



INCLUSIVE GREEN ECONOMY NETWORK-EAST AFRICA

Kampala, Uganda • Website: www.igen-ea.org • Email: contact@igen-ea.org



12th/June/2023

IGEN-EA'S STATEMENT ON THE OCCASION OF STANDARD BANK'S ANNUAL GENERAL MEETING

As Standard Bank, Africa's largest bank by assets, holds its Annual General Meeting (AGM) in Johannesburg today, the Inclusive Green Economy Network-East Africa (IGEN-EA) is calling on the bank to take leadership in financing green, inclusive and sustainable economic activities that address human rights and climate change concerns in East Africa.

IGEN-EA is a network that brings together over 36 private sector and civil society organisations from East Africa. The network's members are united around a common vision of promoting sustainable and inclusive green economic alternatives in East Africa.

The network, which was formally launched in May 2021, was formed to among others advocate for increased financial flows to the green economic sectors of clean energy, forestry, agriculture and fisheries as well as tourism.

While the above sectors have been identified for instance in Uganda through the country's Green Growth Development Strategy¹ as having the highest multiplier effect and the potential to boost the country's GDP by 10%, deliver an additional four million jobs by 2030/2031 and reduce future greenhouse gas emissions by 24% (equivalent to 30.4 million metric tonnes), investment in the green economic sectors by private financial institutions remains low.

FINANCIAL FLOWS

For instance, per the International Renewable Energy Agency (IRENA), Africa receives little private investment in renewable energy compared to global levels. While the global investments in renewable energy amounted to USD 2,254 billion between 2010 and 2020², the investment in Africa was USD 55 billion for the same period². Africa therefore received only 2.4%² of renewable energy investments. The renewable energy investments made in Africa were mostly from public financing, unlike globally where investments are powered by private financing². Noteworthy is

¹ Government of Uganda; *Uganda Green Growth Development Strategy 2017/2018-2030/2031*: <https://www.ndcs.undp.org/content/dam/LECB/docs/pubs-reports/undp-ndc-sp-uganda-ggds-green-growth-dev-strategy-20171204.pdf?download>

that investments in renewable energy in East Africa amounted to only USD 9.7 billion between 2010 to 2020². The off-grid investments in East Africa were USD 822 million² for the same period.

The agricultural sector also receives low levels of financing from private banks. For instance, commercial bank loans to the agribusiness sector in Kenya account for 4%³ of banks' lending, per the World Bank. In Tanzania, only 3%⁴ of commercial bank lending is dedicated to agriculture, per the African Development Bank. In Uganda, the share of lending of private banks to the agricultural sector was over 12% in 2019, per the Bank of Uganda⁵. Overall, private financial institutions are not adequately meeting the needs of smallholder farmers.

Access to finance for other major green economic sectors including agroforestry and tourism also remains a challenge.

POTENTIAL OF GREEN ECONOMIC SECTORS

Yet East Africa's green economic sectors have immense potential. For instance, IRENA notes that "Renewables can ... play a central role in creating jobs, because investing in energy transition technologies creates up to three times as many jobs as fossil fuels"². The renewable energy sector currently employs 323, 000 people in Africa² but if invested in, the sector could create 26 million jobs by 2050⁶.

Further, the agricultural sector employed 59%⁷ of Eastern and Southern Africa's population in 2019. The sector also accounts for 15% of the region's GDP⁷. Moreover, Africa is expected to be a USD 1 trillion food market by 2030⁷. This underscores the critical importance of the sector in job creation and fostering prosperity.

² International Renewable Energy Agency (2022); *Renewable energy market analysis: Africa and its regions*: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2022/Jan/IRENA_Market_Africa_2022_Summary.pdf

³ World Bank (2019); *Kenya economic update: Transforming agricultural productivity to achieve food security for all*: <https://www.worldbank.org/en/country/kenya/publication/kenya-economic-update-transforming-agricultural-productivity-to-achieve-food-security-for-all>

⁴AFD (2023); Tanzania: *The African Development Bank provides a USD 2 million partial credit guarantee and a USD 528,600 grant to facilitate access to fertilizer for smallholder farmers*: <https://www.afdb.org/en/news-and-events/press-releases/tanzania-african-development-bank-provides-usd-2-million-partial-credit-guarantee-and-usd-528600-grant-facilitate-access-fertilizer-smallholder-farmers-61608>

