LAGOS BUSINESS SCHOOL
PAN-ATLANTIC UNIVERSITY

LBS Sustainability Centre

Stanbic IBTC

Sustainable Finance Opportunities in Emerging Markets

White Paper

May 2025

Contents

Disclaimer

This document is published by the Lagos Business School Sustainability Centre in collaboration with Stanbic IBTC Holdings as a contribution to the Sustainable Finance Summit delivered by both organisations and held in September 2024. The findings, interpretations and conclusions expressed herein are a result of a collaborative process facilitated and endorsed by the Lagos Business School in collaboration with Stanbic IBTC Holdings.

Foreword

Sustainable finance opportunities can help channel sustainable finance to high-impact sustainable investments in emerging markets on the continent.

Prof Olayinka David-West
Dean, Lagos Business School

Africa for far too long has been perceived to be synonymous with various developmental challenges across environmental, social and economic lines. These challenges demand we prioritise investments that have the potential for environmental and socio-economic value creation for the continent and its people.

Unarguably, no other sector and industry has this burden placed squarely on its shoulders like the financial services sector and no other continent has these opportunities in abundance for sustainable finance investors to tap into like Africa.

Although the concept of sustainable financing is still growing, many countries, sub-national institutions and organisations have committed and are already successfully implementing nationally determined contributions (NDCs), Sustainable Development Goals (SDGs) and Environmental, Social and Governance (ESG) initiatives with the financial services sector playing a leading role as an intermediary partner. South Africa, Ghana, Nigeria, Seychelles, Rwanda, Congo and Mauritius are good examples of nations leading the charge, In the financial services sector, Stanbic IBTC is a chalkboard example of an organisation that is leading the charge in deploying sustainable finance instruments.

This white paper highlights the vast potential of sustainable finance opportunities in emerging markets in Africa and how financial players can facilitate the flow of additional private sector and development finance, to help address the sustainable financing gap of over 4 trillion dollars to catalyse sustainable investments that will enable the Africa We Want.

Kunle Adedeji
Ag. Chief Executive,
Stanbic IBTC Holdings PLC

The role of financial institutions in today's dynamic global landscape extends beyond traditional profit generation. We are now at the forefront of sustainable development, ensuring that economic growth aligns with environmental preservation and social progress. As key enablers of change, we must integrate sustainability into our financial strategies to foster long-term value for businesses, communities, and the broader economy.

This white paper underscores the critical need for robust sustainable finance frameworks. These frameworks are not mere compliance obligations but the foundation upon which we build resilient, high-impact investment portfolios. By embedding Environmental, Social, and Governance (ESG) principles into decision-making, we can unlock transformative opportunities that drive sustainable economic growth across various sectors.

At Stanbic IBTC, we have embraced this commitment by implementing a sustainable finance framework since October 2023. Our current sustainable finance portfolio stands at N173 billion, representing nearly 7% of our total loan portfolio—far exceeding our initial 2025 target of N48 billion. This milestone reflects our dedication to driving meaningful financial solutions that address pressing social and environmental challenges, particularly in emerging markets.

The opportunities within sustainable finance are vast, particularly in Africa, where economies continue to expand. By tailoring financial solutions to meet regional needs, we can achieve both commercial success and lasting environmental and social benefits. Strong policy frameworks are essential to ensuring that financial institutions play a pivotal role in advancing sustainable investments. Together, we have the potential to catalyze a new era of green projects, enhance climate resilience, and drive sustainable prosperity across the continent.

Executive Summary

Emerging Markets in Africa represent a great opportunity for harnessing the potentials from sustainable finance while promoting sustainable growth. However, this growth must be inclusive, environmentally conscious and financially rewarding.

This white paper captures the key takeaways from our recent Stanbic IBTC Holdings Inaugural Sustainable Finance Summit, co-delivered by the Lagos Business School Sustainability Centre in September 2024 themed "Sustainable Finance Opportunities in Emerging Markets" designed to equip business leaders with actionable insights for making sustainable investments happen. The event brought together industry experts, policymakers, and investors to delve into the critical role of sustainable finance in driving economic growth and addressing environmental and social challenges in Africa.

The agenda explored a range of thought-provoking topics:

- Global Trends in Sustainable Finance providing a global context for sustainable finance trends
- Emerging Market Opportunities in Sustainable Finance highlighting the immense potential for sustainable investments in Africa.
- Best Practice Cases of Growth Opportunities through Sustainable Finance Deployment in Africa offering practical examples of successful implementation.
- Navigating the Fears and Risks in Impact Investing delivered as a fireside chat addressing concerns and providing strategies for effective impact investing.
- Stanbic IBTC's Impact Story showcasing Stanbic IBTC's experience in deploying sustainable finance solutions, offering a real-world case study.
- Policy and Regulatory Support Required to Advance Sustainable Finance in Nigeria emphasising the importance of a supportive environment.

Building on discussions at the summit, this publication serves as a crucial guidepost in the transformative journey of deploying sustainable finance for sustainable development. The white paper concludes with seven key recommendations to develop and support sustainable investment opportunities and the investment environment. These are action-orientated and feasible action steps which if taken have a huge potential for catalysing sustainable finance opportunities in emerging markets in Africa. The recommendations, summarised in the next page are outlined in more detail in the final section of this document.

Recommendations

1. Green Growth Investments: Africa's transition to a sustainable green continent is delayed by the growing exposure of economies to climate risks. Fostering economic activities such as climate-smart agriculture, green housing, renewable energy and the likes will create sustainable growth pathways to accelerate sustainable development while ensuring that natural assets continue to provide the resources and environmental stewardship needed to curb social and environmental risks.

2. The Power of Collaboration: There is growing investment in partnerships and collaborations to strengthen market-level ecosystems at local, national and regional levels. This should increase to stimulate growth in sustainable finance opportunities in emerging markets on the continent.

3. Unlocking Innovative Financing: Standing in the way of the continent making the most of sustainable financing potential are the limited resources available for sustainable investments. Growing investor interests in innovative financing models such as catalytic capital, climate finance, blended finance and impact investments, signals the potential to harness innovative financing for driving sustainable development in underserved markets, communities and countries.

4. Launching an Officially Accepted Green Taxonomy: Relevant definitions and technically robust green taxonomies for sustainable assets and financial products in Africa should be developed. This will help scale up sustainable finance in many ways by providing clarity to the market and policy makers on what is and what is not sustainable. This will facilitate access to new and more diversified pools of capital searching for sustainable assets which meet globally accepted sustainability benchmarks.

5. Formulating Strong Policy Frameworks: Creating globally aligned policies that support sustainable finance flows into sustainable investment growth would transform the continent into a global powerhouse, supporting a growing population in a sustainable manner, while providing good returns for investors in parallel.

6. Charting a Sustainable Finance Roadmap: A sustainable finance road map that is purposed to recognise the full range of sustainability issues and reflect the priorities of the emerging markets on the continent will place greater focus on options to scale up finance to support the sustainable development of the continent.

7. Improving Impact Transparency and Legitimacy: Information gaps remain across the sector. The sustainable finance market can only thrive if these gaps are closed. Investors, financial institutions, MSMEs and regulators, must maintain a high level of impact transparency and reporting, and information-sharing to make progress with a successful sustainable finance market.

We hope this white paper will serve as a valuable resource for policymakers, investors, entrepreneurs and development finance institutions (DFIs) seeking to contribute to the sustainable development journey of emerging markets on the continent.

Acronyms

AfDB-African Development Bank
AVPA- Africa Venture Philanthropy Alliance
AVPN-Asian Venture Philanthropy Network
CBEF- Cross Boundary Energy Fund
CPI- Climate Policy Initiative
DBSA- Development Bank of South Africa
DFIs- Development Finance Institutions
EIB- European Investment Bank
EMDEs- Emerging Markets and Developing Economies
ESG- Environmental Social Governance
FERDI- Foundation for Studies and Research on International Development
FIs- Financial Institutions
FSD- Financial Sector Deepening
GGI- Green Growth Index
GHG- GreenHouse Gas
GIIN-Global Impact Investing Network
GLF- Global Landscapes Forum
GSSS- Green, Social, Sustainability, and Sustainability-linked Bonds
IFC- International Finance Corporation
IMF-International Monetary Fund
HNIs- High Net Worth Individuals
LDCs- Least Developed Countries
MSMEs- Medium Scale and Medium Enterprises
NDC- Nationally Determined Contributions
NGBMDP- Nigeria Green Bond Market Development Programme
NGX- Nigeria Exchange Limited
NSFPs- Nigerian Sustainable Finance Principles
PFAs- Pension Fund Administrators
PPPs- Private-Public Partnerships
SBFN- Sustainable Banking and Finance Network
SEC- Securities and Exchange Commission
SDGs-Sustainable Development Goals
SITL-Stanbic IBTC Trustees Limited
SBSA- Standard Bank of South Africa
SMEs- Small and Medium Scale Enterprises
SPTs- Sustainability Performance Targets
UKNIAF- United Kingdom Nigeria Infrastructure Advisory Facility
UNEP- United Nations Environmental Programme
UNEPFI- United Nations Environment Programme Finance Initiative
USAID- United States Agency for International Development
USD- United States Dollars

Introduction: Embracing Sustainable Finance to Unlock Vast Potential of Emerging Markets in Africa

Most of the activity in the rapidly growing world of sustainable finance has historically been concentrated in advanced economies, but emerging markets, while still a small share of the total, are beginning to witness a surge.

