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AUTORITÉ MAROCAINE DU MARCHÉ DES CAPITAUX



PROGRAM ON IMPLEMENTING GREEN CAPITAL MARKETS IN AFRICA: A WHITE PAPER

In line with “Marrakech Pledge”

Rabat, Morocco

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¹www.marrakechpledge.com

EXECUTIVE SUMMARY

On the African scene, the need for creating green capital markets is an urgent call that Marrakech pledge is answering; and it was in this context that the Program on Implementing Green Capital Markets took place. It provided a venue for knowledge exchange in the global market, experience sharing on the development of the green capital markets for participating countries, networking and debating on climate finance and related policy and institutional innovation among capital market players.

This white paper targets African capital market regulators and exchanges, Investor Groups, including pensions and insurances, governments and multi laterals. It aims to share the key factors that help the development of green capital markets globally, the examples of African countries that have developed or started to develop green capital markets, and the key action-oriented recommendations discussed in the program.

Successful implementation of green capital market requires a clear approach with determined objectives, interaction between public officials/private actors, and strong guidance on what is green that has substantive consistency with international guidelines. International collaboration & capacity building, active underlying securities markets, improved disclosure/information and capital market incentives for unlocking opportunities for the green investments are also factors that support success.

In the African region, Morocco and Nigeria have developed national plans including the different stakeholders, followed by launching the sustainable, green and social guidelines. South Africa has developed a short-term strategy and the national committee on sustainable development dedicated to overseeing the implementation and monitoring of the interventions to address issues of sustainability in the country. Johannesburg Stock Exchange took the leading role in developing green capital markets and creating a dedicated green segment. The Kenyan experience in implementing green capital markets started by launching green bonds guidelines in a joint collaboration between the capital market authority and the Nairobi Securities Exchange (NSE). The NSE has introduced green products and detailed the requirements on the role of independent verifiers and the

requirements for continuous reporting on “greenness” and allocation of capital raised in line with issuing conditions. Seychelles and Namibia have announced the issuance of blue and green bonds respectively. Mauritius and Gabon developed national roadmaps to launch green bonds. Central Africa has started its approach as a result of participating in Implementing Green Capital Markets in Africa Program. Most of these countries are developing green capital markets while being part of the different international initiatives: the Sustainable Stock Exchanges, the Sustainable Banking Network, the IOSCO Sustainable Finance Network, the World Federation of Exchanges, the Growth and Emerging Markets Committee, the Network for Greening the Financial System, the Financial Sector Deepening Africa and the International Platform on Sustainable Finance.

The main action oriented recommendations are focusing on building an ecosystem for developing green capital markets including multiple stakeholders in elaborating a national strategy and guidelines. Based on the international practices, countries should develop an appropriate disclosures and reporting framework. Moreover, for the regional scope, establishing strong collaborative links and communication, capacity building, developing a regional program of certifiers and verifiers are recommended.

LIST OF ACRONYMS

NCSD	National Committee on Sustainable Development
NDCs	Nationally determined contributions
NGFs	Network for Greening the Financial System
NSE	Nairobi Securities Exchange
PRI	Principles for Responsible Investment
REITs	Real Estate Investment Trusts
SBN	Sustainable Banking Network
SEM	Stock Exchange of Mauritius
SDGs	Sustainable Development Goals
SSE	Sustainable Stock Exchanges
TC	Toronto Centre
TCFD	Task force on Climate-related Financial Disclosure
UCITS	Undertakings for Collective Investment in Transferable Securities
WASRA	West African Securities Regulators Association
WFE	World Federation of Exchanges

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I. INTRODUCTION

Around the globe, voices clamoring for climate aware investing and carbon controls are growing. Demand for green finance initiatives and regional strategies are increasing, as is indignation about natural resources management.

The «Marrakech Pledge for Fostering Green Capital Markets in Africa»² is the first regional initiative dedicated to answer these voices. It is a call to action for all African Capital Markets Regulators and Exchanges willing to act collectively in favor of sustainable development and to have an actual impact on fostering Green Capital Markets in Africa both within respective local markets and together as a region, to promote climate resilient investments and drive capital towards the green economy. From the outset, the Program agreed that there was a consensus that unprecedented climate change being experienced and getting worse will have dire impacts on all aspects of planetary well-being. As stated in the Marrakech Pledge “Climate finance is undoubtedly recognized as a key determinant of the needed global economic transformation towards sustainable and climate resilient structures. It is an increasing priority area on the agenda of financial policy makers, regulators, and market practitioners to integrate the need to transform their financial environments in order to move the green economy forward and further encourage climate-resilient investments”. Further, the goal of the Pledge is to enable African-led innovative climate finance initiatives («By Africa for Africa»), and the building of local climate finance knowledge and expertise within the Continent’s market players. Currently, there are 23 signatories to the pledge, representing 25 countries including 13 regulators and 10 stock exchanges from all over the African continent.

The Pledge has been presented in different meetings, regional and global, allowing for regular follow up on regional and country specific achievements with regard to collective target commitments set under the initiative. It was in this context that the “Implementing Green Capital Markets Program” took place. It provided a venue for knowledge exchange in the global market, experience sharing on the development of the green capital markets in every participant country, as well as for networking and debating over climate finance and related policy and institutional innovations among capital market players.

