

Why Green Bonds Matter in Africa



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Climate Change – Opportunities for Africa

**‘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





- Limiting global warming to 1.5°C requires rapid and far-reaching transitions in energy, land, urban and infrastructure (including transport and buildings), and industrial systems.
- OECD estimates annual investment needs of US\$6.9 trillion up to 2030 to meet climate objectives.
- Requires mobilization of private and public funds.
- Government policies that reduce the risk of climate-friendly investments and the mobilization of private funds.
- The bond markets through Green, Social and Sustainability Bonds can play an essential role in attracting private capital for climate finance.

Green Finance Trends: Global and African, Today and Tomorrow

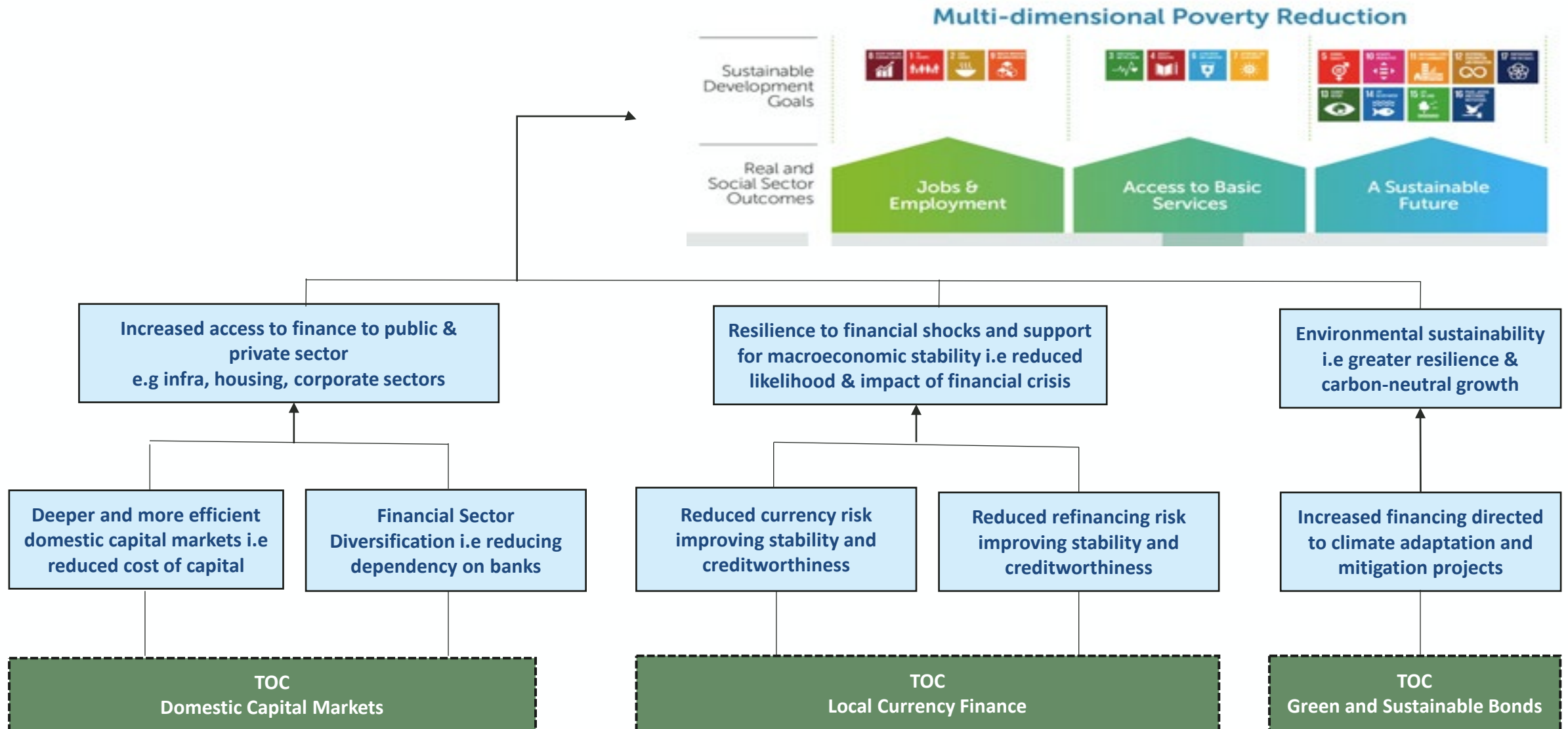
\$60 trillion	Required to achieve the Paris Agreement from now until 2050
\$1.2 trillion	Required annually for mitigation
\$180 billion	Required annually for adaptation
56%	Of climate finance is private finance
2.6%	Climate finance invested in SSA (2015/2016) (\$270b)



