



SUSTAINABLE GOVERNANCE AND CLIMATE FINANCE OPTIONS FOR AFRICA'S ENERGY TRANSITION

Authors: Oluseyi Aladesanmi,
Evelyn Dan Epelle, Priscilla Airohi-Alikor

Highlights:

- A.** Mobilising diverse climate finance resources and investments to support Africa's energy transition will address the continent's energy access challenges.
- B.** Sustainable governance is critical to driving climate policy initiatives and projects, which cost approximately \$2.8 trillion from 2020 to 2030. Furthermore, there is a \$200-\$400 billion climate funding gap in Africa from feasible debt swaps with the continent losing up to 15 per cent of its GDP per capita annually to climate change.
- C.** Infrastructure governance can drive innovation and climate action, potentially unlocking significant climate finance and investments for Africa's energy transition.
- D.** A set of crucial policy considerations for unlocking finance climate goals sustainably. A series of vital policy considerations, including the establishment of robust legal regulatory frameworks, are essential for achieving climate goals and unlocking sustainable finance

Introduction:

Africa's energy transition plan is a strategic shift from traditional fossil-fuel-based energy to sustainable and renewable alternatives. This transition is driven by environmental concerns, energy insecurity, and the need to meet economic and social development goals. The continent is experiencing a significant climate crisis, with severe implications for its economies, infrastructure, food and water security, public health, and agricultural sectors. These impacts threaten to undermine hard-won development gains and exacerbate poverty rates.

The role of finance and sustainable governance in propelling Africa towards a groundbreaking energy transition is critical. [At the Conference of the Parties \(COP28\)](#), the African common agenda emphasised the urgent need for climate action, highlighting Africa's significant climate finance gap. In the [ongoing Conference of Parties \(COP29\)](#), there is also a heightened call for supporting the transformation of the African continent into a global renewable energy leader, thus emphasising the urgent need for finance and investments. Furthermore, finance leads have similar objectives relating to what they perceive as priorities for Africa to negotiate, some of which are strengthening adaptation actions, functional loss and damage fund, and just energy transition. According to the [European Centre for Development Policy Management \(ECPDM\)](#), the continent faces a climate funding shortfall of \$200-\$400 billion annually by 2030 for climate action and green growth financing. Critical deliberations from COP28 explore a strategic plan for financing Africa's energy transition.

Various climate finance options are available to support Africa's energy transition, including funding from multilateral development banks, bilateral donors, and private sector investors. Mobilising diverse climate finance resources and investments to support Africa's energy transition will address the continent's energy access challenges by reducing greenhouse gas emissions and contributing to global efforts to combat climate change. However, responsible resource allocation and stakeholder coordination are needed to guarantee infrastructure governance and eliminate wastage in public expenditure.

Financing Africa's Energy Transition Plan

[Climate finance](#) refers to funding and investments specifically targeting projects that reduce greenhouse gas emissions and build resilience to climate change. For Africa, climate finance can support renewable energy projects, such as solar farms, wind energy installations, etc to improve energy efficiency in urban and rural areas and enhance access to clean energy technologies like off-grid solar solutions. [Africa's current energy situation](#) is characterised by a lack of access and affordability to modern energy services for a significant portion of its population. Many Africans still rely on traditional biomass for cooking and heating, and [limited access to electricity](#) is prevalent.

African countries face the negative impacts of climate change [despite contributing less](#) than 4 per cent of global greenhouse gas (GHG) emissions. Given the significant effects of climate change, countries on the African continent require a substantial inflow of climate finance to address the [adverse effects of climate change](#) and [calls for climate justice](#). For instance, in 2020, [9 out of 10 countries](#) affected by climate change were African. The repercussions were particularly pronounced, with a substantial portion of the African populace bearing the brunt of floods and droughts. The estimated cost to achieve African countries' [Nationally Determined Contributions \(NDCs\)](#) from 2020 to 2030 is \$2.8 trillion, which is over 93 per cent of the continent's GDP. African governments have committed \$264[1] billion from domestic resources, but there remains a significant funding gap of \$2.5 trillion, requiring \$250 billion annually from international donors and the private sector.

