Investing in Africa energy - the carbon conundrum

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The recent severe floods in Nigeria, as well as record high temperatures in various parts of the world have placed the spotlight on the growing threat posed by climate change and the urgent need to ramp up investments in green energy solutions.

The world's attention has also been fixated on the Ukrainian invasion – a human crisis that has thrown into stark reality Europe's dependence on Russian hydrocarbons and the pipeline infrastructure that delivers oil and gas to the region's consumers.

Energy prices have skyrocketed since early 2022, highlighting the strategic and moral dilemma facing Europe's most industrialised economies. Germany, due to its own limited natural resources, is heavily reliant on Russia for more than half of its gas, almost half of its coal, and about a third of its oil, according to Bloomberg. While already one of the world's most advanced economies, in terms of greener energy usage, Germany has found that its renewables are nowhere near enough to sustain its population's demands for electricity and fuel, while also powering its economy.

Like most of Europe, Germany is balancing its need for energy security and economic growth, even as it embarks on a decades-long transition to greener fuels and greater energy independence.

African Opportunity

The need for Africa to follow a just transition to greener energy and advance the development of its people is imperative. The developed world has a significant head-start. Compare Germany and Uganda. According to the World Bank, GDP per capita in Germany was \$46,208 in 2020, while for Uganda it was a paltry \$822. In the same year, German life expectancy at birth was 81.4, while in Uganda, it was 63.7. Likewise, in 2018, Germany emitted 8.22 metric tons (tonnes) of CO_2 per person, while Uganda's carbon footprint was just 0.143 tonnes per person. There are many statistics that reference this, and Uganda, like most other African countries, still has a long path ahead to catch up with the developed nations of the world.

It is against these disparities that Africa needs a multi-stakeholder and multinational approach to curb the climate crisis. The latest United Nations Intergovernmental Panel on Climate Change (PCC) report warns that limiting global warming to 1.5°C is looking ever more unlikely without urgent global action on drastic reductions in greenhouse gas (GHG) emissions.


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Even though Africa is a minor contributor to global GHG emissions (3.8%), the climate risks for our continent are real and ominous. Not only are African countries most vulnerable to the effects of climate change, despite contributing significantly less to global carbon emissions, they face greater dilemmas than their European counterparts in meeting the legitimate needs of their people today, while transitioning to a greener, more just society.

Historically, renewables were criticised as being too expensive. However, we have seen a significant decline in their cost, due in large part, to advancements in technology, making renewables more efficient and affordable. Technological advances have increased the possibility of achieving a transition away from non-renewable energy sources, with Africa being rich in untapped renewables – solar, wind, hydropower and geothermal.

In the medium to long-term, there is an immense opportunity for Africa to produce and export green energy solutions to sunshine-poor northern climates. There are innovative opportunities with vast potential that aim to re-tool economies to run on hydrogen produced from African sunshine and wind.

Earlier this year, Anglo American unveiled the world's biggest green hydrogen-powered truck at a platinum mine in Limpopo, South Africa. The mining giant intends to replace its existing diesel-fuelled fleet, which uses an estimated 40 million litres of carbon-based fuel a year, with green hydrogen-powered trucks. This early-stage development shows the innovative work underway on our continent, and creates room for us to be world leaders in the green hydrogen economy. President Ramaphosa called the initiative, "a gigantic leap for South Africa's hydrogen future economy", representing "the genesis of an entire ecosystem powered by hydrogen."

Funding a Just Energy Transition

The International Labour Organisation and United Nations Framework Convention on Climate Change defines a just transition as, "greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind."

While Africa must join the global drive towards limiting GHG emissions, this action must be considered within the context of Africa's just transition towards a low-carbon economy, and in a manner that recognises and addresses the deep energy deficit across African economies. The transition away from non-renewable energy will necessarily be a gradual and measured process, given widespread energy poverty across sub-Saharan Africa, where less than 50 percent of the population have access to electricity.

As the World Bank has argued, Africa's recovery from the COVID-19 pandemic, and its medium-term development, both require a degree of openness to further investment in 'brown' activities. Many argue that a refusal to accept this would amount to denying Africa's right to sustainable development. A total or immediate ban on further transitional projects in Africa to help reduce environmental pressure in much richer regions is simply unjust.

Energy, in general, underpins economic growth in emerging markets, specifically in Africa, where affordable and reliable energy access is fundamental to development. Therefore, non-renewable energy will likely remain key to ensuring energy security in many African regions requiring broad access to electricity, as well as transportation.

Africa's growing urban populations will require a reliable and sustainable energy supply to power industrial production, electrify more households, and expand the use of transport to drive socio-economic development. Certain countries – Nigeria, Angola, Ghana and Mozambique – produce oil and gas for international markets, thus providing foreign currency and tax revenues to develop their respective economies. It is important to objectively acknowledge the pressing need to balance all these realities as part of ensuring a just energy transition.

Having said that, Standard Bank Group's long-term goal is clear. We will achieve a portfolio mix that is net zero by 2050. That will entail reducing our financed emissions and simultaneously scaling up our financing of renewables, reforestation, climate-smart agriculture, decarbonisation and transition technologies, and supporting the development of credible carbon offset programmes. We are already a major funder of renewable energy projects in Africa. Since 2012, 86 percent of our new energy lending has been to renewable energy, and we have not financed any new coal-fired power stations since 2009.

Responsible investment means following globally accepted environmental, social and governance (ESG) best practices like those embodied in the Equator Principles (EP) and the International Finance Corporations (IFC's) best practice standards, both of which underpin Standard Bank's investment portfolio. Here, responsible investors can not only support development, but can work with carefully selected clients to ensure that carbon-based energy projects are responsibly developed with the lowest possible carbon footprint. This is how Standard Bank intends to play our role in Africa.

We will finance initiatives that drive economic growth and human development across Africa. Much of this will be investments in renewable energy infrastructure and transitioning to a new sustainable economy, even as we unlock opportunities from Africa's existing natural endowment. Every major investment must be done according to the highest ethical and governance standards.

Ultimately, just as Europe doesn't "un-develop" itself by switching off gas, Africa cannot keep itself under-developed by forgoing all carbon-based fuel investment opportunities at the same pace as the developed global north. This would be at great social cost for the continent. Both need to transition to something better – and Standard Bank will support Africa's just energy transition.