UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

From billions to breakthroughs: climate finance as a catalyst for Africa’s transformation

Leveraging Climate Finance for Decent Jobs in Africa, Challenges and Opportunities

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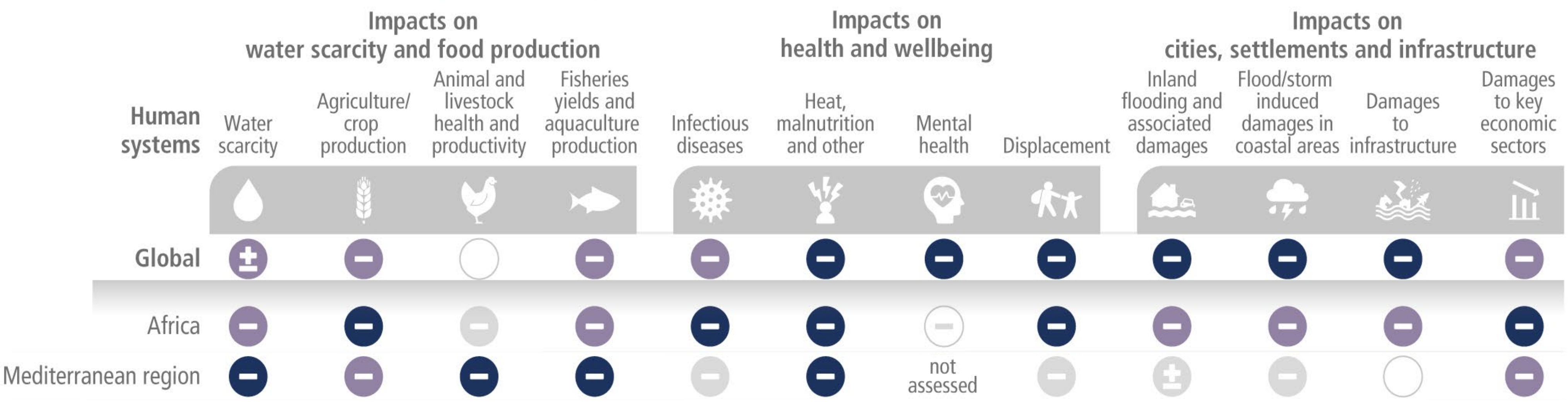
The twin challenge

Africa is **heavily affected by climate change through PHYSICAL & TRANSITION RISKS**, despite accounting for only 4% of global GHG emissions

Observed impacts of climate change on human systems



Source: IPCC AR6 (2022)

Africa needs to generate **over 15 mln jobs each year**, to keep up with demographic dynamics & spur structural transformation

By 2030 **over half of new entrants in global labor market** will be African

Key flaws of today's climate finance landscape

- Mobilization remains inadequate => depending on sources, EMDC excl. China need additional $1 trillion/year in external finance, or 5x increase in climate finance
- Lack of transparency and trust => double-counting, greenwashing
- Complex and fragmented architecture => relevant for Africa, which depends more heavily on international climate finance
- Skewed towards debt-creating instruments => 61% vs 5% grants
- Mismatch mitigation vs adaptation & overly optimistic on private flows
- Weak alignment between climate finance & transformation policies => low-carbon pathways, i.e. "strategic plans to reduce GHG emissions & transition towards a more competitive and climate-resilient economy"

The imperative of low-carbon transition

The cost of climate inaction far exceeds that of low-carbon transition, but the latter implies accelerated & directed structural change from carbon-intensive sec. ("sunset") to low-carbon sec. ("sunrise")

