



Sustainable Finance in Africa:

Growth Opportunities and Leading Practices



Introduction

Sustainable development is one of the most important global concerns of the twenty-first century. The World Economic Forum (WEF) identifies climate change, poverty alleviation setbacks, human rights violations, and mass youth migration as major challenges to global security.¹ These difficulties highlight the urgent need for action, and the financial industry is leading the way towards sustainability. Today, investors, regulators, and customers expect more than just monetary returns; they seek to demonstrate a commitment to Environmental, Social, and Governance (ESG) principles.

This shift has given rise to sustainable finance, a powerful tool that aligns capital flows with sustainability goals. Sustainable finance enables institutions to navigate the complexities of modern markets while addressing climate change, social inequality, and governance reforms. It integrates ESG considerations into investment decisions, ensuring economic benefits while promoting environmental and social impacts.



¹ World Economic Forum, 2024

The Drivers of Sustainable Finance and Investments



The United Nations estimates that achieving the 2030 Sustainable Development Goals (SDGs) will require an annual investment of between USD 3.3 - 4.5 trillion. Governments alone cannot meet this requirement, especially given the economic disruptions caused by global crises. The private sector is now expected to play a critical role in financing the SDGs. Key drivers of sustainable finance include:

Investor and Consumer Preferences and upscaling of SDG interventions:

Consumers and investors increasingly prioritize sustainability. From prioritising the purchase of organic products to fair wages, people now seek products and services that align with ethical and sustainable principles. Institutional investors are also recalibrating risk models to include ESG factors. This shift is driven by both a recognition of the financial opportunities in ESG and a deeper understanding of the risks posed by neglecting these factors.

Emerging Climate Risks and Social Safeguards:

Climate change presents unprecedented risks. Rising temperatures, extreme weather, and disruptions in agriculture threaten global stability. Without urgent climate action, these risks will intensify. The transition to a low-carbon economy, however, presents financial opportunities for businesses who invest in climate-friendly assets such as wind farms, solar parks, and electric vehicle infrastructure.

Access to Capital and Blended Finance:

Transitioning to a sustainable economy requires substantial investment. The International Energy Agency (IEA) estimates that around USD 2.8 trillion will be invested in energy, with more than USD 1.7 trillion going to clean energy and slightly over USD 1 trillion going to unabated fossil fuel supply and power. The IEA further notes that this increase in clean energy investment is a positive change, but the investment is not happening quickly enough to meet global climate goals. Therefore, to achieve a 1.5 C stabilisation in global average temperatures, investment in clean energy will need to be scaled up, particularly in emerging and developing economies. Currently, there is a geographical imbalance in clean energy investment, with over 90% of the increase in clean energy investment since 2021 taking place in advanced economies. ² Expanding access to sustainable finance instruments in emerging and developing economies is important to support the growth of clean energy. The International Energy Agency (IEA) estimates that developing economies will need USD 4 trillion annually by 2030 to meet global climate targets. This therefore presents boundless opportunities for capital investment in sustainable projects.

² World Energy Investment, 2023

Client and Employee Demands:

Retail customers and institutional investors are increasingly demanding that banks and businesses be accountable for their ESG practices. Younger generations, in particular, are channeling funds into sustainability-focused investments. Employees also seek to work for organisations whose vision align with their sustainability values.

Rising Reporting and Regulatory Requirement - IFRS S1 and S2:

Regulations are constantly evolving in response to climate risks. The emergence of the recent IFRS sustainability standards which has been adopted by several countries globally has started to drive a culture of transparency in corporate sustainability practices. In addition, Frameworks such as the Nigerian Sustainable Banking Principles and the Central Bank of Nigeria's Basel III guidelines ensure that banks manage ESG risks.



Sustainable Finance Instruments

Sustainable finance instruments are crucial tools in the global push to meet the United Nations Sustainable Development Goals (SDGs). These instruments allow financial markets to channel investments, credit guarantees, technical assistance and deployment of scalable technology into projects that not only offer returns but also create positive environmental and social outcomes. Africa, in particular, is seeing an increased adoption of such instruments as governments, financial institutions, development finance organizations (DFIs) and sustainable Finance platforms recognize their potential to bridge the continent's vast sustainable development financing gap.

Green Bonds

Green bonds are debt instruments specifically earmarked for projects that have positive environmental benefits. The proceeds from green bonds are directed towards projects aimed at climate adaptation, mitigation, and environmental sustainability. These projects can include renewable energy initiatives, energy-efficient buildings, clean transportation, and sustainable agriculture.

