

POLICY PAPER

Multilateral Development Banks’ Contribution to the COP28 Energy Consensus

MDBs’ Role in Supporting Green Diversification and the
Transition Away from Fossil Fuels

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Executive Summary

The global transition away from fossil fuels (TAFF) requires vast amounts of financing and a lot of expertise in how to deploy it effectively to ensure a just and equitable transition. Multilateral Development Banks (MDBs) have both, and whether they commit to support the TAFF agenda will enable or impede both countries' commitments and implementation of plans.

This paper focuses on promoting green diversification as an area where MDBs can increase their support. Industrialisation is the central goal of many developing countries, and they need concrete visions of economic development that promote not only energy security but also green industrialisation and local value chains with the potential to create jobs and generate prosperity in line with net zero. The paper suggests different options for how MDBs can mainstream green diversification in their country support in order to 1) mitigate risks of fiscal downturn for fossil fuel producing countries, 2) to prevent new fossil exploiters from betting everything on fossil fuels, and 3) to help non-fossil countries leapfrog towards clean industries.

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Contents

1	The growing global momentum for a transition away from fossil fuels	4
2	Why MDBs need to play an active role in the transition away from fossil fuels.....	4
3	What MDBs can do to support countries in transitioning away from fossil fuels	5
4	Green diversification as an area where MDBs can expand their activities	6
4.1	Mitigate risks of fiscal downturn for fossil-fuel-producing countries.....	8
4.2	Prevent new fossil exploiters from betting everything on fossil fuels.....	10
4.3	Help non-fossil countries leapfrog towards clean industries	11
5	Mainstreaming green diversification in MDB country support.....	11
5.1	Realistic macroeconomic stress-testing for declining fossil demand scenarios	12
5.2	Help in analysing a country's potential for economic growth in climate compatible sectors and activities	12
5.3	Support in anchoring green diversification nationally and regionally	12
5.4	Help in identifying and promoting financing mechanisms for diversification efforts.....	14
5.5	Promotion of technology transfer to the Global South	16
6	Next steps	17
7	Annex I: A glimpse into MDB practice	17
7.1	Republic of Congo – a nature-based economy as a way of transitioning away from oil?.....	17
7.1.1	World Bank	18
7.1.2	African Development Bank	19
7.2	Nigeria – diversifying away from the rent economy?.....	20
7.2.1	World Bank	20
7.2.2	African Development Bank	22
8	Annex II: Green diversification questionnaire to assess countries' potential	23
8.1	Comparative advantage and resource endowments	24
8.2	Market opportunities	24
8.3	Local value addition.....	24
8.4	Enabling conditions and constraints	25
8.5	Sustainability and inclusion	25
8.6	Policy and financing.....	25
9	References	25

1 The growing global momentum for a transition away from fossil fuels

The world is witnessing a growing global momentum for a transition away from fossil fuels (TAFF).

At the COP28 climate conference in Dubai, countries agreed on a historic 'beginning of the end' of fossil fuels. Parties called on governments to contribute to

'Transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science'.¹

This is a huge endeavour. In terms of finance, at least USD 26 trillion must be redirected from coal- and oil-based fossil fuel technologies towards transition solutions over the period to 2050, to keep climate goals within reach.²

At COP30, no joint UNFCCC decision was reached to set out specific measures in this regard, but instead, individual coalitions of the willing formed to take the agenda further. More than eighty countries supported the 'Belém Declaration on the Transition Away from Fossil Fuels' initiated by Colombia,³ and Brazil started a process for elaborating a 'COP30 Presidency Roadmap for Transitioning Away from Fossil Fuels in a Just, Orderly and Equitable Manner'.⁴

The next step was the Santa Marta Conference, officially titled 'First Conference on Transitioning Away from Fossil Fuels', which took place in April 2026 in Santa Marta, Colombia. It established co-operation among 57 countries, three workstreams on transition roadmaps, finance, and trade, as well as a coordination process to advance implementation.⁵

It will be followed by another similar conference, co-hosted by Tuvalu and Ireland, in 2027, and by the presentation of a TAFF roadmap at COP31 in Antalya by the Brazilian COP30 Presidency.

2 Why MDBs need to play an active role in the transition away from fossil fuels

The global transition away from fossil fuels requires vast amounts of financing and a lot of expertise in how to deploy it most effectively, to make sure that the transition will be swift, just, orderly, and equitable. Multilateral Development Banks (MDBs) have both, and whether they commit to support the TAFF agenda will enable or impede both countries' commitments and implementation of plans. In the context of the new collective quantified goal on climate finance (NCQG) and the Baku-to-Belém roadmap to achieve it, MDBs have been attributed a major role. Supporting countries in TAFF should be a central part of this role.

¹ UNFCCC, 'Matters Relating to the Global Stocktake under the Paris Agreement', preprint 28d.

² IRENA, *World Energy Transitions Outlook 2023*.

³ Government of Brazil et al., *Belem Declaration on the Transition Away From Fossil Fuels*.

⁴ UNFCCC, *COP30 Presidency Roadmaps*.

⁵ E3G, *Santa Marta Conference: Outcome*.

Considering the MDBs' mandate, active engagement is also more than warranted. If the world does not phase out fossil fuels, development efforts will be lost. If it turns away from fossil fuels too late and in a hastily, unstructured and chaotic manner, development efforts will be lost, too. It is hence in the MDBs' genuine interest to support countries in developing and implementing plans for phasing out fossil fuels and towards green, climate-resilient, and socially just economies.

3 What MDBs can do to support countries in transitioning away from fossil fuels

Through their Paris alignment commitments and methodologies, MDBs have already obliged themselves to support countries in decarbonising their economies, which includes moving away from fossil fuels. However, verifying whether a project is aligned with a 1.5°C-compatible pathway and funding renewable energy projects is not the same as systematically supporting a country in planning its transition away from fossil fuels including a green diversification of its economy. This goal needs to be much more centrally embedded in MDBs' country support. It needs to come at the beginning of every country assessment, country dialogue and country strategy draft. It also involves a clear abstention by all MDBs from any further support for fossil fuel use or expansion.

MDBs are already supporting countries' scale-up of renewable energy supply including grids and storage as well as energy efficiency measures. But there are a number of additional, intertwined policy and economic measures with which MDBs can help countries in order to minimise dependence on fossil fuels and support their transition towards green, resilient economies:⁶

- Fossil fuel phase-out targets (for coal, oil, and gas)
- Retirement of fossil infrastructure⁷
- 1.5°C-aligned Nationally Determined Contributions and long-term strategies⁸
- Fossil fuel subsidy reforms⁹
- Carbon pricing measures
- Just transition measures¹⁰
- Green economic diversification¹¹

⁶ For more details see our policy paper 'Multilateral Development Banks' Contribution to the COP28 Energy Consensus' Gebel, *Multilateral Development Banks' Contribution to the COP28 Energy Consensus*.

⁷ See specifically Infobox 6: Criteria for Fossil Retirement Support by MDBs in Gebel, *Multilateral Development Banks' Contribution to the COP28 Energy Consensus*.

⁸ See specifically Infobox 11: Key principles for MDB LTS support in Gebel, *Multilateral Development Banks' Contribution to the COP28 Energy Consensus*.

⁹ See specifically Infobox 8: Key principles for MDB support for fossil fuel subsidy reform in Gebel, *Multilateral Development Banks' Contribution to the COP28 Energy Consensus*.

