Landscape of Climate Finance in Africa 2024

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CLIMATE POLICY INITIATIVE

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CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has seven offices worldwide, in Brazil, India, Indonesia, South Africa, the United Kingdom, and the United States.

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CONTACTS

Anna Balm (anna.balm@cpiglobal.org)

Chavi Meattle (chavi.meattle@cpiglobal.org)

MEDIA CONTACT

Jana Stupperich (jana.stupperich@cpiglobal.org)

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AUTHORS

Chavi Meattle
Anna Balm
Jose E. Diaz
Gaoyi Miao
Sean Stout
Ishrita Gupta
Sasha Abraham
Alfred Sloley
Dharshan Wignarajah

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FOREWORD

Mahmoud Mohieldin

UN Climate Change High-Level Champion for COP27 & UN Special Envoy on Financing the 2030 Agenda for Sustainable Development

Africa's narrative is not one of vulnerability but rather a story of immense opportunities amid challenges. While some regions of Africa are enduring severe multi-year droughts, others face extreme precipitation, with significant socioeconomic consequences that undermine livelihoods and hinder the realization of Sustainable Development Goals (SDGs). On top of this, the continent is grappling with rising debt levels and consistently high food and energy prices, intensified by the ongoing geopolitical conflicts. Despite this, Africa is projected to have eleven of the world's 20 fastest-growing economies in 2024, making it the second-fastest-growing region after Asia. In the last few years, Africa witnessed transformative climate initiatives, including the Africa Carbon Market Initiative, the Africa Green Hydrogen Alliance and the Africa Climate Risk Insurance Facility for Adaptation.

The continent's formidable challenges highlight the urgent need for more innovative solutions that can unlock its vast potential for both climate action and sustainable development. The complementarity between sustainable economic growth and climate action is indisputable; they have to be pursued in parallel, or neither will happen. Addressing development and climate priorities requires a clear understanding of the size of investment gaps, where they exist, and how to effectively bridge them. It's crucial to ensure that progress is equitable and that no sub-region, country, or community is left behind as Africa pursues its climate transition, which must be characterized by being just. We must seize this moment to redefine Africa's narrative, demanding action that uplifts every corner of the continent and paves the way for a sustainable future.

The Landscape of Climate Finance in Africa 2024 report reveals a stark reality: Despite a 48% rise in climate finance—from USD 29.5 billion in 2019/20 to USD 43.7 billion in 2021/22—the funding gap is glaring. To meet the climate finance needed for the implementation of countries' Nationally Determined Contributions, flows must increase at least four times a year, every year, annually until 2030. This is not just about the cost of inaction that rises for each year that we fail to meet these needs; it is about the stark inequities in finance distribution across countries and the ongoing challenges in mobilizing private and domestic capital. The evidence is undeniable and the imperative for action has never been more urgent.

As the UN Climate Change High-Level Champion for COP27 and the UN Special Envoy on Financing the 2030 Agenda for Sustainable Development, I support the need for systemic transformation. The reforms needed for the international financial architecture, the New Climate Finance Goals, and discussions around the actual operationalization of the newly established Loss and Damage Fund, adaptation finance, and climate resilience must deliver actionable results—and swiftly. Furthermore, unlocking financing for Africa's climate transition requires a number of urgent actions, including: debt relief and suspension, providing concessional capital for financing climate projects (including adaptation projects), employing innovative finance mechanisms (in particular debt for climate swaps and carbon markets) and the use of credit enhancement and credit guarantee schemes to incentivize private sector participation and effectively offer project de-risking.

Africa's climate finance landscape must shift from inefficient, insufficient, and unfair to efficient, adequate, and just. We can no longer tolerate a narrative that perpetuates inequality. Informed by the reality on the ground, we must act to build a financial landscape that truly reflects our commitments to fairness and sustainability.

ADVISORY BOARD

"To optimize the intrinsic link between development and climate, promoting innovation, robust governance frameworks, collaboration, and a resolute sense of ambition must be our top priority. As we approach COP this report comes at a crucial moment, when equipping involved parties with the most recent evidence on climate finance development in Africa."

DAOUDA SEMBENE, CEO, AfriCatalyst

"African nations are not defined by their vulnerability but by the opportunity for transformative and climate-resilient development. The continent holds a treasure trove of largely untapped opportunities for climate action and sustainable growth. This report emphasizes the urgent need to close the investment gap and inspires all stakeholders to intensify their collaborative efforts. To unlock this potential, we must deliver predictable climate finance, mobilize innovative financing, strengthen partnerships between public and private actors, and implement policies that foster inclusivity and resilience."

JEAN-PAUL ADAM, Director, Policy, Monitoring and Advocacy, Office of the Special Adviser on Africa, United Nations Secretariat

"Africa's transformation depends on bold investments in energy, climate resilience, and infrastructure. As the report highlights, the financing gap is significant, but with innovative solutions and unified efforts, we can drive both sustainable development and climate action."

MIKE PEO, Head: Infrastructure, Energy & Telecommunication, Nedbank Capital

"Despite ongoing efforts, African countries continue to face unique hurdles in scaling and unlocking the necessary climate finance. Achieving the Sustainable Development Goals and transitioning towards inclusive and sustained growth will require breaking free from cycles of debt and vulnerability. The Africa Landscape of Climate Finance report offers critical insights into the region's climate finance dynamics, highlighting the significance of gaps and the magnitude of opportunities. Ambition, action, and accountability will be essential to turning this potential into real progress."

SAGARIKA CHATTERJEE, Department Director, Climate Finance, Climate Champions

"Africa, with its diverse landscape and complex challenges, remains one of the most vulnerable regions to climate change. To bridge the investment gaps identified in the report, we must prioritize Africa's unique economic, social, and political realities. Beyond high-level engagements, real progress will come from grassroots coalitions and actionable solutions that link climate action to broader social development."

SALIEM FAKIR, Executive Director, African Climate Foundation

"Africa stands at a pivotal crossroads, where immediate climate action is not just necessary—it is vital for the continent's future. This report highlights this urgency through the numbers. It's time to move from the usual talk to action and help avert catastrophic economic losses, address pressing social challenges, and seize investment opportunities. Meaningful progress demands a united front from both public and private actors."

TIMOTHY AFFUL-KOOMSON, Regional Director, Africa, Glasgow Financial Alliance for Net Zero (GFANZ)

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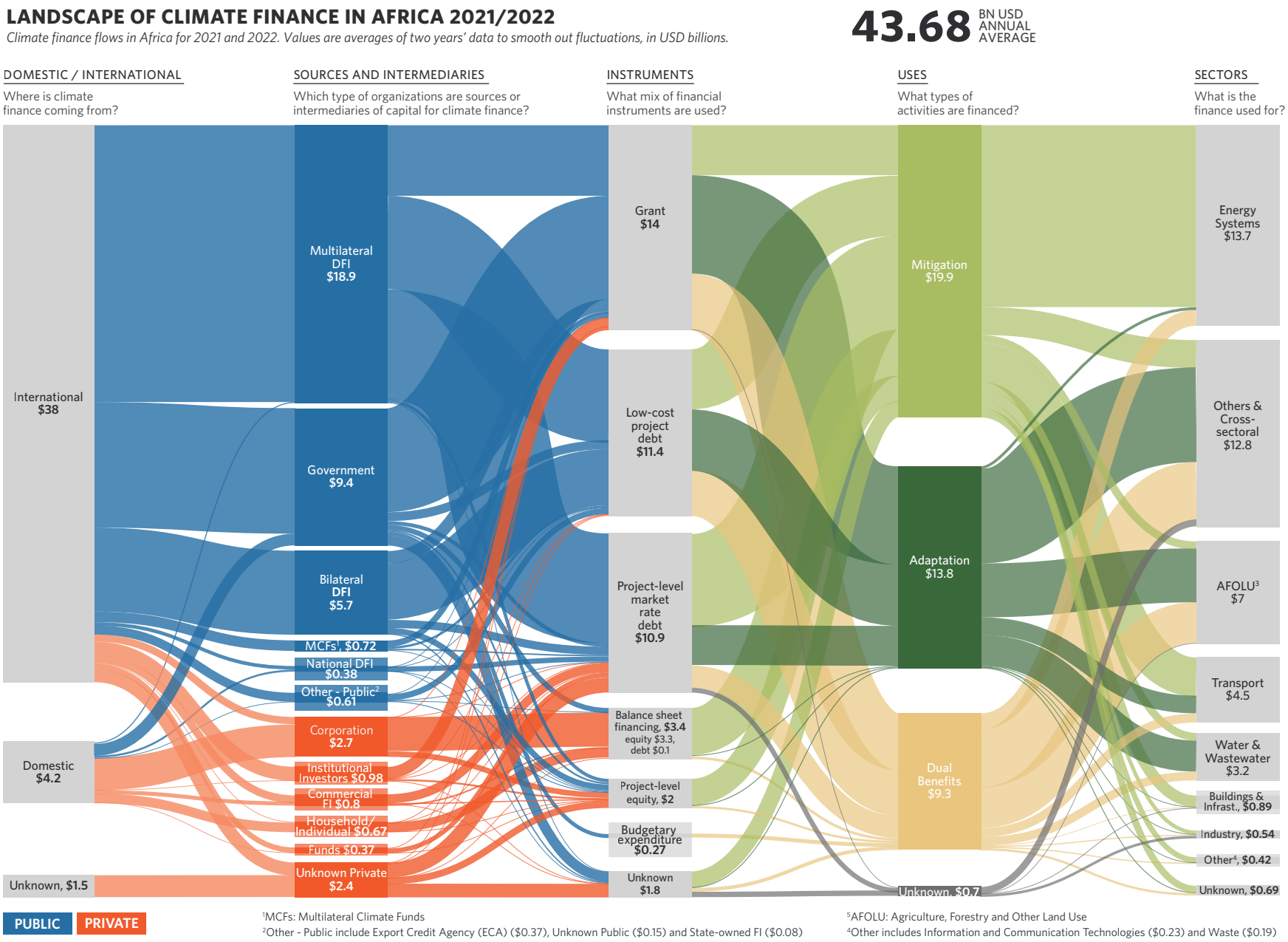


[1]MCFs: Multilateral Climate Funds
[2]Other - Public include Export Credit Agency (ECA) ($0.37), Unknown Public ($0.15) and State-owned FI ($0.08)
[5]AFOLU: Agriculture, Forestry and Other Land Use
[4]Other includes Information and Communication Technologies ($0.23) and Waste ($0.19)

EXECUTIVE SUMMARY

With a young and dynamic workforce and a wealth of natural capital, Africa is home to nine of the world's 20 fastest-growing economies (Carnegie Endowment, 2024)—factors that position it well for substantial future growth. Its countries possess some of the world's highest solar and wind potential, major carbon sinks, and natural resources like cobalt and copper, which are critical for global supply chains. The 2023 Nairobi Declaration, endorsed by the African Union, offered a compelling vision of Africa as a globally significant destination for climate investment in which a reformed international financial system would help ignite economic growth across the continent and allow Africa to play a central role in global decarbonization efforts. Upcoming decisions on the New Collective Quantified Goal, financial architecture reform, and updated Nationally Determined Contributions (NDCs) must all reflect heightened ambition and decisive action to accelerate Africa's transformation toward a low-carbon, resilient, and just economy.

However, these opportunities are counterbalanced by significant challenges. Social and political unrest persists, with 37 countries in the continent rated as having high or extreme risk for civil unrest (Maplecroft, 2023). In addition, over 21 countries are in debt distress or at high risk of it (IMF 2024). All of this comes twinned with worsening climate hazards that threaten to disrupt wider development if timely action is not taken. Recent climate disasters, including increasingly severe heatwaves, flooding, and prolonged droughts, demonstrate what is at stake. The complex and vicious combination of debt distress, high cost of capital, and climate vulnerability must be acknowledged and addressed to ensure that global interventions do not overlook underlying structural challenges.

The case for climate investment in Africa is compelling across three dimensions: unlocking vast economic opportunities, avoiding severe economic losses, and minimizing catastrophic social and developmental consequences. Without immediate action, future costs of responding to the climate crisis in Africa will far exceed current climate finance needs. The cost of not acting is already estimated to reach 20% of the continent's GDP by 2050 and to rise as high as 64% to 80% by 2100 (Christian Aid, 2022; Burke et al., 2015). And these economic losses are only the tip of the iceberg. The broader social costs—such as increased food insecurity and hunger, mortality and morbidity from heat and infectious disease, loss of nature and biodiversity, and increased conflict and migration—are not adequately accounted for.

Despite the compelling case for action, Africa's access to climate finance has been disappointingly low and far below what is needed. The previous edition of this report—the Landscape of Climate Finance in Africa 2022—was a first-of-its-kind assessment and has become an essential source for policy, advocacy, and investment decisions. This second edition shows that current climate flows need to increase by at least four times a year, each year, until 2030, to meet the climate finance needed for NDC implementation. In addition, this increase must come from diverse public and private sources and be targeted effectively. Importantly, actors must strive to ensure that climate finance is distributed equitably, though this will require overcoming significant regional disparities and structural barriers so that no sub-region, country, or community is left behind as Africa's climate transition progresses.

POSITIVE TRENDS

Climate finance in Africa surged in 2022 after stagnating in 2020 and 2021 amid the economic fallout of the COVID-19 crisis. Africa has seen a 48% increase in climate finance flows from USD 29.5 billion in 2019/20 to USD 43.7 billion in 2021/22.[1] The majority of this increase came in 2022, when Africa's annual climate investment crossed the USD 50 billion mark for the first time. This crucial increase was spearheaded by public finance, which delivered 82% of total climate finance.

The share of adaptation investment in Africa's overall climate finance flows remains higher than in other regions. Adaptation solutions received 32% of Africa's total climate finance in 2021/22, while the share elsewhere ranged between 1% and 14%, depending on the region (CPI 2024, forthcoming). However, this marked a drop from the 39% share adaptation took of Africa's climate finance in 2019/20. This is largely due to an increase in dual-benefit finance (i.e., finance rendering both adaptation and mitigation benefits) from 11% to 21%. This indicates a more systemic approach to climate action, which can help to address the region's high vulnerability to climate change.

Climate finance flows are becoming more aligned with some of Africa's most pressing needs. Least Developed Countries (LDCs) received 54% of the continent's climate finance, compared to 39% in 2019/20. Africa also received higher international finance on a per capita basis than South Asia and Latin America. The same can be said of sectors, as the two sectors most vulnerable to climate change —AFOLU[2] and water—were the largest recipients of adaptation finance, demonstrating that flows are targeting areas of high demand.

Multilateral development finance institutions (DFIs) remained the largest providers of climate finance in Africa, with increased grant and concessional lending. Multilateral DFIs provided 43% (USD 19 billion) of the continent's overall flows and 53% of public flows. These flows were almost evenly split between mitigation activities (39%) and adaptation (37%), followed by dual benefit projects (24%). Multilateral DFIs channeled funding to sectors of key importance to Africa: Energy (21%) and AFOLU (20%), along with other cross-sectoral activities (30%). Africa's least-developed countries (LDCs) received 60% of total multilateral DFI climate finance overall and 68% of their adaptation finance. Multilateral DFIs mostly used market-rate loans, low-cost loans, and grants in both 2019/20 and 2021/22, with slight shifts in the finance mix. The share of market-rate loans decreased from 47% to 40%, while grants rose from 21% to 25%, and low-cost loans rose from 30% to 34%.

Private sector finance almost doubled between 2019/20 and 2021/22 (to reach USD 8 billion), demonstrating substantive growth in commercial participation and market development. The key private climate finance providers were corporations (34%), commercial financial institutions (FIs) (10%), grant-making philanthropies (10%), and households and individuals (8%); 31% were unknown.[3] Private finance was spread evenly across domestic (40%) and international (41%) sources; unknown (19%). The vast majority (80%, or USD 6.4 billion) went to mitigation projects, followed by those related to adaptation (9%) and with dual benefits[4]

1 Apart from where otherwise stated, this report presents data on climate flows as biennial averages (e.g., for 2021/22) in order to smooth out any single-year anomalies.
2 AFOLU: Agriculture, Forestry, and Other Land Use
3 This is unknown finance is mainly coming from the OECD Private Finance Mobilized data and two Green Climate Fund project which does not specify the institution type.
4 The remaining 9% (USD 700 million) is tagged as 'unknown'. This is due to either a lack of granular project-level information to categorize its use or the existence of specific dual-benefit investments.

(2%). Africa's private climate finance is also mostly concentrated in energy systems (72%), reflecting the vast investment needs of this sector. Projects in the AFOLU and 'others and cross-sectoral'[5] categories each received 9%, and those in the buildings and infrastructure sector 5%. It is important to note that the limited amount of tracked private finance is partly a result of insufficient or absent reporting by private actors, along with a lack of climate-specific tagging and detailed estimates.

There was a sharp increase in cross-sectoral financing that aimed to deliver both climate and broader development outcomes simultaneously. Cross-sectoral solutions accounted for 29% (USD 12.8 billion) of climate finance in 2021/22, an uptick from USD 8.5 billion in 2019/20. These refer to solutions that target more than one sector, such as capacity building and early warning systems or a credit facility to a commercial bank lending to climate-smart projects. The key providers of these cross-sectoral investments were multilateral DFIs (45%), bilateral DFIs (14%), and international governments (30%). Such investments align climate goals with the Sustainable Development Goals (SDGs) by providing solutions that address both challenges at the same time. These investments aim to drive economy-wide development and mainstream climate action by bridging the institutional, sectoral, and national disconnect.

Grants continue to be used to target adaptation needs across various sectors, increasing from USD 8.8 billion to USD 14.0 billion in 2021/22. Grant funding was mainly funneled to adaptation initiatives (48%), followed by those with dual benefits (28%), and mitigation (24%). In terms of sectors, the key recipients were AFOLU (24%), energy (16%), water and wastewater (8%) and other and cross-sectoral activities (45%). This split varied across country income types, with adaptation in LDCs primarily financed through grants (61%), while adaptation initiatives in non-LDCs were financed through low-cost loans (47%) and market-rate loans (31%). Overall, market-rate loans are primarily disseminated for commercially viable mitigation technologies in the renewable energy (33%), other and cross-sectoral (21%), and green transport sectors (20%).

African carbon markets have seen high growth compared to the rest of the world, driven by political and regulatory action including the Africa Carbon Markets Initiative (ACMI). This growing funding stream offers an opportunity to diversify climate investment. While demand stagnated or even reduced across the rest of the globe, Africa saw an 11% increase in demand for its credits, with the global value share of African projects increasing from 10% in 2021 to 26% in 2023. However, prices dropped, and issues persist around transparency and lack of equity between local communities, intermediaries such as developers and brokers, as well as buyers in the market.

5 Cross-sectoral financing is financing that targets or benefits more than one sector, where attribution to a single sector is difficult.

Table 1: Climate finance flows in Africa (USD billion, % of total flows)

	2019/20	2021/22
FLOWS	29.5	43.7
PRIVATE FINANCE	4.2 (14%)	8 (18%)
Domestic	2.1 (7%)	3.2 (7%)
International	1.6 (6%)	3.3 (8%)
Unknown	0.5 (2%)	1.5 (3%)
PUBLIC FINANCE	25.3 (86%)	35.7 (82%)
Domestic	1.6 (5%)	1 (2%)
International	23.5 (80%)	34.7 (79%)
Unknown	0.1 (0.5%)	-
USE		
Adaptation	11.4 (39%)	13.8 (32%)
Mitigation	14.6 49%)	19.9 (46%)
Dual benefits	3.2 (11%)	9.3 (21%)
Unknown	0.4 (1%)	0.7 (2%)
SECTOR		
Energy Systems	9.4 (32%)	13.7 (31%)
Cross-sectoral	8.5 (29%)	12.8 (29%)
AFOLU	4.6 (16%)	7 (16%)
Transport	2.6 (9%)	4.5 (10%)
Water & Wastewater	2.6 (9%)	3.2 (7%)
Buildings & Infrastructure	1.3 (4%)	0.9 (2%)
Other	0.6 (2%)	1.7 (4%)
INSTRUMENT		
Grant	8.8 (30%)	14.0 (32%)
Low-cost project debt	8.3 (28%)	11.4 (26%)
Project-level market rate debt	7.6 (26%)	10.9 (25%)
Project-level equity	1.8 (6%)	2 (5%)
Balance sheet financing (equity portion)	1.2 (4%)	3.3 (8%)
Balance sheet financing (debt portion)	0.6 (2%)	0.1 (0.2%)
Budgetary Expenditure	-	0.3 (1%)
Unknown	1.2 (4%)	1.8 (4%)
SUBREGION		
Eastern Africa	9.5 (32%)	12.6 (29%)
Western Africa	7.1 (24%)	10.9 (25%)
Northern Africa	5.7 (19%)	7.3 (17%)
Southern Africa	2.2 (7%)	3.9 (9%)
Central Africa	1.8 (6%)	3.5 (8%)
Unknown/Multiple Regions	3.2 (11%)	5.5 (13%)

ONGOING CHALLENGES

Africa's climate finance flows must at least quadruple annually until 2030 to meet the investment needs for implementing its countries' current NDCs. Climate finance in 2021/22 was only 23% of the estimated finance required annually for African countries to implement their NDCs and meet their 2030 climate goals. With many countries expected to submit more ambitious NDCs by early 2025, the financial needs are likely to be even greater, especially for adaptation, where required finance remains largely underestimated. Even without comprehensive estimations, the investment gaps are already significant for both mitigation and adaptation. In 2021/22, only 18% of annual mitigation needs and 20% of adaptation needs were met. A further challenge is that the cumulative investment gap grows for every year that annual targets are missed.

Climate finance continues to remain concentrated in a handful of Africa's 54 countries. Ten countries[6] accounted for 50% of Africa's total climate finance flows, while another 30 countries only received 10% between them. In addition, the continent's 10 most vulnerable countries[7] received a mere 10% of all Africa's climate flows, leaving them severely underfunded. These disparities become even more pronounced when looking at private investments, where ten countries received 76% of the total private climate finance in Africa, while the remaining countries received only 16%[8].

Domestic capital could play a much greater role in financing the green economy, reducing exposure to exchange rate risk and external debt distress. International sources provided 87% of Africa's tracked climate finance, despite Africa having around USD 2.4 trillion of bank, insurance, and pension assets under management domestically (Systemiq et al, 2024). These numbers demonstrate not only the very limited involvement of African domestic institutional investors in climate-positive investment in the continent, but also the enormous potential to strengthen and leverage domestic markets to increase domestic flows. Tracking domestic investments is challenging due to the lack of granular, climate-tagged data. Therefore, detailed country-level assessments are needed to fully understand and address the gaps.

Despite their catalytic role in mobilizing private finance, multilateral climate funds (MCFs) investments remain relatively low. Given the scarcity of concessional funds, this support is vital for an effective climate transition, especially in LDCs, which receive 74% of MCF flows. However, MCFs contributed to only 2% of overall climate finance in Africa in 2021/22, split between mitigation (40%), dual-benefits (39%), and adaptation activities (21%). Most MCF finance to Africa was concessional (81%), in the form of grants (59%) and concessional debt (22%).

Climate finance flows continue to be primarily in the form of debt instruments despite high debt vulnerability in the region. As much as 51% of climate finance to Africa comes in the form of debt—split equally between low-cost debt and market-rate debt.[9] This proportion of loans in Africa's climate finance mix is more than double that of other regions, such as East Asia and the Pacific (18%) or Latin America and the Caribbean (20%) (CPI 2024, forthcoming). While the percentage of climate finance in the form of debt is lower in African countries with debt distress

6 The top ten recipients of Africa's climate finance in 2023 were: Egypt, South Africa, Nigeria, Morocco, Ethiopia, Tanzania, Kenya, Côte d'Ivoire, Democratic Republic of Congo and Mozambique.
7 Vulnerability is based on ND-GAIN index score which measures a country's exposure, sensitivity and ability to adapt to the negative impact of climate change.
8 8% of the finance is distributed across countries/regions or is not attributed to specific countries.
9 82% of market rate debt is provided by public actors, such as multilateral and bilateral DFIs, while 18% is provided by private actors.

(36%) and high debt distress (43%), this means it is even higher in countries with moderate debt distress (61%).

The distribution of climate funding between sectors is highly uneven. While the overall funding has increased, the sectoral mix in climate flows has remained largely unchanged since 2019/20. Energy, AFOLU, transport, and other cross-sectoral activities receive 87% of overall funding, neglecting other hard-to-abate sectors such as industry. Adaptation finance is substantially skewed toward the AFOLU (27%) and water sectors (15%), whereas other highly climate-vulnerable sectors in need of adaptation finance, such as buildings and infrastructure, received less than 1% of adaptation finance (see Section 1.2 for data limitations). Optimizing the allocation of sector-specific finance according to vulnerability remains a challenge to address.

Public finance must be used more effectively to unlock opportunities for private-sector partnerships. Analysis based on the OECD's Private Finance Mobilisation Data reveals that private finance mobilized by bilateral and multilateral funders decreased between 2019/20 and 2021/22 for Africa, despite increasing in other regions.[10] This provides a further example of the poor momentum of private finance in Africa and growing gaps between public and private climate finance, trends that need to be reversed if its countries are going to receive the climate finance they need via increased private sector participation in key sectors.

The average climate project size in Africa is less than USD 2 million, lower than other regions with high concentration of emerging markets and developing economies (EMDEs). Project sizes average USD 24 million in East Asia and Pacific, USD 5 million in South Asia, and USD 4.6 million in Latin America and the Caribbean (CPI, forthcoming). This highlights Africa's challenges in supporting large-scale projects due to factors like limited access to private capital, less developed regulatory frameworks, higher perceived risks, and a less mature pipeline of bankable projects. It also underscores that climate projects in Africa are often more localized and community-focused, such as small-scale renewable energy, agricultural adaptation, and water management initiatives. This highlights an opportunity for investors to leverage aggregation and securitization instruments, with consideration for the local dynamics of the region.

PROPOSED RECOMMENDATIONS

In order to deliver low-emissions, climate-resilient growth across the continent, both the quantity and quality of climate finance needs to be dramatically scaled and improved. To this end, CPI proposes the following recommendations per actor group, building on promising opportunities and persisting challenges.

10 This analysis is based solely on OECD data, as private mobilization data is only available at an aggregate level rather than at the project level.

