Climate Finance in Africa

An overview of climate finance flows, challenges and opportunities

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Acronyms

ABM	Adaptation Benefits Mechanisms
ADB	Asian Development Bank
AF	Adaptation Fund
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AMC	Advance Market Commitment
AU	African Union
BAU	Business-as-Usual
CBT	Climate Budget Tagging
CDM	Clean Development Mechanism
CILRIF	Climate Insurance Linked Resilient Infrastructure Financing
CBDR	Common but differentiated responsibilities
COP	Conference of the Parties
CPEIR	Climate Public Expenditure and Institutional Review
CPI	Climate Policy Initiative
DAC	Development Assistance Committee
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ETF	Enhanced Transparency Framework
GCA	Global Center on Adaptation
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GGA	Global Goal on Adaptation
GGC	Green Guarantee Company
GHG	Greenhouse gas
GNI	Gross National Income
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDBG	Inter-American Development Bank Group
IFI	International Financial Institution

IIED	Institute for Environment and Development
IsDB	Islamic Development Bank
LDC	Least Developed Country
LMIC	Lower Middle-Income Country
LoCAL	Local Climate Adaptive Living Facility
MDB	Multilateral Development Bank
MRV	Measurement, Reporting, and Verification
NCQG	New Collective Quantified Goal on Climate Finance
NDC	Nationally Determined Contribution
NDB	National Development Bank
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PFM	Public Financial Management
PPP	Public Private Partnership
SCF	UNFCCC Standing Committee on Finance
SDR	Special Drawing Rights
SIDS	Small Island Developing States
SME	Small- and medium-sized enterprise
SRES	Special Report on Emissions Scenarios
UMIC	Upper Middle-Income Country
UNCDF	United Nations Capital Development Fund
UNDRR	United Nations Office for Disaster Risk Reduction
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
WBG	World Bank Group
WLO	World Labor Organization
WMO	World Meteorological Association
WRI	World Resources Institute

Executive Summary

Introduction

Climate change is arguably the greatest challenge facing humanity in the 21st century. Its impacts have significantly altered the natural world and affected global economic performance and human well-being. A recent study estimates that damage from climate change globally to farming, infrastructure, productivity, and health will cost an estimated $38 trillion per year by 2050 and see a 19 percent reduction of income (Kotz et al., 2024). In Africa, this could be as high as 30 percent and provides an example of how climate change impacts are experienced unevenly across the world.

Despite only contributing less than four percent to global greenhouse gas emissions (GHGs), African nations recognize the immense challenges posed by climate change to their development agenda and have put in place several policy and strategic initiatives. All 54 African countries have ratified the Paris Agreement and all but one country has submitted their Nationally Determined Contribution (NDC).

Drawing on recent reports from the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance (SCF), UNEP's Adaptation Gap Reports, Climate Policy Initiative's State of Climate Finance Reports, and data from the Organization for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) database from 2011-2021*, **this report provides a wholistic view of Africa's climate finance landscape and presents a coherent story of the gap, challenges and opportunities that exist for African countries to mobilize climate resources.**

Climate finance flows

When compared globally, Africa receives only around 2 percent of total global climate finance (CPI, 2023). While climate finance to Africa has increased, growing about 24 percent each year over 2011-2021 according to OECD data, the share of climate finance going to African subregions has varied. Over this period, East Africa mobilized the largest total amount of climate finance ($43,866), followed by West Africa ($36,227), Northern Africa ($34,607), Southern Africa ($19,817) and lastly, Central Africa ($10,834) Regional, multi-country finance over this period totaled $25,025.

Overall, total international public and philanthropic climate finance between 2011 to 2021 to Africa was $71.1 billion for adaptation, $74.8 billion for mitigation, and $24.6 billion for crosscutting activities (OECD, 2021). Although adaptation is arguably a more pressing need for Africa, mitigation finance is higher.

While more funding goes towards mitigation in absolute terms, in 2019 and 2020, adaptation finance surpassed mitigation finance. From these climate finance flows between 2011 to 2021, most finance came from bilateral sources ($92.57 billion) and multilateral development banks (MDBs) (about $65.61 billion), accounting for approximately 93 percent of the OECD-reported climate finance mobilized in the continent. While bilateral sources have historically been the dominant form of finance, in 2020 and 2021, MDBs surpassed bilateral sources to become the continent's leading source of climate finance. From the data, MDBs provide higher levels of support to mitigation, while bilateral donors support higher levels of adaptation and

* In this report, OECD data utilizes ODA data from Development Assistance Committee (DAC) members pursuing climate objectives and reports more broadly on climate-related development finance. This includes other (non-ODA) bilateral flows, multilateral development finance, philanthropic support and private finance mobilized by official interventions. In terms of philanthropies, the OECD statistics include project-level information from 41 of the largest private philanthropic foundations working for development. In turn, OECD DAC data utilized in this report is labeled as "international public and philanthropic climate finance."

cross-cutting issues. In terms of sectors, the energy sector attracted the largest share (approximately 24 percent) of OECD-reported climate finance in Africa, followed by agriculture (19 percent), water (11 percent) and transport (10 percent).

The types of financial instruments used to support climate action include grants, (concessional) loans, equity, climate bonds, risk sharing and guarantee mechanisms, performance-based payments and debt swaps. By far, most of the reported climate finance flows are delivered in the form of grants or concessional loans. A smaller proportion of the funding is non-concessional (market rate) loans. The domination of concessional finance, both grant and debt-based, highlights the limited use of other instruments in Africa, such as guarantees, equity, debt relief and/or insurance products. This suggests a need for more innovative approaches to finance climate action on the continent such as using de-risking instruments that could attract private sector investment into climate-related sectors. When looking at which financial tools support mitigation and adaptation, a disproportionately large portion of debt financing is directed towards mitigation actions compared to adaptation actions.

The climate finance gap in Africa

Based off NDCs, it is estimated that African countries need $2.8 trillion between 2020 and 2030 to implement their NDCs (CPI, 2022a). Annually, this means that $277 billion is needed. Comparing this need against the amount of climate finance received in 2021-2022 ($30 billion) shows that Africa is only receiving 11 percent of what is required to implement NDCs (CPI, 2022a; CPI, 2023). Considering that African governments have committed to mobilizing around 10 percent of their need domestically, this leaves an immense gap (around 80 percent or $2.5 trillion) in climate finance that is needed to achieve climate mitigation and adaptation targets in Africa (CPI, 2022a).

Challenges and barriers to access climate finance

African countries' ability to mobilize climate finance is impacted by various challenges, some internal and others external. When looking internally, **within African countries**, challenges include:

- **Institutional capacity:** The challenge of weak institutions has historically been an important barrier to accessing climate finance for developing countries. Weaknesses in institutions can be seen as two dimensional, where institutions lack internal capacity and weak systems to meet the minimum standards set by the international climate funds, and they lack adequate technical capacity to develop a pipeline of feasible and economically viable climate projects and programmes (UNFCCC, 2022a). Specific institutional capacity gaps that contribute to this include: weak technical capacities, lack of clear frameworks to guide access and absorption of climate funds, poor coordination across sectors with overlapping or unclear mandates, lack of adequate data to inform project development, and varied negotiating capacities (Tall et al., 2021; Tippmann et al., 2013; UNFCCC, 2022a).

- **Policy, planning and budget:** An enabling policy environment aligned to clear planning processes is critical to informing priorities for climate investments and signaling to all stakeholders the priorities and opportunities for climate action. Most countries have policy frameworks in place, but issues remain that can act as barriers to allocating and accessing climate finance. These include a lack of coherence between climate plans and development plans, limited data and analysis of domestic climate expenditure, lack of a green taxonomy to direct private sector participation, and weak or nonexistent NDC Investment Strategies that include project pipelines.

- **Data and research:** A lack of locally relevant data, such as scaled down climate vulnerability and risk analyses, that can help tailor climate projects to local contexts and the needs of communities has created challenges for project developers. Limited or weak capacity at subnational levels may hinder this data availability while disconnects can exist between research institutions, central government entities and subnational climate

practitioners. Without a strong evidence base for investment projects, decision makers and potential investors may struggle to justify project interventions in particular sectors or geographies. Data scarcity is a major contributor to perceived investor risk in climate projects in Africa (Rahman, 2023).

Looking externally, to **international climate finance sources**, challenges include:

- **Funding levels:** In addition to developed countries' failure to meet their 'fair share' of financial contributions, there is also a debate on how to track climate finance contributions, and specifically, the issue of 'double counting', where ODA contributions are counted towards both development finance and climate finance.

- **International public finance terms (debt, risk and liquidity):** There has been increasing criticism in recent years of the ways in which international public financial institutions such as MDBs and bilateral agencies deliver climate finance to developing countries, being characterized as entrenched systems of imbalanced power dynamics that favour the funder and place an unreasonable burden on the recipient. Several factors contribute to this imbalance including the use of non-grant instruments that can exacerbate countries' vulnerability by increasing their level of indebtedness and transferring risk of financial losses to developing country governments; how the cost of capital imposed on African governments is often many times higher than what developed country governments pay (Avinash, 2023); that credit risk assessments, often based on perceived risk – become an unsurmountable hurdle; and when facing back-to-back disasters many vulnerable countries do not have access to liquidity at favorable (concessional) terms.

- **One size fits all approaches:** While the international climate finance landscape supports the needs of a heterogenous group of developing countries, climate finance funders, do not always appreciate the differences between countries. Examples include adaptation and mitigation finance having similar terms despite different needs and that direct access are required to adhere to complex fit-for-purpose fiduciary standards despite some of these national institutions being relatively young.

Tracking climate finance and climate investment impacts

The connections between transparency, MRV systems and accessing and mobilizing climate finance, both domestically and internationally, are considerable. As transparency is rooted in building trust between climate actors by providing clear and reliable information, it has a defining role to play in helping countries secure additional climate finance. For the many African countries where transparency frameworks are incomplete or ineffective, this can create barriers to securing finance.

Opportunities for scaling up climate finance for Africa

Despite the numerous challenges, there are also robust opportunities that African governments and climate finance funders can engange on. They include:

- **Strengthen climate planning, budgeting and investment frameworks**: There are a multitude of approaches and tools that can be utilized to improve climate planning, budgeting and investment and which contribute to opportunities for finance mobilization. These include developing NDC Implementation Plans and supporting the mainstreaming of climate and NDC targets at sector levels; tools such as CPEIRs and climate budget tagging (CBT) to support governments to understand how they are contributing to climate finance through domestic budgets; developing a NDC Investment Strategy or NDC Finance Strategy to determine NDC investment needs and supporting activities; utilizing Integrated National Financing Frameworks (INFFs) and SDG mapping to help identify SDG-aligned investment opportunity areas, many of which are highly relevant for NDC implementation.

- **Locally led initiatives:** Recognition is growing about the need to scale up the use of direct access modalities so that African countries can access climate finance through capacitated and empowered national and subnational institutions, without passing through international intermediaries. Strengthening these national institutions to access these funds is paramount.

- **Mobilizing the private sector:** The private sector is vital to achieving both climate targets and securing levels of finance required. Some concrete actions that governments can take to increase private sector participation in climate action include developing a sustainable taxonomy that helps direct investment but allows financial players to identify, track and validate their sustainable, green or blue activities; strengthening a NDC project pipeline of bankable projects that translates investment needs into specific investment projects ready for financing; supporting small- and medium-sized enterprises (SMEs) that are constrained by access to finance but have massive growth potential.

- **Enhance collaboration and partnership:** At national level, NDC Coordination Committees can lead in improving institutional capacity and coordination issues related to climate change and NDCs. International organizations, including UN agencies, bilateral institutions and MDBs, can increase support, to address technical or skills gaps that can enhance the capacity of national and local actors to develop project pipelines. Increasing South-South partnership and learning opportunities is also needed.

- **Increase diverse use of climate finance instruments:** There is a need to expand the use of climate finance instruments to ensure that the correct tools being used to respond to a country's needs and are aligned to the country's climate and financial management risk profile and the level of capacity needed to support the implementation of the proposed projects.

Recommendations

Recommendations for **international public financing institutions** include:

1. DFIs, MDBs and climate change funds should have a higher risk appetite;
2. Integration of climate change into all development finance;
3. Enhance the capacity of national and subnational government actors to take lead in mobilizing climate finance;
4. Reform adaptation finance to align with the principles of locally led adaptation; and
5. Increased investment in project preparation and piloting of new approaches through grant funding (or reimbursable grants).

Recommendations for **African governments** include:

1. Improve coordination and planning between climate change actors;
2. Track climate finance at the national level;
3. Develop or strengthen climate investment frameworks; and
4. Strengthen the enabling environment for climate investment.

It has never been clearer that the climate finance needs of African countries are severely underfunded. If the continent is to successfully achieve its climate change commitments and targets to mitigate climate change and build resilience and adapt to its impacts, then drastic action is required from both governments and climate finance funders alike.

Cape Town, South Africa © Dan Grinwis

Chapter 1.

Introduction

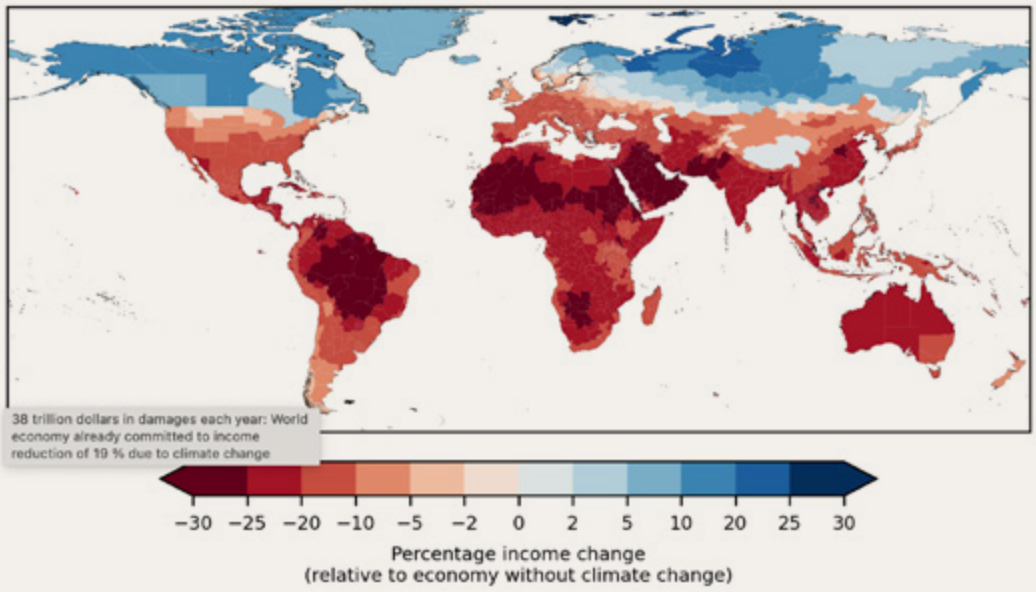
1.1. The context

1.1.1. Climate change in Africa

Climate change is arguably the greatest challenge facing humanity in the 21st century. Its impacts have significantly altered the natural world and affected global economic performance and human well-being. A recent study estimates that damage from climate change globally to farming, infrastructure, productivity, and health will cost an estimated $38 trillion per year by 2050 and see a 19 percent reduction of income (Kotz et al., 2024). As climate change impacts are being experienced globally, they are not evenly distributed, and Africa is projected to be impacted significantly more than other parts of the world. It is also a region with the least capacity to adapt to the impacts of climate change and contributes less than four percent of global greenhouse gas emissions (GHGs) (Global Carbon Budget, 2022). Yet, the disproportionate impacts of climate change in Africa are confirmed by several reports, including the World Meteorological Organization (WMO, 2022), which found that Africa's average temperature has increased faster than other parts of the world, leading to an above average increase in sea level rise along African coastlines. This has increased the frequency and severity of coastal flooding, erosion and salinity in low-lying cities. Changes in climate will bring an increase in the frequency and intensity of extreme weather events, such as droughts and flooding. These impacts can reduce socio-economic development at the community and household levels, a worrying trend for a continent that depends heavily on its natural resource base for livelihoods.

At the economy level, climate change is expected to significantly impact Africa's economic development with estimates indicating lower Gross Domestic Product (GDP) per capita growth ranging, on average, from 10 to 13 percent (UNECA and ACPC, 2019). When looking at reduction of income, Africa fares the worst globally, with some countries facing up to a 30 percent reduction in income in 2049 due to climate change (Kotz et al., 2024) (Figure 1). This economic impact will be exacerbated by the continent's low climate adaptive capacity and the vulnerability of major sectors. For example, the agriculture sector is highly impacted by prolonged

Figure 1. **Projected income changes in 2049 compared to an economy without climate change**



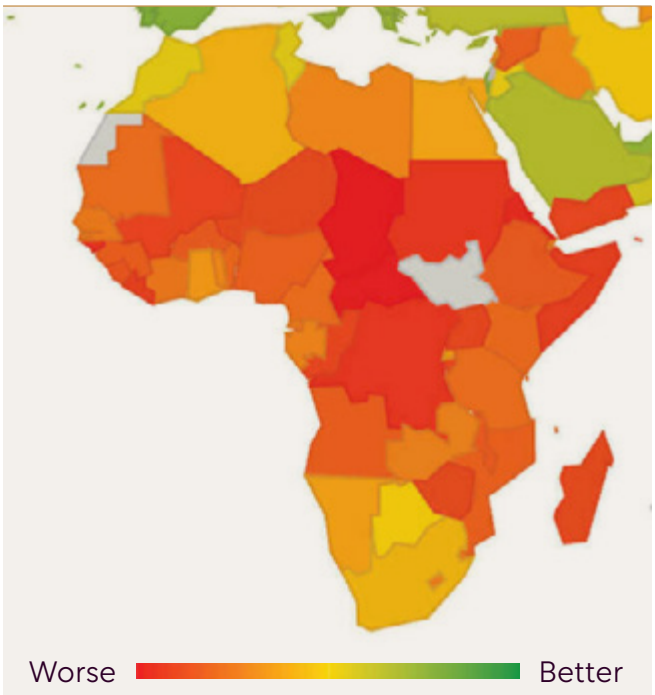
Source: Kotz et al., 2024.

drought episodes while the service and industry sectors have shown a higher sensitivity to extreme rain events (UNECA and ACPC, 2019). These economic impacts are occurring when most African countries face other diverse economic challenges that equally affect their economic output and outlook. These challenges include a slowdown in global growth, rising inflation exacerbated by the war in Ukraine, a tightening of global financial conditions, and the rising risk of debt distress (WBG, 2023).

Such compounding challenges make Africa among the world's most vulnerable regions to the impacts of climate change. According to the University of Notre Dame Global Adaptation Initiative (ND-GAIN), which summarizes a country's climate change vulnerabilities and readiness to adapt, African countries are classified as the most vulnerable and have the least capacity to adapt to climate impacts. Figure 2 shows the recent classification of countries under the index.

African countries recognize the challenges posed by climate change to their development agenda and have put in place several national policy and strategic initiatives to address them. Globally, recognizing the need to work collectively with other governments, 54 African countries ratified the Paris Agreement. Under the Paris Agreement

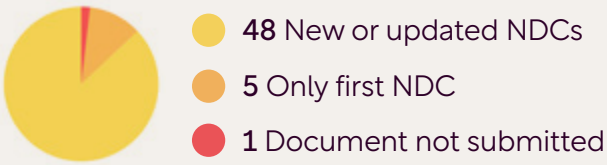
Figure 2. **Climate vulnerability index for African countries**



Source: Notre Dame Global Adaptation Initiative, 2023.

and as of the beginning of 2024, 48 African countries had submitted their enhanced or updated Nationally Determined Contributions (NDCs), where they commit to national mitigation targets and adaptation measures and prioritize actions to reduce emissions and build resilience to climate change. Figure 3 illustrates the type of NDCs submitted by African countries. While most countries submitted updated or enhanced NDCs, five countries remain with their first NDC (Algeria, Botswana, Djibouti, Eritrea and Lesotho), and one country did not submit an NDC (Libya) (Climate Watch, 2023).