Sustainable development is one of the most important global concerns of this century. Global scholars, convenings and sustainability advocates, have identified climate change, poverty, social inequities, and others as major challenges to global security. These difficulties highlight the urgent need for action, and the financial industry is saddled with the responsibility to lead the way towards sustainable development for communities, countries and the continent (KPMG, 2024).

This has informed the need for catalytic capital mobilisation to fund progress towards sustainable development and finance a Just Transition to Net-Zero even more crucial than ever. More than USD 30 trillion of new investment is needed over the next 5 years if the SDGs are to be achieved by 2030. Impact investments, green and sustainable finance instruments such as Green, Social, Sustainability and Sustainability-linked (GSSS) Bonds have gained traction over the past years and can help bridge the SDG and climate financing gap. However, they remain rare in emerging markets, where they are most needed (GSG, 2023).

A central challenge for Africa to meet the SDGs and achieve sustainable and inclusive development is to mobilise the investment needed in key sectors such as health, energy, transport, construction, agriculture, education and manufacturing. Big-ticket investment gaps exist, particularly in sectors such as infrastructure. Another challenge is to deliver urgently needed climate change adaptation—at the same time that infrastructure expands while urban environments grow. Advancing the private sector and mobilising private capital presents a transformative approach for achieving development goals (UNECA, 2020).

These investments must be sustainable, and demand long term capital. Only sustainable finance, driven by private sector investment, could provide a crucial tool to overcome the funding gap in meeting the SDGs and the Africa We Want Agenda 2063 by delivering resources directly to sustainable investments that impact local communities and businesses at the frontline of the climate crisis.

This calls for integrating environmental, social and governance (ESG) principles into its financial markets which is an ambitious yet urgent mission for Africa. The paradox is stark: although Africa contributes only 5% of global emissions, the continent faces disproportionate impacts from climate change, including intensifying droughts and rising sea levels (Aziz, 2024).

As the pace of climate change accelerates and its impacts rise across the globe, the urgency of responding at scale to the magnitude of the climate and environmental challenge is increasingly clear. The urgent deployment of finance at scale is critical to address the rising climate challenge confronted by emerging markets and developing economies. Many communities and countries are on the frontline of the crises, with many grappling with devastating outcomes across natural, social and economic lines. While developed countries have attracted 44% of finance for climate action, emerging markets and developing economies (EMDEs) and least-developed countries (LDCs) account for only 14% and 2% of global climate finance, respectively. As a result, EMDEs and LDCs are falling further behind in the transition to low-carbon, resilient economies while being increasingly affected by the impacts of climate change (CPI, 2024).

Multi-sector players in the finance ecosystem must consider collaboration in emerging markets to design and deliver critical developments in the region, strengthen regional and country-level ecosystems, to unlock public and private capital to accelerate sustainable development in emerging markets which will form Africa's blueprint for transforming the continent into the global powerhouse of the future.

1 Context Setting for Africa and the Sustainable Finance Opportunities

Africa's quest to realise the SDGs and the Africa We Want Agenda is falling behind target. While traditional Financing has proved unsuccessful, sustainable finance could be the key to unlocking high-impact sustainable investments across the continent.

Multilateral development institutions like the United Nations and development finance institutions such as the Africa Development Bank (AfDB) estimate that achieving the 2030 Sustainable Development Goals (SDGs) will require an annual investment of between USD 3.3 - 4.5 trillion in Africa. This is a tall order for governments on the continent, worsened by climate shocks, economic disruptions and social deficits. Governments alone cannot meet this requirement. The private sector is now expected to play a critical role in financing the SDGs and the 'Africa We Want' agenda (KPMG Africa, 2024).

Traditional financial instruments have played a role, but they fall woefully short of meeting the astronomical financing needs of emerging markets in addressing social, environmental and economic gaps on the continent. Bridging this gap entails business leaders embracing and embedding innovation and disruption in their financial strategies. Impact investments, social finance, greenhouse gas trading systems, green bonds, green loans, sustainability-linked bonds, sustainability-linked loans, efficient carbon markets, debt-for-climate swaps, and forward looking domestic resource mobilisation instruments must be on the frontlines of this financial revolution (World Economic Forum, 2023).

Building on the discussions at the Stanbic IBTC Holdings Inaugural Sustainable Finance Summit, co-delivered by the Lagos Business School Sustainability Centre, this white paper looks at the potential for sustainable finance to encourage corporate sustainable investments through innovative and sustainable financial instruments. It explores sustainable finance opportunities as a viable source of catalytic and impact funding and demonstrates the significant investment opportunity which, if pursued and adopted vigorously, could be a "win-win" scenario for nature, communities, private sector investors and emerging markets on the continent.

Analysis by major development institutions suggests an untapped market potential of 4.5 trillion dollars in idle impact funds. This white paper also addresses some of the misconceptions and challenges about sustainable finance investments in emerging markets, showcasing examples of successfully deployed financial instruments and their far-reaching transformative impact. It demonstrates how actual and perceived risks of investing in emerging markets can be mitigated through innovation, policy and capacity building already underway and shows that investor ready initiatives are the way to go.

2 Untapped Investment Opportunities in Sustainable Finance in Emerging Markets

Untapped investment opportunities in sustainable finance could bring positive impacts for people, biodiversity, climate and the continent.

In simple terms sustainable finance refers to the "various financial instruments that are dedicated to mobilising financing for activities that have positive impacts on the environment and society." More broadly, it incorporates the roles, responsibilities, and activities of the overall financial system as it seeks to mobilise financing and minimise risks. So sustainable finance also includes good governance, policies and regulations that create the enabling system in which resources are driven towards environmental and social priorities (World Bank, 2023).

A sustainable financial system incorporates both the risks and opportunities of a particular context. Risk refers to the identification and management of ESG and climate-related risks as part of financial decision-making, while opportunity implies increasing financing flows into sectors and activities that contribute to climate-related and sustainable development objectives (SBFN, 2023).

2.1 Opportunities for Sustainable Finance in African Markets

The Nigerian Sustainable Finance Roadmap report indicates that the demand for additional sustainable investment in Nigeria is estimated at USD 92 billion annually out to 2030, while the annual sustainable finance flow is estimated at just over USD 8 billion (SEC, 2022). Climate Policy Initiative has indicated that Africa will need USD 277 billion annually to meet its 2030 climate obligation and adaptation goals (Euromoney, 2024)

Nigeria has a huge opportunity to be the first oil and gas-based economy in Africa to make a successful transition to a low-carbon economy particularly in the energy sector. 85 million Nigerians are without access to grid electricity, which is 43% percent of the country's population, demanding off-grid energy-efficient solutions, and making Nigeria the country with the largest energy access deficit in the world. Transitioning towards renewable energy sources, including solar, wind, and geothermal, could turn this deficit around and help countless African citizens access new energy sources. Additional opportunities lay in the agricultural domain, including sustainable agriculture practices that strengthen food systems, food transportation and food security currently affected by the effects of climate change. Furthermore, sustainable waste management and transportation are also critical areas seeking for sustainable investments, for instance through the application of circular business models (FSDAfrica, 2021). Below, we outline a number of Sustainable Finance products currently available in African markets.

Share of the Available Opportunities in the Nigerian Sustainable Finance Market

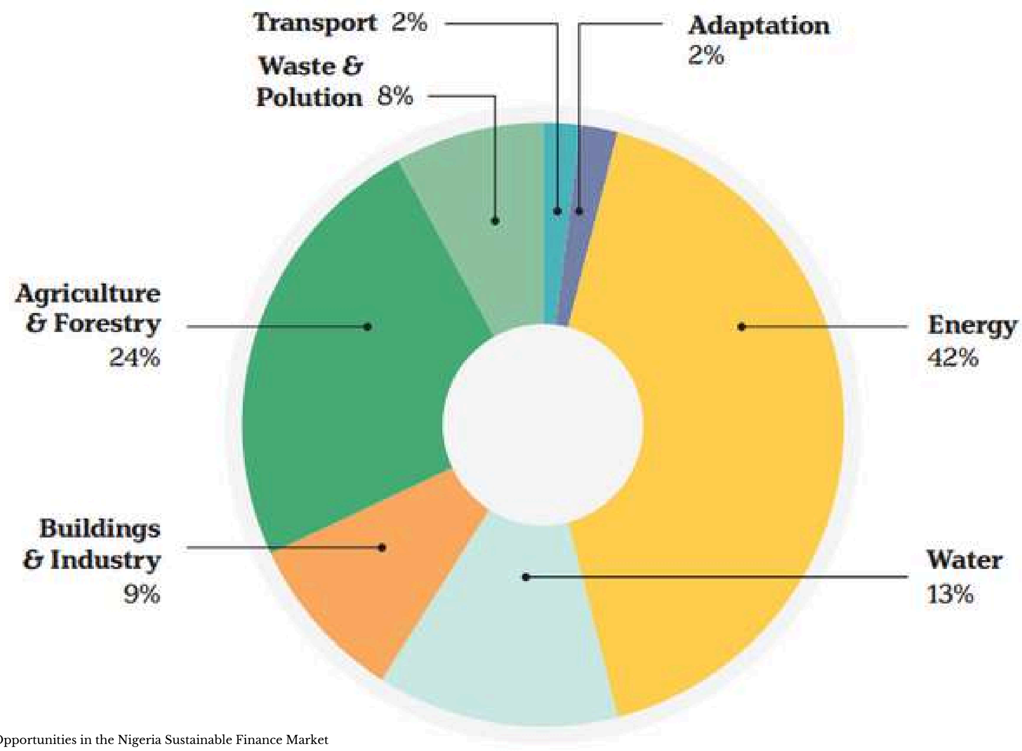

Fig 1: Share of the Available Opportunities in the Nigeria Sustainable Finance Market
Source: FSDAfrica-2021

2.1.1 Green Bonds

Investors' demand for green bonds is getting stronger due to increasing evidence that "green" factors have a positive impact on long-term financial returns. With the first green bond issued by the European Investment Bank (EIB) in 2007, and the first sovereign green bond issued in Africa in 2017 by Nigeria, the global Green Bond market has grown exponentially in recent years in terms of both the number of issuers and cumulative amount issued, surpassing the USD 1.50 trillion mark as of December 2021, despite the COVID-19 pandemic (FSD Africa, 2021).

