

The Role of the Africa Energy Bank in Driving Just Energy Transition in African Countries



DUALE, OVIA &
ALEX-ADEDIPE

Introduction

The African continent is home to vast reserves of oil and gas and other significant natural resources, yet a large portion of its population approximately 600 million people still lack access to energy. While there have been concerted efforts to improve and, ultimately, solve the energy deficit, the global energy transition is also driving a capital transition in favour of clean energy projects, in that, developers and financiers who typically relied on non-African funding sources have now encountered funding challenges arising from a seeming resolve of non-African funders to fund only clean energy projects.¹ For context, in early 2023, the Net-Zero Asset Owner Alliance – an investor group with \$11 trillion of assets under management – issued a position statement on the oil and gas sector wherein it urged its members not to fund new oil and gas projects.² There was therefore a dire need to tackle the imminent financing crisis which will inevitably arise as a result of the withdrawal of non-African financiers and international investors on the basis of the global energy transition.

The newly established Africa Energy Bank (“**AEB**” or the “**Bank**”) is an initiative of the African Petroleum Producers’ Organisation (“**APPO**”) and the African Export and Import Bank (“**Afrexim**”) and is established by the signing of the Bank’s establishment agreement and charter on June 3, 2024 in Cairo, Egypt. It is structured as a pan-African energy development bank with the aim of funding the development of all available energy sources in Africa in order to bridge the energy gap.

¹ Renewable Energy Funding in 2023: A “Capital Transition” Unleashed | S&P Global | accessed at <https://www.spglobal.com/en/research-insights/special-reports/renewable-energy-funding-in-2023-a-capital-transition-unleashed> on 29 June 2024

² \$11 Trillion Investor Group Urges Members Not To Fund New Oil And Gas Projects | accessed at <https://oilprice.com/Latest-Energy-News/World-News/11-Trillion-Investor-Group-Urges-Members-Not-To-Fund-New-Oil-And-Gas-Projects.html> on 29 June 2024



Addressing a Funding Crisis

A just energy transition is a process of transitioning from fossil fuels to low-emissions energy sources in a way that is tailored to a country's developmental priorities. Given that a significant portion of Africa's population still lacks access to reliable energy, a just energy transition for Africa requires that the issue of climate change and Africa's economic challenges are concurrently addressed.

The global push for clean energy sources has resulted in a sharp decrease in financing for oil and gas exploration and development in Africa. Traditional financiers, long relied upon by Africa, are increasingly withdrawing their support, especially in the continent, citing climate change concerns as the primary rationale. This trend seeks to force an abrupt transition and threatens to stall progress in energy production in Africa.

Also, a complete shift away from hydrocarbons without a plan for a just transition could have negative social and economic consequences in resource-dependent nations like Nigeria and other African countries.



An African-Led Solution

Following two years of negotiations among the member countries, the establishment agreement and the charter of the Bank were signed at a ceremony hosted by the Ministry of Petroleum and Mineral Resources in Cairo. Prof. Benedict Oramah, President and Chairman of Board of Directors, **Afrexim Bank**, and Dr. Omar Farouk Ibrahim, Secretary General of **APPO** signed these foundational documents on behalf of their respective institutions. Consequently, at least two Member Countries of APPO are required to sign and ratify the establishment documents for the Bank to commence its operations.

This groundbreaking initiative marks a shift towards African control over its energy sector and resource development. With an initial capital base of \$5,000,000,000 (Five Billion United States Dollars) contributed by African signatories, the AEB represents a significant investment in Africa's future energy security. The AEB has been structured as an independent and supranational pan-African energy development bank.

Nigeria is among the first African nations to contribute seed capital of \$10,000,000 (Ten Million United States Dollars) each towards the AEB's capitalisation.



Notably, on the 4th July 2024, Nigeria was approved by the Council of Ministers of the APPO to host the bank's headquarters in the Federal Capital Territory, Abuja. This decision follows a contest involving several member countries of APPO, including Ghana, Benin, Algeria, South Africa, and Cote D'Ivoire. Heineken Lokpobiri, Nigeria's Minister of State for Petroleum Resources, emphasised the bank's role in driving continent-wide energy projects for growth and development. The initiative aligns with the African Union's Agenda 2063 for a prosperous and self-sustaining Africa. It is also believed that the AEB has the potential to advance Nigeria and the entire continent.

Nigeria will benefit greatly from hosting the African Energy Bank in Abuja. The AEB's presence will bring an influx of investment, infrastructure upgrades, and access to cutting-edge energy solutions. This will not only stimulate local businesses but also empower a skilled Nigerian workforce through technology transfer and project collaboration. Furthermore, hosting the AEB elevates Nigeria's international profile, fosters policy influence, and creates a more attractive business environment, ultimately propelling the nation towards a brighter energy future.



Beyond Oil and Gas: A Balanced Approach

With over 125 billion barrels of proven crude oil reserves, over 600 trillion cubic feet of proven gas reserves, and with more findings regularly being made; it does not seem prudent for Africa to abandon these energies when it has the largest proportion of world's population living without access to modern energy. However, while the AEB prioritizes hydrocarbon projects, it does not entirely exclude renewable energy. It recognises the need for a balanced approach that facilitates a just transition for Nigeria and other resource-dependent economies. The Bank acknowledges the need for a balanced approach that considers both Africa's resource wealth and the global transition towards clean energy. AEB aims to leverage all energy sources to eliminate Africa's energy poverty. While founded in Africa, the Bank offers shareholding opportunities to investors worldwide who align with its mission and vision.



Conclusion

The AEB's success hinges on several critical factors. First, attracting a wider range of member countries will solidify its financial base. Second, navigating the global energy landscape, which is constantly evolving, will be crucial. Finally, ensuring transparency and responsible resource management will be essential for gaining international trust.

The establishment of the Africa Energy Bank marks a significant development in Africa's energy sector. Whether it ushers in a new era of hydrocarbon growth or paves the way for a more balanced energy mix remains to be seen. One thing is certain: the AEB has the potential to be a game-changer for Africa's energy future.

