African Economic Outlook 2023

Mobilizing Private Sector Financing for Climate and Green Growth in Africa
CHAPTER 1
Africa’s Economic Performance and Outlook
Africa’s Growth Performance and Outlook, 2023-2024

**Real GDP Growth (percent), 2019-2024**

**Remarkable Resilience**

Average real GDP growth estimated at 3.8% in 2022, with stable outlook

Growth above the global average of 3.4%

In 2023-2024 half of the top ten fastest growing economies will be in Africa

**Weakness:** Private consumption and investment, industrial sector growth

Source: African Development Bank statistics and Word Economic Outlook April 2023
Africa’s growth performance and outlook by regions and country groupings, 2021–2024

Real GDP growth (percent) by region

Real GDP growth (percent) by country groupings

Source: African Development Bank Statistics
Sustained tightening of global financial conditions has put pressure on African national currencies

Exchange rate changes, 2020–21 and 2021–2022

Consumer price inflation, 2021 and 2022

Source: African Development Bank Statistics

Source: African Development Bank Statistics
Debt vulnerabilities worsened by rapid exchange rate depreciation and high primary deficits

Source: African Development Bank Statistics and Word Economic Outlook database

% of GDP

Cumulative change pp.
Tighter global financial conditions increases debt service costs

Debt service on external debt, public and publicly guaranteed (PPG) as percent of revenue

Debt service on external debt, public and publicly guaranteed (PPG) by risk of debt distress

Source: African Development Bank Statistics and World Economic Outlook database

Source: African Development Bank Statistics
Key risks to watch

1. Subdued global growth
2. High interest rates and debt service costs
3. Commodity dependence and price volatility
4. Physical risk of climate change
CHAPTER 2
Private sector financing for climate and green growth in Africa
Green growth imperative for poverty reduction, climate and economic resilience

Green growth positively correlated with real GDP growth, climate resilience and readiness

Countries with better green growth outcomes also do well on other economic and climate resilience indicators

Pursuing green growth objectives yields immense economic and climate benefits

Source: Staff calculations based on the Global Green Growth Institute database

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The Green Development Paradox in Africa

Africa is the frontier market in green growth opportunities

- Market size at $2.97 trillion
- Human capital at 1.4 billion people
- Significant natural resource endowments
- Green technology potential
- Low legacy high-emissions infrastructure
- High and growing political commitment

Africa's green growth performance benchmarked with other regions, 2010–21

Index

80

70

60

50

40

30

20

Middle East
South Asia
Africa
East Asia and Pacific
Latin America and the Caribbean
North America
Europe and Central Asia

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... private sector has shown little appetite for Africa’s climate actions and green growth

Share of private and public financing in total climate finance by main regions, average 2019-2020

- Total climate finance to Africa: US$29.5 billion
- Total private climate finance: US$4.2 billion
- Leverage ratio: 0.16, the lowest globally
- Flows inversely related to climate vulnerability
Africa needs up to $2.7 trillion cumulatively ($242.4 billion annually), over 2020–30 to implement its updated NDCs.

Updated Africa’s cumulative climate finance needs, 2020-2030

<table>
<thead>
<tr>
<th>Component</th>
<th>Cumulative Need (trillions)</th>
<th>Required Annual Need (trillions)</th>
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</thead>
<tbody>
<tr>
<td>Adaptation</td>
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<td>36.0</td>
</tr>
<tr>
<td>Mitigation</td>
<td>1.14</td>
<td>21.2</td>
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<tr>
<td>Loss and damage</td>
<td>0.69</td>
<td>29.1</td>
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<tr>
<td>Other needs</td>
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<tr>
<td>Total</td>
<td>2.67</td>
<td>36.0</td>
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</table>

Updated Africa’s cumulative climate finance needs from 2020 to 2030.

Required annual growth rate of private climate finance to close Africa’s climate finance gap by 2030.

Annual growth rate (percent)

<table>
<thead>
<tr>
<th>Contribution of the private sector (percent)</th>
<th>Annual growth rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
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<tr>
<td>25</td>
<td>21.2</td>
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<td>75</td>
<td>32.0</td>
</tr>
<tr>
<td>100</td>
<td>36.0</td>
</tr>
</tbody>
</table>

Contribution of the private sector to the total climate finance needs.
Private finance instruments: Sources and targeted sectors, 2020

Sectoral breakdown of private climate finance across Africa, average 2019-2020

*Private financing dominated by non-concessional sources*

- **Balance sheet financing (equity)**
- **Project-level equity**
- **Unknown**
- **Project-level non-concessional debt**
- **Balance sheet financing (debt)**
- **Grant**
- **Concessional project debt**

