AFRICAN DEVELOPMENT BANK GROUP

The African Development Bank Group's African Economic Outlook 2023 Report on "*Mobilizing Private Sector Financing for Climate and Green Growth in Africa*"

Presentation by

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1. Your Excellencies, Distinguished Guests, Ladies and Gentlemen.

2. I am delighted to present to you today, the key findings of the African Development Bank Group's African Economic Outlook 2023 report on "*Mobilizing Private Sector Financing for Climate and Green Growth in Africa*", which is also the theme for the Annual Meetings.

3. The report has three chapters. Chapter 1 provides an overview of Africa's economic performance and outlook. Chapter 2 focuses on private sector financing for climate action and green growth in Africa. Chapter 3 discusses how natural capital can be harnessed for climate finance and green growth in Africa. Then we offer some recommendations focusing on key actions that each stakeholder could take to facilitate progress.

4. Chapter 1: Africa's Economic Performance and Outlook

    4.1 Like other regions, Africa has been heavily impacted by multiple and overlapping global shocks including tightening global financial conditions, supply chain disruptions, subdued global growth, residual effects of the pandemic, and growing impacts of climate change and extreme weather events.

    4.2 Despite the significant volatilities and vulnerabilities caused by the confluence of these global shocks, African economies have demonstrated remarkable resilience. Average real GDP growth rate is estimated at 3.8% in 2022, down from 4.8% in 2021 but above the global average growth of 3.4%.

4.3 Looking ahead: Africa’s average growth rate is projected to rebound to 4% in 2023 and accelerate to 4.3% in 2024.

4.4 Seven top performing economies –Congo Dem. Rep., Côte d’Ivoire, Libya, Niger, Rwanda, Senegal and Uganda — with growth above 6.5%, are set to be back to the league of the world’s 10 fastest-growing economies in 2023-2024.

4.5 There are variations in growth recovery and prospects for each region and country grouping in Africa – a point that is of interest for targeting private investments in the climate and green growth sectors in countries and avoiding generalizations.

4.5.1 East Africa was the only region that escaped a recession during the Covid-19 pandemic, underpinned by its more diversified production structure. Growth is projected to rise to 5.1% in 2023, up from 4.4% in 2022.

4.5.2 Growth in Central Africa is expected to moderate to 4.9% in 2023 and stabilize at 4.6% in 2024 as global commodity demand picks up and domestic conditions improve, supporting investment, after the weak performance induced by the COVID-19 pandemic. Central Africa mainly comprises net exporters of crude oil, minerals, and other commodities such as timber.

4.5.3 Growth in Southern Africa which declined to 2.7% in 2022 from 4.4% in 2021, is expected to moderate further to 1.6% in 2023 before returning to 2.7% in 2024.

4.5.4 Growth in North Africa is estimated to rise to 4.6% in 2023 and 4.4% in 2024. It was hit by the sharp contraction in Libya (6% of the region’s GDP) and the effects of drought in Morocco (20% of the region’s GDP).

4.5.5 West Africa’s growth is also projected to rise moderately to 3.9% in 2023 from 3.8% in 2022.

4.5.6 In terms of economic characteristics, non-resource-intensive economies, largely countries with more diversified economic structures, are likely to sustain their resilience. Average growth for the group is projected to rise to 5.0% in 2023 and 5.6% in 2024 from 4.4% in 2022.

4.5.7 Tourism-dependent economies grew by an estimated 8.4% in 2022, sustaining the momentum from 2021, but this is expected to slow to 4.9% and 4.4% in 2023 and 2024, respectivley if adverse global conditions persist.

4.5.8 Further details on the key drivers of growth and the variations observed by regions and economic characteristics are provided in the report.

5. But these broad-based positive outlooks need to be treated with cautious optimism, as challenges remain in key macro-economic fundamentals across countries.

   5.1 In the light of the strong appreciation of the US$, exchange rate dynamics in Africa were mixed, with most of the continent's currencies depreciating against it in 2022.

      5.1.1 Africa's leading commodity exporting countries except Angola with a 27.1% appreciation of its local currency, experienced substantial exchange rate depreciations despite higher international commodity prices in 2022.

      5.1.2 And rising interest rates have resulted in higher borrowing costs for African countries.

   5.2 Depreciation rates have also fed into higher inflation, worsening the already elevated inflation on the continent.

      5.2.1 The average consumer price inflation in Africa rose to 14.2% in 2022 from 12.9% in 2021 and is projected to increase further to a record 15.1% in 2023 before declining to 9.5% in 2024.

