

**Economic and Social Council**Distr.: General
21 December 2023

Original: English

**Economic Commission for Africa
Committee of Experts of the
Conference of African Ministers of Finance,
Planning and Economic Development**
Forty-second meeting
Victoria Falls, Zimbabwe (hybrid), 28 Feb–1 Mar
2024

Item 5 of the provisional agenda*
**Presentation on the theme of the fifty-sixth
session of the Economic Commission for Africa**

**Economic Commission for Africa
Conference of African Ministers of Finance,
Planning and Economic Development**
Fifty-sixth session
Victoria Falls, Zimbabwe (hybrid), 4 and 5
March 2024

Item 3 of the provisional agenda**
**Dialogue on the theme of the fifty-sixth session
of the Economic Commission for Africa**

Issues paper**Financing the transition to inclusive green economies
in Africa: imperatives, opportunities and policy
options****I. Objective**

1. Africa faces persistent hurdles that have undermined its efforts to achieve sustainable development. Halfway through implementing the 2030 Agenda for Sustainable Development, the continent is off track to meet most indicators and has even regressed in some areas. The first 10-year implementation plan for Agenda 2063: The Africa We Want, of the African Union, has just ended, with achievements in some areas and shortcomings in others. The present issues paper highlights the imperatives, opportunities and policy options for transitioning to inclusive green economies in Africa, in line with the political declaration of the Sustainable Development Goals Summit and the Nairobi Declaration on Climate Change and Call to Action, of the Africa Climate Summit, held in September 2023, and in support of the realization of the seven moonshots of the second 10-year implementation plan of Agenda 2063. It will inform the proceedings of the forty-second meeting of the Committee of Experts and the fifty-sixth session of the Conference of African Ministers of Finance, Planning and Economic Development, the outcomes of which will contribute to the formulation of common African positions for the Summit of the Future. It is in this context that the fifty-sixth session will be held under the theme “Financing the transition to inclusive green economies in Africa: imperatives, opportunities and policy options”.

* E/ECA/COE/42/1.

** E/ECA/CM/56/1.



II. Imperatives of financing the transition to inclusive green economies in Africa

A. Sustainable Development Goal financing gap

2. *World Investment Report 2023* highlights an increasing annual investment shortfall that developing nations are encountering in their efforts to attain the Sustainable Development Goals by 2030. The current disparity stands at over \$4 trillion annually, a significant increase from the \$2.5 trillion recorded in 2015, when the Goals were set out in the 2030 Agenda.¹ The annual cost from 2023 to 2030 for developing countries to achieve the Goals varies between \$6.9 trillion and \$7.6 trillion, depending on the chosen pathway.² Investment flows in infrastructure and the main enabling sectors are very limited, however. According to the report *World Energy Investment 2023*, of the approximately \$10 trillion invested in clean energy technology globally between 2015 and 2022, only about \$211 billion (about 2 per cent) was in Africa.³ The African clean energy transition will require an annual investment of about \$190 billion over the period 2026–2030.⁴ To achieve the nationally determined contributions of African countries will require close to \$3 trillion of conditional and unconditional finance by 2030, a sum close to one year of African gross domestic product (GDP) in current terms.⁵ The Economic Commission for Africa (ECA) has estimated that to make significant progress in providing access to electricity, African installed electricity capacity must double to at least 500 GW by 2023 and increase fivefold by 2025, requiring investment on the order of \$500 billion and \$2 trillion by 2030 and 2050, respectively.⁶

3. The actual expenditure to achieve the Goals in Africa is below the level that is needed. Inadequate action to achieve the Goals has resulted in a vicious circle: investment shortfalls increase exposure to risk, exposure to risk worsens the impact of those risks and the impact restricts fiscal space, increasing financing costs and investment shortfalls.

B. Climate finance gap

4. Climate change poses serious risks to the attainment by African countries of development objectives set out in various national development plans, Agenda 2063 and the 2030 Agenda. The adverse impact of climate change, in particular in important sectors, such as agriculture, energy, water, transport and ecosystems, are estimated to already cost African countries on average 5 per cent of GDP per year.⁷ The continent must close huge development gaps through substantial investment in those sectors. The nationally determined contributions of African countries will cost an estimated \$2.8 trillion, but those countries have indicated that they can mobilize only approximately \$264 billion

¹ *World Investment Report 2023* (United Nations publication, 2023).

² United Nations Conference on Trade and Development, “The costs of achieving the sustainable development goals”.

³ International Energy Agency, *World Energy Investment 2023* (Paris, 2023).

⁴ *Ibid*, *Africa Energy Outlook 2022* (Paris 2023).

⁵ Economic Commission for Africa, “The ‘SDG7 Initiative for Africa’: accelerating clean energy investments for access and climate ambition in Africa”, paper prepared for the third Africa Business Forum, Addis Ababa, February 2020.

⁶ ECA, “What constitutes a just and equitable transition for Africa? Who defines it? Opportunities and challenges”, paper presented at the fourth Africa climate talks, Maputo, July 2022.

⁷ ECA models show that African countries are likely to lose up to 5 per cent of GDP in the event of an increase in temperatures of 2°C. In some areas, such as the Sahel, and in higher warming scenarios, the losses may be as high as 15 per cent. See, for example, ECA, *Building Forward for an African Green Recovery* (Addis Ababa, 2021) and Florent Baarsch and Michiel Schaeffer, *Climate Change Impacts on Africa’s Economic Growth* (Abidjan, African Development Bank, 2019).

from domestic resources, which amounts to a shortfall of about \$2.5 trillion by 2030.⁸ The World Bank estimates that the equivalent of 10 per cent of African GDP in 2022 must be mobilized beyond current annual flows over the coming decade to meet climate finance requirements.⁹ In 2020, total annual climate finance flows to Africa from domestic and foreign sources were only \$29.5 billion, accounting for only 11 per cent of total need.¹⁰ Moreover, the portion of global investment flowing to Africa has decreased over the past five years, indicating underlying structural issues. Only 0.6 per cent of global climate finance was deployed for renewable power-generating projects in Africa in 2021, the lowest in eleven years.¹¹

C. Growing public debt burden

5. The public debt burden in Africa has worsened during the past decade. The average debt-to-GDP ratio on the continent has sharply increased since the 2010s, from 39.49 per cent in 2010–2014, to 56.21 per cent in 2015–2019 and 70.47 per cent in 2020.¹² According to the International Monetary Fund (IMF), 8 African countries were in debt distress and 13 were at a high risk of debt distress in November 2023.¹³ As highlighted by the Secretary-General, 57 per cent of African countries spend more on external debt interest payments than they invest in health care,¹⁴ and almost all spend more on interest than they invest in climate action.