<https://www.afdb.org/en/news-and-events/press-releases/tanzania-african-development-bank-provides-usd-2-million-partial-credit-guarantee-and-usd-528600-grant-facilitate-access-fertilizer-smallholder-farmers-61608>

⁵ Sunday, N. (2019); *How can the agricultural finance policy spur agricultural lending in Uganda*

<https://eprcug.org/blog/how-can-the-agricultural-finance-policy-spur-agricultural-lending-in-uganda/>

⁶ Takoueu (2022); *Clean energy could create 26 million jobs by 2050*: <https://www.afrik21.africa/en/africa-clean-energy-could-create-26-million-jobs-by-2050/>

⁷ Kwakwa, V. (2022). *Seizing the agri-food opportunity in Eastern and Southern Africa*: <https://blogs.worldbank.org/africacan/seizing-agri-food-opportunity-eastern-and-southern-africa>

On its part, the tourism sector contributes about 17%⁸ of East Africa's export earnings and its contribution to the region's GDP is 10%⁸, on average. The sector also employs 7%⁸ of the region's labourforce. Lack of adequate access to public and private finance in some East African states means that the tourism sector has not attained its full potential.

Forestry is also important with the East African Community highlighting the biodiverse nature of the East African states. East Africans make a living off forestry with the sector contributing an estimated 3.5% to Tanzania's GDP⁹ and an estimated 3.6% to Kenya's GDP¹⁰. The sector, alongside agriculture and fishing contributes around 23.1% to Uganda's GDP¹¹. The sector also employs an estimated 2.5 million people^{9,12} in Uganda and Tanzania.

CLIMATE CHANGE & FINANCING CHALLENGES

Needless to say, the above-discussed green economic sectors are and will continue to be key drivers of economic growth in East Africa. However, private financial institutions are limiting the realisation of the sectors' potential by investing in industries such as coal, oil and gas that drive climate change. East African states and their economies are some of the world's most vulnerable to climate change with sectors such as agriculture, forestry and tourism being some of the most at risk to climate change impacts.

Standard Bank lends to the coal, oil and gas industries with Just Share, a South African non-profit, noting that the bank's exposure to fossil fuel projects rose 22% to \$6.5 billion in 2022¹³. The bank's lending to the fossil fuel sector stands to hurt green growth.

Further, access to finances for businesses operating in the green economic sectors from private banks, including Standard Bank, is difficult. This is because of the following factors:

⁸ East African Community; *Tourism and Wildlife management*: <https://www.eac.int/tourism>

⁹ United Nations Environment Programme (2002); *Integrated Assessment of Trade Liberalization and Trade-Related Policies: A Country Study on the Forestry Sector in Tanzania*: https://wedocs.unep.org/bitstream/handle/20.500.11822/8012/-Integrated%20Assessment%20of%20Trade%20Liberalization%20and%20Trade-Related%20Policies_%20A%20Country%20Study%20on%20the%20Forestry%20Sector%20in%20Tanzania-2002191.pdf?sequence=2&isAllowed=y

¹⁰ Oliveria, T. *Kenya Montane Forest Ecosystem Services and Economy-wide-Project*: <https://www.wavespartnership.org/sites/waves/files/images/Kenya.pdf>

¹¹ World Bank; *Agriculture, fishing and forestry value added*: <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=UG>

¹² Food and Agricultural Organisation (2021); *Boosting youth employment in forestry in Uganda*: https://www.fao.org/forestry/news/98424/en/?utm_source=twitter&utm_medium=social+media&utm_campaign=faoforestry

¹³ Burkhardt, P. (2023); *Biggest African Bank cites energy needs in fossil fuel defense*: <https://www.bloomberg.com/news/articles/2023-05-09/biggest-african-bank-cites-energy-needs-in-fossil-fuel-defense#xj4y7vzkg>

- (a) **Out-of-reach collateral requirements:** The agriculture, forestry, clean energy and tourism landscape is dominated by small-holder or micro, small and medium enterprises (MSMEs) in most of the East African states. The businesses oftentimes lack the types of collateral security such as assets or well-kept books of account that are required for access to loans.
- (b) **High lending rates:** The commercial bank lending rates in East African states are high. For instance, the rate stood at 20.24% in Uganda in February 2023¹⁴, 13.06% in Kenya in February 2023¹⁵ and 15.91% in Tanzania in April 2023¹⁶. Business entities in East Africa compete with those from countries that enjoy interest low rates, some of which are in the negatives such as Switzerland with a rate of -0.75%, Denmark with a rate of -0.60% and Japan with a rate of 0.1%¹⁷ among others. The interest rates in East Africa have been described as being predatory and Standard Bank should lead the way in reducing them to support thriving green businesses.
- (c) **Failure to appreciate the uniqueness of businesses in the green economy and tailor loan products** that are responsive to the business' needs. For instance, small and medium enterprises (SMEs) in the tourism sector earn substantial incomes during the high tourist season and low incomes during the low ones. Credit facilities allowing the businesses to make loan repayments during the high season would support more uptake of credit by the businesses, hence growth.