Figure 3. **NDC submission status in Africa**



Note: Analysis is from the 54 African countries' latest submission of NDCs.

Source: Climate Watch, 2024.

Due to the limited financial base in many countries, commitments are generally indicated as conditional or unconditional. Conditional commitments, which make up approximately 85 percent of the commitments from African countries, include adaptation and mitigation targets that may be achieved only with financial and technical support from external sources (AfDB, 2019b).

It is estimated that African countries need $2.8 trillion between 2020 and 2030 to implement their NDCs (CPI, 2022a). An estimated 64 percent of the required climate finance will be dedicated to mitigation efforts, while 36 percent will be invested in climate adaptation. Such resources may come partly from developed countries' public commitments but will also require mobilizing significant private sector investment. Internationally mobilized resources are expected to support priority sectors of agriculture, water, health, energy, transport, and ecosystems (AfDB, 2021; CPI, 2022a). **While estimates for NDC finance needs are substantial, they are also likely underestimated.** This is because an accurate estimation of financial needs is limited by capacity constraints, data limitations, uncertainties regarding global mitigation outcomes that would impact adaptation costs, and limited information on the adaptation needs of vulnerable communities.

1.1.2. Regional overview

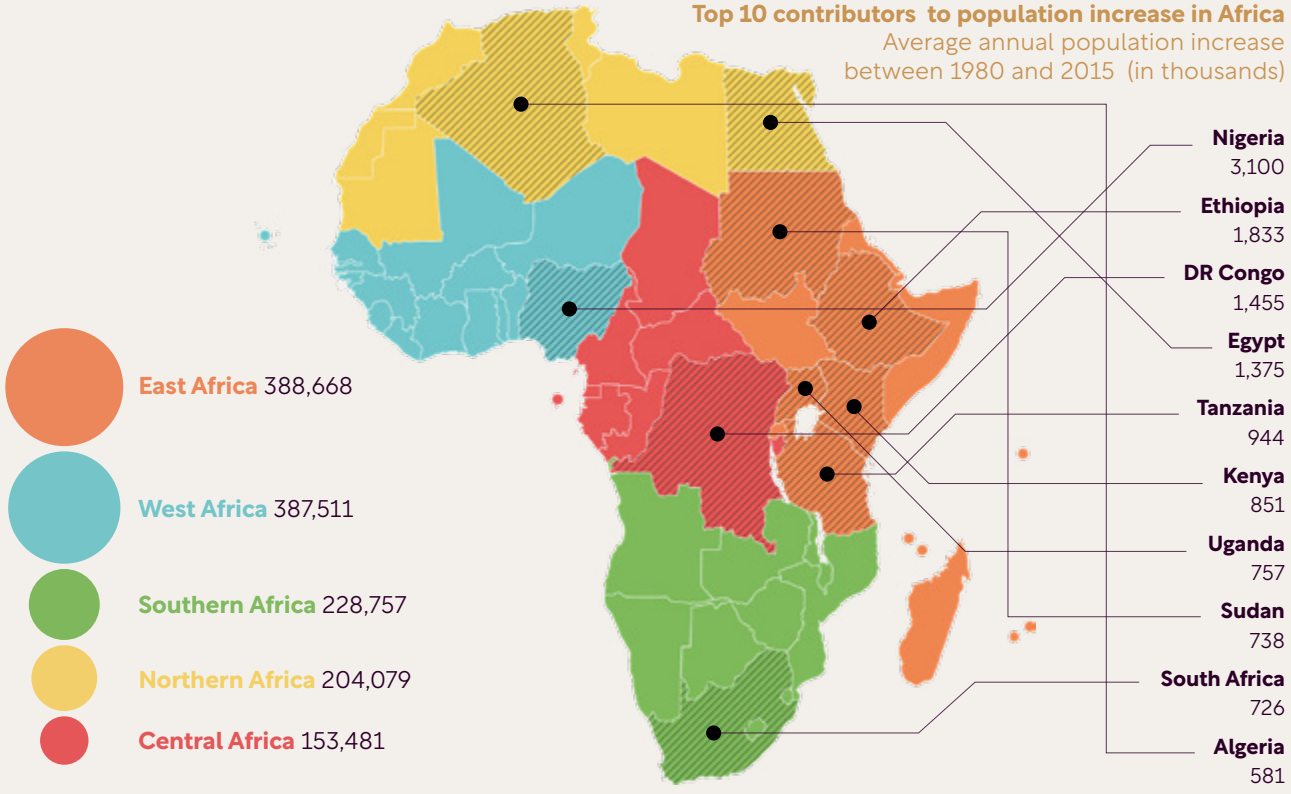
Africa, the second largest continent after Asia, has 55 Member States to the African Union[1] and it is home to more than 1.4 billion people. The continent has the highest population growth rate, and it is expected to add more than a billion people by the year 2030 (UNDESA, 2022).

The African Union (AU) classifies the continent into five main subregions: Northern Africa, Southern Africa, Eastern Africa, Western Africa, and Central Africa (Figure 4). These regions are based on the country's geographical location suggesting that they share some similarities in terms of climate vulnerability and economic development.

The United Nations estimates that by the year 2050, Africa will have more than 2.5 billion people, which means the continent has the highest population growth rate of approximately 40 percent (UNDESA, 2022). In this projection, Nigeria will be the third most-populous country in the world, and five of the eight fastest-growing countries in the world will be in Africa, with the growth mainly among working-age populations (Democratic Republic of the Congo, Egypt, Ethiopia, Nigeria and Tanzania) (UNDESA, 2022).

This population growth will have cumulative climatic impacts across the continent, significantly influencing countries' GDP. Estimates indicate that this might result in an annual decline of 4.7 percent of GDP by 2050 in Africa (EIU, 2019). The continent leads in being hardest hit by this GDP decline when compared to other regions such as Latin America (3.8 percent), Middle East (3.7 percent), Eastern Europe (3 percent) and Asia-

Figure 4. **African Union subregions and their population (2019 – in thousands of inhabitants)**



Source: United Nations, Department of Economic and Social Affairs, 2022.

[1] In addition to the 54 African countries that are Member States to the United Nations, the African Union also recognizes the Sahrawi Arab Democratic Republic as a Member State.

Pacific (2.6 percent) (EIU, 2019). This is expected to further exacerbate financial pressures on African governments and could intensify socio-economic and political instability and increase poverty levels, as was seen during the COVID-19 pandemic, which accelerated adverse economic impacts on the continent.

It is important to note that the double burden of climate change and gender inequality makes women and girls more vulnerable as they will likely have less access to financial and social services in the face of climate impacts. This could mean women and girls have limited education and livelihood opportunities and more restricted resources and rights surrounding land tenure, social and legal services, political participation, paid livelihoods, governance and infrastructure. This ultimately negatively impacts the adaptive capacity of women and girls to climate risks. Vulnerable groups such as this are likely to experience unequal and differentiated impacts as climate change continues.

Turning to climate finance needs identified in NDCs, the analysis finds that investments in mitigation take a larger share of finance needs compared to adaptation as can be seen in Table 1.

These needs are heavily inclined towards supporting emission reduction efforts, even though Africa's total GHG emissions contribute less than four percent to total global emissions (Global Carbon Budget, 2022).

Considering the continent's vulnerability to climate impacts, the lower investment needs for adaptation suggest a major focus for African governments on transitioning to a low-carbon economy. Nonetheless, this could also be influenced by the fact that mitigation targets in NDCs are mandatory while those for adaptation are not and because adaptation is largely still supported by concessional finance. This could also indicate the challenges of estimating the investment needed to increase communities' adaptive capacity. While development partners and initiatives such as UNDP's Climate Promise support governments to increase the inclusiveness of the NDC revision and implementation process through the promotion of whole-of-society consultations and coordination mechanisms, NDCs can still be the product of top-down processes (UNFCCC, 2021b). Strengthened inclusion of marginal actors such as youth, women, and Indigenous Peoples, as well as private sector actors, is needed to better understand local dynamics and priorities for adaptation as opposed to those only of central government.

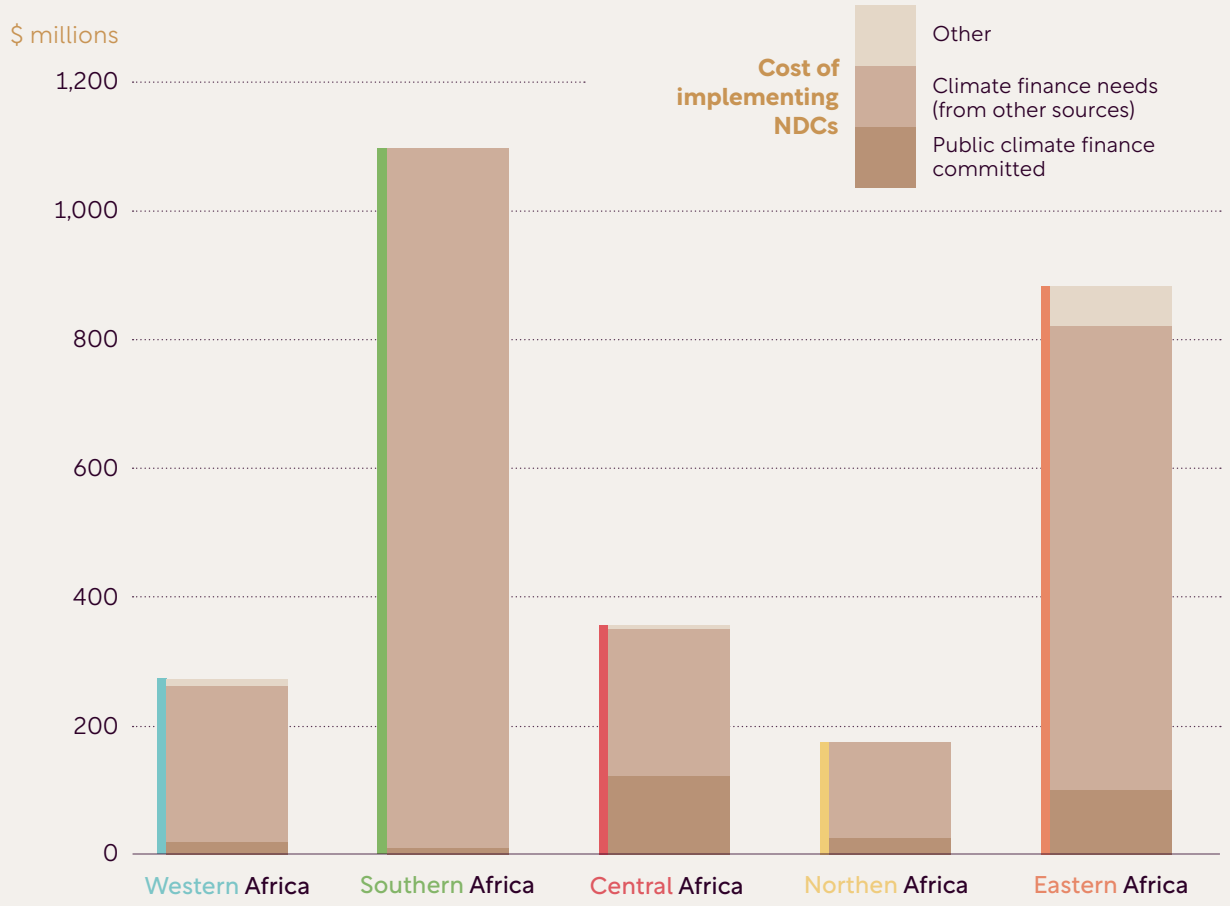
The sources of climate finance can come from governments themselves (domestic public finance), from international public finance (International Financial Institutions (IFIs), Development Finance Institutions (DFIs), Multilateral Development Banks (MDBs), bilateral stakeholders, etc.), from

Table 1. **Mitigation and adaptation climate finance needs in African NDCs, per subregion (% share)**

Subregion	% share mitigation	% share adaptation	% share cross-cutting
Central Africa	70 %	30 %	--
East Africa	57 %	22 %	21 %
Northern Africa	22 %	29 %	57 %
Southern Africa	75 %	25 %	--
West Africa	77 %	14 %	9 %

Source: CPI, 2022a.

Figure 5. An estimate of climate finance needs in Africa by subregion, 2020-2030



Note: In this figure "Public climate finance committed" includes domestic public climate finance commitments made by countries in their NDCs. "Climate finance needs" is the external financial support, required beyond domestic public sources. This comes from international public sources and domestic and international private sources. "Other" includes the estimation of loss and damage when provided by countries. However, some subregions have not estimated this properly, making it difficult to add it for all subregions. In general, it is accepted that recorded climate finance needs are estimated as they are based on the costed needs by countries in their NDCs. For many countries, the absence of robust data at the local level needs can hamper effectively assessing these costs.

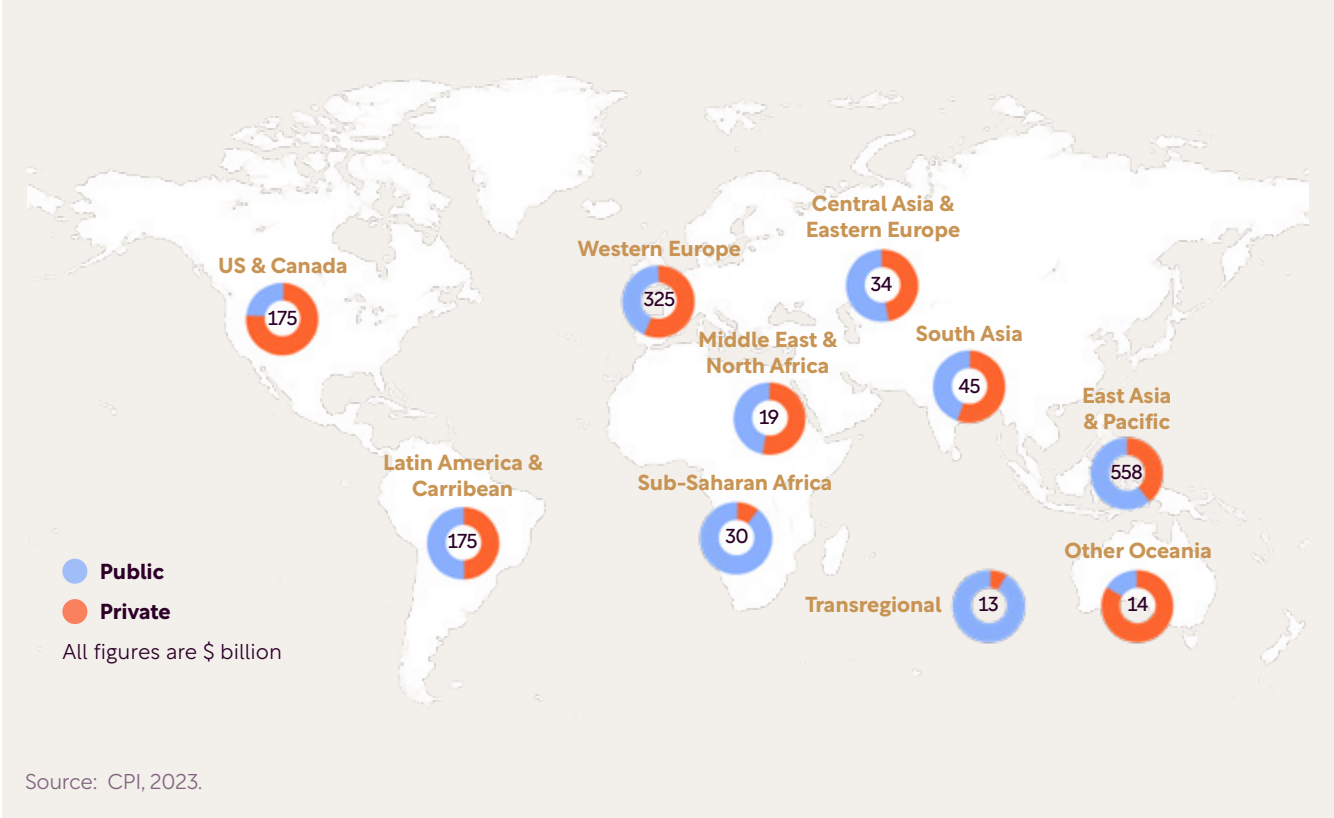
Source: CPI, 2022a.

philanthropies (private sector) and from other domestic and international private sector sources.

Figure 5 illustrates how domestic public finance, and all other sources of finance are to meet NDC commitments across Africa's subregions.

Despite difficult domestic circumstances, African governments and stakeholders have undertaken significant efforts to mobilize resources and align various domestic and private finance flows with climate objectives. While African countries have made commitments to mobilize domestically between 10 and 30 percent of the resources required to implement their climate priorities, this could be impacted by rising levels of indebtedness, potentially competing development and growth objectives and budgetary needs, and other externalities such as recovery from the Covid-19 pandemic. This raises the urgency of access to climate finance for African countries if these nations are to support the transition to low-carbon and climate resilient economies. **Currently, the continent's access to climate finance falls grossly under indicated needs, with reports estimating that current flows amount to only around 11 percent of what is required** (CPI, 2022b).

Figure 6. **Regional international climate finance mobilized from public and private sources for the year 2021/2022 ($ billion)**



Source: CPI, 2023.

When looking at the global flow of both public and private climate finance (Figure 6), Africa's share remains low at 2 percent ($30 billion), especially in comparison to East Asia and Pacific, which receives 44 percent of total flows ($558 billion) (CPI, 2023). Notably, these figures also show that Africa depends heavily on international public finance to fund climate action, with most of Africa's $30 billion coming from this source. For developed economies, these dynamics switch, and these regions see the majority of international finance come from private sources as opposed to public.

1.1.3. Climate finance

Climate finance is a complex topic and there is no global agreement on what constitutes climate finance or its specific accounting rules. However, under the United Nations Framework Convention on Climate Change (UNFCCC), climate finance is described as local, national or transnational financing - drawn from public, private and alternative sources of financing - that seeks to support mitigation and adaptation actions that will address climate change. The importance of mobilizing climate finance was emphasized during the 16th Conference of the Parties (COP) in 2010, where developed countries formalized their collective climate finance commitment made in 2009 at COP15 in Copenhagen of "mobilizing jointly $100 billion per year by 2020 to address the needs of developing countries, from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources". The goal has however not been met after all this time as parties have struggled to break the overall $100 billion goal down into concrete commitments for different finance providers, to identify how the amount should be allocated among receivers, and to decide on what share to dedicate to mitigation versus adaptation. To overcome these challenges, currently, parties to the Paris Agreement are working to agree to a **New Collective Quantified Goal on Climate Finance** (NCQG) that is supposed to be more specific and therefore more feasible to be reached, and that

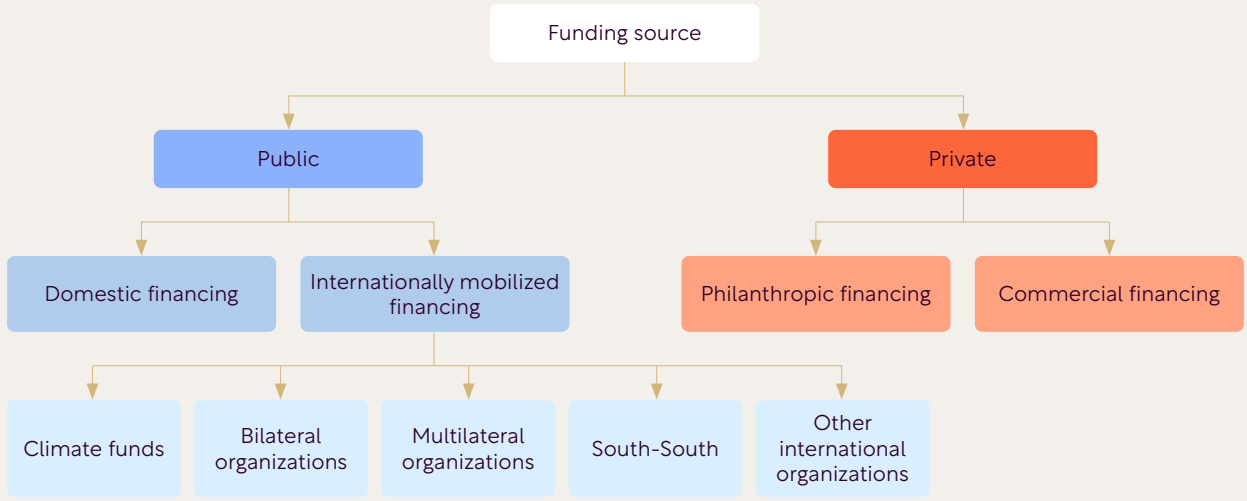
will take effect from 2025. However, the fact that a common definition for climate finance is still being negotiated presents an obstacle for making further progress on the NCQG because the definition is expected to indicate which types of finance would count as climate finance (e.g. grants versus loans), as well as whether loss and damage finance would be regarded as part of climate finance or separately.