6. Volatile commodity prices, persistent fiscal deficits, external shocks, such as the coronavirus disease (COVID-19) pandemic and the associated economic slowdown, conflict and monetary policy tightening, are some of the factors contributing to the debt burden. African countries pay approximately 1.7 percentage points more in interest than countries from other regions, after accounting for government effectiveness and macroeconomic variables.¹⁵ The figure shows the evolution of the government gross debt-to-GDP ratio in Africa and its subregions from 2020 to 2025.

⁸ Sandra Guzmán and others, “The state of climate finance in Africa: climate finance needs of African countries” (Climate Policy Initiative, 2022).

⁹ Sandra Guzman and others, “The state of climate finance in Africa: Climate finance needs of African countries” (Climate Policy Initiative, 2022).

¹⁰ Chavi Meattle and others, *Landscape of Climate Finance in Africa* (Climate Policy Initiative, 2022).

¹¹ Res4Africa Foundation, *Africa’s Energy Future Is Renewable* (Rome, 2023)

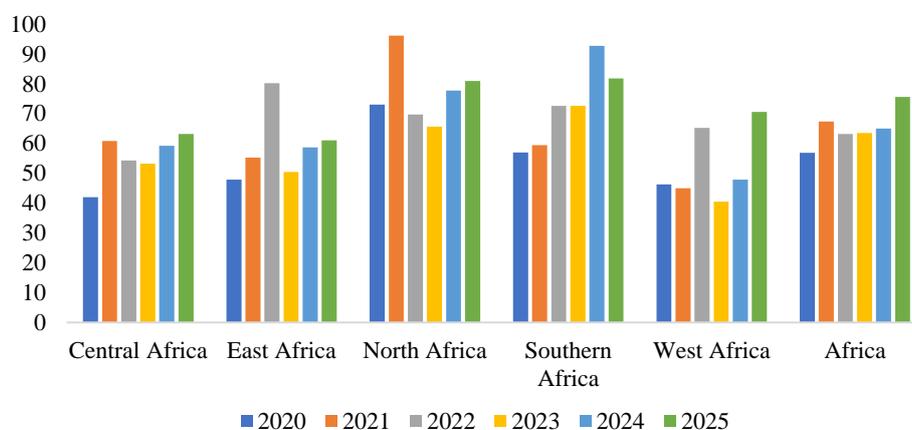
¹² ECA, *Debt and Finance Profiles: Africa* (Addis Ababa, 2023).

¹³ IMF, “List of LIC DSAs for PRGT-eligible countries as of November 30, 2023”.

¹⁴ António Guterres, Secretary-General, in remarks for the high-level policy dialogue of the Africa Dialogue Series titled “Market and Scale: Unlocking Industrialization through Intra-Africa Trade”, New York, 24 May 2023.

¹⁵ ECA, *Debt and Finance Profiles: Africa*.

Figure
Government gross debt-to-GDP ratio in Africa and its subregions, 2020–2025
(Percentage)



Source: IMF, *World Economic Outlook, October 2023: Navigating Global Divergences*.

D. Inadequate domestic resource mobilization

7. Tax collection in Africa is low as a percentage of GDP, compared with other regions. The unweighted average tax-to-GDP ratio of reporting African countries¹⁶ in 2020 was 16.0 per cent, below the averages of countries in Asia and the Pacific (19.1 per cent), Latin America and the Caribbean (21.9 per cent) and the Organisation for Economic Co-Operation and Development (OECD) (33.5 per cent).¹⁷ The tax bases of African countries varied widely in 2020, from 5.5 per cent to 32.5 per cent of GDP.¹⁸ Systemic constraints to domestic resource mobilization include weak tax administration systems, excessive tax exemptions, substantial illicit financial outflows, shallow domestic capital markets, large informal sectors, tax avoidance and evasion, and narrow tax bases. More recently, external shocks, such as the COVID-19 pandemic and the war in Ukraine, have further eroded taxation revenue in African countries.

E. Illicit financial flows

8. Africa lost an estimated \$88.6 billion annually on average in the period 2013–2015, or 3.7 per cent of its GDP, in illicit financial flows.¹⁹ The losses far outstrip annual financial inflows to Africa from net bilateral official development assistance to Africa from the countries of the Development Assistance Committee, which were estimated to be \$34 billion in 2022,²⁰ and foreign direct investment. The High-level Panel on Illicit Financial Flows from Africa has stated that the various means by which such flows take place in Africa include “abusive transfer pricing, trade mispricing, misinvoicing of

¹⁶ Botswana, Burkina Faso, Cabo Verde, Cameroon, Chad, Congo, Côte d’Ivoire, Democratic Republic of the Congo, Egypt, Equatorial Guinea, Eswatini, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Namibia, Niger, Nigeria, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Togo, Tunisia and Uganda.

¹⁷ OECD, African Union Commission and African Tax Administration Forum, *Revenue Statistics in Africa 2022* (Paris, OECD Publishing, 2022).

¹⁸ Ibid.

¹⁹ *Economic Development in Africa Report 2020: Tackling Illicit Financial Flows for Sustainable Development in Africa* (United Nations publication, 2020).

²⁰ OECD, “ODA levels in 2022: preliminary data”, detailed summary note, 12 April 2023.

services and intangibles and using unequal contracts, all for purposes of tax evasion, aggressive tax avoidance and illegal export of foreign exchange.”²¹

9. By siphoning significant domestic resources away from the continent and strategic investment in its climate and development priorities, illicit financial flows pose a development challenge to the entirety of Africa. Coupled with corruption, such flows drain foreign exchange, stifle trade and macroeconomic stability, worsen poverty and inequality, undermine accountability and transparency, and erode trust in African institutions. Tackling those illicit flows across Africa alone could close the financing gap for the Sustainable Development Goals by 33 per cent.²²

F. Inadequate policy and regulatory frameworks

10. In addition to scaled up financing, more effective policy and regulatory frameworks will help to close development and climate gaps in Africa. The Renewable Energy Country Attractiveness Index highlights the paramount importance of a positive policy environment for scaling up renewable energy generation.²³ The few African countries represented in the Index rank among the least attractive in the world for renewable energy investment, despite their strong solar, wind and hydro endowments.

