

## CAPITAL MARKETS

# Presentation on Sustainable Bond Markets at the 6th edition of the WAMU Government Securities Market Meetings Cotonou, Benin

Victor Nkiiri, Senior Specialist, Capital Markets  
Cecilia Bjerborn Murai, Senior Specialist, Green Finance  
Financial Sector Deepening Africa

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## ABOUT FSD AFRICA



FSD Africa is a specialist development agency, funded by UK aid from the UK government, to help make finance work for Africa's future. Based in Nairobi, FSD Africa's team of financial sector experts work alongside governments, business leaders, regulators, policymakers, and development partners to design and build ambitious programmes that make financial markets work better for everyone. Established in 2012, FSD Africa is incorporated as a non-profit company limited by guarantee in Kenya.



## ABOUT THE CAPITAL MARKETS TEAM AT FSD AFRICA

At FSD Africa, we are passionate about building capital markets to address Africa's most pressing developmental challenges, create economic opportunities, deliver environmental benefits, address fragility and vulnerability, reduce poverty and achieve a sustainable future for Africa's population.

Since 2015, our dedicated team of Capital Markets development professionals has been driving capital markets innovation and development in Africa.

Our capital markets team lead over 50 initiatives in more than 30 countries. We work in close partnership with private sector leaders and governments on a range of flagship programmes – from product development in areas such as gender, green and carbon-linked sustainability bonds to regulatory support, policy development, new market infrastructure, engagement with institutional investors and institutional strengthening.







## WHY CAPITAL MARKETS MATTER

At FSD Africa, we believe the role of Africa's capital markets has never been more critical. Capital markets are a key enabler to achieving a sustainable future for Africa's economies. Capital markets play an important role in increasing access to finance for public and private sectors, increasing the availability of green finance for mitigation, adaptation and resilience to climate change and biodiversity loss. Furthermore, local currency capital markets can diversify the financial sector reducing dependency on banks, reduce currency and refinancing risks, improve the financial sector's resilience to external shocks, and support more efficient intermediation of scarce domestic savings.



## WHAT IS THE CHALLENGE(S)/FAILURES IN AFRICAN CAPITAL MARKETS

In most African countries, the building blocks of efficient capital markets are not in place. Capital markets remain under-developed, characterised by:

- A limited number of bankable projects
- A lack of orderly markets with sound regulatory environments, low transaction costs, appropriate tax regimes and availability of market data
- A lack of competent and motivated intermediaries
- An undiversified investor base - domestic institutional investor assets under management in Africa currently exceed US\$1 trillion, but these are shadowed by unsupportive investment regulations and weak capacity of asset managers.

Furthermore, in most markets in Africa private investments are crowded out by governments which compete with the private sector for limited domestic private savings, thereby reducing the supply and raising the cost of credit. Higher yields on government securities contribute to raising interest rates on private borrowing.





## HOW DO WE ADDRESS THESE CHALLENGES?

### OUR APPROACH TO CAPITAL MARKET DEVELOPMENT

FSD Africa's capital markets team has a four-pronged approach to creating sustainable impact across Africa. We support:

The development of enabling policies and regulations

Involves providing technical assistance to support the development and review of policies, guidelines, and regulations to enable new capital markets products or structures.

The development of market infrastructure

Involves the provision of technical assistance and financial support to develop appropriate and well-functioning market infrastructure. This includes Over-The-Counter (OTC) exchanges for trading fixed income securities, securities/stock exchanges and credit enhancement facilities.

The development of products through demonstration transactions

Focuses on providing technical and financial support for various transactions to demonstrate their feasibility, crowd in investors, and promote replicability across the markets. These transactions could be corporate or government (sovereign) transactions.

The capacity building of market stakeholders through research, thought leadership and knowledge-sharing

Includes research, toolkits production, data portals development, training and peer learning programmes, workshops, and forums to build capacity and knowledge amongst market stakeholders.

## OUR INSTRUMENTS AND TOOLS

FSD Africa's Capital Markets team works alongside governments, development partners, business leaders, regulators, and policymakers to design and build ambitious programmes that make capital markets in Africa work better for everyone.

FSD Africa's Capital Markets team supports its partners by drawing on a range of market development tools and instruments, including:



Non-Financial Tools and Instruments – Technical assistance, advocacy, convening and market insights



Financial Tools and Instruments – grants, returnable grants, investment capital (through FSD Africa Investments)

We design our programmes around the varying needs of our partners. We deliver a bespoke response while maintaining our ability to deliver quickly and quality result.



## WHERE WE WORK

FSD Africa's Capital Market team has a footprint in over 30 countries. In line with FSD Africa's new vision, to concentrate its impact in fewer places whilst maintaining its regional footprint, the Capital Markets team will work more intensively than ever in five priority countries - Ethiopia, Ghana, Kenya, Morocco and Nigeria, whilst maintaining a regional footprint across Africa.