¹⁰ See specifically Infobox 13: Core principles MDBs should observe in their just transition support in Gebel, *Multilateral Development Banks' Contribution to the COP28 Energy Consensus*.

¹¹ See specifically Infoboxes 14-17 for examples of green diversification in EMDE in Gebel, *Multilateral Development Banks' Contribution to the COP28 Energy Consensus*.

4 Green diversification as an area where MDBs can expand their activities

For embarking on a structural economic transformation in line with net zero, countries need concrete visions of alternative development pathways that promote not only energy security but also green industrialisation and local value chains with the potential to create jobs and generate prosperity. This is particularly true for gas-producing Emerging Market and Developing Economies (EMDEs) – to convince these economies to transition away from a currently profitable model, MDBs need attractive alternatives to offer.

Rose-Innes examined the likely impact of the future collapse of oil demand on three large African countries (Algeria, Angola, and Nigeria) and notes that Bretton Woods institutions have failed to trigger industrialisation and diversification in Africa over the past eighty years. This stresses how important it is for MDBs to improve on diversification efforts and ‘avoid a failure to foresee the timing, extent, and severity of this crisis that will have profound global implications by the mid-century’.¹²

Industrialisation is a central goal of many developing countries. However, the kind of industrialisation supported by MDBs cannot be the same as eighty years ago. Since the industrial revolution in the late 18th century, industrialisation has mainly been based on the large-scale use of fossil fuels; it actually is the primary driver of human-caused climate change. This approach to industrialisation, therefore, needs to change, and in fact, the industry sector already witnesses important developments in this regard. Today, falling renewable energy costs, electrification, green hydrogen, and circular economy approaches provide countries with an unprecedented opportunity to pursue industrialisation through renewable energy, resource efficiency, and low-carbon technologies, enabling them to secure their shares in the markets of the future.

These markets include, for example, clean energy and energy saving technologies, electric mobility, battery and critical minerals value chains, green hydrogen, circular economy approaches in all sectors, sustainable agriculture and sustainable agri-processing, digital technologies in all sectors, water technologies, and sustainable construction. Given the need to reduce poverty, save resources, and reduce harmful impacts globally, expansion into these markets needs to be characterised by local value addition, efficient use of resources, reduction of environmental impacts, application of circular economy principles, and inclusive development. In this case, these markets promise more long-term growth potential and resilience than other development opportunities.

According to their own statement, MDBs have recognised that considerations of a just transition need to be the starting point of engaging with countries on phasing out fossil fuels.¹³ They should take it one step further: the starting point of engaging on transitioning away from fossil fuels should actually be joint strategising with partner countries about how they can economically benefit from the global transition to net zero so as to identify viable alternatives to fossil fuel-driven development.

While it is unclear how much exactly MDBs invest in supporting green industrialisation and green value chains in EMDEs, it seems they are increasingly prioritising green industrialisation and the development of green value chains in EMDEs, although it is still an emerging priority area.

¹² Rose-Innes, *Africa's Oil Shock: Are the Bretton Woods Institutions Ready?*

¹³ Joint MDB event on just transition, COP29.

MDB	Document, programme, project	Content on green diversification
World Bank (WB)	Resilient and Inclusive Supply-chain Enhancement Programme ¹⁴	Helps mineral-rich countries build refining and manufacturing capabilities domestically, aiming to move beyond raw material extraction
Inter-American Development Bank (IDB)	The energy transition as an opportunity for green industrial development in Latin America and the Caribbean (project) ¹⁵	Supports regional value chains in solar, wind, battery, and critical minerals sectors across Latin America and the Caribbean (LAC). It offers technical assistance (TA) to align industrial policy, regulatory frameworks, and skill-building efforts
African Development Bank (AfDB)	The Ten-Year Strategy of the African Development Bank Group (2024–2033) ¹⁶	Wants to foster 'industrialisation that supports the clean energy supply chains', enhance energy security, and diversify economies. According to the bank, this includes exporting green hydrogen and derivatives such as ammonia, as well as 'transition minerals', but, and importantly, also using them for domestic industrial development.
European Bank for Reconstruction and Development (EBRD)	Green Economy Transition (GET) Strategy 2026–30 ¹⁷	Has integrated green value chain development into its Green Economy Transition strategy for Europe and Central Asia, channelling substantial finance into clean infrastructure and energy-efficient industrial transformation
Asian Infrastructure and Investment Bank (AIIB)	Sustaining Global Value Chains (report) ¹⁸	Positions green infrastructure as central to enabling competitive and climate-resilient global value chains in Asia. It underscores the importance of sustainable ports, logistics, and energy systems as entry points for EMDEs to participate more deeply in net-zero-aligned global trade
All MDBs	The Circular Economy in Motion: How Multilateral Development Banks are Advancing the Transition (report) ¹⁹	Report on resource-efficient, circular value chains that support green manufacturing and sustainable livelihoods

Table 1: Examples of MDB activity in green diversification

These publications, projects, and programmes show that across MDBs, there is a growing convergence around the need to support countries in developing comprehensive green industrial

¹⁴ World Bank Group, 'Resilient and Inclusive Supply-Chain Enhancement'..

¹⁵ IDBG, *The Energy Transition as an Opportunity for Green Industrial Development in Latin America and the Caribbean*, Project RG-T4188.

¹⁶ AfDB, *The Ten-Year Strategy African Development Bank Group (2024 – 2033)*, 24.

¹⁷ EBRD, *Green Economy Transition (GET) Strategy 2026-30 – GET 2030*.

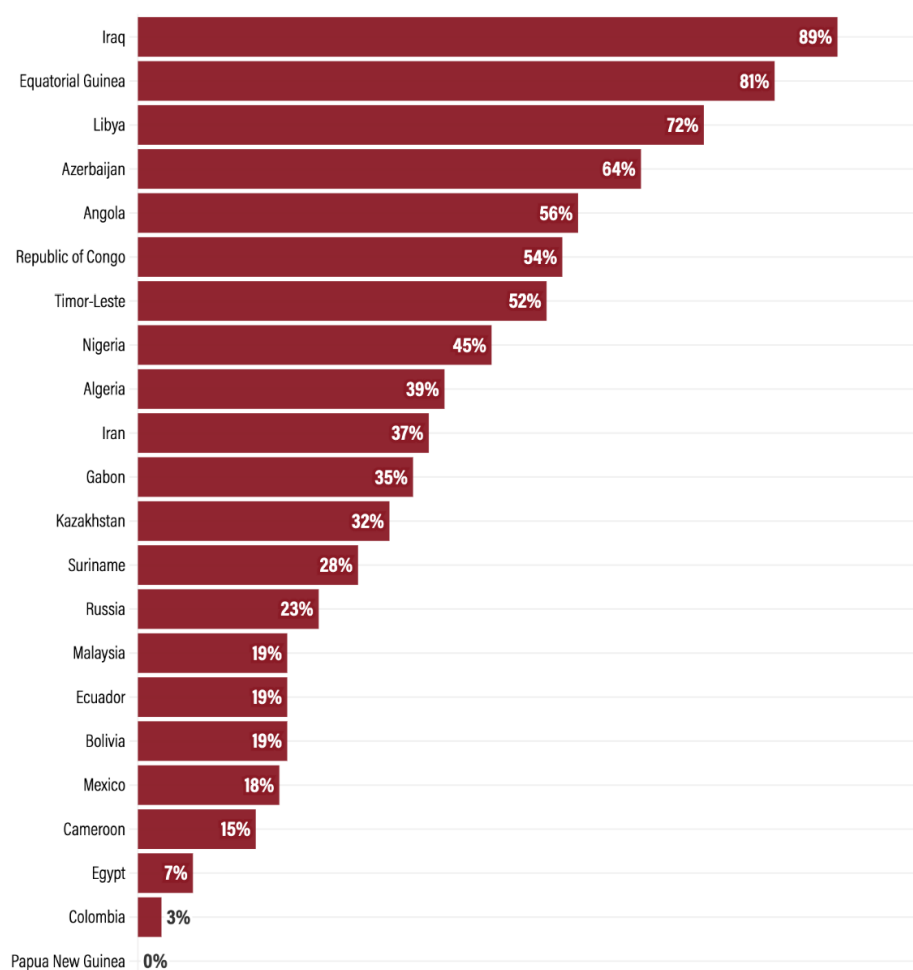
¹⁸ AIIB, *AIIB Report*.

