

POLICY BRIEF



The Need for Better-Informed Inclusive Investment for Green Industrial Transformation

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Trade and
Investment



Abstract

Across the Global South, there is a move towards green industrial transformation and a green transition. That transition will require massive investments that must recognise multiple interdependencies across the value chains. This is sometimes referred to as 'inclusive investment' but there is an urgent need to better define what inclusive investment means for governments, the private sector and development stakeholders. This can best be done through G20 channels. Most importantly, a green industrial transformation needs to be incentivised, not thwarted by punitive regulatory measures. This will include incentives for a just transition that are contextualised to different sectors, capacities and economic size, while also working within reasonable timeframes that take into account those contexts.

The G20 could endorse incentive-based measures that promote inclusive investment in green industrialisation through market mechanisms and that result in local industry, jobs and value-added green exports. To do so will require innovative financing, de-risking, guarantees, and long-term business plans with concessional funding as part of the mix.

The policy brief outlines options to support green industrial transformation in low-income countries and lower-middle-income countries that avoid creating obstacles to investment and identify creative approaches to 'thorny issues' facing governments' desire for a green transition that balances immediate development needs and long-term transformational development objectives. The authors provide definitional parameters to the meaning of 'inclusive investment'. The brief provides actionable recommendations for the G20 and other stakeholders. These may relate to the implementation of existing initiatives, address challenges relating to data and reporting, or inform emerging areas of interest such as critical minerals.

The policy brief builds upon policy briefs submitted under Brazil's G20 presidency, as well as outcomes of the Africa Climate Summit and programmes supported by, for example, the African Union Commission, the United Nations Development Programme and the European Union. The brief uses contemporary cases from the African experience in the context of the South African G20 presidency and also draws upon global good practices.

Keywords: G20, green industrial transformation, inclusive investment, climate finance, Global South

Diagnosis

Across the African continent, several African countries have developed, or are already experimenting with, green industrialisation strategies in multiple sectors. This transition imperative is driven not only by commitments to climate action but also as an economic transformation strategy that seeks to respond to shifts in consumption patterns and the rise of non-tariff trade barriers that are already reshaping the international trade landscape in key export markets for African products. Translating this potential into real opportunities requires well-designed policies underpinned by inclusive investments that prioritise equitable finance and local workforce development, access to technology, and win-win trade arrangements that bridge the interests of different economies in a highly competitive geopolitical context.

The current green industrialisation investment landscape

In 2021, it was estimated that Africa needs about \$2 trillion over the next 30 years to achieve net zero, of which \$600 billion would be used to decarbonise existing sectors.¹ The remainder (\$1.4 trillion) would be required to decarbonise the future and create low-emitting substitutes for high-emitting sectors. Supply is, however, yet to meet these investment needs. Figure 1 below demonstrates that climate finance flows to African industry and energy systems (targeting renewable energy power generation, as well as transmission and distribution infrastructure) have been increasing year on year, with the industrial sector seeing a 124% increase in climate finance flows from \$240 million in 2019/2020 to \$537 million in 2021/2022.

¹ McKinsey & Company. 2021. *Africa's Green Manufacturing Crossroads Choices for a Low-Carbon Industrial Future*. New York: McKinsey & Company.

While the energy systems sector is greater in value, climate finance flows only increased by about 45% from \$9.4 billion to \$13.7 billion in the same period.

However, such inflows are insufficient to meet Africa's current investment needs to achieve net zero, considering that the continent must decarbonise its existing industries and build new value chains for the future. Even isolating the data to focus on a key input sector such as the energy sector, Africa's drive towards a green industrial transformation reveals a wide gap in global finance and investments, with the continent attracting a mere 2% of global renewable energy investments.² Africa already accounts for a negligible proportion of global climate finance, with most climate finance instruments available in Africa lacking innovation, incentives, or concessions.

