



**DEVELOPMENT
REIMAGINED**



OPTIONS FOR PRIVATE SECTOR CLIMATE FINANCE IN AFRICA

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Development Reimagined

Development Reimagined (DR) is a pioneering, African-led, women-led, Africa-first and award-winning international development consultancy, with headquarters in Beijing and offices in the UK and Kenya. DR was created in response to the complexities of global poverty and sustainable development – which requires new ideas, and new solutions. DR - and the clients we work with - invest in thoughtful insights backed by cutting-edge analytics and deep relationships.

Since its creation in 2018, DR has developed industry-leading expertise embedded in practical experience on five of the world's most consequential issues: Africa-China relations, development finance, climate action, global trade, and decolonising development. DR aims to develop and promote African perspectives and leadership by working with African and other countries, organizations, and brands to develop inclusive, sustainable, and scalable strategies for growth and change – including through trade, finance and other foreign policy, while providing thought leadership to reshape humanitarian and development aid from and to all over the world into more equitable and exit-able systems.

CHAPTER ONE - AFRICAN CLIMATE LANDSCAPE AND CLIMATE FINANCING GAP

The global climate crisis has had a disproportionately higher impact on the African continent. In 2022, more than 110 million people on the continent were affected by climate, weather, and water-related hazards, causing over USD 8.5 billion in economic damages.¹ According to the United Nations Economic Commission for Africa (UNECA), 17 of the 20 countries most affected by climate change are in Africa, with climate change impacting between 2% to 9% of national budgets across the continent.²

Although the continent has contributed the least to the climate crisis, accounting for less than 5% of global carbon emissions³ (compared to 13.49% by the United States)⁴, it is the most vulnerable to its consequences.⁵ Due to the continent's high exposure and low adaptive capacity, the effects of climate change are felt more severely, affecting countries' economies and infrastructure.

African countries require substantial financing to meet their climate needs. Between 2020 to 2030, based on African government's Nationally Determined Contributions (NDCs),⁶ implementing Africa's climate response will require USD 250 billion in public and private finance every year.⁷ In 2020 alone, a mere USD 29.5 billion was tracked for climate finance on the continent, which is only 14% of the financing needed.⁸

Due to these constraints, African countries are being forced to redirect a large portion of their public finances towards mitigation and adaptation efforts, taking resources and finances away from financing other development priorities such as the Sustainable Development Goals (SDGs) and the African Union's Agenda 2063.

Nevertheless, the African continent presents numerous opportunities for climate investment. According to the Renewable Energy Agency, Africa can supply 40 % of the world's solar potential and over 10% of the world's wind capacity by the year 2050.⁹ Unfortunately, there is still a long way to go, as the continent only accounts for 2% of the green energy that is generated globally.¹⁰ On the other hand, the United Kingdom has more solar production than the entire African continent.¹¹

¹ World Meteorological Organisation (2023) Africa suffers disproportionately from climate change. [Available here](#)

² UNECA (2023) 17 out of the 20 countries most threatened by climate change are in Africa, but there are still solutions to this crisis. [Available here](#).

³ Le Roux,A., Cilliers,J. (2024)/ Africa's Contribution to Carbon Emissions to 2063. [Available here](#)

⁴ Climate.gov (2023) Does it matter how much the United States reduces its carbon dioxide emissions if China doesn't do the same? [Available here](#).

⁵ Aljazeera (2023) How much does Africa contribute to global carbon emissions? [Available here](#)

⁶ Nationally Determined Contribution is a climate action plan to cut emissions and adapt to climate impacts. Each party of the 2015 Paris Agreement needs to establish and NDC and update it every 5 years. [Available here](#)

⁷ Climate Policy Initiative, Children's Investment Fund Foundation, Fsd Africa, UKAID (2022) Climate Finance Innovation for Africa. [Available here](#).

⁸ Ibid

⁹ Ryder, H. (2021) Wishful leapfrogging – Africa's renewable energy lag, FDI Intelligence. [Available here](#)

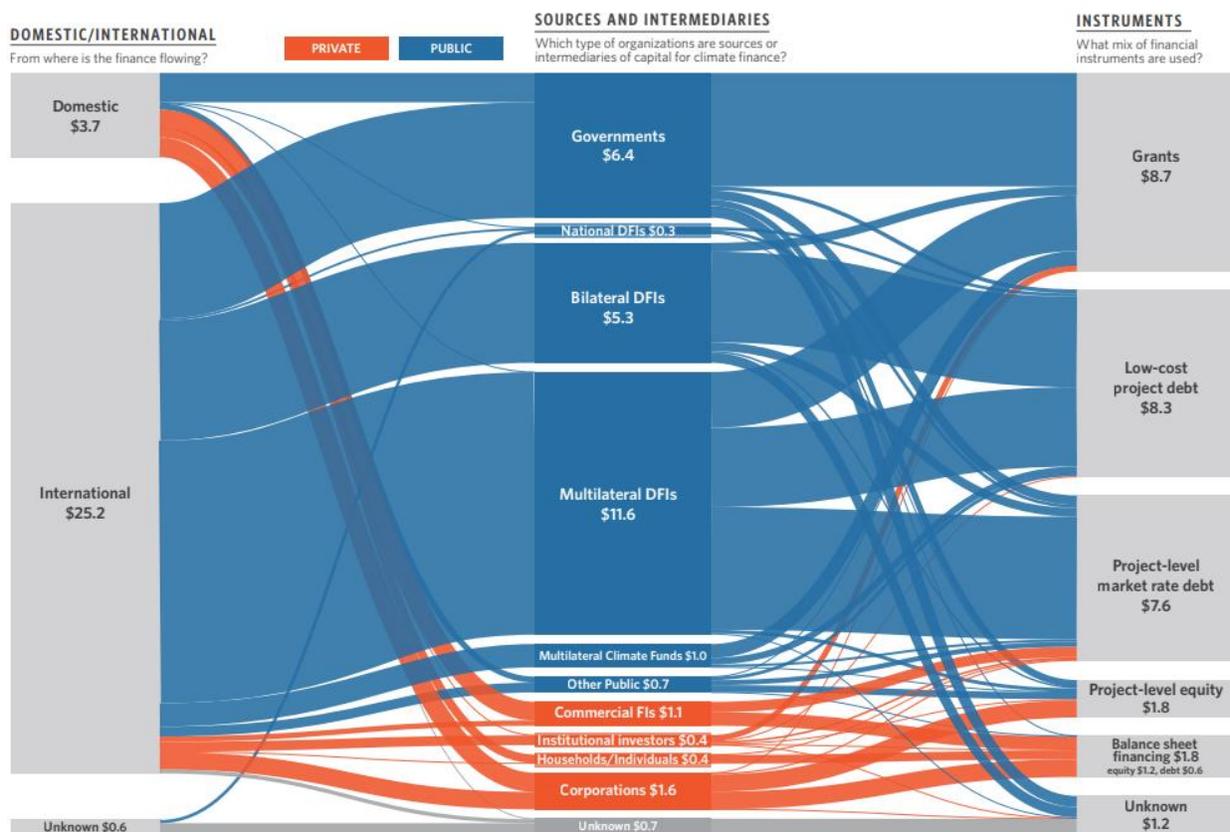
¹⁰ Ibid

¹¹ Ibid

According to the United Nations Convention on Climate Change (UNCCC), climate finance refers to the “local, national or transnational financing – drawn from public, private and alternative sources of financing- that seeks to support mitigation and adaptation actions that will address climate change”.¹²

African governments have committed USD 264 billion of domestic public resources, about 10% of the USD 2.5 trillion total cost, to tackle climate change.¹³ Support from domestic private stakeholders as well as from the international public and private sectors, is essential for African states to alleviate the direct and indirect effects of climate change. To mobilize USD 2.5 trillion between 2020 to 2030, an average of USD 250 billion is needed annually.¹⁴ Unfortunately, there is a stark gap between the financing needed and the financial resources that have been mobilized thus far. In 2019/2020, the private sector accounted for only 14% of total climate financing flow on the continent.¹⁵

Figure 1: Climate Finance Flows in Africa, 2019/2020 (USD billion)¹⁶



¹² UNFCCC Introduction to Climate Finance. [Available here](#)

¹³ Climate Policy Initiative (2022) The State of Climate Finance in Africa: Climate Finance Needs of African Countries. [Available here](#).

¹⁴ University of Cambridge (2023), Financing Africa’s Low Carbon Green Economy Transition Africa’s Climate Finance Needs. [Available here](#).

¹⁵ Climate Policy et al (2022) Climate Finance Innovation for Africa. [Available here](#)

¹⁶ Climate Policy Initiative (2022) Landscape of Climate Finance in Africa. [Available here](#).

Leveraging financial resources from the private sector is one of the core priorities for most African countries. In 2022, USD 4.2 billion was tracked as private investments in climate-related projects, which is only 14% of the total tracked climate finance flows.¹⁷ In 2021, 87% of African climate finance (USD 20 billion) was from the public sector while the potential of private stakeholders is yet to be tapped into.¹⁸

Aside from utilizing global financial instruments, policies have also been launched on a national level to promote private investment. For example, Nigeria and South Africa are pioneers in issuing green bonds, while countries, like Kenya and Morocco promote Public-Private Partnerships (PPPs) across numerous sectors including renewable energy.¹⁹ The Government of Rwanda has also developed the National Fund for Environment (FONERWA). In this cross-sectoral climate, environmental and climate financing is channeled, programmed, and disbursed, blending public and private financial resources.²⁰ Nevertheless, there remains a large gap within many African countries' domestic capacity to leverage private investment, especially as bigger economies with political stability and conducive regulations can be more attractive to investors and can thus offer more investable projects.

In the COP29 discussions in Baku, Azerbaijan, many governments, civil society, and private sector actors were disappointed in the outcomes, particularly the lack of consensus on transitioning away from fossil fuels. Nonetheless, there were a few wins, including 1) a new financing goal of USD 300 billion annually to developing countries by 2035 – three times the previous goal of USD 100 billion²¹ 2) Major MDBs, including the African Development Bank (AfDB), announced an increase of climate finance for low-and-middle-income countries to USD 120 billion annually by 2030, including mobilizing USD 65 billion from the private sector²² 3) under Article 6.4 and Article 6.2, governments also agreed on robust standards for a central carbon market under the United Nations and clarity on international transfers of carbon credits and the operationalization of the carbon credit mechanism.²³

¹⁷ Ibid

¹⁸ Climate Policy Initiative (2022) The State of Climate Finance in Africa: Climate Finance Needs of African Countries. [Available here](#).

¹⁹ Taghizadeh-Hesary, F et al. (2022) The green bond market and its use for energy efficiency finance in Africa, China Finance Review International 12:2. [Available here](#).

²⁰ FONERWA. [Available here](#).

²¹ United Nations Climate Change. COP29 UN Climate Conference Agrees to Triple Finance to Developing Countries, Protecting Lives and Livelihoods. (2024a, November 24). [Available here](#)

²² African Development Bank. (2024, November 12). COP29: MDBs double down on climate goals with new financing and impact frameworks. [Available here](#)

²³ United Nations Climate Change. COP29 UN Climate Conference Agrees to Triple Finance to Developing Countries, Protecting Lives and Livelihoods. (2024a, November 24). [Available here](#)

1.1 African NDCs and Climate Finance Needs for Mitigation and Adaptation

According to the NDCs across the African continent, mitigation²⁴ represents the largest share of African climate needs from 2020-2030, accounting for 66% of total climate finance needs, worth USD 1.6 trillion.

²⁵ For African countries, the four priority sectors for mitigation, together with their corresponding financing needs are transport (58%), energy (24%), industry (7%), and Agriculture, Forestry, and Other Land Use (AFOLU) (9%).²⁶ Zooming in on transportation, the top priority, Southern Africa has the highest finance needs in this sector while North Africa has the least.²⁷

Meanwhile, adaptation²⁸ accounts for 24% of total climate finance needs on the continent - USD 579 billion- while dual benefits (adaptation and mitigation) account for 10% of the needs with a value of USD 242.8 billion.²⁹ In terms of adaptation, priority sectors were agriculture (25%), water (17%), infrastructure and building (12%), disaster prevention and preparedness (10%), and health (8%).³⁰

Considering the vast climate financing needs and limited public financing available, African countries need to explore different innovative “**options**” for accessing climate finance from the private sector. There are opportunities to attract innovative private financing that goes beyond traditional financing approaches that have the potential to unlock billions.

²⁴ In this report, mitigation refers to reducing or preventing the release of Greenhouse Gases (GHG) into the atmosphere.

²⁵ Climate Policy Initiative (2022) The State of Climate Finance in Africa: Climate Finance Needs of African Countries. [Available here](#).

²⁶ Ibid

²⁷ Ibid

²⁸ In this report, adaptation refers to actions to prepare for and adjust to the effects of climate change.

²⁹ Climate Policy Initiative (2022) The State of Climate Finance in Africa: Climate Finance Needs of African Countries. [Available here](#).

³⁰ Ibid

CHAPTER TWO - METHODOLOGY

This report uses an *Options Paper* framework to assess different private sector instruments for securing new climate financing. This style of reporting helps outline the different options available clearly to be able to compare them with each other as well as scrutinize the strengths and weaknesses of each one. This Options Paper sets out **nine** innovative private-sector climate financing options for African governments to consider. The report focuses on options for securing *new* financing that go beyond conventional instruments and are underutilized. The options assessed in this paper are **(1) Issuing Bonds (2) Carbon Markets (3) Debt for Climate Swaps (4) Remittances (5) Syndicated Financing (6) Reform of Credit Rating Agency Ecosystem (7) Private Climate Finance through Bespoke Climate Funds (8) Private Climate Finance through International and Bilateral Development Finance Institutions (IFIs) (9) Legislation to Curb Predatory Private Actors**

This options paper employs both qualitative and quantitative research bringing together data from different sources of evidence including various climate and finance reports, official documents from African governments, scientific journals as well as publications from different think tanks, research institutions, MDBs, and non-governmental organizations. This includes official documents from the Climate Policy Initiative (CPI), the World Bank, the African Union, and the African Development Bank Group. All of the data mentioned in this report is within the last 10 years.

2.1 Assessment Criteria

The report assesses the challenges and opportunities of each option in securing new financing, using bespoke criteria that reflect African governments' financing needs and priorities as set out in Agenda 2063 and countries' individual NDCs. These options are among the least explored private climate finance mechanisms, and through the assessment criteria below, the pros and cons of each will be outlined.

Each criterion is given between **1-10 points**, with a total maximum of 50 points.

- 1. Capacity of the funding option:** The scale of climate financing needed is significant, therefore the absorption capacity of an option - meaning how much financing can be channeled towards that instrument - is an important factor to consider. Sometimes, the amount of financing that can be mobilized from an instrument is limited. Therefore, options that can mobilize more financing will be ranked higher.
- 2. Rate of mobilization and disbursement:** In addition to the amount of financing an instrument can absorb, another key factor is how quickly the financing can be mobilized and disbursed. For instance, some instruments such as World Bank loans have often been criticized for slow approval processes and disbursements, sometimes taking years at a time for countries to receive the funds. If an option allows for quick mobilization and disbursement to climate projects and areas in need, the option will be ranked higher.