¹⁹ AfDB, 'COP29'.

strategies, backed by blended finance, regulatory reforms, and international cooperation. However, the initiatives and projects are scattered, and the foci and approaches are diverse and partial, often covering only specific sectors. The following section includes a 'glimpse into MDB practice' which demonstrates that green diversification is not systematically considered in MDBs' country work yet.

4.1 Mitigate risks of fiscal downturn for fossil-fuel-producing countries

Support for green economic diversification is particularly important for oil and gas exporting developing countries. Half of the world's oil and gas is produced by middle-income developing countries which are economically dependent on the highly volatile oil and gas prices but have fewer resources than rich countries to deal with the global transition away from fossil fuels (Saha et al., 2023). In these countries, the local economy but also public services and public sector employment often heavily depend on oil and gas revenue.



Notes: Oil and gas revenue as share of total government revenue shows 2015-2018 average oil and gas revenues as percent of total government revenue, based on analysis by Coffin et al. identifying 40 countries with the greatest fiscal dependence on oil and gas revenues.



Figure 1: Oil and gas revenue as share of total government revenue (2015–2018 average)²⁰

²⁰ Saha et al., *To Shift Away from Oil and Gas, Developing Countries Need a 'Just Transition' to Protect Workers and Communities*.

Fossil-rich countries tend to have authoritarian leadership, weak institutions, and a less diversified economy. Wealth tends to be captured disproportionately by elites, leading to high inequality. While it should not be the role of MDBs to finance autocratic elites whose wealth is tied to the global fossil crisis, there are still several good arguments to engage with them on TAFF:

- The fiscal crisis following global oil and gas decline will be extremely severe for them, putting social and economic progress at risk and increasing the risk of political instability and turmoil.
- A fiscal crisis of several fossil-producing countries can potentially affect global supply chains as well as global financial and political stability.
- Helping these countries diversify offers chances to develop more inclusive economic activities and create local value.
- This will also enable more democratic political structures and help reduce social inequality.

However, the task is huge: a transition away from fossil fuels in exporting countries not only means a substitution of fossil energy with clean energy – it means a restructuring of their whole economies. The aim should be to create sustainable economic structures that will enable the country to benefit from the global transition to net zero – rather than being destroyed by it – and ensure long-term wealth rather than short-term fossil revenue.

A look at MDB activity in Nigeria and the Republic of Congo, two quite diverse but equally fossil-dependent countries, shows that the topic of green diversification is on MDBs' radar, but not systematically mainstreamed in MDB country strategies yet:

- In the Republic of Congo, the World Bank makes limited efforts to create sustainable value chains in the forest sector. At the same time, the bank's recommendations to increase fossil exploitation stand in stark contrast to efforts to reduce fossil dependence. The AfDB's strategy for the agriculture and transport sectors does not promote green diversification.
- For Nigeria, both the WB and the AfDB recognise the importance of diversifying the country's economy. The AfDB supports green diversification when it comes to smart meter installation, while the WB supports the development of local green value chains in agricultural production. However, other intervention areas such as energy, education, water, sanitation, transport, and agro-industry as well as policy and financial reforms for mobilising private investment are not explicitly geared towards supporting green diversification.



For more details on the WB's and AfDB's activities in Republic of Congo and Nigeria, see [Annex I](#), and Infobox 1 below.

Infobox 1: Public development bank support for Nigeria – no green diversification beyond clean energy

The Nigerian Quest for Growth and Development Foundation has investigated opportunities and challenges for green economic diversification and a just transition in Nigeria, with a particular focus on the role of public development banks (PDBs). The report analyses Nigeria's exposure to climate-compatible and climate-incompatible sectors, identifies opportunities for sustainable growth, employment, exports, and social inclusion across key green industries, and examines how these opportunities are reflected in national and regional policies, evaluates the extent to which PDBs support – or hinder – green diversification through their financing, investments, and policy engagement, identifies barriers to scaling up support for Nigeria's transition to a more sustainable and resilient economy, and provides recommendations for supporting Nigeria's transition to a green economy.

It reveals that PDBs in Nigeria play a mixed role in green diversification, acting as important enablers of sectors such as decentralised solar energy and climate-smart agriculture through concessional finance and technical assistance, while at the same time reinforcing fossil fuel dependence through continued investments in gas infrastructure and only limited support for domestic green manufacturing. As a result, their current financing approach supports incremental progress but falls short of driving the structural transformation needed for a green economy. To become effective catalysts of green diversification, PDBs, including the African Development Bank, World Bank, Bank of Industry, and the Development Bank of Nigeria, should formally embed green diversification as a core strategic objective and adopt a structural transformation approach. This involves financing green value chains (not just deployment), supporting Micro, Small and Medium Enterprises (MSMEs) and domestic manufacturers, deploying concessional and blended finance instruments including green equity for startups and green investment funds, and adopting 1.5 °C-aligned investment exclusion policies.

Summary of the Report by Quest for Growth and Development Foundation, Nigeria, on MDBs' support for green diversification in Nigeria (2026)²¹

4.2 Prevent new fossil exploiters from betting everything on fossil fuels

Countries such as Senegal and Mozambique face a critical development choice: while newly discovered fossil fuel resources may generate significant revenues in the short to medium term, relying heavily on hydrocarbons risks creating economic dependence on sectors whose long-term demand is expected to decline as the global energy transition advances. Investing predominantly in fossil fuel extraction could expose these economies to price volatility and stranded asset risks. At the same time countries will miss important opportunities to build competitive industries in rapidly growing sectors such as renewable energy, sustainable agricultural production and agri-processing, green manufacturing, and critical mineral value chains.

²¹ [Quest for Growth and Development Foundation. Green Diversification, Just Transition and Development Financing in Nigeria - how public development banks can finance a just transition beyond fossil fuels, 2026.](#)

MDBs can play a pivotal role by helping these countries leverage current resource revenues and pursue strategic regulatory and enabling avenues to diversify their economies and develop capabilities in these emerging markets, rather than reinforcing long-term dependence on fossil fuels.

4.3 Help non-fossil countries leapfrog towards clean industries

Countries such as Ethiopia and Zambia, which have limited fossil fuel resources or have not built their economies around fossil fuel extraction, have a strategic opportunity to leapfrog traditional high-carbon development pathways and build competitive clean economies from the outset. By investing in renewable energy, green industrialisation, sustainable agriculture, digital technologies, and resource-efficient production at a pivotal time when global markets are undergoing massive transformations, these countries can seize opportunities to position themselves in the rapidly growing markets of the future and place their development on a sustainable, long-term footing.