²www.marrakechpledge.com

This has resulted in delivering this white paper, which targets African capital market regulators and exchanges, Investor Groups, including pensions and insurances, governments and multi laterals. It aims to share:

1. Key factors that help the development of green capital markets globally
2. Examples of African countries that have developed or started to develop green capital markets
3. Key action oriented recommendations discussed in the program aiming to implement green capital markets

II. OVERVIEW OF GCMS

Green finance³ is growing in importance, driven by consumers, investors and governments. Within the broader green, social and sustainable finance arena, capital market instruments are central to financing the Sustainable Development Goals (SDGs) and bridging the financial gap estimated at USD 2.5T annually⁴. While capital market instruments cover a wide range, including debt (bonds, sukus), equity, funds (CITs) etc. the most common green capital market instrument is the green bonds. Green is defined by how the proceeds of funds raised are used and the growth of green finance is closely tied to the capacity to define, manage and monitor that use. The International Capital Market Association's (ICMA) Green Bond Principles⁵ and the Climate Bonds Initiative's (CBI) Climate Bond Standards, among other initiatives, help to determine whether a bond qualifies as green or not and have helped the green bond market grow. Additional work is underway to tighten definitions, disclosure, and other key areas for success by the ICMA, CBI, Task force on Climate-related Financial Disclosure (TCFD) and others.

The rate of growth of green bonds issuance has been of the order of 3% annually over the last 2 to 3 years⁶. The total global investment is of the order of 1.67 Billion USD. Comparatively, Africa's green bond issuance is 0.18% of its total market capitalization, compared to 0.4% in North America (US& Canada), 1.9% in Eurozone, 0.89% in China⁷. Paradoxically, Africa is one of the most vulnerable continents to climate variability and change because of multiple existing stresses and low adaptive capacity. Existing stresses include poverty, political conflicts, and ecosystem degradation. As a percentage of GDP, climate-related damage in Africa is projected to be higher than in any other region in the world. To prepare for climate change, Africa faces significant financial requirements. The need for green capital markets is therefore urgent and these markets present a high growth potential. The successful development of green bond markets entails considering several different factors.

³ Green Finance refers to any financial instrument or investment, issued for the delivery of positive environmental externalities that are real and verified. Note: there are competing definitions about what constitutes green finance and green finance instruments. The European Commission published a lengthy (110 pages) report on the definition current status, implementation and implication of "green".

⁴ The Least Developed Countries Report: https://unctad.org/en/PublicationsLibrary/ldcr2019_en.pdf

⁵ ICMA 2018. www.icmagroup.org

⁶ Based on World Bank Data for market capitalization and green bonds issuance data from ICMA and CBI.

⁷ Idem

Factors that help green bonds markets grow globally are:

2.1 Clear approach with determined objectives

The United Nations in 2015 outlined 17 global goals known as the SDGs. They are an urgent call for action by developing and developed countries and provide a blueprint for the peace and prosperity for people and the planet.

Guidelines on how to create green capital markets to support implementation of the SDGs have now been created. According to the Sustainable Banking Network report «Creating Green Bond Markets – Insights, Innovations, and Tools from Emerging markets»,⁸ these common guidelines are:

- **Alignment:** Aligning with international best practices, learning from other jurisdictions, and developing common approaches, through regional collaboration and accelerating local green bond market development. This will allow a cross border investment and issuance.
- **Quality:** Market integrity and credibility are key components of green bond markets. Guidance should therefore include tools for ensuring quality. The external review from experienced and credible entities edges the risk of “greenwashing” and provides investors with assurance around the green credentials of the bonds and the governance around the management of proceeds. Likewise, it is essential to consider the need of issuers to apply good international industry practice in managing broader Environmental, Social and Governance (ESG) risks of all assets.
- **Flexibility:** Local market conditions must be accounted for and local market players should be involved in the design of appropriate national guidance. Countries may choose to adopt either a principles-based approach or more strict regulation depending on market maturity and local interest in green bond issuance.
- **Harmonization:** The diversity of green and social assets and projects may continue to differ at national level due to local market conditions, industries, and national sustainable development strategies. Nevertheless, the use of global definitions and common categories, as reference standards for what qualifies as green projects and sectors will build the credibility of bonds among international investors.

⁸ Report on developing green bond markets that can help countries pilot the development of green bond guidance and other market mechanisms, while respecting local market conditions and at the same time supporting a move towards cross-border harmonization <https://www.ifc.org/wps/wcm/connect/0413ff21-8066-4bf7-8983-38e136dc2d89/SBN+Creating+Green+Bond+Markets+Report+Executive+Summary.pdf?MOD=AJPERES&CVID=mqtqpx4>.

Furthermore, at the national level, it is usually conjectured that successful realization of the SDGs will require ⁹:

- A. Mainstreaming a country's specific SDG-related goals into its national policies, plans and strategies.
- B. Ensuring through this process that there is a proper analysis of enabling environment, institutional mechanisms and systems to track achievements against these goals.
- C. Linking these goals with the development of a pipeline of projects, programs and policy interventions that are aligned with, and can facilitate, the achievement of the country's SDGs.
- D. Developing green capital market approach either related to “integrated national development”, “sectorial sustainable development strategies” or “SDG implementation plans” and strengthening all the efforts to mobilize financing for the SDGs by the “blended finance” approach.

