Professor Kelly Mua Kingsly
PhD/MBA, MPA, CFA, CFI, PMP, ISO
Finance engineer (Forensic finance and audits)
blog:www.kellykingsly.com
My Papers:SSRN
https://www.linkedin.com/in/kelly-kingsley-ph-d-2a5a1416/

Exploring Sustainable Climate Financing for Wealth Building in African Small Businesses

1. Introduction

Small businesses in Africa will benefit from ever-larger bribes to redirect capital to uninvested low-carbon initiatives. In defining a sustainable project approach to help finance climate change in Africa, the aim is to promote an institutional governance and rule-based environment for Africa that is balanced to ensure that climate change income doesn't sideline Africa's development. This is a good fit for Africa's Agenda 2063, which balances its sustainability within the context of the Africa Environmental Framework and AU's Green Agenda for Africa and Climate Change Strategy. This approach helps set out pathways to address the needs of small businesses in the least developed countries and identifies a range of measures that could benefit them. The approach would look for the right solutions to particular problems, including changes to the market environment. The same approach includes why the international community needs to intervene in a market context and what issues this helps resolve.

A good fit would enable development agencies to develop a pipeline of small projects that could attract substantial financing from a range of investors. The rationale and logic must be comprehensive enough to stand up to the scrutiny of Congress, equivalents and other stakeholders in the bilateral donor community. The critical challenge is focusing on environmental and development benefits in this rapidly changing commercial market. These are necessary. While evolving a liquid voluntary carbon market has a vital role, matching the demand from the Northern Hemisphere with supply from the South, there are several issues with the CDM. Virtue can be gained from guiding private sector finance around the CDM, which remains a primary source of compliance demand for international project emissions reductions.

2. Climate Change and its Impact on African Small Businesses

Climate change has profound implications for small businesses, especially in Africa. Africa has started to adapt its economy and society to projected changes and become less vulnerable to climate variability. It is generally assumed that Africa is one of the least developed continents, with many African businesses classified as small or micro-enterprises. The category of small businesses includes activities such as trading, services to local communities, and farming. In terms of ownership, small businesses are usually family-owned, either as a male or female business in Africa. Many of these small businesses are located in the rural areas of African countries. There is a heavy movement of people from urban to rural areas due to harsh economic climates, lack of jobs, and the high cost of living.

African small businesses are seen as a way to distribute wealth to many people, reducing the developing countries' high inequalities and poverty levels. Therefore, it is generally understood that African policies are aimed at developing small businesses. The consequences of climate change can have positive and negative economic impacts on these small businesses. Small businesses mainly operate with minimum resources and family members in terms of labour and have limited or no access to any form of financial institution financing. These small businesses in rural economic activities rely mainly on their wealth-building earnings. If the natural resources, such as water, forests, and fisheries, or the terrain are destroyed, the capacity of the business to produce and earn income is diminished. The losses that small businesses incur would then propagate throughout the economy, engendering a multiplier effect that will result in the impoverishment of many people.

3. Current Climate Financing Landscape in Africa

In principle, climate financing is about funding specific projects, programs, and policies that positively impact greenhouse gas emissions and climate-resilient development. However, we outline a current landscape showing that most flows go to the public sector, typically for donor-driven projects and programs.

In the current global climate financing environment, the private sector in sub-Saharan Africa is expected to play a pivotal role in attracting and mobilising finance and investing it in climate-friendly projects. A substantial share of the economic value is expected to be captured through private-sector investment. This means funding technology development, projects, or mass-deployable

technologies and financing scalable services such as energy provision, sustainable land and water management, and climate adaptation services across the continuum.

Over the years, climate financing in Africa has shifted from focusing on funding traditional ambition-setting of national budgets increasingly to the practical realm with a high concentration on public-sector-driven projects designed to pilot and steer national strategies to an increased focus on large-scale infrastructure and resource management.

The increasing involvement in these types of projects has garnered significant attention for trust funds, which tackle the collective nature of climate challenges by aggregating small-scale contributions to achieve larger-scale results and complying with harmonised programming, management, and reporting guidelines.

Aligned with the focus on the large-scale, global climate finance flows are significantly higher in energy with an emphasis on increasing energy security, reducing energy poverty, competitiveness, GDP growth and sector investment strategies, and developing appropriate regulatory frameworks.

In response to diverging strategic objectives and the increased focus on the real economy and infrastructure, climate funds have also implemented funding structures that help governments blend multiple objectives in single investment proposals.

4. Challenges and Opportunities for Sustainable Climate Financing in African Small Businesses

Climate change is considered to have wide-ranging implications on the wealth-building activities of large and small businesses across the African continent. The implications imply additional costs for small business operations and their medium and long-term sustainability. With small businesses in Africa playing critical poverty alleviation and wealth-building roles, pervasive climate change will inhibit economic growth in Africa, especially when over 80 per cent of companies in Africa are considered minor and medium-sized. This paper argues that financial pressures on small businesses can either result in a lack of funds to finance activities that may enhance business survival or may lead to activities that harm the environment and contribute to further climate change.

