AFAC
African Financial Alliance on Climate Change

African Financial Alliance on Climate Change (AFAC)

Strategy 2023-2027

Africa's Financial Industry Championing Climate Solutions

African Financial Alliance on Climate Change (AFAC)

Strategy 2023-2027

Mobilizing Africa’s financial sector for low-carbon and climate-resilient development

AFAC
African Financial Alliance on Climate Change

Africa’s Financial
Industry Championing
Climate Solutions

Contents

Executive summary

Climate change is a critical issue for Africa, as it has the potential to undermine economic growth, exacerbate poverty, and increase social and political instability. The impacts of climate change are already being felt across the continent and include reduced agricultural productivity, increased water scarcity, and greater frequency of extreme weather events. Addressing the challenges posed by climate change is essential to ensure the long-term sustainable development of African countries, and reducing greenhouse gas emissions will require both adaptation measures and action. Africa as a continent is particularly vulnerable to the effects of climate change, including rising temperatures, sea level rise, and more severe weather events. According to the Global Climate Risk Index 2021, five African countries ranked among the ten countries most affected by extreme weather in 2019: Mozambique (first), Zimbabwe (second), Malawi (fifth), South Sudan (eighth), and Niger (ninth).

Addressing climate change in Africa is paramount to mitigate its negative impacts and can also offer opportunities for economic growth and sustainable development. Africa has three strengths it can rely on to capture these opportunities: (i) its demographics; (ii) its immense mitigation potential due to its vast land mass, forests, agricultural systems, and oceans; and (iii) its unrivaled potential to produce renewable energy—especially solar—for its own development and for export purposes.

The importance of climate finance as a tool to address the pressing and multifaceted challenges of climate change and the transition to a low-carbon economy cannot be understated. It provides crucial funding for projects and programs that promote sustainable development and reduce greenhouse gas emissions. Without adequate climate finance, many countries, particularly those in developing regions, may be unable to effectively adapt to the impacts of climate change and lack the resources to transition to clean energy and sustainable practices. Furthermore, climate finance plays a vital role in helping countries achieve their nationally determined contributions (NDCs) outlined in the Paris Agreement. According to the Africa Economic Outlook 2023, Africa requires USD250 billion annually to implement its NDCs under the Paris Agreement. This is the cost of the continent's contribution to limiting warming to 1.5°C and addressing the biggest impacts of climate change. Yet annual climate finance flows in Africa currently stand at a mere USD30 billion. Similarly, for adaptation, Africa needs an estimated USD580 billion of adaptation finance over 2020 to 2030 according to the State and Trends in Adaptation Report 2022 from the Global Center on Adaptation (GCA). If this trend were to continue through 2030, adaptation finance would total USD125.4 billion, falling far short of USD579.2 billion—approximately USD52.7 billion annually—in estimated finance needs. According to a report on climate finance by Climate Policy Initiative (CPI), private climate finance comprises half of the total climate finance globally. In Africa, it was only 14% (USD4.2 billion) of the total climate finance during 2019 and 2020, significantly lower than in other regions of the world. Actual and perceived risk and ticket sizes have dissuaded private capital players, and steps need to be taken to expand overall investment and encourage private sector contributions.

In 2021, the AFAC with the analytical support from McKinsey & Company, published a report on the status of climate risk management in the African financial sector. This study identified the barriers hindering private sector players from properly managing climate risk; the barriers are related to a lack of internal capabilities, lack of data for risk identification and measurement, and lack of standards or common methodology. On the public authority side, 82% of authorities interviewed named the lack of data and lack of capabilities for defining regulations and guidelines as the main challenges, followed by a lack of international standards or common methodologies (such as stress tests), which was mentioned by 73% of authorities interviewed. Additionally, only a few financial sector regulators and supervisors have published regulations or supervisory expectations with respect to financial institutions' climate risk management practices. In addition, African financial and nonfinancial institutions are underrepresented in the leading initiatives on climate action.

To address these challenges regarding climate change and climate finance, several organizations have deployed initiatives on climate-finance-related topics in Africa. These efforts were mapped and the following gaps were identified:

- There is no African-led platform to convey the voice of Africa globally.
- There is no knowledge-sharing platform that allows regional institutions to share experiences and best practices.
- There is insufficient coordination between initiatives.

In 2018, the African Development Bank (AfDB) established the African Financial Alliance on Climate Change (AFAC). AFAC serves as a platform to engage Africa's financial sector to derisk and direct capital flows toward low-carbon and climate-resilient investments in the continent. AFAC also aims to ensure that current and future financial risks and opportunities are integrated into investment decision-making. In its Strategic Plan 2023 to 2027, AFAC fills the main gaps identified in the 2021 report report and organizes its work under five pillars:

- **Leadership and awareness.** The objective is to make African financial actors and policymakers aware of climate change risks to their economies.
- **Access to data.** The objective is to ensure African financial institutions have access to comprehensive and comparable climate-related data.
- **Climate risk regulation.** The objective is to enable a policy environment that ensures climate-related risk management is mainstreamed in financial operations.
- **Climate risk management.** The objective is to adequately equip African financial stakeholders to address climate risks and vulnerabilities in their decision-making.
- **Green finance.** The objective is to adequately allocate capital to sustainable development in Africa.

To achieve these objectives, AFAC will serve as an integrator through improving collaboration between private institutions and public authorities in Africa, coordinating collaboration between active initiatives, and potentially providing technical assistance to the institutions. AFAC will be organized in industry groups by subsector (banking, insurance, capital market, and institutional investors), which will allow it to address the specific needs of each subsector through work plans defined by the members. It will thus be organized with the following structure:

- **Members.** The members, which will be organized in industry groups, consist of financial groups from the public (development finance institutions) and private sectors, financial sector industry associations, central banks, and financial regulators.
- **Implementing partners.** These are institutions that support AFAC members with implementing the work program. Other partners and observers can be invited to meetings by members, in consultation with the Secretariat, to provide feedback and information and create links to external partners.
- **Steering Committee.** The committee will undertake strategic planning and major decisions and will aim to meet twice a year. Members and implementing partners form the Steering Committee and are responsible for operational decision-making.
- **Secretariat.** The Secretariat includes all implementing partners and will be hosted by the AfDB. The Secretariat coordinates day-to-day operations.

List of figures

IMAGE: FREEPIK.COM

Section 1:

Overview of climate finance in Africa and the rationale for AFAC

Section 1: Context and rationale for AFAC

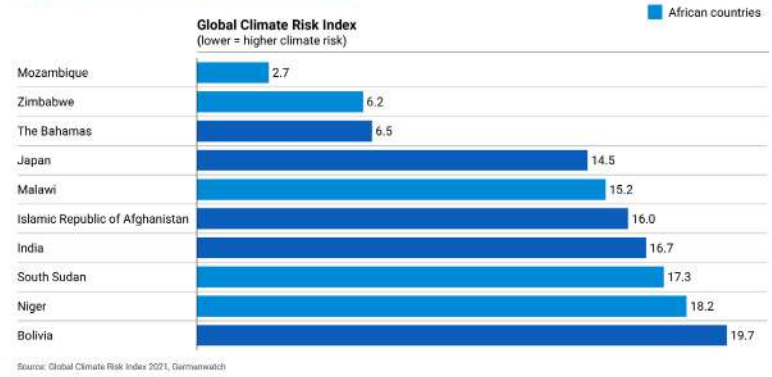
1. Overview of climate risks and opportunities in Africa

a. Climate risks for Africa

Climate change is expected to have a disproportionately harmful impact on Africa through physical risk, due to the continent's already vulnerable socioeconomic conditions and limited resources. Rising temperatures and changing precipitation patterns are likely to exacerbate water scarcity, food insecurity, and health issues, particularly in rural areas. Coastal regions will be particularly vulnerable to sea level rise and increased frequency of extreme weather events, such as storms and floods. In addition, changing weather patterns are likely to affect crop yields, leading to food shortages and increased competition for resources. Climate change also exacerbates existing conflicts over resources and displacement of people, particularly in areas where there is already political instability. According to a recent report from Moody's, African banks are vulnerable to the increasing frequency and severity of climate change shocks unless lenders take action to manage these risks. Moody's expects that environmental factors will lead to a deterioration of the banks' credit quality and profitability in the long term if banks do not take measures to prudently manage climate-related and environmental risks. Thus, climate change is expected to heighten existing socioeconomic challenges and hinder sustainable development in Africa, which is already dealing with serious climate adaptation challenges that require rapid and significant mobilization.

