#TheAfricaRoundtable

Reading Materials

The Africa Roundtable

Green Finance in New Geopolitical Reality

Ibrahim Governance Weekend 2025

1 June 2025 | Marrakesh

Global Perspectives Initiative

Global Perspectives Initiative is a non-profit and independent dialogue platform based in Berlin, Germany. *Global Perspectives* works towards enhanced engagement and responsibility for sustainable development by German and European decision-makers and aims to strengthen African perspectives in policy making. To this end, *Global Perspectives* regularly brings together decision-makers from business, academia, politics, media, and civil society to discuss new approaches, provide new impulses and raise awareness on the common opportunities and challenges the two neighboring continents are facing.

The Africa Roundtable

The Africa Roundtable is the forum for decision-makers from the political, business and civil society spheres in Europe-Africa cooperation. It deals with pressing issues and challenges of the neighboring continents and develops partnership-based solutions and models for future cooperation. Twice a year, *the Africa Roundtable* gathers its participants, alternating between the European and the African Continent. Prior publications ensure a fact-based discussion, which is concluded with action recommendations. Regular text contributions in pre- and post-processing, complete the program and ensure a continuous dialogue.

THE AFRICA ROUNDTABLE NO. 8 – GREEN FINANCE IN A NEW GEOPOLITICAL REALITY

We are delighted you will be joining us in Marrakesh for this critical discussion on Africa's Green Finance future.

Changes in key administrations worldwide are reshaping international environmental policy priorities. Since taking office in January 2025, the new US administration has drastically cut the US' aid budget, has initiated the withdrawal from the Paris Climate Accord, and has redirected investments toward fossil fuels - significantly reducing US support for green transition. At the same time, EU development aid cuts are reducing the overall pool of resources available for climate action and green transition projects in Africa. The shifting geopolitical landscape has brought new urgency to Africa's green finance needs.

Despite these global shifts, Africa's ambition to pursue green and inclusive growth remains intact. Green finance is seen as the key to unlocking Africa's potential. Funding the green transition in Africa will not only help combat climate change, these investments will also fuel economic growth and development.
Africa holds transformative opportunities for green development, leveraging critical minerals and renewable energy capacity to drive sustainable growth. Key sectors poised to benefit include renewable energy, sustainable agriculture, and nature-based solutions. Given this potential, the continent's green finance needs have reached a critical inflection point and the sector must adapt quickly to these new realities if the green transition across Africa is to move forward.

There is overwhelming evidence showing that green finance could play a significant role in creating new opportunities for economic growth, development, and job creation in Africa. The Independent High Level Expert Group on Climate Finance (IHLEG) notes that a ramp up in green finance can unlock the growth story of the 21st century and deliver substantial cost savings and co-benefits while generating significant economic returns.

However, despite Africa's vast renewable energy potential and crucial role in global carbon sequestration, green finance flows to the continent are far below its investment needs. Current data shows Africa is still only receiving less than 3 % of global climate finance. This is nowhere near the amount experts say Africa needs to adapt to and to mitigate the effects of climate change. Africa's foremost MDB, The African Development Bank Group (AfDB) has estimated that the continent needs between $1.3 trillion and $1.6 trillion in total climate financing every year between 2020 and 2030.

The reasons for this financing gap are well-documented. In a 2023 report, the AfDB said the limited access to green finance can be attributed to: the limited quality and size of viable projects to attract funds at scale, lack of clear policies and regulatory frameworks aimed at attracting investment, i.e, an enabling environment, siloed approaches, and the low capacity of national bodies to comply with requirements, standards and procedures of funding sources and ultimately to manage and channel finance.

Structural challenges to attract green finance also include perceived risk, weak capital markets, and a lack of trust in governance frameworks. This has created a financial bottleneck that demands immediate attention as climate impacts accelerate, threatening to reverse decades of development progress.
Recognizing these challenges, Africa's governments and institutions have committed to delivering climate resilience, a low carbon future, and inclusive growth. The AfDB developed its Climate Change and Green Growth Strategic Framework. Among the four pillars of the framework is 'Finance' where the goal is to leverage climate investments and mobilise resources for climate action and green growth. A key insight the AfDB has gained from experience is: mobilising increased climate finance requires innovation.

Innovative financing mechanisms including carbon markets, green bonds, and debt-for-climate swaps are emerging as critical tools to address Africa's climate financing gap. However, these initiatives must be dramatically scaled and swiftly implemented within this decade.

This edition of *The Africa Roundtable* explores how Africa and its international partners can urgently adapt green finance strategies within this shifting geopolitical context. The discussion will focus on identifying and scaling effective solutions while strengthening strategic partnerships, particularly between Africa and the EU.

The following pages contain a curated selection of recent reports, fact sheets, expert analyses, and opinion pieces from leading institutions and thought leaders to inform our discussions on Africa's green finance landscape and its opportunities to reinvent itself and adapt:

- **Excerpt from the UNECA Economic Report on Africa 2025:** This flagship publication analyzes Africa's economic trends, the implementation of the African Continental Free Trade Area (AfCFTA), and the continent's prospects for inclusive and sustainable growth.

- **Mo Ibrahim Foundation Fact Sheet on Climate Finance:** A concise overview of climate finance flows, challenges, and opportunities specific to Africa.

- **Excerpt from the The Independent Expert Group on Debt, Nature and Climate (IEG) Report "Healthy Debt for a Healthy Planet":**
  Insights and recommendations from the IEG on how debt instruments can support climate and development goals.

- **Briefing Paper from the African Centre for a Green Economy:** This briefing paper explores the critical role of local finance in advancing Africa's green transition at a time of shifting global priorities and climate finance reforms.

- **Opinion Pieces:** Three Opinion Pieces that were published recently by Bright Simons, Carlos Lopes and Patrick Bolton, Ottmar Edenhofer, Alissa Kleinnijenhuis, Johan Rockström & Jeromin Zettelmeyer.

Excerpt

Advancing the Implementation of the African Continental Free Trade Area: Proposing Transformative Strategic Actions

The Economic Report on Africa 2025 by the United Nations Economic Commission for Africa (UNECA)

Africa stands at a pivotal moment in its development journey, shaped by both significant opportunities and persistent challenges. The United Nations Economic Commission for Africa (UNECA) Economic Report on Africa 2025 highlights the continent's immense potential, driven by a youthful population, abundant natural resources, and expanding markets. Yet, economic growth remains below pre-pandemic levels, and progress toward the Sustainable Development Goals is being held back by ongoing vulnerabilities—including high debt levels, global economic tensions, and climate-related shocks.

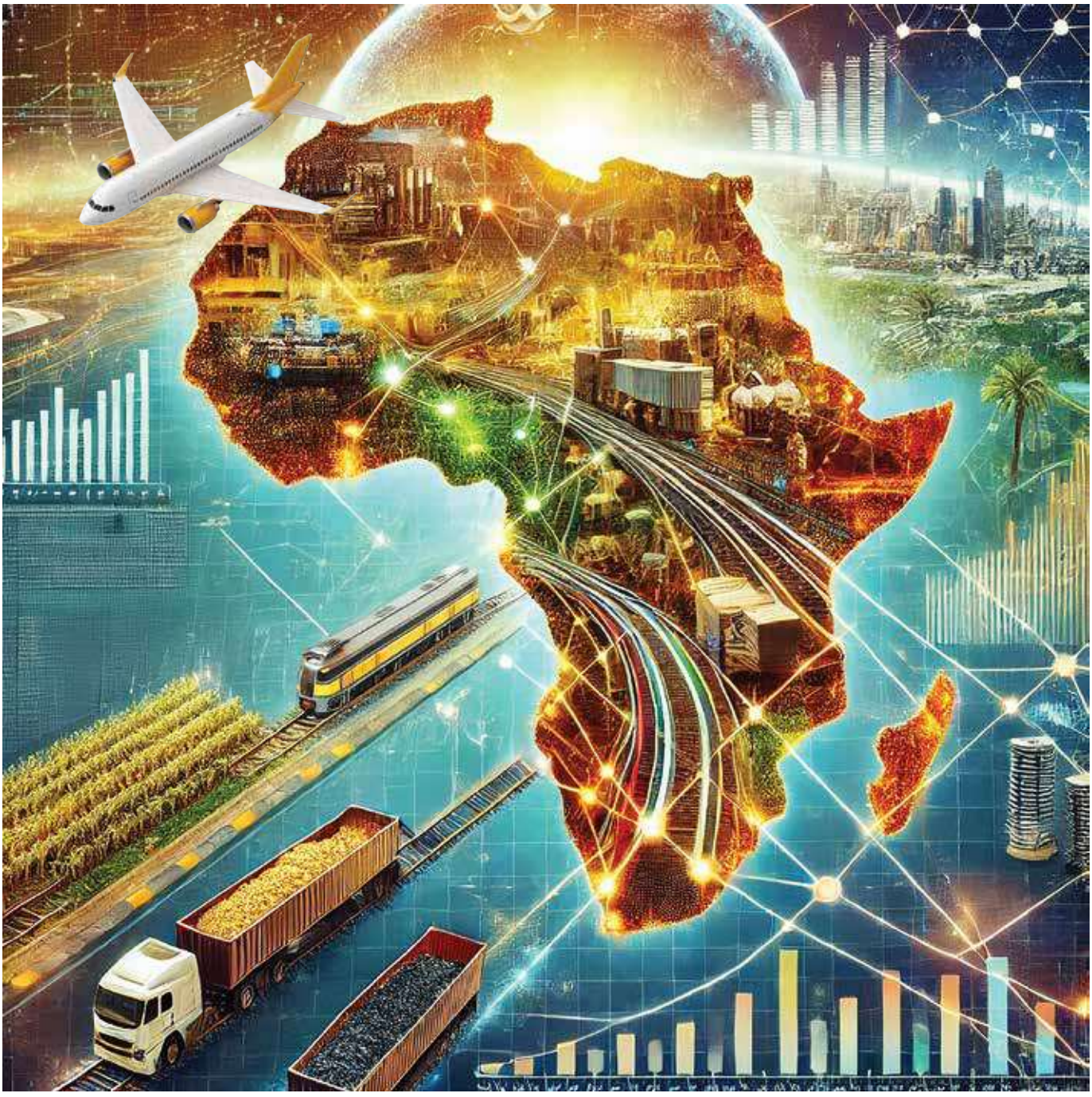
We have included Pages 6–19 of this report to provide a focused overview of Africa's recent economic performance, government finances and debt challenges, and the evolving risks that shape the continent's outlook. This section shows why Africa urgently needs strategic investments, policy reforms, and innovative approaches —such as green finance—to drive inclusive and sustainable growth.

The main part of the Economic Report on Africa 2025 focuses on the promising potential of the African Continental Free Trade Area (AfCFTA), which aims to accelerate regional trade, boost industrialization, and build resilience across sector.

You can find the full report here:
https://www.uneca.org/economic-report-on-africa-2025

ADVANCING THE IMPLEMENTATION OF THE AFRICAN CONTINENTAL FREE TRADE AREA:

PROPOSING TRANSFORMATIVE STRATEGIC ACTIONS



ECONOMIC REPORT ON AFRICA

United Nations
Economic Commission for Africa

2025

Africa is at a critical juncture of its development journey. Possessing some key assets that the world lacks, it is poised to chart a new development path**.** With its young and rapidly growing population, abundant natural resources, opportunities to leapfrog technological advances, and growing consumer markets with most countries in the middle-income category, the continent's role in the global economy is rising. Africa is well positioned as a key strategic region amid a global shift to geographically diversified supply chains, and it can leverage this for trade, stronger integration in global value chains (GVCs), and sustainable growth.

Yet, challenges remain to strengthening trade, in terms of overall volume, quality and geographical diversification. Despite significant rebound after the Covid–19 pandemic in 2021 and 2022, Africa's trade fell in 2023 and is projected to have grown only by 3.3 per cent in 2024, with its share in global trade stagnating at below 3 per cent. Africa's exports remain dominated by primary commodities—with almost 40 per cent taken up by fuels and 15 per cent by ores and metals—as manufacturing accounts for only 24 per cent (details below). Trade continues to be impaired by low global and domestic demand, limited fiscal space, disrupted supply chains, geopolitical tensions, tight global financial conditions, elevated food and energy prices, exchange rate risks, and other shocks.

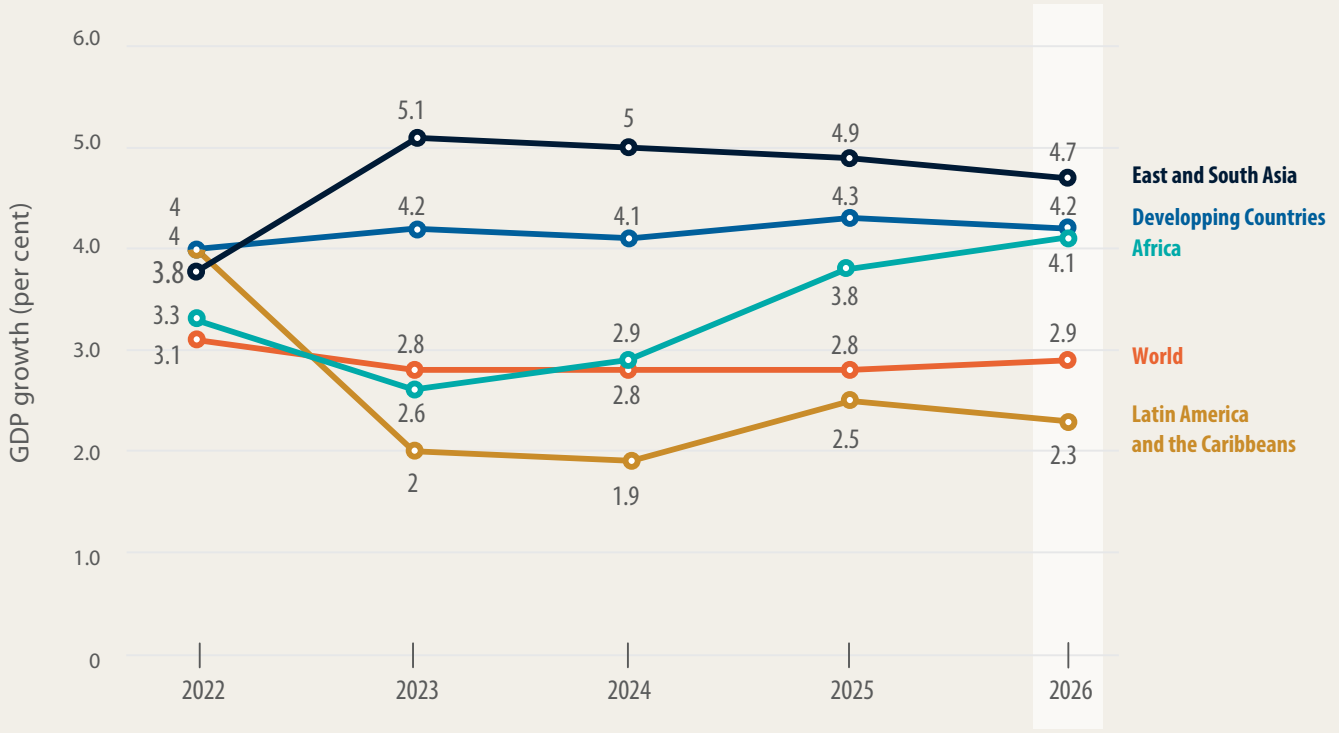
Seizing the untapped opportunities for trade integration through the AfCFTA is critical, especially amid heightened geopolitical tensions and uncertainties, intensified repercussions of climate change, and rapid technological change. With the increasingly fragmented global trade system and low-for-long global growth, the AfCFTA—through trade, investment and growth linkages—can act as an enabler of Africa's trade, growth, and competitiveness. It also has the potential to improve the lives of African people by addressing grand societal challenges such as poverty, food insecurity, unemployment, and limited social cohesion (see chapter 3 for details). As the largest regional free trade area by membership, population, and area, successful implementation of the AfCFTA can also contribute meaningfully to global trade and growth.

ECONOMIC GROWTH PERFORMANCE

Africa's growth, while recovering, is well below the potential level that is needed to reach the SDGs. However, substantial differences have emerged across African countries and subregions, with 9 of the world's 20 fastest growing countries from Africa. At the continental level, diverging growth paths have continued, with resource-intensive countries, especially fuel intensive ones, on a slower path than non-resource-intensive countries.[1] This divergence reflects, in part, the suboptimal natural resources management of many resource-intensive economies. This in turn prevents economic diversification, erodes fiscal space, and prevents African countries from deploying countercyclical fiscal policies when needed. Further, their weak governance and business environments, especially in resource-exporting countries, discourage quality investors and thus the transfer of needed technology and skills.

Africa's growth, after bottoming out at 2.6 per cent in 2023, is estimated to have reached 2.9 per cent in 2024 and to rebound to 3.9 per cent in 2025 and 4.1 per cent in 2026 (figure 1.1). The rebound has been mainly driven by greater private consumption growth resulting from easing inflationary pressures, thus boosting the purchasing power of household incomes. Improvements in trade performance and a gradual relaxation of tight global financial conditions have also contributed.[2] But growth in resource-intensive economies is expected to be subdued due to softening of commodity prices reflecting improved supply conditions mainly for energy and food commodities despite heightened geopolitical tensions.[3] Notably, Africa's growth is anticipated to exceed average global GDP growth, which is expected to stabilize at 2.8 per cent over 2024–26, mainly underpinned by declining inflation rates with the associated monetary easing supporting economic activity in both developed and developing economies. But Africa's short- to medium-term growth may face global economic risks, adverse weather patterns, geopolitical tensions disrupting supply chains, and elevated shipping costs, which could drive up commodity and food prices.

Figure 1.1 Annual GDP growth in global regions, 2022–26(f)



Note: e = estimate and f = forecast.

Source: UNDESA 2025.

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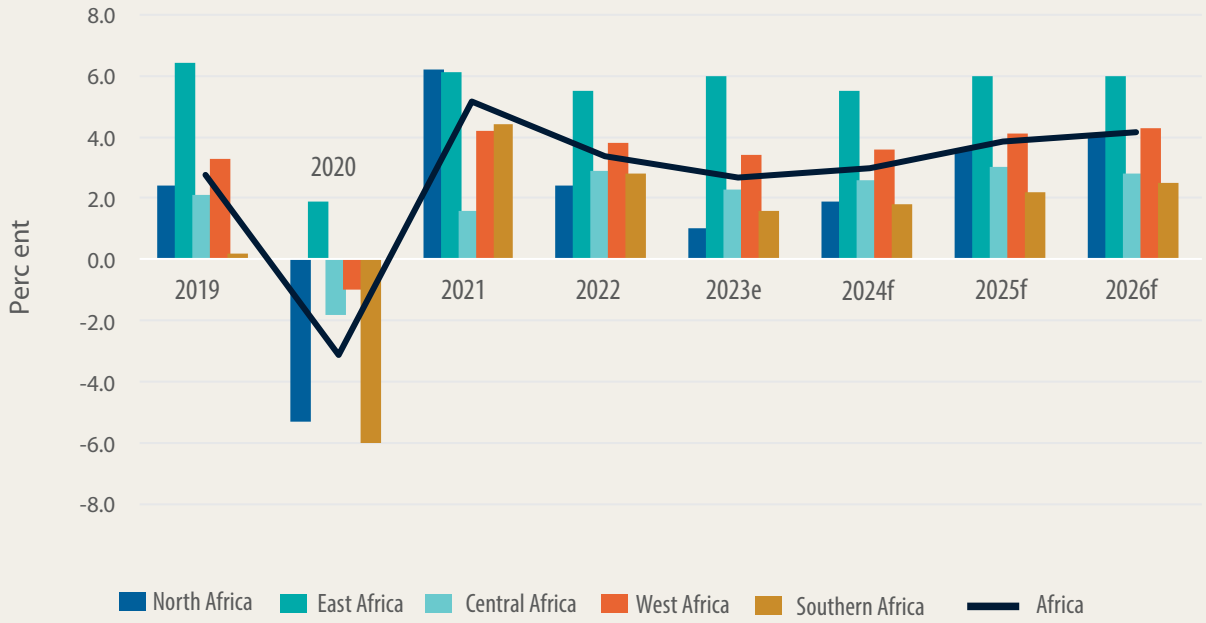
East Africa again leads Africa's regional growth

Growth in **East Africa** is expected to be faster than in other subregions, at 6.0 per cent in 2025 and 2026 (figure 1.2). It is mainly driven by comparatively strong growth in Ethiopia, Kenya, Rwanda, Uganda, and the United Republic of Tanzania, bolstered by continued domestic demand and a strong rebound in international tourism.[4] **West Africa** is expected to grow at an average of 4.2 per cent in 2025 and 2026, with Senegal growing at the fastest pace within the subregion, at an average of 7.0 per cent thanks to higher mining activity, the start of gas production, a new course for fiscal consolidation, and persistently low inflation. Growth in Côte d'Ivoire is strengthened by robust oil and gold production, high export performance, revenue based fiscal consolidation, and moderating inflation pressures.