Commercial financing is currently the most prominent instrument for financing climate investments in Africa. It accounts for 40% of climate-related investments,³ while low-cost concessional financing only accounts for 25%. Figure 2 shows various financing instruments that attracted climate finance inflows in 2021/2022. Market-rate debt is availed on terms that make it expensive to service and disincentivise inclusive investments. In some cases, there is an increased risk of exchange rate loss for market-rate debt denominated in dollars, especially in the context of weak and volatile local currencies.

² African Development Bank. 2023. Africa urges a spotlight on climate finance as the world heads to COP28. <https://www.afdb.org/en/news-and-events/press-releases/africa-urges-spotlight-climate-finance-world-heads-cop28-66331>

³ United Nations Development Programme (UNDP). 2024. UNDP Africa Investment Insights Report. Third Edition. Pretoria: UNDP.

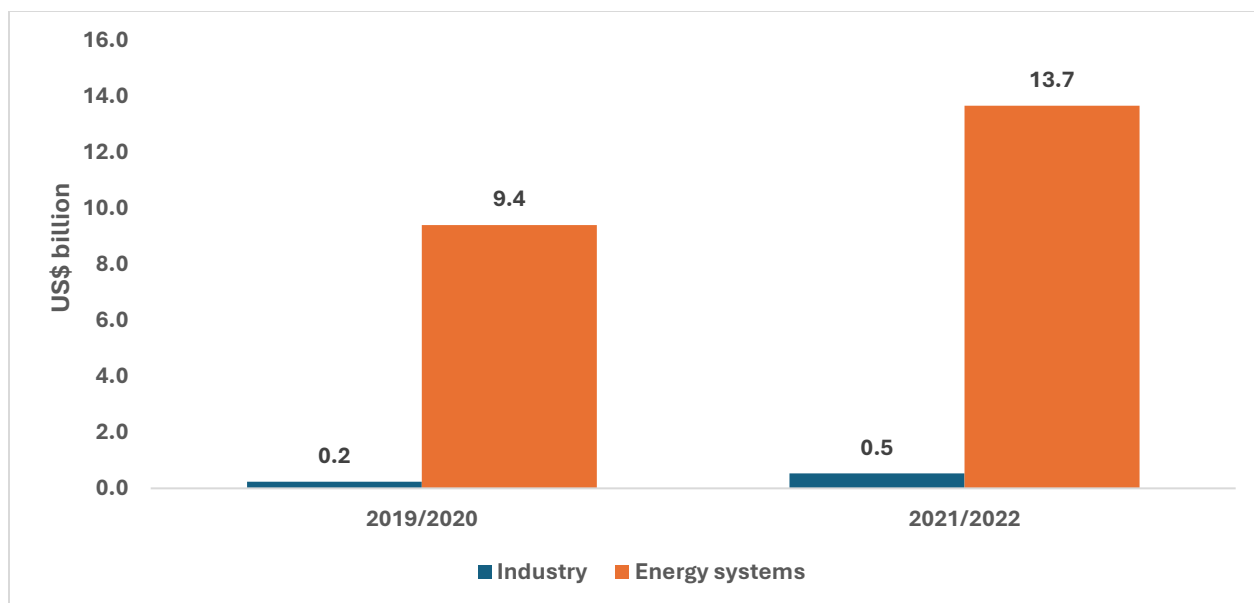


Figure 1: 2021/2022 Climate finance flows to industry and energy systems

Source: Authors' computation using data from Climate Policy Initiative

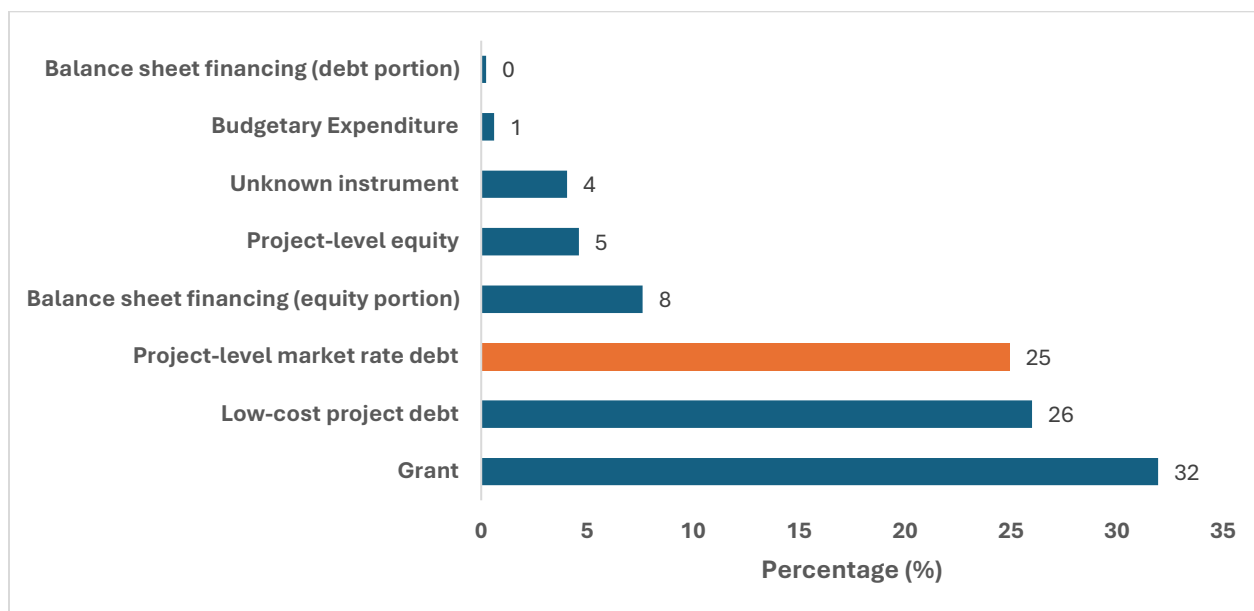


Figure 2: Climate finance instruments used in 2021/2022

Source: Authors' computation using data from Climate Policy Initiative

Trade and investment rules

Africa's drive towards green industrialisation has also been inhibited by trade-related issues that affect Africa's ability to export to trading partners. Some key trading partners have failed to uphold their tariff commitments and have since instituted unilateral climate-related measures such as the Carbon Border Adjustment Mechanism and introduced non-tariff measures (NTMs).⁴ NTMs increase trade costs because developing countries must ensure that conformity assessments, testing, and certification are done locally and with the competent authorities from their trade partners.

