Enhancing Sustainable Finance in Africa

Kariuki Muigua

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Kariuki Muigua*

Abstract

The paper discusses how the idea of sustainable finance has been embraced in Africa. It examines efforts towards fostering sustainable finance in Africa. The paper further explores some of the problems hindering effective realization of sustainable finance in Africa. It also suggests measures towards enhancing sustainable finance in Africa.

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1.0 Introduction

The financial industry is a sector of the economy that comprises of institutions which provide financial services[1]. These institutions include banks, capital markets, insurance companies, Savings and Credit Co-operatives (SACCOs) among others[2]. The financial system plays a pivotal role in economic development. Well-functioning financial systems are a key component of a modern economy, facilitating the exchange of goods and services, mobilizing savings, allocating scarce resources, mitigating market imperfections, and helping to diversify risks[3]. Resilient, transparent and smooth-functioning financial systems and capital markets contribute to financial stability, job growth and poverty alleviation[4].

Financial institutions such as banks represent the backbone of an economy and have both a direct and an indirect impact on the maintenance and development of the economy through their capacity as stewards of capital flows[5]. It has been argued that through this intermediary role , the financial industry has an impact on other industries and can thus be central to achieving the Sustainable Development Goals (SDGs) by directly participating in projects to protect the environment, directing funds according to the environmental risk of the target companies, or promoting socially responsible products[6]. As a result, the finance industry can promote or hinder (non-)sustainable behavior by

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[1] Corporate Finance Institute., 'Financial Sector.' Available at https://corporatefinanceinstitute.com/resources/wealth-management/financial-sector/ (Accessed on 21/08/2023)

[2] Ibid

[3] Beddies. C., 'The Financial System and Growth.' Available at https://www.elibrary.imf.org/display/book/9781589064515/ch04.xml (Accessed on 21/08/2023)

[4] The World Bank., 'Financial Sector.' Available at https://www.worldbank.org/en/topic/financialsector (Accessed on 21/08/2023)

[5] Zhixia, C., et al. 'Green Banking for Environmental Sustainability-Present Status and Future Agenda: Experience from Bangladesh.' *Asian Economic and Financial Review*, (2018) *8*(5), 571–585.

[6] Zimmermann, S., 'Same but Different: How and Why Banks Approach Sustainability.' *Sustainability*, (2019) 11(8), 2267.

states, companies and individuals and even trigger structural changes in society[7]. This has led to the emergence of the concept of sustainable finance.

Sustainable finance refers to the process of taking into account Environmental, Social and Governance (ESG) considerations when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects[8]. Sustainable finance has also been defined as investment decisions that take into account the Environmental, Social, and Governance (ESG) factors of an economic activity or project[9]. Sustainable finance therefore considers how investing, lending and financing interact with Environmental, Social and Governance (ESG) issues[10].

From the foregoing definitions, it is evident that sustainable finance aligns itself with the concept of Environmental, Social and Governance (ESG). The concept of ESG seeks to achieve sustainable, responsible and ethical investment by incorporating Environmental, Social and Governance concerns in corporate decision making[11]. ESG entails a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing a company's carbon footprint and ensuring there are systems in place to ensure accountability[12]. It involves monitoring and reporting environmental concerns such as carbon emissions, water consumption and waste generation; social concerns such as employee, product and customer related data and governance concerns such as political lobbying, anticorruption initiatives and board

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[7] Riegler. M., 'Towards a Definition of Sustainable Banking – A Consolidated Approach in the Context of Guidelines and Strategies.' *International Journal of Corporate Social Responsibility*, (2023), 8(5)
[8] T Systems., 'How to Promote Sustainability in the Finance Sector.' Available at https://www.t-systems.com/de/en/newsroom/futurepractice/issue-01-2021/sustainable-finance-additional-information#:~:text=Having%20in%20place%20a%20rewards,for%20a%20lower%2Dcarbon%20economy. (Accessed on 21/08/2023)
[9] Bakken. R., 'What is Sustainable Finance and Why Is It Important?' Available at https://extension.harvard.edu/blog/what-is-sustainable-finance-and-why-is-it-important/ (Accessed on 21/08/2023)
[10] Courbois., E.,& Hardonk. S 'A Growing Focus on Sustainability in the Financial Sector.' Available at https://cms.law/en/media/local/cms-dsb/files/other/sustainable-finance-e-book (Accessed on 21/08/2023)
[11] Stuart. L.G et al., 'Firms and social responsibility: A review of ESG and CSR research in Corporate Finance.' *Journal of Corporate Finance* 66 (2021): 101889.
[12] Ibid

diversity[13]. The goal of ESG is to integrate Environmental, Social and Governance factors in corporate activities in order to enhance the sustainability and social impact of business activities[14]. Environmental factors include mitigation of the climate crisis or the sustainable use of resources[15]. Social factors include human and animal rights, as well as consumer protection and diverse hiring practices[16]. Governance factors refer to the management, employee relations, and compensation practices of both public and private organizations[17].