International donors committed \$30 billion in climate financial inflows between 2021-2022, representing only 11 per cent of the total amount required[2]. Despite these commitments, the inflow of climate financing has remained inadequate, particularly adaptation financing. The urgent need for robust climate finance is unmistakable. Addressing the climate crisis requires a collective effort from international donors and the private sector to bolster financial commitments and support climate justice.

[1] [Climate Policy Initiative \(CPI\). \(2022a\). The State of Climate Finance in Africa: Climate Finance Needs of African Countries.](#)

[2] [Climate Policy Initiative \(CPI\). \(2022b\). Landscape of Climate Finance in Africa](#)

Financing Africa's Energy Transition Plan

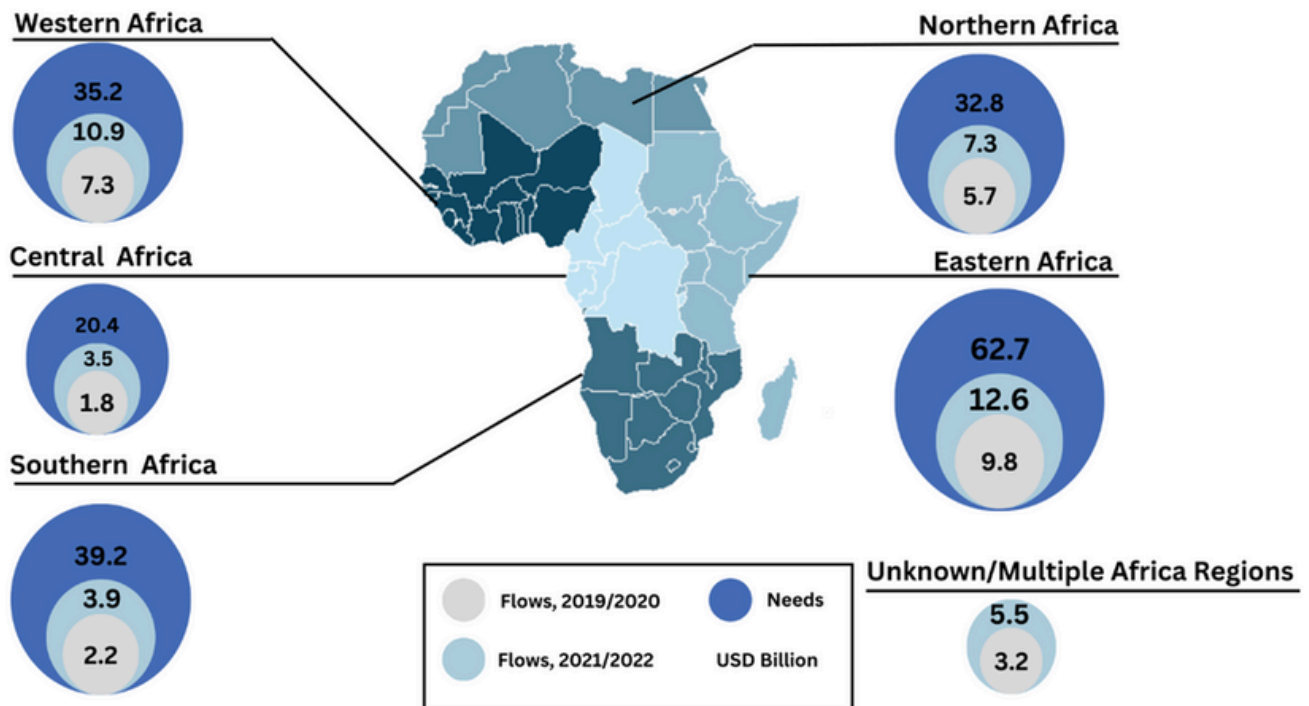


Fig 1.1 Climate finance flows and needs by subregions in Africa
Source: CPI. 2024. *Landscape of Climate Finance in Africa 2024*[1]