The economic outlook for **North Africa** is expected to remain robust in the near term with real GDP growth projected to rise by 3.6 per cent in 2025 and 4.1 per cent in 2026. Higher growth is expected for Libya and Mauritania, with Mauritania forecast to grow by an average of 6.9 per cent in 2025–26. Strong growth prospects are expected in Libya on the back of recovery in oil production following a political resolution in September 2024, and ongoing investments in the railway, aviation and renewable energy sectors. The slow recovery of the Central African Republic's economy and the stagnation of crude oil production in Chad, Equatorial Guinea, and Gabon are expected to keep **Central Africa's** growth as the second lowest among subregions.

Growth in **Southern Africa** is expected to be the lowest, averaging 2.4 per cent in 2025–26. The subregion's largest economy, South Africa, is projected to recover to prepandemic levels as electricity supply stabilized since 2024. Growth in the smaller economies including Eswatini, Lesotho, and Malawi, is projected to remain modest in the

Figure 1.2 Annual real GDP growth by subregion, 2019–26(f)



Source: UNDESA 2025.

medium term. Lesotho is expected to continue its broader trend of stagnation that has persisted for the past decade with minimal growth attributed to construction. Malawi's growth is dragged down by low agricultural production and slow debt restructuring as the country struggles to meet the IMF Extended Credit Facility program targets.[5]

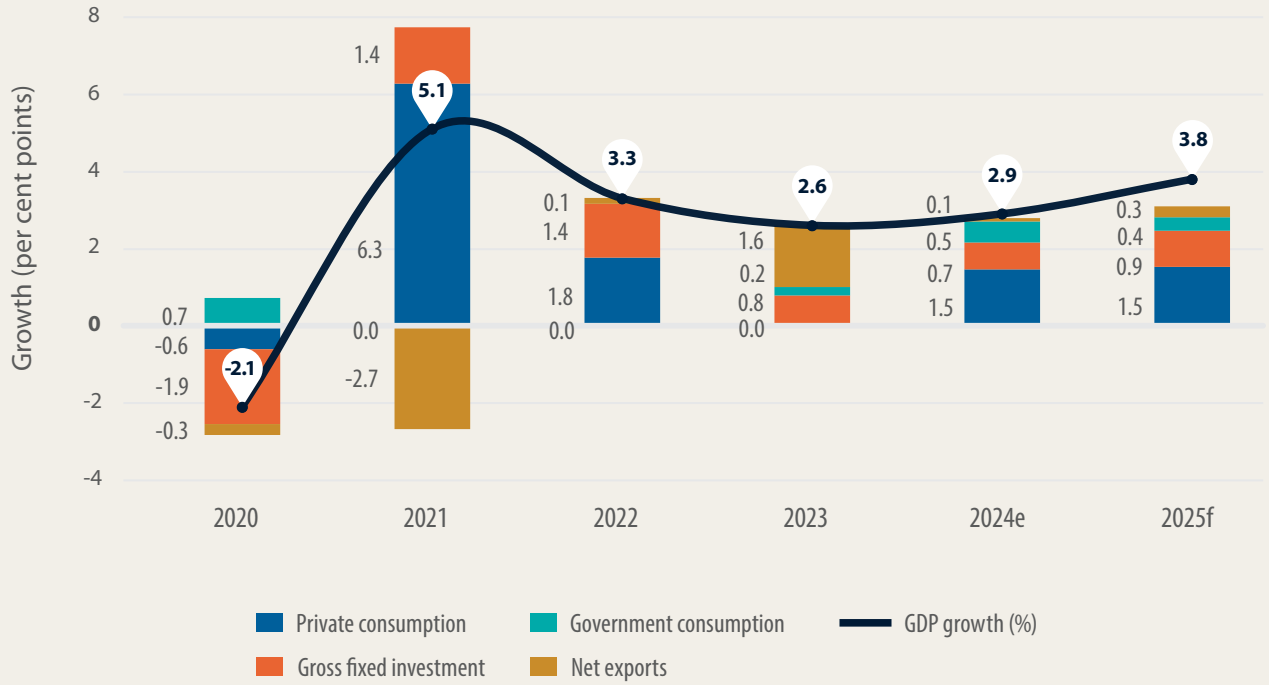
Increased private consumption and investment remain the main drivers of growth over the short-to-medium term in Africa (figure 1.3). Although it played a crucial role in Africa's economic growth rebound in 2023, Africa's trade has been on a declining trajectory in many countries and has had minimal impact on Africa's growth since the Covid–19 pandemic (figure 1.4). Going forward, it will be important for most African countries to rebalance the sources of growth away from consumption towards trade and investment. Countries that draw most of their GDP from trade tend to grow faster, pointing to the need for strategic trade-supporting policies (figure 1.4 captures trade openness as the ratio of the sum of imports and exports to a country's GDP). Enhanced implementation of the AfCFTA, combined with well-designed industrial policies, may help improve competitiveness, including by enhancing productivity through technological innovation and adoption as well as upskilling.

Even so, the accelerated implementation of the AfCFTA is expected to be a major step forward in boosting Africa's trade over the medium and longer terms. If successful, together with fast population growth and a growing middle class, it can reposition the continent in the global economy and turn it from exporter of raw materials to an important source of global demand and a growth pole.

The accelerated implementation of the AfCFTA is expected to be a major step forward in boosting Africa's trade over the medium and longer terms.

The composition of Africa's exports varies substantially depending on their destinations. Africa's total exports continue to be dominated by primary commodities—with an average of 38 per cent of total African exports dominated by fuels and 15 per cent by ores and metals over 2019–23—as manufactured goods accounted for only 24 per cent (figure 1.5). But manufactured products continue to dominate intra-African exports, at 46 per cent of total intra-African trade, followed by food items at 21 per cent. The AfCFTA has huge potential to reduce the dependency on primary commodities as it will transform African economies and diversify the sources

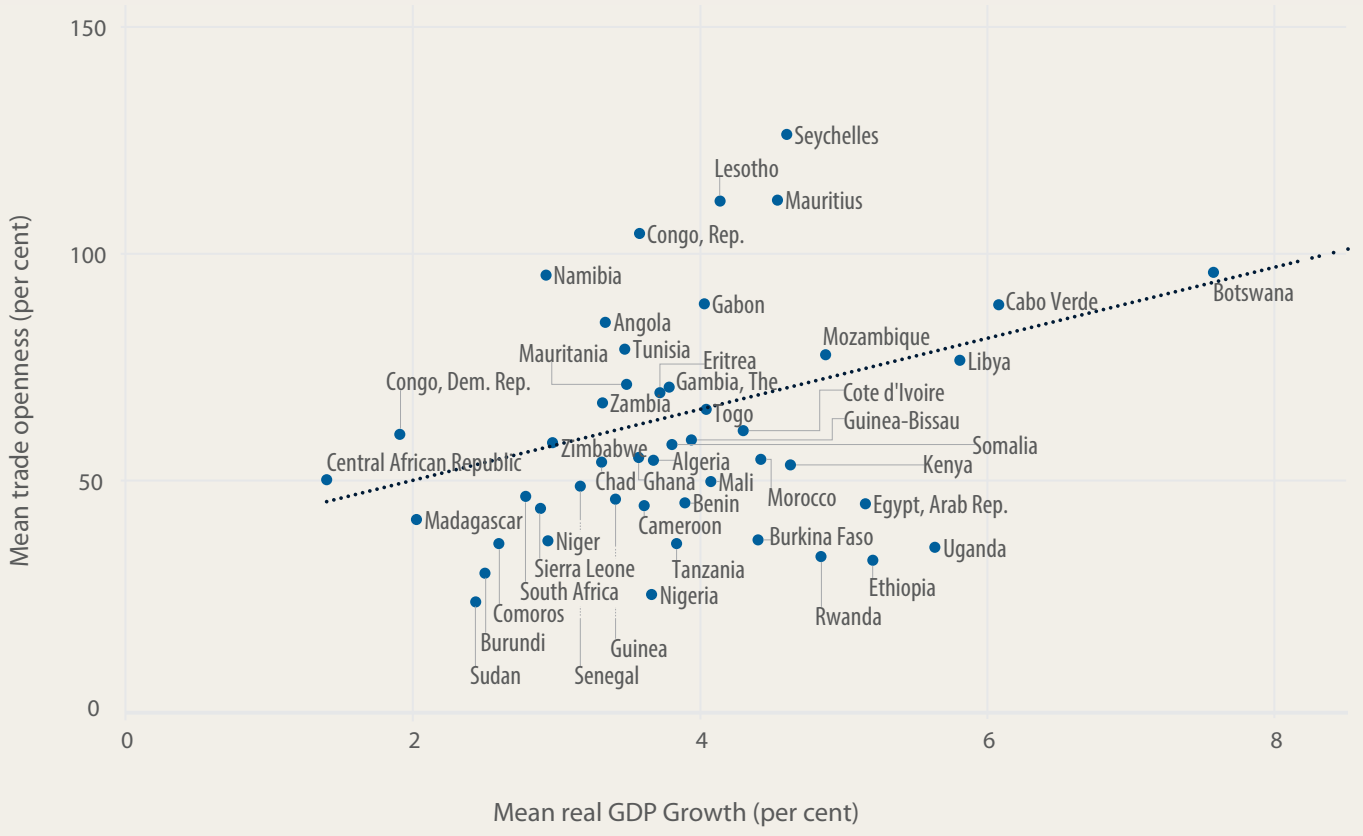
Figure 1.3 Economic growth components in Africa, 2020–25(f)



Note: e = estimate and f = forecast.

Source: ECA calculations based on data from EIU (2024) and UNDESA (2025).

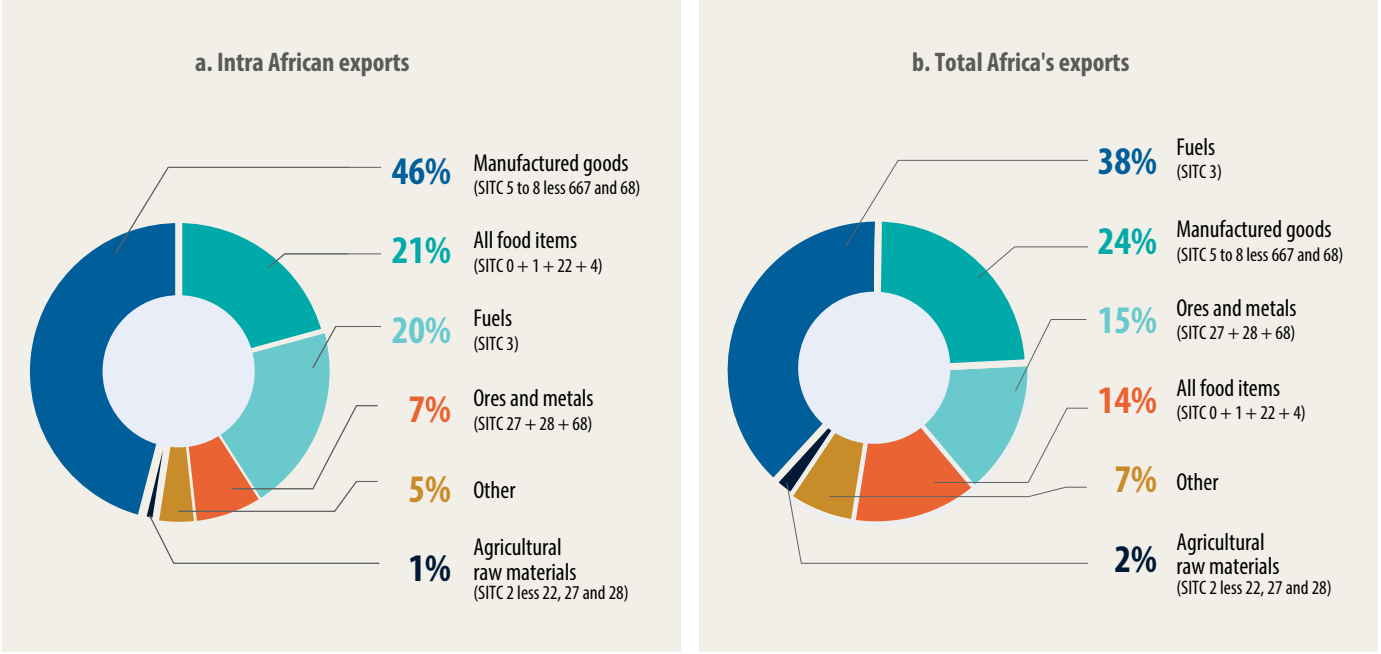
Figure 1.4 Trade openness and economic growth in Africa, 1960–2019



Note: e = estimate and f = forecast.

Source: ECA calculations based on data from EIU (2024) and UNDESA (2024).

Figure 1.5 Sectoral composition of Africa's exports, per cent of total (average 2019–23)



Source: UNCTADstat database (2024a).

Africa's total exports continue to be dominated by primary commodities—with an average of 38 per cent of total African exports dominated by fuels and 15 per cent by ores and metals over 2019–23—as manufactured goods accounted for only 24 per cent.

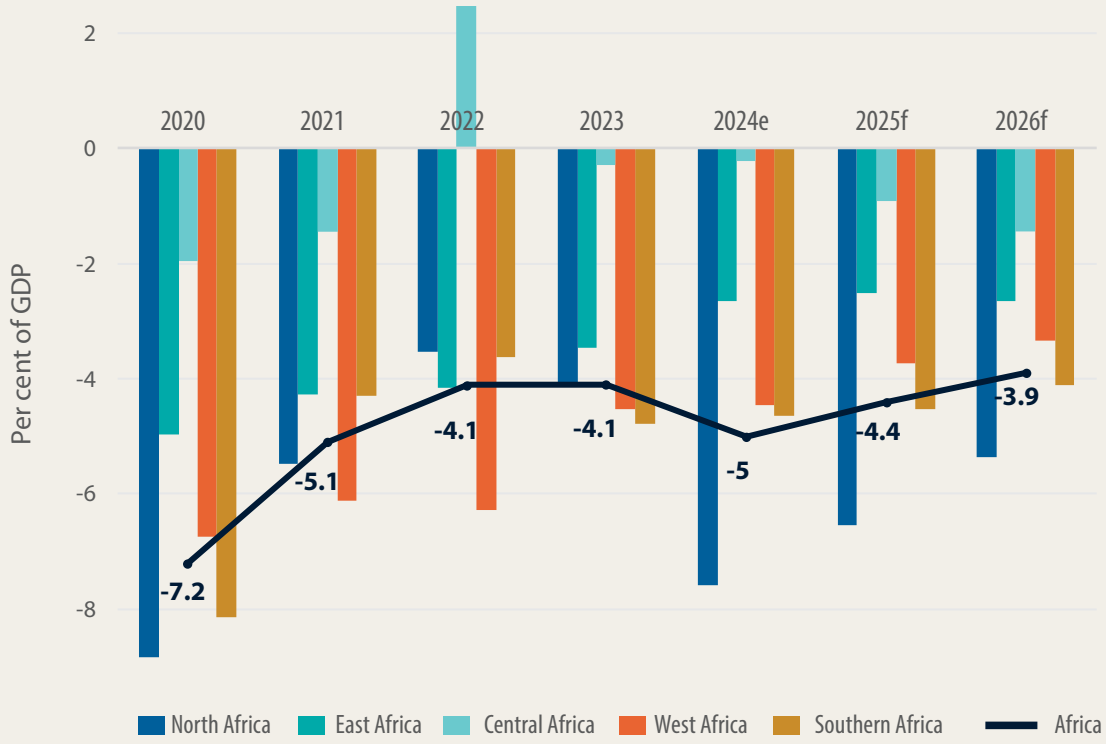
of its exports and growth.[6] Africa needs to enhance the structural transformation of its economies, which must emphasize diversification away from primary products towards increased manufacturing, technology, and modern service sectors.

Fiscal performance is set to improve in 2025

African countries have faced significant fiscal challenges in the post-Covid–19 period while trying to balance high public debt, elevated interest rates, and increasing public spending needs. Their fiscal space remains severely constrained by elevated debt, high interest rates, the strengthening United States dollar, and subdued global economic growth. As a result, most governments are expected to tighten their fiscal policy to reduce budget deficits and public debt burdens. The average fiscal deficit is projected to widen marginally in 2024 before returning to pre-pandemic levels in 2025–26, as countries gradually restore their fiscal positions by reducing spending and implementing strategies to generate domestic revenues. Fiscal deficits are projected to narrow on average from -5.0 per cent of GDP in 2024 to -4.4 per cent in 2025, before reaching -3.9 per cent in 2026 (figure 1.6). The increase in 2024 can be attributed mainly to a slight expansion of the primary balance as a result of measures to alleviate the impact of rising food prices; increased net capital outflows and subdued export revenues mainly in resource-intensive economies, to some extent attributed to subdued demand from China.

Fiscal deficits are estimated to widen in 2024 only in North Africa, from 4.1 per cent of GDP to 7.6 per cent, owing to tax revenue deficits and rising debt payments; and other subregions will have their average fiscal deficits narrow. Southern Africa will likely be at 4.6 per cent of GDP due to accelerated debt servicing costs eating into the fiscal spending envelope. West Africa strengthened its fiscal position by reducing its budget deficit from 4.5 per cent in 2023 to 4.4 per cent in 2024, with improvements in Côte d'Ivoire, Ghana, Nigeria, and Sierra Leone, helping reduce the subregion's deficit.[7] Central Africa will have the lowest average deficits in 2024 and 2025 followed by East Africa. Performance in Central

Figure 1.6 Fiscal balances in Africa by subregion, 2020–2026(f)



Note: e = estimate and f = forecast.

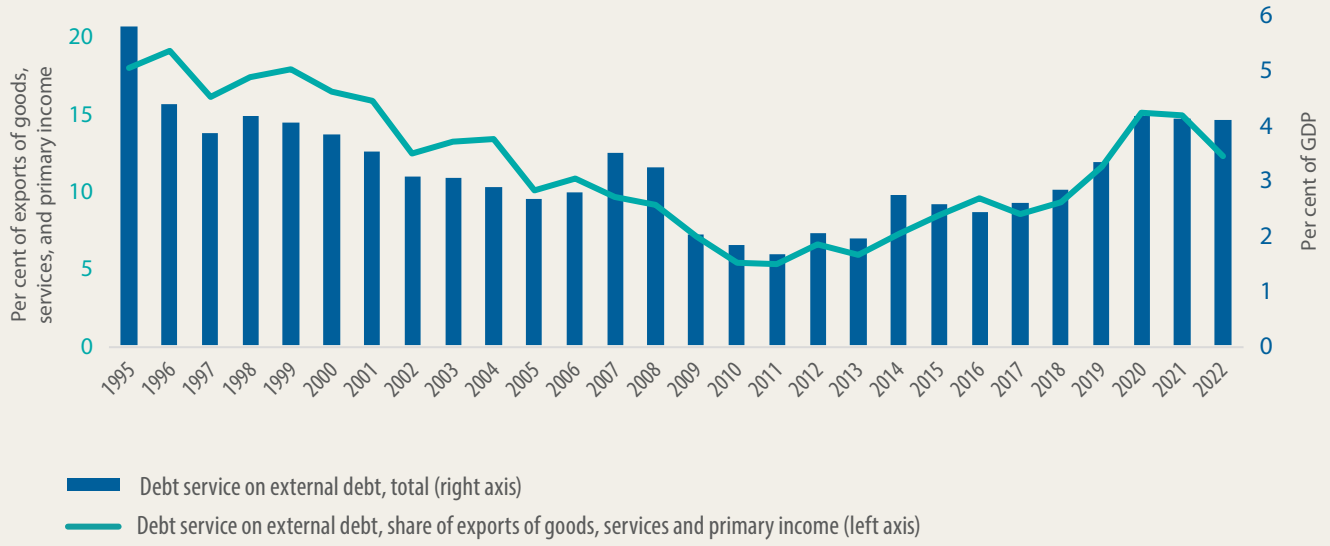
Source: ECA calculations based on IMF (2024b).

Fiscal deficits are projected to narrow on average from 5.0 per cent of GDP in 2024 to 4.4 per cent in 2025, before reaching 3.9 per cent in 2026.

