Exploring Operational Pathways for Article 2.1(c) of the Paris Agreement in Africa

Samson Mbewe, SouthSouthNorth (SSN)

20 July 2023

SOUTH SOUTH NORTH

Aligning Financial Flows

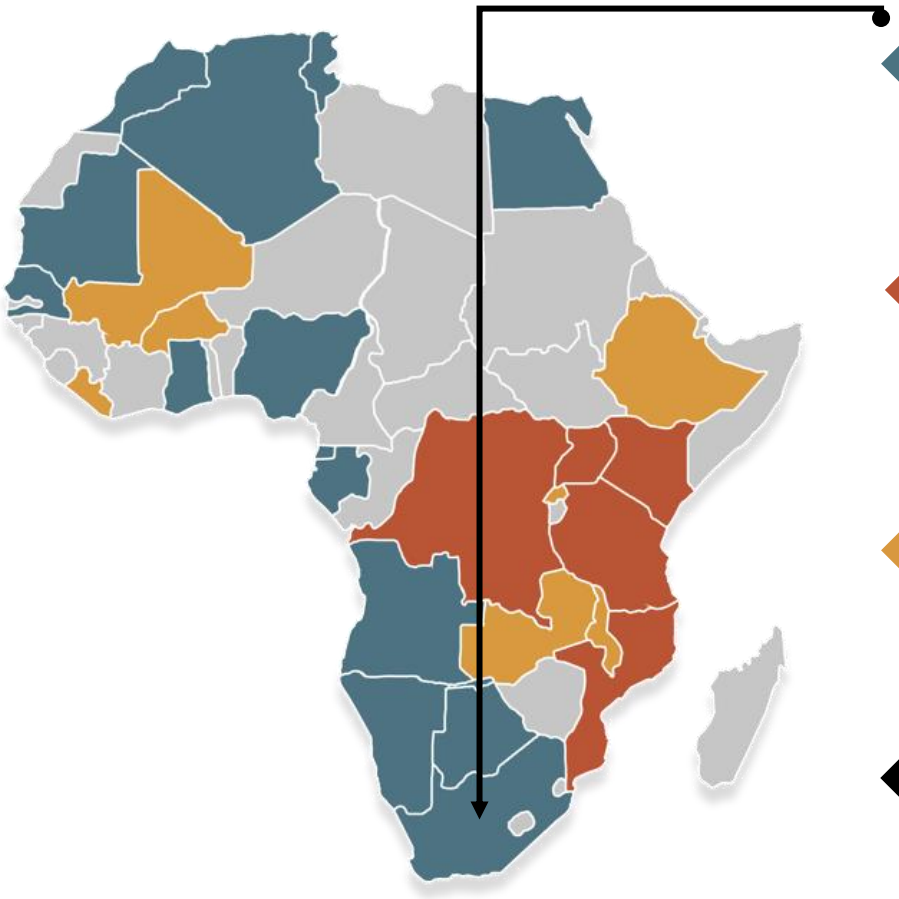
Supported by:

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

based on a decision of the German Bundestag

IKI INTERNATIONAL CLIMATE INITIATIVE

Background to Case Studies



The role of the financial sector, especially institutional investors, in contributing to the transformation of financial flows in a country like **South Africa** with existing high-carbon financial assets and an advanced financial system

Least Developed Countries and **frontier markets** in Africa with **recent discoveries of high carbon assets**, but faced with extremely **low energy access** coupled with **vulnerability** to adverse climate events

