

Promoting sustainable capital markets

Evidence from selected African countries



Mahamadi BALIMA, Head of Sustainable Finance, Financial Markets Authority of the West African Monetary Union (AMF-UMOA)



Kopano BOLOKWE, Interim Chief Executive Officer, Botswana Stock Exchange (BSE)



Cecilia MURAI, Senior Specialist Capital Markets - Sustainable Finance, FSD Africa
Keynote Speaker



Martine BOTHA, Senior Manager, Global Financial Services ESG Executive, KPMG South Africa
Moderator



Mr. Ngatia KIRUNGIE, Head of Secretariat (Kenya Pension Funds Investment Consortium), Managing Director (Spearhead Africa)



Heba SERAFI, Vice-Chairman, Egypt Stock Exchange (EGX)



31 October 2024
11:00 GMT/12:00 CET/14:00 EAT



Our webinar will begin shortly

WELCOME TO OUR WEBINAR



Ahmed ATTOUT

Director – Financial Sector Development Department
(PIFD) African Development Bank (AFDB)









Marina FINKEN

Partnership Coordinator, MFW4A



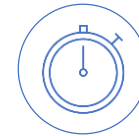
Rules for the webinar

-  The duration of today's webinar is 90 minutes, including questions and answers
-  For better listening comfort, all participant microphones will be disabled for the duration of the webinar
-  Questions can be submitted via "Q&A", or by raising hand
-  Slides and a recording of this presentation will be circulated to registered participants within 72-hours following the webinar. They will also be available on www.MFW4A.org.
-  Send a message to the organizers if you encounter technical problems
-  Do not forget to complete the questionnaire which will automatically appear on your browser at the end of the session



Session outline:

Times listed are GMT



Topic

Facilitator

Duration

Introduction

Mr. Ahmed ATTOUT
Marina FINKEN

11:00 – 11:05

**Africa Long-Term Finance
Initiative (ALTFI)**

Kamewe Tsafack, HUGUES

11:05 – 11:10

CMDTF Presentation

Mr. Albin KAKOU

11:10 – 11:15

**Promoting sustainable capital
markets: Evidence from selected
African countries**

Mrs. Cecilia MURAI
(Keynote Speaker)

11:15 – 11:25

Panel Discussion

Martine BOTHA
(Moderator)

11:25 – 12:15

Q&A

Martine BOTHA
(Moderator)

12:15 – 12:25

Closing

Peter Anuro ONYANGO

12:25 – 12:30





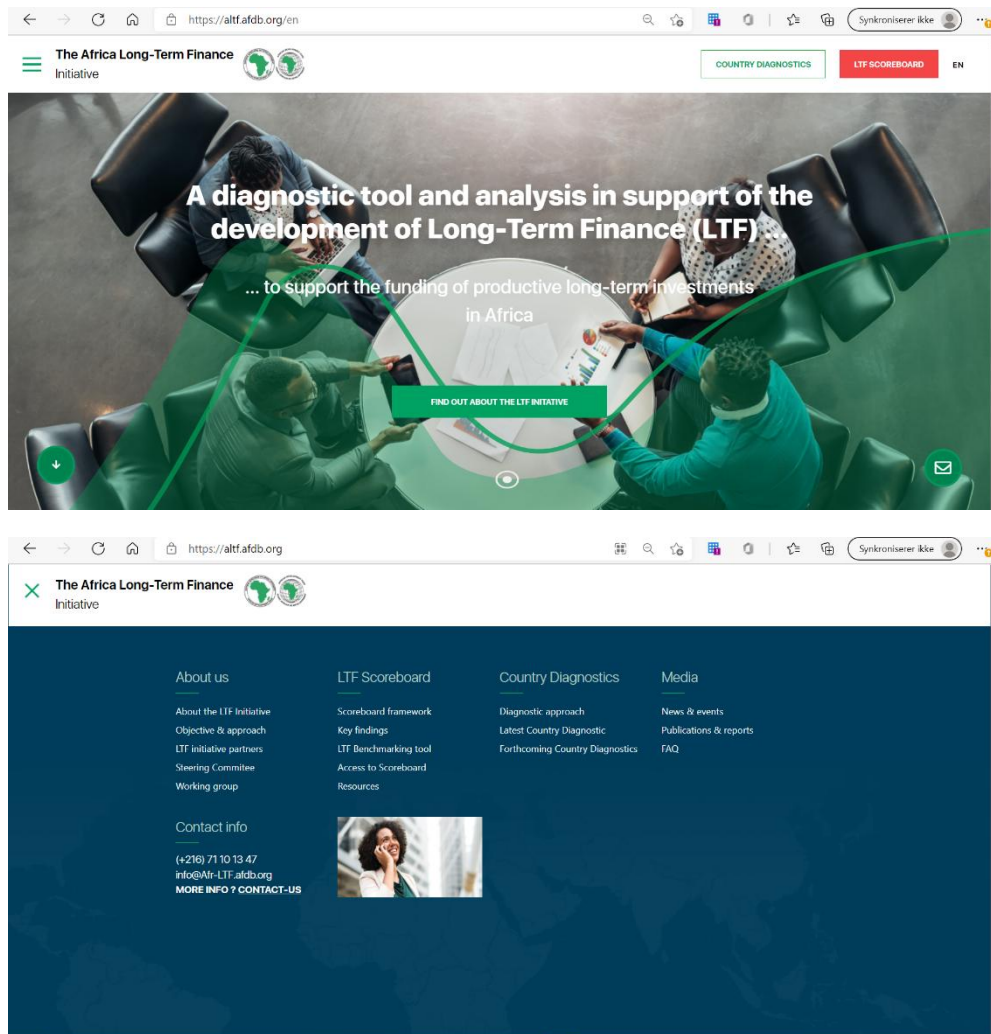
Africa Long-Term Finance Initiative (ALTFI)