11. Building new public infrastructure frequently involves lengthy permitting and approval processes that are often highly opaque, which reinforces the market power of incumbents, limits new entrants and, thus, keeps costs high. In addition, most African countries do not have the mature regulatory programmes to incentivize new infrastructure that many OECD countries have, an example of which is the use of feed-in tariffs to encourage households and businesses that have rooftop solar power generation installations to sell excess energy to the local power company.

12. At the level of micro-, small and medium-sized enterprises, policy incentives are often very weak, with significant hurdles for registering new businesses, gaining access to capital markets and otherwise engaging in the formal economy. In addition, there is a relative lack of holistic policy strategies to engage those businesses in the climate transition and of green subsidy and taxation credit programmes for them.

13. The absence of a well-defined regulatory framework in Africa hampers the appeal of the continent as an investment destination. Investors face heightened policy uncertainty and instability, which hinder their ability to make informed and long-term investment commitments. A more robust and transparent regulatory environment is crucial to instil confidence among investors and unlock the immense economic potential of the continent.

14. The role of African multilateral development banks, is, therefore, particularly critical for mitigating real and perceived investment risks, including through the use of capital tranches, credit enhancement, guarantees and political risk insurance, with a view to mobilizing domestic capital, encouraging private investment and improving the creditworthiness of investment opportunities. There is a clear opportunity for African multilateral development banks to play a catalytic role by tapping into the resources of institutional investors to support infrastructure development on the continent by using innovative investment vehicles, de-risking the investment landscape in Africa and encouraging investment. For instance, the Africa Finance Corporation has developed and financed the Gabon Special Economic Zone, a joint venture of Gabon, Olam International and the Corporation, which is

²¹ United Nations, Economic Commission for Africa, *Illicit Financial Flows: Report of the High-level Panel on Illicit Financial Flows from Africa* (Addis Ababa, 2015).

²² *Economic Development in Africa Report 2020* (United Nations publication).

²³ For more information on the Index, see Ernst and Young, “Renewable Energy Country Attractiveness Index: will local ambition fast-track or frustrate the global energy transition” 61st ed., June 2023.

mandated to develop infrastructure in the country to enhance national industrial competitiveness and build a business-friendly environment. The Nkok Special Economic Zone, located 20 km from Libreville, is the first carbon-neutral industrial zone in Africa and has helped to make Gabon the largest exporter of veneer wood globally, generating \$1 billion in annual export revenue and creating over 30,000 jobs.²⁴ Through an investment of \$150 million, a similar approach is being implemented by the Arise Integrated Industrial Platforms in Benin and Togo to generate \$750 million and \$2 billion of projected additional GDP, respectively. In addition, the Corporation worked tirelessly to de-risk the Cenpower independent power project in Ghana. More such projects are required across Africa.

III. Opportunities for financing and investing in the transition to inclusive green economies in Africa: the national level

15. There are several promising opportunities to mobilize development and climate finance and investment at scale in Africa, while also strengthening policy and regulatory frameworks. The present section of the report is focused on some such opportunities at the national level, including the efforts needed to make the continent a preferred investment destination, increase the pipeline of bankable projects, mobilize private sector capital, manage debt sustainably, leverage green, blue, and sustainability bonds, and ensure the effective mobilization and use of domestic resources, in part through the application of the sustainable budgeting approach developed by the United Nations Environment Programme and Oxford University.²⁵

A. Mobilizing private sector capital

16. The private sector accounts for 80 per cent of domestic demand in Africa and is an essential lever for catalysing a climate-aligned economic transition.²⁶ The strong endowment of energy resources in Africa is widely recognized for its potential to spur an industrial and broader economic transformation. Investing \$1.8 trillion in climate adaptation and resilience in the period 2020–2030 could generate \$7.1 trillion in net benefit for private investors.²⁷ Despite that potential, the private sector currently makes only a minor contribution to climate finance in Africa: the sector accounted for only 14 per cent (4.2 billion) of total climate finance in 2019/2020, the lowest ratio for any major region.²⁸

17. In line with Agenda 2063, the “UNDP Africa investment insights report”, of the Africa Sustainable Finance Hub, provides an overview of private sector investment opportunities in Africa that have the potential to contribute to the achievement of Sustainable Development Goal targets. After the food and beverage, infrastructure, health care and education sectors, the renewable energy and alternative energy sector was identified in the 2022 edition of that

²⁴ Africa Finance Corporation, “Cameroon joins Africa Finance Corporation in push towards manufacturing economy”, 22 September 2022.

²⁵ For further information, see “Sustainable Budgeting Approach: A practical approach for policymakers to understand and effectively trade-off the development, environmental, and social consequences of fiscal policy options”, summary background paper presented at the eighth session of the Africa Regional Forum on Sustainable Development, March 2022.

²⁶ Based on data from the period 1996–2008 included in Marco Stampini and others, “How large is the private sector in Africa? Evidence from national accounts and labour markets”, Discussion paper No. 6267, Bonn, Institute for the Study of Labor (2011).

²⁷ African Development Bank, *African Economic Outlook 2023: Mobilizing Private Sector Financing for Climate and Green Growth in Africa* (Abidjan, 2023).

²⁸ Meattle and others, *Landscape of Climate Finance in Africa*.

report as being one of the most attractive sectors in terms of investment opportunities in Africa.

18. Several strategies can support the private sector in the green economic transition. Robust long-term strategies for a green transformation, across both the overall economy and its component sectors, can provide a positive investment signal by reducing uncertainty. Moreover, a targeted approach to improving and simplifying the regulation of green industry can reduce investment barriers and incentivize investors. To capture the economic opportunities of the green transition, the public sector can disincentivize high-emission industries and incentivize low-emission industries.

