

Issue

Brief

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Financing Climate Adaptation in Africa

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The African continent faces escalating climate threats, with rising temperatures, sea-level rise, water stress, and extreme weather events causing widespread negative consequences. This brief argues for the need to build a business case for greater adaptation investment in Africa. Climate change is already causing significant economic losses, with African countries losing 2-5 percent of GDP annually, while adaptation investments could yield returns of US\$2-10 for every dollar spent. The brief examines emerging opportunities in adaptation finance, driven by changing consumer preferences and growing demand for climate-resilient products. Combining domestic resources with innovative financial mechanisms and growing climate awareness could help African countries transition towards more climate-resilient economies.

The African continent is the most climate-vulnerable region in the world. There is evidence that over the 1991-2023 period, the rate of temperature rise across Africa, at about 0.3°C per decade, was higher than that of the global mean temperature. The African continent has warmed by 1.28°C above the 1961-1990 baseline, while the global average temperature growth over the same period was 1.09°C.¹ Moreover, the Intergovernmental Panel on Climate Change (IPCC) forecasts temperatures in the continent to continue rising faster than global averages over the twenty-first century.² Sea levels along the African coastlines have also risen faster than the global mean, with 108-116 million people in Africa projected to be exposed to risks from sea-level rise by 2030.³

Climate change has already had a significant impact on African countries. In 2023 alone, 53 events related to storms, heavy rain, floods, and landslides were recorded across the continent.⁴ The projected consequences are massive. Climate change is expected to exacerbate water scarcity issues; by 2030, water stress is projected to affect about 250 million people and displace up to 700 million in Africa, with ripple implications for agriculture, hydropower, and ecosystem tourism.⁵ Sea-level rise will also affect water quality, food security, and ecosystems health.

The African Development Bank estimates that the continent is losing between 5 percent to 15 percent of its GDP per capita growth due to climate change and related impacts.⁶ The World Meteorological Organization (WMO) notes an average loss of 2-5 percent of total Gross Domestic Product (GDP) for African countries.⁷ Moreover, measurements of the impact of climate change on the continent are likely to underestimate the real dimensions of the challenge due to lack of data. Indeed, a report based on the Emergency Events Database highlights that total economic damage is reported for only 12 percent of the recorded disasters in the continent for the 2003-2022 period.⁸ This underscores the urgent need for African countries to take measures to adapt their economies to the changing climatic conditions.

Assessing Africa's Adaptation Strategy

Many African countries will need to take a comprehensive and transformative adaptation approach to improve the resilience of their economies. The IPCC defines ‘climate adaptation’ as “the process of adjustment to the actual or expected climate and its effects in order to moderate harm or exploit beneficial opportunities.”⁹ Climate resilience, meanwhile, refers to “the capacity or ability to anticipate and cope with shocks, and to recover from their impacts in a timely and efficient manner.”¹⁰ Notably, both refer to taking pre-emptive actions to reduce climate change-associated loss and damage. The effectiveness of such measures depends on the future climatic scenarios that countries will face and the magnitude of their exposure. Climate adaptation is expected to become increasingly difficult if global temperatures rise beyond 1.5°C or 2°C above pre-industrial levels.¹¹ Its effectiveness is also likely to depend on how ambitious and structural the adaptation measures are. The term ‘transformative adaptation’ is used for fundamental changes to socioecological systems that address the root causes of climate vulnerability, and are system-wide, multiscale, and often linked to broader industrial development.¹²

In the African context, climate adaptation is often interlinked with economic development. This is because climate vulnerability stems not only from the frequency and scale of the impacts of climate-related events but also from the extent to which economies and societies can prepare to manage or absorb climate risks. The Notre Dame Global Adaptation Initiative’s 2024 Country Index, which measures vulnerability (in terms of exposure, sensitivity, and adaptive capacity) and readiness (economic, governance, and social), ranks nine African countries in the global bottom 10.¹³ Many of these countries, such as Sierra Leone, Sudan, Central African Republic, and Madagascar, also have among the lowest per-capita GDPs in the world.¹⁴ Similarly, the United Nations Environmental Programme (UNEP) considers Africa the most vulnerable region in the world to the changing climate because of the prevailing low levels of socioeconomic growth across the continent.¹⁵

