

# *‘The path to 2050 and the Africa we want - The Financial Sector’s Response to the Climate Crisis and Social Priorities’*



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# Climate Change

Regional Climate Challenges  
Why Climate Change Matters for Investments



## Climate Change

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# ‘Demmal mo guenne bul dem’

“Go!” is better than “Don’t go!”

**Wolof Proverb**



# Context

## Africa

- Population – 1.4 billion (2022)
- Population – 2.5 billion (2050) – 26% of World’s total.
- Urban population 44% (2020) and 60% (2050)
- Medium age – 19.7 years (2020)
- Climate Change

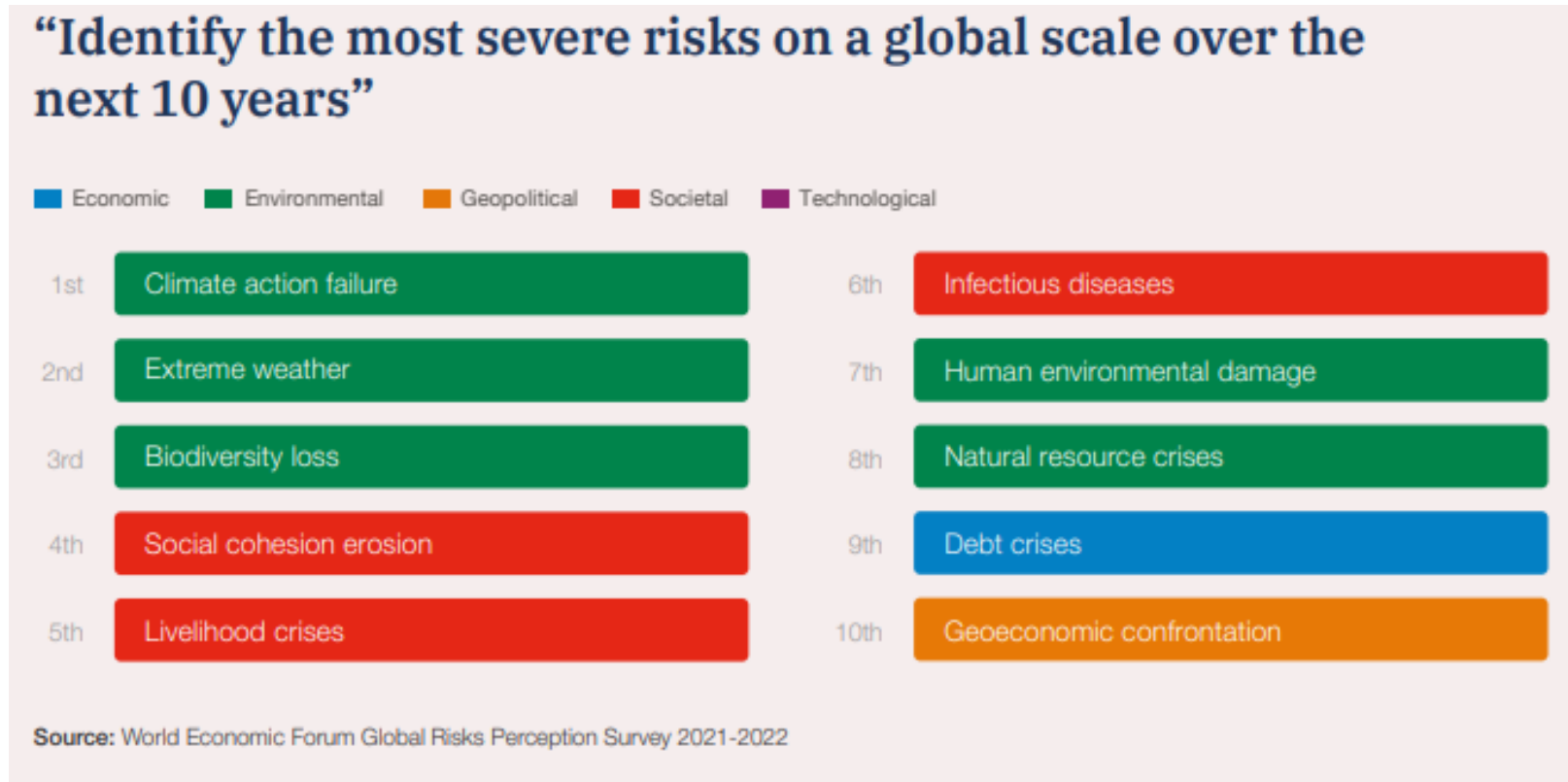
## Senegal

- Population – 17 million (2022)
- Population – 32 million (2050)
- Urban population 51% (2022) and 67% (2050)
- Medium age – 18 years (2022) and 23 years (2050)



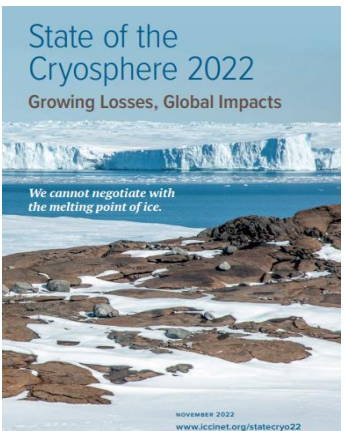
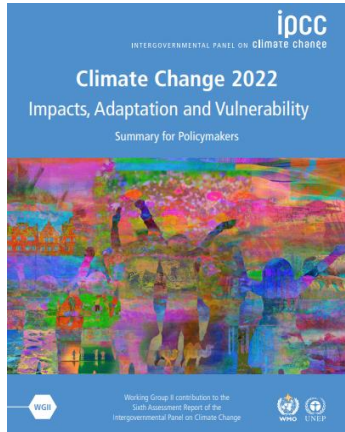


# Global Risks Perception



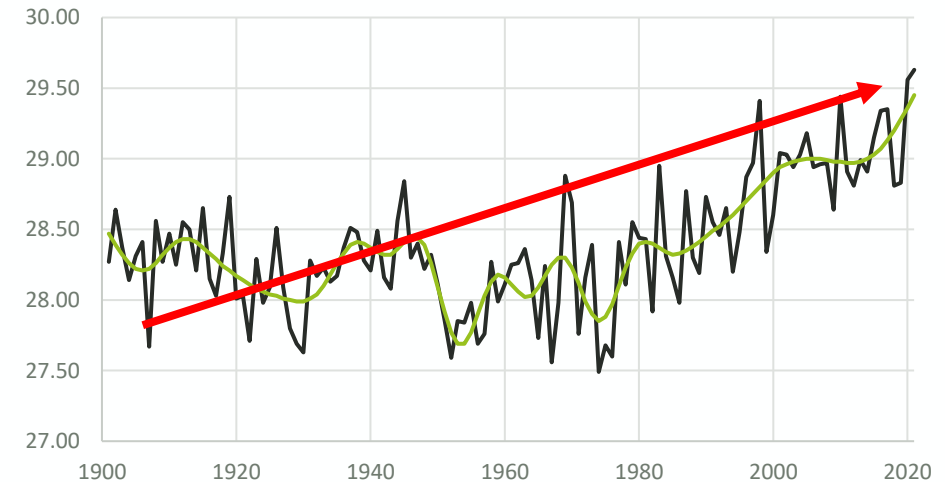
- Top 5 global risks in terms of likelihood are **all environmental**.
- They include climate action failure, extreme weather, biodiversity loss, human environmental damage and natural resource crises.

