

Africa: Climate finance was a key focus at "Africa's COP"

In brief

The availability of climate financing to assist developing countries, the most vulnerable in the world to climate change, with the transition to a low-carbon, climate-resilient future was one of the key topics under discussion COP 27. There were numerous funding and climate action announcements focusing on Africa at "Africa's COP". It is hoped African countries will soon be able to access some of the financing required to fortify the continent against the impact of climate change. Achieving this essential, not only to address urgent climate change adaptation and mitigation challenges, but also to unlock the great potential of the continent.

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In depth

Developing countries are among the most vulnerable in the world to the effects of climate change, especially with regard to adapting to weather extremes and finding solutions that address food insecurity and energy and water scarcity. The availability of climate financing to assist developing countries with the transition to a low-carbon, climate-resilient future was one of the key topics under discussion at this year's United Nations Climate Change Conference (COP 27) in Sharm El-Sheikh, Egypt.

Pledges

In 2009, developed nations pledged USD 100 billion in annual climate financing for developing countries, which was due to be met by 2020. In the Organization for Economic Development report - Forward-looking Scenarios of Climate Finance Provided and Mobilized by Developed Countries in 2021–2025 - it was noted that climate finance that had been provided or mobilized by developed countries totaled USD 79.6 billion in 2019. Of this, only around USD 20 billion was provided to Africa between 2016-2019. The shortfall has been due to rapidly evolving global challenges, which have increased climate financing requirements for developing nations, while making it more difficult for developed nations to commit to their pledges. At COP 27, a number of countries pledged to increase their climate finance commitments, including France, Germany, the Netherlands and the United States (US).

A drastic increase in climate financing is needed. The African Development Bank (AfDB) noted that around USD 1.6 trillion in financing is required by 2030 to assist Africa to adapt to and mitigate the risks of climate change, as well as for African countries to effectively implement their Nationally Determined Contributions (NDCs) under the Paris Agreement. NDCs are the contributions that countries make to reduce their carbon emissions and adapt to the impacts of climate change.

COP 27 - some key developments

- At COP 27, the African Group of Negotiators and the African Ministerial Conference on the Environment expressed concern about the slow pace of progress on climate change in Africa, noting that the continent was exposed to diverse types of loss and damage. They called on developed countries to deliver a meaningful loss and damage finance package, including the pledged USD 100 billion from developed countries. At the end of COP 27, negotiators concluded a climate change agreement that included the formation of a loss and damage facility and a financial support structure for countries vulnerable to climate change, to be operationalised by COP 28 in 2023.
- According to the United Nations, agreement was also reached on the arrangement for operationalising the Santiago Network for Loss and Damage, which will catalyse assistance for vulnerable developing countries.