Africa is mainly underpinned by renewed economic activity driven by favourable commodity prices, not only of crude oil but also minerals and other commodities.[8]

Fiscal policies in Africa have tended to be procyclical, with notable exception of the continent's response to the global financial crisis.[9] The lack of countercyclical policies has reinforced economic cycles instead of stabilizing them. Between 1980 and 2000, fiscal policies were procyclical in nearly two-thirds of 45 African countries, but this share dropped to below 40 per cent after 2000 as many adopted countercyclical or acyclical policies.[10] The adoption of countercyclical policies in Africa gained prominence mainly during the 2009 global financial crisis and was further reinforced during the Covid–19 pandemic. Both crises saw African countries implement coordinated fiscal and monetary measures to stabilize their economies, though the scale of intervention was more significant during Covid–19 due to its widespread and prolonged economic impact. Countercyclical policies enhance resilience to external shocks and create fiscal space for countercyclical interventions, but high debt levels in many African countries constrain these measures, limiting their ability to maintain countercyclical policies or support public investments.

Figure 1.7 Debt service on external debt in Africa, 1995–2022



Source: World Bank International Debt Statistics database and World Development Indicators database.

External debt service rose from 1.6 per cent of GDP in 2011 to 4.1 per cent in 2022, and rose by nearly 8 percentage points of goods, services and primary income.

Growing debt service crowds out development outlays

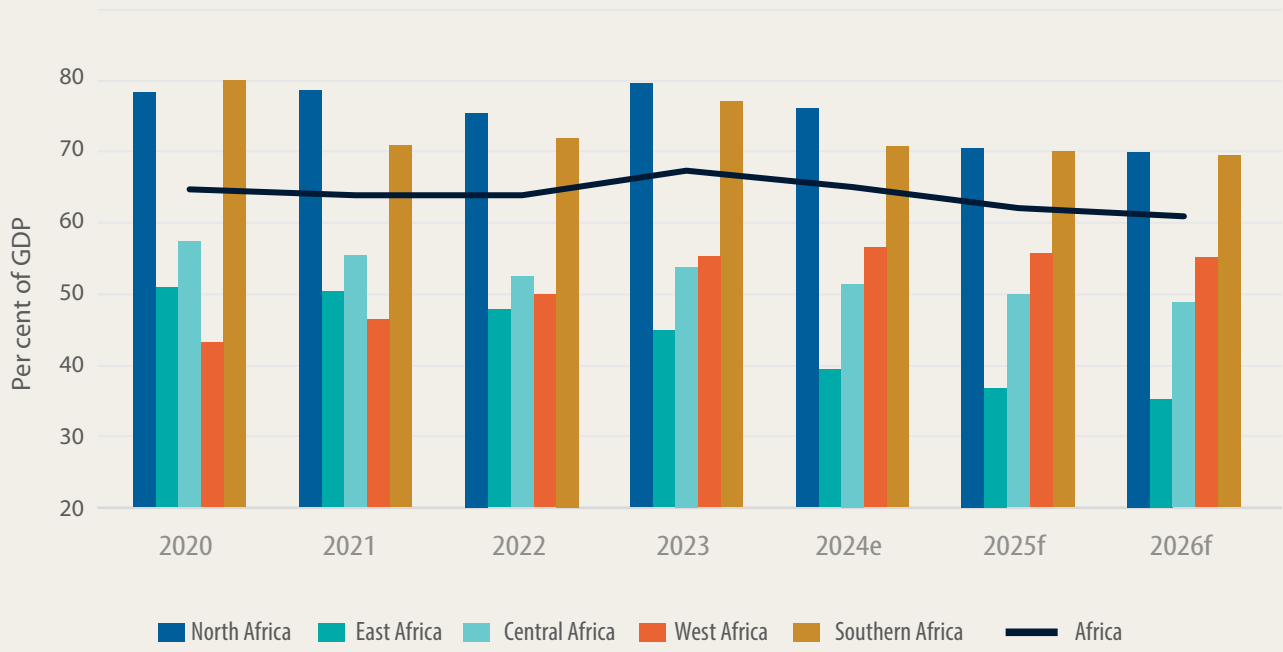
The rapidly growing debt-servicing burden is increasingly crowding out resources for essential public services and investments. External debt service rose from 1.6 per cent of GDP in 2011 to 4.1 per cent in 2022, and rose by nearly 8 percentage points of goods, services and primary income (figure 1.7). Africa's average interest payments reached an estimated 27 per cent of government revenues in 2024, up from 19 per cent in 2019. In some of the continent's largest economies including Angola, Egypt, Ghana, Nigeria, and Uganda, their interest payments have exceeded their total expenditures on education and health in recent years, highlighting the severe tradeoffs faced by African countries when financing their development priorities.[11]

Debt vulnerabilities are elevated and raise concerns about looming crisis

Africa's debt-to-GDP ratio declined from 67.3 per cent of GDP in 2023 to 65.2 per cent in 2024 and is projected to fall marginally further to 62.1 per cent of GDP in 2025 (figure 1.8). However, the levels are still high and comparable to those before the debt relief initiatives in the mid-2000s.

The gradual fall is supported by a return to normalcy in fiscal policy, following unprecedented support during multiple crises, alongside robust growth and narrowing fiscal deficits. Significant debt repayments are expected to have peaked in 2024, and the ongoing financing challenges are compelling countries to reduce essential public spending and redirect resources to debt servicing. In 2024, Africa was projected to incur a staggering US$163 billion in debt service costs, up about 12 per cent from the previous year. While debt servicing was expected to peak in 2024 before declining, it will remain well above prepandemic levels in the short to medium term. And vulnerabilities continue to be elevated, as some countries face high interest rates, public finance volatilities, accumulations of arrears, and the prolonged impact of external shocks. In 2024, North Africa is estimated to have the highest debt-to-GDP ratio at 76.0 per cent, followed by Southern Africa at 70.7 per cent, West Africa at 56.4 per cent, Central Africa at 51.2 per cent, and East Africa at 39.2 per cent (see figure 1.8).

Figure 1.8 Gross government debt in Africa by subregion, 2020–26(f)



Note: e = estimate and f = forecast.

Source: International Monetary Fund (IMF), World Economic Outlook Database (WEO), April 2024 edition, for Africa. ECA calculations based on IMF, WEO, April 2024 edition for subregions. Available at https://www.imf.org/en/Publications/WEO/weo-database/2024/April (accessed on 22 August 2024).

Vulnerabilities continue to be elevated, as some countries face high interest rates, public finance volatilities, accumulations of arrears, and the prolonged impact of external shocks.

According to the latest assessment by the IMF on October 31, 2024, nine African countries were classified as being in debt distress, with 11 countries at high risk of debt distress.[12] Debt sustainability, solvency, and liquidity indicators show that in 2024 debt-to-exports ratio, debt service-to-revenue ratio, and debt service-to-exports ratio will be above prudent levels in 2024, signifying debt sustainability challenges for African countries.[13] However, the full operationalization of the AfCFTA is expected to boost revenues, despite its negative impact on revenues in the short to medium term (see chapter 3 for more details).

Countries' debt utilization

At the onset of the Covid–19 pandemic in 2020, a larger share of debt was directed towards consumption (26 per cent of GDP) than to investment (22 per cent of GDP) in Africa. But by 2021, as economic growth rebounded, government consumption stabilized, and public expenditure fell to 25 per cent of GDP, reflecting the countries' fiscal consolidation. Concurrently, investment rose to nearly 24 per cent of GDP, suggesting a shift in debt allocation towards stimulating investment. After 2021, the ratio of investment to GDP declined more sharply than government spending, while debt servicing costs rose significantly. This trend indicates that debt incurred during this period was primarily allocated to servicing expensive existing debt rather than fostering new investments.

The share of commercial debt, including eurobonds and loans from private lenders, has risen substantially, enhancing many African countries' exposure to international capital markets. While this increased the countries' access to finance, it also raised debt servicing costs due to high interest rates. Although bond issuance can ease immediate repayment pressures, much of the

proceeds are directed towards refinancing rather than investing in productive sectors, further undermining long-term debt sustainability. Credit rating agencies' low ratings for most African countries have further increased borrowing costs and restricted their access to financing, especially after the 2021 wave of sovereign downgrades.

Current accounts to remain in deficit in 2025 and 2026

Africa's current account balance hit a historical deficit of 3.6 per cent of GDP in 2020, before narrowing to 1.6 per cent and 1. 3 per cent in 2021 and 2022, respectively (figure 1.9). The large deficit in 2020 can be attributed to reduced economic activity, tightening global financial conditions, and lower commodity prices—and contracting tourism and declining remittances.[14]

Current account balances then started to deteriorate from 2022 and are estimated to reach –2.6 per cent of GDP in 2024 before narrowing to an average of –2. 3 per cent in 2025–26 (see figure 1.9), mainly attributed to increasing official grants and foreign loan repayments induced by high debt levels.[15] Despite the positive impact of the region's trade performance, the negative impact of exchange rate devaluations and inflation outweighed the positive impact of trade on current account balance.[16] However, the establishment and implementation of the AFCFTA is expected to reverse this narrative and improve intra-African trade (see chapter 3).

Geopolitical conflicts, trade tensions, and tight financial conditions continue to suppress investor appetite, leading to a modest decrease of 2 per cent in global FDI inflows in 2023 to US$1.3 trillion. Mirroring the global trends, FDI inflows to Africa diminished by 3 per cent in 2023, down to US$53 billion (figure 1.10). Despite this drop, some countries attracted greater FDI inflows, notably Namibia (+119 per cent) and Nigeria (+109 per cent). European investors continue to dominate the FDI stocks in Africa, with the Netherlands (US$109 billion), France (US$58 billion), the United States (U$46 billion), and the United Kingdom (US$46 billion) maintaining their top ranks.[17]

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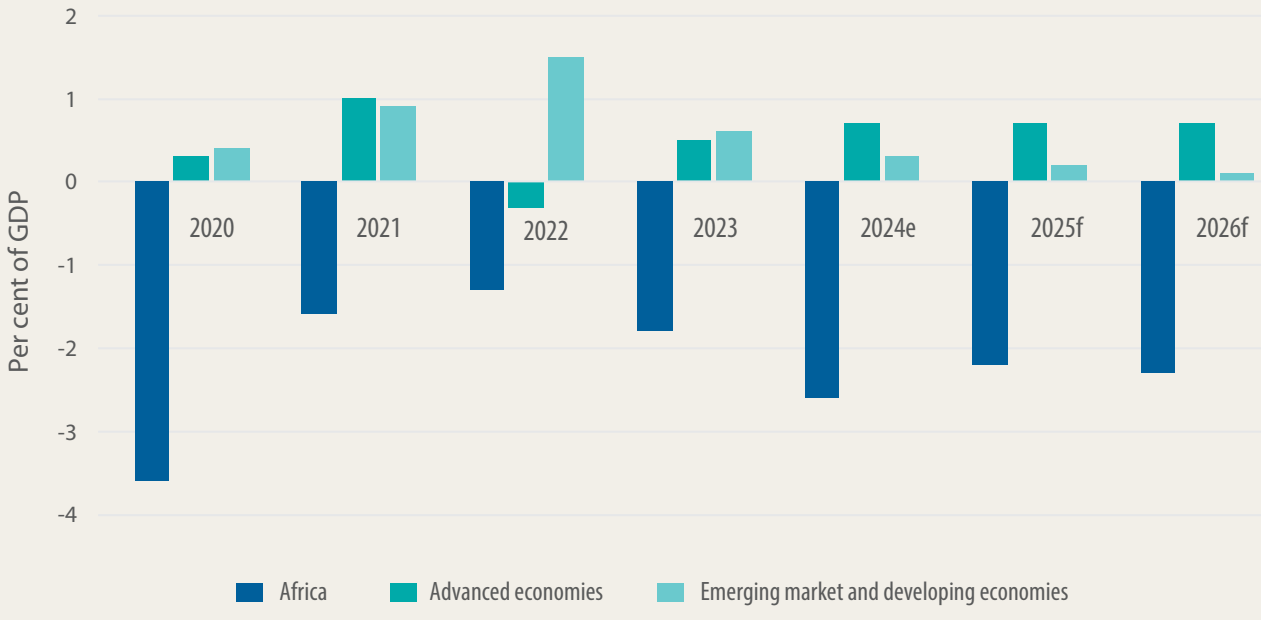
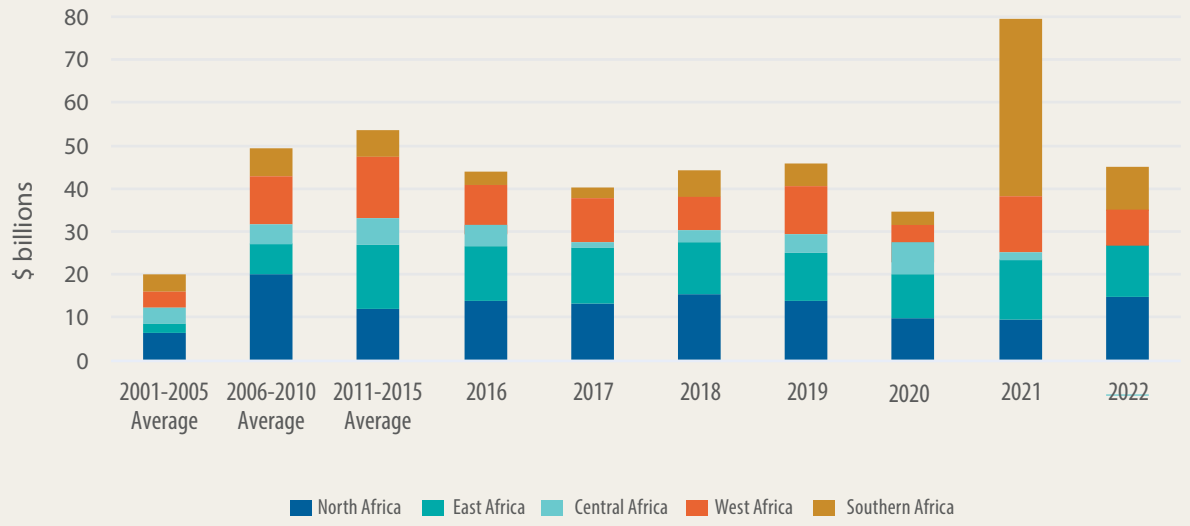
Figure 1.9 Current account balance, Africa and other economies, 2020–26(f)



Note: e = estimate and f = forecast.

Source: ECA calculations based on IMF (2024a).

Figure 1.10 Foreign direct investment flows, by subregion, 2018–23



Note: The surge in 2021, which saw FDI inflows peak at $83 billion, was influenced by a single intrafirm transaction in South Africa, related to a major corporate reconfiguration.

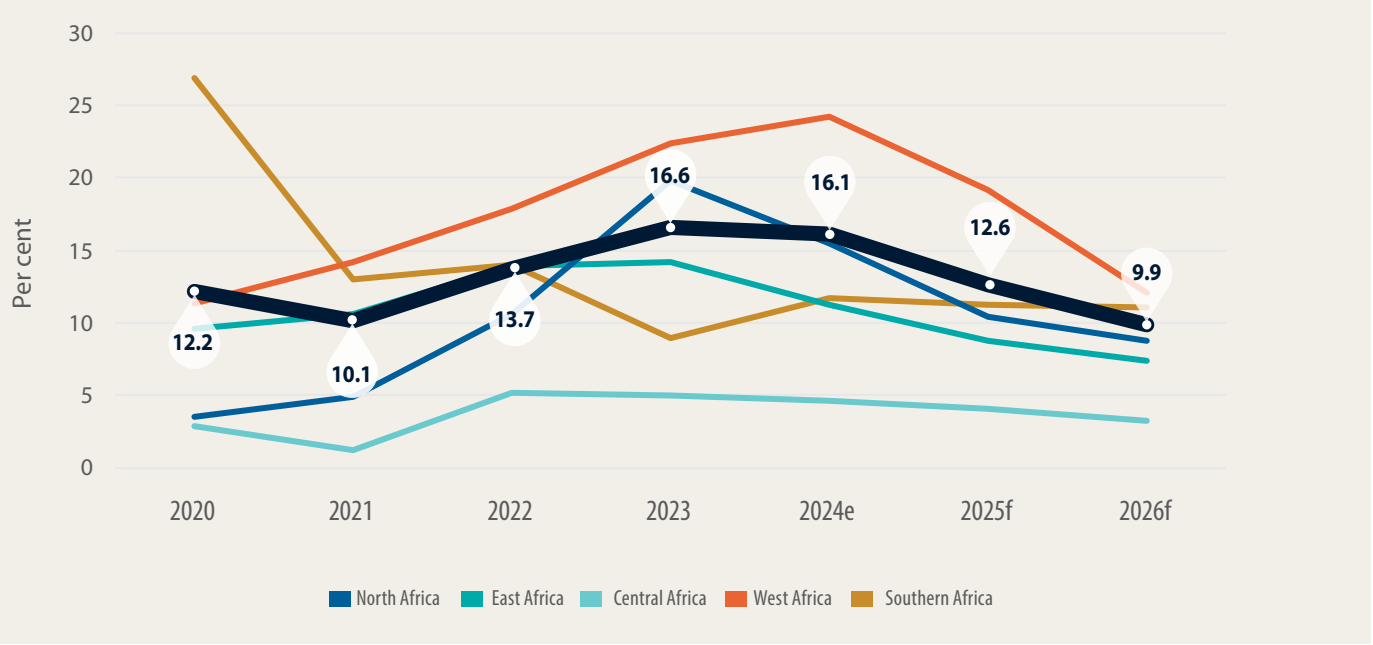
Source: UNCTAD World Investment Report 2024.

Geopolitical conflicts, trade tensions, and tight financial conditions continue to suppress investor appetite, leading to a modest decrease of 2 per cent in global FDI inflows in 2023 to US$1.3 trillion.

Players from the Middle East have become more prominent in Africa's investment portfolio. Their greenfield announcements to Africa surged to US$53 billion in 2023, continuing the previous year's trend, when the amount reached US$60 billion. This marks a massive jump from earlier figures that hovered around just US$5 billion. This significant uptick is driven by a strategic drive by oil-rich Gulf countries to diversify away from hydrocarbons, most notably into green hydrogen and other renewable energy projects, as well as data centres.[18]

The share of intra-African investment, though modest, is notably higher in services and selected manufacturing industries, which account for 20 per cent of projects funded by African investors, as opposed to 13 per cent in resource-based processing industries.[19] This trend shows that African investors are taking the lead in seizing the opportunity presented by the anticipated surge in demand for services and manufactured goods across the continent, thus contributing to the diversification of the African economy. Implementation of the AfCFTA could further unlock intra-African investment flows by streamlining investment regulations, providing continental protection and facilitation services, and eliminating obstacles to capital flows.[20]

Figure 1.11 Annual consumer price inflation, 2020–26(f)



Source: UNDESA 2025.

Headline inflation, while subsiding, remains in double digits in some subregions

Despite the tightening of monetary policy in many countries, consumer price inflation remains persistently high but is projected to decline marginally from an average of 16.1 per cent in 2024 to 12.6 per cent in 2025 before reaching 9.9 per cent in 2026 (figure 1.11). The relatively high levels in 2023 and 2024 reflect the continually high food prices, currency depreciations and the imbalance between supply and demand in both domestic and global food markets.[21] However, the effect of the expected decline in international food and energy prices due to increased global energy supply, as well as the weak second-round pass-through effects to headline inflation are expected to contribute to disinflation in 2025 and 2026.[22]

West Africa is projected to record the highest inflation rate of 24.2 per cent in 2024, followed by North Africa at 15.5 per cent, Southern Africa at 11.7 per cent, East Africa at 11.2 per cent and with Central Africa having the lowest rate at 4.6 per cent (see figure 1.11). The high prices in most subregions reflect the effect of predominantly dry weather conditions leading to widespread scarcity of food and higher prices due to lower agricultural yields and exchange rate pass-through from substantial currency depreciations raising domestic prices of imports, thus exacerbating inflationary pressures.[23] The relatively low inflation rate in Central Africa reflects the tighter monetary policy adopted by the regional central bank (BEAC) and lower prices of most commodities.