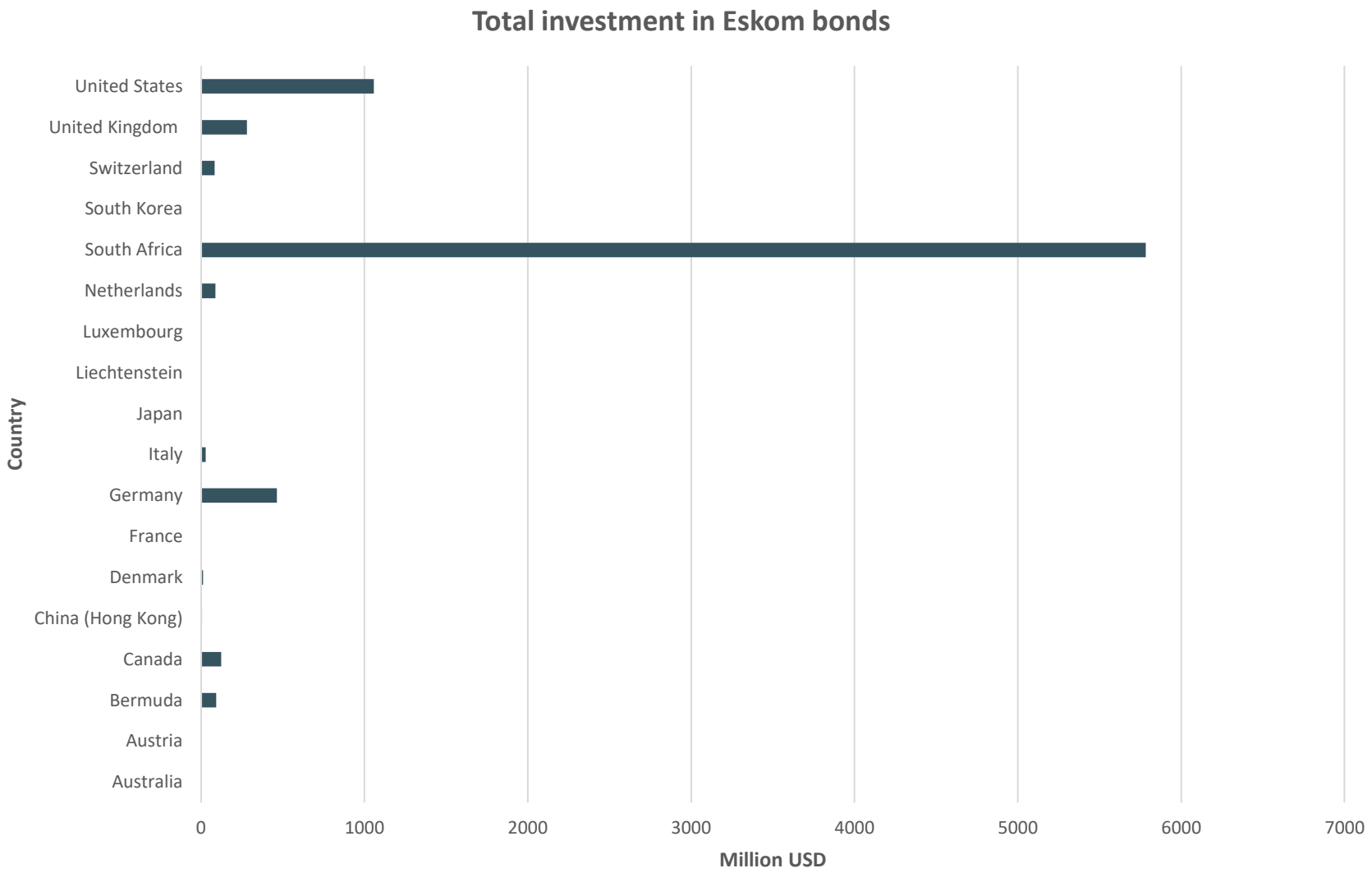
Countries where a large percentage of the population is **without access to clean and affordable energy supply** despite the country's geographical proximity to **abundant renewable sources**

Regional approaches for making financial flows for infrastructure in Africa more climate-resilient by presenting options to align infrastructure investments with the goals of the Paris Agreement.