## WHAT WE'VE ACHIEVED SO FAR

Our approach has a strong policy and transaction focus. Our team has been responsible for supporting innovative transactions in several markets, focusing on sustainability themed bonds and the rapidly emerging field of nature-based financing. We have supported or facilitated:



At least 14 innovative transactions, helping sovereign and corporate issuers in Kenya, Nigeria, Mauritius, Morocco, Rwanda, and Tanzania raise an equivalent of approximately £320 million in local currency.



Over 30 regulatory development initiatives to develop legislation, regulations, guidelines, and policy documents that form the foundation for product development and transactions in African capital markets.



Over 15 knowledge products including toolkits, feasibility and diagnostic studies and data tools to provide thought leadership in African capital markets.



Training of over 6,000 regulators, policymakers, and market participants across Africa's capital markets, to provide thought leadership and build the capacity of market actors.



Over 6 peer learning platforms or forums for African regulators and supervisors to benchmark and learn from peers in other African capital markets.



Over 4 market infrastructure development initiatives across Africa including Over-the-Counter exchanges for trading fixed income securities, stock exchanges, credit enhancement facilities and electronic trading platforms.

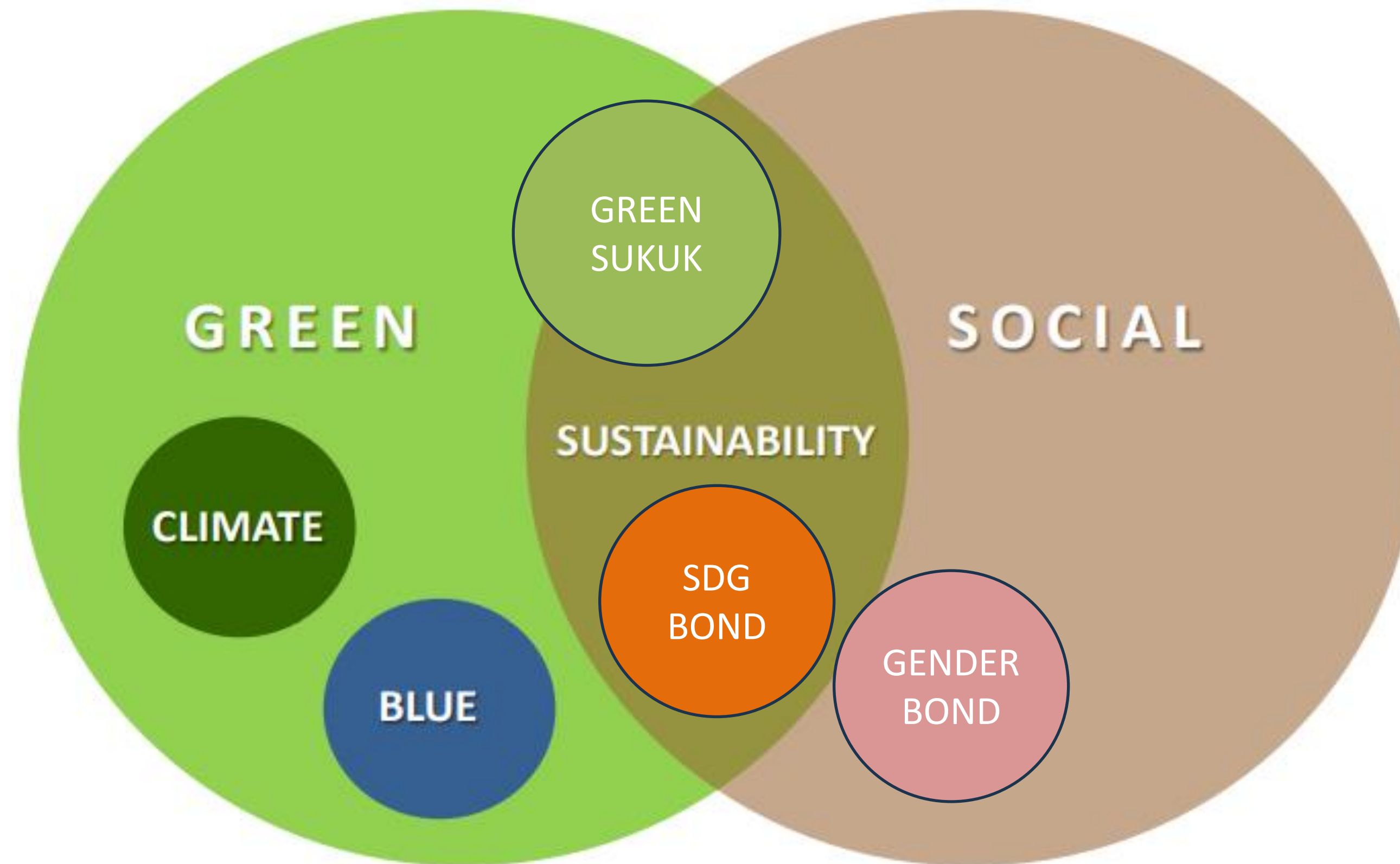


# Sustainable Bonds – What are they and why are they relevant?





# The Sustainable Bond universe and definitions overview





# Definitions and types of labelled bonds cont.

**Figure 1: Labelled Bond Definitions**

<b>Green Bond</b>	A bond is labelled 'green 'or 'environmental' where the proceeds from the bond are directed to projects or assets with environmental benefits
<b>Climate Bond</b>	A subset of green bonds, where proceeds are directed to projects/assets that have specific climate benefits
<b>Certified Climate Bond</b>	Where a green bond has been certified against the Climate Bonds Standard (CBS) as having met the criteria for Use of Proceeds and disclosure for Impact Reporting