2.2 Interaction between public officials/private actors

Endorsing carefully designed and fiscally responsible public-private partnerships to increase climate finance for nationally determined contributions (NDCs)¹⁰ is needed. Such partnerships will benefit from actions as follows:

- A. In partnership with international financial institutions, climate financing mechanisms, and Development Finance Institutions, convene public and private sector actors to assess the opportunities and risks (including fiscal risks) of collaborative partnerships to increase financing for NDCs.
- B. Strengthen public sector institutional capacity to carefully design, manage and monitor such partnerships for financing NDCs.
- C. Strengthen the capacity of developing countries to replicate proven solutions in local contexts, leveraging global experiences.

⁹ http://www3.weforum.org/docs/WEF_From_Funding_to_Financing.pdf

¹⁰ <https://www.un.org/sustainabledevelopment/wp-content/uploads/2019/07/UN-SG-Roadmap-Financing-the-SDGs-July-2019.pdf>

Indeed, a concrete mechanism to bring together public and private investors is the use and deployment of blended finance to achieve the SDGs. The concept of blended finance is defined as «the strategic use of development finance and philanthropic funds to leverage private capital flows into emerging markets, generating positive outcomes for investors and affected communities»¹¹.

2.3 International collaboration & capacity building

At the international level, many networks and working groups have been established for helping countries develop and implement green capital markets. These initiatives are based on the international collaboration of all interested market stakeholders. Presented below are the main networks and the working groups dedicated to the sustainable finance.

These Working Groups mission is to help members consider how to mainstream Sustainable Development Goals and to support its members to contribute constructively in upholding the SDGs. These networks offer a unique environment for experience sharing and capacity building between regulators from different countries with different levels of development. All members work together on building a common approach for sustainable finance regulation and development. Here are the initiatives and the working groups on green finance:

- A. The Sustainable Stock Exchanges (SSE)¹² is an initiative launched by the UN Secretary General in 2009 aiming “to build the capacity of stock exchanges and securities market regulators to promote responsible investment in sustainable development and advance corporate performance on environmental, social and governance issues” . The work of the SSE is built through the collaboration of representatives of all capital market stakeholders in all of its workstearms.
- B. The Sustainable Banking Network (SBN) is created by IFC¹³ for the financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice. The network facilitates the collective learning of members and supports them in policy development and related initiatives to create drivers for sustainable finance in their home countries.¹⁴

¹¹ World Economic Forum Report on “a how to guide to blended finance” <http://www3.weforum.org/maintenance/public.htm>

¹² <https://sseinitiative.org/about/about-the-sse/>

¹³ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/sbn

- C. IOSCO Sustainable Finance Network is a sustainability network within the International Organization of Securities Commissions (IOSCO) created in 2018 to provide a platform for its members to share their experiences, discuss sustainability-related issues and to act as a vehicle for carrying out collaborative work on common regulatory and supervisory subject.
- D. The World Federation of Exchanges (WFE) is the global industry group of exchanges and clearing houses seeking to ensure regulatory outcomes that foster well-functioning capital markets and reinforce systemic risk stability to developing markets. It has created the sustainability working group aiming to promote the sustainable best practices and standards among its members.
- E. The Growth and Emerging Markets Committee (GEMC) of IOSCO produces a number of market leading research reports on the topic of sustainable finance. These reports constitute a formal declaration by the WFE and its membership to take on a leadership role in promoting the sustainable finance agenda.
- F. The Network for Greening the Financial System (NGFS) formed by central banks and supervisors. Its purpose is to help strengthening the global response required to meet the goals of the Paris agreement. Furthermore, the network is created to enhance the role of the financial system to manage risks and mobilize capital for green and low carbon investments in the broader context of environmentally sustainable development.
- G. Financial Sector Deepening Africa (FSD Africa): It is a fund created in 2012, funded by the UK Government's Department for International Development and the World Bank Group. It aims to reduce poverty across sub-saharan Africa by building financial markets that are efficient, robust and inclusive. It applies a combination of resources, expertise and research to address financial market failures and deliver a lasting impact. The FSD has a mandate to work across sub-Saharan Africa on issues that relate to both "financial inclusion", best practice transfer, economies of scale and coherence between development agencies, donors, financial institutions, practitioners and government entities with a role in financial market development in sub-Saharan Africa.

¹⁴ https://www.iosco.org/wps/wcm/connect/corp_ext_content/iosco_external_corporate_site/home

- H. The International Platform on Sustainable Finance is an international initiative launched in October 2019 by the European Union with authorities from Argentina, Canada, Chile, China, India, Kenya, and Morocco. It focuses on environmentally sustainable initiatives in particular in the areas of taxonomies, disclosures, standards and labels which are fundamental for investors to identify and seize green investment opportunities worldwide. The IPSF is supported by the coalition of finance Ministers for Climate Action, the European Bank for Reconstruction and Development, the European Investment Bank, the International Organization of Securities Commissions, the Network for Greening the Financial System, the Organization for Economic Co-operation and Development, and United Nations Environment Program-Finance Initiative, in their role of observers.

2.4 Developing a sound legal and regulatory framework

Addressing both, the demand and supply sides of green investments require a sound legal and regulatory framework. International organizations are providing support to countries in addressing this requirement.

The Green Climate Fund, a financial mechanism under the UN Framework Convention on Climate change, which helps fund climate finance investment, has developed a readiness program. This program facilitates the support of up to US\$1 million per annum to any country to set up a regulatory framework that supports the development of green finance and increases the confidence of market players. Similarly, IFC, as stated before, works for developing with policy makers a regulatory framework supporting the implementation and the development of green capital markets.