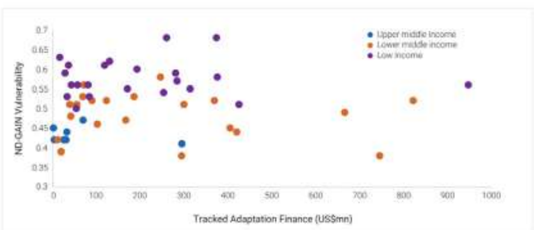
According to a recent report by the Global Climate Risk Index, half of the ten countries most affected by the impacts of climate change from 1999 to 2018 are in Africa, which highlights the immediate and pressing need for action in the region (Figure 1).

Figure 1: Half of the ten countries most affected by climate change are in Africa



In addition, climate finance for adaption is not correlated to the relative exposure of countries to climate risk (Figure 2).

Figure 2: There is limited to no correlation at the country level between tracked adaptation finance and climate vulnerability



"Transition risk" is widely regarded as the risk that the value of assets and income are less than expected because of climate policy and market transformations, such as the switch away from coal-fired power. A global low-carbon transition could have a significant impact on Africa, as it would reduce the demand and price for assets, including carbon-intensive fossil fuels such as coal and oil. Infrastructure that supports higher carbon activities, such as rail, power plants, or ports built around fossil fuel industries, may have to be replaced or retired early. Companies, investors, and workers could be hurt by lower prices and reduced demand for certain products. Governments may face reduced revenue, for example, from lower tax revenue, while their expenditure increases due to giving financial assistance to industries and workers in transition.

According to a recent report from Moody's, African banks are vulnerable to the increasing frequency and severity of climate change shocks unless lenders take action to manage these risks. Moody's expects that environmental factors will lead to a deterioration of the banks' credit quality and profitability in the long term if banks do not take measures to prudently manage climate-related and environmental risks.

b. Climate-related opportunities

The African Union in its 2021 to 2027 Green Recovery Action Plan identified key areas and sectors of critical priority, including renewable energy, resilient agriculture, resilient cities, land use, and biodiversity. To tackle the challenges and capture the opportunities of climate change, the continent needs significantly more climate finance, which includes increasing flows, efficiency, and funding impact. Developed countries must continue to provide support to Africa, but African countries should also strengthen domestic resource mobilization, increase capacity development, and invest in green technology and climate information services.

Addressing climate change in Africa is paramount to mitigating its negative impacts and can also offer opportunities for economic growth and sustainable development, such as renewable energy and sustainable agriculture, and can even help reduce poverty, create jobs, and improve public health.

Ambitious action in support of clean, low-emission growth can position the continent strategically in terms of skills, technologies, and industries of the future. Africa can rely on three main levers to take advantage of these opportunities:

- The continent's demographics are a latent strength. A fast-growing, young, and increasingly urban population can be equipped with the skills to become innovative and enterprising, thus helping Africa achieve its developmental ambitions.
- The continent has immense mitigation potential due to its vast land mass, forests, agricultural systems, and oceans. Smart, sustainable land and water use, agricultural practices, and ecosystem management can transform Africa into a net food exporter. In particular, Africa has unrivaled potential for renewable energy—especially solar—for its own development and for export purposes.
- A significant part of Africa's infrastructure is yet to be built with a financing gap of ~$100 Bn according to the Africa Economic Outlook, so there's an opportunity to build climate-resilient infrastructure without retrofitting.

In this context, AFAC could play a pivotal role by enabling African financial institutions to take the lead on addressing the climate finance gaps and capturing the related opportunities.

2. Challenges faced by the African financial sector

The importance of climate finance as a tool to address the pressing and multifaceted challenges of climate change and the transition to a low-carbon economy cannot be understated. The gap between the financial resources currently available and the financing needs required to mitigate and adapt to the impacts of climate change is significant across regions and climate uses. According to estimates from CPI and the African Economic Outlook, Africa requires USD250 billion to USD280 billion annually to implement its NDCs under the Paris Agreement, as detailed below (see Figure 3). The gap between actual and required climate funding ranges by region from 65% (North Africa) to 98% (Southern Africa) (see Figure 4), highlighting the severity of the issue. The NDC cost is the cost of the continent's contribution to limiting warming to 1.5°C and addressing the biggest impacts of climate change. Yet annual climate finance flows in Africa currently stand at a mere USD30 billion. Without this funding, many countries, particularly those in developing regions, may be unable to effectively adapt to the impacts of climate change and may lack the resources to transition to clean energy and sustainable practices.

Figure 3: Private and public climate finance flows versus total cost by climate use (USD billions)

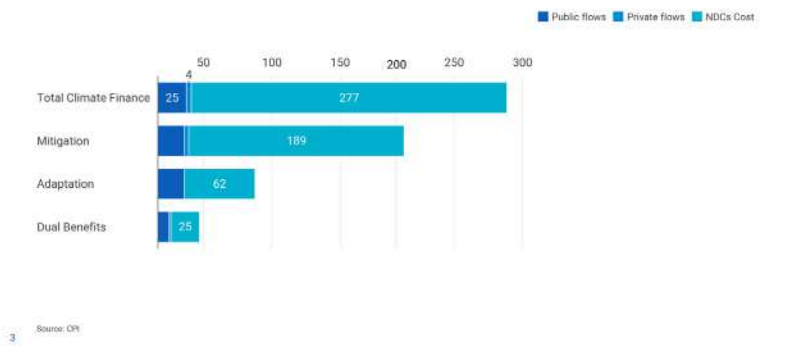
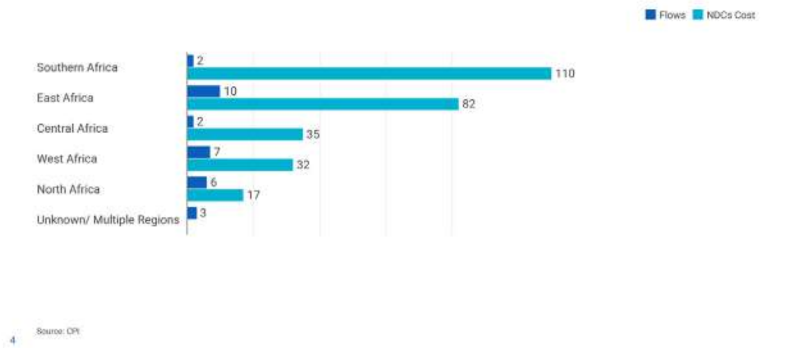


Figure 4: Climate finance flows and needs in Africa (USD billions, annual average for 2019 and 2020)