Green bonds are financial innovation instruments designed to facilitate capital flows from responsible investors in developed countries into green projects in emerging economies.

Green bonds are also innovative means to ramp up local capital from local private sources to fund local development projects. Green bonds and impact bonds are great instruments to attract investments from local institutional investors like pension funds and insurance companies. They also facilitate sustainable investing for institutional investors such as Pension Fund Administrators (PFAs), Insurance Companies and Funds/Asset Managers, offering a unique opportunity for emerging markets to meet sustainable development expectations by accelerating the growth of sustainable infrastructure investments of institutional investors by improving liquidity of infrastructure assets. (IFC, 2020)

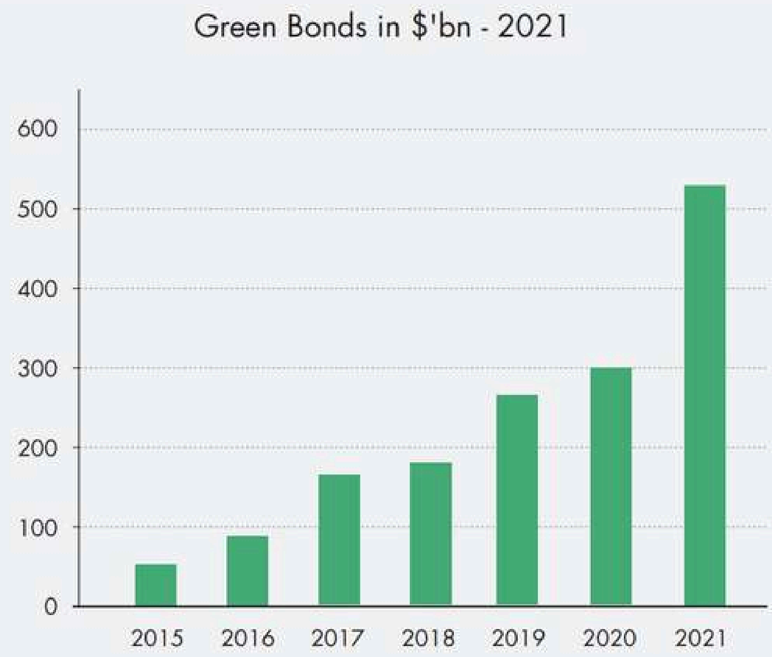

Fig. 2: Global Green Bonds Issuance: 2015 – 2021
Source: FSD Africa- 2021

Overall, the introduction of green bonds marked a significant advancement for sustainable finance in Nigeria. The Nigerian Exchange Limited (NGX) was pivotal in this progress, having initiated the Green Bond Market Development Programme, which facilitated the issuance of Nigeria's first sovereign green bond in 2017. This bond, valued at N10.69 billion (approximately USD 26 million at that time), was issued by the Federal Government of Nigeria with the objective of financing renewable energy initiatives and afforestation efforts. This issuance established a standard for future green bond offerings within Nigeria.

Other significant issuances, including green bonds by Access Bank Plc and North-South Power Company, have further solidified the market's growth and contributed to the expansion of the green bond market (Grant Thornton, 2024).

Alongside green bonds, Nigeria has investigated various sustainable finance instruments, including social bonds for projects focused on social development, gender bonds to advance gender equality, blue bonds dedicated to marine and ocean-related initiatives, and transition bonds designed to lower carbon emissions while facilitating the transition to renewable energy sources (Grant Thornton, 2024).

2.1.2 The Nigerian Sustainable Finance Principles

The Nigerian Sustainable Finance Principles (NSFP) emphasise the roles of various stakeholders in fostering economic prosperity, environmental sustainability, and social development, and guides financial institutions in aligning their operations with sustainability goals. These principles were developed by the Financial Services Regulation Coordinating Committee (Grant Thornton, 2024).

A few sustainable finance instruments are: green bonds, social bonds, blue bonds, sustainability bonds and sustainability-linked bonds (KPMG, 2024).

2.1.3 Impact Investing

Impact investing is a strategy designed to foster measurable positive social and environmental outcomes alongside financial returns. It has become a vital avenue for channeling capital into investments that seek to generate quantifiable benefits in social, economic, or environmental spheres, in addition to delivering financial returns (IFC, 2024). Impact investing is an approach aimed at generating a distinct positive effect or result. Unlike traditional philanthropy, such as monetary donations, impact investing incorporates the anticipation of financial returns that are, at a minimum, on par with market returns (Miller, 2025).

Sub-Saharan Africa accounts for 12% of global impact investment flows, according to a report released on June 7, 2024, by the Foundation for Studies and Research on International Development (FERDI). This is an improvement on the regional overview showing estimates of total impact capital deployed as at 2015 by the GIIN Report in partnership with Dalberg, and a GIIN Report in 2022 quoted by the Bridgespan Group showing fund managers in Africa accounted for only 2% of global impact investments under management.

The Bridgespan Group made a business case for impact investments in Africa with a view to closing the gap in Africa, the publication also conveys the bullish and bearish sentiments concerning these investments.

Owing to the aspirations of the UNDP 2017 Impact Investing in Africa Action Plan, concerted efforts by stakeholders in the development finance sector have seen some growth. In 2022, the region attracted an estimated USD 2.51 billion in impact investments out of a global total of USD 20.57 billion. However, these flows remain relatively limited compared to FDI (USD 70.15 billion in 2021) and official development assistance (USD 53.97 billion in 2021). Impact investment has grown at an average annual rate of about 18% globally between 2017 and 2022. This rate varies by region, with sub-Saharan Africa seeing an average annual growth rate of 14.2%, compared to 53.4% in the United States and Canada, 33.3% in Europe, and -0.44% in the Middle East and North Africa (EcofinAgency, 2024).

2.1.3.1 Catalytic Capital

Catalytic capital is more patient, risk-tolerant, concessionary, and flexible than conventional capital. It represents one of the most rapidly expanding segments and subsets of impact investing. It is considered an essential tool for seeding, scaling, and sustaining impact, as it offers funding that can, among benefits, kickstart projects, and establish a track record that can pull in investors to riskier and more adventurous opportunities. Catalytic capital aims to facilitate investments that would not otherwise be feasible, thereby — broadening access, enhancing community resilience, and driving innovation that serves both people and the environment (Forbes, 2023).

There is increasing recognition for capital across a broad spectrum of risk and return profiles to tackle the enormous challenges the world faces. Catalytic capital accepts disproportionate risk and or concessionary returns to generate positive impact and enable third party investment that would likely not be possible otherwise. It possesses the capability to reveal and expedite innovative and efficient solutions to social and environmental challenges, providing entrepreneurs with greater flexibility to create their business models and drawing in co-investors with varying levels of risk tolerance and return expectations (Brown, et al, 2023).

> **"Catalytic capital plays a crucial role in meeting the financing requirements of the 'Missing Middle.**

Catalytic capital plays a crucial role in meeting the financing requirements of the 'Missing Middle.' Similar to regions such as Asia-Pacific and Latin America, numerous enterprises in Africa find themselves in a position where they need greater access to funding than what microfinance can provide, yet they are not sufficiently prepared for conventional and mainstream institutional financing. It is estimated that 95% of businesses in Africa are classified as micro, small, and medium-sized enterprises (MSMEs), representing a significant opportunity for investors. Between 2004 and 2021, West Africa experienced a fivefold increase in the capital available to Small and Medium Enterprises (SMEs) due to targeted initiatives aimed at enhancing financing, either directly or indirectly. Notably, 80% of the total investment during this period was identified as catalytic capital. Investments in catalytic capital have the potential to bridge the financing gaps encountered by SMEs in Africa, as they are willing to assume higher risks and/or accept concessionary returns, which is essential in a sector where businesses often lack the financial frameworks, track records, and collateral necessary for commercial financing (AVPN Asia, 2024).

2.1.3.2 Blended Finance

> Interestingly, 48% of global blended finance deals are rooted in sub-Saharan Africa.

