Overview

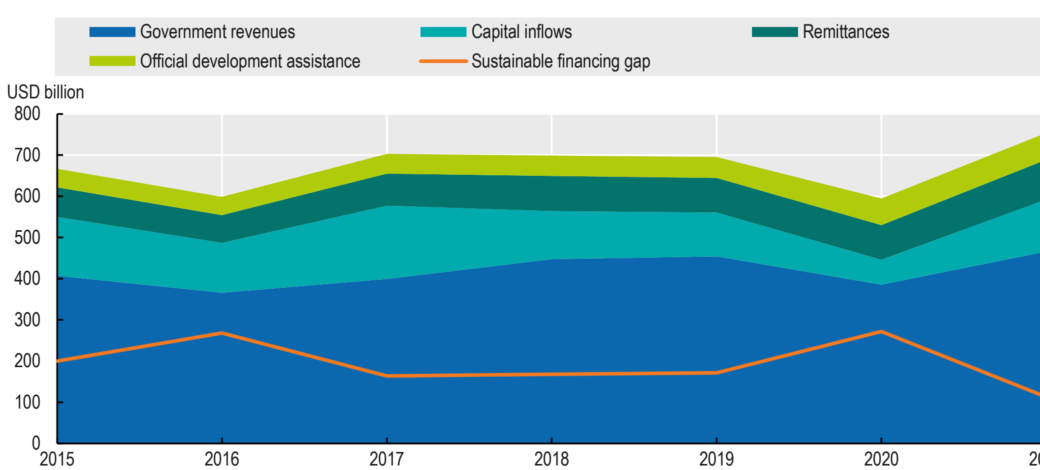
The African continent offers large untapped potential for sustainable investments

Sustainable investments are essential for Africa's economic, social and environmental development. Investments are sustainable if their economic, social and environmental benefits outweigh their total cost. When mobilising and allocating investments, African countries need to manage tensions between economic, social and environmental goals such as productive transformation, social inclusion and resilience to climate change. This includes balancing energy production and carbon mitigation, developing agricultural land use and conserving ecosystems, or creating mass employment while promoting labour standards. The *Africa's Development Dynamics 2023* report provides an evidence-based analysis of Africa's investment landscape and identifies important investment-related policies that promote sustainable development on the continent as a whole and in each of its five regions.

Africa's sustainable financing gap can be bridged

At about 7% of the continent's gross domestic product (GDP), Africa's sustainable financing gap is small in comparison to its financial resources and to those available worldwide. This gap between the financing needed to achieve the Sustainable Development Goals and the availability of financial resources averaged USD 194 billion annually for 2015-21 (Figure 1). This sum equals 34% of Africa's investments in 2021 (gross fixed capital formation, defined as the acquisition of produced assets). The amount appears small relative to capital available: it is equivalent to less than 0.2% of the global and 10.5% of the African-held stock of assets under management – financial assets that wealth management firms handle on behalf of investors. A hypothetical annual reallocation of just 0.2% of global assets under management would bring their total allocation to Africa from currently under 1% to around 2.3% by 2030. This amount would still remain below the continent's share of global GDP (2.9% in 2020).

Figure 1. **Africa's sources of finance and sustainable financing gap, 2015-21 (USD billion)**



Source: Authors' calculations based on OECD (2022a), *Global Outlook on Financing for Sustainable Development 2023*, https://doi.org/10.1787/fcbe6ce9-en and other sources. See Annex 1.A for details on data sources and methodology.

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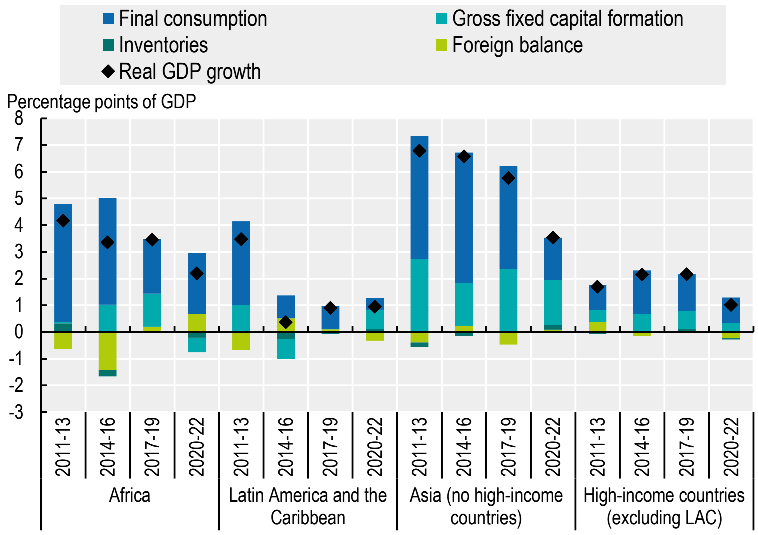
Africa's financing shortfall has recently increased due to the COVID-19 pandemic, the global repercussions of conflicts and climate change. Government revenues decreased due to the COVID-19 pandemic: in 2020, Africa's average tax-to-GDP ratio declined by 0.3 percentage points to 16.0% (OECD/ATAF/AUC, 2022). International conflicts have led to disruptions in supply chains, affecting critical imports (food, energy and fertilisers). Climate financing needs have consistently not been met: between 2019 and 2020, USD 11.4 billion of Africa's total climate financing went to adaptation – almost five times less than the USD 53 billion per year set under the nationally determined contributions of the Paris Agreement (GCA, 2022).