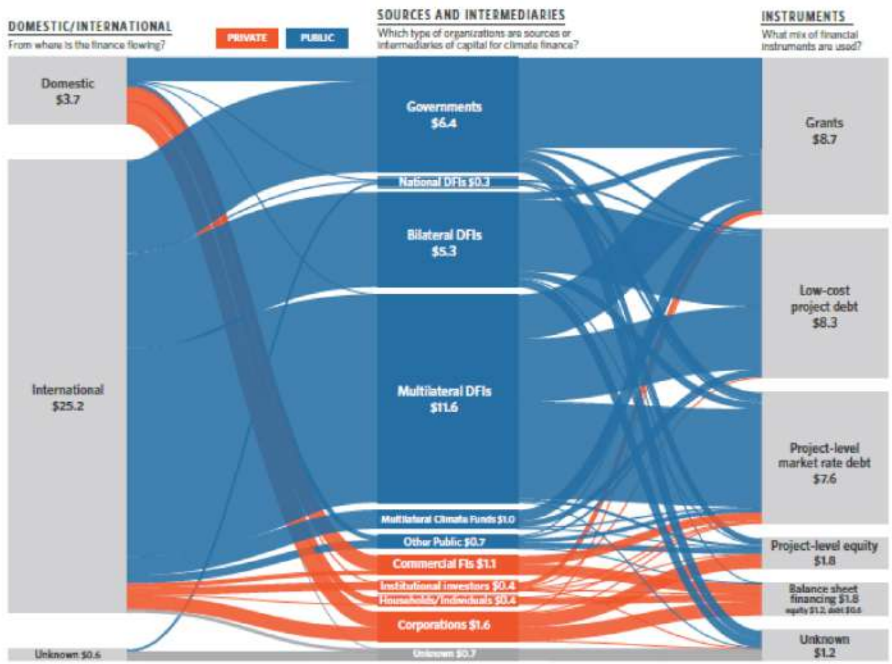
The inadequate inflow of financial resources can be attributed to a lack of investor interest, either due to actual financial risk, perceived risk, ticket sizes, inadequate project feasibility, or insufficient awareness of the potential benefits of investing in the African climate finance sector.

Figure 5 from the Climate Policy Initiative shows that compared to public funding, private sector funding is lagging, with only 14% (USD4.2 billion) of total climate funding originating from the private sector. Addressing the financing challenge requires increasing awareness of the potential benefits of investing in Africa's climate finance sector and developing a pipeline of financially viable projects that are attractive to investors.

In the AFAC publication (Climate risk regulation in Africa's financial sector and related private sector initiatives), the main challenges identified by public authorities and private sector players were related to the further integration of climate into their practices (Figure 6 and Figure 7).

- Lack of data was cited by 82% of authorities and 79% of the private players interviewed and appeared to be the most pressing challenge faced by African financial systems.
- Lack of capabilities was mentioned by 82% of authorities and 64% of private players.

Figure 5: Climate finance flows in Africa in 2019 and 2020 (USD billions)



5 Source: CPI; https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-in-africa/#:~:text=International%20public%20finance%20climbed%20marginally,USD%2024.3%20billion%20in%202020

- Lack of international standards or common methodologies, such as stress tests, was mentioned by 73% of interviewed authorities and 50% of private players.

These challenges underline the need for improved data accessibility and development of internal capabilities and international standards to effectively integrate climate risk into financial systems in Africa. As the Association of African Development Finance Institutions noted, “We don’t have the resources to deliver; AFAC could help. We are happy that AFAC is coming to life.”

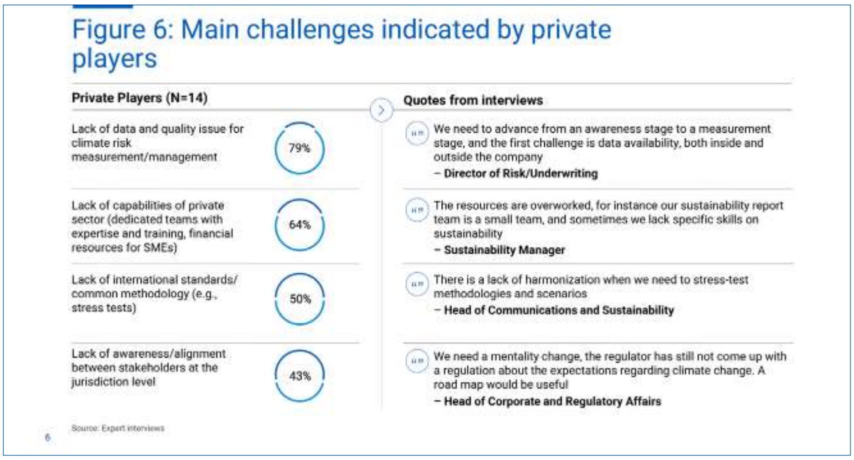


Figure 6: Main challenges indicated by private players

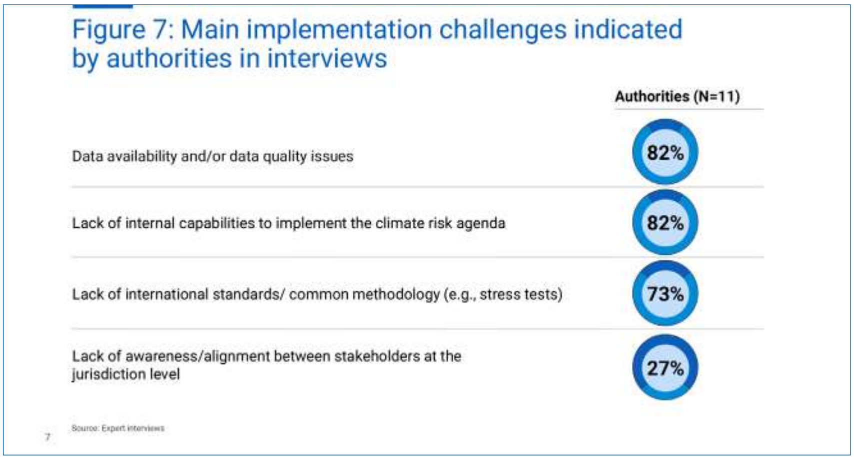


Figure 7: Main implementation challenges indicated by authorities in interviews

Banks and financial institutions in sub-Saharan Africa are aware of the importance of adopting green financing principles and are looking to address risks and, importantly, grasp new opportunities, as evidenced by their participation in various initiatives on the continent (Figure 8). Recent research from the European Investment Bank (Finance in Africa 2022) shows that 54% of African banks apply green finance practices at various levels, ranging from the inclusion of climate within an existing environmental, social, and governance strategy to the formalization of a standalone climate change strategy. 75% of banks are aware that having and publicizing climate strategies and principles is critical to reducing reputational risks and the financial risks associated with climate change. However, only 17% of banks have so far introduced specific green financing products, and these are estimated to account for only 2% to 20% of their portfolios. About 60% cite lack of expertise, data, and tools for climate risk as a barrier to doing more on identifying climate risks and opportunities

3. Rationale for greening the financial sector

Climate change remains one of the greatest challenges to Africa’s post-COVID-19-pandemic recovery and sustainable development. Tackling it requires scaling up climate finance from

Figure 8: African climate finance initiatives

Africa Adaptation Acceleration Program (AAAP)	Aims to galvanise climate resilient actions through a triple win approach to address the impacts of Covid-19, climate change and the economy
Desert to Power	Aims to make the Sahel the world's largest solar production zone providing 250 million people with electricity by tapping into the region's abundant solar resources
Africa 50	Aims to help bridge Africa's infrastructure funding gap by facilitating project development, mobilizing public and private sector finance, and investing in infrastructure on the continent
Alliance for Green Infrastructure	Aims to help scale and accelerate financing for green infrastructure projects in Africa
Adaptation Benefit Mechanism (ABM)	Aims to mobilize new and additional public and private sector finance for enhanced climate change adaptation action

8

both domestic and external sources. Yet past and current climate finance commitments fall short of expectations and financing needs. Mobilizing resources to tackle the climate challenge in Africa should go beyond UN negotiations and lofty commitments and into practical steps and delivery, through deploying a range of market- and nonmarket-based approaches that are specific to countries' needs. Apportioning the burden of responsibility is as important as actually delivering commitments.

Two main inputs have contributed to the definition of the AFAC strategy:

- The identification of strengthening the integration of climate by the financial sector as a priority by public authorities.
- Mapping of existing industry initiatives in Africa and identification of gaps.

a. Priority initiatives to strengthen the integration of climate by the financial sector

As part of the AFAC study from 2021, priority areas were identified according to public authorities. Raising awareness, assessment methodology, data availability, and capability building (best-practice sharing) were cited as the top priorities for authorities in the climate field, as highlighted in Figure 9.