19. Two subsets in the landscape of financial stakeholders deserve further attention. First, international institutional investor capital is notably absent in Africa, which receives the lowest share of such capital globally. Scaling up private investment in climate action would be facilitated by strong government signals and policies, including conducive regulatory environments and such incentives as subsidies and guarantees, to reduce perceived project risks and to compete globally.²⁹ In that regard, Zambia implemented a private sector development reform programme to improve its investment environment, and Namibia facilitated investment from domestic pension funds into unlisted companies through regulated special purpose investment vehicles, increasing investment in private equity by 50 per cent in the first year.³⁰ The initiative in Namibia is a valuable example, given that African pension funds, the largest institutional investors on the continent, possess a substantial sum of \$420 billion, which has the potential to be used for constructive endeavours that would benefit the welfare of the African population and the environment.³¹ An example of this is the use of investment pooling by the Kenya Pension Funds Investment Consortium to mobilize 16 billion Kenya shillings (\$124 million) of new finance for infrastructure projects.³²

20. Second, scaling up and supporting micro-, small and medium-sized enterprises is essential for achieving the Goals. Accounting for over 90 per cent of total business units in Africa and creating 80 per cent of jobs,³³ the capital and workers from those enterprises could be a powerful lever for accelerating the climate transition. In general, the operation, production and trade of micro-, small and medium-sized enterprises generate greenhouse gases. Those emissions can be reduced, but there is currently little finance to support that process. Despite growth in financial inclusion to 55 per cent by 2021 in sub-Saharan Africa,³⁴ 40 per cent of formal micro-, small and medium-sized enterprises in developing countries had an annual unmet financing need of \$5.2 trillion in 2017, and that financing gap was equivalent to 1.4 times the current level of lending to those enterprises in those countries in that year.³⁵ The financing gap for those enterprises in sub-Saharan Africa has been estimated to be \$331 billion, higher than in the Middle East and North Africa (\$195

²⁹ For further information, see Luc Eyraud, Catherine Pattillo and Abebe Aemro Selassie, “How to attract private finance to Africa’s development”, World Bank blogs, 16 August 2021.

³⁰ For further information, see ECA “Unleashing the potential of the private sector to drive green growth and job creation in Zambia”, Policy brief No. ECA/22/024 (2022), and World Bank, “Leveraging pension fund investment for domestic development: Namibia’s regulation 29 approach” (2020).

³¹ Marcos Neto and Ayodele Odusola, “Africa: investing in the Sustainable Development Goals”, United Nations Development Programme blog, 14 July 2023.

³² Pension Policy International, “Kenyan pension funds to intensify regional investments in 2023”, 12 January 2023.

³³ African Union Development Agency “Unlocking the potential of Africa’s SMEs using emerging technologies in Africa”, 1 August 2022.

³⁴ Asli Demircug-Kunt and others, *The Global Findex Database 2021: Financial Inclusion, Digital Payments and Resilience in the Age of COVID-19* (Washington, DC, World Bank Group, 2022).

³⁵ Miriam Bruhn and others, *MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets* (Washington, D.C., International Finance Corporation, 2017).

billion).³⁶ Closing the gap requires a stable investment environment through stronger financial markets, legal frameworks and the rule of law. In addition, expanding domestic and international guarantee systems can support small businesses and start-ups. Increasing lending capacity and improving risk management can also support micro-, small and medium-sized enterprises. For instance, with technical assistance from ECA, Eswatini developed a small-scale loan guarantee scheme to increase finance for such enterprises.³⁷

B. Sustainable debt management

21. High debt burdens significantly reduce the ability of many African Governments to meet their development and climate objectives. Lessening the burdens can be achieved through domestic efforts to improve debt management processes; and coordinated international efforts to reform the debt architecture, to ensure its closer alignment with development and climate needs. That two-tracked approach to debt, development and climate change mirrors the priorities of the Sustainable Debt Coalition, as noted by the Conference of African Ministers of Finance, Planning and Economic Development at its fifty-fifth session.

22. Debt management remains a pressing challenge for many African States, underscoring the need for robust tools, enhanced transparency aligned with national priorities, and refined governance. Strong protocols for transparency can be particularly important for the positive signals that they provide, leading to more favourable outlooks from the perspective of future creditors and credit rating agencies. In parallel, consistent medium-term budget frameworks, supported by such tools as the sustainable budgeting approach (see paras. 35–37), can further strengthen those outlooks.

23. A proactive approach to debt management, supported by effective tracking, can help Governments to structure their capital obligations in line with liquidity and other needs. In an extreme case of restructuring, proactive action can avoid distress and, if paired with a strategic narrative, send positive signals to investors, keeping finance costs lower for development and climate needs.

24. In addition, contract innovations, including those developed to mitigate the risks of climate change to debt, such as debt-for-nature swaps, can be valuable. State-contingent debt instruments, climate-resilient debt clauses and collective action clauses are examples of tools that can reduce liquidity risk during shocks, offer payment flexibility during fiscal hardship and ease debt restructuring processes.

C. Financial architecture for sustainable development

25. Domestic efforts to improve debt management and calls for the reform of the global financial architecture share a common aim of maximizing the finance that is available for climate and development priorities. Suggested means of reform include debt resolution frameworks, the global financial safety net, credit enhancement, legal frameworks, the provision of concessional finance, and increased African representation.

26. For countries approaching or in debt distress, progress on development and green agendas can be hamstrung without the appropriate commitment to restore fiscal space. An effective, time-bound, transparent and comprehensive approach, including debt service standstills for applicants, is, therefore, required.

³⁶ Ibid.

³⁷ ECA, “Setting the stage for implementation of the financing model for MSMEs for the Kingdom of Eswatini?”, 5 July 2023.

27. On a global financial safety net, special drawing rights should be allocated using a rule-based analytical process that takes into consideration liquidity needs, and a mechanism should be established to rechannel donated special drawing rights. On credit enhancement, the greater use of sovereign guarantees that are backed by multilateral development banks and other instruments is required to increase available finance.

28. Furthermore, increasing low-cost finance to at least \$500 billion each year to achieve the Sustainable Development Goals can be supported by enhancing the financial sustainability of the Poverty Reduction and Growth Trust of IMF. It is equally useful to scale up resources for the International Development Association of the World Bank; to secure, in negotiations in the context of the United Nations Framework Convention on Climate Change, a high-quality, quantitatively ambitious goal on climate finance that places limited reliance on new debt; and to ensure that developed countries meet their prior climate finance commitments.

29. African countries require more equitable representation in multilateral institutions. Having stronger representation in decision-making within the Bretton Woods institutions could facilitate, for example, improvements to the flexibility and size of the Resilience and Sustainability Trust of IMF to ensure that it best meets climate and development priorities. In addition, to ensure that there is stronger advocacy of those priorities, the sustainable debt coalition should be invited to contribute to global forums where such reform is discussed. Debtor and creditor countries, international financial institutions and multilateral development banks should support the sustainable debt coalition to reduce national debt burdens and free up fiscal space for green investment in Africa.