Top 10 Institutional Investors in Eskom Bonds

Rank	Name	Total Bonds (USD, Millions)	Investor Type	Country
1	Government Employees Pension Fund	5588	Pension Fund	South Africa
2	Allianz	441	Insurance	Germany
3	M&G	218	Asset/Investment Manager	United Kingdom
4	BlackRock	207	Asset/Investment Manager	United States
5	TCW Group	126	Asset/Investment Manager	United States
6	Fidelity Investments	120	Asset/Investment Manager	United States
7	Sun Life Financial	96	Insurance	Canada
8	Prudential Financial (US)	92	Asset/Investment Manager	United States
9	Ninety-One	84	Asset/Investment Manager	South Africa
10	TIAA	83	Asset/Investment Manager	United States

Institutional Investments in Eskom Bonds by Country



Absence of financial sector guidance on Article 2.1(c)

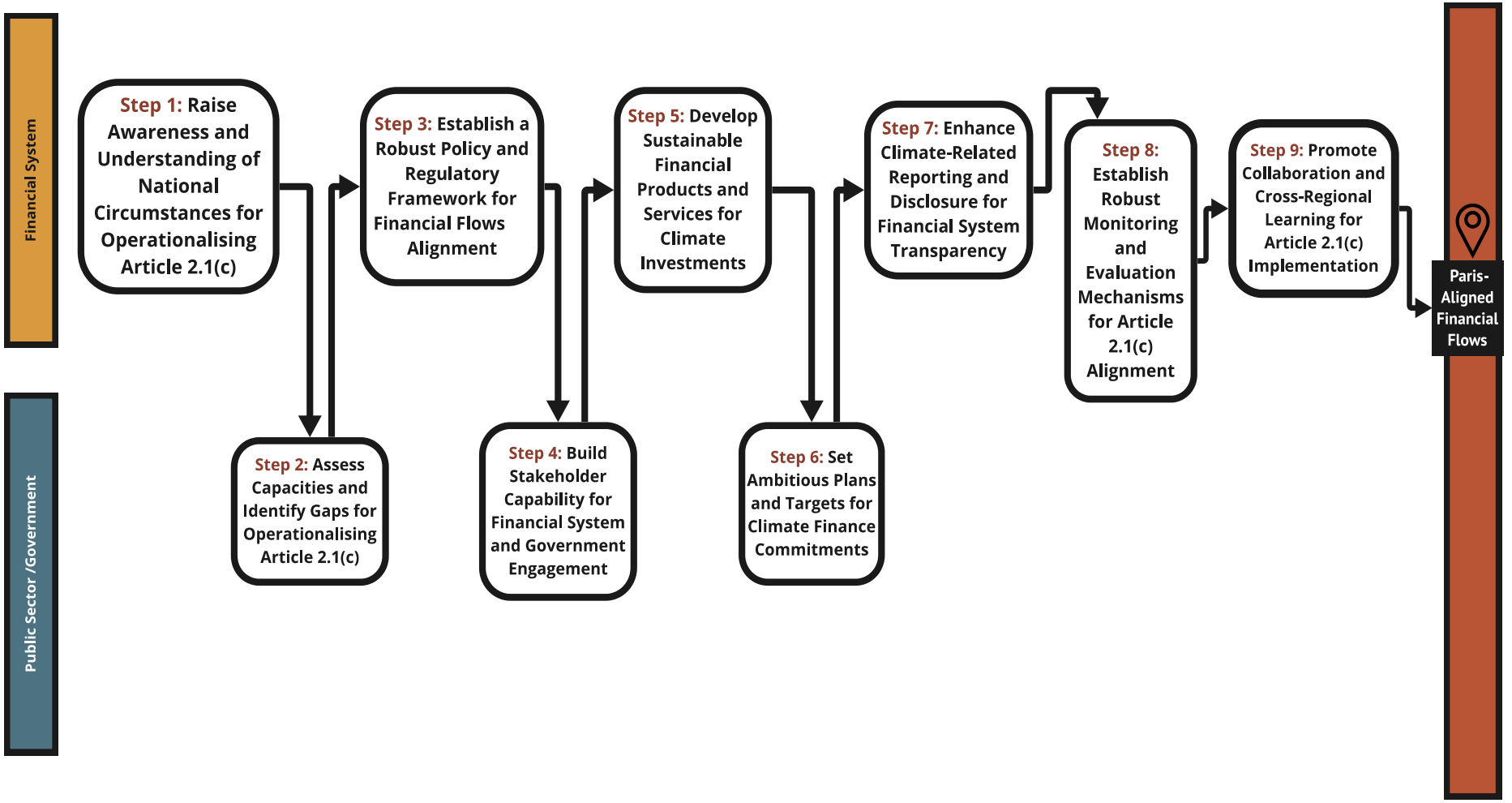
Challenges

- Risk of inadequate climate risk assessment
- Lack of harmonisation and transparency in climate-related financial reporting and practices
- Inconsistent integration of climate considerations
- Limited support for developing countries
- Potential for greenwashing and lack of accountability
- Inconsistent disclosure and reporting practices across financial
- Risk of market fragmentation
- Limited access to climate finance for underserved sectors