While no universal definition exists to define the boundaries of climate finance and its flow mechanisms, different research and academic groups have attempted to. One such effort was conducted by Watson and Schalatek (2020), who provided a working framework of global climate finance architecture that included private and public and alternative sources and the overlap within these sources. For the purposes of this report, a simplified mapping of climate finance based on this architecture has been adopted in Figure 7.

Countries mobilize climate finance through either public or private sources. Domestic public sourcing equates to governments committing and using budgetary resources. International public climate finance comes from bilateral and multilateral sources, including MDBs and climate-specific funds such as the Green Climate Fund, Adaptation Fund, Global Environment Facility and other smaller and/or regional or national funds. Private finance can either come from domestic private sector sources or from international private sector sources including foreign direct investment and philanthropic funding[2].

In Africa, countries particularly mobilize international climate finance through climate funds, debt instruments (e.g. green and blue bonds, debt for climate/nature swaps, sovereign and corporate bonds), international carbon credit initiatives and climate-related insurance schemes. Additional instruments that can be used to mobilize climate finance but are not widespread include equity and guarantees. Nonetheless, in Africa the most dominant instrument used is concessional climate finance which is primarily comprised of loans, grants, and/or equity and it is typically sourced from bilateral and multilateral donors, climate funds and MDBs. Concessional finance aims to act as a flexible and accessible tool to bridge the gap from limited public sector and/or philanthropic resources, to much larger (commercial) private sector funding opportunities.

Figure 7. **Simplified climate finance funding source landscape**



Source: Design is adopted from CPI, 2022b; OECD, 2021; and Watson and Schalatek, 2020.

[2] Philanthropic funding in this report refers to the private philanthropies that are included in OECD DAC statistics. They include organizations such as The Bill and Melinda Gates Foundation, The Mastercard Foundation, The Open Society Foundations and the Bezos Earth Fund.

1.2. Report objectives

In the recent past, three key studies have analysed issues related to climate finance and access by developing countries, providing context to this report's rationale. Among these is a report by the **UNFCCC's Standing Committee on Finance (SCF)** (2022c) which provided an overview of climate finance flows up until 2020, highlighting the trends and the implications of these flows towards addressing the climate crisis. Findings from the report include the development of frameworks, by a limited number of countries, for tracking climate finance as per the Paris Agreement's Enhanced Transparency Framework (ETF). Under the ETF, to enhance the transparency of support needed and received by countries, countries are to undertake activities that map and track public expenditures related to climate change, any external climate finance support received and their investment needs for implementing mitigation and adaptation actions.

The report also found that public finance flows from developed to developing countries were directed more to mitigation efforts than adaptation despite adaptation finance increasing overall from bilateral sources and MDBs.

Among the challenges identified by the report include the limited information on South-South cooperation in climate finance flows, which for the most part, remains relatively underreported. However, the SCF's report, as with previous reports, did not delve into the different sources of finance flows from developed to developing countries owing to limited data availability on the subject.

The **UN Environment Programme's (UNEP)** Adaptation Gap Report 2023 evaluated the level of climate finance flows for climate adaptation and argued that there is an urgent need to scale-up adaptation financing. It found that currently there is a strong mismatch between adaptation needs and the level of climate adaptation finance, with a widening gap: current adaptation finance needs are between 10 to 18 times as great as current international public adaptation finance flows, which is at least 50 percent higher than previously estimated. This adaptation finance gap is estimated to be about $194-366 billion per year globally. Meanwhile, it shows that international adaptation finance flows have been declining since 2020. The report also notes that only 2 percent of current international public adaptation finance is assessed as gender-responsive, while 24 percent considered is gender-specific or integrative, showing a clear lack in gender equality considerations in international public adaptation finance flows. Furthermore, the report notes that the slow and insufficient action on both mitigation and adaptation leads to increasingly reaching the soft and hard limits to adaptation, and an increasing need for loss and damage.

Lastly, a report by the **Climate Policy Initiative (CPI)** (2022a) sought to determine African climate finance needs and found that the continent will need more than $2.8 trillion between 2020 and 2030 to implement the continent's climate ambitions as articulated in NDCs. This suggests that the current estimated climate finance flows in the continent can only meet approximately 10 percent of the identified needs. It is important to note, that in the report, the level of financing needs identified was likely underestimated due to the limited capacities of many African governments to make accurate assessments of climate needs, in part, because of a lack of data from subnational governments and vulnerable communities.

Whilst these reports provide valuable insights on the climate finance landscape and climate finance needs, and to some extent, level of finance flows, there is a need to bring these datasets together to improve our understanding of the financing level *vis-à-vis* current climate finance flows and their delivery modalities.

To respond to this gap in analysis, specifically surrounding international public climate finance, **this report brings together findings from UNFCCC, UNEP and CPI to provide a wholistic view of Africa's climate finance landscape and present a coherent story of the gaps and opportunities that exist for African countries to mobilize climate resources**. To achieve this, the report has five objectives:

1. Provide an overview of international public and private philanthropic climate finance flows to Africa.
2. Provide an overview of climate finance needs and projections in Africa between 2020-2030;
3. Provide a review of the main financial instruments employed in delivering climate finance in the continent;
4. Identify major challenges experienced by various entities in mobilizing climate finance and the available opportunities to enhance mobilization of resources to support the continent's climate ambitions; and
5. Make key recommendations to increase and enable the effective use of climate finance in Africa.

1.3. Methodology

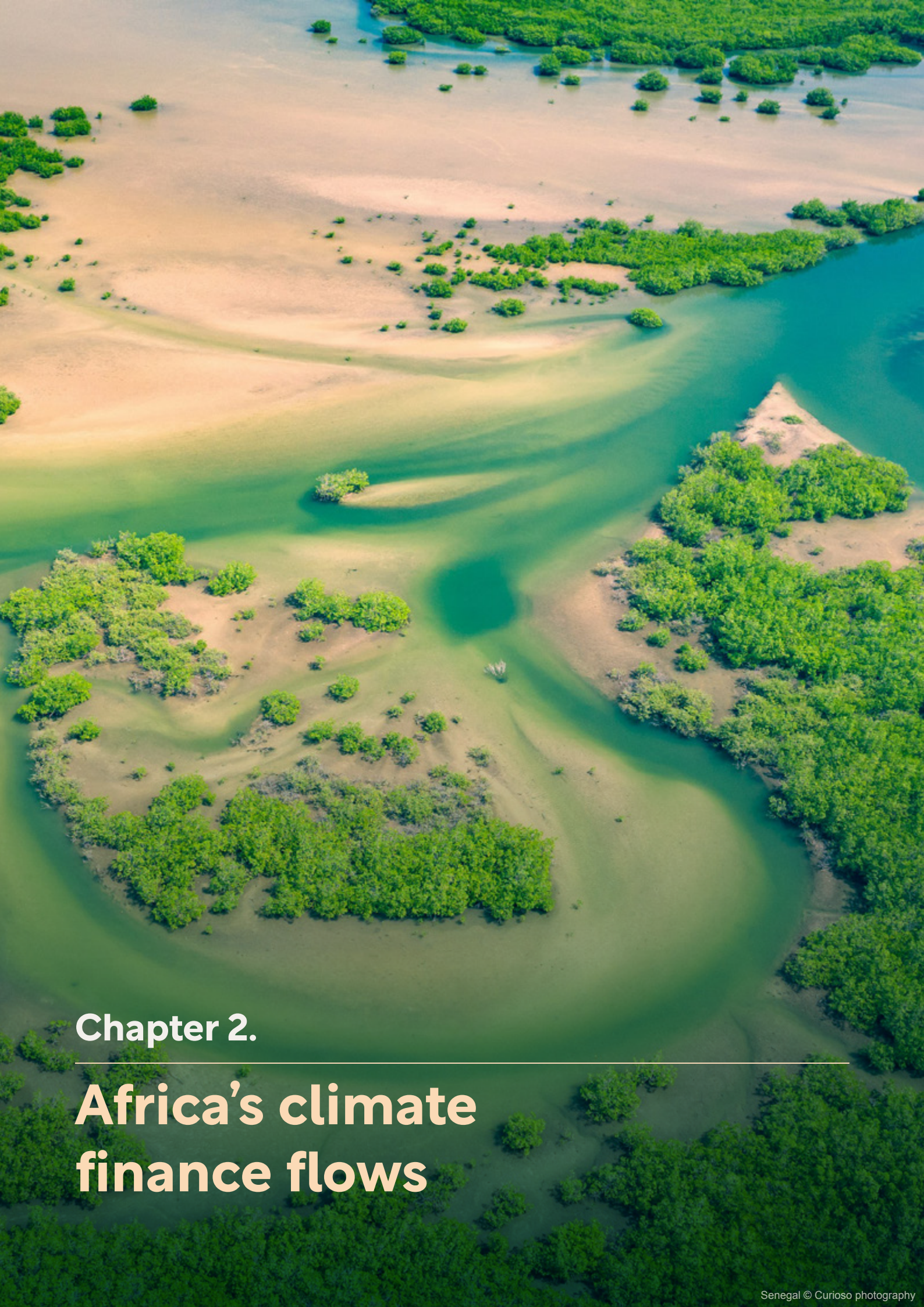
This report analyses Africa's climate finance flows and trends from 2011 to 2021, with a specific emphasis on international public and private philanthropic finance flows and trends, including the funding sources, delivery channels and instruments, and purpose of funding.

In addition to the SCF, UNEP and CPI reports mentioned above, this analysis leverages data derived primarily from the **Organization for Economic Co-operation and Development (OECD)** database (which tracks public and private philanthropic international climate finance) and **MDBs 2021 Joint Report on MDB Climate Finance** to further understand climate flows from MDBs. The Global Center for Adaptation's **State and Trends in Adaptation Report 2022** is used for analysis of Africa's cost of adaptation and the Climate Policy Initiative's **Landscape of Climate Finance in Africa 2022** report to provide further insights on all climate finance flows.

Improvements in the provision of international public and philanthropic climate finance data over the past years have allowed for more ease in their analysis. However, scattered data on the contribution of the private sector comprehensively to climate action, as well as challenges in tracking domestic public sources, have limited the analysis from these critical angles. Whenever new quantitative analysis was undertaken beyond the reporting of insights from other key reports, this focused primarily on international public and philanthropic sources of climate finance that are tracked by the OECD Development Assistance Committee (DAC) database. It should be noted, that when using this OECD data, the share of philanthropic funds, in comparison to international public funds, is marginal.

Despite data limitations, the report provides a fair perspective of where countries in Africa stand in their efforts to mobilize finance to tackle their urgent needs to address adaptation.

[3] In this report, OECD data utilizes Official Development Assistance (ODA) data from Development Assistance Committee (DAC) members pursuing climate objectives and reports more broadly on climate-related development finance. This includes other (non-ODA) bilateral flows, multilateral development finance, philanthropic support and private finance mobilized by official interventions. In terms of philanthropies, the OECD statistics include project-level information from 41 of the largest private philanthropic foundations working for development. Data reported by these philanthropies are standardised using the same statistical standards and definitions as ODA.



Chapter 2.

Africa's climate finance flows

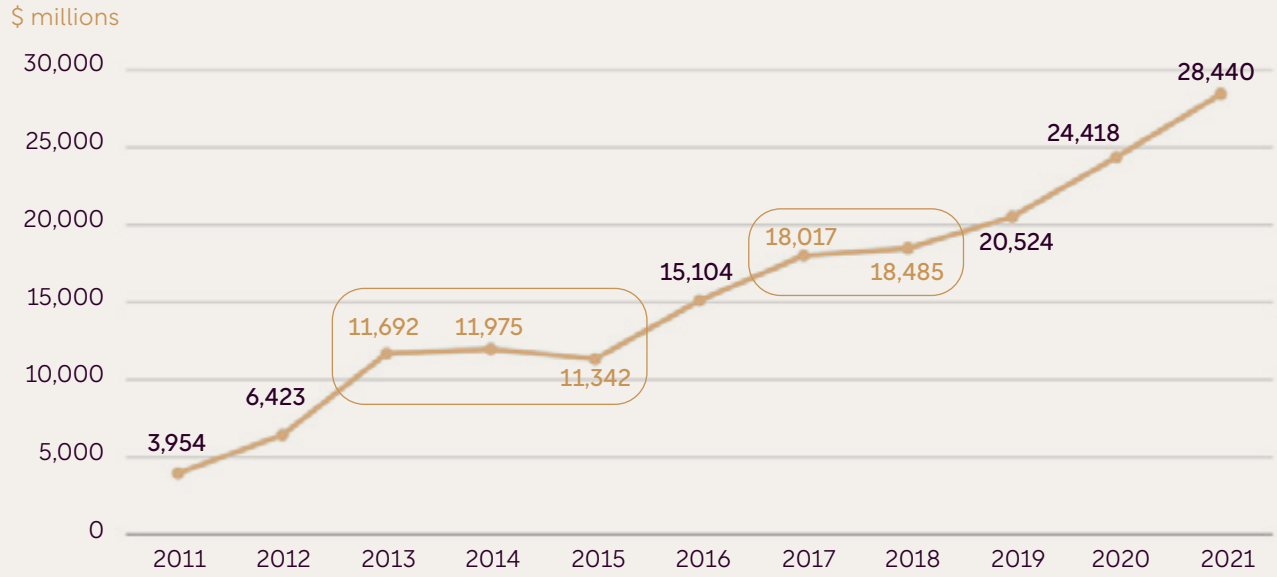
Senegal © Curioso photography

2.1. Climate finance flows in Africa
(2011 – 2021)

According to the assessment of the OECD DAC data on climate finance flows, in 2011 reported international public and philanthropic climate finance flows to Africa stood at $3.95 billion and grew seven-fold to $28.44 billion in 2021. It should be noted that this certainly represents an underestimation of climate finance flows to Africa as it excludes domestic investments by African governments through their national budgets, as well as the majority of private sector investment (outside of philanthropic sources), both of which are not tracked by the OECD. CPI's analysis in 2022, which attempts to capture some additional private sector and domestic public climate finance, estimates climate finance flows to Africa in 2019/20 at approximately $30 billion, while also acknowledging that this figure is underestimated (CPI, 2022b).

The increase seen in the OECD DAC data from 2011 to 2021 represents an average growth rate for Africa of around 24 percent annually. However, this increase has not been steady across the years with some recording minimal increases (Figure 8). Nonetheless, this increase is aligned to the global average annual growth of public international climate finance, which is just over 24 percent (OECD, 2021). It is important to note that the increase in international public climate finance flows is closely linked to decreased official development assistance (ODA)[4] as tracked by OECD for African countries. This suggests that increases in public international climate finance flows may be the result of previously earmarked ODA from developed countries being reallocated towards climate finance, a finding supported by Bhattacharya (2022) and Mitchell et al. (2021).

Figure 8. **International public and philanthropic climate finance flows in Africa, 2011-2021**



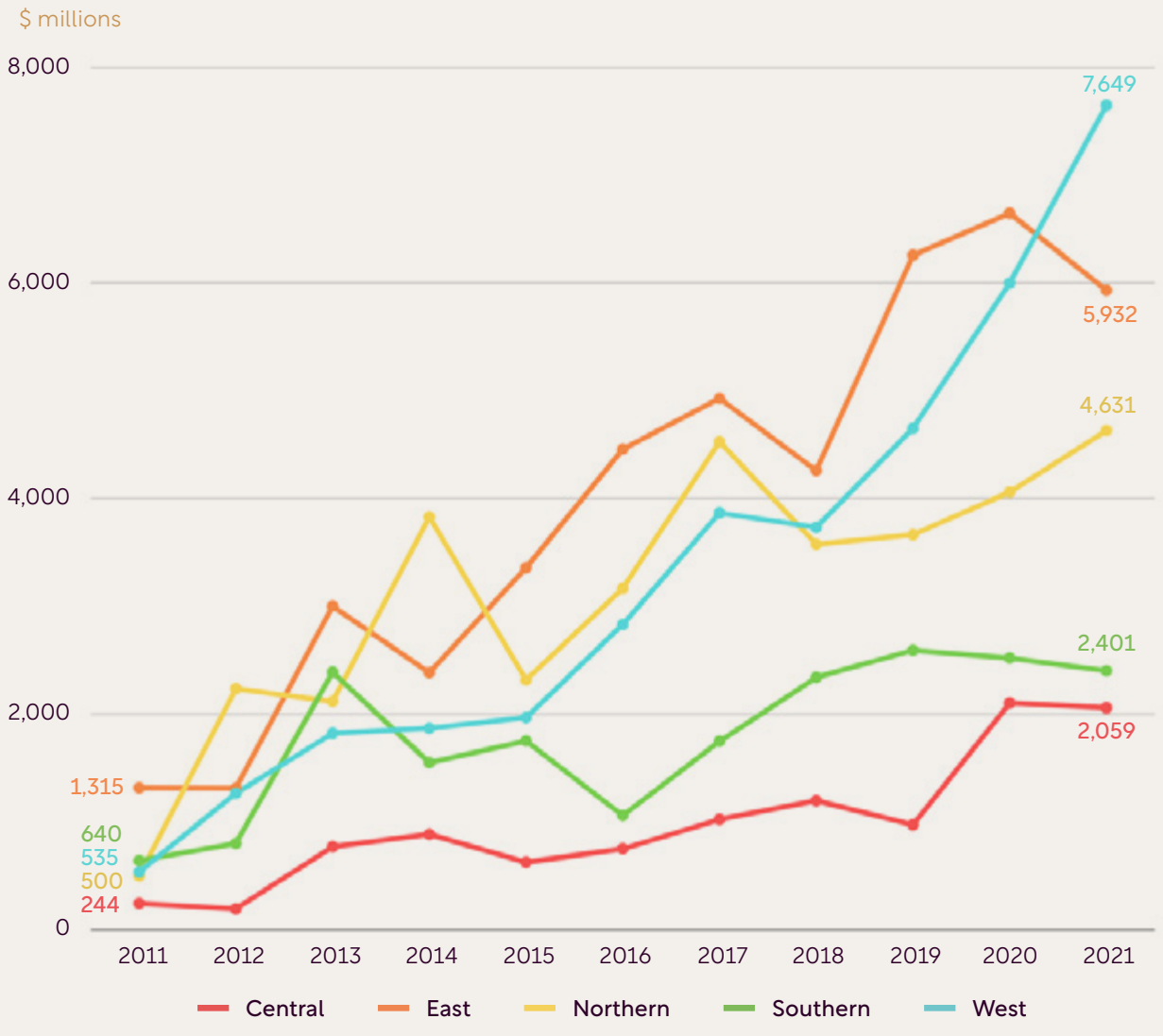
Source: Adopted from OECD, 2021.