Kamewe Tsafack, HUGUES

Financial Sector Advisor, MFW4A

The Africa Long-Term Finance Initiative

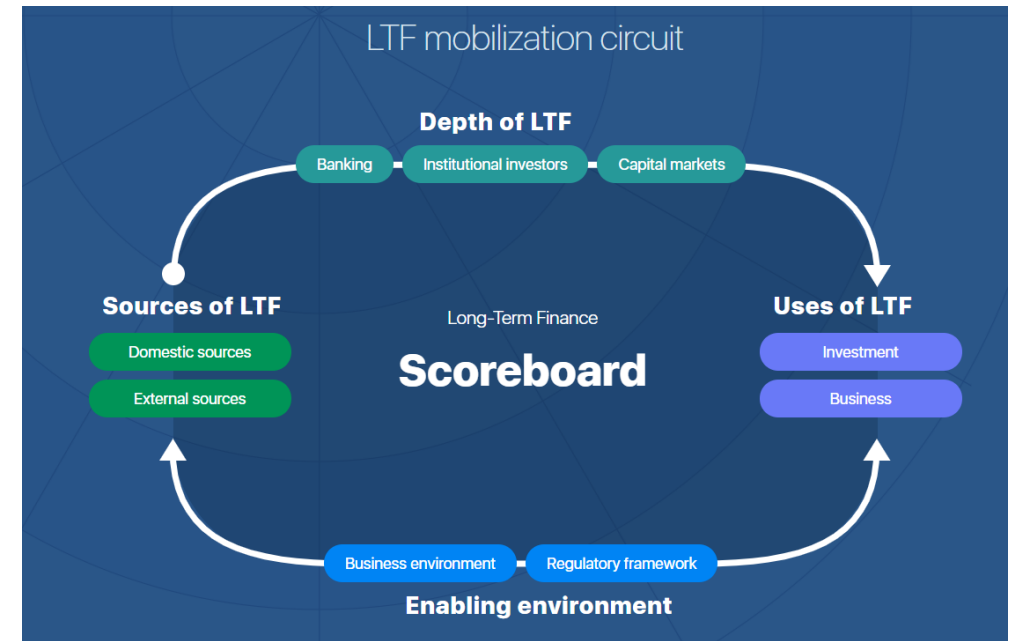
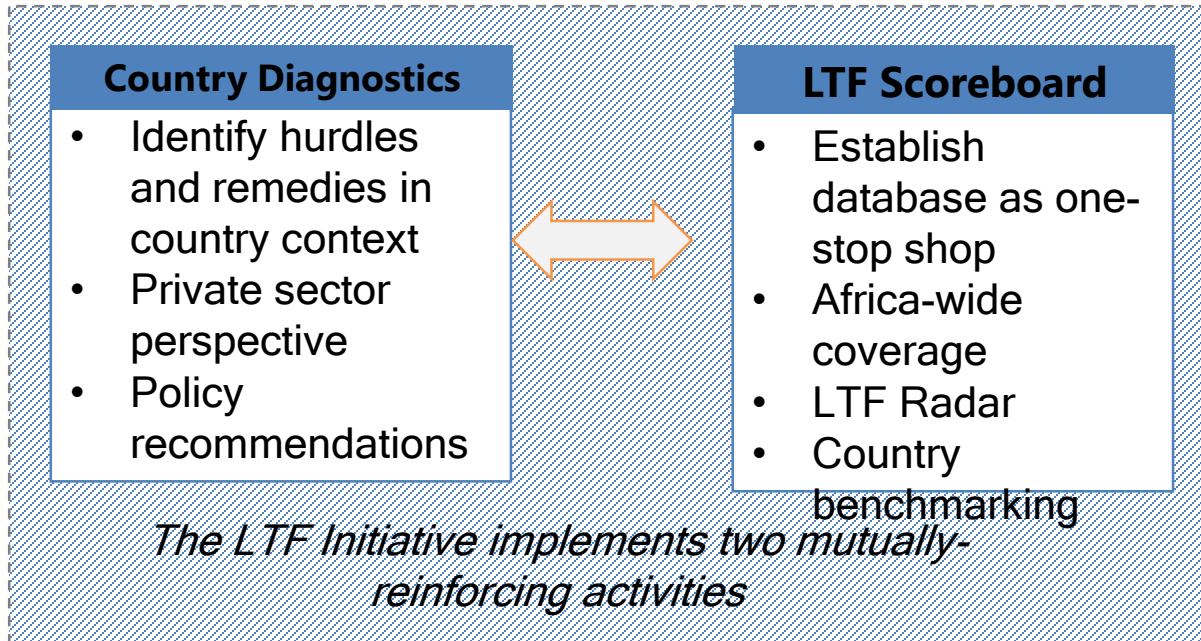


<https://altf.afdb.org>

- About us (objective & approach, partners, members)
- LTF Scoreboard (Database)
- Country Diagnostics (Côte d'Ivoire, Ghana, Ethiopia)
- Media (news, events, FAQ)

Objective of the Africa Long-Term Finance initiative (ALTFI)

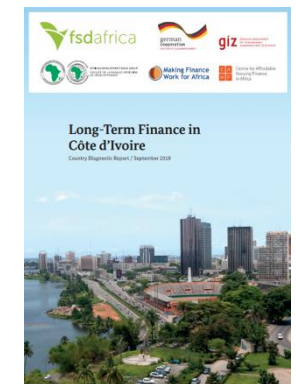
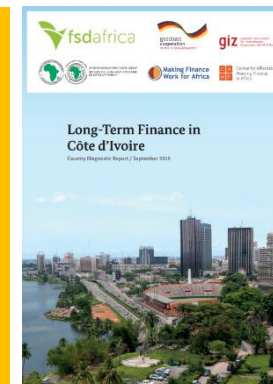
Support deepening of LTF markets through better data and policy reforms



Country Diagnostics

- Provide in-depth analysis of LTF markets in individual jurisdictions.
- Focus on SMEs, the housing sector, and infrastructure finance.
- Follow a transaction-focused, bottom-up approach. The LTF team works closely with private sector stakeholders to draw on their experience.
- So far conducted for Côte d'Ivoire, Ghana, Ethiopia

→Ongoing: CEMAC Capital Market Diagnostic



Country comparisons and benchmarking



Africa

LTF Dimensions

Searching for indicator

SOURCES OF LTF

DEPTH OF LTF

Banking

Deposit money banks' assets

Private credit

Long-term credits

Share of long-term credits

Share of Medium & Long-term ...