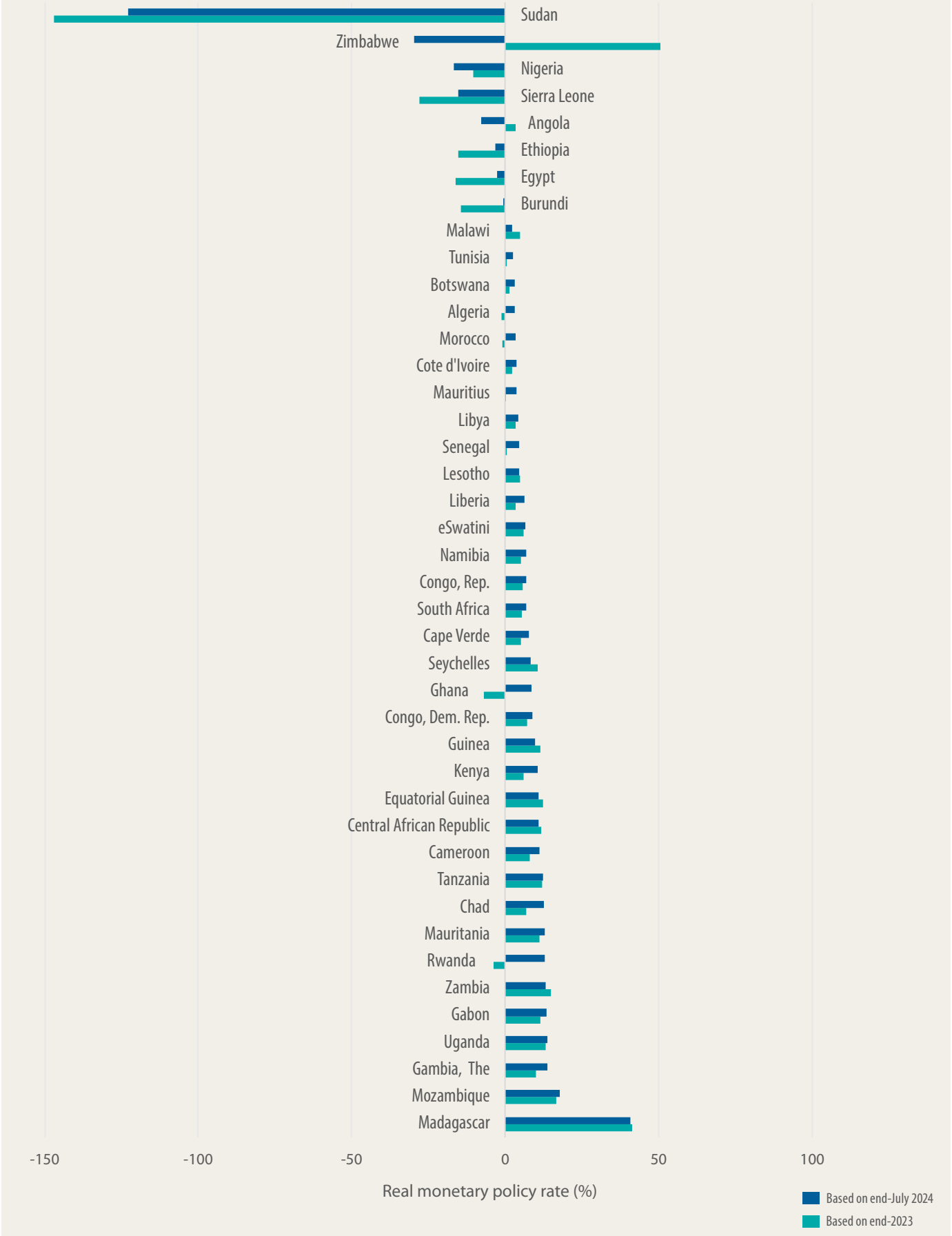
Data from July 2024 indicate the prevailing potential of monetary policy to complement fiscal efforts and support Africa's growth, as most African countries could have more space to reduce interest rates in the near term. Monetary policy rates in real terms are becoming increasingly positive across the continent except for a few countries (figure 1.12). For countries with declining inflation rates, loosening monetary policy could be of significant benefit in achieving price stability. But for countries where inflation continues to rise or still exceeds target policy rates, they may need to further tighten monetary policy until inflation reverses to a downward trajectory and returns to the target policy rate range.[24]

Risks to Africa's macroeconomic performance

Macroeconomic vulnerabilities

Despite the encouraging growth recovery since the pandemic, macroeconomic vulnerabilities in price stability and fiscal and external positions pose a significant threat to Africa's growth in the short to medium term. Inflation remains in double digits in most countries, eroding the purchasing power of households. And fiscal deficits and debt levels remain relatively high with rising debt service burdens with significant

Figure 1.12 Real monetary policy rates, July 2024



Source: ECA calculations based on Oxford Economics data.

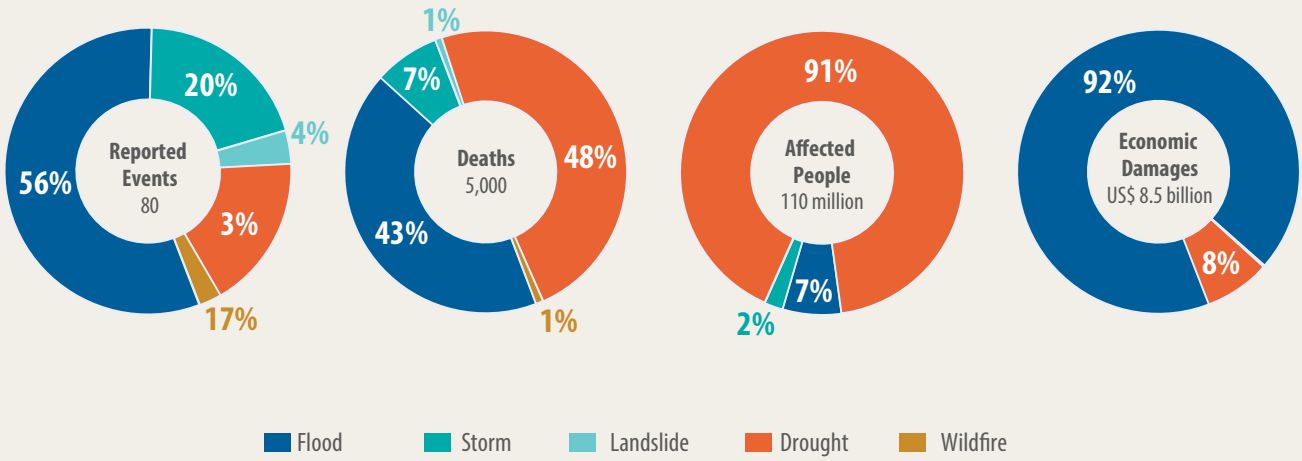
impact on the resources available for development spending. Countries still find it difficult to access development financing as interest rates remain high on the international market. Further, political and social pressures are making it increasingly challenging to implement reforms due to political fragility as a result of conflicts and coups, especially in the Sahel region.[25]

Climate change effects

Africa, despite contributing less than 10 per cent of the world's greenhouse gas emissions, is disproportionately affected by the impacts of climate change and is the least equipped to mitigate its negative effects. The continent's increasingly frequent and severe weather events—droughts, floods, heatwaves, heavy rains, and tropical cyclones—pose significant threats to biodiversity, food security, and human livelihoods. The economic consequences of climate change in Africa are particularly severe, posing profound risks that threaten to undermine decades of development progress and exacerbate poverty and inequality across the continent. Climate change is projected to have severe macroeconomic impacts on African economies as early as 2030, with the effects expected to intensify over time.

In 2022, weather, climate, and water hazards directly affected more than 110 million individuals on the continent, resulting in economic losses exceeding US$ 8.5 billion (figure 1.13). Of 5,000 fatalities, 48 per cent were linked to drought and 43 per cent to flooding. However, the actual toll is likely to be much higher due to underreporting.

Figure 1.13 Weather, climate, and water disasters in Africa in 2022



Note: The economic damages of some disaster occurrences are not presented in the figure due to data unavailability.

Source: Data as of June 2023 from EM-DAT.[26]

Currently, the economic cost of climate-related disasters in Africa is significant, with an annual financial burden estimated between US$7 billion and US$15 billion, a figure projected to rise dramatically, potentially reaching US$50 billion a year by 2030. These escalating costs will further drain resources that could otherwise be directed to economic development and poverty reduction.[27] Climate change-induced instability in global commodity markets poses additional risks to African economies heavily reliant on the export of agricultural products, minerals, and other natural resources. Fluctuations in commodity prices, driven by droughts, floods, and other extreme weather events, can lead to economic instability, reducing government revenues and heightening vulnerability.

In 2022, weather, climate, and water hazards directly affected more than 110 million individuals on the continent, resulting in economic losses exceeding US$ 8.5 billion.

Agriculture contributes significantly to GDP and employs a large portion of the population in many African countries and is highly vulnerable. Climate shocks have contributed to the decline in Africa's productivity, down

by more than 31 per cent since the 1960s. Every degree of warming above historical levels is expected to lead to a 5 per cent decrease in crop productivity. Building resilience is therefore urgent, since studies show that a rise in temperatures of 2°C could reduce yields by up to a fifth. In addition, irregular rainfall could lead to drought and famine.[28] Temperature increases also affect agricultural production by fostering crop pests and diseases, heightening food insecurity, worsening existing economic vulnerabilities, threatening millions of livelihoods, and exacerbating poverty and inequality.

Climate change also affects Africa's trade, particularly in regions dependent on exports of agricultural products, minerals, and other natural resources. Fluctuations in global commodity prices, driven by climate-induced supply disruptions, can lead to economic instability, particularly with many African economies heavily reliant on a narrow range of export commodities. Without significant investment in climate resilience and diversification, the continent's economic stability could be at risk. This calls for greening Africa's industrialization to achieve the type of structural transformation that yields sustainable and inclusive growth, thus creating jobs while safeguarding the productivity of natural resources.[29]

Africa's infrastructure is threatened too, particularly in rapidly urbanizing and coastal areas where rising sea levels and extreme weather events can cause substantial damage, especially in coastal cities, where much of Africa's economic activity is concentrated. The cost of climate-related infrastructure damage could reach US$4 billion annually by 2030 if adaptation measures are not implemented.[30] Such damage would not only strain national budgets but also hinder economic development and growth, particularly in rapidly urbanizing regions.

The cost of climate-related infrastructure damage could reach US$4 billion annually by 2030 if adaptation measures are not implemented.

Economic threats due to risks of the US–China trade war escalation

China is Africa's largest bilateral trade partner (US$282 billion in 2023), a major provider of development finance and an important source of FDI, reaching US$1.8 billion in 2022, up from US$75 million in 2003), so whatever happens to China would have knock-on effects on Africa.[31]

While a trade conflict between US and China had been ongoing since 2018, risks of escalation rose in early 2025. After the Trump administration has levied additional 10 per cent on Chinese imports effective February 4, China announced a 15 per cent tariff on US coal and liquified natural gas, along with a 10 per cent tariff on crude oil, agricultural machinery and some cars effective February 10. Beyond US–China relations, President Trump's team has been considering a variety of new tariffs for his second term starting in 2025, ranging from universal baseline tariffs to country-specific ones. These ongoing skirmishes are concerning for the global economy and for Africa, including through their impacts on inflation, growth and employment.

The stakes are high. Already in 2019 it was estimated that trade tensions could cause a 2.5 per cent reduction in GDP in resource-intensive countries and a 1.9 per cent reduction in oil-exporting countries by 2021.[32] Recent protectionist measures taken or announced by the United States and China could depress global commodity prices and reduce Chinese demand for imports from Africa, adding to Africa's economic vulnerabilities. Apart from the trade war, China is experiencing an ageing population and a slowdown in economic growth.[33] That could push up labour costs as a result of the shrinking working age population.[34] This situation should be an impetus for increased intra-African trade and realizing the huge potential of implementing the AfCFTA.

China is Africa's largest bilateral trade partner, a major provider of development finance and an important source of FDI, so whatever happens to China would have knock-on effects on Africa.

Factsheet

Climate Finance Factsheet for The Africa Roundtable No. 8

Mo Ibrahim Foundation

Africa's climate finance debate is unfolding at a time of rising needs, shifting global priorities, and persistent funding challenges. The Mo Ibrahim Foundation's "Green Finance in a New Geopolitical Reality – Climate Finance Factsheet" brings together the latest data and outcomes from international negotiations to highlight the scale and urgency of Africa's climate adaptation and mitigation requirements. Despite the continent's vulnerability and growing climate ambition, the gap between financing commitments and actual flows remains wide, with significant implications for Africa's sustainable development and resilience.

This factsheet, which has kindly been compiled by the Mo Ibrahim Foundation on occasion of *The Africa Roundtable* No. 8 provides an up-to-date reference point on Africa's climate finance landscape, setting the stage for discussion on how to close the continent's financing gap in a way that is both effective and equitable.

The complete Mo Ibrahim Foundation Report "Financing The Africa We Want" can be found here:
https://cdn.me-diavalet.com/eunl/dam/ac3iL8QiykmSy8316mF6nQ/9ekVpkk0J0iBX51lH9DW3Q/Original/2025-forum-facts-figures.pdf

Mo Ibrahim Foundation

#MIFMarrakech
1-3 June 2025

The Africa Roundtable No. 8: Green Finance in a New Geopolitical Reality

Global Perspectives Initiative

Climate Finance Factsheet

Addressing the climate crisis remains one of Africa's greatest challenges

Africa faces a changing global financial landscape with shrinking external aid budgets and rising development and climate finance needs, as well as its own ambitious domestic resource mobilisation targets related to financing Agenda 2063.

Climate change remains one of the greatest challenges for the continent, with rising temperatures and extreme weather events threatening lives and livelihoods and exacerbating existing conflicts. As the region most disproportionately affected by the climate crisis, adaptation is not just a policy option for Africa but a survival imperative.

Africa's population will more than double by 2100, meaning that development and climate bills will only rise. To fulfil its obligations under the Paris Agreement, the continent currently requires $1.6-$1.9 trillion in climate finance, of which very little has been met to date.

This factsheet gives an overview on the state of climate finance needs, flows and priority areas for Africa, as well as takes a brief lookback at the most recent climate summit, COP29 in Baku.

As Africa's population more than doubles by 2100, development and climate bills will only rise

Due to its high vulnerability, adaptation is of greater importance to Africa than mitigation

For Africa and other low emitters, adaptation (adjustments in social, economic and ecological systems to respond to climate change effects) is of greater relevance than mitigation, i.e. the curtailing of greenhouse gas emissions.

As a continent, Africa is the least responsible for climate change, accounting only for about 7% of global historical CO_2 emissions since the mid-19th century.[1] The continent is host to 12 of the 20 most climate-vulnerable countries worldwide.[2]

Additionally, adaptation needs should also cover the cost of climate-resilient growth, e.g. access to sustainable energy, a crucial issue for the continent in which around 600 million people still lack access.[3]

12 of the 20 most climate-vulnerable countries are in Africa, making adaptation a higher priority than mitigation

Per latest NDC submissions, Africa's climate finance needs amount to $1.6-$1.9 trillion

African countries reported a total of 2,981 needs in the 2024 submissions of Nationally Determined Contributions (NDCs) to the UN Framework Convention on Climate Change (UNFCCC). These total costed and uncosted needs are split almost equally between adaptation and mitigation.

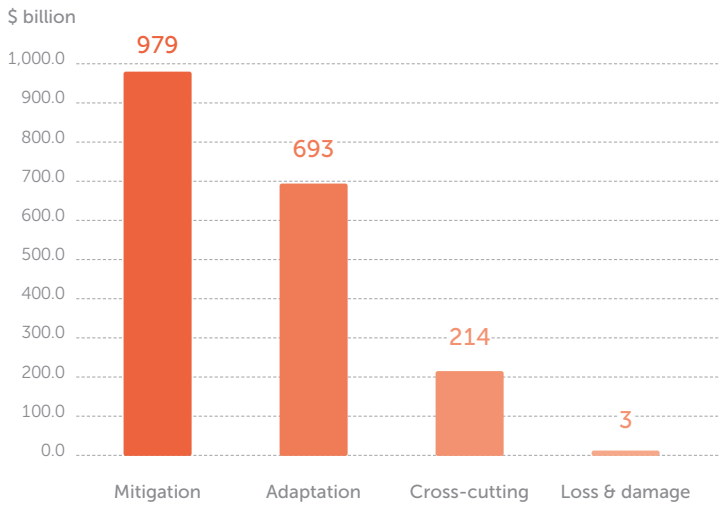
Only 57% of Africa's NDCs have been costed, amounting to $1.6-$1.9 trillion, usually estimated with a time frame of five to ten years. Costed needs are up to 2.3 times higher for mitigation ($970-$979 billion) than for adaptation ($430-$693 billion), followed by cross-cutting measures ($214 billion) and loss and damage ($3 billion).[4]

These figures are likely underestimated because many uncosted needs relate to adaptation[5] and because damages from climate change can occur faster and stronger than assessed at the time of NDC submissions.[6]

$1.6-$1.9 trillion are needed to achieve Africa's NDCs, with just over half of needs costed

Many uncosted needs relate to adaptation, leading to the underestimation of climate finance needs in Africa

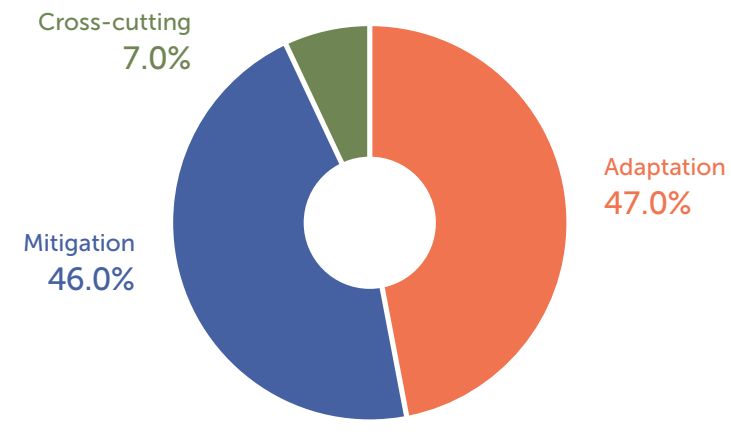
Africa: costed needs by type as reported in NDC submissions (2024)*



* Highest extrapolated estimate; NDCs are usually reported with a timeframe of 5-10 years.

Source: MIF based on UNFCCC Standing Committee on Finance (2024)

Africa: share of total needs by type based on NDC submissions (2024)



Source: MIF based on UNFCCC Standing Committee on Finance (2024)

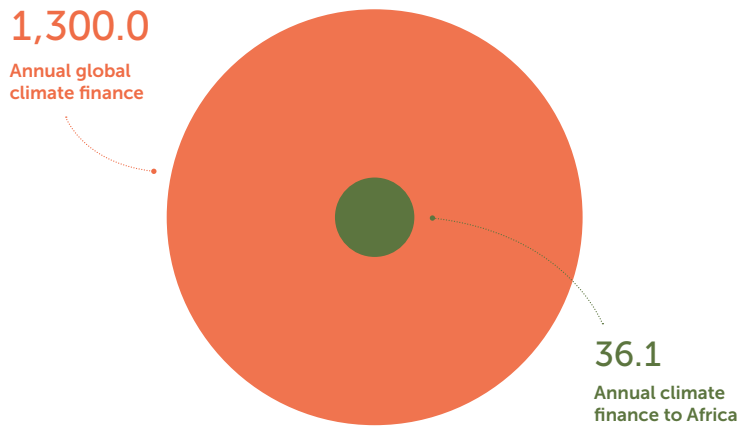
Africa receives less than 3% of total climate finance flows to developing countries

As reported by the Climate Policy Initiative (CPI) and the Global Center on Adaptation (GCA), worldwide climate finance commitments by public, private, international and domestic providers reported an annual average of $1.3 trillion in 2021/22, a near twofold increase from the $653 billion average in 2019/2020.

Of these global $1.3 trillion in commitments, only $63 billion were earmarked for adaptation (5%), a slight decrease in share compared to 2019/20 (7%).