- Also at COP 27, the United Nations Secretary-General António Guterres expressed solidarity with the Africa Adaptation Acceleration Program (AAAP) and urged the international community to support it. The AAAP is an initiative of the Global Centre on Adaptation and the AfDB, working in collaboration with the African Union, that intends to mobilize USD 25 billion to speed up and increase the continent's climate change initiatives. The program has mobilized more than USD 3.5 billion in investments in Africa since 2021.
- The International Finance Corporation's (IFC) Managing Director, Makhtar Diop said at the conference that Africa needed USD 100 billion over the next 20 years to adapt to climate change, noting the usefulness of an investment of USD 5 billion a year.
- US President Joe Biden said in a speech at COP 27 that the US Emergency Plan for Adaptation and Resilience fund (PREPARE) had already deployed USD 2 billion in financing to help developing countries prepare for climate change. He announced a USD 150 million down payment to support PREPARE's adaptation efforts in Africa, including for the Accelerating Adaptation in Africa project that was launched by the US and Egypt earlier in 2022. Other US climate initiatives in Africa include expanding access to early-warning systems, building capacity for African decision makers to accelerate climate adaptation, supporting locally led adaptation efforts, expanding access to risk-based insurance for the most vulnerable, mobilizing private sector support, as well as supporting climate smart food systems and the Advancing Climate Security Through Sahel-Climate Advocacy and Peacebuilding with Pastoralists initiative.
- The EU and the AU announced a new Team Europe initiative on Climate Change Adaptation and Resilience in Africa, which is part of the EU-Africa Global Gateway Investment Package. This new initiative will bring together new and existing climate change adaptation programmes worth more than EUR 1 billion, which includes EUR 60 million for loss and damage in Africa.
- European Commission chairperson Ursula von der Leyen said at COP 27 that the European Union (EU) had signed new strategic hydrogen partnerships with Egypt and Namibia and would support South Africa to decarbonize its economy.
- France announced it would contribute EUR 20 million in subsidies to the Global Shield Against Climate Risks, which assists the most vulnerable countries with climate-related loss and damage. Sénégal will be one of the early beneficiaries of the Global Shield. Germany, Canada, Denmark, the United States, France and Ireland will contribute a combined total of EUR 210 million to the Global Shield. According to the France diplomacy website, the country contributed EUR 6.1 billion to international climate finance for developing countries in 2021.
- The United Kingdom (UK) announced an increase in climate change financial support for the poorest African countries. UK Foreign Secretary James Cleverly said the UK would deploy GBP 200 million to AfDB's Climate Action Window, which channels climate finance to vulnerable African countries.
- West African Development Bank President Serge Ekue said the Bank planned to invest USD 1.3 billion in climate projects until 2025. The Bank noted it would allocate EUR 1.2 billion to climate finance, with an expected 10% coming from funds and capital markets. The funds will be deployed to address climate change challenges, in particular, food security in the West African region.
- The Africa Carbon Markets Initiative (ACMI) was launched at COP 27, with the goal of substantially expanding Africa's participation in voluntary carbon markets. The ACMI is aiming for the production of 300 million credits annually in Africa by 2030 and 1.5 billion credits annually by 2050. It noted these targets would provide much needed financing for energy transition in Africa. Many African countries, including Gabon, Kenya, Malawi, Nigeria and Togo supported the initiative.
- COP 27 President and Egyptian Minister of Foreign Affairs, Sameh Shoukry, announced Egypt's launch of the Just and Affordable Energy Transition Initiative, with the goal of providing all African citizens with access to clean energy, while also meeting the energy requirements needed for the continent's economic development. The initiative will identify local strategies and energy mixes needed to steer African countries away from reliance on fossil fuels. It was also announced at COP 27 that Egypt was set to achieve its goal of supplying 42 % of the country's energy requirements through renewable energy.
- Tanzanian President Samia Suluhu Hassan presented a USD 18 billion energy transition proposal covering 12 southern African countries that are connected via the Southern African Power Pool. The proposal is to increase renewable energy generation (solar and wind) by around 8.4 GW. The 12 countries are Angola, Botswana, Democratic Republic of the Congo, Eswatini, Lesotho, Mozambique, Malawi, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe.
- At COP 26 in November 2021, the EU and the governments of France, Germany, the UK and the US pledged USD 8.5 billion in first round financing to assist South Africa with energy transition projects as part of the Just Energy Transition Partnership (JETP). During COP 27, President Cyril Ramaphosa launched the new Just Energy Transition Investment Plan, which outlined the investments required to achieve the South Africa's decarbonization commitments, while promoting sustainable development, and ensuring a just transition. The plan identifies USD 98 billion in financial requirements over the next five years, from both the public and private sectors. Discussions are also underway to establish a similar partnership in Sénégal.

- Nigeria's Environment Minister Mohammed Abdullahi said at COP 27 that Nigeria wanted the support of a JETP with the G7. He said that the country needed significant resources to implement its energy transition, noting a USD 10 billion per year financing requirement to meet its 2060 net zero target.
- Kenya's President William Ruto said at COP 27 that Kenya had signed a framework agreement to produce an initial target of 300 MW of green hydrogen in the country.

