sector Deepening Africa Financial Sector Deepening Mozambique Mozambican Association of Business Angels Private Equity Investors Consultants and advisory bodies. Development Finance Institutions 	USD 150,000
Support the development of a project aggregation platform.	<ul style="list-style-type: none"> Identify financial and operational project partners for the development of an online project aggregation platform. Anchor the project aggregation platform under a proposed public entity focused on green finance such as the green finance unit described in Strategic Intervention I. Create awareness on the project aggregation platform to potential financiers, Non-Governmental Organisations, Development Finance Institutions, foundations and high-net worth individuals. 	<ul style="list-style-type: none"> Bank of Mozambique Foundations such as the Bill and Melinda Gates Foundation, Ford Foundation, Mastercard Foundation and Omidyar Network Consultants and advisory bodies. United Nations Environment Programme Financial Inquiry. 	USD 60,000
Create awareness on project finance.	<ul style="list-style-type: none"> Build awareness on various funding mechanisms and modalities across identified stakeholders. This can be done through a series of matchmaking workshops (that is, bringing investors and project implementers together), webinars and blogs. 	<ul style="list-style-type: none"> Confederation of Economic Associations 	USD 200,000
Medium-term activities: 2024 - 2026			
Upscale and transform existing Financial Sector Deepening Mozambique projects.	<ul style="list-style-type: none"> Commission a study to support the Financial Sector Deepening Mozambique team to review and revise existing interventions and projects with the purpose of incorporating green finance. Mobilize funding to implement the revised interventions. 	<ul style="list-style-type: none"> Financial Sector Deepening Africa Financial Sector Deepening Mozambique 	USD 60,000

Long-term activities: 2027 - 2030			
Co-implement selected green finance initiatives.	<ul style="list-style-type: none"> Interested parties can select projects to support financially or operationally based on the list of bankable green projects developed under this intervention. Some mechanisms for operational support can include <ul style="list-style-type: none"> (i) capacity building of project implementation teams, particularly if they are small and medium-sized enterprises and low-income individuals with limited technical knowledge, (ii) creating awareness of the projects at a grass-root level, and (iii) facilitating linkages to funding. <p>Generally, the nature of support would depend on the project being implemented.</p>	<ul style="list-style-type: none"> Mozambican Association of Business Angels Financial Sector Deepening Mozambique Project implementation entities. 	Costs are dependent on the projects selected.

6.4 Case Study: Supporting low-income entrepreneurs in Kenya to access commercial financing

BOX 4

SUPPORTING HUSTLERS AND SMALL AND MEDIUM-SIZED ENTERPRISES IN KENYA TO ACCESS COMMERCIAL FINANCING.

Financial Sector Deepening Kenya, the Bankers Association of Kenya and the Kenya Climate Innovation Centre have partnered together to support Kenyan entrepreneurs who are developing or undertaking activities that support green finance by issuing grant and performance-based funding.

This program aims to support 300 companies and create over 3,000 jobs in renewable energy, energy efficiency, agriculture, water, commercial forestry, and waste management. The program covers a five-year period. Kenya Climate Innovation Centre enables the initiative by providing an incubation and acceleration space for promising green businesses to attain investment readiness. Once business ideas are sufficiently developed, the Bankers Association plays a role in supporting access to commercial funding and finance. Commercial funding under the programme is “*risk-tolerant, concessionary and flexible*”. (The Kenyan Wall Street 2021)

The programme has gained significant traction and it aligns well with Financial Sector Deepening Kenya’s broader mandate of increasing financial access for micro, small and medium sized enterprises. Banks that have already been engaged under the intervention include ABSA bank, Sidiyan Bank Standard Chartered Bank and the Kenya Commercial Bank Group. Start-ups participating in the initiative that are developed enough to receive commercial funding have all been found to be in the agricultural sector, and they include agricultural processing and urban vertical farming business ideas.

A similar initiative to stimulate grass-roots entrepreneurship is also being rolled out by BFA Global, Shujaaz inc and partly supported by Financial Sector Deepening Kenya. The first phase of this initiative has been completed, and it involved the roll-out of a study on predicting success among Kenyan “Hustlers”, that is, “youth at the start of their entrepreneurial journey. Usually 25 years or younger, Hustlers aspire to make a living often with a little more than what they can carry on their backs”(BFA Global, 2020). The second phase of the initiative is ongoing and it involves developing a credit rating system using alternative data to allow young entrepreneurs to prove their creditworthiness and access commercial funding more easily. This second phase is not singularly focused on green finance, but it provides an example of creative ways to support low-income business owners.



ANNEXES

ANNEX 1: Glossary

Adaptation - Interventions aimed at lowering the risks caused by climatic changes.

Bond Coupon - The interest made on a bond.

Capital Markets - Venues where savings and investments are channeled between those who have capital and those that need capital and engage mostly in trade of long-term financial securities such as bonds and stocks which then get invested into productive use.

Climate Finance - Financing that seeks to support mitigation and adaptation actions that will address climate change

Climate Resilience - The ability to plan for, absorb, and recover rapidly from deliberate attacks, accidents, natural disasters as well as unconventional stresses, shocks and threats to the economy and democratic system.

Climate Vulnerability - The degree to which a system is susceptible to, and unable to cope with adverse effects of climate change, including climate change variability and extremes.

