THE UK PARLIAMENTARY INQUIRY
AFRICA-UK PARTNERSHIPS FOR
JUST ENERGY TRANSITIONS

APPG AFRICA ORAL EVIDENCE
SESSION ON MOBILISING FINANCE
FOR JUST ENERGY TRANSITIONS
WITHIN AFRICA

PRESENTED
MONDAY 11TH
DECEMBER
3.30-5.30PM GMT

PRESENTED BY
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ORAL EVIDENCE
I. Question 1

How can we broaden the sources and improve the quality of private finance to support a just energy transition in Africa, including ensuring adherence to strong human rights and environmental safeguards?

World governments, global development finance institutions, and civil society organisations alike all recognize there is no single NetZero pathway that can be met to address Africa’s just energy transition, the SDG’s, and the Paris Agreement’s green infrastructure and energy multi-trillion-dollar financing gap, without exponentially increasing the scale and speed of global institutional investor allocations that can be deployed and perform at the programme and asset level.

As we know: Africa needs to mobilise $3trn of investment for its NDC’s by 2030, while the world only mobilised $2.8trn in the last 20 years (from 2000-2020), of which less than 2% came to Africa – so we have a private capital mobilization (PCM) market failure on our hands. This means Africa needs to mobilise more investment in 6 years than the world mobilised in the last 20 years.

So there is no question, we need to address this PCM market failure, and co-create and implement future-fit investment models and platforms, to make private capital mobilization at scale for Africa’s just energy transition the Expectation, not the Exception.

Firstly, we need to recognise the climate agenda has been mischaracterized as an MBD Green Finance Agenda.

It’s a long-term investment agenda, not an MBD Green Finance Agenda. Our concern is our governments are being misguided into a green MDB debt crisis – as articulated at the Africa Climate Summit: Presidential Day – Africa Climate Summit 2023.

Institutional investors (especially pension funds and sovereign wealth funds) command between $150-$200trn of assets and are up to 900 times larger in asset terms than the MDB’s collective $1.5trn global balance sheet - that’s the World Bank, AfDB, etc. All MDB’s in the world combined.

90% of PCM focus is through MDB’s, who after reforms can only solve 10% of the financing gap and less than 10% of time with institutional investors, who even after the reforms can only address 10% of our gap and less than 10% of our time with institutional investors who can close 90% of the gap.

From the African Domestic and global asset owner perspective, our overarching goal to assist address this private capital mobilization market failure, is to: Co-create, Design and Deliver, Greater Public-Private Finance Mandate Alignment, and more Catalytic Private Investment Pathways, that Fast Track and Scale Private Capitais’ participation in the just energy transition, implemented through Institutional Investor-Public Partnerships (IIPPs), to mobilize private capital at scale that can be deployed at speed.

Like the rest of the world, with the American Inflation Reduction Act (IRA) and the European Net Zero Industry Act (NZIA), to genuinely pursue and deliver private capital mobilization at scale for the just transition and the SDG’s, we need to mainstream institutional investor-public partnerships (IIPPs), that can be deployed at speed, unequivocally incentivising private

It’s all about scale and who is best placed and has the asset base and leverage to deliver that multi-trillion dollar private capital mobilization (PCM) at scale.
mobilization at scale, and sending a clear and compelling market signal to domestic and global pools of private capital. This will establish African Green Industrial Infrastructure as a globally competitive investable asset class, building out the Nairobi Declaration as the enabling political framework equivalent to the IRA and NZIA.

In short, to deliver PCM at scale, we need to not make ‘Investment Developmental’, but rather make ‘Development Investable’.

Making ‘Development Investable’ not ‘Investment Developmental’

It’s important to underscore the critical importance of shifting from making ‘investment developmental’ to making ‘development investable’ as a strategic approach to closing the $3 trillion NDC’s and SDGs financing gap for Africa’s just energy transition and SDGs investment mobilization. The following five high-level points elucidate why such a shift is essential for unlocking the vast potential of private capital at scale, to assist in delivering Africa’s Sustainable Development Goals (SDGs), NDCs and Just Energy Transition:

1. Attraction of Private Capital at Scale:
Making ‘development investable’ implies structuring projects and initiatives in a way that aligns with the expectations and risk profiles of private investors. In doing so, we create a more conducive environment for attracting substantial private capital at the scale required to bridge the financing gap. Institutional Investor-Public Partnerships (IIPPs) play a pivotal role in this paradigm by directly involving private investors early in the development process.