Global uncertainty and inflation have escalated the costs of debt for most African countries. Debt levels have risen across Africa over the past decade, with the cost of debt service rising from 3% to over 5% of gross national income over the 2010-20 period. More recently, crisis-induced global uncertainty led to risk repricing. The average inflation rate for the continent is projected to reach 15.5% in 2023 – the highest level in 27 years – with peaks above 15% in 11 African countries. The increase in borrowing costs for African countries excluded countries with lower credit ratings from international capital markets and prevented debt refinancing (IMF, 2023a). For instance, Eurobond yields multiplied from 2021 to 2022 for many African countries, and the spread on an average African Eurobond (a measure for the potential cost of borrowing on capital markets) across 20 countries reached a 15-year high of about 10 percentage points in September 2022, eclipsing previous peaks of the COVID-19 crisis in 2020 and the global financial crisis in 2008 (Smith, 2022). Between April 2022 and April 2023, no African country has been able to issue new Eurobonds (IMF, 2023a). As of February 2023, the International Monetary Fund (IMF) considered 8 African countries in debt distress and 13 more at a high risk of debt distress (IMF, 2023b).

With unique assets, African countries represent the world's investment frontier

Africa has enjoyed high growth supported by investment, but the continent needs more transformative, sustainable growth. Since the turn of the 21st century, Africa has boasted the world's second-highest rate of economic growth after developing Asia. African growth is bouncing back since the global recession of 2020: real growth is projected at 3.7% in 2023 and 4.2% in 2024[1] – after developing Asia and before Latin America and the Caribbean, respectively at 5.0% and 1.6% in 2023 and 4.9% and 2.2% in 2024. High investment rates boosted Africa's growth, with the contribution of gross fixed capital formation to GDP growth reaching a peak of 1.2 percentage points in 2017-19, before declining during the COVID-19 pandemic in 2020-22 (Figure 2). Overall, growth has not led to the needed productive transformation, including job creation and value chain integration (AUC/OECD, 2018, 2019, 2022).

Figure 2. **Components of economic growth in Africa and other world regions, 2011-22**



Note: See note under Figure 1.1 in Chapter 1.

Sources: Authors' calculations based on IMF (2022), *World Economic Outlook Database*, October 2022 Edition, www.imf.org/en/Publications/WEO/weo-database/2022/October.

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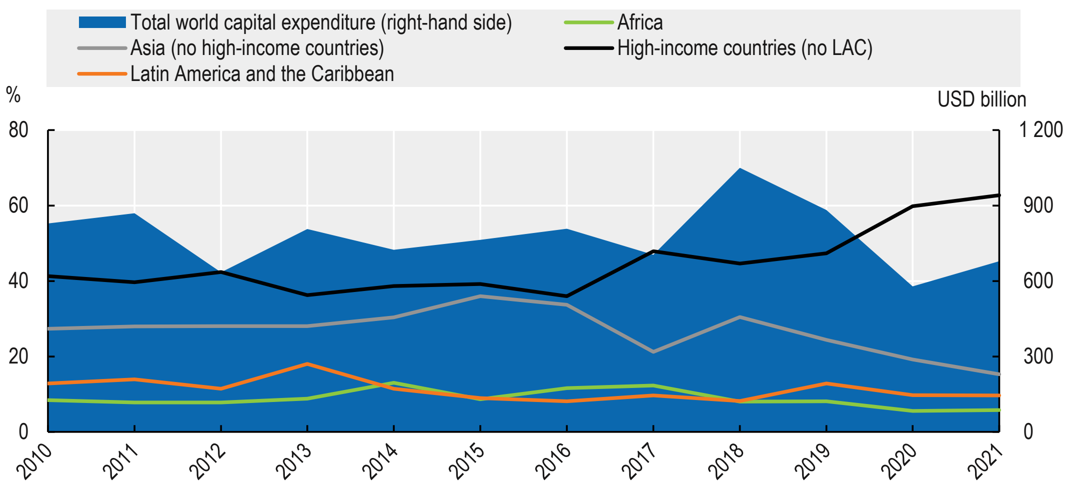
The African continent holds unique human and natural capital for sustainable investment. Africa has the world's youngest population, with a median age of 19 years, compared to 30 for Latin America and the Caribbean, 31 for developing Asia and 42 for Europe. By 2050, Africa's population will almost double, from about 1.4 billion inhabitants to nearly 2.5 billion. More than half of the world's population growth will happen on the continent (AfDB/OECD/UNDP, 2015; UN DESA, 2022). The proportion of African youth completing an upper-secondary or tertiary education could reach 34% by 2040, up from 23% in 2020 and 18% in 2010 (AUC/OECD, 2021). From 2011 to 2020, African forests increased carbon stock by 11.6 million kilotons of CO_2-equivalent net emissions, while carbon stocks in forests outside Africa declined by 13 million kilotons. Of this increase, 59% was in Central African forests, now recognised as the world's largest carbon sink (FAO, 2022). The continent boasts 60% of the best solar resources globally (IEA, 2022). Natural capital accounts for 19% of Africa's total wealth, compared to 7% for Latin America and the Caribbean and 3% for developing Asia (World Bank, 2021).