According to data from Convergence, sub-Saharan Africa has attracted over 216 blended finance transactions targeting one or more countries, representing USD 45 billion of capital flows (AVPN Asia, 2024). Blended finance involves spreading investments between several parties in order to reduce individual risk. Many examples abound on the opportunities blended finance is making possible for businesses and communities in emerging markets on the continent. Interestingly, 48% of global blended finance deals are rooted in sub-Saharan Africa. Kenya, Nigeria, Ghana, and Uganda lead in deal volume, and across critical sectors key for sustainable growth, such as Agriculture, Energy, and Financial services (AVPA, 2024).

Case in point is the Ghana Coco Board (COCOBOD) Project which secured a USD 600 million facility from the African Development Bank (AfDB), Development Bank of South Africa (DBSA), and others. It serves as a top-tier example of how blended finance can support development outcomes. In the renewable energy sector, the CrossBoundary Energy Fund (CBEF), backed by the USAID's Power Africa Initiative is another example, with a USD 2.25 million grant from the Shell Foundation (AVPA, 2024).

Research by Convergence in 2022 found that in a typical blended finance fund, one concessional dollar from DFIs catalyses four commercial dollars, with one of those four coming from the private sector while the remaining three come from commercial investments by the DFIs (AVPN Asia, 2024).

2.1.3.3 Climate-Smart Investment Opportunity

The estimated total investment potential for the climate-smart needs of Côte d'Ivoire, Kenya, Nigeria, and South Africa is USD 783 billion by 2030. Sixteen percent of this potential is for renewable energy generation (USD 123 billion), while well over half (USD 499 billion) is for the transportation sector. By 2030, the commercial investment potential in the construction of low-carbon buildings is estimated at nearly USD 153 billion. Opportunities for investment in climate-smart agriculture projects across Sub-Saharan Africa are important in all of the four countries profiled, but currently no valid estimate exists for the size of this potential (IFC, 2016).

Warming in the range of three to four degrees Celsius would have disastrous consequences for Sub-Saharan Africa, including heat extremes, extreme drought, crop failures, reduced yield, and flooding. Furthermore, by 2050, almost 60 percent of people (800 million) in the region will live in cities, increasing demand for sustainable transport, green building, and energy infrastructure. It is thus imperative to invest in resilient infrastructure, including water management (irrigation, hydropower, water supply, or flood control), roads, bridges, and other transport infrastructure. According to the World Bank Africa Climate Plan, these investments amount to USD 5 billion to USD 10 billion per year (IFC, 2016).

Nigeria's estimated climate-smart investment potential is over USD 104 billion from 2016– 2030 in selected sectors such as power, renewables, climate-smart agriculture, green industrial technologies, and sustainable transport. With rapid urbanisation happening, Nigeria's Nationally Determined Contributions (NDCs) takes into cognisance some policy priorities for cities, including upgrading and expanding public transportation infrastructure, improving the efficiency of freight transportation (railways, construction of specialised terminals and freight corridors, and information systems), and using more biofuels in the production of gasoline. (UKNIAF, 2024)

Nigeria's NDCs pledges to reduce greenhouse-gas emissions by 20 percent from business-as-usual levels in 2030. Vast sums of private finance are needed to help Nigeria meet its development goals and transition to a low-carbon, climate-resilient country, helping her implement adaptation programmes, including river basin management, disaster management planning, water and power system planning, sustainable urban planning, and capacity building (IFC, 2016).

3 Risks Facing Sustainable Finance Opportunities in Emerging Markets in Africa

Sustainable Finance may not be the silver bullet for Africa's vast environmental and social challenges, but it will play a pivotal role in tackling the continent's climate adaptation needs and overcoming the ESG barriers hindering its path to sustainable development

Africa faces a range of challenges that hinder its progress toward sustainable development. Not only do the environmental and social challenges as described in the introduction hinder business opportunities, the continent also grapples with declining green growth, a shortage in climate finance, limited public awareness and understanding of sustainable finance options, and a complex institutional landscape in which regulatory frameworks, economic instabilities, and political factors create hurdles that hinder impact investments. Below, we describe some of the most pressing risks.

3.1 Green Growth Decline

In Africa, Nigeria's performance on green growth has declined and fallen below peers in West Africa and among Africa's oil producers, suggesting overall deterioration. Nigeria has experienced cyclicality in its Green Growth Index (GGI)4 but broadly taking on a downward trend over the past decade (Figure 3).

In 2010, Nigeria's GGI was 43.1 and rose slightly to 43.5 in 2013, after which it fell steadily for three consecutive years to 42.4 in 2017. The recovery in 2018 to 42.7 and further increase to 42.9 for the following three years to 2021 was insufficient to restore the country's green growth position at the beginning of the decade.

The country's overall CGI performance has been below the median and average for West Africa, as well as for net oil exporting peers in Africa (Figure 4) (AfDB, 2023). A European Investment Bank (EIB) study found that while 66% of sub-Saharan African banks view green finance as a growth opportunity, only 15% have tailored products to tap into the market. Combining public and private capital is therefore emerging as a key factor in addressing the challenges ahead (Domat, 2024).

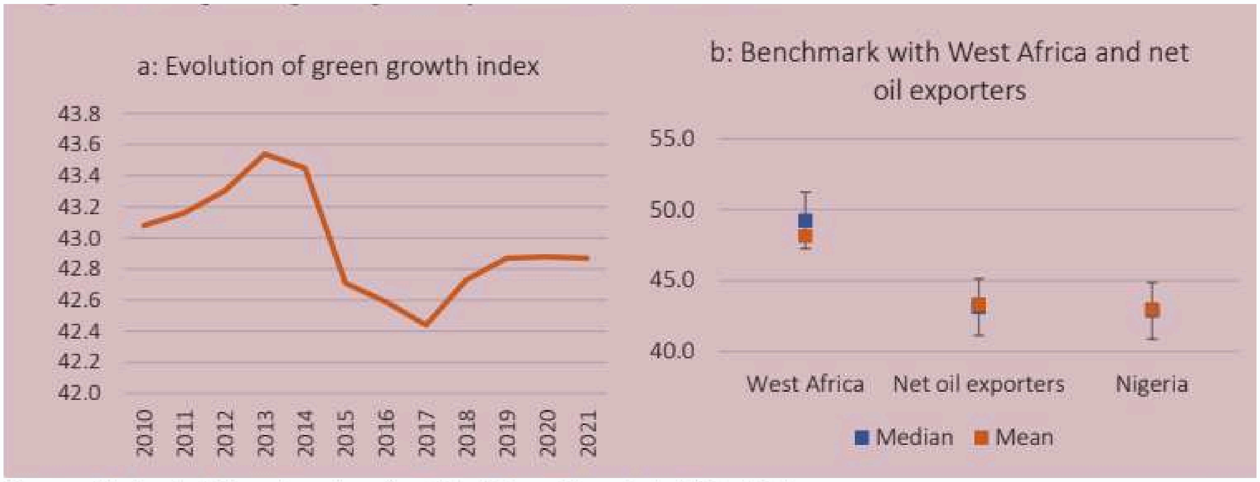

Figure 3: Nigeria's green growth performance, 2010-2021
Source: AfDB, 2023

These changes highlight challenges the country faces to sustain improvements in green growth sectors, and the urgent need to ensure more investment is made in critical areas as well as decoupling the economy from dependence on oil to build resilience and greening of the economy. Implementation of the Energy Transition Plan and other strategies, are steps in an important direction and if well executed, could put Nigeria on a path for a greener and a more resilient economy (AfDB, 2023)

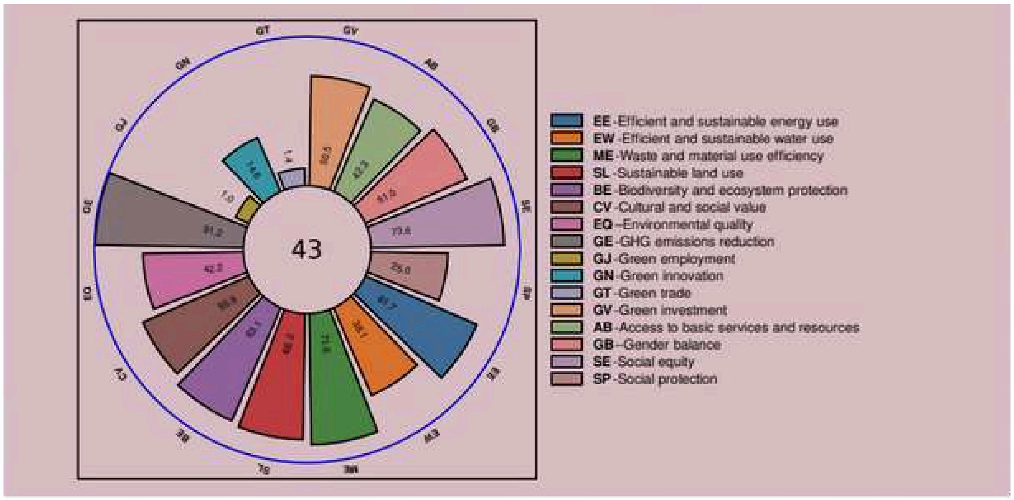

Figure 4: Distance to targets of green growth indicators in Nigeria, average 2010-2021
Source: AfDB, 2023

3.2 A Complex Institutional Environment for Impact Investments

The report by the Foundation for Studies and Research on International Development (FERDI) emphasises that the impact investment industry in Africa faces several challenges from exchange rate fluctuations, to macroeconomic shocks, a lack of data and skilled personnel for impact measurement management, fundraising difficulties, and limited exit opportunities (Ecofin Agency, 2024). Collaboration between supply side players and ecosystem support players will help supply side players get a better understanding of the social and investment context in Africa.