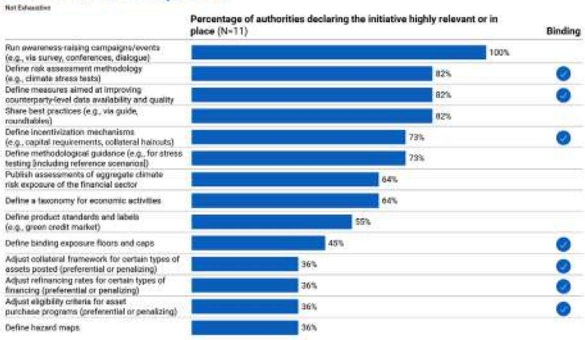
b. Analysis of gaps in active initiatives in Africa

Global initiatives with African offshoots endeavor to address previously highlighted challenges and green finance in Africa, yet analysis of these initiatives has uncovered gaps. The list of initiatives reviewed is detailed in Appendix 2.

It was observed that most knowledge organizations and initiatives concentrate on a specific sector, with notable deficits in the following areas:

- Lack of an organization focused on the full financial sector dedicated to Africa
- Insufficient knowledge sharing on climate
- Lack of synergy between the multiple initiatives on climate

Figure 9: Overview of actions considered as highly relevant or in place

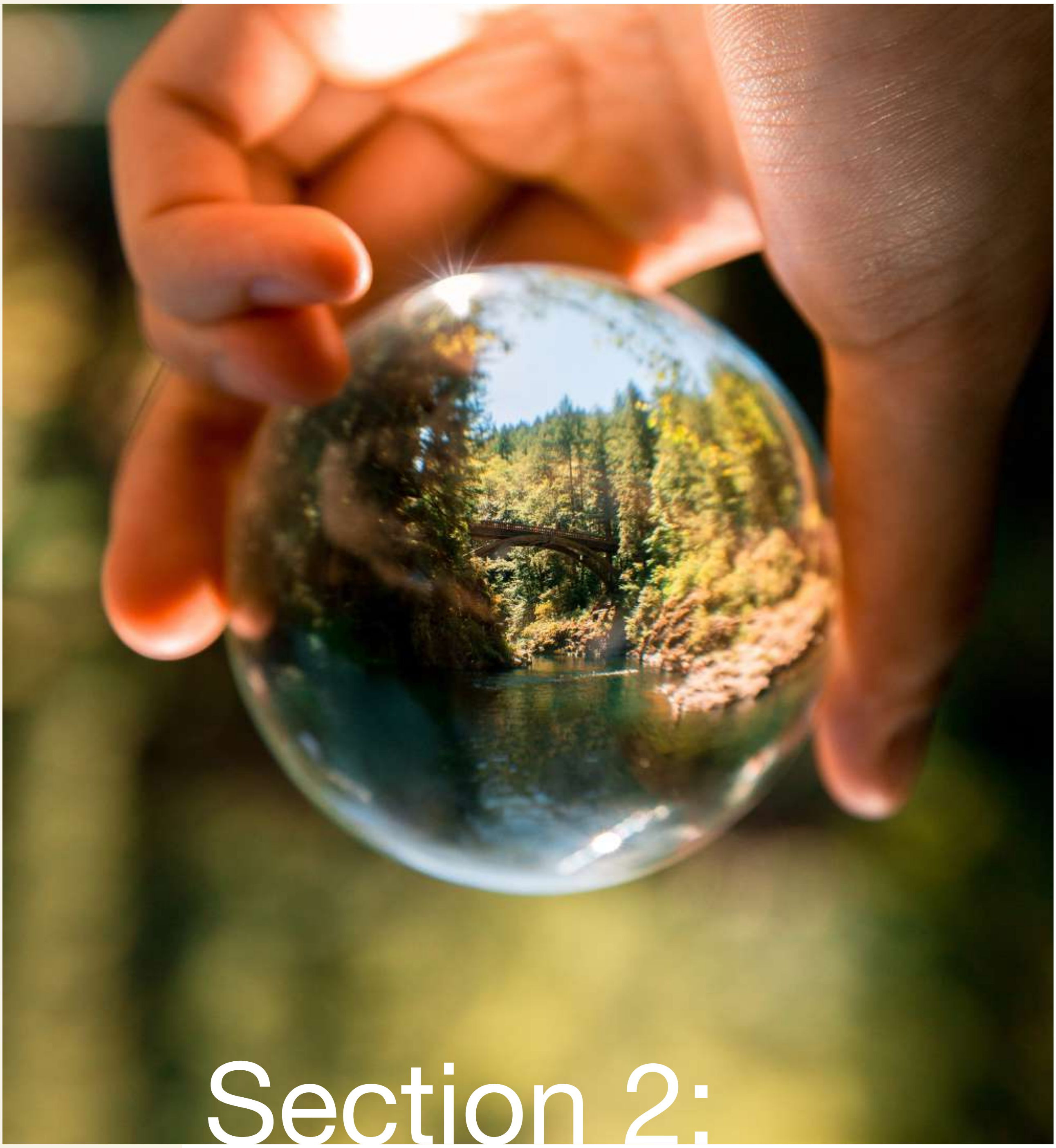


Source: Expert interviews

9

Based on this gap analysis, the AFAC's strategy is defined and explained in the following section.

- An **African-led platform** that convenes the voice of Africa—for example, through regular and periodic surveys on major climate finance practices and developments or through gathering the opinions of the regional financial sector
- A **knowledge-sharing structure** that facilitates partnerships and allows regional institutions to share ideas, experiences, best practices, and expertise through discussion sessions and climate-finance-specific training for financial institutions
- A **central structure** that enables synergy between the initiatives active in the region



Section 2:
Context and rationale for AFAC

Section 2: AFAC value proposition

1. History of AFAC

As a multilateral development bank and Africa's foremost financial institution, the AfDB has unique and specific advantages. These include its convening institution and its ability to mobilize, crowd-in, and channel financial resources. Yet it is not in a position to address all of Africa's climate change and green growth priorities. For this reason, it needs to be selective in its priority areas, strengthen its network of partner institutions, and leverage its convening power to draw on the capacity of other influential actors in this space.

In this context, the AfDB established AFAC in 2018 as a platform to engage Africa's financial sector, with the goal of derisking and directing capital flows toward low-carbon and climate-resilient investments on the continent. AFAC is a voluntary coalition of African financial institutions whose mission is to mobilize and direct private capital flows toward continent-wide low-carbon and climate-resilient development in Africa by ensuring that current and future financial risks and opportunities are integrated into investment decision-making. It is designed to promote climate action through knowledge sharing, climate-risk-mitigating financial instruments, climate risk disclosure, and climate finance mobilization.

Since its inception, AFAC has focused on primarily on advocacy and raising awareness on climate threats, investment prospects, and emerging trends in sustainable finance. Current global efforts to address climate vulnerability and debt distress in developing countries reinforce the case for a strengthened AFAC, building on its past activities. This momentum can be tapped into to crowd-in the resources needed to transition Africa to a sustainable future.

2. Vision

AFAC's 2030 vision is that "financial capital and financial products and services are mobilized to support the Paris Agreement goal to make financial flows consistent with a pathway toward low greenhouse gas emissions and climate-resilient development."

AFAC strives to help overcome climate finance challenges in Africa and promote more action for raising awareness, developing capabilities, and providing guidance. AFAC also seeks to enhance cooperation and coordination among existing efforts toward low-carbon and sustainable African financial institutions. Additionally, the alliance aims to support the creation and execution of projects that address climate change and increase resilience in Africa.

3. (Five) pillars of the strategy

AFAC aims to fill five gaps to effectively mobilize finance for climate-resilient and low-carbon development. These gaps surfaced from reports and expert interviews (Section 1.2) and from an analysis of active institutions in this field (Section 1.3).