Risk perceptions and information shortages have lowered investor confidence and increased the cost of capital in Africa more than in other world regions

Despite its potential, Africa attracts the lowest share of capital from institutional investors, compared to other world regions. In 2017-18, global pension funds and insurance companies allocated only 0.5% of their capital to African assets, compared to 1.2% for Latin America and the Caribbean and 4.2% for developing Asia. Africa's share of global investment capital has remained low (below 1%), even though global assets under management grew from USD 48 trillion in 2010 to over USD 112 trillion in 2021, despite economic downturns (BCG, 2022).

Africa's share of global foreign direct investment (FDI) and participation in global value chains have stagnated. In the last decade, global greenfield FDI – i.e. announced FDI projects that create new production facilities instead of acquiring existing ones – has decreased at an average rate of 3% per year. Moreover, since 2016, new investments have been shifting from developing countries to high-income countries (Figure 3). The COVID-19 pandemic accelerated this trend: in 2020-21, high-income countries outside of Latin America and the Caribbean attracted 61% of global greenfield FDI (the highest share ever recorded), compared to 17% for developing Asia, 10% for Latin America and the Caribbean and only 6% for Africa (the lowest share since 2004). Similarly, Africa's participation in global value chains has stagnated since the 2008 global financial crisis: it was only 1.7% in 2019 (AUC/OECD, 2022).

Figure 3. **Greenfield foreign direct investments by world region, as a percentage of world capital expenditure, 2010-21 (USD billion)**



Note: LAC = Latin America and the Caribbean.
Source: Authors' calculations based on fDi Intelligence (2022), *fDi Markets* (database), www.fdiintelligence.com/fdi-markets.

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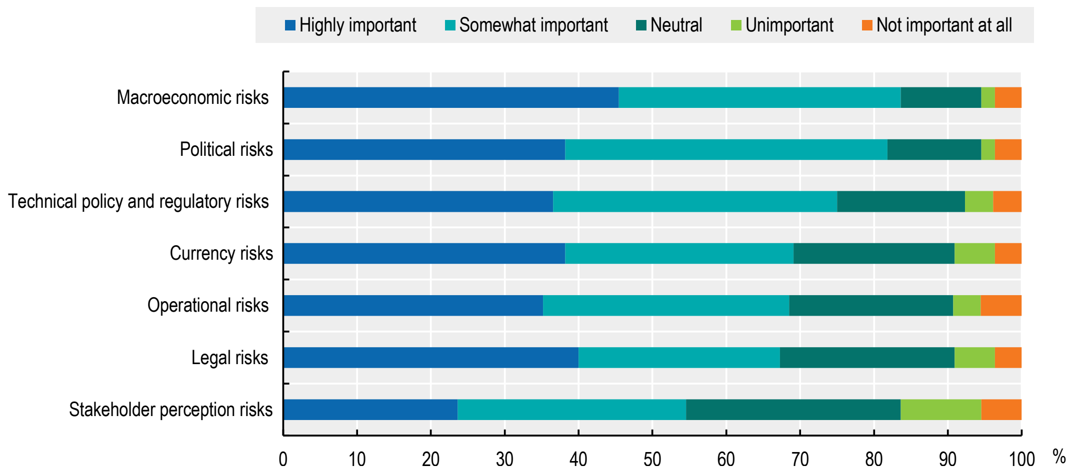
Risks and information shortages persist as barriers to investment mobilisation in many African countries. Representatives of global multinational enterprises surveyed and interviewed for this report emphasised macroeconomic risks, policy instability and the lack of regulatory capacity as persisting barriers to their investments in African countries (Figure 4). Yet, some highlighted that investors with in-country experience can generate higher rates of return in Africa compared to other world regions. An overall lack of information inhibits assessments of investment opportunities in African markets: limited information and data may result in delays (investors "wait and see") and amplify "perception premiums".

Figure 4. **Responses to the AUC/OECD investor survey question "Which of the following risks have been most important for your investments in African countries?"**



Note: n = 52 to 55. The AUC/OECD survey was administered in September 2022 to the networks of African business councils and the EU-Africa Business Forum. For further information, see Figure 1.6 in Chapter 1.

