ENERGY AND FINANCE

Crediting emissions

Energy Econ. **83**, 156–179 (2019)

Development indicators have long been linked to carbon emissions and energy use. Financial development is both a sign of, and a precursor to, improvement in many development outcomes and its role in energy use and emissions in developing countries needs to be better understood. Now, Alex Acheampong at the University of Newcastle, Australia shows that financial development — particularly an increase in domestic credit — can be linked to higher emissions in Africa.

Acheampong used panel data for 46 sub-Saharan African countries from 2000 to 2015. Carbon emissions were modelled as a function of gross domestic product per capita growth, energy consumption in kilograms of oil equivalent, foreign direct investment, domestic credit to the private sector by the financial sector, liquid liabilities and domestic credit to the private sector by banks, among other variables. He found that broad money and domestic credit to the private sector by banks led to increased emissions, while foreign direct investment, liquid liabilities and credit from the financial sector did not appear to have a strong impact on emissions. Acheampong concludes that if finance for environmental sustainability projects is not encouraged, financial development mostly takes the form of greater bank credit to households to access more energy-consuming appliances, thereby contributing to higher emissions. The work suggests that, rather than only development policy, financial development and liberalization policies can also shape the energy sector of a developing nation.

Fouad Khan

Published online: 13 August 2019

<https://doi.org/10.1038/s41560-019-0453-8>