# Climate Change – Common Regional Challenges for Africa & Senegal



- Africa is warming up faster than global average
- IPCC (March 2022):
  - Global warming is increasing at a faster rate than we initially thought
  - Effects more adverse at smaller temperature rises.
- State of the Cryosphere (Nov 202) & IPCC (2019)
  - Since 1993, the rate of ocean warming has more than doubled
  - Impacts include extreme and more frequent El Niño and La Niña events; marine bio-diversity loss
  - Sea level rise scenarios - in metres:
    - Very Low Emissions (Peak 1.6–1.8°C): 2-3 metres
    - Fulfilment of All 2022 NDCs 2.0°C): 3–6 metres
    - Implemented Policies in 2022 (2.7–3.1°C): 15–20 metres

## Observed Temperature for Senegal, 1901–2021



Source: World Bank — Annual Mean — 5-yr smooth

‘Our planet’s melting ice pays no attention to climate pledges and NDCs. It responds only to the level of CO2 and warming in the atmosphere.’  
Pam Pearson Director, ICCL

## Why Climate Change Matters for Investments

Nexus between environment and economic growth

Affects poor people most – implications on financial inclusion

Climate change can translate into credit risk

Physical risks have impact on asset values

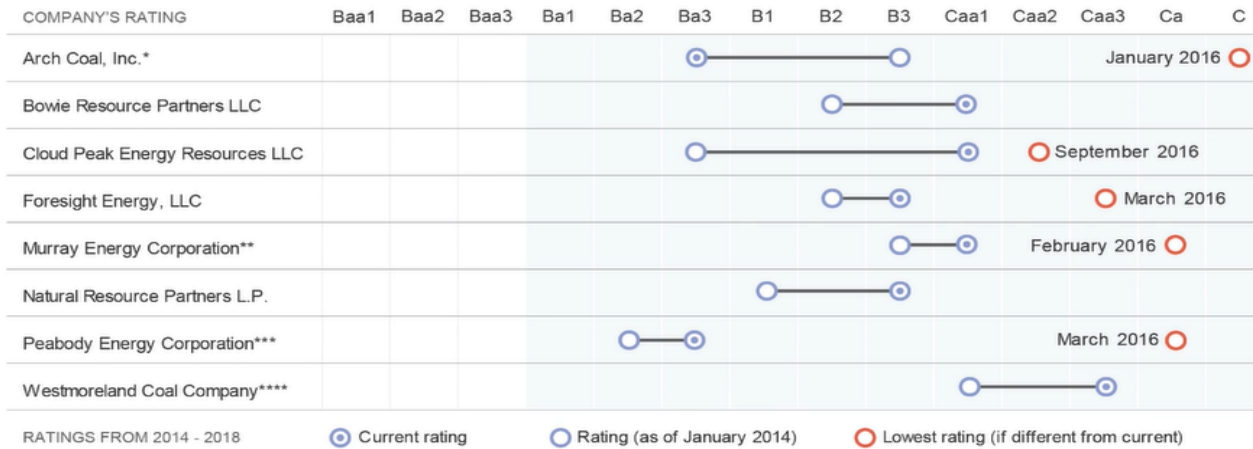
Transition risks can lead to stranded assets

Liability risks – People may sue if they suffer physical & transitional risks



# Decarbonization – Increases Risk of Stranded Assets

## US coal mining ratings 2014-2018

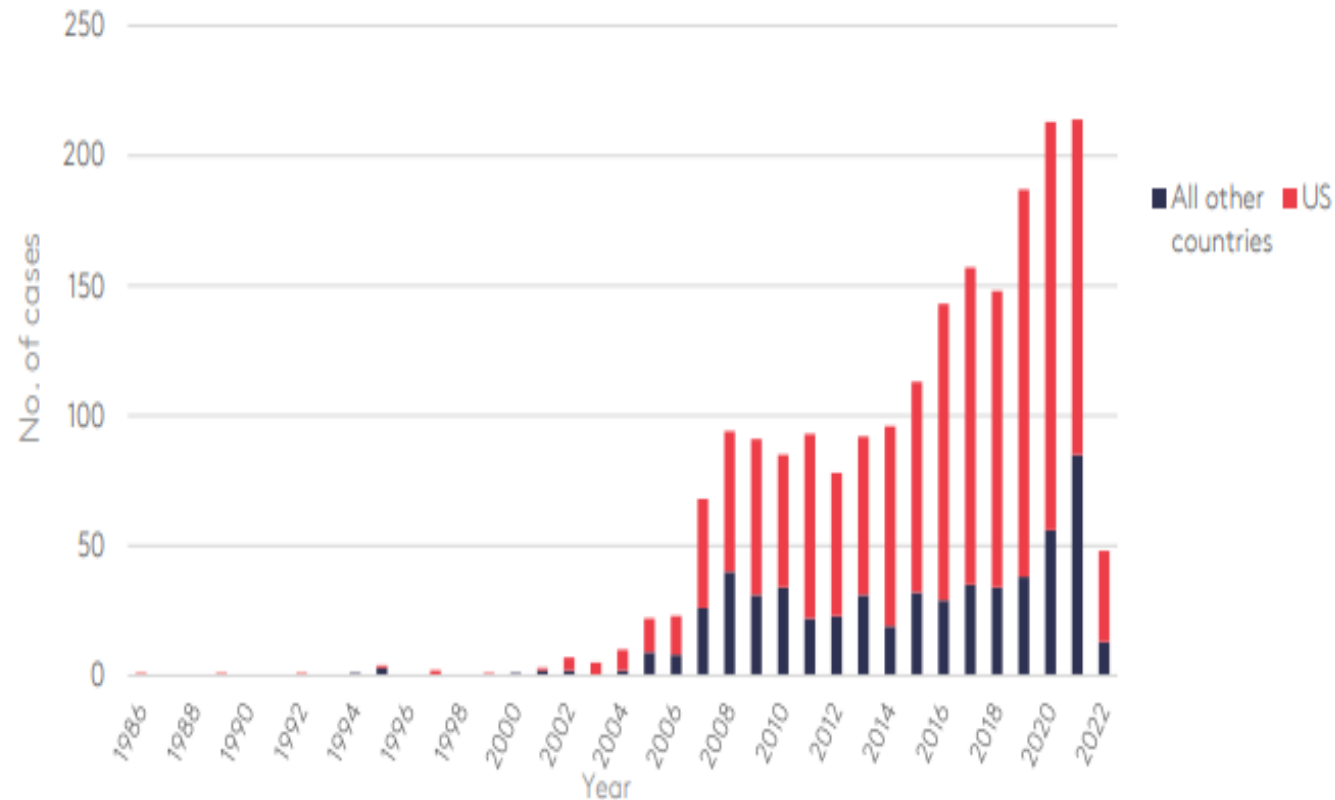


Half of the coal produced in the US is by companies that have declared bankruptcy

# Litigation Risk – Risk of people seeking compensation from physical and transition risks



Total climate change cases over time, US and non-US (up to 31 May 2022)



A 25-year-old took on a \$57 billion super pension fund over climate change and won'. Source - Business Insider, Australia, 5 November 2020



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## Green Investment Opportunities

Development case  
Business case





## Climate Change – Opportunities for Africa

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**‘If your vision is for a year  
plant wheat, if your vision  
is for a decade plant trees,  
and if your vision is for a  
lifetime plant people ’**

**African Proverb**





# Climate Finance – The Opportunity for Africa

Resilience and investment are two sides of the same coin. A sustainable future is only sustainable if it is resilient

## The Development Case:

- Africa is a developing continent that is rapidly urbanizing:
  - Significant investment needed in built environment – infrastructure, housing, water, power etc
  - We can build in a climate-resilient manner (future-proof investments)
- **Environmentally friendly growth** can improve access to food, services, create **green jobs and boost incomes** in new and existing sectors of the economy
- The transition towards carbon-neutrality and environmental sustainability will **reduce the negative impacts of climate change, amongst poor communities**

## The Business Case:

**Opportunities** for first movers to boost profitability and reduce risks: new clients, products and markets

Africa is connected to global value chains – required to meet high environmental standards.