- 3. Consistency:** This criterion refers to the consistency of the financing and examines whether financing is continuous or periodic. The importance of having a continuous flow of financing is that it allows for different projects to be financed and allows for new funds to go into new priority areas and programs as these also shift through time. Options that allow for such flexibility will be allocated more points.
- 4. Conditionalities:** Conditionalities are conditions attached to a country receiving financing from a lender, as often funds come with ‘strings attached. Conditionalities come in various forms including policy conditions, monetary or fiscal adjustments, or governance conditions. This criterion looks at the freedom that African countries have with the financing they receive. Therefore, instruments that allow African governments to decide the areas they want to direct funding to will be ranked higher.
- 5. Diversity of destination:** This criterion analyzes whether the financing channeled to that instrument will reach only a few African countries or regions or whether that financing will benefit most African countries. As explained in later sections, different countries and regions on the continent have differing levels of need. An option that can target and benefit more countries and therefore promote greater development and growth on the continent, will be ranked higher.

For this report, the focus will be on private sector climate financing, in particular external private climate financing. This report aims to guide African government officials and policymakers, particularly those working directly on climate issues in the Ministries of Finance, Economy, Agriculture, or Environment, to navigate the complex actors and mechanisms in the private climate finance space. In parallel, this report also aims to help the private sector identify where there is an opportunity to finance and invest in the short term and long term. Both recipient countries and sources of finance need to meet each other at some point of understanding to move from ideas to action.

This report does not touch on every private sector option available but offers a variety of new and innovative instruments that are worth pushing for at a domestic, regional, and international level. The report will delve into the options, presenting the advantages and challenges of each one and analyzing them against the five assessment criteria that will be explained below.

CHAPTER THREE - OVERVIEW OF AVAILABLE PRIVATE FINANCE FUNDING

This section maps out relevant climate finance stakeholders on the African continent.³¹ The stakeholders are categorized into **four quadrants** based on their level of power and interest.

The "**Manage Closely**" quadrant highlights stakeholders with high power and high interest, such as the African Development Bank (AfDB), Green Climate Fund (GCF), People's Bank of China (PBOC), China Development Bank (CDB) and private sector companies. These stakeholders are critical to the success of climate finance initiatives due to their strong influence and vested interest in climate-related projects. These actors are important to engage with as they can drive significant funding and appetite for climate finance efforts. In addition, stakeholders like the African Union (AU), relevant ministerial offices, and debtor countries that issue green bonds and support other climate finance initiatives are also included in this quadrant.

In the second "**Keep Satisfied**" quadrant, stakeholders with high power but lower interest, such as the IMF, the World Bank, the United Kingdom's Foreign, Commonwealth and Development Office (FCDO), China's Ministry of Ecology and Environment, and financial institutions, are identified. These entities wield influence over financial flows and policies but may not prioritize climate finance as their primary focus. Ensuring these stakeholders remain satisfied with the climate finance initiatives is important to maintain their support and avoid potential pushback.

Third is the "**Monitor**" quadrant which includes stakeholders with low power and low interest, such as the general public, media, and diaspora communities, who require regular updates and monitoring to address any emerging concerns.

Fourth is the "**Keep Informed**" quadrant which comprises stakeholders with high interest but low power, including Industrial and Commercial Bank of China (ICBC), project developers, environmental NGOs, and local communities. Keeping these groups well-informed ensures their continuous support and engagement, which can contribute valuable insights and grassroots-level implementation. Figure 2 below further maps out some of the key private sector climate finance actors on the continent.

³¹ Note this is not an exhaustive list of climate finance stakeholders

CHAPTER FOUR - FINANCING OPTIONS

This section outlines **nine innovative options** for securing new financing for climate projects on the African continent. Some of these options (such as issuing bonds) have been utilized by governments for decades and have shown to be a useful source of financing even if they have not been used specifically for climate finance. On the other hand, some options (such as remittances) pool billions of financing to the continent but have not been considered as a viable source of climate finance. This section aims to give insight into these options, exploring their vast potential while also identifying their challenges and assessing them against the five bespoke criteria outlined in Section 2.

4.1 Option 1: Issuing Bonds

4.1.1 Eurobonds

A Eurobond is a fixed-income debt instrument denominated in a different currency than the local currency of the country where the bond is issued.³² Eurobonds are a vital financing instrument enabling governments or institutions to secure financing and access a diverse investor base.³³ From the period 1997-2023, Development Reimagined analysis shows that 19 African countries have issued a total of 91 Eurobonds with 65.93% of those active Eurobonds issued by five countries, namely Angola, Egypt, Ghana, Nigeria, and South Africa.³⁴ Currently, the continent's active Eurobonds have a face value of USD 111.05 billion.³⁵

4.1.2 Panda Bonds

A Panda bond is a bond denominated in Chinese Renminbi (RMB) issued by a foreign entity that is sold in mainland China. It allows foreign governments, development banks, or non-financial institutions to raise funds in China's domestic market. A green Panda bond is a bond designated for environmentally friendly projects.³⁶ Leveraging green Panda bonds can raise capital for green projects, alleviate debt sustainability concerns, and attract Chinese investors to Africa's environmental initiatives. Box 1 below examines Africa's first Panda Bond.

³² Corporate Finance Institute. Eurobond. [Available here](#)

³³ Cytonn (2024) Sub-Saharan Africa (SSA) Eurobonds Performance in 2023 [Available here](#)

³⁴ Development Reimagined (2024) Africa's Eurobonds How large are the Eurobonds held by African countries, how might they impact budgets in future, and what scope for reducing their costs? [Available here](#)

³⁵ Ibid

³⁶ ASCIR (2023) Leveraging green panda bonds for Africa's energy transition [Available here](#)

Box 1: Case Study: Egypt's Panda Bond

Egypt became the first African nation to issue a Panda Bond, raising RMB 3.5 billion (USD 480 million) in China's interbank bond market. Supported by guarantees from the Asia Infrastructure Investment Bank (AIIB) and AfDB, these bonds carry a competitive 3.51% coupon rate over a 3-year term. The funds advanced Egypt's sustainable development goals in sectors like renewable energy and other productive sectors aligning with the Paris Agreement commitments and bolstering climate resilience.³⁷

Egypt's issuance of Panda Bonds marked a significant step towards financial resilience and reaching climate goals. By leveraging international markets and securing support from multilateral institutions, Egypt set a precedent for sustainable finance leadership in Africa. This strategic move positions Egypt as a trailblazer in sustainable finance and offers lessons for other African nations seeking to fund transformative climate projects and promote inclusive growth across the continent.³⁸

4.1.3 Samurai Bonds

A Samurai bond is a bond issued by foreign entities in Japan's capital market, denominated in the Japanese Yen. It enables governments, supranational organizations, and corporations from outside Japan to raise funds directly from Japanese investors, avoiding currency conversion risks.³⁹ African countries are increasingly utilizing Samurai bonds as a strategic means of securing climate finance. Kenya's planned Samurai Bond, explained in the box below, demonstrates the increasing interest among African countries to issue different bonds.

Box 2: Case Study: Kenya Samurai Bond

In February 2024, the Kenyan government announced that it was seeking a Samurai bond worth Ksh 80 billion (approximately USD 500 million).⁴⁰ The Samurai bond would be agreed upon by the National Treasury and Nippon Export and Investment Insurance (NEXI) and would allow the government to issue the bond in two phases at USD 250 million each.⁴¹

The Samurai bond will be used to enhance energy efficiency in Kenya's transmission network, support e-mobility initiatives and promote electric vehicles (EVs).⁴² Although this bond is marked for specific projects in the energy and transport sectors, this is also seen as beneficial to Japanese investors and contractors. The bond is expected to be utilized in the 2024/2025 fiscal year and to strengthen ties for industrial development and green growth while promoting Japanese companies in Kenya.⁴³

³⁷ AIIB (2023) AIIB, AfDB Guarantee Africa's First Sustainable Panda Bond [Available here](#)

³⁸ China Business Law Journal (2023) Five firms assist on Egypt issuing Africa's first panda bond. [Available here](#)

³⁹ Cbonds. "Samurai Bonds Explained: Navigating Japan's Unique Investment." [Available here](#)

⁴⁰ Metropol (2024). Kenya to Issue \$500 Million in Another Eurobond. [Available here](#)

⁴¹ Ibid

⁴² Kenyans.co.ke. Kenya Signs Samurai Bond with Japan Worth Ksh80 Billion. [Available here](#)

⁴³ Ibid

4.1.4 ESG Bonds

ESG bonds⁴⁴, also known as sustainable bonds or green bonds, are debt instruments issued by governments, municipalities, corporations, or other organizations to fund projects with positive environmental, social, and governance impacts.⁴⁵

ESG bonds require that all financing is used only for sustainability or ‘green’ purposes and companies must report the amount of capital raised from these bonds to debt holders. A formal ESG financing framework also must be adopted before investments are made. Between January and February 2024, African ESG bond issuance hit a USD 4.4 billion record, nearly four times the total ESG bonds on the continent in 2023 which amounted to USD 1.4 billion.⁴⁶

The ESG fixed-income market consists of five main categories: **green bonds, transition bonds, social bonds, sustainability bonds, and sustainability-linked bonds**.⁴⁷ Green bonds are financial instruments that finance environmentally friendly projects.⁴⁸ Green bonds made up 60% of total ESG bonds issued in the first quarter of 2024, dominating the ESG market at USD 202.5 billion worldwide.⁴⁹ The majority of green bonds to date target climate change, with the World Bank as one of the largest issuers of green bonds globally.⁵⁰ Box 3 is a great example of a successful green bond on the continent. Transition bonds, first introduced in 2017, assist high greenhouse gas (GHG) emitting companies in shifting to greener and low-carbon activities.⁵¹ Although the transition bonds market is still at its infant stage, since 2017, USD 7 billion bonds have been issued across 16 deals globally.⁵² Social bonds, which saw significant growth during the COVID-19 pandemic, finance projects that deliver positive social outcomes, such as clean water and essential services. In the first nine months of 2023, social bond issuance reached EUR 110 billion, a 20% increase from the same period in 2022. Sustainability bonds support a combination of green and social projects for specific target populations. Unlike these, sustainability-linked bonds are general-purpose instruments where issuers commit to achieving sustainability performance targets, with rewards or penalties affecting coupon rates based on their ESG performance.⁵³

Table 1 below compares the lending terms of different bonds.

⁴⁴ ESG stands for Environmental, Social and Governance

⁴⁵ KnowESG (2023, June 16). What are ESG Bonds? All You Need to Know. [Available here](#)

⁴⁶ Ecofin Agency (2024). African ESG bond issuance hit a record USD 4.4 billion in early 2024. [Available here](#).

⁴⁷ Pictet (2022). A beginner’s guide to ESG-labelled bonds. [Available here](#)

⁴⁸ World Bank (2021). What you need to know about IFC’s Green Bonds. [Available here](#).

⁴⁹ DWS (2024). Rising ESG bond volumes offer opportunities. [Available here](#)

⁵⁰ What are ESG Bonds? [Available here](#)

⁵¹ Pictet (2022). A beginner’s guide to ESG-labelled bonds. [Available here](#)

⁵² Ibid

⁵³ Ibid

Box 3: Case Study: South Africa's Green Bond

In 2014, the Johannesburg Stock Exchange (JSE) issued a municipal green bond valued at USD 143 million to support the implementation of Johannesburg's climate change mitigation strategy and shift the city towards low carbon infrastructure.⁵⁴ The bond, which matures in 2024 is allocated to environmental projects, specifically the rollout of 42,000 building smart meters, 43,000 solar water heaters and 152 hybrid buses.⁵⁵

As the first city in the C40 Cities Climate Leadership Group to issue a green bond, this pioneering move showcases Johannesburg's leadership in integrating environmental responsibility with a financial strategy, setting a benchmark for other municipalities.⁵⁶ Johannesburg's investment grade credit rating also helped the city take the bond to the market which garnered a positive response. The JSE, Africa's largest debt market, continues to play a significant role in facilitating such sustainable investments.⁵⁷

Table 1: Lending Terms for Eurobonds, Panda bonds, Samurai bonds and ESG bonds

Bond	Currency Denomination	Interest Rates	Maturity
Eurobonds	Eurobonds can be denominated in any currency including US dollars, Euros, Pounds, Japanese Yen and Swiss Franc. ⁵⁸	The interest rates on Eurobonds vary based on market conditions and the creditworthiness of the issuer. ⁵⁹	Maturities range from 5 to 30 years. ⁶⁰
Panda Bonds	Panda bonds are denominated in Chinese Renminbi (RMB).	Panda bonds typically feature competitive interest rates, often around 3.20%. ⁶¹	Maturities often range from 3 to 10 years. ⁶²
Samurai Bonds	Samurai bonds are denominated in Japanese Yen (JPY).	The standard rate of withholding tax on interest from Japanese Samurai bonds is 20.315%. ⁶³	Maturities can range from 7 years to 20 years. ⁶⁴
ESG Bonds	The vast majority of ESG instruments are denominated in Euros and traded on regulated markets. ⁶⁵	ESG bonds have varying interest rates.	Most ESG bonds have maturities up to 10 years. ⁶⁶

⁵⁴ C40. Cite100: Johannesburg- Green Bonds Fill Gaps in Financing Climate Projects. [Available here](#)

⁵⁵ Ibid

⁵⁶ C40 (2016). C40 Good Practice Guides: Johannesburg- Green bond. [Available here](#)

⁵⁷ JSE. Interest Rate Market. [Available here](#)

⁵⁸ World Bank (2019). Issuing International Bonds: A Guidance note. [Available here](#).