Smart Climate Investment and Financial Mechanisms

The climate change-exacerbated energy crisis in Africa offers opportunities for wise climate investments made through specialised financial mechanisms. More infrastructure is needed for energy efficiency in Africa. The ageing power plants, inadequately equipped transmission lines, and limited access to contemporary energy sources are characteristics of the African energy sector. Many African countries rely on inefficient and potentially harmful traditional biomass fuels such as charcoal and wood, which are useful for cooking and heating but potentially detrimental to health and the environment[4]. Africa is home to [600 million](#) individuals who lack access to energy. Despite accounting for 18 per cent of the global population, Africa's energy consumption is a mere 6 per cent. The continent also records over [83 percent](#) of people living in sub-Saharan Africa depend on traditional biomass fuels. Dependence on unclean cooking fuel costs [around \\$791.4 billion annually, with health-related complications accounting for \\$526.3 billion.](#)

[3] CPI. 2024. *Landscape of Climate Finance in Africa 2024*. <https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-in-africa-2024/>

[4] Makonese, Tafadzwa, et al. "Household Cooking Fuel Use Patterns and Determinants across Southern Africa: Evidence from the Demographic and Health Survey Data." *Energy & Environment*, vol. 29, no. 1, 2018, pp. 29–48. JSTOR, <https://www.jstor.org/stable/90018235>. Accessed 14 Nov. 2024.

The African Development Bank (AfDB) estimates that the cost of electricity rationing due to the lack of access is approximately 2-4 per cent of GDP. Power outages have stifled economic growth, healthcare, and education in many African countries. For instance, economic growth has slowed in [South Africa](#) due to severe power outages in recent years. Generally, there is a decline in human capital in Africa as computers and other laboratory equipment cannot be used in schools because of persistent power outages. These disparities relating to energy access on the continent represent a critical need for climate finance and sustainable governance on the continent given the health, environmental and economic costs associated with the gap. Thus, a comprehensive overhaul of Africa's energy sector is urgently needed to address the escalating demand and bridge the energy gap.

To achieve sustainable governance, policymakers must explore ways for African countries to adopt clean energy solutions to sustainably accelerate industrialisation, aligning with the United Nations' SDG 7 for affordable, reliable, sustainable, and modern energy for all. See the table below for some financial mechanisms that give rise to climate investment opportunities in Africa's Energy sector.

Financial Mechanism	SMART Climate Investment
<i>Invest in renewable energy</i>	<i>Increase the share of renewable energy in the electricity mix by investing in infrastructure for harnessing sun, wind, hydroelectric, and geothermal energy sources</i>
<i>Attract Private Sector Investment</i>	<i>Develop transparent regulatory frameworks and risk mitigation mechanisms to attract private sector investment.</i>
<i>Prioritise energy efficiency</i>	<i>Adopt energy-efficient technologies and implement energy management systems to reduce carbon footprint</i>
<i>Innovative financing mechanisms</i>	<i>Collaborate with international financial institutions to mobilise domestic resources for energy efficiency projects</i>

Fig 1.2 Opportunities in Africa's Energy Sector
Source: Author's compilation

Infrastructure Governance for Sustainable Development

Governance issues significantly impede sustainable development in Africa's energy sector. Additionally, Africa has over time formed what is referred to as an "[Energy Paradox](#)" because of the abundance of resources - minerals, oil etc. Still, it remains the poorest energy continent in the world because of its dependence on resource [exports](#). Sustainable governance involves coordinated efforts to address key energy infrastructure needs and prevent neglect. Effective governance is crucial for universal energy access in Africa, but challenges like weak regulatory frameworks, inadequate enforcement, and governance gaps undermine progress.