Opportunities of harnessing natural capital/biodiversity

**Financial firms and funds face major risks** by not addressing Africa's green challenges

Environmental risks can **impact operations** directly and **impact client profitability**

**Compliance** with future regulatory requirements may impact profitable business models

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## Financial Sector Response

Global landscape of climate finance

Africa climate finance challenge

Capital Markets Instruments

Banking & Insurance Instruments

Sustainable Bonds – Thematic Bonds





## Financial Sector Response

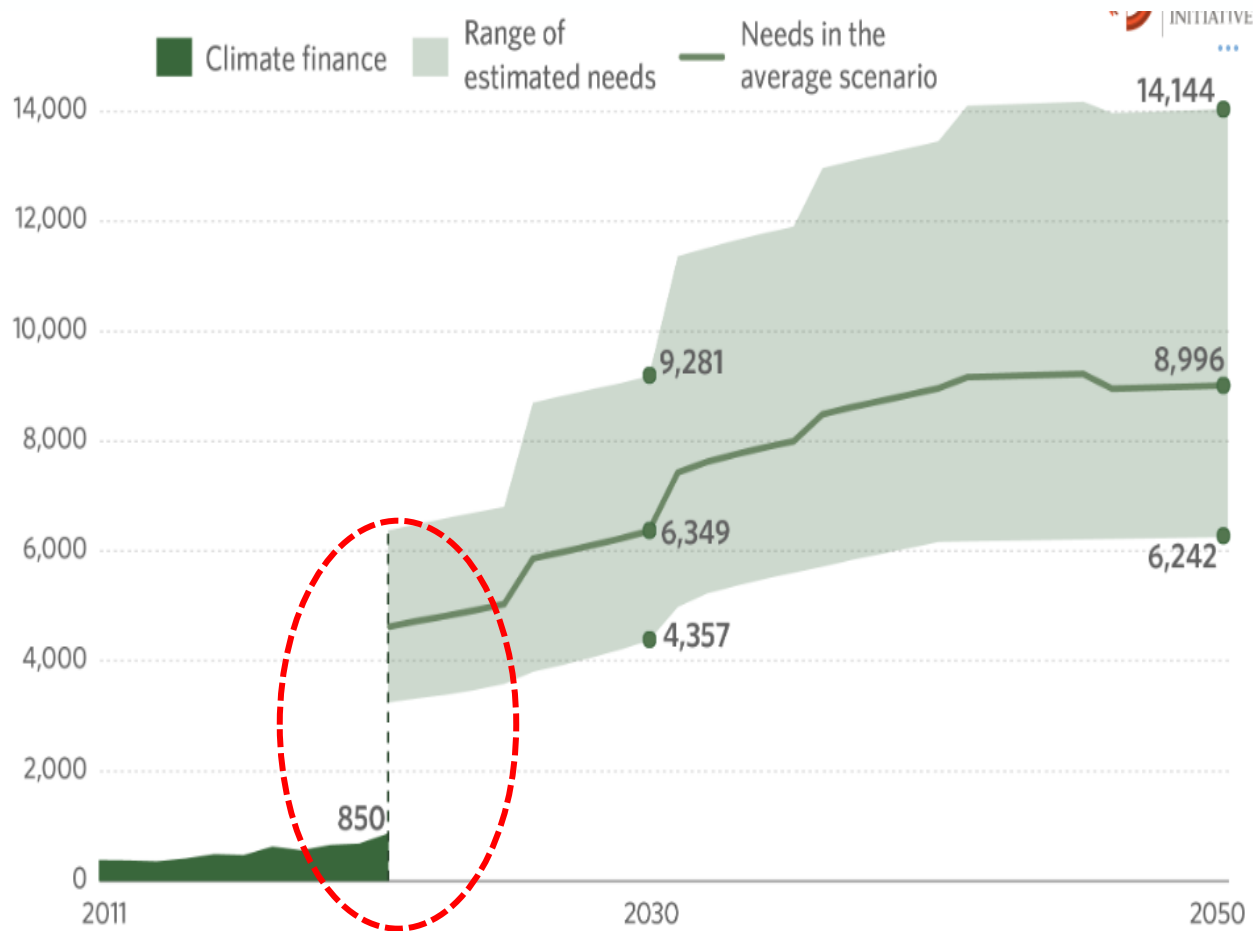
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‘If you are going to a place where corn grows, take a cutting tool with you.’



Amharic Proverb

# Global Landscape of Climate Finance



- Global climate finance doubled in the last decade – reached \$850 bn in 2021.
- Minimum of US\$ 4.3 trillion p.a. required to meet Net Zero targets.
- Private sector investment is increasing (50% share), but not at the scale and speed necessary for the transition.
- Mitigation finance dominated by renewable energy (70% of total in 10 years).
- Low carbon transport is fastest growing mitigation solution. AFOLU attracts considerably low levels of climate finance.



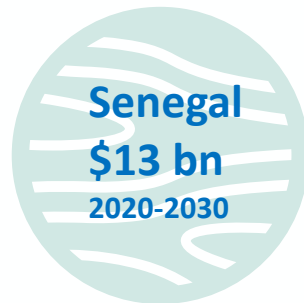
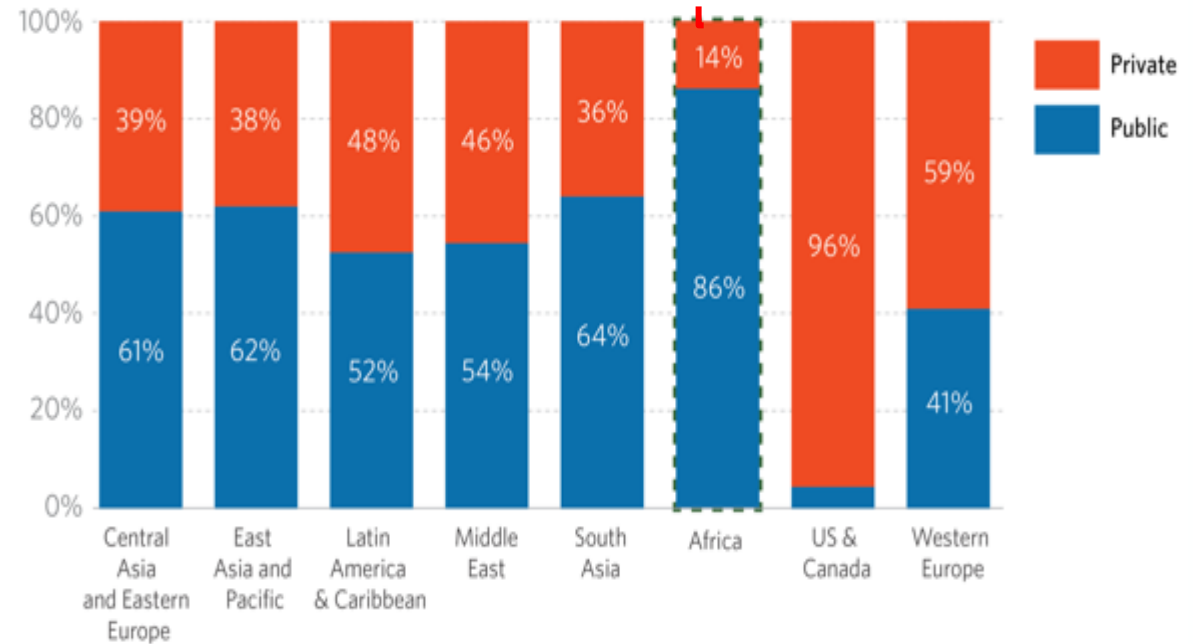
# Climate Finance Challenge in Africa