Long-term deposits

Country/Region

Africa

Comparative Country/Region

Kenya Uganda

TIME FRAME

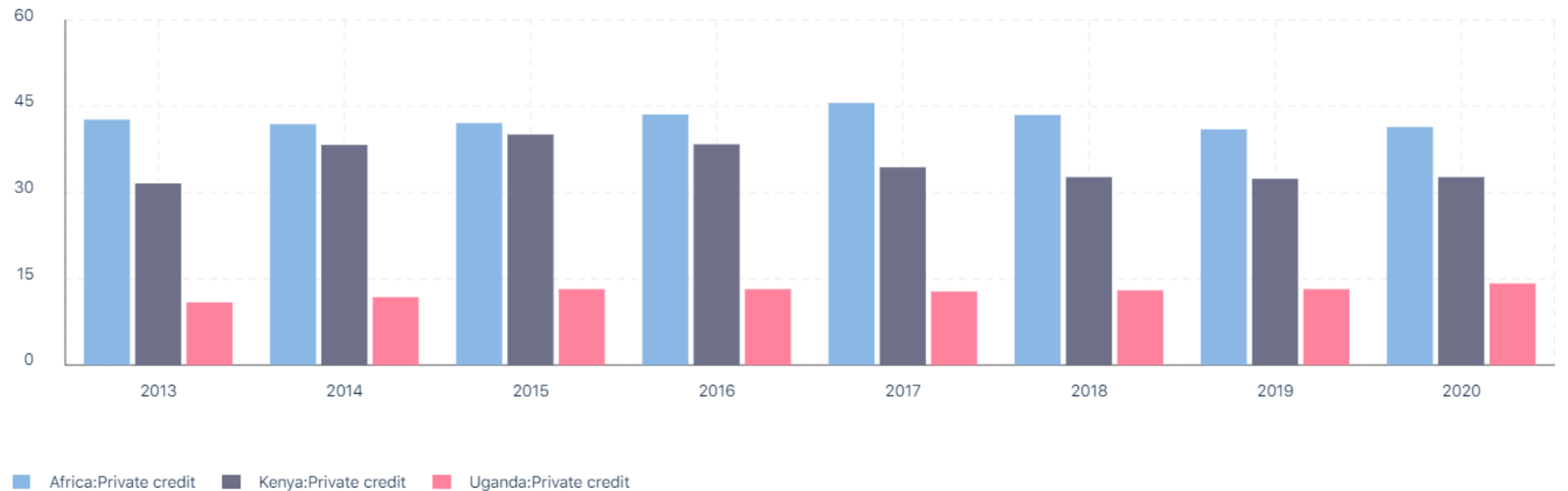
FROM 2013 TO 2020

Update Data

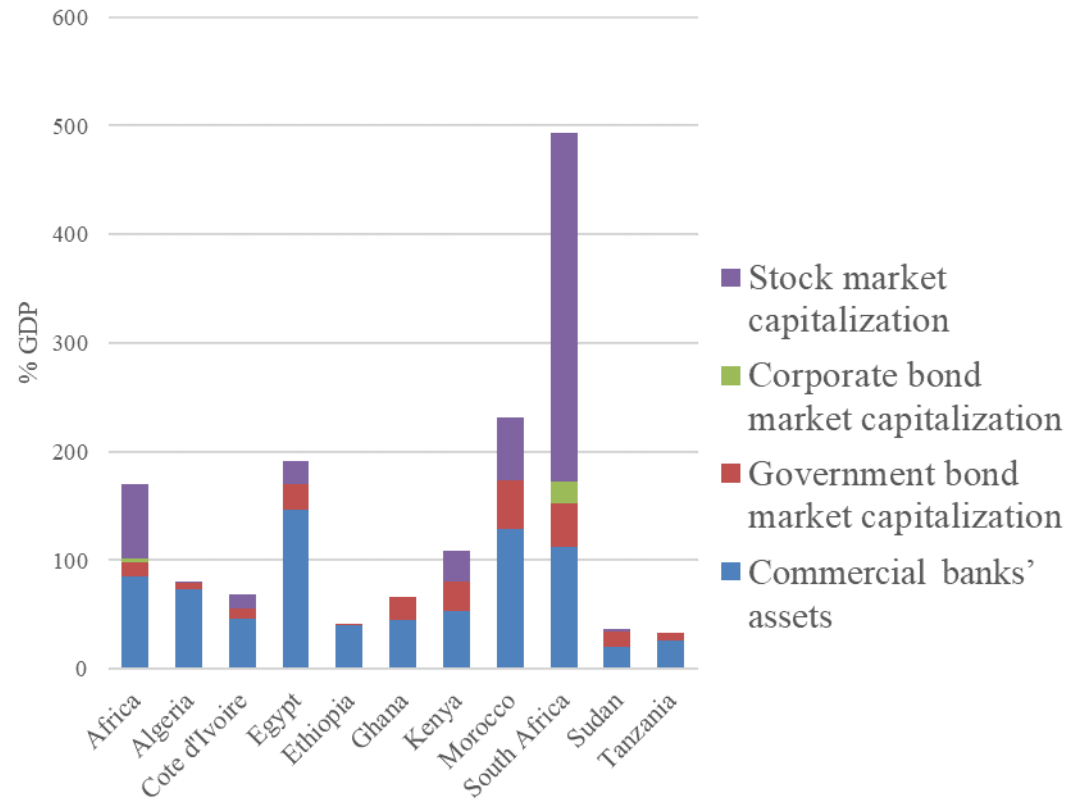
Private credit
(% of GDP)