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The poor credit ratings of many African countries may overestimate risks and result in excessive cost of capital. As of December 2022, leading global credit rating agencies gave investment-grade ratings only to Botswana and Mauritius, followed by Côte d'Ivoire, Morocco and South Africa in the non-investment grade speculative category (Trading Economics, 2022). Credit rating agencies may lack detailed data and insights on African countries. A recent UNDP (2023) study compared neutral model-based ratings with those issued by credit rating agencies, estimating that the latter led to higher interest rates and dampened investment mobilisation, creating a total opportunity cost of up to USD 74.5 billion for African countries. Country credit ratings also serve as a benchmark for private debt holders, thereby affecting the cost of private capital as well (e.g. interest rates and longevity of loans). The high cost of capital has been a barrier to investment mobilisation especially in sectors where large upfront capital expenditures are required. This is the case in the energy sector where, in 2021, the weighted average cost of capital in Africa was about seven times higher than in Europe and North America (IEA, 2022).

Better allocating existing sources of finance can support Africa's regional integration and sustainable development

Africa's external and domestic sources of finance show untapped potential to drive sustainable investments on the continent. Table 1 examines strengths and weaknesses of some of Africa's major potential sources of sustainable investments. The potential of FDI and remittances to contribute to sustainable growth remains underexploited due to limited integration with productive activities on the continent. Official development assistance (ODA) showed resilience during the COVID-19 pandemic but remains below pledged levels. Sustainability-oriented private investments such as impact investing and philanthropy still have limited scale and impact, while being prone to specific sectoral and country biases. Among domestic sources of investment, regional multinational enterprises and institutional investors offer untapped potential to support sustainable and resilient growth. Government revenues represent the largest source of finance in most countries, but their allocation towards sustainability objectives remains limited and insufficiently reported. Mobilising domestic resources is necessary to widen the fiscal space of national governments and reduce debt burdens, as well as attract sustainable investments from the private sector.

Table 1. **Africa's main sources of financing and their potential for promoting sustainable development**

	Sources	Amounts % of Africa's GDP	Strengths	Weaknesses
External	**Foreign direct investment**	USD 83 billion 2.6% GDP (2021)	Productivity spillovers for local suppliers; training for the local workforce	Limited alignment with sustainable development; spillovers reliant on effective linkages; vulnerable to shocks
	Remittances	USD 96 billion 3.8% GDP (2021)	Connections with local economies and the informal sector	Limited co-ordination of funds; limited focus on productive transformation
	Official development assistance	USD 65 billion 2.5% GDP (2021)	Resilience to global shocks; focus on social and ecological sustainability	Remaining below pledges; limited mobilisation of private investments in low-income countries
	Global impact investors	USD 24.3 billion 1.0% GDP (2019) (assets under management allocated to Africa)	Focus on transformative sectors (e.g. energy, finance, and small and medium-sized enterprises)	Focus on large and more advanced economies
	Private philanthropy	USD 2.1 billion 0.1% GDP (2018-19)	Focus on social sectors (e.g. health and education)	Relatively small amounts; not targeting the poorest countries
Domestic	**Government revenues**	USD 466 billion 16.7% GDP (2021)	Largest source of financing in most countries; resilient towards international monetary conditions	Country-specific challenges; decreases in revenue on a real per-capita basis; limited data on allocation towards sustainable development
	Multinational enterprises based in Africa	USD 2.7 billion 0.1% GDP (2021) (FDI outflows)	Regional footprint; resilience to global shocks	Limited amounts of financing; risk of reinforcing regional inequalities
	Domestic institutional investors	USD 1.8 trillion 73.3% GDP (2020) (assets under management held in Africa)	Vast financial resources; embedded in local financial markets	Risk aversion; limited investments in sustainable assets

Note: "Amounts" refers to financial flows during the reference period with the exception of "Global impact investors" and "Domestic institutional investors", which refer to end-of-period stocks (assets under management). Financial sources may overlap and cannot be aggregated. Global impact investors (GIIN, 2020) and private philanthropy (OECD, 2021a) are considered external sources of finance, as they mostly originate outside the African continent.
Source: Authors' compilation based on various sources. For further information, see Table 1.2 in Chapter 1.

External financial inflows represent important sources of finance for development on the African continent (Figure 1), but their sustainable development impacts remain limited.

- In 2021, FDI and remittances remained the largest external financial flows (6.4% of Africa's GDP); but their potential to promote sustainable development remains underexploited. For example, USD 1 million in FDI creates 14 jobs in textiles, 10 in electronic equipment and 9 in automotive, but these job-intensive sectors attracted only 4.5% of greenfield FDI to African countries over 2003-20.
- ODA increased in response to COVID-19 but remained at about 0.36% of donor countries' gross national income – well below the pledged level of 0.7% set by the 2030 Agenda for Sustainable Development. In 2022, bilateral ODA to Africa declined by 7.4% compared to the previous year, despite a general increase at the global level (OECD, 2023). Moreover, ODA shows specific sectoral and country biases: while private finance mobilised through ODA grew fivefold in Africa between 2012 and 2020 (from only USD 4 billion to USD 22 billion), less than 30% of the amounts mobilised targeted low-income countries (OECD, 2022b).
- Sustainability-oriented private investments (impact investing and philanthropy) are still small and unbalanced. For example, Southern Africa has a GDP (purchasing

power parity) per capita three times larger than Central Africa but, over 2016-19, received over four times more philanthropic inflows per capita.