[4] ODA flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions are: i. Provided by official agencies, including state and local governments, or by their executive agencies; and ii. Concessional (i.e. grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective (OECD, 2024). ODA is a key category within OECD DAC tracking of assistance, in addition to climate finance.

2.1.1. Subregional analysis of climate finance flows

All subregions within the continent registered a continuous growth of climate finance flows over the period 2011 to 2021 according to the OECD DAC statistics on international public and philanthropic climate finance flows. **East Africa mobilized the largest amount of funding among all the African subregions, however, in recent years, West Africa is progressively becoming the highest receiver of international public and philanthropic climate finance** with a remarkable record of growth in absolute terms. In looking at the figures, West Africa's average annual growth rate is at $711 million, which represents an annual increase of 35 percent. This is considerably higher than the overall growth rate of international public and philanthropic climate finance allocated to climate mitigation and adaptation activities in the continent. The remaining regions also recorded noticeable growth, with annual growth rates at an average of $461 million for East Africa, $413 million for Northern Africa, $181 million for Southern Africa and $176 million for Central Africa (Figure 9).

Figure 9. Annual international public and philanthropic climate finance flows by African subregion, 2011-2021



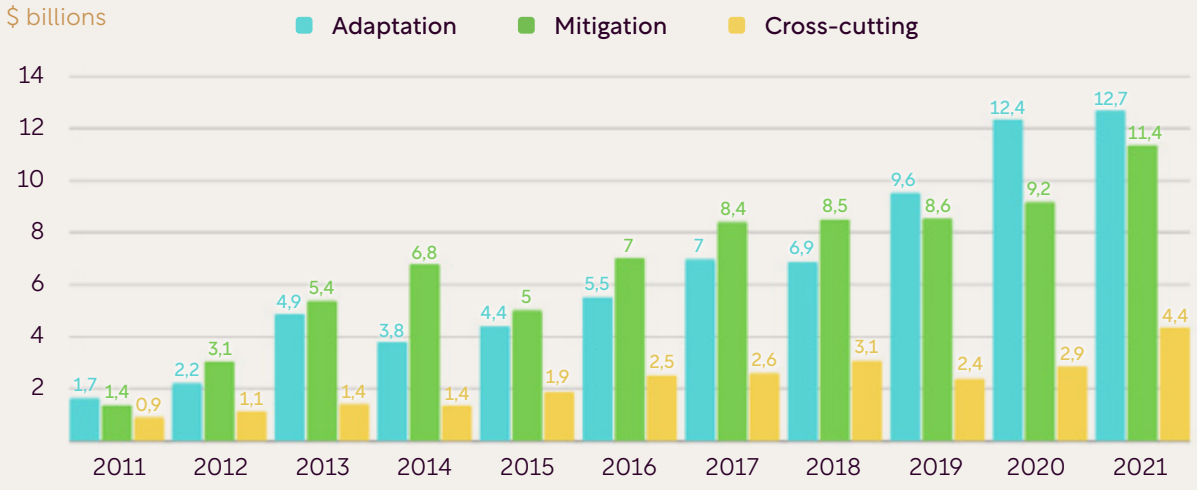
Source: Adopted from OECD, 2021.

2.2. Tracking mitigation and adaptation trends in international public and philanthropic climate finance (2011 – 2021)

While the growth in international public and philanthropic climate finance flows across all African subregions has been positive over the period 2011 to 2021, the growth has not been consistent for mitigation and adaptation. In Africa, **total international public and philanthropic climate finance between 2011 to 2021 was $71.1 billion for adaptation, $74.8 billion for mitigation, and $24.6 billion for cross-cutting activities**. Within the period, adaptation finance grew by 750 percent, mitigation finance grew by 814 percent and finance on cross-cutting activities grew by 489 percent (OECD, 2021). This shows the slight dominance of mitigation finance over adaptation finance, despite adaptation being a higher priority for the continent. It also shows the limited ability of financiers to invest in projects and programmes that address both mitigation and adaptation concerns, as cross-cutting investments grew much slower than adaptation and mitigation investments.

During 2013-2015, the growth in the amount of international public and philanthropic climate finance was relatively insignificant and recorded even negative growth for adaptation in 2014 and for mitigation in 2015 (Figure 10). It is worth noting that during this period, the continent experienced several challenges, including the worst Ebola outbreak West Africa has ever faced (see Box 1, overleaf). It is also interesting to note that **in 2019 and 2020 adaptation finance surpassed mitigation finance.**

Figure 10. **Total annual international public and philanthropic adaptation, mitigation and cross-cutting climate finance mobilized for Africa, 2011-2021**



Source: Adopted from OECD, 2021.

Box 1. The impacts of pandemics on climate finance flows

From 2014-2016 West Africa experienced the worst outbreak of Ebola that has ever occurred, registering the highest death toll since the disease's discovery in 1976. The outbreak started in Guinea and spread to surrounding countries including Sierra Leone, Mali, Nigeria, Senegal and Liberia, and in August 2014, the World Health Organization declared it a public health emergency. During this period bilateral and multilateral finances were aimed at addressing the outbreak and could potentially explain the decline in climate finance flows.

This trend was also observed during the Covid-19 pandemic which had, and continues to have, unprecedented impacts on the global economy. The World Economic Outlook (IMF, 2021) estimated a 3.5 percent contraction in global growth in 2020, which was far higher than the 0.1 percent recorded after the 2008 financial crisis. While the situation hit all parts of the world, its devastation did not hit all countries equally and African countries witnessed a sharp decline in climate finance in 2020. Some insights on the impact on climate finance during this Covid-19 pandemic include:

- Adaptation finance declined when financing transitioned to emergency and public health relief;
- Not all economic recovery plans took into consideration climate action, and the importance of supporting climate change and economic recovery (green recovery);
- An inability to attract large-scale private sector investment as countries were perceived as high investment risk; and
- Weakened technical and financial capacities to access long-term sustainable financing.

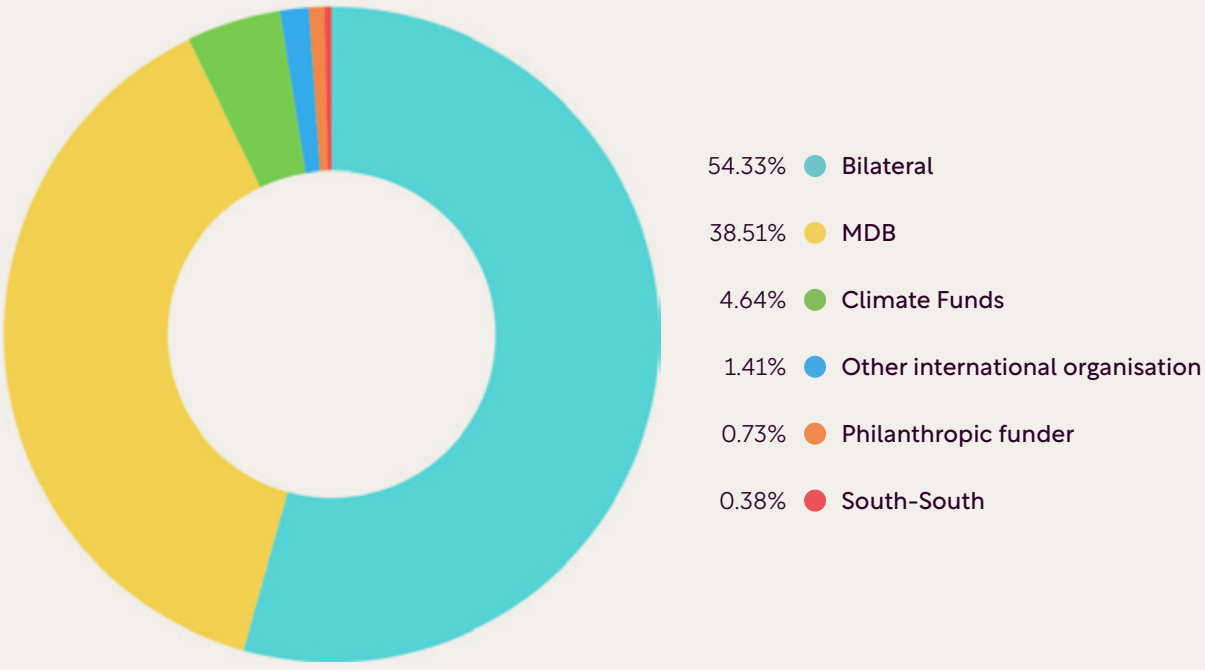
2.3. International public and philanthropic climate finance flows by funding sources

From the NDCs submitted by African countries, approximately 70-90 percent of the finance required is expected to come from external sources, including bilateral and multilateral sources, philanthropic organizations and the private sector. This section provides an assessment of the trends in development partner finance (i.e. international public and philanthropic climate finance) to Africa over the last ten years and puts into perspective the level of effort required by both African governments and their development partners if national climate targets are to be met.

According to OECD data, from the year 2011 to 2021, **most of the reported international climate finance flows in the region were drawn from bilateral sources ($92.57 billion) and MDBs (about $65.61 billion)** for approximately 93 percent of the reported climate finance mobilized in the continent (Figure 11).

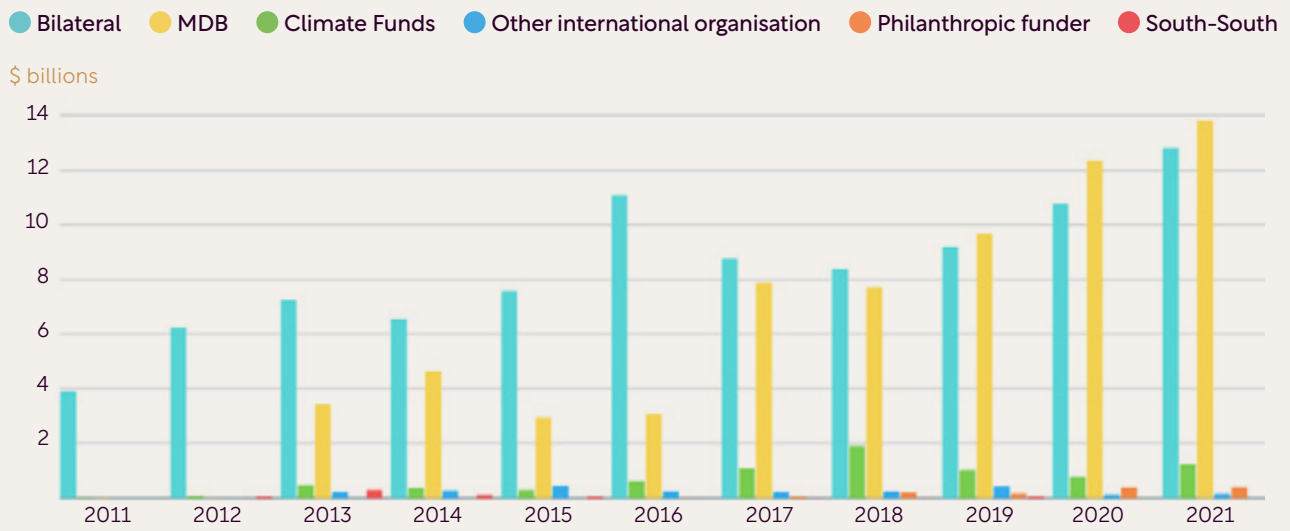
For the period under review, bilateral sources were the most important sources of international public climate finance in Africa. However, the last two years, **from 2020 to 2021, MDBs surpassed bilateral**

Figure 11. **Share of total international public and philanthropic climate finance flows in Africa by sources of funding, 2011-2021 (%)**



Source: Adopted from OECD DAC climate finance statistic 2011-2021.

Figure 12. **Annual international public and philanthropic climate finance mobilized in Africa by source of funding, 2011-2021**

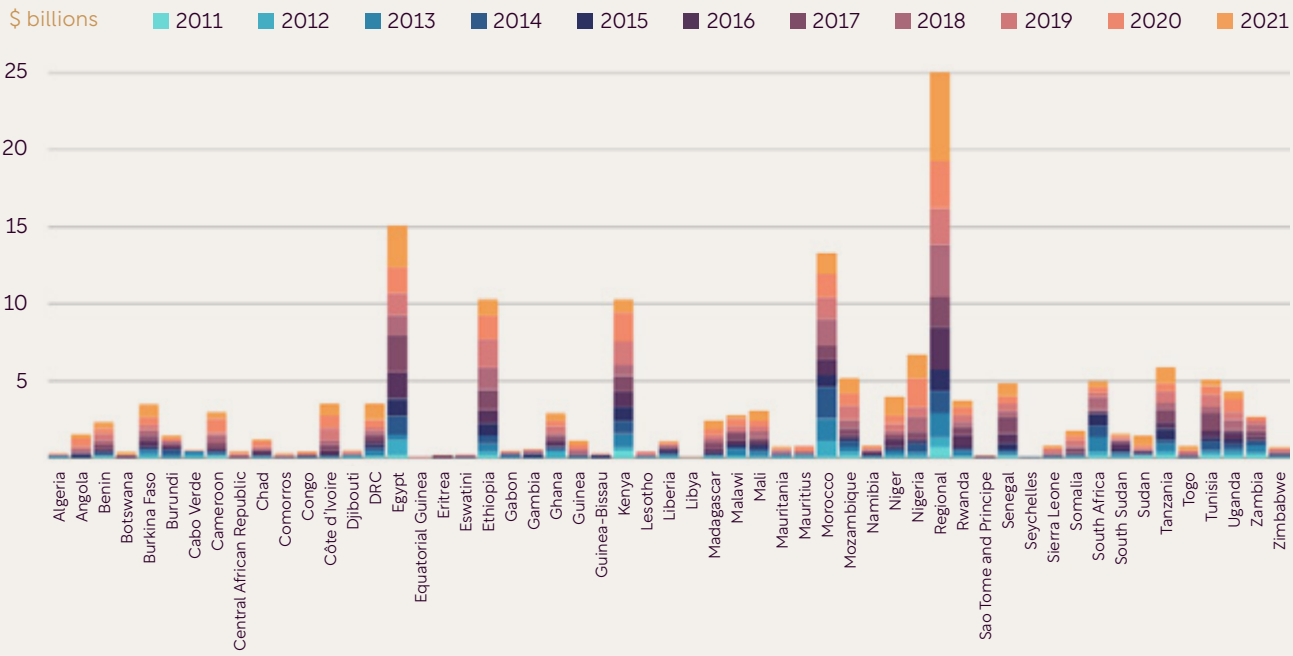


Source: Adopted from OECD DAC climate finance statistic 2011-2021.

sources to become the continent's leading source of climate finance, contributing $13.8 billion compared to $12.78 billion from bilateral sources in 2021 (Figure 12).

A country-by-country analysis of the sources of international public and philanthropic climate finance flows for all African countries between the period 2011 to 2021 revealed that a few countries (Egypt, Ethiopia, Kenya, Morocco and Nigeria) are the largest recipients of this climate finance (Figure 13). These five countries alone accounted for one-third (or 33 percent) of the total climate funding received by the entire African continent.

Figure 13. **Share of international public and philanthropic climate finance mobilized by countries in Africa, 2011-2021**



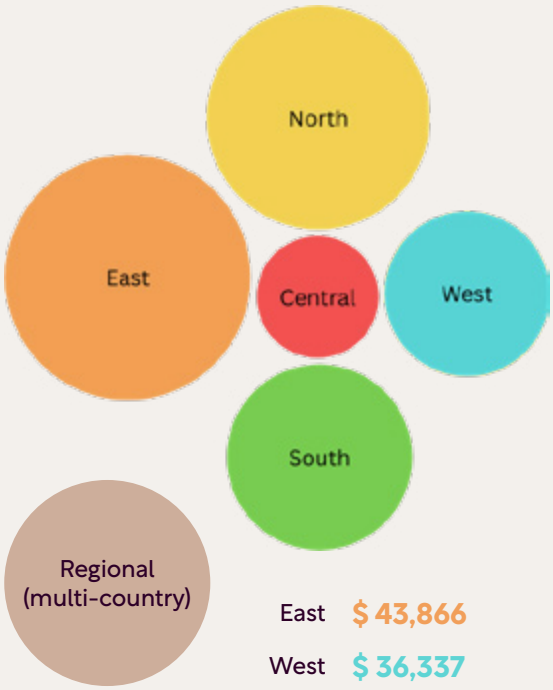
Source: Adopted from OECD DAC climate finance statistic 2011-2021.

Analysis by OECD income group classification:
OECD data demonstrates that there is no strong division between least developed countries (LDCs) and lower-middle-income countries (LMICs) in terms of climate finance received. **Of the five countries receiving the most climate finance in Africa, Lesotho, Mozambique and Rwanda are classified as LDCs, while Algeria, Equatorial Guinea are considered LIMCs.**

Analysis by AU subregions:
A regional overview indicates that Central Africa received the lowest share of funding among all the five subregions with a total of $10,834 million, followed by Southern Africa with $19,817 million. The highest level of climate finance was received by East Africa with $43,866 million and is followed by West Africa with $34,227 million. These figures illustrate that the amount of climate finance received at regional level roughly corresponds to regional population levels. In that, East Africa and West Africa have the first and second largest populations, respectively, and also receive the first and second largest amounts of climate finance. Whereas Central Africa has the smallest population of Africa's subregions and also received the lowest amount of climate finance.

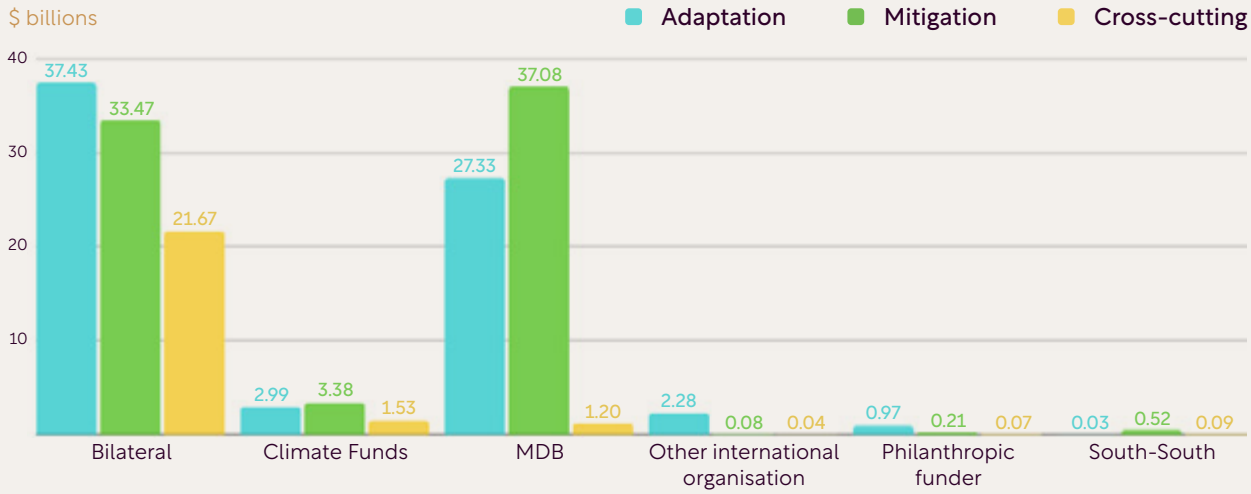
Analysis by development finance application:
Figure 15 showcases that **MDBs provide higher levels of support to mitigation, while bilateral donors support higher levels of adaptation and cross-cutting issues.**

Figure 14. Share of total international public and philanthropic climate finance mobilized by African subregion, 2011-2021 ($ millions)



Source: Adopted from OECD DAC climate finance statistic 2011-2021.

Figure 15. Distribution of total international public finance in Africa from different sources by climate application, 2011-2021



Source: Adopted from OECD DAC climate finance statistic 2011-2021.