- **Pillar 1: Building awareness on climate risk.** The alliance will focus on increasing awareness on climate risks generally and for financial institutions specifically (for example, through climate resilience stress tests).
- **Pillar 2: Improving access to comparable data on climate vulnerability.** AFAC will improve data availability and access by mapping available data sources, conducting periodic surveys, and sharing impact reports on climate finance practices and developments.
- **Pillar 3: Increasing climate competencies and capacities.** AFAC is well positioned to weigh in on risk assessment methods, frameworks, and standards to guide regulation and public action.
- **Pillar 4: Ensuring regulation, market transparency, and discipline.** AFAC aims to facilitate knowledge sharing and capability building (for example, via sharing best practices). Through selective partnering with capable institutions, AFAC can support capacity building, for example, by providing climate-finance adapation training to financial institutions.
- **Pillar 5: Mobilizing capital for sustainable development.** AFAC endeavors to facilitate fund mobilization by highlighting the benefit of investing in Africa and directing funds

to promising climate-related projects. In addition, AFAC would focus on more flexible and innovative financing mechanisms, such as blended finance and climate bonds, to advance the development and implementation of low-carbon and climate-resilient projects in Africa.

More generally, AFAC will fulfill an integrator role, improving coordination and collaboration between active initiatives and providing technical assistance to institutions and governing bodies.
In sum, by working together, AFAC members can leverage their collective resources and influence to drive private sector investment in climate-related projects and initiatives across Africa.

4. AFAC activities

Below are listed some activities considered for the Alliance either at the central level (AFAC-led activities) or within the industry groups.

a. AFAC-led activities

- **Public advocacy.** This is a means for AFAC to increase awareness and support for climate finance, shape policy, spur action, and secure media coverage. AFAC can broaden its reach, foster partnerships with supporters and policymakers, and spotlight crucial issues.
- **Maturity assessment.** Evaluating the level of development of climate finance in Africa; identifying strengths, weaknesses, and opportunities for improvement; and providing a roadmap for growth and advancement will allow AFAC to assess its capabilities, prioritize initiatives, and measure progress toward its goals.
- **Establishing partnerships among members and initiatives.** AFAC will seek to establish partnerships among its members and initiatives to maximize impact and leverage resources, expertise, and networks. These partnerships will encourage collaboration, foster innovation, and promote cooperation and coordination.
- **Specialized climate training.** AFAC will provide its members and partners with specialized training to develop the skills and knowledge necessary to effectively tackle climate challenges. Training will cover a wide range of topics, including the science of climate change, mitigation and adaptation strategies, policy and advocacy, and climate-resilient development.

b. Industry-group-led activities

- Organize events, conferences, roundtables, webinars, and workshops.
- Gather and analyze data (via surveys or open-source data, for example), conduct studies, consolidate insights, and build reports to present or publish in whitepapers. A nonexhaustive list of survey examples could be:
  - **Financial institution survey.** a survey of financial institutions to assess their current practices and commitments related to climate finance, identify areas for improvement, and encourage greater action in this area.
  - **Climate risk survey.** a survey to assess the level of awareness and preparedness among financial institutions with respect to the impact of climate change on their business and operations.
  - **Stakeholder survey.** a survey of stakeholders, including governments, civil society organizations, and other relevant groups, to gather their perspectives on the role of the industry group in supporting low-carbon and climate-resilient development.
- Ensure access to expertise through partnerships with selected capable institutions.

5. AFAC's expected outcomes along the five focus areas are:

- **Leadership and awareness.** African financial systems are aware of climate change risks to their economies. The African financial sector has a platform to convey its voice on the global scene.

- **Access to data.** The African financial system's actors have access to comprehensive and comparable data on the climate and climate vulnerability.
- **Climate risk regulation.** Climate-related risk management is commonly used in financial operations.
- **Climate risk management.** Financial system actors have enough capacity to address climate risks and climate vulnerability in their decision-making.
- **Green finance.** Capital is mobilized and adequately allocated to sustainable development in Africa.

6. Governance and operating model

a. Overall structure

As a multistakeholder alliance, AFAC can be organized using a simple and relatively flat governance structure that ensures efficient and robust operation.

- **Members.** The members, which will be organized in industry groups, consist of financial groups from the public and private sectors, financial sector associations, central banks, and financial regulators from the public sector.
- **Implementing partners.** These are institutions that support AFAC members with implementing the work program. Other partners and observers can be invited to meetings by members, in consultation with the Secretariat, to provide feedback and information and create links to external partners.
- **Steering Committee.** The committee will undertake strategic planning and major decisions and will aim to meet twice a year. Members and implementing partners form the Steering Committee and are responsible for operational decision-making.
- **Secretariat.** The Secretariat includes all implementing partners and will be hosted by the AfDB. The Secretariat coordinates day-to-day operations.

Figure 10: Dedicated governance articulated around five industry groups

b. Stakeholder roles and responsibilities

Steering Committee

AFAC will be governed by a Steering Committee as follows:

Composition. The AFAC Steering Committee comprises one representative of each of the AFAC's donors (other than the AfDB); the Making Finance Work for Africa Partnership, which is the technical partner; and one representative each from the AfDB's Climate Change and Green Growth (PECG) and Financial Sector Development (PIFD) departments. The Steering Committee will also include a representative from each of AFAC's industry groups, usually the chair.

Chair. Steering Committee members will elect a chair and vice-chair from among themselves. The chair will preferably be from the African financial sector, with the vice-chair from the donors.

Mandate. The Steering Committee provides strategic guidance, approves work plans and budgets, coordinates activities, and facilitates the implementation of AFACs' work program, both within and outside the AfDB structure. It also leads and actively participates in AFAC's advocacy.

Roles and responsibilities. The Steering Committee is responsible for:

- Providing guidance on and approving AFAC's strategy, priorities, budgets, and work plans.
- Advising on staffing needs (such as the Terms of reference).
- Approving the annual work program and budget, receiving progress updates on results, and monitoring achievements and implementation.
- Reviewing and undertaking quality assurance on AFAC's output.
- Promoting the dissemination of AFAC's findings and results to amplify its visibility and impact.
- Leading and actively participating in AFAC's advocacy efforts.
- Approving fundraising strategies and participating in resource mobilization efforts.

Decision-making rules. Decisions of the Steering Committee will be made by (i) consensus of all its members physically present at an in-person meeting or in attendance by video or telephone conference, or (ii) affirmative approval or no objection within ten working days on the part of all the Steering Committee members by email correspondence. Steering Committee decisions will be summarized in the form of meeting minutes drafted by the project manager and distributed to all Steering Committee members in writing (generally by email) within five working days after Steering Committee meetings.

Secretariat

The Secretariat carries out AFAC's day-to-day operations. Decision-making on routine matters of day-to-day coordination and the mechanics of coordinating periodic meetings convened by AFAC will be handled by the Secretariat. The Secretariat is also expected to facilitate joint action for AFAC members and attract new organizations to participate in AFAC. Most technical work is expected to be undertaken by expert partners or consultants who report to the Secretariat.

Secretariat responsibilities

The responsibilities of the Secretariat are outlined below. Funding levels determine the extent to which the Secretariat can carry out all activities:

- Drafting the work plan, operational plan, budget, fundraising strategy, progress report, and any recommendations for review and approval by the Steering Committee
- Facilitating the launch of industry groups and joining industry group meetings. Coordinating and supporting industry group co-chairs
- Managing AFAC's day-to-day operations (including developing or commissioning activities, minutes, websites, branding, or PR)
- Supporting the functioning of the Steering Committee by scheduling meetings, proposing agendas, and facilitating Steering Committee discussions
- Providing AFAC members with timely analytic work, such as insights and briefs on trends, new developments, or novel research; and managing technical expert consultants or partners that support the industry groups' output
- Coordinating the membership application process for the approval of the Steering Committee, including collecting any necessary information, onboarding new members, and maintaining a list of all AFAC members and their designated points of contact.
- Organizing AFAC participation in conferences and events
- Facilitating coordination and collaboration between industry groups
- Conducting strategic outreach, advocacy, and membership mobilization together with the Steering Committee.