Sustainable finance therefore seeks to foster the realization of ESG tenets in the finance industry[18]. It comprises various forms of finance with responsible, ethical or environmentally friendly objectives[19]. Sustainable finance has become a pertinent issue in the wake of environmental problems such as climate change, social concerns including human rights, diversity, consumer protection and welfare and governance factors such as the need for sound corporate governance[20]. It has been observed that the sustainability concept is receiving increasing attention and importance given the acceleration of climate issues and the perceived negative impact that some financing activities have on the environment or in human wellbeing[21].

Sustainable finance is vital in the realization of the Sustainable Development agenda. It aims to align financial decision-making with the broader goals of Sustainable Development, such as reducing greenhouse gas emissions, promoting social equality, and conserving natural resources[22]. It has been argued that the Sustainable Development

[13] Ibid
[14] Li. T.T et al., 'ESG: Research Progress and Future Prospects.' *Sustainability*, No. 13 of 2021
[15] Bakken. R., 'What is Sustainable Finance and Why Is It Important?' Op Cit
[16] Ibid
[17] Ibid
[18] Courbois., E.,& Hardonk. S 'A Growing Focus on Sustainability in the Financial Sector.' Op Cit
[19] Ibid
[20] De Francesco. A.J., 'The impact of sustainability on the investment environment.' *Journal of European Real Estate Research* (2008).
[21] Ibid
[22] Vaidya. D., 'Sustainable Finance.' Available at https://www.wallstreetmojo.com/sustainable-finance/ (Accessed on 21/08/2023)

efforts, initiated by the SDGs and the Paris Agreement on climate change, are bringing the finance industry especially the banking sector to the center of the debate, which calls for, among other things, sustainable banking[23]. The *United Nations 2030 Agenda for Sustainable Development* recognizes the role of finance in the realization of the SDGs[24]. It advocates for mobilization of financial resources at the domestic and international levels towards strengthening the means of implementation of the SDGs[25]. Further, the *Paris Agreement* recognizes the role of sustainable finance initiatives such as climate finance towards strengthening the global response towards climate change by promoting low greenhouse gas emissions and climate-resilient development.[26] Enhancing sustainable finance can therefore foster the attainment of the SDGs.

The paper discusses how the idea of sustainable finance has been embraced in Africa. It examines efforts towards fostering sustainable finance in Africa. The paper further explores some of the problems hindering effective realization of sustainable finance in Africa. It also suggests measures towards enhancing sustainable finance in Africa.

2.0 Sustainable Finance in Africa

The need for sustainable finance in Africa is informed by several problems facing the continent. The continent has a high incidence of poverty which hinders socio-economic development[27]. Underdevelopment and governance problems have also resulted in slow progress towards the realization of SDGs such as food security, quality education, clean water and sanitation, affordable and clean energy and decent work and economic

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[23] Riegler. M., 'Towards a Definition of Sustainable Banking – A Consolidated Approach in the Context of Guidelines and Strategies.' Op Cit

[24] United Nations., 'Transforming Our World: The 2030 Agenda for Sustainable Development.' Available at https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf (Accessed on 21/08/2023)

[25] Ibid

[26] United Nations Framework Convention on Climate Change., 'Paris Agreement.' Available at https://unfccc.int/sites/default/files/english_paris_agreement.pdf (Accessed on 21/08/2023)

[27] Dang. H., & Dabalen. A., 'Is Poverty in Africa Mostly Chronic or Transient? Evidence from Synthetic Panel Data.' *The Journal of Development Studies*, (2019) 59 (7)

growth[28]. Climate change is also a pertinent problem in Africa. While Africa has contributed negligibly to the changing climate, with just about two to three percent of global emissions, it stands out disproportionately as the most vulnerable region in the world[29]. This vulnerability is driven by the prevailing low levels of socioeconomic growth in the continent[30]. As a result, Africa has been hit hard by the effects of climate change including drought, water scarcity, severe flooding and unpredictable weather patterns compares to other regions of the world[31]. In the wake of these problems, it has been argued that Africa's financial sectors can play an important role in supporting sustainable, smart and inclusive growth in the continent by helping to attract foreign investment and allocating domestic finances efficiently[32]. It has further been observed that Africa and its financial sectors are highly exposed to risks associated with climate change, and the financial sectors must play a key role in financing climate adaptation and mitigation[33].