This includes joint efforts to train conventional investment professionals in impact investment as well as share their learnings, insights and knowledge from other emerging markets. In Nigeria, for example, co-investments with local High Net Worth Individuals (HNWIs) estimated at 15,400+, in addition to the only two active angel investor networks, can unlock more sources of impact capital like equity investors. (GSG, 2019)

3.3 Climate Finance

Most climate action is primarily expected and theorised to occur in emerging markets, characterised by high operational risks and potentially insufficient returns to justify these risks. The inherent volatility of these markets poses challenges for investors seeking to allocate substantial capital without effective risk management strategies. Additionally, the liquidity requirements of capital providers often conflict with the long-term nature of climate finance. It is essential to adopt a long-term perspective; however, even the most patient investors may struggle with this timeframe and the most patient capital is not that patient (Enan, 2024).

High emissions and climate impact on sectors like agriculture demands implementation of climate-smart agriculture to improve productivity while reducing carbon dioxide equivalent emissions by 74 million tons per year in 2030. This will be done by redirecting financing to achieving using agro-livestock waste for energy generation, increasing crop productivity, improving water resource and energy efficiency, extending rotation, and using more cover crops and sustainable fertilizers (World Bank, 2024).

3.4 Regulatory Policy

With many nations on the continent highly exposed to climate hazards and already facing related transition challenges, private and sustainable finance will play a crucial role in mitigating these risks and strengthening the financial sector. But there are also risks that emerging-market policymakers must monitor and challenges they need to address:

- Financial stability risks arise from the diverse investor demographics compared to conventional investors, as well as a likely increased responsiveness to global financial conditions due to the technology-centric nature of numerous ESG indices. This factor is particularly significant in the present policy landscape, where central banks in developed economies are increasing interest rates and withdrawing the policy support established during the pandemic—an evolution that is beginning to tighten financial conditions globally.
- Policymakers should strengthen the climate information architecture to incentivise efficient pricing of such risks and avoid greenwashing. Policies must focus on enhancing the quality, consistency, and comparability of climate data, creating classifications that align investments with climate objectives, and improving global disclosure standards. Although some of these challenges are also present in advanced economies, emerging market economies encounter further difficulties, especially regarding the transition to a green economy and the accessibility and quality of climate data. To prevent market fragmentation and inconsistent regulatory practices, international collaboration and the establishment of global standards are essential (IMF, 2022).

4 Case Studies of Stanbic IBTC Holdings in Enabling Sustainable Finance Opportunities in Emerging Markets in Africa

Case Study 1: Climate Smart Agriculture, a Case Study of Basma Rice Limited

Background and Operations: Basma Rice, situated in Kano's agricultural hub on a 1.7-hectare site, is a significant rice processing company. With a daily production capacity of 120 tons (1500-1600 bags of 50kg), Basma Rice plays a vital role in local food security, reducing reliance on imports. The company employs 100 individuals, with 28% being women, demonstrating a commitment to gender inclusivity. Employees are compensated daily, providing financial flexibility.

Sustainable Production: A Shift to Husk-Powered Boilers: Initially relying on oil-powered boilers, which produced harmful emissions, Basma Rice transitioned to using rice husk, a by-product of their process, as fuel. This shift has resulted in:

- **High Thermal Efficiency:** Husk-powered boilers provide an effective energy source
- **Reduced Emissions:** Significantly lower emissions of toxic gases, such as sulfur, minimising environmental impact
- **Sustainable Resource Utilisation:** Utilising renewable by-products

The process also yields ash, which contributes to:

- **Concrete Supplement:** Strengthening buildings by adding 10% ash to cement
- **Soil Reclamation:** Neutralising acidic soil
- **Fertilizer Production:** Enhancing compost for sustainable agriculture

Basma Rice's commitment to sustainability sets a positive example for the industry

Community Benefits through CSR Initiatives: Basma Rice actively engages in Corporate Social Responsibility (CSR), positively impacting the local community:

- **Employment:** Providing job opportunities for skilled labourers, fostering economic stability
- **Infrastructure Improvement:** Constructing drainage systems and providing four portable water taps, enhancing sanitation and access to clean water
- **Community Support:** Distributing rice as gifts, strengthening community ties
- **Educational Support:** Ensuring access to quality education and providing scholarships to deserving students

These initiatives demonstrate Basma Rice's dedication to community welfare.

Outcome of Stanbic IBTC Loan Facilities on Basma Rice

The financial support provided by Stanbic IBTC through their loan facilities has significantly influenced Basma Rice's operations and overall growth. Here are some key impacts:

1. **Increment in Production Volume:** With the loan, Basma Rice was able to purchase a higher quantity of paddy rice, the raw material essential for their production. This increase in raw material availability directly translated to a rise in daily production capacity, allowing the company to meet higher demand and enhance its market presence.
2. **Business Continuity and Recovery:** Prior to receiving the loan, Basma Rice had to shut down operations for two months due to financial constraints. The loan provided the necessary funds to resume operations, ensuring business continuity and preventing further financial losses.
3. **Business Expansion and Property Acquisition:** The loan facilities enabled Basma Rice to acquire additional properties, which facilitated business expansion. This increase in land mass allowed the company to scale up its operations, accommodate more production activities, and optimise their processes for greater efficiency.
4. **Profitability:** The expansion of production capacity and acquisition of new properties have led to increased profitability for Basma Rice. By producing and selling more rice, the company has been able to generate higher revenue and secure a stronger financial position.

Future Plans:

1. **Expansion Plans**

a. **Increase in Production Lines:** Basma Rice plans to scale up their production by increasing from one line of production to two lines. This will effectively double their capacity, enabling the company to produce up to 240 tons of rice per day, compared to the current 120 tons.

2. Production and Exportation of Rice Bran Oil

a. **Rice Bran Oil Production:** Basma Rice is set to venture into the production of Rice Bran oil, known for being the safest yet expensive type of oil derived from rice. This diversification will not only add value to their product range but also cater to the growing demand for healthy cooking oils.

b. **Exportation:** By producing Rice Bran oil, Basma Rice aims to tap into international markets, positioning themselves as a competitive player in the global export of high-quality Rice Bran oil.

Through these strategic initiatives, Basma Rice is poised to achieve significant growth, enhance their market presence, and contribute to the advancement of the rice milling industry. Their commitment to innovation and sustainability continues to drive their vision for a prosperous future.

Case Study 2: Stanbic IBTC fuels inclusive growth in Nigeria, a case study of financing M-KOPA

Stanbic IBTC has demonstrated its commitment to sustainable finance by providing a NGN12.6bn Sustainability-Linked Borrowing Base Facility to M-KOPA Solar Nigeria Limited, a leading fintech provider focused on asset financing for underserved communities.

Image 1: Rachel, 42 years old, fruit trader from Ilashe, Nigeria can now communicate effectively with the people she does business with.

Image 2: Nicholas is a 35 year old construction worker from Kpone, Ghana, now an M-KOPA sales agent.

Key Role of Stanbic IBTC:

Arranger, Lender, and Account Bank: Stanbic IBTC Capital and Stanbic IBTC Bank Limited delivered comprehensive financial support.

Facility Agent & Sustainability Co-ordinator (Standard Bank of South Africa (SBSA)): Ensured adherence to Sustainable Finance Principles.

Security Agent (Stanbic IBTC Trustees Limited (SITL)): Provided robust security for the transaction.

M-KOPA's Transformative Impact:

- M-KOPA empowers individuals in Sub-Saharan Africa by offering affordable financing for smartphones and digital financial services through an innovative repayment model (daily, weekly or monthly payments)
- M-KOPA has unlocked over USD 1.5bn in credit, positively impacting millions and avoiding 2.1mn tonnes of carbon emissions
- The company prioritises access to credit and essential goods for those excluded from traditional financial systems

Transaction Highlights:

- The facility incorporates key Sustainability Performance Targets (SPTs) related to financial inclusion, clean energy, and gender equality, reflecting Stanbic IBTC's ESG commitment
- The funding enables M-KOPA to expand its reach in Nigeria, aiming to serve over 10mn customers by 2025
- The transaction showcases Stanbic IBTC's ability to effectively collaborate across diverse jurisdictions (South Africa, East Africa, Nigeria, and Ghana)
- This highlights Stanbic IBTC's expertise in providing innovative financial solutions to the rapidly growing TMT/Fintech sector in Africa

Alignment with Stanbic IBTC's ESG Goals:

This transaction directly supports Stanbic IBTC's ESG objectives by:

- Promoting financial inclusion for underserved populations
- Supporting sustainable development and the transition to clean energy
- Driving responsible business practices through integrating sustainability principles

Outcome:

Stanbic IBTC's commitment to sustainability is evident in this ESG-driven deal, solidifying its role in impact-driven finance in emerging markets. This strategic investment fuels M-KOPA's growth, enabling them to reach customers traditionally excluded by commercial banks, and providing access to clean energy and lifestyle products.

