On Our Watch

Super El Nino and responses by financial institutions

NSFA and BON RMB Sustainable Finance Workshop, Namibia

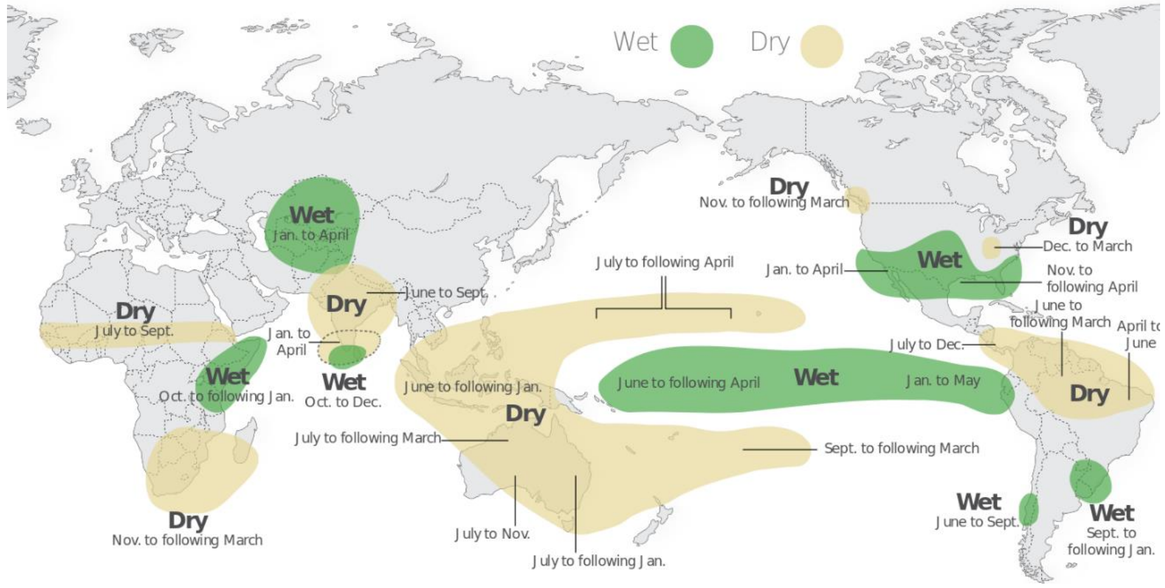
Dr Chantal Naidoo
19 October 2026



A severe El Niño forecast is a reason to prepare; it does not establish identical impacts across countries or borrowers.

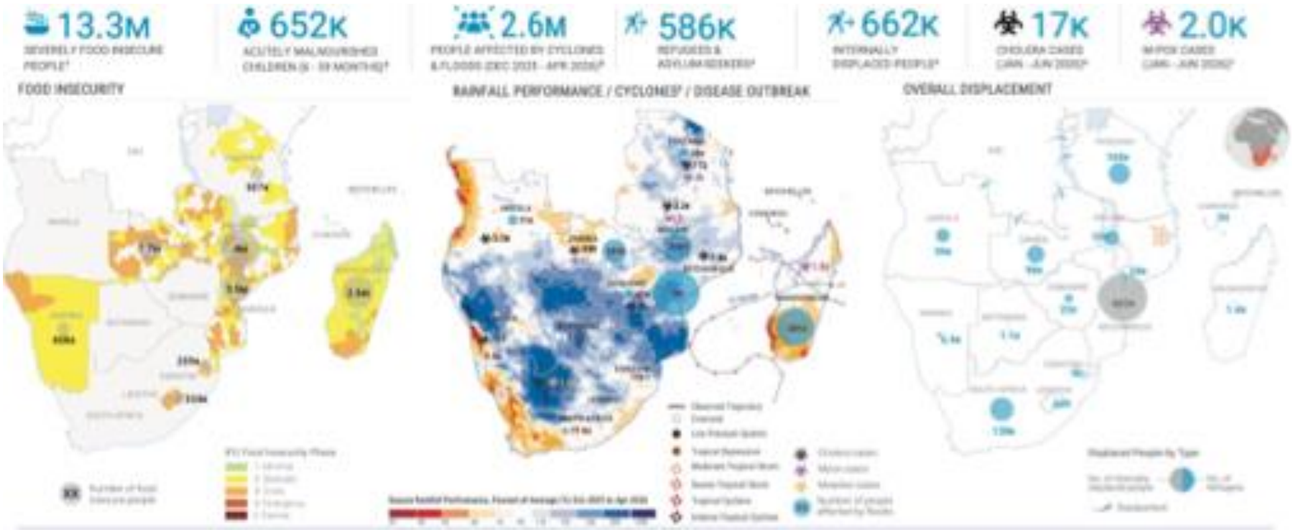
Projected Super El Nino effects (IRC, 2026)