2.5 Improved disclosure/information

The Financial Stability Board established a Task force on Climate Related Disclosure (TCFD)¹⁵. TCFD provides more specific, comprehensive, and standardized information on the risks firms and financiers face from potential climate events, and the strategies for mitigating risk and realizing opportunities. TCFD makes it easier to produce and use climate-related financial disclosures. For example, the ESG criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Following TCFD will improve a firm's internal knowledge as well as better inform investors and regulators. The TCFD recommends the disclosure on the use of proceeds on four thematic areas.

Recommendations and supporting recommended disclosures are:

- **Governance:** Disclose the organization's governance around climate related risks and opportunities. Indeed, the recommended disclosures are to describe the board's oversight of climate related risks and opportunities as well as describe management's role in assessing and managing climate related risks and opportunities.
- **Strategy:** Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses. Strategy and financial planning where such information is material.
- **Risk Management:** Disclose how the organization identifies, assesses and manages climate-related risks.
- **Metrics and Targets:** Disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.

These recommendations and supporting recommended disclosures aim to increasing transparency in order to make markets more efficient, and economies more stable and resilient.

¹⁵ <https://www.fsb-tcfid.org/>

2.6 Taxonomies

These are created to provide more specificity about what constitutes green. Taxonomies provide all market participants and consumers with a common understanding of qualifying activities, protects against green washing and provides the basis for further policy actions, including standards, labels, incentives and potential changes to prudential rules. The Climate Bonds Initiative and ASEAN provide 2 examples of green taxonomies, uniform and harmonized approaches.

As taxonomies are being developed, one issue that's arising is finding the right balance between having enough but not too much detail - so the taxonomy is usable. Another debate concerns data. Some say that taxonomies are constrained by the lack of sufficient climate data. Others believe that the process of defining and using taxonomies to whatever extent possible will help build data, information, and experience that is needed for taxonomies to improve with time. Countries will need to determine what works best for their circumstances and how much to develop their own taxonomy or draw on others. Here too, aligning with other taxonomies, where possible, can make it easier to make investment comparisons and decisions.

2.7 Verification

In terms of verification, third party independent reviews are becoming common practice to certify alignment with Green Bond Principles, Green Loans Principles, and/or Climate Bond Standards. Although not mandatory in many countries, the appointment of external reviewers increased investors' confidence. Several CMAs have requirements about verification including whether the reviews are voluntary or mandatory (most are still voluntary but there is a movement to make them mandatory). External reviewers must be an independent third party, and demonstrate relevant expertise, and/or be approved by a recognized body such as the CBI.

CBS sets out the requirements to be met for issuers seeking climate bond certification. The requirements are separated into pre-issuance requirements, which need to be met for issuers seeking certification ahead of issuance, and post issuance requirements, as well as continued certification following the issuance of the bond. Pre-issuance requirements are designed to ensure that the issuer has established appropriate internal processes and controls prior to the issuance of the Certified Climate Bond. These internal processes and controls are sufficient to enable compliance with the CBS after the Climate Bond has been issued and allocation of the proceeds is underway. Post-issuance sets out the requirements that apply to all Certified Climate Bonds after the issuance of the

bond. Divided into three parts, these cover the general requirements, eligible projects and assets, as well as the specific bond types.

The GBP are intended for a broader use by the market. They provide issuers with guidance on the key components involved in launching a green bond; they aid investors by promoting availability of information necessary to evaluate the environmental impact of their green bonds investments; and they assist underwriters by moving the market towards expected disclosures that will facilitate transactions. GBP emphasizes four core components namely the use of proceeds, the process of project selection and evaluation, management of proceeds and reporting.

In June 2018, ICMA launched the Guidelines for Green, Social and Sustainability Bonds External Reviews. These guidelines aim to promote best practices and complement the principles and other existing relevant guidance such as the Assurance Framework for CBS, the EU Green Bond Standards being produced by the High-Level Expert Group on Sustainable Finance, and the ASEAN GBS. According to these guidelines, there are several types of external review namely second-party opinion, verification, certification and green scoring/rating. These external reviews are predominantly carried out at the preliminary stage of the green bonds issuance. Some providers of the review offer more than one type of service either separately or combined.

2.8 Enabling market participation and instruments

Green capital markets can only function if the underlying capital markets are working. The lack of green bonds in many emerging market countries is partly due to challenges in using local bond markets more generally.

Ensuring investors are able to participate in the local capital markets, through, for example, enabling investment regulations and developing the types of instruments issuers and investors need. Asset-backed structures and blended approaches are particularly important, as they are for financing the SDGs beyond green..

2.9 Capital market incentives for unlocking opportunities for green investments

If green finance is still at its infant stage, a government may consider a push factor to assist the private sector to change from conventional business models to those that include green and sustainability. Economic incentives are often provided in terms of subsidies, tax exemptions and preferential tariff. Providing incentives can help reduce the costs of green adoption and certification.

Around the world, varieties of tax and subsidies are used to provide incentives for businesses in line with social costs and benefits. Examples consist of tax credits for investments in new (risky) technologies, feed-in tariffs for renewable energy, carbon pricing, and investment and insurance or export guarantees. Countries with supportive regulatory and tax environments attract more green investors and tend to offer more financing options. Government policies should offer free technical assistance for green project development as well as promote and finance programs for low-impact development projects and green infrastructure. Oil & Gas producer countries could think about strengthening the development of green technologies and provide incentives for purchase of green technology assets and income tax exemption for the use of green technology services and system such as energy, transportation, building, waste management and supporting activities.

