COVID-19
MACROECONOMIC POLICY RESPONSES IN AFRICA
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Africa's COVID-19 Response: A Wasted Opportunity

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About CoMPRA

The COVID-19 Macroeconomic Policy Response in Africa (CoMPRA) project was developed following a call for rapid response policy research into the COVID-19 pandemic by the IDRC. The project's overall goal is to inform macroeconomic policy development in response to the COVID-19 pandemic by low and middle-income countries (LMICs) and development partners that results in more inclusive, climate-resilient, effective and gender-responsive measures through evidence-based research. This will help to mitigate COVID-19's social and economic impact, promote recovery from the pandemic in the short term and position LMICs in the longer term for a more climate-resilient, sustainable and stable future. The CoMPRA project will focus broadly on African countries and specifically on six countries (Benin, Senegal, Tanzania, Uganda, Nigeria and South Africa). SAIIA and CSEA, as the lead implementing partners for this project, also work with think tank partners in these countries.

Our Donor

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Executive summary

The economic fallout from the COVID-19 pandemic has created opportunities for African countries to pursue green recoveries and mainstream the climate agenda in national economic planning. Some countries, such as South Africa and Nigeria, have adopted green recovery plans, but there is still a significant financing gap to meet climate change goals. Most countries need the equivalent of up to 4% of their gross domestic product to finance their Nationally Determined Contributions between 2021 and 2030. Given the shortcomings of the COVID-19 recovery plans adopted by African countries with regard to securing a green recovery, several

recommendations are made to stakeholders to ensure climate change adaptation measures are fully mainstreamed into development plans. These include improving external financing, reforming global development finance institutions, addressing climate financing risks in local financial systems, creating green sovereign wealth funds for oil and gas resources, and pricing emissions through carbon taxes.

Introduction

This policy insight is a synthesis of six country case studies that analyse the extent to which policies in the post-COVID era are aligned to stated targets in their respective Nationally Determined Contributions (NDCs) submissions. The six countries are South Africa, Nigeria, Senegal, Tanzania, Uganda and Benin. These case studies are an extension of an initial study of the climate change considerations in the fiscal stimulus packages adopted by the various countries when the pandemic first hit.[1] This policy insight focuses on the progress made by the six countries in implementing their NDCs and the challenges they faced integrating these into COVID-19 recovery plans. It also looks at the policy choices that can be adopted to deliver a green recovery based on the successful implementation of the NDCs.

The main finding of this review is that there is a big financing gap between the climate goals of countries and the resources required, underpinned by a lack of clear implementation paths towards meeting climate change goals. While countries have provided cost estimates in their NDCs, there is little evidence on how they have arrived at these estimates. This points to possible capacity problems, complicated by a lack of commonly agreed methodology or requirements on costing transparency. Moreover, domestic funds allocated to climate interventions are largely insufficient to complement the current support from developed countries. Without predictable and sufficient climate finance from the developed world, developing countries are in the difficult position of having to make provisions within their domestic budgets to respond to climate change, which few are doing. It is crucial that countries explore innovative domestic resource mobilisation options to close these funding gaps.

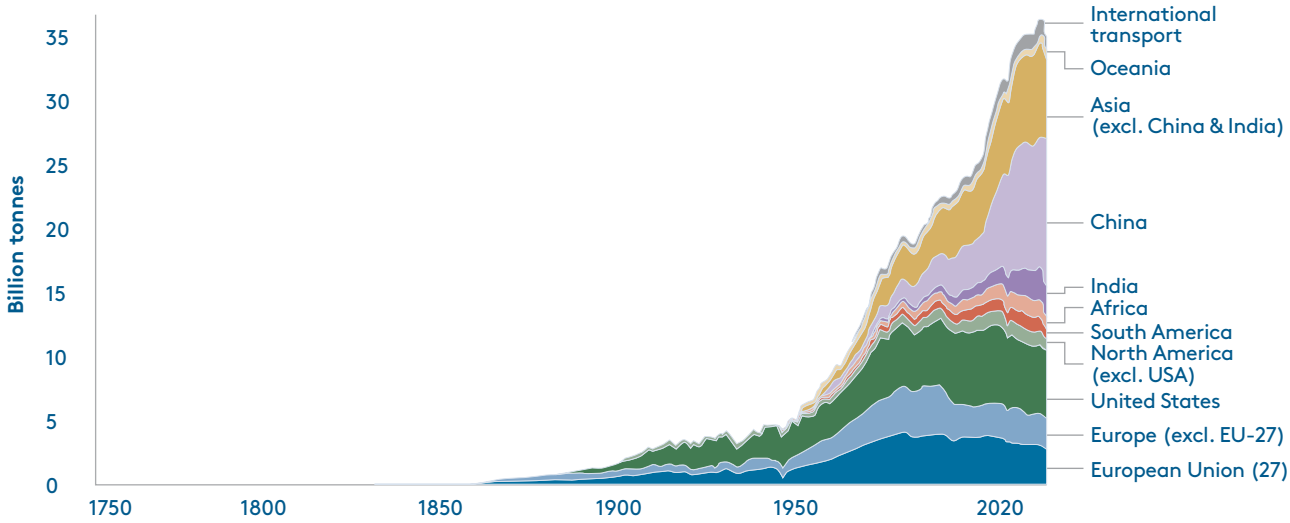
Lack of mainstreaming and effective monitoring of key NDCs at a sectoral level is another problem standing in the way of a green recovery. This allows for reduced focus on climate change action in the face of shocks such as the pandemic or when new fossil fuel deposits are discovered, as in Senegal's case. Countries should carefully weigh the longer-term consequences of continuing to exploit fossil fuel resources compared to investing in renewable energy.