30. Furthermore, creditors and debtors should prioritize new mechanisms for credit enhancement and greater access to low-cost finance to address the intertwined challenges of debt and climate change. Debt-for-climate and debt-for-nature swaps can be used to improve debt sustainability while securing environmental benefits. Blended financing instruments, including public-private partnerships, can be used to reduce required debt finance by encouraging the use of private capital. In addition, the large-scale deployment of those instruments could facilitate proactive debt restructuring. The use of debtor-defined key performance indicators that link debt and climate resilience objectives can support debtor and creditor interests (meeting those indicators can lower exposure to exogenous shocks, which decreases the risk of default).

D. Leveraging green, blue and sustainability bonds

31. The accelerated use of green, blue and sustainability bonds is another lever for supporting African development and climate priorities. A productive green finance system in Africa could generate \$3 trillion between 2020 and 2030.³⁸ Currently, African countries are the lowest beneficiaries of green bonds, accounting for 0.2 per cent of total global issuance between 2006 and 2022.³⁹ Impediments to private investment in African climate and green growth projects include the unsuccessful implementation of green growth strategies, weak regulatory frameworks and institutions, high perceived investment risk and the lack of bankable project pipelines.⁴⁰

32. Although green finance remains nascent in Africa, several countries have developed support programmes for green, blue and sustainability bonds, including through top-down incentives and national and regional frameworks. Benin, Cabo Verde, Egypt, Gabon, Ghana, Kenya, Mauritius, Morocco,

³⁸ AllAfrica, "African Development Bank launches catalytic initiative for green banks in Africa on the sidelines of COP 27", 17 November 2022.

³⁹ African Development Bank, *African Economic Outlook 2023*.

⁴⁰ Ibid.

Namibia, Nigeria, Seychelles, South Africa and the United Republic of Tanzania have all issued such bonds.⁴¹ In the blue bond market, the Development Bank of Seychelles, supported by the World Bank, developed a \$15-million blue bond to support marine conservation and fishery projects, and, in 2023, Cabo Verde pioneered the first initial public offering of a blue bond on the Blu-X sustainable finance platform.

33. Barriers to the issuance of green and blue bonds in Africa persist and include the time-consuming and costly process of developing the instruments and the need to ensure and report on the proper use of proceeds. Monitoring difficulties and inconsistencies in project classifications and commitments pose risks of greenwashing.⁴² In addition, insufficient awareness and understanding among issuers and investors, limited capacity to assess and verify the green credentials of projects, and weak regulation and governance all hinder market development.

34. To address those challenges, African countries have had success in prioritizing multi-stakeholder consultations and regulatory reform. In addition, there is scope for regional mechanisms to build from the example of the Great Blue Wall initiative and use collective guarantees to issue new, potentially cheaper, green and blue bonds. Focusing on natural capital can also lead to new opportunities.⁴³ For instance, in 2021, Gabon became the first African country to be given funds to combat deforestation, receiving \$17 million from the Central African Forest Initiative.⁴⁴ Furthermore, foreign exchange risks can be mitigated for debt management purposes by issuing bonds in local currencies, although that might constrain market interest.

E. Adopting sustainable budgeting approaches

35. Using the sustainable budgeting approach to guide the mobilization of domestic resources would ensure that scarce resources are allocated better to the opportunities that have the greatest impact and that are aligned with medium-term and long-term national strategic priorities. The approach is a decision-support tool that guides policymakers in identifying the policy opportunities that best meet their expressed economic, environmental and social priorities. It serves as a mechanism to link fiscal policy, including crucial taxation policies, with planning, identifying opportunities for sustainable development and allowing countries to affirm control over their sovereign development pathways. The approach could also help to close output gaps in fiscal policies, thereby mitigating supply-side shocks triggered by climate change, while combating inflation. It combines local perspectives with economic evidence to create standardized procedures to prioritize the most desirable fiscal policies in green and inclusive growth transition strategies.

36. The sustainable budgeting approach provides many benefits. It can maximize the positive effects of public spending on welfare through the better allocation of domestic capital and the attraction of international capital. It can help to inform fiscal decision-making that is aligned with sustainability priorities, which can increase economic multipliers. The improved fiscal policies that it can help to introduce can encourage new private investment, support public-private partnerships and attract new finance from development partners. Through the influence of the approach on qualitative reform indicators, stronger fiscal progress will positively affect sovereign credit

⁴¹ For further information, see Anna Belianska and others, *Climate Change and Select Financial Instruments: An Overview of Opportunities and Challenges for Sub-Saharan Africa*, IMF Staff Climate Note 2022/009 (Washington, D.C., International Monetary Fund, 2022).

⁴² Prasad and others 2022

⁴³ For more information on natural capital, see “Natural capital for climate finance and green growth in Africa” in African Development Bank, *African Economic Outlook 2023*.

⁴⁴ Central African Forest Initiative, “Gabon receives first payment for reducing CO2 emissions under historic CAFI agreement”, 22 June 2021.

ratings, reducing finance costs and substantially boosting development capacity.⁴⁵ The increased market confidence, transparency and fiscal stability that it can help to instil can lead to higher credit ratings and lower borrowing costs.

37. The implementation of the sustainable budgeting approach must be accelerated in Africa, including through capacity-building, to increase fiscal policy effectiveness, reduce perceived investment risks and, ultimately, accelerate the attainment of the Sustainable Development Goals. First, support is needed to develop country-specific versions of the approach that reflect domestic priorities. Second, training and ongoing support are needed for policymakers to understand and implement country-specific approaches. Finally, machine learning algorithms could be used to automate the tasks of the approach and integrate data into a regional database for shared learning.

IV. Opportunities for financing and investing in the transition to inclusive green economies in Africa: the regional level

38. Institutional frameworks for regional cooperation are developing in Africa at pace, notably with the regional economic communities and a growing number of conventions. Climate change is increasingly affecting African countries, which necessitates collaborative management of cross-border disasters and collaborative protection of cross-border carbon assets, such as forests and oceans. Agile multi-country frameworks that are focused on common challenges and enable a coordinated, larger-scale response are, therefore, required to facilitate the better mobilization and guidance of green finance. In that respect, the climate commissions of African island States, the Congo Basin and the Sahel, which have been recently recognized by the African Union, and the Great Blue Wall initiative are of particular interest.

