Climate financing to Africa grows by 48% to US$44 bn in 2021/2022 but still only a quarter of what is required to realise its 2030 goals finds Landscape of Climate Finance in Africa 2024 report

Washington, USA 23rd October: A new report into Africa's climate finance landscape, undertaken by Climate Policy Initiative (CPI) and commissioned by FSD Africa has found that climate finance flows in Africa have grown by 48% to US$44 bn in 2021/2022 up from US$30 bn in 2019/2020. Private sector finance also doubled in the period to reach US$8 bn. Overall, despite this growth, climate finance flows in Africa are far below what is required to meet the continent's climate adaptation and mitigation needs – with potentially very serious social and economic implications.

The report, entitled "Landscape of Climate Finance in Africa 2024", was launched at a meeting at the Brookings Institution, on the sidelines of the Annual Meetings of the International Monetary Fund and the World Bank Group. It follows the first-of-its-kind assessment of climate finance in Africa released by CPI and FSD Africa in 2022, which has become an essential source for policy, advocacy, and investment decisions on climate finance in Africa.

The research exposes the grave financing gap which threatens Africa's long-term sustainable development trajectory, tracking only 23% of the estimated annual needs for Africa to implement its Nationally Determined Contributions (NDCs) and meet its 2030 climate goals. Other key findings from report include:

- 90% of total climate finance in Africa came from international sources with only 10% coming from within Africa itself
    - Funding from African public sector (i.e. government) sources is worryingly low and actually declined from US$1.6 bn 2019/2020 to US$1 bn in 2021/2022
- Multilateral Development Finance Institutions (MDBs) provided 43% (US$19 bn) of the continent's overall flows – up from only US$11 bn two years ago.
    - These institutions are by far the largest provider of climate finance for Africa
- While private sector finance more or less doubled in the two-year period (from US$4 bn to US$8 bn), it is still only 18% of the total – a far lower share from the private sector than in any global region
    - Private sector capital mobilised by the MDBs actually declined in Africa in the two-year period, while it increased in Asia and the Americas
- Finance for clean energy (at $US14 bn) absorbed almost a third of total climate finance, keeping pace with the overall growth in climate finance
    - However, this rate of growth in energy financing is pedestrian, considering the need and the opportunity. The International Energy Agency has estimated that Africa needs investment of US$200 bn p.a. for the energy transition.
- Multilateral Climate Funds (MCFs) contributed only 2% of total climate finance in 2021/2022
    - This is small by any measure. However, it should be recognised that MCF funding is catalytic, tending to be more concessional and more geared to LDCs than other sources of climate finance

- There are serious regional disparities.
  - Ten countries[1] accounted for 50% of Africa's total climate finance flows
  - Three countries (SA, Egypt, Nigeria) accounted for more than 50% of total private flows

The report also makes a number of recommendations, one of which is to invest in developing domestic capital markets to reduce reliance on international flows of capital that expose African countries to exchange rate risks. There are significant pools of domestic private capital in Africa (estimated at over US$ 2 trillion) in pension funds, insurance companies and other institutional investment vehicles. Mobilising this capital would give African countries more control over their economic development than relying entirely on international finance.

Further, through its recommendations to the private sector and regional, national and subnational development banks, the report offers a vision of climate finance's future – in which the private sector actively pursues climate adaptation as an exciting and rewarding commercial opportunity, and Africa's domestic green bond markets effectively mobilise capital for major climate-resilient infrastructure projects.

Commenting on the report, **Mark Napier, Chief Executive Officer of FSD Africa:** "Climate change has the potential to cause Africa major and unprecedented economic disruption and reverse gains made in the recent past. To counter this situation all actors must invest in a more sustainable future. Climate finance is the key element which will determine Africa's ability to adapt to, mitigate, and develop through, a changing climate. This report by the CPI provides policymakers and decisionmakers on the continent with a survey of the climate finance landscape as it is now, and as it can – and must – develop in the future."

Barbara Buchner, Global Managing Director of Climate Policy Initiative, said: "It is encouraging to see more climate finance flows in Africa, but the rate of growth is too slow. Public policy and investment must be targeted effectively, and private capital, both domestic and international, can no longer sit on the sidelines. Otherwise, the significant economic opportunities currently available across the continent will be overshadowed by severe economic losses and catastrophic social consequences."

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[1] The top ten recipients of Africa's climate finance in 2023 were: Egypt, South Africa, Nigeria, Morocco, Ethiopia, Tanzania, Kenya, Côte d'Ivoire, Democratic Republic of Congo and Mozambique.

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About FSD Africa

FSD Africa is a specialist development agency established in 2012 by the UK Government working to make finance work for Africa's future. We work on the ground in over 30 African countries to mobilise "green plus" finance that will power economic and social development while delivering environmental gains and building Africa's resilience. We work on policy and regulatory reform, capacity strengthening and improving financial infrastructure, and addressing systemic challenges in Africa's financial markets to spark large-scale and long-term change.

FSD Africa is part of a family of 10 financial sector deepening, or FSD programmes, operating across sub-Saharan Africa, known as the FSD Network. Together, the network provides over £50m a year in financial support to high-potential financial market development programmes, and employs over 150 financial sector experts, based in local offices across Africa. Our work has contributed to tackling financial exclusion challenges within Africa, supporting over 10.2 million people to access financial services. Such improved access has been particularly helpful during the Covid-19 crisis. For instance, between 2020 and 2021, we saw an 87% increase in the demand for and use of remittance services to cushion families from the adverse economic effects of Covid-19.

As of 2020, we supported approximately 35,700 Full-Time Equivalent (FTE) jobs, of which 20% were green jobs and 40% for women. About 42% of the jobs were created in Nigeria and the rest are spread across multiple countries. However, we are looking to intensify job creation in our priority countries. Since 2017, we have helped mobilise more than £2 billion in long-term capital to underfinanced sectors, such as renewable energy and housing. This has resulted in a more efficient allocation of private and public capital to the productive sector, basic services, and climate finance.

In more recent years, our strategy has evolved to respond to Africa's growing needs, with an increasing focus on finding innovative ways to mobilise capital for sustainable economic development. Following several successful initiatives, such as developing regulations and supporting green bond issuance programmes in Kenya and Nigeria, we have doubled our investment into initiatives that support a just transition to a green future for Africa. Since 2017 our green portfolio and pipeline have continued to grow, and we have invested close to £50 million into green investments. We continue to invest in programmes that deliver environmental and social outcomes. For more information, visit: www.fsdafrica.org

About Climate Policy Initiative

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

For more information, visit: www.climatepolicyinitiative.org