African Development Bank Group
Economic Governance and Knowledge Management Vice Presidency (ECVP)

NATURAL CAPITAL AND INCLUSIVE DEVELOPMENT IN AFRICA

A KEYNOTE ADDRESS BY THE O.I.C CHIEF ECONOMIST AND VICE PRESIDENT, ECONOMIC GOVERNANCE AND KNOWLEDGE MANAGEMENT COMPLEX (ECVP), AFRICAN DEVELOPMENT BANK GROUP

AT THE

Launch of the Natural Capital for African Development Finance (NC4-ADF) Programme

September 9, 2021
13:00hrs to 13:15hrs UTC

CONVENED BY: AFRICAN NATURAL RESOURCES CENTRE; AFRICAN DEVELOPMENT INSTITUTE, AND CLIMATE CHANGE AND GREEN GROWTH DEPARTMENT, AFRICAN DEVELOPMENT BANK GROUP
1. Your Excellencies; Mr. Niels Breyer, Executive Director of the AfDB representing Germany, Luxembourg, Portugal and Switzerland, German Federal Ministry for Economic Cooperation and Development (BMZ); H.E. Emília Fumo, Permanent Secretary, Ministry of Land and Environment, Mozambique; Rivosa Rabenandrianina, Director-General for Sustainable Development, Ministry of Environment and Sustainable Development, Madagascar; Andre Hoffmann, President, MAVA Foundation (video recording); Alice Ruhweza, Director, Africa Region, WWF; Harsen Nyambe, Director, Blue Economy and Sustainable Environment, African Union Commission; Kate Newman, Vice President for Sustainable Infrastructure and Public Sector Initiatives, WWF-US; Willing Zvirevo, Director of Resource Mobilisation and Climate Finance, Infrastructure Development Bank of Zimbabwe (IDBZ); Laurent Some, Head of Policy and Partnerships, WWF Africa Region; Sanjay Srivastava, Practice Manager for Environment, Natural Resources and Blue Economy, West and Central Africa, The World Bank; Ben Simmons, Head, Green Growth Knowledge Platform (GGKP), co-hosted by UN Environment Programme (UNEP); Nathalie Bernasconi-Osterwalder, Executive Director and Senior Director, Economic Law and Policy, International Institute for Sustainable Development (IISD); Honorable Ministers, Executive Directors and the Senior Leadership of the African Development Bank Group, Representatives of International Organizations, the Natural Capital for African Development Finance (NC4-ADF) Program partners, Senior Representatives of Development Finance Institutions, Leaders of the Private sector, Civil Society, and Academia, Distinguished Delegates, Ladies and Gentlemen. Please allow me to stand on established protocols.

2. I am deeply honored to speak to you briefly on this very important subject – mainstreaming natural capital in development finance in Africa.

3. I am particularly pleased that today, we have come to the point when the African Development Bank Group, together with its partners including the GGKP, WWF, GIZ, IISD and other partners and with support by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the MAVA Foundation, is launching this program on mainstreaming natural capital in development financing in Africa.

4. I recall the initial discussion held with colleagues at the World Bank during the annual meetings of the GGKP where the idea of the project was born. That was in December 2017. Seating in a Panel with colleagues, I expressed my longstanding concerns regarding how we treat nature’s infrastructure which forms the foundation for our human experience on earth. I wondered why natural capital is not treated as an asset class in the calculation of the wealth of nations, why impacts on nature are treated as “externalities” in project appraisals, and the risks to nature and the benefits it provides are poorly priced and not fully accounted for in the sovereign risk ratings of countries. I wondered why Africa, and most natural resource rich countries, continue to rank poorly in the league of nations and receive sovereign risk downgrades after major shocks to global finance systems.
Since then, I have worked with colleagues in GGKP Natural Capital Committee, in the relevant Departments of the African Development Bank Group, the World Bank Group, the Global Green Growth Institutes (GGGI) and other experts in Universities and Think Tanks globally to shape, re-shape and pilot the ideas that has led to the Natural Capital for African Development Finance (NC4-ADF) which we are launching today.

