Africa and the (Mis-)Promise of Green Finance

By:

Godwin E. K. Dzah

December 21, 2023

Introduction

Green finance heralds a new move for sustainability matters. There are a host of green finance instruments including sustainability bonds, social bonds, green bonds, climate bonds, and transition bonds. While these are different mixes of debt and equity instruments, their objectives are similarly situated, whether linked to sustainability or a transition to a low carbon economy. Green finance instruments fund activities that are supposedly environmentally-friendly. These activities include climate change and sustainability-connected projects. These instruments are intended to incentivize environmentally positive activities. However, green finance as a financing mechanism for sustainability-driven projects across the world, including in Africa, raises a paradoxical spectre. Green finance highlights the prospects of a new turn in the way projects are funded, yet it conceals the continuing environmental destruction that remains embedded in this so-called new turn. Whether it is European Union's New Green Deal or the Inflation Reduction Act of the United States, the link between critical minerals and green finance is increasingly becoming complex. Within this complex milieu and as Africa happily embraces the emergence of green finance, it is important to critically examine how green finance instruments have become part of climate and sustainability financing mechanisms in Africa. This is especially the case as Africa continues to be a site of natural resources extraction, a process that implicitly endorses ecological despoliation.

There have been increased calls by global governance and policy institutions for green finance to fund the transition to low carbon economies and support the development and production of derivate products like electric vehicles and grid-scale batteries. In this respect, there has been a corresponding rise in demand for critical minerals including cobalt, coltan and lithium which are sought after, especially by the Global North and China. This situation creates a paradox for natural resource-rich countries, especially in the Global South, including those in Africa. For example, investments in mining of critical minerals to support renewable energy infrastructure apparently promote sustainable investment. Thus, these actions have been classified as satisfying the requirements of green finance.

The supposed ‘newness’ of green finance obscures the inherent destruction of the environment and related climate risks in Africa by concealing the prevailing extractivist logic based on its *green* label. In this sense, resource extraction at once becomes desirable and even helpful to the sustainability agenda. The clear and unseen challenges with green finance are further obscured by how it is embraced across the Global North and Global South as a socio-technical solution to one of the difficult challenges of our time, climate change. Relatedly, the global diffusion of this new financing framework robs Africa of the chance to take advantage of its own natural resources to drive its (own) development since the extracted minerals are destined for industrialised economies. This shift in agenda, for which Africa has little or no comparative advantage, perpetuates the continent as an alimentation for these industrialised countries. The challenge is further complicated now that there is a critical mineral resource race between countries like China and the United States. The Global South, be it Chile, Bolivia, and Argentina, or African countries like Ghana, Zimbabwe, Namibia, Zambia and the Democratic Republic of Congo, is entwined in this novel frontier of geopolitics. Western corporations are in a frenzied rush to locate critical minerals wherever they can be found, and are presently at work mining these minerals. Accordingly, this paper critiques the extent to which the present green finance rush embraces laws and policies that are largely externally motivated prescriptions designed, mandated, or foisted on resource-rich African countries through creative channels of geopolitical norm diffusion. These contradictions need to be questioned to avoid the charge of greenwashing.

Green Finance's Forward March

The rise of green finance is largely attributable to the corresponding turn to green energy sources. Green finance involves the funding of projects or investments that are intended to contribute to the overall goal of environmental sustainability. Bhatnagar and Sharma argue that, it is the intersection of the financial industry, environmental protection and economic growth. Some scholars have also described green finance as the answer to the quest for cleaner sources of energy, and a welcome shift away from the fossil fuels, including coal, natural gas, and petroleum. The frenzied discussions on these new financial tools has spurred interest for legal scholars about its meaning and implications for socio-ecological justice considerations. The question of meaning and consequence is ever more urgent for resource-rich countries, especially those in Africa, caught in the web of the global push towards green energy.

Green finance instruments have a relatively recent history. The European Investment Bank issued its green bond (the first of several green finance instruments) in 2007 to finance renewable energy and energy efficiency projects. This advance heralded the green bond boom and commenced a new phase of energy finance. The World Bank followed this example and issued its first green bond in 2008 to support climate-focused projects. Regional organizations like the African Development Bank (AfDB) followed, and have launched their own green finance instruments to fund investments that promote climate and environmental sustainability.