Case Example

Nigeria became the first African country to issue a sovereign green bond in 2017, raising NGN 10.69 billion (approximately USD 29.7 million)³ to fund renewable energy projects, such as solar energy development and afforestation programs. This landmark issuance paved the way for other African countries to follow suit. In 2022, South Africa also launched its first green sovereign bond, with the proceeds directed toward climate-friendly initiatives, including wind and solar energy projects, as part of its Just Energy Transition strategy.

Social Bonds

Social bonds finance projects with clear social benefits, addressing pressing social issues such as healthcare, education, affordable housing, and social integration. They are designed to support marginalized and vulnerable populations, fostering inclusivity and improved quality of life.

Case Example

The African Development Bank (AfDB) issued its first-ever social bond in 2020, raising USD 3 billion to assist African countries in mitigating the economic and social impact of the COVID-19 pandemic.⁴ The bond targeted healthcare systems, food security, and social services, supporting vulnerable communities during the crisis. This issuance was significant in addressing healthcare inequities and supporting essential social services during the pandemic.

³ Climate Bonds Initiative, 2017

⁴ African Development Bank Group, 2020

Gender Bonds

Gender bonds aim to address the gender inequality gap by financing projects that promote women's economic empowerment. These bonds are used to fund initiatives that support female entrepreneurship, create employment opportunities for women, and improve access to finance for women-led businesses.

Case Example

In 2021, Morocco through the Banque Centrale Populaire (BCP) issued a gender bond raising about USD 20million via a private placement.⁵ This was the first gender bond in Africa, and the funds were dedicated to improving women's access to finance, to increase female participation in Morocco's economy. The bond served as a critical tool in reducing the financial inclusion gap for women.

Blue Bonds

Blue bonds are designed to fund marine and ocean-related projects that support the blue economy, focusing on the sustainable use of ocean resources for economic growth, improved livelihoods, and ocean health. Blue bonds are particularly relevant for African countries with vast coastlines and rich marine biodiversity.

Case Example

Seychelles, an island nation heavily dependent on its marine resources, issued the world's first sovereign blue bond in 2018. The bond raised USD 15 million to support sustainable marine projects, including the expansion of protected marine areas, sustainable fisheries, and ocean health initiatives.⁶ This pioneering issuance serves as a model for other African nations with similar coastal resources to tap into blue finance.



⁵ Development of an African Gender Bond Toolkit, 2023

⁶ World Bank Group, 2018

Sustainability-Linked Bonds (SLBs)

Unlike green, social, or gender bonds, which are tied to specific types of projects, Sustainability-Linked Bonds (SLBs) are linked to a company's broader sustainability goals. The interest rate on these bonds is adjusted based on the achievement of pre-defined environmental, social, or governance (ESG) targets, incentivizing issuers to meet these goals.

Case Example

In 2022, the South African energy utility company, Eskom, considered issuing SLBs as part of its transition to renewable energy sources. The idea was to link Eskom's financial performance to its success in reducing carbon emissions and increasing its renewable energy capacity.⁷ SLBs offer a flexible and outcome-based approach to financing, rewarding companies that align their operations with sustainable development targets.

Blended Finance

Blended finance is a game-changer for scaling sustainable finance in Africa, bridging the gap between available financial resources and the investment required to meet the continent's Sustainable Development Goals (SDGs). By combining public, philanthropic, and concessional capital to attract private sector investment, blended finance de-risks high-impact projects in sectors like renewable energy, agriculture, healthcare, and infrastructure. This model is crucial for overcoming barriers such as political instability, currency volatility, and underdeveloped financial markets that typically deter investors. Key to its success is de-risking, where concessional capital absorbs potential losses, making these projects more attractive to private investors. Deepening partnerships between governments, development finance institutions (DFIs), multilateral development banks (MDBs), and the private sector is vital to unlocking blended finance's potential. Together, these collaborations can channel sustainable investments into Africa's critical sectors, accelerating progress toward a resilient, inclusive, and sustainable future.

Case Example

The African Development Bank's (AfDB) Sustainable Energy Fund for Africa (SEFA) is an excellent example of blended finance in action. SEFA combines concessional and private capital to support small- and medium-scale renewable energy projects across the continent. By offering technical assistance, project preparation funding, and credit enhancements, SEFA reduces the financial risks and encourages private sector participation in projects that might otherwise be seen as too risky.