Many African countries that are party to bilateral or multilateral investment treaties expressed concern about their negative impacts, which are currently resolved through costly arbitration proceedings.⁵ Investors have used arbitration proceedings to secure compensation against developing countries for laws and decisions that seek to minimise and avoid environmental externalities.⁶ As much as the Trade-Related Investment Measures address some investment measures that are trade-related, it does not have binding clauses that govern how investment treaties address the concerns of developing countries cost-effectively and fairly. Some investment initiatives, such as the G20 Compact with Africa, have been cited for having created unidirectional investment policy reforms that are focused on creating tax regimes that favour G20 countries, while African countries forego tax through exemptions.⁷

⁴ Government of India at the UNFCCC. Trade and the Environment: Use of Protectionist Trade and the Environment: Use of Protectionist Unilateral Trade Measures. Undated.

https://unfccc.int/files/cooperation_support/response_measures/application/pdf/india.pdf

⁵ TRALAC. 2018. Investor-State Dispute Settlement in Africa and the AfCFTA Investment Protocol.

<https://www.tralac.org/blog/article/13787-investor-state-dispute-settlement-in-africa-and-the-afcfta-investment-protocol.html>

⁶ Sachs, Lisa, and Lise Johnson. 2019. Investment Treaties, Investor-State Dispute Settlement and Inequality. Columbia Center on Sustainable Investment.

⁷ Africa Policy Research Institute. 2024. Decolonising German and European Union Foreign and Development Policies: Pragmatic Steps Towards Better Relations. Berlin: Africa Policy Research Institute.