A. Great Blue Wall initiative

39. The Great Blue Wall initiative is an Africa-driven road map focused on the Western Indian Ocean to achieve a nature-positive world by 2030. It is aimed at significantly accelerating and scaling up ocean conservation and enhancing socioecological resilience and the development of a regenerative blue economy. It aspires to achieve those goals by catalysing political leadership and financial support.

40. The initiative has an ambitious target of reaching 2 million km² of protected and conserved areas, aiming to achieve a net gain in critical blue ecosystems, conserving and restoring more than 2 million hectares and consequently sequestering more than 100 million tons of carbon. It has a goal of unlocking regenerative livelihood opportunities for 70 million people in the Western Indian Ocean region. It is hoped that the initiative will be expanded to the entirety of Africa.

41. Given the transboundary nature of the blue economy, regional governance frameworks are important to manage its resources sustainably while mobilizing climate finance and ensuring appropriate, credible and affordable monitoring mechanisms. Given that several African States have small, fragile and vulnerable economies, affordability is critical. It is expected that direct investment into the blue economy will include support for climate resilience, adaptation, sustainable value chains and nature-based solutions, which all support sustainable livelihoods.

⁴⁵ Criticisms have been made in Africa and elsewhere about the severity or lack of impartiality of the three largest credit rating agencies in relation to African economies and developing countries in general, and their leniency towards industrialized nations.

42. An attractive opportunity for securing the necessary finance for the initiatives is the issuance of regional blue bonds through regional special purpose vehicles. The bonds could help to alleviate the debt pressures faced by individual countries by providing larger-scale finance and enabling investment in such eligible projects as sustainable tourism, green ports and transportation, fisheries and the durable use of oceanic resources, all of which could stimulate economic growth. Regional blue funding mechanisms could also unleash the potential of debt-for-nature swaps and bring them to a scale that has a meaningful impact on climate action.

Carbon credit markets

43. Greater global demand for carbon credits could be a significant source of additional finance for Africa. The failure to ensure credit additionality, appropriate governance and sufficiently high prices, however, could lead to perverse market incentives that lead to more carbon emissions and a slowed climate transition. As efforts to align global economic growth with net-zero pathways accelerate, the demand for carbon credits exceeds the combined credible supply of voluntary and compliance markets. African countries could leverage their vast renewable energy resources, tropical forests, peatlands and marine ecosystems to export premium carbon credits, providing a new revenue stream to fund their green and inclusive growth plans.

44. In past decades, credits from voluntary carbon markets, in which many African countries participate, have been equivalent to only a small fraction of the credits supplied by compliance markets. In 2022, while the voluntary carbon market was expanding fast towards \$2 billion,⁴⁶ the value of traded carbon permits in global markets reached a record 850 billion euros (\$909 billion).⁴⁷ It is expected that demand for voluntary carbon credits, which stood at about 95 million tons of CO₂ equivalent in 2020,⁴⁸ will increase significantly to meet the needs of countries and corporations that are now committed to meeting net-zero emissions by 2050. The demand for such credits could rise by 5-to-10 fold over the next 10 years, by 8-to-20 fold by 2040 and by 10-to-30 fold by 2050.⁴⁹ African countries could thus help to close the gap in the global supply of credits, which is dominated by the compliance market, which nevertheless covers only around 22 per cent of global annual emissions of carbon.

45. Historically, the supply of most of the credit in the voluntary carbon market has come from nature-based solutions, including forest conservation, improved agricultural cultivation and reforestation. Energy savings from fuel efficiency and fuel switching were additional sources of credit. Cameroon, the Democratic Republic of the Congo, Ethiopia, Ghana, Kenya, Nigeria, Uganda, the United Republic of Tanzania, Zambia and many other African countries have had some experience with the voluntary carbon market. A sectoral breakdown of the potential for premium credits from nature-based solutions for climate change mitigation in Africa and the Middle East is outlined in the table.

⁴⁶ Ecosystem Marketplace, “Article 6 of the Paris Agreement and the voluntary carbon markets”, EM insights briefings, webinar, 16 August 2023.

⁴⁷ Swati Verma and Nina Chestney (Reuters), “Global carbon markets value hit record \$909 bln last year”, 7 February 2023.

⁴⁸ Trove Research and University College London, *Future Demand, Supply and Prices for Voluntary Carbon Credits: Keeping the Balance* (Harpenden, United Kingdom of Great Britain and Northern Ireland, Trove Research, 2021).

⁴⁹ Ibid.

Table
Mitigation potential and comparative advantages of Africa and the Middle East
(Million tons of CO₂ equivalent per year)

	Greenhouse gas mitigation or offset potential at \$100 per ton of CO ₂ equivalent	
	Technical ^a	Economic ^b
Forest and other ecosystems		
• Reduced deforestation and forest degradation – conservation of existing carbon pools in forest vegetation and soil	984–2 213	710–1 215
• Improved and sustainable forest management	205–248	179–186
Agriculture		
• Soil carbon management in grassland	408	245
• Agroforestry	921	184
Bioenergy		
• Bioenergy combined with carbon capture and storage	202	44
Demand-side policies		
• Shift to a sustainable diet	304	207
• Reduce food loss and waste	116	65

Source: Gert-Jan Nabuurs and Rachid Mrabet, “7.4 Assessment of AFOLU mitigation measures including trade-offs and synergies” in *Climate Change 2022: Mitigation of Climate Change – Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*, P.R. Shukla and others (eds.) (Cambridge, United Kingdom, and New York, Cambridge University Press, 2022).

^a Feasible biophysically and using current technology.

^b Feasible based on current economic constraints over a price range.

B. Investing in clean energy for the transformation of Africa

46. Investing in energy to ensure access to clean and affordable energy services in Africa is critical for the continent to close its huge economic and social development gaps, recover better from multiple crises, industrialize, trade and respond to population growth, rapid urbanization and the increasing impact of climate change. African countries have a very high energy access deficit and will face increasingly high demand for clean and affordable energy over the next few decades. The continent has abundant energy resources but lacks the needed investment. Starting from a very low base, Africa has a unique opportunity, if it has the right support, to turn those challenges into unprecedented development opportunities that can put the continent at the centre of the global energy transition and on course to decent green jobs for the growing youthful population of the continent.

