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Purpose & Performance: Reassessing
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FINANCING CLIMATE-RESILIENT INFRASTRUCTURE IN AFRICA

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Abstract



Amidst rapidly escalating climate crises, there is an urgent need to enable African countries to remodel existing financial infrastructure with the aim of strengthening climate resilience and developing green infrastructure. As the world scrambles towards decarbonisation, the G20 nations, which represent the largest source of wealth, with 85 percent of global GDP, are well equipped to support vulnerable countries. This Policy Brief proposes three mechanisms whereby the G20 can support African

countries: providing grant funding and technical assistance to the Programme for Infrastructure Development for Africa (PIDA) to increase the number of high-quality bankable projects and mobilise financiers; strengthening the coordination of climate financing from the G20 countries to the continent; and unlocking financial technology and entrepreneurship to mobilise financing for bankable projects. This Brief further recommends that the G20 should use its technical capacity, financial muscle, and convening power to put African countries on the path towards climate resilience.



The Challenge



1



The scale of financing required to support African countries through climate change is significant. Though African countries contribute a cumulative 3.8 percent to global emissions, they are highly vulnerable to the consequences of climate change and lack the resilience to withstand them.¹ Only three Sub-Saharan African (SSA) countries scored at or above the global average (49/100) on the Notre Dame Global Adaptation Index, which assesses a country's susceptibility to the effects of climate change, such as sea-level rise, disease, and drought, and its readiness to adapt to such changes and improve resilience.^{2,3,4} Evidence from the African Development Bank shows that African countries are losing 5–15 percent of their GDP growth per annum to climate change.⁵

Amidst rising debt challenges from commodity prices and the COVID-19 pandemic, it is becoming increasingly difficult for African countries to turn to borrowing.⁶ Of the 38 SSA countries covered in the joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries (LIC-DSF), 25 are already in, or are at high risk of, debt distress; the remaining 13 are at moderate risk.⁷ This has left little available

public financing for infrastructure or other climate objectives.⁸ According to the African Development Bank (AfDB), Africa's shortfall in infrastructure financing remains between US\$68 billion and US\$108 billion per year.^{9,10} There is particular need in Africa for green and resilient infrastructure to cope with the effects of climate change, mitigate the damages wrought by natural disasters, and limit emissions.

Donor partners and private capital have an important role to play. However, donor support remains fragmented and inefficient.¹¹ Meanwhile, private capital, which is needed at scale, is facing structural challenges, including limited investment, tightening monetary policy conditions leading to increased cost of borrowing, and an array of political and economic risks.¹² Amidst global economic uncertainty, de-risking vehicles can incentivise the private sector to take on additional risk. Especially important is de-risking adaptation initiatives, which remain underfunded compared to mitigation efforts by both private and multilateral sources alike.¹³ While adaptation is vital to protecting the world's poor, who remain most susceptible to the inimical effects of climate change, financing flows for adaptation remain five to ten



times below projected needs—a gap that has only widened since 2019.¹⁴

Urgent action is needed to adapt global financial networks to increase both infrastructure and development

finance in order to strengthen Africa's resilience to climate shocks. Leveraging comparative advantages of the private sector, fintech, and donor partners is critical to fill the significant climate financing gap.



The G20's Role

2





The G20 is made up of 19 countries and the European Union, representing two-thirds of the world's population, and are responsible for 85 percent of global GDP and over 75 percent of global trade.¹⁵ The group also emits 80 percent of global greenhouse gases.¹⁶ The G20 is therefore simultaneously the most potent driver of climate change as well as the best equipped to lead a response.

The G20 countries are increasingly incorporating climate change into their agenda. The formation of the Sustainable Finance Working Group in 2021 and the Bali Declaration in 2022 evince a greater emphasis on helping developing countries mobilise climate finance.¹⁷ More recently, at the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27),¹⁸ a dedicated fund was established to assist developing countries cope with Loss and Damage. The G20 consists of three developing countries, including Brazil, India, and Indonesia, which continue to be affected by climate change. With the G20 presidency rotating among these three countries between 2021 and 2024, this provides an avenue for emerging markets and African countries

to place their demand with regard to climate financing. This period holds the potential for the G20 leadership to assist in boosting and coordinating the different sources of finance.