Climate finance for Africa needs to grow 9x from \$30 billion to \$277 billion

Cost and need to implement NDCs  
**\$277b pa**

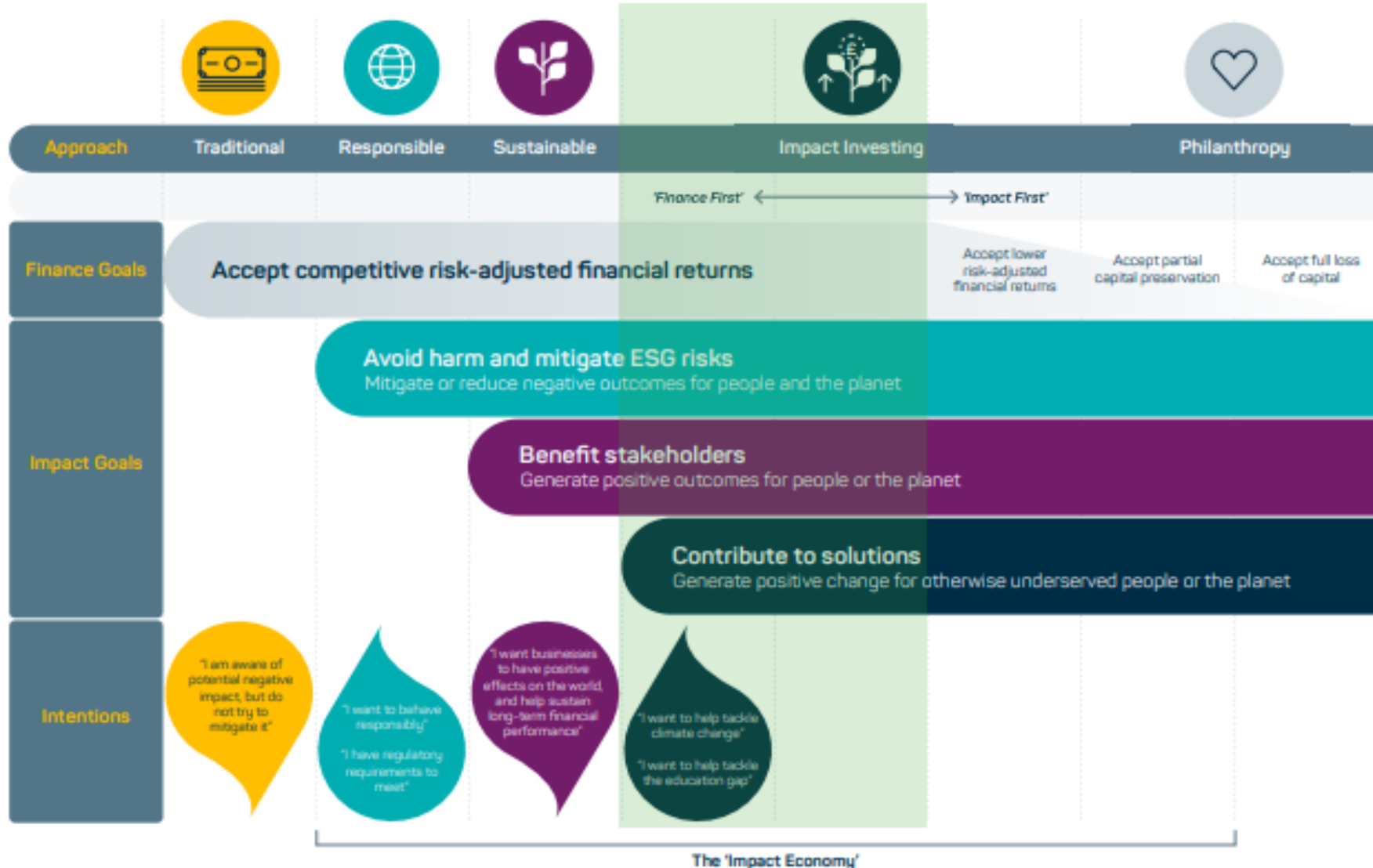
Tracked climate finance in Africa  
**\$30b pa**

Lower share of private finance in Africa compared to other regions



- African NDCs assume 90% of the funding is private sector & international
- Senegal assumes that domestic fund mobilisation of \$4.8 billion is expected, which will cover 37% of the total costs required to meet the NDC commitments. The remaining 67% is expected to come from partners, signalling the country's reliance on external funds

# Spectrum of Capital



Sustainable investing is an essential tool to bring the values of the market in line with those of society.

Mark Carney (2021)

‘Doing well by doing good’

# Selected Instruments for Climate Finance through Capital Markets

The majority of climate finance — 61% (USD 384 billion) — was raised as debt in 2019/2020.

Equity investments, the next-largest category after debt, came to 33% of total climate finance, up from 29% during the previous period.

Grant finance comprised 6% of total flows (compared to 5% in 2017/2018).

CPI (2021)

## Debt Instruments

Green Bonds  
Sustainability Bonds  
Sustainability-linked Bonds  
Structured Bonds,  
Green Securitizations,  
Project bonds,  
Green Debt Funds  
Debt Guarantees

## Equity Instruments

ESG/Sustainability Indices  
Green Islamic/Ethical Funds,  
Green REITs,  
Green Property Funds,  
Ethical/Green Funds  
Green ETFs

## Outcomes Based Financing

Payment for Ecological Services  
Development Impact Bonds (e.g.  
Zebra Bonds)  
Debt-for-climate swaps  
Carbon Markets  
Carbon-Secured Sustainability-  
Linked Bonds



# Selected Instruments for Climate Finance through Credit & Risk Markets

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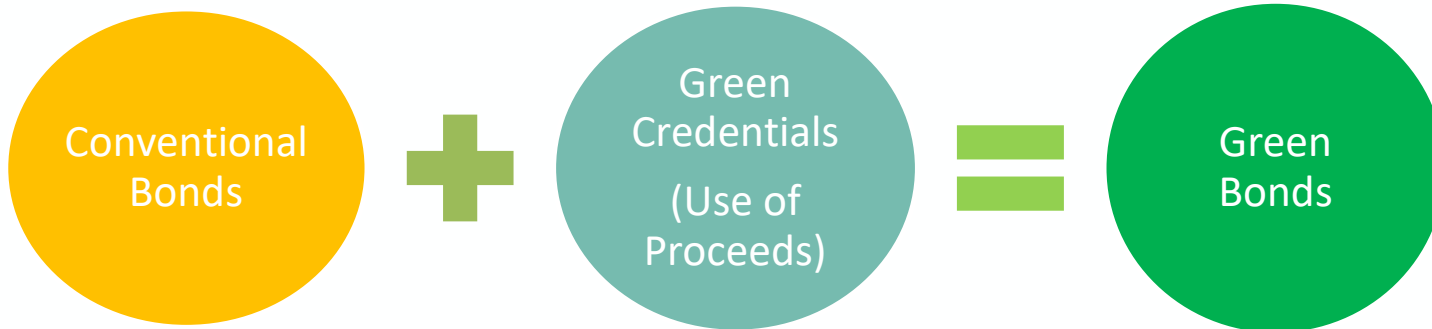
## Banks/Credit Markets

Green Loans,  
Sustainability-linked loans,  
Sustainability-improvement loans,  
ESG indexed loans  
Green credit guarantees & credit  
enhancements

## Insurance Markets

Green credit guarantees  
Parametric weather insurance  
Catastrophic (CAT) bonds  
Resilience bonds  
Green bond Underwriting  
Green contingent credit

# Green Bonds



Green bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities.

The proceeds will be exclusively applied to eligible environmental and/or social projects.

**Green Bond principles and standards:**

**Covers 4 areas:**

- Use of Proceeds
- Project Selection & Evaluation
- Management of Proceeds
- Reporting