MDBs can support this transition by providing concessional finance, risk-sharing instruments and risk capital, technical assistance, policy support, and support for enabling infrastructure that can unlock private investment in green sectors. Such support can help overcome barriers faced by emerging economies such as Ethiopia and Zambia, including high upfront investment costs, limited access to finance, and technology gaps, while avoiding the creation of future stranded assets.

5 Mainstreaming green diversification in MDB country support

In view of the great importance of phasing out fossil fuels, MDBs should develop a joint approach to support countries in green industrialisation and the creation of green value chains over the next two years – including realistic macroeconomic stress-testing for declining fossil demand scenarios, help in analysing countries' potential for green diversification, support in anchoring green diversification nationally and regionally, help in identifying and promoting financing mechanisms for diversification efforts, and promotion of technology transfer to its partner countries. MDBs should then integrate this approach consistently in well-coordinated, synergetic country strategies, and make sure to have it guide any country engagement on economic growth and decarbonisation. These approaches and strategies should also be closely tied into any efforts to develop country platforms.

Supporting diversification into the 'markets of the future' is not only consistent with global climate objectives but also with long-term economic resilience and sustainable development. While especially for the least developed countries (LDCs), fulfilling basic needs such as access to water, energy, and sanitation and the reduction of extreme poverty (e.g., by achieving agricultural subsistence) has priority, each of these interventions can simultaneously be viewed as an opportunity to establish sustainable local value chains and generate employment.

Through analytical support, concessional finance, policy support, and investment in infrastructure, skills, and local value addition, MDBs can help ensure that natural resource wealth and each country's niche for green diversification becomes a foundation for resilient and inclusive economic transformation.

5.1 Realistic macroeconomic stress-testing for declining fossil demand scenarios

Global demand for fossil fuels will inevitably drop, either sooner or later. To act swiftly, countries need to know the full picture of what they can expect in terms of economic recession and inflation, budget deficits, stranded assets, debt pressure, job losses, and instability, and MDBs should offer their expertise to conduct respective analyses as a starting point of every country engagement.

5.2 Help in analysing a country's potential for economic growth in climate compatible sectors and activities

An assessment of a country's potential for economic growth in climate compatible sectors and activities is an important foundation for taking informed decisions about development priorities.

This potential should be systematically analysed according to production, employment, export and local sales, social benefits, and increases in social equality. Opportunities can involve critical minerals sourcing and processing but crucially, they should also include other, non-extractivist sectors such as renewable energy production, manufacturing of renewable energy and electric vehicles technology, green agricultural and green industrial products and processing, as well as potential of small and medium enterprises in different domestic green activities (e.g., solar panel installation and maintenance, clean cooking technology). The focus should be on activities that create local green value chains and benefit the local population.

The WB's Country Climate and Development Reports (CCDRs) are often a helpful source for insights regarding countries' potential for green economic transformation. They sometimes identify country-specific pathways to diversify economies, build climate resilience, reduce emissions, create green jobs, develop new industries, and mobilise public and private investment. Some CCDRs explicitly discuss green industrialisation, economic diversification, and the development of new export sectors (e.g., Morocco 2022,²² South Africa 2022,²³ Vietnam 2022²⁴), but the terminology varies by country and not all CCDRs are equally detailed and specific.



[Annex II](#) suggests a set of analytical questions for identifying country-specific niches and pathways for local green value chains. It covers comparative advantage and resource endowments, market opportunities, local value addition, enabling conditions and constraints, sustainability and inclusion, and policy and financing.

5.3 Support in anchoring green diversification nationally and regionally

For green diversification pathways to be pursued successfully, countries need to anchor them in national strategies and policies, such as national development plans, long-term strategies (LTSS), industrialisation strategies, local content strategies, economic and export diversification strategies, Nationally Determined Contributions (NDCs), national climate change policies or action plans,

²² World Bank Group, *Morocco Country Climate and Development Report*.

²³ World Bank Group, *South Africa Country Climate and Development Report*.

²⁴ World Bank Group, *Vietnam Country Climate and Development Report*.

sectoral strategies and policies, budgeting, subsidy and spending frameworks, infrastructure development plans, as well as education and Research and Development (R&D) strategies and policies.

Different measures can be taken to ensure that local economies benefit from green diversification, for example:

- green special economic zones that prioritise local employment, environmental and social safeguards, and community benefit-sharing,
- green industrial policies that prioritise domestic value capture, clean production, and just transition strategies,
- supportive labour market policies to proactively prepare and mobilise the workforce for green value chains,
- local stakeholder engagement, including labour unions, women's groups, and indigenous communities, in green industrial planning,
- regional R&D hubs and innovation clusters focused on green tech (e.g. agroecology, solar cells, green hydrogen, circular economy) with strong public/private/academic collaboration,
- South-South cooperation and licensing models that avoid technological dependence on the Global North, to empower local innovation,
- skills training, social protection, and transition support for workers affected by fossil fuel phase-outs or resource dependency,
- programmes that formalise and upscale green informal sector activities, such as recycling, repair, and community-based renewables.

At the same time, strategies need to be in line with larger regional industrial strategies and development frameworks, for example on free trade, connectivity, and other integration areas. Countries can invest in regional infrastructure and harmonised standards that support intra-regional trade in green goods and services (e.g., solar panels, electric vehicles (EVs), sustainable textiles). They can promote joint efforts to ensure regional value chains prioritise local beneficiation of raw materials, avoiding extractive North-bound export patterns, and they can support regional institutions in embedding climate and equity standards into trade rules and investment protocols. In addition, ensuring compatibility with the development and diversification plans of other regional countries is also relevant – to use synergies and avoid excessive competition.

MDBs can help countries in effectively integrating the identified diversification pathways in relevant national strategies, economic policy, and regulation through technical assistance and policy support, while highlighting options to ensure that local economies profit. They can prioritise support for domestic green SMEs and for joint ventures that increase local ownership and technology transfer. Also, requiring local procurement, employment, and training quotas in green MDB-funded private sector operations can ensure meaningful national participation in green sectors. MDBs can also provide technical assistance for environmental and social safeguards, supply chain traceability, and compliance with climate-aligned trade standards (e.g., EU Carbon Border Adjustment Mechanism, anti-deforestation regulations), to facilitate integration of domestic products in international markets.

MDBs can also support efforts towards regional integration and the consideration of national diversification options in relevant regional strategies and fora (e.g., to build regional supply hubs for clean energy equipment and green agricultural goods). This also involves close cooperation with other development finance institutions, including alignment of country approaches and regional strategies. Coordination via country platforms could be very effective in this regard.

5.4 Help in identifying and promoting financing mechanisms for diversification efforts

A very important enabler for diversification efforts are suitable financing arrangements to shoulder additional investment needs. Their design differs depending on countries' conditions and endeavours.

To help countries diversify their economies, MDBs, as well as the Green Climate Fund (GCF), can use all their instruments including grants and technical assistance, concessional finance, credits, policy-based financing, results-based financing, guarantees and risk-sharing instruments, equity and fund investments, and blended finance and private capital mobilisation.

However, in addition to these MDB funds (which will mainly count as international climate finance if spent on green diversification), countries will need to raise their own resources to foster local green value chains in a sustainable way. MDBs are particularly well placed to support countries in developing such financing mechanisms for green diversification because they combine financial and technical expertise, policy support, and the ability to mobilise private investment.