In addition, the balance of adaptation and mitigation climate finance varies between international public and philanthropic climate finance sources based on their mandates and objectives. Despite the growth in adaptation finance at the latter part of the period, which is critical due to the continent's high vulnerability to climate change, its total value is much less than is required to adequately prepare for and address the climate impacts communities and governments face. MDB climate finance has tended to favour mitigation over adaptation, which may reflect their investment in larger scale projects such as renewable energy initiatives and infrastructure. Meanwhile, bilateral funders, other international organizations and philanthropic funders dedicated a greater share of resources towards adaptation and cross-cutting projects. Climate funds have tended to be more balanced, although they represent a small contribution to the total funding amount. The limited availability of climate finance mobilized from sources such as climate funds and philanthropic funders indicates potential opportunities for African governments to source additional resources but could also signify that these finance sources, proportionally, have smaller resources available than the other sources tracked.

Analysis by sector:
For the period under review, **the energy sector attracted the largest share of OECD-reported international public climate finance flows**, amounting to approximately $40.37 billion, or about 24 percent of total reported climate finance to the continent. This is followed by the agriculture, water and transport sectors, which attracted approximately $32.66 billion (19 percent), $18.83 billion (11 percent), and $16.98 billion (10 percent) of reported mobilized finance, respectively. All other sectors attracted less than $10 billion each (Figure 16).

Figure 16. **Distribution of total international public and philanthropic climate finance flows in Africa to priority sectors, 2011-2021 (%)**

Source: Adopted from OECD DAC climate finance statistic 2011-2021.

2.4. International public and philanthropic climate finance instruments

There are many different financial instruments used to support climate action. These include grants, (concessional) loans, equity, climate bonds, risk sharing and guarantee mechanisms, performance-based payments, and debt swaps. By far, most of the reported international public and philanthropic climate finance flows are delivered in the form of grants or concessional loans. A smaller proportion of the funding is non-concessional (market rate) loans. Other more innovative approaches, like debt swaps, climate bonds or guarantee mechanisms, are slowly gaining popularity but currently represent just a fraction of overall climate finance. For the purposes of this analysis, non-grant finance is reported at face value, and thus, a loan is considered equivalent to a grant of the same value. This approach overestimates the real value of non-grant finance provided and has been called into question by several authors, including Carty et al. (2020), who argue that non-grant instruments should be counted at their grant-equivalent value.

The Green Climate Fund (GCF) and other climate funds are designed to provide financing to developing countries in the form of grants and concessional lending as well as other modalities, instruments or facilities (GCF, 2021). Generally, under climate funds such as the GCF, concessionality is defined as finance that is provided with a below-market set of terms and conditions. For example, the minimum of concessionality can fund the entire operational cost of the project or the programme. Table 2 showcases the most common and desired financial instruments provided by international climate funds to developing countries for mitigation and adaptation projects and programmes.

Table 2. **Types of financial instruments used by international climate funds**

Financial instrument	Description
Grants	Grants are non-refundable funds provided for countries. This is the most desirable type of instrument by African countries as it is 100 percent concessional, meaning it does not have to be paid back. Especially for climate actions with limited or no return on investment, like technical assistance, capacity building or many adaptation actions, grant financing is crucial.
Reimbursable grants	These are grants that, when the project is implemented successfully, can be paid back to the finance provider. These grants have no interest.
Concessional loans	The loans provided for countries under this financial instrument are highly concessional, meaning they provide below-market interest rates with longer repayment periods. Different forms of concessional loans can be used.
Guarantees	This instrument provides a level of guarantee to the lender that they will be paid in case the borrower defaults on payments of debts.
Equity investments	Investors purchase shares in a company or a dedicated investment vehicle and become partial owners of that company.

Grant finance is the primary instrument of current international public and philanthropic climate finance, followed by concessional debt instruments. For mitigation investments, debt instruments represent a larger proportion of the finance, which reflects the revenue-generating nature of many categories of mitigation projects (such as renewable energy, forestry or clean transport projects). For adaptation, most of the funding is in the form of grants, however, a significant proportion (30.6 percent) is in the form of debt (Figure 17). This raises concerns since adaptation projects offer more limited opportunities for revenue generation and therefore funding them through debt may be unsustainable and increase the risks that come with high levels of indebtedness.

The domination of concessional finance, both grant and debt-based, highlights the limited use of other instruments in Africa, such as guarantees, equity, debt relief and/or insurance products. This suggests a need for more innovative approaches to finance climate action on the continent such as using de-risking instruments that could attract private sector investment into climate-related sectors. Such innovative instruments can take the form of insurance, blended finance schemes, bonds integrating guarantee mechanisms, or carbon market initiatives.

Figure 17. **Most utilized finance tools by international public and philanthropic climate finance to Africa, by climate application, 2011-2021**

Source: Adopted from OECD DAC climate finance statistic 2011-2021.

2.4.1. Climate adaptation finance flows in Africa

There is increasing recognition of the importance of scaling up funding for adaptation to meet needs, which is equally, if not more, of a pressing priority for most African countries than mitigation. Shares of adaptation finance have increased over the past years but are still hugely insufficient to meet needs. This lag of adaptation finance in relation to needs is also driven by the fact that a disproportionately large portion of debt financing is directed towards mitigation actions compared to adaptation actions. Unfortunately, there is limited comprehensive data on private financing for climate action globally, despite growing interest to improve the consistency and coverage or reporting within businesses on sustainable finance, which will hopefully lead to more comprehensive data in the mid-term (TCFD, 2021).

There has been a push to define and operationalize the Global Goal on Adaptation (GGA) as part of the first Global Stocktake in 2023 and as a means to increase and scale adaptation financing. In 2021, at COP26, the **Glasgow–Sharm el-Sheikh work programme** on the GGA was launched and new financial pledges were made to support developing countries in achieving this goal (UNFCCC, 2021a).

The **Global Goal on Adaptation (GGA)** aims to:

- Enhance the adaptative capacity and resilience; and
- Reduce vulnerability; with a view to contributing to sustainable development.

It will ensure an adequate adaptation response in the context of the goal of holding average global warming well below 2°C and pursuing efforts to hold it below 1.5°C.

At COP28, as part of the **UAE Consensus**, the decision on the GGA was adopted and renamed the UAE Framework for Global Resilience. Some important developments related to the GGA decision from COP28 are:

- It sets a timeline for targets by 2030 for all Parties and contains thematic targets, although not quantified, related to water and sanitation, food and agriculture, health, biodiversity and ecosystems, poverty eradication and livelihoods, and cultural heritage, as well as targets related to the adaptation planning cycle (assessments, planning, implementation, monitoring, evaluation and learning systems).
- It specifically indicates that all countries should have NAPs, policy instruments, planning processes and/or strategies and mainstream adaptation in development planning by 2030.
- It sets a target that by 2027 all Parties will have established multi-hazard early warning systems, climate information services for risk reduction, and systematic observation to support improved climate-related data, information, and services.
- It recognizes the leadership of Indigenous Peoples and local communities and their knowledge and includes a mention to strengthening climate education and youth empowerment.
- It launches a two-year 'UAE-Belem work programme' to 'as needed' develop indicators and 'potential' quantified elements.
- It reiterates the call for doubling adaptation finance and references the needs of developing countries, especially LDCs and Small Island Developing States (SIDS), but does not refer to the principle of common but differentiated responsibilities (CBDR).

Other relevant developments related to adaptation from COP28 include:

- Pledges were made for $3.5 billion in new money to replenish the GCF, $133.6 million toward the Adaptation Fund, $129.3 million toward the LDC


Lagos, Nigeria © Joshua Oluwagbemiga

Fund, and $31 million to the Special Climate Change Fund (SCCF).

- The UAE launched a $30 billion catalytic fund, **ALTÉRRA**, which aims to mobilize an additional $250 billion by 2030 to stimulate a new climate economy by improving access to funding for the Global South - including LDCs and SIDS.
- The adaptation sections of the **Global Stocktake outcome** refer to the challenges in accessing finance for implementing NAPs and the gaps in assessment and effectiveness of adaptation.
- A new **Loss and Damage Fund and funding arrangements decision** was adopted and $792 million in pledges were secured. The decision provides the basis for a new fund to provide financial support to developing countries to respond to loss and damage from both sudden and slow onset events, covering both economic and non-economic losses and damages.
- The **UAE Just Transition Work Programme** was adopted unanimously and broadened the scope of work to encompass a whole-of-society and whole-of-economy approach. The programme highlights principles like CBDR, equity, and sustainable development and underlines the importance of international cooperation.
- Noteworthy Declarations include **COP28 UAE Declaration on Sustainable Agriculture**, **Resilient Food Systems and Climate Action** (endorsed by 147 countries) and the **COP28 UAE Declaration on Climate and Health** (endorsed by 135 countries).

Although Africa receives the largest share of international adaptation finance (31 percent or $11 billion in 2021/2022), a massive funding gap remains (CPI, 2023). Estimating the cost of Africa's adaptation needs, a 2022 report by the Global Center on Adaptation (GCA) found that $52 billion annually until 2030 is required. UNEP's 2023 Adaption Gap Report estimates $46 billion annually until 2030 is needed for adaptation finance for Sub-Saharan Africa, while CPI (2023) estimated that adaptation finance needs for African countries, based on estimates from their NDCs, are $52 billion annually until 2030. While estimates differ, likely due to differences in methodologies, all evidence points to the adaptation finance needs of NDCs being much higher than

current financing. In 2022, $11.4 billion of adaptation finance was disbursed in Africa, which represents only 39 percent of total climate finance committed to the continent annually (GCA, 2022).

2.4.1.1. Africa's adaptation funding by sources

From the OECD DAC data analysis, most of the climate finance flows in Africa targeting adaptation initiatives are drawn from international public sources, and only 1 percent comes from private philanthropic funders. This data excludes national commitments of African governments from domestic budgets, as well as most private sector adaptation finance, and is thus likely to be an underestimate of the total adaptation finance flows in the African region.

In some African countries such as Namibia, South Africa and Rwanda, national governments are making notable investments in adaptation through their budget allocations. There are also some examples of private sector investment in adaptation in Africa, such as a **GCF-funded project** supporting climate-resilient agriculture across several African countries; however private sector adaptation investment in Africa is likely to be very modest. GCA (2022) estimates that **only 2 percent of private sector climate finance goes toward adaptation in Africa** (See Chapter 3 for more on the challenges surrounding mobilizing private climate finance).

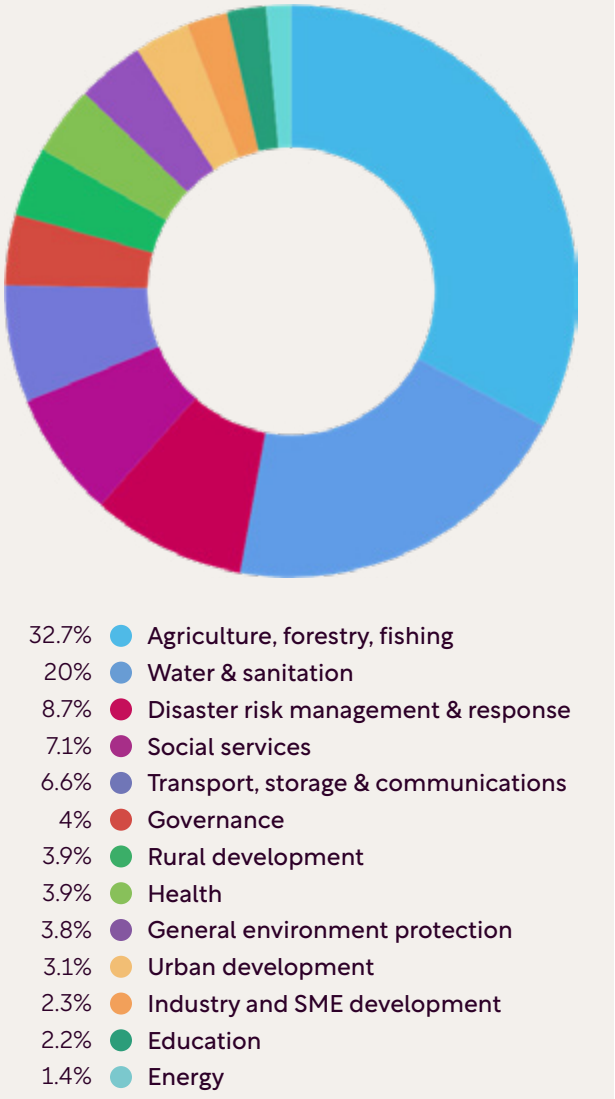
As reported under the OECD database, South-South support for adaptation is also a notable, albeit modest, source of support for adaptation in Africa, such as investments by the United Arab Emirates in water and sanitation projects in certain African countries. South-South support, while like bilateral support, is characterized as a different group in climate finance in this report as well as in OECD DAC databases, because it is not part of ODA going through the DAC.

2.4.1.2. Sectoral analysis for adaptation finance

According the Adaptation Gap Report (UNEP, 2021) agriculture, water and infrastructure are considered critical adaptation sectors with significant financing needs. This was further validated by CPI (2022b) which found that for African countries that provided sector specific data on adaptation, most needs were in agriculture (25 percent), water (17 percent), infrastructure and building (12 percent), disaster prevention and preparedness (10 percent), and health (8 percent).

In the current analysis of OECD data, 33 percent of the adaptation finance flows in Africa supported initiatives in the agriculture sector, while water and sanitation received 20 percent, disaster risk management received 8.7 percent and social services received 7.1 percent (Figure 18).

Figure 18. **Share of total international public and philanthropic adaptation finance to Africa by sector, 2011-2021 (%)**



Source: Adopted from OECD DAC climate finance statistic 2011-2021.

2.4.2. Climate mitigation finance flows in Africa

Overall, mitigation initiatives have attracted a large share of international public and philanthropic climate finance flows, taking up to 44 percent of the global share (OECD, 2021). This is primarily driven by the ease of making a strong business case for mitigation initiatives e.g., initiatives that can provide returns such as renewable energy as compared to adaptation initiatives like wetland conservation, which may not have such clear and direct financial benefits. During COP27, a **work programme on mitigation** was launched which aims to scale up mitigation ambition and implementation. This work programme began immediately after COP27 and continues until 2030 and supports at least two global dialogues each year. Critically, at COP28, the Global Stocktake outcome proposes "transitioning away from fossil fuels in the energy systems" so as to reach net zero by 2050 while repeating the COP26 call to phase out inefficient fossil fuel subsidies.

Additional relevant mitigation outcomes from COP28 include:

- Parties are "called on" to undertake the European Union's goal of tripling renewable energy capacity globally and doubling the global average annual rate of energy efficiency improvements by 2030, as well as accelerating efforts towards phase-down of unabated coal power.
- Parties endorsed the **Global Renewables and Energy Efficiency Pledge** (endorsed by 130 countries) and the **Global Cooling Pledge** (endorsed by 66 countries).
- Parties are encouraged to communicate NDCs in 2025, with an end date of 2035, that are informed by the outcomes of the Global Stocktake, have economy-wide emission reduction targets, and are aligned with long-term strategies.

2.4.2.1. Africa's mitigation by funding sources

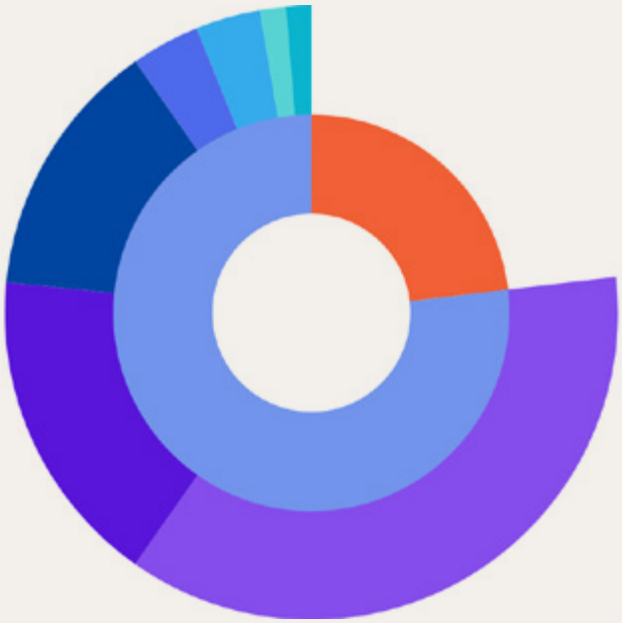
Based on OECD data, **50 percent of mitigation financing tracked in Africa between 2011-2021 came from MDBs ($37 billion) and 45 percent from bilateral sources ($33.47 billion)** (Figure 19, overleaf). Climate Funds are the third most important source of mitigation finance, accounting for 5 percent of total mitigation finance over the same period. Climate financing for mitigation from philanthropic funders represents less than 1 percent of the total financing received. It is likely that these figures significantly underestimate mitigation finance since they don't capture the majority of private sector mitigation finance or domestic public finance put towards mitigation. Indeed, CPI estimated approximately $4.2 billion in private climate finance to Africa in 2019/20, almost all of which is for mitigation, albeit concentrated in a small number of more advanced economies (CPI, 2022b).

2.4.2.2. Sectoral analysis for mitigation finance

Support for **mitigation actions in Africa over the 2011-2021 period is dominated by initiatives aimed at decarbonizing the most carbon-intensive sectors, such as agriculture, transport and energy** (Figure 20, overleaf). The three sectors account for about 77 percent of total mitigation financing allocations. However, the agriculture sector, which is the leading source of GHG emissions in Africa, only received 6 percent of the allocations. This would suggest that most of the agricultural initiatives supported by climate finance were accounted for under adaptation finance.

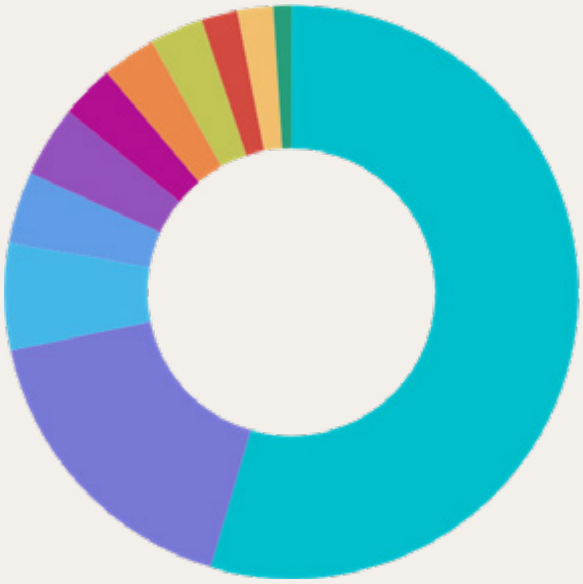
According to the OECD DAC data, the **Northern Africa subregion attracted the largest share of mitigation financing in the continent** at $23.3 billion, which is more than 36 percent of total funding for mitigation in Africa.

Figure 19. Major sources of international public and philanthropic mitigation finance in Africa (annual averages for 2019 and 2020)



Source: CPI, 2022b (adapted from source data).

Figure 20. International public and philanthropic mitigation finance to Africa by sector, 2011-2021 (%)



Source: Adopted from OECD DAC climate finance statistic 2011-2021.

Chapter 3.

