United Nations
Economic Commission for Africa

Meeting Of African Ministers of Finance / Economy / Development and Environment ahead of COP27 -
Financing Africa's Development through Climate Resilience
Sharm El Sheikh, 7th, 8th and 9th September 2022

Concept Note (updated on 13th June 2022)

COP 27 finance day

Background and Introduction

The world is in the throes of a cumulative crisis – the COVID-19 pandemic, economic decimation and climate change and environmental degradation. When the Ukrainian crisis that is hitting several countries in such diverse sectors as wheat and tourism with full force, is coupled with this, the equation becomes much more complex and innovative approaches are vital. There is consensus that a green pathway which promotes carbon neutral investments, clean jobs and reduced pollution will guarantee sustainability.

The first IPCC Working Group report showed that global warming has already reached 1.1°C and could reach 1.5°C well before 2040. Even with less than 2°C of warming, some key risks are expected to result in widespread, invasive and potentially irreversible impacts, particularly in the case of high exposure and insufficient adaptation. Whatever the Shared Socio-economic Pathways scenario, the risks associated with warming will inevitably increase in the short term. Moreover, the latest IPCC report is clear: we need to act now. The observed impacts, projected risks, current trends in vulnerability and the limits of adaptation show that there is a stronger need for action on climate-resilient development than previously assessed. Consistent action is required immediately, as each increase in temperature undermines the probability of achieving resilience.

The IPCC report is also clear on what needs to be done: we must drastically reduce our greenhouse gas emissions. If we aim to respect the Paris Agreement and limit global warming to well below 2 degrees and further keep the goal of 1.5°C within reach, global emissions should peak between 2020 and 2025 at the latest and decline to global carbon neutrality by 2050. In concrete terms, global greenhouse gas emissions must be reduced by almost 50% by 2030 and by 80% by 2040 compared to 2019 to limit the rise in temperature to 1.5°C. Nevertheless, the distribution of GHG emissions continues to vary unequally, both geographically and socially. For example, the 10% of households with the highest per capita emissions in developed countries contribute 34-45% of overall household greenhouse gas emissions, while the African continent as a whole contributes less than 5%.

The rapid and far-reaching transitions required to stay within the Paris Agreement temperature target require enormous financing. For African countries, already committing between 3-9% of its budgets to finance climate change adaptations, such financing requires significant support from partners at a scale far larger than has been mobilised so far, and through appropriate instruments that are relevant and responsive to the specific needs and circumstances of Africa.

Africa's financing needs

There is a clear need for greater, appropriate and more predictable financing for Africa's sustainable development agenda, addressing recurring debt issues, sensitive to specific finance related vulnerabilities of African countries and building resilience to shocks such as witnessed due to COVID and the conflict in Europe.

Africa already had major financing needs before COVID-19, such as $130-170bn needed for infrastructure, a $66bn annual gap for financing in the health sector, a $39bn gap for financing education, and a gap of 3-5% of the region's GDP for climate action.

Meeting these needs is hindered as: 1) Africa's Covid-19 recovery has been slower than other regions; 2) African countries continue to have constrained fiscal space, despite the narrowing of deficits since 2020 (from -6.3% of GDP to -4.2%) – the conflict in Ukraine is expected to widen fiscal deficits by up to 0.7 percentage points in 2022.

African countries have proposed ambitious NDCs, requiring around 2,46 billion (UNFCC[1]) and close to $3 trillion (AfDB[2]) to implement and necessitating significant, accessible and predictable inflows of climate financing.

The United Nations Environment Programme estimates that developing countries alone require about $70 billion annually to adapt to climate change, with the cost expected to increase to $140 billion–$300 billion by 2030 and to $280 billion–$500 billion by 2050[3]. In addition, the highest reported needs are in the agriculture and infrastructure sectors, followed by water and then disaster risk management, with these four sectors covering more than 75% of the adaptation financing needs for many African countries with natural resource-intensive economies. In addition, the latest IPCC report[4] points out that adaptation is generally cost-effective, but that annual financial flows for adaptation in Africa are billions of dollars lower than the lowest estimates of the short-term costs of adaptation to climate change. The estimated cost of adaptation for developing countries ranges from $15 billion to $411 billion per year for climate change impacts up to 2030, with the majority of estimates being well over $100 billion. Finally, the African Development Bank estimates that the continent needs $7 billion–$15 billion every year to adapt to the impacts of climate change. At the twenty-sixth session, African negotiators proposed that the new goal on finance flows starting 2025 would be in the scale of $1.3 trillion to cope with the challenges of climate change.