FDI with linkages to local economies and suppliers can contribute to sustainable development. While effects can take time to materialise, FDI can enhance growth and innovation in the host country (Diallo, Jacolin and Rabaud, 2021; OECD, 2022c). Our analysis of firm-level data from the World Bank Enterprise Surveys shows that, on average, foreign firms operating in African countries rely less on inputs sourced from local suppliers than their peers in Asia, notably in agro-processing and manufacturing.

Mobilising diaspora investment can help develop local production. Between 20% and 30% of global remittances target economic activities (IFAD/World Bank, 2015). Diaspora investments are well-placed to support local production networks as most diaspora investors tend to establish more connections with local suppliers (Amendolagine et al., 2013). However, most of these investments are channelled towards informal activities (Asquith and Opoku-Owusu, 2020). Structured diaspora investment products could tap into the estimated USD 33.7 billion annual diaspora savings (Faal, 2019). Careful planning, regulatory approval in host countries and competitive pricing are key for successful African diaspora bond initiatives (AUC/OECD, 2021).

Intra-African greenfield FDI was more resilient to global shocks than FDI from outside Africa, and it has room to grow. From 2017 to 2021, intra-African FDI flows accounted for only 9% of total greenfield FDI to African countries. It showed resilience during the COVID-19 pandemic: in 2020-21, intra-African greenfield FDI decreased by 20% compared to 2018-19, while the drop in greenfield FDI from outside the continent was about 3 times more (-58%). Africa-based investors have increased new investment projects in ICT, renewable energies and metals (fDi Intelligence, 2022). Analysis of firm-level data from the *Orbis* database highlights that the vast majority (69%) of Africa-based listed companies is active in growing service-oriented sectors such as financial services (29%), retail (8%), real estate (6%), and information and communication technologies (6%).

Assets held by African institutional investors have grown rapidly, with much potential for investments in sustainable economic activities. According to estimates, in 2020, African institutional investors had assets under management of about USD 1.8 trillion, a 48% increase from 2017 (Juvonen et al., 2019). OECD data show that pension funds across 15 African countries accumulated USD 380 billion of assets by 2020, with South Africa accounting for almost 80% of the total (OECD, 2021b). This translates into an average GDP share of 25% for Africa (mostly driven by South Africa, Namibia and Botswana), compared to 22% in Latin America and the Caribbean and 3% in developing Asia. Yet, alternative assets – such as infrastructure, real estate, green and sustainable assets, private equity, and venture capital – accounted for less than 3% of portfolios in an assessment of five African pension markets, namely Ghana, Kenya, Namibia, Nigeria and South Africa (AfDB/IFC/MFW4A, 2022). Half of the major African pension funds state that sustainability is an important goal of their investments; however, they share limited information on their sustainability strategies (Stewart, 2022). This mirrors global trends among institutional investors (OECD, 2021c).

Better data, African-led partnerships and regional policies can accelerate sustainable investments across the continent

Which policies can help African countries mobilise greater investments and allocate them towards Agenda 2063 and priorities for sustainable development? Effectively allocating existing African financial and fiscal resources towards sustainability outcomes offers the largest potential. While the international community needs to meet its sustainable finance obligations towards developing countries, African governments, the private sector and civil society must work closer together to attract more sustainable investments into African economies. This report proposes three main policy priorities to accelerate sustainable investments on the continent (Table 2).

Table 2. **Investing in Africa's sustainable development: Three main policy agendas for the continent**

Challenge	Policy agenda	Policy action
Low investor confidence and high cost of capital	Informing risk assessments and sustainability measurements	Enhance national statistical capacity for country risk assessments
		Inform investor due diligence and project risk assessments with detailed data
		Support locally adapted sustainability frameworks and data collection
	African-led partnerships to deliver on frameworks and tools	Deepen regional capital markets to support African corporate growth and broaden the availability of financial products for investors
Frameworks needed to explore African assets and steer investments towards sustainable development		Increase the capacity of local financial institutions to align sustainable finance with national priorities
		Adapt and expand innovative financing instruments fit for local contexts
	Regional integration to widen impacts	Harmonise policies, improve digital infrastructures and development corridors
		Provide support for small and medium-sized enterprises to integrate into regional value chains
		Ensure effective implementation of the African Continental Free Trade Area Investment Protocol

African regions can better leverage their assets to accelerate productive transformation and sustainable development. The report's five regional chapters highlight how African regions can accelerate sustainable investments in strategic sectors (see Table 3 and Chapters 3-7). Case studies propose ways of operationalising the continental policy recommendations presented in Table 2 in specific sectors and regions while suggesting how productive transformation and sustainable development outcomes can be mutually reinforcing.