Challenges for accessing and mobilizing climate finance in Africa

Lake Retba, Senegal © Curioso photography

3.1. Mapping the landscape of climate finance gaps in Africa

Despite the immense financial need for African countries to address climate change challenges, the continent still lags other regions in mobilizing climate finance. **It is estimated that the continent requires around $2.8 trillion between 2020 and 2030 to implement their NDCs** (CPI, 2022a). According to the analysis presented in the previous section using OECD data, in 2021, the continent accessed approximately $28.4 billion from primarily international public sources. While this is only a subset of all climate finance, excluding domestic public finance and non-philanthropic private finance, it accounts for the largest share of climate finance in Africa. Estimates by CPI (2022b) include a wider set of funding sources, including some domestic public finance and some private sector sources, and put the figure around $29.5 billion annually. **When compared to the estimated annual total climate finance needs for Africa of $277 billion, this means Africa is only receiving 11 percent of what is required as per African NDCs** (CPI, 2022b). Although it is likely that the real figures, for both finance received and needs, are higher than estimated, it's clear that the finance provided falls far short of meeting Africa's needs. This low level of climate finance mobilization emphasizes the urgent need for a concerted effort by development partners (multilateral and bilateral institutions, MDBs), African governments and the private sector to scale up climate finance to Africa to meet needs.

While international public climate finance will continue to be a vital source of climate finance for African countries, many African governments

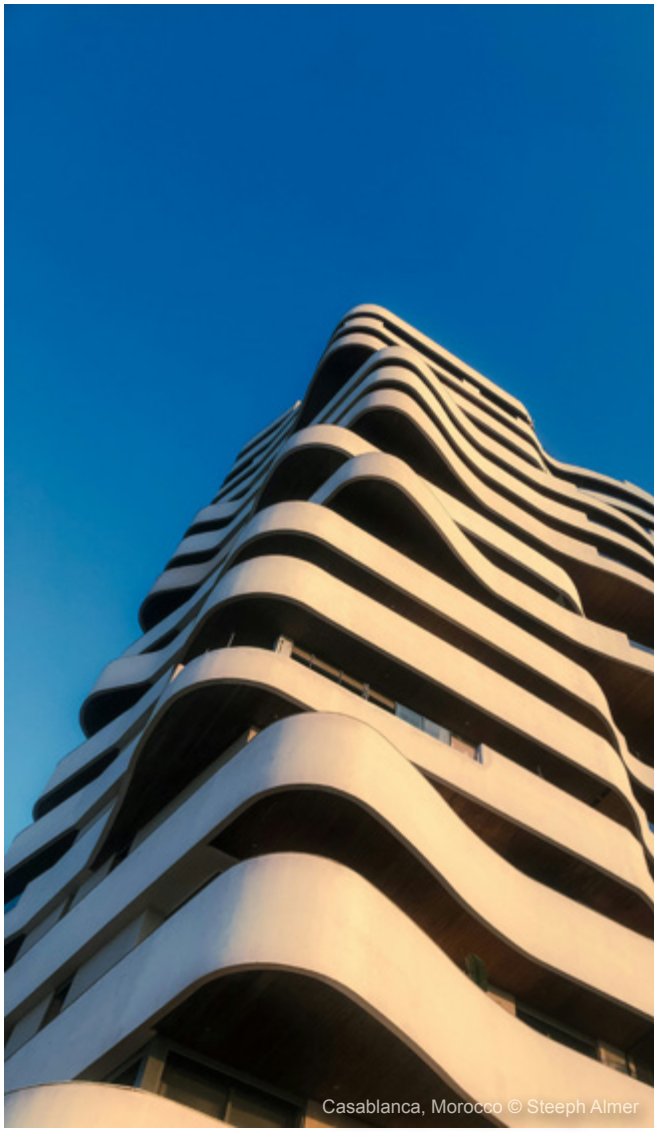
Yaoundé, Cameroon © Ada Mbita

are allocating significant funding to climate action through their national budgets. As of 2023, African countries had made explicit commitments within their NDCs to mobilize domestic public resources to support their climate ambitions, and despite competing development priorities and high debt burdens, **African governments have committed $264 billion of domestic public resources towards financing the implementation of their respective NDCs, amounting to 10 percent of the total estimated costs for implementation** (CPI, 2022a), The remaining $2.5 trillion needs to be sourced from the international donor community and the private sector (CPI, 2022a).

Although these domestic funds may be modest in scale compared to those requested from the international community, they have the potential to be catalytic in their impact if used strategically. The Central Africa subregion, despite being the region with the least access to international climate finance, has made the most significant commitment to mobilize domestic resources (CPI, 2022a). This subregion has committed to raising slightly above a third of its climate finance needs through national budgets. The Southern Africa subregion has reported some of the greatest needs amounting to approximately $1.1 trillion, representing 40 percent of the continent's reported climate finance needs (CPI, 2022a). CPI reported that the subregion aims to mobilize less than 1 percent domestically from this amount, or a little less than $7 billion. Other subregions of Eastern Africa, Western Africa and Northern Africa aim to finance 11 percent, 7 percent and 13 percent of the relative subregional totals, respectively, from national budgets (CPI, 2022a).

In country specific data, it is notable that countries with low GDPs such as the Democratic Republic of the Congo (DRC), Somalia and South Sudan have the greatest needs relative to their GDPs. For these countries, needs represent more than 80 percent of their annual GDP. This demonstrates the support required to mobilize climate finance, especially by poorer countries, which likely have less capacity to develop bankable programmes and projects to attract the required climate finance. Laudably, the Democratic Republic of the Congo plans to allocate 10 percent of its GDP to finance climate measures however, as its total climate finance needs are estimated at 141 percent of the country's GDP, this still leaves most climate measures unfunded (CPI, 2022a).

According to CPI (2022a), the unconditional commitments from African governments fall short of meeting their estimated NDC financing needs. Mobilization of external resources is critical if the continent is to make significant progress towards meeting its various national climate targets. Limitations of domestic public revenues for climate financing due to a low tax base, combined with a high debt burden and multiple competing development and economic priorities in African countries provides a rationale for the need to effectively mobilize, and access additional sources of climate finance.


Casablanca, Morocco © Steeph Almer

3.2. Challenges and barriers to access climate finance

African countries' ability to mobilize climate finance is impacted by various challenges, some internal and others external. This section will explore in more detail the challenges and barriers from the recipient side, from within African countries, and externally, from the climate finance sources. Chapter 4, which turns to opportunities, will address these challenges by providing examples of approaches and tools that have been employed to overcome limitations.

3.2.1. Challenges within African countries

Within countries, internal challenges include limited technical and institutional capacity to access climate funds and negotiate beneficial deals with development partners, limited data to inform decision-making, poor and uncoordinated climate planning, lack of climate finance tracking, the lack of a conducive policy environment to attract climate investment, gaps in awareness surrounding climate-related risks and opportunities, and limited access to technology that could enable climate action, among others (Adenle, Manning, and Arbiol, 2017; Tippmann et al., 2013; UNFCCC, 2022a). These challenges can broadly be classified into three categories of barriers: institutional capacity; policy, planning and budget; and data and research. Each is discussed below.

3.2.1.1. Institutional capacity limitations

The challenge of **weak institutions** has historically been an important barrier to accessing climate finance for developing countries. For instance, it was cited as one of the key barriers to accessing finance under the Clean Development Mechanism (CDM), which was one of several mechanisms under the Kyoto Protocol, where African countries accessed less than 3 percent of the total financing allocated to the mechanism (Byigero, Clancy, and Skutsch, 2010; Desanker, 2005; Fenhann, Agger, and Hansen, 2009). **This weakness can be seen as two dimensional, where institutions lack internal capacity and weak systems to meet the minimum standards set by the international climate funds, and they lack adequate technical capacity to develop a pipeline of feasible and economically viable climate projects and programmes** (UNFCCC, 2022a).

Some of the specific institutional capacity gaps that have been identified include: weak technical capacities, lack of clear frameworks to guide access and absorption of climate funds, poor coordination between sectors, and lack of adequate data to inform project development (Tall et al., 2021; Tippmann et al., 2013; UNFCCC, 2022a). Furthermore, African institutions don't always have access to strong negotiating capacities to engage development partners in defining the terms of climate finance deals, with the result that a significant amount of climate finance is provided on terms that favour the donor and may enhance the indebtedness or risk exposure of African countries (V20, 2022; Voïta, 2023).

Poor institutional coordination across different sectors in African countries can also pose a challenge, with overlapping or unclear mandates of various ministries and agencies when it comes to planning and implementing adaptation and mitigation measures. Climate action and leadership often sit with ministries of environment which, in many instances, lack the convening power and

political clout to bring all the relevant actors around the table and ensure that climate targets and plans are mainstreamed into sectoral policies and development plans and are implemented by all relevant ministries and actors. As a result, NDCs and other climate plans may only sometimes be well aligned with development plans and integrated into sector priorities, creating a challenge for financing and implementation.

Addressing the challenge of institutional capacity is paramount to ensuring Africa can access the financing it requires to achieve its climate objectives. Strong national and local institutions are critical to supporting the implementation of climate actions. For instance, strong institutions were attributed to the rapid implementation of Germany's energy efficient policies (Ringel et al., 2016) and in the increase of renewable energy output in Sweden (Hultman et al., 2012).

Another important aspect of developing strong institutions is so they can **access climate finance directly from international climate funds**. Experience in Africa with the Adaptation Fund and the GCF has shown that when national institutions are strengthened and empowered to access and deploy climate finance without relying on international intermediaries, they are effective in driving impactful projects that respond to the needs and priorities of their countries and of communities on the ground. For example, the *Centre de Suivi Ecologique* (CSE) in Senegal was the first developing country institution to achieve accreditation to the Adaptation Fund, and later to the GCF, and was able to successfully mobilize adaptation finance to support a collaboration of local institutions to enhance the resilience of coastal communities in Senegal. This accreditation not only facilitated direct access to climate finance for the affected communities but also strengthened the institutional capacity of the CSE to manage climate finance leading to additional donor funding being channeled through the institution (Schäfer et al., 2014). In another example, the Environmental Investment Fund of Namibia was accredited to the GCF in 2016 and has mobilized close to $35 million (Namibian $640 million) for local adaptation projects and piloted new approaches to get adaptation funding directly to the local communities most vulnerable to climate change (GCF et al., 2021).

3.2.1.2. Planning, policy and budget landscape barriers

An enabling policy environment aligned to clear planning processes is critical to informing priorities for climate investments and signaling to all stakeholders the priorities and opportunities for climate action. Policy frameworks provide the mandate for government institutions to support the climate agenda, which in turn shapes how coordination is to take place, including engagement with non-government actors, such as civil society, private sector and local communities. Moreover, clearly defined plans and coherent enabling policies can incentivize investment in climate-compatible sectors.

Most African countries are putting in substantive efforts to develop their **policy frameworks** to support climate efforts, as evidenced by NDCs and their impact on influencing and mainstreaming climate action across national and sector policy, planning and budgeting. However, issues remain that can act as barriers to allocating and accessing climate finance. These include a lack of coherence between climate plans and development plans, limited data and analysis of domestic climate expenditure, lack of a green taxonomy to direct private sector participation, and weak or nonexistent NDC Investment Strategies that include project pipelines. These limitations can lead to haphazard and uncoordinated investments in climate-relevant sectors, with a fragmented landscape of donor-driven and standalone projects rather than projects feeding into a coordinated, prioritized and strategic investment plan (Tall et al., 2021).

Weak **climate planning** presents a fundamental challenge to accessing finance. Because climate action requires transformational change through low-carbon development pathways across multiple sectors of the economy and with a multitude of stakeholders, robust planning becomes essential. It can turn NDC targets into action, but also support prioritizing and sequencing of climate action across an economy. For countries with a limited resource base, having multiple development priorities may find sustainable development and climate

action competing for limited funds rather than leveraging their inherent synergies. Strengthening NDC Implementation Plans that include all relevant sectors can be an important step to support mainstreaming across an economy. SDG Investment mapping as well as Integrated National Financing Frameworks are two additional tools that can help bring together a country's SDGs and climate targets.

Another critical challenge surrounds **public financial management systems and a lack of tracking and analysis around domestic climate expenditure**. Even though most African countries have committed public resources to climate action many lack the necessary systems to support Climate Public Expenditure and Institutional Reviews (CPEIRs) and/ or climate budget tagging and coding. For countries where national budgets include some form of climate coding and traction, the tagging often does not happen at an activity level due to the high-capacity demand it requires. This means that often it is supported by a development partner and occurs at a high level where minimal tagging is done at activity or local levels.

When looking at how governments can better attract climate finance, especially from the private sector, many African countries are **lacking green taxonomies**. As countries turn to low-carbon development pathways, this will require innovative technologies and solutions that support this transition to be sustainable and inclusive. For private sector actors and specifically financial institutions, understanding how investments and loans can contribute to environmental, social, and climate-friendly outcomes and incomes can incentivize their involvement. Globally, taxonomies are being developed and a lack of comparability could create hurdles for trade and international capital flows towards low-carbon projects and cause greenwashing in the market (UNEP, 2023).

Another challenge to mobilizing climate finance and attracting private sector investment surrounds a **lack of bankable projects** that translate NDC and climate targets into tangible action. Many African countries do not have project pipelines or have not created them comprehensively across NDC priority sectors. Lacking proper pipelines can be attributed to the limited technical capacity to turn targets into projects as well as the ability to provide cost estimates. Targeted grant funding is required to build the capacity of African public institutions to develop and prepare projects and programmes effectively over longer timeframes. Doing so would undoubtedly benefit not only the country but also the development partner community, as pipelines can bring coherence to funding priorities and coordination for development partners. However, such types of capacity support are often not provided, difficult to access, or very limited in scope and scale. For instance, the African Development Bank (AfDB) has the Sustainable Energy Fund for Africa and NEPAD Infrastructure Project Preparation Facility, but these have very specific mandates, funding restrictions and small funding amounts.

Lastly, a final barrier that brings together the challenges discussed above cumulatively, is that many African countries **do not have a comprehensive NDC Investment Strategy**. To determine NDC investment needs requires a well-defined set of investments and supporting activities that unlock the mitigation and adaptation actions required to achieve NDC targets.
Without an understanding of what a country's priority climate and NDC investment and support needs are, countries are less able to effectively seek resources or properly target strategic sources of climate finance.

3.2.1.3. Data and research

Another vital area where challenges for climate project developers persist is in the **lack of locally relevant data**, such as scaled down climate vulnerability and risk analyses, that could help tailor climate projects to local contexts and the needs of communities. Limited or weak capacity at subnational levels may hinder this data availability and/ or disconnects can exist between research institutions, central government entities and subnational climate practitioners (both from government and civil society). This can lead to the development of climate projects and programmes that are not always fully cognizant of the local needs and can create challenges in their implementation that makes it difficult to achieve the envisioned impact in a sustainable manner.


Maputo, Mozambique © Rohan Reddy

For decision makers and potential investors, having a **strong evidence base for investment projects** helps to justify project interventions in particular sectors or geographies. This may require scientific evidence, calculations, outline baseline vulnerabilities, risks and emissions scenarios, methodologies for emissions calculations, quantitative information on emissions avoided, and resilience-building potential of interventions. This type of data, research, and analysis contributes to a project's climate rationale and is particularly relevant when applying to international funds (e.g., GCF, GEF, AF) (NDC Partnership, 2023). For many countries across the continent, having processes that can help systematically develop and maintain this evidence base may be weak or lacking. Yet, having such information and analysis is vital to prioritizing and making choices about public climate expenditure as well as for attracting international public and private climate finance.

Another important data limitation surrounds **developing and operationalizing robust, coordinated MRV systems** that include the necessary metrics, standards, and definitions to track progress on meeting NDC and climate targets may be weak or incomplete in many African countries, especially at subnational levels. The lack of such standards has often led to climate investment inefficiencies, where projects do not build on previously achieved targets and, in some cases, duplication of investments and project interventions. Building off the point made above about developing an evidence base for investment projects, similarly, transparency systems can also help improve the reliability and coherence of data that are fundamental to informed decision-making and policy development across sectors. More on MRV is explored in Section 3.3 below.

Lastly, **data scarcity is a major contributor to perceived investor risk in climate projects in Africa** (Rahman, 2023). There is a need for comprehensive data to assess risks and potential returns on investments effectively to mobilize more private capital. Reducing this risk perception gap is crucial to attracting the necessary finance needed and therefore, strengthening data systems that target perceived risk is key.

3.2.2. Challenges within international climate finance sources

3.2.2.1. Funding levels

A defining commitment made at COP15 that underpins international cooperation on climate change was that developed countries would provide up to $100 billion per year by 2030 to support developing countries implement their climate change priorities. At COP28, the Global Stocktake decision acknowledged that countries failed to meet this target in 2021 but did not specify whether or how to make up the deficit. COP28 deferred adoption of a new climate finance goal, NCQG, to COP29. The new NCQG will replace the previous $100 billion commitment and must consider developing countries' needs and priorities. For Africa, these needs and priorities are high.

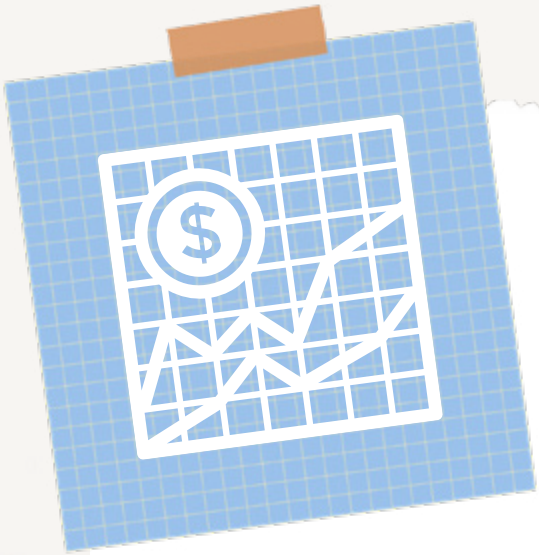
CPI (2023) estimates that to meet adaptation needs alone requires 2.5 percent of Africa's GDP, which means international support needs to scale at least five-fold by 2030. It is paramount that efforts to mobilize additional financing from both public and private sectors remain urgent, especially for African countries that have historically faced challenges in attracting private sector resources to address climate change.

In addition to developed countries' failure to meet their 'fair share' of financial contributions, there is also a debate on **how to track climate finance contributions**. Most of what has been reported under the OECD database of climate financial flows to the continent as contributions towards the 100 billion per year goal has mainly constituted concessional loans and other non-grant instruments. Donor reports tend to overstate their contribution to this target by a huge margin because often loans are counted at their full-face value, rather than as the amount of money given to a developing country once repayments, interest and other factors are accounted for (Carty et al., 2020). Another concern is the issue of **'double counting'**, where ODA contributions are counted towards both development finance and climate finance. In fact, a 2023 report found that "in total, only 7 percent of reported climate finance was additional to the long-standing international commitment made by wealthy countries to provide 0.7 percent of their Gross National Income (GNI) as ODA" (CARE, 2023). Moreover, it has been reported that more than 40 percent of public climate finance is non-concessional, which translates to being expensive and potentially a financial liability to developing countries with high debt burdens (Carty et al., 2020).

3.2.2.2. International public finance terms – debt, risk and liquidity

There has been increasing criticism in recent years of the ways in which international public financial institutions such as MDBs and bilateral agencies deliver climate finance to developing countries, being characterized as **entrenched systems of imbalanced power dynamics** that favour the funder and place an unreasonable burden on the recipient. Under the Bridgetown Initiative—a proposal to reform the architecture of global development finance (see Box 2, overleaf) – these imbalances are being called into question as the global development finance system is increasingly seen as not fit for purpose. The system has left developing countries facing debt overhangs, higher borrowing costs, and limited access to liquidity in times of crisis (United Nations, 2023).