Africa only received $36.1 billion (2.8% of the total) in 2021/22, of which 36% or $13 billion were earmarked for adaptation.[7]

Africa & world: share of climate finance ($ billion) (2021/2022)



Source: MIF based on CPI & GCA (2024)

Africa only received 2.8% of total global climate finance in 2021/2022

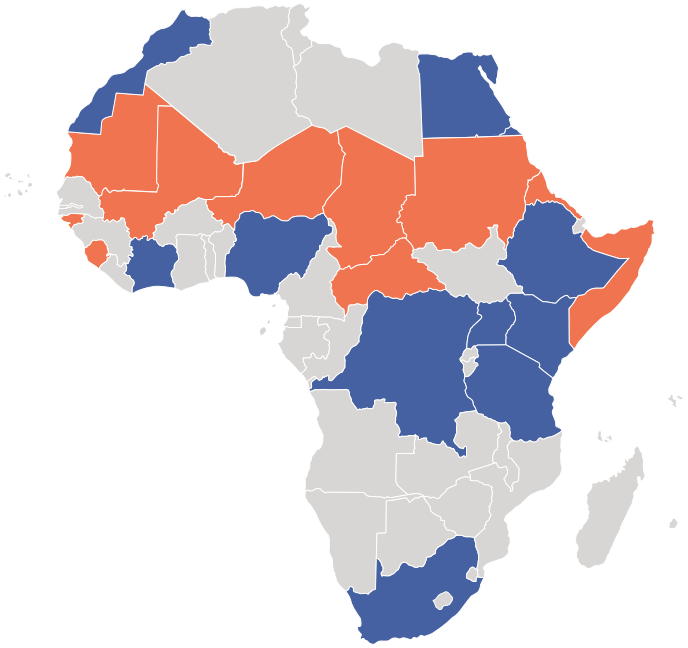
Largest African recipients of climate finance are not the ones most in need

Ten African countries received almost half (46%) of climate finance going to the continent in 2021/22 as reported by CPI: Côte d'Ivoire, DR Congo, Egypt, Ethiopia, Kenya, Morocco, Nigeria, South Africa, Tanzania and Uganda.[8]

This list includes none of the ten countries most vulnerable to climate change as per the Notre Dame Global Adaptation Initiative (ND-GAIN) Index's vulnerability score in 2022: Central African Republic, Chad, Eritrea, Guinea-Bissau, Mali, Mauritania, Niger, Sierra Leone, Somalia and Sudan.[9]

10 countries received 46% of climate finance to Africa in 2021/22

Africa: 10 largest recipients of climate finance (2021/22) and 10 most climate-vulnerable countries (2022)



Highest vulnerability to climate change
Largest recipients of climate finance

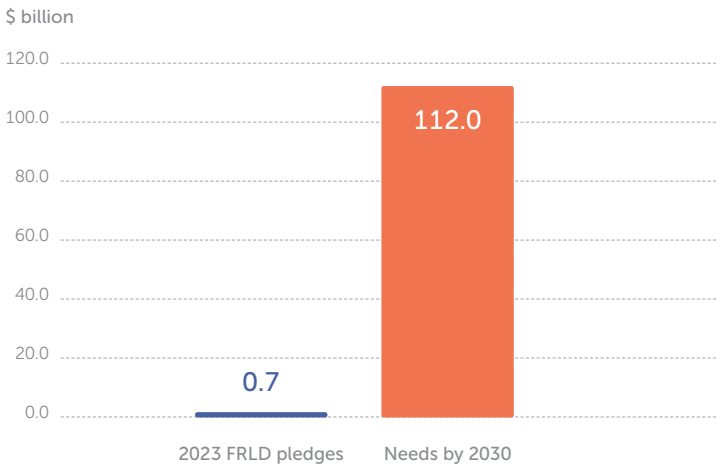
Source: MIF based on CPI (2024) and ND-GAIN (2022)

Less than 1% of Africa's loss and damage needs are met

Sub-Saharan Africa alone is estimated to face $112 billion in loss and damage-related costs by 2030.[10] Loss and damage generally refers to the consequences of climate change that go beyond what people can adapt to, e.g. the loss of lives, homes or heritage sites due to rising sea levels or extreme weather events.

Pledges to the Fund for Responding to Loss and Damage (FRLD), which was agreed upon at COP27 and institutionalised under the auspices of the World Bank at COP29 in 2024, currently total around $700 million or 0.6% of Africa's loss and damage needs.[11]

Sub-Saharan Africa: FRLD pledges and loss & damage needs by 2030



Source: MIF based on Markandya & González-Eguino (2019) and UNFCCC (2023)

Sub-Saharan Africa faces up to $112 billion in loss and damage by 2030

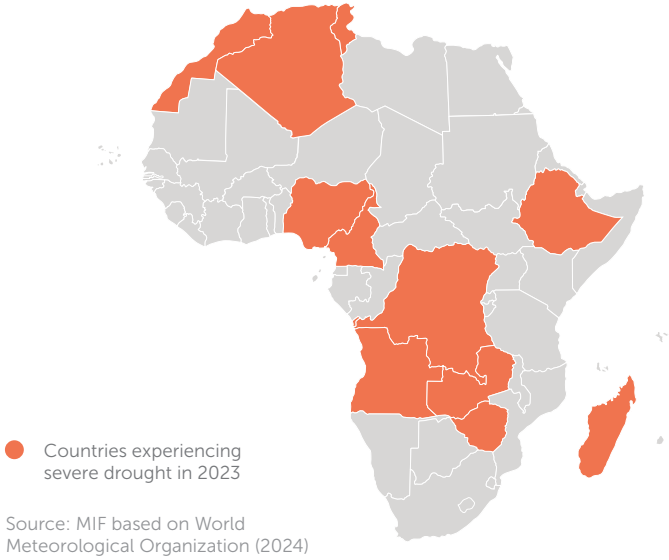
Africa is most vulnerable to drought, and almost $200 billion are needed to tackle desertification

Africa has seen a temperature increase higher than the global average (around +0.3°C per decade since 1991), with the highest temperature anomalies of 2023 recorded in North-Western Africa. The Horn of Africa, South-Central Africa and Madagascar also recorded severe droughts in 2023.[12]

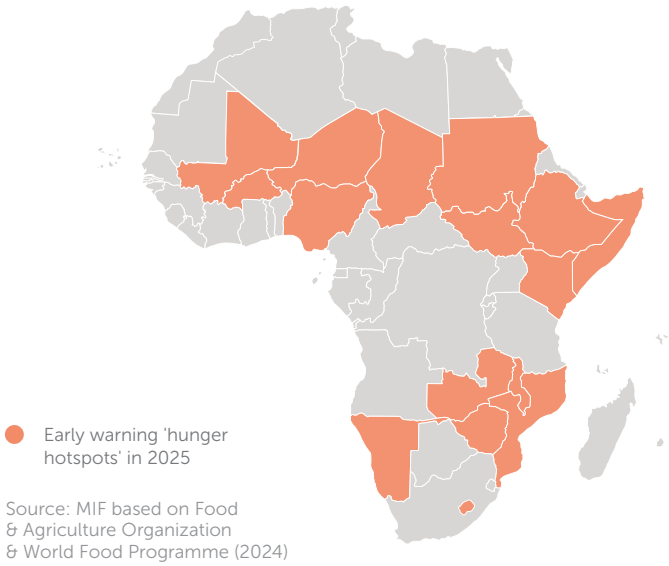
Drought and desertification have a devastating impact on food systems. Of the 19 'hunger hotspots' identified by early warning systems for 2025, 16 are located across Eastern and Southern Africa and the Sahel where a total of 115.7 million people are facing acute food insecurity.[13]

In the first ever assessment of its kind, the 2024 UN Convention to Combat Desertification (UNCCD) estimated that Africa needs at least $191 billion annually to restore 600 million hectares of degraded land.[14]

African countries: severe drought (2023) and 'hunger hotspots' (2025)



Source: MIF based on World Meteorological Organization (2024)



Source: MIF based on Food & Agriculture Organization & World Food Programme (2024)

The FAO has identified 16 'hunger hotspots' across Africa for 2025

Climate finance runs risk of crowding out development finance

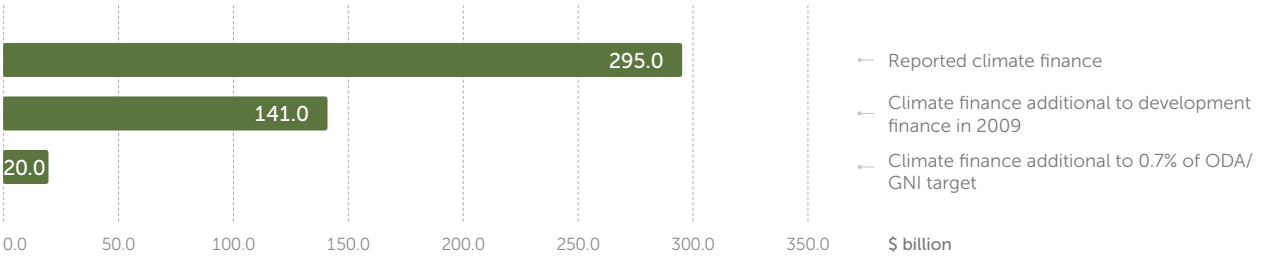
In 2015, the UN General Assembly agreed that climate finance should be 'new and additional' and should not come at the expense of other development targets or reclassify already-existing development finance commitments as climate-focused.

However, from 2009 to 2018, only $43.6 billion of the $78.9 billion reported public climate finance was additional, meaning that almost 45% came at the expense of other development finance, according to the Center for Global Development (CGD).[15]

Similarly, CARE reports that only 7% of climate finance provided between 2011 and 2020 was found to be 'new and additional' to high-income countries' existing Official Development Assistance (ODA) commitments.[16]

Only 7% of climate finance from high-income countries from 2011-2020 was truly 'new and additional'

UNFCCC Annex II countries: additionality of climate finance flows (2011-2020)



Source: MIF based on CARE Denmark & CARE Climate Justice Center (2023)

COP29 in Baku missed the mark on delivering climate finance for developing countries

Despite being dubbed the 'Finance COP', Baku still fell short on addressing developing countries' and specifically Africa's climate finance needs.

In a New Collective Quantified Goal (NCQG) decision, the COP29 presidency called on all actors to scale up climate finance for developing countries to at least $1.3 trillion per year by 2035. Developed countries' climate finance for developing countries shall be raised to $300 billion a year by 2035, tripling the amount previously set in 2009.[17]

Despite having outlined a NCQG, the decisions made at COP29 lack enforceable mechanisms to make polluters pay – a core priority which the African Group of Negotiators had brought to last year's summit.

Negotiators from developing and developed countries did not see eye to eye about the $300 billion annual target, with one side arguing that it will be difficult to achieve without broadening its contributor base to include emerging economies like China, and the other arguing that it still falls short of needs and responsibility – partly because the majority is supposed to come from non-concessional loans, private investments and alternative sources such as levies instead of grants.

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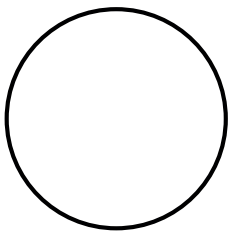


Global Perspectives Initiative

Excerpt

Healthy Debt on a Healthy Planet: Towards a virtuous circle of sovereign debt, nature and climate resilience

The Final Report of the Expert Review on Debt, Nature and Climate

The intersection of sovereign debt, climate change, and nature loss poses one of the most urgent challenges for developing countries today. "Healthy Debt on a Healthy Planet" is the final report of the Expert Review on Debt, Nature and Climate led by an Independent Expert Group (IEG) co-chaired by Vera Songwe and Moritz Kraemer, offering a comprehensive set of recommendations to help countries break free from this 'triple crisis.' Commissioned by the governments of Colombia, Kenya, France, and Germany, the report sets out practical pathways for unlocking sustainable finance and ensuring that new lending supports climate-resilient, nature-positive growth.

We have selected key pages from the final report to present its diagnosis of the crisis and highlight actionable solutions, such as integrating climate and nature into debt sustainability frameworks and developing innovative financial instruments. These insights are critical for shaping a new approach to green finance in Africa and beyond.

You can find the full report here:
https://d1leqfwiwfltz5.cloudfront.net/documents/ERDNC_Final_Report_-_Digital_W0AyK1T.pdf

Healthy Debt on a Healthy Planet

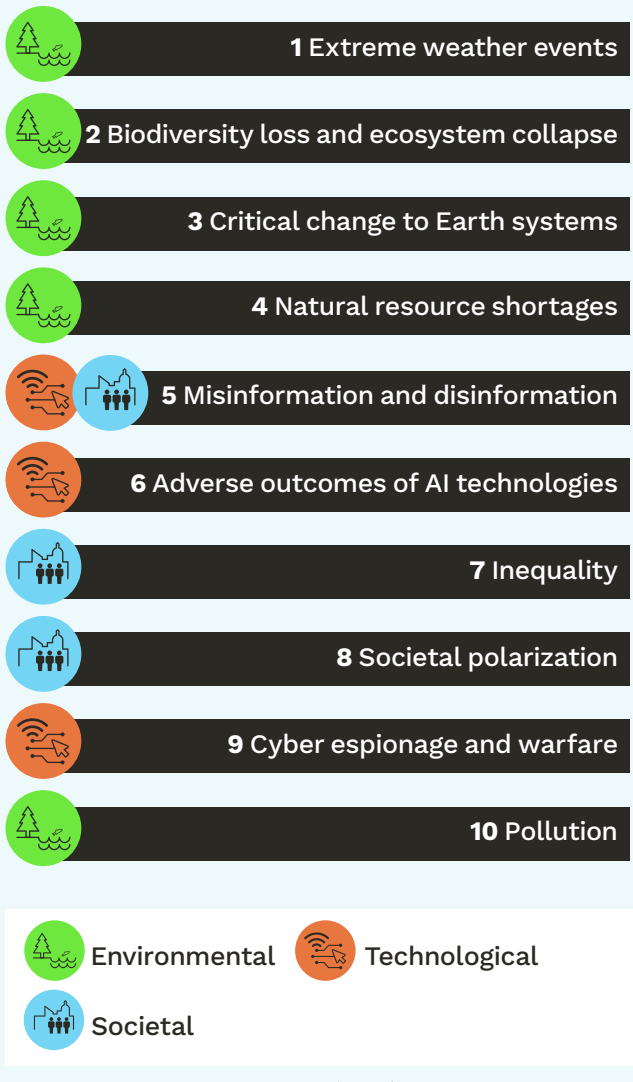
Towards a virtuous circle of sovereign debt, nature and climate resilience

Nature loss and climate change pose an increasingly urgent threat to the prosperity and wellbeing of almost all nations, but particularly EMDCs, where impacts are generally most severe. 2024 was the warmest year on record, and the first calendar year where the global average temperature was 1.5°C above pre-industrial levels.[1] Millions of people endured dangerous heat, record-breaking rainfall, more destructive storms and displacement as a result of climate change.[2] Millions more grappled with the steady degradation and disappearance of the ecosystems they depend on to meet basic needs such as food and fuel. Yet emissions are still rising, and natural capital still being destroyed, bringing potentially catastrophic tipping points ever closer. According to the World Economic Forum, four of the top five global risks identified in a survey of business, government and civil society leaders over a 10-year horizon are environmental (Figure 1).[3]

Responding to the nature and climate crises will require substantial investment in EMDCs. The Independent High-Level Expert Group on Climate Finance (IHLEG) estimates that, to secure their prosperity, EMDCs excluding China need to increase their investment to around $2.4 trillion a year by 2030, an increase of $1.9 trillion above current levels. Roughly a trillion dollars of the total will have to come from external sources.[5] In line with this, the international community set an aspirational goal at COP29 of scaling up international finance for climate action to developing countries to $1.3 trillion a year by 2035.[6]

Yet at this crucial moment, capital flows related to lending to EMDCs have turned negative, while the trade and interest rate environment has deteriorated and become more uncertain. Net transfers on external debt – that is to say, disbursements to EMDCs less their servicing on external debt – have been on a downward trend for several years. In 2023, they turned negative for the first time for low and lower-middle income countries: from an average of $90 billion per year in the last decade they fell to $28 billion in 2022 and minus $4 billion in 2023 (Figure 2). The resulting loss of liquidity means that many EMDCs are struggling to meet recurrent spending needs, let alone unlocking

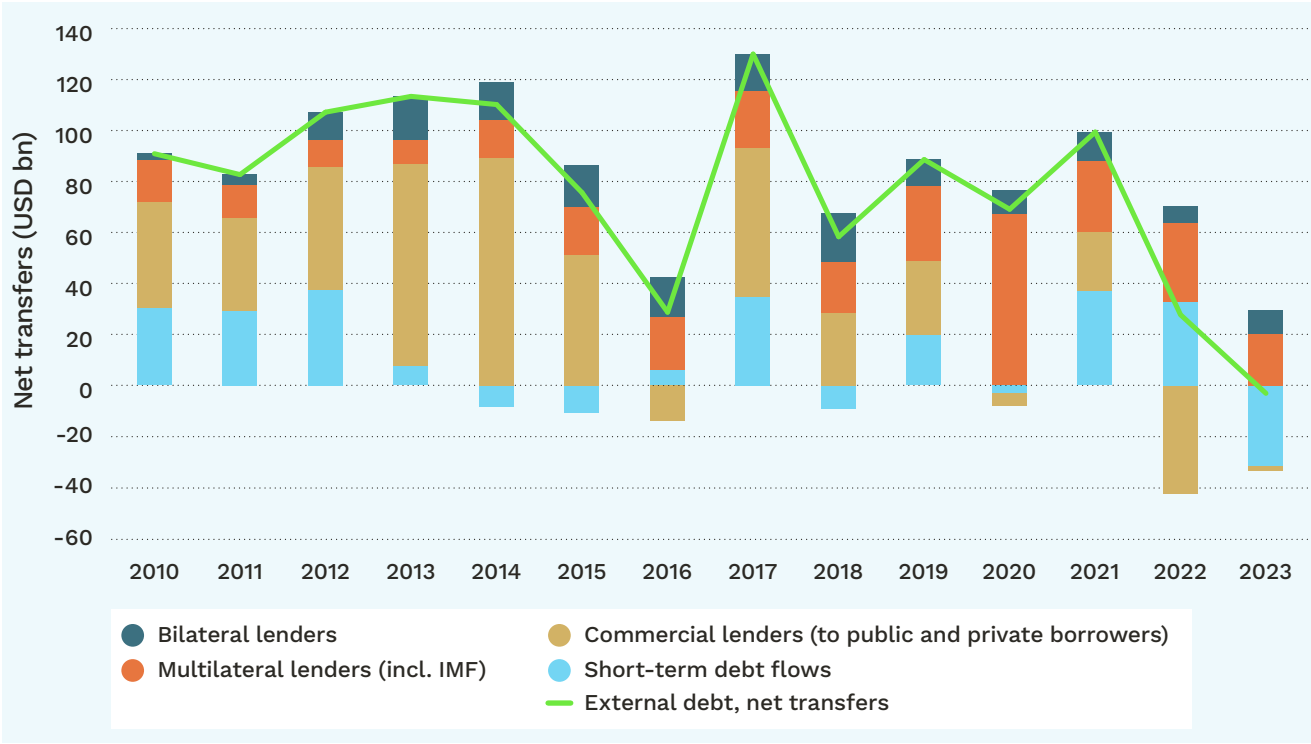
Figure 1. Global risks ranked by severity over a 10-year period



Source: World Economic Forum (2025)[4]

the additional resources necessary to shift to a low-emission, climate-resilient and nature-positive economic model.

Figure 2. Net transfers by creditor type for low and lower-middle income countries (2010-2023)



Source: World Bank (2025)[7]

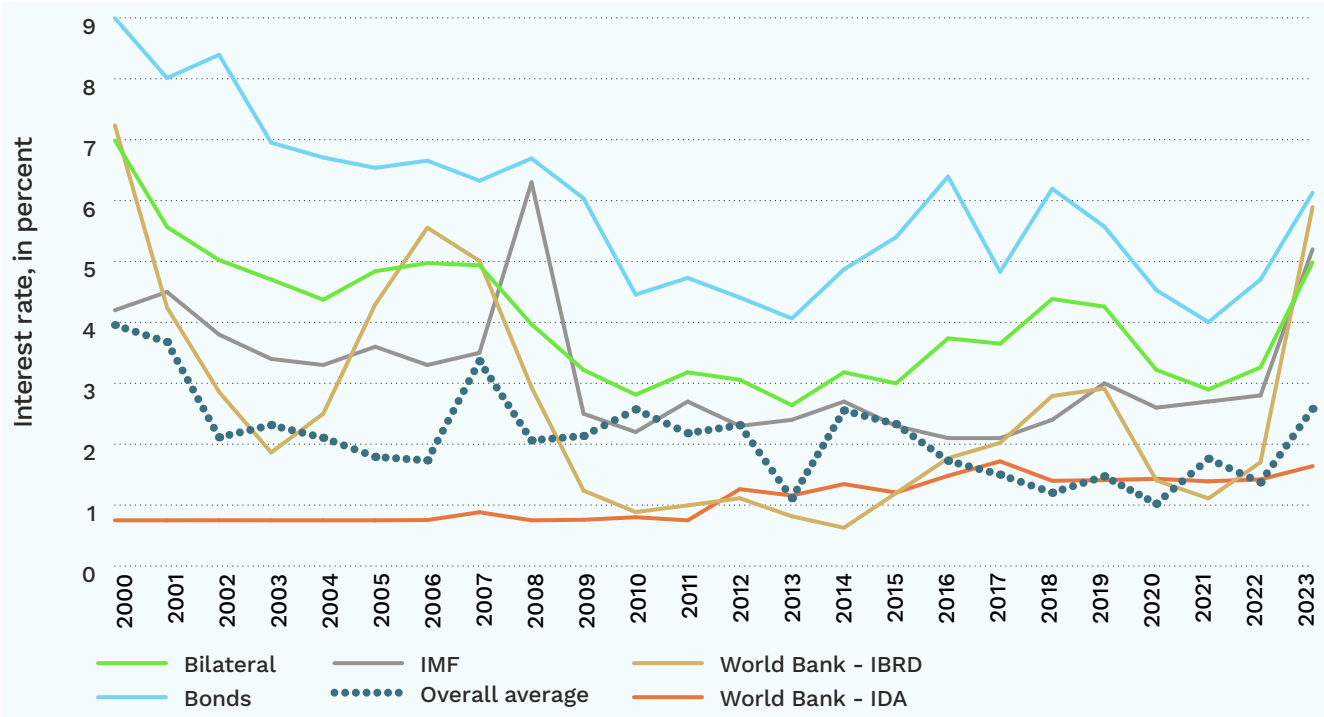
Notes: 'Commercial sources' includes both commercial loans to the public (public and publicly guaranteed) and private non-guaranteed sectors. Multilateral includes multilateral institutions and the IMF. Short-term is computed as the residual quantity.

