Prosperous Land, Prosperous People: Scaling finance for Nature-based Solutions in Kenya

The Food and land Use Coalition | November 9, 2022

Key Messages

Introduction and overview

This report presents a case study focused on Kenya which highlights the considerable **climate change mitigation potential of Nature-based Solutions** (NbS), alongside their co-benefits for biodiversity, food security, resilience, livelihoods and health outcomes. It develops a possible investment pathway for public and private financiers to unlock the benefits of NbS in Kenya.

The study finds that a wide range of investors are required to finance the transition and suggests **how Kenyan policymakers can create the right environment to overcome key barriers to investment and attract private capital**. **Beyond Kenya, this analysis could be applied to other countries and a global analysis**.

NbS are getting increasing attention and recent evidence suggests that the implementation of 20 different land- based **NbS can provide around 30% of global mitigation needed to limit global warming to 1.5°C**.

NbS are actions to protect, sustainably manage and restore ecosystems that address societal challenges effectively and adaptively, benefitting human health and promoting biodiversity. They are a critical part of the transformation agenda for food and land use systems.

Protecting and restoring nature is key to delivering the 1.5°C target. Yet **less than 2% of global climate finance is currently flowing to NbS.** This finance gap is due to the fact that private and public investors often lack the information to assess the economic opportunities provided by a sustainable, nature-and climate-positive economy.

The Kenya opportunity

Given that **food and land use systems account for over 60% of the country's annual greenhouse gas emissions (GHG)**, it is essential that mitigation activities in this sector are funded and implemented.

In Kenya, climate change has caused severe droughts, threatening food security. The implementation of a range of land-based NbS by 2050 could deliver significant benefits for climate, biodiversity protection, local livelihoods, food and nutrition security.

- NbS could provide climate mitigation of approximately 80 million tCO_2e per year by 2050, which is equivalent to Kenya's annual emissions from 2019.
- Agricultural measures have the highest mitigation potential (43%). These include solutions such as enhancing soil organic carbon sequestration in grasslands and in croplands, and agroforestry.

Kenya has committed to a 32% reduction in GHG emissions by 2030 and plans to restore 300,000 ha of forest per year by 2030.

The Kenyan Government has made significant commitments to support NbS but despite their importance, such solutions receive limited funding: less than USD 90 million per year is currently spent on land-based NbS in Kenya – or 0.1% of GDP in 2019.

Kenya would require USD 1.2 billion of investment per year by 2050 to unlock the full potential of NbS

- This is an ~13-fold increase in total annual finance for NbS by 2050 compared to 2019 levels.
- Mostly, this does not require "new" investment: over 90% of the finance needed for the agricultural solutions could be delivered by re-directing investment that is already going into Kenya's agricultural sector. The focus is on change in practice.

Current barriers for public and private investment in land-based mitigation include:

- Investors lack information on what concrete programmes and jurisdictional-level investment opportunities exist and how to structure investments in nature and sustainable landscapes
- The rules and dynamics of private carbon markets are complicated and not always easy to navigate
- The large number of smallholder farmers and pastoral communities in Kenya face challenges of access to markets and capacity to implement NbS
- International investors often perceive the food, nature and land sector in emerging markets as high risk

Recommendations

Delivering USD 1.2 billion investment by 2050 requires a variety of financial instruments – from grant and direct supply chain-finance to equity and debt-instruments.

A range of investors have an important role to play in financing NbS in Kenya:

- **The Government of Kenya** can be an important financier (up to USD 240 million per year by 2050, or 1% of GDP), as well as an enabler, attracting other investors.
    - Through policy reform, securing land tenure and engaging with corporates around net zero, the Government could crowd in USD 1 billion of annual private sector investment by 2050.

- **Development finance institutions and philanthropy** could provide 10% of the total investment in 2025 and 2050, whilst increasing their investment 10-fold. These investors could also play a key role in creating the pipeline of initiatives necessary to attract private investors.

- **Domestic and international corporates** could make up over 40% of the investment needed over the course of the transition.
    - Companies in the Agriculture, Forestry and other Land use (AFOLU) sector with operations and supply chains in Kenya, could invest USD 400 million per year by 2050. This could reach USD 420 million if the sector pays the full cost of aligning their land value chains with a net zero future.
    - Over USD 110 million could be financed by 2040 through corporates investing in mitigation beyond their value chain, including through the voluntary carbon market.

- **Institutional investors** could finance nearly 35% of the total investment needed by 2050, as NbS business models mature and become more financially viable over time. These actors include pension and sovereign wealth funds, insurance companies, retail and commercial banks, credit unions, trading houses and brokers, private equity funds, venture capital funds and angel investors, and impact investors.

    In Kenya and globally, private sector finance can be deployed through a great variety of finance mechanisms to unlock the full potential of NbS in climate change mitigation. Critically, this report demonstrates how the investment burden of the public sector can be lowered in the long term, by securing private sector finance for NbS.