The previous section highlighted the urgent need to remodel existing financial infrastructure to enable African countries to strengthen their climate resilience and develop green infrastructure. This Policy Brief proposes three mechanisms: (i) providing funding and technical assistance to the Programme for Infrastructure Development for Africa (PIDA) to increase the number of high-quality bankable projects and mobilise financiers; (ii) strengthening the coordination of various climate financing efforts to maximise outcomes; and (iii) unlocking financial technology and entrepreneurship to mobilise financing for bankable projects.

Mechanism 1: Provide grant funding and technical assistance for PIDA to strengthen the identification and development of bankable projects

Africa's estimated investment for infrastructure is estimated at between US\$130 billion and US\$170 billion, with a shortfall amounting to between US\$70

billion and US\$100 billion.¹⁹ Although infrastructure spending has increased over time, project preparation remains a bottleneck, given that it is an expensive, complex, and risky process. It requires rigorous economic and financial analyses, fiduciary assessments, social and environmental safeguards, and climate-resilience evaluations vital for sustainability. The lack of adequate grant funding has severely constrained preparation of high-quality bankable projects in Africa.²⁰

PIDA is a continental initiative that creates a rich pipeline of bankable cross-border projects. It lays out the continent's strategic vision for infrastructure until 2040 for more integrated transport, energy, ICT, and trans-boundary water networks. PIDA uses the Priority Action Plans, which outline immediate steps to attain its long-term goals. The shortlisted projects were adopted in February 2021 and approved by the African Union heads of states after a long period of consultations and rigorous assessments by the African Union Commission, the African Development Bank (AfDB), the African Union Development Agency (AUDA-NEPAD), and the United Nations Economic Commission for Africa (UNECA).²¹

Moving forward, the G20 can provide PIDA with grant funding to support the development of bankable projects and leverage its convening power to mobilise financiers.

- **Providing grant funding to PIDA:** Project preparation and design costs amount to approximately 5 percent of total project costs. Thus, a relatively small amount of G20 grant funding could yield substantial returns by enabling completion of the preparation and de-risking of some of the priority projects already identified by PIDA. This would ensure that a rich pipeline of well-assessed bankable projects is available to investors. Just US\$5 billion would provide significant support for project preparation and thereby de-risk priority projects identified by PIDA in February 2021.²²
- **Leveraging the G20's convening power to mobilise financiers.** A convening hosted by the G20 will bring together a consortium of pension funds, insurance companies, sovereign wealth funds, and other financial institutions looking to finance bankable projects across the African continent, while



yielding stable long-term returns. This can help increase deal flows to the Africa Investment Forum,²³ an initiative of eight institutions accelerating transactions and attracting investors to close Africa's evident infrastructure gap. In essence, the availability of well-assessed bankable projects will send a clear message to investors worldwide that Africa is seriously open for business.²⁴

The support of the G20 strengthens the capacity of PIDA to take on the function of becoming a coordinating umbrella to support green infrastructure development.

Mechanism 2: Improving coordination and harmonisation among climate financiers and donors

Africa's climate financing landscape is fragmented, which is a microcosm of the complexity in the development cooperation arena. There are four groups of financiers: (i) bilateral climate funds (Germany, France, Japan, and over 25 other countries); (ii) the European Union; (iii) Multilateral Development Banks (MDBs) (World Bank, African

Development Bank, and seven other regional MDBs); and (iv) multilateral climate funds (Global Environmental Facility, Climate Investment Funds, Green Climate Funds, and over 15 other funds). These stakeholders each bring specific objectives and approaches to tackling the climate change problem in the continent.

Climate financing remains decentralised, and a plethora of financing options, implementation channels, and thematic priorities have given rise to innovation as well as inefficiency arising from poor coordination, overlapping mandates, limited accountability, and inefficient resource mobilisation. There is room to strengthen coordination.²⁵ These challenges have also given rise to difficulties around the monitoring, reporting, and verification of climate finance flows.

Therefore, it is imperative that coordination is improved across the various stages of climate finance, including mobilisation and accounting, the architecture of funds, and the allocation and channels of delivery. Coordination requires fostering coherence in funded activities and enhancing oversight of disbursed funds.

The G20 can harmonise climate financing initiatives and provide capacity building for African countries.