47. The global energy transition and drive for net-zero emissions offer huge opportunities for Africa to be at the centre of the electric future. The continent has all the critical minerals needed for the transition and the highest potential for green hydrogen production, especially given its abundant renewable power resources. Furthermore, there are huge opportunities to be tapped through investment in an interconnected African power system. Connecting national power suppliers through subregional power pools can efficiently integrate green energy into overall energy consumption by making it feasible for countries to

use off-grid and microgrid renewable energy solutions to meet household demand, which would free up energy supplied by national grids to be used more efficiently for industrial purposes across the region.

C. Battery and electric vehicles value chain

48. As the Africa Progress Panel⁵⁰ stated in 2015, the world should be interested in Africa achieving what no other region has achieved, namely rapid socioeconomic development without a simultaneous increase in greenhouse gas emissions and accompanying damage of ecosystem services, because Africa has the necessary renewable energy, natural resources and minerals to accelerate global sustainability.

49. Africa stands to gain considerably from the global boom in the so-called “green minerals” as the demand for mineral inputs for electric vehicles, wind turbines, solar panels and other products soars. Africa is a major supplier of many of those minerals, producing 70 per cent of cobalt, 65 per cent of manganese, 25 per cent of bauxite, 20 per cent of graphite and 15 per cent of copper globally, in addition to many other minerals. The priority for policymakers is to harness that demand to build links with other sectors that create jobs and generate revenue and advance beyond dependence on the export of raw materials, as envisioned in the Africa Mining Vision and Africa Green Minerals Strategy.⁵¹

50. A coalition of regional partners, including ECA, the African Union Commission, the African Minerals Development Centre, the African Export-Import Bank, the African Development Bank, the African Legal Support Facility and other organizations, is helping States to build a regional value chain for battery and electric vehicles that is based on green minerals. A memorandum of understanding has been signed by the Democratic Republic of the Congo and Zambia to establish cross-border special economic zones for mineral processing and battery manufacturing, and centres of excellence for battery manufacturing. The initiative will further benefit from cooperation and trade across the region.

51. With support from ECA and the other partners, a policy dialogue was held in 2021 during which a BloombergNEF study was presented that demonstrated the potential competitive advantage of the Democratic Republic of the Congo in the manufacture of battery precursors, the market value for which is estimated to reach \$271 billion by 2025.⁵² The study revealed that the potential advantage rests on the hypothesis that minerals will be sourced from within Africa by leveraging the Agreement Establishing the African Continental Free Trade Area.

52. To ensure the success of the battery and electric vehicle value chain initiative, the Democratic Republic of the Congo committed itself to build the necessary skills for the electric battery industry. With support from ECA, a centre of excellence for research and innovation on batteries was officially launched in April 2022, in collaboration with the Copperbelt University and the University of Zambia. The centre is housed within the polytechnic faculty of the University of Lubumbashi.

53. Pre-feasibility studies for special economic zones for batteries and electric vehicles are ongoing, the results of which will be presented in March 2024 by Arise Integrated Industrial Platforms, a pan-African infrastructure developer that is the technical consultant for the studies.

⁵⁰ Africa Progress Panel, *Power People Planet: Seizing Africa's Energy and Climate Opportunities – Africa Progress Report 2015* (Geneva, 2015).

⁵¹ See African Union, *Africa Mining Vision* (Addis Ababa, 2009); the Africa Green Minerals Strategy is being validated by the African Union and is expected to be adopted in 2024.

⁵² BloombergNEF, *The Cost of Producing Battery Precursors in the DRC* (Bloomberg Finance L. P., 2021).

54. Under the auspices of ECA, workshops for the private and financial sectors were held in 2023 in the Democratic Republic of the Congo and Zambia to address the issues of local content, beneficiation and financial ownership, and the use of innovative financial instruments as special purpose vehicles.

55. Under Agenda 2063, a link has been established between energy and industrialization. Several regional programmes and initiatives, such as the Africa Renewable Energy Initiative, the Africa Power Vision, the Africa Clean Energy Corridor and the recently launched Africa Single Electricity Market have been championed by various stakeholders and are focused specifically on the development of renewables. Renewables can play an important role in supporting job development in Africa because investing in energy transition technology creates nearly three times as many jobs as investing in fossil fuels.⁵³

D. African Continental Free Trade Area

56. Green industrialization across Africa is already leading to new opportunities for trade collaboration, lower costs on the continent and greater global competitiveness, including, for example, in the effort to capture more value in downstream strategic mineral value chains and in the coordination of the development of a high-quality and trustworthy African carbon credit market. Despite the presence of continental and regional institutional frameworks, a major effort is still required to develop regional value chains, encourage cross-border investment and achieve standardized investment regulations at the national, subregional and continental levels, with a view to maximizing the benefits of the Agreement Establishing the African Continental Free Trade Area.

57. In accordance with recommendations from the fifty-fourth and fifty-fifth sessions of the Conference of African Ministers of Finance, Planning and Economic Development, and the sixth Africa Business Forum, ECA has been working with the climate commissions of the Congo Basin and African island States to produce subregional registries and harmonized protocols for carbon accounting to support a continent-wide market. Within the context of the African Continental Free Trade Area, ECA modelling shows that implementing the Agreement with a complementary climate policy could decrease emissions by around 25 per cent by 2045 and raise trade by about 33 per cent.⁵⁴

V. Policy suggestions for financing and investing in the transition to inclusive green economies in Africa

58. The following policy suggestions are grouped into four main areas: institutional and structural reform; bolstering private sector investment in green growth; other innovative financial instruments; and global and regional cooperation.

A. Institutional and structural reform

59. Members of ECA are urged to:

(a) Intensify the use of the sustainable budgeting approach to advance towards the achievement of the Sustainable Development Goals by:

(i) Integrating the approach into their policymaking processes and aligning it with national objectives;

⁵³ Heidi Garrett-Peltier, “Green versus brown: Comparing the employment impacts of energy efficiency, renewable energy, and fossil fuels using an input-output model”, *Economic Modelling*, vol.61(c) (2017), pp.439-447.

⁵⁴ Lionel Fontagne and others, “Greening the African Continental Free Trade Area”, conference paper presented at the twenty-sixth annual Conference on Global Economic Analysis, Bordeaux, France, 2023.