⁵⁹ Ycharts. 5-Year Eurozone Central Government Bond Par Yield Curve. [Available here](#)

⁶⁰ HSBC. Eurobond: Fixed Income Securities: Investment Products. [Available here](#)

⁶¹ Ministry of Finance of Poland (2021). Pricing of Panda bonds. [Available here](#)

⁶² National Association of Financial Market Institutional Investors (2021). The opening up of China's Bond Market and the Development of Interbank Panda Bond Market. [Available here](#)

⁶³ Clear Steam. Japanese samurai bonds - rates, eligibility, availability of relief etc., May 19, 2020, [Available here](#)

⁶⁴ Maringgih, Advianto. Indonesia successfully issues JPY 104.8 billion samurai ..., 2024. [Available here](#)

⁶⁵ Liberati, D., Marinelli, G (2021). Everything you always wanted know about green bonds (but were afraid to ask). [Available here](#)

⁶⁶ Scope Ratings. Europe ESG corporate bonds: pick-up expected in 2024. [Available here](#)

4.1.5 Assessing Bond Issuance

Criterion	Explanation	Rating (1-10)
Capacity of the Funding Option	African countries can issue bonds upwards of billions of USD. Egypt for instance has Eurobonds at a total face value of USD 29.32 billion. ⁶⁷ This demonstrates that significant volumes of financing can be mobilized from issuing bonds.	9
Rate of Mobilization and Disbursement	The rate of mobilization will vary depending on the bond and is contingent on factors such as the country's previous ability to repay bonds on time, the country's potential domestic limits on how much external debt can be taken and the country's credit rating (if given one).	4
Consistency	Depending on a country's needs, a country can issue bonds consistently, especially non- Eurobonds, considering lending terms and the country's repayment capabilities. Nevertheless, countries can issue different kinds of bonds for consistent financing.	8
Conditionalities	Depending on the type of bond, conditions vary. For instance, Panda bonds and Samurai bonds require adherence to Chinese and Japanese market regulations. However, these conditions are not often considered to be too strict or limiting.	7
Diversity of Destination	Bonds can only be issued by African countries that have credit ratings which at the moment is only 33.	4
Total		32

4.2 Option 2: Carbon Markets

Carbon Markets or Carbon Trading Systems are carbon pricing mechanisms that allow governments and non-state actors to trade greenhouse gas emission credits.⁶⁸ These markets aim to reduce the amount of greenhouse gasses in the environment to achieve domestic and international climate targets. The Kyoto Protocol first introduced the concept in December 1997 to set clear emission limits for developed nations while encouraging developing nations to implement projects that reduce or remove greenhouse gases.⁶⁹

Clean Development Mechanism (CDM) is one of the flexibility mechanisms defined in the Kyoto Protocol that allows developed countries to invest in emission reduction projects in developing countries as a way to meet their emission reduction targets.⁷⁰ CDM projects aim to reduce or remove greenhouse gases from

⁶⁷ Development Reimagined (2024) Africa and Eurobonds- how many Eurobonds does Africa have and how might it impact their budgets in the future? [Available here](#)

⁶⁸ UN Environment Program (2022). Carbon markets. [Available here](#)

⁶⁹ United Nations Climate Change. What is the Kyoto protocol? [Available here](#)

⁷⁰ Ibid

the atmosphere. These projects can generate Certified Emission Reductions (CERs), with each CER representing a reduction of one tonne of CO₂ equivalent. CERs are issued by the UNFCCC and can be sold to countries or companies that need additional credits to meet their emission targets.

The CDM, a cornerstone of the Kyoto Protocol, is entering its sunset phase as the Paris Agreement introduces new market mechanisms - the Paris Agreement Carbon Market (PACM). While CDM operations will continue until 2025, with project registrations permitted through December 2023 and CER issuances for reductions until December 2025, the focus is shifting to Article 6's new framework.

Article 6 of the Paris Agreement establishes two key mechanisms: Article 6.2, governing bilateral cooperation through Internationally Transferred Mitigation Outcomes (ITMOs), and Article 6.4, creating a centralized carbon crediting mechanism to replace the CDM. The fundamental difference lies in the Paris Agreement's universal participation approach, where all countries have mitigation obligations through their NDCs, requiring more sophisticated accounting systems to prevent double counting and ensure environmental integrity.

Last November, the COP29 announcement of "reaching international carbon market standards"⁷¹ marked the end of the Clean Development Mechanism (CDM) era rather than the immediate launch of the Paris Agreement Carbon Market (PACM). The transition presents significant challenges, particularly for developing countries, as it demands new institutional frameworks, enhanced Measuring, Reporting, and Verification (MRV) systems, and substantial capacity building.

While Article 6 mechanisms promise more equitable participation opportunities, especially for African nations, their successful implementation requires extensive technical negotiations and institutional development that is still ongoing. With technical specifications still requiring discussion through 2025 and possibly until 2028, the transition period presents both challenges and opportunities for African nations.

The fundamental success of carbon markets is intrinsically tied to demand, which is primarily driven by the ambition of emission reduction targets. Under the Kyoto Protocol, relatively modest emission reduction commitments led to limited demand for carbon credits, resulting in depressed prices for CERs. This price collapse meant that many potentially valuable emission reduction projects, particularly in renewable energy and energy efficiency, became economically unfeasible because they required carbon prices above EUR 10-15 per tonne to be viable.⁷²

Had the Kyoto Protocol's targets been more ambitious, or if emissions trading mechanisms had been more widely adopted, the resulting increased demand would have driven carbon prices higher. Higher prices would have made a broader range of emission reduction projects economically feasible, enabling more diverse and innovative climate solutions across different sectors and technologies.⁷³ This market dynamic demonstrates why the success of future carbon markets under the Paris Agreement will largely depend

⁷¹ United Nations Climate Change. COP29 Agrees International Carbon Market Standards" [Available here](#)

⁷² Cames, M., Harthan, R. O., Füssler, J., Lazarus, M., Lee, C. M., Erickson, P., & Spalding-Fecher, R. (2016). "How additional is the Clean Development Mechanism?" Öko-Institut for the EU Commission.

⁷³ World Bank. (2020). "State and Trends of Carbon Pricing 2020." Washington, DC: World Bank.

on countries setting and maintaining ambitious climate targets that create sustained demand for carbon credits. Table 2 below lists out the key Emissions Trading Schemes (ETS) in the world (example of China’s ETS in Box 4) and Figure 3 maps out the key ETS’ and carbon market schemes globally.⁷⁴

Although information on carbon market cooperation frameworks with African countries is very limited, Table 3 lists out some of the key agreements between buyer countries like Switzerland and Singapore and various African countries.

Table 2: Emissions Trading Schemes across the globe

Region/Country	Scheme Name	Status	Potential to Buy Credits
European Union	EU Emissions Trading System (EU ETS)	Operational since 2005	Limited to domestic credits currently
China	National ETS	Operational since 2021	Not buying international credits yet
United States (California)	California Cap-and-Trade Program	Operational since 2013	Limited to domestic offsets
South Korea	Korea ETS	Operational since 2015	Open to international credits
New Zealand	New Zealand ETS	Operational since 2008	Open to international credits
Switzerland	Swiss ETS	Linked with EU ETS	Limited to domestic credits
Canada (Quebec)	Quebec Cap- and-Trade System	Linked with California	Limited to domestic offsets
Japan	Tokyo Cap-and-Trade Program	Operational since 2010	Domestic focus only
Australia	Safeguard Mechanism Credit Scheme	Operational since 2016	Domestic focus only

Table 3: Carbon Market Cooperation Frameworks with Africa^{75 76}

Buyer Country	Seller Country	Information
Switzerland	Ghana (2020)	Bilateral Authorization completed

⁷⁴ An Emissions Trading Schemes, as set out in Article 17 of the Kyoto Protocol, allows countries to have emissions units to spare, i.e. emissions permitted to them but not “used” to then sell this excess to countries that are over their targets. UN Climate change (n.d.). Emissions Trading. [Available here](#)

⁷⁵ World Bank. State and Trends of Carbon Pricing Dashboard. [Available here](#)

⁷⁶ Note that information on these deals is limited and this is not an exhaustive list

		TMOs were to be transferred “through the promotion of climate-smart agriculture practices for sustainable rice cultivation in Ghana”
	Kenya (2023)	Statement of Intent signed
	Malawi (2022)	Implementing Agreement signed
	Morocco (2022)	Implementing Agreement signed
	Senegal (2021)	Implementing Agreement signed
Singapore	Kenya (2023)	MOU signed
	Morocco (2022)	MOU signed
	Senegal (2023)	MOU signed
	Rwanda (2023)	MOU signed
	Ghana (2022)	MOU signed
Republic of Korea	Gabon (2023)	MOU/Implementing Agreement signed
Sweden	Ghana (2021)	MOU signed
Norway	Morocco (2023)	MOU signed
	Senegal (2023)	MOU signed

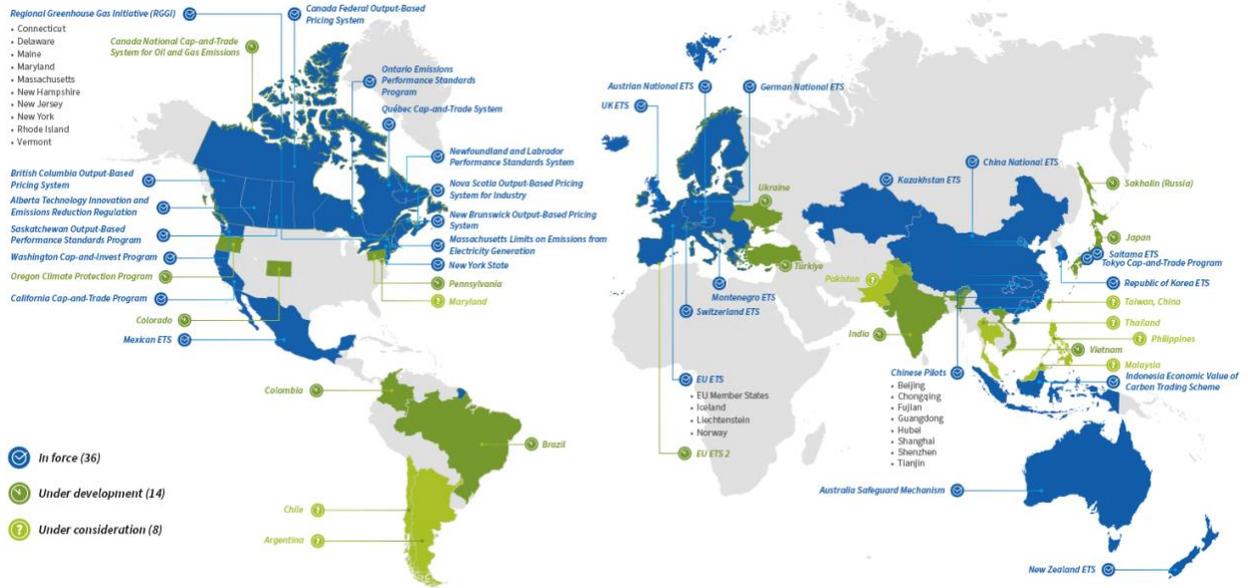
Norway recently committed to USD 740 million under the Paris Agreement Article 6 to contribute to emissions reductions and will be signing agreements with Benin, Jordan, Senegal, and Zambia.⁷⁷ Some sources also indicate that Senegal and Ghana are to sell cookstove credits certified under Article 6.2 to Switzerland in USD 20-25/mtCO₂e range.⁷⁸

The availability of inexpensive and abundant CERs from China and India presents a significant challenge to the market competitiveness of African CERs within the international carbon trading system. Both China and India benefit from large-scale carbon mitigation initiatives and possess well-established infrastructural frameworks that enable the production of CERs at substantially lower costs compared to many African nations. Consequently, the influx of low-cost Chinese and Indian CERs exerts downward pressure on global carbon prices, potentially diminishing demand for African CERs. African carbon credit projects, often characterized by smaller scales, logistical complexities, and less developed infrastructure in certain regions, tend to incur higher production costs, which places them at a relative disadvantage in a market increasingly dominated by cheaper credits. This dynamic threatens the ability of African countries to effectively participate in and capitalize on global carbon markets, potentially limiting the broader environmental and economic benefits they might derive from carbon trading mechanisms. Box 4 dives deeper into the origin and evolution of China’s ETS and table 4 summarizes the key debates in China on buying international credit.

⁷⁷ Government of Norway (2024). Norway Launches Initiative to Cut Emissions in Developing Countries. [Available here](#)

⁷⁸ Vanda, S (2023). Senegal, Ghana sell cookstove carbon credits to Switzerland in \$20-25/mtCO₂e range. [Available here](#)

Figure 3: Global Landscape⁷⁹



⁷⁹ International Carbon Action Partnership. ICAP ETS Map. [Available here](#)

Box 4: The Origin and Evolution of China's Emissions Trading Market

China's emissions trading journey began with pilot programs in 2013-2014, when seven regions (including cities like Shanghai and Shenzhen, and provinces like Guangdong) launched local carbon markets. These pilots served as experimental grounds for different market designs and trading mechanisms, covering various sectors and implementing different allocation methods.⁸⁰

The national Emissions Trading Scheme (ETS) was officially launched in 2021, initially focusing solely on the power sector, which accounts for about 40% of China's carbon emissions. Unlike many other carbon markets, China's national ETS currently operates as an intensity-based system, setting targets for emissions per unit of output rather than absolute emissions caps.⁸¹

A distinctive feature of China's ETS is that it currently operates as a closed system, neither accepting international carbon credits nor generating tradeable credits for domestic emission reductions. This design choice reflects China's initial focus on establishing domestic market infrastructure and building capacity among market participants. However, policymakers have indicated potential future integration with international markets and the possibility of accepting domestic voluntary emission reductions as compliance instruments.⁸²

Looking ahead, China's 14th Five-Year Plan (2021-2025) suggests a gradual expansion of the ETS to include more sectors such as cement, aluminum, and steel, while also hinting at future connections with international carbon markets. This potential opening up could significantly impact global carbon markets given China's scale, though the timeline and specific mechanisms for such integration remain undefined.⁸³

The evolution of China's carbon market reflects a cautious, staged approach to market development, prioritizing domestic capacity building before international integration. This strategy has allowed China to develop market infrastructure and expertise while maintaining control over its domestic carbon pricing mechanisms, though it has also limited the market's immediate impact on global carbon trading.⁸⁴

China's experience offers valuable lessons for African nations considering carbon market development. The staged approach of starting with pilot programs, focusing on capacity building, and gradually expanding scope could be particularly relevant for African countries with varying levels of institutional capacity. China's emphasis on developing robust monitoring, reporting, and verification (MRV) systems before full market implementation demonstrates the importance of strong foundations for market credibility⁸⁵. Additionally, China's choice to begin with an intensity-based system rather than absolute caps might provide a useful model for developing economies seeking to balance emission reductions with economic growth objectives.

⁸⁰ Zhang et al., 2019: "China's emissions trading scheme: First steps towards a carbon neutral future," Energy Policy

⁸¹ World Bank, 2022: "State and Trends of Carbon Pricing 2022"

⁸² Duan et al., 2021: "The China Carbon Market Research Report 2021," Tsinghua University

⁸³ International Carbon Action Partnership, 2023: "China National ETS Factsheet"

⁸⁴ Nature Climate Change, 2022: "China's carbon market needs ambition"

⁸⁵ World Bank, 2023: "Carbon Pricing in Africa: Opportunities and Challenges"

Table 4: Debates in China on Buying International Credit ⁸⁶

Key Debate Points	Explanation
Domestic vs. International Focus	China's domestic carbon market (the world's largest) prioritizes local emission reductions. While some are aware of the importance of internationalization of carbon products, some argue that international credits could divert focus and resources away from domestic decarbonization efforts.
Quality and Trust in International Credits	Concerns exist about the credibility of international carbon credits, particularly from developing regions. China emphasizes the need for robust verification mechanisms to ensure environmental integrity.
African Credits	While African carbon credits are not a major focus in public debates, China's involvement in African development (e.g., BRI) suggests awareness. However, explicit discussions on purchasing African credits are rare.