- **Capacitating a single G20 institution to be a focal point for all climate donor funds and support the capacity building of a single government department in recipient countries to manage incoming funds.** This has multiple benefits: (i) reducing the duplication of efforts and funds by combining interventions and resources or opting to phase out activities and replacing one-off interventions with programmatic approaches to improve sustainability; and (ii) significantly reducing administrative costs borne by recipient countries, enhancing the efficiency of funds received, and improving the implementation of interventions.²⁶
- **Increasing donor information exchange by harmonising funding and reporting requirements, procedures, and standards.** Although the reporting requirements are similar for financing initiatives that fall within the United Nations Framework Convention on Climate Change (UNFCCC), it differs

considerably across non-UNFCCC architecture, which the majority of climate finance initiatives fall under. Harmonisation of climate financing data can help donors identify gaps, improve administration, and expand financing to priority areas, as well as promote transparency, completeness, and accuracy by cross-checking data across countries.²⁷

Mechanism 3: Mobilising resources to unlock financial entrepreneurship to finance bankable projects

Financial entrepreneurship has a critical role to play in mobilising climate finance for bankable projects in view of inadequate financing from traditional sources, including the public sector. Financial entrepreneurship can be unlocked through fintech startups enabled by the digital revolution. For most African countries, the actual levels of financial inclusion fall short of the predicted values, except for the upper-middle-income African countries.²⁸

Fintech is rapidly expanding in Africa for savings, credit, insurance, and other digital financial services. Evidence shows that, in 2021, there were nearly



600 fintech startups²⁹ in Africa that mobilised over half of US\$2 billion raised by the aggregate African startups.³⁰ Still, the fintech space remains nascent, limiting the development of products such as agriculture insurance to strengthen the sector's resilience to climate shocks and financing for green investments. Strengthening fintech requires developing an enabling policy environment with central banks, developing human capital investments, and strengthening infrastructure.³¹

G20 and other international organisations can partner to create an enabling environment for fintech to fill the financing gap for green investment. Some key areas for partnership are as follows:

- **Mitigating information and communications technology (ICT) infrastructure challenges:** Despite the rapid expansion of fintech, it remains limited due to infrastructural constraints such as internet connectivity. The G20's support for Africa's quest for digital transformation would be key in terms of financing and providing technical assistance to the development of public-private partnerships for ICT infrastructure.

- **Developing talented financial manpower:** Success in the fintech startup movement requires supporting human capital development in finance and technology. G20 support in capacity building for talent that is fit for purpose would be vital. One related issue is that the region faces the flight of such talent to more advanced countries, including to those in the G20. Partnership with African countries in averting brain drain and fostering brain bank (diaspora) would require multiple incentives that require financial and non-financial resources.
- **Strengthening the regulatory environment:** In addition to the weakness of the current regulatory regimes, including anti-money laundering and KYC (know your customer) compliance, there is limited regulatory capacity. Regulating digital financial services has been a challenge globally. The G20 partnership is key to supporting African central banks with strengthening their regulatory systems to prevent financial instability amidst the rapid advent of fintech.

- **Facilitating financial integration to support regional fintech growth:**

Rapid changes in technology are transforming the financial system and how central banks execute core functions, such as payment systems and currency execution.³²

However, fragmented regulatory frameworks exist across the region, making compliance challenging and inhibiting fintech from operating

in multiple jurisdictions. Financial integration and harmonising financial systems, aligned with the African Continental Free Trade Area Agreement (AfCFTA), is key for adopting fintech solutions regionally. Technical assistance from the G20 can accelerate financial integration, growth of regional fintech, and financial entrepreneurship.



Recommendations to the G20

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Making existing financial infrastructure work for Africa has assumed renewed significance, as Africa's debt levels have risen considerably since the start of the pandemic and global liquidity has become increasingly strained. Mounting debt servicing costs have made it difficult for Africa to finance key investments toward development objectives, especially climate resilience and green infrastructure. The G20 partnership can serve a vital function in strengthening existing financial infrastructure to attract climate finance for African economies. This Policy Brief has analysed three specific proposals for the G20 partnership to mobilise resources for climate-related development objectives:

a. The G20 should provide grant financing and technical assistance for institutions, such as PIDA, that assess project potential and establish cost-effective, bankable projects.

b. The G20 should harmonise climate financing initiatives by mandating a single G20 institution to lead global climate-related financing and communications to engender economies of scale and improve information flow. The G20 should also support the dedication of a specific government department in recipient countries to coordinate climate-related financial inflows.

c. The G20 should bolster fintech and financial entrepreneurship in Africa by supporting its efforts to improve digital infrastructure, partnering with Africa's governments to avert brain drain and establish reliable capacity-building opportunities, helping Africa strengthen its regulatory environment, and facilitating Africa's regional and global financial integration through AfCFTA.

Attribution: Gracelin Baskaran et al., "Financing Climate-Resilient Infrastructure in Africa," *T20 Policy Brief*, June 2023.



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