The cost of Africa’s response to the consequences of climate change is significant and highly uncertain. The UNEP Adaptation Gap Report estimates the median cost of adapting to climate change for Sub-Saharan Africa at US\$46 billion annually for the period 2021-2030.¹⁶ Similarly, the WMO estimates the cost of adaptation in Sub-Saharan Africa to be between US\$30 billion and US\$50 billion annually over the next decade (or about 2-3 percent of the region’s GDP).¹⁷ According to the International Monetary Fund (IMF), the cost

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of adaptation for some developing countries globally will exceed 1 percent of GDP and even reach 10 percent of GDP for some island nations.¹⁸

Analysing the cost of adaptation measures in African countries' nationally determined contributions (NDCs), the Climate Policy Initiative (CPI) found that adaptation would cost around US\$579 billion over 2020-2030.¹⁹ This translates to annual flows of US\$53 billion or 2.5 percent of Africa's GDP.²⁰ While there appears to be a level of consistency between the different studies, the CPI report also emphasises the difficulties in effectively measuring adaptation costs, such as the lack of data and technical experience and the uncertainty around future climatic conditions. A 2023 study by the Global Centre on Adaptation (GCA) found that 31 out of the 54 African countries have yet to calculate their adaptation financing needs.²¹ Moreover, CPI estimates that reported adaptation needs represent only 24 percent of total climate change-related needs outlined in the NDCs.²² Given Africa's low contribution to global greenhouse gas emissions and high vulnerability to climate change, this costing distribution likely reflects, at least to some extent, a limited understanding of how climate change may affect the continent's economy and the needed adaptation and resilience measures. More conservative calculations suggest the continent's adaptation needs may be as high as US\$100 billion annually.²³

Overall, more research on this aspect is needed, which in turn will require more capacity across the continent. The African Climate and Development Initiative found that the United Kingdom, the United States, and European Union governments have provided the most funding for Africa-related issues, but they have granted only 14.5 percent of that funding to African-based institutions studying climate change in the region.²⁴ Therefore, more efforts are needed to support African researchers' capacity to assess the impacts and costs of climate change and their ability to help inform African governments' adaptation and resilience strategies.

At the same time, African governments are working to develop their adaptation and resilience strategies further. The GCA study found that the continent has made progress in this regard: most African countries (53 out of 54 as of July 2023) have developed some national plans for adaptation, set out in either their NAPs or NDCs.²⁵ The analysis determines that seven countries demonstrate best practices, including clear institutional mandates, identified priority sectors, specific adaptation goals, and estimated adaptation costs and timelines. Moreover, the report highlighted, many low-income African countries have the

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strategies and planning to absorb more resources; African governments most frequently identify agriculture, water, health, and infrastructure as priority sectors. A study on NDCs by the African Development Bank (AfDB) found that all 48 countries analysed showed a strong commitment to adaptation.²⁶ That said, adaptation planning in the continent is still in the early stages of development.

While NDCs can provide some insight into a country's approach to managing climate risks, NAPs set out a more comprehensive strategy. In Africa, only 21 countries have submitted NAPs as of July 2024.²⁷ In terms of facilitating the financing of adaptation plans, the AfDB and GCA recommend identifying and costing a clear set of adaptation priorities; improving institutional capacity to plan and implement adaptation measures at scale; ensuring effective coordination with the finance and planning ministries; and facilitating more regional cooperation on information, data, and technology sharing.