I am deeply grateful to all colleagues in the African Natural Resources Centre (ECNR), the African Development Institute (ECAD), and the Climate Change and Green Growth Department (PECG), and the GGKP, WWF, IISD and UNEP partners for helping to shape the concepts and pilot project to this point. I am also very grateful to the Governments of Mozambique, Madagascar, Nigeria, and others where the pilot projects have been implemented, some of which we will receive updates about today.

Why is mainstreaming natural capital in development finance institutions critical for economic development in Africa?

Africa’s natural wealth underpins the continent’s current and future welfare.

Nature’s infrastructure also provides ecosystem services that are key to our social, economic, and environmental wellbeing.

Yet, the focus on short-term economic growth objectives, often constrain governments to over-exploit or degrade their natural assets.

Other exogenous factors such as climate change impacts on key sectors that drive economic growth in countries, and further deepens the challenge for Decisionmakers. Do we conserve natural capital for the long-term or exploit them for economic growth today? This is often the question.

The above policy question suggests a trade-off between “conservation of natural capital” and “short-term economic growth objectives”.

This is and should not be the case.

Destruction of nature not only causes serious harm to the planet, it also threatens the well-being and prosperity of people and economies.

According to the World Bank report on Changing Wealth of Nations (2018), natural capital makes up 30-50% of total wealth in many Africa countries.

We also know that the beneficiation of this wealth of natural capital remains very low in Africa’s natural resources value chains, as countries continue to export natural resources with limited value addition, often at very low prices.

We have seen reports after reports underscoring the social, economic, and environmental costs of over exploitation of nature for economic gains today, and the significant co-
benefits there are when countries harness natural assets sustainably for growth today and tomorrow.

18. The most recent, in the litany of reports, are the Partha Dasgupta review on the *Economics of Biodiversity* which was commissioned by the UK government. Weeks ago, the German Federal Ministry for Economic Cooperation and Development (BMZ) held an event where a specific report on “Protecting Africa’s Natural Assets” was launched. I was privileged to receive and read both reports to prepare my interventions during their launch events.

19. These reports underscore several key facts:

   a. The world is facing a dilemma: The economic system and the social systems as we know it today are part of nature. Yet, we are degrading nature (the biosphere) to the point where the demands we make of its goods and services far exceed its ability to meet them on a sustainable basis. This finding is consistent with earlier reports on planetary boundaries, IPCC reports, reports of the International Resources Panel (IRP), IUCN, the World Bank, AfDB and others. The age of the Anthropocene is rapidly exceeding planetary boundaries (the carrying capacity of the planet) we all live in.

   b. Much of this natural capital and the associated ecosystem services are not reflected in our current global economic systems of accounting for the wealth of nations. Hence natural assets are significantly undervalued and overexploited.\textsuperscript{ii}

   c. Specifically, the current systems of project appraisals and measures of the wealth of nations discounts investments in nature and nature conservation. As noted by the Dasgupta report, an economy could record a high rate of GDP growth by depreciating its natural assets. But one would not know that from national statistics.

   d. The above reflects “market failures”, and in some cases “missing markets” that has consistently fanned the undervaluation of natural capital in wealth accounting and created perverse incentives for oxymoronic exploitation of natural capital to increase the wealth of produced capital – measured in terms of “Gross Domestic Product (GDP)”. So long as GDP growth remain the objective function for economic activity and the matric in which the wealth of nations are measures, other forms of capital including natural and social capital will be under-valued and over exploited.

   e. Sequel to the above, Africa and the rest of the developing countries continue to export natural assets at prices far below their worth. In fact, analysis by the African Development Institute (2020) show that the real price of most commodities exported by African countries have tended downwards since the
1960s. African countries lack the financial capital to invest in knowledge, technology and innovation which drive value addition, and hence they reap little from the export on natural products (also called primary commodities) and hence do not reap the economic rents that always come with value added to products. On the other hand, persistent poverty rates continue to define low prices for their commodities in the global markets. Hence, we see extensification/over-exploitation of natural resource use rather than intensification of value added per unit of resources extracted. In the short term, African countries face a loose-loose scenario as they continue to deplete natural capital for declining economic gains (real prices of primary commodity exports), and the world loose natural assets which sustains our common future.