Fossil-producing countries, for example, could seek to redirect increasing parts of their incomes from fossil exports to financing instruments that strategically support green diversification and the energy transition – rather than increasing dependence on carbon-intensive activities. This could work, for instance, through special diversification funds or budget lines dedicated to renewable energy, green industries, green skills, green infrastructure, and local value chains. Internationally, there are examples of funds that can serve as an inspiration (see Infoboxes 2 and 3).

Infobox 2: The Norwegian Government Pension Fund Global as an example of how fossil fuel revenues can be used to support sustainable development

Norway deposits most of the money it earns from oil and gas into the Government Pension Fund Global, one of the world's largest sovereign wealth funds, instead of spending it immediately. The fund invests this money in a diversified portfolio of international stocks, bonds, real estate, and renewable energy infrastructure to generate long-term returns. Rather than using the fund's principal, the Norwegian government generally spends only a small share of its expected annual investment returns to help finance public services such as healthcare, education, and infrastructure. Investing primarily outside Norway also helps protect the domestic economy from inflation and overdependence on the oil sector. This approach allows Norway to transform its finite oil wealth into a lasting financial asset that can benefit both current and future generations.

The introduction of national carbon pricing systems is another way of raising funds for investment in green diversification. Mechanisms such as carbon taxes or emissions trading systems (ETS) can generate government revenue from greenhouse gas emissions and direct these funds toward investments in low-carbon sectors. Carbon pricing also creates a financial incentive for businesses and consumers to reduce emissions, encouraging private investment in cleaner technologies alongside public funding. As a result, carbon pricing serves both as a tool to reduce emissions and as a source of funding for the transition to a more resilient, low-carbon economy (see also Infobox 3).



To analyse the economic, environmental, and social impacts of carbon pricing reforms at country level, the WB has developed a Carbon Pricing Assessment Tool covering over 200 countries.²⁵ It provides diagnostic evaluations of how carbon pricing reforms and other mitigation policies will impact emissions, Gross domestic product (GDP), household welfare, local air pollution, and fiscal revenues.

International compliance carbon markets, such as the Paris Agreement's Article 6 mechanisms, may increasingly facilitate international payments for verified emission reductions, but implementation is still at an early stage. Especially for forest-rich countries such as the Republic of Congo, international compensation mechanisms for carbon sinks and the protection of high biodiversity areas can become a relevant source of support. However, they cannot yet be considered a comprehensive or reliable source of long-term financing.

Infobox 3: The German Climate and Transformation Fund as an example of how carbon pricing revenues can be used to finance the transition away from fossil fuels

Germany's Climate and Transformation Fund (KTF) is a special government fund that finances investments to support the country's transition to a climate-neutral and more sustainable economy. It is primarily funded through revenues from carbon pricing, emissions trading, and other government sources rather than natural resource income. The KTF provides financing for projects such as renewable energy, energy-efficient buildings, clean transport, hydrogen technologies, and industrial decarbonisation. Unlike Norway's sovereign wealth fund, the KTF is designed to actively spend its resources on current investments rather than build long-term financial wealth. Its overall goal is to accelerate Germany's climate transition while strengthening economic competitiveness and reducing greenhouse gas emissions.

In addition to such mechanisms, countries should always seek to create funding instruments that are independent from fossil fuel-related revenues, and which will ensure the continuation of funding once fossil revenues decline. These can include, for example:

- the issuing of green or sustainability linked bonds,
- dedicated climate or transformation funds financed through general taxation, environmental levies, or resource-use charges for example on pollution, waste, or water use,
- public green investment banks or development banks with a green mandate, that share investment risks and mobilise private capital for green infrastructure projects,
- blended finance mechanisms where public funds are used to reduce risks and encourage larger private-sector investments,
- public-private partnerships (PPPs) that share investment risks and mobilise private capital for green infrastructure projects.
- multilateral, bilateral, and regional forest conservation funds such as the Amazon Fund, the Central African Forest Initiative (CAFI), the Congo Basin Forest Fund (CBFF), and REDD+ (Reducing Emissions from Deforestation and Forest Degradation).

Diversifying funding sources increases the resilience of green investment strategies and supports the long-term financing of the low-carbon transition. In general, the demand for these financial products is expected to increase as the global transition advances and governments, development

²⁵ World Bank Group, *Carbon Pricing Dashboard*.

banks, and private investors seek to finance the transition to low-carbon and climate-resilient economies.

Mobilising and coordinating potential fundings sources require credible long-term industrial and climate strategies, a stable regulatory environment, strong public institutions, and a pipeline of bankable green projects that can attract both public and private investors. MDBs can support their partner countries in achieving all these goals.

At the same time, MDBs should support critical broader financial architecture reforms that are necessary as systemic enablers of a just and sustainable transition. These include efforts for enhanced debt sustainability (e.g., a UN debt convention), international tax fairness (e.g., a shipping levy, wealth taxes, a financial transaction tax, kerosene taxes, taxes on windfall profits of fossil fuel companies, fossil fuel levies), and global financial stability (e.g., better climate mainstreaming in the International Monetary Fund (IMF) surveillance and advice, expanded Special Drawing Rights rechanneling). These reforms are needed to generate predictable, equitable, and substantial public revenues to fund green diversification investments, support displaced workers, and protect vulnerable communities in fossil fuel-dependent economies. Without them, many EMDEs will remain constrained by debt, fiscal limitations, and unequal access to global finance, undermining their ability to implement socially inclusive and Paris-aligned energy transitions.

5.5 Promotion of technology transfer to the Global South

Many developing countries face barriers to the adoption of green technology, such as high upfront costs, limited research capacity, and insufficient technical expertise, which can slow their transition towards greener economic models. The Intergovernmental Panel on Climate Change (IPCC) notes that '[t]he adoption of low-emission technologies lags in most developing countries, particularly least developed ones, due in part to limited finance, technology development and transfer, and capacity'.²⁶ Technology transfer from the Global North to the Global South can play a critical role in accelerating green diversification by enabling countries to adopt low-carbon technologies more quickly, develop new industries and build domestic industrial capacity, reduce the cost of the green transition, build climate resilient infrastructure, strengthening research and innovation, and ultimately reduce dependence on fossil-fuel-based economic activities more quickly.

Shifting the balance of value capture towards the South requires a willingness on behalf of industrialised countries to support the transfer of technology and intellectual property rights for the sake of development and decarbonisation in developing countries. The BRICS Contact Group on Climate Change and Sustainable Development suggests that '[i]ntellectual property remains a largely untapped instrument for climate efforts', and that new models of cooperation should be tested that 'facilitate exchanges between innovators, lower licensing costs, simplify procedures and match inventions with local needs and investors'.²⁷ While intellectual property rights and licensing costs are often cited as barriers to technology transfer, the experience with vaccine patents during the COVID-19 pandemic has demonstrated that such barriers can be addressed if there is enough political will.

Given the MDBs' central position between shareholders and client countries, they can engage with their shareholders from industrialised countries to emphasise the need for transferring relevant technology to developing country partners, ensuring open access to green technology platforms,

²⁶ IPCC, *Climate Change 2022 - Mitigation of Climate Change (WG III Contribution to the Sixth Assessment Report of the IPCC)*, 11.

