



Redefining Blended & Climate Finance for Eastern Africa

From policy frameworks to bankable contractual structures

Part 1 of 2

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PART 1 OF 2

Why Eastern Africa needs a different climate finance model

Eastern Africa has ambitious climate plans, abundant resources and governments willing to act. The harder task is turning that ambition into projects that lenders can finance. Discussions during UNGA 81 in September 2026 returned to this problem: countries need coordinated investment programmes and a pipeline of projects, rather than a succession of isolated pilots (UN, 2026).

To understand what needs to change, it helps to look at how climate and blended finance have worked so far. They have brought important projects to life. But the region now needs an approach that can deliver more of them, with less time spent assembling each deal from scratch.

How climate and blended finance have worked

Climate finance and the funding gap

Climate finance pays for activities that reduce emissions, known as mitigation, or help communities and infrastructure cope with climate impacts, known as adaptation. The international commitment grew out of the UN climate negotiations, with developed countries agreeing to mobilise US\$100 billion a year for developing countries.

At COP29 in Baku in 2024, countries agreed a new goal of at least US\$300 billion a year by 2035, with developed countries taking the lead. This sits within a wider call to scale finance from all public and private sources to US\$1.3 trillion a year by 2035 (OECD, 2024).

Africa remains far short of what it needs. Climate Policy Initiative (CPI) tracked about US\$44 billion a year in 2021/22, equivalent to just 23% of estimated needs. Private investors provided about US\$8 billion, or 18% of the total, a smaller share than in any other region (CPI, 2024).

How blended finance brings in private investors

Blended finance uses development finance to attract additional commercial investment into sustainable development. Private investors still expect a return; public or philanthropic support helps make the investment viable (OECD, n.d.).

The OECD Development Assistance Committee's Blended Finance Principles add an important discipline: concessional finance should be used only where it is needed. Support can take several forms (OECD, 2018):

- Concessional loans or equity: money on softer-than-market terms.
- Grants: money that does not need to be repaid, often for early-stage work.

- Guarantees and insurance: protection against specified payment failures or political risks.
- First-loss capital: money that takes the first losses so other investors are protected.

Concessional debt or equity appears in about 73% of climate-related transactions in Convergence's database (Convergence, n.d.). Eastern Africa features prominently. The same database records 50 transactions targeting Kenya, followed by Uganda with 30, Tanzania with 29 and Rwanda with 23. These are counts within the cited database, rather than annual totals. Africa accounted for about 40% of global blended finance deals in 2024, but only about a third of their value. Annual flows of US\$6 – 15 billion remain well below the continent's needs (S&P Global, 2025).

What the traditional model got right

A typical deal starts with a government agency or developer preparing a project. A development bank or climate fund then provides a loan, grant or guarantee, and private investors participate once the remaining risks are acceptable. Carbon income may be considered later, while environmental and social requirements are often addressed as conditions for financing. The approach has delivered results. Olkaria III, Africa's first privately financed geothermal project, combined public exploration and grant support with a power-purchase security package, development finance and political-risk insurance (CPI, 2015).

CPI's 2015 case study found that Olkaria III's levelised cost of electricity was 13% below the average for comparable Kenyan geothermal projects. Public support helped address risks that private investors could not readily take on.

Why the model needs to change

The difficulty is extending those successes across the region at the pace required. Five gaps stand out.

First, funding still falls short of need. Africa's US\$44 billion annual flow in 2021/22 covered less than a quarter of estimated requirements. Kenya estimated the cost of its 2020–2030 climate plan at about US\$62 billion. For context, CPI tracked only US\$2.4 billion invested in climate-related activities in 2018. These figures cover different periods, but they illustrate the scale of the financing challenge (CPI, 2021; ASIGMA, 2026).

Second, too many deals are built from scratch. Each project negotiates its own grants, loans and guarantees, increasing costs and slowing execution. The 2026 Convergence and UNDP Strategic Framework argues for a repeatable market mechanism, with governments coordinating investment at country level (Convergence and UNDP, 2026).

Third, finance is concentrated in mitigation and remains heavily reliant on debt. In Kenya's 2018 data, about 79% of tracked climate finance went to mitigation and 11.7% to adaptation (CPI, 2021). Across Africa, debt remains the dominant instrument despite many countries' debt vulnerability (CPI, 2024). Adaptation projects often have no obvious revenue stream, so their financing needs to reflect the sector and the benefits they deliver. Convergence's case study of BII's Climate Innovation Facility illustrates the value of tailored instruments and early support for developer costs. Carbon income can supplement revenues where a project also delivers verifiable emissions reductions (Convergence, 2025).

Fourth, carbon income and environmental and social outcomes are often considered too late. Carbon credits sold at uncertain prices offer little comfort to a lender. Where revenue can be credibly contracted, and environmental performance measured, both can contribute to the financing case.

Fifth, new rules need to be reflected in transaction documents. Kenya introduced its Green Finance Taxonomy in April 2025, established a framework for a National Carbon Registry through the 2024 Carbon Markets Regulations, and published a Sovereign Sustainability-Linked Financing Framework in 2026 (CBK, 2025; National Treasury, 2026). Developers and financiers now need to translate these frameworks into enforceable rights, obligations and payment arrangements.

Policy progress matters, but a lender also needs confidence in who pays, who bears each risk and what happens if the project underperforms. Those questions are answered in contracts.

What a different approach would involve

Carbon credits would be considered early, with credible sales contracts where possible, rather than treated solely as income to pursue after operations begin. Risk-sharing would use repeatable structures that match specific risks to specific instruments, supported by coordinated country programmes.

Unproven technology would need targeted protection through suitable first-loss support, guarantees or payments tied to milestones; the instrument must reflect the actual risk.

Environmental and social commitments would be costed in the financial model, with performance-linked financing where suitable. Adaptation would use instruments suited to each sector and its measurable benefits, with grants and eligible carbon income where appropriate.

These changes would make project structures easier to repeat while preserving the discipline needed for each investment. Part 2 examines how they work in practice, using Belgrade's waste-management PPP in Serbia and the implications for Eastern Africa.

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