Driving Africa's Climate Finance Agenda: An Overview

Actor	Ambition	Actions
Domestic Governments (national and subnational)	Domestic governments—at both the national and subnational levels—must establish an ambitious enabling environment to mobilize domestic and international capital, while ensuring that fiscal policies are aligned with national climate transition pathways.	Articulate costed, investment-ready climate action plans that are well-integrated across sectors and with existing development priorities
		Strengthen the role and capacities of finance ministries to engage with and catalyze climate action
		Reconfigure fiscal policies to favor climate and nature-positive outcomes
		Enhance institutional infrastructure to receive and manage climate finance
		Build domestic capital markets, incentivizing domestic institutional investors to play a fuller role alongside national development banks in climate-positive investments
International Public Finance Providers (Multilateral/ bilateral DFIs; climate funds; international governments)	Using the scarce concessional resources at their disposal, multilateral/bilateral DFIs, climate funds, and international governments should seek to reduce affordability constraints, de-risk private investment, and provide much-needed project preparation support and capacity-building, pursuing a more coordinated programmatic approach wherever possible (over isolated project-level investments).	Mitigate debt distress by using non-debt instruments
		Scale the use of guarantees
		Further pursue and incentivize leverage of the private sector
		Build the pipeline and visibility of bankable projects
		Re-evaluate eligibility requirements for accessing climate finance
		Build the capacity of African financial institutions—such as pan-African banking groups, locally-based pension funds and insurance companies, and national development banks—to evaluate and act on climate risks.
Regional and National Development Banks (RDBs/NDBs)	Leveraging their knowledge of local markets, needs, and capacities, national and regional development banks can act as a much-needed bridge between international climate finance, capital markets, and local entrepreneurs while working to mainstream climate considerations across all new investments.	Blend and bridge resources (from international providers) to catalyze domestic action
		Support domestic sustainable bond markets
		Mainstream investment in climate-resilient infrastructure

Actor	Ambition	Actions
Private Sector	The range of different private sector actors, from large institutional investors to MSMEs, should seek out and invest in the multitude of business opportunities for green, resilient growth in Africa, taking advantage of growing pools of concessional finance and guarantees, while integrating climate risk management from the outset into decision-making.	Leverage first-mover advantages in Africa's nascent green industry
		Pursue emerging business opportunities in adaptation
		Mainstream sustainability into investment strategies and financial decisions
Multiple Stakeholders	Certain action items cut across multiple stakeholders and demand a whole-of-society approach	Enhance integration of climate and development goals with the core priorities of public and private actors
		Build capacity, skills, and awareness to implement effective climate action
		Embrace carbon market development, recognizing this as a powerful way to channel funding to vulnerable communities and encourage more innovation in financial markets
		Increase the quantity, quality, and accessibility of data to inform policy decision-making on climate and nature and spur private sector innovation

INTRODUCTION

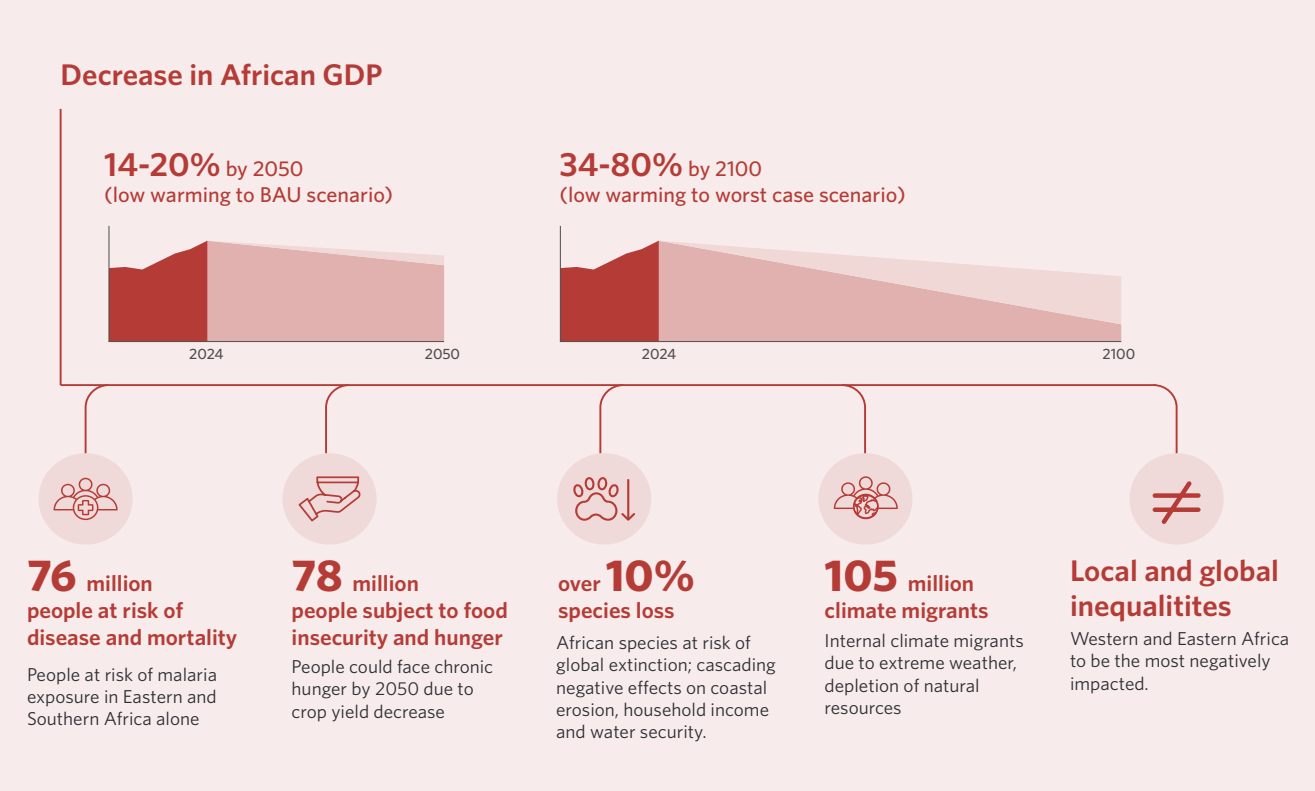
Africa is in a phase of transformative growth, but to capitalize on this opportunity, it needs to forge its own climate-smart and resilient path to development. The continent is home to nine of the world's 20 fastest-growing economies (Carnegie Endowment, 2024), a young and dynamic workforce, and a wealth of natural capital estimated at USD 6.2 trillion in 2018 (AfDB, 2023). It is home to some of the highest solar and wind potential, major carbon sinks and natural resources like cobalt and copper, critical for global supply chains. Despite a recent slowdown, Africa returned to economic growth in 2024 and remains the world's second-fastest-growing region (AfDB, 2024). In order to maximize this growth, more investment needs to be targeted at climate-smart infrastructure. The evidence is clear: these investments support long-term economic development and create jobs, and failure to act represents a dangerous and missed opportunity.

The inequities of the climate crisis are most pronounced for Africa, and climate solutions that overlook the continent's needs, opportunities, and perspectives are no longer tenable.

On the other hand, the costs of climate inaction and the failure to build resilience are too high to ignore. Without immediate action, Africa's future costs related to climate change will far exceed the finance needed today—reaching up to 20% of the continent's GDP by 2050 and ranging from 64% to 80% by 2100 (Christian Aid, 2022; Burke et al., 2015). Catastrophic flooding in East Africa at the same time as extreme droughts in Southern Africa in 2024 were devastating demonstrations of the impacts of extreme weather events on livelihoods and economies. Climate change is piling pressure on national budgets at a time when domestic balance sheets are becoming more constrained by debt vulnerability. Increasing loan repayment obligations are restricting countries' ability to address local climate risks and worsening their fiscal challenges. Fourteen of the world's most climate-vulnerable countries (ND-GAIN, 2024) are African nations that are also at high risk of—or already in—debt distress (IMF, 2024). All this comes amid growing social and political unrest; 37 countries in the continent have been rated as having high or extreme risk for civil unrest (Maplecroft, 2023).

Worryingly, these losses—and future projections—are conservative estimates. Social costs, which are also set to increase drastically across Africa, are not fully accounted for in current cost-counting methodologies because they are challenging to quantify monetarily. Such costs include increased food insecurity and hunger, mortality and morbidity from heat and infectious diseases, loss of nature and biodiversity, and increased conflict and migration. As well as causing direct harm to humans and the environment, these factors will inevitably translate into even higher economic burdens than already predicted.

Figure 1: Predicted cost of inaction



Note: *The figure presents the current best estimates of specific social costs in the region; actual social costs are likely much larger in scale*
Sources: *Christian Aid, 2022, Burke et al., 2015 and several others*

Climate investment needs to flow at greater speed and scale from all sources; private and public, domestic and international. Every USD 1 invested in climate-resilient infrastructure generates USD 4 benefit in avoided damages (World Bank 2019), and the same investment in coastal resilience can yield a benefit of up to USD 14 (UNEP, 2023). Climate investment in Africa can create up to 3.3 million new direct jobs by 2030, primarily in solar energy (FSD Africa, 2024c). Not only can investing now avoid major future economic and social losses, it also offers many benefits and new economic opportunities. The global market for adaptation could be worth up to USD 2 trillion per year by 2026 (Bloomberg, 2021). Despite the clear business case for action, Africa's climate investment potential continues to go untapped. Flows of related finance remain disappointingly low and far below what is needed. In 2021/22, Africa only received 3.3% of global climate finance flows,[11] and perhaps more starkly, privately supplied climate finance in Africa accounted for only 1.2% of global private climate finance. Though public climate finance flows to Africa need to grow, the continent's full requirements can only be met by rapidly scaling private finance. Its countries must address real and perceived barriers relating to risk and institutional capacity.

Africa can demonstrate leadership in driving its own climate and economic development agenda. The 2023 Nairobi Declaration provides a clear, united call to action: Developed

11 Global climate finance flows are estimated at USD 1,305.3 billion, according to the upcoming Global Landscape of Climate Finance 2024 (GLCF). Notably, the GLCF categorizes African countries into sub-Saharan Africa, and the Middle East and North Africa, while this report presents figures for Africa as a whole.

countries must uphold their obligations and mobilize finance at scale to unlock climate transition, secure enhanced resilience, and achieve lasting prosperity across African nations (African Union, 2023). The climate finance needs and perspectives of African countries must be factored into pivotal upcoming decisions on the New Collective Quantified Goal and financial architecture reform to unlock a step change in addressing Africa's climate finance gap this decade. As countries assess progress on their 2030 NDCs and prepare their 2035 NDCs, there will be a global need for increased ambition from every possible avenue. Africa could capture a significant opportunity by tapping the pools of domestic institutional capital that already exist across the continent—an estimated USD 2.4 trillion under the control of pension funds, insurance companies, collective investment schemes, and banking sector assets (Systemiq, et al, 2024). Reforms to the domestic financial systems needed to crowd in these pools of capital will also help to attract the much larger pools of international institutional capital managed in the major financial centers around the world.

This second edition of the Africa Climate Finance Landscape provides data on climate flows in 2021 and 2022, presented as biennial averages in order to smooth out any single-year anomalies. We assess these flows by source (public/private), use (for mitigation, adaptation, or a mix of both) and economic sector in which they are invested, as well as geography (origin and destination) and instruments used. The first-of-its-kind assessment presented in the 2022 Landscape of Climate Finance in Africa has become an essential source to inform policy, advocacy, and investment. The current report updates and expands upon that work, refreshing core analytical insights and enhancing focus on emerging key topics and opportunities including guarantees, debt, carbon markets, and domestic resource mobilization. This report identifies financial gaps and opportunities for new investment, providing essential insights for financial actors and climate negotiators looking to scale up climate finance. Primary audiences for this information include Parties to the UNFCCC, recipient country governments and their agencies, international governments, multilateral and bilateral development finance institutions (DFIs), private investors and initiatives, as well as civil society actors such as NGOs and research organizations.

The structure of the remaining sections of this report is as follows:

- **Section 1** introduces the methodology and analytical approach, adopted from CPI's flagship report, the Global Landscape of Climate Finance. It also explains key data limitations.
- **Section 2** presents Africa's overall tracked climate finance flows for 2021/22. It also includes an assessment by source (public and private); geographies; uses and sectors; and instruments.
- **Section 3** brings together the evidence, successes, and challenges identified throughout the report and provides recommendations by actor.

1. METHODOLOGY

The Landscape of Climate Finance in Africa (Africa Landscape, henceforth) leverages Climate Policy Initiative's most robust and up-to-date climate finance accounting taxonomy and methodology (CPI, forthcoming) to provide a comprehensive overview of primary climate flows in Africa. The report covers flows for 2021 and 2022, which are reported as a two-year average to smooth out annual fluctuations in data. While a more detailed methodology including taxonomies, definitions, key data sources, and data processing is published separately (available here), a key summary of the methodology and its limitations are shared below.

1.1 DEFINITIONS AND APPROACH

The following broad definitions have been used for operational purposes:

- **Mitigation finance:** Resources directed to activities contributing to reducing or avoiding GHG emissions, including gases regulated by the Montreal Protocol, or maintaining or enhancing GHG sinks and reservoirs.
- **Adaptation finance:** Resources directed to activities aimed at reducing the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience.
- **Dual benefits finance:** Resources directed to activities contributing to both climate change mitigation and climate change adaptation and meeting the respective criteria for each category.

Some of the key methodological and/or analytical additions to the previous report include, but are not limited to:

- **Voluntary Carbon Markets (VCMs):** Africa's vast renewable energy potential and rich biodiversity position it for significant growth in VCMs. While the lack of granular data on VCMs makes it difficult for inclusion in the total flows, the report analyzes the volume and value of carbon credits, pricing, and the best practices and challenges observed in Africa (see Section 2.5.1).
- **Risk mitigation instruments:** The role of risk mitigation—e.g., through guarantees and insurance—in improving risk profiles, strengthening local debt markets, and facilitating financial product diversification is widely acknowledged. However, they are not included in total climate finance flows, as they are exercised only in specific circumstances. In Section 2.5.2, we analyzed 62 unique cross-border guarantee mechanisms available to international investors in Africa and also the role of insurance products, subject to availability of data.
- **Urban climate finance:** African cities are increasingly central to the global climate conversation. To accurately identify and estimate urban climate finance in Africa requires a comprehensive urban tagging exercise of all financial flows. Some estimates from the Cities Climate Finance Leadership Alliance's 2024 ***State of Cities Climate Finance*** report are provided in Box 5.

- **Other analytical spotlights** include a debt vulnerability assessment (Box 8), climate finance flows in conflict-affected African countries (Box 4), data from the Global Emerging Markets Risks Database Consortium (GEM) on recovery rates for Africa, and domestic resource mobilization (Section 2.4.2)
- **Data sources:** This latest Africa Landscape includes new data sources to those in the last iteration, totaling just under USD 1 billon, indicating that the growth in climate finance is not solely attributed solely to these additions. The sources—including AidData, Africa: The Big Deal, and World Bank's Private Participation in Infrastructure—provide additional data coverage in terms of South-South flows, particularly from China, private flows to startups, and private participation in infrastructure finance, respectively.

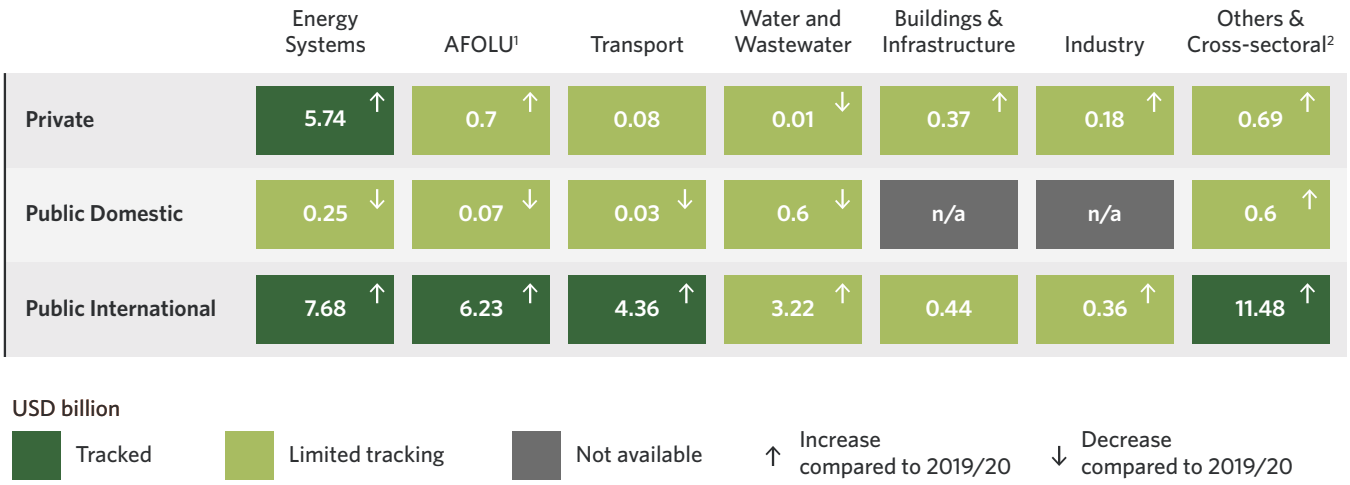
1.2 REPORT LIMITATIONS

While this report aims to present the most comprehensive information available on climate finance flows in Africa, methodological issues and data limitations persist for details on data sources, data treatment, and limitations). Despite best efforts to gather data on domestic government expenditure, adaptation investments from the private sector, and South-South flows, the availability of sources with climate-related data remains limited. Additionally, there are methodological challenges in what counts as climate finance in different energy-intensive, hard-to-abate industries (CPI, 2021).

Another recurrent challenge is a lack of data granularity, with the aggregated nature of the data preventing detailed analysis to prevent double counting of tracked flows. In taking a conservative approach to bypass this issue, potentially worthwhile sources of aggregated data may go untapped. For instance, we have not included aggregated data from the International Energy Agency (IEA) on energy efficiency solutions in the industry sector amounting to USD 500 million—the same as currently tracked—due to the lack of granularity of this dataset.

Figure 2 outlines the key data gaps encountered in tracking climate finance. Public domestic finance remains an area of opportunity, both in terms of enhancing financial flows and improving the tracking and monitoring of these by national governments.

Figure 2: Key data gaps by sector and actors in Africa 2021/22



[1]**AFOLU**: Agriculture, Forestry and Other Land Use

[2]**Others & Cross-sectoral** flows include financing for capacity building, policy support at national level, disaster risk management (18%), financial inclusion, Covid-19 and other benefits such as healthcare and social security.

Note: In addition to the sectors listed above, Information Communications and Technology, Waste and Unknown sectors make up USD 1.17 billion of climate finance in Africa.

Source: Climate Policy Initiative

2. CLIMATE FINANCE LANDSCAPE

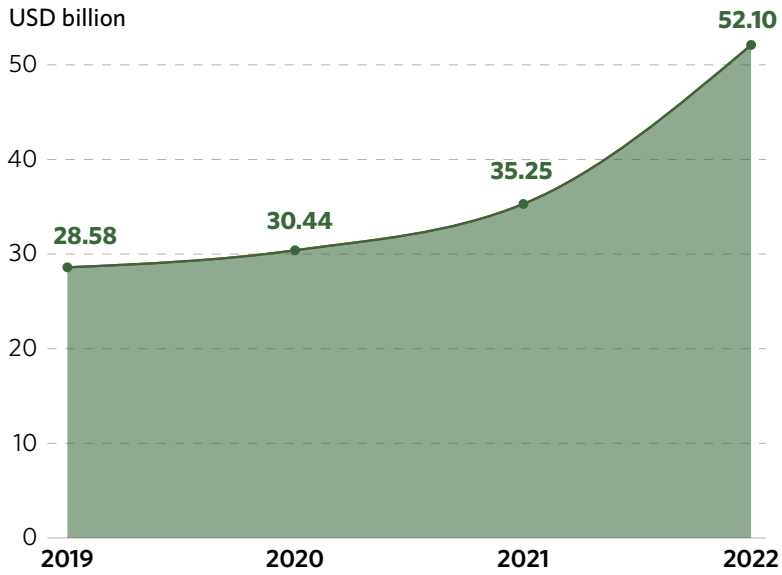
This section presents estimates of climate finance flows in Africa in 2021/22. We present a biennial average of flows over the two years of 2021 and 2022 to smooth out any single-year anomalies.

2.1 OVERALL CLIMATE FINANCE

Africa's climate finance flows need to increase from their current levels by more than four times a year, every year, until 2030 to meet the climate finance needed for NDC implementation.

CPI tracked USD 43.7 billion in total climate finance flows in 2021/22. This marks a 48% increase compared to the flows tracked in 2019/20, as presented in CPI's previous Africa Landscape report, published in 2022. Notably, Africa crossed the USD 50 billion annual climate finance milestone for the first time in 2022, reaching USD 52.1 billion after a period of stagnation in 2020 and 2021. While this significant uptick is encouraging, it may primarily result from the restarting of a backlog of projects that had been on hold due to the COVID-19 pandemic rather than indicating a sustained trend increase. This underscores the tangible impact of external events on international investment flows. With ongoing global conflicts, it is crucial for African actors to prioritize domestic financial market reforms and build climate-related capacity across governments.

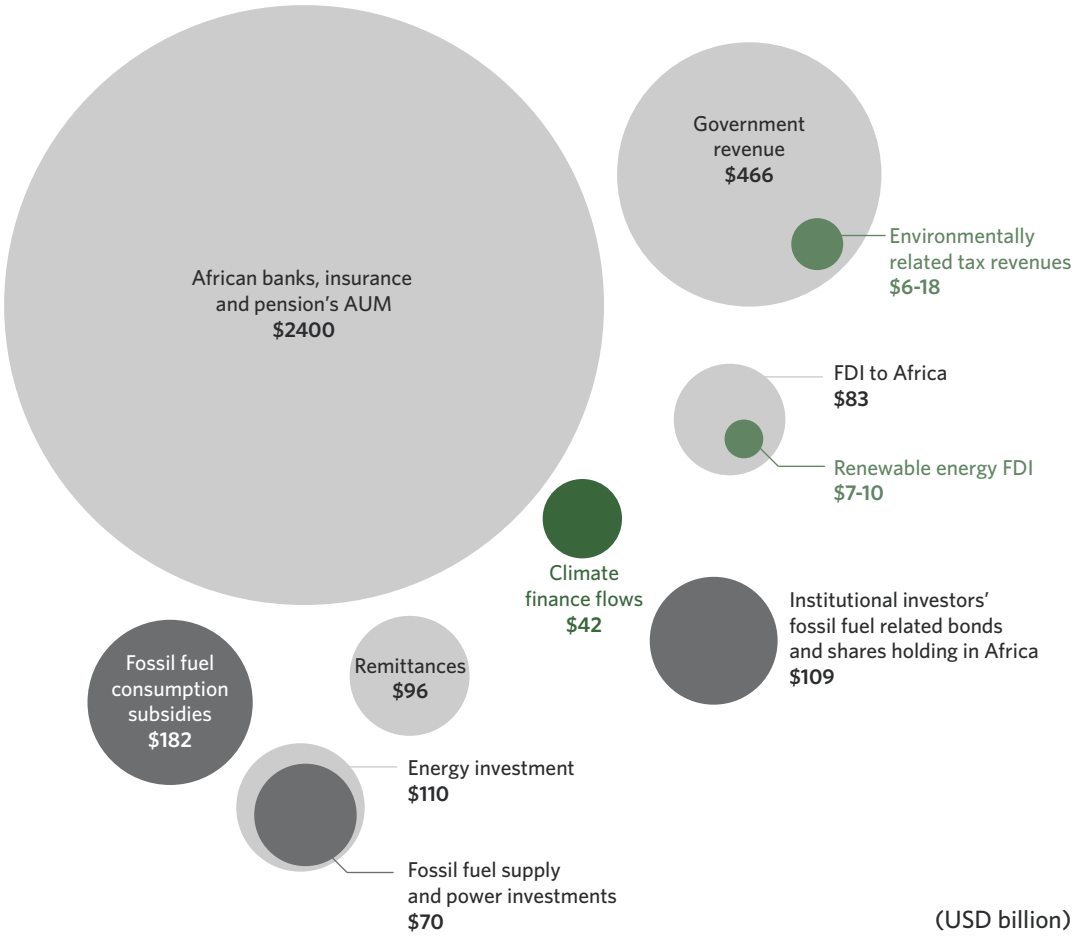
Figure 3: Climate finance flows in Africa



Only 23% of the estimated annual finance required for Africa to implement its NDCs and meet its 2030 climate goals is currently being met. Africa's climate finance needs are estimated at just under USD 2 trillion until 2030 (approximately USD 190 billion per year).[12] These needs are required to achieve countries' national climate targets as outlined in their latest NDCs and encompass both domestic financing and international support from public and private sources (CPI, forthcoming). This differs from the data presented in the 2022 Africa Landscape report, primarily due to changes in South Africa's updated NDC, released in 2022. The updated NDC significantly reduced the country's mitigation needs compared to the first NDC.[13]

In order to address this gap we need to focus on both scaling up public and private investment into climate-smart infrastructure but also re-directing climate-harmful expenditure. Despite progress, Figure 4 shows that investments in fossil fuel supply and power, as well as subsidies for fossil fuel consumption, are at least 1.6 times and 4 times higher, respectively, than overall climate finance flows.

Figure 4: Climate flows in context

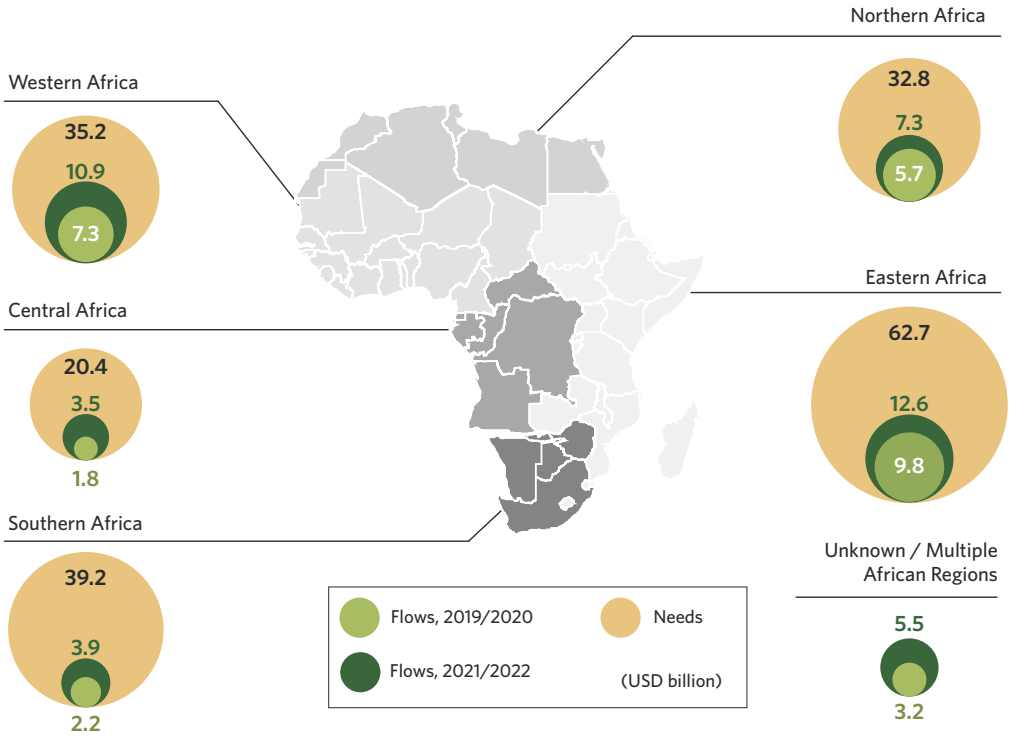


12 CPI's updated bottom-up climate finance needs estimates reflect CPI's updated methodology and incorporate countries' most recent NDCs. Differences in climate finance needs numbers from previous CPI publications are attributed to a combination of improved methodology and updated estimates provided by newly published official documents, which in some cases were lower than previously published estimates. For more information, more information will be provided in CPI's forthcoming bottom-up need methodology document and forthcoming analysis on climate finance needs.

13 The updated NDC significantly reduced the country's mitigation needs, especially in the transport sector. The original target of achieving 20% hybrid electric vehicles by 2030, requiring USD 488 billion, is not mentioned in the updated version. The mitigation needs in the updated NDC are specified at USD 60-64 billion over the next decade; however, no detailed sectoral breakdowns are provided (SA, 2022). At the time of writing, clarification has been sought to understand the needs and the sectoral calculation methodology.