      5.2.2 This indicates a gradual return to the pre-COVID-19 pandemic inflation rates of 9.0% in 2019 and 9.7% in 2014-2018 if external conditions remain stable.

      5.2.3 The sharp rise in inflation reflects domestic factors such as drought, expansionary public investment and, more importantly, the direct effect of imported inflation and external factors such as rising oil and food prices, and global supply chain disruptions - amplified by structural bottlenecks in several countries.

      5.2.4 Central banks with higher than targeted inflation have embarked on aggressive contractionary monetary policy, taking a cue from monetary authorities in advanced economies. The effect of monetary policy is gradual but is paying off.

      5.2.5 Further escalation of Russia's prolonged invasion of Ukraine could exacerbate already strained supply chains and reverse the recent decline in global commodity prices—which could affect growth in Africa's net commodity importing countries.

6. Also, debt vulnerabilities continued to worsen due to rapid exchange rate depreciation and high primary deficits and tightening global financial conditions.

   6.1 Sovereign debt distress continues to pose significant pressures on already constrained fiscal balances of several African countries as tightening global financial conditions are putting further pressure on already elevated debt vulnerabilities.

6.2 The median public debt in Africa is estimated to have declined to 65% of GDP in 2022 from 68% in 2021 thanks to debt relief initiatives. However, this ratio remains higher than the pre-pandemic level of 61% of GDP and is expected to increase further to 66% in 2023 before stabilizing at 65% in 2024.

6.3 A decomposition of the debt-creating flows show that projected exchange rate depreciation and high primary deficits will have greater cumulative impact of external debt dynamics than historical drivers such as real GDP growth.

6.4 Interest expenditures could also significantly contribute to debt build-up through increased nominal interest rates in line with the current global monetary policy environment.

6.5 In general, tighter global financial conditions has increased debt service costs and risk of sovereign default for countries. Rising interest rates have resulted to higher borrowing costs for African countries. This is compounded by rising US dollar-denominated principal payments, resulting in overall high debt service payments.

6.6 Average total external debt service payments, as a percentage of government revenues, increased from 6.8% to 10.9% between 2015–19 and 2020–22, respectively.

6.7 The median external debt service payments in 2020 – 2022 for countries with high risk of debt distress, accounted for more than 11.3% of revenues, up from 8.6% in 2015 – 2019.

6.8 Even in the countries where interest payments declined, total debt service has risen relative to the pre-pandemic period, underscoring that principal payments were the dominant component of debt service in 2020–22 in these countries.

6.9 The 25 African countries in high risk of, or already in, debt distress in February 2023 have experienced the highest increase in the burden of debt service.

6.10 Potential sovereign defaults are therefore significant concerns for the financial sector, with many African countries facing high and increasing debt service burdens.

7. Overall, amid the show of remarkable resilience, there is significant heterogeneity in the growth prospects and macro-economic fundamentals of countries across African regions. There is need for potential investors to avoid the risk of generalization – extrapolating investment risks for countries based on the extant conditions in few African countries. The continent has 54 sovereign countries with diverse economic structures, growth potentials and investment climates.

8. To address this diversity, the African Development Bank Group will publish its Regional Economic Outlook (REO) Reports and Country Focused Reports (CFRs) in June 2023 and

July 2023 to provide deep dive analyses on the performance and outlooks of the 5 Regional Economic Communities and the 54 African countries, respectively.

9. But there are key risks to watch in the short to medium terms across the continent's economies, including:

    9.1 Subdued global growth and softer demand in Africa's key export markets.

    9.2 High interest rates, high cost of debt service and associated risks of debt distress and potential sovereign defaults.

    9.3 Physical risks of climate change increasing losses and damage costs associated with extreme climate events are deepening fiscal distress in countries.

    9.4 Commodity dependence and high price volatility continues to subdue domestic revenue mobilization and makes it difficult for countries to plan for development programs in the medium term.

    9.5 How these risks affect private sector financing for climate and green growth in Africa are explained in the report, with deeper dive analyses at the regional and country levels provided in the Regional Economic Outlook (REO) and Country focused Reports (CFRs) which will be launched in June and July 2023, respectively.

