Exploring ESG-related financing opportunities for Africa

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Outline

1. The financing challenge: COVID-19, Climate change, SDGs,
2. Overview of ESG-financing market
3. Green Bonds market in Africa
4. Comparing Green bonds and Vanilla bonds
5. Recommendations for African public debt managers

1. Financing challenge for Africa

- Social and economic effects of Covid-19- **Africa’s first recession in half a century**
- **African nations are among the most vulnerable to impacts of climate change**: acute need for climate change adaptation and sustainable infrastructure (public transport, water services or clean energy).
- Financial requirements to adapt to climate change are projected to be between **US$20 and US$30 billion annually** until 2030.
- No shortage of projects or industries in need of green financing across the continent.

2. Overview of ESG-related financing

- Labelled bonds: **Green bonds**, Social Bonds, Sustainability-linked bonds
- The global market for green bonds experienced an explosion after 2013, with more than 300-fold increase in issuance between 2007-2019 and a 104% average annual growth rate over the same period (Marbuah, 2020).
- Proliferation of ESG data and service providers
- Proliferation of ESG benchmarks, standards, and codes
- Growing pressure for 'debt-for-climate' swaps

3. Sovereign Green Bond market in Africa

22 national governments have issued sovereign ESG bonds totalling US$96 billion.

3 sovereign green bond issuers in Africa.

20 African countries have outstanding vanilla sovereign Eurobonds of $135bn (face value).

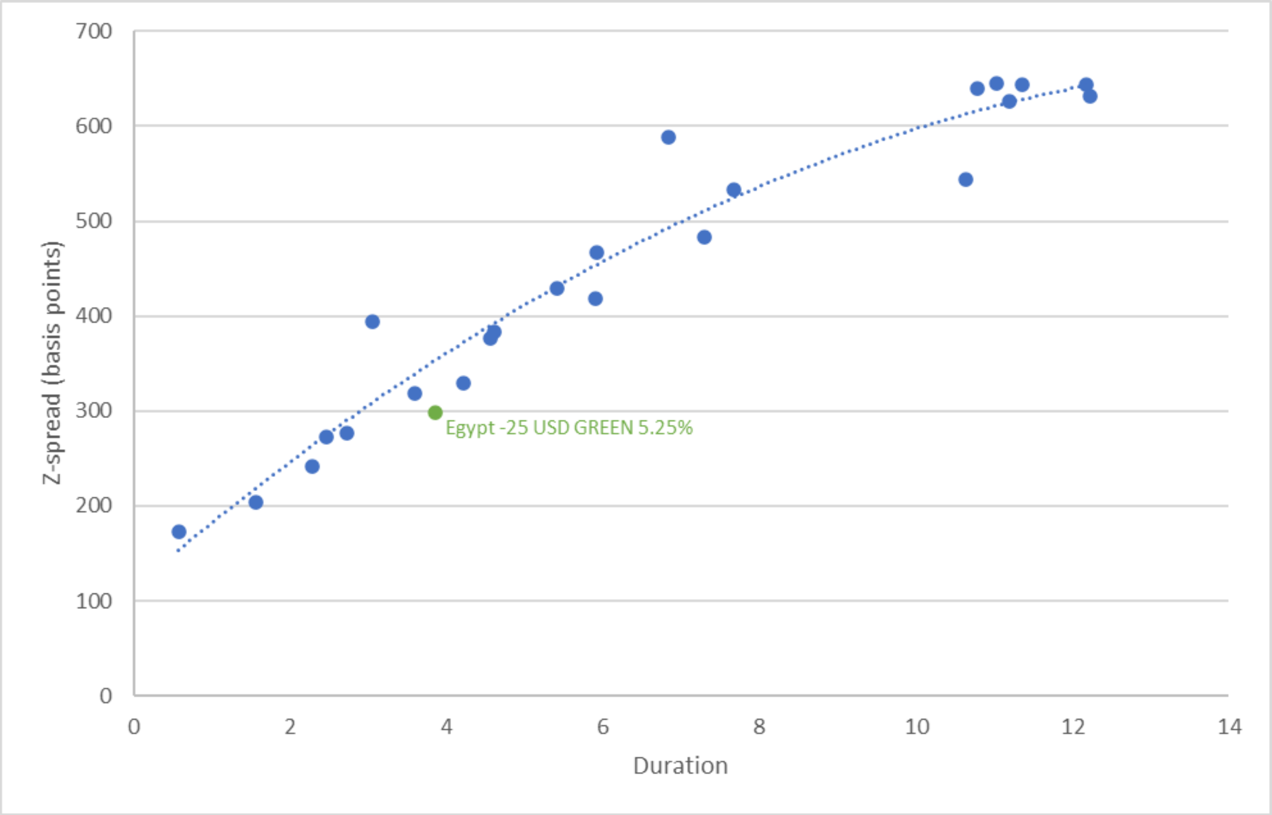
Country	Amount	Tenor	Coupon rate	Use of proceeds
Nigeria (2017, 2019)	N10.6 billion (US$30 million); N15 billion (US$41 million)	5 years; 7 years	13.48%; 14.5%	Renewable energy, afforestation, agriculture, water and transport
Seychelles (2018)	US$15 million	10 years	2.8%*	Sustainable fisheries and marine projects
Egypt (2020)	US$750 million	5 years	5.25%	Pollution prevention and control; sustainable water and wastewater management; clean transportation; renewable energy; energy efficiency; and climate change adaptation

4a. Comparing Green Bonds to Vanilla Bonds

i. Greenium/price premium?