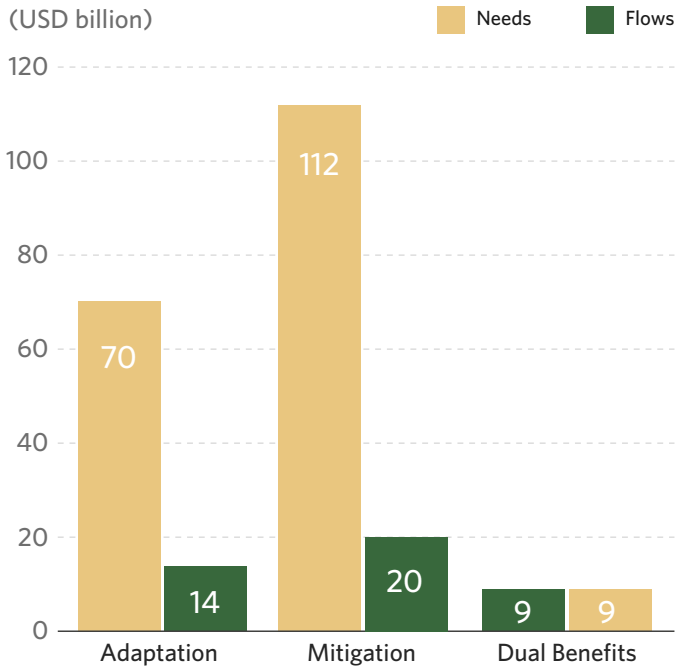
All regions remain significantly underfunded by at least three to six times, the largest funding gap is observed in Southern Africa, as shown in Figure 5. Across Africa, reported climate finance needs are concentrated in East Africa, representing 35% of the continent's total requirements. Most of East Africa's needs by 2030 have been reported by Ethiopia (50%), the region's most populous country. Southern Africa follows with reported requirements of 20%, of which South Africa alone accounts for 91%. West Africa, North Africa, and Central Africa's needs account for 18%, 18%, and 11%, of the continent's total reported requirements, respectively.

Figure 5: Climate finance flows and needs by subregions



Both mitigation and adaptation investment faced a deficit of around 80% in Africa 2021/22. However, the total reported annual needs for mitigation are higher than for adaptation, at USD 112 billion and USD 70 billion, respectively. A further USD 9 billion in investment is required for activities with dual benefits which was met. All regions across Africa report higher needs for mitigation than adaptation, apart from Southern Africa, where South Africa alone reports adaptation needs of USD 29 billion. If this country is excluded from the calculation, Southern Africa similarly reports higher needs for mitigation than adaptation. **While these figures help to indicate country requirements and priorities on climate investment, it is highly likely that both mitigation and adaptation needs are underestimated.**

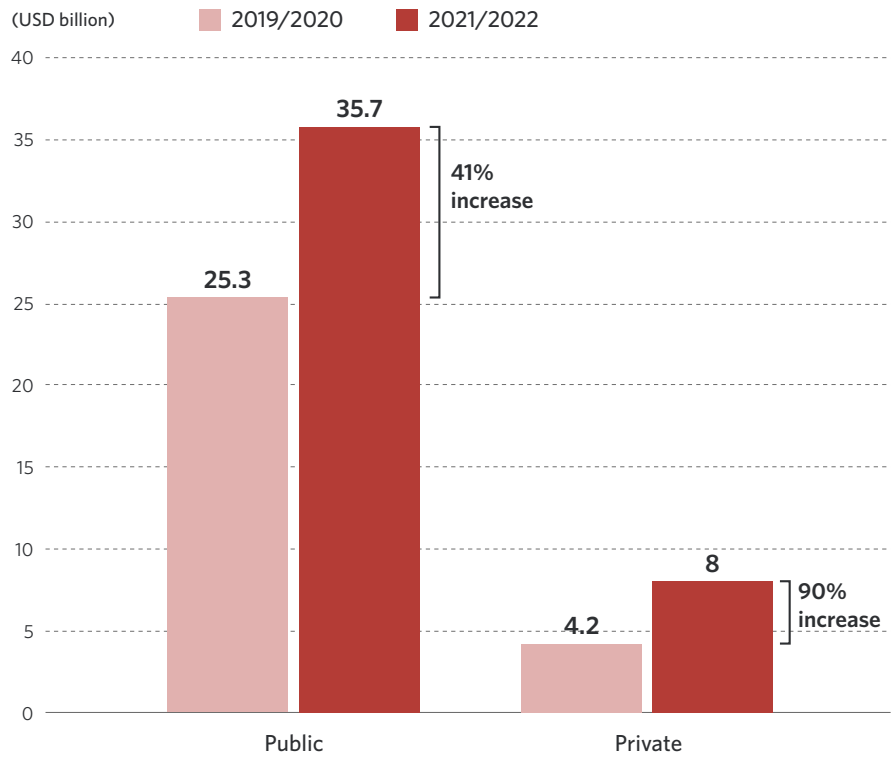
Figure 6: Climate finance flows and needs by uses in 2021/22



2.2 SOURCES OF FINANCE

Sections 2.2.1 and 2.2.2 provide detailed analysis of climate finance flows by public and private actors, respectively.

Figure 7: Climate finance by public and private sources



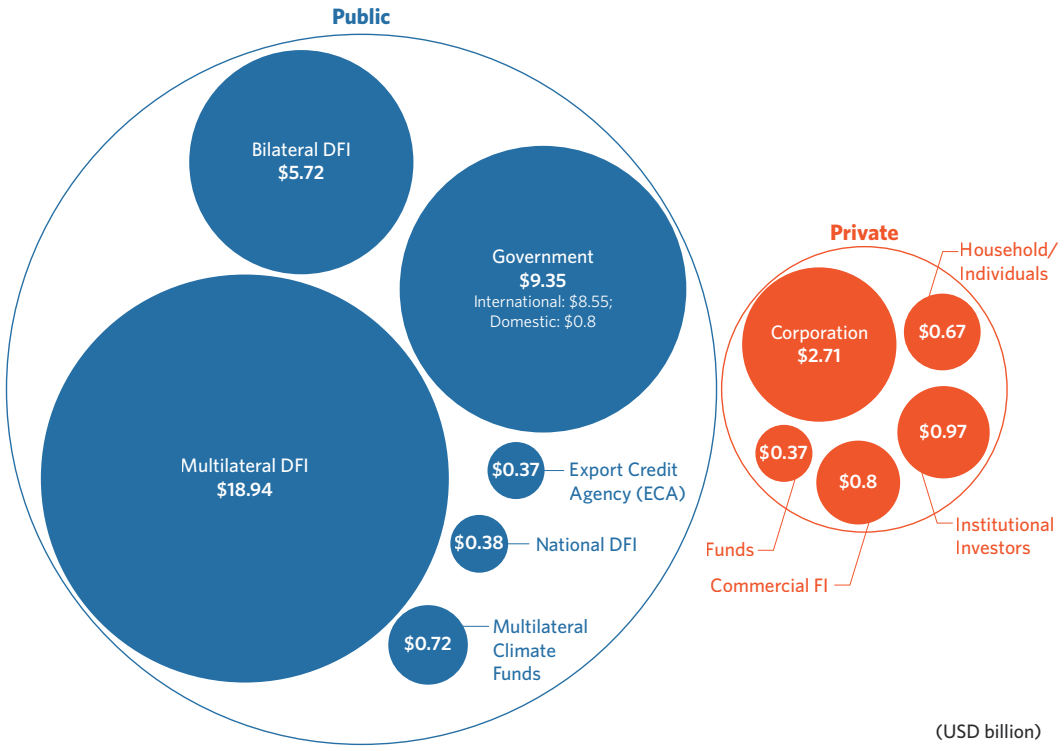
2.2.1 PUBLIC FINANCE

Public sources provide 82% of Africa's climate finance, with multilateral DFIs and bilateral providers[14] alone contributing 76% of all flows.

MULTILATERAL DFIS

Multilateral DFI finance has increased and become more diverse since the recent COVID-19 recovery. These DFIs remained the largest source of climate finance in Africa, making up 43% (USD 19 billion) of the continent's overall flows and 53% of public flows. Their finance increased from USD 11.6 billion in 2019/20 to USD 18.9 billion in 2021/22.

Figure 8: Climate finance sources in 2021-2022



Relative to other regions, multilateral DFI climate funding in Africa is well-balanced between mitigation and adaptation, which is especially important given the region's high vulnerability to climate change. Of these flows, 37% went to adaptation activities and 39% to mitigation. The

14 The category of bilateral providers refers to bilateral DFIs and international governments.

remaining 24% went to projects that support dual benefits, marking a sharp rise in such activities, including but not limited to agricultural solutions as well as technical assistance, including policy and national budget support and capacity building.

Multilateral DFIs channeled funding to sectors of key importance to Africa. These included energy (21%), AFOLU (20%), and other and cross-sectoral activities (30%), with the latter focused on policy and national budget support and capacity building (21%) as well as disaster risk management (11%). Beyond this, several multilateral DFIs launched the Africa Resilience Investment Accelerator (ARIA) in 2021 to improve African frontier markets' readiness to benefit from DFI investment and to enhance DFIs' abilities to invest in such economies by strengthening private sector investment and DFI collaboration (ARIA, 2024). More recently, DFIs have also engaged in capacity-building initiatives such as the Global Capacity Building Coalition to improve the region's investment readiness and strengthen enabling environments for further financial flows.

Africa's least-developed countries (LDCs) received 60% of multilateral DFIs' total climate finance and 68% of their adaptation finance.

Multilateral DFIs mostly used market-rate loans, low-cost loans, and grants in 2019/20 and 2021/22. While these actors boosted their dollar amounts of funding across all three instruments, there were slight shifts in the finance mix. The share of market-rate loans decreased from 47% to 40%, while grants rose from 21% to 25%, and low-cost loans rose from 30% to 34%.

BILATERAL DFIS AND INTERNATIONAL GOVERNMENTS

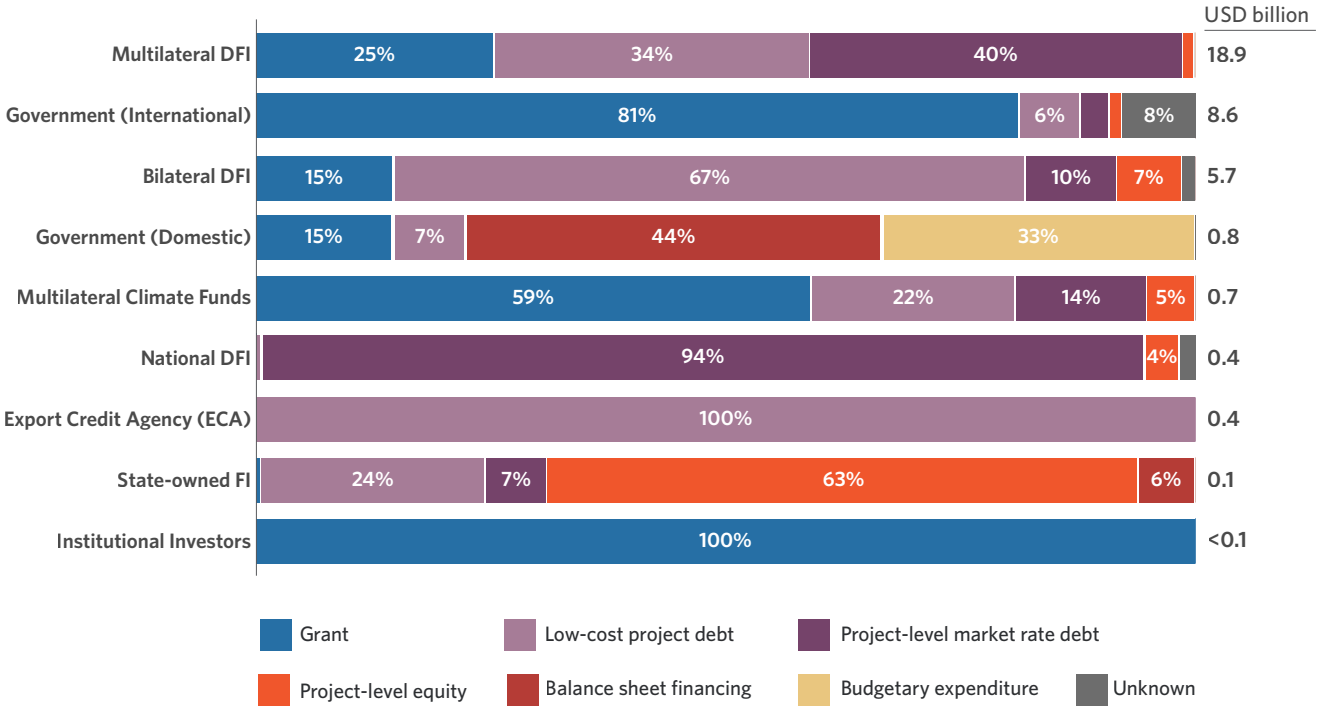
Bilateral DFIs and international funding from governments account for a further 13% and 20% of Africa's total climate finance, respectively. International governments prioritized climate finance to LDCs (75%), mostly via grants, while bilateral DFIs primarily used low-cost debt (67%).

Bilateral DFIs spent more on mitigation (49%) than adaptation (34%) in Africa, with a focus on renewable energy generation and an almost equal split between LDCs and developing countries. Bilateral DFIs invested primarily in energy systems (33%), with a heavy focus on solar PV and new power grids for renewables. They also directed a large share of their funds to cross-sectoral activities (31%), primarily comprising financial services and business (7%) and COVID-19

response (3%). Other sectors included transport (11%), AFOLU (9%), and water and wastewater (9%). Bilateral DFIs primarily channeled funds via low-cost debt (67%), followed by grants (15%), and market-rate debt (10%). These proportions varied by country income group, with grants comprising 25% of bilateral DFIs' flows to LDCs but just 5% to developing countries.

International governments prioritized climate finance for LDCs (75%) in comparison to non-LDCs (25%), using grants as their primary instrument of funding. Grants made up 85% of their investments in LDCs and 69% in non-LDCs. International governments invested heavily in other and cross-sectoral activities (45%). Within this spending category, they prioritized policy, national budget support and capacity building (11%), resilience building (9%), health (5%), and biodiversity, land, and marine conservation (5%). Other key recipient sectors included AFOLU (19%) and energy systems (16%). In LDCs, they focused more on adaptation (43%) than mitigation (22%), while developing countries saw a split of 36% to 38% (with the remaining share going to dual-benefit activities).

Figure 9: Public climate finance by actor and instrument in 2021/22



MULTILATERAL CLIMATE FUNDS (MCFS)

MCFs contribute less than 2% of Africa's total climate finance, mainly as concessional finance[15] (81%) and mostly directed to LDCS.

15 Concessional finance from MCF is mostly provided as grants (59%) and low-cost debt (22%).

Multilateral climate funds (MCFs) contributed to around 2% of overall climate finance in Africa in 2021/22, amounting to USD 716 million. This was split between mitigation (40%), dual-benefit (39%), and adaptation activities (21%). While MCF contributions are small in terms of overall flows, they play an important catalytic role by working with multilateral, regional, and national development banks to build markets and mobilize private finance to drive systemic change. Another key element is the funds' use of highly concessional resources to help de-risk and reduce the cost of capital, aid policymaking, and support project planning, preparation, and implementation. Despite their important roles in the climate finance architecture, the funds are riddled with issues due to the complex and lengthy processes emanating from governance and operational challenges leading to issues in accessing finance by recipient countries, the lack of national direct access or accredited agencies, especially in regions like Africa and biases toward larger international entities (IIED, 2024; G20 2024).

Most MCF finance to Africa was concessional (81%), in the form of grants (59%) and concessional debt (22%). Given the scarcity of concessional funds, this support is vital for an effective climate transition in LDCs, which receive 74% of MCF flows. While MCFs set targets to mobilize private finance through co-financing, these may vary significantly based on the fund, sector, and context of intervention, including the type of financial instrument and target technology. Moreover, MCFs also recognize that co-financing is not the only lever for maximizing climate impact, especially in LDCs, where private investment may not be scalable at present in certain climate-critical sectors. Hence, they fund an array of activities across AFOLU (41%), energy (39%), and other cross-sectoral initiatives (15%), such as disaster risk management and national budget support and capacity building.

BOX 1: MOBILIZED PRIVATE FINANCE FOR AFRICA: AN AREA OF FURTHER RESEARCH

Given the huge financing gap for climate action in Africa, international public climate finance must be deployed effectively to scale up private finance mobilization. However, different definitions, institutional coverage, instruments, and measurement methods hinder a clear and consistent picture of how much private finance is mobilized through blended finance (ODI, 2019). This analysis draws on data aggregated by the OECD(2016–2021) on private climate finance mobilized by developed countries for developing nations (OECD 2023). However, due to the confidentiality of private investments, the data is not available at the activity level, making it difficult to match private finance mobilized to specific public development finance in the other data gathered for this report. Therefore, it is difficult to estimate leverage ratios or blended finance proportions. Nonetheless, some of the key insights underscore the challenges Africa is facing in mobilizing private finance and warrant more in-depth analysis.

Private finance mobilized by multilateral providers in Africa decreased between 2019/20 and 2021/22. This contrasts starkly with Asia and the Americas,[16] which saw large increases over the same period.

16 Primarily Latin America and the Caribbean countries.

Bilateral and multilateral funders together mobilized USD 4.6 billion in climate finance for Africa in 2019/20 and USD 3.8 billion in 2021/22. The decline primarily stems from a 36% decrease in multilateral organizations' mobilization, while bilateral providers showed a 38% increase. After more than halving in 2021 compared to 2020, mobilized private finance in 2022 reached USD 2.6 billion, remaining at levels similar to those of 2018.

Figure 10: Mobilized private climate finance by multilateral and bilateral providers and region

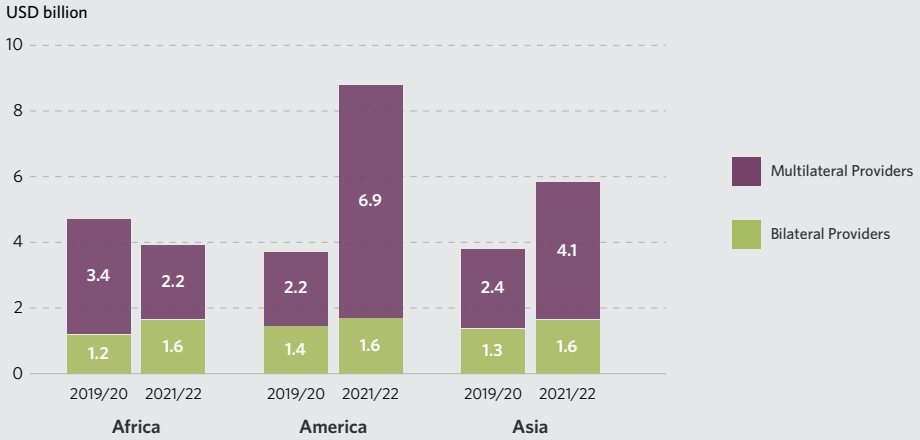
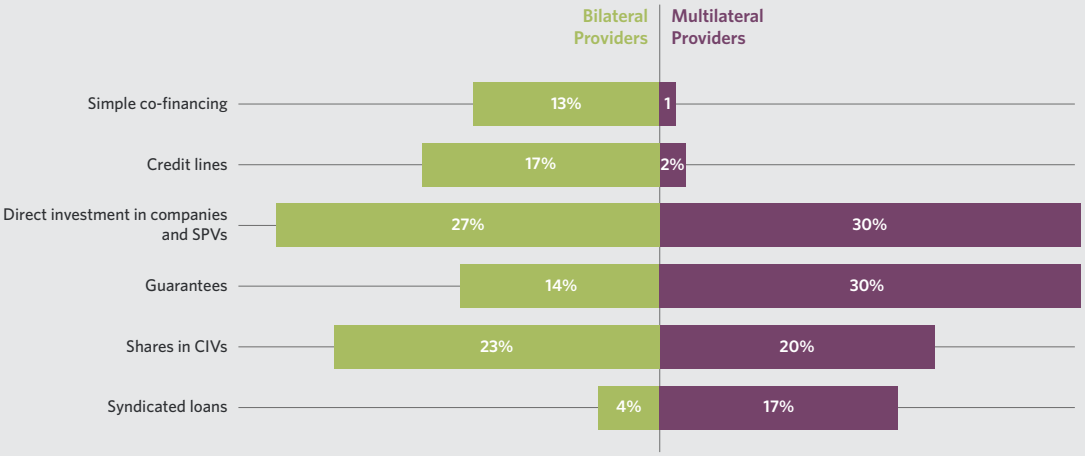


Figure 11: Mobilized private climate finance by multilateral and bilateral providers and instrument type



Source: OECD Data Explorer

Various leveraging mechanisms were used to achieve these figures: direct investments in companies and special purpose vehicles (30%), guarantees (23%), shares in collective investment vehicles (21%), syndicated loans (12%), credit lines (8%), and simple co-financing (6%). Different public finance providers vary in the mechanisms they use, reflecting their distinct mandates and the different country and sectoral contexts.

OTHER PUBLIC ACTORS

Another key stakeholder group in Africa's climate finance landscape is national development banks (NDBs). These banks are mandated to provide long-term concessional capital to high-risk sectors that are typically outside the purview of the private sector. They also provide project appraisal, technical assistance, and project support. Africa has 95 development banks, amounting to 21% of the world's national and regional banks. Prominent players include the national banks of Egypt, Morocco, and South Africa, along with the regional African Development Bank and African Export and Import Bank. The tracked climate finance provided by NDBs in Africa remains limited and most African NDBs are small and undercapitalized; African national and regional development banks account for only 1% of the world's development bank assets (LSE, 2021). NDBs can play a key role in Africa's climate finance architecture by leveraging their longstanding relationships with public and private sector entities, collaboration with MDBs, understanding of domestic markets, ability to access international markets for funding, and ability to deploy risk mitigation instruments such as guarantees in local currencies (UNECA, 2024). Hence, there is a need to strengthen the African NDB architecture to consolidate and scale up this fragmented ecosystem such that it increases the capacity of these banks to mobilize long-term finance and de-risk climate projects.

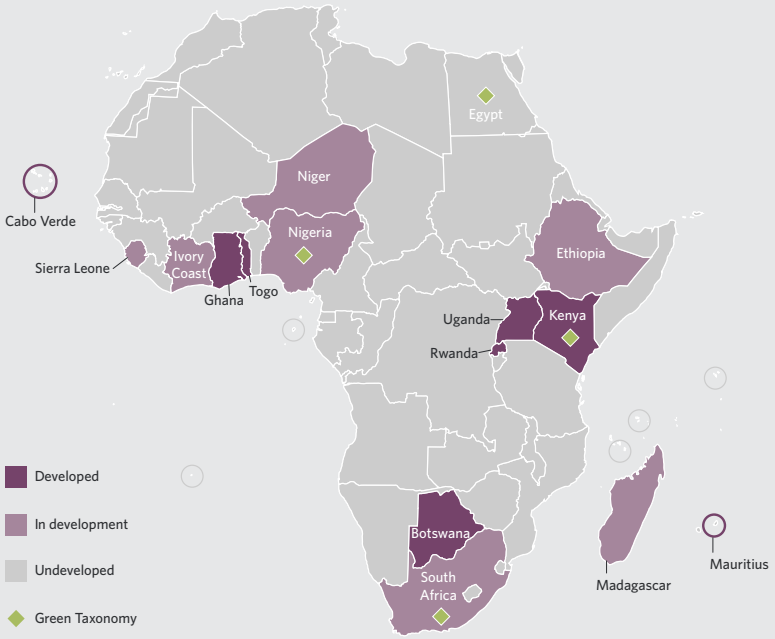
Africa's transition to a low-carbon and resilient development pathway cannot happen without significant mobilization of resources from Africa's own institutions. Achieving a step change in Africa will require efforts from a wide range of public and private actors and can be the missing piece that bridges the gap between needs and flows.

National DFIs, domestic governments, and state-owned financial institutions make up only 4% of Africa's public climate finance. Tracking domestic government climate spending remains particularly challenging due to ongoing inconsistent budget tagging across countries (see Box 2).

BOX 2: DEVELOPING A CLIMATE-COMPATIBLE FINANCIAL SYSTEM: CLIMATE BUDGET TAGGING AND GREEN TAXONOMIES

Climate Budget Tagging (CBT) is evolving across African countries, with 17 at varying stages of development, implementation, and reporting, while the remaining countries have not yet adopted CBT. Nine have some form of CBT process and system in place, integrating climate-related budgets into their national budget systems (see Figure 12). However, only a few of these countries report periodically and provide limited project-level information. Another eight African countries are developing methodologies and/or piloting CBT. Countries that conduct some form of climate finance tracking represent less than half of Africa's GDP—those with developed systems cover 8.6%, and those in the development or pilot phases cover 33%.

Figure 12: State of Climate Budget Tagging and Green Taxonomy in Africa



Source: Author's compilation from multiple sources on a best-effort basis, See Annex A for more details.

For African countries facing fiscal pressures and the need for sustainable development, understanding budget expenditure is a crucial first step for effective allocation. Strategically allocating resources in alignment with climate goals and enhancing the transparency of domestic budgets can help mobilize both private and international finance. However, a lack of resources, technical expertise, and standardized approaches, as well as a lack of buy-in from ministries of finance and/or national treasuries, hinder effective climate budgeting across African ministries and agencies. Increasing awareness and capacity via technical and financial support from international institutions can help national governments to incorporate climate change into their planning and budgeting. Some tools available for countries include the OECD's Green Budgeting Resources (2021) and practices across OECD countries (OECD, 2023 and 2024), the EU Green Budgeting Guidance (2021), the UNDP Global Climate Public Finance Review (2022), and Ghana's CLIMFINTRACK (Ghana, Ministry of Finance, 2020).

Green taxonomies are another core enabler for tracking and reporting public expenditure in order to stimulate the allocation of capital to support climate-resilient economies. South Africa (South Africa National Treasury and IFC, 2022), Kenya (CBK, 2024), Egypt (Egypt MoF, 2022), and Nigeria (CBI et al., 2021) have already developed their own green or sustainable taxonomies (see Figure 12). Other countries are also in the planning stages; for example, Morocco is moving to prepare a green taxonomy (IMF, 2023). However, the rapid emergence of different green finance taxonomies can lead to market fragmentation, highlighting the need for interoperability to facilitate trade and prevent exclusion caused by regulatory barriers such as the EU's Carbon Border Adjustment Mechanism. Developing common frameworks, guidance, and best practices on green taxonomies for Africa would enable interoperability of these frameworks across African countries and facilitate trade and international capital flows for climate projects. Europe (EC, 2024), ASEAN (ATB, 2021, 2024a and 2024b), and Latin America and the Caribbean (UNDP, 2023) are all at relatively more advanced stages of developing regional taxonomies, which can provide valuable insights for Africa.

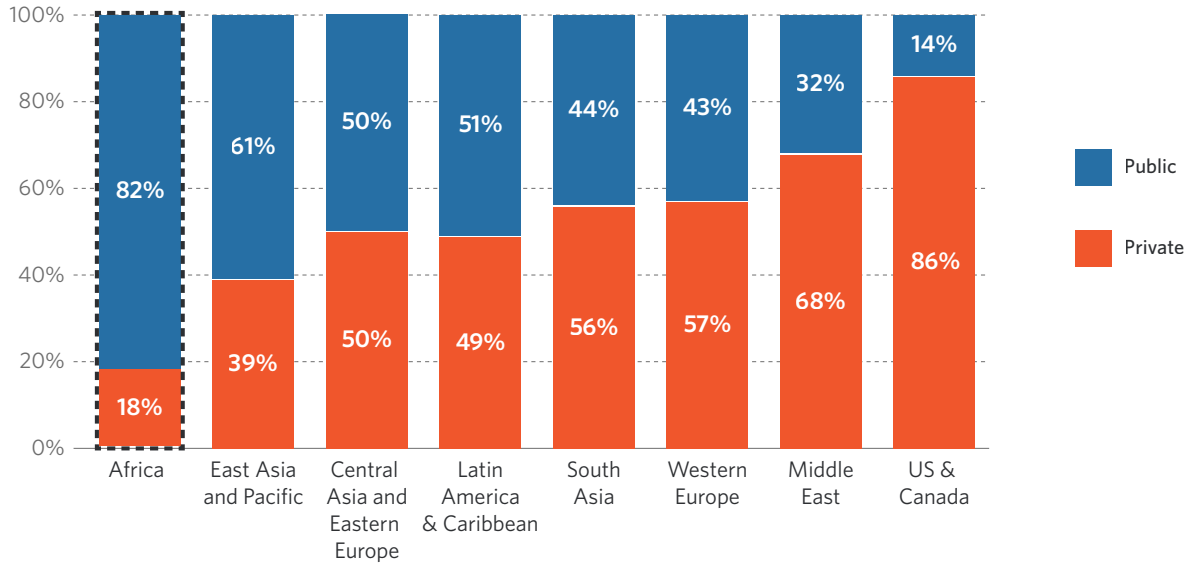
2.2.2 PRIVATE FINANCE

Growth in private climate finance across African nations is key to translating missed opportunities into economic growth, development, and resilience.