**External review:**

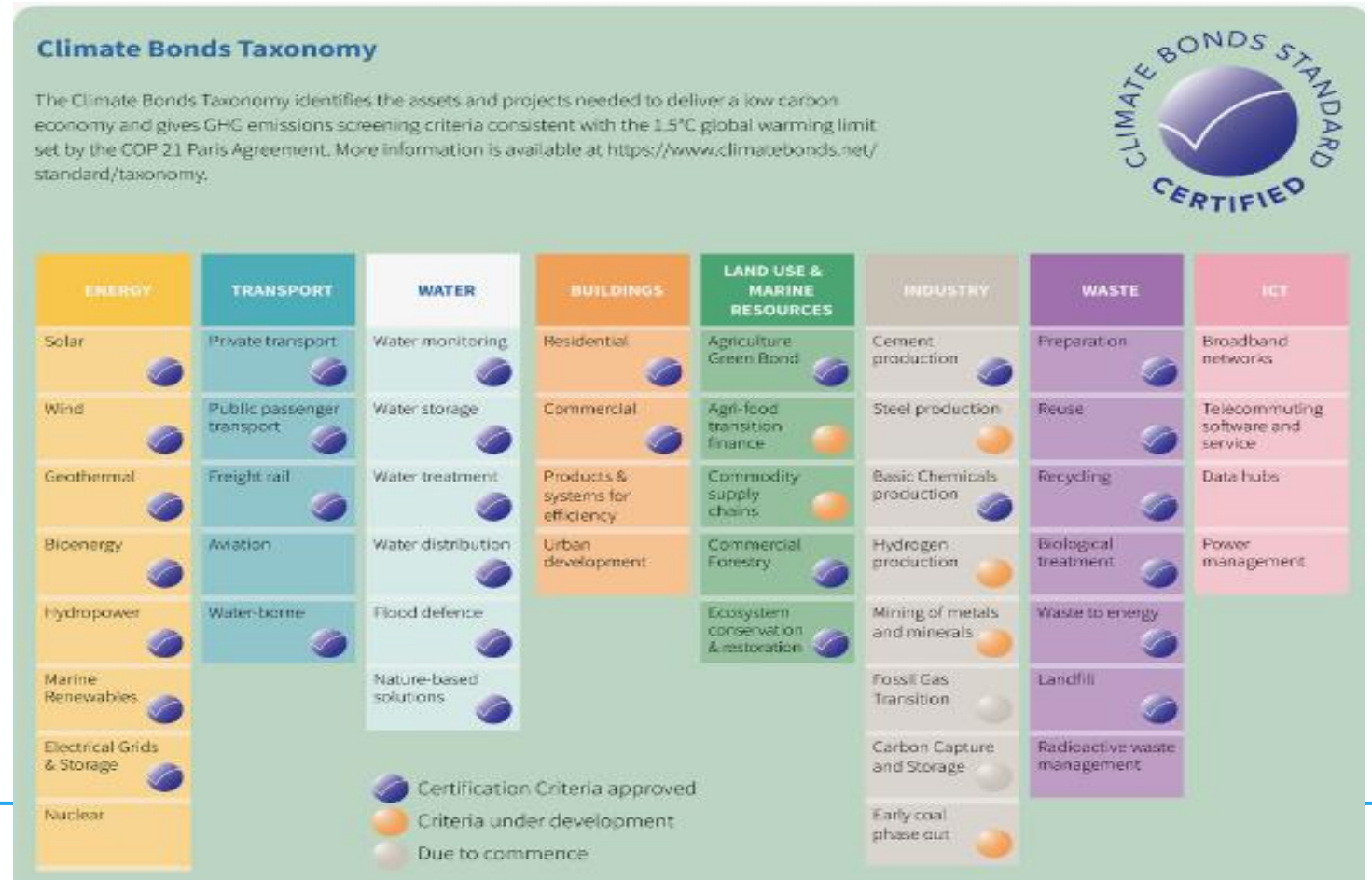
- Second Party Opinion
- Verification
- Certification
- Scoring/Rating

# Green Bonds Taxonomy

Green bonds taxonomy covers many sectors:

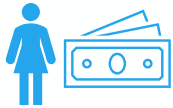
## Implications

- Wide opportunities for adaptation and mitigation investments e.g infrastructure: energy, transport, utilities, natural resources
- Strong alignment with SDGs
- Given nascent nature of African markets opportunities for building African markets sustainably





# Gender Bonds



## Financial Inclusion

**Geography:** Mostly emerging and frontier markets

**Goal:** Closing the financing gap for women, women-owned businesses and female entrepreneurs

### **Use of proceeds:**

- Companies with good corporate policies regarding gender
- Lending to women
- Lending to women-owned SMEs
- Lending to women-run and women-owned companies
- Companies that sell goods and services that disproportionately benefit women
- Women in the supply chain



## Corporate behaviour bonds

**Geography:** Mostly issued in the Global North

**Goal:** Equality and opportunity in the workplace

### **Use of proceeds:**

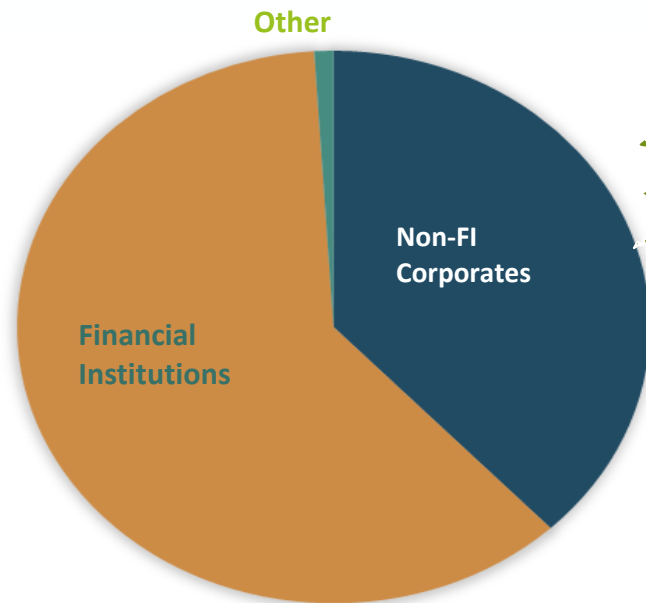
- Loans to companies that meet specific gender equality targets (women in leadership)
- Not restricted for use on a specific activity
- Often lean on existing principles and ratings to select companies for investment (e.g Equileap)

## **Gender Bond:**

- **The proceeds of the issuance are used “in line” with gender equality and women’s empowerment goals;**
- **The Bond results in a benefit for women;**
- **However, unlike *Green and Social bonds*, there are no universally accepted standards**
- **Most bonds issued to date are “use of proceeds” bonds and aligned with the Social Bond Principles**