10. Overall, the direction of the African economy remains positive and resilient. But there is need for cautious optimism given the global conditions explained in the report.

11. The second chapter of the report examined innovative ways to mobilize private sector financing for climate action and green growth in Africa.

12. The report underscores the fact that Africa is a land of opportunities for profitable investment in climate solutions and green growth markets, with significant economic development additionalities and delivery on global public goods.

13. First, the report demonstrates the importance of promoting green growth in Africa.

    13.1 The analyses show that green growth is positively correlated with real GDP growth, climate resilience and readiness. Climate action and green growth objectives are therefore mutually reinforcing.

    13.2 Countries that perform well in green growth also achieve greater economic growth, higher climate resilience and preparedness and are less vulnerable to climate shocks.

    13.3 Pursuing green growth is therefore in the self-interest of African countries as it can lead to greater sustainability and inclusiveness and hence poverty reduction.

13.4 By green growth, we mean the promotion and maximization of opportunities from economic growth through building resilience, managing natural assets efficiently and sustainably, enhancing resource productivity, and promoting sustainable infrastructure to drive inclusive development.

14. But there is what I refer to as 'Africa's Green Development Paradox'

14.1 Africa is the current and future frontier market for green growth opportunities in the world. The continent has everything required to drive the global green growth agenda to fast track economic and social development goals.

14.2 The continent is:

14.1.1 A $2.97 trillion economy with 5 of the world's 10 fastest growing economies.
14.1.2 It has a young and very dynamic population currently at 1.42 billion people, expected to reach 2.4 billion by 2050.
14.1.3 It has enormous natural resources including 45% of technical potential in renewable energy – the highest in the world; about 65% of the world's uncultivated arable land; 30% of global mineral deposits; and more. This is the subject of chapter 3 of this report.
14.1.4 It has low legacy high emissions infrastructure.
14.1.5 The lowest rates of infrastructure project finance default rates.
14.1.6 And high and growing political will for climate smart and green growth transition.

14.3 But, despite all these potentials, the continent lags several other world regions in harnessing climate and green growth opportunities, technologies, and markets.

14.4 As President Akinwumi Adesina always says: Africa cannot eat potential. No one smokes natural gas or drinks crude oil.

14.5 The report notes that Africa's green growth index score was only 48.2 on average between 2010 and 2021, falling behind East Asia and the Pacific; Latin America and the Caribbean; North America; Europe and Central Asia.

14.6 Across all green growth opportunities: green trade, green employment, green innovation, and green investment, Africa lags all other regions.

14.7 The continents average global shares of these key indicators are estimated at:

14.7.1 About 1.5% for green trade between 2010 – 2020, compared to 3% minimum in other regions.
14.7.2 About 2.5% of green employment between 2010 – 2020, less than half of the other World regions.

14.7.3 About 3.6% of green investment, compared to a minimum of 6% in other World regions.

14.7.4 On natural capital protection, progress remain slow as African countries continue to struggle with illicit resource and financial flows.

14.7.5 On efficient and sustainable resource use and social inclusion, Africa is almost at par with other world regions, thanks to good progress in improving access to basic services and resources such as water, sanitation, electricity, and clean fuels, and in increasing gender balance and social equity.

14.8 Overall, Africa is not even at half-way to meeting green growth and sustainability targets.

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

15.1 Out of the $29.5 billion of climate finance flows to Africa in 2019/2020, private climate finance accounted for only 14% or $4.2 billion. This is the lowest share in the world.

15.2 In addition, for every dollar of public climate finance, African countries were able to mobilize only $0.16, again the lowest share compared to other World regions. For example, in North America, the leverage ratio is $18.5, and in South Asia and Latin America, it is at least $0.5.

15.3 Furthermore, as shown in the African Economic Outlook (AEO) 2022 report, the current global climate finance model is misaligned with climate vulnerability and climate risks. Climate vulnerable countries are less likely to receive climate finance.

16. On the other hand, Africa's climate financing and green growth needs are substantially high. To adequately implement its Nationally Determined Contributions (NDCs) by 2030, Africa will need on average a cumulative climate finance of $2.7 trillion or $242.4 billion annually.

17. If the private sector were to fill the remaining financing gap, this will amount to $213.4 billion annually up to 2030.

18. Private climate finance flows to Africa will need to increase by up to 36% annually to close the estimated climate finance gap by 2030.