It is well-known that the use of non-grant instruments can exacerbate countries' vulnerability by increasing their **level of indebtedness and transferring risk** of financial losses to developing country governments. The transfer of this risk means that developing country governments can often find themselves paying far more than they are receiving due to the debt conditions built into finance instruments (IIED, 2023a). For example, most international financial institutions, if they provide a guarantee to a developing country government or financial institution or project, require a counter-guarantee from the recipient country government. This means that in the event of a default, the recipient government ends up



Box 2. The Bridgetown Initiative

The **Bridgetown Initiative** is a proposal to reform the world of development finance, particularly how rich countries help poor countries cope with and adapt to climate change. Under leadership from the Prime Minister of Barbados, Mia Mottley, the Bridgetown Initiative was introduced at COP27. The Initiative aims to address three interconnected crisis: the spiraling cost of living crisis, the developing country debt crisis and the climate crisis. To do so, it proposes three bold steps to reform international development finance:

1. Increase emergency liquidity and change the terms around how funding is loaned and repaid, specifically:

- The IMF should redirect at least $100 billion of unused Special Drawing Rights (SDRs) to countries who need it most;
- The G20 should agree an ambitious Debt Service Suspension Initiative that includes all MDB loans to the poorest countries, and COVID-related loans to the middle-income; and
- Major issuers of debt to the markets should help normalize Natural Disaster and Pandemic Clauses in all debt instruments to absorb shocks better.

2. Expand multilateral lending to developing countries by $1 trillion.

- World Bank and other MDBs must use remaining headroom, increased risk appetite, new guarantees and the holding of SDRs to expand lending to governments by $1 trillion.
- New concessional lending should prioritize attaining the SDGs and building climate resilience in climate-vulnerable countries.

3. Set up a new global mechanism – with private-sector backing – to fund climate mitigation and reconstruction after a climate disaster.

- A multilateral mechanism that raises reconstruction grants for any country that experiences a climate disaster.
- A new issuance of 500 billion SDRs ($650 billion) or other low-interest, long-term instruments to back a multilateral agency that accelerates private investment in the low carbon transition.

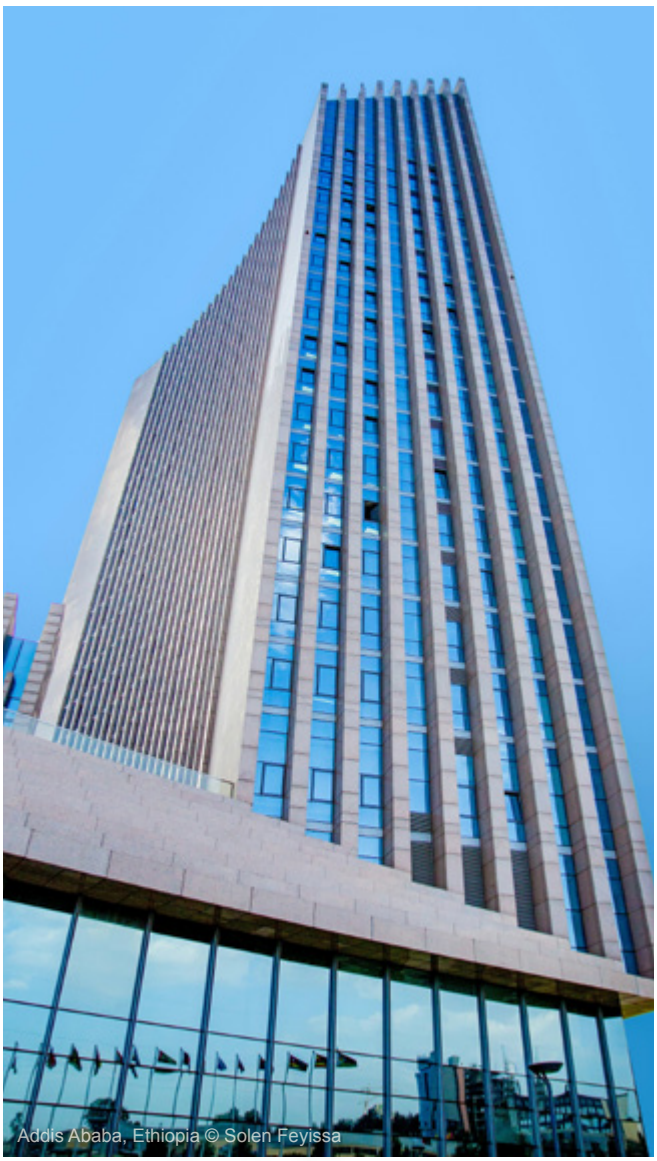
taking the loss. This is particularly common in MDBs, which rarely take the financing risk despite that they are backed by developed country governments and not beholden to capital market fluctuations and therefore have the capacity to take on significant financial risk without jeopardizing their financial sustainability (Laxton et al., 2023). Moreover, the costs of debt servicing can also increase beyond a government's capacity to pay — an especially worrying position when borrowing is often done in foreign currency and subject to exchange rate increases (Alayza et al., 2023). In Africa, as of 2022, there are 24 countries with a ratio of debt-to-GDP above 60 percent (United Nations Global Crisis Response Group, 2023).

In addition to debt, another imbalance concerns loans and how the **cost of capital** imposed on African governments is often many times higher than what developed country governments pay (Avinash, 2023). For example, developed countries can borrow capital with interest rates between 1 to 4 percent while developing countries – which are seen as riskier investments – have interest rates around 14 percent (Ezeobele, 2023). Indeed, African countries borrow on average at rates four times higher than the United States and as much as eight times higher than Germany (United Nations Crisis Global Response Group, 2023). In this sense, **credit risk assessment, often based on perceived risk – becomes an unsurmountable hurdle**. The impacts of these credit ratings can stifle economic growth and limit a country's development. It creates barriers for countries to fund vital investments, especially surrounding adaptation, and can undermine debt sustainability.

When it comes to facing the impacts of climate change, especially recurrent disasters, these institutions have proven to be not well equipped to deal with such challenges. When emerging economies and developing countries are faced with back-to-back disasters, in addition to having to continue servicing debt, many vulnerable countries do not have **access to liquidity** - at favorable (concessional) terms. As highlighted by vulnerable countries and island states, responding to natural disasters and protecting the environment are becoming the single most significant causes for increases in debt. As part of the Bridgetown Initiative, it has been proposed that all lending instruments include a 'natural disasters and pandemic clause' that would allow countries to temporarily pause their debt servicing obligations.

The unique position of international public finance, such as MDBs and IFIs, should be utilized to enhance climate finance flows to countries and communities that need them the most.

These institutions play a pivotal role in not only providing public finance at favorable terms but also in de-risking and mobilizing private finance by attracting the private sector to invest in projects and markets that would otherwise be perceived as too risky, particularly for adaptation finance (Laxton et al., 2023).


Addis Ababa, Ethiopia © Solen Feyissa

3.2.2.3. One size fits all approaches

The international climate finance landscape supports the needs of a heterogenous group of developing countries. Climate finance funders, however, do not always appreciate the differences between countries. For instance, **direct access entities**, which are the accredited institutions that can receive climate finance through the GCF, are required to adhere to the GCF's complex fit-for-purpose fiduciary standards despite some of these national institutions being relatively young compared to other established institutions that have been accredited from the GCF. Even though funding is often provided to enhance the capacity of these institutions to meet fiduciary standards, this assumes that the country has the required technical capacity to support this process, even beyond the initial capacity enhancement project. In most cases, this is not true, and may be complicated by the fact that some developing countries do not have the financial capacity to sustain highly qualified personnel within their institutions.

In addition to the complex requirements to become accredited, it can take several years for an institution to receive this accreditation and also for projects to be approved (Caldwell and Larsen, 2021). These lengthy processes can be a disincentive to developing countries who are considering accessing this finance.

Additionally, **current practices in adaptation finance tend to provide similar terms that are applied to mitigation finance**, even though the needs of adaptation are very different. Adaptation aims to support communities in enhancing their climate resilience and, therefore, is inherently specific to the local context. This also means that getting funding to the local level so that communities can design and implement solutions that respond to the specific vulnerabilities they face is paramount. However, under the current practice, very little international public finance for climate adaptation reaches the local level directly. In most cases, adaptation projects are implemented by large multilateral institutions that may lack an appreciation of local realities, and rarely put local institutions or actors in the driver's seat (Caldwell and Larsen, 2021).

Tamnougalt, Morocco © Sergey Pesterev

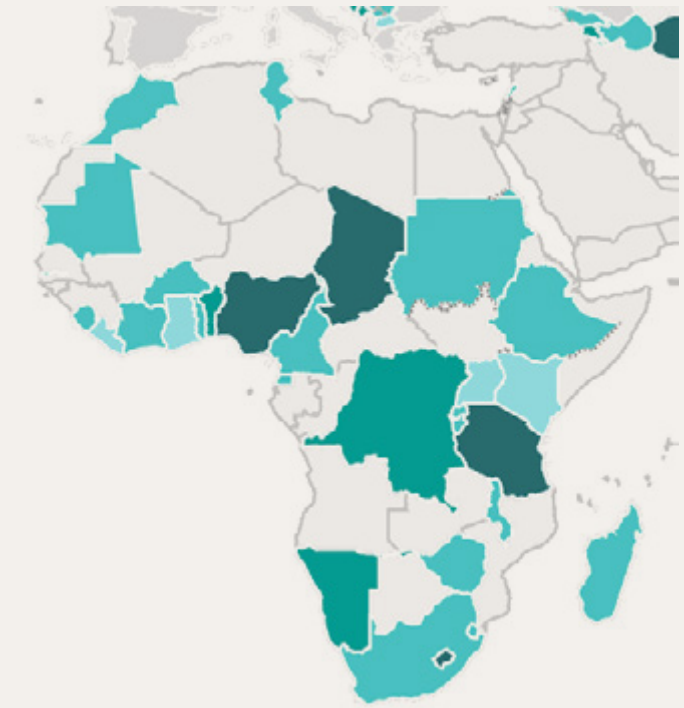
3.3. Tracking climate finance and climate investment impacts

The Paris Agreement negotiations have established a common reporting framework, the Enhanced Transparency Framework (ETF), for tracking and reporting the progress of existing and future country commitments, with built-in flexibility included for developing country Parties. It is made up of four main components: 1) national GHG Inventory, 2) progress made in implementing and achieving NDC, 3) climate change impacts and adaptation, and 4) financial, technology transfer and capacity-building support needed and received under Articles 9, 10 and 11.

To support developing countries, actualize transparency systems and report, the Capacity-Building Initiative for Transparency (CBIT) was created at the request of Parties to help strengthen MRV institutional and technical capacities.[5] Specifically, the GEF established the CBIT fund to support these objectives and initially set aside approximately $1 million for each developing country for this process. Figure 21 shows the number of countries in Africa that have received this funding and are in the process of establishing MRV systems, many of which are supported by UNDP.

Even though several countries have established systems for mitigation and adaptation MRV, these systems are at different stages of development and use. In addition, the effectiveness of

Figure 21. **CBIT projects implementation status in Africa**



Note: 0-represents countries that have not initiated a CBIT project while 4 indicates countries that have completed a CBIT project. Values between 1 and 3 represents different stages of the project implementation.

Source: Climate Transparency Platform, 2023.

[5] The CBIT was established as per paragraph 85 of the COP decision adopting the Paris Agreement. The aim was to 1) Strengthen national institutions for transparency-related activities in line with national priorities; 2) To provide relevant tools, training and assistance for meeting the provisions stipulated in Article 13 of the Agreement; Article 13 requires each Party to provide the following information: a) A national inventory report of anthropogenic emissions by sources and removals by sinks of greenhouse gases, prepared using good practice methodologies accepted by the IPCCC, b.) Information necessary to track progress made in implementing and achieving its NDC. 3) To assist in the improvement of transparency over time.

these systems in informing countries of climate change work varies substantially based on the quality of data captured under the MRV system. A national transparency system can help improve the reliability and coherence of data which is central to informed decision-making and policy development across sectors (UNFCCC, 2023). By providing reliable and timely information on national progress, transparency systems are fundamental to building trust and confidence among institutions, organizations and countries. Under the ETF, the need to strengthen these systems with more robust and locally generated data is critical if these systems are to be effective.

Whilst the fourth component of the ETF- to report on financial capacity-building and support received and needed—is not mandatory for developing countries, there are many benefits in reporting this information. First, it can provide a clear sense of gaps, inflows and impacts, and an avenue to make the provision of international support more responsive to national priorities and needs (UNFCCC, 2023). Secondly, it can help coordinate donor strategies, enhance transparency about the geographical and sectoral distribution of support received, and facilitate the steering of budgets towards climate action (UNFCCC, 2023). Domestically, having an accurate understanding of climate finance received can help countries plan and prioritize subnational budget allocations while improving decision-making and accountability more broadly (UNFCCC, 2023).

In relation to reporting on support needed and received, UNFCCC **Decision 18/CMA.1** provides guidance to Parties (Box 3, overleaf). Critically, it stresses the importance of describing underlying assumptions, definitions and methodologies used, for example, by describing the tools or methodologies used to collect data on finance needed and received. It can also describe how the country identified which sources or projects fall under their definition/s of climate finance. A key ETF modality, procedures and guidance (MPG) principle mentioned here is 'ensuring that double counting is avoided'. This means, for example, that the tools and methodologies used, or the way climate finance is defined, or any assumptions made should not result in the double counting of finance needed or finance received when being reported. The effects of having no internationally agreed definition of climate finance underscore the need for countries to describe their assumptions, definitions and methodologies.

In Africa, assessing and resolving data gaps and data uncertainties is a key challenge for countries. There may be significant gaps in the coverage of sectors and sources of climate finance, particularly regarding private investment, and adaptation and resilience. The understanding of public and private sources of finance and the financial instruments used may be inadequate. Most of the uncertainties associated with each source of data have different underlying causes, such as: a) lack of geographic coverage of data; b) differences in the way tracking methods are applied; c) lack of transparency of data for determining private climate finance; d) differences in the assumptions used in underlying formulas for attributing finance from MDBs to developed countries; and e) the classification of sustainable or green finance (UNFCCC, 2021b) Strengthening sources of data is needed for African countries to effectively report under the ETF on their climate finance needs and support.

The connections between transparency, MRV systems and accessing and mobilizing climate finance, both domestically and internationally, are considerable. **As transparency is rooted in building trust between climate actors by providing clear and reliable information, it has a defining role to play in helping countries secure additional climate finance.** For the many African countries where transparency frameworks are incomplete or ineffective, this can create additional barriers to securing finance.

Box 3. Underlying assumptions, definitions and methodologies to apply to support needed and received under the ETF

UNFCCC Decision 18/CMA.1 provides guidance to Parties on how to report support needed and received that describes underlying assumption, definitions and methodologies used. These factors are essential to indicate as they make the information and data that is reported understandable because they explain the basis on which the information is reported. The decision says:

131. In reporting information on support needed and received, developing country Parties should describe the underlying assumptions, definitions and methodologies used to provide information on support needed and received, including, as applicable, those used to:

(a) Convert domestic currency into United States dollars;

(b) Estimate the amount of support needed;

(c) Determine the reporting year or time frame;

(d) Identify support as coming from specific sources;

(e) Determine support as committed, received or needed;

(f) Identify and report the status of the supported activity (planned, ongoing or completed);

(g) Identify and report the channel (bilateral, regional or multilateral);

(h) Identify and report the type of support (mitigation, adaptation or cross-cutting);

(i) Identify and report the financial instrument (grant, concessional loan, non-concessional loan, equity, guarantee or other);

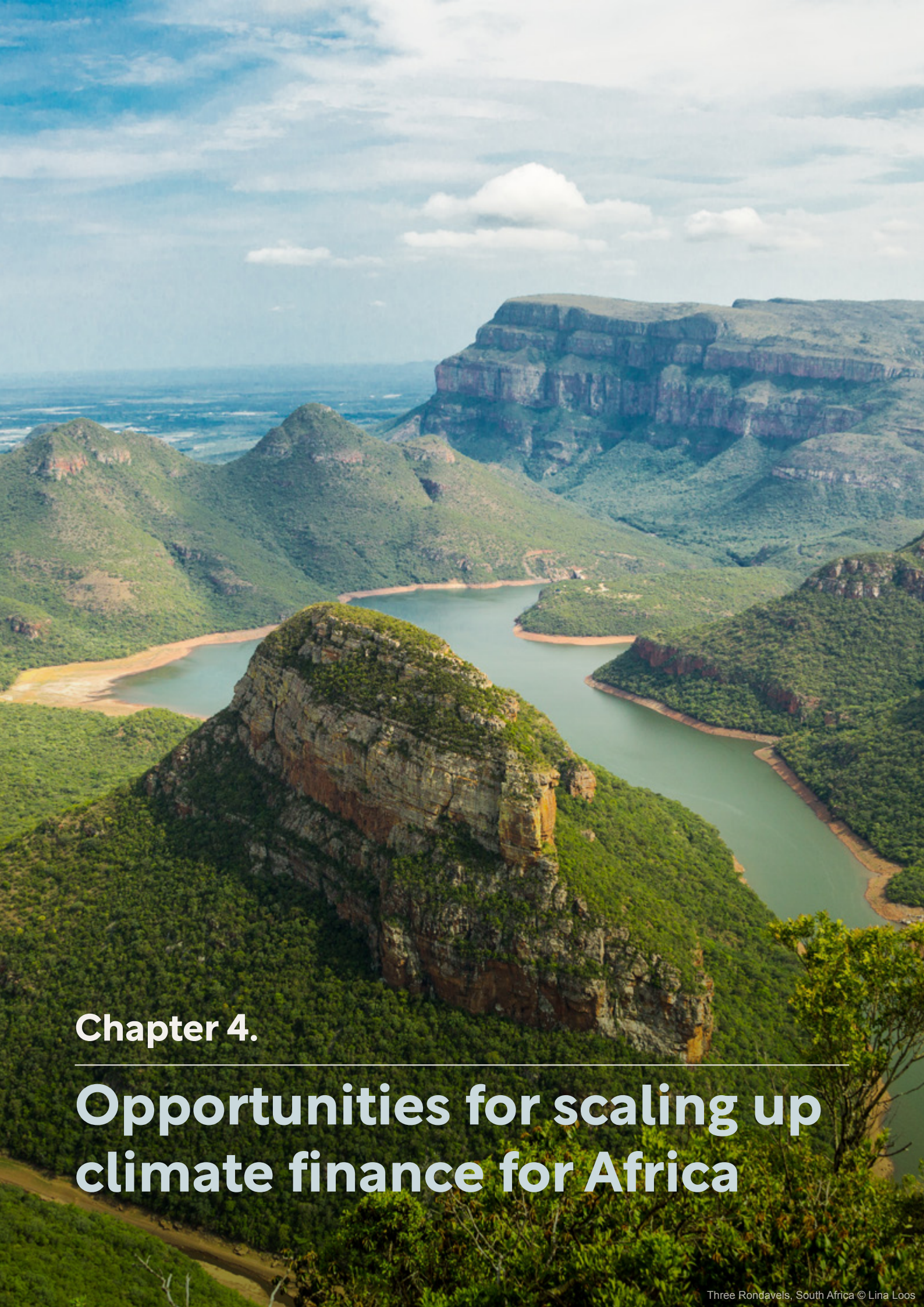
(j) Identify and report sectors and subsectors;

(k) Report on the use, impact and estimated results of the support needed and received;

(l) Identify and report support as contributing to technology development and transfer and capacity-building;

(m) Avoid double counting in reporting information on support needed and received for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity-building, when reporting such information separately from other information on support needed and received.

Source: UNFCCC, 2018, Decision 19/CM.A1.



Chapter 4.

Opportunities for scaling up climate finance for Africa

Three Rondavels, South Africa © Lina Loos

4.1. Strengthen climate planning, budgeting and investment frameworks

There are a multitude of approaches and tools that can be utilized to improve climate planning, budgeting and investment and which contribute to opportunities for finance mobilization. Firstly, developing **NDC Implementation Plans** and supporting the **mainstreaming of climate and NDC targets at sector level** is vital to strengthening the alignment between development planning and climate change action. **Rwanda** has integrated climate change into its national and sectoral development plans and undertaken an exercise to fully mainstream its NDC into national, sectoral and district level development plans and budgets (IMF, 2023).