The role of sustainable finance is recognized by *Agenda 2063* which seeks to mobilise African resources to finance and accelerate its transformation, integration, peace, security, infrastructure, industrialization, democratic governance and strengthen continental institutions[34]. Sustainable finance is vital in achieving this goal by mobilizing resources towards investments in areas such as agriculture, education, energy,

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[28] United Nations Development Programme., 'New Africa SDGs Report Shows Slow Progress, Calls for Greater Action to Meet Targets.' Available at https://www.undp.org/africa/press-releases/new-africa-sdgs-report-shows-slow-progress-calls-greater-action-meet-targets (Accessed on 21/08/2023)

[29] United Nations Environment Programme., 'Responding to Climate Change.' Available at https://www.unep.org/regions/africa/regional-initiatives/responding-climate-change (Accessed on 21/08/2023)

[30] Ibid

[31] Ibid

[32] European Investment Bank., 'Finance in Africa: For Green, Smart and Inclusive Private Sector Development.' https://www.eib.org/attachments/publications/economic_report_finance_in_africa_2021_en.pdf (Accessed on 21/08/2023)

[33] Ibid

[34] Africa Union., 'Agenda 2063: The Africa we Want.' Available at https://www.adeanet.org/en/system/files/resources/01_agenda2063_popular_version_engs.pdf (Accessed on 21/08/2023)

infrastructure and climate change mitigation and adaptation[35]. In addition, the East African Community (EAC) Climate Change policy recognizes the role of sustainable finance in fostering climate change mitigation and adaptation with the EAC region[36]. It seeks to mobilize sustainable funding from development partners, including multilateral agencies, bilateral partners and intergovernmental agencies and the private sector towards combating climate change within the EAC[37].

Further, in Kenya, the *Climate Change Act* recognizes the role of finance in enhancing climate change resilience and low carbon development for the Sustainable Development of Kenya[38]. It seeks to *inter alia* mobilize climate finance towards strengthening Kenya's response towards climate change through mitigation and adaptation measures[39]. Climate finance is among the key tools of sustainable finance[40]. The Central Bank of Kenya (CBK) also acknowledges that climate change presents an opportunity for banks to embrace sustainable finance through measures such as adoption of low emission energy sources, development of new and green products and services, access to new markets, and investments in housing and resilient infrastructure[41]. According to the CBK, green finance is a critical component of sustainable finance and refers to raising capital and financial investments into companies, services, products and projects that accelerate the development of an environment friendly and climate-resilient economy[42].

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[35] The World Bank., 'Financing Africa: Through the Crisis and Beyond.' Available at https://www.worldbank.org/en/programs/africa-regional-studies/publication/financing-africa-through-the-crisis-and-beyond (Accessed on 21/08/2023)

[36] East African Community., 'East African Community Climate Change Policy.' Available at https://www.eac.int/environment/climate-change/eac-climate-change-policy-framework (Accessed on 21/08/2023)

[37] Ibid

[38] Climate Change Act, No. 11 of 2016, Laws of Kenya

[39] Ibid

[40] Steckel. J., 'From Climate Finance toward Sustainable Development Finance.' *WIREs Climate Change*, 2016

[41] Central Bank of Kenya., 'Greening Kenya's Banking Sector.' Available at https://www.centralbank.go.ke/uploads/speeches/1351535767_OpEd%20Climate-Related%20Risk%20Management%20November%202021.pdf (Accessed on 21/08/2023)

[42] Central Bank of Kenya., 'An African Vision for Sustainable Finance.' https://www.centralbank.go.ke/uploads/speeches/282382859_Sustainable%20and%20Green%20Finance%20Op-Ed.pdf (Accessed on 21/08/2023)

Sustainable finance is therefore a primary concern in Africa. It is estimated that globally, about USD 5-7 trillion per year is required to implement the SDGs with developing countries facing an annual investment gap of USD 2.5 trillion in areas such as infrastructure, energy, education, water and sanitation and agriculture[43]. The bridging of this funding gap will require global partnerships, deepening of financial and capital markets and leveraging on innovation[44]. Financial institutions have attempted to answer this call by fostering sustainable finance.

3.0 Enhancing Sustainable Finance in Africa: Progress and Problems

One of the mechanisms through which sustainable finance has been embraced in Africa is climate finance. Climate finance refers to local and global financing of public and private investment that seeks to support mitigation of and adaptation to climate change[45]. It has also been defined as finance for activities aimed at mitigating or adapting to the impacts of climate change[46]. The *United Nations Framework Convention on Climate Change* defines climate finance as local, national or transnational financing drawn from public, private and alternative sources of financing that seeks to support mitigation and adaptation actions that will address climate change[47]. Climate finance is very vital in combating climate change since the adaptation and mitigation processes crucial in enhancing national, regional and global response to climate change require funding[48]. Climate finance is very essential for Africa[49]. It has been asserted that efforts to address climate change can cost billions of dollars, often making them out of reach for developing