<b>Social Bond</b>	Where the proceeds of the bond are used for projects and assets with positive social outcomes such as health care and education
<b>Sustainability Bond or SDG Bond</b>	A bond that is financing a range of both social and environmental projects/assets. An SDG Bond invests in projects and assets that are aligned and contribute to the achievement of the Sustainable Development Goals (SDGs)
<b>Blue Bond</b>	<p>The proceeds are used for projects and assets related to the marine and coastal industries and ecosystems</p> <p>The proceeds are used for projects and assets related to the marine and coastal industries and ecosystems. A Blue Bond could be categorised as a Green Bond if the project brings climate and/or other environmental benefits. A small number of "Blue Bonds" have been issued globally to date</p>

**Sustainability Linked Bond (SLB) Principles, ICMA June 2020:** KPI-linked general purpose bonds issued by entities that have adopted a strategy to contribute to pre-determined sustainability outcomes as measured by quantifiable KPIs.

**Transition Bonds:** Serves to communicate the implementation of an issuer's strategy to transform the business model in a way which effectively addresses climate-related risks and contributes to alignment with the goals of the Paris Agreement.

**Debt for Nature Swaps (DFNS):** An agreement between a debtor country and its creditors, where the former's debt stock is reduced in exchange for a verifiable commitment to invest in climate mitigation or adaptation projects

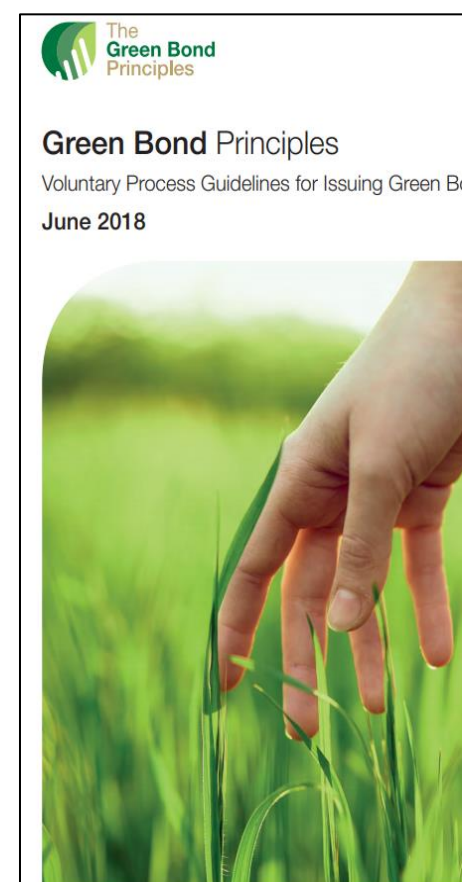


# Globally accepted principles for labelling in the green bond markets were established in 2014 (ICMA)

## Principles for issuing Green, Social and Sustainability Bonds, Sustainability-Linked Bonds

- GBP, SBP and SBG (“the Principles”) were launched by ICMA (International Capital Market Association) now serves as the secretariat for the Principles.
- **Recently released Sustainability-Linked Bond Principles (2021)**