The need for coordination and commitment ahead of COP27

Egypt, as incoming President of COP 27is committed to delivering results that allow African countries to upscale their capacity to mobilise climate finance and also consider ways to mobilize additional finance including through innovative instruments and ideas focusing on flows of highly concessional finance.

To this end, it calls for a meeting of African Finance Ministers ahead of COP27 to agree on an African lead position to advocate. It is an opportunity to address the continent's specific challenges, potential,

[1] UNFCC Standing Committee on Finance, First report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement, technical report, 2021
[2] African Development Bank, Climate Chanage and Green Growth, 2018
[3] UNEP, Adaptation Gap Report 2021
[4] IPCC, Climate Change 2022: Impacts, Adaptation and Vulnerability, Feb 2022

financing needs and innovative instruments for its development. It is therefore suggested to convene this meeting with multilateral institutions, development partners and other key stakeholders as a starting point towards building such consensus in the build-up to COP 27.

COP27 must lead to a collective understanding, with concrete and consensual actions by all stakeholders and in particular for Africa. The high-level preparatory meeting should contribute to making COP27 the one where Africa's needs begin to be fairly compensated for what it achieves for humanity.

The Finance Day of COP27 must lead to actionable outcomes which contribute towards addressing Africa's immediate and future needs.

Objective

The overall objective of the meeting is to i) ensure coherence of African climate finance positions with needs and ii) prioritise actions that can be led by African countries with targeted support to increase climate finance available for implementation.

The specific objectives are to provide the avenue for:

1. To leverage African leaders' voices to mobilize greater international support for a green and resilient recovery in Africa, that includes deploying sustainable energy to drive growth and investments while improving energy access.

2. To crystalise, in consultation with AGN and AMCEN, African key messages on climate finance in relation to the additional grant resources needed, as well as innovative financing which can further mobilise the private sector

3. To engage global leaders to on the imperative of committing and disbursing the requisite financial and technological contributions to climate actions in Africa in fulfilment of the requirements of the Paris Agreement

5. To provide a potential platform for a number of African countries to present their revised NDCs and/or announce long term strategies and link these plans and strategies to financing streams.

Expected outcomes

The meeting is expected to lead to the following outcomes:

- Outcome 1: Improved coordination of African initiatives to scale up and accelerate implementation;
- Outcome 2: Strengthened joint planning and implementation through a clearly defined joint implementation plan; and
- Outcome 3: Defined key opportunities for intervention at all levels to advocate at COP27.
- Outcome 4: Issue a clear call for specific Africa focused principles and asks in relation to climate finance.

Format of the meetings, date and venue

The meeting will be held in person for two consecutive days on 8-9 September 2022 as per provisional Programme of Work with statements from Ministers of Finance outlining key messages for Africa leading up to COP27.

Participants

African Ministers of Finance, Development and Planning and Environment (AMCEN Bureau members), African Group of Negotiators team (AGN team)

Co-Convenors- Government of the Arab Republic of Egypt/ UNECA/UNESCWA

Key international partners to be invited:

Co-chairs of Coalition of Ministers of Finance on climate change. Key UN agencies / AfreximBank / Development finance institutions (DFIs) / International Organizations: IMF / World Bank Group (WBG) / Africa Development Bank (AfDB) / European Investment Bank (EIB) / Islamic Development Bank (IDB)/ African and Arab Development Bank (BADEA)/ Green Climate Fund (GCF) / Chair of Infrastructure Development Finance Company (IDFC)/ International Solar Alliance

Development Partners: Germany (G7 Presidency), UK (COP26), Indonesia (G20), Italy, France, EU, USA, China, Japan

Private sector partners to be defined- Banking sector, financial services, energy. Representatives of ratings agencies. Major investment funds from Africa and around the world such as the Global Financial Alliance for Net Zero.

Annex- Annotated provisional agenda

Meeting Of African Ministers of Finance

Sharm El Sheikh, 8–9 September 2022

1- Opening of the meeting - Adoption of the Agenda and programme of work

2- Africa's financial needs for climate change and the financial gap facing Africa in tackling climate change

a- NDCs investment opportunities

The African Development Bank has estimated the cost of implementing African countries NDCs to require at least 3 trillion USD. However, the potential multiplier effects of these investments are manifold, both for the countries themselves, the regional implications for building sustainable value chains, as well as the opportunities to stimulate global growth due to the size of the investment opportunity.

b- **Just Energy Transition,**

Opportunities exist for Africa to embark on transformative pathways to green development through fostering investments in green technologies and processes. Such pathways require the mobilization of appropriate finance and environment friendly technology transfers on a large scale. Given the continent's energy access deficits, such pathways also recognize the need for transitional development of existing reserves of natural gas to power the continent for the foreseeable future, and to contribute towards the green transition. Furthermore, while the experience of the recent Ukrainian crisis shows that developed countries are placing a premium on African gas, there is limited funding to develop production capacity on the continent to meet its needs.