Challenges to Africa's Resource Mobilisation Plan for Adaptation

Despite African governments' efforts, the continent faces significant adaptation finance gaps. The IPCC reports that the annual finance flows targeting adaptation for Africa are “billions of USD less than the lowest adaptation cost estimates for near-term climate change.”²⁸ Achieving the goal of doubling adaptation finance by 2025 (within the New Collective Quantified Goal on Climate Finance) will only reduce the gap by 5-10 percent.²⁹ The CPI estimated that the annual climate finance flows for adaptation in Africa stood at only US\$11.4 billion from 2019 to 2020.³⁰ While green finance has risen significantly worldwide, and global adaptation finance flows jumped by 28 percent in 2021/2022 relative to the 2019/2020 level, Africa receives only about 3 percent of global climate finance.^{31,32}

The CPI and GCA further estimate that, at the current growth rate of adaptation finance, by 2035, Africa will receive less than one-tenth of what the region needs and that annual adaptation flows to the continent must increase five- to ten-fold to enable African countries to manage the consequences of climate change.^{33,34} These findings suggest that the continent needs more strategic, targeted, and scalable approaches to funding its adaptation plans. Notably, African countries also need to significantly prioritise their adaptation needs to ensure that adaptation finance, primarily when in limited supply, can fund the measures that will help increase climate resilience.

Closing the adaptation funding gap will also require a recognition of the interlinkage between climate and economic vulnerability in Africa. First, the pressing and significant need for adaptation measures stems partly from the persistent development financing gap that some countries have experienced and the underdevelopment of their financial markets, making resource mobilisation more difficult. Adaptation finance inherits many of the challenges of development finance, such as currency risk, low credit ratings, high transaction costs and barriers, and limited liquidity. Closing the adaptation funding gap will require addressing and managing some of these barriers, mobilising funding from diverse sources, and helping further develop domestic financial markets.

Second, it raises the question of how climate adaptation can be funded in resource-constrained developing countries. The GCA and CPI have estimated that more than 97 percent of adaptation finance in Africa for 2019 to 2020 came from public actors, and more than half was in the form of debt.³⁵ Furthermore,

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the CPI warns that the budgets of African governments are insufficient to address their climate resilience needs. Data from the UN Conference on Trade and Development estimates that almost half of all low-income countries worldwide are at high risk of debt and climate crises.³⁶ Without resources for adaptation measures, climate change will likely continue eroding fiscal space due to the budget impact of losses and damages from climate shocks, and the climate change-related loss of productivity and tax revenue.

The WMO warns that many African governments are already diverting up to 9 percent of their budgets responding to climate extremes, and the figure is likely to increase if global temperatures continue rising.³⁷ Over time, this negative fiscal impact may further constrain African countries' ability to borrow and fund their climate change responses. The IMF estimates that a 10-percent increase in climate vulnerability is associated with a 150-basis-point increase in long-term government bond spreads for developing countries.³⁸ Thus, facilitating African countries' ability to adopt adaptation measures and improve their climate resilience is essential to limiting the potential adverse spiral effects of climate change on their debt sustainability. This also means that issuing sovereign and municipal adaptation-focused debt instruments (such as green, resilience, or sustainability-linked bonds) to fund Africa's adaptation plans will strongly depend on the available fiscal space.

Third, this interlinkage can blur the distinction between adaptation measures and business-as-usual development. This creates challenges for assessing the adaptation funding gap and monitoring financial flows towards adaptation, and, in some cases, it can affect the investment appetite of funders with strictly climate-focused mandates or those concerned with greenwashing risk. Several taxonomies are emerging to help address these challenges, such as the Climate Bond Initiative's 'Resilience Taxonomy', and the 'Guide for Adaptation and Resilience Finance' by the UN Office for Disaster Risk Reduction, KPMG, and Standard Chartered Bank.^{39,40} These frameworks could help provide reassurance to investors and facilitate adaptation financing. At the same time, it is also important to consider how these could be applied to the African context to ensure proportionality and a level of coherence with national adaptation strategies, and to ensure they do not disincentivise investment into 'transformative adaptation' measures.

