ESG investment can help Africa's economic recovery

By Nigel Beck

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Covid-19 has hindered Africa's growth, demanding new approaches to economic development, and raising the focus on environmental, social and corporate governance (ESG) issues.

Nigel Beck, executive head, sustainable finance, Standard Bank Group

Even before Covid-19, the sustainable finance market was flourishing. In 2019, sustainable debt issuances reached a record high of $415bn globally – up 60% from the prior year. Green bonds still dominate the sustainable finance market, but other products, including green loans, social bonds and sustainability loans, are fast playing catch-up, with the market becoming increasingly diversified to meet growing demand.

For the time being, Africa accounts for a negligible share of the global sustainable finance market, but the continent is starting to play catch-up as more corporates and investors recognise the benefits that these funding solutions offer. For example, corporates can benefit from lower funding rates if they achieve various predetermined ESG outcomes.

Africa is primed for a sustainable finance boom, given its immense potential in the renewable energy space and its ongoing developmental challenges.
For instance, the pandemic is boosting demand for bonds that fund social projects, and this trend is expected to last well into the future. Corporates are increasingly expected to maximise their social impacts and uplift the communities in which they operate.

Green energy

Given Africa's immense unmet energy needs, we expect to see a wave of decentralised green energy projects as corporates and municipalities look to secure reliable and affordable power supplies while also furthering their ESG agendas.

African governments will also need to procure more power in the months ahead as demand recovers and the supply shortfall widens. The fastest and most cost-effective way to address the supply gap is through renewable power projects, which are now the most economically viable source of energy in most countries. Further, advances in battery storage technologies, coupled with cost declines, mean renewables are becoming increasingly attractive and viable.

Technologies such as hydro, wind and solar have proved their resilience in the face of the Covid-19 crisis, having allowed national grids to become more flexible to fluctuations in demand. Meanwhile, the sustainable finance market is also being driven by investors, who are increasingly gravitating towards ESG-linked assets partly on the premise that they outperform over the long term.

Utimately, Africa is well placed to become a major player in the global sustainable finance market. And given the continent's massive funding needs, sustainable finance will play an important role in shoring up global and local capital for high-impact projects.

ABOUT THE AUTHOR

Nigel Beck is the executive head of sustainable finance at Standard Bank Group.