1 Joseph Upile Matola, "COVID-19 Fiscal Policy Response and Climate Change Action in Africa" (COMPRA Policy Insight 9, South African Institute of International Affairs, Johannesburg, 2021).

How COVID-19 has impacted NDC implementation

Despite having nearly a fifth of the world's population, Africa is among the lowest carbon-emitting regions globally, surpassing only the much less populated South America and Oceania (see Figure 1).[2] In 2021, out of the 37.12 billion tonnes of CO_2 emitted globally, only 1.45 tonnes (about 3.9%) came from Africa. Of this, South Africa contributed 476 $MtCO_2$ (about 33.8% of Africa's total), with the rest of the continent emitting only 932 $MtCO_2$.[3] Despite these relatively low emissions, African countries have pledged to embark on mitigation programmes that will significantly reduce their greenhouse gas (GHG) emissions. They have also increased their adaptation efforts, as the continent is a vulnerability 'hot spot' for the impacts of climate variability and change.[4]

Figure 1 Annual CO_2 emissions from fossil fuels by region



Source: Our World in Data, 'Annual CO2 Emissions by World Region', https://ourworldindata.org/grapher/annual-co-emissions-by-region

By the time the 26th Conference of the Parties (COP26) was held in November 2021, many countries had submitted their updated first NDCs in which they outlined updated mitigation and adaptation targets. Several countries had increased their ambitions, particularly with regard to

2 Our World in Data, "Annual CO_2 Emissions by World Region", https://ourworldindata.org/grapher/annual-co-emissions-by-region

3 According to Statista, South Africa was the 14th largest emitter of CO2 in the world in 2021. See Statista, "Carbon Dioxide Emissions Worldwide in 2010 and 2021, By Select Country", https://www.statista.com/statistics/270499/co2-emissions-in-selected-countries/

4 World Meteorological Organization, *State of the Climate in Africa 2019* (Geneva: WMO, 2020).

their GHG emission reduction targets (Table 1), and submitted their national adaptation plans, which serve as their respective adaptation communications. To reduce emissions, many African countries tend to pin their hopes on getting adequate (financial and technological) assistance from developed countries. The conditional emission targets for many countries, including the six reviewed here, are significantly higher than their unconditional targets. This shows that they depend heavily on foreign funds to fully implement their NDCs. Nigeria, for instance, expects to be able to reduce its emissions by 47% with external assistance, but only by 20% if it is to finance its mitigation efforts alone. In the case of South Africa, the estimated emission reductions are 40% and 25% with and without external financing, respectively. Senegal's expected emission reductions are 30% with and 7% without external financial assistance, while Uganda's are 25% against 6% for conditional and unconditional. Benin can cut emissions by an additional 7% with external financing. Nonetheless, the higher-emitting countries such as South Africa, Nigeria and Tanzania hope to reduce their emissions substantially (even) without foreign help.

Table 1 Emission reduction ambitions for 2030 (in $MtCO_2e$)

Country	Current GHG emissions (2019)[a] (in $MtCO_2e$)	Expected (BaU)[b] emissions[c]	Target emissions (in $MtCO_2e$)	% reduction from BaU – (unconditional)	% reduction from BaU – (conditional)
South Africa	555.4	NA	350–420	25%	40%
Nigeria	308.1	453	240–362	20%	47%
Tanzania	84.0	153.6	99.8–107.5	30%	35%
Uganda	43.3	148.8	112.1–140.1	6% ¬	25%
Senegal	29.2	37.8	26.6–35.1	7%	30%
Benin	15.0	29.02	22.8–25.4	13%	20%