19. Another challenge is that the private finance instruments and targeted sectorsare biased towards non-concessional debt and mitigation, respectively – which has implications for debt vulnerability and adaptation capacity of climate vulnerable countries.

19.1 The private sector deploys various financing instruments for its climate investments in Africa, but 90% are channeled through non-concessional debt and equity.

19.2 So far, about 74% of this investment has been in energy systems, mainly renewable energy projects, leaving other highly vulnerable sectors to climate change with only a quarter of total climate finance flows.

19.3 Again, this mirrors the mitigation bias in climate finance discussed in AEO 2022. The largest proportion of private climate finance in Africa has been allocated to mitigation, leaving significant dearth of financing for climate adaptation, loss and damage and other needs in sustainable infrastructure, transport, agriculture, etc., that can deliver inclusive green growth objectives and high risk-adjusted rates of return.

20. The report underscores the fact that investment in low-carbon climate-resilient development sectors in Africa offers great opportunities of higher returns for the private sector.

20.1 Africa's agricultural sector and agribusinesses are estimated to be worth $300 billion (in 2022) and has the potential to transform into a $1trillion market by 2030.

20.2 In the energy sector, the renewable energy market remains a priority (44.8% of the world's technical potential), but there are other climate investment opportunities that need attention including energy-efficient buildings, low-carbon transport, etc. Total market size is estimated at about $1.03 trillion through 2030.

20.3 Africa's ICT market is expected to grow from $95.4 billion in 2020 to $104.2 billion by the end of this year, 2022.

20.4 In the transport market, Africa has the potential to lead the Electric vehicle (EV) revolution. More than half of African countries have at least one of the critical metals (such as lithium, cobalt, nickel, manganese, graphite, iron, and phosphate) needed to produce lithium-ion batteries (LIB) used in EV and electricity storage.

20.5 The demand for these EV batteries is projected to grow annually by about 22%, from about 8 million units sold in 2022 to 39 million units by 2030.

21. But, while financial innovations offer significant promise for climate smart and green markets globally, these are not yet duly leveraged in Africa.

21.1 The past decade has seen significant growth in innovative financing instruments in green and sustainable finance (social bonds, green bonds and loans, sustainability bonds and sustainability-linked bonds and loans), carbon pricing, debt-for-climate swaps, and blended finance.

21.2 However, except for green loans and social bonds, with respectively 2.5% and 1.7% of the world's total, Africa's shares in other types of green finance were less than 0.5%.

21.3 Of about $2.2 trillion of green bonds issued globally between 2006-2022, Africa accounted for only about 0.2% (or $4.7 billion), the lowest among world regions.

21.4 Of the global Voluntary Carbon Market: valued at $2 billion in 2021, Africa's share was only 6.2% ($123 million).

21.5 Africa accounted for 41% of blended finance between 2016-2021, the highest globally, followed by Latin America, 28%.

21.6 Debt-for-nature and climate swaps have existed in different forms for decades but in recent years have gained in popularity, especially as the cost of sovereign borrowing has become prohibitive for African countries. But their full potential is yet to be harnessed by the continent.

22. To benefit, countries need to work on key enablers of private climate finance in Africa, including the levels of public climate finance and Gross National Income (GNI per Capita) – a measure of the level of development of a country; the quality of physical infrastructure and public institutions; market size and investment risk profile and climate risk index of countries. The report found that countries with higher levels of GNI per capita, higher public investment in climate smart development sectors, and better quality of public institutions and rule of law, as well as better quality of physical infrastructures attract more private finance flows into climate and green growth sectors. On the other hand, countries with higher climate risk and investment risk profiles attract fewer private investments.

23. The report finds a high level of complementarity between public and private climate finance in Africa. Countries that invest more in public infrastructure attract more private sector financing for climate and green growth in Africa. It is therefore important to underscore the fact that the push for more private sector financing for climate and green growth in Africa, requires the public sector to accelerate investments in these sectors as well.

24. Among demand-side barriers identified in the report, are: (i) lack of implementable strategies and implementation effectiveness in countries; (ii) weak regulatory structures and institutions; (iii) lack of investment-ready project pipelines and (iv) limited access to international markets.

25. Among supply-side barriers identified in the report, are: (i) limited experience on African markets and performance by the international private Investors, (ii) information asymmetry; (iii) perceived high investment risk leading to high cost of capital and required rate of return and (iv) poor credit ratings driven by the above barriers. Most African countries are rated below investment grade by external rating agencies (S&P, Moody's, and Fitch). But these ratings are often based on subjective assessments.