EMDCs will need purposeful and integrated strategies to mobilize a range of long-term and affordable sources of finance and deploy them based on their complementary strengths.[8] Improved domestic resource mobilization, including the strategic use of national development banks, will be critical to shape investment and unlock additional resources. Throughout the 1990s and 2000s, many (though not all) EMDCs worked hard to improve their public finances through better domestic resource mobilization and fiscal prudence. However, progress stalled in many (though, again, not all) EMDCs in the 2010s following the global financial crisis. On average, low-income countries increased their tax revenues from 10.2% of GDP in 1990 to 13.8% of GDP in 2020; middle-income countries saw an increase from 14.8% to 19.7% over the same period.[9] Further improvements in domestic resource mobilization will be needed to unlock the resources needed for sustainable development, and there are nature- and climate-smart ways of doing so (for example, by reforming environmentally harmful subsidies and introducing carbon pricing). Many EMDCs can also foster greater investment appetite by developing more detailed 'just transition' and sustainable development strategies, translating those strategies into project pipelines, and

implementing policy and institutional reforms to overcome barriers to nature-positive and climate-smart investments.[10]

Yet even with stronger efforts to mobilize domestic resources and create an enabling environment, many EMDCs will not be able to unlock the investment they need without urgent action to address significant pressures on their sovereign debt – insolvency for some, illiquidity for others. High debt burdens and costs can often be partially attributed to fiscal challenges at home, such as low levels of taxation as a proportion of national income, inefficient public investment and ineffective debt management. However, in many cases, structural economic vulnerabilities have combined with external shocks in ways that mean individual EMDCs have had to turn to unsustainable levels of borrowing to meet their citizens' basic needs. The COVID-19 pandemic in particular put pressure on the growth rate of EMDCs and their public finances. After increasing progressively from 2011 to 2020, external debt stocks as a public share of GNI peaked for most EMDCs in 2020 (Figure 4a).[11] Debt stocks have since declined slightly, as difficult fiscal positions have constrained further borrowing. However, after falling steadily during the pre-pandemic decade, interest rates have rebounded as a result of tighter monetary policy in response to global inflation pressures (Figure 3). In 2023, International Development Association (IDA)-eligible (that is, the lowest income) countries spent 13% of their government revenue on external debt service, including 4% of it just on interest payments (Figure 4b); for other EMDCs, these figures were 6% and 2% respectively (Figure 4b).[12]

Figure 3. Interest rates charged on new loans, by creditor group (2000–2023)



Source: Financing for Development Lab using data from World Bank[13] and IMF[i]

i https://www.imf.org/external/np/fin/tad/query.aspx

Debt pressures are most pronounced in the poorest and most credit-constrained countries. In contrast to other EMDCs, the external debt stocks of the lowest-income (IDA-eligible) countries have increased slightly since 2020 (Figure 4a). In addition, the rise in interest rates has led the cost of servicing that debt to soar (variable rate loans constitute 40% of the long-term external debt stock of IDA-eligible countries).[14] External debt servicing as a proportion of government revenue has more than doubled since 2010 in IDA-eligible countries; their interest payments as a proportion of GNI have quadrupled over the same period. Compared to the late 2000s and early 2010s, the poorest and most credit-constrained countries are therefore carrying more debt at a greater cost. 45% of IDA-eligible countries are in debt distress or at high risk of it, while the figure for SIDS is 74%.[ii] Figure 5 shows the evolution over the last ten years of country classifications under the IMF's DSA, and the steady increase in the proportion of countries classified as in debt distress or at high risk of debt distress.

Figure 4a. External debt stock (public and publicly guaranteed) (% of GNI) (1995–2023)

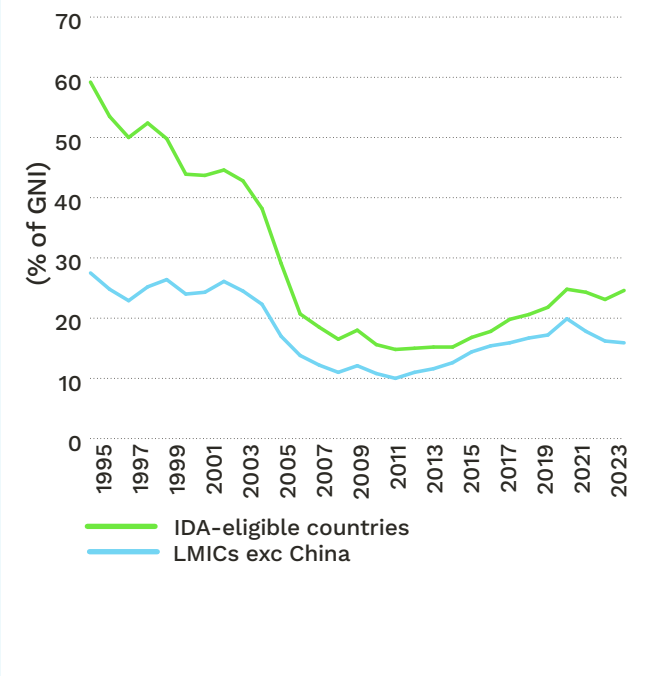
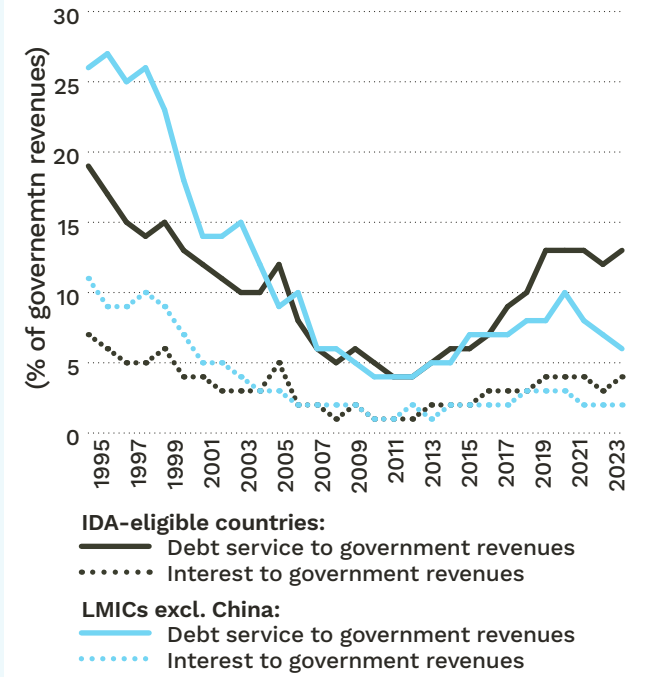


Figure 4b. Interest payments and debt service on public and publicly guaranteed external debt, in percent of revenues (1995–2023)

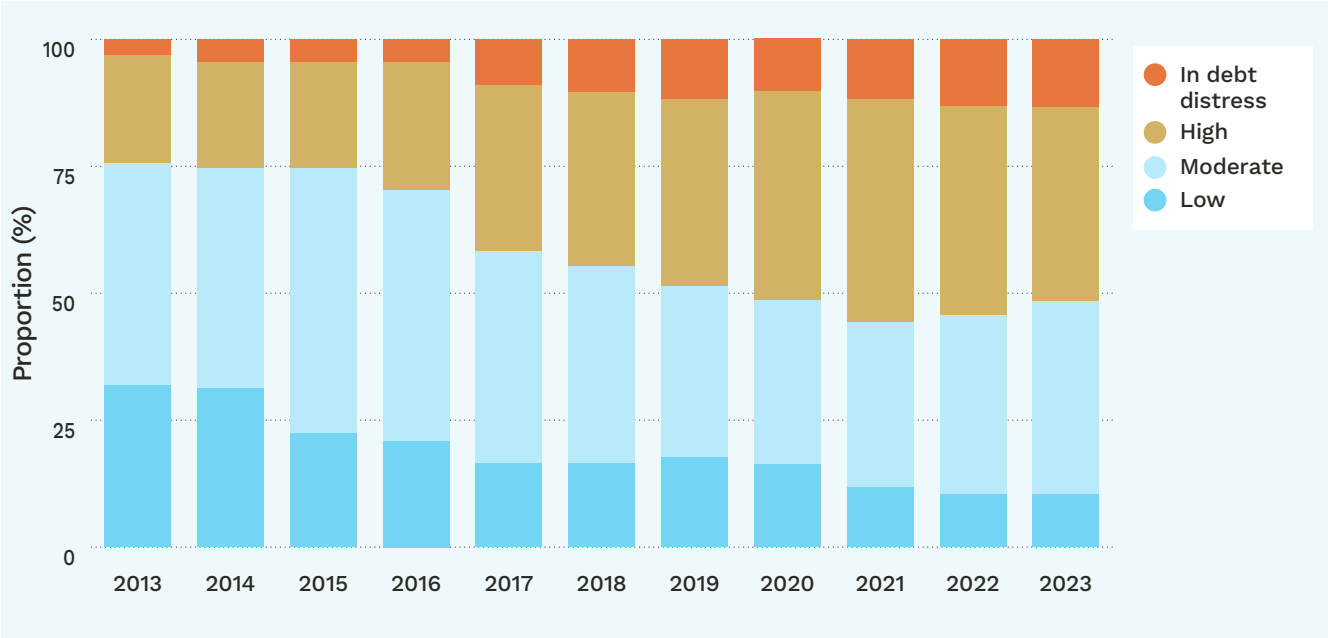


Source: World Bank (2024)[15]

The Independent Expert Group on Debt, Nature and Climate was established in response to this 'triple crisis' of debt pressures, nature loss and climate impacts experienced by many countries. Commissioned by the governments of Colombia, France, Germany and Kenya in the context of the Paris Pact for People and the Planet Summit of 2023, we were tasked with examining how sovereign debt can become more sustainable, both fiscally and environmentally.

ii Based on the IMF's List of LIC DSAs for PRGT-Eligible Countries, as of February 28, 2025. (https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf)

Figure 5. Country classification under the IMF's Debt Sustainability Analysis (2013-2023)

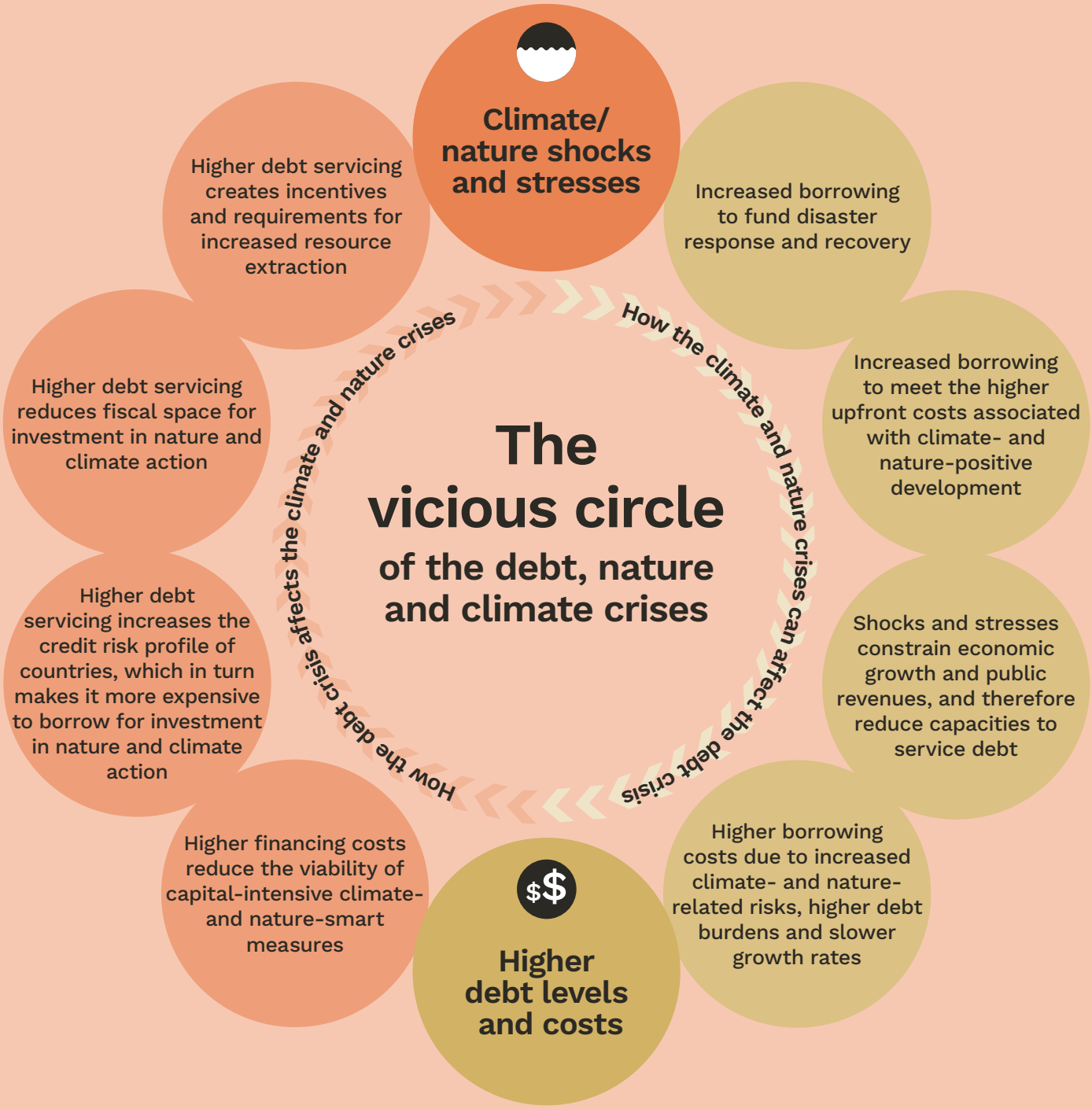


Source: IMF (2024).

In our Interim Report, we articulated how the debt, climate and nature crises are coming together in a vicious circle for a growing number of countries (Figure 6a). Increasingly frequent and severe environmental shocks and stresses are forcing many countries to borrow more to finance disaster response and recovery. Those same shocks and stresses constrain economic growth and public revenues, reducing fiscal headroom to pursue sustainable development. Climate- and nature-related risks, higher debt burdens and slower growth all also serve to make borrowing more expensive, which makes meeting the higher incremental costs of climate-smart and nature-positive development even harder. Thus, many EMDCs are becoming trapped in a vicious circle of environmental degradation and vulnerability. The debt crisis is most stark, and exposure to environmental risks most severe, among LDCs and SIDS, which account for only a tiny fraction of the consumption and emissions driving nature loss and climate change.

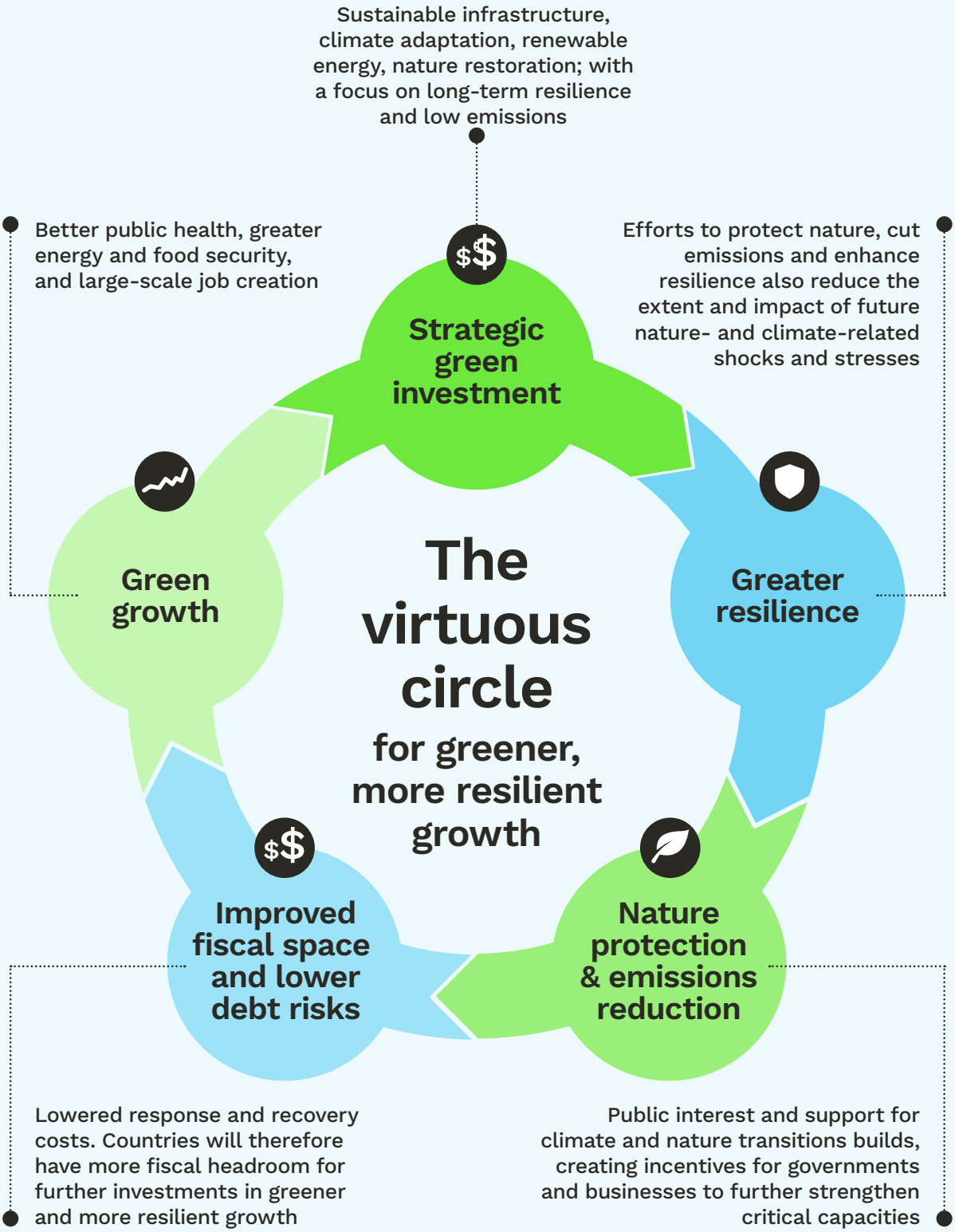
Our Interim Report also laid out an alternative development model: a virtuous circle of green and resilient economic growth (Figure 6b). Sustainable infrastructure investment, technological innovation, improved resource productivity and large-scale environmental conservation and restoration could drive strong, balanced and resilient development while sustaining the ecosystem services on which economies and societies depend. However, shifting to a virtuous circle implies a profound change in those economies and societies, with transition risks and tradeoffs in key sectors. It will also demand a step change in the quantity and quality of financing. Such a step change will only be possible through concerted efforts by EMDCs themselves, their creditors and the international financial institutions.

