United Nations
Economic Commission for Africa

ECA work on climate finance: the risks and capital markets

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ideas for a prosperous Africa
Ideas to Action

Innovative Finance and Capital Markets Section

United Nations
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Collaborations

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Thematic Areas of Focus

- Private Sector Development and Finance
- Regional Integration and Trade
- Macroeconomic Governance and Policy
- Data and Statistics
- Gender, Poverty and Social Policy
- Technology, Climate, Natural Resources

Innovative Finance and Capital Markets

- Aim for enhanced capacity of member States to deepen financial markets and mobilize long-term investment for sustainable development
- Work with UN teams and development partners to deliver impactful and innovative projects for Governments, regulators, financial institutions, and the private sector in Africa

Subregional Offices

- Central Africa
- East Africa
- North Africa
- Southern Africa
- West Africa

Empowering African Institutional investors

- African institutional investors, such as pension funds, insurance companies, and sovereign wealth funds, can play a key role in mobilizing and allocating climate finance in Africa
- However, they face many barriers and challenges, such as lack of enabling policies and regulations, limited availability and accessibility of climate-friendly projects, high perceived risks and costs, and low capacity and awareness.
- Possible ways to overcome these barriers and unlock the potential of African institutional investors for climate finance:

⇒ Strengthening policy and regulatory frameworks that support and incentivize climate-aligned investments
⇒ Developing and scaling up innovative financial instruments and mechanisms that reduce risks and costs, enhance returns, and match the preferences and needs of institutional investors,
⇒ Building and diversifying the pipeline and portfolio of bankable and sustainable projects that address the climate finance needs and priorities of African countries
⇒ Enhancing the capacity and awareness of institutional investors and other stakeholders on the opportunities and benefits of climate finance

Leveraging capital markets

- African capital markets are the platforms where financial assets, such as stocks, bonds, or derivatives, are issued and traded in Africa
- They can play a role in mobilizing and allocating climate finance by:
  - providing access to long-term and diversified sources of funding,
  - enabling risk management and price discovery

- Challenges and opportunities for enhancing the role of African capital markets in climate finance

⇒ Developing and harmonizing the regulatory frameworks and standards for green and sustainable finance across the continent
⇒ Building the capacity and awareness of market participants, such as issuers, investors, intermediaries, and regulators
⇒ Expanding and diversifying the pool of climate finance instruments and products
⇒ Leveraging the potential of digital technologies, such as fintech, blockchain, or artificial intelligence
⇒ Strengthening the collaboration and coordination among different stakeholders, such as governments, development partners, private sector etc

Managing risks

- Sovereign credit rating is an assessment of the creditworthiness and default risk of a country or government. It can affect the cost and availability of borrowing for the public and private sectors, as well as the attractiveness of the country for foreign investors.
- ESG factors can affect sovereign credit ratings by influencing the economic growth, fiscal performance, external position, socio-political stability and institutions.

- Challenges and opportunities of ESG integration in rating

⇒ Availability, quality and comparability of ESG data
⇒ Lack of harmonized frameworks and measurements (weighting and aggregation of ESF indicators, transparency and disclosure…)
⇒ Alignment with global sustainability goals and standards
⇒ Fostering the development and growth of the sustainable finance market

ECA work on climate finance

Capital market development	**- Building capacity on carbon markets - Legal and regulatory reviews - Developing Bond Market Strategy - Benchmarking (ABSA-OMFIF African Financial Market Index)**
Institutional investment and risk	**- Enhancing capacity of WAEMU Institutional investor - Building capacity on credit rating and ESG rating**
Innovative Finance / innovative debt management	**- Aligning finance with sustainable objectives (African Women Impact Fund) - Promoting sustainable debt management (Public debt swap programme)**

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