2. Enhanced Bankability and Reduced Investment Risk:
Focusing on making ‘development investable’ involves proactively addressing the factors that typically deter private investors, such as policy uncertainties, regulatory hurdles, and project risks. Governments can create a more bankable environment by implementing clear and consistent policies, establishing transparent regulatory frameworks, and adopting risk-sharing mechanisms within development projects. This approach significantly reduces investment risk and encourages private sector participation.

3. Alignment with Sustainable Development Goals (SDGs):
Making ‘development investable’ ensures that investment strategies are inherently aligned with the SDGs. By prioritizing projects that contribute to environmental sustainability, social inclusivity, and economic development, governments can attract investors with a strong commitment to environmental responsibility and place-based, impact-driven investing. This alignment not only attracts more private capital but also facilitates the achievement of broader sustainable development costs of capital reduction and just energy transition objectives.

4. Fostering Innovation and Efficiency:
Shifting our mindset to making ‘development investable’ encourages innovative financing models and institutional investor-public-private partnerships. This approach facilitates the incorporation of cutting-edge technologies, best practices, pre-negotiated long-duration bankable offtakes, and efficiency measures into development projects. As a result, we can optimize resources, accelerate project timelines, and ensure that investments yield maximum developmental impact.

5. Catalyzing Economic Growth and Job Creation:
Making ‘development investable’ has the potential to catalyze economic growth and job creation by unlocking and facilitating private investment at scale into key growth and green technologies sectors required by the $10trn per annum and growing global green industrial economy. As private capital flows into infrastructure, renewable energy, and other critical areas, it stimulates economic activity, creates employment opportunities, and sets the stage for sustainable long-term development and transformative long-duration bankable offtakes for manufactured green technologies from African Green Industrial Cities which were previously carbon-intensive jurisdictions.

The urgency of closing the $3 trillion financing gap for SDGs and climate-related investments requires a strategic shift towards making ‘development investable.’ By aligning projects with private sector expectations, reducing investment risks, and fostering a conducive environment for private capital, the British government

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and governments in Africa can strategically unlock and align the full potential of the British and African institutional investment community and private sector, to deliver an African just energy transformational transition and at the same time decarbonize the UK at an industrial scale.

Last week at COP 28, to escalate our collective action to address the MDB private capital mobilisation market failure, we built on Africa investor’s and Deloitte’s Shareholder-led Multilateral Development Bank reforms Roadmap on Catalyzing private finance towards African climate goals [deloitte-uk-shareholder-led-multilateraldevelopmentbank-reforms] and were the largest constellation of global institutional investors representing over $100trn of assets under management and advisement, advocating for the scaling of Private Capital Mobilization to fight Climate Change and Deliver on the SDGs for Africa, Emerging Markets and Developing Countries.

Our Institutional investor collective, which comprised Africa investor (Ai), the Net Zero Asset Owners Alliance (NZAOA), GFANZ, the Institutional Investor Group on Climate Change (IIGCC), the Sustainable Markets Initiative (SMI), the G7 Investor Leaders Network (ILN), and the G20 Infrastructure Hub, plus others, issued a Call to Action to Heads of State, Policymakers and Multilateral Development Bank (MDB) leaders to address the PCM market failure and scale private capital to Africa, Emerging Markets and Developing Countries.

Our Call to Action, issued during the COP28 World Leaders Summit, Highlighted our key 3 key impediments to significantly increasing private capital mobilization:

1. To improve bankable deal flow, our recommendation was to streamline existing and boost new, project pipeline facilities. We called on MDBs to engage the private sector earlier in project lifecycles, enable private sector access to project preparation facilities, and expand policy assistance to governments and support country platforms. NDC pipelines are largely unbankable because the support they receive from MDB’s influence project design so they are typically only fit for concessional finance, not private capital. That needs to be addressed!