**Balance sheet financing (equity)**
- **Comercial Bank**
- **Funds**
- **Corporation**
- **Unknown**
- **Commercial FI**
- **Institutional Investors**
- **Households/Individuals**

**Source:** Staff computations based on latest submitted Nationally Determined Contributions (NDCs), various African countries

**Source:** Staff computation using submitted NDCs and CPI’s Africa landscape of climate finance data.

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Investment opportunities in green development sectors in Africa

Agriculture
1 trillion
Market size projected at $1 trillion in 2030

Energy
1.03 trillion
$1.03 trillion of investment opportunities through 2030

ICT
104.2 billion
Total ICT market projected at $104.2 billion in 2023

Transport
22% growth annually
Projected demand for EV batteries by 2030.
Africa not fully leveraging expansion in global landscape for private sustainable green finance

Cumulative value of green bond issued between 2006-2022

- Cumulative green bonds issuance estimated at $2.2 trillion globally between 2006-2022
- Africa accounted for only about 0.2\% (or $4.7 billion), the lowest among world regions.
- Global Voluntary Carbon Market: valued at $2 billion in 2021. Africa’s share was only 6.2\% ($123 million).
- Africa accounted for 41\% of blended finance between 2019-2021

Source: Staff computations based on Climate Bonds Initiative AEO 2023
Key enablers of private climate finance in Africa
Key barriers to private sector financing in Africa’s green markets

01 Lack of strategies and implementation effectiveness
02 Weak regulatory structures and institutions
03 Lack of investment-ready project pipelines
04 Limited access to international markets
Key barriers to private sector financing in Africa’s green markets (Cont.)

- Limited experience
- Perceived high investment risk
- Information asymmetry
- Poor credit ratings
Defaults rates on infrastructure and other projects lowest in Africa

1. Low default rates
2. Poor and sometimes subjective credit ratings in international markets.
3. About US$74.5 billion could be saved if ratings were fair
4. High financing costs

Source: Staff computations based on Moody’s Analytics, 2020
CHAPTER 3
Natural Capital for Climate Finance and Green Growth in Africa
Africa’s measured natural capital was valued at **US$6.2 trillion** in 2018.

Natural capital per capita declined from **US$4,374** in 1995 to **US$2,877** in 2018.

44.8% of the world’s technical potential of renewable energy.
Ample opportunities for Africa to benefit from international agreements leveraging natural resources

Potential emission and financial transfers based on the cooperative implementation of universal net-zero CO2 emission pathways

Potential annual trade flows under the Glasgow NDC (MtCO₂)

Potential annual financial flows under the Glasgow NDC (2015 US$ billions)

Source: Data from International Emissions Trading Association (IETA) and the University of Maryland related to IETA, 2021.
Natural capital investment can underpin climate finance

The Great Green Wall Accelerator that has raised more than $19 billion

Green hydrogen represents a great opportunity

Source: Data from International Emissions Trading Association (IETA) and the University of Maryland related to IETA, 2021.
Africa can significantly move up the battery and Electric Vehicles (EVs) value chain.
Key barriers to leveraging natural capital for climate and green development in Africa

- Resource Governance: Weak regulatory structures and institutions
- Political Instability: Resource Conflicts
- Illicit Resource Flows: Organized Crimes and Resource Theft
- Tax Avoidance and Illicit Financial Flows
- Natural Capital Accounting

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POLICY RECOMMENDATIONS
Policy recommendations and key actions

1. Anti-inflation monetary policy
2. Coordinated debt treatment
3. Appropriate fiscal reforms and incentives
4. Develop long-term strategies and implementation roadmaps
5. Implement strategic industrial policies: local content and franchising
7. Deepen domestic capital markets
8. Invest in projects preparation at national and regional scales
9. Africa Payment Systems
10. Explore innovative finance

National Policies
Actions

Deepen domestic capital markets
Invest in projects preparation at national and regional scales
Africa Payment Systems
Explore innovative finance

Policy recommendations and key actions
Expand concessional financing and grants for capacity building
Revisit risk appetite
Scale the use of innovative financing mechanisms

Align operations with the Bridgetown Initiative
Provide more risk agnostic, catalytic capital (e.g., guarantee instruments)
Reduce profitability targets
Support system wide sustainable development transitions to diversify risk
Private sector, rating agencies and international community

1. Developed Countries – Honor Commitments to secure our global commons

2. Collectively champion and support reform of the global financing architecture

3. Credit rating agencies – Review methodologies and broaden rating frameworks

4. Exercise Market Leadership and Stewardship
CONCLUSION
Establish national development plans for green transition
Incentivize green industries to spur growth
Provide guarantees at scale to de-risk private sector investments
Develop pipelines of bankable Projects with and high-risk adjusted rates of return
Asset recycling
Thank You