Opportunity

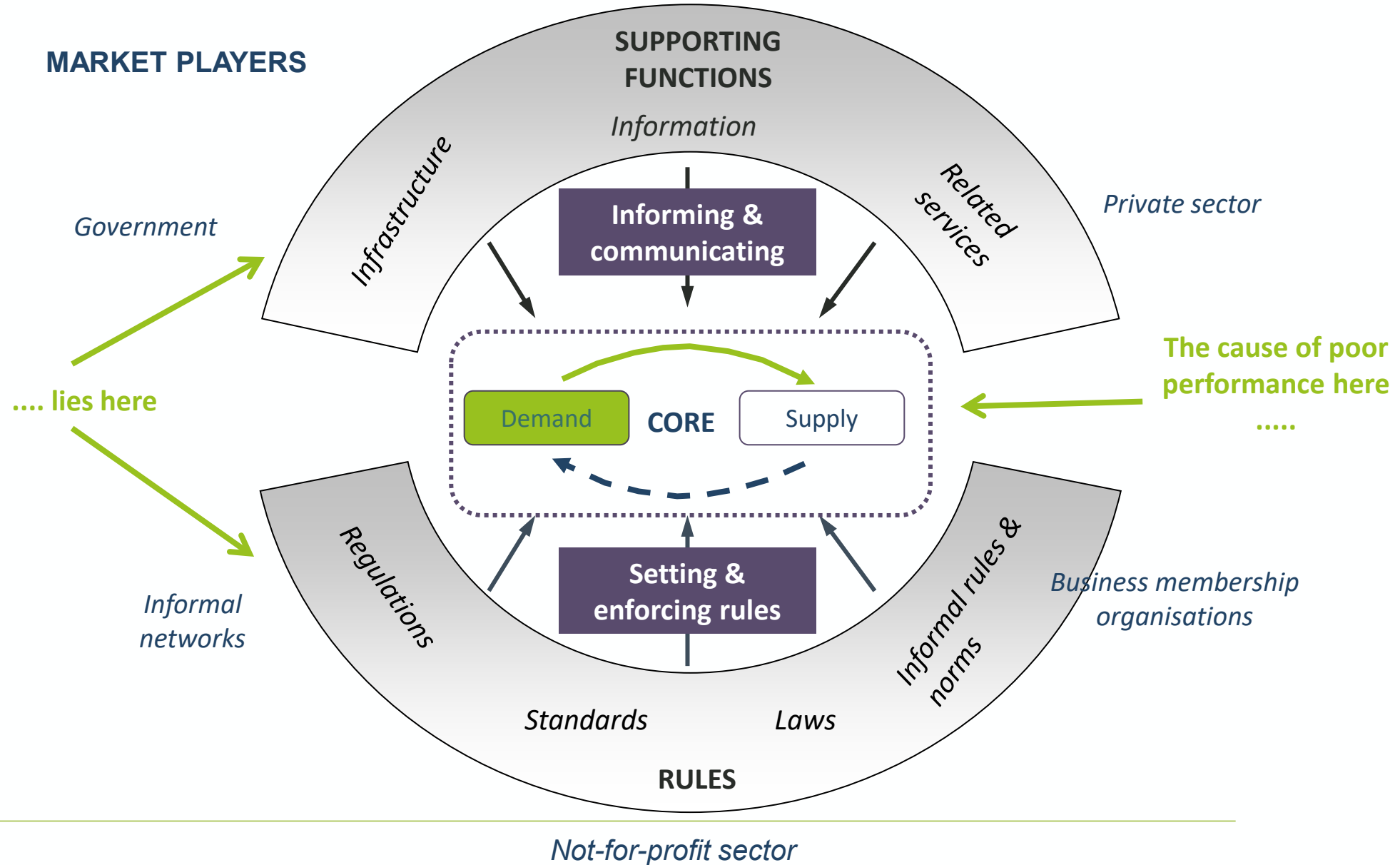
- SSA governments have limited fiscal space. Their economies are not expected to recover their recent Covid losses for five years. The funding gap (2020-23) is estimated at \$410bn.
- Crowding in private finance from international and domestic sources is a necessity, not a nice to have...
- Green economy can deliver faster, better quality growth (UNEP)
- Global financial industry is undergoing a **transformation to decarbonise** – reducing its exposure to assets that carry climate risk and actively increasing investment towards green projects.
- Climate change presents a **US\$ 3 trillion investment opportunity** in Africa by 2030 with 75% of the investment expected from the private sector.
- Over 60% of NDCs of African countries are subject to available finance, capacity and technology transfer.