26. The report finds that, contrary to risk perceptions driven by the Sovereign Ratings of African countries, Africa has the lowest risk of default compared to its peers. A 14-year study by Moody's Analytics revealed that Africa had the lowest default rate on infrastructure investments worldwide, at 5.5%. In 2020, Moody's Analytics updated its figures. The report covered more than 8,000 project loans from the consortium members originated from 1983 - 2018. It reported that Africa is still the least defaulter among the main regions, with just a 1.9 % default rate. This figure stands in stark contrast to Eastern Europe (12.4%), Latin America (10.1%), North America (6.6%), Asia (4.6%), and Western Europe (4.6%).

27. A recent study by the UNDP cited in the report shows indeed that African countries could save nearly $74.5 billion in excess interest if credit ratings were based on more objective assessments of risk.

28. So, it is time to move from perceptions to experience on African markets.

29. The International and Domestic Private Investors are encouraged to invest in research for development (R4D) to understand African markets better to inform investment decisions based on reality.

30. And the increased calls for Africa to establish an African rating agency to interface with the international Rating agencies is a step in the right direction.

31. In Chapter 3, , Natural Capital for Climate Finance and Green Growth in Africa, the report examined how natural capital can be harnessed to complement private sector financing of climate and green growth in Africa.

32. The report documents the abundance of natural resource endowments that Africa could harness to finance its inclusive, sustainable, and green transition.

33. The continent has significant shares of renewable and non-renewable natural resources, including 30% of the world's mineral resources, 65% of the world's uncultivated arable land, the second longest and second largest rivers—the Nile and the Congo. The second largest tropical forest (the Congo basin) and 44.8% of the world's technical potential of renewable energy.

34. Africa's measured natural capital was valued at $6.2 trillion in 2018. But the value of Africa's natural capital per capita has been declining over time, from US$4,374 in 1995 to US$2,877 in 2018.

35. There are significant variations in the regional endowments in natural resources in the continent with North Africa hosting the largest share (27.1%), West (25.5%); South (20%); East (16%) and Central (11.2%), respectively. Juxtaposed with the economic performance and outlook discussed in chapter 1 of the report, it is evident that natural resource endowments do does not translate into strong economic performance of countries. East and Central Africa regions which have shown greater resilience to the multiple shocks of recent years, are not the most endowed in natural resources.

36. Another key finding of the report is that Africa's natural capital investment can underpin its climate and green growth finance if duly harnessed.

37. There are ample opportunities from trade in carbon credits under the Paris Agreement that present compelling reasons for African countries to make concerted efforts to develop compliance carbon markets under the Paris Agreement compared to voluntary carbon markets. As noted in the AEO 2022 report, Africa has up to US$ 4.84 trillion in carbon credits if the historical emissions and the common but differentiated responsibility clauses of the Paris Agreement are duly implemented.

38. There are also opportunities for climate finance flows from the Loss and Damage Fund which became part of the discussion at COP27 to provide financial assistance to developing countries that are most affected by the adverse effects of climate change.

39. The potential cost reductions through trade in carbon credits instead of each country implementing its NDCs on its own totals about $250 billion annually in 2030 and could reach $1 trillion annually in 2050. Thus, creating "internationally transferred mitigation outcomes" (ITMOs) is a huge opportunity for Africa.

40. In addition, there are opportunities from the Kunming-Montreal Convention on Biological Diversity Agreement. The agreement focuses specifically, to increase international financial resources to developing countries and economies in transition to at least $ 20 billion per year by 2025 and to at least $ 30 billion per year by 2030.

41. However, as Mr. Kofi Anan, the Former Secretary General of the United Nations noted, only promises that are kept are the promises that count. The global community need to take climate and green growth transitions seriously by honoring these commitments and ensuring that climate financing reach the most climate vulnerable countries if the global commons challenges of climate change are to be addressed to head off the impending climate catastrophe. Global conferences, negotiations and conventions will not fast-track climate and green growth transitions. Making financing available to countries in need can move development policies and programs in the right direction.

42. Accelerating investments in Africa's natural capital can scale up climate finance and fast-track the climate and green growth transitions in Africa.