2026/27
17% higher than normal drought risks and flood incidences (from 50 to 2,200 events)



Regional humanitarian outlook (OCHA, ROCEA, 2026)

2026–30
Food insecurity, social and economic impacts severe, displaced persons, diseases

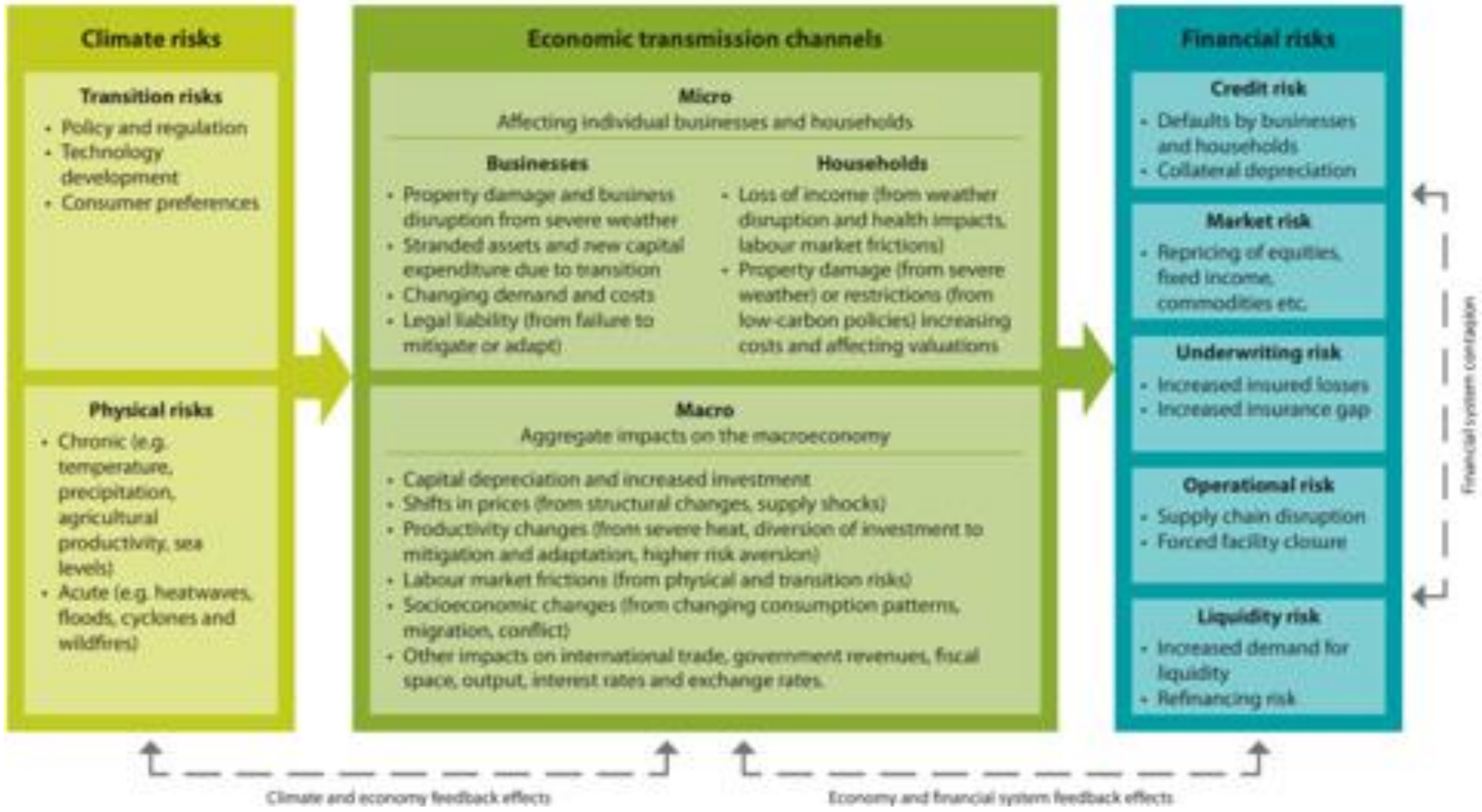


Anticipatory action is already shaping financing and operational decisions Forecasts provide a window to act: financing arrangements should make action possible

COUNTRY	RESPONSE UNDER DISCUSSION	IMPLICATION FOR BANKS
Kenya	Emergency financing negotiations to cushion anticipated weather shocks ($450 million with the World Bank) (Reuters, 2026)	Arrange contingent liquidity before disruption
Mozambique	Costed preparedness measures and mobilisation of external support ($401 million anticipated costs) (Club of Mozambique, 2026)	Identify preparedness costs and financing responsibilities upfront
Namibia	Local authorities guiding farmers to reduce livestock pressure on grazing and water resources (The Namibian, 2026)	Engage exposed borrowers early on production plans and repayment capacity

Climate risk leads to financial risk: Preparedness and well-designed relief can preserve operating capacity, support recovery and protect the repayment pathway.