Capital Markets: Overall Theory of Change

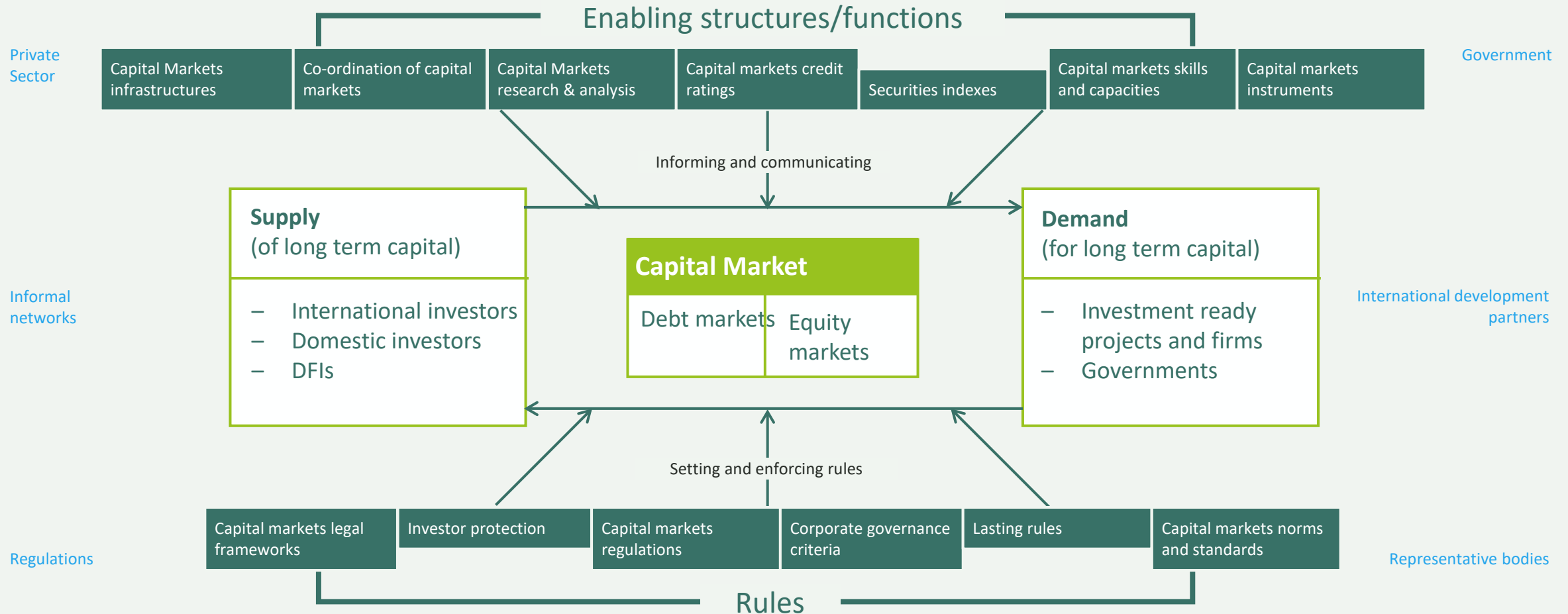


Capital markets remain underdeveloped in Africa, limiting access to finance and undermining economic development.

The market system

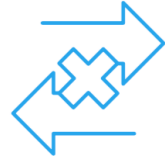


Example of a market system (capital market)



How we work- Green Bond Programme

Approach to market is critical for all interventions. Understanding the market interdependencies and components. We work with them in parallel to ensure efficiency and success



Policy/Regulation

Policy development promotes financial stability and resilience of the financial sector. It promotes better collaboration and sustainable product development.



Market Infrastructure

A developed capital market infrastructure provides incentives for innovative product development and access to inclusive capital by market actors who demand capital.



Market Actors

Well-developed market infrastructure is critical to the efficient functioning market and allows well-capacitated market actors to participate actively in the market.

Policy and Regulation

We play a unique role in driving sustainable policy development that will facilitate the growth of green bond issuance.