GRAPHS TO SHOW

Observed



Capital Market Development and Long-term Finance



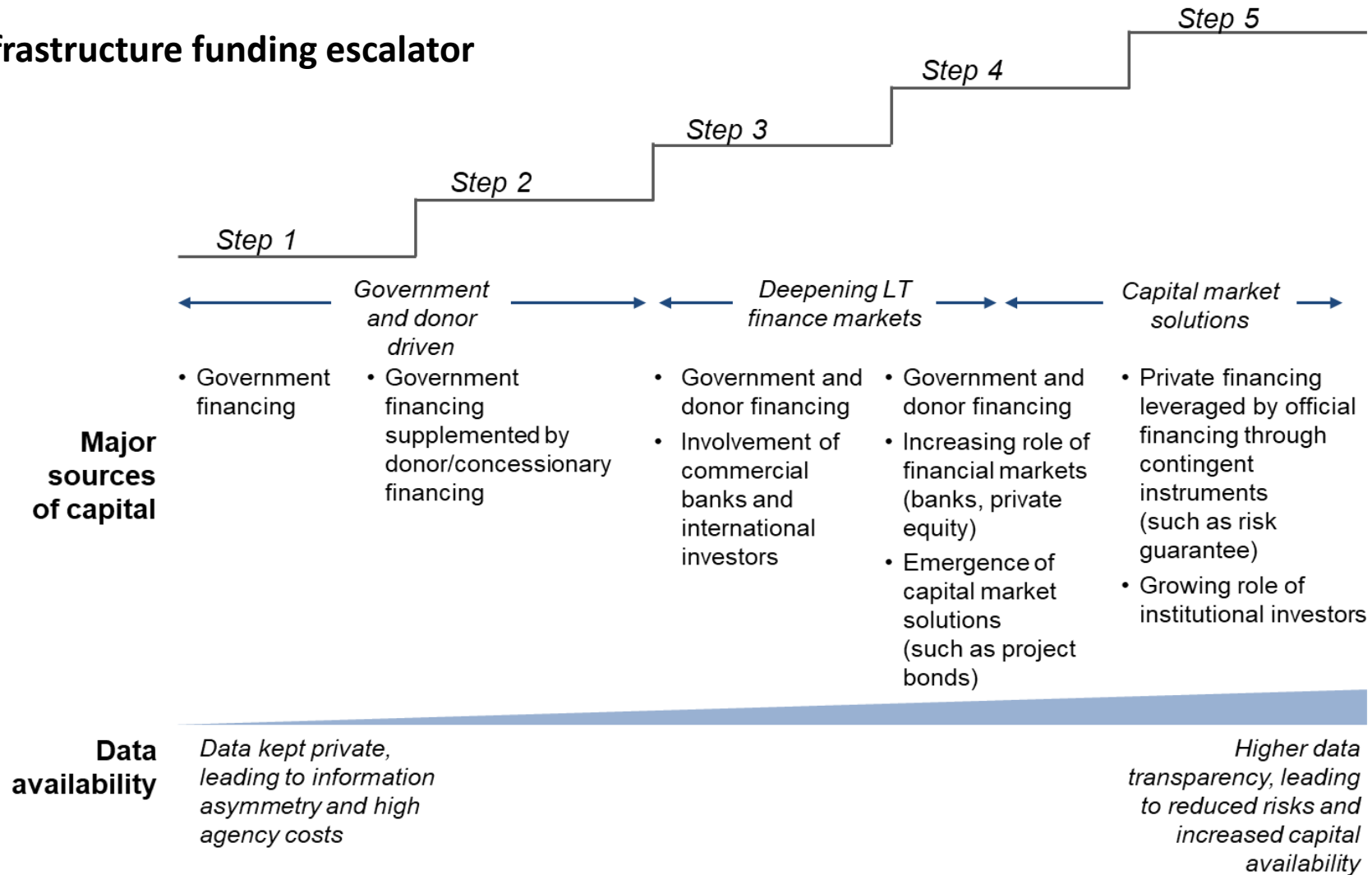
Sources: World Bank (World Development Indicators) and BIS, supplemented by LTF Survey

Current state

- The assets of the financial sector in Africa are **heavily concentrated in banking**.
- Institutional investors hold a **significant portion of their assets as term and savings deposits with banks**.
- In most African countries, **stock exchanges are small and dominated by a small group of large companies**.
- The deepest segment of most capital markets in Africa is the market for **government securities** (mostly short-term).
- Market for government domestic debt: **platform for capital market development**.

Long-Term Finance: the role of capital markets in infrastructure finance

Moving up the infrastructure funding escalator





CAPITAL MARKETS DEVELOPMENT TRUST FUND (CMDTF) Presentation

Mr. Albin KAKOU

**Principal Investment Officer,
African Development Bank (AfDB)**





Established: November 2019

Instrument: grants

Geographical focus: West Africa

Available funding: USD 9,727,886

Funding Committed : 70%

projects approved from 2020-2023: 13 of

which 5 regional and 8 country-based

Targeted funding: USD 25 million

Strategic alignment:
Double the contribution of
African capital markets in
development



**Industrialize and
integrate Africa**



CMDTF's operations are
financed by **the Netherlands'
Ministry for Foreign Trade
and Development
Cooperation, the Ministry of
Finance of Luxembourg and
the Sweden International
Development Agency (SIDA)**



THE GOVERNMENT
OF THE GRAND-DUCHY OF LUXEMBOURG
Ministry of Finance



Sverige



Government of the Netherlands

CMDTF theory of change



CMDTF supports African capital markets across 3 pillars and 5 theory of change outcomes to unlock their ability to finance SDG sectors

- *Support mobilization and allocation of long-term local currency savings for **private sector credit needs across SDG sectors***
- *Support the **integration and harmonization of African capital markets policies and regulations***

Pillars

Strengthen financial market environment and institutions (56%)

Broaden capital markets instruments and participants (42%)

Strengthen capital markets knowledge in Africa (2%)

CMDTF Theory of change outcomes

- *Regulatory environment improved*
- *Infrastructure upgraded*

- *Securities offerings increased*
- *Broadened capital markets participants*

- *Build capacity and knowledge of market participants (regulatory reforms, infrastructure, products)*

Overview of CMDTF achievement across key thematics

Country-based clients



Private sector development and financial inclusion

- Ivory Coast and Liberia
- USD 800,000
- Training | **Strategy development for SMEs**

Regional Integration

- West Africa
- USD 2,000,000
- Training | study | workshop | Roadmap to **diversify private sector financing sources and harmonize capital markets policies**

Regional clients



Sustainable finance

- Nigeria, Cabo Verde and Benin
- USD 1,150,000
- Capacity building to **promote green and blue bonds as innovative financing instruments**
- **Sustainable finance Strategy**