4.2.1 Carbon Markets in Africa

Africa is very behind when it comes to the implementation of CER projects on the continent. Africa currently only has 33 CDM projects registered on the continent, which accounts for only 2 % of the global total.⁸⁷ This is very low compared to China (32 %), India (27 %), and Brazil (10 %) which have the highest number of CDM projects globally. On the continent, South Africa leads with 16 projects, followed by Egypt with five and Morocco with four.⁸⁸

There are several reasons for the low number of CDM projects on the continent. First are regulatory and institutional barriers. Many African countries do not yet have the institutional frameworks in place to participate in the complex carbon market space. Developing and enforcing policies and institutions that support carbon trading is essential for attracting investments.

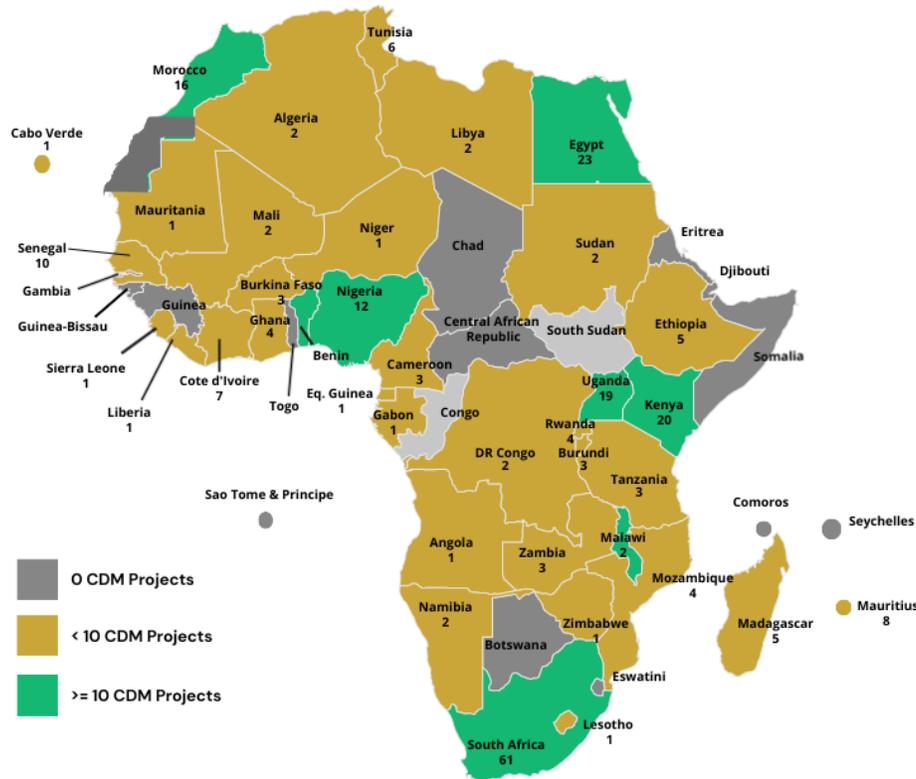
Figure 4: CDM projects in Africa

⁸⁶ CGJ (2024). Carbon trading in China: key considerations for navigating the schemes. [Available here](#) ;

Wang, K; Wen, C; Tang, Y; Su, C (2024). Mitigating environmental pollution in China: Unlocking the potential for high-quality innovation. [Available here](#) ; World Bank (2022) China: Country Climate and Development Report. [Available here](#)

⁸⁷ Ndongsok, D. CDM in Africa: Facing the hurdle of Conventional Finance. Ecosystem Marketplace. [Available here](#)

⁸⁸ Ibid



Second, African countries often have difficulty gaining market access to participate in carbon markets as they are often complicated with high transaction costs, volatile pricing, and a complex verification process. Studies have also shown a negative impact of carbon emissions on credit ratings

Third, the revenue from carbon credits typically does not cover the entire expense of the project. On average, carbon credit revenue amounts to only about 20 % of the total financing for CDM projects.⁸⁹ This means that a project's financial viability should be assessed independently of the carbon financing before factoring in the additional revenue from carbon credits to evaluate its sustainability.

Fourth, it costs approximately EUR 80,000 to bring a simple project through the CDM process to the point of registration by the CDM Executive Board, which can deter investors.⁹⁰ However, given that an average CDM project can generate around 30,000 to 50,000 carbon credits per year for up to 21 years, and considering a price of roughly EUR 10 per carbon credit, the registration cost is justified.⁹¹ This potential revenue can significantly contribute to the financial viability of the project, making the initial registration

⁸⁹ Ndongsok, D. CDM in Africa: Facing the hurdle of Conventional Finance. Ecosystem Marketplace. [Available here](#)

⁹⁰ Ibid

⁹¹ Ibid

cost a worthwhile investment.⁹² Therefore, the issue for African countries is one of access to upfront capital, which tends to be very expensive. This dual approach of securing baseline financial viability and leveraging carbon credits for additional revenue can effectively support the development of sustainable and impactful CDM projects in Africa.

4.2.2 Assessing Carbon Markets

Criterion	Explanation	Rating (1-10)
Capacity of the Funding Option	Carbon markets can unlock up to USD 6 billion by 2030. With the right government and private sector regulations, the capacity of mobilizing financing through carbon markets is massive. With new rules under Article 6 and market-shaping interventions, the capacity for mobilizing finance is significant.	9
Rate of Mobilization and Disbursement	Due to stringent Environmental, Social and Governance (ESG) safeguards, as well as access to finance for registration, it can be quite difficult for countries to partake in carbon markets and mobilize funding quickly. While current barriers exist, streamlined processes under Article 6 could improve mobilization rates.	6
Consistency	Carbon markets offer long-term funding prospects as they are integrated into global efforts to combat climate change. Long-term demand for carbon credits under global climate frameworks ensures a consistent funding stream. African countries can align their carbon market strategies with international frameworks like the Paris Agreement, ensuring continuous demand for carbon credit.	8
Conditionalities	In carbon markets, conditionalities often include compliance with stringent verification standards and environmental and social safeguards. For African countries, meeting these conditions requires capacity building and investment in robust monitoring, reporting, and verification (MRV) systems.	6
Diversity of Destination	Carbon markets in Africa have the potential to benefit all countries and regions on the continent, from forest conservation projects in Central Africa to renewable energy projects in East and Southern Africa.	10
Total		39

4.3 Option 3: Debt for Climate Swaps

Debt for climate swaps, sometimes referred to as debt-for-nature swaps, occur when a creditor agrees to suspend or forgive a part of a country's debt so that the debtor country may fulfill its already agreed-upon

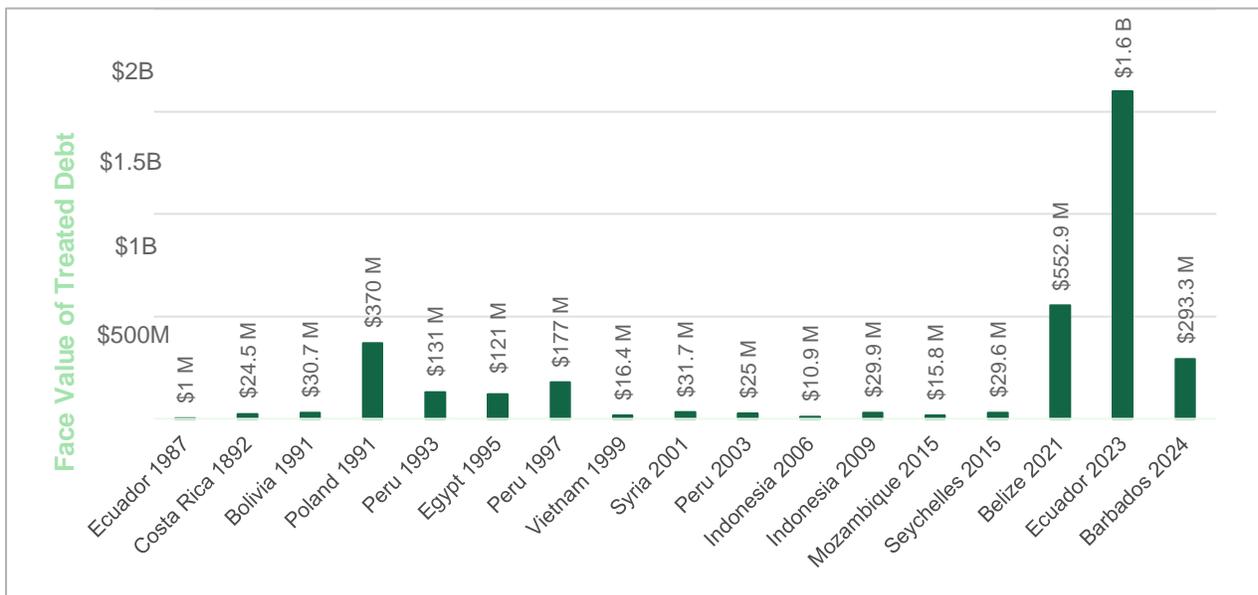
⁹² Ibid

commitment to invest in specific climate initiatives.⁹³ The funds that would have been used for debt servicing are redirected towards initiatives like renewable energy, reforestation, decarbonizing the economy, or climate-resilient infrastructure. According to the International Institute for Environment and Development (IIED), debt for climate swaps could free up more than USD 100 billion of debt for developing countries.⁹⁴

The concept was first implemented in 1987 as a swap between Bolivia and the US-based non-profit organization Conservation International.⁹⁵ The swap, worth USD 650,000 and given at a discounted price of USD 100,000 involved a purchase of Bolivia’s debt on the secondary market by Conservation International, in exchange for the government agreeing to provide maximum legal protection of the Beni Biosphere Reserve.⁹⁶ Debt for climate swaps are an option for African governments with high levels of debt, have difficulty accessing concessional finance, and have a pipeline of climate-friendly projects that need financing.

Figure 5 below gives an overview of debt for climate swaps since the 1980s. As can be seen from the graph, the frequency of debt for climate swaps and the volume of treated debt has increased significantly.

Figure 5: Debt for climate swaps since the 1980s ⁹⁷



⁹³ Chamon, M., Klok, E., Thakoor, V., Zettlemeyer, J. (2022). Debt-for-climate swaps: Analysis, design, and implementation. IMF eLibrary. [Available here](#)

⁹⁴ International Institute for Environment and Development (2024). Debt swaps could release \$100 billion for climate action. [Available here](#)

⁹⁵ World Economic Forum (2024). Climate finance: What are debt-for-nature swaps and how can they help countries? [Available here](#)

⁹⁶ Resor, J. Debt-for-nature swaps: A decade of experience and new directions for the future. [Available here](#)

⁹⁷ World Economic Forum (2024). Climate Finance: What are debt-for-nature swaps and how can they help countries? [Available here](#); African Development Bank (2022). Feasibility and Policy Significance in Africa’s Natural Resources Sector. [Available here](#)

African countries face substantial debt burdens that limit their ability to invest in climate-friendly projects. Through debt-for-climate swaps, African governments will be relieved of their repayment obligations, giving them the fiscal breathing room to invest in green projects and fulfill their domestic and international climate commitments. These swaps are a win-win for countries that are trying to reduce their debt while also benefitting the climate and banking profit from selling their debt.

There are currently two types of debt for climate swaps- bilateral and commercial/multi-party debt swaps. Bilateral debt swaps involve a creditor country and a debtor country where the creditor forgives a portion of the existing debt or offers new debt, and in exchange, the debtor country commits to financing climate projects locally in its currency. A multiparty debt swap, on the other hand, involves a third-party organization buying discounted debt from the market and replacing it with more affordable debt by issuing “blue bonds” or “SDG bonds” in capital markets.⁹⁸

Debt for climate swaps are an innovative instrument to secure funds for climate action, but they have very specific conditions to be effective, especially at a larger scale. Unfortunately, debt for climate swaps are often uncoordinated with high monitoring costs and based on small-scale projects operated by few creditors. Debt swaps require governments to identify specific projects and coordinate across several parties with lengthy negotiations (up to 4 years, according to the OECD).⁹⁹ These swaps require a long-term commitment from the debtor country despite any shifts in government, power, or commitments overall, and although debt swaps free up monetary obligations, the process of structuring and managing debt swaps can be quite expensive.

Box 5: Case Study: Seychelles Debt for Climate Swap

Seychelles was the first country to use debt for climate swaps for marine protection projects. In 2015, after three years of consultations, the Nature Conservancy (TNC) announced an agreement between the Republic of Seychelles and the Paris Club.¹⁰⁰ Through this multi-party agreement, the government committed to increase its national marine protected area from 0.04% of their exclusive economic zone to 30% by 2020.¹⁰¹

In 2016, the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) was established to help the government repay the debt to the Paris Club. Using a blended finance model, such as investment from influential investors and charitable donations, SeyCCAT raised USD 20.2 million which it gave to the Seychelles government in the form of low-interest loans that the government then used to repay the Paris Club.¹⁰² In the first phase the government will repay SeyCCAT specifically influential investors at a 3% interest rate over 10 years and in the

⁹⁸ Karaki, K., Medinilla, A., Bilal, S (2023). Three ways to scale up debt-for-climate swaps. [Available here](#)

⁹⁹ Chamon, M., Klok, E., Thakoor, V., Zettlemeyer, J. (2022). Debt-for-climate swaps: Analysis, design, and implementation. IMF eLibrary. [Available here](#)

¹⁰⁰ Yali, W., & Ziye, W. Blue Finance Case Study – The Republic of Seychelles’ innovative use of Debt for Nature Swap promotes marine protection. [Available here](#)

¹⁰¹ Ibid

¹⁰² Ibid

second phase will pay USD 5 million to charitable donations at 3% over 20 years.¹⁰³ In March 2020 the government of Seychelles announced the successful implementation of this commitment.

4.3.1 Assessing Debt for Climate Swaps

Criterion	Explanation	Rating (1-10)
Capacity of the Funding Option	Debt-for-climate swaps can mobilize substantial financial resources by redirecting funds from debt servicing to climate projects. As mentioned, debt for climate swaps could free up more than USD 100 billion of debt for developing countries.	7
Rate of Mobilization & Disbursement	While debt swaps can mobilize funds relatively quickly once agreements are reached, the negotiation and implementation process can be complex and time-consuming.	5
Consistency	Debt-for-climate swaps provide long-term funding prospects as they typically involve commitments to invest in climate projects over extended periods. African governments can continue to issue these swaps to reduce their external debt but the frequency at which these swaps can be agreed on is still low.	5
Conditionalities	Implementing debt swaps often requires meeting stringent conditions such as robust project monitoring and verification. This can sometimes demotivate governments and the private sector from engaging in debt for climate swaps.	4
Diversity of Destination	Debt-for-climate swaps can support a wide range of climate projects across different regions and sectors. From renewable energy projects in East Africa to forest conservation in Central Africa, these swaps offer versatile solutions for diverse environmental challenges.	10
Total		31

4.4 Option 4: Remittances for Climate Financing

Remittances are cross-border payments that migrants living and working outside of their country of origin send back to their families and loved ones.¹⁰⁴ Remittances play a vital role in Africa's financial ecosystem, providing a constant stream of income to millions of households and contributing significantly to African economies. Given their stability and resilience, even during economic downturns, remittances present a consistent stream of financing and a promising avenue for climate financing.