Weak governance results in inefficiencies, corruption, and rent-seeking behaviour, deterring investment and stifling innovation. Addressing these issues requires policy reforms, capacity building, infrastructure investment, and stakeholder engagement. Strengthening regulatory frameworks, improving transparency, and promoting inclusive decision-making are essential for fostering sustainable governance.

Targeted reforms can break the dominance of traditional energy sources that contribute to environmental degradation and public health issues. A multifaceted approach, combining policy reforms and infrastructure development, is necessary to overcome governance challenges and accelerate sustainable energy access. Reliance on old approaches will undermine efforts to transition to cleaner and more sustainable energy alternatives.

Conclusion and Policy Recommendations

A successful energy transition offers significant socio-economic and environmental benefits. This will enable African countries to create a more sustainable and prosperous future for their citizens. Although the continent still faces many challenges concerning energy, Africa has opportunities to improve its energy efficiency and achieve sustainable development. Clear policies and regulations, investment in renewable energy, innovative financing mechanisms, and prioritising energy efficiency are crucial.

To this end, the following recommendations are proposed:

Africa's energy transition is crucial for unlocking a sustainable and prosperous future for its citizens. Despite existing challenges, the continent has the potential to improve energy efficiency and achieve sustainable development. To achieve this, African countries must prioritise clear policies, renewable energy investment, innovative financing, and energy efficiency. The following recommendations are proposed to support this vision and drive progress:

- **Advance Sustainable Governance:** Transparency, accountability and integrity is required from African governments, international organisations, and climate stakeholders in meeting the continent's climate finance gap and ensuring its smooth transition to cleaner forms of energy.

- **Utilisation of Natural Gas to Drive Growth:** The International Energy Agency (IEA) emphasises that achieving universal energy access by 2030 relies heavily on natural gas, as it is a crucial component in all IEA scenarios. Interestingly, Africa has emerged as a significant player in the global natural gas landscape, [with 40 percent of](#) all discoveries in the last decade located on the continent. Natural gas is key in driving the continent's climate progress and energy justice. The continued underdevelopment of the natural gas sector could lead to the continued disparity in energy access on the continent.
- **Accelerating Africa's Low-Carbon Transition:** Africa generally, needs to attract capital flows into the continent, which will be pivotal in scaling up the investment in renewable energy resources, so there will be a need to invest in cleaner alternatives such as Solar, Wind, Hydro etc. in efforts to decarbonise Africa. To achieve this, the continent must achieve political balance across the different countries, protection of property rights and ensure adequate security in the region.
- **Develop an Integrated Policy Framework:** Focus on sustainability, inclusion, and innovation to bolster regional cooperation and foster a unified strategy for Africa's energy transition. Robust legal frameworks will play a vital role in attracting private capital to Africa, by facilitating successful public-private collaborations and ensuring a favourable investment climate.
- **Enhance Infrastructure and Governance:** African economies will benefit from a holistic approach that combines infrastructure development, governance capacity building, and regional collaboration. Additionally, upgrading grid, off-grid, and mini-grid infrastructure is essential to unlock economic potential and address energy access challenges.

A sustainable governance framework is essential to bridge the financing gap and ensure the efficient allocation of climate finance for Africa's energy transition. By prioritising transparency, accountability, and stakeholder engagement, African nations can attract international donors and private sector investments, ensuring the effective use of funds for impactful adaptation and mitigation initiatives identified in their Nationally Determined Contributions (NDCs). Sustainable governance will support Africa's path to a just energy transition, fostering resilience and climate justice for its people.

In conclusion, Africa's energy transition is critical to a sustainable and prosperous future. Despite challenges, the continent has opportunities to improve energy efficiency and achieve sustainable development. African countries must prioritise clear policies, renewable energy investment, innovative financing, and energy efficiency to achieve this. The proposed recommendations include creating a common electricity market, advancing sustainable governance, utilising natural gas to drive growth, accelerating Africa's low-carbon transition, developing an integrated policy framework, and enhancing infrastructure and governance.