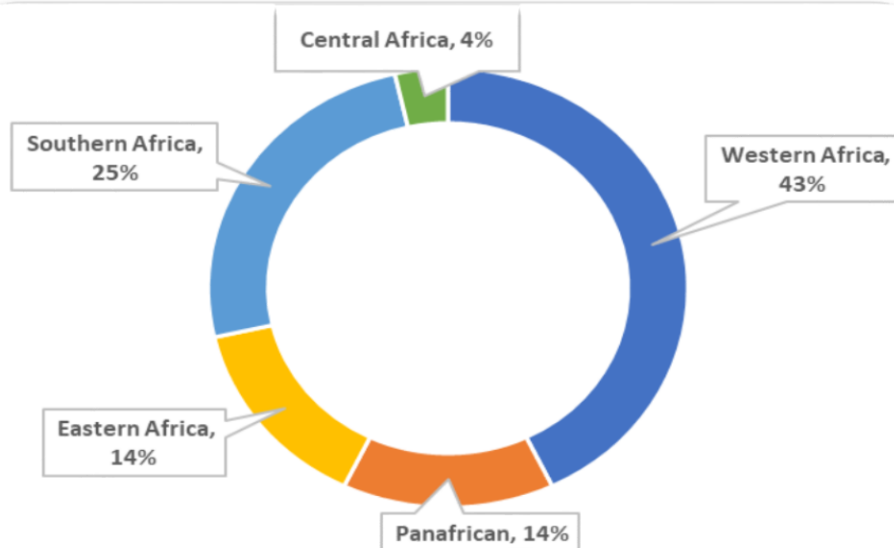
Innovation and technology

- West Africa, Nigeria and Cabo Verde
- USD 1,000,000
- Capacity building and **acquisition of market surveillance system and electronic trading platform**

Future perspectives

57% of Proposals received from outside West Africa (**2022 Call for proposals**) .

9/28 proposals addressed **gender, social sector progress, start-ups and SMEs, sustainable financing, Diaspora bond, green bonds, climate adaptation and market access, African carbon market.**



Way forward – 2026 and beyond

- ✓ *Scale up CMDTF to expand footprint across Africa to improve regulatory framework, upgrade infrastructure and broaden CM instruments and participants*
- ✓ *Scale up current projects to ensure sustainability while enhancing private sector and SMEs access to capital markets solutions*
- ✓ *Deepen regional financial integration while promoting financing SDG priority sector/bonds and sustainable finance*

Meet our moderator and keynote speaker



Martine BOTHA, *moderator*

Senior Manager, Global Financial Services ESG Executive,
KPMG South Africa



Mrs Cecilia MURAI, *Keynote speaker*

Senior Specialist Capital Markets – Sustainable Finance,
FSD Africa



Meet our panelists



Mr. Mahamadi BALIMA

Head of Sustainable Finance, Financial Markets Authority of the West African Monetary Union (AMF-UMOA)



Mr. Kopano BOLOKWE

Interim Chief Executive Officer, Botswana Stock Exchange (BSE)



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Mrs. Heba SERAFI

Vice-Chairman, Egypt Stock Exchange (EGX)



Promoting sustainable capital markets: Evidence from selected African countries

Making Finance Work for Africa (MFW4A) webinar series

**CECILIA BJERBORN MURAI – Senior Specialist,
Capital Markets – Green Finance, FSD Africa**
31 October 2024

Setting the scene

1. Context - Why Do Capital Markets Matter to Africa?
2. Trends in Capital Markets Development
3. Sustainable Finance Instruments and The African Finance Taxonomy



CONTEXT – AFRICA

- Population – 2.5 billion (2050) – 26% of World's total
- 740 million increase in working age pop. 30 years
- Urban population 44% (2020) and 60% (2050) – home to 1bn people
- Poverty level 37.2% (462mn) in 2023 – 600mn people lack access to electricity and 970mn lack access to clean cooking; 400mn lack safe drinking water and 700mn lack good sanitation.
- Debt sustainability coupled with inflation and exchange rate pressure – The African countries debt-service is averaging 11.4% in 2024 – more than budget allocation to health expenditures (7.1%).
- Growth recovery remains elusive in sub-Saharan Africa and risks for another lost decade are real: Growth 2.5% (2023) – WB
- Climate Change - Africa is warming up faster than global average
- Less than 3% of global GHG emissions but also less than 3% of global green capital – what do we need to do to change this?



<https://youtu.be/m2wk8lRtHlk>

Africa's Green Growth Opportunities

Climate Investment Opportunity

- Africa is a developing continent that is rapidly urbanizing:
 - Significant investment needed in built environment – infrastructure, housing, water, power etc
 - We can build in a climate-resilient manner (future-proof investments)
- Africa can leverage large working population, natural resources and renewable energy potential – inc in green hydrogen, green industrialization
- Environmentally friendly growth can improve access to food, create jobs and boost incomes in new and existing sectors
- Africa is connected to global value chains – could be required to meet high environmental standards e.g CBAM

Long Term Finance Opportunity

- Africa needs to raise 9x more financing just to meet NDCs (\$277bn p.a. and more for other SDGs)
- The domestic & external sectors expected to raise the bulk of green finance (circa 90%).
- Well-functioning capital markets (public & private) are critical in raising long-term finance, particularly in local currency.
- Mobilization required at scale through mainstream assets (e.g green bonds accounted for 13% of all bond issues in 2022) – but this should scale.
- Innovation and project preparation needed to test new asset classes e.g payment for ecological services; linking carbon & bond markets, etc