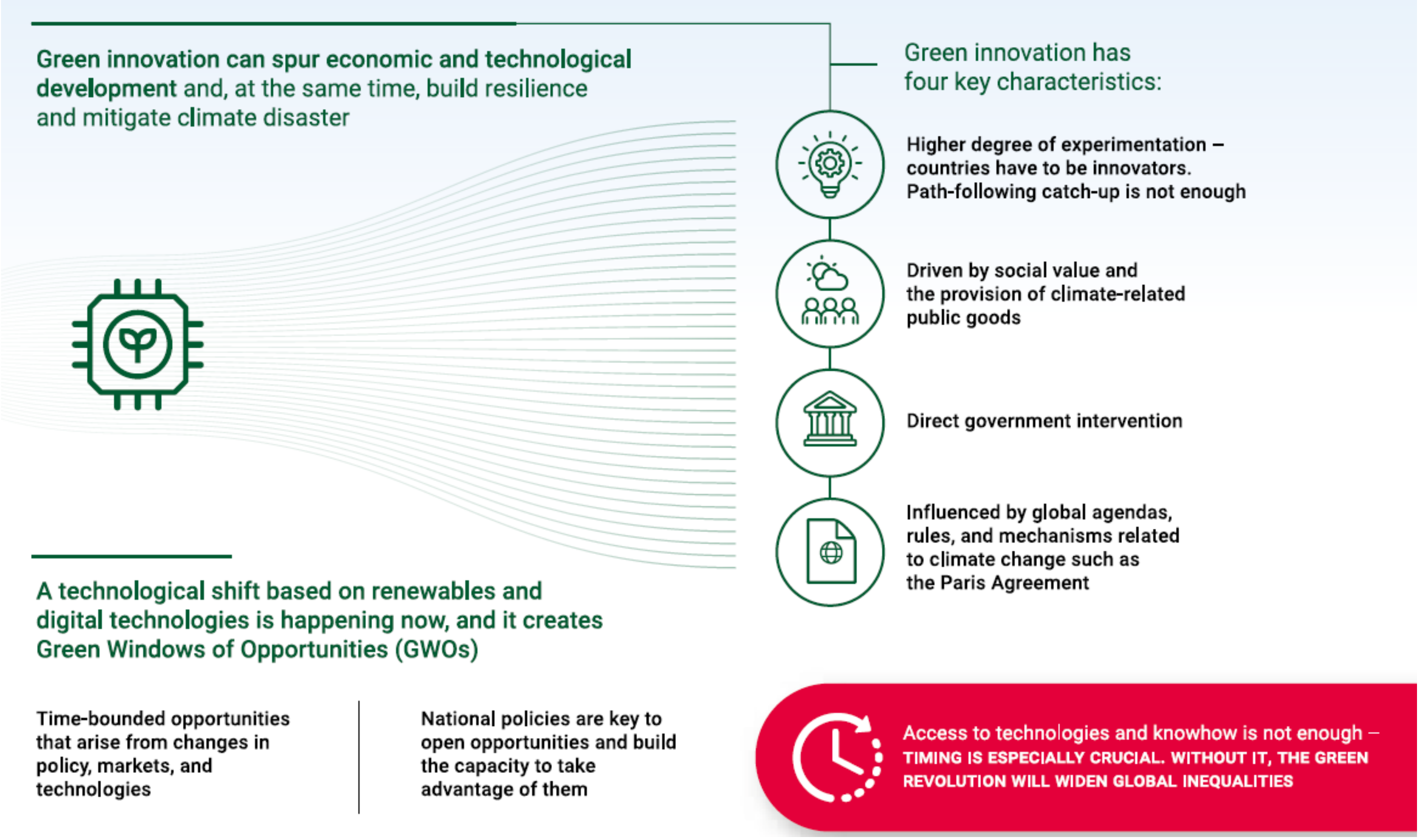
Drivers of change include DEMAND SHIFTS (e.g. sustainability), TECHNOLOGICAL INNOVATION, REGULATORY CHANGES, but also EVOLUTION IN FINANCING

This process has wide-ranging effects on ASSET PRICES, EMPLOYMENT OPPORTUNITIES, PUBLIC REVENUES, MACROECONOMIC VARIABLES, creating complex dynamics contingent on policy incentives: "first-mover advantage" vs free-riding; risk of stranded assets vs "rebound effect"

The role of innovation

Poorer countries tend to have **weaker capacities to pivot to the low-carbon economy but also have significant opportunities for leapfrogging**.