¹⁰³ Yali, W., & Ziye, W. Blue Finance Case Study – The Republic of Seychelles’ innovative use of Debt for Nature Swap promotes marine protection. [Available here](#)

¹⁰⁴ Migrant Money. Remittance statistics and why they matter for Africa. [Available here](#)

In 2022, remittances to Africa amounted to approximately USD 100.1 billion, nearly doubling the level of Overseas Development Assistance (ODA) to the continent.¹⁰⁵ In some African countries, remittances are over 20% of GDP.¹⁰⁶ These funds often surpass official development assistance and foreign direct investment, underlining their critical role in African economies.¹⁰⁷

Remittances are a powerful tool to leverage climate financing on the African continent. First, remittances are a source of relatively stable financial flows offering a reliable source of funding for climate initiatives and projects even during economic downturns. Second, Remittances empower the local community to easily adapt sustainable practices and enhance their resilience to climate change.¹⁰⁸ Third, by channeling these funds into climate-smart projects, communities can directly invest in their environmental sustainability and adapt more effectively to the adverse effects of climate change.

However, there are some challenges with channeling remittance flows for climate finance. For instance, most communities that receive remittances are the most vulnerable and will often strive to fulfill their basic needs with remittances, before considering other projects.¹⁰⁹ However, governments and the private sector can support the utilization of these funds by putting in place systems that consider the needs of the local community through active stakeholder participation. Solutions can be as easy as providing cooker ware that uses renewable or sustainable sources of energy at a reasonable price, or as complex as community-based renewable energy projects or introducing sustainable farming methodologies.

Another challenge is in how remittances are transferred. For example, in Ethiopia, the establishment of “parallel markets” i.e. the diaspora sending money back through the *black market* instead of “legitimate” institutions has also reduced the amount of remittances flowing into the country.¹¹⁰ Although digital products, like Kenya’s MPESA, have helped bridge the information gap in some African countries, there is much more work to be done.¹¹¹ Beyond the physical infrastructure, there are stringent regulatory barriers from both sending and receiving countries that can impede the flow of remittances and complicate their mobilization for climate financing. Therefore, establishing transparent and reliable systems will be key to gaining the confidence of all stakeholders involved in the remittance process.

Box 6: Case Study: Nigeria’s Diaspora Investment Fund

¹⁰⁵ Remitscope. The Global Platform for Remittance-Related Data. [Available here](#)

¹⁰⁶ United Nations. Reducing remittance costs to Africa: A path to resilient financing for development. [Available here](#)

¹⁰⁷ World Bank (2022). Remittances Grow 5% in 2022, Despite Global Headwinds [Available here](#)

¹⁰⁸ Chand, S., Singh, B. (2024). Role of Remittance on Sustainable Economic Development in Developing and Emerging Economies: New Insights from Panel Cross-Sectional Augmented Autoregressive Distributed Lag Approach. [Available here](#)

¹⁰⁹ International Organization for Migration, Climate Change Adaptation Under Pressure [Available here](#).

¹¹⁰ AddisFortune. Remittance, losing its battle against the Parallel Market. [Available here](#)

¹¹¹ GSMA, Making the connection between mobile money and climate change. [Available here](#)

The Nigeria Diaspora Investment Fund is a private sector-led and government-enabled initiative of Nigeria’s Federal Ministry of Industry, Trade and Investment (FMITI).¹¹² The fund was established by private sector Fund Managers to encourage remittances, investment and philanthropy to support different sectors including agriculture and infrastructure in Nigeria.

According to the World Bank, the Nigerian diaspora remitted USD 25 billion in 2022, approximately 6.1% of Nigeria’s GDP.¹¹³ The Fund aims to strengthen ties between Nigeria and its diaspora to promote development and harness the potential of nearly 20 million Nigerians who live abroad. The goal of the first close of the Fund is USD 10 billion.¹¹⁴ The government has noted that the investment period is between 3-5 years with a life span of 10 years (possible extension of 2 years).¹¹⁵

Diaspora Funds also have the potential to provide financing for African governments in the time of emergencies. For instance, the Ethiopian Diaspora Business Forum reported that the Ethiopian diaspora has raised USD 1,192,704.53 from over 25,000 donors to support frontline COVID-19 efforts.¹¹⁶

4.4.1 Assessing Remittances

Criterion	Explanation	Rating (1-10)
Capacity of the Funding Option	Remittances offer substantial financial inflows, often exceeding ODA in many African countries. However, the total amount that can be mobilized for climate financing specifically is contingent on proper frameworks and incentives to allocate financing for climate projects and initiatives.	7
Rate of Mobilization and Disbursement	Remittances are high in volume and are sent regularly throughout the year by millions of diaspora. Nevertheless, the use of digital platforms like mobile money services can facilitate faster mobilization of these funds, particularly towards climate-related projects.	6
Consistency	The flow of remittances has proven to be very high even during economic downturns. If there is a substantial diaspora population in an African country, remittances will continue to be a stable source of income for many African households and African governments.	7
Conditionalities	Unlike international aid or loans, remittances come with fewer conditionalities, as they are private funds sent by individuals to their	6

¹¹² Federal Ministry of Industry, Trade and Investment. Nigeria Diaspora Fund. [Available here](#)

¹¹³ Aja, N., Nnaji, F., Okorie, V. (2024). Diaspora Remittance Inflows and Nigeria’s Socio-Economic Development in the 21st century. [Available here.](#)

¹¹⁴ Federal Ministry of Industry, Trade and Investment. Nigeria Diaspora Fund. [Available here](#)

¹¹⁵ Anyaogu, I (2024). Nigeria seeks managers for planned \$10 billion diaspora fund. [Available here](#)

¹¹⁶ IOM (2020). Global Diasporas reacting to the COVID-19 crisis: Best Practices from the Field. [Available here](#)

	families. However, channelling these funds towards specific climate projects may require creating new frameworks and incentives, which could introduce some conditionalities. The relative freedom of use makes remittances a flexible funding option, albeit with the challenge of directing funds towards desired projects.	
Diversity of Destination	Most African countries regardless of geographical location and region receive high flows of remittances.	8
Total		34

Remittances have significant potential as a source of climate finance in Africa. Their stability and direct impact on communities make them an ideal mechanism for funding climate resilience and adaptation projects. However, to fully harness this potential, challenges such as infrastructural deficiencies, regulatory barriers, and trust issues must be addressed. By leveraging digital platforms and fostering collaborations between governments and the diaspora, African nations can effectively utilize remittances to combat climate change and build sustainable economies.

4.5 Option 5: Syndicated Financing

A **syndicated loan** is a type of financing whereby a group of lenders come together to pool their money to fund a large project that would otherwise have been too large to fund for a single lender. Borrowers include sovereign governments, corporations, or any mega project that needs funding. Loans include credit lines or a fixed amount of funding. Often with syndicated loans, there is a lead bank or underwriter, known as the agent or lead lender that often puts up a larger share of the loan. The group of lenders, called a *syndicate*, provide different amounts of capital based on the risk they are willing to take.

There are many advantages to pooling financing together to fund projects. First, although any form of lending is risky, the risks associated with lending in a syndicate are lower. This is primarily because a default from a borrower won't jeopardize the outcome of the project. This reduced risk incentivizes the private sector to invest in these types of projects over others. Second, for African governments, raising capital for climate finance projects is one of the biggest obstacles they face. Contrary to the bond market where high interest rates make it difficult for governments to borrow, the syndicated loan market is led by relationship banks that will consciously and willingly price loans at lower yields to secure a lead mandate and guarantee ancillary opportunities and revenue. Third, as a single lender would find it difficult to raise funds to finance large-scale projects, with loan syndication, borrowers (in this case governments) can borrow large amounts to finance capital-intensive projects.

Nevertheless, despite these advantages, there are several obstacles both borrowers and creditors have to face when mobilizing funds through a syndicate. The first challenge is demystifying the perceived risk of climate projects due to regulatory and market uncertainties. Borrowers need to ease the process by providing clear regulatory and market frameworks to facilitate climate financing. By doing so, borrowers can build investor confidence and allow creditors to easily navigate the climate finance space. Second, there is often a concern with the return on investment as climate finance projects, particularly those

focused on adaptation, may offer lower financial returns and longer payback periods compared to other investments. This misalignment with the usual investment portfolios of private lenders makes these projects less attractive. Facilitating public-private partnerships (PPPs) can de-risk these investments to attract private capital. However, if these PPPs are related to the provision of public goods such as water, energy or transport, there can be a misalignment between the fee’s citizens are willing to pay (or *should* pay, as public goods), and the fees the private operators want to charge in order to recoup a profit.

Third, although prices of many green technologies have fallen significantly over the past ten years (e.g. solar...) and will likely continue to fall as their production becomes more efficient, to date there has been an associated green premium for most green technology around the world.¹¹⁷ The higher costs of green technologies compared to conventional alternatives, known as the green premium, can deter investment. To mitigate this, subsidies and tax incentives, for instance, can be introduced. These measures help offset the premium and make climate projects more financially viable and attractive to investors. By addressing these challenges, mobilizing syndicates for climate financing can be easily achieved.

Box 7: Case Study: African Finance Corporation (AFC) USD 1.16 Billion Syndicated Loan

In March 2024, the Africa Finance Corporation- a Multilateral Development Finance Institution tasked with providing solutions to Africa’s Infrastructure deficit- announced the closing of a USD 1.16 billion syndicated loan, the AFC’s largest ever debt facility.¹¹⁸

Initially the three-year syndicated loan was launched at USD 1 billion but was upsized after it was oversubscribed by 49%, showing the growing interest in investing in the continent. The loan is sourced from various banks across Asia, the Middle East and Europe including First Abu Dhabi Bank, Standard Chartered Bank and Bank of China.¹¹⁹ Proceeds from the loan will be used to deliver sustainable solutions to the continent’s infrastructure financing gap.

This is not the first time that AFC has secured a syndicated loan. In 2023, AFC locked in its second largest syndicated loan at a value of USD 625 million.¹²⁰

4.5.1 Assessing Syndicated Financing

Criterion	Rating (1-10)	Explanation
Capacity of the Funding Option	9	As syndicated loans include multiple lenders, the potential volumes of lending that can be mobilized are significant. Syndicated loans are particularly beneficial for mega projects that need financing.

¹¹⁷ World Economic Forum. The 3 key challenges to financing the climate transition. [Available here](#)

¹¹⁸ Africa Finance Corporation. AFC Raises US\$1.16 Billion Syndicated Loan, Its Largest Ever, in Mission to Close Africa’s Infrastructure Gap. [Available here](#).

¹¹⁹ Ibid

¹²⁰ Ibid

Rate of Mobilization and Disbursement	4	Although syndicated loans have the capacity to mobilize large sums of financing, with climate financing in particular due to the challenges mentioned above, the rate of mobilization is low.
Consistency	6	Syndicated loans are one-time loans that pool in financing from multiple lenders (often banks). As these loans tend to be much bigger in volume than other loans, this form of financing is not consistent and is more likely to be one time funding.
Conditionalities	6	As syndicated loans involve multiple lenders, different lenders might have different conditions attached to their lending. Syndicated loans include complex documentation, loan agreements and intercreditor agreements that need to be strictly adhered to.
Diversity of Destination	10	Syndicated loans can be applied in any African country or region as long as their demand and interest from both the government and private sector.
Total	35	

4.6 Option 6: Reform of the Credit Rating Agency Ecosystem

A Credit Rating Agency (CRA) is a company that provides investors with information on the creditworthiness of issuers and their debt.¹²¹ CRAs rate countries on the strength of their economy, in particular, the likeliness of a government to pay back its debt. Three CRAs in particular lead the field—Moody’s, Standard and Poor’s (S&P), and Fitch. These companies when assigning their ratings determine whether countries can secure sufficient funding for their growth and development

Unfortunately, CRAs are heavily biased against African countries due to flaws in their methodology. This includes the use of external sources in their calculations, like the World Bank/IMF Debt Sustainability Assessments (which are flawed in their own right), access to IMF lending as a factor for creditworthiness, lack of local offices in African countries, and lack of hard data on African economies.¹²² These flaws in the methodology, among others, have prevented many African countries from issuing bonds in international markets, as these countries are considered to be riskier to invest in (often referred to as the *African risk premium*).

A joint report by the United Nations Economic Commission for Africa (UNECA) and the African Peer Review Mechanism (APRM) in 2023 found that despite positive economic projections in African countries, credit ratings on the continent were getting worse.¹²³ Due to errors in publishing ratings, “group think” whereby agencies follow each other’s actions, and flaws in the way ratings are calculated, African countries are given lower credit ratings, creating a biased perception that investing on the continent is “risky” and “expensive”.

¹²¹ European Commission (2016). Credit Rating Agencies. [Available here](#)

¹²² Ryder, H. (2024). Could an African credit ratings agency shift the dial? [Available here](#)

¹²³ UNECA (2023) Experts call on African regulators to supervise the work of credit rating agencies. [Available here](#)

According to the United Nations Development Program (UNDP), subjectivity in CRAs has cost African countries over USD 24 billion in excess interest and more than USD 46 billion in forgone lending.¹²⁴ Not to mention, several African countries do not have credit ratings. In a recent report by Development Reimagined on Africa’s Eurobonds, there were only 33 African countries that had credit ratings.¹²⁵

The African Peer Review Mechanism (APRM)¹²⁶ plans to launch an African Credit Rating Agency (AfCRA) by mid-2025 to provide a much-needed objective sovereign rating of African countries to enable African governments to access capital and integrate with global financial markets.

Due to these biased ratings and the “perceived” risks attached to investing in the continent, the private sector has had a marginal role in climate financing on the continent. Therefore, a reform of the credit rating ecosystem, including 1) a reform of the methodology of the Big Three 2) the creation of regulatory bodies for credit ratings 3) utilizing existing African CRAs such as Agosto and Co. and Bloomfield Investment Corporation¹²⁷ to ensure more fair and accurate credit ratings and 4) investing in local data production is key to increasing private sector climate investment on the continent.