    42.1 The Great Green Wall Initiative benefits 11 countries in the Sahel, which provides funding opportunities for carbon sequestration through tree plantation and can sequester 250 million tons of carbon and create 10 million green jobs by 2030. Investments such as the Desert to Power Initiative of the African Development Bank Group and Partners provides opportunities for harnessing the renewable energy potentials across the Sahelian countries to power the continent, create jobs, and alleviate poverty at high returns on investment.

    42.2 Africa has the potential to be a cost-effective worldwide supplier of green hydrogen. Egypt, Mauritania, Morocco, Namibia, Niger, and South Africa are planning large-scale hydrogen projects, and the momentum is building. Private Sector Investments in these projects offer an opportunity for providing environmental stewardship while leading innovations to reap the benefits of the emerging clean energy markets in Africa.

    42.3 Africa can significantly move up the Battery and Electric Vehicles (EVs) value chain moving aways from the current focus on mining green minerals and metals with limited value addition. The projected rise in demand for critical green minerals (cobalt, copper, lithium, nickel, graphite, and manganese) and green hydrogen and

associated value chains in the battery and electric vehicle supply chain could be integrated into the design of medium to long-term development and strategic industrial policy planning.

42.4 This will deliver mutual benefits for social, economic, and environmental sustainability goals of countries, reduce greenhouse gas emissions, and contribute to the global sustainable development goals. Simple policies such as local content and franchising could encourage location of green manufacturing industries in communities that host green minerals, significantly create jobs for youths and women in these communities, reduce poverty, reduce rural urban and international migration, reduce the carbon footprint of green products, reduce logistics and shipping costs for Investors, and ultimately improve the risk-adjusted returns on investments in green transitions in Africa. This provides a win-win for Countries, Investors, and the Global Community concurrently.

42.5 The current model of unfettered extraction of raw and unprocessed natural resources for production of manufactured products in distant lands and shipping them to Africa is not good for economic, social, or environmental sustainability.

42.6 Again, the continent needs adequate financing to harness its natural wealth to deliver the much needed economic and social development of its member countries and public goods to preserve the global commons.

43. While the immense endowments in natural capital across the African continent are known, there are key barriers to leveraging natural capital for economic and social development on the continent.

43.1 Among the key barriers documented in the report include (i) lack of natural capital valuation and accounting which constrains countries to trade in highly undervalued resources; (ii) lack of resource governance capacity which leads to weak regulatory structures and institutions; (iii) Ill-suited financing models, market failures and missing markets leading to significant underpricing of Africa’s natural assets in global markets; (iv) Illicit resource flows due to organized crimes and resource theft – hemorrhaging countries of significant resource rents; (v) tax avoidance; (vi) Illicit financial flows which robs the continent of about US$90 billion annually; and resource conflicts and political instability.

43.2 Emerging evidence suggest that the levels of illicit resources and financial flows outof Africa’s resource rich countries far outweighs current estimates. Similarly, a cursory review of conflicts in Africa suggests strong correlations with resource wealth of countries. Further research and forensic audits of Africa’s extractive sectors and exports is recommended.

44. Let me now turn to few policy recommendations and key actions that different stakeholders could take to accelerate private sector investments in climate and green growth in Africa, deriving from the analyses presented in the report.

45. First, national governments are called upon to enact and implement key policies that improve the macro-economic environment of countries, de-risk their markets, and encourage private sector financing for climate and green growth. Some of the polices recommended include: (i) anti-inflation monetary policy, supported by fiscal discipline and macro-prudential policies; (ii) coordinated debt treatment; (iii) appropriate fiscal reforms and incentives; (iv) develop Long-Term Strategies and Implementation Roadmaps; (v) implement strategic industrial policies: local content and franchising to encourage local manufacturing of climate smart and green technologies and build resilient and diversified local production capacities; (vi) boost domestic revenue mobilization and public finance management to plug leakages; (vii) deepen domestic capital and financial markets; (viii) invest in project preparation at national and regional scales; (ix) expand use of local currency in national and intra-regional trade to reduce currency risks; and (x) explore innovative financing options suited to national contexts, such as blended finance.

46. Second, recommendations for Multi-lateral Development Banks (MDBs) and other Development Finance Institutions, include to: (i) align their operations with the Bridgetown Initiative (ii) expand concessional financing and grants for capacity building; (iii) provide more risk agnostic, catalytic capital (e.g., guarantee instruments); (iv) revisit risk appetite - Implement the G20 capital adequacy review recommendations; (v) reduce profitability targets; (vi) scale the use of innovative financing mechanisms; and (vii) support system wide sustainable development transitions to diversify risk.