[43] Ibid

[44] Ibid

[45] Hong. H., Karolyi. G. A., & Scheinkman. J.A., 'Climate Finance.' *Review of Financial Studies*, Volume 33, Issue 3 (2020)

[46] The London School of Economics and Political Science., 'What is Climate Finance?' Available at https://www.lse.ac.uk/granthaminstitute/explainers/what-is-climate-finance-and-where-will-it-comefrom/ (Accessed on 22/08/2023)

[47] United Nations Framework Convention on Climate Change., 'What is Climate Finance?' Available at https://unfccc.int/topics/introduction-to-climate-finance (Accessed on 22/08/2023)

[48] Climate Finance., 'Climate Finance Essential for Mitigating and Adapting to Climate Change.' Available at https://www.iberdrola.com/sustainability/what-is-climate-finance (Accessed on 22/08/2023)

[49] Ibid

countries, which have contributed far fewer greenhouse gas emissions than developed countries[50]. The finance industry therefore has an important role to play in unlocking climate finance in Africa[51].

Financial institutions in Africa have made progress towards promoting climate finance as a tool of sustainable finance. The African Development Bank, a regional multilateral development finance institution in Africa, is committed to action on climate change and green growth, and to ensuring that development across the continent drives growth that is not only economically empowering but also decarbonized, climate-friendly, environmentally sustainable, and socially inclusive[52]. In its Climate Action Plan, the African Development Bank recognizes the importance of leveraging climate finance and mobilizing resources for climate action and green growth[53]. The Bank's climate finance investments increased from $2.1 billion in 2020 to $2.4 billion in 2021 and $3.6 billion in 2022[54]. In South Africa, the Development Bank of South Africa is committed towards to mobilizing funding for purposes of developing sustainable and environmental friendly infrastructure solutions[55]. The Bank manages the Green Fund, a sustainable finance initiative aimed at transitioning South Africa to a green economy through promoting innovative and high impact programmes and projects, reinforcing climate policy objectives and sustainable economic development through green interventions and attracting additional resources to support South Africa's green economy development[56].

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[50] Sultana. F., 'Critical Climate Justice' Available at https://www.farhanasultana.com/wpcontent/uploads/Sultana-Critical-climate-justice.pdf (Accessed on 22/08/2023)

[51] Muigua. K., 'Unlocking Climate Finance for Development.' Available at http://kmco.co.ke/wp-content/uploads/2023/08/Unlocking-Climate-Finance-for-Development.pdf (Accessed on 22/08/2023)

[52] African Development Bank Group., 'Climate Change.' Available at https://www.afdb.org/en/topicsand-sectors/sectors/climate-change (Accessed on 22/08/2023)

[53] African Development Bank., 'African Development Bank Climate Change and Green Growth Strategic Framework: Action Plan 2021-2025.' Available at https://www.afdb.org/en/documents/climate-changeand-green-growth-strategic-framework-operationalising-africas-voice-action-plan-2021-2025 (Accessed on 22/08/2023)

[54] African Development Bank Group., 'Climate Change.' Op Cit

[55] Development Bank of South Africa., 'Climate Financing.' Available at https://www.dbsa.org/solutions/climate-financing (Accessed on 22/08/2023)

[56] Ibid

Financial institutions therefore have an important role to play in enhancing sustainable finance in Africa through climate finance.

In addition to climate finance that is geared towards overall climate change mitigation and adaptation measures, financial institutions in Africa have fostered sustainable finance through investments in environmental friendly projects and initiatives such as the transition towards green and clean energy sources[57]. The African Development Bank has developed the Sustainable Energy Fund for Africa (SEFA), a multi-donor special fund that provides catalytic finance to unlock private sector investments in renewable energy and energy efficiency[58]. The Fund's overarching goal is to contribute to universal access to affordable, reliable, sustainable, and modern energy services for all in Africa, in line with Sustainable Development Goal 7[59]. The Fund has been utilized to finance green energy programs in Africa and in January 2023, SEFA provided a $1 million grant for green mobility in Africa to seven countries: Kenya, Morocco, Nigeria, Rwanda, Senegal, Sierra Leone and South Africa[60]. Further, innovative financing mechanisms have been developed in availing clean solar energy to rural households in Kenya, Uganda and Tanzania through the M-Kopa initiative[61]. M-Kopa is an African asset-financing platform that provides underbanked customers in select African countries to essential products including solar lighting[62]. Since its launch, M-Kopa has deployed over $1 billion in products and credit to the financially excluded[63]. Further, in South Africa, initiatives in the finance industry such as the partnership between the International Finance Corporation and the Standard Bank have availed funds needed to finance investments in