- (ii) Working with development partners to strengthen their capacity to tailor the approach to their specific needs;
 - (iii) Establishing a regional network for collaborative learning and knowledge exchange relating to the approach, which could be supported by ECA;
 - (iv) Strengthen the links between the approach and the instruments that deal with supply-side climate-related shocks and risks;
- (b) Develop national policies to align financial flows with the efforts to achieve the Goals through a road map to mobilize investment in existing, new and emerging technology for energy transitions;
- (c) Adopt national investment policies to connect and harmonize regional markets to catalyse sustainable investment at scale;
- (d) Deploy de-risking strategies to scale up investment by:
 - (i) Leveraging development finance to attract additional private sector investment for sustainable development projects in Africa;
 - (ii) Hedging with financial instruments, such as forwards, options and swaps, to mitigate the risks related to fluctuating interest and exchange rates, and commodity prices;
 - (iii) Recognizing the pivotal role of insurance in mitigating risks associated with political instability, natural disasters and unforeseen events;
 - (iv) Investing in the development of local institutions, the workforce and infrastructure to support business growth and reduce operational risks;
 - (v) Adopting an integrated strategy for the implementation of the Agreement Establishing the African Continental Free Trade Area at the national and subregional levels, including through the development of transport infrastructure and services, the operationalization of special economic zones and regional value chains, and enhanced risk management at the national, subnational, institutional and project levels;
- (e) Broaden their tax bases by:
 - (i) Aligning taxation with medium-term and long-term planning, including by using the sustainable budgeting approach;
 - (ii) Adopting advanced technology, such as electronic tax filings and payments, digital identity systems and artificial intelligence to improve tax administration;
 - (iii) Aligning international tax administration with minimum tax rules and better aligning tax payments with the location of value creation rather than the domicile of the taxpayer;
 - (iv) Adopting a proactive fiscal policy, including progressive tax systems, strengthened social protection and gender-responsive budgeting and tax policies to reduce inequality;
- (f) Address the so-called “Africa premium” on external public borrowing by:
 - (i) Addressing the structural factors that influence perceived risk in Africa and that have an adverse effect on attracting

affordable financing to combat climate change, including the level of financial development and the quality of institutions;

(ii) Increasing fiscal transparency, for example by adopting the sustainable budgeting approach;

(iii) Boosting data collection and dissemination to link fiscal measures with medium-term and long-term plans, and to support the rating exercises of credit rating agencies, with a view to achieving a well-informed assessment of the credit worthiness of African countries;

(iv) Working with credit rating agencies to account better for the unique strengths of African markets, and increasing oversight of the agencies, including through stricter licensing and disclosure requirements and a mechanism to appeal and dispute ratings;

(g) Call for the reform of the global financial architecture in order for it to mobilize climate and development finance better and be more responsive to the needs of the least developed and middle-income countries, including by improving the representation of African countries in decision-making bodies;

(h) Update or revise national climate, biodiversity and nature strategies, action plans and national targets, in accordance with international agreements, including the Kunming-Montreal Global Biodiversity Framework and the Paris Agreement.

B. Bolstering private sector investment in green growth

60. To bolster private sector finance, members of ECA are encouraged to:

(a) Work with development banks, Governments and private sector stakeholders to develop and implement green financing mechanisms;

(b) Develop legal and regulatory frameworks to create an enabling environment for private sector financing, including through the mobilization of institutional capital;

(c) Adopt non-monetary policy incentives to reduce investment costs and risks, including guarantees extended by the public sector and blended finance on infrastructure projects;

(d) Support the growth of micro-, small and medium-sized enterprises by deepening national and regional capital markets and stock exchanges, and by providing digital financing solutions and integrating them into regional value chains through the Agreement Establishing the African Continental Free Trade Area.

C. Other innovative and financial instruments

61. Members of ECA are encouraged to:

(a) Advocate African priorities in implementing the Africa Green Stimulus Programme⁵⁵ by:

(i) Improving air quality, enhancing the management of chemicals and waste, and promoting the circular economy;

(ii) Enhancing the conservation of biodiversity and combating illegal wildlife trade;

⁵⁵ African Ministerial Conference on the Environment, Implementation of the Africa Green Stimulus Programme: note by the Secretariat, document AMCEN/18(II)/3.

- (iii) Revitalizing ecotourism and the biodiversity economy;
 - (iv) Combating land degradation, desertification and drought;
 - (v) Enhancing climate action;
 - (vi) Investing in the blue economy;
 - (vii) Scaling up climate-smart agriculture and food security systems;
 - (viii) Supporting the sustainable management of forests;
 - (ix) Improving water conservation and use;
 - (x) Investing in renewable energy;
 - (xi) Developing smart cities and promoting green urbanization;
 - (xii) Enhancing information and communications technology;
- (b) Launch national plans to activate voluntary carbon markets, scale up African project developers and suppliers, and build African capacity to monitor, report on, validate and verify the activities of projects that generate carbon credits.

D. Global and regional cooperation

62. Members of ECA are urged to:

- (a) Expand the means for implementing the African Green Stimulus Programme and the Green Recovery Action Plan to ensure universal access to energy and accelerate just energy transitions, including by leveraging critical minerals;
- (b) Leverage financial safety nets, such as the Financial Stability Board of the Group of 20 and the Resilience and Sustainability Trust of IMF to build resilience against shocks;
- (c) Expand the lending capacity of regional and multilateral development banks through increased capitalization, including greater callable capital, the use of guarantees, balance sheet optimization and flexible lending criteria, such as market borrowing on the basis of equity.

E. Additional policy issues for consideration

63. The following policy issues and important questions may be raised for discussion:

- (a) What do African countries consider to be the most pressing issues when dealing with climate-induced and economic shocks, and building resilience?
- (b) What measures are African countries putting in place to deal with debt constraints?
- (c) What should be the priorities of African countries to increase private sector financing dramatically? What type of technical support do Governments need?
- (d) What measures are African countries implementing to develop carbon markets and environmental, social and governance bonds?
- (e) What type of technical support do Governments need to mobilize climate financing?

(f) Which of the proposed changes to policy frameworks resonate well with African countries? What are the experiences and lessons learned regarding the reform that has already been implemented?

(g) Why does natural capital matter for economic growth? Who benefits from the use of natural resources? What are the effects on the environment and other areas of the economy?

(h) In the context of the “beyond GDP” debate, how can the value of natural resources and ecosystem services be better integrated into the national accounts of African countries? What comprises the wealth of a nation, considering natural capital accounts?

(i) How can the use of natural resource accounting tools in national development planning enhance the fiscal space of African countries?