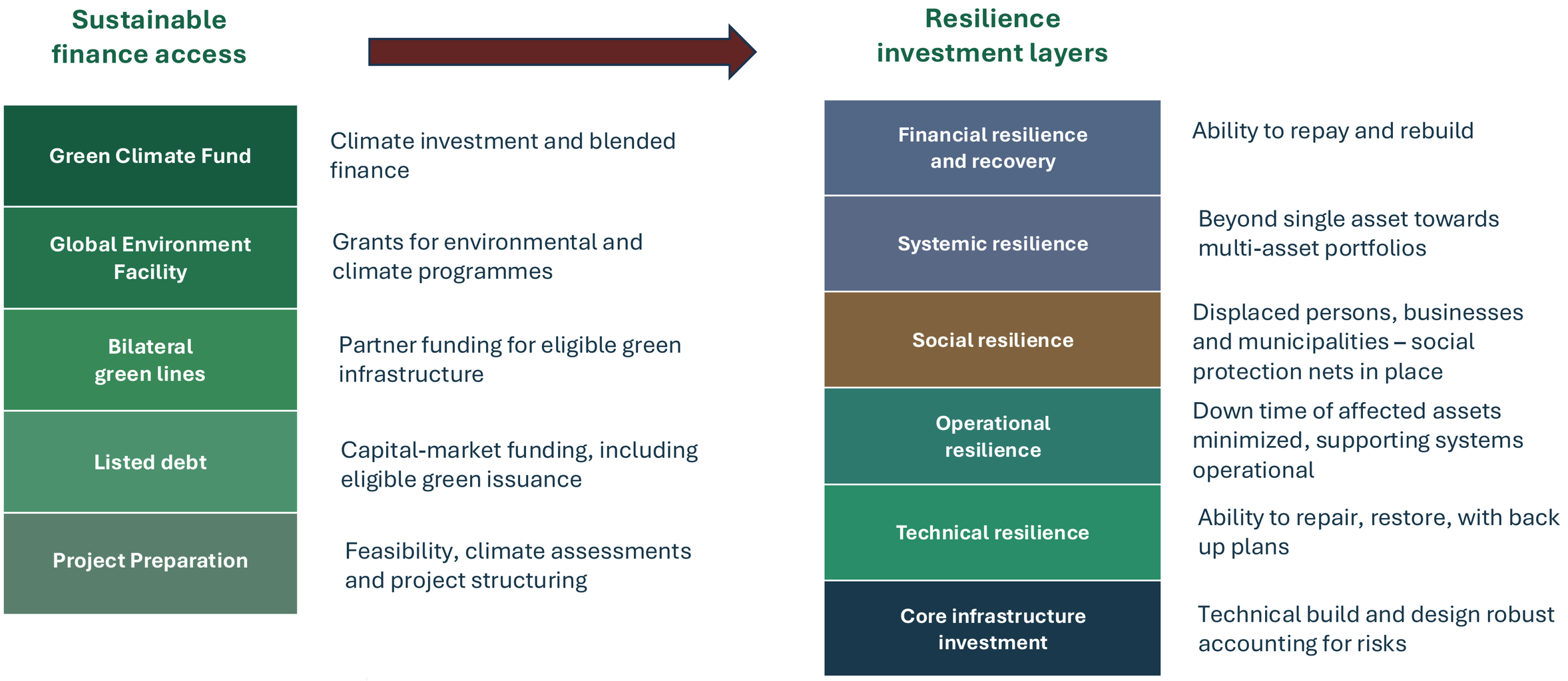
Transmission channels of climate risks (NGFS, 2021)



Example of impact on loan

Drought / water stress
→ reduced production
→ weaker cash flow
→ repayment pressure and collateral deterioration.