Market Fragmentation

- Clear guidance to the ministries- Eligibility criteria for climate-smart infrastructure projects
- Enhances collaboration between the MDA's
- Clear pipeline development for the green bonds
- Sustainable borrowing programme over the years and demand for the green bonds
- Invites foreign investors to the market



FEDERAL REPUBLIC OF NIGERIA

FGN 2022 Budget Call Circular

Federal Ministry of Finance, Budget and National
Planning (FMFBNP)
Abuja

19th August, 2021

Market Infrastructure

We work together with our local partners to ensure the availability of a range of services that support governments, investors and financial institutions are in place to contribute to economic growth.

Innovation

- Innovation- 1st Green bond in Africa (Pre & Post Issuance verification).
 - Promoting access to inclusive capital
 - Fostering risk-taking and long-term investments. Longer-dated bonds
 - Capital flow fluctuation
 - Private capital
-



Federal Government of Nigeria

Offer for Subscription

Of

N10,690,000,000

Series I: 5 Year [13.48] per cent Fixed Rate Bonds due 2022

Book Open: December 18, 2017

Book Close: December 20, 2017

FINANCIAL ADVISER/ BOOKRUNNER

CHAPEL HILL  DENHAM

ADVISORY LIMITED

RC 1381308

Supported by:



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Market Actors

Our technical assistance facility catalyses market actors through capacity enhancement and knowledge transfer to ensure sustainability in the issuance of Green Bond.

Demonstration

- **Capacity building**
- **Diversification**
- **Collaboration**



Federal Republic of Nigeria

The Federal Ministry of Environment, represented by the Department of Climate Change
in partnership with the
Federal Ministry of Finance, Budget and National Planning, represented by the Debt
Management Office



Green Bond Framework

The Federal Ministry of Environment as
National Focal Point for the UNFCCC is
responsible for the preparation and fair presentation
of this Green Bond Framework as of
15 May, 2020

Supported by:



FSD Africa Green Bonds Programmes

Demand-led foot-print. We have mobilized US\$200 million through green bonds in Nigeria and Kenya

Morocco

Green bonds transactions

WAEMU

Green bonds pipeline
Scoping (8 countries)

Ghana

Green bonds scoping
GSE Green listing requirements

Nigeria

Green bonds programme
Regulations and transactions – 6
transactions supported to date

Rwanda

Transactions support, policy

Kenya

Kenya sovereign green bond
Payment for Ecological Services
Kenya Green Bonds Programme -
transactions support
Support to Climate Finance Unit
Universities Solar Financing Project
Green Fiscal incentives Policy

Malawi

Green bond transaction support

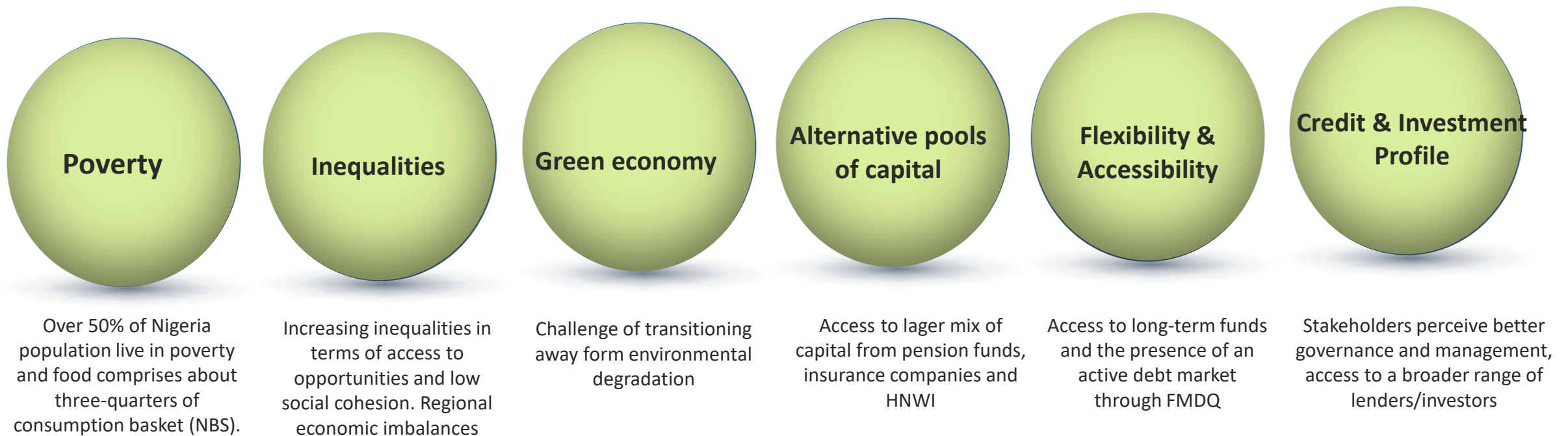
Regional

- Climate finance training – CISL/IIED/ESAMI
- IOSCO - AMERC sustainable finance support
- SADC Green bonds programme (16 countries)
- Africa Green Finance Coalition
- Task-Force for Nature-related Financial Disclosures