Incentives are useful but should have a defined period of use, since they may send the wrong signal of pursuing transformative climate action for material rewards instead of saving the planet/

2.10 Raising awareness towards better informed investors

Both public and private sectors should organise capacity building events to educate the public on sustainable finance. Those events should be organized in collaboration with the industry, educational and consumer groups if they exist.

To sum up, successful implementation of green capital market requires a clear approach with determined objectives, interaction between public/private actors, strong guidance on what is green that has substantive consistency with international guidelines, international collaboration & capacity building, active underlying securities markets and improved disclosure/information and capital market incentives for unlocking opportunities for the green investments. On the other hand, factors that have constrained the growth and development of the green capital markets are:

- Limited national plans that guide vision, purpose, and coordinate action for building green capital markets
- Need for stronger green elements – standards, taxonomies, disclosure, metrics, guidelines
- Underdeveloped bond and equity markets – with lack of needed instruments
- Lack of public awareness due to the absence of capacity building at national levels.
- Time is needed to obtain a consensus between regulators at the national levels. Coordination is needed to apply ESG factors and each regulator shall define its strategy. Once a consensus is built, regulators shall reach out to the financial sector and then all stakeholders. To boost green finance, it is necessary to boost all actors in the system to improve their engagement, understanding and competency on these issues. Professional and industry bodies don't exist in some countries and it is difficult to engage with stakeholders to develop how ESG issues are incorporated within their professional activities.

In the next section relevant experiences of various countries in Africa are briefly reviewed to illustrate what has been discussed in this chapter.

III. INSTRUCTIVE PRACTICES FROM THE REGION

Securities regulators along with capital market stakeholders can play a leading role in supporting the development of sustainable capital markets by:

- A. Facilitating investment and promoting the creation of appropriate financial instruments.
- B. Strengthening disclosure by improving the quantity and quality of environmental and social data.
- C. Clarifying duties and guiding investors on the integration of sustainability into their decisions.
- D. Reinforcing governance by introducing board responsibilities related to environmental and social factors.
- E. Facilitating the training and capacity building of market participants on sustainability topics.

3.1 Morocco

Morocco has made sustainable development a national priority. It has chosen the gradual step-by-step approach to implement green capital market starting from principles and guidance to regulation. Indeed, the sustainable development is solidly embedded in the kingdom's constitution, which assigns to the state the mission of working towards the realization of a human sustainable development, aiming at consolidating social justice and preserving the national natural resources and the rights of the future generations. It was initiated in 2008 by launching the national renewable energy and efficiency plan, an energy program aiming at making 42% of its total energy produced from renewable sources (solar, wind and hydroelectric sources) by 2020 and 52% by 2030¹⁶.

The energy plan was followed by the establishment of the national road map, which is a national collaboration between financial market stakeholders from the public and the private sector. In fact, this first step towards implementing green capital market is an alignment of the financial sector with the SDGs and climate change commitments. This step had preceded to green bonds guidelines, publication of guidelines¹⁷ on Corporate Social Responsibility (CSR) and ESG reporting¹⁸ and social and sustainable bonds guidelines¹⁹.

¹⁶ <https://www.iea.org/policies/6557-morocco-renewable-energy-target-2030>

¹⁷ <http://marakechpledge.com/wp-content/uploads/2017/11/AMMC-BROCHURE-VGB.pdf>

¹⁸ <http://marakechpledge.com/wp-content/uploads/2018/04/Guide-RSE-ESG.pdf>

¹⁹ http://www.ammc.ma/sites/default/files/AMMC_%20Guide%20sur%20les%20Green%2C%20Social%20and%20Sustainability%20Bonds.pdf

The guidelines were prepared by the Moroccan Capital Market Authority (AMMC)²⁰, in order to promote the emergence of the Green Bonds market within the Moroccan financial place. The issuers willing to issue Green Bonds will find in those guidelines an overview of the principles to comply with and the different steps to follow. Investors also will find useful information allowing them to understand this debt instrument segment. In addition, the CSR guidelines aim to promote the culture of corporate social responsibility at the level of publicly traded companies in Morocco. To do this, the guide clarifies some concepts and presents a practical approach for the implementation of the CSR approach and ESG reporting.

The publication of guidelines, on Corporate Social Responsibility (CSR) and ESG reporting, aims to promote the culture of CSR at the level of publicly traded companies in Morocco and to prepare them for the future ESG reporting obligations. To do this, the guide clarifies some concepts and presents a practical approach for the implementation of the CSR approach and ESG reporting. Furthermore, the AMMC and Casablanca Stock Exchange jointly with the independent international research and services agency ESG Vigeo Eris²¹ have set up “Casablanca ESG 10” an environmental, social and governance benchmark index aiming to attract a new category of social responsible investors by providing them with a reference tool and promoting the ESG best practices among publicly traded companies.

In addition, other market players, including investors, will also find in this guide information that is useful for them to better understand CSR and integrate ESG issues in their areas of activity.

The guidelines were followed by the circular that mandates public companies to implementing compulsory rules on ESG reporting, lightened to SMEs listed on the alternative market.

For the international collaborations, the AMMC has joined a number of networks and working groups that are involved in the field of sustainable finance. It is a member of Sustainable Stock Exchange, Sustainable Banking Network, IOSCO Sustainable Finance Network, GEM Committee Group on Sustainability, Bilateral Cooperation agreements and Toronto Centre.