f. Nature is mobile, its responses to human activity is non-linear, and the impacts of nature’s responses on social and economic systems could be irreversible, especially when the tipping points are exceeded.

g. However, natural capital is often not fully considered in national accounting in many African countries and the wealth of nations, globally.

h. For example, the COVID19 recovery programs represent the largest public sector investments ever made in the last 75 years, since the end of World War 2 in 1945. Some recent estimates show that global fiscal support to stimulate economies as part of the post-COVID19 recovery has already reached approximately US$ 17 trillion as of April 2021.iii

i. However, the IUCN estimates that the bulk of these economic recovery investments are not natural capital sensitive. Estimates show that only 0.005% of these investments (that is US$56 billion of the US$17 trillion) have been invested using natural capital approaches. The good news is that much of Africa is yet to make such investments.iv

20. The above leads to few conclusions:

a. We are totally dependent on the nature’s infrastructure (natural capital) for our existence on earth. But we are busy plundering it to build physical infrastructure (built capital), using human ingenuity and creative capacity (human capital) apparently neither knowing nor caring what the consequences might be.

b. There is urgent need to fundamentally overhaul how we relate with nature, how we measure economic progress, better understand the value of nature for our social and economic wellbeing, measure and mitigate the risks associated with how we manage nature and stem the rapid decline in natural assets that depletes the ecosystem services on which our own livelihoods ultimately depend.

c. To judge whether the path of economic development we choose to follow is economically profitable and socially equitable in the short and medium terms,
and environmentally sustainable in the long term, there is need to adopt systems that accounts for the economic and social value of nature, the impacts of economic and social activities on them, the risks our interventions in nature pose to economic and social progress, and the achievement of national and global development agendas, including the sustainable development goals.

d. Nature-positive development pathways that manage the global portfolio of nature’s assets sustainably is therefore a necessary condition for achieving resilient and sustainable economic growth everywhere.

21. We now have a plethora of empirical evidence that underscore the above fact. Throughout human history, nature’s response events (be it extreme weather events, tsunamis, cyclones, wildfires, or disease pandemics such as COVID-19, frequently wipe away decades of economic and social assets year on year.

22. The good news is we can debunk the economic myths about trade-offs. We can triangulate the social progress, economic growth, and biophysical sustainability. This is what I call the “golden triangle of inclusive and sustainable development”.

23. The rapid response to COVID-19 indicates that the World has the resources, the knowhow, the policy tools, the technologies, and innovation capacity to achieve this goal if there is the will to do so. We have seen significant easing of both monetary and fiscal policy that has allowed countries to mobilize resources (over US$17 trillion) to prime their economies towards the recovery path.

24. The development finance institutions mobilized significant resources to support their member countries. It was certainly business un-usual. The world can act decisively in a similar manner to stem the looming global crisis associated with climate change, biodiversity loss, ecosystem degradation, etc. Like COVID-19, these are global commons challenges, even though their impacts on economies is significant, high risk low probability events.

25. A lot of work done by the IPCC, UNEP, IUCN, ILO, the World Bank, AfDB, and others have sufficiently underscored the potential economic benefits of green economy transitions for climate mitigation and adaptation, maintaining ecosystem services, stemming biodiversity loss, job creation, economic development and more.

26. The global push for a green, inclusive, and resilient recovery from COVID-19 to enable countries to build forward better is also generating significant political will among Decision makers in several countries.

27. With adequate investments in beneficiation, African countries could significantly increase the economic productivity of these natural assets and hence their contribution to economic growth. The policy choice for African countries should therefore be about “how to exploit natural capital sustainably”, not weather to conserve them for tomorrow or over-exploit them for economic growth today.
28. We know that through investments in “sustainable intensification and value addition”, countries can achieve more economic and social returns from their natural assets without depreciating them.

29. But to achieve the above, the development fiancé architecture and governments need to policies in place to make this happen.