Since then, green finance instruments have seen a steady increase. In response, the International Capital Markets Association and large banking corporations joined together to establish the Green Bond Principles as a framework for regulating the issuance of green bonds. These principles have four central philosophies. Firstly, green bonds fund projects that serve an environmental purpose. Secondly, the issuer must inform investors of the environmental sustainability objectives of the instrument. This requires an issuer to disclose to investors how the issuer intends to manage the social and environmental consequences of the proposed project. Thirdly, the net proceeds of the green bond must be applied to the project, which involves depositing the said funds in a sub-account or sub-portfolio. Finally, the issuer is required to keep up-to-date records on the bond issuance and other information in line with the key principle of transparency.

While this is noteworthy, the principles acknowledge the limits of activities that truly qualify as having an environmental benefit. The recognition that some activities may not have an environmental benefit indirectly undercuts commitment to the principles. Some of these activities may not progress (or in some circumstances even undermine) environmental sustainability. In this respect, the use of green finance to fund new projects, including resource extraction, expands the scope of mining activities along with its environmental consequences. Further, even though the principles require an issuer to separate the bonds and proceeds arising therefrom, it is possible the funds may indirectly also finance other, potentially 'dirty' activities. Thus, green finance presents challenges for environmentally-beneficial activities as it may only be setting Africa up for new technologies of control over its resources where green investments are deployed in natural resource extraction.

Africa and the Green Finance Encounter

The corporatisation of climate and environmental sustainability through green finance poses challenges to presumed environmental goals. The Global North–Global South natural resource literature is replete with examples on the Global North's unlicensed extraction of natural resources from the Global South, including through mining. This new wave of extraction is happening against the background of historical ecological debt owed the South by the North. Regrettably, the quick turn to green finance is likely to change course in this discourse and shift attention from the satisfaction of this ecological debt, thereby leaving unanswered or outstanding that pending matter. The resulting concern is that both political and legal attention seem to be concentrated on this green finance and green energy projects to the extent that it shifts focus from the environmental challenges arising from these green-focused projects.

The present corporatist appeal for green finance raises deeper questions for Africa. For African countries, a major question that must be answered is how they (African states and their peoples) can benefit from the current global drive towards sustainable development and industrialisation via green finance. In this sense, the concern is that Africa's embrace of green finance must address three key parameters: an enhanced legal framework, reinforcing institutional (and related political) capacities, and strengthening monitoring and evaluation. While these parameters seem well-intentioned, the key feature of socio-ecological justice that should guide ongoing developments is somewhat consigned to a footnote. This is apparent in the way green finance laws are being developed across Africa.

These developments, be they law or policy, reproduce existing patterns of legal and policy governance on resource extraction, as now seen in the intensification of critical minerals mining. For instance, increased cobalt mining in the Democratic Republic of Congo has led to the formalisation of artisanal miners. These developments in the Democratic Republic of Congo's cobalt mining are being funded through green finance from private entities and the Resilience and Sustainability Trust (RST) of the International Monetary Fund (IMF). The European Union is equally pursuing new agreements with African countries like the Democratic Republic of Congo and Zambia. While this new funding sources are seemingly welcome news, the formalisation process, especially as supported by the IMF's Resilience and Sustainability Trust, has transformed the legal framework and ushered in a new form of extractivism which involves the "outsourcing of corporate responsibility" to artisanal miners by the larger foreign mining corporations. In the process, these corporations reinvented themselves as partners of artisanal miners; thus, ingeniously escaping the label of corporate authoritarianism that these corporations have loathed for a long time.

Nigeria is another example. It issued Africa's first green bonds in 2017 to support its efforts to transition to a low-carbon economy. This development was followed by an institutional reorganisation including the establishment of a Green Bonds Secretariat under the Department of Climate Change at the Federal Ministry of Environment. While the green bond issued by Nigeria is commendable as it spurred subsequent green bonds issuance by private banks, it is important to scrutinise whether these initiatives were not designed along the lines of externally-driven or derived ideas from non-African sites of global norm diffusion. For instance, the World Bank, AfDB and the IMF acted as partners in Nigeria's bond development and issue. Even where the AfDB has been described as a partner, it is important to scrutinise its participation since the shareholder composition of these international financial institutions including the AfDB remain patently Western, and their neoliberal interests tend to dominate policy prescriptions. Nonetheless, this development does not exculpate countries like China since their interests in critical minerals means they act no differently from these Global North countries and institutions when dealing with Africa.

The above examples of policy and legal changes from these countries demonstrate the potential (and hope) that green finance can propel sustainable investments in Africa. Even so, this development invites skepticism as there has been concern over policy misalignment between the objectives of environmental sustainability and the financial incentives behind green finance. Like Kishan Khoday has recently argued, the reliance on "financial and technical solutions to combat the [climate] crisis" masks the underlying causes of this crisis which is rooted in inequality. Thus, as long as Africa remains a natural resource hub, the question is, will these funding initiatives reorient the basic structure of extractivism while promoting climate and sustainability objectives in Africa?