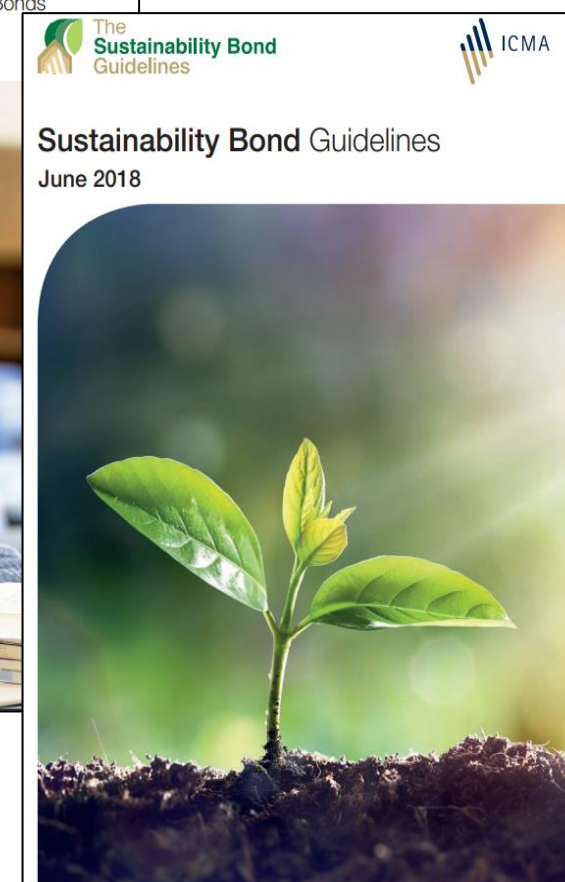
*Green Bond Principles (GBP)*



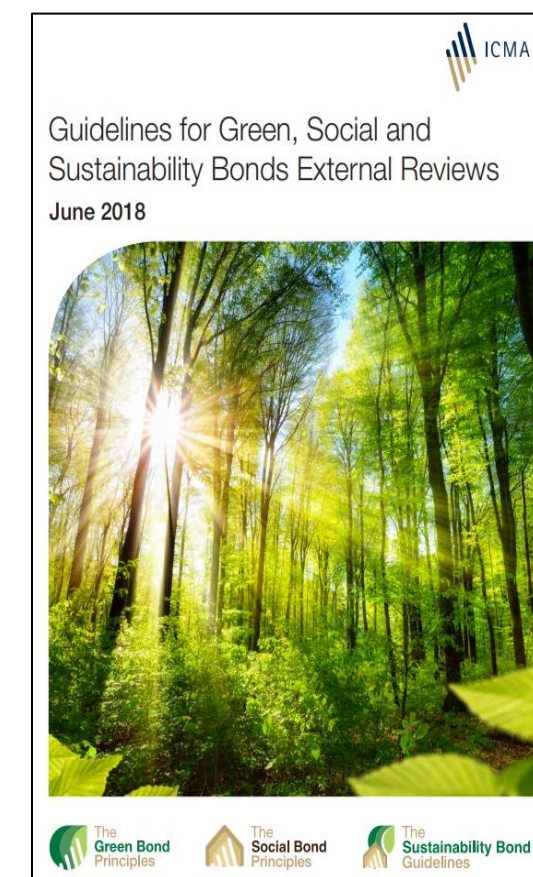
*Social Bond Principles (SBP)*



*Sustainability Bond Guidelines (SBG)*



*Guidelines for Green, Social and Sustainability Bonds External Reviews*



## Four pillars of the Principles:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

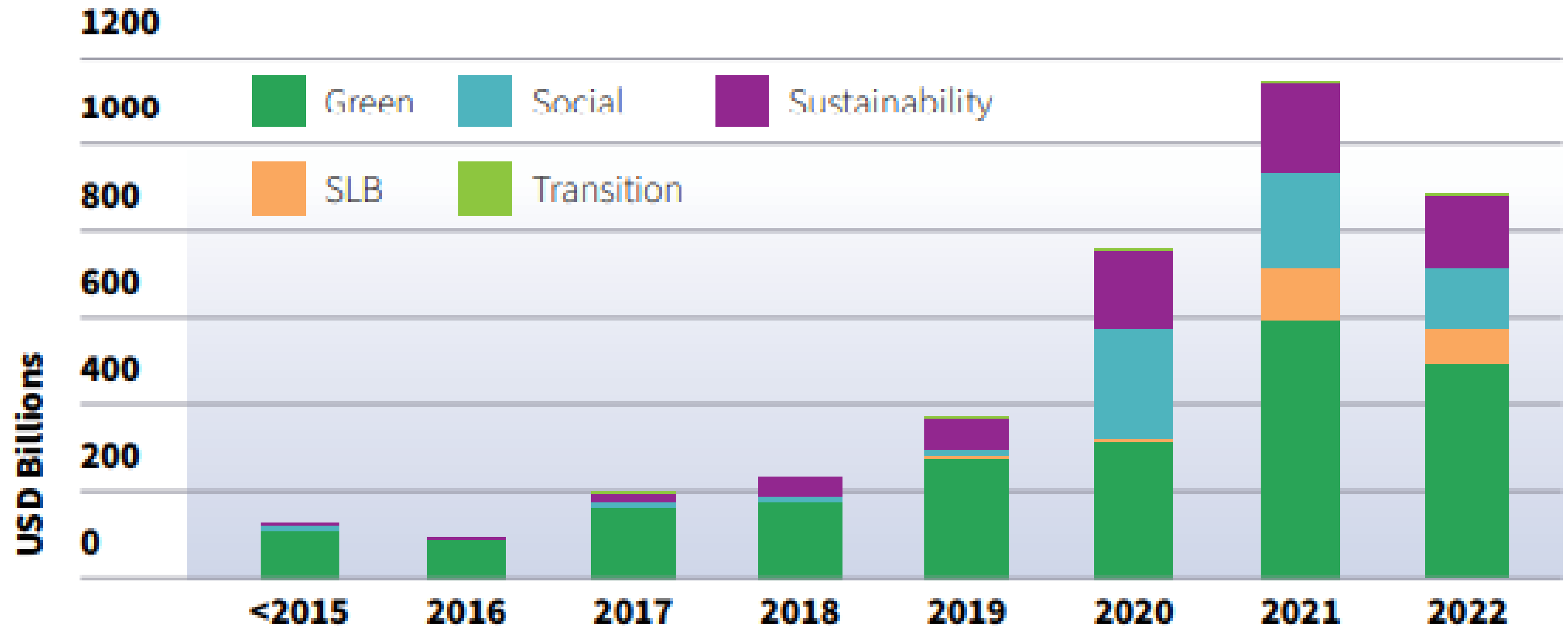
Guidelines for External Reviews provide guidance on professional and ethical standards for external reviewers, as well as to the organization and content of their reports.