Figure 6a. The vicious circle



Source: Expert Review on Debt, Nature and Climate

Figure 6b. The virtuous circle

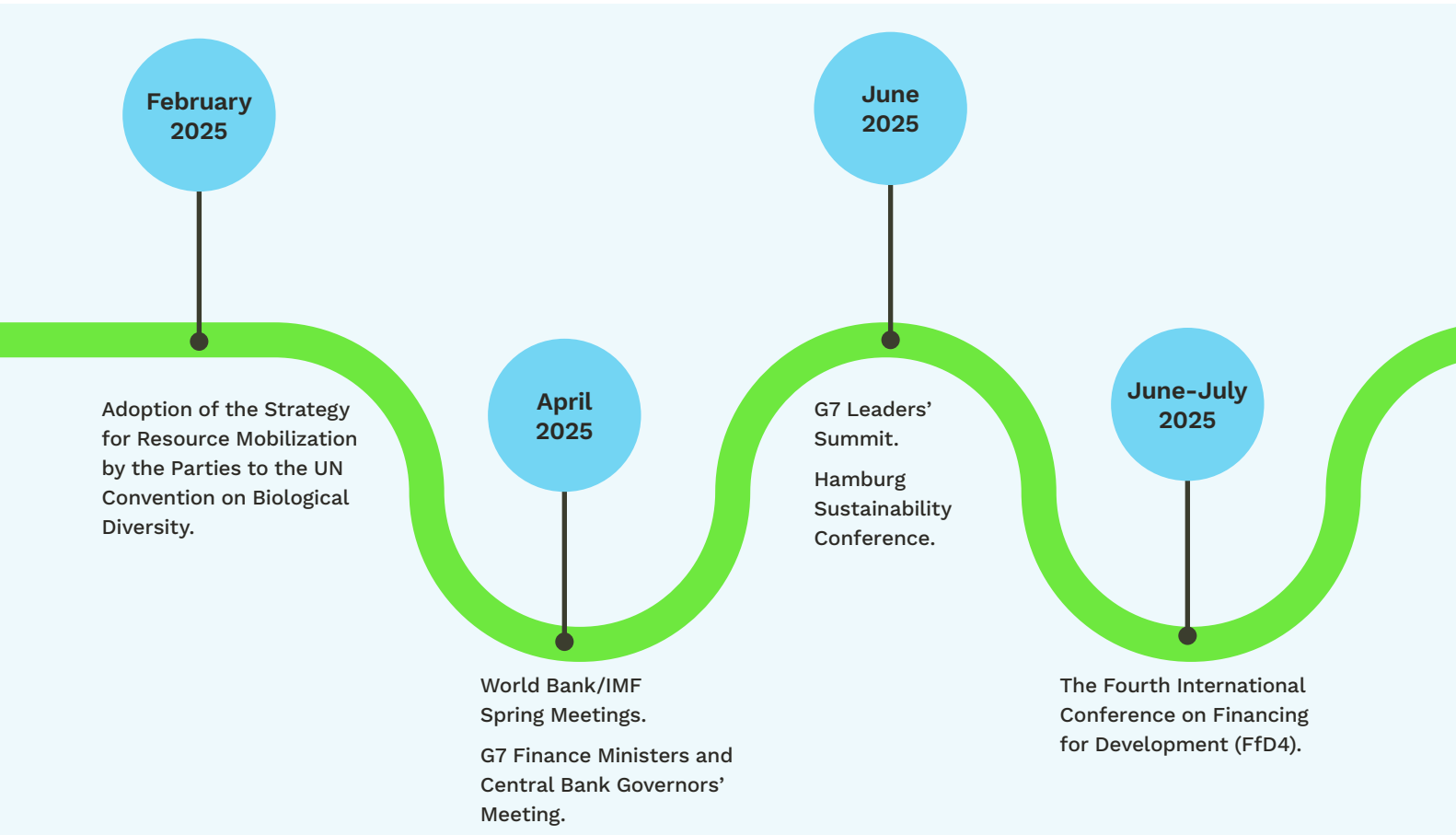


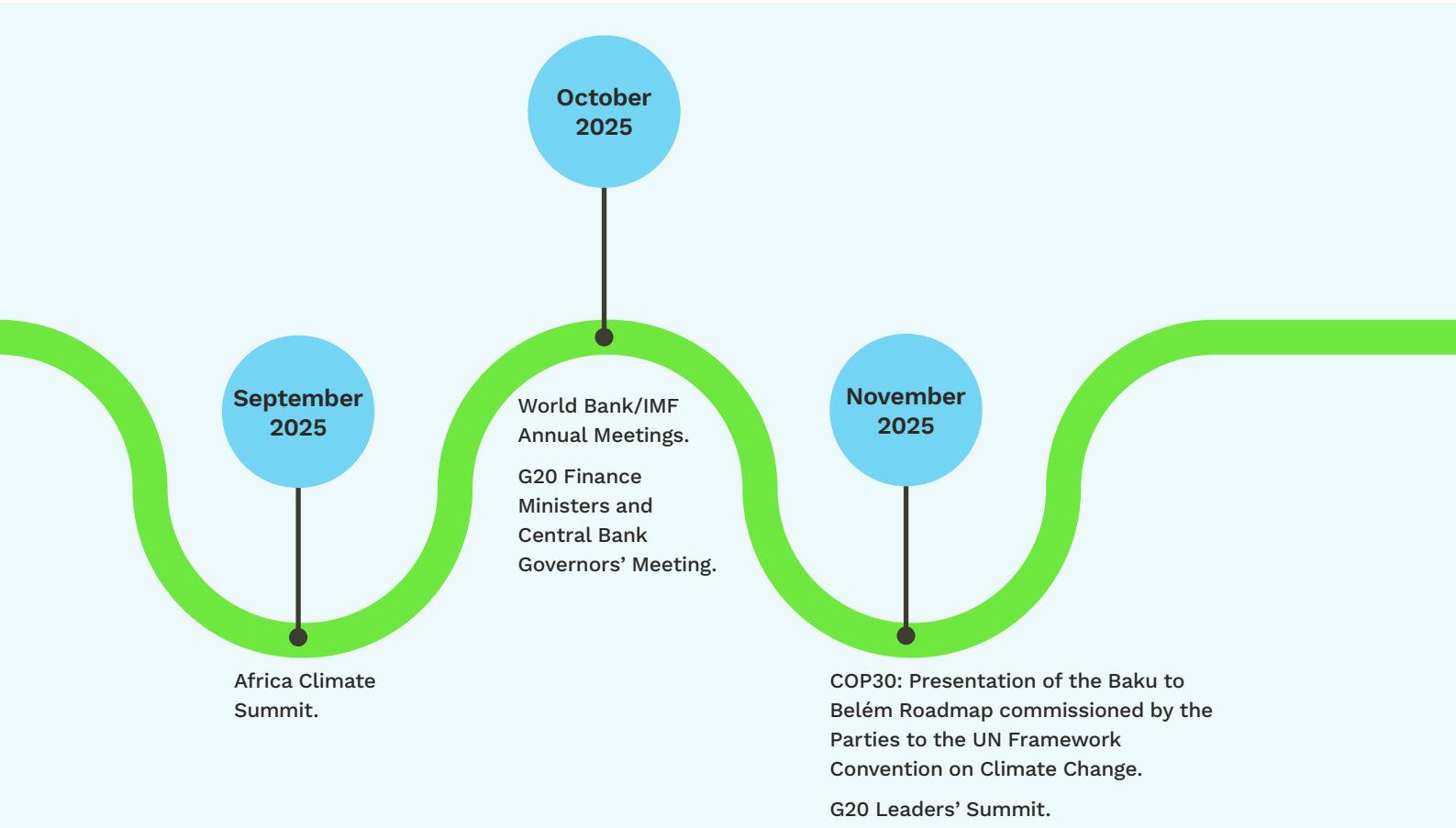
Source: Expert Review on Debt, Nature and Climate

In this Final Report, we offer a suite of recommendations to break the vicious circle and shift to a virtuous circle. Our recommendations are intended to support borrower countries, their creditors and the multilateral processes working to unlock finance for sustainable development in this critical decade of action. (See Figure 7 for key 'moments' this year). Our recommendations fall into five groups:

- Mainstreaming nature and climate into macroeconomic and fiscal analysis.
- Reducing debt pressures to enable nature- and climate-related investment.
- Scaling proven approaches that address debt, nature and climate together.
- Unlocking private capital via new mechanisms and instruments.
- Equipping countries to manage debt more sustainably.

Figure 7. Key moments in 2025 to unlock finance for sustainable development




September 2025
Africa Climate Summit.
October 2025
World Bank/IMF Annual Meetings.
G20 Finance Ministers and Central Bank Governors' Meeting.
November 2025
COP30: Presentation of the Baku to Belém Roadmap commissioned by the Parties to the UN Framework Convention on Climate Change.
G20 Leaders' Summit.

Summary of Recommendations

No.	Recommendation	Corresponding report chapter and section
	Mainstreaming nature and climate into macroeconomic and fiscal analysis	Chapter 2
1.	The IMF and World Bank should continue to revise their Debt Sustainability Frameworks (DSFs) to better incorporate both climate-related and nature-related risks and the economic benefits of measures to reduce them.	Section 2.1
2.	Credit ratings agencies should also incorporate climate- and nature-related risks and the economic benefits of measures to reduce them in their credit rating analysis, following the lead of the IMF and World Bank DSFs.	Section 2.1
3.	The IMF and World Bank, governments, central banks and other financial institutions should complement their existing macro-economic and macro-financial models with new approaches which better incorporate nature and climate factors, including through the use of stock-flow consistent models.	Section 2.2
	Reducing debt pressures to enable nature- and climate-related investment	Chapter 3
4.	Countries undergoing debt restructuring should be able to receive additional debt relief in return for binding nature- and climate-related commitments that are expected to enhance resilience and stimulate growth and thus prevent recurring debt crises.	Section 3.1
5.	Non-market access EMDCs with high debt service obligations, but which are not yet in a debt crisis, should be able to undertake debt refinancing to enable nature- and climate-related investments	Section 3.2
	Scaling proven instruments to tackle debt, nature and climate together	Chapter 4
6.	Building on the plans set out in the G20 Roadmap Towards Bigger, Better and More Effective MDBs: ● Shareholders should aim to recapitalize the MDB system to enable the scaling up of lending for low-carbon, climate-resilient and nature-positive development. ● MDBs should create a new class of adequately priced non-concessional loans over longer maturities (30-40 years) for certain nature- and climate-related investment.	Section 4.1

No.	Recommendation	Corresponding report chapter and section
7.	MDBs should introduce new simple forms of contingency to manage debt burdens and borrowing costs in the event of an external shock or stress.	Section 4.2
8.	MDBs, EMDCs, donor governments and civil society organizations should work together to expand the use of debt-for-nature and debt-for-climate swaps and sustainability-linked financing, by developing standardized structures which make them easier and cheaper to transact.	Section 4.3
Unlocking private capital via new mechanisms and instruments		Chapter 5
9.	A special-purpose vehicle, the Finance Facility against Climate Change (F2C2), should be established to unlock private funds through the capital markets by issuing green bonds earmarked for climate-related investments in EMDCs, financed by future aid commitments.	Section 5.1
10.	EMDCs and DFIs should work together to develop new equity-like instruments to finance resilience infrastructure, which will better align repayments with real fiscal savings.	Section 5.2
Equipping countries to manage debt and investment more sustainably		Chapter 6
11.	EMDCs, particularly those with tax revenues at or below 15% of GDP, should prioritize enhancing domestic resource mobilization to increase the funds available for public goods, including through the phasing out of environmentally harmful subsidies, and by raising the level and expanding the scope of carbon pricing.	Section 6.1
12.	MDBs, the IMF, UN agencies and regional UN economic commissions should work together to create a 'one-stop shop' or single platform for technical assistance, better data and mutual support, to enable governments and international economic institutions to improve the design and management of fiscally and environmentally sustainable debt and investment.	Section 6.2

Briefing Paper

Breaking the Logjam: How Local Finance Mechanisms Can Deliver Africa's Green Transition

African Centre for a Green Economy (AfriCGE)

While much of the climate finance debate in Africa has focused on international flows and national strategies, this briefing paper from the African Centre for a Green Economy (AfriCGE), which has been prepared for *The Africa Roundtable* No. 8, explores a different angle: the pivotal role of local finance in delivering Africa's green transition. By shifting attention to local actors and delivery mechanisms, the paper highlights how effective climate action depends not only on the amount of finance available, but on how—and where—it is deployed.

This perspective complements the broader economic and policy analyses in the other reports by emphasizing the importance of channeling resources to communities and enterprises on the ground. In doing so, it reframes local finance as a central pillar for Africa's sustainable and inclusive green growth.

Briefing Paper

Breaking the Logjam: How Local Finance Mechanisms Can Deliver Africa's Green Transition

Authored by Dr. Mao Amis, African Centre for a Green Economy

1. WHY LOCAL GREEN FINANCE MUST BE SCALED NOW

Africa is at a pivotal moment, with the shift in global architecture of climate finance, multilateral development banks (MDBs) are under pressure to reform. New instruments are being tested under Just Energy Transition Partnerships (JETPs), and interest in Africa's minerals, nature-based assets, and renewable energy potential is rising.

Yet despite these global developments, the flow of climate finance to Africa, especially to local actors, remains dangerously slow and highly centralized. Less than 3% of global climate finance reaches Africa, and even less reaches the smallholder farmers, cooperatives, municipalities, and youth-led enterprises that are already responding to climate challenges.

This is not just a matter of fairness. It's a system failure, a broken pipeline that undermines both national climate plans and global climate justice.

If Africa's green transition is to succeed, we must shift from pledges to delivery, and from centralized systems to local solutions. The question is no longer whether we need local green finance mechanisms, but how quickly and effectively can we scale them.

2. WHAT DETERMINES EFFECTIVE DELIVERY OF GREEN FINANCE AT THE LOCAL LEVEL?

2.1 Fit-for-Purpose Financial Instruments

Most climate finance tools are designed for sovereign projects, large public-private partnerships, or multilateral disbursement channels. However, local actors require different approaches, namely small-ticket, blended instruments with flexible terms and locally accountable governance.

An effective local finance instrument blends concessional and commercial capital, includes risk-mitigation features, and is contextualized to informal market structures. Instruments such as community climate funds, municipal green bonds, and enterprise challenge funds have shown promise.

One of the most recognized examples of effective local climate finance delivery is the Local Climate Adaptive Living Facility (LoCAL), developed by the UN Capital Development Fund (UNCDF). LoCAL channels performance-based climate resilience grants directly to subnational governments, using national public finance systems and embedding climate adaptation into local development planning. In countries like Benin and Burkina Faso, LoCAL has enabled municipalities to plan, budget, and execute climate-resilient investments in infrastructure, water management, and agricultural adaptation.

2.2 Trusted Local Intermediaries

Intermediaries such as SACCOs (Savings and Credit Cooperatives), local NGOs, and microfinance institutions are essential for bridging global capital and grassroots implementation. However, these actors are often under-capacitated and excluded from formal finance structures due to lack of accreditation or risk perception.

Effective delivery requires capacity-building programs, partnerships with development finance institutions (DFIs), and regulatory frameworks that recognize and empower local intermediaries to manage climate-linked funds.

A World Bank study (2020) found that community finance intermediaries can reduce administrative costs by up to 40% compared to national entities, provided they receive targeted support in fiduciary oversight and climate-risk profiling.

2.3 Enabling Legal and Fiscal Frameworks

A critical barrier to local delivery is policy misalignment. In many African countries, local governments are not permitted to create or manage climate-related funds, and community-based financial structures lack legal status.

Reforming public finance legislation to allow for subnational green funds, climate-responsive budgeting, and green procurement policies is essential.

South Africa's City of Cape Town Green Bond (2017), for example, succeeded not only due to investor demand but because the municipality had the legal authority to issue debt, align budgets with climate objectives, and establish transparent procurement systems (C40 Cities, 2018).

2.4 Risk-Mitigation Mechanisms

Access to climate finance is constrained by risk, both real and perceived. Local actors are often seen as high-risk due to lack of collateral, informal governance, and market volatility. Yet many of these risks are systemic and manageable through structured financial tools.

Instruments such as first-loss guarantees, credit enhancements, and weather-indexed insurance can de-risk investment in small-scale climate enterprises. Blended finance structures that absorb initial losses can catalyze commercial capital and unlock lending on at scale.

For example, *M-KOPA Solar* used a $250 million blended finance structure, supported by development finance institutions like IFC, BII, FMO and Standard Bank, with $50 million in equity from private investors including Sumitomo Corporation and impact funds. This structure blended concessional and commercial capital to de-risk lending to low-income customers for solar home systems, smartphones, and electric mobility. Importantly, DFIs absorbed early-stage risk, which attracted private capital and enabled scale.

3. BUILDING THE CONDITIONS FOR DELIVERY OF LOCAL GREEN FINANCE

Effective local delivery of green finance will not happen through individual programs alone, it requires a systems-building approach that aligns institutions, policy frame-works, financial flows, and local capabilities. Systemic transformation depends on the combined efforts of governments, donors**,** DFIs, financial intermediaries, and community actors.

This section outlines the five foundational conditions required to make local finance delivery work across Africa, and who must act to make them real.

3.1 Strengthen Local Institutional Capacity

The ability to receive, manage, and deploy climate finance depends on the readiness of local institutions, whether municipal finance offices, SACCOs, cooperatives, or local NGOs. However, many of these actors lack:

- Access to climate-related training
- Tools for financial management and reporting
- Legitimacy in the eyes of national governments or funders

Priority actions:

- Create national certification schemes for green finance intermediaries.
- Expand donor-supported programs to build local fiduciary and technical capacity.
- Fund training through regional climate finance academies.

Example: The City Climate Finance Gap Fund (GIZ/World Bank) supports capacity-building for municipalities to develop bankable climate projects. A similar Africa-focused model could support SACCOs and cooperatives.

3.2 Embed Climate Finance into Local Government Systems

Local government structures are often disconnected from climate finance flows, and climate change is seen as a national or donor-driven issue. For delivery to improve:

- Climate targets must be embedded in local development plans.
- Green budgeting must become part of fiscal decentralization strategies.
- Local authorities must be empowered to create and manage climate-linked funds.

Priority actions:

- Pass legislation enabling the creation of subnational climate finance facilities.
- Integrate climate performance indicators into local government budgeting systems.
- Mandate climate screening for all municipal infrastructure investments.

Example: In Uganda, the Local Government Finance Commission is exploring how to allocate a share of intergovernmental transfers based on climate vulnerability and resilience metrics.

3.3 Build the Pipeline of Bankable Local Projects

Finance cannot flow if there are no credible projects to fund. Many community-based initiatives are underdeveloped, lack documentation, or struggle to meet funder expectations.

Priority actions:

- Create local enterprise accelerators focused on green sectors (agriculture, waste, energy, nature-based solutions).
- Standardize templates for business planning, ESG risk assessment, and M&E.
- Provide pre-investment grants to de-risk project development.

Example: The Africa Green Stimulus Programme under AUDA-NEPAD supports early-stage project preparation for green infrastructure across member states.

3.4 Foster Innovation in Financial Instrument Design

To reach diverse actors, we need diverse instruments. A one-size-fits-all fund or bond will not serve urban cooperatives, rural SMEs, and climate-vulnerable communities equally.

Priority actions:

- Support the co-design of community climate funds, municipal catalytic grants, and green enterprise challenge funds.
- Establish an Africa Guarantee Facility for Local Finance, with contributions from DFIs, donors, and private insurers.
- Pilot digital credit tools that serve the informal green economy (e.g., using mobile money repayment and behavioral credit scoring).

Example: In Senegal, ENDA Energie has successfully piloted a community climate fund model where citizens participate in funding decisions, demonstrating the power of participatory governance in finance delivery.

3.5 Create a Scalable Ecosystem for Tools, Learning, and Coordination

Most innovations fail to scale because the ecosystem for replication and institutional adoption is missing.

A scalable ecosystem requires:

- Knowledge platforms for sharing what works
- Learning networks for local government officials and SACCO managers
- Technical assistance marketplaces for pipeline support

Priority actions:

- Scale up platforms like The Inclusive Climate Finance Innovations for Africa (ICFIA) as public-good infrastructure for Africa.
- Support regional technical hubs (e.g., in East, West, and Southern Africa) to customize tools and trainings.
- Align with African Union frameworks to embed local finance into continental priorities.

4. WHAT YOU CAN DO NEXT: AN ACTION CHECKLIST FOR THE ROUNDTABLE PARTICIPANTS

To make local climate finance delivery a reality, no single actor can act alone. National governments, donors, financial institutions, and civil society all have distinct but interconnected roles to play. This section provides a practical, role-based checklist to guide immediate and medium-term actions that participants of this roundtable can take forward within their spheres of influence.

If you are a Government Official	If you are a Donor or DFI	If you are a Financial Institution
Champion legislation for subnational green funds	Co-fund AfriCGE/ICFIA pilot facilities in 2 countries	Join design of Africa Green Guarantee Facility
Embed green budgeting into municipal plans	Support training of 100 local intermediaries	Partner with SACCOs to pilot community lending tools
Partner with ICFIA to localize NDC implementation	Co-host policy dialogues with AfriCGE and regional actors	Align ESG criteria with just transition investment

5. CONCLUSION: LOCAL FINANCE IS NOT A RISK - IT'S THE STRATEGY

Africa stands on the brink of profound transformation. The convergence of climate urgency, global finance reform, and rising social demands presents both a crisis and a rare opportunity: to rewrite the rules of how capital flows, decisions are made, and transitions are shaped. At the heart of that opportunity lies one simple, often overlooked truth: Africa's green transition will be delivered or delayed at the local level.

For too long, the climate finance discourse has been dominated by high-level targets and multi-billion-dollar pledges that struggle to reach the ground. Centralized institutions, rigid risk frameworks, and bureaucratic intermediaries have slowed down delivery and excluded the very actors who are best positioned to lead resilience and low-carbon development: local governments, cooperatives, SMEs, community innovators, and place-based institutions.

This report has made the case with evidence, case studies, and practical models that local finance mechanisms are not peripheral, experimental, or risky. They are core infrastructure for transition. Where they exist and are properly supported, they create results: increased adaptive capacity, inclusive green jobs, improved public services, and resilient livelihoods.

Selection

Opinion Pieces

Authored by Bright Simons, Carlos Lopes & Patrick Bolton, Ottmar Edenhofer, Johan Rockström et al.