The meeting will aim to support countries in presenting and costing their transition pathways.

c- Adaptation and losses & damages

The Glasgow Climate Pact committed 50% of all climate finance to be dedicated to climate change adaptation. Regional development banks such as the African Development bank have also committed specific resources towards adaptation through their African Adaptation Acceleration Programme. African countries can also adopt strategies to mainstream a green recovery through investing in nature-based solutions, to create jobs and economic multipliers while reversing environmental degradation and building climate resilience. This can also lead to additional opportunities to raise finance by using carbon trading and off-set opportunities, leveraging the fact that many African countries are 'net positive' in terms of their emissions. For example, the Congo Peatlands store three years-worth of global CO2 emissions. Africa needs this new narrative: it is not only the question mark, but it is the solution to global climate change if its development potential is unleashed in a sustainable and resilient way.

Meanwhile, African countries need to propose an actionable framework on loss and damages which will allow the additional and appropriate resources to be made available in an urgent and timely fashion to respond to imminent climate risks. In addition to upfront and direct compensation, options to be explored include the increased and additional availability of resources for trust funds for disaster response as well as disaster risk insurance schemes.

d- Transparency in climate financing- Breakdown of the USD 1.3 tn expected: grants, loans, private sector

As illustrated in official OECD reports on the mobilisation of climate finance, the lack of reporting standards means that there is potential of 'double counting' of climate finance commitments, some development partners have also reduced overall development financing while increasing climate finance commitments leading to no 'net positive' effect on the ability of vulnerable countries to respond to needs, while the availability of private sector finance remains often difficult to ascertain with risks related to green washing. The development of a mechanism which would set separate targets for grant financing and associated concessional lending would help to facilitate the tracking of commitments. Meanwhile private sector operators would be encouraged to also set targets for investment linked to NDCs.

3- Proposed Initiatives regarding Climate Change (to be discussed in Thematic groups)/outcomes to achieve:

~~a-~~ Encouraging debt for climate

Following the impact of the COVID19 pandemic and continued macro-economic instability linked to global events, 15 African countries are at risk of external and public debt distress, and 6 already facing debt distress.

Despite these challenges, African countries have made significant strides to ensure the transparency of their operations on capital markets and also to provide reliable investment opportunities. As such debt for climate adaptation swaps are primarily aimed as a tool to generate additional investment and liquidity for climate resilience, rather than a tool for restructuring.

Debt for climate adaptation swaps provide opportunities for raising capital in low-income, middle income and vulnerable countries to address environmental and other policy challenges and support green growth.

The meeting will explore the possibility of developing criteria for performance-linked sovereign debt that contribute to (i) *reducing the cost of capital* to developing countries, (ii) supporting ambitious *action on climate and nature* as well as other aspects of sustainability, given the urgent need to address food, energy and water security and (iii) *Making sovereign debt markets responsive* to climate change and nature restoration.

b- Reducing the cost of green borrowing

To reduce the cost of green finance, countries should have a facilitating environment and frameworks at the top level, to prioritize/adopt relevant and appropriate green finance instruments that fit into the national context.

i. LSF,

The LSF is a repurchase agreement facility, launched by ECA, that aims to improve liquidity and attractiveness of African sovereign bonds by providing repo financing to holders, enabling them to access short-term financing while increasing demand for and price of new bonds, thus lowering yields. It can incentivize sustainability-linked investments by offering preferred interest rates on loans collateralized by green bonds. The LSF could save up to $11bn in borrowing costs for African governments within the first five years. The meeting will further explore the opportunity to deploy the LSF mechanism to support the access to liquidity for sustainable investments for African countries.

ii. Blended Finance and guarantees

Blended finance (BF) helps to mitigate investment risks and attract more funding for climate-friendly projects. BF can be designed to lengthen terms or mitigate refinancing risk. BF can step in as swap counterparty to mitigate market risk / currency volatility. BF can provide technical assistance for capacity building or concessional capital.

The meeting aims to further refine and clarify the means by which blended finance can be used to attract critical investment into Africa's climate resilience.