4.6.1 Assessing Reform of the Credit Rating Ecosystem

Criterion	Rating (1-10)	Explanation
Capacity of the Funding Option	6	Due to high costs (borrowing terms), African countries that have ratings limit themselves in how much financing they can raise which results in low volumes of finance.
Rate of Mobilization and Disbursement	6	This criterion is ranked low as 1) 22 countries still don’t have a rating and thus can’t go to the market to mobilize financing and 2) those countries that do have ratings struggle to crowd in investment due to poor ratings and often at very high cost.
Consistency	5	As African countries often receive poor or average credit ratings, the borrowing terms involve high interest rates and low maturities which makes repayment extremely difficult and discourages governments from actively seeking private finance. In addition, political factors such as elections and domestic issues have proven to influence ratings which makes ratings more unpredictable and volatile.
Conditionalities	5	Due to stringent CRA methodologies and calculations of risk, often times African countries have to conform to expectations to secure better ratings, which constricts their financial freedom.

¹²⁴ Gilpin, R., Sembene, D., Cash, D. (2024). Making Africa’s credit ratings more objective. [Available here](#)

¹²⁵ Development Reimagined (2023). Africa’s Eurobonds- How large are the Eurobonds held by African countries, how might they impact budgets in the future, and what is the scope for reducing their costs?” [Available here](#)

¹²⁶ The APRM is a voluntary agreement amongst African states to systematically assess and review governance at Head of State peer level. African Union. African Peer Review Mechanism. [Available here](#)

¹²⁷ United Nations Development Program (UNDP). African Rating Agencies. [Available here](#)

		Furthermore, with only two African countries that are investment grade, countries who already have ratings are also having to “prove” to investors that they should invest in their country.
Diversity of Destination	6	Approximately 60% of African countries have credit ratings and those that do have them are given biased or unfair assessments. Reform of the CRA system requires not only ensuring African countries have fair and accurate ratings but also ensuring that all countries have ratings to crowd in private sector investment.
Total	28	

4.7 Option 7: Private Finance through Bespoke Climate Funds

In international climate architecture, bespoke climate funds- funding mechanisms established to address specific climate challenges- play a critical role in supporting governments in achieving their climate ambitions. Climate funds provide targeted solutions for specific climate issues like adaptation and mitigation, support countries in securing financing for short and long-term climate projects, and provide technical assistance and capacity building, strengthening institutional frameworks.

Climate funds are also important as they attract private-sector investment by mitigating risk through risk-sharing mechanisms such as guarantees and loans, promoting PPPs, and providing long-term stability. This option looks at the largest bespoke climate funds, in particular, their private sector engagement and how these funds have benefitted African countries.

4.7.1 Climate Investment Funds (CIFs)

The Climate Investment Funds (CIFs), established in 2008, is a multilateral climate fund and one of the largest climate financing mechanisms in the world with over USD 12.1 billion pledged in 81 countries.¹²⁸ By channeling funds from government donors, the private sector and multilateral development banks, CIFs fund climate activities in over 70 low and middle-income countries by deploying highly concessional finance to support climate resilience, clean technology, energy access, and more.¹²⁹ CIFs are known for their country-led programmatic approach and MDB partnerships (they are, in fact, the only multilateral climate fund to exclusively use MDBs as implementing bodies).

Private capital mobilization is one of CIF’s core funding approaches, whereby approximately 30% of CIF funding is invested in private-sector operations.¹³⁰ Financing is channeled through MDBs to private sector sponsors and companies through national and regional investment plans and funding mechanisms, including CIF’s Dedicated Private Sector Programs (DPSP).¹³¹ Through competitive financing, CIF reduces

¹²⁸ The Climate Investment Funds (CIF). The Climate Investment Funds (CIF). [Available here](#)

¹²⁹ International Finance Corporation. (n.d.). Multilateral Climate Facility - Climate Investment Funds. [Available here](#)

¹³⁰ Climate Investment Funds. CIF funding. [Available here](#)

¹³¹ Ibid

investor risk and supports the private sector in entering emerging markets by reducing barriers and de-risking new low-carbon, climate-smart markets.¹³²

For instance, one of CIF’s largest investments is in South Africa through CIF’s Clean Technology Fund (CTF). In line with South Africa’s climate change strategy, CTF, through concessional financing, has supported the country in diversifying its energy mix by overcoming public and private investment barriers in wind, solar, and energy efficiency, making it the first-ever operational private sector, utility-scale concentrated solar power plant in the developing world.¹³³

CIF works with six MDBs, including AfDB. As of December 2023, AfDB, as an implementing entity of CIF, has supported the development of 43 projects in 27 African countries, deploying USD 1 billion in CIF resources and USD 2.3 billion in co-financing to support climate action.¹³⁴

Table 5: Climate Investment Funds

CIF Program	Clean Technology Fun	Forest Investment Progra	Pilot Program for Climate Resilience	Scaling up Renewable Energy Program in Low Income Countries
Total Funding in USD	5.2 billion	613 million	986 million	571 million
Funding Percentage to MENA ¹³⁵	15%		<1%	<1%
Funding Percentage to SSA	16%	47%	31%	44%

4.7.2 Global Environment Facility (GEF)

The Global Environment Facility (GEF), established on the eve of the 1992 Rio Earth Summit, is a multilateral family of funds focused on climate change, pollution, biodiversity loss, and supporting land and ocean health. GEF partnership includes 186 member governments, civil society, women and youth, and indigenous peoples.¹³⁶ GEF funding supports developing countries to address complex challenges and

¹³² Ibid

¹³³ Climate Investment Funds. South Africa. CIF Countries- Climate Investment Funds. [Available here](#);

Climate Investment Funds. Sub-Saharan Africa. Africa- Climate Investment Funds. [Available here](#)

¹³⁴ African Development Bank. Climate investment funds (CIF). [Available here](#)

¹³⁵ MENA includes Algeria, Egypt, Jordan, Libya, Morocco, Tunisia and Yemen but in actual funding, very little flows to Jordan and Yemen so the percentage for MENA can roughly represents percentage for North Africa.

¹³⁶ Global Environment Facility. Who We Are. [Available here](#)

works towards international environmental goals. Since its establishment, GEF has provided more than USD 25 billion in financing and mobilized USD 145 billion for country-driven projects.¹³⁷¹³⁸

GEF has a long history of engaging the private sector, in particular through blended finance models¹³⁹, with GEF-7, the most recent replenishment cycle, focusing on expanding the use of non-grant instruments and mobilizing the private sector as agents for market transformation.¹⁴⁰ Under the GEF Blended Finance program, the Non-Grant Instrument Window (NGI) has provided USD 700 million across 91 blended finance projects and mobilized USD 7 billion in co-financing.¹⁴¹

On the African continent, GEF has implemented more than 1,800 projects, investing over USD 6.2 billion, including leveraging over USD 40 billion from the private sector and other stakeholders.¹⁴² The USD 6.2 billion investment has leveraged over USD 40 billion from other stakeholders, indicating a co-financing ratio of approximately 1:6.5. AfDB joined GEF in 2007 as an implementing agency and has since then secured over USD 400 million worth of projects for its members through grants and private resources from GEF.¹⁴³

Table 6: Global Environment Facility

	Global GEF Financing	GEF Financing in Africa	Africa's share of Total GEF Financing	Average investment per project
Global Environment Facility	GEF has provided more than USD 26 billion in financing and mobilized USD 149 billion for country-driven priority projects ¹⁴⁴	GEF has supported more than 1,800 projects in Africa, with a total investment of USD 6.2 billion ¹⁴⁵	Africa's USD 6.2 billion represents approximately 23.8% of the GEF's total USD 26 billion financing	<p>Globally: With over 5,000 projects funded, the average investment per project is approximately USD 5.2 million</p> <p>Africa: With over 1,800 projects, the average investment per project is approximately USD 3.4 million</p>

¹³⁷ Ibid

¹³⁸ Global Environment Facility. (2024). *The GEF in Africa*. [Available here](#)

¹³⁹ Global Environment Facility. Blended finance. [Available here](#)

¹⁴⁰ Global Environment Facility. Private sector. [Available here](#)

¹⁴¹ International Finance Corporation. Multilateral Climate Facility- The Global Environmental Facility. [Available here](#)

¹⁴² Global Environment Facility (2024). *The GEF in Africa*. [Available here](#)

¹⁴³ African Development Bank. Global Environment Facility. [Available here](#)

¹⁴⁴ Global Environment Facility. Who we are. [Available here](#)

¹⁴⁵ Global Environment Facility. The GEF in Africa. [Available here](#)

4.7.3 Green Climate Fund (GCF)

The Green Climate Fund (GCF), established in 2010 under the Cancun Agreements, is the largest climate fund in the world serving under the framework of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement.¹⁴⁶ Mandated to support developing countries in realizing their NDCs, the GCF uses funds to catalyze green market creation and support countries’ transition to climate-resilient, low-emission paths.¹⁴⁷ GCF, through a country-driven approach, supports mitigation and adaptation efforts in over 100 countries working with public and private sectors.¹⁴⁸

GCF has set up a Private Sector Facility (PSF) to fund and mobilize private sector entities. PSF encourages private sector investment through concessional financing (low interest, long maturities), lines of credit to banks, and various financial instruments. Since its establishment, PCF has financed 65 projects with USD 6 billion allocated to private sector projects and a total portfolio value of USD 29.2 billion (GCF financing and co-financing combined).¹⁴⁹

As of December 2024, GCF has channeled USD 6 billion to the African continent (38% of global GCF funding) with 118 total approved GCF projects, including 21 multiregional projects.¹⁵⁰

AfDB, as an Accredited Entity (AE) of the GCF, disburses financing to recipient countries and since 2018, has mobilized USD 189.6 million in concessional financing for mitigation and adaptation programs on the continent- which is approximately 8% of the total funding approved for African countries since GCF’s establishment.¹⁵¹

Table 7: Green Climate Fund

GCG Financing ¹⁵²	Readiness Financing (USD Million)	Funded Activity Financing (USD Million)	Total Financing (USD Million)
Africa Total	213.4	5,910.5	6,123.9
Global Total	644.4	15,784.5	16,428.9
Percentage to Africa	33.1%	37.4%	37.3%

¹⁴⁶ Green Climate Fund. About GCF. [Available here](#)

¹⁴⁷ Ibid

¹⁴⁸ Green Climate Fund. Areas of work. [Available here](#)

¹⁴⁹ Green Climate Fund. Private sector financing. [Available here](#)

¹⁵⁰ Green Climate Fund. (2024, December 2). GCF Spotlight- Africa. [Available here](#)

¹⁵¹ African Development Bank. Green Climate Fund. [Available here](#)

¹⁵² Green Climate Fund. Databases. [Available here](#)

4.7.4 Adaptation Fund (AF)

Established in 2001, the Adaptation Fund finances adaptation projects in developing countries that are party to the Kyoto Protocol.¹⁵³ Since 2010, the AF has committed over USD 1.2 billion to over 176 adaptation and resilience projects worldwide.¹⁵⁴ The AF relies primarily on voluntary contributions from national and subnational governments for its funding and has mechanisms in place to accept contributions from private individuals and organizations.

The AF attracts private investment in adaptation projects by de-risking investments and mobilizing capital through innovative financial mechanisms such as guarantees and working with the private sector to co-finance and co-develop adaptation initiatives.¹⁵⁵

Table 8: Adaptation Fund

	Grant Amount in USD Million	Disbursed Amount in USD Million
Global Total	1226.30	777.80
Africa Total	341.261	215.98
Percentage to Africa	27.83%	27.77%

Table 9: Comparison Among the Four Funds

	Percentage to Africa
Climate Investment Fund	32.9%
Global Environment Facility	23.8%
Green Climate Fund	37.3%
Adaptation Fund	27.8%

4.7.5 Assessing Private Finance through Bespoke Climate Funds

Criterion	Rating (1-10)	Explanation
Capacity of the Funding Option	7	Although the aforementioned climate funds are able to mobilize billions, the volume is still marginal compared to financing needs. As COP29 discussions have shown, 300 billion is very small compared to the trillions needed. When those numbers are further broken down to private climate finance,

¹⁵³ United Nations Climate Change. (n.d.). Adaptation Fund. [Available here](#)

¹⁵⁴ Adaptation Fund. Governance. [Available here](#)

¹⁵⁵ Adaptation Fund. (2024, April 17). Options on the further use of adaptation fund resources to fund innovation. [Available here](#)

		and specifically for the African continent, it is even more insignificant.
Rate of Mobilization and Disbursement	6	The rate of mobilization of these climate funds varies depending on the fund and their replenishment cycles. For AF for instance, which relies on voluntary contributions, the mobilization potential is low and fluctuates. For other funds like the GCF, the replenishment cycle is every 4 years which is also not frequent considering the financing needs.
Consistency	6	Although there are significant volumes of climate finance available through these funds – albeit insufficient to meet climate needs- as there are many recipient countries, the frequency that an African country can receive financing is limited.
Conditionalities	8	Compared to other financing instruments, especially IMF and World Bank instruments, there aren't significant conditionalities attached to these funds.
Diversity of Destination	9	Most African countries are members of the largest global climate funds with many of them having received financing and technical support in various climate projects.
Total	36	

4.8 Option 8: Private Climate Finance through International and Bilateral Development Finance Institutions (IFIs)

Climate financing through international and bilateral development finance institutions (IFIs) is a core source of financing for many African governments. However, these institutions provide different types of financing for climate projects, each with their own advantages, and limitations.

On the one hand, international financial institutions, primarily the World Bank, typically offer large-scale financing for infrastructure and climate projects. The World Bank is the largest provider of climate finance to developing countries, with 44% of its lending (USD 42.6 billion) going towards climate adaptation and mitigation. Furthermore, the IMF's Resilience and Sustainability Trust (RST) also supports vulnerable low and middle-income countries with long-term challenges, including climate change. Several African countries, including Cote d'Ivoire, Kenya, Morocco, and Senegal, have approved access to RST funding.¹⁵⁶ Given the Bank's large climate portfolio, the report will hereafter assess other bilateral development institutions against the Bank.

Despite the large portfolio, the financing provided by the World Bank often comes with strict conditionalities that can slow down the financing process. These include, among others, environmental and social safeguards, governance requirements, debt sustainability assessments, and adherence to

¹⁵⁶ International Monetary Fund (n.d.). Resilience and Sustainability Trust. [Available here](#)

Western-imposed policy reforms. While these conditions ensure that projects meet international standards, they also make the Bank less flexible and slower to act, particularly in emergencies such as climate emergencies where quick access to financing becomes vital. Moreover, the Bank tends to focus on brownfield projects (upgrading existing infrastructure) rather than greenfield projects (new ventures), as the latter are considered riskier and may not guarantee immediate returns. For African countries, these conditionalities can be a barrier, especially for smaller or less stable economies that may struggle to meet all the stringent requirements.

Bilateral development financial institutions (DFIs), have also played a critical role in mobilizing private climate finance in the African continent and tend to have fewer formal conditionalities and more flexibility in their financing compared to IFIs. In particular, Chinese private sector funds, including the China-Africa Development Fund (CAD Fund) and the China-Africa Industrial Cooperation Fund (CAFIC), have previously invested in green projects in African countries, particularly in the agriculture and infrastructure sectors. Although it is quite difficult to assess the exact volume of Chinese private sector funds, CAD Fund has successfully funded green projects on the continent such as the South African solar and wind power projects through Suntech. CAD Fund's involvement in Egypt's Sovereign Panda Bond also highlights its commitment to green finance. These projects have positively impacted local communities by providing renewable energy, reducing carbon emissions, and fostering local employment.

