

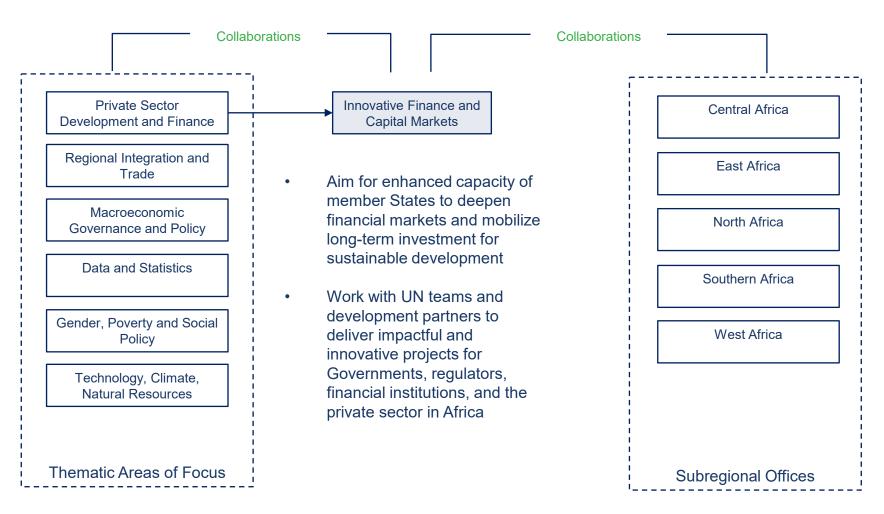
#### ECA work on climate finance: the risks and capital markets



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# Innovative Finance and Capital Markets Section





# **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 climatealigned 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)