This section brings together three contributions from leading thinkers in the field of climate and development. Each opinion piece offers a distinct perspective on Africa's green finance landscape, reflecting on the dynamics of international partnerships, the realities of climate finance flows, and the strategic choices facing the continent. Together, these voices complement the preceding analyses by challenging assumptions, highlighting new opportunities, and encouraging fresh debate on Africa's pathway to a sustainable and resilient future.

- **Bright Simons** "How to Rethink Climate Finance for Africa" for *Semafor Africa*
- **Carlos Lopes** "Europe Must Change Its Approach to Africa" for *Project Syndicate*
- **Patrick Bolton, Ottmar Edenhofer, Alissa Kleinnijenhuis, Johan Rockström & Jeromin Zettelmeyer** "Why coalitions of wealthy nations should fund others to decarbonize" for *Nature*

SEMAFOR

Climate Finance is Dead; Long live Acclimated Finance

By Bright Simons May 12, 2025

Last year, Lebanese Economist Ishac Diwan and I contributed some thoughts to a Boston Review forum in which we mused darkly about the cold calculus of burden sharing as the globe adjusts to the economic and financial implications of the climate transition. We did not mince words: that transition has become a matter of brute realpolitik, economics, and national interests.

A year on, the world of aid and development cooperation has been upended by brutal cuts to the American aid budget; and acute aid fatigue in Europe. Africa is still nowhere near to receiving the $3 trillion dollars ($240 billion for energy shifts alone) experts say it needs to adapt to and mitigate the effects of climate change.

Contrary to State Department claims, it does not look like Biden's $11 billion dollar pledge to make America a climate finance superpower was ever fully redeemed. In 2024, less than a

billion dollars got authorisation from congress. Trump, predictably, has rescinded the plan. With the collateral effect that the US has clawed back its $1 billion contribution to the $13.8 billion in pledges South Africa received by jumping on board the Just Energy Transition *Partnership* (JETP).

But all that is headline stuff. The lowdown on big climate finance is that it is meant to be "catalytic", with a rule of thumb that every $1 in aid from donors should attract up to $7 of private sector investment. Thus, whilst the headline number of $13.8 billion in pledges to South Africa looks nice, in reality, only France and Germany have chipped in about $670 million in soft loans. Two years on, the top-up private investments refuse to come.

Let's be honest: there is precious little new donor money available for climate finance. Yet, the way climate finance blueprints are currently done is totally dominated by the global development bureaucracy, with limited focus on how international investors see the world and their motivations for moving capital.

African countries need to rethink this paradigm of concocting complicated, overegged, strategies targeted at the global development bureaucracy and then, like an afterthought, inviting the private sector to sample. What they should do is ask themselves what is their "competitive climate positioning" and then leverage that positioning to attract particular types of best-fit investors.

From a "climate finance realpolitik" standpoint, Africa's advantage is that its emissions are far below its historical fair entitlement. In effect, it has a massive unused quota for emissions to attract industries from the West that need more time to adjust to net zero.

If one looks at the globe's **historic** emissions per capita budget, the US has consumed 5x of its fair share, Ukraine is at ~4x of its share, and Russia and Japan are at ~3x and ~2.5x of their respective shares. Sub-Saharan Africa is at roughly 0.11x of its share.

To stay on course in meeting the 2050 net zero target, the average person must be emitting about 2.25 tons of CO_2-equivalent gases by 2035. 35 African countries emit less than 0.8 tons per capita today.

In short, Africa is strategically positioned to attract a considerable proportion of the West's "transitional brown" industries. These are manufacturing industries in such sectors as cement, lime, industrial chemicals, etc., that emit super-high amounts of carbon per dollar of revenue but should, by 2050, have transitioned to greener processes.

Smart African countries should be able to leverage their unused carbon quotas together with other strategic reforms to attract such companies in droves.

Tax resources generated by expanded manufacturing GDP can then go to fund the climate-transition currently stuck due to the absence of financing, thereby reducing Africa's per capita emissions rate back to 0.8 tons by 2050 just when it actually needs to.

Climate finance is becoming passè in Africa; time for "Acclimated Finance".

[Author's cut. First published in Semafor.]

Europe Must Change Its Approach to Africa

May 19, 2025 |**CARLOS LOPES**

CAPE TOWN – In recent years, China has surpassed Europe in terms of both trade with Sub-Saharan Africa and infrastructure investment there. The Gulf states have been reshaping financial flows on the continent, while Brazil, India, and Turkey have been deepening their ties with African countries as well. Meanwhile, African leaders have established the African Continental Free Trade Area (AfCFTA), which is set to transform intra-African trade. And yet, the European Union continues to operate under the delusion that it is Africa's main partner.

As a result, while Africa strategically repositions itself in today's multipolar world, Europe remains largely complacent. The EU also views itself as a normative power, a global champion of human rights, democratic governance, and sustainability. While this may be true in some areas, Europe's trade and economic relationships – particularly with Africa – suggest otherwise. And, so far, Europe has been unwilling to change.

As the African Union's high representative for relations with Europe, I witnessed this dynamic firsthand. In 2019, I proposed that the AU be given a formal mandate to negotiate a continental trade agreement with the EU. The idea was not revolutionary; it merely reflected Africa's legitimate demand for collective-bargaining power, which the AU, having made great progress toward achieving political coherence, is well-positioned to wield.

But the European Commission has more leverage in negotiations with individual countries or regional communities, and African actors in this fragmented system are reluctant to surrender their intermediary roles. So, my proposal was blocked, and the EU continued to bypass AU institutions in favor of bilateral agreements or regional initiatives which do not align with Africa's needs, interests, or priorities.

Notably, the Economic Partnership Agreements (EPAs) that have been negotiated between the EU and African countries (or groups of countries) have both reinforced Africa's dependence on commodity exports and constrained the policy space African countries need for industrialization. These agreements have largely benefited European exporters, while leaving African countries unable to leverage trade to develop domestic manufacturing or shift their comparative advantage to higher-value-added activities.

Meanwhile, EU investments flow largely toward extractive activities, migration control, and climate-linked offsets, rather than strengthening industrial value chains or facilitating technology transfer. While much has been made of the EU's Global Gateway initiative – aimed at boosting "smart, clean, and secure" digital, energy, and transport linkages and strengthening "health, education, and research systems" – its ambition pales in comparison to China's Belt and Road Initiative and even America's green-transition packages.

Moreover, with its investments in Africa, the EU is not sharing risk, but rather offloading it. Private capital is expected to lead, while development finance falls far short of what is needed to unlock industrial transformation. Africa is being asked to de-risk investment for others without receiving structural guarantees, such as better access to capital markets, favorable trade conditions, or long-term commitments.

But a shifting global environment is creating a critical opportunity for Europe to transform its relationship with Africa. For starters, the United States is turning its back on the continent, imposing high tariffs, cutting aid, and reducing its diplomatic presence. More broadly, the global economy is undergoing a fundamental transformation, as the multilateral system of the past – which emphasized free trade and financial liberalization – is replaced by a new, more fragmented terrain. The new rules are being written by the world's biggest powers, with little regard for the needs and interests of developing economies.

In a world where trade is guided primarily by market power, rather than comparative advantage, Africa must adjust accordingly. That means building productive capacities, rather than waiting for concessions. It means building Africa's own business ecosystem, rather than engaging in compliance-based negotiations. And it means devising ways to shape global value chains in Africa's favor, rather than seeking opportunities to join existing structures. To support these efforts, Africa does not need patrons; it needs strategic partners that recognize its agency, invest in its productive capacity, and adapt to its priorities.

If the EU hopes to fill this role, it must start by abandoning the belief that it is Africa's default partner. Influence must be earned.

Moreover, EU-Africa engagement must function within Africa's institutional architecture, especially in trade, digital governance, and climate diplomacy. The EU must stop bypassing the AU, instead recognizing the organization as a legitimate interlocutor for Africa. And it must base its economic engagement with Africa on the logic of the AfCFTA – the continent's single most important economic-policy innovation in decades – not in contradiction with it.

Moreover, the EU must decouple aid from moral patronage. Development assistance is not a gift, but a geopolitical tool, and excessive conditionality often undermines the very institutions it is supposed to help. Instead of micro-managing governance reforms, Europe should focus on supporting Africa's ambitions, including with regard to infrastructure, education, and industrial transformation.

Here, the best approach would be to co-invest with African partners in regional value chains. This means supporting African industries not as "beneficiaries," but as equal players; rethinking the EU's Common Agricultural Policy, which distorts African food systems; and dismantling non-tariff barriers that penalize African exporters.

Finally, in international fora, the EU should coordinate with the AU on issues like debt reform, climate finance, and intellectual property. Africa's call for a sovereign-debt workout mechanism must be met with concrete proposals, not more advisory services. Climate finance must reflect historic responsibilities and real costs, not political expediency.

As for the AU, it must be bolder in demanding genuine structural shifts in Africa's relationships, rather than settling for lip service to the continent's sovereignty. This includes asserting the AU's role in all external partnerships, rejecting external interference in African integration processes, and investing in the capacity to propose alternative macroeconomic frameworks. The AU must, in short, engage in the messy but necessary politics of multilateral reform – not as a petitioner, but as an agenda-setter.

PER-ANDERS PETTERSSON/GETTY

A coal-fired power plant in Komati, South Africa, which was decommissioned in 2022 as part of the country's plans to phase out fossil fuels.

Why coalitions of wealthy nations should fund others to decarbonize

Patrick Bolton, Ottmar Edenhofer, Alissa Kleinnijenhuis, Johan Rockström & Jeromin Zettelmeyer

Failure to agree on global grants to help low- and middle-income countries to achieve net-zero emissions cannot be the end of the story. An urgent solution is needed.

In Baku last November, parties to the COP29 United Nations climate summit failed to put in place enough climate finance to keep global average warming below the 1.5 °C limit established in the 2015 Paris agreement.

High-income countries (HICs) agreed only to "take the lead"' in directing at least US$300 billion to low- and middle-income countries (LMICs) each year by 2035. Their own contributions were left unspecified and could be drawn from a variety of sources. Meanwhile, the Baku agreement calls on "all actors" to scale up this total financing to at least $1.3 trillion annually.

Although these headline numbers seem to be broadly similar to those that were proposed by climate-finance experts (including some of us[1]) before the COP29 meeting, in reality this fudged scattershot approach falls far short of what's needed – in terms of timing and quality.

Ideally, climate finance should be given in the form of public grants, or equivalents. That way, recipients don't need to find money from elsewhere to repay loans, and the finance can be used as 'catalytic capital' to attract private finance that can be co-invested in renewables for LMICs. Grants can also be spent on ending the use of fossil fuels early. The broad mix of public and private, bilateral and multilateral sources allowed by COP29 is inefficient. To decarbonize the world in time, climate finance should be provided at full scale this year, instead of being delayed to 2035, specialists say (see go.nature.com/3r5dxfy).

Another big stumbling block in Baku was

the requirement for unanimity among the parties. For example, the Arab Group of negotiators refused to accept any text that targeted specific sectors, including fossil fuels – even though these are the main source of emissions that climate finance is intended to abate.

Without access to climate finance at scale, LMICs cannot afford to decarbonize. And time is running out. To have even a 50% chance of holding to the Paris agreement's 1.5 °C limit, the world has a remaining budget of only around 180 gigatonnes (Gt) of carbon dioxide (see go.nature.com/4bv5mme). This is projected to be depleted by 2035 (assuming a linear rate of decline starting from estimated annual emissions of about 40 Gt in 2025) or as soon as 2029 (assuming current emissions levels continue). Exceeding this limit makes crossing planetary tipping points more likely, including collapses of ice sheets, ocean currents, coral reefs and permafrost, threatening the lives and livelihoods of billions of people.

Immediate action is needed to phase out and replace fossil fuels, as well as to scale up CO_2-removal technologies and protect and restore carbon uptake in nature. If these measures are conducted simultaneously and at scale to reach net-zero emissions by 2050, and negative emissions thereafter, only then can global warming be limited to a 1.5 °C increase or remain close to it[2]. This year offers a unique chance to act, because countries are required to update their declared national emissions-reduction contributions to the Paris agreement during 2025.

Here, we call on nations to find an immediate solution. Taking inspiration from the idea of 'climate clubs' – agreements among economically self-interested nations to cut emissions through aligned policies – we propose that coalitions of willing HICs form 'climate finance clubs' in their own self interests[3]. These clubs would finance decarbonization in LMICs, sidestepping the need for a global agreement, which inevitably results in a watered-down deal.

Benefits for all

Why should countries want to pay others to act? It is in their own economic interests to reduce global emissions quickly – and, from the planet's perspective, it doesn't matter whether those emissions are emitted domestically or elsewhere.

For instance, in the past 6 months, climate-related damages from hurricanes Helene and Milton in the United States, floods in Valencia in Spain and wildfires in Los Angeles, California, are estimated to exceed $500 billion. That's already more than the annual level of climate finance that HICs currently provide (around $100 billion a year) and more than they pledged at COP29 for 2035. Such costs will only escalate until global emissions are curbed.

Groups of HICs must put in place the beginnings of a climate finance framework for LMICs this year. They should offer such countries grants that complement, not offset, their own rapid decarbonization efforts.

To avoid expensive and socially unacceptable climate impacts, the only thing that matters is that emissions are reduced extremely fast, globally. To be most effective, investments should be given with the highest priority to LMICs that commit in their 2025 Paris update to credible emission reductions – those that are consistent with keeping the world within 1.5 °C of pre-industrial average temperatures. Such countries can make bolder decarbonization pledges that are conditional on receiving climate finance. As recipients decarbonize their economies, they also benefit from lower exposure to domestic climate damages and air pollution, which in turn reduces their adaptation needs.

"We see the biggest challenge as getting commitments of public climate finance at the necessary scale."

There are already coalitions of HICs willing to provide climate finance – even if the United States does not participate. For example, the European Union, along with other HICs and multilateral development banks, have offered climate finance through Just Energy Transition Partnerships (JETPs) to Indonesia ($20 billion) and Vietnam ($15 billion) – of which half was from private sources. Offers were also made to South Africa ($8.5 billion) and Senegal ($2.7 billion). Such deals can be expanded to other LMICs, especially ones that are large emitters, including Colombia, Kazakhstan, Nigeria, Mexico, Thailand and India, which together would quickly add up to a significant proportion of avoided emissions. But adjustments are needed to avoid shortcomings.

So far, JETPs have offered mainly loans instead of grants – in Indonesia, for example, only 2% of JETP funds were grants. Yet loans add to LMICs' debts and don't provide capital to catalyse private-sector investments in renewables, or give incentives for closing fossil-fuel infrastructures early. Plans to phase out coal in South Africa, for example, have stalled without sufficient grants and a clear strategy, raising concerns over energy security as well as slowing the transition.

The climate finance club needs to do things differently. First, it should offer larger sums than JETPs do now. It should give all the public funding in grant-equivalent form, and make receipt conditional on a credible implementation plan and on accountability of fossil-fuel phase-out and renewables phase-in.

Solid returns

To illustrate how a climate finance club might work (focusing on phasing out and replacing fossil fuels), we have examined the economic case for a group of nations that have the financial capacity and the incentive to support LMIC decarbonization. The group excludes the United States but includes the other G7 countries as well as the European Union, Norway, Switzerland, Australia and South Korea (see Supplementary information). We also excluded China and high-income Gulf states as recipients, given their ability to finance their own transition. This reduced climate-finance needs to about $500 billion per year.

Using simple economic methods[1,4,5], we estimate that decarbonization in LMICs consistent with a 1.5 °C-aligned net-zero pathway would require climate grants from this HIC coalition that add up to $124.3 billion per year during 2025–35. This amount is equivalent to 0.3% of the annual gross domestic product of the coalition members over that period.

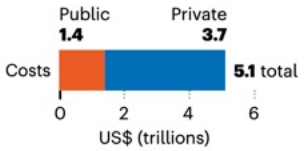
We find the return to the HIC coalition on this investment to be between about 9% and potentially more than 500%, depending on the assumed value of the 'social cost of carbon' (see 'Benefits of a climate finance club'). This is the cost to society in terms of damages of emitting one tonne of CO_2, ranging from around $190 per tonne – an estimate used by the administration of former US president Joe Biden, based on a 2022 study[6] – to $1,056 per tonne, a figure broadly in line with a 2024 analysis[7]. The higher estimate reflects

BENEFITS OF A CLIMATE FINANCE CLUB

By offering a US$1.4-trillion pool of grants to help low- and middle-income countries switch away from fossil fuels, a 'finance club' of high-income nations* can reap returns of up to 500% and limit climate damages.

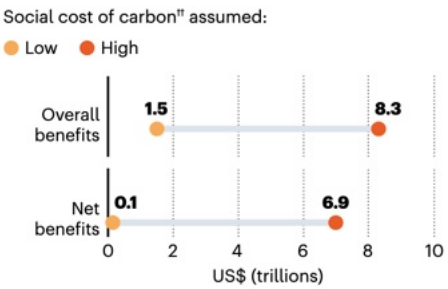
Private finance pull-in

If governments put in 0.3% of GDP† ($124 billion a year) during 2025–35, private firms might offer 3 times more.



Avoided losses

By investing now, nations can save trillions of dollars by 2035 by preventing future damages.



*Comprises the G7 group of seven advanced economies (excluding the United States) and the European Union, Norway, Switzerland, Australia and South Korea. †GDP, gross domestic product. ‡Social cost of carbon: cost to society of releasing one tonne of CO_2, $190 (low) or $1,056 (high).

SOURCE: ANALYSIS BY P. BOLTON & A. KLEINNIJENHUIS

MARC ROMANELLI/GETTY

Solar panels in Indonesia. The nation will receive US$20 billion to decarbonize over the next few years under a Just Energy Transition Partnership.

the use of global rather than country-level temperature variability, which correlates better with extreme climatic events.

Practical challenges

Lots of details remain to be worked out. For instance, in practice, some countries will not submit credible Paris-aligned plans, meaning that the coalition would end up funding individual countries (see Supplementary information). To avoid discrepancies between the submitted plans and actual policy action, disbursement of the funds should be linked to concrete milestones achieved by the LMIC, with the next period's payment tied to the previous period's avoided emissions.

We see the biggest challenge as getting commitments of public climate finance at the necessary scale. Multilateral development banks are the natural intermediaries for these funds, but would themselves require increased funding for this role. They would also need to shift their business models away from loan-based lending to grant-based finance, and from project-based to system-wide finance, to fund the energy transition for entire countries.

Next steps

This year's update of nations' contributions to the Paris agreement presents the next best opportunity to steer global decarbonization pathways towards the 1.5 °C limit. Accordingly, LMICs should submit credible decarbonization plans that are contingent on receiving climate finance. And coalitions of HICs must step forwards to provide the funding.

Climate finance must be at the top of the agendas of key multilateral gatherings. These include the forthcoming meetings of the Coalition of Finance Ministers for Climate Action, the consultations for the Road to Belém stocktake ahead of the COP30 climate meeting in Brazil in November, the joint spring meetings of the International Monetary Fund and the World Bank, and the G7 summit in Canada in June.

Climate finance is essential if the world is to decarbonize. It is not foreign aid — it is a high-return investment in global economic stability and climate security for the benefit of all, including HICs.

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CLOSING

While incremental progress has been valuable, the current moment calls for accelerated, coordinated action at scale to fully address Africa's climate finance challenges with its global consequences. The outcomes of these efforts extend far beyond the continent, directly impacting global climate stability and our shared sustainable future. We look forward to engaging in a productive exchange, fostering mutual understanding, and initiating tangible next steps.

This edition of The Africa Roundtable aims to identify concrete pathways forward and developing actionable solutions across several key areas:

- **Geopolitical Shifts and Climate Finance Flows:** Examining how changing global alliances and priorities are affecting green finance to Africa, and strategies African nations can employ to navigate this landscape.

- **Reforming Climate Finance Architecture:** Assessing structural changes needed in the global climate finance architecture to ensure African nations can access funds more easily and directly, and the role European institutions can play in advocating for these reforms alongside their African counterparts.

- **Green Finance Innovation and Instruments:** Exploring innovative green finance instruments that show the greatest promise for Africa's environmental needs, and how tools like green bonds, sustainability-linked loans, environmental impact bonds, and ecological fiscal transfers can be adapted and scaled in African contexts.

- **Private Sector Mobilization:** Analyzing how the private sector can be better engaged in financing Africa's green transition, and what specific mechanisms can unlock greater private capital flows and improve risk-sharing between public and private capital.

- **EU-Africa Green Finance Partnership:** Strengthening the partnership between Africa and Europe on green and climate finance, identifying the most promising areas for deepened collaboration and joint financing mechanisms.

We look forward to an insightful discussion on the topic of *Green Finance in a New Geopolitical Reality.*

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