a Word Bank's World Development Indicators

b Business as Usual

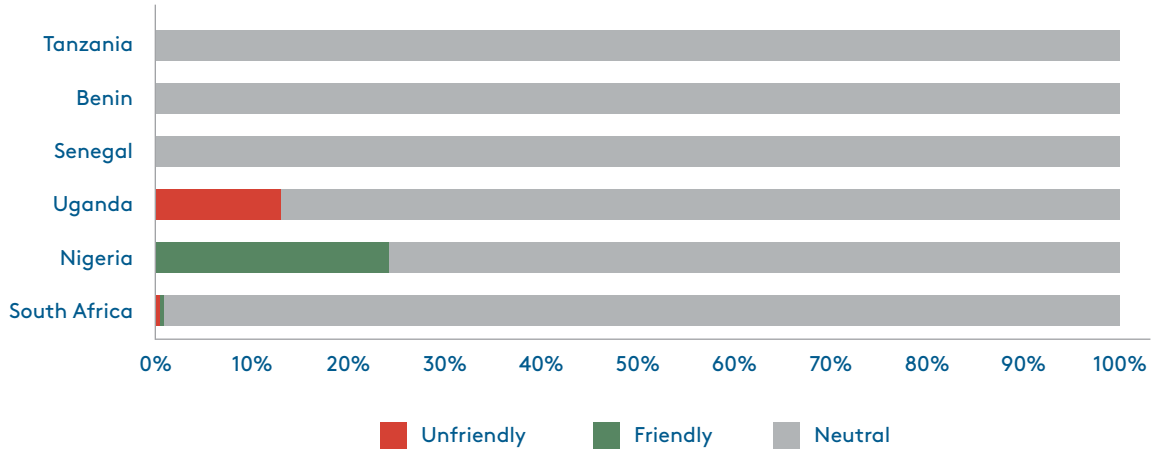
c As reported in country NDC submissions

Source: Compiled by author

COVID-19 has affected climate policy and action in the short and the long term. In the short term, some countries adopted fiscal (and monetary) stimulus packages that had climate-sensitive interventions, but many packages were climate neutral (Figure 2). For most countries the immediate concern was to protect people from the health effects of the pandemic and the negative economic impacts that came with lockdowns and other measures taken to contain the virus. This sudden change in government priorities had some negative implications for the implementation of climate change initiatives. The NDC Partnership project – a global coalition of countries and institutions collaborating to drive transformational climate action through

sustainable development – assessed the global impact of COVID-19 on climate ambition and NDC revisions in 54 countries, including 29 African countries. Among the challenges revealed by the assessment was that countries focussed on addressing health impacts and ensuring quick economic recoveries, which distracted political attention from climate change.[5] Another challenge was that of financial resources being diverted from climate action towards COVID-19 responses.

Figure 2 Proportion of green, red and grey fiscal policies in initial stimulus



Source: Joseph Upile Matola, "COVID-19 Fiscal Policy Response and Climate Change Action in Africa" (COMPRA Policy Insights 9, South African Institute of International Affairs, Johannesburg, 2021)

In the six countries analysed in this policy insight, climate-sensitive interventions included in initial stimulus packages were generally incidental, as the impact on climate change was not of immediate concern at the time. South Africa, for instance, allocated ZAR[6] 1.983 billion ($0.12 billion) to the environment, forestry and fisheries sectors, but primarily to create jobs. Nigeria removed fuel subsidies worth NGN[7] 1.7 trillion ($4.42 billion) and increased by 50% tariffs for the mostly fossil fuel-generated electricity sector.[8] These measures were adopted to consolidate government revenues, which had fallen because of the drop in oil revenue induced by the pandemic. To its credit, Nigeria initiated other interventions that promoted the clean energy transition. These included the installation of five million solar home systems (translating to about 11% of households in 2020) and the launch of the NGN 90 billion ($0.23 billion) National Gas

5 AU, *African Union Green Recovery Action Plan 2021-2027* (Addis Ababa: AU, July 15, 2021).

6 Currency code for the South African rand.

7 Currency code for the Nigerian naira.

8 See Federal Government of Nigeria, Bouncing Back: *Nigeria Economic Sustainability Plan (ESP)* (Abuja: Federal Government of Nigeria, June 2020).

Expansion Programme.[9] Uganda, on the other hand, ended up with a fiscal stimulus package that was less climate friendly since one major intervention was accelerating the development of business parks, which were shown in environmental impact assessments to be environmentally damaging.