Furthermore, climate finance flows are mainly allocated to large infrastructure projects and are currently of little practical benefit to small businesses. In the absence of sustainable climate financing that helps small companies to mitigate and adapt to the effects of climate change, their growth and wealth-building capacity become stunted, and the burden of adaptation to climate change is transferred to the household level. This paper provides insights into some of the challenges small businesses face in Africa in accessing green finance. It further draws attention to opportunities that exist and need consideration in galvanising the creation of an enabling environment for small businesses to access sustainable climate financing and contribute to wealth-building in Africa.

5. Case Studies of Successful Climate Financing Initiatives in African Small Businesses

Firstly, climate finance, which is integrated into the operations of African small businesses, can serve as a perimeter challenge. In addition to removing access to credit constraints, it can provide international external improvement and much-needed progress for African small businesses. Central development cooperations and public banks can also offer interest rates and timelines. Therefore, African small businesses can select climate finance partners such as private in-game institutions and corporate actors to avoid high interest rates or complicated conditions. Its surroundings can be business incubators directing small companies, consultants, and matching agencies that offer bespoke financial packages.

The main aim of this paper is to present already existing and successful business initiatives in the area of climate finance and its significance for wealth building in African small businesses. Six business cases will be highlighted. The research questions are: What types of African small businesses have already experienced successful climate financing? How significant have these experiences been for African small businesses? The research enables an in-depth exploration of successful African climate financing and the effects of wealth on the bounds of African small businesses. First, an overview of the world's prevailing climate finance movement will be given. Then, the paper explores wealth-building challenges in African small businesses. Lastly, empirical benefits are looked at in the case studies.

6. Innovative Financing Models for Climate Resilience in African Small Businesses

The previous section explored innovative models for structuring private equity investment vehicles focused on climate resilience in African small businesses to appeal to institutional investors, given the inequity in the levels of private equity directed to companies in developing economies. However, not all Anglo-Saxon PE firms are drawn from the conventional funds philanthropic, impact investor and development finance institution investor base. The business models of these investors need to generate financial instruments that draw from the entire investment stack. This section discusses revenue-sharing instruments' benefits to sustainable climate resilience projects and how mechanistic instruments create the potential to close financing gaps and manufacture risks that conventional debt and equity instruments fail to manage. The chapter marries legal options that benefit project well-being and value through income, thereby liquidising project value. All the financing model instruments creatively employ European capitalist law principles while combining innovative financial conditioning mechanisms.

The diverse possible "dominoes" for closing climate financing in the title of this chapter use property law principles to price and liquidise assets of climate resilience projects and transfer the downside risk of project cash flow variability using various forms of revenue-sharing collateral. ESG banking is used to develop innovative financing models. At the same time, the lessor's rights under property law are utilised to "flip" the liquidity concern away from the conventional banks or their securitisation vehicles. Small businesses are at the centre of climate financial concerns because of their overwhelming numbers, perpetual striving for a sustainable climate balance, the low funding levels directed towards climate resilience initiatives in the African and global economy and the structural limits in PE financial structuring models.

7. The Role of Public-Private Partnerships in Climate Financing for African Small Businesses

The creation of enabling environments, including new financial instruments and modalities for blending public and private financing, forms the cornerstone of the 21st Conference of the Parties' (CoP21) Agreement in Paris in 2015 for effective implementation of Climate Action Plans, especially about scaling up private climate finance, mainly targeting developing countries. The dynamics of the role of states and their formal actors in determining and delivering financing solutions

calls for a better understanding of addressable governmental and non-governmental interactions.

The 2018 UNECE Cooperative Compliance Project update explores new tax enforcement strategies in selected mature and emerging economies. Tax administrations must address base erosion and profit shifting by multinational corporations with a clear understanding that international tax rules are not fully fit for purpose due to slow breakthroughs in reaching a consensus on taxing the digital economy. There are also immediate financial needs to rebuild fiscal authority and regulatory competence in economies affected by conflicts and fragility, with a particular emphasis on subnational jurisdictions. This chapter considers the Africa Tax Administration Forum (ATAF) and its potential contribution towards capacity-building, exchange of good practices and standards and the shape of the post-BEPS global tax order. It argues that the ATAF should consider a new joint research and public-private stakeholder engagement function along with the technical assistance, consultancy and capacity-building services that characterise its current operations.

The Job Creation Survey points to Africa and Latin America as the least successful regions in matching job creation with input factors, especially the productive power of small and medium-sized enterprises and, most of all, the creation of decent work. In the digital era, economic, tax and legal interests converge in treating private lenders and investors participating in reshaping the job architecture of tomorrow. To attract adequate amounts of fresh and productive capital, governments must build and communicate persuasive national value propositions addressing the requirements of the investor community. If businesses must respect the legal rights of lenders and investors in exchange for private savings, shouldn't foreign and domestic financial actors, in return, support local entrepreneurs in keeping growth and fiscal authority alive?

