

The Nouakchott Message: making development finance work for the African green hydrogen economy

A contribution to the Bridgetown Agenda presented at the April 2023 World Bank and IMF Spring Meetings



The Nouakchott Message is a set of recommendations calling on development finance institutions (DFIs) and their shareholders to enable the African green hydrogen economy before it is too late. The Message is a contribution to the wider Bridgetown Agenda on global financial reform for climate and development.

On 13-14 April 2023, 200 representatives from African governments, renewable energy and green hydrogen project developers, DFIs, bilateral partners, and civil society met in Nouakchott, Mauritania at the Africa Green Hydrogen Finance Accelerator Forum.

The world does not stand a chance of keeping to 1.5 degrees without a massive scale up of renewable energy and the green hydrogen economy. Unlocking this potential requires investments at unprecedented scale. It is expected that **US\$1.2 trillion of investment** in hydrogen supply and use will be required between now and 2030.

Developing countries and emerging economies, often with abundant renewable energy potential, need support to seize the opportunities the green hydrogen economy offers.

African governments in their efforts to enable the green hydrogen economy, are competing with regions with significantly lower cost of capital and more resources to offer financial incentives. Realising the Africa Green Hydrogen Alliance's green hydrogen potential will require nearly **\$1 trillion in cumulative investment by 2050**. This translates to about \$6 billion each year between now and 2030.

The energy transition will not succeed unless public institutions crowd in private capital for investments in the green energy sector in developing countries and emerging economies.

Recognising that financial resources are limited, financing instruments need to be deployed effectively and in accordance with the Bridgetown Agenda.

To substantively scale up the green hydrogen economy in emerging and developing economies, we need:

1. Importing countries to scale up efforts to create an inclusive market for green hydrogen.

Countries with hard to decarbonise industries should be prepared to invest in global market creation and ensure that developing countries, especially in Africa, will be able to participate. In turn, African countries need to be ready to respond to pricing signals and position themselves to take advantage of the market opportunities.

DFIs and their shareholders who will be importing large amounts of green hydrogen, should put in place enabling market mechanisms. Efforts to facilitate trade of hydrogen from developing countries, such as the EU Hydrogen Bank and Germany's H2Global, are welcome initial steps. However, we need further scale and to apply conditions that are achievable for developing countries in Africa. Bilateral agreements and multilateral mechanisms to pool financing such as Just Energy Transition Partnerships could be leveraged.

2. Massively scale up blended financing. In line with the Bridgetown Agenda, DFIs and developed economies have a key role to play in financing the transition to green energy in emerging and developing economies. Some DFIs have already announced or are preparing significant transactions for renewable energy and green hydrogen projects. However, further speed, scale, and transparency is needed.



3. Scaled up support for projects along the value chain. The mere presence – and not necessarily the scale – of DFI engagement in a green hydrogen project can have a substantive impact on reducing risk and thereby lowering the cost of capital. The engagement of reputable DFIs during the project preparation phase can strengthen investor confidence. In addition to providing technical assistance to create an enabling environment, DFIs should seek to increase direct financing, including through anchor investments and support for key infrastructure investments in the early project stages, as well as the use of de-risking instruments to effectively crowd in private capital for green hydrogen investments.

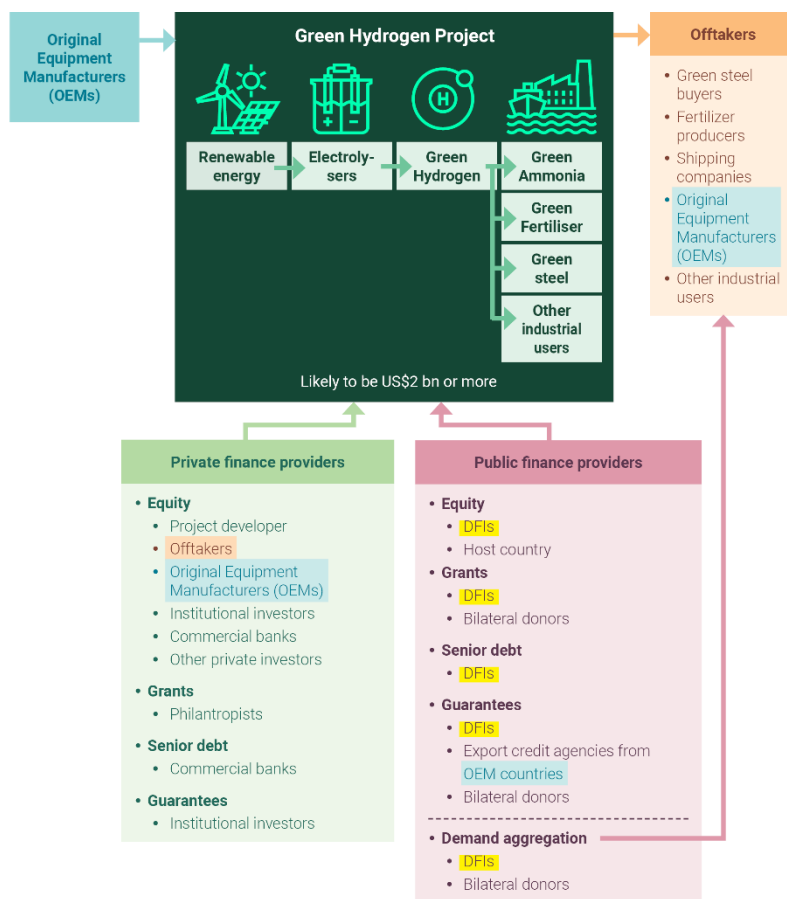
4. Increased co-financing for large-scale projects. Large investments require risk-sharing amongst different actors and sources of financing. To achieve greater impact within the green hydrogen sector, DFIs could further strengthen collaboration (e.g., by developing a global investment platform for the green hydrogen economy), and consider pooling more available resources within the DFI system to promote efficient co-financing of large-scale projects.

5. To establish an African renewable energy and green hydrogen economy financing vehicle. Such a fund could help pool and recycle capital from DFIs initially and institutional investors later on, deployed in a collaborative way across different segments of the green hydrogen value chain. The vehicle could provide funding for project development and construction bridge loans under attractive terms, to be refinanced under long-term limited recourse financings as the green hydrogen market matures. DFIs could support the development of bond markets for green hydrogen projects and could provide credit enhancement to green bonds issued by the finance vehicle.

6. Scaled up volume of tailored guarantee instruments. While it may not be possible to substantially increase direct DFI financing available for green hydrogen projects over the short to medium term, in line with the Bridgetown Agenda, DFIs and bilateral shareholders should seek to considerably increase the volume of guarantees for the sector, and tailor these instruments to accommodate risks specific to the green hydrogen industry. The instruments should be applicable during various stages of the project lifecycle to insure and de-risk various political, financial, operational, and transactional risks.

7. Partnerships with all stakeholders, including civil society. Partnerships are essential to securing strong socio-economic benefits from the green hydrogen economy, including through local content, skills, and job creation.

We are all learning how to make the green hydrogen economy happen, including DFIs. The ongoing reforms at major DFIs provides an opportunity to create stronger leadership, a clearer mandate, and better lending capacity.



*The Africa Green Hydrogen Finance Accelerator Forum
Nouakchott, Mauritania, 14 April 2023*