Risk guarantees protect investors from losses and are a component of a capital structure. In this way, projects that are initially perceived to be too risky by private investors are de-risked. Guarantors agree to cover the loss (in part or in full) of a third-party financing transaction in the event of non-repayment or loss of value. Guarantees allow transactions to attract capital at more favourable terms. Other risk mitigation instruments, such as political risk insurance, play a similarly important role.

iii. Environmental Social and Governance (ESG) criteria

ESG criteria can often place significant reporting burdens on developing countries seeking to use market-based opportunities to be able to raise finance for investment in climate resilience.

Use of funds in compliance with green finance commitments and terms is critical. Creditors, sovereign or private, have to fulfill their obligations of transparency and disclosure. The multiplicity of standards and the sophistication of international green bond markets often create an unfavorable environment for developing countries to enter these markets. In this context the meeting can explore efforts for African countries to implement increased harmonization that aligns with shared goals under the Paris agreement and capacity building on implementation of ESG criteria in a simplified manner.

c- Encouraging green industrial development for private sector through various means including developing sustainable value chains in AfCFTA

The successful implementation of the AfCFTA implies a repositioning of African investment in value chains, moving away from export of raw materials. For example, Africa has immense opportunities to generate investments in clean and renewable energy and the value chains associated with integrating these technologies into the continent's infrastructure. In terms of electricity, Africa will need to more than double its present capacity of 250 GW by 2030 using clean energy sources, which will require an investment of about $500 billion.

Clearly, Africa cannot industrialize on wind and solar energy alone. Moreover, exports of hydrocarbon fossil fuels (48.5 per cent) and mineral energy materials (23.0 per cent) comprised over 70 per cent of sub-Saharan African export value from 1995 to 2018. However, the global shift to renewable energy and clean energy technologies will see a precipitous reduction in global demand for hydrocarbon fossil fuels. Many African countries have the potential to benefit from renewable energy transitions by transforming energy minerals, such as lithium, copper and cobalt, into electric battery precursors, leveraging the Africa Continental Free Trade Area.

d- Other initiatives (to be discussed as side events).

i- **Sustainable Budgeting Approach (SBA) to finance Inclusive Green Economy (IGE) (UNEP and University of Oxford)**

The adoption of green fiscal policies and macro-prudential regulation and climate related stress testing can help African countries to be better prepared to face climate change.

UNEP and the University of Oxford are building a practical enabling tool for policymakers, based on leading socio-economic and environmental science, to (i) understand the development, environmental, and social consequences of budgetary decisions and to (ii) assess the overall characteristics of their budgets and compare this to other nations. The approach itself is applicable across geographies. To incorporate the unique characteristics of different nations, country-calibrated tools are being developed to directly assist government staff in assessing and tracking their budgets. Egypt has already led efforts to undertake this type of tracking within its national budgets, while this tool has also been trialled in countries such as Gabon. The meeting will examine opportunities to mainstream green fiscal tools in African countries.

ii- **Africa's Disaster Risk Mitigation Tools (e.g. insurance) (Africa Risk Capacity)**

The continent has the opportunity to mitigate residual risk and reduce the impact of loss and damage by transferring at least part of its climate risk to the international market through a risk pooling platform- The African Risk Capacity Platform. Climate risk insurance provides financial resilience by generating a flow of capital to support societies in recovering from disaster. In the absence of adequate insurance, the burden of paying falls on citizens, governments or aid organisations. When disasters strike, insurance can provide significant financial protection and reduce large scale societal impacts. The meeting will explore the means to upscale the significant protection already provided through the African Risk Capacity Mechanism and address existing gaps.

In view of the high impact of natural disasters on African countries in terms of loss of life and property, and the heightened vulnerability of the continent, it is important to consider a specific fund to address natural disasters on the continent. This fund would also have the role of reducing the cost of access for African countries to participate in risk insurance mechanisms, and thus increase the coverage and effectiveness of existing risk reduction mechanisms.

iii. Food security aspect

Africa's vulnerability to supply chain disruptions that impact on its food security has been laid bare both by the CVID19 pandemic as well as the conflict in Europe.

Investing in climate-smart African agriculture at its multiple levels of value and leveraging the African Continental Free Trade Area can help safeguard the continent's natural heritage and create sustainable value chains.

The meeting will examine the means by which to accelerate such types of investments.

4- Implementation: Encouraging intra-African exchange and cooperation to accelerate the transformation towards green economy and/ or by showcasing of successful and potential cross-border green projects.

The meeting will provide the opportunity to showcase African initiatives which contribute towards implementation of the Paris Agreement. In particular it will aim to provide a platform to illustrate initiatives which can be upscaled based on the positive impact derived at community level.

5- Adoption of ministerial declaration.