- Southern Africa accounts for about 60% of Africa's installed solar energy capacity, while the Rift Valley in East Africa holds the continent's richest geothermal potential. The renewable energy sector offers these regions opportunities to combine energy security and climate mitigation with job and enterprise creation.
- Central Africa's forests contain 62% of the continent's biomass carbon stock, or 11% of the global stock. Preserving the region's natural ecosystems promises both financial and ecological gains.
- Climate-related blended finance to North Africa increased by a factor of 4.9, from an average of USD 91 million over the period 2012-16 to USD 447 million in 2017-21, compared to a factor of 2.4 for developing Asia and 3.4 for Latin America and the Caribbean. Harmonised and deepened institutional frameworks on such financial instruments can help the region mobilise the funds needed for effective climate adaptation.
- Agriculture, forestry and fishing value added in West Africa was 24.4% of GDP in 2021, compared to 16.5% for Africa and 4.3% for the world. Upgrading the region's supply chains for processed food products would reduce imports and informality in the sector.

Table 3. **Investing in Africa's sustainable development: Policy recommendations by region**

Region	Case study	Policy recommendations
Southern Africa	Renewable energies	• Harmonise regulatory frameworks and accelerate regional initiatives on renewable energy infrastructures • Enhance public-private alliances and development finance based on national energy priorities • Adopt targeted policy solutions to scale up off-grid renewable energy projects in rural areas
Central Africa	Natural ecosystems	• Improve natural capital accounting to better inform investors and stakeholders • Establish institutional frameworks for the monetisation of natural ecosystems • Ensure local ownership when developing innovative financing mechanisms
East Africa	Renewable energies	• Enhance regulatory frameworks and energy utilities' capacity to improve investor confidence • Strengthen local financial institutions to catalyse resources for renewable energy projects • Support the growth of innovative enterprises through regional integration policies like the African Continental Free Trade Area and the East African Economic Community
North Africa	Climate finance	• Improve assessments of financing needs based on national and multi-sectorial priorities • Adopt and implement inclusive regulatory frameworks on sustainable finance • Encourage the development of sustainable finance markets (nationally and regionally)
West Africa	Agri-food value chains	• Increase smallholder farmers' access to financial products focused on productivity and sustainability • Strengthen regional agricultural policies and place-based programmes like agro-industrial parks • Support food security and agricultural practices through agro-poles, incubators and technical partnerships

Increased information and data availability leads to better resource allocation and investor confidence

Strengthening the national statistical capacities of African countries can make country risk assessments more accurate and reduce the cost of debt servicing. International organisations and partnerships could step up their support for national statistical capacities in ministries of finance and statistical offices. At the country level, most governments can increase public expenditure on statistical capacities to 0.15% of national budgets (up from an Africa-wide average of only 0.07% in 2021), as committed through the *Strategy for the Harmonization of Statistics in Africa 2017-2026* (AUC/AfDB/UNECA/ACBF, 2017; AUDA-NEPAD, 2022). A large number of African countries could improve their sovereign bond spreads by 14.5 basis points and decrease their external debt by about USD 400 million by putting their average levels of data transparency (i.e. adherence to international data standards and best practices) on par with that of better-performing countries (Kubota and Zeufack, 2020). Enhancing the statistical capacities of tax authorities would also help African countries recuperate a portion of the USD 50 billion in illicit financial flows that they lose each year, for instance, by allowing authorities to enforce country-by-country financial reporting for multinational enterprises or match tax records with business registration data (High Level Panel on Illicit Financial Flows from Africa, 2021).

Table 4. **Policy recommendations to enhance information and data availability**

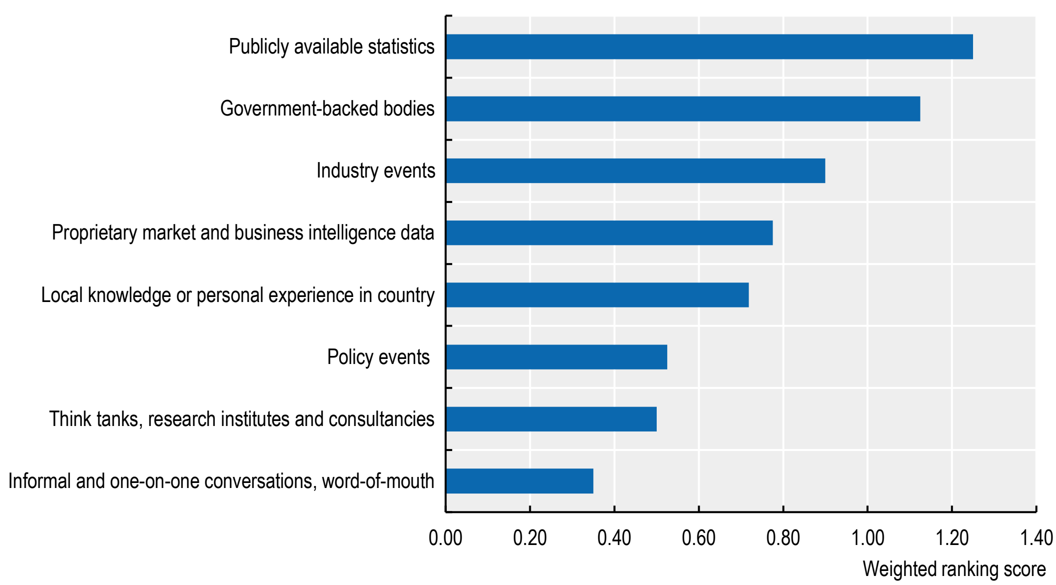
Type of risk assessment	Specific policy actions	Illustration
Sovereign risk assessments	• Improve data collection and dissemination, in particular macroeconomic data • Adopt licensing and disclosure requirements for credit rating agencies	In 2021, less than 30% of African countries had a fully funded statistical plan, compared to 44% in Latin America and the Caribbean and 47% in developing Asia.
Project risk assessments	• Partner with third parties to share detailed market, technical and legal information for targeted sectors • Strengthen business-to-government dialogue, enabling feedback about policies and investment barriers	The African Automotive Data Network compiles detailed data on vehicle sales, demand, motorisation rates and assembly plants.
Sustainability assessments	• Harmonise and enforce methodologies on sustainability assessments and reporting • Provide small and mid-sized enterprises with the capacity to collect sustainable investment data	The AUC/OECD investor survey shows that supply chain partners' lacking capacity, unclear sustainability criteria and limited measurement capacity represent important barriers.