From Planning to Action: Adaptation Finance in Africa

Funding Africa's adaptation needs will require a blended finance approach. Blended finance refers to the structuring of financial mechanisms to offer different risk and return profiles. This allows financial actors with varying risk appetites, mandates, and resources to contribute funding towards the same project, portfolio, or financial structure. For example, concessionary funders (such as governments, philanthropic organisations, and development institutions) may be willing to accept lower returns and absorb more losses, such as by providing first-loss guarantees or financing a reserve fund. This decreases the likelihood of other funders experiencing losses, which may increase the appetite and ability of institutional investors (such as banks, insurers, and asset managers) to participate and provide the scale of capital needed.

This funding approach is particularly important for financing adaptation. Blended finance is commonly used to fund large infrastructure projects, such as when various banks form syndicates to distribute counterparty credit risk among them. A transformative approach to adaptation is likely to require some large-scale infrastructure projects, such as further developing a country's transport system to help reduce the impact of flooding. Moreover, blended finance vehicles can mobilise funding towards an entire portfolio of projects. This could support a more programmatic approach whereby adaptation projects with higher returns (i.e. 'bankable' projects) could be bundled together with projects that may generate significant resilience benefits but be riskier or not revenue-making. Thus, blended finance vehicles could be structured to complement the current financial architecture in Africa—where much of financing happens on a project-by-project basis—and help achieve the much-needed scale and funding additionality for impactful but less 'bankable' projects.

Country platforms will likely play an essential role in implementing the scale, ambition, and strategic response required to increase Africa's climate resilience. Indeed, country platforms for climate and development have already gained popularity and momentum, in Africa and worldwide.^{41,42,43} There is no single definition of a country platform, but there are several common characteristics: (1) they aim to support a strategic and comprehensive nationally-led approach to a specific area, (2) they are strongly linked or driven by government strategy and processes, (3) they seek to support multistakeholder coordination and collaboration, and (4) they often include a financial mechanism that aims to mobilise funding at scale in that priority area.

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Essentially, country platforms are about “coordinating political alignment, policy reform and addressing issues that need scaling up”.⁴⁴ While the Just Energy Transition Partnerships in South Africa and other countries helped popularise the country platform approach, they are just a modality of it. A country platform can focus on a different climate or development goal, such as adaptation, employ a different financing mechanism (for instance, not necessarily mobilise pledges or channel funding through the government), and have different institutional set-ups. Some of the characteristics that make a country platform successful include having a credible political agreement between the government and its international partners to address an issue of shared concern, implementing a programmatic approach to financing and delivering on the specific problem, and strategically tackling barriers holding back projects and finance for private sector investment in that area.⁴⁵

Country platforms have significant potential for financing Africa’s adaptation plans. First, they are designed to implement a multistakeholder and holistic approach, which is what many climate-vulnerable African countries need to strategically and comprehensively transform their economies. A strategic and inclusive response to climate change requires finding a balance between restructuring where needed to decrease climate vulnerabilities, linking adaptation measures to the country’s national development goals and ensuring buy-in and input from communities in line with the principles for locally-led adaptation.^{46,47} This requires significant resources for coordination and engagement, which country platforms can help provide to African governments.

Second, country platforms can support African governments in prioritising and costing their adaptation plans, such as by funding various cost-benefit analyses and impact studies to support evidence-based decision-making, and by helping match African policy analysts and researchers with the practical challenges that policymakers face.⁴⁸ Third, they can help build government capacity for the mobilisation of finance at a large scale (for instance, support effective communication of funding priorities, broad investor engagement, financial structuring, and demonstration of political support) and for the absorption of such finance (for instance, support effective distribution mechanisms, project pipeline development, and monitoring and evaluation).