²⁰ <http://www.ammc.ma/>

²¹ <http://vigeo-eiris.com/solutions-for-investors/esg-indices-ranking/>

3.2 South Africa

South Africa is the leading country in the continent with regard to the growth of green bonds starting in 2014 with municipal green bonds issued by the city of Johannesburg and followed by another municipal green bond issued by Cape Town. Since then, the private sector including real estate companies and corporate banks have accelerated this growth.

The implementation of sustainable development action is decentralized through the strategic plans of all spheres of government, public entities, civil society, organized labor and businesses. South Africa has started with a medium term Strategic Framework for 2009-2014. This was followed by the launch of a five-year strategy and action plan, which sets out key areas that require attention in order to ensure a shift towards a more sustainable path. It identifies strategic goals for the period, as well as priorities, objectives, interventions and headline indicators, with the intention of feeding them into the long-term national vision and strategic plan. A systems approach will be followed through the establishment of the National Committee on Sustainable Development (NCSD). The NCSD is a dedicated institutional structure that will oversee implementation and monitoring interventions to address issues of sustainability in South Africa.

The JSE is a member of the Sustainable Finance Strategy workgroup with the National Treasury and other representative organizations from the finance industry. As such, it is an active contributor to setting benchmarks and content relating to green finance in South Africa. All JSE Green Bonds are required to be independently reviewed using a wide array of best practice methodologies that suit the issuer's business model. By virtue of this process, Green Bond issuers are automatically granted improved governance perceptions by market observers given the increased disclosure of proceeds.

3.3 Nigeria

Nigeria started by developing a national roadmap for implementing green capital markets in 2018. The strategic leveraging points to scale up sustainable finance in Nigeria include advocacy and sensibilization to key financial sector stakeholders in sustainable finance such as banking, insurance, and capital markets as well as deepening the green loans market, green private equity etc.²²

²² Nigerian National Roadmap http://unepinquiry.org/wp-content/uploads/2018/11/Nigerian_Sustainable_Finance_Roadmap.pdf

3.4. Kenya

In February 2019, the Capital Markets Authority of Kenya issued guidelines for the issuance of green bonds. The first green bond to be issued soon after, which will raise 5 billion shillings (\$48.45 million) for sustainable and climate resilient student hostel accommodation with a clear focus on environmentally sound waste water treatment, energy provision and related green approaches to buildings. The issuance is seen by the CMA as a critical step in advancing the development of an effective ecosystem to support the establishment of green capital markets in Kenya.

The Green agenda in Kenya is being championed through a multi-agency approach. The national treasury from the ministry of finance has stepped forward as a key proponent of green finance in line with National Government Green and Blue Economy Strategies and Implementation Plan setting a firm foundation for work within the financial sector. It is deliberating extending the tax incentive applicable for infrastructure financing of greater than three years to explicitly also apply to green bonds even where not related to infrastructure.

The Nairobi Securities Exchange (NSE) issued new Listing Rules for Green Bonds and a set of Green Guidelines. It targets the establishment of Green Finance Indices. The Capital Market Authority has identified the creation of conducive environment for ESG reporting as a key strategy to attract a broader spectrum of local and international investors to the Kenyan capital markets in their latest strategic plan launched in July 2018. It has issued a policy Guidance Note for unlisted Green Bonds. The Central Bank has sought continuously support the efforts by the Banker Association. This latter has been a driver of the adoption of sustainable practices by the banking community which represents the largest component of domestic financial markets. It has launched the Catalyst Awards to raise visibility of best practices and leaders in the space of sustainable finance.

This development has been achieved through partnerships with different international and regional entities who have provided critical technical and funding support such as Financial Sector Deepening Africa, the IFC, the Dutch FMO and the Climate Bonds Initiative.

The CMA together with Nairobi Securities Exchange have issued Listing Rules and Regulatory Guidance for green bonds catering for both listed and unlisted issues. The issuance is a critical step in advancing the development of an effective ecosystem to support the establishment of green capital markets in Kenya in line with the Marrakech Pledge 2016.

The Authority has complemented the NSE guidelines with a Policy guidance note catering for approval standards for unlisted green bonds.

3.5 Central Africa

As a result of following the program on implementing green capital markets, la Commission de Surveillance du Marché Financier de l'Afrique Centrale (COSUMAF) started an initiative to foster the green dynamics in its capital market. It started collaborating with IFC for developing a regulatory framework and a set of guidelines on climate issues applied to Central African capital markets. In addition, COSUMAF is working with the Gabon's government, which already has a national climate plan. The Regulator is in touch with the ministries of finance and the environment's one. Moreover, COSUMAF is planning to organize capacity building seminars in Libreville as a first step, with the support of IFC and the firm AIC Tax Legal, which is focused on the Green Finance and Climate issues, and has already led workshops on this specific matter. The main goal is ultimately to pull all the six Central African Economic and Monetary Community countries in that green dynamic.

3.6 West Africa

The West Africa Central Markets Authority is actively considering how green bonds might be encouraged in the region. To this end it is pursuing the following lines of action:

- Adoption by ministries of finance of financial sector reforms
- Signing of the Marrakech Pledge
- Elaborating a framework for green and social bonds
- Capacity building workshops with Stakeholders
- Collaboration with all member countries and the West Africa Development Bank. is built
Much collaboration is foreseen with Morocco and Nigeria.