However, as with the World Bank, DFIs also come with certain constraints. Many DFIs are driven by the national priorities of their home countries, which can limit their scope and ability to operate. For example, CADFund only funds projects that involve Chinese stakeholders, limiting their ability to support local or regional initiatives unless they align with these requirements. In addition, similar to the World Bank, DFIs often prefer brownfield projects because they are seen as lower risk and more likely to generate immediate returns. This preference can hinder DFIs' ability to support "high-risk", greenfield projects in key areas like renewable energy and climate adaptation, which are essential for addressing Africa's climate vulnerabilities but may not provide immediate financial returns.

In contrast to both of the above, African Financial Institutions (AFIs), like the African Development Bank (AfDB), Development Bank of Southern Africa (DBSA), Afreximbank, and the Africa Finance Corporation (AFC) have worked closely with the private sector to de-risk investment projects across numerous sectors and are better positioned to support Africa's climate agenda with greater flexibility and local knowledge. AfDB, with a AAA rating, has several climate financing instruments that actively involve the private sector, including the Adaptation Benefits Mechanism (ABM), the Africa Circular Economy Facility, Africa Climate Change Fund, the Africa Climate Risk Insurance Facility for Adaptation (focused on de-risking), African Financial Alliance on Climate Change (AFAC), the Alliance for Green Infrastructure in Africa (AGIA), the Sustainable Energy Fund in Africa (SEFA) and the Africa Development Fund (ADF) Climate Action Window (CAW).¹⁵⁷ All these instruments provide different volumes of financing and fund climate projects in various sectors. The AFC also launched AFC Capital, a USD 500 million Infrastructure Climate Resilient

¹⁵⁷ African Development Bank. (2024a, November 6). Climate-related funds and initiatives at the African Development Bank. [Available here](#)

Fund, which will co-invest with AFC to de-risk climate resilient and sustainable infrastructure across different sectors to raise USD 2 billion in a 3-year period.¹⁵⁸

AFIs are also not bound by the external mandates or geopolitical interests that limit the World Bank and DFIs. They can focus on greenfield projects, offering financing for new ventures in areas like renewable energy, sustainable agriculture, and climate resilience tailored to Africa's specific needs. However, although they are in a better position to directly respond to Africa's climate needs, without the strings attached, AFIs also come with certain challenges. In particular, AFIs face challenges due to their smaller size and limited capital, which restricts their ability to scale up operations and compete with larger institutions like the World Bank. Moreover, some AFIs have relatively lower credit ratings making it harder for them to attract large investments, limiting their overall impact.

The critical differences between these institutions stem from conditionalities, geopolitical priorities, and financial return requirements. The World Bank often imposes Western-driven conditionalities that slow down progress and limit the scope of projects to those that align with global financial norms rather than Africa's immediate needs. DFIs, while more flexible, often impose nationally driven constraints and prefer brownfield investments, which limits their ability to support greenfield climate projects that require higher risk and longer-term vision. AFIs, on the other hand, are more flexible, locally focused, and can address Africa's specific climate challenges without being influenced by external political agendas but require more capital and investment to reach their full potential.

Therefore, to overcome the barriers imposed, African governments must prioritize strengthening AFIs and increasing their capital base. This will allow AFIs to compete with the World Bank and DFIs and give them the capacity to finance large-scale, innovative climate projects. African governments should also work to improve the credit ratings for AFIs by supporting reforms that improve governance, financial transparency, and local data access. By reducing reliance on the World Bank and DFIs, which often impose conditions that delay climate action or prioritize foreign interests, African governments can create a more autonomous, responsive, and inclusive climate finance ecosystem. This approach will empower African nations to take control of their own climate future and ensure that climate finance is used effectively to address the continent's specific challenges, without the constraints and limitations imposed by external actors.

¹⁵⁸ Africa Finance Corporation. (n.d.). Our approach to impact. [Available here](#)

4.8.1 Assessing Private Climate Finance through International and Bilateral Development Finance Institutions

Criterion	Rating (1-10) MDB	Rating (1-10) DFI	Rating (1-10) AFIs	Explanation
Capacity of the Funding Option	8	7	6	<p>World Bank: The World Bank, due to their large balance sheet and high credit rating are able to mobilize large volumes of financing and take on more risk.</p> <p>DFIs: The volumes of financing of many DFI climate projects on the continent vary significantly and are dependent on set national priorities that can change due to several factors. Nevertheless, DFIs like CAD Fund have funded large scale projects on the continent and are likely to continue to do so.</p> <p>AFI: Although AFIs fund both small-and-large-scale projects (especially AfDB), the capacity of AFIs is still limited, impeding their capacity to fund large scale projects.</p>
Rate of Mobilization and Disbursement	4	6	8	<p>World Bank: Due to its stringent conditionalities and long bureaucratic processes, the Bank does not mobilize and disburse financing quickly, especially considering its larger balance sheet and volumes of financing. There are often long periods between project approvals and disbursements of funds.</p> <p>DFI: DFI due to their national restrictions have limited capabilities to mobilize financing, especially compared to MDBs and AFIs.</p> <p>AFI: Due to their smaller scale and less conditions, AFIs have relatively quicker mobilization and disbursement capacity that allows for more efficient project preparation and implementation.</p>

Consistency	5	6	9	<p>World Bank: The Bank has clear replenishment stages that allows for greater donor contributions. Nevertheless, as the Bank has many member states eligible for financing, the consistency of the financing allocated solely to the continent is very limited.</p> <p>DFI: DFIs are driven primarily by set national priorities and guidelines that need to be fulfilled before a project is approved which can impact the timeline and consistency of financing.</p> <p>AFI: AFIs also have set replenishment levels every few years with financing allocated to concessional and non-concessional instruments as well as set initiatives dedicated to climate projects. All financing is solely for African countries.</p>
Conditionalities	2	5	9	<p>World Bank: The Bank has strict conditionalities set in place that are tied with its funding instruments which have been proven to be economically detrimental to recipient countries. Conditionalities do not have African interests in mind and are used as mechanisms to enforce Western principles.</p> <p>DFI: As mentioned above although DFIs do not have as many conditionalities as MDBs, DFIs are led by national guidelines which can restrict the scope of projects significantly.</p> <p>AFI: AFIs do not have stringent conditionalities attached to their funding, allowing African countries the flexibility to use their funds to meet their most pressing development and climate needs.</p>
Diversity of Destination	7	4	10	<p>World Bank: The Bank does not provide financing exclusively to African countries which reduces the financing allocated to the continent, resulting in less African countries benefitting overall.</p>

				<p>DFI: DFIs unlike the Bank and AFIs do not have a vast network of African countries. Projects with African countries are on an approval basis which limits the number of African countries that DFIs engage with.</p> <p>AFI: AFIs provide funding solely for African countries with most AFIs having most if not every African country as an official member. This allows funding to not only be tailored to African needs and priorities but also allows a greater pool of financing for countries that need it the most.</p>
Total	26	28	42	

4.9 Option 9: Legislation to Curb Predatory Private Actors

There are a range of what can be called “predatory” private actors. For instance, vulture funds are private equity or hedge funds that purchase distressed debt on the secondary market and trade significantly below its face value.¹⁵⁹ Vulture funds purchase this debt and then seek to recover the full amount, often through litigation or the threat of litigation.¹⁶⁰ These funds often target countries facing financial distress, forcing them to divert resources away from critical projects, such as climate adaptation and mitigation efforts.

As a way to stop predatory actors, legal prohibitions and international agreements that restrict their movement and power can be put in place and could, in principle enable African countries to allocate more resources towards addressing climate change. For instance, the United Kingdom passed the *Debt Relief (Developing Countries) Act* in 2010 that prevents creditors, including vulture funds from using UK courts to seek repayment of their debt bought at a discount rate from original creditors.¹⁶¹ This law set a precedent for limiting vulture fund activities around the world. Following suit Belgium and France have also introduced anti-vulture laws into their legislation setting an example for the rest of the world.¹⁶²

Aside from curbing private predatory activity, it is also essential to make debt relief a required part of climate financing. The implementation of mandatory debt relief as part of climate financing agreements can ensure that a portion of any funds provided to countries includes mechanisms for debt relief allowing resources to be freed up for climate adaptation and mitigation projects.

¹⁵⁹ Mwenda (2023). Vulture Funds and International Debt Relief. [Available here](#)

¹⁶⁰ African Development Bank. Vulture funds in the sovereign debt context. [Available here](#)

¹⁶¹ UK Parliament (2010). Debt Relief (Developing Countries) Act 2010. [Available here](#)

¹⁶² Eurodad (2018). Debt justice prevails at the Belgian Constitutional Court: Vulture funds law survives challenge by NML Capital. [Available here](#)

Box 8: Case Study: Zambia Donegal Vulture Fund Case

Zambia is one of many African countries that has been affected by vulture funds. In 1979 Zambia had a credit agreement with Romania for the acquisition of agricultural machinery which a US private equity fund called Donegal had acquired at USD 3.2 million (at approximately 11% of the face value) in the early 2000s.¹⁶³ Eventually Donegal had sued Zambia for more USD 55 million in which UK courts awarded Donegal USD 15.5 million.¹⁶⁴ This had significantly strained Zambia's financial resources, demonstrating the exploitative nature of vulture fund practices.

In response to such predatory behavior, Zambia, alongside international support, advocated for stronger legal frameworks to prevent vulture funds from taking advantage of distressed debt. This included pushing for international treaties and national laws to limit the ability of these funds to sue for full repayment in courts.

Box 9: Case Study: Nigeria vs PI & D

In 2010, the Federal Republic of Nigeria and the Process and Industrial Developments Limited (P & ID), a company based in the British Virgin Islands, entered into a Gas Supply and Processing Agreement for Accelerated Gas Development (GSPA) to support Nigeria reach its full potential in the gas sector.¹⁶⁵

In the agreement, the Nigerian government would supply “wet” gas to processing facilities constructed by P & ID which P & ID would then turn into “lean gas” to generate power throughout Nigeria. However, both the government and P & ID did not perform their obligations under the agreement.¹⁶⁶

Three years after the agreement was executed, P & ID began an arbitration proceeding against the Nigeria government arguing that the government did not provide the materials need to begin the project. In 2015 the tribunal held that Nigeria had committed a repudiatory breach of the GSPA, that the GSPA was terminated by P & ID accepting the breach and that Nigeria was liable in damages totaling USD 6.6 billion (with a 7% interest- the award).¹⁶⁷

Fast forward to 2019 and Nigeria challenged the English High Court in 2019 based on alleged bribery and corruption by P & ID claiming that the GSPA was a result of corruption and that Nigeria's own lawyers were bribed.

On the 23rd of October 2023 a judge ruled that P & ID had improperly obtained and retained privileged documents, bribed a Nigerian official and relied on evidence known to be false.

By 2023, the initial USD 6.6 billion in damages had reached USD 11 billion, demonstrating how harmful this would have been to Nigeria's economy, had the judge not ruled against P & ID's predatory actions.¹⁶⁸

4.9.1 Assessing Legislation to Curb Predatory Private Actors

¹⁶³ Arewa, Olufunmilayo (2009). Vultures, Hyenas and African Debt: Private Equity and Zambia. [Available here](#)

¹⁶⁴ Ibid

¹⁶⁵ Mears, Chloe; Cooke, Serena; Jewell, Dan; Carter, James (2024). Nigeria v PI&D: Nigeria's USD 11 billion fraudulent arbitration awards. [Available here](#)

¹⁶⁶ Ibid

¹⁶⁷ Ibid

¹⁶⁸ Reuters (2023). Nigeria's \$11 bln damages bill for collapsed gas deal thrown out by London court. [Available here](#)

Criterion	Rating (1-10)	Explanation
Capacity of the Funding Option	5	Predatory private actors have the capacity to put countries in significant financial strain as seen in the case of Zambia and Nigeria. Curbing their opportunistic activity will go a long way in freeing up climate finance. Nevertheless, as such cases are not too prevalent across the continent the volume of financing that can be freed up is limited.
Rate of Mobilization and Disbursement	4	Although creating and implementing legislation is essential, these processes can take time.
Consistency	4	Putting in place legislation to curb predatory action will vary greatly depending on the respective country and context. In countries such as the UK, US or Switzerland with a large financial sector, legislation will make the most difference but may be most difficult to achieve due to lobbying.
Conditionalities	7	Legislation to curb predatory actors would allow African countries greater flexibility and security with their debt.
Diversity of Destination	5	Implementing legislation across the continent although critical can be challenging as it will require adjusting the legislation to meet local contexts and requirements.
Total	25	

CHAPTER FIVE - RECOMMENDATIONS AND KEY TAKEAWAYS

Climate finance is a complex area that is undoubtedly one of Africa’s most challenging and pressing areas of development. Although Africa has contributed the least to global greenhouse gas emissions, it is the region that suffers the most from climate change.

The scale of investment required to close the continent’s financing gap is staggering. As the COP29 discussions have shown, mobilizing climate investment is extremely challenging, with pledges falling short of meeting climate finance needs. To achieve their nationally determined contributions, African countries need an estimated USD 2.8 trillion between 2020 and 2030.¹⁶⁹ Unfortunately, due to competing development priorities and increased debt constraints, African governments have committed USD 26.4 billion of domestic public resources, a small portion of the climate finance needed.¹⁷⁰ On the other hand, the private sector, which has the potential to mobilize significant volumes of financing, has only been able to contribute 14% of total climate finance on the continent, according to 2022 figures.

As African governments navigate the difficult and unequal international financial system, this report provides nine alternative sources of private climate finance that go beyond traditional financing approaches and that are not often explored or discussed adequately in different spaces at the domestic, regional, and international levels.

As Table 10 below shows, the nine innovative *options* are assessed against five assessment criteria that reflect African government financing needs and priorities as set out in their NDCs and Agenda 2063. It is clear from the analysis and scoring exercise conducted above that the top three options with the highest overall scores are **carbon markets, private finance through bespoke climate funds, and private finance through AFIs.**

¹⁶⁹ Mueller, D., Mukarakate, D (2024). Unlocking Africa’s Climate Action Potential: The Private Sector’s Crucial Role. [Available here](#)

¹⁷⁰ Ibid

Table 10: Summary of Scoring

	Capacity of the funding option	Rate of mobilization and disbursement	Consistency	Conditionalities	Diversity of destination	Total
Issuing Bonds	9	4	8	7	4	32
Carbon Markets	9	6	8	6	10	39
Debt for Climate Swaps	7	5	5	4	10	31
Remittances	7	6	7	6	8	34
Syndicated Financing	9	4	6	6	10	35
Reform of the Credit Rating Ecosystem	6	6	5	5	6	28
Private Finance through Bespoke Climate Funds	7	6	6	8	9	36
Private Finance through World Bank	8	4	5	2	7	26
Private Finance through DFIs	7	6	6	5	4	28
Private Finance through AFIs	6	8	9	9	10	42
Legislation to Curb Predatory Private Actors	5	4	4	7	5	25

This scoring gives a good indication of which instruments would be the most impactful in securing climate finance for most African countries. However, no instrument can truly deliver on its own considering the scale of finance needed and the unique priorities and needs of each African country.