Too much of Africa's investment potential remains untapped. This is despite a clear rationale for investment; nine of the world's 20 countries with the fastest projected rates of growth are in Africa (Carnegie Endowment, 2024). The continent also houses 60% of the world's best solar resources (AfDB, 2022a), making it a compelling candidate for green investment. Even with this breadth of opportunity, both private domestic and international investment remain limited. In 2022, Africa only received 3.5% of global foreign direct investment (UNCTAD, 2023). A large portion of this limited investment has historically gone to extractive industries, though investments are now diversifying (USDA 2022). Timely action on addressing the barriers to investment in Africa outlined in this section can arrest deteriorating trends in private finance and unlock a long-awaited uptick, enabling widespread economic, social, and environmental benefits for the continent.

Private climate finance almost doubled in Africa between 2019/20 and 2021/22, reaching USD 8.0 billion. Private climate finance on the continent is consistent with the upward trends observed globally, with volumes nearly doubling since 2019/20. However, this accounts for just 18% of Africa's total climate flows, a far lower share of climate flows than any other global region (see Figure 13). **The distribution of private climate finance in Africa also reveals startling disparities,** with ten countries alone receiving 76% of the total: South Africa (25%), Egypt (16%), Nigeria (10%), Kenya (7%), Ethiopia (5%), Morrocco (3%), Burkina Faso (3%), Tanzania (3%), Zimbabwe (2%) and Ghana (2%)

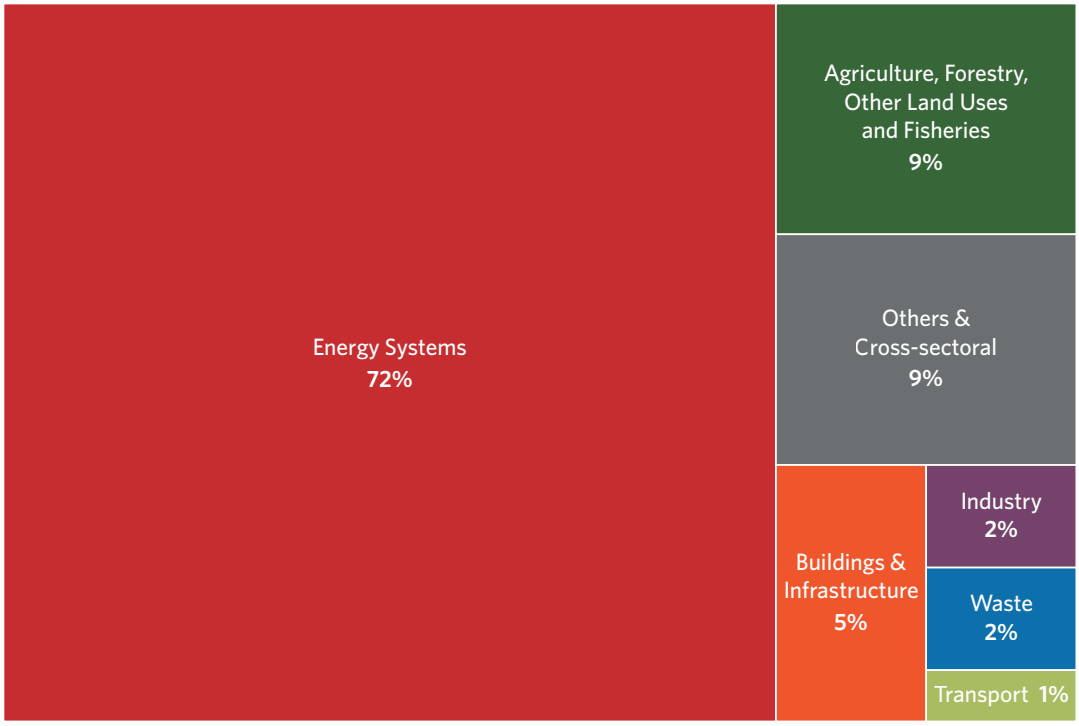
Figure 13: Share of private climate finance to total climate finance by region in 2021/22



The main climate finance providers from the private sector were corporations (34%), commercial FIs (10%), grant-making philanthropies (10%), households/Individuals (8%), infrastructure funds (5%), and institutional investors (2%), while 31% were unknown[17] (discussed below). The vast majority of private climate expenditure (80%, or USD 6.4 billion) went to mitigation projects. Adaptation and dual benefits account for only 9%[18] and 2% of Africa's total private climate finance, respectively (see Section 2.2.7). Private finance was spread evenly across domestic (40%) and international (41%) sources.

Africa's private climate finance is also mostly concentrated in energy systems (see Figure 14), reflecting the vast energy generation potential. While greater private investment is needed across all sectors, energy will play a singularly important role in absorbing private climate capital in Africa. Infact, some three-quarters of all increased energy investment is required by clean energy in 2024; much of this will need to come from private sources (IEA, 2024b).

Figure 14: Private climate finance by sector in 2021/22



Note: *Water & Wasterwaster and ICT are less than 1%*

Barriers to private climate finance in Africa have been tough to overcome, leading to routine underinvestment even in the continent's fastest-growing economies. Some of these barriers represent genuine issues for investors that can be addressed through concerted action from national governments, international development funders, and financial institutions (see

17 Flows in the 'unknown' category primarily stem from OECD private finance mobilized data, where the type of private actor is not disclosed, as well as confidential GOGLA off-grid transactions.
18 The remaining 9% (USD 700 million) is tagged as 'unknown'. This is due to either the need for more granular project-level information to categorize its use or the existence of specific dual-benefit investments.

Section 3). However, this issue also stems from outdated perceptions of the risk and investment potential in African countries, which can be confronted by sharing information and success stories in Box 3.

BOX 3: DEMYSTIFYING AFRICA'S PERCEIVED CLIMATE INVESTMENT RISKS

Lack of access to private capital has been a particular hindrance to climate-aligned development in Africa. Overstated or outdated perceptions of financial risk in African countries cause them to face higher costs of capital than others with similar sovereign credit ratings (BCG, 2024). Despite historical debt volatility and higher initial default rates, assessing Africa as a monolith is misguided. For example, South Africa and Kenya have more stable financial systems and lower default risks than other countries that are characterized by higher political and economic instability, such as Zimbabwe or Mozambique. Additionally, North African countries like Morocco and Egypt often have stronger credit profiles than many sub-Saharan nations due to more diversified economies and established financial markets.

Publicly available data from the Global Emerging Markets Risks Database Consortium (GEM) provides a more nuanced perspective on credit risk in the region. GEMS, comprised of 25 MDBs and DFIs, has shed light on loan default and recovery rates in Africa. GEMs' pooled credit-risk data shows that private counterparts in sub-Saharan Africa have higher default rates than their global peers, but that these are counterbalanced by higher recovery rates (post-default). Moreover, as observed in an 2024 IFC report on default rates in emerging markets, the higher historical default rate from African counterparties stems to a large degree from investments pre-1996 (IFC, 2024). In addition, analyzing loan performance across asset classes helps to challenge Africa's credit risk perception and highlights investment opportunities. For example, Moody's Analytics shows Africa's 10-year cumulative default rate for infrastructure (1.9%) was the second lowest globally—less than half of Western Europe's (4.6%) (World Bank 2020).

Despite these positive signs, only 9% of the total financial support from MDBs and DFIs—through contracts, loans, and credit agreements—went to Africa between 1994 and 2022 (see Figure 15).

Figure 15: Comparison of recovery rates and exposure between regions (average 1994-2022)

The publishing of the GEMs credit risk data is a step in the right direction, and making more disaggregated data on regional risk metrics publicly available can further help to mobilize private capital in African countries. For instance, global average default rates for GEMS to private counterparts (3.5%) have been mostly consistent with Moody's B3 (4%) and S&P B (3.4%) credit ratings, even across financial crises. A further breakdown across regions and countries could help to remedy outdated risk perceptions and make this information more useful to investors.

DOMESTIC CAPITAL MOBILIZATION

Finance from domestic actors made up only 10% of Africa's total climate finance (USD 4.2 billion), 75% of which came from private finance. Increasing the proportion of domestic capital in Africa's climate finance landscape can mitigate the negative impacts of exchange rate fluctuations and afford countries greater autonomy over their development trajectories. Through the issuance of domestic debt by businesses and public institutions, countries can reduce their exposure to the impact of global shocks (such as the war in Ukraine) and their reliance on increasingly scarce and unpredictable aid flows. Focusing on the private sector, promising routes to domestic capital mobilization include increased green investment from institutional investors such as pension funds, expansion of financial inclusion from domestic commercial banks, and public-private partnerships with domestic businesses.

Mobilizing climate finance requires an all-hands-on-deck approach, with pension funds, commercial banks, asset owners, and insurance providers all increasing their commitments across the continent.

Existing domestic private finance can unlock the required climate finance. Private domestic assets-under-management (AUM) were estimated at USD 2.4 trillion in 2020 and are projected to rise to USD 6.4 trillion by 2040 (Blended Finance Taskforce, 2024).[19] Pension fund assets, in particular, represent one of the most promising untapped sources for Africa's domestic capital mobilization. While African pension funds' AUM were estimated at USD 0.5 trillion in 2020, they are projected to triple to USD 1.5 trillion by the end of the next decade (Blended Finance Taskforce, 2024). Countries including South Africa, Botswana, and Namibia have high pension AUM-to-GDP ratios, demonstrating the significance of these assets in their economies (Bright Africa, 2020). This large pool of capital is well-suited to some of the big infrastructure developments needed for Africa's energy transition. Large-scale energy infrastructure that is well-adapted to current and future climate risk will require long-term investment and stable cash flows, thereby making these projects an optimal choice for pension fund managers in Africa.

With pension fund AUMs expected to triple in size over the coming decades, there is an important opportunity for increased domestic private climate finance in Africa. Increasingly, government securities do not offer the risk-return that institutional investors, including pension fund managers, are looking for. This means that there is a growing share of a growing pot of pension fund assets potentially available for green investment. The direction of these funds into climate investments will require growth in the pipeline of large-scale, derisked project opportunities. Addressing current barriers such as investor confidence, issues with project preparation and lack of standardization across investment opportunities can help channel capital from domestic institutional investors into climate-smart financing.

As pension funds in developed economies face the need to diversify and divest in response to physical and transition climate risks in their portfolios, emerging pension funds in Africa have a unique opportunity. They can circumvent these challenges by prioritizing sustainable investments from the outset, ensuring portfolios are resilient to increasingly volatile climatic conditions. However, limited investments and lack of regular reporting of climate finance data by such institutions result in an incomplete assessment of their current climate financing domestic private climate finance.

Similarly, domestic banks with experience in rural lending are strong partners for international development funders and other institutions interested in co-financing. Commercial banks could play a much stronger role in Africa's adaptation landscape, providing preferential lending terms for resilience products and services and implementing frameworks to ensure all debt financing addresses current and future climate risk. Action from a wide variety of private finance actors (as outlined in Table 2) will be needed to mobilize the required capital for Africa's climate transition, including insurers (Section 2.5.2).

19 The estimates of private domestic AUM can be grouped into bank assets, pension fund assets and insurance assets.

Table 2: Domestic private finance actors in Africa and their risk return profiles

Investor type	Potential[20]	Climate Risk Exposure	Risk Tolerance	Return Expectations	Examples
Commercial banks	High	High	Low	Medium	**Africa Rural Climate Adaptation Finance Mechanism**: Equity Bank Kenya is co-financing a loan facility with IFAD to provide loans to rural agri-MSMEs in Kenya, Uganda, Tanzania, and Rwanda to adapt to climate change. IFAD and its funders are part-financing the facility's first- and second-loss tranches.
Asset managers	Medium – High	Medium	Medium	Medium	**The Gaia Africa Climate Fund,** launched by Gaia Fund Managers, aims to provide a secondary market for renewable energy investors in Africa to sell their equity holdings upon project completion. This could help investors build strong exit strategies, enabling capital recycling and increasing confidence.
PE and VC	Medium	Low	High	High	**Novastar Ventures (Nairobi)** has invested in clean technology enterprises including solar solutions company SolarNow in Kampala, which has given almost 1,500 farmers energy access, and BasiGo, an e-mobility startup.
SMEs	Low	High	Medium	High	**Coamana's** digital platform provides market access and data to 15,000 smallholder farmers in Nigeria, thereby increasing incomes through improved prices and reduced costs. Extra funds can be invested in climate adaptation practices or provide a buffer in the event of adverse weather events.
Pension funds	High	Low	Low	Medium-High	**South Africa's Public Investment Corporation** has a growing renewable energy book and estimates that its solar and wind investments have added up to 2,500 MW to the grid.
Insurance	Medium	High	Low	Low	**ACRE Africa** (Nairobi) provides index-based insurance to smallholder farmers to build resilience against hazards, including extreme weather. It also supports capacity building and access to credit.
Domestic corporations	Medium	Medium	Medium	Medium	**Sasol**, a listed South African chemicals and energy firm, plans to reduce Scope 1, 2, and 3 emissions, with 2030 targets. It is funding R&D for technologies, including green hydrogen, and has signed agreements for renewable energy installations at its industrial sites.
Consumers / households	Low	High	Medium	Medium	**ENGIE Energy Access** has provided solar home systems to over 1.25 million people in Benin, which are paid off over time or through pay-as-you-go plans.

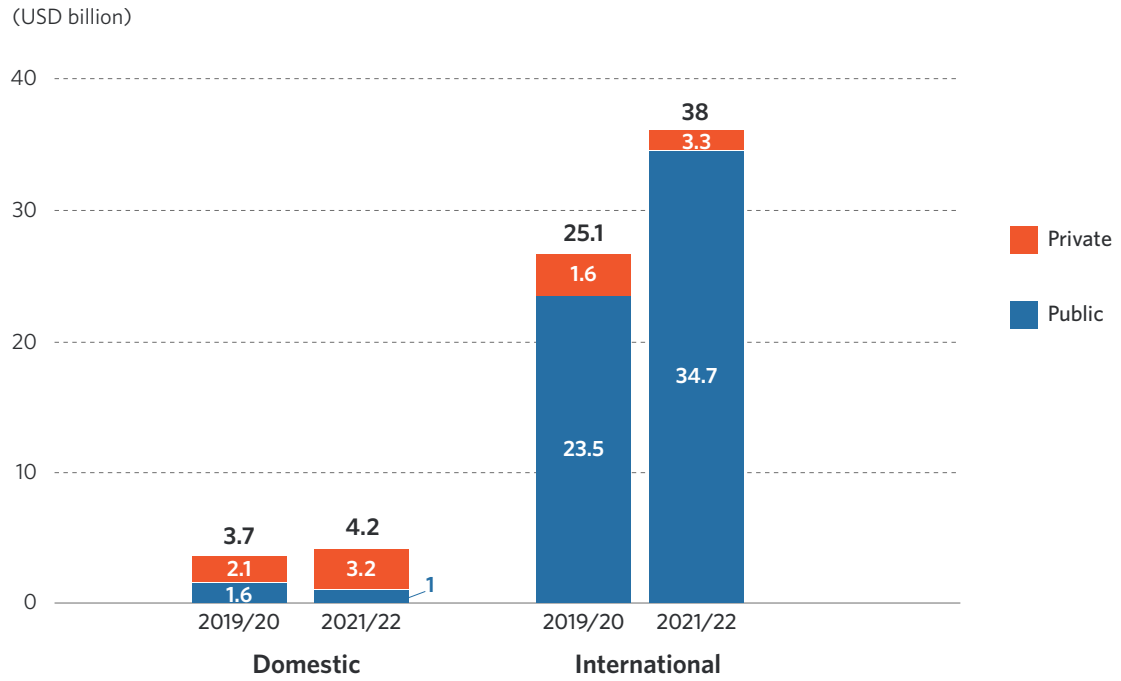
20 Size of Assets Under Management is used as a proxy for potential.

2.3 GEOGRAPHIES

International sources provided 87% of Africa's tracked climate finance, highlighting the region's ongoing domestic resource and capital mobilization challenges.

2.3.1 INTERNATIONAL AND DOMESTIC

Figure 16: Climate Finance Flows by international and domestic



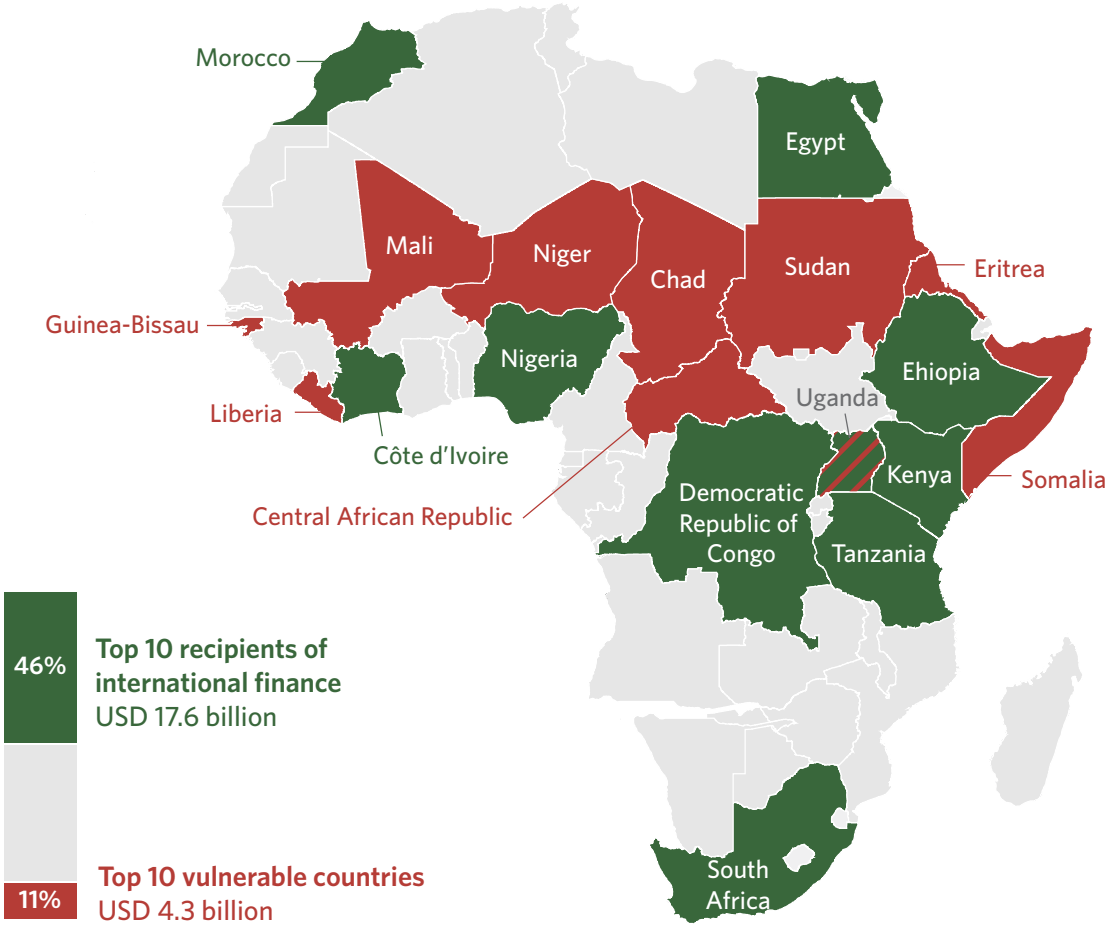
Note: *Flows in the unknown category mainly stem from OECD private finance mobilized data, where project-level data is not available.*

Of the USD 38 billion in international climate flows to Africa in 2021/22, most came from public sources including multilateral DFIs (50%), overseas governments (23%), and bilateral DFIs (15%). While international private finance is significantly smaller but is growing more rapidly, increasing from USD 1.6 billion in 2019/20 to USD 3.3 billion in 2021/22. In contrast to international flows, private financiers fund most of Africa's domestic climate action. Of the USD 4.2 billion in climate finance raised and spent domestically, 75% came from the private sector and 25% from public sources, mainly allocated to the energy system. Although domestic finance increased by 13% compared to 2019/20, the overall share of domestic finance dropped from 13% in 2019/20 to 10% in 2021/22. This highlights the urgent need to mobilize more domestic resources (see Section 2.2.2 for details) and also points to the data gaps that continue to hinder the tracking of Africa's domestic climate flows (see Box 2 and Section 1.2).

Africa received more international finance on a per-capita basis than both South Asia and Latin America. However, international climate finance flows in Africa are distributed unequally: 10 countries receive 46%, while the 10 most vulnerable get just 11%.

Despite being highly climate-vulnerable, African countries received only 3.3% of global climate finance. In addition, international climate finance flows are heavily concentrated in a small number of African countries, with ten countries—Egypt, Nigeria, Ethiopia, Tanzania, Côte d'Ivoire, Morocco, South Africa, Democratic Republic of Congo, Kenya, Uganda—receiving 46% of total funding. This list, with the exception of Uganda, does not include any of the ten African countries that are the most vulnerable to the negative impacts of climate change,[21] which are Somalia, Chad, Niger, Guinea-Bissau, Eritrea, Sudan, Liberia, Mali, the Central African Republic, and Uganda. These ten countries receive only 11% of the finance, leaving them severely underfunded.

Figure 17: International Climate Finance Flows to Top 10 Recipients vs. Most Vulnerable African Countries



21 A country's ND-GAIN index score is composed of a Vulnerability score and a Readiness score. Vulnerability measures a country's exposure, sensitivity and ability to adapt to the negative impact of climate change. See: https://gain-new.crc.nd.edu/ranking/vulnerability

On a per capita basis, Africa, being the second-most populous global region, also received the highest amount of international climate finance (USD 94.7) among EMDEs. In contrast, South Asia and East Asia, also populous regions, received USD 13.5 and USD 19.8 per capita, respectively. However, the distribution of this finance is uneven within Africa. LDCs and Small Island Developing States (SIDS) received relatively small amounts, with average per capita figures at USD 31.7 and USD 41.8, respectively. While in absolute terms, 61% of the international climate finance in 2021/22 went to LDCs, amounting to USD 23.0 billion, it still falls short of meeting their urgent needs.

The average project size in Africa is less than USD 2 million, lower than other EMDE regions like East Asia (USD 24 million), South Asia (USD 5 million), and Latin America and the Caribbean (USD 4.6 million). This highlights Africa's challenges in supporting large-scale projects due to factors like limited access to private capital, less developed regulatory frameworks, higher perceived risks, and a less mature pipeline of bankable projects, compounded by limited absorption capacity. It also underscores that climate projects in Africa are often more localized and community-focused, such as small-scale renewable energy, agricultural adaptation, and water management initiatives. International investors need to take these local dynamics into account when considering climate finance in the region.

2.3.2 SOUTH-SOUTH COOPERATION[22]

In 2021/22, USD 2.1 billion (5% of Africa's climate flows) was committed by African countries, mainly through their attributed contribution to multilateral DFIs and also bilateral DFIs. Regional MDBs, such as the Africa Finance Corporation (AFC), Trade and Development Bank (TDB), and West African Development Bank (BOAD), play a special role in driving climate finance initiatives across the continent. While such flows cannot substitute for North-South climate finance, they provide contextually relevant, flexible, and regionally integrated support that empowers recipient countries. Furthermore, several recent initiatives have significantly contributed to South-South climate cooperation, though they may not be reflected in the current figures. For example, the Arab Coordination Group (ACG) announced to allocate up to USD 50 billion to help build resilient infrastructure and inclusive societies in the African continent during COP28 (IsDB, 2023).

To leverage South-South cooperation, especially with China, Africa must shift from a recipient relationship to one of agency, proactively prioritizing and centering its own development path.

China remains the leading country in South-South climate cooperation with Africa, contributing USD 0.6 billion in 2021/22, or 15% of total South-South climate investment. However, this is likely underestimated, as Chinese investments are delivered from various financial institutions

22 For the purposes of this analysis, South-South climate finance is considered to be international finance committed to and by G77 countries (including China) for climate change mitigation and adaptation projects. This includes these countries' weighted contributions to multilateral financial institutions' climate projects, for example, those of the World Bank.

and ministries under a siloed structure (WRI, 2024a), and largely untagged for climate relevance. Of this tracked finance, 39% (USD 0.2 billion) was invested in the energy sector. Following China's 2021 pledge to halt overseas coal power projects, the focus has shifted toward renewable energy and green hydrogen markets. China pledged to launch 30 clean energy projects in Africa during the 2024 Summit of the Forum on China-Africa Cooperation (MFA, 2024). China-Africa climate cooperation remains largely public sector-driven, with 45% and 17% of funding channeled through multilateral DFIs and governments, relying on traditional financing models led by policy banks and backed by the China Export & Credit Insurance Corporation. While this approach works well for large hydropower and fossil fuel projects, it must evolve to accommodate the faster, smaller-scale nature of solar and wind energy projects, requiring more flexible financing (IIGF, 2023).

Leveraging the African Continental Free Trade Area (AfCFTA) for climate finance is another opportunity, given the growing share of climate investment from within Africa. In 2021/22, more than 51% of the South-South financial flows are now intra-continental, with growing DFI investments originating from Nigeria (USD 0.3 billion, or 8%), South Africa (USD 0.3 billion, 8%), and Egypt (USD 0.2 billion, 4%). The AfCFTA could provide a unified platform for Africa to strengthen its position on climate-related issues in multilateral negotiations, covering areas like technology transfer, food security, and finance. It could also facilitate the creation of continent-wide regulations, including those for harmonizing carbon emissions trading systems (Brookings, 2023). However, the current protocols scarcely include climate change or environmental provisions; these must be included in ongoing negotiations or a dedicated environmental and climate protocol developed (Brookings, 2023).

BOX 4: A TRILEMMA OF CRISES: CLIMATE-VULNERABLE, DEBT-DISTRESSED, AND CONFLICT-AFFECTED AFRICAN COUNTRIES

Twelve conflict-affected African states are also among the most climate-vulnerable, and debt distressed, positioning them at the epicenter of the climate crisis (IRC, 2023a).[23] These countries alone represent almost 50% of the world's people in humanitarian need[24] and 37% of all people affected by natural disasters over the last three years (COP28 Climate, Relief Recovery and Peace Declaration). For example, Somalia channeled over 95% of its revenue to repaying debt in 2022—the highest rate globally —preventing investment in systems that could address its catastrophic food security crisis. It has now received debt relief of USD 4.5 billion under the International Monetary Fund's Heavily Indebted Poor Countries initiative, reducing its debt-to-GDP ratio from 65% in 2018 to 6% in 2023, after a decade of cross governmental efforts spanning three political administrations (IMF, 2023). Grant financing is critical to avoid adding to mounting debt burdens. Nevertheless, in 2021/22, climate finance to Africa's 12 conflict-affected countries was split almost equally between grants (47%) and loans (43%).[25]

23 The following 12 African countries are included in the World Bank's FY24 List of Fragile and Conflict-Affected Situations and are also in the bottom 25% of the ND-GAIN Index, which summarizes a country's vulnerability to climate change and its readiness to improve its resilience: Burkina Faso, Cameroon, the Central African Republic, the Democratic Republic of Congo, Ethiopia, Mali, Mozambique, Niger, Nigeria, Somalia, South Sudan, and Sudan. All but Nigeria is also on the UN's list of Least Developed Countries (LDCs). Despite not being classed as an LDC, Nigeria is home to some of the world's largest pockets of extreme poverty.