47. Third, are recommendations for the Private Sector Actors, Rating Agencies & International Community. They are called upon to exercise market leadership and stewardship for climate and green investment in Africa. It is in the common interest of the private sector, rating agencies and the global community for Africa to fast-track climate resilience and green growth transitions. While the continent has yet to contribute significantly to global emissions of green house gases, the risk of fast-paced increase in Africa's emissions could be high as the continent pursues economic and social development priorities, if countries are not able to transit to climate smart and green technologies. Green house gases mix freely in the atmosphere and their impacts of the global climate system is not bounded by national or continental boundaries. There is a global sustainability imperative in leaving no one behind in the climate and green transitions agenda.

48. Credit rating agencies are called upon to review methodologies and broaden rating frameworks to ensure that country risks are appropriately priced. The current calls by countries to establish an African Rating Agency is an index of waning trust in the international rating methodologies.

49. Developed Countries are called upon to honor commitments to secure our global commons. This is necessary to build trust and encourage compliance by developing countries who have

significant carbon credits and headroom for growing their own emissions within the current global carbon budgets. Supporting these countries to adopt climate smart and green growth technologies and policies is in the considered self-interest of developed countries who could face significant asset stranding risks if constrained to retrofit existing infrastructure to comply with their own carbon budgets and carbon debts under the provisions of the Paris Climate Agreement.

50. Developed Countries, the global Private Sector and Rating Agencies are called upon to collectively champion and support reform of the global financing architecture to realign public climate finance flows with climate vulnerability and risks. The current model channels climate finance to countries that are less vulnerable to climate change and is biased towards mitigation, leaving significant gaps in financing for climate adaptation and other sectors of critical importance to achieving the Paris Climate Agreement and the SDGs in developing countries.

51. Championing the reforms of the Multi-lateral Development Banks to ensure that they are better capitalized and can channel their risk capital to catalyze greater investments by the Private Sector in climate and green growth transitions in Africa, would be a step in the right direction.

52. Together with the MDBs, DFIs, the private and the public sectors, a reformed global financial architecture that aligns resource flows to addressing climate vulnerabilities and adaptation capacities of countries, could accelerate climate finance from billions to trillions and fast-track green transitions in Africa, without which the global sustainable development goals will not be achieved.

53. To summarize, let me reiterate the high-level recommendations already presented by Dr. Akinwumi Adesina, President of the African Development Bank Group during his opening speech.

53.1 First, countries should establish clear and well costed national development plans for climate and green transition considering their own development realities.

53.2 Second, countries should implement fiscal incentives (including smart subsidies) to encourage climate smart and green industries, spur growth, raise demand, profitability, and sustainability.

53.3 Third, multilateral and bilateral financial institutions should provide guarantees at scale to help de-risk investments by the private sector in climate smart and green projects in Africa.

53.4 Forth multilateral and other development finance institutions should support countries to develop pipelines of bankable climate smart and green projects with high-risk adjusted rates of return to the private sector.

53.5 Fifth, existing public-financed infrastructure should be transferred to the private sector – what we call asset recycling – to mobilize more private sector resources for greener infrastructure.

54. The African Development Bank Group has been leading the development of several innovative finance instruments to mobilize the private sector for climate and green growth in Africa, some of which were briefly discussed in the report.

55. Excellencies, Distinguished Guests, Ladies and Gentlemen. Thank you all for being here. I invite you to read the AEO 2023 report, and the subsequent Regional and Country Focused Report that will be launched in June and July 2023 to provide deeper insights to inform policies and investment decision making at the regional and national scales.

56. God loves Africa. Africa is a continent with diverse investment opportunities across countries with high risk-adjusted returns, but risk perception based on information asymmetry and persistent structural challenges in some countries discourage investments in green transitions in the continent.

57. Smart Investors invest in Africa. With sound evidence-based policies and investment decision making, green investments in Africa can deliver social, economic, and environmental sustainability goals with high risk-adjusted returns on investments and low risk of default.

58. Let us stand together to leverage Africa's potentials to accelerate the climate-smart and green growth in Africa, without which the global sustainable development goals will not be achieved.

59. Thank you.