Contrary to most reports and publications on African climate finance, this report, therefore does not recommend specific financing instruments as the “best” options. Resources are extremely limited, and each of the instruments explored in this report have their own challenges and drawbacks, but a **mix** of these instruments is how African countries can get the most financing.

For carbon markets, for instance, South Africa, Egypt, Kenya, Uganda (see Figure 4), and a few other countries already stand out for having the most CDM projects on the continent. These countries can share their experiences with other African countries that are finding it difficult to gain market access. For remittances, some countries such as Ethiopia and Nigeria which have a large diaspora can focus more on

finding innovative solutions to utilize the billions of USD that come in every year. Countries that have substantial debt servicing can focus more on debt for climate swaps to relieve their debt constraints. African countries that have credit ratings can also push for a shift in the way credit ratings are calculated to get better ratings so that they can borrow on markets at cheaper rates.

In addition, African governments can strengthen their relationship with key development partners such as China (in carbon trading for instance) and other African financial institutions such as AfDB and AFC that are doing great work in the climate finance space.

Furthermore, in light of the recent announcement by the Trump administration that the United States is leaving the Paris Agreement, African governments must brace themselves for a more unpredictable and potentially tumultuous climate finance environment. Rethinking and re-strategizing national policies and priorities in light of these changes is essential.

The level of knowledge, experience, and expertise that different African countries have with all of these options means that there are best practices that must be shared amongst countries. If African countries are to close their climate financing gap, one or two instruments alone will not suffice. Governments need to understand which instruments work best for their country contexts and what other countries have done successfully so that those policies and frameworks can be replicated.

Moreover, while African countries should lead and drive their own climate adaptation and mitigation efforts, it is essential to acknowledge that their NDCs and Agenda 2063 goals cannot be achieved in isolation. Africa faces significant challenges, including limited access to capital and other resources, infrastructure gaps, and a need for external investment and technology. In many cases, the actions of non-African countries—such as stronger global carbon trading schemes, more ambitious emissions reduction targets, and strategic financial flows—can have a far more immediate and transformative impact than local capacity-building initiatives alone. Therefore, Africa's climate resilience will depend not only on its own efforts but also on the support and collaboration of the global community. In light of this, below are some key recommendations for both African and international stakeholders to help drive meaningful climate action in Africa.

5.1 Recommendations for African Stakeholders

As the global climate finance landscape evolves and Africa continues to face the impacts of climate change while striving to meet its development goals, it is essential for African countries to adopt a strategic, multi-pronged approach to climate finance, focusing primarily on three key areas. First, shaping the global carbon market – including in emerging countries such as China - to better serve the continent's needs, second, strengthening local financial institutions (AFIs) and increasing access to finance; and third, advocating for innovative means to expand bespoke climate funds. With this in mind, the following recommendations outline critical actions that African nations should take both ahead of COP30 and also beyond.



Shape the Global Carbon Market ahead of COP30

1. With COP30 fast approaching and given the current situation within the international carbon market, African countries should collectively, via continental foundations and organizations (ACF etc.) advocate and push for a reduction in the supply of Certified Emission Reductions (CERs) from other regions, particularly those from projects that don't represent genuine, additional emissions reductions. Currently, some projects generate CERs for emissions reductions that would have occurred anyway, such as renewable energy projects already planned by governments. African governments should advocate for tighter emissions trading markets and stricter eligibility criteria for CERs and push for rules that ensure only additional and verifiable reductions are eligible for carbon credits. This would raise the value of high-quality credits, particularly from African nature-based solutions like reforestation, which offer genuine and sustainable emissions reductions. The ultimate goal is to create a more demand-driven carbon market that favors high-quality credits.
2. Ahead and during COP30, African governments should come up with a proposal to insert a cap on the total number of CERs issued each year to avoid oversupply and maintain higher carbon prices. In 2022, the price of CERs dropped as low as USD 0.20 per ton, making it difficult for high-quality projects to compete. By setting a cap, the market would be better regulated, and the value of African carbon credits, particularly from emerging sectors like forest carbon and sustainable agriculture, would be protected. This would encourage more investment into impactful climate projects across the continent.
3. African governments should push for the integration of regional carbon markets with global systems. Africa currently represents just 4% of the global carbon market despite holding 17% of the world's forest carbon. By creating a stronger regional carbon market and linking it to global trading systems, African countries can ensure that their vast potential in carbon offset projects is fully recognized. This would increase demand for African carbon credits and boost access to international climate finance.
4. African countries can also take lessons from China's Emissions Trading journey, in particular its carbon market development. China's approach of beginning with pilot programs centred on

capacity building and then moving towards expanding their scope could be relevant for African countries with different levels of institutional capacity. China's focus on developing robust MRV systems before full market implementation also demonstrates the importance of having a solid foundation for market credibility. Furthermore, China's decision to begin with an intensity-based system instead of absolute caps will be a useful model for African countries that are trying to balance emissions reductions with economic growth aspirations.

Increase Capital and Ratings of AFIs

1. To mobilize the necessary climate finance for Africa, addressing the bias in credit ratings assigned to African countries and institutions is crucial. The current methodologies used by the Big Three CRAs - Moody's, S&P, and Fitch—often fail to reflect the true economic potential and climate investment opportunities in Africa. This leads to higher borrowing costs and limited access to capital, both of which constrain the continent's ability to finance its climate adaptation and mitigation needs. African governments must push for reforms in CRA methodologies, focusing on incorporating local economic data, climate resilience, and sustainable development into their assessments. By highlighting the continent's green growth potential, including investments in renewable energy and nature-based solutions, these reforms would more accurately reflect Africa's evolving economic landscape and climate financing needs.
2. As mentioned above, a key step that African governments decided to take is the establishment of the African Credit Rating Agency (AfCRA), which should be fully operational by mid-2025 and would provide Africa-specific, objective ratings that could reduce the "African risk premium" and help unlock cheaper, more accessible financing for climate adaptation and mitigation projects. African governments should coordinate to provide technical, financial, and institutional support to ensure AfCRA's success, promoting it as a reliable alternative to the global CRAs.
3. African countries must leverage and strengthen existing local CRAs like Agosto & Co. and Bloomfield Investment Corporation, improving data availability and analysis to ensure accurate credit ratings for AFIs. By supporting these institutions, governments can improve the creditworthiness of AFIs, enabling them to attract private and multilateral capital for climate initiatives.
4. African governments should increase the capital of AFIs – including by working closely with other international financial institutions such as the World Bank, AfDB, and the Green Climate Fund. This partnership can secure additional funding through low-interest loans, grants, or guarantees, enabling AFIs to mobilize more resources for climate projects. Governments should also work with global investment firms and private equity funds to create investment incentives for AFIs. By offering guarantees or insurance products backed by international donors or multilateral funds, African governments can reduce the perceived risks of investing in AFIs. This would attract private capital, particularly for large-scale projects in sectors like renewable energy, infrastructure, and agriculture. Finally, governments should also focus on boosting the visibility of AFIs in international markets by showcasing successful climate finance projects and demonstrating their

resilience and profitability. Strengthening the governance and financial transparency of AFIs will help them attract investment, reduce borrowing costs, and scale up Africa’s climate finance capacity.

Introducing New, Innovative Climate Funds

1. African governments should also prioritize pushing for larger climate funds with funding mechanisms to secure more stable and reliable resources for climate action. As mentioned in Development Reimagined’s report on Reparations and Loss and Damage, building on the 2% levy used for AF, they should advocate for automatic contributions from sources like carbon market revenues, financial transaction taxes, or multilateral funds such as the GCF.¹⁷¹ This would help mitigate the volatility and unpredictability of traditional donor funding, ensuring more consistent financing for Africa’s adaptation and mitigation projects. By negotiating for these mechanisms at COP30 and within international climate frameworks, African governments can secure a more sustainable and equitable flow of climate finance without relying on one-off pledges. This push would position Africa to better respond to climate risks and build resilience while promoting broader international responsibility for financing global climate challenges.

¹⁷¹ Development Reimagined (2023). Finance Reparations and Loss and Damage- What are the Options? [Available here](#)

APPENDIX 1: LIST OF ACRONYMS AND GLOSSARY OF TERMS

List of Acronyms

AF Adaptation Fund

AFC Africa Finance Corporation

AfCRA African Credit Rating Agency

AfDB African Development Bank

AFI African Financial Institutions

APRM African Peer Review Mechanism

AU African Union

CAD Fund China-Africa Development Fund

CAFIC China-Africa Industrial Cooperation Fund

CDB China Development Bank

CDM Clean Development Mechanism

CERs Certified Emission Reductions

CIF Climate Investment Funds

CRA Credit Rating Agency

CTF CIF's Clean Technology Fund

CRA Credit Rating Agency

DBSA Development Bank of Southern Africa

DFIs Development Finance Institutions

DSA Debt Sustainability Analysis

ESG Environmental, Social, and Governance (Bonds)

FONERWA National Fund for Environment (Rwanda)

GCF Green Climate Fund

GEF Global Environment Facility

IMF International Monetary Fund

ITMOs Internationally Transferred Mitigation Outcomes

MDBs Multilateral Development Banks

NDCs Nationally Determined Contributions

PACM Paris Agreement Carbon Market

PPPs Public-Private Partnerships

PSF Private Sector Facility

SDGs Sustainable Development Goals

UNCCC United Nations Convention on Climate Change

UNDP United Nations Development Program

UNECA United Nations Economic Commission for Africa

UNFCCC United Nations Framework Convention on Climate Change

Glossary of terms

African Peer Review Mechanism (APRM)

A voluntary agreement amongst African states to systematically assess and review governance at Head of State peer level. Performance and progress is measured by democracy and political governance, economic governance and management, corporate governance, and socio-economic development.

African Union's Agenda 2063

African Union's (AU) strategic framework document that aims to deliver the AU's inclusive and sustainable development goals within a 50-year period (2013 – 2063), including the set-up of flagship programs.

Carbon Markets

Carbon markets or Carbon Trading Systems are carbon pricing mechanisms that allow governments and non-state actors to trade greenhouse gas emissions credits.

Certified Emission Reductions (CERs)

Carbon credit represents a reduction of one tonne of CO₂ equivalent.

Clean Development Mechanism (CDM)

Mechanism developed under the Kyoto Protocol to allow developed countries to invest in emission reduction projects in developing countries as a way to meet their emission reduction targets.

Climate Investment Funds (CIF)

A multilateral climate fund and one of the largest financing mechanisms in the world with over USD 12.1 billion pledged in 81 countries.

CIF's Clean Technology Fund (CTF)

Mechanisms under the CIF is dedicated to clean technologies.

Credit Rating Agency (CRA)

A company that provides investors with information on the creditworthiness of issuers and their debt. They rate countries on the strength of their economy, in particular, the likeliness of a government to pay back its debt.

Debt for Climate Swaps

An innovative instrument to secure funds for climate action, involving a creditor country and a debtor country, where the creditor forgives a portion of existing debt or offers new debt in exchange for the debtor country committing to financing climate projects locally in its currency. There are bilateral and commercial/multi-party debt swaps.

Eurobonds

A fixed-income debt instrument denominated in a different currency than the local currency of the country where the bond was issued.

ESG Bonds

Often referred to as green bonds, ESG bonds are debt instruments issued by governments, municipalities, corporations, or other organizations to fund projects with positive environmental, social, and governance impacts. There are five main categories of ESG bonds: green bonds, transition bonds, social bonds, sustainability bonds, and sustainability-linked bonds.

Global Environment Facility (GEF)

A multilateral family of funds, established in 1992 at Rio Earth Summit, focused on climate change, pollution, biodiversity loss, and supporting land and ocean health.

Green Climate Fund (GCF)

The largest climate fund in the world, established in 2010 under the Cancun Agreements, serving under the framework of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement.

Internationally Transferred Mitigation Outcomes (ITMOs)

Under Article 6.2 of the Paris Agreement, ITMOs are a centralized carbon crediting mechanism to replace the Clean Development Mechanism (CDM).

Nationally Determined Contributions (NDCs)

A climate action plan to cut emissions and adapt to climate impacts. Each party of the 2015 Paris Agreement needs to establish an NDC and update it every 5 years.

Nigeria Diaspora Investment Fund

A private sector-led and government-led initiative of Nigeria's Federal Ministry of Industry, Trade and Investment (FMITI), established to encourage remittances, investment, and philanthropy.

Nigeria's Federal Ministry of Industry, Trade and Investment (FMITI)

Nigeria's Federal Ministry of Industry, Trade, and Investment.

Non-Grant Instrument Window (NGI)

Window under the Global Environment Facility (GEF) Blended Finance program, dedicated to providing non-grant financial instruments and mobilizing the private sector.

Overseas Development Assistance (ODA)

A bond denominated in Chinese Renminbi (RMB) issued by a foreign entity that is sold in mainland China.

Panda Bonds

A bond denominated in Chinese Renminbi (RMB) issued by a foreign entity that is sold in mainland China.

Parallel Markets

Informal market channels used instead of legitimate institutions, used especially for remittances.

Private Sector Facility (PSF)

Green Climate Fund's (GCF) private sector arm.

Remittances

Cross-border payments that migrants living and working outside of their country of origin send back to their families and loved ones.

Samurai Bonds

A bond issued by foreign entities in Japan's Capital market, denominated in the Japanese Yen.

Social Bonds

Bonds that finance projects that deliver positive social outcomes, such as clean water and essential services.

Sustainability Bonds

Bonds that support a combination of green and social projects for specific target populations. They are general-purpose instruments where issuers commit to achieving sustainability performance targets, with rewards or penalties affecting coupon rates based on their ESG performance.

Sustainability-Linked Bonds

Bonds linked to pre-determined ESG targets but not to a specific project like green bonds.

Sustainable Development Goals (SDGs)

A universal set of goals, targets, and indicators adopted by UN member states in 2015, providing a 15-year roadmap for development priorities.

Syndicated Financing

A type of financing whereby a group of lenders come together to pool their money to fund a large project that would otherwise have been too large to fund for a single lender. Borrowers include sovereign governments, corporations, or any mega project that needs funding.

Transition Bonds

Bonds used to assist greenhouse gas (GHG) emitting companies in shifting to greener and low-carbon activities.

Vulture Fund

Private equity or hedge funds that purchase distressed debt on the secondary market and trade significantly below its face value. They purchase debt and seek to recover the full amount often through litigation or the threat of litigation.