⁷ World Bank Group, 2023

Empowering Scalable Enterprises

Improving Access to Capital for MSMEs Micro, small, and medium-sized enterprises (MSMEs) form the backbone of many African economies, but they often struggle to access affordable financing due to their perceived high risk. Blended finance mechanisms, such as credit guarantees and concessional loans, can help de-risk lending to MSMEs, enabling financial institutions to extend sustainable finance to these businesses. MSMEs are vital for driving job creation, innovation, and inclusive growth, particularly in sectors like sustainable agriculture and green manufacturing.

Case Example

In Nigeria, the Development Bank of Nigeria (DBN) has used blended finance to support MSMEs by combining funding from international development organizations and local commercial banks. Through a blended finance model, the DBN provides credit guarantees, allowing banks to extend affordable loans to MSMEs focused on sustainability, such as green building projects or businesses promoting circular economy practices.

Partnerships as Instrument

Attracting Private Capital through Public-Private Partnerships (PPPs) Blended finance thrives on strong partnerships between the public and private sectors. These partnerships help mitigate risks, while also ensuring that public capital is used effectively to crowd in private investment. Public-Private Partnerships (PPPs) can catalyze large-scale infrastructure investments, particularly in sustainable energy, transportation, and water systems. By aligning the interests of governments, development finance institutions (DFIs), and private investors, PPPs offer a powerful vehicle for scaling sustainable finance. To fully realize the potential of blended finance and scale sustainable investments across Africa, it is essential to deepen partnerships across various sectors. Here are key strategies for enhancing partnerships.

Case Example

The Lake Turkana Wind Power project in Kenya, the largest wind farm in Africa, exemplifies the power of PPPs and blended finance. The project involved funding from various sources, including DFIs like the AfDB and commercial investors, with concessional financing helping to mitigate risks. The wind farm now supplies approximately 15% of Kenya's energy needs, illustrating how blended finance can enable the successful completion of large-scale sustainable infrastructure projects.⁸

⁸ NS Energy, 2019



Technical Assistance for Pipeline Generation of Projects

Another critical component is the provision of technical assistance, which helps improve the viability of projects and attract private investors. Technical assistance funds can be used to strengthen the regulatory environment, build local capacity, or improve the governance structures of investment projects. This support is crucial for ensuring that projects are not only financially sustainable but also meet environmental and social governance (ESG) standards.

Case Example

The Global Environment Facility (GEF) in collaboration with AfDB and private stakeholders launched the Africa Climate Change Fund, which provides technical assistance and capacity-building to African nations developing climate adaptation projects.⁹ By offering expertise in project design and implementation, the fund helps countries attract private investors to climate-friendly projects that might otherwise be overlooked.

Knowledge Management by Strengthening Local Financial Institutions

Local banks and financial institutions play a pivotal role in channeling blended finance to African businesses and infrastructure projects. Strengthening their capacity to assess, manage, and deploy such finance is essential for expanding sustainable finance across the continent. One key example of how knowledge management and technical assistance have been leveraged to enhance local financial institutions' capabilities is the African Guarantee Fund's (AGF) initiative.

Case Example

The AGF has been instrumental in providing partial guarantees to African banks, allowing them to de-risk lending to Small and Medium Enterprises (SMEs). In addition to financial guarantees, AGF also delivers technical assistance programs that help these local banks strengthen their credit risk assessment processes, develop sustainability-focused lending products, and integrate environmental and social risk management systems.¹⁰

Through knowledge-sharing platforms, workshops, and on-the-job training, AGF enables local banks to adopt best practices in financing sustainable projects, particularly in sectors like renewable energy, agriculture, and gender-inclusive businesses. This capacity-building effort has significantly enhanced the banks' ability to identify and manage ESG-related risks while scaling their loan portfolios for sustainable projects.

⁹ Global Environment Facility, 2016

¹⁰ African Development Bank Group, 2019



The Impact of Sustainable Finance Instruments in Africa

Sustainable finance instruments are not only helping to close the financing gap for sustainable development in Africa, but they are also promoting long-term resilience in key sectors. These instruments support the following key areas:

Climate Change Mitigation and Adaptation: Through green bonds, African countries and corporations are financing clean energy projects and climate adaptation strategies. The African continent is highly vulnerable to climate change, and access to capital through green bonds helps mitigate some of these risks.

Social Inclusion and Equality: Social and gender bonds are driving social improvements by funding healthcare, education, affordable housing, and women's economic empowerment. These instruments are critical for addressing Africa's development challenges, including poverty and gender inequality.

Sustainable Marine Economy: With the growing recognition of the importance of ocean health, blue bonds are encouraging African nations to explore sustainable use of marine resources while protecting marine ecosystems from degradation.