Table 2 Plans for medium- to long-term recovery from COVID

Country	COVID-19 recovery plan	Main green interventions
South Africa	Economic Reconstruction and Recovery Plan (ERRP), 2020	• Roll-out of biodiversity economy infrastructure • Support to small, micro and medium-sized enterprises (SMMEs) and cooperatives to exploit opportunities in the green economy • Support for smallholder farmers through public–private partnerships in forestry • Completing the regulation of bioenergy • Preparation of South Africa's nuclear programme • Promotion of liquefied petroleum gas (LPG) as an energy source for cooking and heating
Nigeria	Nigeria Economic Sustainability Plan (NESP), 2020	• Installation of solar home systems for five million households • Investment in national gas expansion
Tanzania	Tanzania COVID-19 Socio-Economic Response and Recovery Plan (TCRP), 2021	• Fertiliser subsidy to promote efficient use of land, strengthened epidemiological surveillance[a] • Scaling up provision of safe and clean water to communities through investments in infrastructure and access points and constructing water kiosks in public areas • Developing new tourism services and diversifying away from wildlife-based tourism[b]
Senegal	Economic and Social Resilience Programme (PRES) and Adjusted and Accelerated Priority Action Plan 2 (PAP2A), 2019–2023	• No added emphasis on climate change (notably, the PAP2A maintains the pre-COVID target for the share of renewable energy in the energy-generation mix at 29.2%)
Uganda	FY 2020–2021 national budget and FY 2021–2022 national budget	• UGX[c] 804.24 billion ($219 million) allocated to environment and climate change in FY 2020/21 against the NDP III annual requirement of UGX 895.14 billion ($244 million), representing 90% of funding required
Benin	CFAF[d] 323 billion fiscal package 2020–2022	• No significant added emphasis on climate change – Benin's policy response to COVID-19 has had little overlap with its NDCs

a In line with Tanzania's NDCs proposal for a climate-sensitive early warning system in the health sector.

b Nature-based tourism, such as wildlife, is climate-sensitive and Tanzania's tourism sector overly relies on it.

c Currency code for the Ugandan shilling.

d Currency code for the Communauté Financière Africaine franc.

Source: Compiled by author

9 Nigeria's National Gas Expansion Programme, which is part of the 2020 Nigeria Economic Sustainability Plan, aims to reduce emissions by facilitating the switch from home usage of traditional fuels such as wood and kerosene to liquified petroleum gas. However, the project entails the acceleration of gas production in the country, thus making its overall impact on emissions debatable.

For a longer-term/post-COVID economic recovery, some of the countries examined have adopted comprehensive recovery plans that generally seek to incorporate green recovery more substantially. These plans are designed to achieve robust long-term recovery from the effects of the pandemic and to create resilient economies better able to withstand future shocks. Of the six countries, South Africa, Tanzania and Nigeria have adopted comprehensive new plans for tackling the medium- to long-term effects of the pandemic. In these plans, climate change interventions are deliberately included with the objective of achieving green recovery. Senegal addresses the medium- to long-term effects of COVID through an accelerated action plan for its five-year national development strategy, while Uganda and Benin pursue economic recovery through the usual fiscal channels (national budgets). None of the three countries put much emphasis on green recovery and their plans do not contain any major climate mitigation or adaptation measures.

Of these countries, South Africa's plan places the greatest emphasis on a green recovery. This is unsurprising given the country's emission profile, its desire to decarbonise and the financial support it has received from development partners, such as through the Just Energy Transition Partnership. Besides interventions in the biodiversity economy, forestry and bioenergy, the ERRP promotes investments in nuclear power and LPG as energy sources for households. While there is still debate on whether to classify these two energy sources as green, for South Africa they would significantly help reduce emissions given its current reliance on coal. Other green interventions are also being pursued, as the ERRP operates alongside other energy policies and does not determine the whole energy landscape in the country.

Nigeria's recovery plan, the NESP, also has some interventions aimed at moving it towards the consumption of cleaner energy. The plan includes a $619 million investment in solar home systems targeting up to five million households. It also provides for an NGN 113 billion ($255 million) investment in the National Gas Expansion Programme, which promotes the use of gas by households for cooking and heating. The successful implementation of this programme is considered a step towards a cleaner environment, as it will reduce the use of firewood and kerosene by Nigerian households, 80% of which use these materials for cooking. However, whether promoting the use of gas will reduce Nigeria's emissions in the long run is debatable, given that gas also emits carbon.[10]

In Tanzania, attempts to address the fallout from COVID-19 have been through the Tanzania COVID-19 Socio-Economic Response and Recovery Plan (or TCRP). The plan identifies several sectors as priority areas needing intervention. While it does not explicitly focus on climate change, some of the interventions in the tourism, water, agriculture and health sectors have

10 Masami Kojima, "Primary Household Energy for Cooking and Heating in 52 Developing Economies" (Working Paper, World Bank, Washington DC, 2021).

environmental implications. On tourism, for instance, the plan seeks to, among others, diversify the sector to minimise wildlife-based tourism (which is climate sensitive) by encouraging other activities such as 'beaches, meetings, incentives, conferences and events' tourism. In relation to agriculture, it promotes the sustainable use of fertilisers. It also promotes epidemiological surveillance in line with the Tanzanian's NDCs proposal for a climate-sensitive early warning system in the health sector. Interventions promoting climate change adaptation are also promoted in the water and social protection sectors.

In Senegal, the PRES (Programme de Résilience Economique et Sociale) is the government strategy to address the health, social and economic impacts of COVID. Its three main components are: supporting the healthcare sector and strengthening the sanitation system; putting in place food distribution and water/electricity subsidies for households; and granting company tax exemptions associated with specific support to the most affected sectors. Beyond the PRES, the Senegalese government revised the country's national development strategy – Plan Senegal Emergent – to reflect the impacts of the pandemic. This resulted in the adjusted and accelerated PAP2A (Plan d'actions Prioritaires 2 Ajusté et Accéléré) – the adjusted action plan for operationalising the PRES.