Effective tools to support governments to understand how they are contributing to climate finance through domestic budgets include **CPEIRs and climate budget tagging (CBT)**[6] **systems**. CPEIRs can provide a starting point to mainstream climate change into public financial management (PFM). They are diagnostic tools that provide a qualitative and quantitative analysis of a country's public expenditures and how they relate to climate change, its climate change plans and policies, institutional framework and public finance architecture. Conducting a CPEIR will examine relevant expenditure out of the total national budget and measure fiscal policies, such as tax incentives and subsidies, as part of climate financing instruments.

CBT can also help countries mainstream climate change in PFM. CBT identifies, classifies, weights and marks climate-relevant expenditures in a government's budget system, enabling the estimation, monitoring and tracking of those expenditures. It includes the process of attaching a climate budget marker, such as a tag or account code, to budget lines or groups of budget lines. It can be adapted to the context of national PFM systems and climate change policy and seeks to institutionalize, and make routine, expenditure analysis that draws on the CPEIR findings and recommendations. Budget tagging is important because it helps countries understand government allocations or existing spending while contributing to identifying the funding gap and under-resourced priorities. This helps both in supporting the most effective targeting of existing resources, as well as informing government's efforts to mobilize additional resources. CBT may also facilitate stronger interlinkages with other cross-cutting themes – for instance in supporting the inclusion of gender and poverty in climate expenditure analysis. Lastly, budget tagging can serve as an incentive to national and subnational governments as it helps in identifying co-financing opportunities in order to mobilize additional climate funding (Allan et al., 2019).

The data and analysis from CPEIRs can also be used to inform a **NDC Investment Strategy or NDC Finance Strategy**.[7] Such strategies should be rooted in national strategic and planning frameworks. Developing a strategy will help determine NDC investment needs and supporting activities that unlock actions required to achieve NDC targets. Moreover, prioritizing NDC investment needs and

[6] For CPEIR methodology, please see UNDP's 2015 publication: *A Methodological Guidebook: Climate Public Expenditure and Institutional Review (CPEIR)*. For CBT methodology, please see UNDP's 2019 publication: *Knowing What You Spend: A guidance note for governments to track climate change finance in their budgets*. See UNDP's 2022 report, *Global Climate Public Finance Review*, for a global stock take study on the various tools/methodologies for climate finance (including CPEIRs and CBT).

[7] For more information, see NDC Partnership's 2023 guide: *NDC Investment Planning Guide: Best Practices.*

gaps facilitates the channeling of financing into areas with the most potential for mitigation and adaptation, as well as alignment with broader national priorities. Identified investment gaps can be assessed to understand if they are best served by domestic public finance, international public finance, private sector investment, or a combination of both. Examples of NDC Finance Strategies that have been supported by UNDP can be found in Ghana and Kenya.

Integrated National Financing Frameworks (INFFs)[8] are another important tool that could be utilized to assess finance for both SDGs and climate action. For countries that have already developed INFFs, further climate specific analysis can be undertaken to deepen understanding on climate finance needs and gaps and to support the mainstreaming of NDCs within national planning and financing systems. INFFs are useful to identify linkages across financing policy areas to maximize synergies and minimize incoherencies. Crucially, they use a whole-of-economy approach that establishes greater convergence between climate and economic development as well as corresponding integrated financing systems.

Lastly, **SDG investor maps** are another integration tool that can bring together SDG and NDC investment needs. Like NDC Investment Strategy outcomes, SDG mapping can identify SDG-aligned investment opportunity areas, many of which are highly relevant for NDC implementation. At least ten countries in Africa have undertaken this process.[9]

Dar es Salaam, Tanzania © Peter Mitchell

[8] For more information on INFF methodology and country experience see INFF Facility. For more information on INFF and climate finance see *Integrating Climate into INFF Process*.

[9] For more information see UNDP's 2023 publication: *UNDP Africa Investment Insights Report*.

4.2. Locally led initiatives

Recognition is growing about the need to scale-up the use of direct access modalities so that African countries can access climate finance through capacitated and empowered national and subnational institutions, without passing through international intermediaries. However, as shown in the previous section, there are several barriers to accreditation and the process can be slow and tedious.

Despite the challenges, national institutions in Africa are proving that it is possible and beneficial to become direct access entities or institutions. In Africa, seven national entities are accredited to the GCF and nine national entities are accredited to the Adaptation Fund.

The Environmental Investment Fund in Namibia, the *Centre de Suive Ecologique* (CSE) in Senegal, FONERWA in Rwanda and the South African National Biodiversity Institute (SANBI) are all playing an important role in accessing international climate finance and channeling it to vulnerable communities on the frontlines of the climate crisis in their countries.

In addition to national government institutions being accredited to these climate funds, several financial institutions in Africa have also been accredited to the GCF (e.g. Attijariwafa in Morocco, CRDB in Tanzania, DBSA in South Africa, DBZ in Zambia, Ecobank Ghana, etc.) and the Adaptation Fund (e.g. *Banque Agricole du Niger* (BAGRI) that provide an avenue for local private sector entities to directly access climate finance to invest in climate relevant sectors. There is an urgent need for more national and subnational institutions to be accredited to access international public climate funds, and for every African country to have the option to access climate finance through effective national institutions.

The 'principles of locally led adaptation' were developed in 2021 and are increasingly being viewed as best practice for designing and funding adaptation interventions at the local level, with many international institutions committing to them as an avenue to accelerate adaptation (IIED, 2023b). Adaptation needs and vulnerabilities are locally specific, and the communities and actors on the ground are best placed to identify and implement the interventions needed to respond to their climate vulnerabilities. However, less than 10 percent of climate finance flows to the local level, highlighting an opportunity to increase the share of finance going there (IIED, 2023b). Several of the tools described in section 4.1 above can be applied to deepening engagement with local levels and ultimately, channel funds there.

4.3. Mobilizing the private sector

The business and financial sectors globally and in Africa are becoming increasingly aware of the risks and opportunities associated with climate change, and the role that they can play in being part of the solution. This is an evolution that has the potential to be transformational, as these actors hold the key to much larger funding amounts than public sector actors and they can drive markets in more sustainable directions. To facilitate and accelerate this trend, governments should provide a policy environment that is conducive to and provides incentives for low-carbon, climate-resilient investment, and to de-risk finance across multiple sectors.

Some concrete actions that governments can take to increase private sector participation in climate action include developing a sustainable taxonomy and a NDC project pipeline. **Sustainable taxonomies**[10] (also referred to as green taxonomies or blue taxonomies), in the context of sustainable finance, is a classification system identifying activities, assets, and/or project categories that deliver on key climate, green, blue, social, or sustainable objectives with reference to identified thresholds and/or targets (ICMA, 2021). Taxonomies are science-based and provide clear guidance to market participants to identify projects, assets and activities that are low-carbon or compatible with low-carbon economic development and/or environmental sustainability and help avoid greenwashing. Developing a sustainable taxonomy can not only help direct investment but allows financial players to identify, track and validate their 'sustainable, green or blue activities.' Such taxonomies should seek to strike a balance between standardization (international environmental sustainability standards, including environmental, social, and governance (ESG) criteria) but also incorporate local context and developments. Taxonomies can also serve as guiding documents for the disclosure and labelling of financial products and are used by market participants for asset, portfolio and entity-level alignment approaches (e.g., transition plans), among others. Importantly, national sustainable taxonomies in Africa should aim to be regionally interoperable, meaning they are based on similar guiding principles, have design elements such as objectives, classification systems for sectors and activities that are comparable and are similar in approaches and methodologies used for defining eligibility.

In Rwanda, under the IMF's Resilience and Sustainability Facility, the country is undertaking reforms to catalyze further finance to build resilience to climate change. As part of this, and with additional support from GIZ, Rwanda is developing the first phase of its green taxonomy that will provide clear signals about which projects and activities are aligned with the nation's climate goals (IMF, 2023). In doing so, it aims to direct private financial flows to those climate actions. South Africa completed its **Green Finance Taxonomy** in 2022 under the leadership of the National Treasury and a taxonomy working group comprising financial sector stakeholders (Carbon Trust, 2022). Cabo Verde was the first country to develop a blue taxonomy, alongside blue securities regulation, which were two vital elements that preceded the issuance of the county's first blue bond.

Another useful tool that can attract and match investment is to develop a **NDC project pipeline of bankable projects**. This consists of translating investment needs into specific investment projects that are ready for financing and implementation. In the process of identifying NDC investment needs (through tools discussed in section 4.1) countries identified specific projects and activities at different stages of the investment cycle. For those at idea stage, this means moving them to a place where they are project ready. These pipelines can also speak to the sequencing of activities and investment over the short-, medium-, and long-term and identify those that are quick gains and those that require more sustained engagement.

Lastly, the African private sector is dominated by small- and medium-sized enterprises (SMEs) that are constrained by access to finance but have massive growth potential. There is an opportunity to **drive SME development** in a climate-compatible direction that aligns it with NDC priorities through the provision of blended finance solutions. Blended finance solutions can be provided at various levels, where international public finance could develop a de-risk instrument so that local banks and other local financial institutions such as microfinance, insurance companies, equity funds etc. can offer funding products and instruments that incentivize climate resilient and low-carbon investments by SMEs. These modalities can also be used to scale-up already existing initiatives such as affordable loan schemes for smallholder farmers to invest in climate resilient farming practices, crop varieties, production methods or technologies; equity funds that invest in SMEs that provide climate smart technologies or services; and pay-as-you-go models for off-grid solar in rural areas, where regular payments for services are made over time for the equipment instead of fully upfront.

[10] For more information and to see guidance developed for Latin America and the Caribbean region, see UNDP's 2023 publication, *Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean.*

4.4. Enhance collaboration and partnership

Within countries and externally, collaboration and partnership present several opportunities to increase capacity to mobilize and attract climate finance. Internally, **NDC Coordination Committees** can lead in improving institutional capacity and coordination issues related to climate change and NDCs. Active and inclusive coordination structures can strengthen countries' ability to coordinate and prioritize climate action across the whole-of-economy, which includes mobilizing finance and investment. Codifying these structures can ensure their mandate and membership is clear.

In relation to developing project pipelines, another strategy for enhancing access to climate finance in Africa includes increasing support from international organizations, including UN agencies, bilateral institutions and MDBs, to **address technical or skills gaps that can enhance the capacity of national and local actors to develop the project pipeline**. This is particularly important for carbon markets, to ensure Africa leverages emerging opportunities, learning from the weaknesses of the CDM and to position itself more strategically for high-integrity carbon markets.

There are also ample opportunities for Africa to benefit from increased **global and South-South partnership and learning**. For instance, the Coalition of Finance Ministers for Climate Action, is a global network that supports Finance Ministers to share best practices and experience on macro, fiscal, and PFM policies. Specifically, it helps countries mobilize and align the finance needed to implement climate action, establish best practices such as climate budgeting and strategies for green investment and procurement, and factor climate risks and vulnerabilities into members' economic planning.

Finally, as scrutiny increases on the role of MDBs and other key actors within the global financial system and calls for development finance reform heighten, there is an opportunity for African countries to bolster their engagement in this discussion, to ensure African perspectives are captured so they can take advantage of any positive future reforms.

4.5. Increase diverse use of climate finance instruments

There is a need to expand the use of climate finance instruments to ensure that the correct tools being used to respond to a country's needs and are aligned to the country's climate and financial management risk profile and the level of capacity needed to support the implementation of the proposed projects. These instruments include, but are not limited to, the following:

Policy lending/policy development financing: Provided in the form of grants, concessional loans, or convertible instruments and aimed at supporting policy formulation and implementation. This could be targeted to help a country establish the necessary enabling environment, generally with the view to attract climate related investment's especially from the private sector.

Advance market commitments:
An advance market commitment (AMC) is a binding contract, typically offered by a government or other financial entity, used to guarantee a viable market for a product once it is successfully developed or produced. They are a powerful policy tool that can be used to develop climate technology fields or other innovative climate ventures.

Climate investment lending/ green credit lines:
These are generally blended finance facilities established by local banks and financial institutions and dedicated to on-lend to 'green', 'climate' or 'adaptation' projects and programmes through the financial system.

Thematic bonds (green, blue, social, sustainability, climate or resilient bonds):
They represent debt financing mobilized from the financial markets (international, regional or national where in existence). While these instruments have been gaining traction and grew globally by $600 billion in 2021, and with further potential to grow, Africa accounted for only 0.077 percent of the global green bonds market in 2021 (GCF, 2022).

Debt swaps:
A debt for climate swap is an agreement between a sovereign debtor and one or more of its international creditors by which the latter forgive all or a portion of the debtor's external debt in exchange for a commitment by the debtor to invest, in domestic currency, in specific climate projects during a commonly agreed period.

Local currency finance and currency risk hedging instruments:
Local currency financing tools provide the opportunity to reduce the currency exposure and minimize the risk for both borrower and lender.

Risk sharing instruments:
These types of instruments refer to a range of finance tools available to take on and share some of the risks that prevent projects and programmes to be 'bankable'. They are deployed to guarantee the total or partial coverage of a defined risk, if possible, in exchange for an agreed remuneration.

Performance-based payments:
Pay for performance schemes have been applied to achieve climate goals by creating incentives to overcome governance challenges and implement necessary policy changes and public actions towards achieving adaptation and mitigation goals.


Cairo, Egypt © Spencer Davis

Chapter 5.

Recommendations

Kigali, Rwanda © Reagan M.

5.1. Recommendations for international public financing institutions

1. DFIs, MDBs and climate change funds should have a higher risk appetite

From the analysis, Africa needs more financial innovations and incentives to encourage the participation of private capital in climate change priorities. International financial institutions have a major role to play as they have the financial muscle to absorb more risk rather than passing the investment risk to private entities. These institutions can also drive innovation around climate change solutions, including through blended finance structures in which the DFI, MDB or climate fund takes on a higher risk position to de-risk private sector investment. This type of finance can be transformational. A public finance de-risking contribution enables the private sector to invest in projects or markets that would otherwise be viewed as too risky. Thus, a relatively small amount of public finance, used strategically, can unlock a significant quantity of private finance. Once the market is unlocked and the private sector actor becomes more familiar and comfortable with the market they can continue to finance and engage in the future without the need for public finance contribution.

De-risking finance can take many forms, e.g., guarantees to banks or funds that cover part of the risk in the event of a default, allowing the lender or investor to take on more risk; concessional credit lines to banks (often along with a grant element to provide technical assistance to ensure the finance is effective[11]); taking first loss positions in equity funds; or grant financing for results-based finance models.

2. Integration of climate change into all development finance

Development finance to African countries should be structured to ensure investments do not aggravate climate impacts or increase GHGs. This is of critical importance to MDBs which routinely finance a range of development projects but don't always consider climate risk and opportunities.

3. Enhance the capacity of national and subnational government actors to take lead in mobilizing climate finance

The localization of climate action is of critical importance if the actions are to be locally relevant and have a greater stakeholder buy-in. Increased effort is needed to promote the participation of local entities as drivers of climate change action, especially through strengthening their direct access to climate finance. This can be achieved through better and scaled-up use of direct access modalities and more investment in institutional strengthening. Prioritizing direct access to climate finance through national and subnational institutions over international institutions should be actively facilitated by MDBs and climate change funds.

[11] For example, the grant element could allow them to on-lend to farmers for climate-smart agricultural practices or technologies, or to provide lease-to-own financing models for equipment like solar pumps, solar panels, water-smart irrigation systems, and the subsidy of insurance premiums for climate insurance schemes.

4. Reform adaptation finance to align with the principles of locally led adaptation

For climate adaptation needs to be addressed at the local level where the impacts are experienced, adaptation measures should be decentralized, facilitating decision-making around local solutions to local vulnerabilities. This recommendation can potentially have a major impact if it is implemented gradually to allow for local entities to grow their capacity for stakeholder engagement and project and financial management. An initial investment is likely needed to build capacity and strengthen institutions at the local level. Entry points include using national and subnational institutions (both government and financial institutions) to run small grant programmes, results-based grant programmes, revolving funds, or micro-loan or micro-insurance programmes that enable actors at local level (communities, CSOs, farmers, cooperatives, micro businesses, etc.) to access funds at a scale and on terms that align with their needs and absorptive capacities.

5. Increased investment in project preparation and piloting of new approaches through grant funding (or reimbursable grants)

Developing a climate change project pipeline requires substantial financial resources, especially in countries with limited local data on climate vulnerabilities and emission levels. Therefore, key investments in supporting the development of a climate change/NDC project pipeline are needed. This level of support can be used to pilot innovative ideas to gauge their acceptability and relevance in addressing local climate change challenges.

5.2. Recommendations for African governments

1. Improve coordination and planning between climate change actors

Better coordination and planning around climate change priorities and targets is needed both to ensure buy-in and action across the whole-of-economy and to signal priorities for climate finance and investment. Having clear and mandated institutional leadership and coordination of climate action and to oversee the NDC update and its implementation is vital. There is a need for governments to strengthen coordination mechanisms for all actors including ministries of finance and planning, sector ministries, private sector, civil society, development partners and local governments. Coordination mechanisms such as NDC Coordination Committees and NDC stakeholder platforms can be effective mechanisms, especially if codified, to continuously bring these actors to the table to agree on shared climate change goals and to make sure they are reflected in relevant sector plans, policies and strategies. NDC Implementation Plans can support in prioritizing and sequencing climate action across these sectors and actors. Importantly, improved leadership, coordination and planning will support prioritizing low-carbon development pathways and to ensure that these transformational changes are done synergistically and cost-effectively with other national development and growth priorities. A strong institutional enabling environment around climate action will build confidence for potential investment, signaling a country is prioritizing low-carbon development and climate resilience.

2. Track climate finance at the national level

Tracking climate finance from both domestic and international sources is a major challenge for African governments. Weak finance tracking limits the ability of government to report on its climate actions as well as understand major financing gaps and investment needs. Strengthening or reforming PFM to facilitate the tracking and further integration of climate change into national budgets through tools such as CPEIRs and CBT has proven effective. This requires strong engagement from ministries of finance to ensure that all sector ministries 'climate proof' their budgets. The national budget, even if limited in scale, is a powerful tool for driving the direction of climate investment. While countries don't necessarily need to reallocate funds away from priority sectors to climate, they can ensure that existing allocations are implemented in ways that support low-carbon development pathways and enhance climate resiliency. Additionally, tracking climate finance domestically will support national reporting under the ETF and contribute to a stronger transparency framework.

3. Develop or strengthen climate investment frameworks

Having a robust climate investment framework that lays out a well-defined set of investments and activities to understand where needs and gaps exist is crucial to accessing climate finance. Developing NDC Investment Strategies, NDC Finance Plans, and project pipelines all serve as tools to strengthen climate investment frameworks. To drive coordination between financing policy and sustainable development objectives, many African governments have chosen to develop INFFs, which can also be expanded to connect directly to a country's NDC.

4. Strengthen the enabling environment for climate investment

Uncertain policy and regulatory environments coupled with weak economic management challenge private sector investment in climate action. Governments can aim to build the confidence of private investors and lower perceptions of risk by establishing strong macroeconomic management, clear and conducive regulation for climate investment, and incentives for climate investment and disincentives for non-climate friendly investment. Measures to support this include developing green taxonomies, eliminating fossil fuel subsidies, reducing import tax duties on climate technologies introducing vehicle emission standards and energy efficiency standards for appliances, and considering tax incentives for certain clean industries, among others.

In addition, where there are strategic priorities, governments should utilize blended finance modalities to de-risk investment. Allocating seed funding for pilot projects or proof of concept and galvanize development partners or private sector to engage and scale up the initiative. Governments can allocate funds through their development finance institutions (e.g., national development banks (NDB) or climate funds) to de-risk initiatives, such as by providing a guarantee through an NDB to promote commercial banks to lend to small businesses in climate-compatible sectors. This kind of strategic use of limited public budgets can leverage small amounts of funding for greater development and climate impact.

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