[57] Lala. O, & Stone. D., 'The Role of Central and Commercial Banks in Promoting Sustainable Finance in Africa.' Available at https://www.mfw4a.org/blog/role-central-and-commercial-banks-promoting-sustainable-finance-africa (Accessed on 22/08/2023)
[58] African Development Bank Group., 'Sustainable Energy Fund for Africa.' Available at https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/sustainable-energy-fund-for-africa (Accessed on 22/08/2023)
[59] Ibid
[60] Ibid
[61] Central Bank of Kenya., 'An African Vision for Sustainable Finance.' Op Cit
[62] M-Kopa., Available at https://m-kopa.com/about/ (Accessed on 22/08/2023)
[63] Ibid

renewable solar and wind energy projects[64]. It has been observed that the renewable energy investments will help reduce an estimated 85,000 tons of greenhouse gas (GHG) emissions per year by 2030[65]. Sustainable finance is thus essential in the transition towards green and clean energy sources in Africa such as renewable sources of energy.

Sustainable finance has also been embraced in Africa through the development of green products such as green bonds[66]. In January 2020, the first corporate green bond in East and Central Africa of Ksh.4.3 billion was issued by the Acorn Group and listed at the Nairobi Securities Exchange (NSE)[67]. The bond was also admitted on the International Securities Market (ISM) segment at the London Stock Exchange (LSE)[68]. Proceeds from the bond were used to build environmental friendly housing for university students[69]. Green bonds are increasingly being embraced in the capital markets in Africa. The Nairobi Securities Exchange (NSE) notes that green bonds are fixed income instruments whose proceeds are earmarked exclusively for projects with environmental benefits, mostly related to climate change mitigation or adaptation but also to curbing environmental problems such as natural resources depletion, loss of bio-diversity, and air, water or soil pollution[70]. The NSE has issued a *Green Bonds Guide*[71] to enable businesses, government and investors to tap into the opportunities associated with the green economy, and make the urgent and strategic shift to climate adaptation and resilience. Green bonds have also been embraced in Nigeria by the Nigerian Exchange

[64] International Finance Corporation., 'IFC and Standard Bank Partner to Increase Climate and Affordable Housing Finance in South Africa.' Available at https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=27671#:~:text=The%20investment%20aligns%20with%20IFC's,increase%20access%20to%20climate%20finance. (Accessed on 22/08/2023)
[65] Ibid
[66] Marbuah. G., 'Scoping the Sustainable Finance Landscape in Africa: The Case of Green Bonds.' Available at https://policycommons.net/artifacts/1424160/scoping-the-sustainable-finance-landscape-in-africa/2038432/ (Accessed on 22/08/2023)
[67] Central Bank of Kenya., 'Greening Kenya's Banking Sector.' Op Cit
[68] Ibid
[69] Ibid
[70] Nairobi Securities Exchange., 'Green Bonds.' Available at https://www.nse.co.ke/green-bonds/ (Accessed on 22/08/2023)
[71] Nairobi Securities Exchange., 'The Kenya Green Bond Market: Issuer's Guide.' Available at https://www.nse.co.ke/wp-content/uploads/green-bonds-guide-14.08.19-2.pdf (Accessed on 22/08/2023)

Group (NGX) a move that has been hailed for the development of the Nigerian and West African green bond market, creating opportunities for investors to diversify their investment portfolios while contributing to sustainable economic development in Africa's largest economy[72]. It has been observed that green bonds are a key step in the sustainable finance agenda in Africa[73]. They can be a parallel alternative financing mechanism that can contribute substantially to Africa's low-carbon and climate- resilient development by financing environmental friendly projects[74]. It is therefore imperative to continue embracing green bonds in Africa towards realizing sustainable finance.

It has further been asserted that financial institutions can foster sustainable finance through the issuance of green loans[75]. A green loan is a form of financing that enables the borrowers to use the proceeds to exclusively fund projects that make a substantial contribution to an environmental objective[76]. A green loan is similar to a green bond in that it raises capital for green eligible projects[77]. However, a green loan is based on a loan that is typically smaller than a bond and done in a private operation[78]. Green loans contribute to aligning lending and environmental objectives[79]. Financial institutions such as banks can therefore provide green loans to businesses and individuals who are investing in sustainable technologies, such as energy-efficient buildings and electric

[72] Chiemeka. J., 'Nigeria's Green Bonds are a Key Step in our Sustainable Finance Agenda.' Available at https://focus.world-exchanges.org/articles/nigeria-green-bonds (Accessed on 22/08/2023)
[73] Ibid
[74] African Development Bank Group., 'Why Africa Needs Green Bonds.' Available at https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AEB_Vol_7_Issue_2_Why_Africa_Needs_Green_Bonds.pdf (Accessed on 22/08/2023)
[75] Lala. O, & Stone. D., 'The Role of Central and Commercial Banks in Promoting Sustainable Finance in Africa.' Op Cit
[76] The World Bank., 'What You Need to Know About Green Loans.' Available at https://www.worldbank.org/en/news/feature/2021/10/04/what-you-need-to-know-about-green-loans (Accessed on 22/08/2023)
[77] Ibid
[78] Ibid
[79] Ibid

vehicles[80]. These loans can help to promote sustainable development and reduce the demand for fossil fuels[81].