²⁷ BRICS, 'Contact Group on Climate Change and Sustainable Development', 3.

and building local intellectual property and technical skills to enable progress on building local green value chains. Importantly, this also needs to come with investment in local capabilities in order to enable countries to make effective use of patents shared.

6 Next steps

There are several steps that MDBs should take right now to improve systematic support for green diversification in their partner countries.

At the next TAFF conference hosted by Tuvalu and Ireland pre-COP32, MDBs should play a more salient role and commit to support the international TAFF process. The next step could be an elaboration of a joint MDB strategy for supporting green diversification – ideally linked to MDBs' efforts to support the creation of country platforms. MDBs should also consider including a key performance indicator on reducing fossil dependency of partner countries in their performance frameworks.

Main European MDB shareholders should seek to support green diversification and technology transfer to developing partner countries as part of the EU Global Gateway strategy and the new Global Europe instrument, as well as through potential future Clean Trade and Investment Partnerships.

7 Annex I: A glimpse into MDB practice

A look at MDB activity in Nigeria and the Republic of Congo, two quite diverse but equally fossil-dependent countries, shows that the topic of green diversification is on MDBs' radar, but not mainstreamed in MDB country strategies yet. The analysis concentrates on the World Bank and the African Development Bank, as the two most important banks for the two countries.²⁸

7.1 Republic of Congo – a nature-based economy as a way of transitioning away from oil?

The Republic of Congo is the third-largest oil producer in Sub-Saharan Africa, following Nigeria and Angola,²⁹ and one of the world's most oil-dependent economies: hydrocarbons accounts for around 80 percent of exports, about 58 percent of total government revenue, and about one-third of GDP.³⁰

²⁸ For Nigeria, the World Bank is the largest MDB partner by financing volume; the AfDB is the second most important MDB. World Bank Group, 'Finances One: Nigeria'; AfDBG, *Country Strategy Paper 2025- 2030 for Nigeria*.. For the Republic of the Congo, the AfDB has traditionally been the leading MDB, while the World Bank is also a major development partner. World Bank Group, 'Finances One: Republic of Congo'..

²⁹ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 49.

³⁰ IMF, *Republic of Congo: 2024 Article IV, Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Modification of Performance Criteria, Waivers of Nonobservance of Performance Criteria, and Financing Assurances Review*.

The Republic of Congo exports mainly primary commodities, above all crude oil but also timber, and the complexity of its economy is very low.³¹

7.1.1 World Bank

The World Bank's country partnership framework (CPF) for the Republic of Congo is outdated (it ended in 2024), but its 2025 Economic Update for the country reveals the bank's country approach.³²

2025 Economic Update for Republic of Congo

The update notes that 'Congo's natural capital benefits from large oil reserves, low deforestation, and untapped potential in gas and mining as well as solar energy'.³³ While it highlights that 'a global low-carbon transition poses the risk of stranded hydrocarbon assets for oil-rich Countries',³⁴ it still suggests that the Republic of Congo should '[d]evelop strategies to expand the domestic and regional markets for natural gas' and '[i]mplement transparent fiscal frameworks and strong oversight mechanisms to build public trust and attract private investment in oil processing and gas production'.³⁵ Moreover, it suggests the country should improve geological data and update 'legal and regulatory frameworks to attract investment in the mining sector', notably without any concrete considerations for how local refinement and downstream value creation (e.g., manufacturing of battery components) could be supported.³⁶

The bank's focus for diversification and sustainable development in the Republic of Congo is the forest sector, where it argues for sustainable agroforestry, a maximisation of forest ecosystem services, for developing a forest-led tourism sector like Rwanda did, as well as for the commercialisation of forest plants into new drugs. With relation to other sectors, the document merely states that "[i]t is unclear if Congo can realistically, at least in the short to medium run, specialize in [...] sectors [such as electronics, textiles, manufacturing] given entrenched global positions'.³⁷

Financing mechanisms

The bank advocates for fiscal consolidation measures and general improvements in domestic revenue mobilisation and incentives to attract private investment, but without suggesting specific measures to direct funds to green sectoral development beyond agroforestry.

Congo's forests are regarded as both a source of revenue and a sector in need of funding. The bank suggests that the Republic of Congo should '[i]mprove institutional readiness and legal frameworks

³¹ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 49.

³² World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*.

³³ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 43.

³⁴ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 50.

³⁵ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 71.

³⁶ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 71.

³⁷ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 71.

to engage in carbon market[s], advocate internationally for global compensation mechanisms, and explore climate financing options such as sustainability-linked bonds to support these initiatives'.³⁸

Interestingly, the report notes that the carbon retention provided by the Republic of Congo's forests could generate massive value for the country, but that currently, this potential is prevented from being realised. In 2020, the social cost of carbon retention services (the cost of climate change damages avoided thanks to carbon retention) was valued at USD 86 billion – while Congo's real GDP stood at USD 9.9 billion in 2020. However, the actual market value of carbon credits traded in global carbon markets would have been much lower, due to limited demand, verification challenges, and the absence of a well-functioning market for carbon retention from standing forests.

The WB suggests that conceptually, conventional GDP measures could be adjusted, taking into account the value of carbon retention services on the production side, which could be regarded as unrequited services to the rest of the world. A contribution to domestic economic activity, however, could only be measured in the form of carbon credits, REDD+ compensation, or other schemes that compensate the host country for these carbon retention services. Looking at potential measures to support the Republic of Congo in this regard, the WB merely notes that 'monetizing large volume of carbon services is unlikely in the near term due to weak institutional capacity to engage in the complex carbon market process, volatile global carbon prices, and limited global appetite for large-scale forest credit purchases'.³⁹

Conclusion

Hence, it can be concluded that the bank's approach to supporting the Republic of Congo's green diversification remains half-hearted. Suggestions to build up sustainable practices and financing mechanisms in the forest sector make sense but remain limited to just this one sector and are hampered by systemic deficiencies. At the same time, the bank's recommendations to increase fossil exploitation stand in stark contrast to efforts to reduce fossil dependence.

7.1.2 African Development Bank

Republic of Congo Country Strategy Paper 2023–2028

The AfDB's country strategy paper 2023–2028 for the Republic of Congo notes that Congo's main development challenge 'is its heavy dependence on the oil sector and the slow structural transformation of its economy, in terms of moving towards high value-added sectors'.⁴⁰ It has diversification on the radar in that the priority areas of the country strategy include not only 'development of sustainable infrastructure to support value chains with high growth potential'⁴¹ but also the strategic outcome of developing "skills and human resources [...] to meet economic diversification needs".⁴² However, the specific expected outcomes to measure the success of the country strategy include hardly anything specifically related to diversification.

Only the bank's 'new global approach of vocational training in mining and timber trades'⁴³ can be interpreted as going into this direction, but it is unclear whether this vocational training includes

³⁸ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 71.

³⁹ World Bank Group, *Strengthen the Management of Produced, Human, and Natural Capital to Raise Living Standards in the Republic of Congo*, 59.

⁴⁰ AfDBG, *Republic of Congo Country Strategy Paper 2023-2028*, 12.

⁴¹ AfDBG, *Republic of Congo Country Strategy Paper 2023-2028*, 16.

⁴² AfDBG, *Republic of Congo Country Strategy Paper 2023-2028*, 18.

⁴³ AfDBG, *Republic of Congo Country Strategy Paper 2023-2028*, 18.

manufacturing of mined goods and timber in higher value chains or if it is restricted to extraction activities.