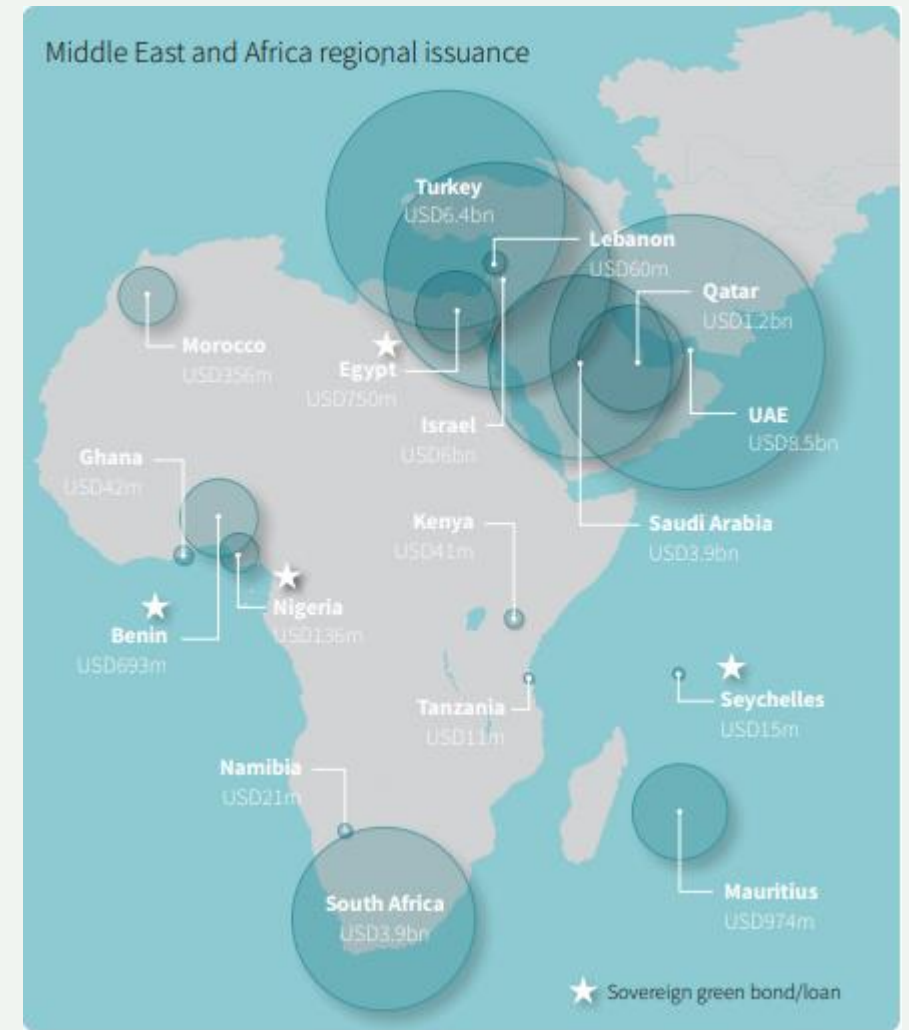
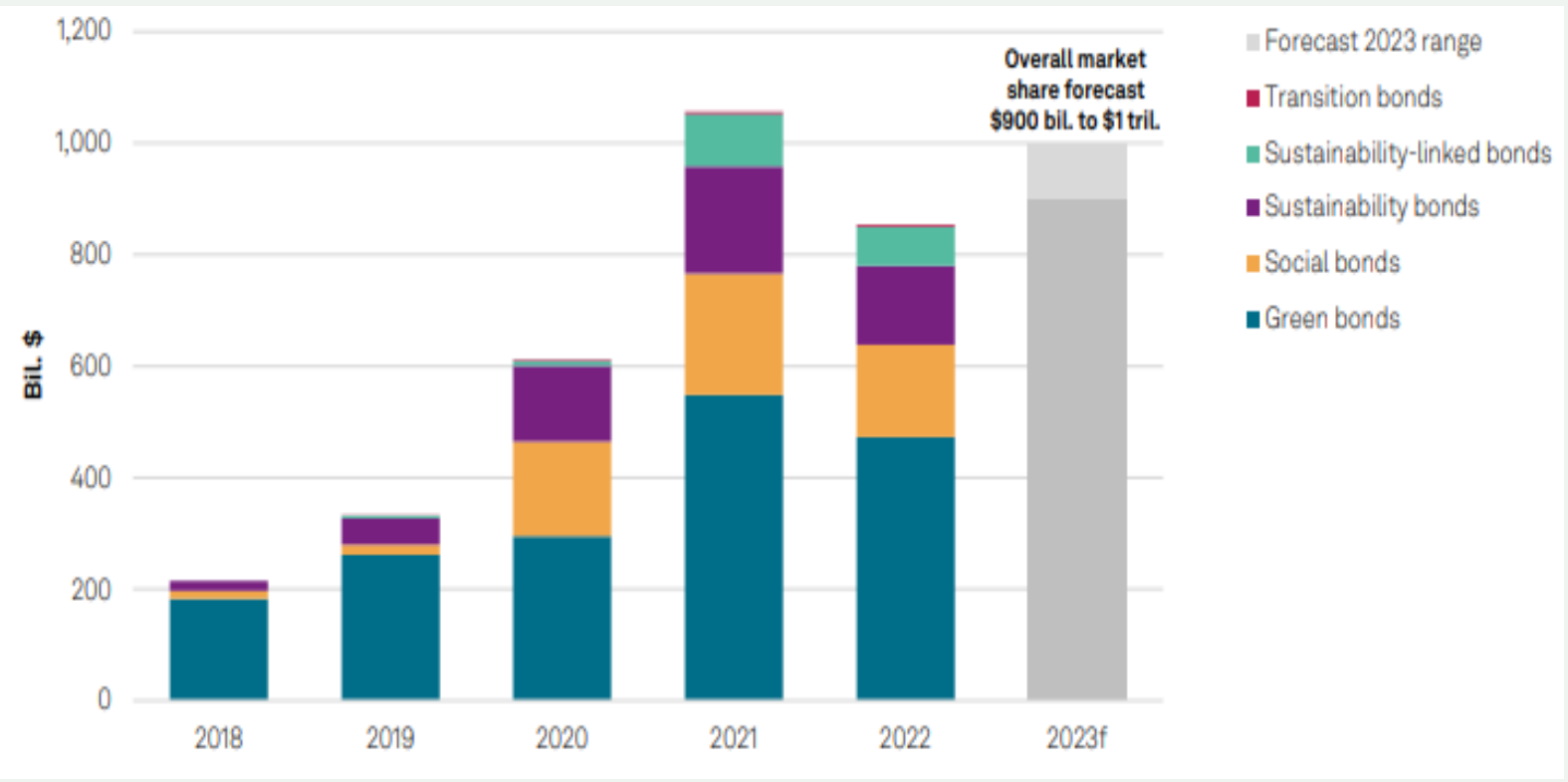
# How big is the market? Who is issuing Gender Bonds?

Over USD 2 billion across 12 labelled Gender Bonds\* in the market today, which have been issued all over the world, USD 3.3bn if we include MDBs and DFIs



\*This excludes bonds issued by DFIs and MDBs and bonds which are labelled with multiple SDGs rather than specifically “gender” or “women”

# Global Sustainable Bond Market



- Significant growth in green bond market – but still small part (2%) of global bond market – but market share increasing (2022 – 13%).
- Green bond market picking up in Africa – but still small (issued since 2006 \$4.7bn)