Finally, financial institutions have fostered sustainable finance in Africa through investments in socially conscious projects in areas such as education, water and sanitation and health towards realization of the SDGs[82]. Initiatives such as the Wings to Fly scholarship program, an initiative of the Equity Bank Kenya Limited and Mastercard Foundation (MCF) have fostered the right to education for needy students[83]. These among other Corporate Social Responsibility (CSR) initiatives have contributed towards promoting sustainable finance in Africa.

It can therefore be argued that there has been progress towards embracing sustainable finance in Africa. However, it estimated that globally, about USD 5-7 trillion per year is required to implement the SDGs with developing countries facing an annual investment gap of USD 2.5 trillion in areas such as infrastructure, energy, education, water and sanitation and agriculture[84]. This has resulted in slow progress towards the realization of SDGs such as food security, quality education, clean water and sanitation, affordable and clean energy and decent work and economic growth in Africa.[85] Further, it has been observed that Africa needs approximately USD 2.8 trillion, or USD 250 Billion each year, between 2020 and 2030 to implement its Nationally Determined Contributions (NDCs) towards addressing the threat of climate change[86]. However, annual climate finance flows in Africa are approximated to stand at only USD 30 Billion demonstrating a huge gap in funding[87]. The bridging of this funding gap will require global partnerships,

[80] Lala. O, & Stone. D., 'The Role of Central and Commercial Banks in Promoting Sustainable Finance in Africa.' Op Cit

[81] Ibid

[82] African Development Bank Group., 'Financing the Sustainable Development Goals: The Contributions of the Multilateral Development Banks.' Available at https://www.afdb.org/en/documents/financing-sustainable-development-goals-contributions-multilateral-development-banks (Accessed on 22/08/2023)

[83] Equity Group Foundation., 'Wings to Fly.' Available at https://equitygroupfoundation.com/wings-to-fly/ (Accessed on 22/08/2023)

[84] Central Bank of Kenya., 'An African Vision for Sustainable Finance.' Op Cit

[85] United Nations Development Programme., 'New Africa SDGs Report Shows Slow Progress, Calls for Greater Action to Meet Targets.' Op Cit

[86] FSD Africa., 'Current Levels of Climate Finance in Africa Falling Drastically Short of Needs.' Available at https://fsdafrica.org/news/current-levels-of-climate-finance-in-africa-falling-drastically-short-of-needs/ (Accessed on 22/08/2023)

[87] Climate Policy Initiative., 'Landscape of Climate Finance in Africa.' Available at https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-in-africa/ (Accessed on 22/08/2023)

deepening of financial and capital markets and leveraging on innovation.[88] Sustainable finance is therefore vital in spearheading the Sustainable Development agenda in Africa.

4.0 Way Forward

In order to effectively embrace sustainable finance in Africa, there is need for financial institutions to enhance climate finance[89]. It has been observed that whereas African governments pledged $ 264 Billion in domestic public resources to combat climate change, this figure falls short of the estimated $ 2.8 trillion required to implement Africa's Nationally Determined Contributions (NDCs) between 2020 and 2030[90]. Further, annual climate finance flows in Africa are approximated to stand at only USD 30 Billion demonstrating a huge gap in funding[91]. Financial institutions in Africa can help to mitigate this gap and contribute towards effective response to the threat of climate change[92]. It has been observed that while financial institutions in Africa such as the African Development Bank and other regional and national banks have responded proactively to the challenge imposed by climate change and that there is a tendency in the banking sector to develop green products aimed at achieving sustainability results, it is considered that these are still isolated initiatives, not systemic or integrated ones, that fail to trigger significant climate outcomes at national or regional levels[93]. In terms of climate finance flows in Africa, the private sector including financial institutions contributes only 14% (USD 4.2 billion) of total climate finance in Africa, much lower than in other regions like South Asia (37%), East Asia and Pacific (39%), and Latin America and Caribbean (49%)[94]. This has resulted in the continued threat of climate change in

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[88] Central Bank of Kenya., 'An African Vision for Sustainable Finance.' Op Cit