Africa Climate Summit – Nairobi Declaration

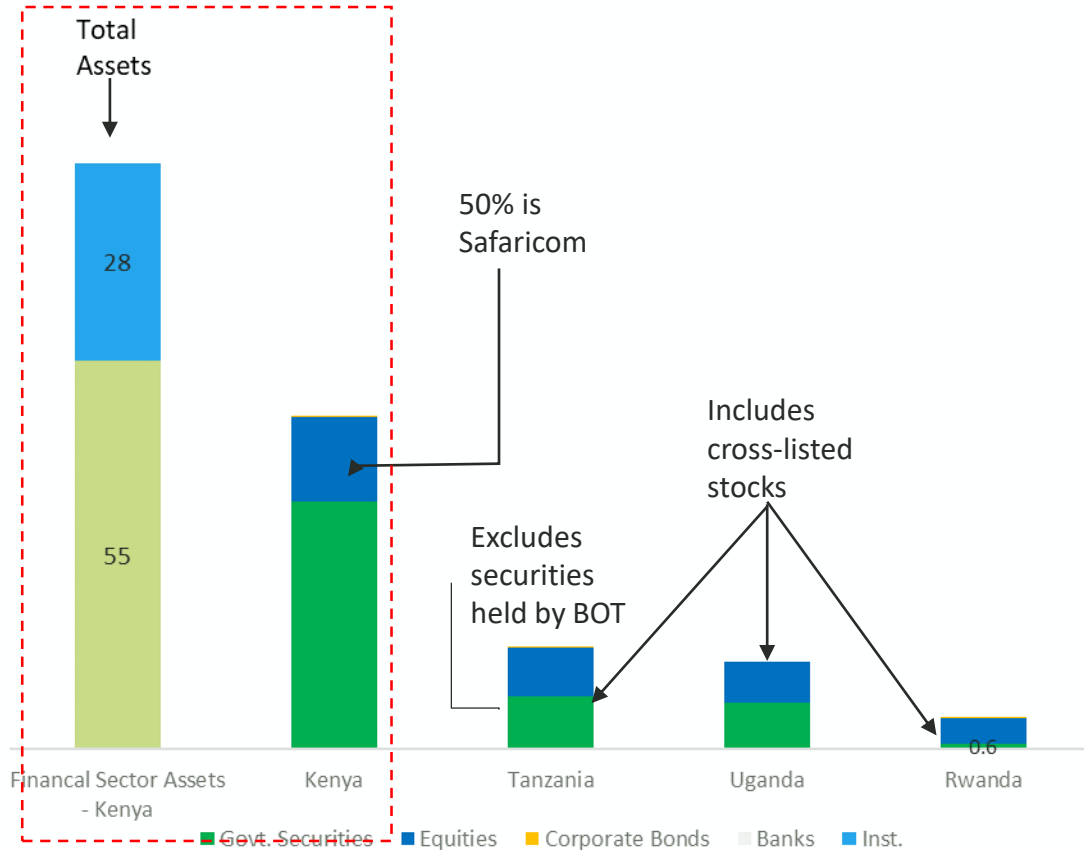
Themes

- Africa as a solution (rather than victim) to the climate crisis
- Green growth agenda – leveraging Africa’s natural capital and human resources (main undertone on the Nairobi declaration)
- Increase Africa’s renewable generation capacity from 56 Giga Watts (GW) in 2022 to at least 300 GW by 2030, to address energy poverty and to bolster the global supply of cost-effective clean energy for industry.
- Role of green industrialization, green hydrogen, transport, agriculture
- Africa pledges to establish enabling environment for investments (policies, taxes)
- Domestic capital mobilization is key – also in line with agenda 2063
- MDB Reforms – to unlock \$500bn financing
- Reducing the cost of financing renewable energy – blended finance etc
- Sovereign debt sustainability – also requested 10-year grace periods; Debt for Nature Swaps

Examples: Kenya - Financial Markets

Size

EAC Financial Markets Estimated Size (US\$Bn) 2022



Size of the Public market in Kenya is small – Equity market is now only 9% of GDP; corporate bonds (0.2% of GDP)

Examples: Why Local Currency Debt is Important

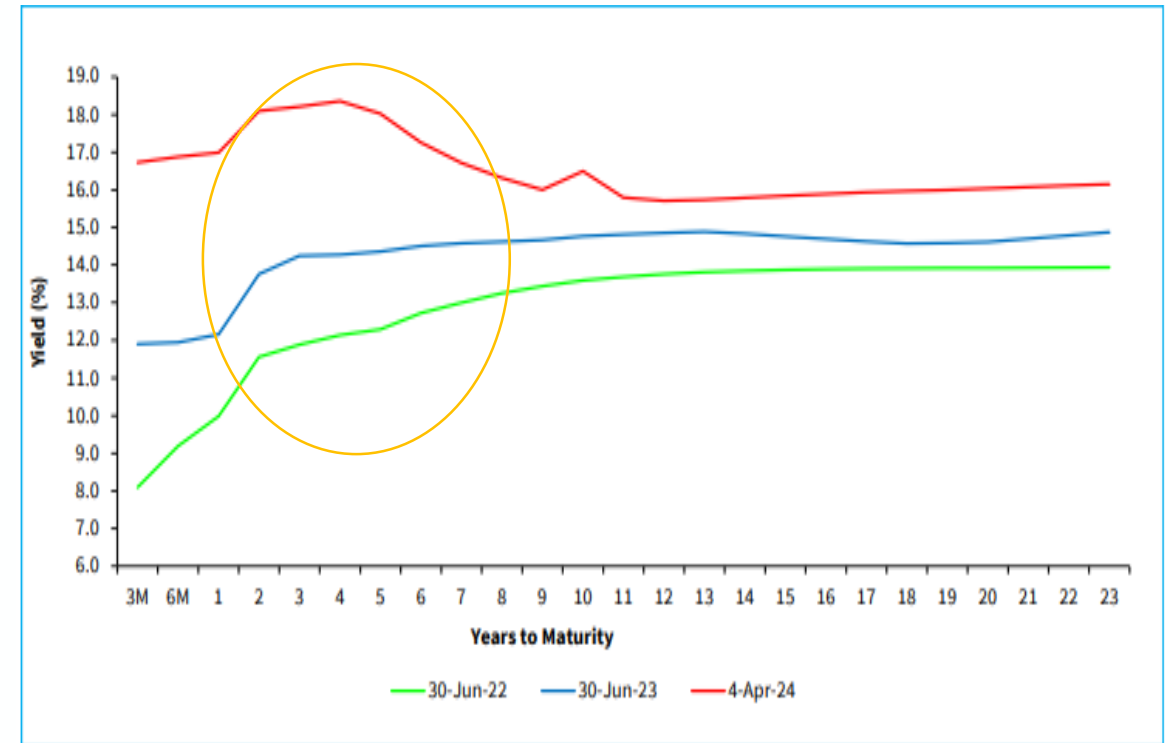
USD to NGN Chart +283.31% (2Y)

1 USD = 1,657.36 NGN Oct 3, 2024, 03:43 UTC

US Dollar to Nigerian Naira



Kenya Yield Curve









- Foreign currency risk is real
- LCY financing is important

Two Original Sins

- Refinancing risk is real
- Long-term finance is important

Why Do Capital Markets Matter to Africa?