Opportunities

- Innovation in financial instruments and mechanisms
- Tailored approaches to financial sector capabilities
- Adaptability to evolving market dynamics, technological advancements, and changing investor preferences
- Encouragement of market-driven solutions
- Flexibility to adapt to diverse financial systems

Pathway to operationalising Article 2.1(c) in Africa



Relevance of Article 2.1(c) to infrastructure in Africa

SOUTH
SOUTH
NORTH

Aligning Financial Flows

Supported by:

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

based on a decision of the German Bundestag

IKI INTERNATIONAL CLIMATE INITIATIVE

Sources of finance for infrastructure in Africa

Source	2018 commitments (USD bn)	2019 commitments (USD bn)	2020 commitments (USD bn)
African national governments	37,5	34, 9	33,4
People's Republic of China	25,7	6,7	6,5
MDB's and DFIs	20,2	26,9	18,1
Private sector	11,8	10,8	19
Other bilateral /multilateral	5,5	5,8	3,9

The public sector is the largest source of finance for infrastructure, which presents opportunities for driving resilient action, but also challenges in attracting other forms of finance

Challenges for the continent

- **Large financing gap:** The AfDB estimates that the continent needs between USD 130 – 170 billion per year, with the financing gap estimated to be between USD 68 – 108 billion per year.

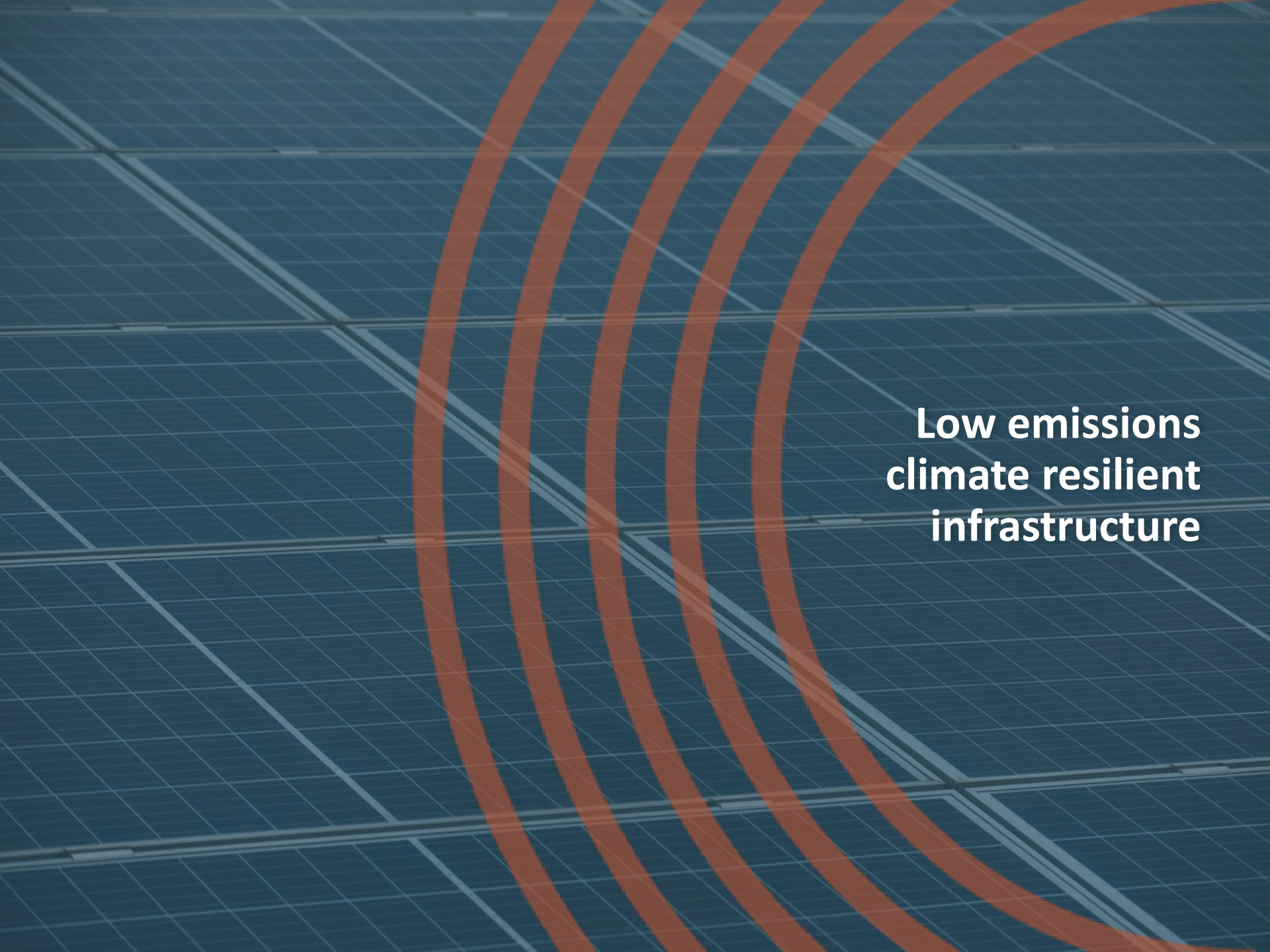
Sector	2019 finance gap (USD bn)	2020 finance gap (USD bn)
Energy	4 – 19	6 – 21
Transport	3 – 15	4 – 16
Water	46 – 56	49 – 59