Secretariat staff requirements

The qualifications and experience sought for Secretariat staff include:

- Experience with hosting multistakeholder coalition secretariats

- Influential executive leadership skills
- Commitment to AFAC's mission
- Knowledge of green financial policy and regulation
- Experience with donor and external relations management
- Proven convening power, including with the private sector
- No conflict of interest with AFAC activities

Members

AFAC membership is available to African private and public financial institutions, including, but not limited to, government agencies and private sector financiers, which includes national associations. International implementing partners will also be considered to be members of AFAC. Members are committed to the overarching vision, core objectives, and core functions of AFAC as expressed in the finalized technical work plan.

Members commit to AFAC's principles (see Section 2.8) and to:

- Promoting AFAC's mission, objectives, and work.
- Being actively involved in AFAC activities / Identifying a point of contact within their organization who can serve as a connection between all AFAC activities and the organization, as well as additional contacts relevant to each industry group.
- Contributing to AFAC's output and the achievement of its strategy.
- Attending general member meetings
- Being listed as a member of AFAC in public documents, presentations, and electronic media (such as websites)

Benefits for members are the following

- Enabling information on and understanding of risk-return profiles, pricing, and opportunities across asset classes.
- Assuring business continuity and reduced volatility by capturing impacts across investment portfolios.
- Lowering financial and reputational risks through better public disclosure and management of climate-related risks.
- Capitalizing on opportunities to attract global climate finance and stranded capital by offering transparency on low-carbon portfolios.
- Upscaling to deploy innovative technologies that support the low-carbon and climate-resilient transition.

Industry groups

AFAC will be organized in industry groups (banking, insurance, capital markets, and institutional investors), which will allow it to address the specific needs of each subsector by tailoring work plans. Industry groups will be sustained (or established) to advance AFAC's mission in alignment with the strategy. Industry groups are responsible for the development and implementation of the portions of the work plan specific to them. They are supported by the Secretariat. The chairs are determined by each industry group which will define the appropriate structure and governance.

Members should join at least one industry group but are free to choose which. They can contribute in- kind or financial resources for the delivery of their objectives. The Secretariat will provide administrative and technical backstopping support to the industry groups.

Implementation partners

Implementation partners will be critical in the successful delivery of AFAC's strategy. Potential roles and responsibilities include:

- **Advisory support.** Providing expert guidance and technical support on developing climate-risk management strategies and frameworks
- **Knowledge sharing and research.** Sharing relevant knowledge, data, and research findings on climate risks. Collaborating on studies and analysis to enhance understanding

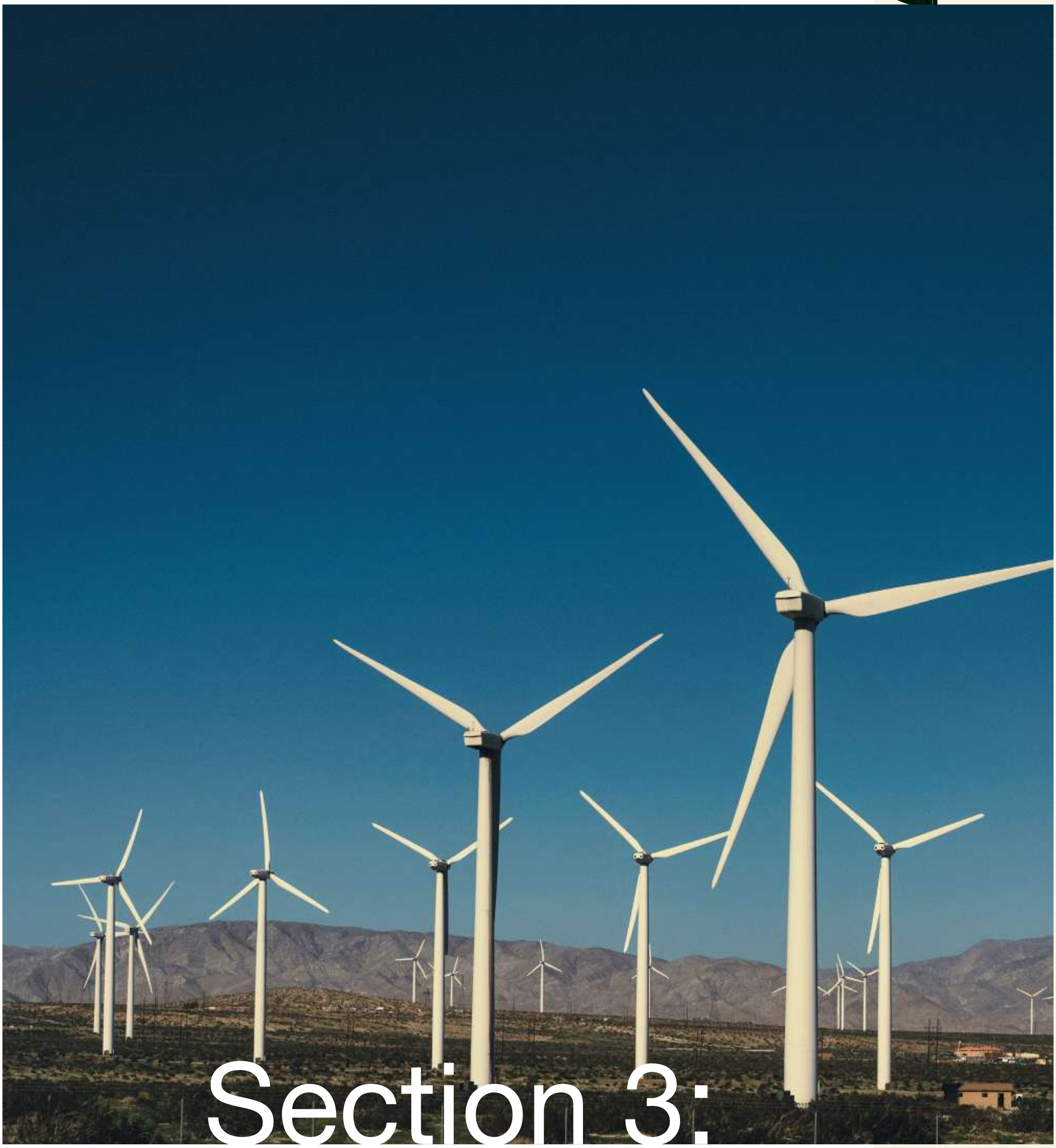
of climate-related risks and opportunities

- **Capacity building.** Designing and delivering training programs to enhance financial industry professionals' knowledge of climate risk assessment, disclosure, and management
- **Policy advocacy.** Collaborating on advocating for policy reforms and regulatory frameworks that promote climate resilience in the financial sector. Supporting the development of industry-wide guidelines and standards
- **Collaboration and networking.** Facilitating collaboration and networking opportunities among AFAC members and relevant stakeholders. Fostering partnerships with academia, research institutions, and governmental bodies
- **Pilot projects and demonstrations.** Developing and implementing pilot projects that showcase innovative approaches to climate risk management. Supporting project design and monitoring, evaluation, and dissemination of lessons learned
- **Climate finance opportunities.** Identifying and promoting opportunities for climate finance within the financial industry. Supporting the development of sustainable investment practices and financing models.

7. Guiding principles for the members

The proposed AFAC principles below constitute a commitment for members to assess and develop new mechanisms and commitments to manage climate-related risks and opportunities in Africa. The principles apply to all aspects of the financial value chain, products, and asset classes to help financial institutions (and subsequently their value chains) progressively increase the share of investments that promote low carbon and climate resilience. Hence, the principles are broad so that they are inclusive of all institutions and can fit their targets.