Guidelines for Impact Reporting



# Labelled issuance 5-year growth. Continued record growth

GSS+ volumes reached USD858.5bn in 2022



Source: Climate Bonds Initiative

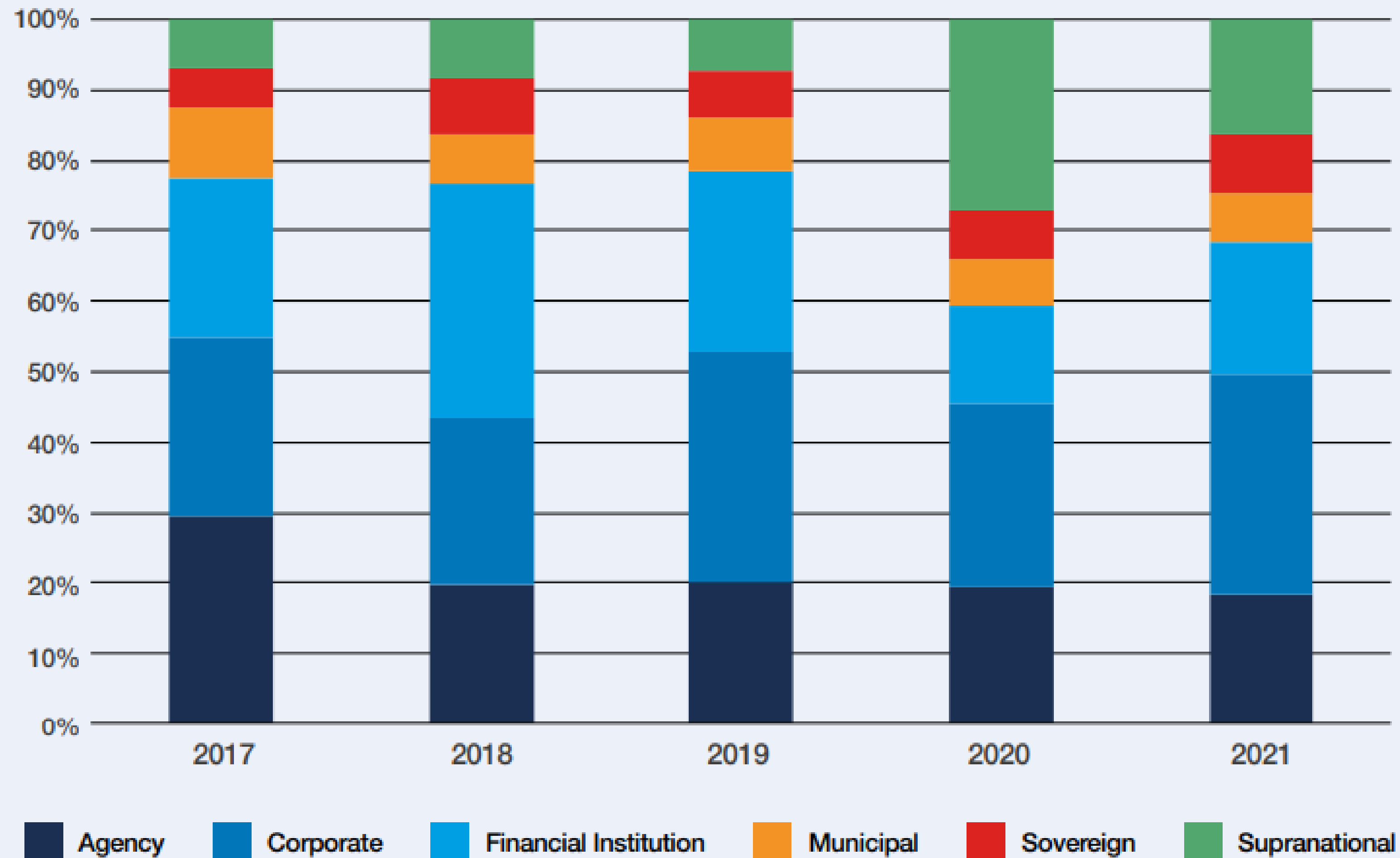
Source: Climate Bonds Initiative: Sustainable Debt Market, Summary 2022