RECOMMENDATIONS

Standard Bank has expressed commitment to financing Africa's growth. This is commendable. The bank therefore should:

- i. **Conduct capacity strengthening exercises** that include engagements with business leaders in clean energy, agriculture, agro-forestry and tourism to better understand the credit needs of businesses in the aforementioned sectors.
- ii. **Following consultations with leaders in the clean energy, agriculture, agro-forestry and tourism sectors**, put in place special credit facilities targeted at businesses in the sectors. Access to credit from the agri-business facility operated by Stanbic Bank in Uganda should also be strengthened through more awareness creation, lower interest rates and other measures.

¹⁴ Bank of Uganda (2023); *Performance of the economy monthly report March 2023*: <https://www.finance.go.ug/sites/default/files/Publications/POE-2023-03-MAR.pdf>

¹⁵ Muthoni R. (2023); *Commercial Banks Lending Rate Surpasses 13% Mark* <https://kenyanwallstreet.com/commercial-banks-lending-rate-surpasses/>

¹⁶ Bank of Tanzania (2023); *Monthly economic review*: <https://www.bot.go.tz/Publications/Regular/Monthly%20Economic%20Review/sw/2023053119080780.pdf>

¹⁷ Picardo, E. (2022); *Lowest interest rates*: <https://www.investopedia.com/articles/personal-finance/051415/5-countries-lowest-interest-rates.asp>

- iii. **In Uganda, Standard Bank runs the business incubator programme¹⁸** aimed at strengthening businesses. The programme is viewed as largely a preserve for businesses intending to participate in the oil and gas sector. Stanbic Bank should raise stakeholder awareness that the programme covers renewable energy, agribusiness and tourism to enhance participation of the aforementioned businesses. Stronger green businesses will find it easier to access credit.
- iv. **Finally, the bank should lower interest rates** to ease access to finance.

SIGNATORIES

1. Africa Institute for Energy Governance (AFIEGO), Uganda
2. Uganda National Renewable Energy and Energy Efficiency Alliance (UNREEEA), Uganda
3. Centre for Sustainability Innovation and Research (CSIR), Uganda
4. Center for Citizens Conserving Environment and Management (CECIC), Uganda
5. Uganda Fridays for Future
6. Friends with Environment in Development, Uganda
7. Toro Initiative for Socio-economic Development, Uganda
8. Guild Presidents Forum on Governance (GPFOG), Uganda
9. International Fund for Animal Welfare (IFAW), Uganda
10. Uganda Community Tourism Association (UCOTA), Uganda
11. Agro-Tourism Association, Uganda
12. Strategic Response for Environment Conservation (STREC), Uganda
13. Civic Response on Environment and Development (CRED), Uganda
14. Lake Albert Children and Women Advocacy Development Organization (LACWADO), Uganda
15. Navigators of Development Association (NAVODA), Uganda
16. Friends with Environment in Development, Uganda
17. Youth for Green Communities, Uganda
18. Women for Green Economy Movement, Uganda
19. Tasha Research Institute Africa, Uganda
20. African Initiative on Food Security and Environment, Uganda
21. Eastern and Southern Africa Small-scale Farmers' Forum (ESAFF), Uganda
22. Food Rights Alliance, Uganda

¹⁸ The Independent (2023); *Stanbic Incubator calls for new applicants*:
<https://www.independent.co.ug/stanbic-incubator-calls-for-new-applicants/>

23. Environment Governance Institute (EGI), Uganda
24. 350Africa.org, Kenya
25. Laudato Si Movement, Africa
26. Natural Justice, Kenya
27. Partnerships for Green Growth, Tanzania
28. Women and Girls with Disabilities, Tanzania
29. Women against Poverty Organisation, Tanzania
30. Tanzania Yote Equality Alliance -Tanzania
31. Organisation for Community Engagement (OCE) -Tanzania
32. Green Conservators Tanzania