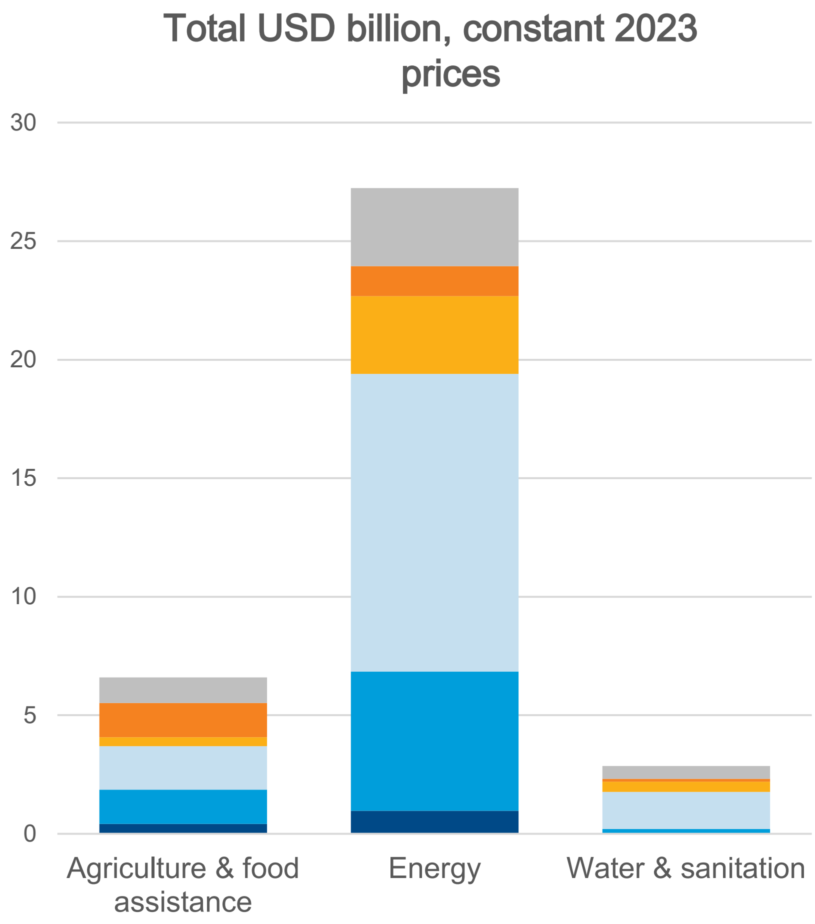
The scope for innovation is contingent on policies & technology transfer/adoption/domestication