- **Economic and Societal Impact:** The deal bridges the digital divide, expands financial inclusion, and drives socio-economic progress. It has contributed to revenue generation, government income through taxes, and empowered 62% of customers to use smartphones for income generation
- **Gender Inclusion and Environmental Impact:** 40% of M-KOPA's customers are women, promoting equal opportunities. The company has also significantly reduced carbon emissions, including financing over 2000 electric bikes in Kenya
- **Customer Impact:** M-KOPA has served over 5mn customers, with 4 out of 5 customers reporting improved quality of life
- **Strategic Partnership:** Stanbic IBTC remains M-KOPA's primary commercial bank across its five operating jurisdictions, supporting their long-term strategic growth ambitions
- **Flexible Pay-As-You-Go Model:** A 20% instant payment followed by flexible installments, enhancing accessibility for underserved communities
- **Fintech Integration:** Leveraging fintech solutions for streamlined payment processes and enhanced user experience, creating a sustainable revenue stream

This customer-centric approach positions the deal as both innovative and impactful, fostering economic inclusion and growth. Read more on Stanbic IBTC's sustainable financing commitments in its 2024 Sustainability Report.

5 Recommendations to Harness Sustainable Finance Opportunities in Emerging Markets in Africa

Recent gains in ESG markets may be an important opportunity for emerging markets to access more stable funding sources and develop a broader and more mature sustainable finance ecosystem

5.1 Green Growth Investments

Green growth necessitates initiatives aimed at minimising pollution and emissions through more sustainable consumption and production practices. It also involves the sustainable and efficient management of natural resources such as land, forests, and water, as well as reducing vulnerability to climate-related and disaster risks. This transition requires a shift away from investments in fossil fuels, particularly in new coal-fired power generation, to prevent the long-term establishment of high-carbon energy infrastructure. Policies and strategies for green growth should foster resilient economic models that can endure external shocks, including those related to climate, energy, food, resources, or abrupt demographic shifts.

However, there is no universal approach to achieving green growth; instead, tailored policies and actions must align with the specific priorities and conditions of each nation. The effects of climate change on natural resources, infrastructure, and society are already generating a demand for climate-smart products and services. While businesses are beginning to respond, further efforts are needed to engage the private sector as a vital partner in enhancing resilience and adapting to climate change (IFC, 2016).

Numerous low and middle-income nations have integrated green growth into their national development strategies and action plans by implementing specific green growth (or green economy) frameworks. Additionally, some countries have delineated green growth initiatives through low-carbon development strategies and/or their Nationally Determined Contributions (NDCs). Based on their unique circumstances and priorities, nations can select from various policy measures and focus areas to promote green growth.

Engagement from the private sector in many of these areas is already on the rise. Investments in projects related to pollution control, recycling and waste management, low-carbon energy generation, energy efficiency, renewable energy, sustainable transportation and urban planning, water resource management, sustainable forestry and fisheries, as well as nature-based tourism, are all making significant contributions to these green growth initiatives (IFC, 2016).

5.1.1 The Growing Momentum of Green Buildings:

The global momentum to build green buildings is growing, as global green building activity continues to double every three years. The International Energy Agency estimates that the building sector alone needs an additional investment of up to USD 296 billion each year if average global temperatures are to be capped at 2°C. This is in addition to the USD 358 billion that already goes into the sector each year.

“ The biggest growth in green buildings is expected in developing countries.

The Intergovernmental Panel on Climate Change finds that the building sector accounts for 32 percent of total energy use and 19 percent of GHG emissions. Population growth, combined with urbanisation and rising incomes, will substantially increase the number of buildings we currently have, and it is expected that this in turn will double global GHG emissions from the buildings sector to 40 percent. The biggest growth in green buildings is expected in developing countries, and the percentage of firms expecting to have more than 60 percent of their projects certified green worldwide is anticipated to more than double from 18 percent in 2016 to 37 percent by 2018.

However, in order for lenders to recognise the value of a property's green measures, large-scale adoption of a universal green performance standard with a focus on areas of cost savings in homes is needed. This is an important driver, especially in the developing world, where utility costs can consume up to 20 percent of a moderate-income family's disposable income. The standard needs to be defined by a certification system that is inexpensive, quick, and simple, thus making it accessible to the majority of the market. The standard needs to be supported by a well-understood calculator that can benchmark and measure energy and water savings. The IFC EDGE certification standard and software tool allows developers and investors to choose the lowest cost options that will help them reach the green standard. Policy enabling environments, including building codes, are also critical for financial institutions in Africa to invest massively in green housing (IFC, 2016).

Stanbic IBTC's Green Building Stewardship

Stanbic IBTC's commitment to achieving net-zero emissions in new facilities by 2030 is exemplified through sustainable infrastructure stewardship. In 2023, Stanbic IBTC achieved a significant milestone by completing the construction of the Stanbic IBTC Towers, an additional green building certified structure. This complements the Sanusi Fafunwa Branch, which secured an IFC Edge certificate in 2022, recognising its use of environmentally friendly materials, indoor air quality, and sustainable site development.

The Stanbic IBTC Towers, designed with sustainability as its core principle, has earned an impressive 4-star design stage green building rating from the Green Building ˇCouncil of South Africa (GBCSA). This rating acknowledges the groups' dedication to environmentally friendly construction and operational practices. By meeting stringent criteria, such as energy and water efficiency, innovation, social impact and environmentally responsible material usage, these green buildings showcase leadership in sustainable infrastructure.

5.1.2 Sustainable Agriculture - An Economic Imperative

Sustainable agriculture strives to provide enough food while preserving the environment & reducing poverty. With over 60% of Africans relying on agriculture for their livelihoods, the sector must be sustainable, not just for present needs but for future generations. African agriculture needs to adapt to climate change and shift from unsustainable production practices to sustainable agricultural practices that are innovative, substantial, and long-term. Better and more inclusive options to leapfrog Africa's sustainable agricultural development lies in sustainable financial instruments (Mapanje et al., 2023).

Recommendations from the United Nations Environment Programme (UNEP) Road Map titled ' Driving Finance for Sustainable Food Systems' outlines the challenges, institutional changes needed and the innovative financial solutions that must be deployed to attract sustainable finance into sustainable agricultural projects on the continent. This includes redirecting investment flows through food-system-sensitive green taxonomies to signal markets about sustainable activities, and investments to attract financial capital (UNEPFI, 2023).

5.2 The Power of Collaboration

Collaborative efforts, research initiatives, and the exchange of knowledge are essential in this domain, fostering an atmosphere conducive to dialogue and learning. The emerging technology hubs, innovation centres, and research institutions across Africa exemplify the continent's desire for knowledge and solutions that are specifically adapted to its distinct circumstances. As facilitators of impact investing, these platforms can enhance the effectiveness and scope of investments, guaranteeing not only financial gains but also significant transformative changes in local communities. When combined with Africa's vibrant youth, these enablers establish the continent as a prime location for investment and a centre for sustainable innovation and international collaboration (AVPA, 2024).

Well-organised public-private partnerships can enable nations and emerging markets to leverage the expertise and efficiency of the private sector, secure funding, access innovative technologies, and promote development.

These partnerships also facilitate the distribution of risk between the public and private sectors, ensuring that it is managed effectively, and encouraging investments related to climate change. Transitioning to a low-carbon energy sector has the potential to benefit millions in Africa who currently lack access to modern energy services. An increased focus on hydro, wind, solar, biomass, and geothermal energy, along with improved energy efficiency, could generate employment opportunities and support sustainable growth. The involvement of the private sector is crucial for achieving these goals. Areas experiencing heightened government interest in public-private partnerships include waste-to-energy initiatives, both grid and off-grid solar power projects, and the implementation of high-performance, energy-efficient municipal street lighting (IFC, 2016).

To achieve extensive reach and scale, we need more collaboration between development finance and private finance, including all financial players, such as pension funds, insurance companies, and private equity organisations (Domat, 2024).

"Transitioning to a low-carbon energy sector has the potential to benefit millions in Africa who currently lack access to modern energy services.

5.3 Unlocking Innovative Financing- Africa's Path Forward

To accelerate sustainable development through sustainable financing, we need increased investments in innovative financing methods. Catalytic capital and blended finance are prime examples of such approaches.

5.3.1 Catalytic Capital

"...catalytic capital investments are concentrated in perceived low-risk geographies and sectors, leaving untapped potential in high-risk markets with greater needs.

Catalytic capital makes up only 5% of the global impact investment market as of last measured global data. Development finance institutions (DFIs), foundations and family offices have historically been the primary providers of catalytic capital, with market composition varying across regions. Private wealth holders such as foundations and high net worth individuals (HNWIs) have begun exploring this approach, especially in emerging markets like Africa and Asia-Pacific. However, governance challenges need to be overcome, for instance, in navigating ways to structure investment deals to fit within current operational, legal, and regulatory requirements. Additionally, catalytic capital investments are concentrated in perceived low-risk geographies and sectors, leaving untapped potential in perceived high-risk markets with greater needs. There is a need to address limited access to deal flow and pipeline, small deal sizes, and a general lack of knowledge about the investment practice, such as investors' understanding of the roles, risks, and additionality in catalytic capital investments (AVPN Asia, 2024).

