**Financing Africa’s Urban Opportunity**

*The ‘Why, What and How’ of Financing Africa’s Green Cities*

**Catlyne Haddaoui and Manisha Gulati**

**UMBRELLA MESSAGE**

**Key finance instruments combined with effective national government support offers opportunity to unlock green investment across Africa’s rapidly growing cities.**

With case studies from three African countries this report shows how investment in compact, clean and connected, urban development could accelerate growth across the continent and secure more resilient and prosperous lives for their residents.

**KEY MESSAGES**

* **Investing in low-carbon, climate resilient, urban development across Africa’s rapidly expanding cities offers promising benefits and opportunities to accelerate growth across the continent.** Doing so will create jobs, improve health, reduce pollution, and raise productivity across the continent, all while securing long term resilience to the climate emergency and rapidly growing urban populations.
* The **total benefits from delivering compact, connected and clean urban development** across 35 major cities in Ethiopia, Kenya and South Africa are valued at **$1.1trillion to 2050 (up to 250% of their annual GDP).** The green investments will also create hundreds of thousands of jobs and provide attractive returns for investors: **Investments in low-carbon measures of $280billion between now and 2050 in the three countries would generate returns with a net present value of $90billion in Ethiopia, $52billion in Kenya and $190billion in South Africa.**
* Unlocking the investment will **require strong leadership from national and local governments to** **overcome the barriers** posed by budgetary constraints, high debt levels, unstable interest rates, and poor creditworthiness. National policies and regulatory frameworks, alongside initiatives to improve creditworthiness and implement land value capture, will require strong leadership from national governments and collaboration between the levels of decision making.
* From innovative pay as you use cooling subscriptions to leasing contracts for electric bus fleets, the report uses case studies to present **six overarching finance mechanisms** that have demonstrated their potential to be effective, scalable and contribute positively to sustainable urban development across Africa’s diverse cities.
* This new report by the Coalition for Urban Transitions with support from FSD Africa explores how climate and urban challenges could be addressed in tandem to set cities on a path of prosperity and sustainable long-term development. It recommends steps that governments at national, local and city level could employ to attract the capital needed to address priorities around development and economic growth in the context of increasing vulnerability to climate change.

**IN DETAIL**

**Rapid urbanisation in the face of climate extremes**

* African cities are home to over half of the continent’s population and are experiencing the **fastest urban growth rates in the world.** Urban populations are expected to more than double in the next 40 years.
* The business-as-usual pattern of sprawling **urbanisation across Africa is fragmented, disconnected, polluted and costly** – to the detriment of already stretched economies and societies.
* Despite contributing less than 2% to global greenhouse emissions, **Africa is on the front line of the climate emergency** and faces major challenges around rising sea levels, extreme weather events and increasing temperatures. 79 of the fastest growing African cities, including 15 capitals and many of the continent’s key hubs, are at ‘extreme risk’ from climate change.

**Compact, clean, connected and resilient urban development**

* This report explores how the interconnected climate and urban challenges could be addressed together to accelerate the transition to a low-carbon, resilient urban future.
* It presents a model of **compact urban growth, connected infrastructure and clean technologies, delivered in tandem with resilience and inclusivity**.
* African cities have a unique opportunity to build in clean development and resilience from the ground up which will undoubtedly help them to better cope with the full extent of climate impacts in a warmer world.
* Cities developed using this approach will be **cheaper to run, more productive, healthier, less polluting, more inclusive and resilient to shocks**. They will also contribute to Africa’s achievement of the Sustainable Development Goals and Agenda 2063 targets.

**The economic case for investment**

* The new analysis demonstrates the strong economic case for low-carbon investments. Based on analysis across 35 major cities in Ethiopia, Kenya and South Africa, **the total benefits are expected to exceed $1.1trillion by 2050 and provide hundreds of thousands of jobs** compared to the ‘business-as-usual’ approach to urban development.
* The additional investments required to unlock benefits in each country would amount to **$42billion (Ethiopia), $27billion (Kenya) and $215billion (South Africa) between now and 2050 and would generate returns with a net present value of $90billion, $52billion and $190billion respectively.**
* Scaling up the transformation across the continent will not be easy, but the gains made by securing sustainable long-term urban development and resilience to future climate, health and social shocks will be substantial. The benefits will include **energy savings, cheaper living costs, and efficiency gains in building material costs, in addition to the many new jobs created**.

**Mobilizing the investment won’t be easy and will require strong national leadership**

* Realising these investments is a **difficult task** for cities and local authorities that face budgetary constraints, high debt levels, unstable interest rates, and poor creditworthiness. Lack of regulatory assistance, inefficient revenue collection and overall lack of capacity among city governments and public agencies to plan and implement projects, mean that cities are often unable to access the markets designed to help them.
* **The size of the required investment is also a major hurdle.** The sums involved are significant when compared to forecasted spending to deliver national climate targets across each of the three countries, representing 14% of average NDC costings in Ethiopia, 43% in Kenya and 13% in South Africa. However, **the economic returns are favourable and the social benefits of mobilizing the finance and building resilience are attractive.**
* Success in mobilizing the required level of investment across Africa’s diverse city landscape will require **strong leadership and collaboration** between the levels of decision making. It will depend on the ability of national governments to set the right market conditions to draw in private sector capital for sustainable infrastructure programmes through supportive policies, regulations, pricing signals and information flows.
* Four enabling mechanisms are recommended for national governments:
1. **Developing** **robust national urban policies** that shape future urban development among local and city level decision makers.
2. **Empowering local and city authorities** to develop their own policies to meet the specific needs of their residents.
3. **Unlocking funds from rising land values** that usually follow-on from infrastructure improvements.
4. Initiatives to improve **city creditworthiness**.

**Instruments for success**

* As national action overcomes the barriers to investment, cities will be able to utilise financial instruments to mobilise investment in clean urban infrastructure.
* The report proposes **six demonstrable financing instruments**, all shown through pilots to be effective, scalable and contribute positively to sustainable urban development:
* **Insurance pools** to provide infrastructure repairs following extreme weather events.
* **Pay-as-you-use subscriptions** for cooling and other energy efficiency services across domestic and public buildings. These services avoid the upfront costs to consumers and incentivise efficient usage.
* **Leasing agreements between city authorities and utility providers** to leverage financial and technical capabilities for high upfront cost green infrastructure projects, like the introduction of electric public transport fleets.
* **Public-private partnerships** to outsource improvements and management of key infrastructure to the private sector.
* **Green bonds,** issued to raise finance for climate-friendly projects, such as solar roofs or electrifying public transport.
* **Community driven climate funds**, like Kenya’s transformational County Climate Change Fund, which enables local involvement in prioritising which adaptation and resilience projects to fund from the dedicated climate budget.