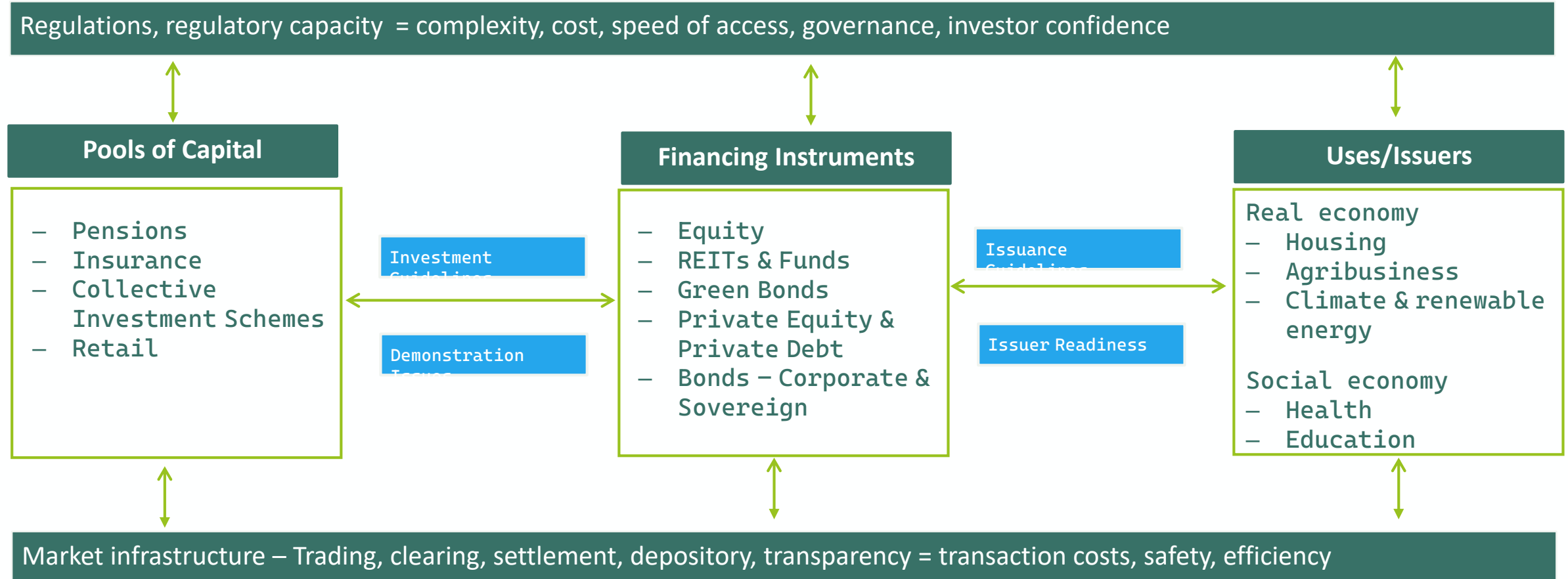
 <p>INVESTMENT GAPS...</p>	 <p>FUNDRAISING PRESSURES...</p>	<p>FINANCE FOR DEVELOPMENT...</p> 
<p>Need for long-term financing for priority sectors</p> <p>E.g., infrastructure, housing, social sectors (education, health) and private sector</p>	<p>Expected reduction in concessional lending</p> <ul style="list-style-type: none"> • Reduction in donor flows • Constrained market conditions (Eurobonds) 	<p>Fund global challenges</p> <ul style="list-style-type: none"> • Climate change • Urbanization
 <p>RISK MANAGEMENT...</p>	 <p>LONG-TERM SAVINGS...</p>	 <p>DIVERSIFICATION...</p>
<p>Improved risk management</p> <ul style="list-style-type: none"> • Reduced exposure to FX & refinancing risks • Resilience to financial crises 	<p>Create opportunities for investors</p> <p>(pensions, insurance, CISs and retail)</p>	<p>Diversify financial sector (currently bank-dominated)</p>



“Drives long-term, productive investment that can create jobs, and drive inclusive private sector-led growth”

The Capital Markets Ecosystem

A refresher



How to unlock – Key areas of support for market development

Policy, regulations, incentives

- Reforms to reduce cost of capital, complexity, speed of approvals
- Thematic bonds guidelines and incentives (e.g. taxes)
- Stewardship codes & ESG investment guidelines

Market Infrastructure

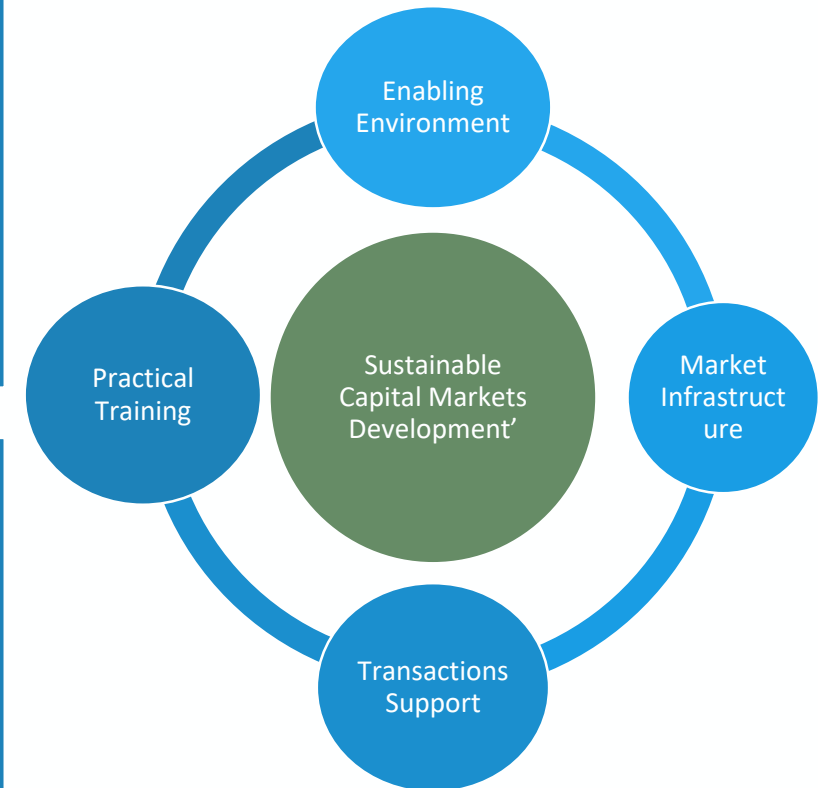
- Credit enhancement and risk-sharing facilities (incentivize green transactions)
- Bond exchanges (improve liquidity, reduce transaction costs, esp. for thematic bonds)

