Increasing and Improving climate finance in Africa
Europe and the G20 Can and Should Do More to Support Climate Finance in Africa

Opinion piece

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INTRODUCTION
Africa’s climate needs are growing in a time of international crisis. 17 of the 20 countries most threatened by climate change are African [UNECA, 2023]. The catastrophic effects can be seen now, with the Horn of Africa facing its longest drought in 40 years and desertification fuelling conflict in the Sahel [House of Lords, 2023].

African countries cannot avert catastrophe on their own, with significant shortfalls in climate finance playing hampering action. Indeed, the current shortfall in climate funding is enormous. African countries will need 2.8 trillion USD, or 280 billion a year, between 2020 and 2030 to meet their needs for mitigation and adaptation in line with the Paris Agreement [CPI, 2022]. It is estimated that African countries will be able to put together 286 billion in this decade, meaning other sources will need to provide 2.5 trillion USD. Any external funding that comes in to support African countries, even if is not explicitly tied to climate, will support them in reaching their climate goals.

Currently, two key problems hold back African countries from reaching their climate finance needs. One is that there is simply not enough money available for African countries to fund, implement, and scale up climate projects vital for their development. European countries and the G20 need to step up the financing available to African countries. To do so, they should focus limited resources where they are needed most and explore innovative financial mechanisms. Secondly, a large amount of climate finance to Africa is currently spent inefficiently. Too many scarce resources flow to projects or countries where they are not as needed or are used in ways that do not maximize their impact. For African countries to meet their climate goals, these scarce resources need to be used as efficiently as possible.

WHY EUROPE AND THE G20?
The G20 has an obvious role in supporting climate finance in Africa. As the world’s premier forum for international economic policymaking and cooperation, the G20 should be at the heart of the action.

But European countries, with their extensive presence in the G20, should drive the pursuit to ramp up external financing to Africa. One clear reason for doing so is equality and fairness. The fact that Africa has emitted less than any other continent yet remains the most vulnerable to climate change gives a moral imperative to Europe’s climate finance efforts [Al Jazeera, 2023]. But there are also geopolitical considerations. The sharp reduction in Chinese lending to Africa offers an opportunity for European countries to reassert and strengthen their role as Africa’s premier economic partner. And as significant European countries, with their extensive presence in the G20, should drive the pursuit to ramp up external financing to Africa.«
»However, all the potential external funders for climate projects are unlikely to significantly increase their funding in the short-to-medium term.«

shareholders in the World Bank and IMF, European countries also have the means to make it happen.

To be effective in ramping up climate finance, Europe and the G20 need to pick their battles. Currently, policy discussions on climate finance mention a broad array of proposals without recognizing how limited financial resources are. To both increase and maximize climate finance, European countries and the G20 need to select a series of policies to push and agendas to advocate.

Despite all the challenges, the World Bank and International Monetary Fund remain the best mechanisms for Africa to reach its climate finance goals. With their past and proven ability to leverage their paid-in capital to lend to developing countries, the two bodies have the best chance to channel and maximize the financing to African countries.

BARRIER 2: INEFFICIENCY

Given the limited nature of resources available, international policymakers need to maximize the financing available and allocate funds efficiently. This is particularly important for concessional finance. Concessional finance refers to grants or lending below market rates. This is typically done by multilateral development banks and other financial institutions. The most significant example is the International Development Association (IDA), the World Bank’s concessional lending arm. This concessional lending is particularly important as it is often the only source of financing, climate or otherwise, for the poorest countries in the world.

However, as MDBs need to pay back their own creditors at market rates, they require additional funding to supply below-market-rate loans. As a result, donors from developed countries pay subsidies to make up the difference. However, as subsidies are limited, MDBs cannot lend concessationally unlimitedly. Ideally, all African countries could receive concessional lending and grants to fund their climate projects, but there are not enough resources to make that possible.