Infrastructure financing

To achieve a low carbon future, Africa requires major investments in sustainable infrastructure, clean energy, climate change adaptation and biodiversity restoration. However, Baker McKenzie's report - *New Dynamics: Shifting Patterns in Africa's Infrastructure Funding* (report) - showed, that the major global players' approach to infrastructure lending in Africa has changed in recent years. The report's data revealed that multilateral and bilateral infrastructure lending into Africa declined from USD 100 billion in 2014 to USD 31 billion in 2020. The report pointed to infrastructure gaps in energy provision, internet access and transportation that have resulted in an urgent imperative to identify and enable new sources of financing outside traditional lenders and international partners.

Development finance institutions (DFIs)

The report outlined how DFIs are increasingly anchoring the infrastructure ecosystem in Africa because they can shoulder political risk, access government protections, enter markets that others cannot and are uniquely capable of facilitating long-term lending. However, the amount of capital needed to build climate resilient and sustainable energy infrastructure is significant and DFIs cannot bridge it alone. Private equity, debt finance and specialist infrastructure funds are primed to enter the market, and multi-finance and blended solutions are expected to grow in popularity as a way to de-risk deals and support a broader ecosystem of lenders. To mobilize private sector finance, investor-friendly policies and incentives are needed to reduce barriers such as uncertain licensing processes, lack of market liquidity and bankability.

In 2018, the AfDB launched a platform to mobilize climate finance and incentivize the shift to low carbon and climate resilient investments - the African Financial Alliance for Climate Change. The AfDB is also involved in capacity building to enable Africa's private sector to participate in the implementation of NDCs, and has launched a range of climate investment tools to promote climate action in private and financial sector lending in financial institutions in Africa. A major increase in both public and private financing is needed for Africa to meet its climate commitments.

Major players - a focus on sustainability

Despite reductions in infrastructure funding, the major global players have all recently reaffirmed their commitment to impact-building and financing strategic, long-term projects in Africa. In 2022, a USD 600 billion lending initiative, the Partnership for Global Infrastructure Initiative (PGII), was launched to fund infrastructure projects in the developing world, with a particular focus on Africa. The G7 countries - Canada, France, Germany, Italy, Japan, the UK, and the US - explained that the PGII would help address the infrastructure gap in developing countries, with a core focus on sustainability.

The US announced it would mobilize USD 200 billion for developing countries over the next five years as part of the PGII. This funding will be in the form of grants, financing and private sector investments. One of the priority pillars of this funding will be "tackling the climate crisis and bolstering global energy security through investments in climate resilient infrastructure, transformational energy technologies and developing clean energy supply chains across the full integrated lifecycle." Some deals have already been announced, including a USD 2 billion solar energy project in Angola.

In February 2022, the European Commission announced investment funding for Africa worth EUR 150 billion. The funding package was part of the EU Global Gateway Investment Scheme and is said to be in the form of EU combined member funds, member state investments and capital from investment banks. In early 2020, the European Commission published its Comprehensive Strategy with Africa, outlining the region's plans for its new, stronger relationship with the continent. Some of the key focal points outlined in this strategy were assisting the continent with the green transition, improving access to clean energy and sustainable growth.

With financing pledged from the world's major players, numerous initiatives announced for Africa at COP 27, the participation of DFIs to facilitate the financing process and the increasing mobilization of the private sector to participate in climate adaptation and resilience projects, African countries will hopefully begin to gain access the significant financing needed to fortify the continent against the impact of climate change. Attendees at "Africa's COP" heard that achieving this is essential, not only to address urgent climate change adaptation and mitigation in Africa, but also to unlock the great potential of the continent - home to more than 1.4 billion people, multiple sources of renewable energy, large reserves of precious metals and a rich biodiversity.

Contact Us



Michael Foundethakis

Partner

michael.foundethakis@bakermckenzie.com

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