24 Based on International Rescue Committee analysis on the 2024 Global Humanitarian Overview data.

25 Remaining 8% was in the form equity.

Channeling climate finance through governments in conflict-ridden and climate-vulnerable African countries needs a rethink in the NCQG and IDA21 replenishments; a one-size-fits-all strategy will be ineffective.

Climate finance tends to flow to where it is easiest to deliver—usually through national governments in stable countries—rather than where it is needed most. MDB climate finance and climate funds overwhelmingly prioritize long-term, large energy and infrastructure projects that contribute to national development plans, offer financial returns, and are implemented by central governments. . Long term investors are averse to risks in conflict settings and it is challenging to crowd in private capital when capital markets are constrained. Governments' capacity to channel climate finance is also often stretched or non-existent. Armed conflict and insecurity have resulted in projects being geographically restricted, paused, or suspended in multiple countries (IRC, 2023). Fragile and conflict-affected countries constitute a significant share of those with the highest ratio of undisbursed commitments from the IDA (World Bank, 2024c).

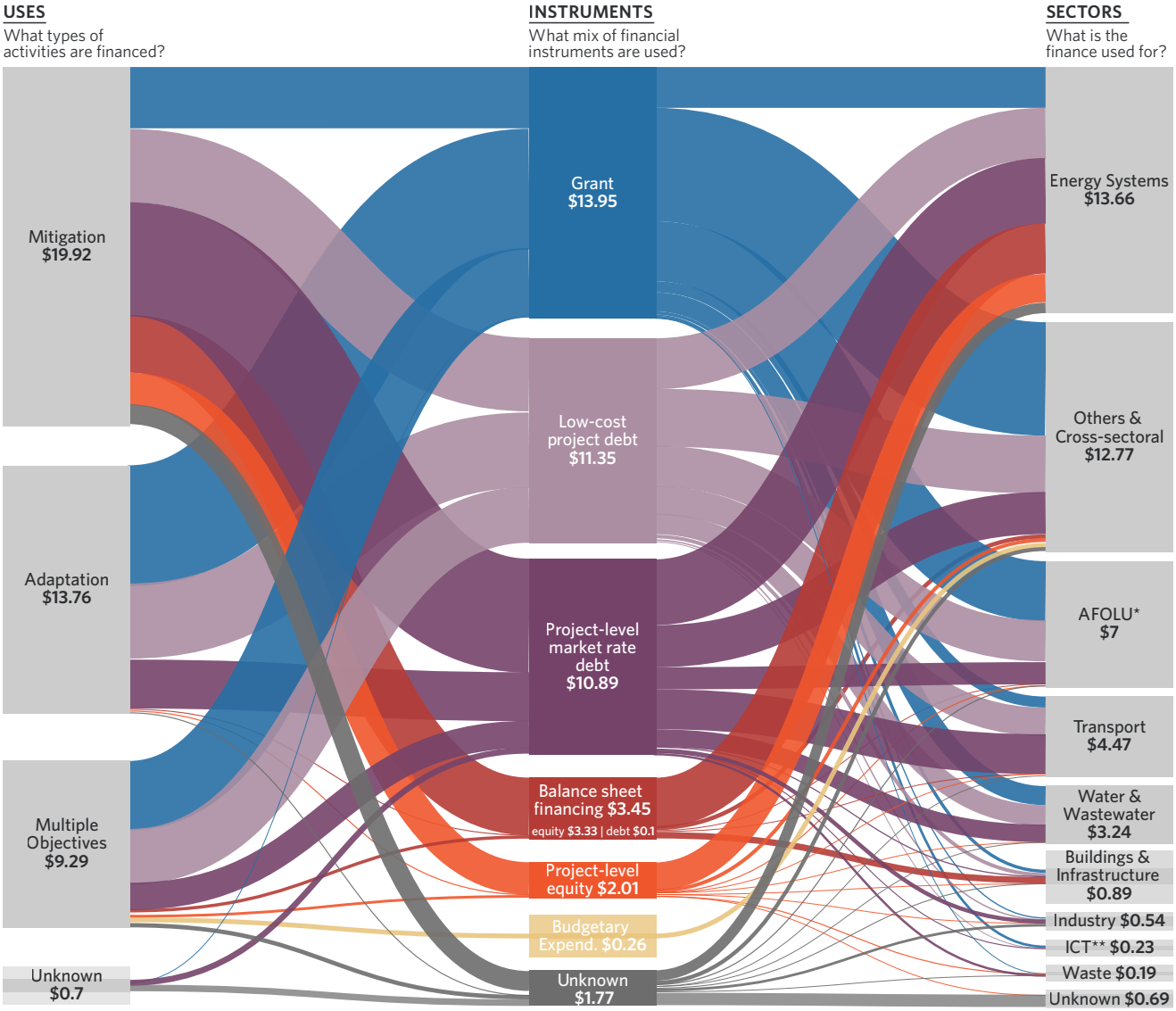
MDBs and climate funds should formalize partnerships with humanitarian and civil society organizations with access to conflict-affected populations, offering better risk mitigation and flexibility amid shifting needs during conflicts. Climate finance is largely inaccessible to local and civil society groups, who are often frontline responders in conflict-affected regions and lead small-scale local adaptation efforts. This is due to complex application and accreditation processes, inflexible and non-transparent procedures, and risk-averse financiers (ICRC, 2022). Current climate risk mapping often fails to account for the compounding impacts of conflict and fragility, underestimating the cascading effects on marginalized groups, such as people with disabilities, youths, and women. This leads to an inaccurate understanding of the climate response required.

The New Collective Quantified Goal negotiations offer an opportunity to channel funding to neglected, conflicted, and climate-vulnerable countries. The international climate community should set a specific target on climate finance for these countries and support them in developing improved NDCs and National Adaptation Plans (NAPs)[26] with harmonized estimates of climate adaptation needs (IRC, 2024) and assessments of intersecting risks down to the subnational levels. The IRC estimates the climate adaptation finance needs for climate-vulnerable, conflict-affected countries represent 18 percent[27] of the total adaptation finance needs for developing countries based on available NDCs and NAPs and recommend this as the benchmark for a NCQG sub-target. Adaptation actions should be directed to where they are most needed, not just where they are easiest to deliver. These should also include a target for gender-sensitive and gender-responsive support in line with the recommendation of the Generation Equality Forum that 88% of climate bilateral ODA finance should be gender-sensitive, with at least 15% of this having gender as its principal objective.

26 Of the 12 countries, all but Nigeria have quantified their adaptation needs in either a NAP or in their NDCs. However, a harmonized approach is needed to standardize methodologies and ensure that all include estimates of their adaptation needs.
27 IRC calculated the annual adaptation finance needs as specified in the available NDCs and NAPs of 12 climate-vulnerable, conflict-affected countries which represents $18.9 billion annually for 2021-2030, compared to data from the UNEP Adaptation Finance Gap Update report specifying 85 developing countries submitted costed adaptation needs for a total cost of $105 billion annually for 2021-2030.

2.4 USES AND SECTORS

Figure 18: Uses, instruments, and sectors in 2021/22 (USD billion)



*Agriculture, Forestry, Other land uses and Fisheries; **Information and Communications Technology

2.4.1 ENERGY

Transitioning away from carbon-intensive energy systems and expanding access to clean energy are priorities for Africa. Despite accounting for 20% of the world's population, Africa attracts less than 3% of global energy spending. Currently, 75% of Africa's electricity is provided by fossil fuels and approximately 600 million people in Africa—43% of its total population—are without access to electricity (AfDB, 2022a; IEA, 2022). The continent needs to install 300 GW of renewable energy capacity by 2030 to meet growing demand and transition to a low-carbon future. This will require the relevant actors to have access to sufficient financing.

Africa is well-placed to adopt renewable energy technologies due to its high suitability for solar energy, relatively large areas of available land, and rich reserves of critical minerals and resources that are essential for the energy transition. In fact, Africa accounts for 60% of the

world's best solar resources, with several countries also possessing high potential for wind and geothermal energy (AfDB, 2022a). However, the continent has only 1% of installed solar PV. A critical issue is the region's dependency on imports of renewable energy equipment due to a lack of domestic manufacturing capabilities resulting from inadequacy in energy, transport, and digital infrastructure (IEA, 2023a), a problem exacerbated by weakening domestic exchange rates across the continent. Beyond the much-needed growth in manufacturing (see Section 3), in order to achieve rapid growth in the energy sector, investments are needed in transmission, mechanisms to avoid massive systems losses, and cold storage solutions. Africa's renewable energy potential is a story of both high demand and abundant supply, but financing remains the missing piece.

Energy systems receive the largest flows of climate finance to any given sector across Africa. The USD 13.6 billion provided in 2021/22 represents 31% of overall finance and 62% of mitigation finance. This energy-focused finance largely went to power generation (72%), with renewable off-grid projects accounting for 12%, solar PV 31%, and wind 5%. Policy and national budget support, as well as capacity building, accounted for 14%, while transmission and distribution received a mere 9% of the total. Notably, new power grids for renewable energy, an important component of transmission and distribution, accounted for only 8% of the total, despite the urgent need to build and upgrade electricity networks to support increasing demands on systems from improved energy access (demand) and the high load of renewables (supply). Given Africa's energy access challenges and the limitations of traditional grid infrastructure, off-grid solar energy systems are being touted as a key solution to provide energy access to over 600 million people still living in energy poverty (World Bank, 2024d). The growth of this sector is fuelled by models such as pay-as-you-go, wherein customers pay for energy in small increments, which can increase affordability and reach. Companies such as M-KOPA, BBOXX, and d.light, aiming to expand off-grid systems in Africa, have attracted significant public and private investments fuelling their growth. Of late the sector has experienced cost-related challenges, partly as a result of exchange rates, and is going through a period of consolidation, but it is still a powerful illustration of how innovation in financing can drive energy access.

Progress on clean cooking, another key element of the energy access equation, remains slow. The number of people without access to clean cooking rose in sub-Saharan Africa between 2010 to 2022, and African countries as a whole are not expected to reach full clean cooking access by 2050 under current projections (IEA, 2023). Despite an increase in international donations, African countries need to improve implementation capacity and funding channels to reach their clean cooking goals. If this is achieved, increased use of electric stoves can also boost demand for renewable energy, requiring additional renewable energy infrastructure, especially in sub-Saharan Africa.

Over 50% of energy investment was concentrated in just seven countries: South Africa (19%), Egypt (13%), Nigeria (6%), Côte d'Ivoire (4%), Ethiopia (5%), and Kenya (4%). In less-developed markets, there is a strong need for the development of off-taker agreements for utility-scale renewables and the use of blended finance to attract private investors to provide an alternative to debt-distressed utilities.

Renewable energy projects—which have relatively stable risk-return profiles—attracted both public and private capital. Currently, public actors comprise 58% of overall renewable energy finance, primarily through multilateral DFIs (29%), government financing (10%), and multilateral climate funds (2%). Private finance makes up 42% of the flows, primarily through corporations

(19%) and commercial financial institutions (5%), with households and funds also playing an important role in small-scale solar PV. This marks a moderate increase from 2019/20, where private finance accounted for 33% of overall investment. However, to meet Africa's energy investment needs, private sector investment needs to grow at least 2.5 times between 2022 and 2030 (WEF, 2023).

2.4.2 AGRICULTURE, FORESTRY, AND OTHER LAND USES (AFOLU)

AFOLU accounted for 16% of climate finance in Africa in 2021/22, amounting to USD 7 billion, and continues to attract more funding than any sector other than energy and cross-sectoral financing. Despite AFOLU finance growing by 51% since 2019/20 (or USD 4.6 billion) and notably attracting a larger share in Africa than the global trend, this is not enough to meet funding demands. Financing needs for AFOLU-related mitigation projects are estimated at USD 7.8 billion annually (CPI, Forthcoming). A further USD 5 billion is needed for adaptation, primarily for protected areas with limited financial resources and avoided deforestation.

Reflecting the high vulnerability of the AFOLU sector to climate change, a substantial portion (52%) of climate investments for AFOLU were for adaptation, amounting to USD 3.7 billion. The remaining investments were allocated to projects with dual benefits (40%) and mitigation (8%). Within AFOLU, the agriculture subsector received the largest share of investment (57%, or USD 4.0 billion), while forestry received 12% (USD 849 million), and projects focused on policy, national budget support, and capacity building received 15% (USD 1.1 billion).

International public financial actors continue to dominate and contribute to the growth of AFOLU climate finance in Africa, accounting for 89% of total investment. The key providers were multilateral DFIs (54%), international governments (24%), philanthropic foundations (8%) and bilateral DFIs (7%). In contrast, commercial lending plays a very limited role in the AFOLU sector. Concessional lending, including grants and concessional loans, makes up 80% of the total.

In Africa, opportunities for nature-based solutions (NbS) are largely centered around protection initiatives (UNEP, 2023). The region's land use, marked by high levels of deforestation, presents substantial potential for cost-effective strategies to prevent further forest loss through conservation efforts (UNEP, 2023). However, these conservation efforts are frequently constrained by competition from urban expansion and conventional agriculture, the latter being a critical sector as it employs 42% of Africa's workforce (AfDB, 2024). This competition intensifies the challenge of balancing economic development with environmental sustainability. Therefore, addressing this challenge requires not only integrated approaches that harmonize agricultural productivity with forest conservation but also greater financial innovation. Without enhanced mechanisms for blending public, private, and philanthropic capital, and stronger incentives for sustainable land use, a significant uptick in private sector financing for AFOLU seems unlikely, thus hampering progress toward long-term ecological and economic resilience.

2.4.3 TRANSPORT

Sustainable transport investment is increasing but remains unevenly distributed across Africa. In 2021/22, investment in sustainable transport reached USD 4.5 billion, representing 10% of total climate finance. Of these investments, 59% targeted mitigation, 27% adaptation, and 14% had dual benefits. This marks an increase since 2019/20 (USD 2.6 billion), with the growth largely driven by rail and public transport projects in Egypt, which accounted for USD 1.6 billion. Sustainable transport investment remains heavily concentrated in a few countries, with 61% focused in just four countries: Egypt (40%), Tanzania (9%), Cameroon (8%), and Nigeria (5%).

Public investment, from DFIs in particular, continues to be the primary source of finance for sustainable transport in Africa. Most low-carbon transport investment comes from public sources, with 69% from multilateral DFIs, 15% from bilateral DFIs, and 4% from national DFIs. This underscores the critical role of public transport in mobility across the continent. An increasing number of African cities are investing in public transportation systems, often based on high-capacity bus operations such as bus rapid transit and light rail transit (UNEP, 2021; AfDB, 2023a). The financing instruments vary by provider type: multilateral and national DFIs almost exclusively channel sustainable transport finance through non-concessional loans, while bilateral DFIs predominantly provide concessional lending. **Private investment in low-carbon transport remains minimal**, as investors may be deterred by the long-term nature of such projects, which can expose them to currency risk, and their reliance on government planning, which introduces political risk.

The EV market is nascent in Africa but shows great growth potential. Africa accounts for a small share of the global EV market, with sales remaining low due to the high cost of vehicles and limited charging and maintenance infrastructure (IEA, 2023a). Despite these challenges, the shift to electric mobility is gaining traction. The continent's road transport, primarily relying on smaller vehicles like two- and three-wheelers, presents a promising opportunity for electrification. Startups offering app-based electric motorcycle and tuk-tuk services are emerging across sub-Saharan Africa. Used EVs, such as the Nissan Leaf, are being used as taxis in various cities, and some (e.g., Abidjan and Johannesburg) are planning electric bus rapid transit systems (UNEP, 2021).

2.4.4 WATER AND WASTEWATER

Finance for the water and wastewater sectors is a critical need in many African countries. Only 32% of the population in sub-Saharan Africa has access to safe drinking water, and 66% lacks basic sanitation services (WHO, 2023; JMP, 2024). As droughts, storms, and flooding become more frequent with rising temperatures, integrating climate adaptation into water sector finance is increasingly urgent. In fact, investments in climate-resilient water and sanitation systems yield an economic benefit of USD 7 for every USD 1 invested, highlighting their potential to address multiple development goals and priorities (African Union, 2023).

There is a dire need for large, upfront investments in water and wastewater that are predictable and sustained, but current spending is well below required levels. Although USD 3.2 billion was spent in this sector in 2021/22—a 26% increase on 2019/20—this still represents a significant underinvestment. According to the International High-Level Panel on Water Investments for Africa (IHLPWIA), only USD 10 billion to USD 19 billion is invested annually in the continent's water and sanitation, far short of the estimated USD 50 billion needed each

year to achieve SDG 6 to ensure access to water and sanitation by 2030 (African Union, 2023). Moreover, actual needs are likely underestimated, as water and sanitation are not explicitly prioritized in many NDCs. In 2021/22, the bulk of climate finance for water and wastewater went to adaptation (65%), with the rest split between activities for mitigation (16%) and dual benefits (18%). The subsectors receiving the most finance were water supply and sanitation (USD 2.1 billion) as well as policy, national budget support, and capacity building (USD 0.6 billion).

Many water projects were driven by development partners, while dedicated budgets for cities at national and subnational levels are largely untracked (WRI, 2023). Multilateral DFIs provided 62% (USD 2.0 billion) of climate finance for water and wastewater in Africa, while overseas governments and bilateral DFIs contributed 19% (USD 0.6 billion) and 15% (USD 0.5 billion), respectively. Heavy reliance on external funding can lead to conflicting agendas and inefficiencies, with a need for better public expenditure management, strategic project selection, and clear investment guidance. According to the IHLPWIA, domestic capital mobilization could raise an additional USD 17.5 billion for water security across the continent (African Union, 2023). Meanwhile, private investment in water and wastewater remained minimal due to complex regulatory frameworks and perceived high risks for private participation.

Mainstreaming climate resilience in water infrastructure is a key opportunity to elevate investment. In 2021/22, water infrastructure only attracted USD 1.6 billion in climate finance. The average project size was USD 3 million, indicating a limited capacity to attract large-scale funding. Weak investment cases, a lack of investment-ready projects, and limited reliable government financing are major barriers to water infrastructure financing in Africa (WRI, 2021). Given the significant climate risks faced by many African nations, it is important to boost the resilience of existing and future water infrastructure.

Another opportunity lies in innovative financial instruments that can unlock and scale up the pipeline of investable water projects. Establishing a water fund is one governance and financing mechanism that brings stakeholders together for water-related investments. The Nature Conservancy has established two water funds in Kenya and South Africa, with eight projects in the pre-feasibility stage, and it has five further funds under development (TNC, 2024). Green bonds could also be a useful financing instrument for the sector. For example, Tanzania's Tanga Uwasa listed green bond raised USD 20 million in early 2024, in the continent's first green bond issued by a subnational water utility (see also Section 2.5).

2.4.5 BUILDING AND INFRASTRUCTURE

As the fastest urbanizing continent, climate investment in buildings and infrastructure in Africa's cities is more relevant than ever. Buildings and infrastructure assets are crucial for the climate transition, given their relevance for resilience and impact on mitigation outcomes, as well as their central societal and economic supporting functions. Considering that by 2050, African cities will hold an additional 900 million people and have expanded their area by two-thirds (AfDB, 2022b), investing in sustainable buildings and climate-resilient infrastructure today will provide long-term benefits. For instance, energy-efficient heating and cooling systems and appliances will reduce household electricity consumption throughout the lifetime of the equipment. Meanwhile, climate-resilient infrastructure and disaster risk management lower economic and social costs, helping the economy adapt to extreme climatic events.

Climate finance flows to the buildings and infrastructure sector decreased from USD 1.3 billion in 2019/20 to USD 0.9 billion in 2021/22, representing 2% of total climate investment. Most investments in the sector went to mitigation solutions. These specifically went to energy efficiency in construction work (USD 343 million) and heating, ventilation, and air conditioning and water heaters (USD 374 million), each accounting for 39% and 42% of total climate flows to the sector. Adaptation finance saw a reduction from USD 613 million in 2019/20 to USD 33 million in 2021/22 possibly because adaptation components are often part of larger infrastructure projects, making them difficult to track. Equity through balance sheet financing (40%) was the most used financial instrument, followed by concessional capital (grants–20% and concessional debt–23%). The key providers were bilateral DFIs (40%), households/ individuals (23%), and governments (13%).

In light of current urbanization trends in Africa, policy development, national budget planning, resilient infrastructure, and disaster risk management remain strategic areas of opportunity for investment and capacity building. Despite its catalytical potential to drive change—by fostering energy efficiency building regulations, for instance—policy received only than 2% of climate flows coming into buildings and infrastructure. Furthermore, taking into account the fact that 14 of the countries most vulnerable to climate change are in Africa, resilient infrastructure received low attention.

BOX 5: CLIMATE FINANCE FOR RAPIDLY GROWING AFRICAN CITIES

African cities are becoming central to the global climate conversation. As urbanization accelerates across the continent, cities are key sites of economic activity and growth but also of increasing vulnerability to climate hazards such as floods, droughts, and heatwaves. African cities grew by over 4% per year between 2000 and 2015, and urbanization has generated almost one third of Africa's per-capita GDP growth since 2020 (OECD 2022). Half of Africa's overall infrastructure gap, estimated at USD 52 billion to USD 92 billion per year, is urban, encompassing critical sectors like power, water, sanitation, and roads (OECD 2022). The urgency to invest in climate-aligned infrastructure as cities grow is clear, as any retrofitting will be much more costly for both people and the planet.

Rapid growth combined with a lack of strategic planning may intensify African cities' climate vulnerability. Many are expanding through the merging of smaller urban centers and the densification of rural areas (OECD 2022). Without strategic planning for these new urban agglomerations, infrastructure gaps will persist. As of 2018, over half of sub-Saharan Africa's urban population lived in informal settlements (UNSD 2021), where inadequate housing and insufficient access to climate-resilient infrastructure and basic services leave residents more vulnerable to climate impacts and associated adverse health outcomes (UN-Habitat 2022; UNEP 2024).

Climate finance for African cities remains low. In 2021/22, the Cities Climate Finance Leadership Alliance (CCFLA) tracked USD 14 billion in climate finance to African cities, of which USD 5 billion went to sub-Saharan Africa. The bulk of sub-Saharan Africa's urban climate finance was allocated to energy systems (USD 2 billion), cross-sectoral uses (USD 2 billion), and transport (USD 1 billion). Unlike other global regions where domestic sources dominate, 69% of sub-Saharan Africa's urban climate finance came from international sources (CCFLA 2024). Private climate finance is also underrepresented in African cities; of the USD 14 billion total, only USD 2 billion was privately sourced.

The Coalition for Urban Transitions' 2021 Financing Africa's Urban Opportunity report stated that while the required upfront investment to green African cities was very large, the economic payback was much greater still. For example, it estimated that Addis Ababa would need to invest an incremental USD 20 billion by 2050 to "go green" but that the economic benefits, discounted back to today (i.e., net present value), would amount to USD 33 billion.

Scaling Africa's urban climate action will require resilient infrastructure investments across buildings, water, and transport, increasing cities' capacity to drive climate priorities and increasing their access to appropriate funding instruments.

Urban adaptation is also severely underfinanced in Africa. Tracked urban adaptation finance was less than USD 1 billion to sub-Saharan African cities in 2021/22. According to 2021/22 data self-reported to CDP-ICLEI Track by African cities representing 75% of Africa's urban population, 70% of disclosed projects focused explicitly on mitigation—indicating an imbalance in adaptation and resilience projects (CDP, n.d.). This dataset showed that cities' reported projects sought funding mostly for waste management (27%) and water management (15%), followed by transport, renewable energy, energy efficiency, and buildings.[21]

African cities reported a total of 28 water management projects with a collective need for USD 544 million in investments, which mainly attempt to address water security risks. This represents a possible disconnect between the sectors that cities are looking to fund and those receiving identifiable climate finance.

African cities will require increased investment in net-zero-carbon buildings. Africa's building stock is expected to double by 2060, with Nigeria alone anticipating an additional 189 million urban residents by 2050 (CCFLA 2023). There is a pressing need for investment in net-zero-carbon buildings to accommodate the continent's urban expansion while keeping emissions in check. CCFLA's analysis of Nigeria's building sector

provides insight into how cities can drive investment in net-zero-carbon buildings. Policy frameworks and financial instruments can be used to attract private sector investment. This will include increased investment in clean cooking solutions. Other countries, such as Kenya, have made decarbonizing buildings a key commitment and crucial pathway to achieving national energy efficiency standards.

Recommendations to scale urban climate finance:

- **African cities must develop clear climate action plans aligned with the Paris Agreement.** Durban's climate action plan serves as a model, with measurable targets and specific actions aimed at reducing emissions and enhancing resilience by 2050. The ambitious and measurable targets include reaching 100% net-zero-carbon municipal infrastructure by 2030. The CAP is supported by clear implementation plans, such as solar energy and efficiency programs, and by-laws, such as one requiring buildings to be retrofitted with energy-efficient technologies and all new builds to be net zero carbon by 2030 (CDP 2019).
- **Increase funding for urban adaptation infrastructure**. This may need to be done through innovative financial instruments. For example, Climate Adaptation Notes[28] was the first financial instrument to address water scarcity in Southern Africa in 2020 by streamlining adaptation financing into a single instrument through a partnership between commercial banks and institutional investors (Global Innovation Lab for Climate Finance 2020). This allowed more private capital to flow to infrastructure-related adaptation projects.
- Increase the capacity of cities to fund climate projects through their own sources of revenue and access to international debt. Local governments in Africa face some of the highest spending needs globally and yet have the lowest fiscal capacity to meet them (OECD, 2022). They tend to rely heavily on national government transfers and have few own-source revenues. Cities will need to raise capital from domestic capital markets in local currency to finance climate and development priorities. One recent successful example is the Tanga Urban Water Supply and Sanitation Authority, in Tanga City in Tanzania, which recently issued the first subnational water infrastructure green bond in East Africa, worth USD 19.6 million (TZS 53.12 billion) (FSD Africa, 2024a).