However, development banks and financial institutions allocate concessional financing inefficiently in two key ways. One layer of inefficiency is that concessional financing flows largely to relatively wealthy and high-emitting middle-income countries. Indeed, 10 countries attract over half of climate finance in Africa (ICPI, 2023). While these countries all have significant climate needs, the overfocus of climate finance in these countries means that other countries invariably lose out. Another layer is thematic. Too much concessional financing goes toward mitigation, rather than adaptation. Indeed, even in low-income countries in Africa with few emissions to mitigate, not enough attention and resources are paid towards adaptation projects (Dimond, 2023).

This is important as adaptation projects are much more difficult to finance from private sources. This is primarily because most adaptation projects do not produce any revenue, complicating their bankability (Arcanjo, 2023). A typical adaptation project, such as the use of floodwalls, cannot produce any money to repay a private creditor. As a result, adaptation projects typically rely more on public money. This is not to say, however, that adaptation projects do not provide significant value for money. Indeed, modeling suggests that adaptation projects provide strong economic benefits for an economy (Ijjasz-Vasquez and Saghir, 2023). Indeed, the principal reason for a lack of investment in adaptation is that these benefits are accrued publicly, rather than privately, deterring investors.

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The need for adaptation projects is also most acute in the lowest-income African countries, meaning that these countries face a double shortfall in climate financing. Data from the Notre Dame Global Adaptation Initiative show that African countries make up 8 of the 10 countries most
IDA provides exceptional value for money, and with its ability to leverage 4 dollars in lending for every dollar committed, there are not many better places for development financing available (Songwe and Aboneaaj, 2023).

Second, European and G20 policymakers can increase climate finance in Africa through the use of innovative financial instruments and mechanisms. The most prominent of these has been Special Drawing Rights (SDRs), a type of reserve currency issued by the IMF. Following the COVID-19 pandemic and the issuing of 650 billion USD in SDRs, the G20 committed to rechanneling 100 billion in SDRs to developing countries, many of which are in Africa. To do so, the IMF set up the Resilience and Sustainability Trust, with a specific climate focus, to complement the pre-existing Poverty Reduction and Growth Trust. However, since the initial drive to use SDRs to support developing countries, less than 1 billion USD of the original 100 billion has reached its intended recipients.

The proximate reasons for SDRs not living up to their original promise are technical, but the underlying reasons are political. The changes required to rechannel SDRs are difficult, complicated, and expensive, but they are not insurmountable to a motivated G20. Proposals such as SDR-linked bonds and hybrid capital show potential pathways that European countries and the G20 should support and implement (Setser and Paduano, 2023; Paduano, 2024). Doing so will ramp up climate financing to Africa in the time that it needs it most.

Third, it is also necessary for the G20 to support the World Bank’s development arms to drive resources to where they are needed most. This means that a greater share of financial resources for climate projects needs to flow to low-income countries, who have few means to fund their projects. Grants need to be more focused on adaptation projects, and inevitably, a smaller proportion of financing should be allocated to middle-income countries.

CONCLUSION

In many ways, the current economic backdrop makes funding climate projects in Africa harder than ever. Increased geopolitical competition, a financial shift toward military budgets, and tight monetary policies globally make finding money for climate in Africa extremely difficult. But in the African Union’s first full year as a member of the G20, Africa’s climate needs will continue to rise in the international agenda.

Despite the difficulties, Africa can meet its climate needs, but it requires European countries and the G20 to support its efforts. To do so, European countries should focus their resources where they are needed most and where they can have the most impact. This should include the pooling of resources on the IDA replenishment and using innovative financial mechanisms to increase the amount of financing that the World Bank and IMF can lend. Efficiency will also play an important role. Concessional financing has to flow where it is needed most, namely to fragile, low-income countries and adaptation projects.

2024 may prove to be the decisive year for climate finance. However, European countries and the G20 are in danger of missing the chance to secure more and better climate finance for Africa. Forgoing this opportunity will endanger the lives and livelihoods of Africans across the continent and weaken Europe's role as Africa’s premier economic and political partner.
REFERENCES