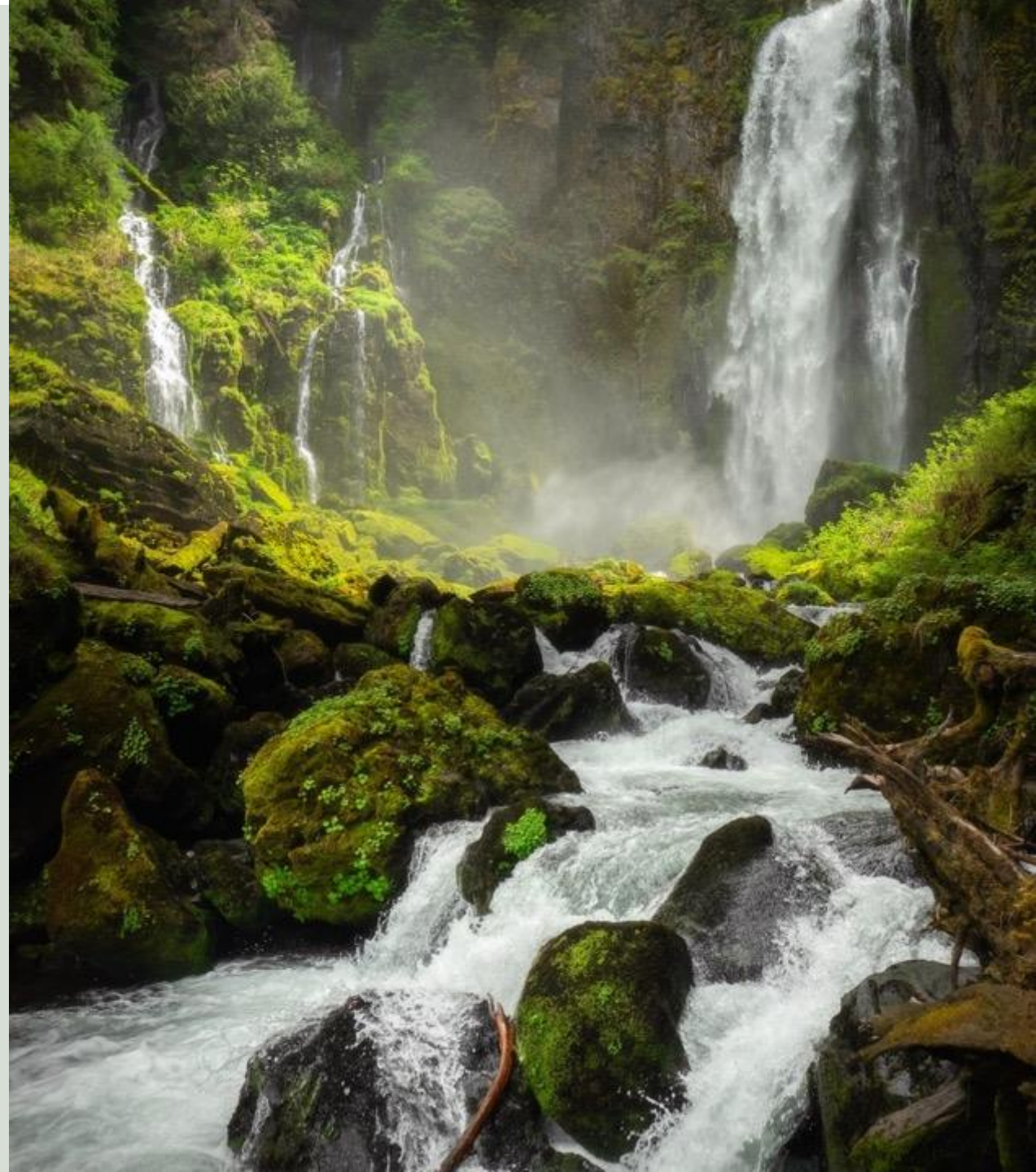
## **FSD Africa Green Initiatives**

FSD Africa Capital Markets Footprint

Gender Bonds Initiatives

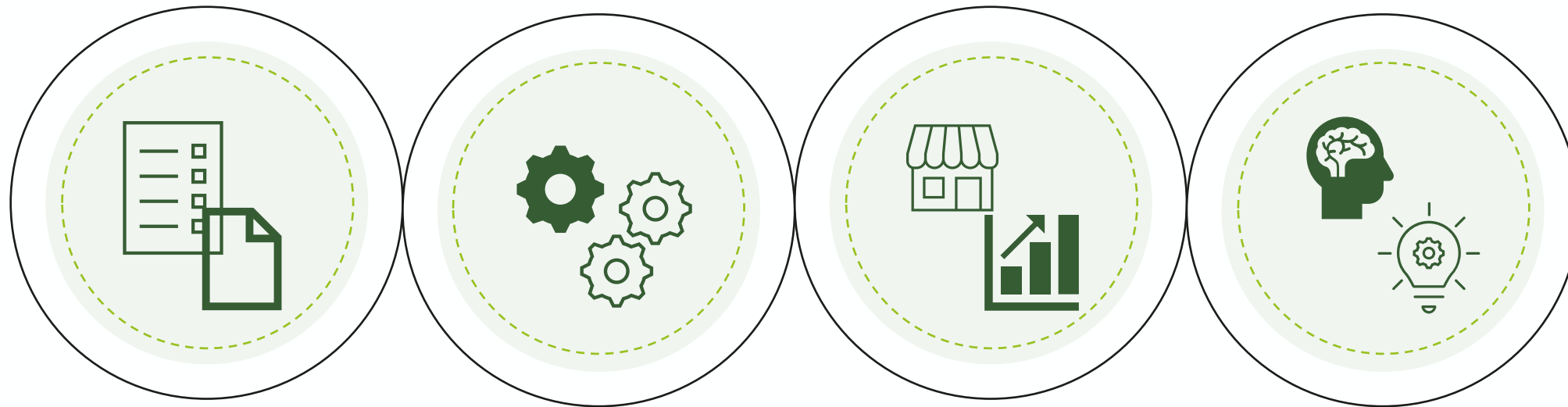
Green Finance Initiatives

Ground-Breaking Issuances



## Our Capital Markets Development Approach

We develop Africa's capital markets to increase the availability of long-term finance for economic development, to achieve a sustainable future for Africa's people.



Development of enabling policies and regulations

Supporting product development through demonstration transactions

Development of market infrastructure

Thought leadership, knowledge sharing and capacity building

**"FSD Africa is different because we are an African, neutral, nimble, risk-bearing, hands-on delivery partner"**

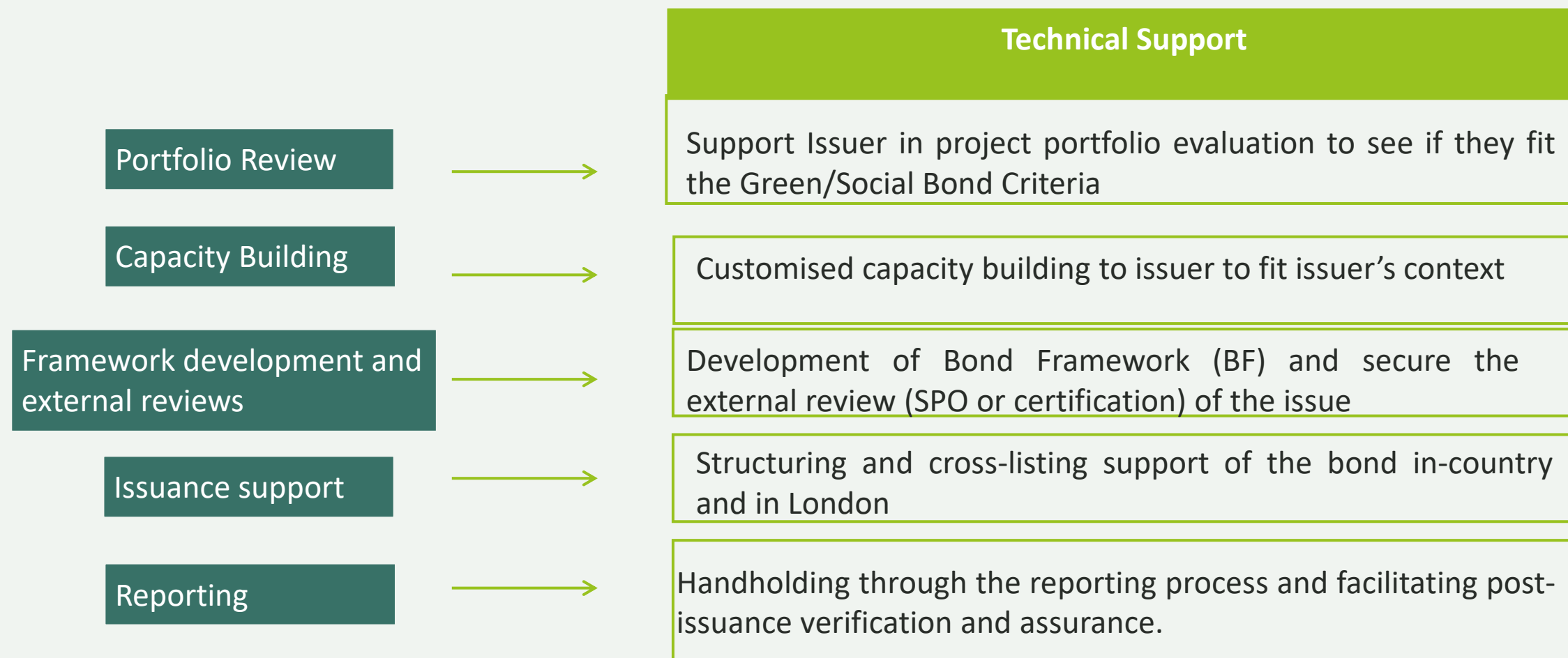
# How we do it

We support our partners by drawing on a range of market development instruments.