28 Proposed by GFA Climate & Infrastructure and Renewable by Nature Fund Managers

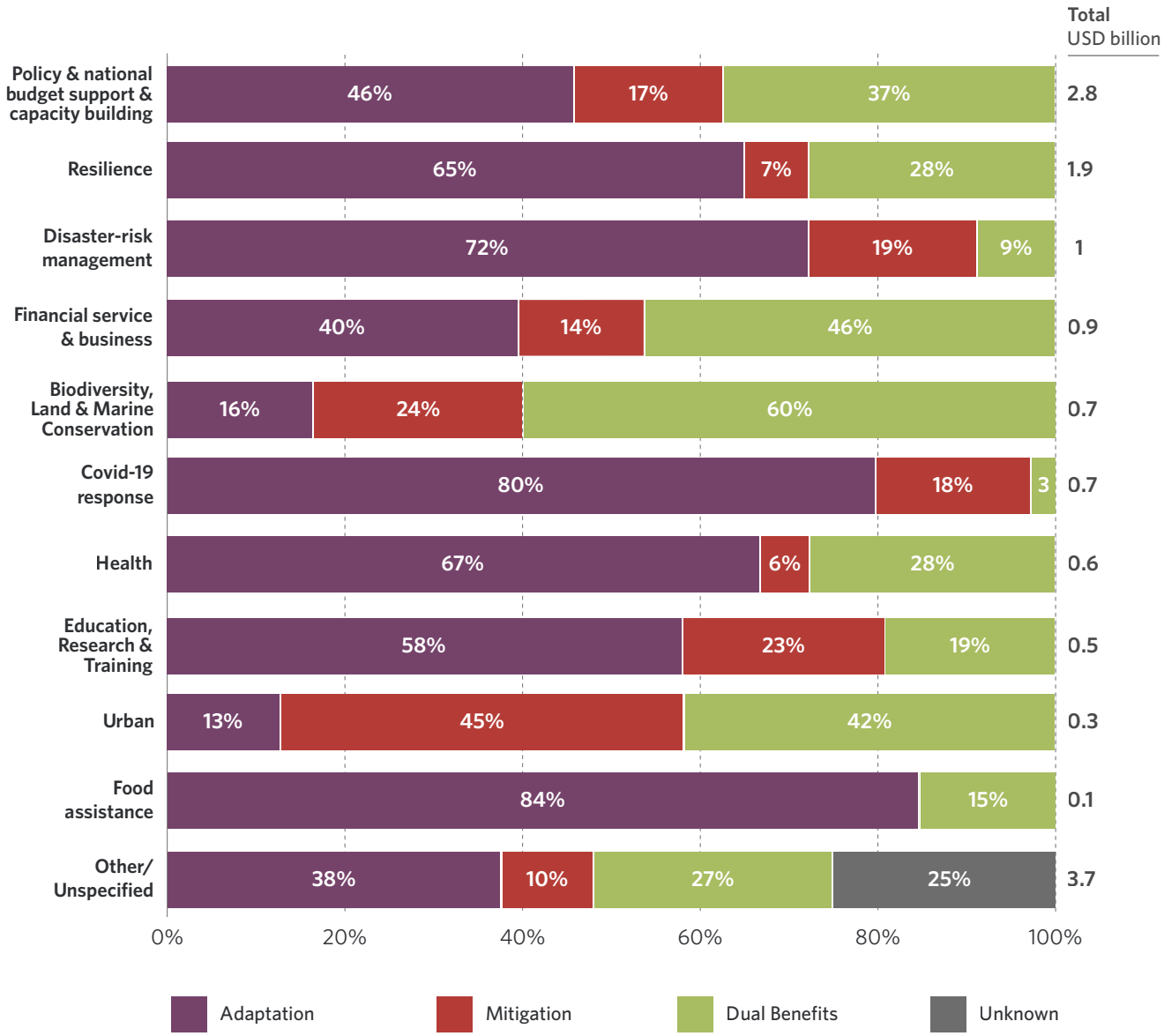
2.4.6 CROSS-SECTORAL FINANCE

Cross-sectoral solutions, which are key for development due to their additional co-benefits, accounted for 29% (USD 13 billion) of climate finance in 2021/22. Considering the interdependencies between sectors and actors, adapting effectively to climate change will require cross-sectoral strategies and a systems-wide approach. Cross-sectoral investments not only link climate goals to the Sustainable Development Goals (SDGs), including gender equality (See Box 6), but also provide critical economy-wide development, break the institutional, sectoral, and national disconnect, and facilitate better sectoral information structures.

Cross-sectoral financing increased from USD 8.5 billion in 2019/20 to USD 12.8 billion in 2021/22, continuing to be the second-largest category after energy systems. Approximately 50% of 'cross-sectoral and other' flows went to adaptation, 15% to mitigation, and the rest to projects with dual benefits. Grants and concessional debt funded 74% of cross-sectoral activities. Cross-sectoral climate financing encompasses various categories, as shown in Figure 19, with the largest portion going to 'policy, national budget support, and capacity building' (22%, or USD 2.8 billion). Some examples within that category include supporting improvements in forest and trade governance, empowering vulnerable households to develop renewable energy potential, policy advocacy on the economic valuation of natural capital, and providing technical assistance to support 'green' growth reforms.

Resilience was the next biggest subcategory with 15% (USD 1.9 billion), including projects aimed at improving community resilience to disasters and violent conflict; agri-tech solutions for climate resilience, and financial inclusion of smallholders; and multisectoral resilience enhancement. The 'other/unspecified' category includes projects supporting the development of essential infrastructure in the sectors of clean energy, transport, logistics, and digital technologies, programs contributing to the reduction of rural poverty with climate aspects, and climate-related loans to SMEs. Following this, USD 1 billion was allocated to disaster risk management such as disaster preparedness and early warning systems.

Figure 19: Cross-sectoral investments by subsector in 2021/22



Note: *The subsectors listed above are broadly based on OECD and CPI classifications. While some project descriptions have been reviewed for categorization, a comprehensive subsector classification for all projects is not feasible in the current study and may warrant further research.*

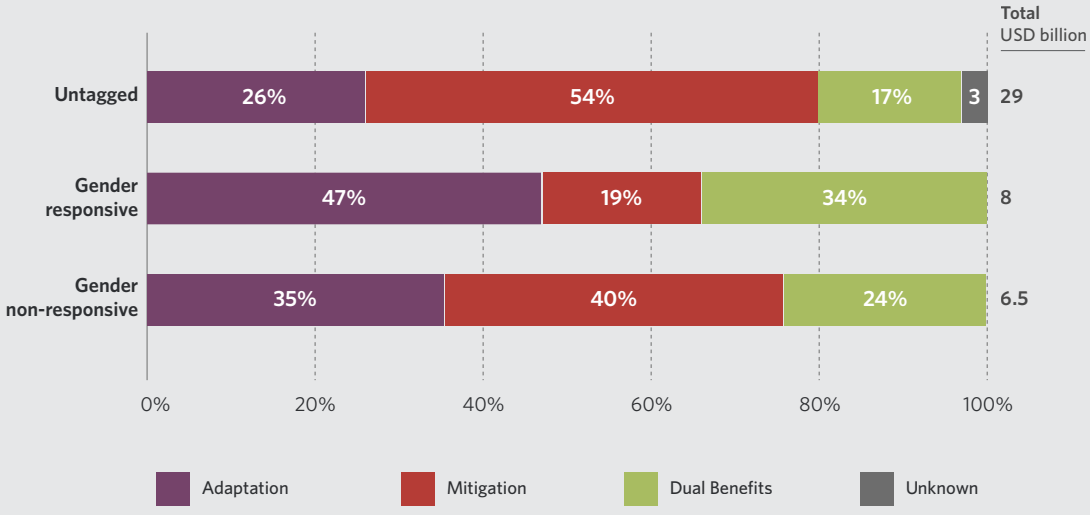
BOX 6: INTERSECTION OF CLIMATE AND GENDER FINANCE

Transitioning to a green economy offers a unique opportunity to simultaneously address current gender imbalances (CPI, forthcoming). Climate change exacerbates existing gender inequalities, given that those most impacted by the climate crisis are usually society's most vulnerable groups, including women. Integrating gender awareness into the design of new and current sustainable initiatives can ameliorate other contextual inequities that women face, while also making those interventions more effective. For instance, targeting gender-equal access to renewable electricity can enable women's use of mobile wallets, in turn, acting as an entry point to access various financial services (IGC, 2023; IFC and CGAP, 2024).

Gathering project-level data at the intersection of climate finance and gender is key to measuring where the region stands and determining strategic action to address the gender gap. Gender tagging saw a slight improvement in 2021/22 compared to 2019/20—34% versus 32% of total finance, respectively. Still, collecting and tagging data remains a huge area of opportunity on which institutions in the climate finance tracking space can capitalize. With 95% of gender-targeted climate finance in Africa (USD 7.6 billion) comes from governments and DFIs (as reported to the OECD), encouraging standardized reporting guidelines for better monitoring of private initiatives is key for a more comprehensive assessment.

Based on available data, during 2021/22 gender-targeted climate finance in Africa totalled USD 8 billion, a 45% increase from USD 5.5 billion in 2019/20. Other than cross-sectoral activities (USD 4 billion), AFOLU (USD 2 billion), and energy systems (1 billion) were the sectors that received the most gender-related finance in 2021/22. Gender-responsiveness in the energy sector is worth following closely in the African context, given its appeal to the private sector in combination with its potential to bridge important gender gaps. For example, clean cooking equipment could help 4 in every 5 people who still cook in traditional stoves—mostly women—reduce their exposure to toxic fumes (IEA 2024a). Furthermore, 47% of the tagged data is for adaptation projects.

Figure 20: Gender responsiveness of climate finance flows



In addition to tracking gender finance, there are other critical factors to be considered in order to develop effective long-term solutions. For instance, common challenges in Africa's climate finance space disproportionately affect women due to structural issues, for example female founders receive less than 7% of total investment capital (Catalyst Fund, 2024). Furthermore, many climate and gender interventions fail or yield only short-term results due to project developers' lack of familiarity, technical capacity, and perceived complexity to develop and incorporate gender considerations into their design and implementation (CPI 2024a). Technical assistance can help to enact lasting change by supporting local governments to develop gender-climate KPIs and structural interventions. Additionally, blended finance has been found a useful financial tool to spur capital into gender-responsive climate action in EMDEs, especially private finance, for both mitigation and adaptation. Some examples of possible financial tools include early-stage acceleration grants to help incorporate gender considerations into business models; technical assistance to help fund managers and project sponsors create gender action plans and identify pipelines of women-led projects; and performance-based incentives that offer financial benefit for borrowers who meet gender targets. Jasiri Gender Bond launched in Tanzania in 2022, has had great success in providing capital to female-led SMEs and promoting sustainable initiatives, mobilizing USD 32 million and yielding an annual return of 8.5% for bondholders (FSD Africa, 2024b).

2.4.7 ADAPTATION FINANCE

Africa received well below the USD 70 billion needed in adaptation finance per year to 2030, leaving the continent's communities and ecosystems underprepared for the catastrophic impacts of climate change.

Adaptation finance enables communities and ecosystems to forestall the devastating impacts of climate change, which are already being felt across the continent. A large portion of Africa's population are employed in water-reliant sectors such as rainfed agriculture—especially in sub-Saharan Africa, which is home to 57% of the world's poorest people (World Bank, 2024e). Extreme weather events such as drought can exacerbate existing and parallel crises such as famine, clean water access, and inter-communal conflicts, jeopardizing the continent's growth. Africa does not have access to the levels of adaptation finance urgently required to become resilient to the emerging reality of climate shocks and subsequent risk multipliers.

Adaptation finance in Africa has increased in absolute terms but has dropped as a share of overall climate finance. Adaptation finance flows to Africa increased from USD 11.8 billion in 2019/20 to USD 13.8 billion in 2021/22 but fell as a share of overall climate finance from 39% to 32% over this period. At the same time, dual benefits climate finance (counted for projects that address both mitigation and adaptation) grew from 11% to 21% of Africa's total, marking a 191% increase on previous years' funding. Funders are increasingly using dual benefits finance to

maximize the efficacy of their investments (CPI, 2023), as it ensures that limited funding pools can deliver against multiple objectives. In fact, mitigation funding grew 37%, while adaptation funding had the lowest growth percentage of all three use categories, at 21%.

Most of Africa's adaptation finance came from public finance institutions, with multilateral DFIs providing 50%, inching closer to their targeted 50-50 allocation between adaptation and mitigation, followed by governments (26%) and bilateral DFIs (14%) Around half of this was provided through grants, and a third as concessional loans.

However, per capita analysis of MDBs' adaptation financing for LDCs shows that more needs to be done to align adaptation flows with the scale of their commitments. There was a 43% increase in MDB adaptation funding in LDCs between 2019/20 and 2021/22—from USD 3.1 billion to USD 4.7 billion. However, the top recipients of adaptation finance from multilateral DFIs in 2021/22—Ethiopia and Democratic Republic of Congo—received relatively low flows when adjusted for population. On a per-capita basis, Ethiopia received the tenth-least adaptation finance in Africa, and the Democratic Republic of Congo the eighth-least. As both of these countries are defined by the UN as LDCs, population-adjusted analysis is critical for assessing whether their most vulnerable populations are receiving adequate resources to finance climate resilience.

Two highly climate-vulnerable sectors—AFOLU and water—are the largest recipients of adaptation finance, demonstrating that flows are correctly targeting sectors with high needs. AFOLU continues to grow as the largest defined sectoral recipient of adaptation finance in Africa with USD 3.7 billion, up 29% from 2019/20. Water was the second-largest, receiving USD 2.1 billion. These sectors are the most vulnerable to climate change in Africa due to their dependence on seasonal climate variability. Resilience-building is crucial to food security and preventing extreme weather events from exacerbating existing adjacent crises (IPCC, 2022).

However, climate flows remain poorly calibrated to the scale of sector-specific needs. AFOLU accounts for 8% of Africa's estimated climate finance needs and water for 5% (CPI, 2022). Yet, these sectors receive 27% and 15% of the continent's adaptation flows, respectively, meaning that other vulnerable sectors are falling even further behind on required investment. In addition, cross-sectoral needs receivedclose to half of all adaptation funding, despite being estimated to represent only 4% of known investment requirements (CPI, 2022).

Cross-sectoral adaptation finance nonetheless provides benefits across multiple sectors. This utility is particularly acute given only 29% of total adaptation needs are known at the sectoral level (IPCC, 2022). In the absence of accurate needs estimates by sector, a large amount of cross-sectoral funding should be seen as the next best option for ensuring adaptation finance is reaching a range of vulnerable sectors. Section 2.4.6 covers cross-sectoral funding in more detail.

Well-adapted buildings and infrastructure are critical in the context of Africa's population growth and urbanization, yet the sector receives less than 1% of the continent's adaptation finance (see also Box 5). The adaptation of housing stock and infrastructure to more extreme climatic conditions will be central to resilient development. With an estimated 70% of Africa's housing required by 2040 yet to be built (UNEP, 2022), there is a clear opportunity to finance new buildings that are adapted to current and future climate impacts.

To achieve the scale required, historical associations of adaptation with development finance must broaden, to reposition it as a commercial investment opportunity. Yet, the existing funding base for private adaptation finance is neither diverse nor significant. Adaptation to

climate change is a public good with positive externalities and is crucial to building resilience. The misconception that it is solely the purview of development actors can distract from enhancing market conditions for increased private sector participation. The barriers to private sector investment are felt acutely across Africa, given the low commercial returns currently available. Private finance represented just 5% of Africa's adaptation flows in 2021/22. Furthermore, of the USD 702 million in private adaptation finance, USD 632 million (90%) came from a single type of institutional investor—philanthropic foundations. This demonstrates the scale of the task ahead to mobilize private money to effectively contribute to Africa's adaptation needs. Private adaptation finance also remains poorly reported, meaning that it could be higher than current tracking suggests. While scaling finance is the priority, increased quantity and quality of monitoring, reporting, and verification of private flows will be critical to better assess their impact.

Private financial institutions currently possess an asymmetrical understanding of both the physical and transitionary risks posed by climate change and how these affect their portfolios. Initial efforts on transition planning have not been matched on adaptation, with too few businesses and private financial institutions assessing their climate risks and creating dedicated adaptation strategies. As more corporations develop transition plans and more generally assess their operations and assets' exposure to climate and transition risk, there is potential for these entities to inform national policymaking on both mitigation and adaptation and to stimulate related investments. A unified understanding—based on the four quadrants of risk type and impact shown in Table 3—should be mainstreamed into private sector decision-making.

Africa's private climate finance is also explored more generally in Section 2.2.2.

Table 3: Climate Risk vs. Impact-types faced by Financial Institutions

	Physical Risks	Transitionary Risks
Primary Materiality (Direct Impact)	**Impact:** Climate events like floods, droughts, storms, and sea-level rise can directly impact financial portfolios, causing **asset damage or default risks.** Financial institutions need to account for these risks to properly assess credit risk and adjust loan conditions. **Action:** Investing in climate-resilient infrastructure or technologies like financing flood defenses or drought-resistant crops can create profitable investment opportunities and reduce exposure to physical risks.	**Impact:** Shifts in policy, technology, or market conditions toward low-carbon economies can lead to **stranded assets and reduced profitability in carbon-intensive sectors**, requiring institutions to manage exposure to those sectors facing new regulations or market shifts. **Action:** Supporting businesses and sectors that align with low-carbon transitions—e.g., renewable energy, green buildings, and sustainable agriculture—can unlock new revenue streams and position financial institutions as leaders in emerging markets.
Secondary Materiality (Indirect Impact)	**Impact:** Indirect impacts on communities, ecosystems, and economies can create systemic risks. For example, widespread damage related to climate change can destabilize local economies, **increase insurance claims, and harm a financial institution's reputation if they finance unsustainable activities.** **Action:** Financing adaptation projects that improve community resilience—e.g., water management or disaster preparedness—can strengthen local economies, reduce social vulnerabilities, and enhance actors' reputations as socially responsible.	**Impact: The social consequences of low-carbon transitions** can exacerbate inequalities or cause social unrest if not managed properly. Financial institutions must consider how their decisions affect vulnerable communities and support just transitions to avoid social instability and reputational damage. **Action:** Supporting equitable and inclusive low-carbon transitions offers opportunities for social impact investing. Financial institutions can gain reputational benefits and meet stakeholder expectations by financing projects that contribute to social equity and just transitions.

2.5 INSTRUMENTS

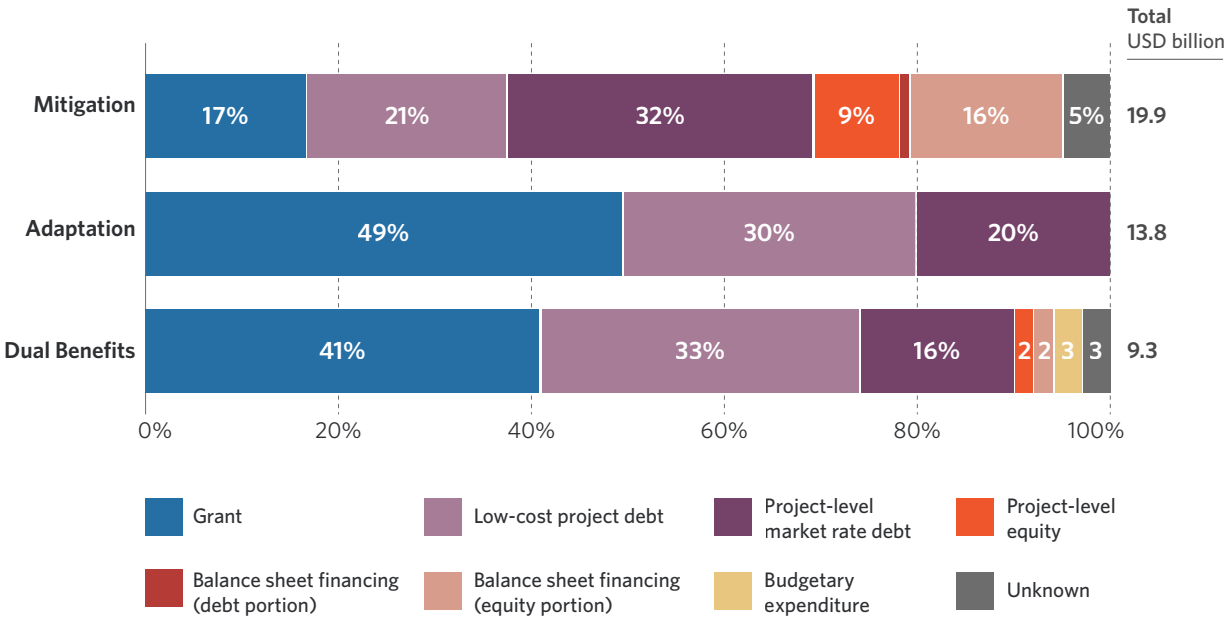
The instruments used for climate investments vary significantly, have different uses, and can sometimes have a greater impact if crowding in other investors. Many African countries face challenges related to access to finance, cost of capital, and debt vulnerability. While debt remains a vital instrument for infrastructure development, its dominance continues to exacerbate the worsening debt burden of many African countries (See Box 7 for details).

While the instruments used to deliver climate finance vary by sector and provider, overall, debt is the primary mechanism used for climate investments accounting for 51% of all investments—split equally between concessional and market rate debt.

Grant funding increased by 59% between 2019/20 and 2021/22 to reach USD 14 billion. The ratio of loans to grants has stayed broadly consistent between 2019/20 and 2021/22, despite calls for increased grant provision in the face of potential debt crises. In addition, the use of grants is bifurcated unevenly, with LDCs receiving a large portion of their investments in grants (50%) while grants made up a smaller share in other developing countries (11%). Grant funding is instrumental in supporting priority initiatives in Africa that do not receive commercial investment. If channeled correctly, they can play a key role in identifying and developing a pipeline of bankable projects. Grants financed projects in sectors including AFOLU (24%), other and cross-sectoral activities (45%)—including policy and national budget support and capacity building—and energy (16%).

Adaptation is financed primarily through grants (49%), concessional debt (30%), and market-rate loans (20%). Across country income types this split varied, with adaptation in LDCs primarily financed through grants (61%), and adaptation initiatives in developing countries financed through concessional (47%) and market-rate loans (31%). On the other hand, market-rate loans are primarily disseminated for commercially viable mitigation technologies in the renewable energy (33%), other and cross-sectoral (21%), and green transport sector (20%).

Figure 21: Climate finance by instruments and use in 2021/22

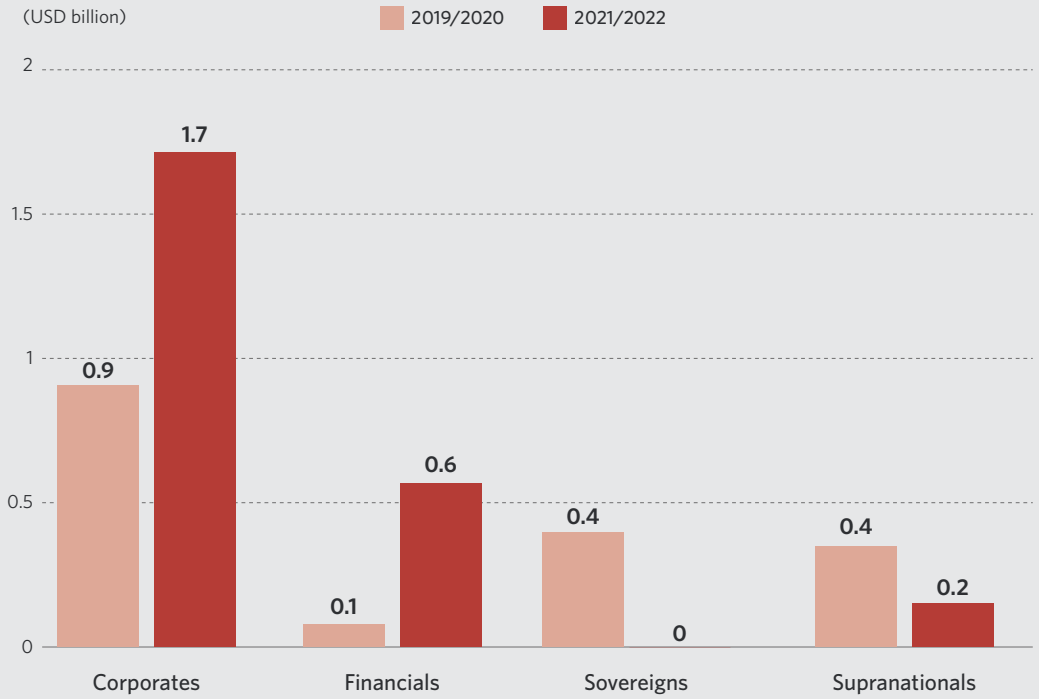


Equity financing was primarily used for mitigation initiatives (92%) and was concentrated in the energy sector (80%) primarily in the uptake of solar PVs led by corporates (55%) and households (11%). Household investments have been driven by supportive domestic policies and the affordability of new technologies, pushing the uptake of small-scale solar PV and water heaters. Equity investments were concentrated in a few countries, including South Africa (22%), Egypt (17%), Nigeria (11%), Morocco (7%) and Kenya (7%).

BOX 7: GREEN BOND ISSUANCES IN AFRICA

The global green bond market saw a multifold increase between 2019 and 2021, and despite a 25% decline in 2022 it has again grown rapidly in 2023. Africa accounted for only 0.5% of the overall 2019 to 2022 bond market at approximately USD 2.2 billion yearly across the four years (Brookings, 2021). From 2019 to 2022, the African green bond market was spread across Egypt, Ivory Coast, Kenya, Mauritius, Namibia, Nigeria and South Africa. In this period, South Africa accounted for the largest number of green bonds, followed by Mauritius, Ivory Coast, and Nigeria. The bond proceeds were channeled primarily to power generation and renewable energy.

Figure 22: Green bond issuance by bond issuer type in Africa



Corporate green bond issuances were the largest in the African continent, followed by financial institutions. Nigeria and Egypt are the only countries in Africa that have issued sovereign green bonds, while South Africa is in the process of developing a sovereign green bond.

Despite the creation of national-level green bond frameworks by Morocco, South Africa, and Nigeria and initiatives such as the Sustainable Bond Framework at the regional level for the formation of a green bond market in Africa, uptake has been low due to barriers including small issuance sizes of green bonds due to the small scale of projects, a lack of capacity and experience among regulatory agencies, banks and exchanges to create and issue green bonds, and a lack of uniform frameworks or taxonomies that are aligned with international markets deterring investors (EUI, 2023; SEI 2021).

Note: *Our methodology evaluates climate finance flows at the project level. Although total green bond issuances are not directly included in the dataset, the financial flows are captured through the projects funded by the proceeds of these bonds.*

Africa has a promising climate tech startup ecosystem that is attracting private capital across key sectors like renewable energy, green transport, waste management, circular economy, alternate food, and sustainable agriculture. In 2023, climate tech startups received about a third of startup funding in Africa, raising USD 1.04 billion, marking a threefold increase from that raised in 2019 (Catalyst Fund, 2024). This is driven by the strong commercial case for climate tech, especially in Africa's energy sector, combined with the strategic use of public capital to channel this growth. Initiatives such as AfricaGoGreen Fund (AGGF) illustrate this relationship. Launched in 2021 by KfW on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and managed by Cygnum Capital, AGGF is a structured debt fund

investing in energy efficiency solutions in Africa. In addition to BMZ, its current investors include the African Development Bank, the Nordic Development Fund, and the International Finance Corporation. The fund has invested in startups that have gone onto receive private capital funding.