Sustainable finance can fund preparedness, protect productive assets and support resilience and rebuild efforts



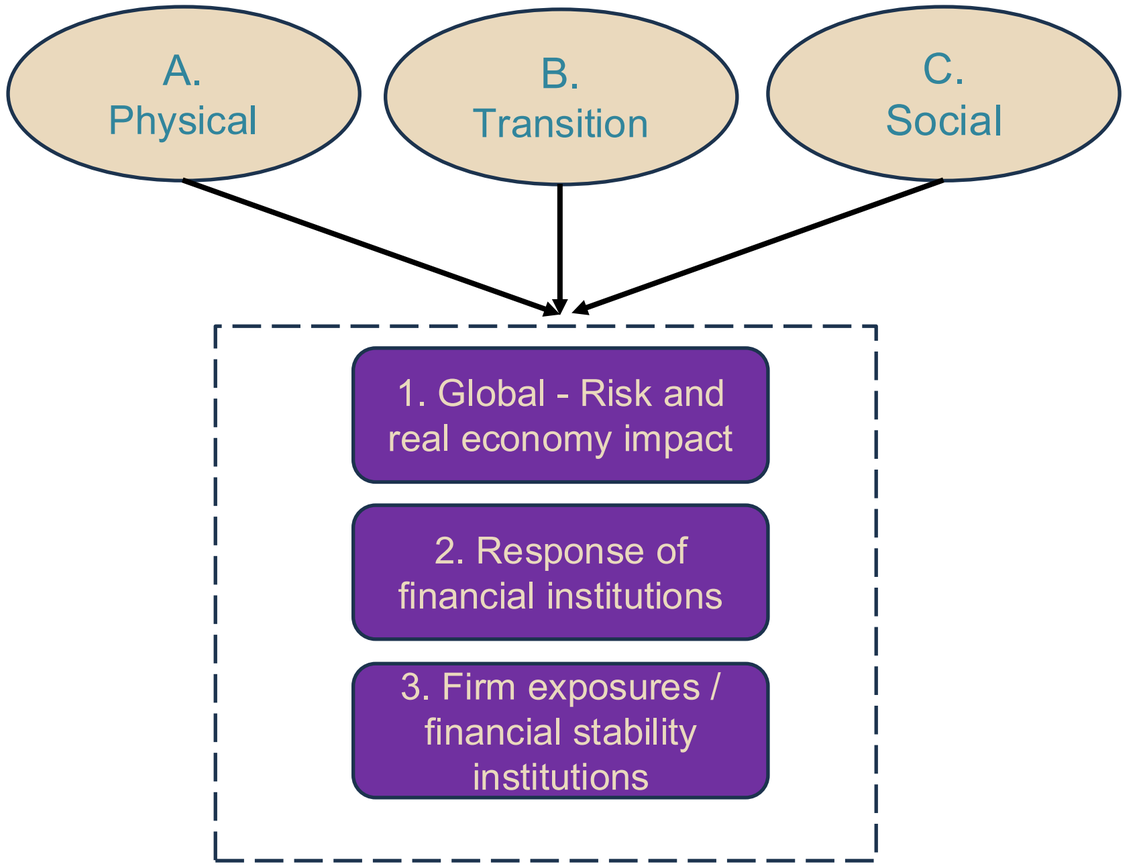
The Dignity of Finance Principle

Positions investment and risk management as a foundation for financial arrangements that shares risk and rewards, and responds to needs on fair and equitable terms. It also recognizes the importance of access to finance that anticipates climate risks and takes them into account

CAN ANTICIPATE OUTCOMES

- ORIGINATION
- USE OF PROCEEDS
- ACCESS & SEQUENCING
- RISK & COVENANTS
- TRUST & PARTICIPATION
- RETURNS & ACCOUNTABILITY

Central banks: Use forward-looking indicators to identify concentrated exposures, test financial-system resilience and inform supervisory dialogue



Climate Risk categories

Social added to account for ambition for its climate response to be just and inclusive.

Types of indicators

- Global and firm-level indicators
- Exposure and impact indicators
- Individual and aggregate indicators
- Lead & lag (forward/back-ward) indicators
- Static and dynamic indicators

Data sources

Detailed data mapping and sourcing for global indicators, and pilot templates for data gathering from banks and insurers

Public and private banks: Consider the sufficiency of financial risk impacts vs. existing investment and risk approaches

- Is this a limitation: due diligence focuses on single assets
- Should origination expand to portfolio approach/ multi-asset approach?
- Do principal risk registers see climate risk as mainstream risk category?
- Can just transition vision apply to resilient assets, and disaster responses?

Expanded resilience of finance architecture

1. Early identification/ preparations
2. Rapid appraisal/ rapid response
3. Terms & agency
4. Relevant capital
5. Portfolio foresight and insurance
6. Accountability and participation
7. Access and partnerships
8. Learning and iteration

Development finance institutions: Assess adequacy of Infrastructure Build and Disaster Responses

Current approaches need to integrate and recognise impact of immediate disaster shocks

- Are vulnerable assets and borrowers mapped?
- Are early warning systems in place for affected areas?
- Are ESG standards adequate for identifying disaster prone areas?