- **The water sector is one of the most vulnerable to climate risks** and has the largest finance gap. Financial commitments to this sector have been on the decline.

Private sector finance

Challenges

- Limited regulatory frameworks that guide institutional investments
- Limited bankable projects e.g., the average tariffs are too low with billing and collection insufficient in the power and water sectors.
- Delays in obtaining licenses, approvals, and permits.
- Inability to agree on risk allocations.
- Inability to secure off-take agreements and guarantees
- Poor program delivery


Low emissions
climate resilient
infrastructure

Challenges presented by Article 2.1 (c)

From a climate resilience perspective:

- Currently, there is no framework that identifies or tracks how finance and investment portfolios impact resilient outcomes
- No agreed definition of climate resilience finance and scope of it, which impacts how to track and measure implementation of the goal.
- Gaps in approaches for infrastructure owners and operators to evaluate the physical climate risks to assets and analyse the long-term impact on the performance of infrastructure. **Thus, there is an underestimation of costs.**
- Most tools are being developed are applicable to developed country contexts.

Opportunities for implementation

- **Increasing concessional finance**
- **Increasing investments into project preparation**

This requires investments in:

1. **Enabling environment**
   - Regulatory frameworks that set clear guidelines for integrating climate resilience in all investments
   - Demand-side policies incentivizing investors to cost for resilience
   - Policy alignment
2. **Capacity building** (for all stakeholders including)
   - Understand climate risks to infrastructure and undertake climate risk assessments
   - Costing resilience measures
3. **Coordination, cooperation and collaboration**:
   - Regional cooperation to identify and prioritize projects, coordinate access to finance and coordinate implementation.
   - Multilateral cooperation to address financial bottlenecks within the development and climate space.
   - Collaboration amongst financiers to finance climate resilience and to understand the risks they face in a changing climate
   - Improving data availability (including downscaled climate information) and transparency

Thank you for your time

Contact: samson@southsouthnorth.org

Website: www.southsouthnorth.org

SOUTH SOUTH NORTH

Aligning Financial Flows

Supported by:

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

based on a decision of the German Bundestag

IKI INTERNATIONAL CLIMATE INITIATIVE