In Senegal, the pandemic has essentially caused delays in implementing climate adaptation and mitigation projects.[11] The PAP2A puts greater emphasis on private sector-led domestic production of food and pharmaceutical products and health services. It has no renewed emphasis on climate change projects, while placing additional emphasis on the other developmental themes. And while the pandemic has caused delays in oil and gas production, Senegal is still expected to develop two new gas plants in 2023 to produce electricity.

Benin and Uganda continue to pursue longer-term post-COVID-19 recovery using their national budgets as recovery tools. Neither has placed added emphasis on climate change, with the focus of their recovery efforts on the health sector and on providing (non-climate) related support to businesses and households.

How COVID-19 impacted climate financing in Africa

Current climate finance flows to Africa pale in comparison to what is needed to adapt to climate change. Between 2016 and 2020, Africa received only $19.5 billion in climate funding, while adaptation costs for the continent are estimated at $30–50 billion annually until 2030. There

11 Ahmadou Ly, "Is Senegal on the Right Track to Achieve Its NDC Commitments?" (CoMPRA Occasional Paper 15, SAIIA, Johannesburg, November 2022).

are thus significant financing gaps. Much of past funding came from development finance institutions and national governments, with private investors playing a marginal role. This trend may change, as government revenues are constrained in the face of the effects of the pandemic and the Russia-Ukraine war, leaving much less fiscal space for climate investments. This space is further narrowed by debt-servicing obligations, as countries borrow to address development needs in an environment of rising interest rates, high inflation and tepid growth. Essentially, African governments lack the financial ability to maintain and improve on current efforts.

The pandemic's impact on the fiscal health of African countries comes at a time that climate financing is a serious problem for most of them. In general, most countries in Africa (and the rest of the developing world) require large amounts of funds to fully implement their NDCs. For the period 2021–2030, Nigeria, Senegal, Uganda and Benin need the equivalent of more than 4% of their respective GDPs to fulfil their annual NDC plans (Table 3). South Africa and Tanzania need about 2% of their GDPs. This raises the question of how realistic these ambitions are in the current global context and whether countries can generate alternative, sustainable sources of funding in the absence of predictable and sufficient donor support.

Table 3 Adaptation and mitigation costs (2021–2030)

Country	Cost ($ billion)				External funding requirements
	Total	Adaptation	Mitigation	% of GDP (cost p.a.)	
South Africa	$64 billion	50%	50%	1.8%	ZAR 10 billion p.a.
Nigeria	$177 billion[a]	<31%	>69%	4.1%	Not specified
Tanzania	$14.2 billion	60%	40%	2.1%	96%
Uganda	$2.26 billion p.a.	55%	45%	5.4%	70%
Senegal	$13 billion	30%	70%	4.8%	63%
Benin	$10.5 billion	50%	50%	6.4%	50%

a The required investment in Nigeria's NDCs is $177 billion, including for those projects that started earlier than 2021. The breakdown between mitigation and adaptation is not clear, although $122 billion (69%) is allocated to the electricity generation sector, which indicates a big mitigation component.

Source: Compiled by author

Generally, a significant portion of public financing of climate interventions in Africa comes from taxes, including carbon, fuel, vehicle and windfall taxes. For non-oil-producing countries, receipts from these taxes have likely been impacted by the pandemic and the war in Ukraine, since both events have caused economic slowdowns. The outcome has been different for oil-producing countries, as most oil and gas companies have recorded big profits due to soaring oil prices.

Interestingly, Nigeria, which is a net crude oil exporter, has also faced economic challenges owing to rising oil prices, since it imports its refined petroleum products. Moreover, the spillover effects of the war, particularly higher domestic food prices, have worsened the scarring effects of the pandemic.[12]

In addition, many African (and other developing) countries have limited capacity to accurately measure and cost their mitigation and adaptation needs (and, by extension, their NDCs). In several countries, the capacity to cost NDCs is limited owing to a lack of technical expertise. Resource partnerships, which provide technical assistance and support to countries in developing and implementing NDCs, are crucial. Senegal, for instance, does not have any tangible sectoral or national measuring, reporting and verification (MRV) framework.[13] This makes it hard to come up with reliable costing figures for its climate change plans. South Africa, on the other hand, has done quite well through the NDCs partnership project. The South African monitoring and evaluation system encompasses all three functional aspects of the MRV system, namely GHG emissions, mitigation actions and support.[14] As a result, the country arguably has a reasonably reliable costing of its NDCs. In Tanzania, efforts are underway to establish a functional MRV system, with the establishment of the National Carbon Monitoring Centre to monitor GHG emissions being a major milestone.[15] Uganda has finalised the development of its MRV tool, which will monitor its GHG inventory, track NDCs action for both adaptation and mitigation, and track climate finance flows and how this will impact Sustainable Development Goals targets in Uganda.[16] Benin's MRV is still under development.