Attraction of Green Bonds

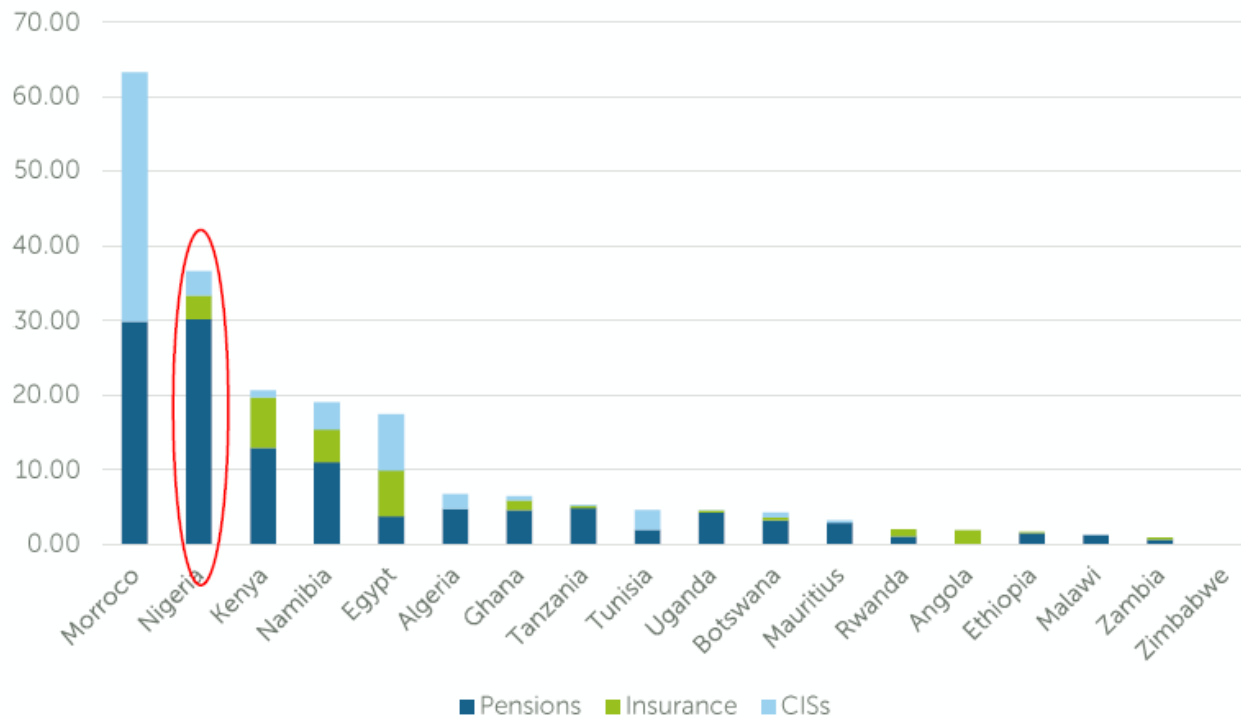


Merits of Green Bonds

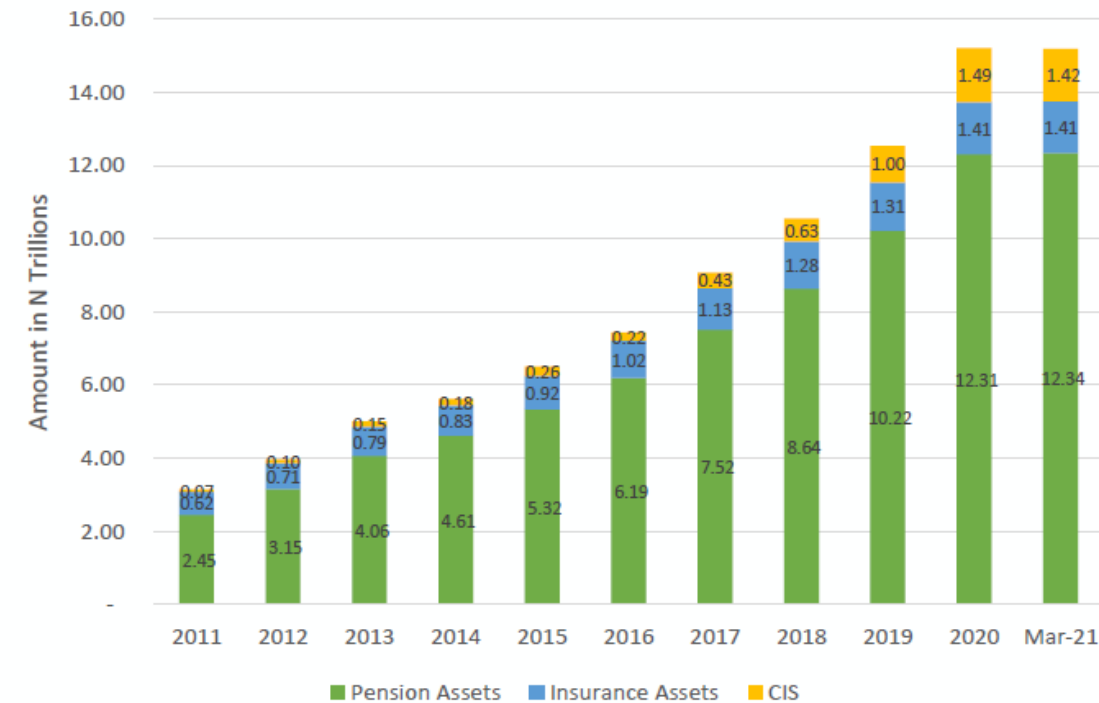


Investor Base

Institutional Investor Asset Base USD\$Bn 2020*



Nigeria Institutional Assets in N Trillion



Source: PENCOM, NAICOM, SEC Nigeria

Some Issues with Green Bonds

Risks

- ❑ Risk of green washing – i.e. concerns around refinancing
- ❑ Certification – not equivalent to credit quality
- ❑ Complex impact reporting – can also be costly particularly for DIBs & SIBs

Costs to Issuers

- ❑ Cost of verification/certification
- ❑ Pricing – increased demand not fully reflected in the pricing of issues
- ❑ Time – verification process imposes additional time to issue
- ❑ Small size (non-benchmark) issues – secondary market implications

Reporting

- ❑ Lack of standardization in the reporting process

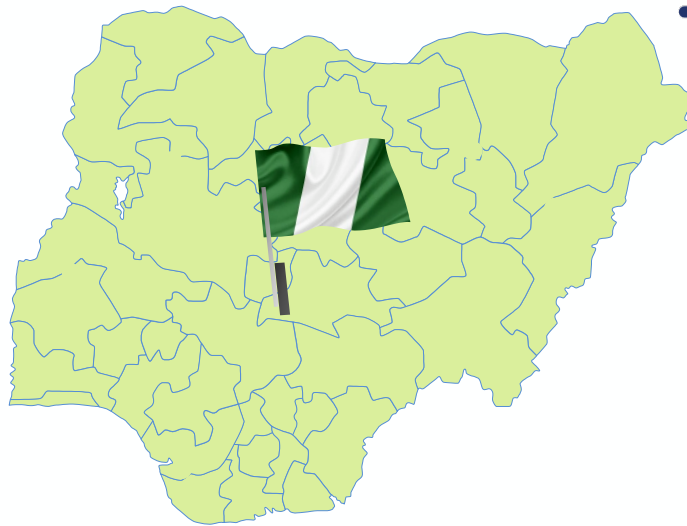
Market Awareness

- ❑ Lack of awareness – investors, issuers, intermediaries and regulators

Requirements

- ❑ Additional disclosure requirements to conventional bond issues
- ❑ Large array of standards and rating tools – can confuse issuers & investors
- ❑ Inconsistence on transitional investments i.e. clean coal (China) gas (Nigeria)

Green Bonds Programme Nigeria



The Nigeria Green Bond Program (NGBP) is focusing on building an ecosystem for green bonds in Nigeria:

- Developing issuance guidelines and listing requirements for Green Bonds in Nigeria ([issued by SEC Nigeria](#))
- Developing a pool of Nigeria-based licensed verifiers ([training done](#))
- Developing a pipeline of green investments and engaging with investors ([4 issues: Access Bank, NS Power, OneWattSolar](#))
- Developing a debt capital market reform agenda that would support green bonds ([FMDQ Green Exchange](#))



NGBP also supported the certification process for the Nigerian Sovereign Green Bond – the first globally



Thank you