Building infrastructure Differently, Acting fast, Responding effectively

1. **Infrastructure designs & Standards**
2. **Construction and Rebuilds**
3. **Restoration & Repairs of critical infrastructure**
4. **Education/Training & Emergency preparedness**
5. **Partnerships with Govt, Community, Agencies & Civil Society ie. Eco champions**
6. **Technology application ie. Drones, Geospatial data collection, information management**

Risk sharing asks who can bear a risk—not only how to remove it

DE-RISKING

Investor risk

↓ transferred / absorbed

Recipient / public balance sheet

EQUITABLE RISK SHARING

Allocate each risk

to the party best able to

control • absorb • diversify

- Can climate shocks trigger repayment relief?
- Does currency risk sit with the party best able to manage it?
- Do covenants protect livelihoods during disruption?

Term sheets should reflect the characteristics of climate risk exposures

Directionality	Temporality	Systemic impact	Social contestation	Experimentation

Instrument mix	Concessional + commercial debt, equity, guarantees, grants, technology and technical support
Interest rate	Fiscal capacity, local benchmarks, public-good value and climate/social outcomes
Fees	Reduce or waive where public obligations and vulnerability justify it
Currency	Local or multi-currency options; explicit allocation of mismatch risk
Covenants	Relief, restructuring and deferral triggers for physical, transition and social shocks

Climate resilience requires financing that protect assets, essential services, and people and addresses institutional stability



What the layer pays for

Insurance, recovery liquidity and arrangements for residual losses.

Network redundancy, catchment protection and coordination across utilities and government.

Community warning and response capacity, inclusive access and continuity for vulnerable users

Maintenance, monitoring, spare parts, backup services and emergency restoration capacity.

Climate-adjusted siting and design, drainage, flood/heat protection and nature-based solutions.

Land, civil works, equipment and connections needed to deliver the core service.

Financing route and documentation

Reserves, insurance and contingent credit.
Policies, payout triggers and loss allocation.

Public/programme finance and grants.
Dependency map and coordination agreements.

Grants and public/service funding.
Rights-holder participation and response plans.

Operating revenue and funded reserves.
O&M plan, service KPIs and recovery targets.

DFI debt/equity, blended finance and grants.
Design standards and costed adaptation plan.

Sponsor equity, DFI/commercial debt.
Base budget, revenue model and contracts.

Separate the resilience budget

Identify climate vulnerability, the intended response and eligible costs. Tag adaptation within each layer to avoid double counting.

Preparation and appraisal underpin every layer

Fund hazard scenarios, social and system assessments, options appraisal and stress-tested cash flows before financial close.

Example: Anticipatory climate risk covenant

Where agreed threshold and exposure forecasts are met, climate events, including severe El Niño, shall trigger agreed-upon preparedness support and, where repayment capacity is affected, payment deferrals and covenant relief without penalty.

Foreseeability shall not shift risks beyond the borrower’s control onto the borrower; the parties shall share these risks according to each party's capacity to bear them.

Example: Drought exposed agricultural loan

TERM-SHEET PROVISION	JUST TERM SHEET TEST	POSSIBLE REVISION
Funding covers productive assets	Are water security and preparedness funded?	Include water efficiency, storage and early-warning measures in eligible expenditure.
Fixed repayment schedule	Can repayments adjust to climate-related revenue disruption?	Pre-agreed payment deferrals and tenor extension when defined drought-impact thresholds are met.
Relief considered after default	Can the forecast activate support before losses occur?	Link an authoritative drought forecast and borrower exposure assessment to preparedness funding and covenant flexibility.
Borrower carries residual losses	Who can control, absorb or diversify the risk?	Agree loss sharing upfront across borrower, lender and available insurance or guarantee providers.

The exercise changes the clause, providing contractual relief

Banks must still assess credit deterioration and recognise losses under applicable requirements.

Potential actions by financial actors

Commercial banks (also DFIs)

1. Map exposed borrowers and dependencies on water, power and supply chains.
2. Agree on early-warning triggers, preparedness support, and relief terms and conditions.
3. Establish coordinated response arrangements with public institutions and affected communities.

Bank of Namibia

1. Gather data on common scenarios
2. Promote comparable exposure reporting
3. Understand the system wide concentrations and dependencies

NSFA

1. Consider shared tools and coordination

Rabia



www.rabiatransitions.org