Post-COVID-19 developments affecting climate change action

Russia–Ukraine conflict

The energy crisis caused by the Ukraine conflict has seen energy prices soar and demand for Africa's energy exports rise, leading counties to increase production and exports of coal and oil. For example, South African coal prices rose from $168.50/Mt in January 2022 to $294.42/Mt in March 2022, following the start of the war in February 2022. The price went as high as

12 IMF, "Nigeria: 2022 Article IV Consultation" (IMF Country Report 23/93, Washington DC, February 2023).

13 Ly, "Is Senegal on the Right Track", 22.

14 Government of South Africa, *South Africa's Fourth Biennial Update Report to the United Nations Framework Convention on Climate Change* (Pretoria: Department of Forestry, Fisheries and the Environment, April 2021), 214.

15 Pius Yanda, Oswald Mashindano and Abel Songole, "Tanzania's Post-COVID-19 Recovery Strategy and the NDC" (CoMPRA Policy Insight 18, SAIIA, February 2023), 17.

16 Joel Akena, "Uganda's Approach to Reporting Climate Actions from All Sectors", UN Development Programme – Uganda, January 2023.

$306.35/Mt in July 2022.[17] The higher prices prompted an increase in coal exports – Richards Bay Coal Terminal's overall exports to Europe went from 2 321.190 tonnes in May 2021 to 3 240.752 tonnes in May 2022, which represents a 40% year-on-year increase.[18]

In December 2022, the EU imposed import bans on Russian oil and other petroleum products. This follows the June 2022 resolution whereby the EU adopted a new package of sanctions on Russia that, among others, prohibits member countries from importing seaborne crude oil and certain petroleum products from Russia. The restrictions became effective from 5 December 2022 for crude oil and from 5 February 2023 for other refined petroleum products.[19] The EU has also banned Russian coal, which constitutes about 40% of its coal consumption. Oil-exporting countries such as Nigeria and major coal exporters such as South Africa have taken advantage of the situation and increased their production to fill the supply gaps. South Africa's coal exports to Europe increased eight-fold in the first half of 2022 compared to the same period in 2021, for example.[20]

Monetary policy normalisation

In 2022 central banks around the world began normalising monetary policy following a long period of quantitative easing. In the face of inflationary pressures from the energy and food supply chain disruptions caused by the Ukraine war, most countries have increased interest rates rapidly and substantially, thus raising the cost of capital. The US, for example, has seen the federal funds rate increase from near zero (0.08%) in January 2022 to a target range of 5%–5.25% in June 2023. In South Africa, the policy interest rate increased to 8.25%, its highest level in more than two decades, while in Nigeria it reached an all-time high in May 2023, when it was raised to 18.5%. In general, about two-thirds of African countries increased policy interest rates in 2022 (to combat inflation and exchange rate pressures).[21]

The tightening of monetary policy has implications for Africa's climate change (and overall development efforts) in two ways. First, the high costs of borrowing generally reduces the viability of investments. Second, high interest rates in developed economies such as the US attract capital flows from developing countries' markets. These two effects combined have negative impacts on green investments in developing countries.

17 World Bank, "World Bank Commodity Price Data (The Pink Sheet)".

18 Helen Reid and Nelson Banya, "Europe Imports More South African Coal as Russian Ban Looms", *Reuters*, June 15, 2022.

19 European Council, "EU Sanctions Against Russia Explained", December 2022.

20 Nelson Banya, "South African Coal Exports to Europe Surge, Shipments to Asia Decline", *Reuters*, August 16, 2022.

21 UN Department of Economic and Social Affairs, "Africa: Economic Growth Decelerates Before Full Recovery from Pandemic-Led Contraction", *African Renewal*, January 2023.

Sharm el-Sheikh Climate Change Conference (COP27)

COP27, which took place in November 2022 at Sharm el-Sheikh in Egypt, produced some outcomes that will affect climate change action going forward. A breakthrough on loss and damage was achieved – a major win for Africa and developing countries in general, which have been fighting for this for decades. If honoured, these funds can help African countries with their climate change adaptation efforts. However, the conference achieved little on climate change mitigation, with UN Secretary-General Antonio Guterres criticising it for having failed to address the need to reduce emissions urgently and drastically. The lack of movement on phasing out coal and fossil fuels could mean failure to achieve a meaningful arrest of global warming.

COP27 also saw some movement on just energy transitions, with South Africa launching its Just Energy Transition Partnership (JETP) Investment Plan, which will require ZAR 1.5 trillion ($98.7 billion) in concessional loans and grants in the five years of implementation from 2023–2027.[22] Furthermore, more countries, including Indonesia, India, Vietnam and Senegal, have shown interest in having a similar programme and are included in the next phase of JETPs.