There exists an opportunity to tap into additional domestic capital through catalytic financing. The rapidly expanding pension funds in the region constitute a significant source of local capital that can be utilised to foster the growth of small and medium-sized enterprises (SMEs). In West Africa's two largest economies, Nigeria and Ghana, pension fund assets surpass USD 35 billion. Utilising these assets to generate new capital flows for SMEs could lead to transformative outcomes. Over the past five years, the development banks in Nigeria and Ghana have introduced new wholesale development financing initiatives. These institutions demonstrate a strong willingness to embrace innovative financing strategies to ensure their long-term viability, and catalytic financing could serve as an effective means to optimise the capital available for SMEs. Engaging public capital in catalytic financing will enhance the motivation of private equity, private debt, and venture capital providers to direct more investments into this region. High-growth SMEs stand to benefit from these trends across various sectors, including technology and infrastructure, where an increasing number of investment-ready opportunities are becoming available (AVPA Asia, 2024).

5.3.2 Blended Finance

While often associated with large-scale ventures, blended finance is pivotal for smaller enterprises in order to amplify their developmental impact (AVPA, 2024).

According to a study conducted by the International Finance Corporation (IFC), micro, small, and medium enterprises (MSMEs) in Africa are confronted with a significant financing shortfall exceeding USD 331 billion. To bridge these substantial gaps and bolster MSMEs in the region, it is essential to implement innovative financial structures, such as blended finance, which can encourage commercial investors to channel funds into MSMEs, thereby fostering sustainable economic growth in Africa.

For MSMEs to effectively secure financing, African economies must create viable investment opportunities by leveraging the strategies offered by blended finance. This approach has the potential to diminish funding deficits, enabling local small businesses and MSMEs to attain a sustainable and prosperous future (Philips Consulting, 2023).

Africa, rich in untapped potential – characterised by its youthful energy, abundant natural resources, and emerging markets – stands on the cusp of an economic renaissance. Blended finance is the key that can unlock financial resources in order to take advantage of this impending boom. By promoting inclusive development and sustainability, blended finance not only harnesses Africa's hidden capabilities but also lays the foundation for a thriving and prosperous future for the continent as a whole (AVPA, 2024).

5.3.3 Green Financing

❝ **In Nigeria, the Nigeria Green Bond Market Development Programme (NGBMDP) has established a framework for green finance aimed at assisting the private sector in incorporating sustainability into financial and investment practices.**

There is a significant demand for green financing to harness the extensive opportunities present throughout the African region. Although the requirements differ considerably from one country to another, research indicates that Africa collectively requires around USD 250 billion each year to fulfill its Nationally Determined Contributions (NDCs) and meet its climate goals by 2030. The economic and climate challenges confronting Africa are undoubtedly intricate and interrelated; however, various emerging trends on the continent position it favorably to innovate and spearhead the global green growth agenda, capitalizing on its abundant natural resources. This scenario offers a distinctive opportunity for business and investment aimed at fostering a nature-positive transition (UNDP, 2024).

Numerous green financing opportunities exist in various sectors throughout Nigeria and Africa, including power and energy, agriculture, housing, and transportation, among others. In Nigeria, the Nigeria Green Bond Market Development Programme (NGBMDP) has established a framework for green finance aimed at assisting the private sector in incorporating sustainability into financial and investment practices. This initiative complements the guidelines and principles set forth by the Nigeria Exchange Limited (NGX) and the Financial Services Regulation Coordinating Committee, which stress the importance of consistent disclosures and reporting on environmental, social, and governance (ESG) matters by all regulated entities (FMDQ, 2022).

5.4 Launching an Officially Accepted Green Taxonomy

❝ **Until recently, South Africa was the sole African nation with a green finance taxonomy.**

A green taxonomy serves as a structured approach to identifying investments that can be classified as environmentally sustainable. Beyond addressing the issue of "greenwashing," this framework enables companies and investors to make better-informed decisions regarding sustainability, a crucial factor for investors in the current global corporate landscape (Corporate Governance Institute 2024).

Taxonomies play a crucial role in enhancing sustainable investments by providing increased transparency and security for both investors and issuers, while also reducing market fragmentation. Until recently, South Africa was the sole African nation with a green finance taxonomy. However, Rwanda has now introduced a draft green finance taxonomy, and Morocco, Mauritius, and Ghana have released guidelines for green and sustainable finance, which may pave the way for comprehensive taxonomies in the future (Euromoney, 2024).

5.5 Formulating Strong Policy Frameworks

> **Regulatory authorities in countries such as Kenya, Nigeria, and South Africa are providing direction for pension fund investments that align with national development goals...**

The objective of robust policy frameworks is to enhance climate governance across Africa and develop solutions tailored to local circumstances. Achieving such strong frameworks necessitates a focus on institutional capacity, bureaucratic efficiency, corruption, political instability, and corporate transparency. For sustainable finance to effectively mitigate critical risks, it is essential to implement urgent and decisive policies in four main areas: standardisation of ESG investment terminology and clarification of activities that fall under environmental, social, and governance categories; consistent disclosure by companies to motivate investors to utilise ESG data; multilateral cooperation to foster participation from a broader range of countries and prevent the establishment of varying standards; and the enactment of policies that promote investment in sustainability while mandating public disclosure of the costs associated with inaction (IMF, 2019).

Policy frameworks that are in accordance with both national and international sustainability standards will increase Africa's appeal to sustainable investors, demonstrating a dedication to sustainability that will build investor confidence. This can be achieved by establishing robust financial institutions, developing effective financial frameworks, and reinforcing the implementation of policies (KPMG, 2024).

For example, to realise Africa's vast potential for energy access, it is essential for governments and businesses to tackle various challenges, including governance, institutional frameworks, policy implementation, and financial market maturity. Additionally, they must contend with political instability and a nascent private sector. The financial sustainability of the power sector can be improved if electricity prices accurately represent their true costs. Furthermore, a diverse array of financing instruments is necessary to draw in private investment for the development of new electrical capacity. Regional governments can facilitate this process by establishing transparent regulatory frameworks and utilising public finance—whether domestic or international—to mitigate risks (IFC, 2016).

Governments in several major African markets are currently acting as catalysts for mobilising impact investments. Regulatory authorities in countries such as Kenya, Nigeria, and South Africa are providing direction for pension fund investments that align with national development goals, including sustainable infrastructure, affordable and green housing, economic growth, and job creation. As a result, local pension funds are realigning their strategies to support impactful local development initiatives that correspond with public sector objectives, often collaborating with organisations like USAID to address gaps in public sector capabilities (Impact Investor, 2024).

Sustainable Financial Disclosure Regulation (SFDR) at the EU level mandates that organisations operating within financial markets reveal their approaches to sustainability, demonstrating a positive influence on behavioral change. Research conducted by GIIN indicates that funds with decarbonised investment portfolios outperform a controlled group of funds that have endorsed the UN Principles for Responsible Management. Nevertheless, despite these encouraging instances, many market participants identify government policies and local market conditions as obstacles hindering the advancement of impact investing. According to the GIIN's 2024 State of the Market Survey, 65% of investors reported that political developments in their local markets pose a challenge, while 83% highlighted the confusing or contradictory guidance from regulators as a significant issue encountered in the past five years, alongside other concerns such as the effects of climate change, inflation, and increasing interest rates (Impact Investor, 2024).

5.6 Charting a Sustainable Finance Roadmap

Several nations have established sustainable finance roadmaps that are steering their markets towards sustainable finance transformations.

A sustainable finance roadmap offers a comprehensive, collaborative framework for a country to collectively establish sustainable finance goals, pinpoint significant opportunities and challenges, and outline the necessary actions and reforms to align the financial system with both national and global sustainable development priorities. An increasing number of regulators, supervisory bodies, industry associations, and financial institutions (FIs) have implemented policies, regulations, guidelines, and practices aimed at mitigating and managing environmental, social, and governance (ESG) risks associated with financial sector activities, including those related to climate change, while also promoting investment in assets, projects, sectors, and businesses that provide environmental, climate, and social advantages (SBFN, 2023).

The 2021 SBFN Global Progress Report indicates that 33 member countries of the Sustainable Banking and Finance Network (SBFN) have introduced more than 200 framework documents. These include policies, regulations, voluntary principles, guidelines, reporting templates, scorecards, tools, and research related to sustainable finance, which establish national best practice standards. Typically, these frameworks concentrate on specific aspects of sustainable finance, such as ESG risk management, climate risk management, or opportunities in sustainable finance, including green loans and green bonds. They may also address areas like banking, capital markets, or institutional investors. Despite these initiatives, a significant financing gap persists. To achieve the Sustainable Development Goals (SDGs) and the Africa We Want Agenda 2063, it is essential to integrate ESG risks and opportunities into the organisation of financial markets, utilising linkages between the financial and real sectors. This necessitates the creation and execution of sustainable finance roadmaps (SBFN, 2023).

Several nations have established sustainable finance roadmaps that are steering their markets towards sustainable finance transformations. Member countries of the Sustainable Banking and Finance Network (SBFN) that have created national sustainable finance roadmaps thus far include Azerbaijan, Georgia, Indonesia, Morocco, Mongolia, the Philippines, Sri Lanka, Thailand, and Ukraine. Additionally, other member nations such as Armenia, the Eastern Caribbean Countries, Iraq, and the Maldives are currently in the process of developing their own roadmaps. Furthermore, several non-SBFN countries and regions, including Australia, Germany, Ireland, Luxembourg, New Zealand, and the European Union, have also implemented sustainable finance roadmaps. International networks and forums, such as the G20, have provided best practice guidance on essential measures and activities that support the planning and design of these roadmaps. As countries increasingly pursue systematic strategies to promote the sustainable finance agenda, the demand for comprehensive and integrated sustainable finance roadmaps will continue to grow (SBFN, 2023).