# Sustainable Bond Market - breakdown by issuer type

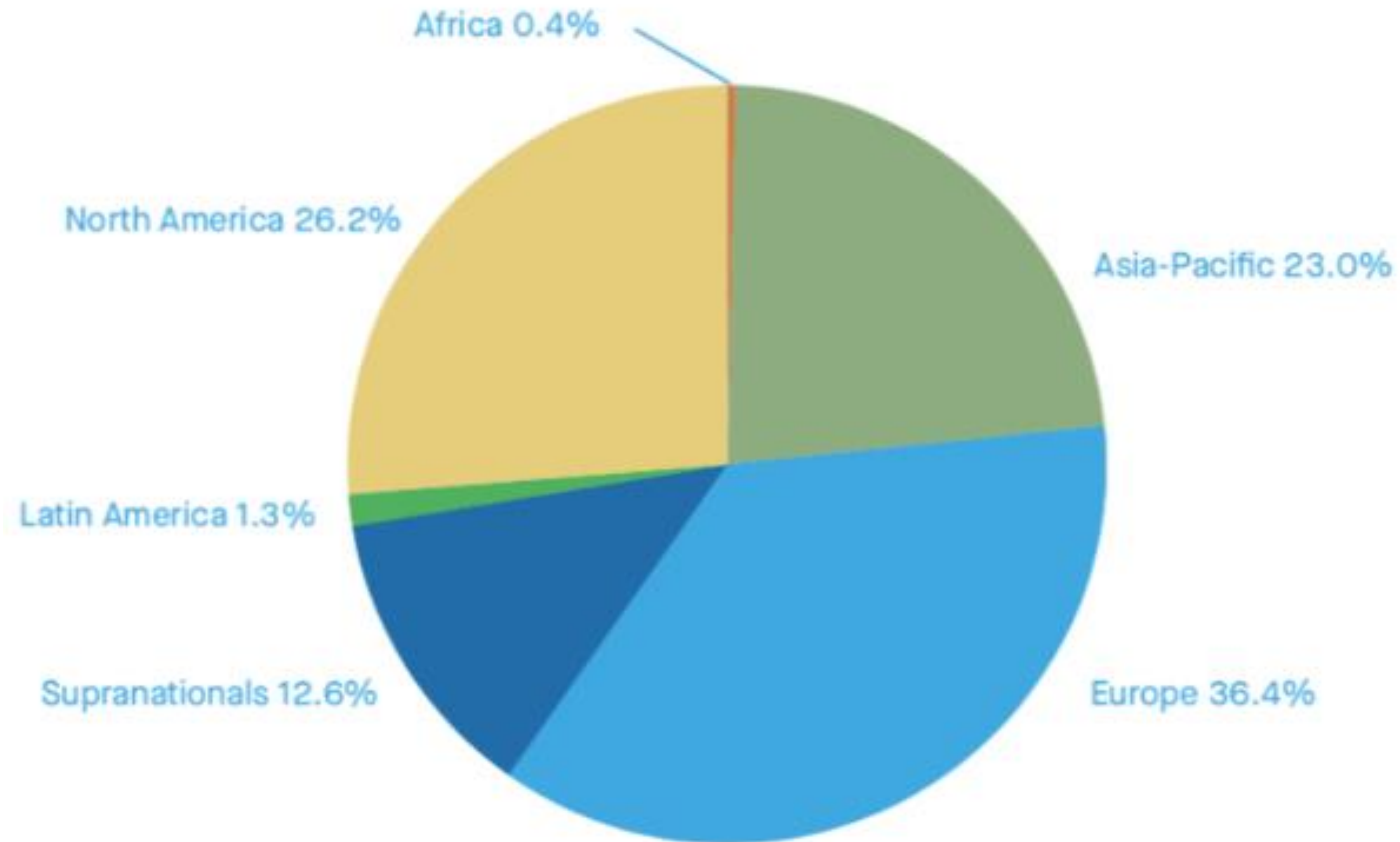
## Global corporate and sovereign issuance is growing