30. And why should we focus first on Africa?

31. With its rich endowment in natural capital, Africa holds a unique opportunity to build inclusive and sustainable wealth of its nations by investing in the beneficiation and conservation of its natural capital assets, concurrently. This is the foundation for sustainable economic production and consumption in Africa, and indeed globally.

a. Africa is endowed with unique and abundant natural capital assets which it can leverage to stimulate stronger and more resilient post-COVID-19 green recovery outcomes across the continent.

b. Africa holds enormous potential in renewable and non-renewable natural resources, including agriculture, forests, the blue economy, energy, the extractives, and more, which constitute the building block of natural capital, and could be the foundation for a green recovery in the continent.

c. Africa hosts 30% of the world’s mineral reserves; and over 60% of the world’s remaining arable land, and abundant energy potentials.

d. In most African countries, natural capital accounts for between 30% and 50% of total wealth.

e. Africa is home to the second largest tropical forest in the world and to some of the highest annual rainfall in the heart of the Congo basin. Forests and the services they provide are vital to sustainable development and human well-being, whether in terms of storing carbon, supporting the world’s richest reservoir of terrestrial biodiversity, regulating water flows, reducing soil erosion, or providing a source of nutrition, timber, and valuable genetic resources. It provides several services on which the sustainability of infrastructure investments in key economic sectors – energy, agriculture, industrialization, etc., depend.

f. Africa is well known for its exceptional biodiversity including the most intact assemblages of large mammals on Earth. The region of the Albertine Rift, as an example, which is a 500km by 100km area shared between Uganda, Democratic Republic of Congo, Rwanda, Burundi, and Tanzania - is the most species-rich region on continental Africa. Over 50% of birds, 39% of mammals, 19% of amphibians and 14% of reptiles and plants of mainland Africa are in this region. This region supports significant renewable energy potentials (hydropower,
geothermal, etc.) and nature-based tourism provides significant revenues for the countries.


h. African countries now acknowledge that natural capital could be the key to unlocking Africa’s potential and for pulling millions out of the poverty trap. This change in mindset is evident at national levels and in action through political processes such as the African Ministerial Conference on the Environment (AMCEN).

32. So, why focus on mainstreaming natural capital in development financing in Africa?

33. Infrastructure investments by DFIs significantly shape the structure of development transitions in Africa. These investments increasingly face significant risk exposures due to nature-related responses to economic development activities.

34. According to the Finance 4 Biodiversity Initiative (2020), “on average, 28% of the total investments of Development Finance Institutions are exposed to nature-related risks”\textsuperscript{vii}. With the growing risks of natural disasters due to climate change and health pandemics such as COVID-19, this class of risk is only set to increase over time.

35. The above are the reasons that shaped my vision for the NC4-ADF program. I am very pleased that today, the African Development Bank Group, together with its partners including the GGKP, WWF, IISD, GIZ and other partners and with support by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the MAVA Foundation, has initiated a program on mainstreaming natural capital in development financing in Africa.

36. The program aims to provide a business case for nature sensitive policies in development finance institutions; investing in natural capital as an asset class; integrating natural capital assets in sovereign credit ratings of countries; and building capacity for natural capital accounting in African countries.

37. Addressing the market failures and the missing markets in the current global economic systems is critical for achieving the global sustainable development goals. But we cannot price what we do not value. We cannot manage what we do not measure. Therefore, the NC4-ADF program proposes to establish a Natural Capital Academy for Africa.

38. It is my hope that through the program, the African Development Bank Group will proactively work together with the World Bank, sister Multi-lateral Development Banks, GGKP and other partners to build on existing knowledge and strengthen the
capacity of African Member Countries on valuing and accounting for natural capital, support DFIs with nature sensitive policies to inform sustainable investments in infrastructure that respects the golden triangle of inclusive and sustainable development, and support Risk Rating Agencies to build in natural capital assets in the sovereign risk ratings of countries. It has always befuddled me that countries seating on huge gold reserves, diamonds, … , and other form of real assets are rated poorly due primarily to exogenous shocks to global financial systems. This in turn raises the cost of capital for such countries, further locking them in a vicious cycle of poverty.