Lessons learned: Promoting a green recovery

The macroeconomic impact of the COVID-19 pandemic and the policy responses of African governments suggest that the opportunity to foster a green recovery has not been maximised. Some countries' failure to deliberately emphasise green investments should be addressed, while those recovery plans that do contain green transition components should have those components enhanced and fully supported. Countries must develop climate investment strategies or similar policies that set out government's priority climate projects. To this effect, some lessons can be drawn from post-COVID-19 policy responses and measures taken.

Mainstreaming climate change action into recovery plans

Although it is understandable that most countries' initial macroeconomic policy responses to the pandemic focused on protecting businesses and restoring household incomes, the lack of climate change mainstreaming in some medium- to long-term recovery plans is concerning and needs to be addressed. Countries such as Uganda, Senegal and Benin should have climate change incorporated into their medium- to long-term recovery plans to take full advantage of the

22 South African Government, DFFE, "South Africa Welcomes COP27 Outcomes", Media Statement, November 22, 2022; South African Government, The Presidency, "South Africa's Just Energy Transition Investment Plan" (Pretoria: South African Government, 2022).

investments available aimed at green growth. Climate change adaptation measures should be phased in at all levels of implementation (especially sectoral) and all levels of government (local to national).

Improving external financing through JETPs and adaptation focused finance

Developing countries tend to agree that their planned climate change efforts can only be achieved with the help of external partners, especially in terms of financing. This is reflected in their NDCs where, for instance, there are wide margins between unconditional and conditional emission reduction targets. Moreover, it is the view of many that the developed world has a moral obligation to help poor countries with their climate change interventions, especially on financing adaptation and loss and damage. While there have been many financial pledges, these have not been met to the extent needed. Consequently, there are serious funding gaps in most NDCs submitted by African and other developing countries. Furthermore, the debt overhang facing most African countries means that financial assistance for climate change interventions should be on concessionary terms with a substantial grant component.

Drawing lessons from South Africa, African countries and development partners must pursue JETPs similar to the South African partnership agreed in 2021. It is encouraging that development partners have already set the South African JETP as the model to be replicated, with Senegal among the countries earmarked for the next JETPs. However, these JETPs should be implemented in a timely manner and rolled out to other African countries on highly concessional terms, especially for countries facing debt crises and those with big resource requirements for their NDCs. Nigeria, for instance, is already seeking support for its energy transition plan and aims to secure a $10 billion initial package, along the lines of South Africa's JETP.

Beyond mitigation efforts, most African countries are more concerned with climate change adaptation since they are most affected by climactic shocks without being high emitters to begin with. However, the estimated costs of climate change adaptation in developing countries are five to 10 times higher than the international adaptation finance they receive, and the gap is widening.[23] This funding gap can be closed more effectively if adaptation financing is mainstreamed in development finance architecture. Given the increased focus on loss and damage agreed upon in principle at COP 27 (albeit without financial commitments), parties should ensure that the financing of loss and damage, once fully in place, does not divert much-needed funds from climate change adaptation.

23 UNEP, *Adaptation Gap Report 2022* (Nairobi: UNEP, November 2022).

Reforming global development finance institutions: The IMF and World Bank

The pandemic has exposed some of the weaknesses of the global financial system in providing resources to poor countries. Of the $650 billion in new allocations of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF), only about $33 billion (5%) went to Africa, where these funds are needed the most. This means most African countries did not receive enough SDRs to be able to leverage them for investments in green recovery. This calls for a re-evaluation of the whole development finance architecture. A more equitable allocation of SDRs and other international funds is one answer. Beyond that, some adjustments to the system can be made and yield good results. The African Development Bank (AfDB) has proposed rechannelling SDRs through regional development banks, as these can be used as leverage to secure capital for more concessionary lending to countries. Furthermore, development banks such as the AfDB have well-established programmes that focus on the issues most important to these regions, including climate change. Therefore, this rechannelling can help deliver a green recovery post-COVID and in future crises. It is encouraging that the G20 countries through the G20 Bali Leaders Declaration 2022 have committed to exploring viable options for voluntary channelling SDRs through multilateral development banks (MDBs), as permitted by the countries' respective legal frameworks, and emphasising the need to preserve the reserve asset status of SDRs.[24]

Policymakers in development finance should also emphasise the need for innovative climate financing arrangements, which can be of great use for climate financing in low-income countries. The perceived risks of green investments in these countries can be a major deterrent for green financing, and introducing innovative financial facilities that promote risk sharing is essential. Currently, most green financing instruments such as green bonds are relatively new in the financial architecture and virtually non-existent in most African countries, aside from South Africa, Nigeria and Morocco. These instruments can be made more attractive by promoting risk sharing through public or MDB guarantees. An example of this is the emerging market green bond fund established by the International Finance Corporation (IFC) and Amundi. Here, green bonds issued by banks in emerging market and developing economies are pooled and the IFC purchases a first loss or equity tranche of the fund, thus reducing the credit risk for other investors.[25]

24 G20, "G20 Bali Leaders' Declaration – Bali, Indonesia, November 15–16, 2022", Press Release, November 16, 2022.

25 International Monetary Fund, *Global Financial Stability Report: Navigating the High-Inflation Environment* (Washington DC: IMF, October 2022), 57.