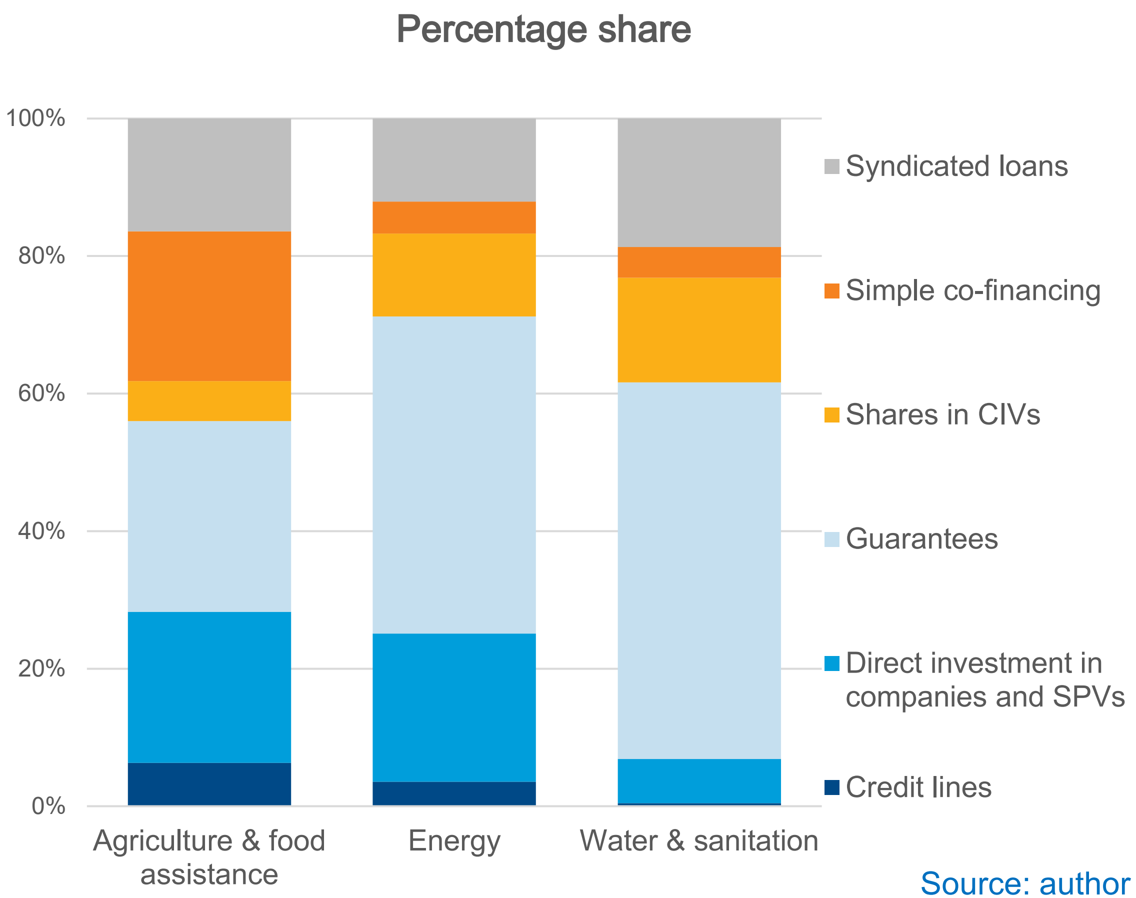


Source: TIR (2022)

Private flow mobilization: a tale of 3 sectors

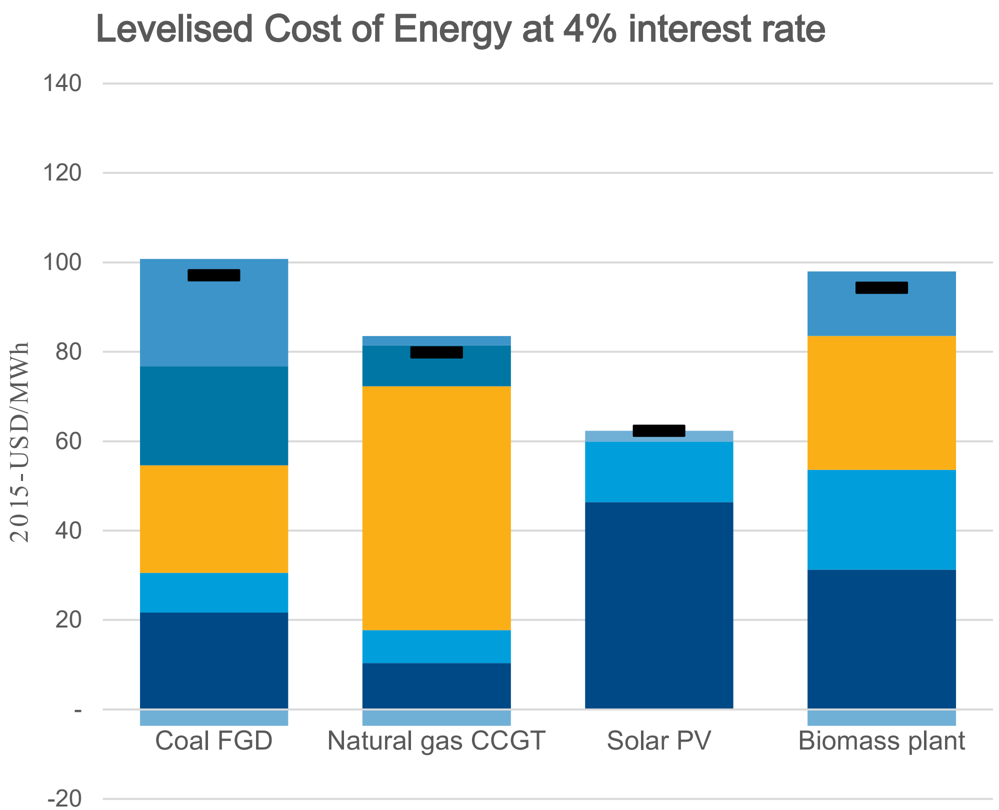
Mobilised private finance in Africa by leveraging mechanism, selected sectors