3.7 Other countries in Africa

Seychelles launched the World's First Sovereign Blue Bond in September 2019. The blue bond is a pioneering financial instrument designed to support sustainable marine and fisheries projects. The bond raised USD15 million from international investors, demonstrating the country's potential to harness capital markets for financing the sustainable use of marine resources. In Namibia, Bank Windhoek announced the successful issuance of Namibia's first green bond of NAD66 million on a private placement basis. This was a first for Namibia, and since its issuance, Bank Windhoek has been determined to build up a robust pipeline of eligible projects in order to secure a second issuance, depending on market conditions.

In Egypt, in July 2019, the Financial Regulator Authority issued the first annual sustainability report that outlines FRA's strategy for sustainable development in the light of Egypt 2030 after joining the SSE and adopting its principles. The report includes the FRA's vision, mission and strategic approach. It sets a roadmap that builds capacities, raises awareness, and introduces economically, environmentally and socially responsible policies.

In 2018, Mauritius developed a roadmap to green finance and also considered creating a green bonds market.

3.8 Lessons learned in the region

Some countries in Africa have large pools of institutional funds, such as pension funds, and they would benefit from a domestication of green bonds issuance.

In order to establish and grow green bonds markets in Africa, the Program identified several instructive practices. These included the following:

- **Increasing the role of Stock exchanges in implementing green capital markets:**

The local stock exchange, as the entity at the center of markets, can play an important role in the development of the green finance market. However, in many African markets, the exchange is not particularly liquid or well-used. The development of green finance may act as a catalyst for development of the market ([listed and unlisted](#)) more broadly. Achieving this however, requires cross-market collaboration, capacity building and education.

Looking specifically at listed markets and stock exchanges, participants highlighted the following:

- o Developing green capital markets was not just about creating new products but also about understanding the “greenness” of existing listed markets. For example, policy changes introduced in response to climate change may result in stranded assets which could have an impact on market valuations, pension portfolios, etc.
- o There is nothing inherent in a green bond that requires it to be listed on a dedicated segment i.e. it is possible to list an instrument that meets green criteria without a specific segment for this. For example, the NSE did not have a dedicated green segment, while the JSE do. The advantage of a green segment is that it provides a marketing window for these instruments. However, this may entail unnecessary expense and effort when a market is still evolving. Exchanges should determine what makes the most sense given the specifics of their environment. For example, they may wish to begin by listing a few instruments and then move to the introduction of a segment over time.
- o There are many exchanges that are already listing green and other sustainability-linked products; exchanges should use these models ([e.g. the Luxembourg Green Exchange](#)) as a starting point for their own initiatives.

- o Education of the market (about green finance, about the relevance of sustainability to investment decision-making) is critical. Exchanges felt, where possible, this should be done in partnership with other relevant actors such as the regulator, leveraging examples from other jurisdictions, where it made sense to do so.
- **Developing a Roadmap:**
 - o A roadmap or national plan on how to develop the green bond market may be one outcome of the consultations on green guidelines. It may also be put in place before those guidelines are developed. Nigeria, Kenya and Morocco have national plans, while South Africa does not. Therefore, it is possible to issue green bonds without first launching a national roadmap.
 - o Countries with national plans need to link these roadmaps with their NDCs (Nationally Determined Contributions) and gain; conversely, the NDC may be the genesis for the roadmap.
- **Preparing Green Guidelines:**
 - o The important starting point is to develop standards for establishing green bond guidelines. These should undergo comprehensive consultation with all market players. South Africa, Kenya, Nigeria and Morocco have launched green or sustainable guidelines.
 - o The guidelines and the outcomes of the consultations can be used as the basis to develop the regulatory framework.
 - o The question of whether shades of green would be helpful was discussed. The consensus was that to be in the Green Capital Markets it would be preferable to meet all criteria or run the risk of compromising market standards.

- **Disclosure and transparency:**
 - An appropriate disclosures and reporting framework, based on some international best practice should be developed and made public. The TCFD provides some guidance on disclosure of information which would help investors make investment decisions and help regulators assess risk in the financial system.
 - In managing GCMs, reporting must address disclosures as to what funds were actually used for. This requires clear definitions of what green means, followed by disclosing and verifying the information.

- **Verification:**
 - Many countries are struggling to establish who is an acceptable verifier and what is an acceptable verification process and the extent to which the regulator should approve the verifier. The suggestion was made to have a website with knowledge on this subject to assist countries in determining their approach and to help develop commonality across the region. Indeed, the Marrakech Pledge Website was suggested to play this role.

- **Collaboration:**
 - Collaboration with both national and international bodies is key to successful green bonds market.
 - Domestic collaboration with all relevant players (issuers, investors, Ministries of Finance, Pensions Commissions, etc.) is key to building the ecosystem for green finance market to grow. Effective communications should target all stakeholders in appropriate ways and address all stages of the GMC development process. This could include seminars, workshops, webinars, podcasts, radio, TV and print media.
 - International collaboration with players (such as the ICMA, CBI, NGFS etc...) is important to ensure alignment with and learning from international best practices. Regional and related South-South collaboration can provide relevant learning and support for appropriate capacity building.
 - Research and knowledge sharing were considered very important. This requires strong links between regulators, universities and other researchers.

Other key points:

- The regulatory framework, while providing clear guidance, should allow innovation to thrive.
- Tax incentives are not common in Africa but were recognized as needed to go green.
- In terms of issuance:
 - Financing of SMEs in the region, especially those aligned with the SDGs, might benefit from blended finance since only a small fraction of FDI goes to the continent constrained by a range of risks. These risks might become acceptable to private sector investments through blended finance partnerships.
 - In Africa there is no shortage of project ideas. The challenge is to have enough market ready projects.
- In terms of regionalization: An issuer could be authorized to issue bonds across a region or sub-region if there is an integration mechanism, for example, WASRA for West Africa or COSUMAF for CEMAC. Coordination, Harmonization and Integration mechanisms are required.