Disclosure - Making known all relevant information, news, data, and operational details, about an organization that might influence an investors decision making

Environmental Social Governance (ESG) - Matters related to a company's sustainability, environmental impact and its impact on the wider society within which it operates.

Financial Instrument - Assets or packages of capital that can be traded and that provide efficient flow and transfer of capital between investors.

Financing Green - Investment of private or public capital in activities, projects, initiatives and programs that deliver sustainable development.

Fiscal Policy - This is the use of government spending and tax policies to influence economic conditions in a country.

Green Asset - A resource, product or service owned by a corporation or government that can produce positive economic returns and generate positive effects on the environment.

Green Bonds - A green bond is a debt instrument issued by entities like corporates, governments and quasi gov-

ernments to exclusively finance or refinance projects or assets that have environmental benefits.

Green Finance - Financing environmentally friendly investments, policies and regulation and greening the financial systems, products and processes.

Green Financial Instruments - Capital assets or packages that are exclusively directed at environmentally friendly development.

Green Taxonomy - Classification system for identifying activities or investments that are aimed at meeting specific environmental targets related to priority environmental objectives.

Greening Finance - Realignment of the financial system operationally, product wise and service wise to come up with a more environmentally conscious system.

Gross Public Capital Formation - Net investments made measuring the net increase in fixed capital.

Macro-Level Interventions - High level activities relating to development of national policies, strategies, and institutions which govern green finance processes at all levels for all stakeholders.

Meso-Level interventions - Sectoral level interventions within the sector that may or may not be anchored or designed around national policies.

Micro-level interventions - Institutional level and corporate level greening activities.

Mitigation - Efforts targeted at cutting down or preventing emission of greenhouse gases to limit the extent of future warming including attempts at removing greenhouse gases from the environment.

Monetary Policy -Regulatory actions such as adjustment of interest rates, altering amount of cash in circulation and purchasing and selling of government securities like bonds and bills to control inflation and address unemployment.

Social Bonds - Debt instruments whose proceeds are channeled to projects geared at improving social outcomes for vulnerable populations in the society.

ANNEX 2: Funding opportunities

Financial resources will be required to implement this road map to green finance in Mozambique. The road map presents strategic interventions that cover a ten-year timeframe, and a lot can change over such a period. As an initial guide, the following have been identified as possible funding partners to begin the green finance journey. This list is non-exhaustive and will need to be reviewed and updated often.

TABLE 10: NON-EXHAUSTIVE LIST OF POTENTIAL FUNDING OPPORTUNITIES FOR GREEN FINANCE INTERVENTIONS IN MOZAMBIQUE

FUND	ABOUT	LINK
Mozambican National Research Fund (FNI)	<ul style="list-style-type: none"> • Research fund • Requires partnership with research institutions 	FNI Fundo Nacional de Investigação
National Fund for Environment (FUNAB)	<ul style="list-style-type: none"> • Supports project implementation and research 	-
National Sustainable Development Fund (FNDS)	<ul style="list-style-type: none"> • Supports projects implementation and research 	FNDS - Fundo Nacional de Desenvolvimento Sustentável
GCF Readiness Fund	<ul style="list-style-type: none"> • Requires partnership with a GCF accredited organization such as KFW, UNDP, etc • Requires partnership with government agencies 	Country Readiness Green Climate Fund
GCF Blue Action Fund 2019 - 2028	<ul style="list-style-type: none"> • Blue Action Fund's Grant Programme supports projects that are implemented by national and international non-governmental organisations (NGOs) in their efforts to conserve the ocean and improve the livelihoods of coastal communities in developing countries • Applications are made only based on advertised calls 	Funding Opportunities Blue Action Fund
AfDB (Africa Climate Change Fund)	<ul style="list-style-type: none"> • Among other uses, the fund is used to support African countries to scale up climate finance readiness activities to access more resources from climate funds to implement their climate actions. 	https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa-climate-change-fund
Transformative Carbon Asset Facility (TCAF)	<ul style="list-style-type: none"> • The Transformative Carbon Asset Facility (TCAF) is a World Bank trust fund that supports countries' efforts to implement market-based carbon pricing and create conditions for private sector investments in low-carbon technologies. • Works with national policymakers to help shape environmental, energy, and climate change policy to reach a meaningful scale and create a lasting, transformative social impact. • Will require partnership with the government 	Transformative Carbon Asset Facility (TCAF)
Ikea Foundation	<ul style="list-style-type: none"> • Example of project they have funded: "Accelerating Paris Compliant Company Policies." 	Climate Action IKEA Foundation
GEF - Least Developed Countries Fund	<ul style="list-style-type: none"> • The LDCF works with partner agencies to bolster technical and institutional capacity at the national and local level, create a policy environment that encourages investment in adaptation solutions, reduce systemic barriers to progress, and promote innovation and private sector engagement. • Priority funding areas include agriculture and food security; natural resource management; water resources; disaster risk management and prevention; coastal zone management; climate information services; infrastructure; and climate Change-induced health risks. 	Funding Global Environment Facility (thegef.org)
International Finance Corporation	<ul style="list-style-type: none"> • IFC does not lend directly to micro, small, and medium enterprises or individual entrepreneurs, but many of our investment clients are financial intermediaries that on-lend to smaller businesses. A company or entrepreneur seeking to establish a new venture or expand an existing enterprise can approach IFC directly by submitting an investment proposal. 	How to Apply for Financing (ifc.org)