2. To address longstanding risks and investment barriers, we recommend public institutions expand the quantum, quality, availability, and accessibility of instruments that enable appropriate and effective risk management and mitigation. By aggregating catalytic capital from multiple sources, synergies and efficiencies can be leveraged. It would also be essential that MDBs make private capital mobilization (PCM) a central objective of their operations, establishing ambitious targets for increasing the PCM. Current PCM market failure ratios are well known. The G20 reports that for every $1 of MDB finance provided, $10 of private capital should be mobilized. However, according to the G20, MDBs' actual delivery is a mere 20-38 cents mobilized from the private sector from every $1 of development finance.

3. To ensure the “additionality” of MDB financing, institutional investors called for MDBs to move to an originate-and-distribute model, increase the use of demand-driven standard-form guarantees, and work collaboratively. In the context of country platforms, to de-risk Africa’s $3tn of NDC investments we need $550bn-$750bn –MIGA is a $60bn balance sheet, and there is a huge de-risking gap!

4. To improve data transparency and risk assessments, we recommend MDBs work more closely, with rating agencies to correctly assess risk in Africa and EMDCs; ensure uniformity in assessing risk across MDBs; They should work with regulators and standard setters to ensure capital requirements reflect actual risk profiles. Principally, MDBs should enable enhanced and speedy access to the Global Emerging Markets Risk Database (GEMS), and work with us as institutional investors to transform GEMS2.0 from Minimal Disclosure to GEMS 3.0, to deliver Data-Driven Asset Allocation at Scale, transforming GEMs risk data, into an effective asset allocation tool – GEMs3.0.

See: GEMs3.0.pdf [africainvestor.com]

Our portfolio companies can assist rapidly develop a bankable pipeline of projects today!
As many of you know, MDB’s refusal over the last 10 years to democratize investor access to the GEMs database costs African and emerging market governments an excess of $15.6bn each year in excess interest payments on their loans and more in lost opportunities. So, we continue to implore Heads of State as the plenipotentiary sovereign shareholding governors of the MDB’s to transform GEMS2.0 from Minimal Disclosure to GEMS 3.0, to deliver Data-Driven Asset Allocation at Scale, transforming GEMs risk data into an effective asset allocation tool without delay, to stem further prohibitive costs on African and emerging market governments.

We pioneered the CFA Global Asset Owners ESG-SDG Infrastructure Investment Framework » CFA Society New York (cfany.org) and are co-founding members of the Business and Human Rights Resource Centre’s Investor Group, chaired by Mary Robinson, former President of Ireland. In that capacity we’ve been pleased to preside over the development, launch and promotion of:

- The Just Energy Transition principles for human rights in business and investment,
- A Renewable Energy Investor Guide,
- And to support the work of the Renewable Energy & Human Rights Benchmark initiative.

Our recommendations for investors and banks in the Just Energy Transition:

- Commit to rights-respecting investments: With board oversight, undertake and promote analysis consistent with the UN Guiding Principles for Business and Human Rights (UNGPs) for all transition minerals mining and renewable energy investments. Evaluate risks and impacts of investee companies on people and the planet, alongside financial materiality.
- Actively engage with investee companies: adopt stewardship policies, and develop and implement plans to proactively prevent and mitigate human rights and environmental risks and related costly conflict, alongside reputational, legal and regulatory risks.
- Undertake inclusive human rights and environmental due diligence; throughout the business cycle, undertake due diligence and engagement with worker organisations and communities, including reviewing potential investees’ up-to-date record of environmental harm and human rights abuse.

We believe these all represent useful tools the committee may find useful.

Regarding human rights and environmental safeguards

African and global institutional investor groupings are active in asserting a positive role as institutional investors in the Just transition and human rights.

We are members of and support the Emerging Market Just Transition Investing Initiative, led by the Church of England Pension Board, comprising twelve UK pension funds representing approximately 18 million members, with assets of £400bn, committed to collaborate to support a just transition to net zero in emerging and frontier markets.