IV. RECOMMENDATIONS FOR ACTION FROM THE PROGRAM

Below are some specific actions that can be taken.

These should be worked on at the national and regional levels, with an aim to develop similar approaches that make it easier for investors to understand and participate in African green capital markets.

4.1 General recommendations

- o Follow a phased approach:
Authorities should follow a phased approach. This should include establishing a collaborative multi-stakeholder working group to draft guidelines, consultations on the guidelines with all market players and consumers, development of a national plan, preparation of a roadmap, establishment of a regulatory framework and launch of the sector. In some cases, it will be helpful to establish guidelines on how guidelines for the process are to be developed.
- o Build an eco-system for GCMs.
- o Ensure flexibility: Flexibility is required both to take account of national financial, social economic and environmental contexts as well as to provide room for innovation to flourish.

4.2 Methodology

- o Elaborate a 3 steps methodology for countries aiming to implement green capital markets (from sustainable development plans to financial sector strategy to a concrete action plan).

4.3 Develop an appropriate disclosure and reporting framework

- o It should be based on international best practices while taking into account local conditions. This should be developed and made public. The TCFD provides some guidance. Disclosure rules should start with a flexible approach (move from guidelines to possibly mandatory rules).

4.4 Develop a common taxonomy

- o A taxonomy should be developed per climate zone.
- o To develop a regional taxonomy, countries: should rely on international networks, consider existing taxonomies developed (e.g: at the EU level per example), start with a common taxonomy for the Marrakech Pledge signatories, start by focusing on a certain type of activity such as a taxonomy for green building, solar panel farm, wind farms, etc..

4.5 Establish a regional program of certifiers/verifiers

- o The African Union should develop a common program for training, certification and accreditation.

4.6 Establish strong collaborative links and communication early in the process and keep strengthening these networks

- o Effective communications should target all stakeholders in appropriate ways and address all stages of the GMC development process. This could include seminars, workshops, webinars, podcasts, radio, TV and print media. It could foster collaboration with other stakeholders at the national level (central banks, MOFs, MOEs, financial institution and market regulators, and a broad range of market participants including banks, insurance companies, pension funds, and insurances companies) through national roadmaps. . .
- o Establish a website where all relevant experience on verification and certification including South-South and international best practices can be found.
- o Foster academic research in green finance is required. Collect and disseminate key research on inclusive green finance relevant to the region on the Marrakech platform.
- o Share National Financing Plans and documents like the NDCs is a requirement. Among other benefits, this will help countries get a better understanding of how to approach these plans and the amount of investment needed to support the goals.
- o Develop a training platform on the Marrakech Pledge Website.
- o Leverage existing international and regional opportunities for collaboration and peer-to-peer learning such as the SSE, which most African exchanges are involved with, SBN, PRI and others. At a regional level, the African Securities Exchanges Association ([ASEA](#)) has a sustainability working group which, in addition to facilitating collaboration and learning, can also provide a platform for developing relevant standards.

4.7 Build capacity

- o Ensure relevant and appropriate capacities are built through capacity gaps assessment and lessons learned from the region and elsewhere for all phases of green bonds launch process. Capacity building is not part of Authorities traditional role and so necessary support and advice from counterparties should be obtained as needed. Yet, the authorities often do lead efforts to build capacity and stock exchanges play a large role in this.

4.8 Encourage and accelerate market participation

- Consider tax and other incentives to stimulate the growth of green bonds markets. An example is governments paying the costs of verification or reduced taxes on capital gains from green bonds. Incentives should have a defined period of use, since they may send the wrong signals of pursuing transformative climate action for material rewards.
- Ensure a pipeline of market/investment ready projects for investment of green bonds proceeds.
- Investors should assess “greenwashing”, investment impact, pricing, risk/return tradeoffs, and investment comparisons.
- Issuers need to assess how to best use their financial resources to achieve economic goals, while identifying and managing their climate risks and impact.
- Instruments: asset backed and future flow transactions. For instruments, it is necessary to focus on greening the entire financial system and using more standardized products rather than creating a series of niche products as these are difficult to scale up. The innovation should be more in how the proceeds are used and less in constructing innovative financial instruments.

4.9 Manage risk

- Regulators/exchanges need to identify and monitor risk at the firm and systemic levels and ensure compliance and enforcement

4.10 Issuers and investors to focus on

When starting to establish a Green Bond framework, the regulators should first liaise with:

- Pension funds and insurance companies
- Development banks
- Sovereign funds

4.11 Enhance local capital market development

- o Facilitate access to green bonds markets, especially to SMEs for which entry barriers (cost, size of operations, etc.) are prohibitive.
- o Diversify green financial instruments: collective investment schemes (green UCITs and green REITs), green Sukuk, green sovereign bonds, blue bonds, inclusive green finance and green Fintechs etc.
- o Sustainability indices can play an important role in market development. A few African markets already have some form of sustainability index (e.g. the ESE, the JSE, the CSE and the SEM). These develop market awareness of the relevant issues, encourage greater disclosure and transparency on these issues, and overall contribute to a more enabling environment.
- o Map projects and sectors that can be financed in each country among the Marrakech Pledge signatories (notably for awareness raising aims among the ecosystem).

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