This makes country platforms especially suitable as an implementation tool for large-scale blended financing. Their success will depend on how exactly

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they are designed and delivered in each country, and on the extent to which international actors are willing to fund adaptation through them. Given their core intentions and characteristics, country platforms can effectively address many of the UNEP's Adaptation Gap Report recommendations, such as increasing international adaptation finance and mobilising private investment, as they can provide an avenue for aligning such ambitions to national priorities and processes.⁴⁹


Finally, the business case for adaptation investment must be developed to achieve large-scale and sustainable funding. One economic argument focuses on the benefit of avoiding the cost of inaction, i.e. the damage climate change will cause in the absence of adaptation measures. The European Environmental Agency estimated that adaptation actions are cost-efficient when the benefit-cost ratio exceeds 1.5.⁵⁰ This approach can help justify adaptation investment but requires that various actors improve their understanding of how climate change may affect them and their supply chains. Central banks and regulators can help build such awareness in the financial sector through climate scenario analysis and implementing the Basel principles for effectively managing and supervising climate-related financial risks.⁵¹ Notably, much of financial institutions' climate risk exposures stem from their clients' and counterparties' climate vulnerabilities. Therefore, measures to improve the climate resilience of the financial sector can have a knock-on effect of raising awareness and supporting the investment appetite for adaptation in other sectors as well.

In this context, it is crucial that improving climate resilience is not only seen as a compliance exercise. The GCA estimated that every US\$1 invested in adaptation generates a return of between US\$2 and US\$10 on average, with strengthening early-warning systems having the highest cost-benefit ratio, followed by making new infrastructure resilient, improving dryland agriculture production, protecting mangroves, and making water resources more resilient.⁵² Standard Chartered Bank calculated that every US\$1 spent on adaptation this decade will generate an economic benefit of US\$12.⁵³ These savings come from reduced direct costs (such as the potential impact of climate change-related physical risks) and indirect ones (such as lower insurance premiums).⁵⁴ Therefore, businesses operating in Africa could yield significant economic benefits if they improve their climate risk management and climate-proof supply and delivery chains.

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Moreover, adaptation investment in Africa can present new growth opportunities. Increasing consumer demand for more sustainable and climate-conscious products and business practices exists. One 2024 survey found that consumers are willing to pay a 9.7 percent sustainability premium.⁵⁵ Another study from 2023 reported that 42 percent of respondents were thinking of changing the food they consume because climate change had pushed up prices or limited availability, while 29 percent had already been forced to make new choices.⁵⁶ This suggests that the market demand for more climate-resilient foods may increase, opening new export opportunities for African countries. The 2023 survey also found that 25 percent of respondents had already purchased products that help protect them from the impacts of climate change, while another 42 percent had considered doing so. These global consumer trends will likely spread as climate change impacts materialise further.

The rise in consumer activism on environmental issues, alongside regulatory measures such as reporting and disclosure requirements on climate exposures, may put increasingly greater pressure on international and African businesses to support countries' responses to climate change. Businesses may also begin to see financing adaptation actions as a way of obtaining branding and reputation benefits, strategic positioning, and managing market risk from improved climate awareness. There are already examples of interest from the investment industry, including their role in offering institutional clients the opportunity to scale up climate adaptation investments in developing countries.⁵⁷ New financial innovations, such as blended finance vehicles, country platforms, adaptation-focused investment funds, and adaptation benefit mechanisms,⁵⁸ can provide new investment opportunities.

Financing Africa's adaptation plans will require more efforts to build domestic and international climate awareness, support and showcase African countries' political will and capacity to take pre-emptive measures, and further develop the business case for investing in adaptation. The adaptation funding gap is significant, but there is substantial awareness at multilateral fora of the need to address this issue.⁵⁹ African countries have the opportunity to play a more active role in how such efforts are implemented and to change the narrative around adaptation financing. While adaptation and resilience measures can help prevent or limit the impact of a future humankind wants to avoid, they can also help create a future humanity wants to live in, with more developed, climate-resilient, and thriving economies. 

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