

From debt to opportunity: Unlocking domestic capital for climate and nature under fiscal pressure

DATE:
Day 3

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PARTNER(S):
FSD Ethiopia and others under discussion: S&P Global, Moody's, Lion's Head Global Partners, Africa50, AfDB, Gridworks, EBRD

OVERVIEW:

Africa faces a dual challenge: closing its \$190 billion annual climate finance gap while navigating increasingly constrained fiscal space. Governments across the continent are responding to fiscal pressures by absorbing significant volumes of domestic liquidity through high-yield sovereign bonds, crowding out investment in climate and nature-positive sectors.

Domestic institutional investors—such as pension funds, insurers, and mutual funds—hold over \$2.4 trillion in assets yet allocate less than 10% to sustainable sectors. High returns on government securities, lack of investable green pipelines, and weak enabling environments compound the challenge. Without bold shifts in policy, regulation, and financial innovation, this domestic capital will remain locked in low-impact assets.

This session will confront the uncomfortable truth: Africa's over-reliance on domestic borrowing could be undermining its climate ambitions. But it will also chart a path forward, outlining how policymakers, regulators, development partners, and financial institutions can rebalance incentives, reduce risk, and unlock institutional capital for a greener, nature-positive future.

OBJECTIVE

- **Illuminate** how high levels of public debt distort domestic investment flows, diverting them away from climate and nature priorities.
- **Diagnose** the structural, policy, and regulatory barriers that prevent institutional investors from allocating capital to sustainable sectors.
- **Showcase** Africa-led innovations — including sustainable finance products, de-risking mechanisms, and enabling policy frameworks—that are shifting investment incentives.
- **Catalyse** new partnerships and commitments among governments, regulators, and institutional investors to develop and scale domestic climate finance solutions.

EVENT DESCRIPTION

This high-level session, aligned with the ACS2 vision of African-led climate action and financial transformation, will bring together public and private sector leaders to examine how fiscal policy interacts with sustainable investment flows. It will explore how public debt can be managed more strategically to avoid suppressing private capital mobilisation and instead serve as a catalyst for market development. The event will surface policy levers and proffer recommendations on fostering collective action to unlock domestic climate and nature finance despite tight fiscal realities.

The discussion will delve into:

- The investment behaviours of domestic institutional investors and how they are shaped by sovereign debt dynamics.
- Policy and regulatory reforms and financial solutions needed to realign incentives toward climate and nature-positive investments, showcasing successful Africa-led solutions.
- Opportunities for collaboration between governments, DFIs, and the private sector to create investable pipelines, improve risk-return profiles, and stimulate institutional demand.

This session will serve as a springboard for real-world implementation, focused on piloting models, building technical capacity, and forging the partnerships needed to mainstream sustainable finance in Africa's domestic capital markets.

EXPECTED OUTCOMES

- **Joint Call to Action** from participating stakeholders (African governments, Institutional Investors, DFIs) on unlocking domestic capital for climate and nature.
- **Summary report** synthesising barriers, levers, and recommendations to be published post-event.
- **Formation of a technical working group**, comprising participating Ministries of Finance, MDBs to spearhead the implementation of recommendations from the session.
- **Institutional commitments** to develop or scale climate-aligned investment products or pilot transactions and identification of **pilot transactions** and co-investment opportunities by institutional investors, DFIs and governments.