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Green and Sustainable Finance in Zambia

Part 1: Trends and Developments

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OVERVIEW

The devastating effects of climate change, such as severe floods and droughts, have become noticeably frequent in Zambia. There is no doubt that finance plays a critical role in catalyzing the required behavioural change desired to fight climate change. It has been argued that every financial decision needs to take climate into account. This includes all private finance decisions. In an effort to speed up Zambia's climate change response, the Zambia Securities and Exchange Commission ("SEC") has introduced the option of issuance of green bonds to finance businesses activities that have environmental benefits. The emergence of green bonds as a platform for raising funds for projects with environmental advantages is part of the larger notion of green financing as a new financing mechanism to address climate change.

The Government of the Republic of Zambia has pledged to facilitate green financing by creating an enabling policy and regulatory framework which will promote innovative financing for climate change interventions. In the 2022 national budget speech, Government alluded to the promotion of green bonds, carbon trading and enacting Climate Change legislation for the establishment of a National Climate Change Fund.

In addressing the climate needs of developing countries like Zambia, developed country parties to the UN Convention on Climate Change pledged, in 2015, to mobilize green financing funds of up to US\$100 billion annually. This annual pledge is targeted for the period 2020 through to 2025. While projections indicate that the annual target will only be achieved in 2023, current figures indicate that as of 2019, the annual figures reached were around US\$79.6 billion.[1] Multilateral Development Banks are also committed to providing at least US\$65 billion climate finance to low-income and middle-income countries. Zambia business stand squarely to benefit from these funding opportunities by taking advantage of them.

In this three-part article, we focus on the trends and developments around green financing in Zambia, zeroing down to green bonds, their regulation and how business can utilize them as an alternative source of funding for business operations and projects. This Part I of the

article introduces the concept of green financing and the prevailing local trends around green financing. In Part II, we dissect the Zambia regulatory framework relating to green bonds and the requirements for their issuance. We also consider the risks, concerns and challenges green bonds present for issuers and investors. Part III explores the available opportunities and how the issuance of green bonds can be incentivized for both businesses and investors in Zambia.

GREEN BONDS

A green bond is a debt instrument whose proceeds are used to finance projects, assets, and businesses that have specific environmental benefits. The statutory definition in the Zambia context will be provided in Part II of the series. Essentially however, new or existing bankable projects that create climatic or other environmental benefits can be financed or refinanced using green bonds. Green bonds are similar in many ways to traditional bonds; they are subject to the same underlying financial risks such as interest rate risk, default risk, liquidity risk, inflation risk and offer the same benefits as traditional bonds. Investors do not have to choose between stable financial returns and environmental objectives.

Green bonds have been developed to help issuers use the debt capital markets to finance activities aimed at reducing greenhouse gas emissions and mitigating the effects of climate change such as renewable energy projects, energy efficiency initiatives such as green buildings, sustainable agriculture and forestry and biodiversity conservation initiatives. Investors are therefore given the ability to align their desire to invest in environmentally sound projects with their objective of investing in long term, stable fixed income securities, without sacrificing financial returns.

The green bond initiative in Zambia is a product of the Capital Markets Development Master Plan, which was spearheaded by the Ministry of Finance, SEC and Biodiversity Finance Initiative.

RECENT TRENDS AND DEVELOPMENTS

Local green funding developments include a ZMW 1 billion “Green Outcomes Fund” that has been established by Zambia National Commercial Bank Plc, Kukula Capital, and the World-Wide Fund for Nature (WWF) Zambia, and is intended to be operationalized by June 2022, subject to regulatory approval.

WWF Zambia is also managing the “Dutch Fund for Climate and Development” which supports businesses that have been impacted by climate change by helping them adopt more sustainable production methods.

In July 2021, the Development Bank of Zambia was accredited by the Green Climate Fund to receive and submit proposals on behalf of developers of green projects to be funded by the Green Climate Fund.

In Part II of the article series, we explore the regulatory framework of green bonds in Zambia and what projects and businesses are eligible for green bond financing. We also explore the measures in place to protect investors who subscribe to issued green bonds.

[1] Report by Canada and Germany Ministers of Environment on the Climate Finance Delivery Plan: Meeting the US\$100 billion goal, 2021



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