Reforming local financial systems to address climate risk

The task of financing climate change mitigation and adaptation efforts should not fall only on external development partners. African governments should facilitate the development of local green finance mechanisms by (a) establishing or augmenting domestic climate funds with which to (b) capitalise green banks and pool risk for on-lending to green innovators (including MSMEs) so that (c) lending for mitigation and adaptation is made concessional and risk shared between public and private players.

Central banks can regulate and develop frameworks for environmental, social and governance (ESG) risk reporting to encourage a pipeline of bankable projects. National treasuries can replace fossil fuel subsidies with carbon taxes; align climate, development and budget planning; and reserve public procurement for green investments in renewable energy and adaptation of infrastructure, food and water security systems.[26] Development partners can provide African countries with the technical expertise needed to develop green financial products tailored to local economies. A start could be assisting with the development or adoption of green finance taxonomies and disseminating them to investors and other potential players in green investments.[27]

Potential for sovereign wealth funds

With some African countries such as Senegal and Tanzania looking to exploit their gas and oil resources, it is important that the revenues generated are used to address the mitigation and adaptation needs outlined in their NDCs. One way of achieving this is through the creation of sovereign wealth funds, in the mould of the Norwegian oil fund. This fund serves as a financial reserve and long-term savings plan for current and future generations of Norwegians by investing in a green portfolio. Such wealth funds would also help minimise the distortions to economic planning caused by revenue windfalls and would help secure countries' long-term economic and environmental sustainability. These funds can also be used to respond to future pandemics and ensure that climate change efforts are not jeopardised in the process. Nonetheless, the priority should still be not to extract these resources while coming up with solid plans to address energy and electricity shortcomings in Africa.

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26 Palesa Shipalana, "Green Finance Mechanisms in Developing Countries: Emerging Practice" (CoMPRA Policy Insight 2, SAIIA, Johannesburg, December 18, 2020).

27 A green finance taxonomy is a classification system or catalogue that defines the minimum assets, projects, activities and sectors that are eligible to be defined as "green" in line with international best practice and national priorities.

Role of carbon taxes

Most countries in Africa have not yet imposed carbon taxes of any significance, with South Africa being the only one with a sizable carbon tax.[28] A carbon tax provides climate financing and is an effective tool for getting high carbon emitters to pay for the environmental costs they impose on others and channel these funds to greener investments. It is also a fiscal policy tool that can be used when faced with economic crises. In the initial stages of the pandemic, South Africa implemented a carbon tax deferral to stimulate the country's economy by boosting private incomes. African governments should consider adopting carbon taxes that can be used not only to finance green growth but also to act as a macroeconomic stabilisation policy tool when necessary. However, it is important that adequate research at a national level is conducted to determine how best to design such taxes. They need to be efficient and avoid regressive social impacts, particularly in countries with low emission bases.

The lack of proper carbon taxing could also disadvantage African countries when carbon border adjustment mechanisms come into full force. Under the EU's Carbon Border Adjustment Mechanism (CBAM), for instance, exporters from countries with low or no carbon taxes will pay a higher levy to the EU making their products less competitive while costing their countries money. Putting in place proper carbon taxes will help mitigate the vulnerability of African countries to the CBAM and similar international laws as well as provide revenue for countries to fund the transition to a low-carbon economy.[29]

Conclusion

The economic fallout from the COVID-19 pandemic has given African governments an opportunity to mainstream the climate agenda in national economic planning by pursuing a green recovery. However, although this opportunity has been exploited to by some countries such as South Africa and Nigeria, others, including Senegal, Uganda and Benin, have put less emphasis on green recovery. The sizable climate financing gap and the lack of clear implementation paths towards meeting climate change adaptation and mitigation goals remain big challenges. Given these shortcomings, more climate change mainstreaming into all economic plans is needed, as are improved external financing, reforms to global development finance institutions, and improved local financial systems to address climate risk. African countries that have begun exploiting new oil and gas resources must also consider creating green sovereign wealth funds for current and future generations. Finally, all African countries must price emissions adequately through carbon taxes and other appropriate tools.

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28 South Africa has a sizeable emission base, making it that much more important to impose such a tax.

29 Paul R. Baker, David Vanzetti, Taahirah Zahraa Boodhoo Beeharry, Ria Roy. "Africa will be heavily affected by carbon border adjustment mechanisms" *Africa at LSE*, May 29, 2023

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Cover image: Lagos Island's commercial district, businessmen and market people crossing the street (peeterv/iStock/GettyImagesPlus)

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