Figure 1: Global sustainable bonds by issuer type





# Africa's Markets Trail Behind Other Regions



*Source: Climate Bonds Initiative*



# Sustainable Bond Issuance in Sub-Saharan Africa

Full Issuer Name	Amt_Issued	Currency	USDAmt_Issued	Country	IssuerType	UoPDescription
Nedbank	1,000,000,000	ZAR	62,484,064	South Africa	Financial Corporate	Green Building
ACME Solar Holdings	334,000,000	USD	334,000,000	Mauritius	Non-Financial Corporate	Solar projects
Nedbank	125,000,000	ZAR	8,572,959	South Africa	Financial Corporate	Green Building
Standard Bank of South Africa	200,000,000	USD	200,000,000	South Africa	Financial Corporate	Green buildings, EE, Water, RE
FirstRand Bank	225,000,000	USD	225,000,000	South Africa	Loan	EE & Smart Water Technologies
Arab Republic of Egypt	750,000,000	USD	750,000,000	Egypt	Sovereign	Clean Transport
Government of Ghana	35,000,000	EUR	41,513,500	Ghana	Loan	Water Infrastructure
NedBank	1,000,000,000	ZAR	68,240,000	South Africa	Financial Corporate	Renewable Energy
Acorn Holding	4,260,000,000	KES	40,500,000	Kenya	Non-Financial Corporate	Climate resilient student's hostel
Redstone Solar Thermal Power Plant	8,000,000,000	ZAR	566,560,000	South Africa	Loan	Solar
Federal Government of Nigeria	15,000,000,000	NGN	41,584,650	Nigeria	Sovereign	Forestry, Transport, Solar & Water
Nedbank	1,662,000,000	ZAR	115,976,520	South Africa	Financial Corporate	Renewable Energy
Access Bank	15,000,000,000	NGN	41,550,000	Nigeria	Financial Corporate	Flood Defense & Solar
North South Power Company	8,500,000,000	NGN	23,622,922	Nigeria	Non-Financial Corporate	Renewable Energy
Bank Windhoek	66,600,000	NAD	4,809,718	Namibia	Financial Corporate	Solar PV
The Republic of Seychelles	15,000,000	USD	15,000,000	Seychelles	Sovereign	Fisheries (resilience, mitigation & R&D)
Casablanca Finance City	355,000,000	MAD	37,985,000	Morocco	Government-Backed Entity	Green Building & Solar
Growthpoint Properties	1,100,000,000	ZAR	93,107,300	South Africa	Financial Corporate	Gren Building
Federal Government of Nigeria	10,690,000,000	NGN	29,720,000	Nigeria	Sovereign	Solar, afforestation
City of Cape Town	1,000,000,000	ZAR	77,229,000	South Africa	Local Government	Water, low carbon transport
Banque Centrale Populaire	135,000,000	EUR	150,876,000	Morocco	Financial Corporate	Renewable Energy
BMCE Bank	500,000,000	MAD	49,900,000	Morocco	Financial Corporate	Renewable Energy and EE
MASEN	1,150,000,000	MAD	117,070,000	Morocco	Government-Backed Entity	Renewable energy: solar
City of Johannesburg	1,458,000,000	ZAR	136,419,228	South Africa	Local Government	Solar, afforestation
Nedbank	4,000,000,000	ZAR	480,936,000	South Africa	Financial Corporate	Renewable energy (wind and solar)
Industrial Development Corporation	5,200,000,000	ZAR	650,743,600	South Africa	Development Bank	Green building
OneWatt Solar	3,000,000,000	NGN	7,300,000	Nigeria	Non-Financial Corporate	Solar
First National Bank (Namibia)	353,000,000	NAD	24,300,000	Namibia	Financial Corporate	Solar, green buildings
Standard Bank Namibia	400,000,000	NAD	27,536,800	Namibia	Financial Corporate	Solar, wind farms
Bank Windhoek	460,000,000	NAD	33,333,000	Namibia	Financial Corporate	Solar PV & Smart Agriculture
Emergence Plaza	10,000,000,000	CFA	17,800,000	Cote d'Ivoire	Non-Financial Corporate	Green building

Source: Climate Bonds Initiative 2023



# Attraction of Sustainable Bonds – let’s hear from issuers!

Investors	Issuers
Balance financial returns with environmental benefits	Improves investor diversification – both domestic and international
Satisfies Environment, Social and Governance (ESG) requirements and green investment mandate	Lower cost of capital – Strong investor interest may tighten yields . As part of liability management or new capital raise
Risk management – enable hedging against climate policy risk/stranded assets	Investor engagement & “stickiness” - typically green bond Investors invest for the long term
Reputational benefits	Reputational benefits - strong message about the Government’s commitment to sustainability outcomes!
Improves transparency and enables deeper engagement with company management	Alignment with Government Development Plans, Energy Development Plans, NDCs
	Availability of guarantees and technical support.