Products/Transactions

- Thematic bonds development (e.g. green, sustainability-linked), carbon-linked bonds; fund structures (private & listed); pooled vehicles & green securitizations

Hand-holding Support

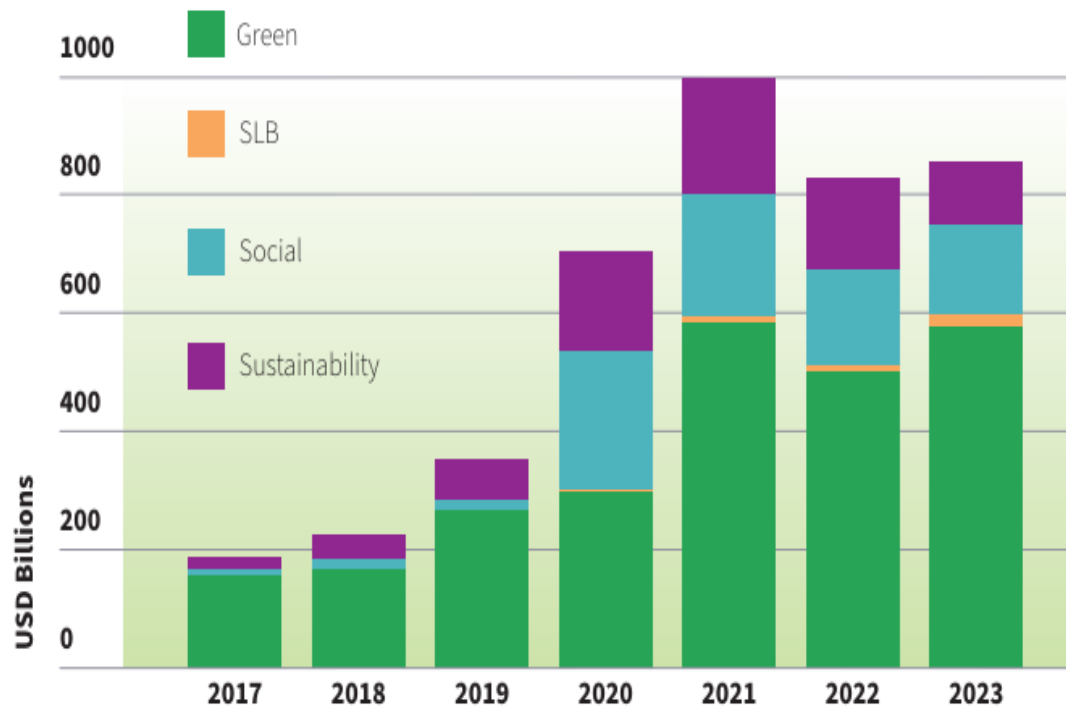
- Transaction structuring
- Green framework development
 - Impact reporting
- Co-investment/consortium opportunities



The Growth of the Global Sustainable Bond Market: less than 1% flows to Africa

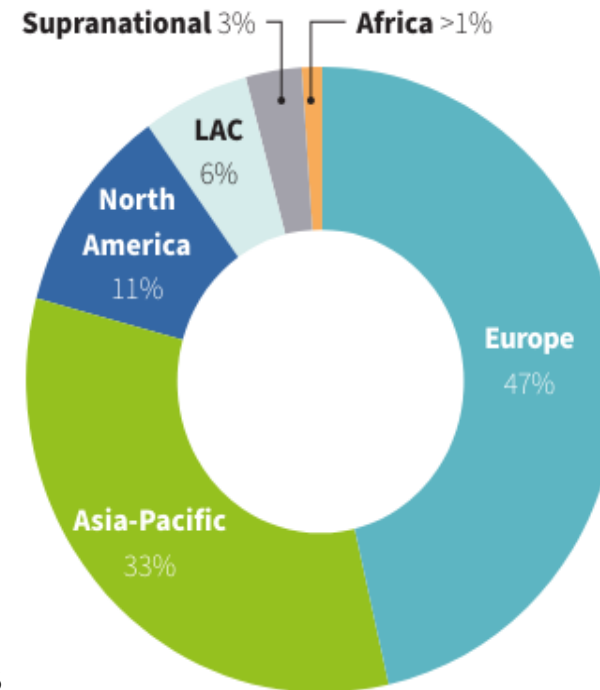


Aligned GSS+ issuance increased to USD870bn in 2023



Source: CBI 2023

Europe was the largest source of 2023 aligned volume



How to unlock



Demonstration transactions



De-risking through blended finance and guarantees



Development of investment vehicles e.g. green bonds, green funds and green ETFs



Address short-termism



Policy support and networks

FSD Africa's key Capital Markets achievements – market development and instrument mix that can address key challenges

Implementing over 60 projects in 33 countries across Africa

Regulatory Initiatives

Regulatory initiatives

- Ethiopia
- Ghana
- Kenya
- Morocco
- Nigeria
- Rwanda
- Tanzania
- UEMOA
- Uganda
- Zambia
- Zimbabwe



Ground-breaking Transactions Supported by FSD Africa – US\$1.2 bn

Morocco

- 1st gender bond in Africa
- 1st green mobility bond

Nigeria

- 1st African green bond
- 1st corporate green bond
- 1st green Sukuk in Africa

Kenya

- 1st green bond issuance
- 1st Green REIT in Africa
- 1st Clean cooking bond

Tanzania

- 1st listed gender bond in Africa
- Largest (\$300m) green bond in Africa
- 1st sustainability bond in Africa

Mauritius

- 1st green bond in Mauritius

Kenya

- Dhamana Guarantee Company
- EABX – Bond Exchange

Ethiopia

- ESX - Exchange
- CSD

WAEMU

- Electronic Trading Platform

Nigeria

- FMDQ – green bonds
- InfraCredit Nigeria – green warehouse & preparation facility

Rwanda

- 1st bond issuance by an unlisted entity

AFRICAN ESG/SUSTAINABLE FINANCE TAXONOMY



African Financial Alliance on Climate Change



United Nations
Economic Commission
for Africa





Panel Discussion

Martine BOTHA, moderator

Senior Manager, Global Financial Services
ESG Executive, KPMG South Africa



MERCI!
THANK YOU!