We also support the World Benchmarking Alliance (WBA) Just Transition Advisory Group Keynote Opening Remarks, World Benchmarking Alliance (WBA) COP26, Just Transition Assessment Forum – Ai TV (africainvestortv.com); (2021_JustTransitionAssessment.pdf (worldbenchmarkingalliance.org), and the Task Force for Inequality Related Financial Disclosures.

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II. Question 2

How just and effective are the current JET-Ps in South Africa and Senegal? How are they received?

1. Too costly and need to be much more concessional
   Strong concern remains over the make-up of the financing – largely loan not grant-based and many of the costly prescribed and required activities are not revenue generating to service debt.

   There needs to be a greater appreciation that Africa’s transition is not an event, it’s a process that will take time and massive additional investment to scale renewables and integrate and expand costly grid infrastructure.

   Regardless, SA is not in a fiscal position to turn down $8.5bn.

2. JET-P’s risk creating mass unemployment and undermining Africa’s industrial competitiveness, integration and economic development.

   In ESG terms we believe: E=NPV of ‘S’, need to protect lives and livelihoods!

   It is estimated that tens of thousands of jobs and livelihoods will be lost in communities and across long-established value chains. There’s a need to ensure that the industrial development of the JET-P’s is enfranchised for growth, not ultimately prejudiced through JET-P partner instituted trade protections, as we are seeing with CBAM for example in the EU and similar proposals in the US.

3. Need to foster African and JET-P Partner institutional investor-Public Partnerships.

   Systematically integrate the domestic and JET-P institutional investment community (pension and sovereign funds), to work as the JET-P’s PCM and de-risking evergreen capital ecosystem, through place-based institutional investor-public partnerships. Lessons and best practices can be drawn from the British leveling-up local pension fund engagement experiences.

   African governments are increasingly keen to ensure JET-P’s are fully leveraged to catalyse domestic and global private capital mobilization at scale.

   South African and African asset owners as universal owners see the JET-P’s potential to leverage place based investment at scale and establish African Green Industrial Cities, with JET-P Partner Pension funds, sovereign wealth funds, municipal and national pension funds, university endowments, all working with provident corporate funds on their just transition investment plans as partners, with national and regional governments to target and leverage British and global, long-duration bankable African manufactured green technologies offtakes, as Institutional investor-public partnership opportunities, capable of transforming carbon intensive mining towns and geographies, into investable green industrial cities of the future, as a core and intentional strategic pillar of their just transition plans.

   The British Government should support the Just Transition Investors Alliance (JTIA), an initiative built on an overarching theory of change, that sees institutional investors as universal owners, investee company corporates as customers and MDB’s, regional banks and development finance institutions, as private capital credit enhancers. The Alliance has a pivotal role to play in positively influencing Africa’s Just Energy Transition and equitable and increased participation in global value chains for ‘finished goods’ and green technologies, and to assist African and global policymakers, to prioritize institutional investor-public partnerships (IIPP’s) to accelerate that process.

4. Commercial project development equity needs to be part of the JET-P facilities offered to the domestic private sector, to build the bankable pipeline at scale and speed.

   Unless there are bankable projects, JET-P funding won’t be deployed and the objective will not materialise.

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Funding to support recipient government execution capacity will not generate the bankable project pipeline.

JET-P projects’ technical criteria add costs and time to the already costly, high-risk, and grossly underfunded JET-P project development process.

Project development is an expensive process and project developers (usually SMEs) are at 100% risk until the investment decision is taken or financial close is achieved.

MDB Project preparation instruments and facilities are too bureaucratic, slow, costly, risk-averse, and punitive, rather than developmental.

MDB’s project preparation facilities are not private sector friendly (hence so few bankable project pipelines) and are notorious for:

- Significantly undervaluing and diluting private sector project developers’ (usually SME’s) pre-feasibility work and valuations, to increase their free carry and thereafter,
- Insisting that the private sector developer’s (usually SME’s) additional contribution to the project development budget, is ‘paid out ‘in full’ before 1 penny of their MDB contribution is paid out. I.e, if the project development budget of $5m is shared - the SME developer must deplete their $2.5m contribution before the MDB starts to deploy the first $1 of their $2.5m contribution, inequitably placing outsized risk with the SME.
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