Access to technology

Green industrial transformation can only take off by making full use of modern technology and/or intellectual property (IP). The current trade and chip conflicts are undermining the potential for green IP and technology sharing, requiring constructive collaborations. The need for good models of cooperation between countries and companies has been underlined.

The Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver proposal by South Africa and India⁸ during the COVID-19 pandemic revealed serious challenges that developing countries and the Global South face in accessing IP and technology.

Recommendations

With Africa possessing about 30% of the world's mineral reserves, including cobalt, nickel, and lithium,⁹ the potential for green industrial transformation and a green transition remains large. However, the climate financing and investments to develop green products and decarbonise industries remain far from the levels required for a true green transformation. With significant debt-inducing finance instruments, Africa risks being left behind in the green energy transition.

1. The G20 needs to promote the use of new and innovative low-cost debt instruments, which are preferable to those prevailing on the market and concessional, either through sub-market interest rates, longer maturity, or

⁸ Council for Trade-Related Aspects of Intellectual Property Rights. Waiver from Certain Provisions of the TRIPS Agreement for the Prevention, Containment and Treatment of COVID-19. 2 October 2020.

<https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/IP/C/W669.pdf&Open=True>

⁹ UN Economic Commission for Africa. 2024. Africa's Critical Mineral Resources, A Boon for Intra-African Trade and Regional Integration. <https://www.uneca.org/stories/africa%E2%80%99s-critical-mineral-resources%2C-a-boon-for-intra-african-trade-and-regional-integration#:~:text=Africa%20is%20home%20to%20significant,ore%20globally%2C%20according%20to%20UNCTAD.>

moratoriums, or a combination. A minimum threshold for low-cost project debt can be put in place to ensure better 'quality' of most of the climate financing inflows into Africa, relative to those that are prevailing on the market.

In defining what 'inclusive investments' mean, African countries need to look beyond advocating for concessionary climate finance and unpack the nature of investments, how investments are contextualised to sectors, and the potential to deliver meaningful economic development. Therefore, there is a need to move investment rhetoric in Africa from extractive-based investments and explore investments that look towards developing regional value chains or connecting to global value chains at a higher level. This is particularly important if Africa is to leverage critical minerals for economic growth and development.

2. The G20 needs to help redefine inclusive investments by supporting incentives for investments that lead to higher value-added activities, which can deliver decent jobs and economic transformation.
3. The G20 needs to ensure that the integrity of a multilateral trading system based on international law is protected to ensure that member states do not enforce unilateral trade measures and NTMs that restrict trade, especially with developing countries that have limited technical and financial capacity. Recognising the geopolitical tensions and the reality that the trade system is, despite international law, undergoing a critical transformation, the G20 can play an important role in promoting solutions between willing nations that seek to define a win-win agenda for predictable supply chains and trading systems. For example, NTMs can be phased out by promoting mutual recognition agreements that recognise developing countries' conformity assessments, testing, and certification results. Mutual recognition agreements not only

reduce the costs of trade but also reduce the time it takes to trade because products do not have to go through testing twice.

4. The G20 should therefore support, through the multilateral development banks and the UN system, investments in developing countries' capacity to conduct assessments and product testing. Similarly, recognising structural limitations in some geographies, such as the cost of energy and labour, off-take agreements, procurement, and preferential access could be provided to developing countries to promote their integration in the value chains while reducing production costs.
5. The G20 should promote technology-sharing partnerships that are more accommodating than TRIPS to ensure that green IP and green technology are easily accessible to developing countries embarking on green industrial transformation. China is already implementing a similar partnership under the Belt and Road Initiative, which fosters IP exchange and cooperation with Africa, Latin America, and Central Asia.¹⁰ To address the negative impacts of investment treaties, the G20 should support guidelines to Trade-Related Investment Measures that are not arbitration-based but ensure that the negative impacts of investment treaties for developing countries are addressed.

¹⁰ CNIPA. 2024. Building a Road of Innovation for the Benefit of All Nations.
https://english.cnipa.gov.cn/art/2024/9/11/art_3090_194841.html

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