Corporate Accountability: SLBs are increasingly attractive to corporations as they align financial incentives with ESG performance. This encourages businesses to take ownership of their sustainability targets and improve governance practices across the continent.

Sustainable Finance Growth in Africa: Opportunities and Challenges

Despite Africa's substantial sustainable finance gap—estimated at USD 1.3 trillion annually to meet the 2030 goals—¹¹ there are key growth opportunities. African nations, including Nigeria, have made progress. In 2017, Nigeria became the first African country to issue a sovereign green bond. However, the continent still requires significant investments to achieve its SDG targets.

Challenges such as high capital costs, limited capacity, and insufficient policy frameworks hinder access to sustainable finance in Africa. Development Finance Institutions (DFIs) and Sustainable Finance platforms play a critical role in bridging this gap by providing loans, grants, and technical assistance to projects that promote sustainable development.

While these instruments have great potential, Africa still faces challenges in scaling up sustainable finance. Key barriers include limited access to affordable capital, lack of awareness or expertise in structuring sustainable finance deals, and underdeveloped financial markets. To overcome these challenges, there is a need for stronger regulatory frameworks, capacity-building initiatives, and greater private-sector involvement.

However, the opportunities are immense. Africa's abundant natural resources, large youth population, and potential for green infrastructure development make it a fertile ground for sustainable finance investments. As global investors seek ESG-aligned projects, African countries that position themselves well can attract significant capital inflows.

The African Development Bank (AfDB) has been instrumental in promoting financial governance and transparency, enhancing economic development while mitigating environmental impacts. Private sector participation is also crucial. While public sources currently account for 87% ¹² of climate financing in Africa, private investors remain hesitant due to perceived risks and lower returns on green infrastructure projects.



¹¹ African Development Bank Group, 2024

¹² Climate Policy Initiative, 2022

Leading Practices and Growth Opportunities



To better position for sustainable finance, African businesses and governments must implement several strategies:

1 Integrate Sustainability into Business Frameworks

Companies should embed sustainability risk management into their operations and explore new opportunities for growth in this space.

2 Align with Regulatory Requirements

Aligning with national and international sustainability standards enhances Africa's attractiveness to sustainable investors. This compliance signals a commitment to sustainability, fostering investor trust.

3 Ensure Transparency and Accountability

Robust reporting mechanisms and data-backed sustainability claims build trust with investors and stakeholders

4 Establish Monitoring and Evaluation and Impact Measurement

Accurate assessments of sustainability impacts demonstrate effectiveness and attract further investment.

African companies that adopt ESG principles and practices can tap into the growing demand for sustainable investments. With a clear sustainability framework, dedicated ESG teams, and transparent reporting, businesses can access the resources needed to drive meaningful change.

Conclusion

Sustainable finance instruments are at the heart of Africa's push towards achieving the SDGs. Green, social, gender, blue, and sustainability-linked bonds are providing innovative ways to fund projects that contribute to climate change mitigation, social equity, and economic development. These instruments not only align with global sustainability priorities but also address Africa's unique challenges, offering pathways for the continent to leverage its potential while promoting sustainable growth. As the adoption of these instruments grows, so does the promise of a more resilient, inclusive, and sustainable future for Africa. Africa stands at a pivotal moment in its pursuit of sustainable development. Despite the challenges, the opportunities for growth through sustainable finance are immense. By harnessing innovative financial instruments, aligning with global standards, and fostering transparency, Africa can unlock the capital needed to address climate change, reduce inequalities, and promote governance reform. The continent's success in sustainable finance will not only transform its economy but also serve as a model for the rest of the world.



How KPMG Can Help:

Design & Structuring of Sustainable Finance Mechanisms:

We assist in the design, development, and structuring of development finance and blended finance mechanisms to support Nationally Determined Contributions (NDCs) for governments, private sector entities, foundations, and philanthropies.

Seamless Cross-Disciplinary Collaboration:

Our ESG, Analytics, Impact Measurement, Risk, and Deals teams collaborate to provide comprehensive solutions, from readiness to post-issuance support, on Green, Social, and Sustainability (GSS) Bonds, gender-smart finance, biodiversity finance, and nature-based finance solutions across Africa.

Managed Services & Advisory Solutions:

We offer end-to-end support in setting up, designing, and operationalizing funds, grants, blended finance facilities, and technical assistance programs.

Advisory Leadership in Sustainable Finance:

Leading KPMG's Sustainable Finance Program, we provide advisory support to financial regulators and intermediaries in Africa. We help create an enabling environment to catalyze climate finance, integrate climate risk, and strengthen investment capacities.

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