BOX 8: DEBT VULNERABILITY OF AFRICAN COUNTRIES

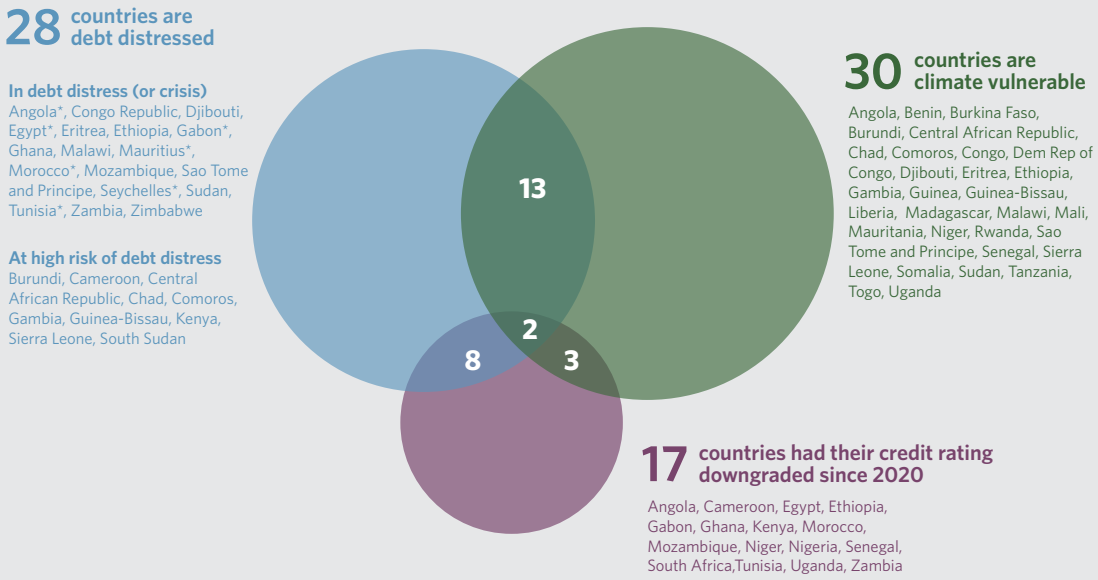
In Africa, 11 countries are in debt distress, and 10 are at a high risk of debt distress (IMF, 2024).[29] Africa's total external debt reached USD 1.2 trillion in 2024, and its annual debt service payout is USD 163 billion (AfDB, 2024). This amount has been escalated by factors including exchange rate depreciation and a high primary fiscal deficit (CPI, 2023). During the COVID crisis, at least 29 African countries made use of the Debt Service Suspension Initiative (DSSI), a temporary debt relief offered by the G20 and Paris Club in 2020 (Amnesty International, 2023). Four—Zambia, Ethiopia, Chad, and Ghana—have also sought debt restructuring under the Common Framework for Debt Treatments (CGD, 2024), which replaced the DSSI and provides case-by-case support to address insolvency and prolonged liquidity challenges.

The stark interplay of climate vulnerability, debt distress, and high borrowing costs traps African nations in a vicious cycle, with each crisis fuelling the next.

Fifteen of the African countries in or at risk of debt distress are also the most vulnerable to climate change, highlighting the interconnected nature of climate vulnerability and debt distress. On one hand, high debt repayments limit governments' fiscal capacity, preventing them from investing in their climate needs. This makes them more climate-vulnerable and elevates their risk, which in turn drives up the cost of debt. More of these countreis' borrowing is going to repaying existing loans than to actual climate activities, hindering their climate resilience (AfDB, 2022a; Africonomics Law, 2022). Further, credit rating downgrades in debt-distressed countries can have profound impacts on their costs of capital. For instance, Moody's downgrade of Kenya's credit rating from B3 to Caa1 (very high credit risk) in July 2024 is expected to significantly impact the government's ability to raise funds for developmental and climate projects (Down to Earth, 2024).

29 The International Monetary Fund defines "debt distress" as a situation where a country faces significant difficulties in meeting its debt obligations, leading to an elevated risk of default or restructuring. They use a composite indicator that considers a country's historical performance, outlook for real growth, debt serving costs, remittance inflows, international reserves, and other factors.

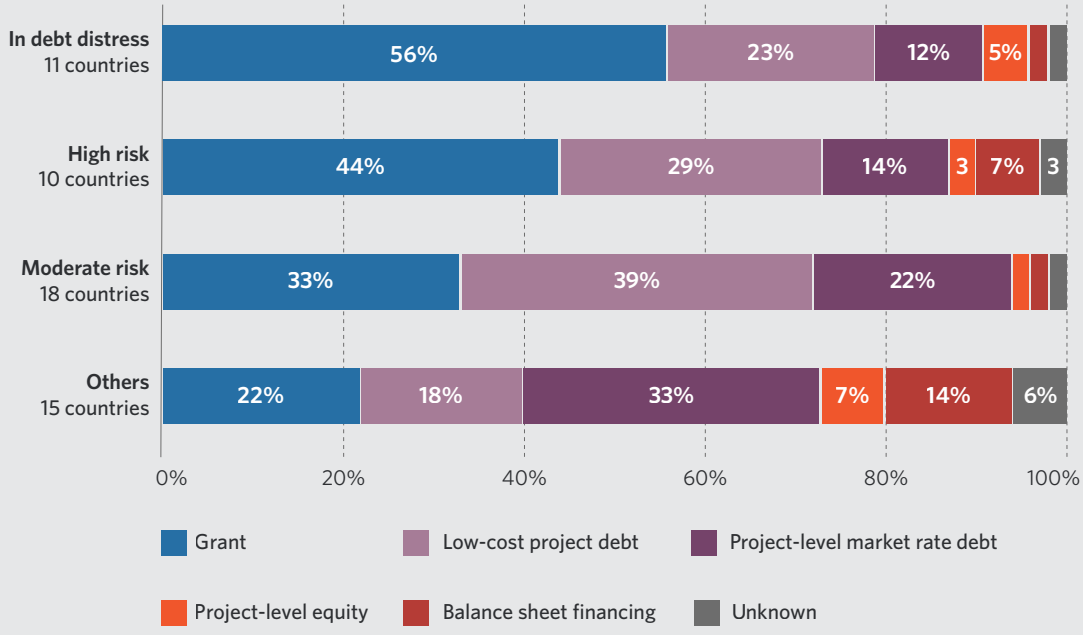
Figure 23: African countries at the interaction of debt distress, climate vulnerability, and credit downgrades



Note: *These countries were not part of the IMF debt sustainability analysis but were identified as being in debt crisis as per the debt data portal. Source: IMF 2024 and authors' analysis.

In this context, the price of capital and current debt distress for African countries must be addressed to enable a transition to a low-carbon economy. As much as 51% of climate finance flows to Africa come in the form of debt, more than double that of other regions such as East Asia and the Pacific (18%) and Latin America and the Caribbean (20%). While African countries in debt distress and high debt distress receive a significant portion of their financing as grants (57% and 46%, respectively), debt—concessional and non-concessional—still accounts for 36% to 44% of their climate finance. The proportion of debt is much higher in the climate flows of countries at moderate risk of debt distress (61%).

Figure 24: Type of climate financing in debt distress countries in 2021/22



The following sections cover voluntary carbon markets and risk mitigation instruments, including guarantees and insurance. Due to a lack of comprehensive data and other methodological considerations, these are not explicitly tracked and/or included in the Landscape data. However, their growing importance in Africa is recognized, highlighting the need to integrate their analysis for a more complete picture of climate finance flows.

2.5.1 VOLUNTARY CARBON MARKETS

If developed transparently and equitably, carbon markets could plug some—but not all—of Africa's climate finance gap.

Africa's vast renewable energy potential, rich biodiversity, old-growth forests, mangroves, and extensive arable land position it as a pivotal player in the voluntary carbon market (VCM). Voluntary carbon credits provide a contentious yet popular avenue to mobilize private finance for climate projects around the world. They offer unique opportunities to leverage additional private investment and channel funding directly vulnerable communities who would not traditionally have access to climate finance.

VCMs have mobilized over USD 5 billion for carbon mitigation globally in the last five years, with estimates suggesting that this figure may grow by five to 50 times by 2030 (ACMI, 2024). Africa is emerging as a key contributor to this growth; the continent saw an 11% increase in demand for its carbon credits in 2023, with the global value share of African projects rising from 10% in 2021 to 26% in 2023 (Figure 25) and a relatively constant volume of transactions amidst a global downturn in VCM transactions. Notably, 56% of household/community projects, such as clean cookstoves, were implemented in Africa, which also held the second-highest share of AFOLU credits (25%).

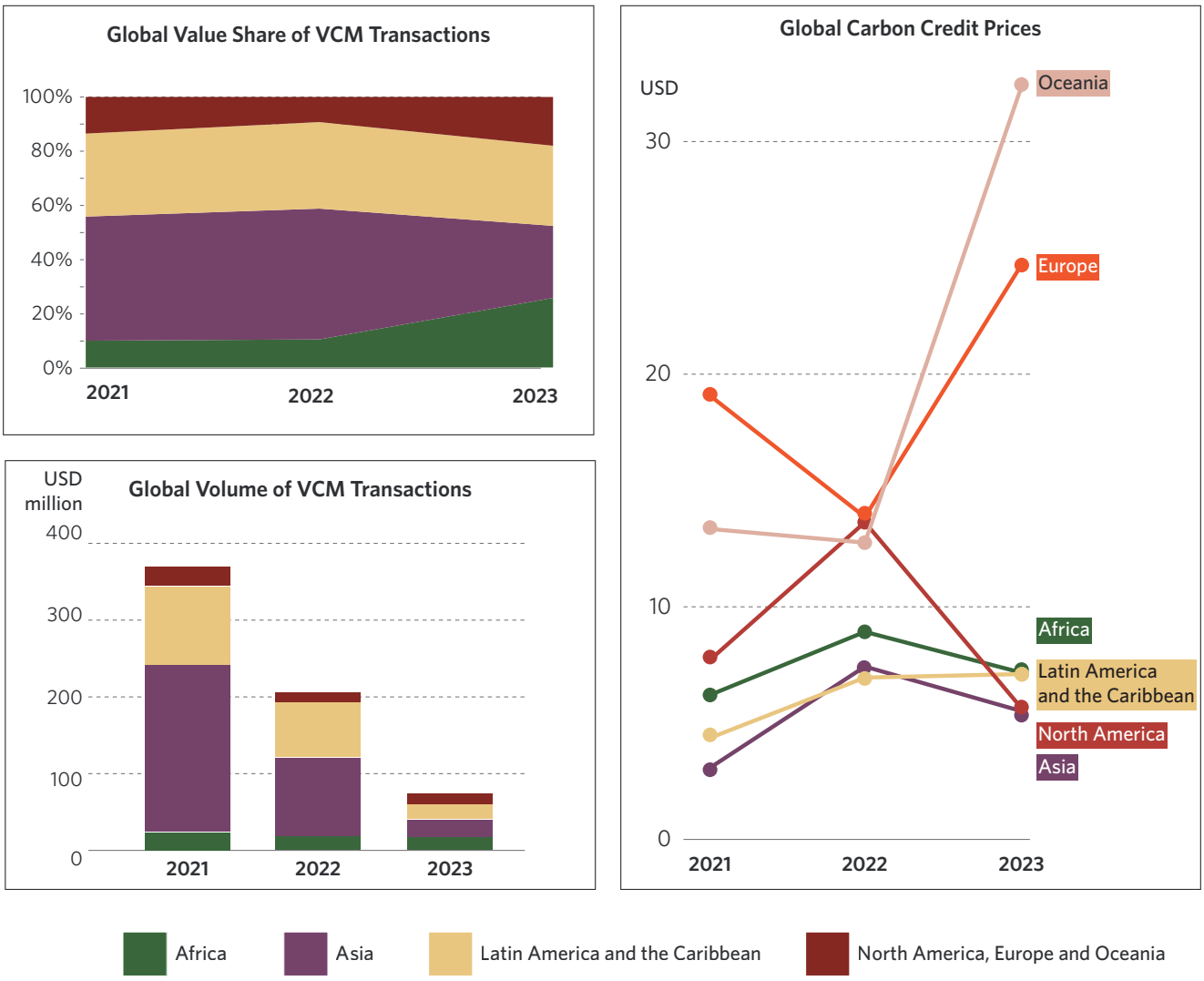
However, stagnant carbon credit prices, opaque fees, and a lack of transparency by intermediaries significantly hinder VCMs' effectiveness. Although transaction volumes have remained stable, the price of carbon credits from African projects has stagnated (similar to Asia and Latin America), amid global concerns over market integrity and legitimacy of corporate carbon offsetting. These lower credit prices negatively impact benefit-sharing mechanisms essential to community-based projects, which are prevalent in Africa. The lack of transparency and negotiating power imbalances in VCMs further exacerbate these issues. Concerningly, over 90% of intermediaries that facilitate VCM transactions do not disclose their fees or profit margins (Carbon Markets Watch, 2023), and many are based in the Global North, often absorbing up to 60% of project revenue (ACMI, 2024), which diminishes the financial impact for African businesses, local communities, and governments.

To enhance equity, Africa needs both supply-side regulations and demand-side stakeholders committed to fair practices. Zimbabwe has implemented a carbon trading law that allows the national government to take 30% of project revenue as an environmental levy (Reuters, 2023). Such policies illustrate the complexities of balancing local benefits with project viability. It is crucial to accelerate investment and increase Africa's share of carbon markets to a point where

carbon credits can become a meaningful contributor to not only climate finance but also public revenues and community benefits. This can be achieved through mechanisms like tax holidays and moratoriums on the government's share of credits.

Striking this balance may involve a combination of developing continent-wide regulations that foster equitable outcomes and encouraging buy-side stakeholders to adhere to standards like the Core Carbon Principles proposed by the Integrity Council for the Voluntary Carbon Market.

Figure 25: Carbon finance landscape



Promising examples of equitable execution exist. The Yaeda Eyasi REDD+ project in Tanzania, adhering to the stipulations of standard-setter Plan Vivo, provides 60% of gross sales revenues directly to communities, verified through regular audits (CrossBoundary, 2023). Similarly, Wildlife Works implements economic solutions for wildlife conservation that drive measurable, direct finance to forest communities for their own development goals (Wildlife Works, 2023).

Despite challenges at the project level, several countries are making progress:

- **Egypt** has created the world's first regulated VCM via a series of groundbreaking regulations to create a robust framework for the accreditation, issuance, listing, delisting, and trading of carbon emissions reduction certificates.
- **Seychelles** is developing methodologies for high-quality blue carbon credits using local institutions (BBC, 2022).
- **Rwanda** is leveraging carbon markets for income diversification to support environmental protection (World Bank 2023a).
- **South Africa** is creating domestic VCM standards with the World Bank's support (World Bank 2023a).
- **Sierra Leone and Guinea** are addressing challenges in mangrove protection and restoration (West Africa Blue, 2023).
- **Kenya** is aligning REDD+ project methodologies at a national level.

To effectively scale VCM in Africa, both public and private sectors must intensify their efforts. Capacity-building initiatives are vital for establishing appropriate market policies and standards, while regulatory bodies and national registries are critical to ensure market integrity and equity. Philanthropic institutions, DFIs, and MDBs can provide vital support by deploying concessional capital and technical assistance at early stages of project development to reduce investment risks. Standardizing procedures on a centralized trading platform can streamline due diligence and enhance trust among stakeholders. Additionally, robust domestic carbon markets that operate with integrity can help navigate trade disruption from policies such as the EU's Carbon Border Adjustment Mechanism, which may extend to other regions.

While VCMs hold significant potential in Africa, this must be viewed in the context of the continent's climate investment gap. Current projections suggest the global VCM may reach USD 30 billion by 2030, with Africa potentially capturing 25%, or USD 7.5 billion. While this is not negligible, it is a limited portion of the sum needed to close the investment gap in Africa. However, there is potential for this market to be much larger if compliance markets grow and national trading under Paris Agreement Article 6 is established. Maximizing Africa's potential in the VCM will require collaborative efforts to strengthen regulations, promote equitable practices, and enhance market capacity, ultimately facilitating climate finance and sustainable development across the region.

2.5.2 RISK MITIGATION INSTRUMENTS

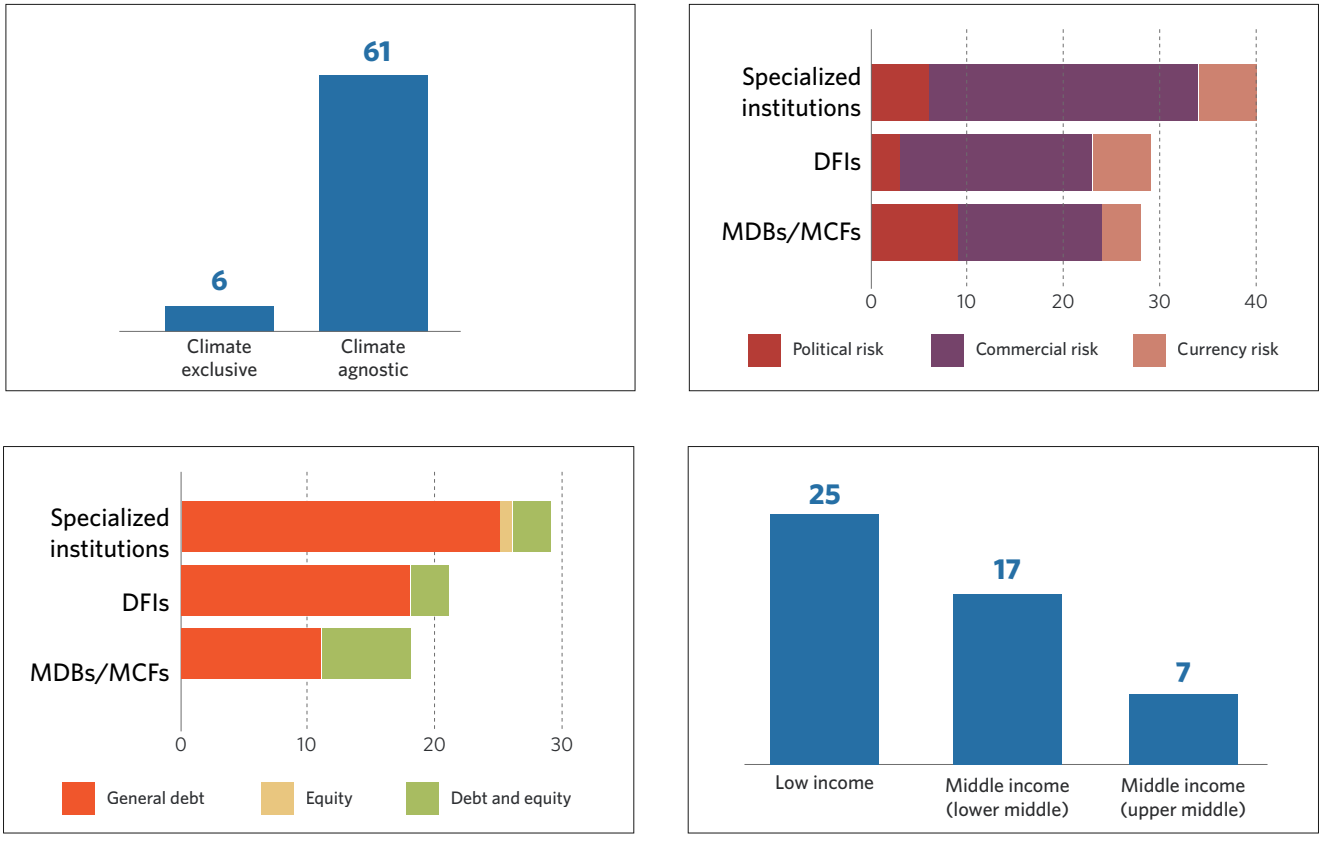
Risk mitigation instruments have an important role to play in response to the challenges of debt vulnerability, high cost of capital and worsening credit ratings. Various instruments can be deployed to change the risk profile of investments and increase the ability of public funds to leverage private investment increasing the efficiency of concessional finance.

GUARANTEES FOR CLIMATE FINANCE

With only four African countries—Morocco, Namibia, Mauritius, and Botswana—rated as investment grade, improving risk profiles, strengthening local debt markets and facilitating financial product diversification through guarantees can have a catalytic effect on Africa's climate finance.

Risk ratings for debt investment opportunities in Africa listed by the OECD DAC typically average between B and CCC, which is too high for most debt investors. High-risk classifications significantly affect the cost of local currency financing, which can vary in African countries from 12.8% to 29.5%, impeding climate investment (CPI 2023).

Figure 26: Guarantees Landscape in Africa



- **Improving risk profiles:** Guarantees can mitigate commercial, political, and currency risks, making climate investments more attractive to private investors and lowering borrowing costs. For example, the Multilateral Investment Guarantee Agency (MIGA)—which provided USD 1.9 billion in guarantees across 14 projects in Africa in 2023—has mobilized an average of USD 15 of private funds for every USD 1 deployed (World Bank, 2023c and 2024c).
- **Strengthening local debt markets:** Guarantees attract large institutional investors such as pension funds, insurance companies, and asset managers to emerging markets by mitigating perceived risks (see Box 3). By stimulating investment at scale, guarantees contribute to better-functioning debt capital markets creating both liquidity and market volume. An interesting example is InfraCredit, a Nigerian company that provides credit guarantees to improve local currency bonds to finance infrastructure projects. These guarantees strengthen the local financial market by helping to attract investment from local institutional investors such as pension funds and insurance companies into the Nigerian markets.
- **Facilitating product diversification:** Guarantees can also enhance credit products with aspects such as longer maturities, lower financing costs, and subordination.

One example combining the above benefits is Kenya's inaugural green bond, valued at USD 41 million, which was issued in 2019 by Acorn Holdings to finance the construction of green-certified student accommodation in Nairobi. The bond received a B1 credit rating from Moody's, surpassing Kenya's sovereign rating of B2 at the time of issuance, thanks to a partial credit guarantee from GuarantCo. This guarantee made the bond more attractive and also extended its maturity period and lowered financing costs. These favorable terms attracted a diverse group of investors, including Kenyan domestic pension funds, commercial banks, insurance and reinsurance companies, and non-resident funds.

THE LANDSCAPE OF GUARANTEES IN AFRICA

We analyzed 67 unique cross-border guarantee mechanisms that are available from 27 key entities to international debt and equity investors in Africa (see Annex B). This yielded the following insights:

Across Africa, guarantees are largely focused on debt investments reflecting the typical debt-heavy capital structures of African businesses and projects. While they can mitigate risks for various actors—lenders, debt providers, and equity investors—guarantees in Africa show significant bias toward debt investment. Of the 67 products analyzed, 54 exclusively covered debt investments, while the remaining 13 covered both debt and equity. Notably, only one product was focused exclusively on equity investments. This trend is consistent across different types of guarantor institutions. Specialized institutions, which act as the financial arms of DFIs to promote investment, provided only three products that included equity investments, and 26 that were debt focused. The limited availability of guarantees for equity is a significant barrier to investment. Equity investors, who tend to accept higher commercial risk than debt providers, still require hedging for political and currency risk in Africa. Providing guarantees for both types of financial flows and could foster a more balanced financial ecosystem.

There is balanced coverage of guarantee instruments between low-income (26) and middle-income African countries (24). However, some countries have received more guarantee instruments than others. Among middle-income countries, guarantees appear to be concentrated in Kenya, Ghana, Nigeria, and South Africa. This is likely to reflect a robust market for investment as well as strategic funding in line with the development priorities of the guarantee providers

in these countries. Also, these countries suggest that they have large economies or complex financial markets that necessitate sophisticated risk mitigation tools. Among low-income countries, Tanzania, Uganda, and Rwanda have considerable guarantee coverage. This could be due to focused efforts to promote investments in these countries, which are recognized for their progressive business environments despite their lower economic status. It is important to scale the provision of guarantee products for Africa's high-emitting countries, including South Africa, Egypt, Algeria, Nigeria and Morocco, which together account for 37% of the continent's CO_2 emissions from fossil fuels. Faced with the dual challenges of economic development and environmental sustainability, these countries require tailored financial instruments to reduce their risk profiles and accelerate their use of green technologies and practices.

The distribution of guarantees across sectors in Africa shows an investment focus on key development and sustainability objectives of the region. The high number of guarantees in the energy sector (17), including power generation, oil and gas, renewable energy, energy efficiency, and rural electrification, reflects the central role of energy projects in driving regional growth. Equal attention is given to infrastructure and development, with 17 guarantees aimed at improving transport, water, waste management, social infrastructure, and affordable housing. In contrast, agriculture and agribusiness received only four guarantees, reflecting the more limited focus on food security and climate adaptation efforts across the continent.

Climate-exclusive guarantees covering equity, political, and currency risks are crucial, especially in Africa's high-emitting countries. Simultaneously, countries must strengthen institutions, regulatory frameworks, and capital markets to ensure effective implementation

Most tracked guarantees are climate-agnostic, highlighting a gap for more tailored climate products, beyond for renewable energy. In recent years, there has been a significant proliferation of financial instruments designed to support climate finance. To assess the impact of these guarantees, they are categorized as either climate-agnostic (covering both climate-related and non-climate projects) or climate-exclusive (dedicated to climate-specific initiatives). Of the 67 instruments tracked, six were climate-exclusive and provided by specialized institutions, while 61 were climate-agnostic across all providers. Climate-exclusive guarantees can be tailored to the specific risks and financial structures of climate-related initiatives. DFIs and MDBs are collaborating to launch specialized facilities to achieve climate-specific goals. For example, the African Energy Guarantee Facility (AEGF)—a collaboration between the European Investment Bank (EIB), African Trade Insurance Agency (ATI), KfW, and Munich Re—was launched in 2018 to enhance long-term capital for Africa's energy sector through its investment and trade insurance services. While the tracked climate-exclusive guarantee instruments cover both mitigation and adaptation, there has been a notable focus on renewable energy projects across Africa to date.

More guarantees that specifically address political and currency risks would reduce investment risks (perceived and actual), improving the attractiveness of climate projects in Africa for the private sector. Across provider types, guarantees predominantly provide commercial risk coverage (63), with significantly lower coverage of political risk (18) and currency risk (16). Many African regions face civil wars and political unrest, heightening the risk of political instability and thereby increasing the cost of capital. Political risk is typically viewed as unpredictable and challenging to quantify, complicating the assessment of return versus risk for investment and insurance, as well as increasing the costs and complexity of related guarantees. Large MDBs, such as the World Bank via the MIGA, continue to be the main providers of political guarantees.

In addition to the challenges outlined in this analysis, several factors contribute to the reluctance of the private sector to fully utilize guarantees, despite their effectiveness as a risk mitigation tool to mobilize additional climate finance flows in Africa.

- **Guarantee coverage:** Partial credit guarantees, which cover only a portion of any loss, leave a residual risk that may not fully address the reluctance of private lenders to invest in risky markets such as Africa. In contrast, 100% guarantees, which cover the entire risk, can significantly accelerate private climate investment by completely removing the financial risk for lenders.
- **Additional barriers to the use of guarantees:** High transaction costs, a lack of standardized pricing, limited awareness of products designed to mitigate risks, and limited evidence of successful implementation further discourage the use of guarantees. In addition, most guarantee instruments are not yet ODA-eligible, creating a huge hurdle for their use in bilateral programs.
- **Micro and macro risks:** The effectiveness of guarantees in mobilizing private capital flows also depends on the underlying strength, bankability, and sustainability of project business models. It also depends on the strength of a country's institutions, regulatory framework, and domestic capital markets. Guarantees cannot be a substitute for these fundamental elements, which are essential for the effective implementation of guarantees.

INSURANCE

Insurers have multiple avenues through which they can influence climate outcomes in Africa. In their capacity as institutional investors, they can invest in assets that contribute to mitigation and adaptation goals for African countries, with options such as green bonds and climate-resilient infrastructure projects offering high suitability for these institutions. In their capacity as underwriters, they can help to derisk projects that have the ability to reduce emissions or boost climate resilience. Finally, insurers can also boost African businesses and households' climate resilience through the provision of accessible and affordable climate insurance.

The provision of climate insurance across African countries is patchy in terms of coverage, accessibility, and affordability. Agricultural insurance is a good proxy for 'climate insurance' given the vulnerability of African agricultural production to climate impacts. In 2020, agricultural insurance premiums in Africa stood at USD 322 million, less than 1% of the global agricultural insurance premium total despite Africa's unique need for such cover (Faber Consulting, 2023). While expenditure on premiums is not counted in this report's climate finance figures, a proportion of this USD 322 million will also contribute to increasing resilience by reducing financial vulnerability to hazards such as floods and droughts. This share of the global market is

broadly consistent with Africa's share of total global premiums written, which was around 1.6% in 2020. Over half of these premiums were made up by South Africa (Bright Africa, 2024). There are a range of microinsurance initiatives in operation, but these are often fragmented at the national and local levels and may have limited reach. Inadequate information on risk, particularly for small-scale farmers, can mean that private insurers build in buffers to their offered premiums (McGuinness et al., 2023), depriving agri-businesses and smallholders of access to affordable insurance products.