- **Commit to urgent climate action.** Use a top-down approach that articulates intent for climate action that is visibly and clearly demonstrated in the guiding strategy. For example, capital owners and purveyors can acknowledge the urgent need for climate action, commit to urgent climate action by formulating climate-related investment beliefs, and promulgate a governance structure that ensures appropriate traction and action.
- **Manage climate action and risks.** Undertake action that supports climate-related risks and opportunities. The action needs to be consistent with the institution's mandate and investment objectives, for example, by identifying the activities or investments that contribute or can contribute to climate action, determining risk–reward trade-offs for activities that foster lower carbon emissions, and implementing activities, techniques, or mechanisms to manage climate change.
- **Develop and monitor climate action.** Leverage standard existing tools, methods, and metrics for monitoring and evaluation. For example, adopt (or adapt) tools and metrics that effectively incorporate risks and opportunities into financial assessments or monitor and track climate action and progress.
- **Integrate climate action into strategic decisions.** Assess actions, portfolios, and the future pipeline to improve the sustainability of investments. This will help measure progress and demonstrate commitment.
- **Disclose climate action and risks**. Share quantitative and qualitative information on climate action – which will help influence change and foster peer-to-peer learning. For example, share information on investment targets, decarbonization plans, strategic asset allocation, stakeholder engagements, investment or decision criteria, and incentives.



Section 3:

Implementation roadmap

Section 3: Implementation roadmap

The overall work plan for the coming three years (2023 to 2027) consists of three phases: (i) the initiation phase; (ii) the deepening phase, where AFAC focuses on reaching its objectives; and (iii) the expansion phase.

The types of activities AFAC will carry out include conducting surveys; providing technical assistance with organizing roundtables, workshops, and training sessions; and publishing whitepaper reports.

Figure 11: Illustrative AFAC roadmap for 2023 to 2027

Conclusion

The establishment of AFAC represents a critical step toward addressing the immense challenges and risks posed by climate change in Africa and capturing the related opportunities. The continent is already experiencing the impacts of climate change and with an annual climate financing gap of over USD250 billion for both adaptation and mitigation, urgent action is required to limit global warming to 1.5°C and build climate resilience.

AFAC recognizes the need for improved data, capabilities, standards, and methodologies to effectively address climate change. It acknowledges the existing gaps in the financial sector in facilitating partnerships, sharing knowledge and lessons learned, and providing climate finance training. As an alliance for the financial sector, AFAC is committed to filling these gaps.

Through advocacy, technical assistance, capability building, and guidance on standards and methods, AFAC aims to mobilize climate investments and reduce the impact of climate change. By serving as a coordinating body, it will bring together stakeholders from various sectors to foster collaboration, knowledge exchange, and organized efforts for a secure African future.

By actively engaging with AFAC, stakeholders can contribute to Africa's collective response to climate change, aligning with global agendas, such as the Paris Agreement, Glasgow commitments, sustainable development goals, and Agenda 2063. Together, the African financial sector can work toward a sustainable and resilient Africa, mitigate the effects of climate change, and ensure a prosperous future for generations to come.

References

AfDB (2023). Climate Change and Green Growth Strategic Framework. https://www.afdb.org/sites/default/files/news_documents/trifold_-_climate_change_an_d_green_growth_strategic_framework_en_v3.pdf

AfDB (2023). African Economic Outlook 2023: Mobilizing Private Sector Financing for Climate and Green Growth in Africa. https://www.afdb.org/en/documents/african-economic-outlook-2023

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1230792

AfDB (2022). African Economic Outlook 2022: Supporting Climate Resilience and a Just Energy Transition in Africa. https://www.afdb.org/en/documents/african-economic-outlook-2022

AfDB (2020). The “High 5s”: A strategic vision and results that are transforming Africa. https://www.afdb.org/en/news-and-events/high-5s-strategic-vision-and-results-are-transforming-africa-35851

AfDB (2018). Guiding principles. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/AFAC_Guiding_Principles.pdf

African Union (2022). African Union Climate Change and Resilient Development Strategy and Action Plan (2022-2032). https://au.int/sites/default/files/documents/42276-doc-CC_Strategy_and_Action_Plan_2022-2032_23_06_22_ENGLISH-compressed.pdf

African Union (2021). African Union Green Recovery Action Plan 2021-2027. https://au.int/sites/default/files/documents/40790-doc-AU_Green_Recovery_Action_Plan_ENGLISH1.pdf

CPI (2022). Global Landscape of Climate Finance: A Decade of Data. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-a-decade-of-data/

European Investment Bank (2022). Finance in Africa 2022: Navigating the financial landscape in turbulent times. https://www.eib.org/en/press/all/2022-408-finance-in-africa-2022-navigating-the-financial-landscape-in-turbulent-times

GCA (2022). State and Trends in Adaptation Report 2022. https://gca.org/reports/sta22/

AFAC (2021). Climate risk regulation in Africa’s financial sector and related private sector initiatives. https://www.unepfi.org/themes/climate-change/climate-risk-regulation-in-africas-financial-sector-and-related-private-sector-initiatives/

Appendix 1: Principles, rationale, and indicative actions for AFAC members

Principle	Rationale	Indicative actions
1. Commit to urgent climate action	There is a need for a top-down approach articulating intent for climate action that is visibly and clearly demonstrated in the institution's guiding strategy	• Capital owners/ purveyors acknowledge urgent need for climate action • Commit to urgent climate action by formulating climate-related investment beliefs that accords ability to influence climate action through their mandates (E.g. Policy, investment thesis, vision and/or mission statement, corporate strategy, targets, etc) • Promulgate a governance structure that ensures appropriate traction and action (e.g. legislation, regulations, incentives, investment portfolios, Board representation on climate change)
2. Manage climate action and risks	Undertaking action that supports climate-related risks and opportunities and the action needs to be consistent with the institution's mandate / investment objectives	• Identify the activities/investments that contribute/can contribute to climate action • Determine risk-reward trade-offs for activities that foster lower carbon emissions across the investment value chain at portfolio and pipeline and in new investments • Implement activities, techniques/mechanisms to manage climate change
3. Develop and monitor climate action	Leveraging standard / existing tools, methods, and metrics to help monitoring and evaluation for the purpose of standardization and mainstreaming	• Adopt (or adapt) tools and metrics that effectively incorporate the risks and opportunities into their financial assessments • Monitor and track climate action and progress (It is necessary to establish a baseline as reference benchmark)

4. Integrate climate action into strategic decisions	Assessing actions/ portfolios & future pipeline to build resilience towards climate impacts and improve sustainability of investments. This will help measure progress, as well as demonstrate commitment	• Develop rigor and diligence to help mainstream within mandates /investment portfolios to:
		  ◦ Mitigate climate risks (new and existing) as per identified parameters within mandate /investment criteria
		  ◦ Invest in opportunities /develop pathways, which are consistent with low-carbon development /targets

5. Disclose climate action and risks	Sharing quantitative and qualitative information on climate-action will help influence change, and foster peer-to-peer learning	• Share information (e.g. investment targets, decarbonization plan, strategic asset allocation, stakeholder engagements, investment/ decision criteria, incentives, etc) • Measure and report performance on climate-metrics (e.g. ecological foot print, GHG accounting, climate finance, climate risk (Value-at-risk), etc.