[89] Muigua. K., ''Unlocking Climate Finance for Development.' Op Cit

[90] Magoma. C., 'A Huge Financing Gap for Climate Action with Public Debt Sustainability Risks Looms in East Africa beyond COP27.' Available at https://www.acepis.org/a-huge-financing-gap-for-climateaction-with-public-debt-sustainability-risks-looms-in-east-africa-beyond-cop27/ (Accessed on 22/08/2023)

[91] Climate Policy Initiative., 'Landscape of Climate Finance in Africa.' Op Cit

[92] Ibid

[93] Kone. T., 'For Africa to meet its Climate Goals, Finance is Essential.' Available at https://climatepromise.undp.org/news-and-stories/africa-meet-its-climate-goals-finance-essential (Accessed on 22/08/2023)

[94] Climate Policy Initiative., 'Landscape of Climate Finance in Africa.' Op Cit

Africa with the continent ranked as the most vulnerable region to the effects of this global problem[95]. It is therefore imperative for financial institutions in Africa to enhance their efforts and contributions towards climate finance as a tool of sustainable finance. The processes undertaken individually by banking or financial entities could be strengthened through a national and regional approaches that identifies barriers and opportunities for the climate financial business, while generating exchange of successful experiences, as well as mechanisms for monitoring and following up impacts[96].

It is also essential for financial institutions including banks and capital markets to continue embracing green products such as green bonds and green loans as vehicles of sustainable finance[97]. The Environmental, Social, and Governance (ESG) revolution has created the need for an ethical and responsible finance industry creating the need for financial institutions such as banks to embrace a sustainable, responsible and ethical investment including designing products and supporting investments with an environmental good[98]. There has been progress towards embracing green products such as green bonds in Africa. These products are now being traded in securities exchanges including the Nairobi Securities Exchange (NSE) and the Nigerian Exchange Group (NGX)[99]. It is important for financial institutions in Africa to embrace green products such green bonds as an innovative and alternative way of raising finance from both domestic and external sources for sustainability-driven investments[100]. Institutions like the African Development Bank with experience in international development on the continent and in green bonds have a critical role to play in supporting these potential players in building

[95] United Nations Development Programme., 'New Africa SDGs Report Shows Slow Progress, Calls for Greater Action to Meet Targets.' Op Cit

[96] Green Climate Fund., 'Enhancing Climate Finance and Investment in LAC Banking Sector.' Available at https://www.greenclimate.fund/document/enhancing-climate-finance-and-investment-lac-bankingsector#:~:text=These%20processes%20undertaken%20individually%20by,monitoring%20and%20followin g%20up%20impacts%2C (Accessed on 22/08/2023)

[97] Lala. O, & Stone. D., 'The Role of Central and Commercial Banks in Promoting Sustainable Finance in Africa.' Op Cit

[98] Stuart. L.G et al., 'Firms and social responsibility: A review of ESG and CSR research in Corporate Finance.' Op Cit

[99] Nairobi Securities Exchange., 'Green Bonds.' Op Cit

[100] African Development Bank Group., 'Why Africa Needs Green Bonds.' Op Cit

the required capacity especially in the development of in-house Environmental, Social and Governance (ESG) management systems that can be used in investment decision-making with close attention given to shaping developments in market standardization such as the Green Bond Principles[101].

Financial institutions can also foster sustainable finance through investments in projects geared towards realization of the SDGs[102]. It has been observed that there has been slow progress towards the realization of SDGs such as food security, quality education, clean water and sanitation, affordable and clean energy and decent work and economic growth in Africa[103]. This situation has been attributed to several factors including lack of effective financing towards realization of the SDGs in Africa[104]. Financial institutions can promote the attainment of SDGs in Africa through investments in projects in areas such as renewable energy, health, education, water and sanitation as part of their Corporate Social Responsibility (CSR) and also as a way of enhancing sustainable finance[105].

Finally, regulators in the financial industry such as central banks and capital market authorities have an important role to play in scaling up sustainable finance[106]. These regulators play a paramount role in promoting green finance and sustainable funding options, either through formulating or amending the regulatory framework, encouraging green loans and products or by introducing climate change considerations in their monetary and financial policy operations[107]. It has been observed that financial regulators in Africa such as central banks can enhance sustainable finance through establishing

[101] Ibid

[102] African Development Bank Group., 'Financing the Sustainable Development Goals: The Contributions of the Multilateral Development Banks.' Op Cit

[103] United Nations Development Programme., 'New Africa SDGs Report Shows Slow Progress, Calls for Greater Action to Meet Targets.' Op Cit

[104] Ibid

[105] Siueia. T., 'Corporate Social Responsibility and Financial Performance: A Comparative Study in the Sub-Saharan Africa Banking Sector.' *Journal of Cleaner Production*, Volume 226, 2019

[106] Durrani. A, Rosmin. M, & Volz. U., 'The Role of Central Banks in Scaling Up Sustainable Finance – What Do Monetary Authorities in the Asia-Pacific Region Think?' *Journal of Sustainable Finance & Investment*, Volume 10, Issue 2 (2020)

[107] Ibid

policy and regulatory frameworks that promote sustainable finance, supporting the development of green bond markets through formulation of guidelines for the issuance of green bonds by other entities, integrating climate-related risks into their risk management frameworks, and encouraging financial institutions to do the same, conducting research and collecting data on the impact of climate change on the financial system and the economy, and using such information to inform policy and regulatory decisions and providing technical assistance and capacity building support to banks and other financial institutions to help them develop the skills and knowledge needed to transition towards sustainable finance[108].