In the arena of development finance, an emerging interest and appreciation of the private sector's positive and alert transformative role still needs to be accompanied by a diverse range of innovative vehicles and public-private interactions. To realise the potential of blended finance in achieving the United Nations' Sustainable Development Goals, the participants and representatives of the Addis Ababa Action Agenda and other stakeholders need to construct a collaboration-ready core capable of sourcing and shaping high-impact programmes. Acting

cohesively and consistently, the financing architecture of the Addis Ababa Action Agenda can channel investments from both public and private sources into local and national economies to create growth, production resources and sustainable jobs where they are most needed.

8. Policy Recommendations for Enhancing Sustainable Climate Financing in African Small Businesses

Increasing sustainable climate financing in a manner that does not burden governments, generate counter-systemic policies, or cause high external debt levels significantly contributes to the ability of African small businesses to remain agile and effectively deal with unexpected and potentially devastating climate-changing events. These small businesses, often the backbone of local economies, provide employment opportunities and stimulate economic growth. To achieve this, policymakers in Africa can develop a wide range of well-thought-out and strategic countermeasures to support small businesses and, in some cases, replace the many short-term, ad hoc instruments currently in place. By doing so, they can ensure a more stable and predictable financial environment for these businesses to thrive and adapt to the challenges posed by climate change. Given the already heavy burden on the government apparatus, which is often stretched thin, exploring alternative approaches becomes even more imperative. Relying solely on traditional support measures that mostly subsidise borrowers considered creditworthy by the private sector may not be sufficient. A comprehensive and forward-thinking approach is necessary to address the vulnerabilities faced by small businesses and to foster their resilience. The recent financial crisis served as a wake-up call, revealing the limitations of ad hoc liquidity support measures. While these temporary measures have provided much-needed assistance in critical areas, they have fallen short of initiating more far-reaching and sustainable structural changes in the aid processes. To truly enhance African climate financing, policymakers and stakeholders must embrace a holistic perspective and seek to overcome these limitations. These challenges and limitations must be carefully examined and honestly addressed to establish a more robust and sustainable framework for climate financing in Africa. This requires a collective effort involving governments, financial institutions, international organisations, and other key stakeholders. By working collaboratively, they can devise innovative solutions that balance supporting small businesses, safeguarding government resources, and building resilience in the face of climate change. Ultimately, the

goal is to create an enabling environment that nurtures African small businesses, empowering them to seize opportunities and mitigate risks arising from climate-changing events. As climate challenges unfold, the need for effective and sustainable climate financing becomes increasingly pressing. By embracing long-term and strategic measures, Africa can pave the way for a prosperous and resilient future where small businesses flourish and contribute to sustainable development.

The nine policy recommendations outlined above can significantly assist in developing and growing African small businesses. However, it is essential to acknowledge that in the medium term, these businesses may encounter various challenges from different risk sectors, particularly climate-related risks. Therefore, African policymakers and small business managers must comprehensively understand the proposed support measures. Furthermore, these measures must be recognised as short-term and temporary solutions. When addressing vulnerable small business risks, particularly those arising from climate-related factors, it is essential to avoid implementing costly and market-distorting policies. Such policies can potentially exacerbate moral hazard within the economy and create long-term challenges within the climate risk sector. Establishing effective monitoring and accountability systems is essential to mitigate these risks. One critical decision in this regard is the establishment of time-bound monitoring and evaluation bodies. These bodies would be responsible for reviewing the implementation of the proposed roadmap and assessing the performance of both the public and private sectors in climate risk management. By doing so, resilience within small businesses can be enhanced, and a sustainable allocation of climate finance can be ensured. To achieve these goals, it is essential to prioritise capacity-building initiatives to improve small business managers' capabilities in understanding and effectively addressing climate-related risks. Additionally, it is crucial to foster strong partnerships between the public and private sectors and international organisations to leverage resources, knowledge, and expertise in climate risk management. This collaborative approach will facilitate the development and implementation of tailored solutions that meet the unique challenges faced by African small businesses. Furthermore, policymakers must create an enabling environment that incentivises small businesses to adopt climate-resilient practices. This can be achieved through the provision of financial and technical support, as well as the development of clear regulatory frameworks

that promote sustainable business practices. Additionally, policymakers should consider establishing dedicated funding mechanisms to provide accessible and affordable financing options for climate adaptation and mitigation initiatives. These mechanisms can help alleviate the financial burden on small businesses and ensure their long-term viability in the face of climate change. Moreover, investing in research and development is crucial to enhancing our understanding of climate-related risks and their potential impact on small businesses. This includes conducting comprehensive risk assessments, collecting and analysing data, and developing innovative tools and technologies to support effective decision-making. By building a robust knowledge base, policymakers and small business managers can proactively identify and address emerging risks and adapt their strategies accordingly. In conclusion, by following these policy recommendations, African small businesses can navigate potential challenges and overcome the risks posed by climate change. It is of utmost importance that policymakers and small business managers prioritise understanding the support measures and work towards building resilience and sustainability in the face of climate-related risks. African small businesses can survive and thrive in a changing climate through concerted efforts, collaboration, and effective policies and measures.