Parametric and index-based insurance hold the potential to accelerate and simplify the payout process for climate insurance in Africa. Payments are triggered when pre-specified thresholds for metrics (or indices of metrics) measure the severity of events such as floods or droughts. The immediate triggering of payments with no loss adjustment process can provide rapid access to liquidity following extreme weather events, helping to avoid cascading damages and improving financial resilience to climate events. Many of these schemes are being driven by climate startups. For example, Floodbase partners with smallholders in Malawi and Mozambique, utilizing satellite data to accurately model flood predictions and overcome a current dearth of accurate data currently holding back these instruments. It has the ability to reach 20,000 farmers, assuming premiums of less than USD 10 and payouts limited to USD 100. (Kaufman, 2024).

3. RECOMMENDATIONS

Despite growth of 48% in 2021/22 to USD 43.7 billion, up from USD 29.5 billion in 2019/20, Africa's climate finance faces an enduring gap, estimated at USD 146.4 billion annually. To deliver low-emission, climate-resilient growth across the continent, both the quantity and quality of climate finance needs to be urgently scaled. To this end, CPI lays out the following recommendations per actor group, building on promising opportunities and persisting challenges.

1. DOMESTIC GOVERNMENTS

Domestic governments—at both the federal and state levels—must establish an ambitious enabling environment to mobilize domestic and international capital, while ensuring that fiscal policies are aligned with national climate transition pathways. Specifically, they can:

a. **Articulate costed and investment-ready climate action plans that are well-integrated across sectors and with existing development priorities:** Establishing robust and investable NDCs, NAPs, and Long-Term Strategies (LTSs) is a prerequisite for attracting climate finance and moving to implementation on the ground. While 38 of Africa's 54 countries had submitted updated NDCs as of 2021, the quality and ambition of these assessments vary. Notably less progress has been made on NAPs and LTSs (Africa NDC Hub, 2021[30]). Following the first Global Stocktake of progress on the Paris Agreement goals, countries have until 2025 to update and ratchet up the ambition of their NDCs. These climate action plans—which serve an important signaling function to private investors—should be costed by sector to determine how much and what kinds of finance (public or private; concessional or market-rate) are needed to deliver on time-bound targets. Ideally, they would be underpinned by a pipeline of example (bankable) projects to connect the planning process with subsequent They should also be well-integrated across sectors and with existing economic and social development priorities.

b. **Strengthen the role and capacities of finance ministries to engage with, and catalyze, climate action:** As the Coalition of Finance Ministers for Climate Action[31] has demonstrated, finance ministries have a leading role to play in incentivizing climate-informed public expenditure, using fiscal tools at their disposal to reduce emissions and stimulate green growth (CFMCA, 2022). To this end, key action items include: Aligning ministerial policies and practices with Paris Agreement targets; implementing a regulatory framework for effective carbon pricing; integrating climate change considerations into macroeconomic policy, budgeting and procurement practices; establishing monitoring, reporting, and verification systems to tag and track public expenditure on climate action; engaging with UNFCCC processes and the preparation of associated policy and planning documents (NDCs, NAPs and LTSs); and, ultimately, working to mobilize additional private climate finance (CFMCA, 2022). Overall, well-functioning intra-governmental coordination across ministries is required to ensure a whole-of-government approach to climate action.

30 Seven NAPs and two LTSs have been submitted by African countries.
31 Bringing together fiscal and economic policymakers from over 90 countries in leading the global climate response and transition toward low-carbon, climate-resilient development.

c. **Reconfigure fiscal policies to favor climate and nature-positive outcomes:** Fossil fuel subsidies continue to dominate African countries' fiscal expenditure despite evidence that they are generally a costly and inefficient means of providing support to lower-income households and businesses, with most of the benefits ultimately captured by higher-income fuel users or accrued as resource rent (ODI, 2024). In 2022 alone, the Nigerian government spent almost $10 billion on fuel subsidy payments, approximately 4 times more than the country's total climate finance that year. Reconfiguring fiscal policies to favour climate and nature-positive outcomes – through climate-positive subsidies or carbon pricing – is a key step for governments to induce domestic climate action and protect valuable natural assets. Acknowledging political difficulties in practice[32], part of this may include redirecting climate-harmful fossil fuel subsidies to create a level playing field in which low-carbon investments may proliferate. Given the health costs linked to fossil fuel use, as a result of air pollution, redirecting public money to climate-aligned activities will also yield significant social benefits. Any foregone climate-harmful expenditure may also be used to alleviate the fallout from mitigation policy, ensuring safety nets and a just transition for vulnerable communities.

d. **Enhance institutional infrastructure to receive and manage climate finance:** It is important to create the institutional arrangements for accessing, coordinating, and mobilizing climate finance; a means through which to provide transparency to donors while ensuring country ownership over funds and funding priorities (Bhandary, 2022). For example, national climate change funds can be a vehicle for fostering and centralizing the institutional infrastructure required to receive, aggregate, and mobilize climate finance from a range of sources (domestic and international governments; international/multilateral actors; corporation tax; carbon pricing). To date, 13 African countries have established some form of national climate change fund.[33] Whether countries establish fund or adopt some other institutional arrangement to manage their climate finance, the objective should be pursuing national priorities within a broader climate mandate, underpinned by strong governance frameworks to ensure accountability and transparency on the use of funds. There is also scope for governments to pursue partnerships with private actors who have the requisite skills to manage blended funds (for example, through the use of private fund managers). Such institutional arrangements may also act as a precursor to establishing so-called country climate and development investment platforms, increasingly emerging as an internationally preferred means of channeling and managing climate finance in EMDEs (IHLEG, 2022).

e. **Build domestic capital markets, incentivizing domestic institutional investors to play a fuller role alongside national development banks in climate-positive investment:** It is essential to enact regulatory reforms and encourage capacity-building initiatives needed to grow domestic capital markets, and address the essential need to increase the availability of long-term local currency funding. Regulatory reforms could include relaxing the restrictions on subnational borrowers (e.g., cities) to allow them to issue bonds, or requiring pension funds to invest a minimum proportion of assets under management in alternatives, such as green bonds. Governments could play a facilitative role by strengthening processes for private-public partnerships, identifying sectors or assets that would be suitable for private investment

32 The sudden withdrawal of fuel subsidies in Nigeria in 2023 had regressive consequences for low-income households long-dependent on the subsidy, leading to severe public backlash.

33 The African countries to have established some form of national climate change fund are Algeria, Benin, Burkina Faso, Chad, Cote d'Ivoire, Democratic Republic of Congo, Ethiopia, Namibia, Rwanda, Senegal, South Africa, Tunisia, ad Zambia.

by domestic investors (such as electricity transmission or water), and backing prospective transactions with appropriate guarantees.

2. INTERNATIONAL PUBLIC CLIMATE FINANCE PROVIDERS

Using the scarce concessional resources at their disposal, multilateral/bilateral DFIs, climate funds, and international governments should seek to reduce affordability constraints, de-risk private investment, and provide much-needed project preparation support and capacity-building, pursuing a more coordinated programmatic approach wherever possible (over isolated project-level investments). Specifically, they should:

a. **Mitigate debt distress:** While 21 African countries are considered either at high risk of, or already in, debt distress (IMF, 2024), 51% of total African climate finance in 2021/22 was channeled as debt. International public climate finance providers should step-up, or support, approaches that seek to mitigate debt distress, wherever possible. To this end, possible action items include: a) engaging in readiness activities for sustainable debt instruments (for example, defining climate KPIs against which a debt-for-climate swap could be measured, as well as the governance frameworks needed for implementation); b) putting in place treasury management or hedging instruments that allow DFIs to more easily use local currencies for long-term projects c) stepping-up support for climate-related disaster risk financing (such as catastrophe bonds) and other anticipatory instruments and d) consider extending more grants to LMICs at high and moderate risk of debt distress, as most financing they receive, particularly from DFIs, is debt-based. There is also scope for encouraging countries to further engage with private insurance and re-insurance, whether at a domestic or international level.

b. **Scale the use of guarantees:** Predominantly used to mitigate commercial (project) risk, with potential application to currency and political risk, evidence indicates that guarantees are an effective means of unlocking private finance, with associated mobilization rates between 6-25 times more than loan financing (CPI, 2024b). Indeed, guarantees (from public finance providers) are rarely actually called upon and, therefore, offer a catalytic approach without depleting limited public resources, either applied to individual transactions or, more innovatively, at a broader portfolio level, allowing recipients to leverage their balance sheets (ODI, 2024). Subject to the particular sector and use case (for example, more monetizable renewable energy projects), international public climate finance providers should step up their use of guarantees to improve the risk-return equation and crowd-in additional, more risk-averse private capital. In the case of the MCFs which contribute relatively very little in the global landscape but have scarce, highly concessional finance at their disposal, supporting more financial structures that use risk mitigation instruments—subject to the particular geography and sector—is a viable option for enhancing their own catalytic potential (IHLEG and CPI, forthcoming).

c. **Further pursue and incentivize leverage of the private sector:** Despite increases in the Americas and Asia over the same time period, private finance mobilized by multilateral public actors in Africa decreased between 2019/20 and 2021/22. International climate finance providers should review their mobilization strategies to better leverage scarce concessional finance, delivering impact at scale. This may include setting clear mobilization goals, which can be reviewed periodically to adjust for evolving market conditions, and which may be tailored according to particular sectors or regions. Incentivizing leverage of the private sector as a key performance indicator for internal staff is another important component. While co-

financing and leverage ratios are in themselves critical objectives, mobilization can also be thought of in broader, more holistic terms, beyond purely monetary indicators: for example, mobilization through market creation, reducing market imperfections, and filling skills or infrastructure gaps. In addition, MDBs and DFIs should shift their strategies from "originate to hold" to "originate to sell" and commit to recycling their assets more frequently through portfolio transfer securitizations. This would free up their balance sheets, encourage the origination of more transactions, and potentially deepen local private capital markets, if local institutional investors participate in these securitization vehicles.

d. **Build the pipeline and visibility of bankable projects:** While several African countries boast high rates of entrepreneurship, with various national plans prioritizing the development of domestic capital markets, there is often an absence of bankable climate projects that can attract investment. International public climate finance providers have a key role to play in building the project pipeline, providing early upstream support (via grant funding and in-kind technical assistance) to facilitate pre-feasibility studies and early-stage design. An emphasis can be placed on project preparation for less commercialized activities (i.e. adaptation) or hard-to-abate sectors (industry and infrastructure), including much-needed technology transfer. Where project pipelines do exist, international climate finance providers should actively engage with private actors to build visibility of and access to the support options that are available to them. There is also scope for implementing project preparation support at a regional, rather than strictly national, level; for example, the Regional Platform for Climate Projects (RPCP, 2024).

e. **Re-evaluate eligibility requirements for accessing climate finance:** There are still stark imbalances across the continent in the way that climate finance is distributed, with a clear bias toward larger economies that have higher capacity to absorb large-scale funding. Though this imbalance is somewhat understandable—reflecting the need for robust institutional apparatus and accountability frameworks to ensure appropriate use of donor finance—more efforts should be made to reach smaller, more vulnerable countries. This can help to ensure that large parts of the continent, housing significant populations, are not left behind on climate finance. This may require a change in eligibility requirements for countries to access climate finance, building capacity and providing readiness support, or changing the mix of financial instruments used (that is, providing more grant funding instead of the current emphasis on capital recycling). Importantly, the recent G20 review of the climate and environmental funds stresses the need for streamlining processes both within and between the four key funds,[34] proposing options for enhancing the efficiency and effectiveness of their operations, moving forward (IHLEG and CPI, forthcoming).

f. **Build capacity of African financial institutions—such as pan-African banking groups, locally based pension funds and insurance companies, and national development banks—to evaluate and act on climate risks.** This could also include a concerted effort to increase their membership in international financial initiatives such as the UN Principles for Responsible Investment and Banking, and the International Development Finance Club – and to provide these institutions with the resources to participate actively. Capacity building could also include strengthening skills to apply for GCF funding in addition to accreditation.

34 The four key global environmental and climate funds covered are the Adaptation Fund, the Climate Investment Funds, the Green Climate Fund, and the Global Environment Facility.

3. REGIONAL AND NATIONAL DEVELOPMENT BANKS

Leveraging their knowledge of local markets, needs, and capacities, regional and national development banks (RDBs and NDBs) can act as a much-needed bridge between international climate finance, capital markets, and local entrepreneurs while working to mainstream climate considerations across all new investments. Specifically, they can:

a. **Blend and bridge resources (from international providers) to catalyze domestic action:** RDBs and NDBs play an important intermediary or bridging function. On the one hand they can blend their own resources with those of international public climate finance providers, taking junior positions in the capital stack to mobilize private capital at scale; on the other, they may on-lend to other local FIs, with the aim of passing on any concessionality to end-borrowers, especially MSMEs which form the bedrock of African economies (ODI, 2020).

    i. With regards to the former function, African RDBs and NDBs should seek accreditation to multilateral climate funds to increase their resource base. To do so, they can pursue peer-to-peer learning with other RDBs/NDBs on the continent that have successfully navigated the process; for example, the Development Bank of Nigeria, which was recently accredited to the GCF.

    ii. With regard to the latter, RDBs and NDBs offer a vehicle to ensure top-down climate agendas translate into access to affordable climate finance on the ground, provided that a pipeline of bankable projects is in place. An important component will be supporting and encouraging local FIs to mainstream climate considerations into their own operations and portfolios.

c. **Support domestic sustainable bond markets:** Building domestic green bond markets in Africa is essential for tapping into assets-under-management under pension funds, insurance companies, collective investment schemes, and banking sector assets, estimated at USD 2.4 trillion (Systemiq, et al, 2024). Green bonds are beginning to emerge as distinct asset class in Africa; recent issuances by companies as diverse as CRDB Bank in Tanzania and Burn Manufacturing, a Kenya-based manufacturer of clean cookstoves, indicate the versatility of green bonds as an instrument for mobilising capital and delivering environmental benefits at the same time. Domestic development banks could play a catalytic role in supporting green, municipal bond issuance in their respective countries, providing a demonstration effect to other potential (corporate) issuers (World Bank 2024a). Indeed, there is a viable pathway whereby RDBs/NDBs help to build a pipeline of bankable green projects (in coordination with, or utilising the project preparation support from, international climate finance providers), aggregating these to issue green bonds (ODI, 2023). For example, the Development Bank of Rwanda (BRD), with support from international public climate finance providers, recently issued an inaugural Sustainability-Linked Bond (SLB) in local currency, a results-based financing instrument that attracted demand from 100+ different investors, allowing BRD to augment its funding base (otherwise dependent on limited public resources) for sustainable development (World Bank, 2023b).

d. **Mainstream investment in climate-resilient infrastructure:** Filling the infrastructure gap is a top priority for African countries, with an estimated annual financing gap of USD 68 billion to USD 108 billion (AfDB, 2023b). Since RDBs and NDBs play a key role in providing early-stage infrastructure financing, or enter into private-public partnerships to co-finance large-scale infrastructure projects (ODI, 2020), they can take a leading role in ensuring that all new and

future infrastructure is designed with climate resilience in mind, responding to anticipated climate risks and avoiding maladaptation to the extent that is possible. To this end, RDBs and NDBs should mainstream climate risk assessments (CRAs) across operations. This requires additional data and capacity to conduct evaluations of exposure, sensitivity, and vulnerability to prospective climate hazards. Given limited RDB/NDB resources and the technical demands of CRAs, international public climate finance providers can provide support to build this essential capacity for designing and delivering climate-resilient infrastructure.

4. PRIVATE SECTOR

The range of different private sector actors, from large institutional investors to MSMEs, should seek out and invest in the multitude of business opportunities for green, resilient growth in Africa, taking advantage of growing pools of concessional finance and guarantees, while integrating climate risk management from the outset into decision-making. Specifically, they can:

a. **Recognize the first-mover advantages in pursuing opportunities in Africa's nascent green industry:** The domestic private sector currently plays only a limited role in the African climate finance landscape, accounting for 7% of the continent's total climate finance in 2021/22, most of which was for energy-related mitigation activities. Nonetheless, there are increasing opportunities for investing in Africa's green industrial development, which may favor first-movers—for example, in the energy sector, transport, clean cooking, climate-smart agriculture, and waste management—and where carbon finance can mitigate financing risks. There is an abundance of support available from donor-funded organisations for technical assistance and project development for climate-positive investment and both concessional finance and guarantees that can be used to de-risk early-stage investment.

b. **Pursue emerging business opportunities in adaptation:** Tracking of private finance, especially adaptation finance from domestic private actors,[35] has remained limited. However, there is scope to pursue adaptation out of self-interest, both to reduce their own vulnerability to climate risk and as a new business opportunity. For example, providing climate data analytics, early-warning systems, and drought-resistant seeds, among others. Access to adaptation-related insurance policies will be especially important as climate risk escalates across the continent, particularly for African agriculture and agricultural SMEs therein. For example, the Africa Climate Risk Insurance Facility for Adaptation, using initial concessional, high-risk capital and grants, is working to stimulate the uptake of adaptation insurance solutions via primary insurers and regional reinsurers across the continent (AfDB, 2023c).

c. **Mainstream sustainability into investment strategies and financial decisions:** Domestic private actors are highly exposed to both physical risks (asset damage from climate impacts) and transitionary risks (stranded assets from regulatory and market shifts). As such, it is essential that climate change is mainstreamed into all investment strategies and financial decision-making by commercial FIs, asset managers, and pension funds, among others. This will require building in-house capacity to assess and manage climate risks as well as conducting GHG emissions assessments to determine the extent of transition risk. Subject to regulatory enforcement, disclosures, and reporting on portfolio exposure will be an important aspect, reducing information asymmetries and helping actors to proactively

35 Reflecting both genuinely limited engagement to date, as well as tracking issues due to an absence of data and mandatory disclosures.

manage prospective risks (WRI, 2024b). Indeed, Nigeria and Kenya's intention to adopt the International Sustainability Standards Board's Sustainability Disclosure Standard is a step in the right direction, but more African countries are yet to declare readiness for such reporting (AB, 2024). Ultimately, this process should inform, if not incentivize, the transition away from high-carbon assets toward climate-aligned investments.

4. MULTIPLE STAKEHOLDERS

Recognizing overlaps between these different actor groups and their respective priorities, certain action items cut across multiple stakeholders and demand a whole-of-society approach. Specifically, stakeholders should:

a. **Better integrate climate and development objectives:** Across the continent, national priorities largely center on job creation, energy access, adequate water, sanitation, and hygiene (WASH) services, quality housing and infrastructure, sustainable agriculture, and access to health and education. Where at all possible, climate change considerations can and should be fully integrated into these business-as-usual priorities. For governments, that could involve more integrated planning, for example, linking NDCs and NAPs with energy transition plans or infrastructure development plans; for DFIs, that could mean mainstreaming GHG emission assessments and CRAs for all new projects, or as a condition for on-lending. For private actors, that may involve more calculated and dynamic investment strategies to avoid stranded assets later in time and to reduce vulnerability to climate risk. Better integrating climate and development priorities also means pursuing synergies between complementary objectives (including climate action and protecting nature; improving health outcomes; reducing gender inequality; and job creation) and pricing the full range of (non-market) benefits into financial analyses and associated investment decisions. Finally, there is a need to effectively communicate the local and personal benefits of climate-aligned development so as to galvanize buy-in across society.

b. **Build capacity, skills, and awareness to implement effective climate action:** Across the continent and across actors, there is a need to build capacity, skills, and awareness so as to mainstream climate action and ensure a "whole-of-society" approach. International climate finance providers can step up their provision of technical assistance and skills development (using their scarce concessional resources), ensuring key (public and private) stakeholders are able to engage with the opportunities for low-emission, climate-resilient growth. Domestic governments may also look to better leverage and learn from existing resources, such as the UNFCCC capacity-building portal, which offers a range of tools, projects, and courses to enhance capacity for tackling climate change in developing countries, whether at a regional, national, or local level (UNFCCC, 2024). Finally, raising awareness of the nature and implications of the climate crisis, and the tangible, personal benefits of climate action, can be a key step toward catalyzing action from the ground up.

c. **Embrace carbon market development:** Public and private institutions must intensify their efforts to scale the Voluntary Carbon Market (VCM) in Africa across all fronts. Capacity-building initiatives are crucial for crafting suitable market policies, developing project standards, establishing rigorous regulatory bodies, and launching national registries, all of which are vital for maintaining a high-integrity market. This approach will promote better equity among local communities, project developers, brokers, and buyers. Enacting strategies for protecting and enhancing natural capital and biodiversity will also help

spur the flow of carbon finance. Philanthropic organizations, DFIs, and MDBs can provide concessional capital and technical assistance during the early stages of project development to mitigate investment risks. Streamlining due diligence through standardized procedures on a centralized trading platform can reduce friction between buyers and sellers. These efforts are essential for building trust among all market stakeholders and unlocking the full potential of the VCM for Africa. Additionally, robust domestic carbon markets with strong integrity could help mitigate the impact of trade disruptions caused by policies like the EU's Carbon Border Adjustment, which may expand to other regions of the Global North.

d. **Increase the quantity, quality, and accessibility of data:** Ensuring relevant, high-quality data is available and accessible is an essential step for measuring and, in turn, better-managing progress toward climate targets and identifying gaps and opportunities in the landscape. Moreover, data and disclosures can help reduce information asymmetries that, in effect, stifle climate investment. Indeed, evidence indicates that perceptions of high financial risk translate into higher cost of capital for African countries compared to other countries that nonetheless have similar sovereign credit ratings (BCG, 2024). Various actors have a role to play in this regard: For governments, it might involve more, or more stringent, regulation to mandate disclosures regarding financial institutions' green or climate portfolios; for international public climate finance providers, this means providing publicly accessible databases that offer transparency on climate finance commitments (and disbursements), including data on private finance mobilized. The partial publication of the GEMS database in 2024 represents progress in this regard (providing valuable insight into the risk profile of different asset classes in EMDEs), but further data granularity on public actors' track records in these markets is needed to mobilize additional private investment, especially from risk-averse institutional investors. Importantly, across all actors, more effort needs to be dedicated to reporting on the outcomes and impact of climate finance to generate and share learnings on what works and what may be scaled accordingly.

ANNEX A: CLIMATE BUDGET TAGGING IN AFRICA

Country	CBT Status	Climate Budget (USD M)						Source
		2017	2019	2020	2021	2022	2024	
Botswana	Developed						111	Ministry of Finance Annual Budget
Cabo Verde	Developed					33		AFDB Country Focus Report 2023
Ethiopia	In Development							Inclusive Budgeting and Financing for Climate Change in Africa
Ghana	Developed		115	347				BUR
Ivory Coast	In Development							Global Centre for Adaptation
Kenya	Developed		724	893				World Bank
Madagascar	In Development							Technical Assistance Report – Climate Macroeconomic Assessment Program
Mauritania	In Development							IMF
Mauritius	Developed				498			BUR
Namibia	In Development							Nambia's Landscape of Climate Finance
Niger	In Development							Inclusive Budgeting and Financing for Climate Change in Africa
Nigeria	In Development							BUR
Rwanda	Developed	120	252				563	BUR; Rwanda Public Expenditure and Institutional Review for Environment and Climate Change; Rwanda Climate Budget Statement
Sierra Leone	In Development							Inclusive Budgeting and Financing for Climate Change in Africa
South Africa	In Development							Inclusive Budgeting and Financing for Climate Change in Africa
Togo	Developed							Togo Green Budget
Uganda	Developed, Not Published							Inclusive Budgeting and Financing for Climate Change in Africa

ANNEX B: LIST OF GUARANTEE PROVIDERS IN AFRICA

Institution	Guarantee Name/ Description
MDBs and MCFs (5)	
African Development Bank (AfdB)	Partial Risk Guarantee (ADF-PRG)
	Partial Credit Guarantee (ADF-PCG)
European Investment Bank	Guarantees in support of SMEs, mid-caps and other objectives
	Credit enhancement for project finance
Green Climate Fund (GCF)	Private Sector Facility: Partial Credit Guarantee
Islamic Development Bank through the Islamic Corporation for the Insurance of Investment Export Credit (ICIEC)	Foreign Investment Insurance Policy (FIIP)
	Bank Master Policy (BMP)
	Documentary Credit Insurance Policy (DCIP)
	Comprehensive Short-Term Policy (CSTP)
	Specific Transaction Policy (STP)
	Credit Insurance
MIGA	Partial and Full Credit Guarantees
	Partial Credit Guarantees for Bonds
	Unfunded Risk Participation
	Risk Sharing
	Synthetic Risk Transfer
	Non-Honoring of Financial Obligations Guarantees
	Policy-Based Partial Loan Guarantee
DFIs (8)	
Agence Française de Développement (AFD)	ARIZ - Risk Sharing
	FASEP
	Public Payment Guarantee
	Cityriz guarantee
	Euriz guarantee
	MENA guarantee
British International Investment(BII)	Credit guarantees
BOAD/West African Development Bank (WADB)	Personal Guarantees
	The GARI Fund
	Bond guarantees
	Loan guarantee - project-level

Institution	Guarantee Name/ Description
The Development Bank of Southern Africa (DBSA) - Green Fund	Guarantees provided
KfW Development Bank	Promotional Loans: Risk Sub-Participations and Loan Guarantees
Swedish International Development Cooperation Agency (Sida)	Sida Guarantee Portfolio
Trade and Development Bank The Eastern and Southern African Trade and Development Bank (PTA Bank)	Loan guarantees
United States Development Finance Corporation (DFC)	Political Risk Insurance
	Loan guaranty to the Middle East Investment Initiative (MEII)
	Loan Portfolio Guarantee
Specialized Institutions (14)	
Africa Co-Guarantee Platform (CGP)	Pools the products of ADB, ATI, AUDA-NEPAD, GurantCo, ICIEC and Afreximbank across Africa into a one-stop shop
African Solidarity Fund	Bank Loan Guarantee
	counter-guarantee of individual bonds
	Counter-guarantee for import-export transactions
	Guarantee to raise funds on financial markets
Africa Trade & Investment Development Insurance (ATIDI)	Political Risk Insurance
	Credit Risk Insurance
	Reinsurance
African Guarantee Fund (AGF) Green Guarantee Facility	This facility is intended to enhance access to finance for climate and green growth-oriented SMEs.
African Guarantee Fund for Small and Medium Enterprises	Loan Individual Guarantee (LIG)
	The Bank Fundraising Guarantee (BFRG)
	Equity guarantees
	Portfolio guarantee
African Trade Insurance Agency (ATI)	Trade Credit Insurance
	Surety Bonds
	Reinsurance/Political Violence, Terrorism and Sabotage Insurance
Afrieximbank, the African Export-Import Bank	Short term trade guarantee solutions (include Letter of Credit Confirmation Guarantee Facility, Country Risk Guarantee Facility and Letter of Guarantee Facility).
	Working capital guarantee program and supply chain finance guarantee
	Medium and Long-Term Guarantee
	Bonding Facilities
	Collaborative Transit Guarantee Scheme
Dhamana Guarantee Company	Local currency credit guarantees
European Fund for Sustainable Development (EFSD) Plus	Open Architecture Guarantees

Institution	Guarantee Name/ Description
GuarantCo	Local currency loan and bond guarantees
InfraCredit	Contingent Refinancing Guarantee Product
	Annuity PPP Guarantee Product
	Financial Guarantee
Regional Liquidity Support Facility (RLSF) - (ATIDI, Kfw, BMZ)	RLSF is a guarantee instrument provided by ATIDI to renewable energy Independent Power Producers (IPPs) that sell the electricity generated by their projects to state-owned power utilities.
The Africa Energy Guarantee Facility (AEGF)	Re-insurance policies mobilizing local insurer's capacity for the provision of credit and political and commercial risk insurance to investors and lenders
The Green Guarantee Company	Bond and loan guarantees

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