ENERGY SECURITY AS A PREREQUISITE FOR DIGITALIZATION IN AFRICA

AFRICAN WBG EXECUTIVE DIRECTORS' "MESSAGE" TO THEIR GOVERNORS

The availability of, and access to, electricity are prerequisites for digitalization and a driver to nearly all economic activities. Meanwhile, the doors for financing of oil projects have been closed and the clock is ticking for the end of the fossil fuel era, including financing of gas to power thermic plants, by July 1, 2025. This new approach to global energy transitions put at risk the future energy security of Africa. It will jeopardize efforts to accelerate economic and social transformation.

Against this backdrop, we, the EDs, have been advocating for Africa to be given a differential treatment in the name of climate justice and in line with the Paris Agreement. We need your guidance and support to shift the discussion on how to expand electricity access to both households and businesses for low emitting and energy poor countries while, in parallel, working to develop and secure financing for a set of bankable gas-to-power projects, before July 1, 2025. This African Caucus Meeting represents a natural platform and the WBG is the proper entry-point for you to have your voice heard - via your Memorandum and Declaration to the Heads of the BWIs.

Our Message to you is articulated around the implications of (a) the 2015 Paris Declaration, as well as (b) the WBG's Energy Strategy and Climate Change Action Plan (CCAP); (c) the overall consequences for Sub-Saharan Africa (SSA) and (d) windows of opportunity; (e) the actions we have taken thus far; (f) and our plea to the Governors to carry the message in the face of a fast-approaching July 1, 2025 deadline.

(a) The 2015 Paris Declaration and its Implications

While aiming to keep the rise in global warming to 1.5°C above pre-industrial levels, the Paris Agreement *recognizes that countries have different circumstances and gives them the latitude in the pathways they choose to achieve the overarching goal of low-carbon, resilient development*.

However,

- Development partners, advanced economies and institutions have collectively determined that all public investments in fossil fuels, including natural gas for power generation, must be banned immediately except for a limited number of eligible countries.

- In 2017, the WBG announced that it will no longer finance upstream oil and gas projects starting in 2019. The WBG has not financed any oil pipelines since 2014.

- Several European countries have also adopted policies that will not allow them to support the financing of gas fired power plants by international financial institutions (IFIs) and multilateral development banks (MDBs), with conditional exceptions for a few International Development Association (IDA) countries. A ban on supporting the financing of gas power plants is therefore already in effect for most members of development institutions.

- The International Energy Agency (IEA) has, in May 2021 also signaled the end of the fossil fuel era despite recognizing that natural gas was key to keeping the lights on in a world with a growing population.

- Specifically, the International Energy Agency noted that if we are serious about keeping global average temperature to as close as possible to 1.5 degrees Celsius **"***There is no need for investment in new fossil fuel supply in our net zero pathway*".

(b) The Climate Change Action Plan (2021-2025)

The Bank's CCAP recognizes that *no country can achieve economic growth and extensive private-sector job creation without ensuring access to affordable, reliable, sustainable, and modern energy for all*. It also acknowledges *the role of natural gas as a transition energy*.

However,

- The WBG will, by July 1, 2025, align its financing flows with the objectives of the Paris Agreement, under which many countries are aiming for net zero carbon emissions by 2050, consistent with pathways towards low-carbon and climate-resilient development.

- The World Bank plans to align all new operations by July 1, 2023, the start of FY24 fiscal year. For the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), 85 percent of Board approved *real sector* operations will be aligned starting July 1, 2023 and 100 percent of these starting July 1, 2025, two fiscal years later. To achieve this, both institutions will begin aligning 100 percent of their projects at the concept stage well ahead of July 1, 2023.

- The current prospect of WBG/IFC power projects (pipeline) focuses mainly on substituting thermal power without any significant addition to net generation capacity.

- On fossil fuels, the Bank expects to have relatively limited engagement on natural gas projects and mostly in countries where their emissions are not a significant part of the world's CO_2 contributions and where gas would have a role in the energy sector that cannot be substituted economically with clean alternatives.

- Under the period of the CCAP, the WBG will continue its approach of not financing upstream oil and gas projects and will not financing any oil pipeline.