39. The African Development Bank Group and its partners- the GGKP, UNEP, WWF, IISD, GIZ and others recognize that natural capital is critical for economic development in Africa. We understand that there are direct and indirect links between the risks associated with degradation of natural capital and loss of biodiversity, investments in building infrastructure for African development, social wellbeing of citizens, economic development across Africa, and sustainable development globally.

40. The NC4-ADF program therefore adopts a systems-based approach, involves multiple Departments of the Bank Group including the Africa Natural Resources Centre (ECNR); the African Development Institute (ECAD); the Green Growth and Climate Change Department (PECG), and Country Offices of the Bank Group - working across the high-5s sectors and in lockstep with WWF, UNEP, GGKP, ISSD, GIZ and others.

41. This is part of the AfDB’s investments to drive green and inclusive growth in Africa. Together with the Bank’s investments in the High 5s sectors, we hope to be able to triangulate the three pillars of inclusive and sustainable development in Africa, and out of Africa provide a model for doing so to the rest of the World.

42. Let me conclude by thanking President Akinwumi Adesina, the Board and the Senior Leadership of the African Development Bank Group for their support to our work on this critical sector of African development. I thank our very dear Executive Director – Niels Breyer, Executive Director of the AfDB, representing Germany, Luxembourg, Portugal and Switzerland, German Federal Ministry for Economic Cooperation and Development (BMZ) for his unreserved guidance and support that has helped us to shape this project. It is through the support of our President Adesina, the Board and Senior Management that we have been able to bring the project to this stage.

43. I thank my great friends in the GGKP family - Ben Simmons, Head, GGKP; John J. Maughan, Research Programme Manager, GGKP; and my very dear colleagues - Vanessa Ushie, Manager, Policy Analysis Division, African Natural Resources Centre (ANRC); Sebutsoe Nkoanyane – Senior Capacity Development Officer in the African Development Institute; and Dorsouma Al Hamndu, Division Manager in the Climate Change Department for relentlessly supporting the development and piloting of the project from conceptual stage to date.

44. I cannot find the rights words that can fully express my gratitude to our Partners - Alice Ruhweza, Director, Africa Region, WWF; Nathalie Bernasconi-Osterwalder,
Executive Director and Senior Director, Economic Law and Policy, International Institute for Sustainable Development (IISD); Andre Hoffmann, President, MAVA Foundation (video recording); and BMZ for their collaboration and support. We count on your continued support as we continue to implement the project to achieve the scale required to make the necessary impacts, not only in Africa but also out of Africa to the rest of the World.

45. I thank you - Rivosa Rabenandrianina, Director-General for Sustainable Development, Ministry of Environment and Sustainable Development, Madagascar; and Harsen Nyambe, Director, Blue Economy and Sustainable Environment, African Union Commission; Willing Zvirevo, Director of Resource Mobilisation and Climate Finance, Infrastructure Development Bank of Zimbabwe (IDBZ) and other Senior Policymakers, the Private Sector, the Academia, and civil society for your participation.

46. Your presence and active participation are very reassuring. You have all made my year, and I should say my life. Your active participation in the launch event underscores your support to our work on this important sector. The program will not be successful without you.

47. It feels like the day when we launched the African Renewable Energy Initiative (AREI) at the Conference of Parties on climate change in Paris. That marked for me and my colleagues who worked on the initiative, a global decision to significantly invest in renewable energy in Africa. Let the launch of the NC4-ADF program today be a global decision to massively invest in natural capital for African development, and from Africa to the rest of the world.

48. I call on our development partners and Donors who are yet to join the program to please join us in this effort. Let us work together to secure our common future.

49. The launch event marks the beginning of a very long journey. It will take a lot of investments and work ahead until we mainstream natural capital in development financing in Africa, and out of Africa for the rest of the world. But as the saying goes, the journey of a thousand miles begins with a step. With all of you on side, we will make this happen for Africa and global sustainability. Because, together, we can.

50. Thank you very much.

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