Note: See Table 2.2 in Chapter 2 for additional examples.

Public entities and international organisations, in partnership with private actors, can aggregate and share sectoral information and sustainability data. Results from the AUC/OECD investor survey show that investors demand more official and specialised information on incentives and statistical data (Figure 5). Investment promotion agencies, regulators and other public entities should provide such information at the national level, regularly updating data and presenting them in harmonised and user-friendly formats. Likewise, African governments can encourage the collection of sustainability data through national frameworks that can become the groundwork for a continental sustainable finance architecture (Were, 2022; Chapter 7).

In **Central Africa**, improving natural capital accounting could unlock additional finance for the region's sustainable development (Chapter 4). Despite representing the largest carbon sink in the world, valued at USD 55 billion per year, only 12% of international finance allocated to sustainable forest management went to Congo River Basin forests over the past decade, behind the Amazon River Basin (34%) and Southeast Asia's forests (55%). Adherence to international frameworks such as the United Nations System of Environmental Economic Accounting, as done by Burundi and Cameroon, can help governments provide reliable estimates of natural capital, assess opportunities and improve the allocation of sustainable finance.

Figure 5. **Responses to AUC/OECD investor survey question "Which sources of information should there be more of?"**



Note: n = 40. The AUC/OECD investor survey was administered in September 2022 to the networks of African business councils and the EU-Africa Business Forum. Results show a weighted ranking score. For further information, see Figure 2.1 in Chapter 2.

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Strong African-led institutions and partnerships can make sustainable finance more effective

Expanding and interconnecting local stock exchanges could mobilise additional finance to support the growth of African firms. The market capitalisation of the 28 national and 2 regional stock exchanges in Africa remains far below comparable developing economies: in 2021, the total value of African initial public offerings (IPO) represented less than USD 1 billion (compared to USD 14 billion in Brazil and 17 billion in India). Over the 2017-21 period, African IPOs accounted for less than 1% of the USD 1.5 trillion global value of IPOs (PwC, 2021). During the same period, 77% of all capital raised through Africa-based IPOs originated from only three markets (Egypt, Nigeria and South Africa). Interconnecting stock exchanges can reduce transaction costs, increase trading activity and allow for greater integration of capital markets. Improving the transparency of listing requirements on African stock exchanges could unlock finance for smaller firms. For instance, the African Exchanges Linkage Project, launched in 2022, enables seamless cross-border securities trading across seven African stock exchanges representing about USD 1.5 trillion in capitalisation.

Improving the capitalisation of African development finance institutions (DFIs) can allow them to support national development objectives. Africa is home to 102 DFIs, representing about 20% of their total number globally. Yet, African DFIs rarely manage assets worth more than 2-3% of their country's GDP. Given African governments' constrained fiscal positions, donors could increase African DFIs' capitalisation to strengthen their ability to channel investment. Initiatives such as the Global Climate Fund's (GCF) Readiness Programme can assist African DFIs in diversifying their funding. It provides grants of up to USD 1 million per year and technical assistance to local institutions across 35 African countries to receive accreditations and secure GCF funding (GCF, n.d.). The international community could also consider reallocating part of the IMF's Special Drawing Rights to well-managed African financial institutions to ensure alignment with regional priorities. The African Development Bank and the African Union chairperson called for the reallocation of USD 100 billion in Special Drawing Rights through the African Development Fund to provide concessional financing in low-income countries (AfDB, 2022).