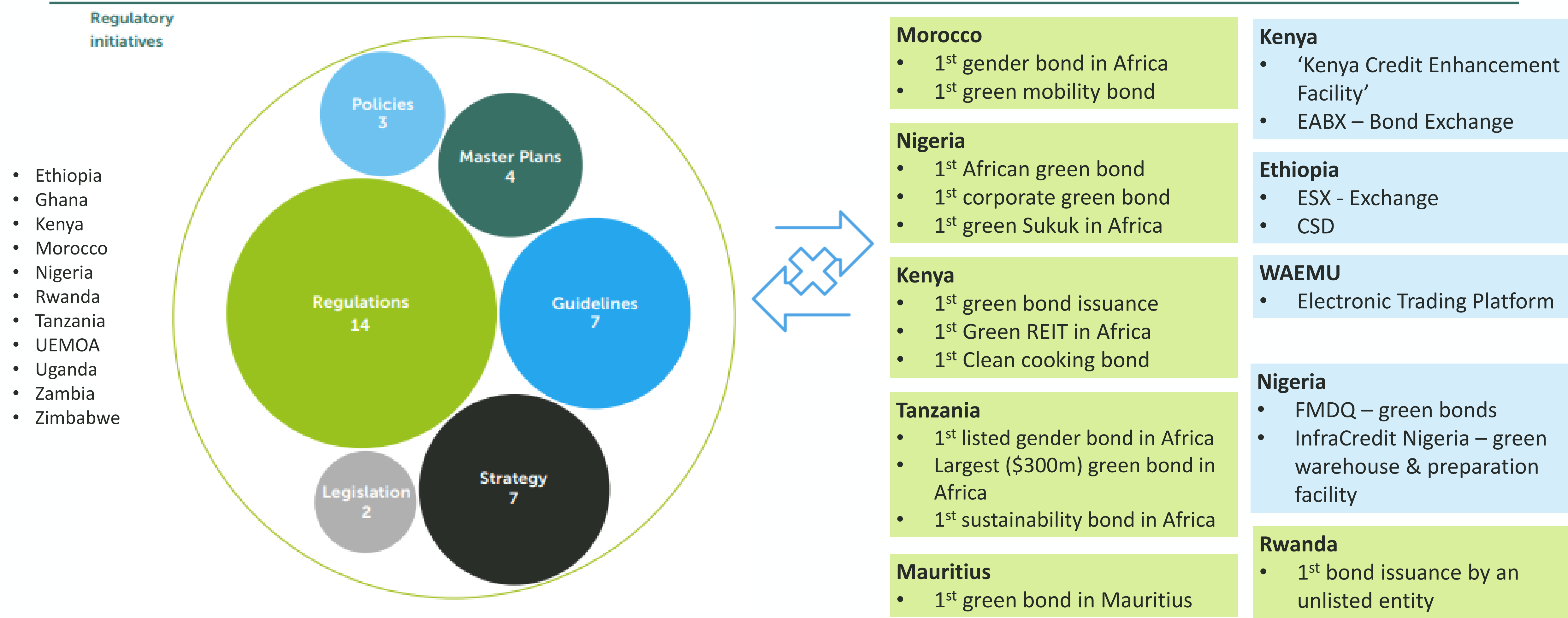


# Sustainable Bonds that FSD Africa has supported



## Regulatory Initiatives

## Transactions Supported by FSD Africa – US\$1.1 bn





## Technical Support

### 1. Portfolio Review & Strategy



Support Issuer in project evaluation against Green/Social Bond Criteria. Alignment with Dev Plan, Debt Management strategy.

### 2. Capacity Building



Customised capacity building to issuer to fit issuer's context. Cross-Ministerial efforts. National Green Bond Reg. Guidelines

### 3. Framework development and external review



Development of Bond Framework (BF) and secure the external review (SPO or certification) of the issue

### 4. Issuance support



Structuring and cross-listing support of the bond in-country and on foreign exchange if relevant

### 5. Reporting



Handholding through the reporting process and facilitating post-issuance verification and assurance.



# Summary of Opportunities for Sustainable Sovereign Debt Instruments in WAEMU region



- ❑ Green bonds are a tool to expand the investor base (domestic and international) to finance green and social projects and assets and adaptation and mitigation
- ❑ Strong signal of commitment to climate and sustainable development
- ❑ International / MDB support and access to guarantees and technical support
- ❑ Useful consideration as part of Debt Liability Management
- ❑ Productive Economy: Green Economy leads to higher GDP growth rates than BAU scenario (UNEP)



## CONTACT

 Riverside Green Suites (Palm Suite), Riverside Drive,  
Nairobi.

 +254204024000, +254729729111

 [info@fsdafrica.org](mailto:info@fsdafrica.org)

 [www.fsdafrica.org](http://www.fsdafrica.org)