- the idea that issuers are able to obtain a cheaper cost of funding by issuing debt with a specified 'use of proceeds' that have positive environmental and/or social impacts as compared to traditional bonds.
- No **conclusive empirical evidence** of a 'greenium', and where it does it exist, it is likely to be small relative to the spreads for African sovereign bonds (over US treasuries).
- **BUT strong ESG brand** may potentially improve investors' understanding of a country and reduce the premium in the price of African bonds linked to uncertainty (Smith, 2021)

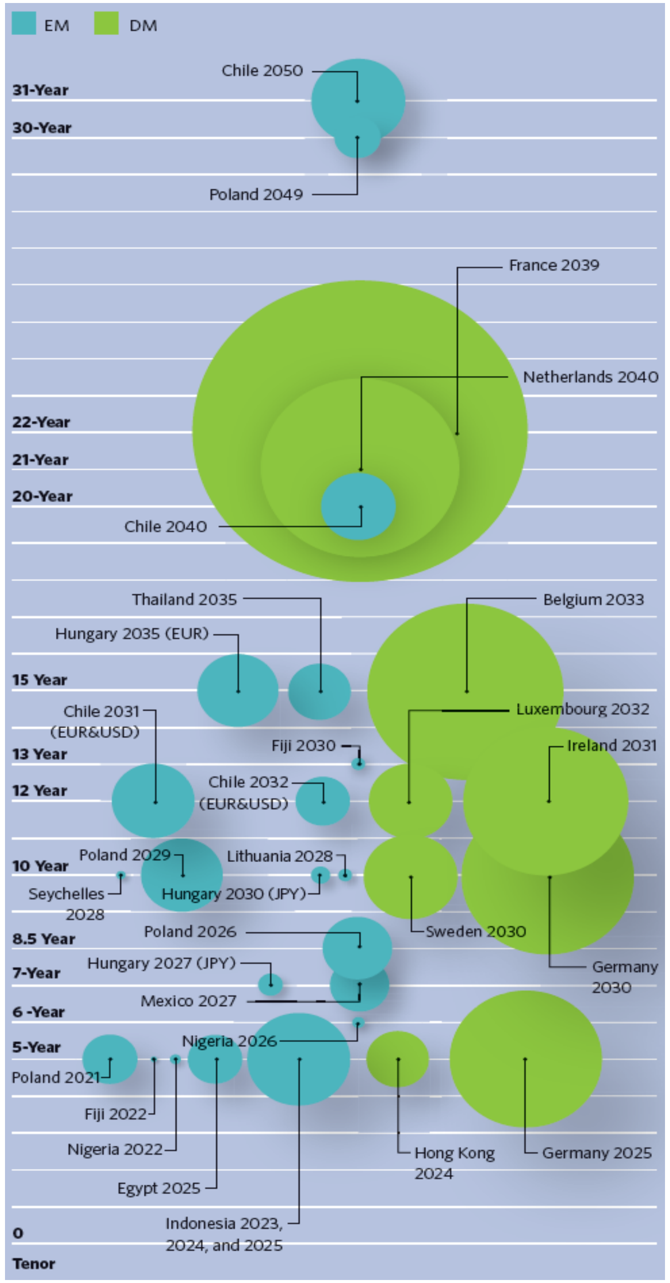
Egypt’s ‘greenium’: Green bond issued tight to the Eurobond curve



4b. Comparing Green Bonds to Vanilla Bonds

ii. Tenor of sovereign green bonds tends to be less than vanilla bonds

- The median maturity of outstanding Africa’s sovereign eurobonds is currently 15 years.
- Average maturities of green bonds tend to be much shorter than that of vanilla eurobonds. Emerging market green bonds have typically been medium-term instruments, with most issuances having a 3- to 5-year tenor.
- Egypt (5 years), Nigeria (5-7years), Seychelles (10 years)



EM
DM
Chile 2050
31-Year
30-Year
Poland 2049
France 2039
Netherlands 2040
22-Year
21-Year
20-Year
Chile 2040
Thailand 2035
Belgium 2033
Hungary 2035 (EUR)
15 Year
Chile 2031 (EUR&USD)
Luxembourg 2032
Fiji 2030
Ireland 2031
13 Year
Chile 2032 (EUR&USD)
12 Year
Poland 2029
Lithuania 2028
10 Year
Seychelles 2028
Hungary 2030 (JPY)
Poland 2026
Sweden 2030
8.5 Year
Hungary 2027 (JPY)
Germany 2030
7-Year
Mexico 2027
6 -Year
Nigeria 2026
5-Year
Poland 2021
Fiji 2022
Nigeria 2022
Egypt 2025
Indonesia 2023, 2024, and 2025
Hong Kong 2024
Germany 2025
0
Tenor

4c. Comparing Green Bonds to Vanilla Bonds

iii. Green bonds can attract a new class of investors

- Egypt’s sovereign green bond had participation of 16 investors that haven’t ever made orders in previous Egyptian issuances in the International Capital Markets, and almost half of the issuance was allocated to investors with a ESG mandate
- Seychelles’ blue bond was completely allocated to ESG investors.

4d. Comparing Green Bonds to Vanilla Bonds

iv. More complex issuance process

- Stricter requirements for the use and management of green bond proceeds
- Independent verification and review

v. Risk of non-compliance and importance of political commitment.

vi. Sovereign green bond issuances can encourage the development of a local green debt market.

5. Recommendations for debt managers

1. Assess the costs and risks of ESG-related debt instruments

2. Consider the benefits of developing an ESG brand/narrative

3. Integrate other ESG-related activities into debt management

4. Where needed, focus on developing local currency bond market and capital market

5. Where needed, make the most of debt swap initiatives.

References and recommended readings

Boitreaud, S, E. Gratcheva, B. Gurhy, C. Paladines and A. Skarnulis. 2020. Riding the Wave: Navigating the ESG Landscape for Sovereign Debt Managers. World Bank.

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Thank you!

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