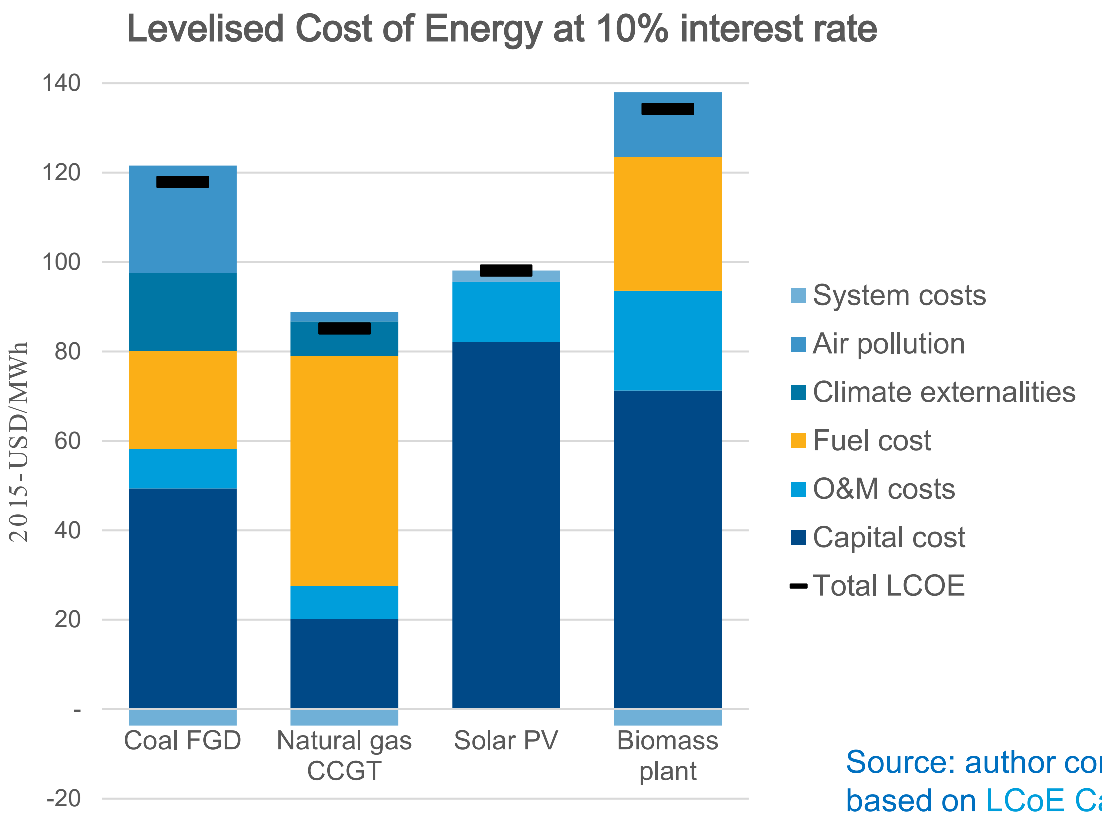




Source: author computation based on [OECD data]

The energy transition and financing conditions





Source: author computation based on LCoE Calculator

The cost of capital may affect not only the speed of transition, but also its directionality => this could create missed opportunities

There is also a need to consider energy affordability concerns

Take away messages

1. **Domestic resource mobilization** remains at the cornerstone

2. **Transition planning is key**, and so are links between structural transformation & climate action (incl. mobilization objectives) => INFF, NDC, NAPA

3. Consider **partnership approaches to develop green industrial policies** (incl. STEM & climate-related skills) **& monitoring frameworks** => AfCFTA

4. **Leverage regional initiatives to "shape markets"**, streamline standards, create markets for innovative instruments => better, bigger and more effective MDB, AfDB Sustainable Bond Program

5. Be **realistic and pragmatic about innovative instruments** & leverage their complementarities

6. Continued push for the **reform of international financial architecture**

Thank you

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