Other than that, the strategy concentrates on improving agricultural yields, transport infrastructure, fiscal governance and education more generally.

While a concrete theory of change is absent in the strategy, it seems to reflect an approach that takes more basic steps first, before transitioning to building up higher value chains in later years. However, one could also argue for a different approach: selective small pilot projects could be implemented to serve as exemplary models. They can attract public attention and private investment and, in this way, spearhead the process of building up local supply chains. This could be tested, for instance, in the areas of waste recycling and re-manufacturing, clean cooking supply chains, small-scale agro-processing including local packaging and branding, introduction of solar-based cool storage for food, mini-grid assembly, installation and maintenance, production of sustainable construction materials, manufacture of simple water filtration systems, or forest-based non-timber products.

Financing mechanisms

For the AfDB, the most important steps to finance diversification are measures that increase private sector investment in the country, namely governance and policy reform measures to improve the business climate, and infrastructure investment that will ultimately enable the Republic of Congo's private sector to 'access [...] financing for activities in agroindustrial and logistics value chains'.⁴⁴ However, it is not certain that these things will automatically lead to private investment into building green local value chains.

Conclusion

The AfDB's approach to help the Republic of Congo diversify is focused on the agriculture and transport sectors, but the measures and expected outcomes of the strategy are not targeting green diversification specifically. It remains unclear how the AfDB wants to achieve progress towards the country's economic diversification into sustainable local value chains.

7.2 Nigeria – diversifying away from the rent economy?

In Nigeria, fossil fuels are structurally embedded in the economy, politics, and administration. Although the oil and gas sector contributes only about 5 percent of GDP, oil accounts for about 90 percent of export revenues and around 40 percent of government revenues. This exposes Nigeria's economy and public finances to fluctuations in global oil prices, underscoring the importance of diversifying exports and fiscal revenues while accelerating the transition to low-carbon industries.⁴⁵

7.2.1 World Bank

Country Partnership Framework for the Federal Republic of Nigeria FY26-32

The WB notes that in Nigeria, '[g]rowth and job creation over the past decade have been weak, driven by structural rigidities, policy missteps, oil dependency, and repeated external shocks'. The

⁴⁴ AfDBG, *Republic of Congo Country Strategy Paper 2023-2028*, 19.

⁴⁵ IMF, *Nigeria: 2024 Article IV Consultation-Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Nigeria*.

CPF focuses on support 'to accelerate inclusive growth and create more and better private sector jobs'.⁴⁶

In the energy sector, the WB's strategy focuses on increasing energy access and crowding in private investment for energy infrastructure – without mentioning the potential for developing local green value chains in the renewables industry.

The CPF also aims to support students with better education 'to equip Nigeria's population with the foundational learning and market-relevant skills needed for increased productivity'.⁴⁷ It does not mention whether the future-orientation of professions and curricula will play any role in prioritising support.

In the agricultural sector, the WB mainly focuses on increasing agricultural yields. It intends to 'target high-potential value chains to generate jobs, reduce poverty, and enhance food security, with a strong focus on benefitting smallholder farmers and women by connecting them to private sector aggregators and processors'.⁴⁸ It mentions that it aims to promote 'large-scale deployment of climate-smart technologies for improved yields and soil health', 'farmer-led irrigation models adapted to agro-ecological zones', 'investments in climate-smart livestock', 'climate-resilient natural resource management' and 'sustainable power and irrigation'.⁴⁹ The pertinent results framework includes an indicator on '[b]eneficiaries with enhanced resilience to climate risks'.⁵⁰ The WB's interventions in the agricultural sector are thus largely aligned with an approach that seeks to use transformations in agricultural production for building local green value chains. What is missing are explicit references to local production and maintenance of these new technologies, as well as to respective skilling, which are important factors to ensure long-term sustainability and local benefits.

Financing instruments

The WB's aims to support financial sector reforms in Nigeria – through strengthening the financial architecture, promoting domestic institutional investment, and building foundations for the bond market. Yet there is no mention on whether these measures will be geared towards raising investment for green development specifically.

A strong focus of the CPF lies on enabling and mobilising private investment for development. This includes the promotion of a business enabling regulatory environment, but without any explicit focus on future-oriented value chains.

Another aim is the strengthening of spending efficiency and budget execution (in addition to domestic revenue mobilisation). Here, too, there is no mention of facilitating or prioritising investment in future-oriented industries.

Conclusion

The WB's Nigeria strategy partially supports green diversification, through the development of local green value chains in agricultural production. The other intervention areas such as the energy and education sector as well as policy and financial reforms for mobilising private investment are not explicitly geared towards supporting green diversification. When the bank writes that it will focus on 'climate-integrated economic reforms for inclusive, resilient growth through policy dialogue and

⁴⁶ World Bank Group, *Nigeria Country Partnership Framework FY26–32*, 2.

⁴⁷ World Bank Group, *Nigeria Country Partnership Framework FY26–32 - Results Framework: Intervention Logic and Short-Term Business Planning*, 9.

⁴⁸ World Bank Group, *Nigeria Country Partnership Framework FY26–32*, 5.

⁴⁹ World Bank Group, *Nigeria Country Partnership Framework FY26–32*, 7.

⁵⁰ World Bank Group, *Nigeria Country Partnership Framework FY26–32 - Results Framework: Intervention Logic and Short-Term Business Planning*, 11.

knowledge support',⁵¹ it sounds as if, during the strategy implementation, it would try highlighting to its government counterparts the need to consider climate in economic reforms. This, however, is a rather vague framing, and it is unclear whether it will ultimately lead to any support for green diversification in Nigeria.

7.2.2 African Development Bank

Nigeria Country Strategy Paper 2025–2030

The AfDB recognises that 'Nigeria's overarching development challenge is [...] low agriculture productivity and limited diversification, compounded by weak manufacturing capacity'. It also notes that 'under-developed industrial value chains especially in agro-industry' are a problem.⁵² It hence aims to 'support economic transformation to build resilience and broaden economic development for prosperity' in the country.⁵³ However, overall, 'the use of green technologies and community participation' is mainly regarded as a means 'to mitigate environmental and social risks',⁵⁴ rather than an opportunity for diversified economic development. This is demonstrated in the various sectoral focus areas of the strategy:

In the energy sector, the AfDB's interventions are partly aligned with an approach that seeks to put sectoral transformations to use for building up local green value chains. The strategy focuses on improving access to renewable energy through grid enhancements, and on efficiency and flexibility through smart metering. These activities are very likely to involve local construction and installation, and the strategy explicitly mentions support for sustainable training and skills development across the value chain in smart meter and renewable energy system installation to address the 'green skills gap'.⁵⁵ When it comes to the continuation of the bank's Battery Energy Storage Systems (BESS) initiative, however, options of local production or assembly are not mentioned, although Nigeria already has local battery assembly initiatives and aspires to build up its own production.⁵⁶ The specific expected outcomes for the AfDB's energy activities in Nigeria do not involve local population getting employed in the renewable energy value chain, or GDP being generated here.

Positive is the bank's intention to promote 'a maintenance culture and climate smart designs', and to support 'specialized skills in emerging technologies such as smart infrastructure solutions and renewable energy systems'.⁵⁷ While it remains a general mention in the strategy, operationalising it in specific projects could be an important starting point for systematic consideration of fostering green value chains.