Nothing New?

The significance of green finance in the changing scenes of resource extraction and the ensuing ecological impacts invites a critical evaluation. The uniqueness of green finance and its array of interventions carries forward a supposed sustainability agenda. Yet still, it renews and repeats the law and politics of resource extraction. Green finance instruments ensure mineral extraction has kept pace with political rhetoric while reinventing extractivism as a new logic for sustainability. To draw upon Obiora Chinedu Okafor's work on the concept of newness, the idea is that something labelled as new, in this case green finance, might not exactly be novel when the phenomenon is examined closely. This is the case of the mining of critical minerals which is funded through green finance as promoting environmentally beneficial investments. In this respect, these new funding mechanisms are only making attractive hitherto unattractive financing of extractivism as they do very little to radically transform the organising ambition of economic growth at the expense of the environment.

The present case of climate-smart mining presents a sneak preview into this complication. Climate-smart mining is intended to inspire minerals mining in aid of clean energy processes while improving the socio-ecological conditions related to mineral extraction. The principle is that the renewed interest in mining for critical minerals needed in the production of climate-responsive technologies like lithium batteries for electric vehicles require financial investments and a corresponding intensity to produce these minerals. This new logic of extractivism led by the Global North including the European Union through its Green Deal, potentially advances the charge of green colonialism. To address this concern, green finance instruments like climate and transition bonds attempt to achieve (an unlikely) balance and provide a win-win situation for both financial investments and the environment. Yet, these are not exactly novel but prescriptions that recharacterise the neocoloniality of Africa's natural resource control by re-legimitising this extractivist logic. The paradox arises here as green finance is thus a contradiction in terms.

Beyond climate-smart mining and similar hard mineral extraction, there are similar extractive processes that are equally styled in the green language. Even new ways of harnessing Africa's solar energy projects to power Europe's energy needs have been celebrated as path breaking. Funding efforts have been advanced to develop large-scale solar projects in countries in North Africa, especially Morocco. These ventures have been labelled as green energy projects due to their financing mechanisms and intended purpose. Yet, an analysis of the legal and financial arrangements exposes the land grab schemes that these schemes are. More importantly, they are nothing more than carefully designed programmes to export solar power from Africa to Europe. Not only are these projects leading dispossession and dislodgment of Indigenous Berber communities in Morocco, but they are also diverting solar power generated in Morocco to Europe without a corresponding technological and infrastructural support for Morocco's own solar energy efficiency.

These *green* developments highlight the kinds of necropolitical choices that African states are forced to make. These projects and their implications disguise the tragedy citizens face; that is, who is expendable and easily sacrificed for interests that are often far removed from everyday African concerns. So, while these projects are presumably financed through debt and equity instruments that are tagged as green, their exploitative character thoroughly contradicts their very essence. This is nothing more than perpetuating the already existing forms of extracting Africa's natural resources.

Conclusion

In sum, the question remains, how can new socio-technical solutions like green finance respond to Africa's particular sustainability needs. How does green finance advance socio-ecological justice? This question is critically important in respect of climate considerations since Africa is not a significant net emitter of global greenhouse gas emissions compared with other parts of the world. It is also crucially important to answer this question in terms of energy poverty in Africa. If anything at all, green finance must support Africa's own long-term energy sufficiency. What is needed is commitment to Africa-centred legal and policy prescriptions. Green finance instruments can only deliver its promise for Africa, its peoples and ecological interests when they actively provide deliberate and well-crafted solutions. Green finance cannot become another technology of governance for micromanaging the policy responses being implemented in Africa, nor can they become a disguised mode for reinventing extracting critical minerals in Africa. Either way, green finance is a paradox because it legitimises natural resource extraction or exacerbates potentially negative environmental problems while presenting itself as redirecting funding and investments to ecologically-conscious projects. Even so, these concerns are not limited to Africa as there is heightened anxiety that the socio-ecological implications of funding the extraction of critical minerals will aggravate the already challenging consequences of resource extraction elsewhere, especially in Latin America. Either way, the situation demands a change in course if green finance must deliver on its promise of improving climate and environmental objectives. In this respect, Africa-specific interventions must emphasise these issues and reformulate present strategies to answer these questions.

View online: Africa and the (Mis-)Promise of Green Finance