- On mid-stream oil, the World Bank has not financed mid-stream oil for several years and does not currently have such projects in its operations. IFC will only consider projects in this area as outlined in the Manufacturing Deep Dive and Chemicals Road Map. No other mid-stream oil projects will be considered. There are no plans to include targets on oil and gas in IFC's Green Equity Strategy.

(c) Overall consequences for SSA

- The European Union, under the European Green Deal, has set a more ambitious target of 55% in emissions reduction accompanied by a climate subsidy financial package of €1 trillion under the Sustainable Europe Investment Plan to support its private sector energy transition. This support package is not available to SSA private sector.

- No gas-to-power projects will be financed by the WBG beyond July 1, 2025.

(d) Windows of Opportunity

While the Paris Agreement gives countries the latitude in the pathways they choose to achieve a low-carbon and while the Bank's CCAP recognizes the role of natural gas as a transition energy, however, there is a small window of opportunity that countries can use to ramp up gas projects before the financing ban kicks in:

- The WBG will have relatively limited engagement on natural gas projects and mostly in countries where their emissions are not a significant part of the world's CO2 contributions and where gas would have a role in the energy sector that cannot be substituted economically with clean alternatives.

- Natural gas investments may be considered aligned in countries where there are urgent energy demands and no short-term renewable alternatives to reliably serve such demand.

- Accounting for unique national circumstances, all WBG investments in new gas infrastructure will be assessed for consistency with Nationally Determined Contributions, Long-Term Strategies, or other national development strategies—and ensure they are not leading to long-term carbon lock-in, among other considerations.

- Several European countries could support the financing of gas fired power plants by IFIs and MDBs, but under conditional exceptions for a few IDA countries.

(e) Action Taken by Executive Directors

To capitalize on this small window of opportunity, the Executive Directors representing SSA at the WBG Board have coordinated and initiated a conversation with key stakeholders from European countries and the United States to make a case for Africa to be given a differential treatment in the name of climate justice and in line with the Paris Agreement.

- They have laid out the case for SSA with Executive Directors and policy makers from the UK, France, the Nordic and Baltic Group and the US.

- They have argued that energy transition in the name of climate change may not be applicable in the African context. For example, SSA has the lowest per capita emission in relation to population size when compared to the rest of the world. SSA power sector is already clean with a contribution of only 0.5 % of GHG emissions, excluding South Africa. More than 50% of the power generation comes from renewables (mainly hydro) with oil and gas accounting for most of the balance.

- Even if Africa exploits its huge gas potential optimally, emissions will not reach 1 % in 10 years' time.

- While the conversations of the African Executive Directors have helped climate centric countries to better understand the situation of SSA, these efforts alone are unlikely to change domestic donors' policies towards Africa energy security. Further forceful articulation by African leaders is needed to focus the global conversation about what climate justice and climate action mean for low emitting and energy poor countries. To this end, the WBG represents a natural entry-point for its client countries.

(f) Executive Directors' Plea to the Governors

- Executive Directors encourage the Governors to convey the same message at the forthcoming UN Climate Change Conference of the Parties (COP26) in Glasgow (UK) on 31 October – 12 November 2021, as well as during other various global fora (UNGA, G20, etc.).

- Executive Directors encourage the Governors to engage with the donors bilaterally and convey the message on the importance of energy security for their country and for the Continent.

- Executive Directors encourage the Governors to seek increased technical assistance in the design of energy transition strategy (whenever necessary) and implementation of the "just energy transition" approach.

- Executive Directors invite the Governors, particularly those from countries endowed with important gas reserves, to develop as quickly as possible, bankable gas-to-power projects and have them financed before July 1, 2025.

Looking ahead, Executive Directors have no doubt that Governors will, in their Memorandum and Declaration to the Heads of the BWIs:

- underscore the complementarity between energy security and climate agenda;
- call for a "just" transition, based on energy mix which includes gas; and
- urge the WBG to stay engaged in financing gas fired power plants, while applying differentiated financing models and instruments to avoid a One-Size-Fits-All approach.

Effective digitalization of Africa depends on the availability of, and access to, sustained, reliable, and affordable electricity.