Similarly, while the AfDB aims to support environmentally sustainable technologies wherever applicable in water, sanitation, and waste management, measures to promote local value chains through rolling out circular economy approaches are not explicitly mentioned. The waste and water sectors offer significant opportunities for local green jobs and green value chains when countries move toward circular economy approaches, for example, in the manufacturing, installation, and maintenance of decentralised treatment and pumping systems and in the conversion of faeces into useful products such as fertilizer or biogas.

⁵¹ World Bank Group, *Nigeria Country Partnership Framework FY26–32*, 7.

⁵² AfDBG, *Country Strategy Paper 2025–2030 for Nigeria*, VI.

⁵³ AfDBG, *Country Strategy Paper 2025–2030 for Nigeria*, VII.

⁵⁴ AfDBG, *Country Strategy Paper 2025–2030 for Nigeria*, 19.

⁵⁵ AfDBG, *Country Strategy Paper 2025–2030 for Nigeria*, 17.

⁵⁶ Nigeria Electrification Programme, *Driving the Energy Transition: HNEP Leads the Conversation on Battery Storage and Nigeria's Global Role*; Armogrid, *Armogrid - About Us - Armogrid Power*.

⁵⁷ AfDBG, *Country Strategy Paper 2025–2030 for Nigeria*, 16.

Other than that, the country strategy focuses on building transport infrastructure, albeit without mentioning how this could support the country's decarbonisation and local green value chains. While the AfDB states that it will 'invest in local beneficiation of critical / rare earth metals essential for the global electric-vehicle value chain',⁵⁸ there is no related measure or specific expected outcome in the strategy – although Nigeria already has a small but growing local EV assembly industry.

Moreover, regarding industrialisation, the CSP focuses on support for agro-based industrial value chains – including 'support to industry-based production, processing, packaging, and distribution and Special Agro-Industrial Processing Zones development'.⁵⁹ Yet it does so without mentioning any intent to prioritise low-carbon, climate-smart, energy-efficient, or environmentally sustainable technologies, or circular economy approaches, such as using renewable-energy-powered machinery, heat recovery systems, or conversion of by-products into animal feed, compost, biofertilizers, or biogas. As a cross-cutting theme, the AfDB mentions there might be 'opportunities to decarbonise brownfield industrial investment and encourage the mainstreaming of greener options',⁶⁰ but this intent remains quite vague and is not linked to specific outcomes.

Financing instruments

The strategy does not provide for the establishment of specific financing instruments or sources for green diversification. The AfDB states that it will 'seek to generate carbon credits through reforestation and agroforestry schemes along road and rail corridors',⁶¹ yet this endeavour is not well integrated into the rest of the strategy, and it is unclear whether it is intended to lead to the creation of broader agroforestry value chains in the country.

Conclusion

The AfDB recognises the importance of diversifying Nigeria's economy. Yet, except for a limited part of the energy sector (PV and smart meters) and a general intention to support a 'maintenance culture',⁶² it largely ignores opportunities to create local green value chains in its focus sectors such as water, sanitation, transport, and agro-industry.

8 Annex II: Green diversification questionnaire to assess countries' potential

The following analytical framework for identifying country-specific niches and pathways for local green value chains draws on approaches developed by the United Nations Industrial Development Organisation (UNIDO) on green industrial development, the World Bank's Country Climate and Development Reports on climate-compatible structural transformation, the Harvard Growth Lab's work on economic complexity and diversification opportunities, the United Nations Conference on Trade and Development (UNCTAD)'s analysis of green technologies and global value chains, OECD

⁵⁸ AfDBG, *Country Strategy Paper 2025- 2030 for Nigeria*, 16.

⁵⁹ AfDBG, *Country Strategy Paper 2025- 2030 for Nigeria*, 18.

⁶⁰ AfDBG, *Country Strategy Paper 2025- 2030 for Nigeria*, 19.

⁶¹ AfDBG, *Country Strategy Paper 2025- 2030 for Nigeria*, 16.

⁶² AfDBG, *Country Strategy Paper 2025- 2030 for Nigeria*, 16.

work on sustainable value chains, and AfDB approaches to African industrialisation and green growth.⁶³

8.1 Comparative advantage and resource endowments

Where does the country have, or could it build, a competitive advantage in green products and services?

- What natural, human, or technological assets that could support green value chains does the country possess?
- Which renewable resources (solar, wind, hydro, biomass, geothermal), critical minerals, agricultural products, forests, or marine resources offer a competitive advantage?
- Which existing industrial capabilities or supplier networks could be leveraged?
- Are there existing industries that could be decarbonised and upgraded rather than replaced?

8.2 Market opportunities

Which green value chains offer the greatest potential for jobs, value addition, exports, and climate benefits?

- Which global and domestic green markets are expected to grow rapidly over the next ten to thirty years?
- Which of these markets align with the country's comparative advantages?
- Is there domestic, regional, or international demand for the products?
- What opportunities and restrictions (competition) arise from regional integration (e.g., the Afri-can Continental Free Trade Area) or changing global trade rules?

8.3 Local value addition

Which parts of these value chains can be developed locally rather than imported?

- Which stages of the value chain can realistically be developed domestically (practicability, economic viability)?
- Where can the country move beyond exporting raw materials into processing, manufacturing, assembly, maintenance, or recycling?
- Which activities generate the greatest employment and learning opportunities?
- To what extent can SMEs participate in the value chain?

⁶³ Sources used: World Bank Group, *Morocco Country Climate and Development Report*; World Bank Group, *Vietnam Country Climate and Development Report*; World Bank Group, *South Africa Country Climate and Development Report*; Harvard University, 'Harvard Growth Lab at Harvard University – Atlas of Economic Complexity'; UNCTAD, *Technology and Innovation Report 2023: Opening Green Windows – Technological Opportunities for a Low-Carbon World*; UNCTAD, *World Investment Report: Investment Facilitation and Digital Government*; UNIDO, *Industrial Development Report 2024: Turning Challenges into Sustainable Solutions. The New Era of Industrial Policy*; OECD, *Fast-Tracking Net Zero by Building Climate and Economic Resilience: A Summary for Policymakers*; OECD, *Trends in Global Value Chains*; AfDBG, *African Economic Outlook 2024: Driving Africa's Transformation – The Reform of the Global Financial Architecture*; AfDBG, *Industrialize Africa*.

8.4 Enabling conditions and constraints

What barriers currently prevent these industries from emerging or scaling up? Which policies, institutions, and investments are needed to overcome these barriers?

- What infrastructure (energy, transport, digital connectivity, water) is required?
- Are finance, skills, technology, standards, and research institutions sufficient?
- Which regulatory or policy barriers discourage investment?
- What are the main risks perceived by investors?

8.5 Sustainability and inclusion

Does the development of this green value chain contribute to environmentally sustainable and socially inclusive economic transformation?

- Will the value chain contribute to emissions reductions or climate resilience?
- Does it protect biodiversity, water resources, and ecosystems?
- How many decent jobs could it create, and for whom?
- To what extent will women, youth, smallholders, and local communities benefit?
- How can local civil society be involved to take the needs and demands of the local population into account?
- Are there risks of new environmental or social harms?

8.6 Policy and financing

How can public and private finance, including support from multilateral development banks, accelerate the development of these green value chains?

- Are national industrial, climate, trade, and investment policies aligned with the opportunity?
- Are regional policies aligned?
- Which public investments and policy reforms are needed to unlock private investment?
- How can public development banks, development finance institutions, and private investors support these needs?
- How can public finance catalyse rather than crowd out private investment?

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