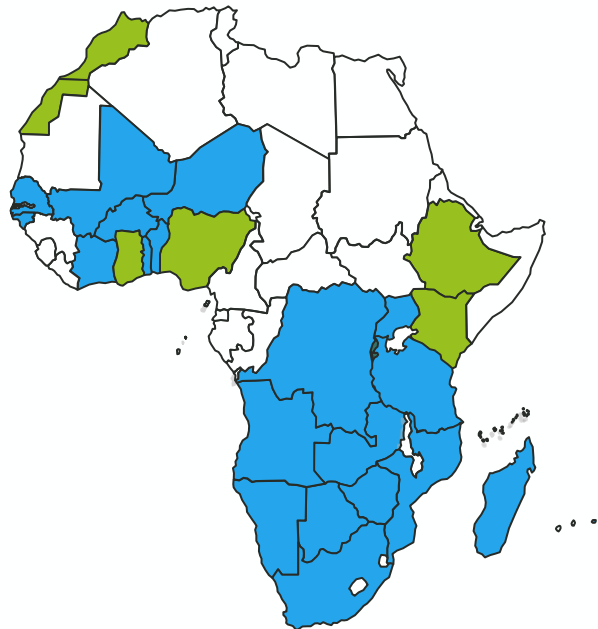
# FSD Africa's Technical Assistance Thematic Bonds Toolkit



# FSD Africa Capital Markets Footprint

## Our Portfolio

Implementing over 60 projects in 33 countries across Africa

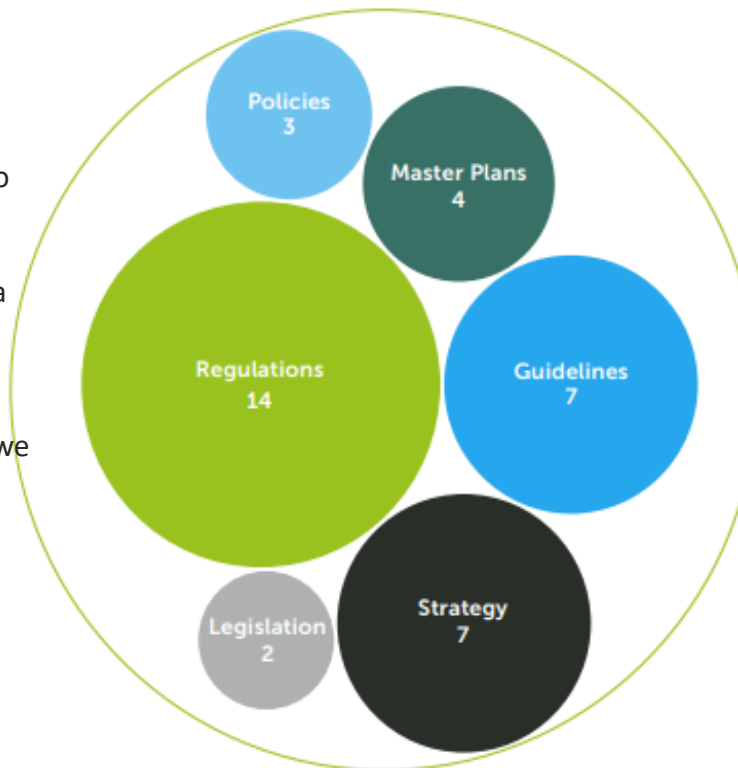


## Key achievements

### Regulatory Initiatives

#### Regulatory initiatives

- Ethiopia
- Ghana
- Kenya
- Morocco
- Nigeria
- Rwanda
- Tanzania
- UEMOA
- Uganda
- Zambia
- Zimbabwe



### Demonstration Transactions

#### Green Bonds/Products

- Nigeria – US\$162mn
- Kenya – US\$109mn
- Morocco – US\$95mn
- Rwanda – US\$3.3mn

#### Gender Bonds

- Morocco – US\$21mn
- Tanzania – US\$33mn

**Total – US\$423mn**

# FSD Africa Gender Bonds Support

## Regulatory Support – Case Studies

<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; margin: 0;">Morocco</p> <p style="margin: 0;">Supported the Morocco capital market regulator, AMMC, in the development of its gender bond issuance guidelines.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; margin: 0;">Ghana</p> <p style="margin: 0;">Provided technical assistance to develop green bonds and social bonds guidelines in Ghana.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; margin: 0;">Tanzania</p> <p style="margin: 0;">Provided technical assistance to develop green bonds and social bonds guidelines in Tanzania. The social bond guidelines are being referenced in the further development of thematic bonds issuances across the continent.</p>
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## Transactions – Case Study

<b>Issuer</b>	NMB Bank Plc
<b>Date of issue</b>	February 2022
<b>Country of issue</b>	Tanzania
<b>Amount raised</b>	TZS 73.8bn (\$30 million)
<b>Tenor</b>	3 years
<b>Coupon rate</b>	8.5% per annum
<b>Use of proceeds</b>	Lending to women-led or women-owned MSMEs or to MSMEs that manufacture goods that disproportionately benefit women
<b>Listing authority</b>	Dar es Salaam & Luxembourg Stock Exchanges



## Ground-breaking Issuances Supported by FSD Africa

### Morocco

First gender bond in Africa  
First green mobility bond in Africa

### Nigeria

First African green bond  
First certified corporate green bond in Africa  
First green Sukuk in Africa

### Rwanda

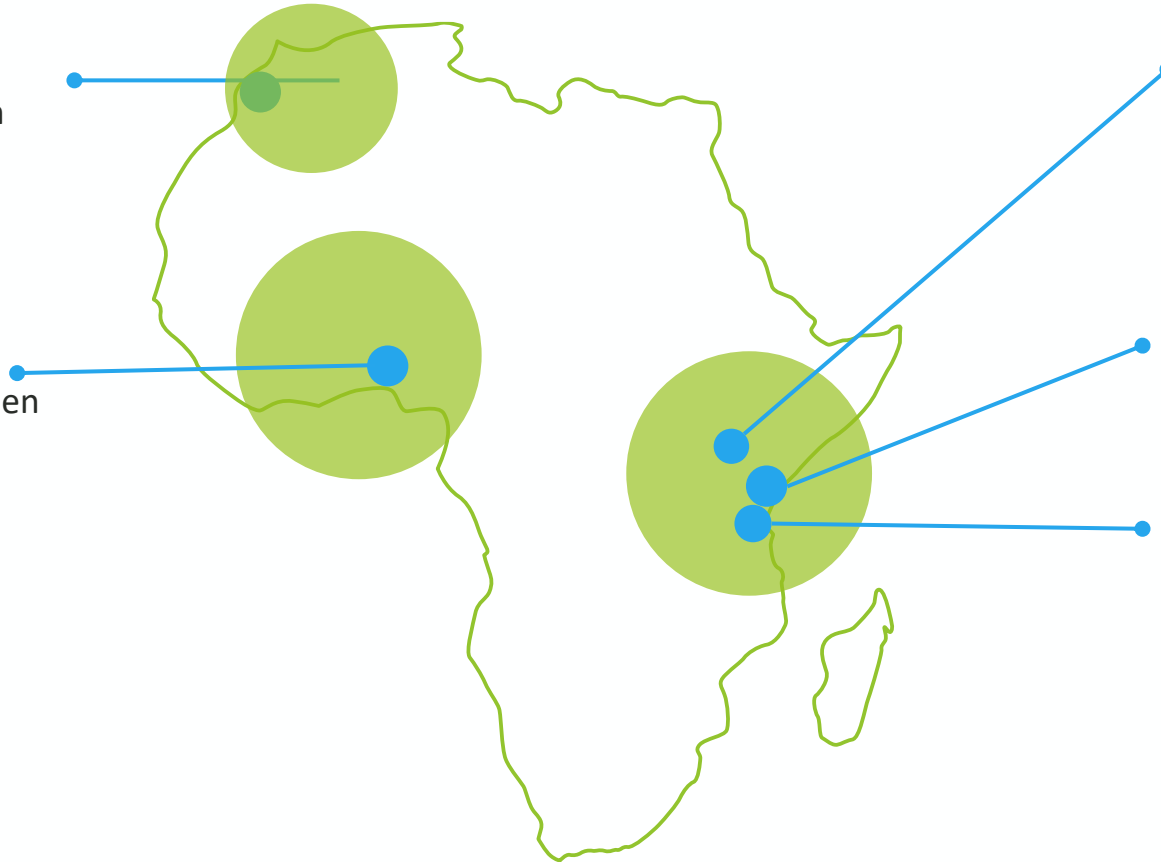
First bond issuance by an unlisted entity

### Kenya

First green bond issuance  
First Green REIT in Africa

### Tanzania

First listed gender bond in Africa



“We don’t inherit  
the Earth from  
our ancestors, we  
borrow it from  
our children.”

- African proverb