Appendix 2: Overview of existing initiatives on climate for the financial sector

Initiative	Sponsor	Description	Objectives
Africa Network	GFANZ	The Glasgow Financial Alliance for Net Zero is the world's largest coalition of financial institutions committed to transitioning the global economy to net-zero greenhouse gas emissions. It announced launching its Africa network in 2022 to be headquartered in Nairobi	• Work with African banks, asset owners and managers, insurers, and other FI across the continent to support capacity building on climate finance required to meet the unique needs of African institutions as the global economy transitions to net zero • Collaborate with policymakers, regulators, and multilateral development banks to further understanding of the country-specific conditions needed to enable and accelerate financial flows for climate investment opportunities across the continent
PRB, PSI, PRI	UNEP FI	Several thematic global networks of financial institutions that seeks to promote responsible and sustainable practices	• The objectives of the PRI (Principles for Responsible Investment), PSI (Principles for Sustainable Insurance), and PRB (Principles for Responsible Banking) initiatives are to mobilize the finance sector to support sustainable development and promote the integration of environmental, social, and governance (ESG) considerations into financial decision-making processes.
Green Gateway	EIB	Multiple TA Operations in the form of assignments in 8 to 10 countries for central banks/regulators and private sector players as well as TA transversal activities (knowledge sharing)	• Promote net-zero and climate-resilient financial systems that ultimately will support the private sector in deploying climate-related and environmentally sustainable investments • Provide capacity building and support to central banks and supervisors and introducing best lending practices related to green financing in terms of procedures, processes, and products available to financial intermediaries
Finance in Common	AFD	Network of public development banks PDBs to share best practices on climate risk	• Strengthen partnerships among PDBs to accelerate the convergence towards shared standards and best practices, to support banks' commitments to shift their strategies towards sustainability, and to give PDBs more visibility in the global fora discussing international policy issues
AFRI-RES (Africa Climate Resilient Investment Facility)	World Bank	A program to set up an Africa-based center of technical competence and excellence to assist governments, planners, and private developers in Africa to integrate climate change in project planning and design	• Facilitate interaction between policymakers, financiers, project developers, and scientific and engineering experts in order to develop and mainstream new practices that deliver climate-resilient infrastructure in Africa • Provide project level technical assistance

Initiative	Sponsor	Description	Objectives
Nairobi Declaration on Sustainable Insurance	UNEP / FSDA	Organization supported by FSDA to bring together senior leaders of the insurance sector to accelerate solutions to major sustainability challenges – ranging from climate change and ecosystem degradation to poverty and social inequality - particularly in a post-Covid-19 world.	• FSDA support the organization through a series of events and thought leadership engagements as it encourages more institutions to sign up.
Investment Climate Reform (ICR) Facility	GIZ	The ICR facility was cofounded by a consortium led by EU in order to improve the investments climate in ACP countries	• Strengthening national and subregional development finance institutions (e.g., training on green bonds, ESG standards) • Compile and mainstream lessons learned and good practices
African work program	FC4S	The FC4S Network is a collective started in 2017 of the world's financial centers which is aided by partners and donors and supported by a Secretariat	• Help assess the green finance landscape and set strategies for sustainable finance development • Provide technical assistance on specific green and sustainable finance projects
Network for Greening the Financial sector	NGFS	Network of Central Banks and prudential supervisory authorities willing to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector	• Enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the context of environmentally sustainable development • Define and promote best practices to be implemented and conduct or commission analytical work on green finance
Sustainable Stock Exchanges Initiative	UNEP FI	The SSE is a global network of stock exchanges, regulators, and other stakeholders committed to promoting sustainability and sustainable business practices in the capital markets	• The SSE aims to enhance the role of stock exchanges in promoting sustainable development by providing a platform for exchange of information and best practices, and by fostering dialogue and collaboration among stock exchanges, listed companies, and other stakeholders.
R3LAB (Risk, Resilience, and Regulatory Lab for insurance)	FSDA	A platform focused on addressing challenges faced by insurance regulatory agencies through collaboration and cooperation	• Promote cooperation to address challenges faced by regulatory agencies • Create an enabling regulatory environment by encouraging and facilitating regulatory and supervisory interactions between insurance regulators in Africa • Offering customized capacity building programs, peer-to-peer exchange platform, comprehensive learning tool kit, resource center, data collection, and reporting

Appendix 3: Example activities along the five focus areas

Figure 12: AFAC roadmap actions for focus area 1

Organize events and roundtables to share best practices to inform about climate and nature-related risk policies and adaptation action	• Conduct a quarterly roundtable between private sector actors and financial regulators to discuss climate and nature-related risk policies and adaptation actions at a country level with international and national experts • Set up sub-regional working groups and support the working groups with various topics, including climate risk management, physical risk data, climate stress tests, etc. • Support financial regulations by brokering relationships with multilateral development banks to develop policy-based instruments to integrate climate risk in financial decision-making • Provide technical assistance to develop policies for a green monetary policy on a country level, allowing to increase liquidity in the economy. This public funding and co-funding support capital market development and de-risks investments towards adaptation needs • Provide technical assistance to central banks and financial regulators to introduce a country-level 'Green supporting factor' in bank lending to incentivize green investments for private sector actors
Conduct surveys to gather information about financial sectors' exposure to climate risk	• Support with technical assistance in designing and carrying out country-specific surveys to determine financial sector exposure to climate risk
Conduct a study of countries' financial sector's aggregate climate risk exposure	• Provide technical assistance to identify potential financial impacts of climate risk exposure towards financial institutions at the country level • Support in implementing tools and methodologies such as scenario analysis and stress testing that are in the pilot stages of implementation to assess these climate risks for financial regulators

12

Figure 13: AFAC roadmap actions for focus area 2

Mapping data providers and existing open sources of data	• Invite data providers for technical workshops between these country-level data providers and financial sector players to agree on sharing open sources of data to create a central data repository to assess climate risks in the financial sector • Provide technical assistance to build the IT infrastructure to develop a central data repository at the country level
Build internal technical capacities by collaborating with data providers and accessing open sources of data	• Urge data providers to make physical and transition risk-related data and information more accessible, for example, by incorporating reliable sources into a central repository

13

Figure 14: AFAC roadmap actions for focus area 3

Develop a framework for national green taxonomies	• Increase support and collaboration within the public sector to select environmental objectives relevant to the country's NDCs and support in choosing investments in connection with these environmental objectives • Provide technical assistance to governments to identify activities and assets that can be defined as green. This will help banks and other financial institutions originate and structure green financing products
Capacity building for central banks, regulators, and supervisors on using standards for greening the financial sector, climate-related reporting on physical risks and, more broadly, on transition risks	• Provide technical assistance to financial regulators and supervisors on building policies to be able to develop a standard for climate-related reporting on physical risks for all major financial institutions • Work with central banks and regulators to agree on a set of climate metrics that allow financial institutions to track progress against adaptation goals and allow their public sector counterparts to track progress towards their NDCs • Provide technical assistance to central banks to develop a 'Green Portfolio reward' for financial institutions that have a large share of green investments in their portfolios
Adapt the global NGFS recommendations to an African context	• Set up a working group of regulators and central bank members of the NGFS to exchange experiences, share best practices, and contribute to the development of stress test scenarios to assess climate risk management in the financial sector, and the impact on their economies

14

Figure 15: AFAC roadmap actions for focus area 4

Capacity building on integrating climate and nature-related risk in financial products and services	• Support financial service providers to adopt common principles for tracking finance for climate adaptation and resilience in line with best practices for a stepwise process-based approach • Support to develop a systematic and transparent approach to produce precise, consistent, and comparable adaptation and resilience impact metrics • Advance a standard methodology for employing physical climate risk assessment to address barriers associated with mispricing physical climate risks and inadequate integration of those risks in capital allocation decision-making • Increase support and collaboration to shape markets and build the pipeline of bankable adaptation and resilience investments
Provide technical assistance to financial intermediaries in implement-ing risk assessments for physical and biodiversity risks based on TCFD and TNFD	• Provide assistance in forming working groups to implement the TCFD framework and issue meaningful climate disclosures • Provide additional technical support to ongoing efforts of international partners to scale up the implementation of TCFD and TNFD recommendations covering essential topics, including governance, strategy, risk management, metrics, and targets

15

Figure 16: AFAC roadmap actions for focus area 5

Develop proposals for inclusive climate finance products, including risk mitigation/management	• Provide technical assistance to financial intermediaries to develop funding proposals to access the Green Climate Fund (GCF) Private Sector Facility to develop their own solutions, i.e., green adaptation SME (Small Medium Enterprises) loans, or infrastructure-resilient project finance • Provide technical assistance to financial regulators and central banks to access the GCF Readiness Program to further support green policy reforms

16

AFAC
African Financial Alliance on Climate Change

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DEVELOPPEMENT

UN environment programme | finance initiative

GLOBAL
CENTER ON
ADAPTATION

fsdafrica

GFANZ
Glasgow Financial Alliance for Net Zero

Making Finance
Work for Africa

email: afac_secretariat@afdb.org