Crowding the private sector into Africa's climate action

By Chinedu Moghalu

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LAGOS, Nigeria - The global community for climate action was spooked by the November 8 election of Donald Trump as the next President of the United States. The US President-elect had earned the sobriquet of "climate denier," for his claim that climate change is a hoax. However, there is cautious optimism that his presidency will not overturn the global agenda on climate change.

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Hopefully, his views on climate change will change and align with reality when he settles into the Oval Office. Policymakers also believe that global climate agreements cannot be reversed easily.

In the meantime, stakeholders are pressing on with formulating strategies for climate change mitigation and adaptation. The 22nd session of the Conference of the Parties (COP 22) to the United Nations' agency on climate change held on November 7 – 18, 2017, in Marrakech, Morocco.

At the climate talks, Australia, Japan, United Kingdom, Pakistan and seven other countries ratified the December 2015 Paris Climate Agreement. A total of 111 countries, including the United States, China and Member Countries of the European Union ratified the agreement by the time COP 22 concluded.

Since the Paris accord entered into force on November 4, quite earlier than anticipated, global action against climate change has effectively shifted to strategic programming. Therefore, in Marrakech - Canada, Germany, Mexico and the United States, published their plans to significantly decarbonise their economies by 2050. A group of 47 developing nations also committed to running entirely on renewable energy sources “as rapidly as possible”.

Some of the plans are already gaining traction. Investments in renewable energy totalled $286 billion in 2015. This surpassed by 3% the previous high of renewable energy investment achieved in 2011. Data gleaned from Global Trends in Renewable Energy Investment 2016, a joint publication by United Nations Environment Programme and Bloomberg, further revealed that last year, coal and gas-fired electricity generation drew less than half the record investment made in solar, wind and other renewable energy sources.

The trend in renewable energy investment is a mixed bag, even in developing countries. China alone accounted for 55% of total investment last year; Africa's share was less than 5%. As climate change mitigation is being driven by investment in green energy, Africa is already taking the familiar position at the back seat on the 'green energy train'.

This was not unanticipated by climate policymakers. Although China is the clear leader in investment in renewables, other developing countries, in particular the low-income countries, are not expected to be able to keep pace without international assistance. But the advanced countries appear to be reneging on their pledges to help finance both mitigation and adaptation frameworks in the developing world, including Africa.

This generated some rumblings in Marrakech, with regard to the commitment by the developed countries to raise $100 billion annually by 2020 to support climate actions in developing countries. Disappointing as this is, the prospects of improvement in international assistance at the required scale are not assuring.

International assistance waning

One, virtually all the advanced countries have been bedevilled by over half a decade of weak economic growth. This has put investment in infrastructure below ideal levels, suggesting near-term pressure on the fiscal regimes to close the infrastructure gap, create domestic jobs, and boost economic growth.

Two, the economic malaise is also driving populist nationalistic sentiments in Europe and the United States. The backlashes for the emerging isolationist regimes are expected to include decline in international trade, further political uncertainties, shrinking and closed borders, and volatility in financial markets – acting together to further put downward pressure on economic growth and constrict foreign aid.

Three, the developing world has ceased to be monolithic. A handful of the countries have recently made significant economic and financial advances. These countries, including the BRICS economies, and the countries of the Gulf States that have amassed huge reserve savings, are expected to underline their climate strategies by investment. The less fortunate countries will continue to rely on overseas development assistance, although the gap between pledges and delivery will continue to widen. Without a united front, commitment to pledges for climate change mitigation and adaptation will continue to slack, with consequences for vulnerable populations.

The Africa that is left behind in the transition to the green economy will be worse off than it is today.

Africa’s climate change investment

As the drive towards decarbonisation gathers pace, Africa's oil economies will face more intense fiscal challenges. Given the strong link between government balance sheets and private sector balance sheets, this will result in serious constraint for business growth and profit. Therefore, it is in the enlightened self-interest of the African private sector to begin to mobilise investment capital for Africa's climate action.

For starters, the private sector is best suited to take the lead role in innovating climate solutions and green development. In Africa, the frontiers for the innovations are in power and agriculture. These are sectors that have been far less developed, compared to services sectors.

Happily, countries including Nigeria have recently enacted reforms in both their power and agriculture sectors. These reforms are geared towards mobilising private sector resources, having relaxed statist control and incentivised investment.

Accordingly, the private sector can leverage reforms that have relaxed the centralisation of the power grid to innovate and finance off-grid electricity solutions. Opportunities for Public Private Partnerships are also opening up as subnational governments are seeking to accelerate improvement in the power sector. These are happening in the region that is well endowed with solar energy and wind resources.

Similarly, various reforms in the agriculture sector have factored the need for climate resilience in national food security policies. But there is a significant knowledge gap in Africa's agriculture which cannot be left to the smallholder farmers and governments to fill. Private investments across the agriculture value-chain are needed to help close the knowledge gap and support adaptation mechanisms in rural farming communities.

Token actions towards building the green economy cannot remain an option for Africa's private sector. The risks are dangerously stacked. Without adequate climate action, African farmers could lose between 40% and 80% of their croplands for growing grains. Also, the effects of biodiversity loss and ecosystem degradation are dire for even urban populations.

But the question remains: how will private sector resources be mobilised? No doubt, significant capacity lies with the African financial institutions, including the development finance banks and to a lesser extent the export credit agencies. But there has been risk aversion and shortage of risk-sharing market instruments.

In the Nigerian banking industry, for example, aversion towards risk in agribusiness has hampered funding by financial institutions. And funding pooled at the instance of Central Bank of Nigeria for on-lending to agro-SMEs has historically under-performed. A further drag is the macroeconomic conditions, which are driving interest rates more and more beyond the affordability of agro-entrepreneurs and smallholder farmers.

To unlock private sector funding, therefore, the blockades at both demand and supply sides of the credit market have to be addressed by smarter policies and more faithfulness with implementation. But this will not be enough. There has to be a framework for sharing expertise on the continent.

The good news is that such frameworks that pool resources, help to mitigate risk, and share knowledge in mobilising climate actions already exist. At the supra-national level, the African Risk Capacity (ARC) was founded in 2012 as an agency of the African Union with the mandate to finance climate resilience and crisis response.

In line with its mandate, the ARC is planning to roll out an Extreme Climate Facility, which will issue multi-peril, climate change catastrophe bonds. The securitisation instruments will bring scale and knowhow to Africa's climate risk management and climate change adaptation efforts, with tremendous benefits to the agriculture sector. XCF's catastrophe bonds are expected to attract not only investment from indigenous African banks but also from international financial institutions. One hopes that the XCF will soon be deployed, and the rigorous risk modelling it plans to have in place will serve other market initiatives.

Necessary as it is for Africa to take responsibility for its resilience to climate change and to develop its adaptation mechanisms, the continent should not be denied 'climate justice'. The heavily-industrialised countries account for overwhelming proportions of the emissions that are heating the planet and are intensifying climate risks for vulnerable populations in less-industrialised developing countries.

This makes the delivery of aid towards adaptation in developing countries quite mandatory. Foreign aid is also required to catalyse market frameworks in developing countries, and secure part of the moral planks on which the much-celebrated Paris accord rest.

ABOUT THE AUTHOR

Chinedu Moghalu is Head, Corporate Communications, Nigerian Export-Import Bank.

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