Leveraging innovative financing instruments can unlock additional sustainable investments. African governments can tap innovative instruments such as "green, social, sustainability and sustainability-linked" bonds or carbon credits to scale up climate financing (Dembele, Schwarz and Horrocks, 2021; Chapters 4, 5 and 6). For instance, in 2021, Gabon became the first African country to receive funds (USD 17 million) as part of the USD 150 million results-based agreement with the Central African Forest Initiative, for the country's efforts in reducing deforestation over 2016-17 (CAFI, 2021). The issuance of green bonds across nine African countries mobilised USD 4.5 billion over 2014-21. It could be scaled up with supportive regulatory reforms, as implemented in Latin America and the Caribbean, which attracted 32.8 billion over the same period. Implementing carbon credit trading systems could mobilise up to USD 245 billion (Wambui, 2022; Yu et al., 2021). The Africa Carbon Markets Initiative launched at COP27 aims to mobilise USD 6 billion and create 30 million jobs by 2030. Finally, local currency financing solutions and other risk mitigation tools can make projects more viable and affordable for local investors. For example, InfraCredit Nigeria provides local currency guarantees and has mobilised close to USD 240 million from domestic pension funds to finance infrastructure assets since 2017.

> In **North and West Africa**, African-led partnerships advance the development of green financing tools (Chapters 6 and 7). Multi-stakeholder consultations and regulatory reforms enabled Egypt and Morocco to mobilise USD 1.1 billion through green bond issuance, or 25% of total green bond issuances in all of Africa over 2014-21. The West African Initiative for Climate Smart Agriculture, a blended finance fund, works through local financial institutions and third parties to offer technical assistance and loans at subsidised interest rates to farmers' organisations and agribusinesses that use climate-resilient agricultural practices.

Effective regional integration policies can help mobilise sustainable investments

Harmonising national investment policies and productive transformation strategies can increase sustainable investment opportunities. Small domestic markets, macroeconomic risks, unfit regulatory environments, and frail licensing and incorporation regimes increase risks and the cost of searching for investment opportunities. Investment policy frameworks and productive transformation strategies can work in tandem to address such issues. African governments can put sustainability at the centre of investment policies and regulatory effectiveness, particularly in strategic sectors such as renewable energy (see Chapters 3 and 5).

Development corridors and digital infrastructures can be expanded to reduce deficits, increase sustainability and facilitate trade. By 2030, USD 411 billion will be required for all transport equipment – trucks, railway vehicles, aircraft and ships – to accommodate the increase in trade brought about by the African Continental Free Trade Area (AfCFTA) (UNECA, 2022). In the context of the Programme for Infrastructure Development in Africa, the African Union has placed development corridors high on Africa's regional integration agenda (AU, 2017). A holistic and multi-dimensional approach to development corridors can help address infrastructure deficits on the continent and contribute to social and environmental sustainability (AU, 2020). Expanding digital infrastructures through the Pan-African Payment and Settlement System aims to facilitate trade, notably by reducing the cost of foreign exchange in the 42 African currencies (AUC/OECD, 2021, 2022).

Establishing linkages between multinational enterprises and local small and medium-sized enterprises takes time and requires policy support to generate sustainable outcomes. The impact of such linkages can take up to 15 years to materialise, as lead firms need time to invest financial, human and technological resources (Jenkins et al., 2007). Policy makers can deploy complementary support services – such as supplier development programmes, matchmaking services and data provision, targeted incentives, inclusive clustering policies, and support to meet international standards – to foster value chain linkages (AUC/OECD, 2022; OECD, 2021d). Support from third parties like training or certification agencies can enhance the benefits that lead firms transfer to SMEs through value chain linkages (see Chapter 7).

The AfCFTA Investment Protocol promises to harmonise the African investment policy landscape. Currently, 852 bilateral investment treaties exist between African countries and between African and non-African countries (UNECA/AU/AfDB/UNCTAD, 2019). Liberalising trade and harmonising investment, competition and intellectual property rights laws under the AfCFTA could boost Africa's FDI stock by 122% from outside the continent and by 68% from other African countries compared to 2017 levels (Echandi, Maliszewska and Steenbergen, 2022). Implementing the AfCFTA Investment Protocol, approved at the African Union Summit in February 2023, requires monitoring mechanisms; experiences from African regional economic communities – such as the ECOWAS Investment Climate Monitoring Scorecard and SADC Investment Policy Framework – and from other world regions provide examples of how to co-ordinate policies and monitor progress. Continuous exchange with private sector representatives, such as through the AfroChampions initiative, would help promote investment opportunities throughout the AfCFTA implementation process.

> In **East and Southern Africa**, cross-border projects can support the development of renewable energy and cross-border trade of renewable power (Chapters 3 and 5). The African Clean Energy Corridor, connecting the Eastern Africa Power Pool and the Southern African Power Pool, aims to increase electricity supply by 2.5 times, meeting 40-50% of power needs in both regions by 2030 while cutting annual CO_2 emission levels by 310 megatons.

Note

1. GDP growth per capita is projected to be lower, at 1.3% in 2023 and 1.8% in 2024, due to strong demographic growth.

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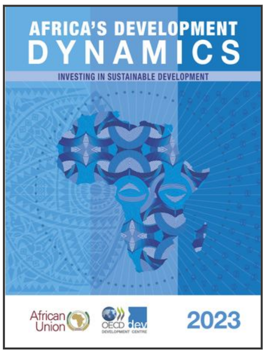

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