Examples of good practice: Considering that roadmaps encompass various aspects of the financial system, most SBFN countries adopted a collaborative strategy in creating their roadmaps through multi-stakeholder and inter-agency platforms. For instance, Morocco's roadmap is a collaborative effort between the Central Bank of Morocco (Bank Al-Maghrib) and the Moroccan Capital Market Authority. In Mongolia, the Mongolian Sustainable Finance Association, representing the private sector, initially drafted the roadmap; however, the final document received approval and endorsement from the Financial Stability Council, which includes the Central Bank of Mongolia, the Financial Regulatory Commission, the Ministry of Finance, and the Deposit Insurance Commission.

In Thailand, the development and approval of the roadmap were led by a working group on sustainable finance, comprising the Ministry of Finance, the Bank of Thailand, the Securities and Exchange Commission of Thailand, the Office of Insurance Commission, and the Stock Exchange of Thailand. While the participation of both private and public sectors is crucial in the roadmap development process, experiences indicate that early engagement with relevant public entities or financial regulators, along with obtaining their approval or endorsement, is vital for ensuring the successful implementation of the roadmap by stakeholders following its launch (SBFN, 2023).

Most roadmaps are designed to comprehensively transform financial systems and enhance the interconnectivity among various stakeholders, encompassing a broad spectrum of financial subsectors and participants. This includes entities such as banks, non-bank financial institutions, capital market participants, insurance companies, asset owners and managers, as well as non-financial service providers. However, the specific focus of some roadmaps may vary based on the distinct needs and structure of a country's financial system, leading them to concentrate on particular subsectors that constitute the majority of the financial market. In developing nations, this typically involves banks, non-banking institutions, and capital markets.

Furthermore, the sectors addressed in a roadmap may be influenced by the priorities or mandates of the leading organisation, which may not initially encompass all sectors. For instance, Morocco's roadmap thoroughly addresses sustainable finance reforms across banking, capital markets, and insurance, while Sri Lanka's roadmap places greater emphasis on debt and equity markets (SBFN, 2023). Content of a Sustainable Finance Roadmap will include ESG integration, climate and nature-related risk management, and financing sustainability. To know how to develop a sustainable finance roadmap, kindly check the IFC SBFN Sustainable Finance Roadmap Toolkit Guide.

5.7 Improving Impact Transparency and Legitimacy

> "There are still significant information gaps regarding sustainable finance opportunities and investments in emerging markets.

Public trust serves as a fundamental element for sustainable growth. To gain public endorsement for sustainable finance, corporations and financial institutions must clearly demonstrate their commitment to making a positive impact and show that sustainability can coexist with business profitability. This involves complying with international sustainability standards and regulations, as well as illustrating how their business initiatives positively affect both African communities and the environment.

There are still significant information gaps regarding sustainable finance opportunities and investments in emerging markets. These gaps include a lack of understanding and expertise necessary for implementing effective ESG practices and reporting, inadequate data collection and verification systems for reliable and transparent ESG reporting, and the failure to integrate ESG considerations into core business strategies. Addressing these issues is essential for providing the transparency and information required to guide sustainable finance investments. Therefore, there is a pressing need for capacity building to enhance the skills, knowledge, and development of ESG expertise among professionals, alongside the adoption of new technologies to improve the collection and analysis of ESG data (Grant Thornton, 2024).

It is important to recognise that insufficient expertise, experience, capacity, or uneven access to information can impede parties or finance professionals from bridging information gaps and effectively initiating, managing, and finalising the transaction process necessary for fostering sustainable investments (Cross Boundary Quarterly, 2024).

Companies should consistently publish their sustainability reports to facilitate the integration of ESG principles into investors' portfolios. Additionally, third-party providers should offer ESG scores to deliver standardised evaluations and a clear overview, which cannot be achieved without transparent information.

This approach guarantees reliable measurement of the impact of ESG initiatives that promote sustainability and sustainable development. Although the costs of disclosure may be significant in the short term, firms can reap long-term benefits by incorporating ESG factors into their business models (IMF, 2019).

Investors, businesses and regulators must maintain a high level of transparency and information sharing to strengthen market conditions. There is room for a more structured approach to information-sharing among financial institutions and regulatory actors to build capacity, knowledge, strategy and generally mitigate asymmetrical information and power between investors, regulators and businesses. Investors require clear visibility of the opportunities, risks, costs and potential returns of working within Africa. All stakeholders along the value chain need better visibility into viable financial structures and current sustainable financial instruments.

Overall, improving impact transparency must transcend just standardising ESG Scoring and evaluation, but to encourage a corporate behavioural change where positive impact is at the heart of every business decision and investment. For policy makers and regulators, disclosure can be leveraged to encourage behavior change toward stated policy goals. For internal and external stakeholders, transparency provides a lens to improve ethical, social, and environmental performance. Disclosure criteria must be robust to promote openness, accountability, and sound corporate governance.

Conclusion

Africa continues to grapple with a myriad of economic, social and infrastructure challenges on the back of a growing rural-urban migration and 'japa' emigration, signalling increased potential for annual sustainable finance investments

Sustainable finance instruments play a crucial role in Africa's efforts to meet the Sustainable Development Goals (SDGs) and realise the Africa We Want Agenda.

The African region is experiencing a growing population, presenting vast potential for innovation and new opportunities in research and development aimed at addressing social challenges beyond just climate change and energy. As these opportunities arise, there will be a necessity to secure funding for such initiatives. Development banks and financial institutions in Africa are increasingly engaging in sustainable finance to foster the creation of sustainable solutions. They have the potential to play a crucial role in mobilising long-term financing for industrialisation, establishing new industries, and mitigating risks associated with projects that aim to improve electricity, transportation, water infrastructure, agricultural modernisation, and promote greener industrial practices. By adopting innovative financial instruments such as sustainable finance, impact investments, and blended finance, there is significant potential to enhance development and build sustainable economies throughout the continent (Philips Consulting, 2023).

Africa's unique demographics and geography position the continent as a potential global leader in climate action and sustainable business. With a youthful and expanding workforce, along with abundant natural resources and significant untapped renewable energy potential, Africa is crucial for facilitating the global transition to net zero emissions. Stakeholders in the finance and development sectors must effectively and promptly harness these competitive advantages to enable Africa to serve as a driving force in the global green industrial revolution (UNDP, 2024).

Sustainability and inclusion are pressing global issues that extend beyond national boundaries. Both elements are essential for the success of our economies in the 21st century. Consequently, the challenge of transitioning to net zero emissions in an equitable and sustainable manner stands as a significant task of our time.

This is particularly relevant in emerging and frontier markets worldwide, where the flow of public and private financing remains constrained. These markets are home to 6 billion individuals — representing 85 out of every 100 people globally — each with their own needs and aspirations that must be addressed.

So, how can we facilitate this transformative change? In emerging markets, we identify considerable potential in three interconnected areas: the rise of impact investing, the implementation of just transition principles, and the strategic deployment of catalytic capital. These sustainable finance tools are designed to promote sustainable investments and foster the development of emerging markets (Boyle, 2023).

According to the State of Blended Report 2025 by Convergence, globally, blended finance deals are trending upwards, with the median size increasing from $38 million (2020 - 2023) to $65 million (2024) reflecting growing ambition and scale in deployment. The 2024 Convergence Blended Finance (Climate Edition) Report indicates that Sub-Saharan Africa is a significant hub for blended finance, particularly in climate-related investments, with 41% of global climate-blended finance transactions occurring on the continent. It also highlights the importance of blended finance in mobilising private capital to address development and climate challenges in the region, especially in critical sectors like energy, agriculture, and financial services. With more blended finance impact vehicles being created on the continent, combining concessionary catalytic capital and commercial capital that makes the capital do more, we see more sustainable finance where we can blend capital from concessionary public sources and private sector in a way that does not distort our market.

Sustainable finance instruments play a crucial role in Africa's efforts to meet the Sustainable Development Goals (SDGs) and realise the Africa We Want Agenda. Financial institutions are ideally suited to create specialised Sustainable Finance units. These units can concentrate on creating innovative financial products, pinpointing businesses that require green financing, providing credit guarantees, and offering technical assistance to enhance their operations. Additionally, they can facilitate the shift to clean energy and aid in the reduction of greenhouse gas (GHG) emissions (KPMG, 2024).

Green, social, and sustainability-linked bonds are emerging as innovative financing solutions for initiatives aimed at combating climate change, promoting social equity, and fostering economic development. These financial instruments not only resonate with global sustainability goals but also tackle the specific challenges faced by Africa, providing avenues for the continent to harness its potential while advancing sustainable growth. As the adoption of these instruments grows, so does the promise of a more resilient, inclusive, and sustainable future for Africa (KPMG, 2024).

Africa stands at a pivotal moment in its quest for sustainable development. While there are significant challenges, the potential for growth through sustainable finance is immense. By leveraging innovative financial tools, adhering to international standards, and enhancing transparency, Africa can access the necessary capital to combat climate change, diminish inequalities, and advance governance reforms. The continent's achievements in sustainable finance will not only revolutionise its economy but also provide a blueprint for other regions globally (KPMG, 2024).

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Appreciation

The contributors appreciate the insights, inputs and recommendations of the underlisted reviewers:

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