Financial regulators in Kenya have attempted to actualize this mandate through issuance of rules and guidelines aimed at integrating ESG concerns in financial decision making towards enhancing sustainable finance[109]. These include *The Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015*[110] issued by the Capital Markets Authority (CMA) of Kenya that guides companies to include Environmental, Social and Governance (ESG) aspects of the business in their annual reports; *ESG Disclosures Guidance Manual, 2021*[111] issued by the Nairobi Securities Exchange (NSE) where all NSE-listed companies are encouraged to voluntarily publicly report their ESG performance annually; *Policy Guidance Note on Green Bonds, 2019*[112] issued by the CMA and highlights the guiding principles for the issuance of green bonds and *Guidance on Climate-Related Risk Management, 2021*[113] issued by the Central Bank of Kenya, this mandates boards of financial institutions to consider climate related risks when developing the financial

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[108] Lala. O, & Stone. D., 'The Role of Central and Commercial Banks in Promoting Sustainable Finance in Africa.' Op Cit

[109] ENSafrica., 'Sustainable Finance in Kenya.' Available at https://www.lexology.com/library/detail.aspx?g=73684683-c9b2-4e9a-bf93-94b595f67317 (Accessed on 22/08/2023)

[110] The Capital Markets Act (Cap. 485A), Gazette Notice No. 1420,
The Code Of Corporate Governance Practices for Issuers of Securities to the Public 2015.

[111] Nairobi Securities Exchange., 'ESG Disclosures Guidance Manual, 2021.' Available at https://www.nse.co.ke/wp-content/uploads/NSE-ESG-Disclosures-Guidance-Manual.pdf (Accessed on 22/08/2023)

[112] Capital Markets Authority., 'Policy Guidance Note on Green Bonds, 2019.' Available at https://www.cma.or.ke/regulatory-framework/ (Accessed on 22/08/2023)

[113] Central Bank of Kenya., 'Guidance on Climate-Related Risk Management, 2021.'Available at https://www.centralbank.go.ke/wp-content/uploads/2021/10/Guidance-on-Climate-Related-Risk-Management.pdf (Accessed on 22/08/2023)

institution's overall business strategy. Compliance with these rules and guidelines is vital in enhancing sustainable finance in Africa.

5.0 Conclusion

The financial industry is a key driver of economic development and realization of the Sustainable Development Goals (SDGs)[114]. As a result, the financial industry can promote or hinder (non-)sustainable behavior by states, companies and individuals and even trigger structural changes in society[115]. This has led to the emergence of the concept of sustainable finance. The idea of sustainable finance seeks to integrate Environmental, Social and Governance (ESG) considerations in financial decision making in order to foster responsible, ethical and sustainable investments[116]. There has been progress towards embracing sustainable finance in Africa through climate finance, investments in environmental friendly projects such as renewable energy the development of green products such as green bonds ad green loans[117]. However, in the wake of challenges facing Africa including climate change and slow progress in realization of the SDGs, there is need to enhance sustainable finance[118]. Financial institutions can foster sustainable finance in Africa through enhancing climate finance, widespread development and uptake of green products such as green bonds and green loans, accelerating investments in projects geared towards realization of the SDGs and effective regulation of the financial industry by regulators such as central banks[119]. Enhancing sustainable finance in Africa is an ideal that needs to be pursued.

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114 Zimmermann, S., 'Same but Different: How and Why Banks Approach Sustainability.' Op Cit

115 Riegler. M., 'Towards a Definition of Sustainable Banking – A Consolidated Approach in the Context of Guidelines and Strategies.' Op Cit

116 Bakken. R., 'What is Sustainable Finance and Why Is It Important?' Op Cit

117 Lala. O, & Stone. D., 'The Role of Central and Commercial Banks in Promoting Sustainable Finance in Africa.' Op Cit

118 United Nations Development Programme., 'New Africa SDGs Report Shows Slow Progress, Calls for Greater Action to Meet Targets.' Op Cit

119 Lala. O, & Stone. D., 'The Role of Central and Commercial Banks in Promoting Sustainable Finance in Africa.' Op Cit

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