



© Martina Lippuner / WWF-Africa

FINANCING GREEN RECOVERY USING NATURAL CAPITAL APPROACHES ACROSS AFRICA

A BRIEF ON THE ROLE OF DEVELOPMENT FINANCE INSTITUTIONS

Promotion of Green Economy and valuing natural capital in Africa



WCMC



This policy brief was prepared for the Mainstreaming Natural Capital in African Development Finance (NC4-ADF) initiative led by the African Development Bank (AfDB), Green Growth Knowledge Partnership (GGKP) and the World Wide Fund for Nature (WWF) by: Hashim Zaman (UNEP-WCMC), Kiruben Naicker (UNEP-WCMC), Steven King (UNEP-WCMC), Qian Feng (UNEP-WCMC), and James Vause (UNEP-WCMC).

The authors are very grateful to the NC4-ADF task team led under the technical guidance by Innocent Onah (AfDB), Sun Cho (GGKP) and Durrel Halleson (WWF) alongside a team of experts from the three organizations - Peter Scheren (WWF International), Tendai Chinho (WWF Africa), Koeun Lee (GGKP), Laurent Bélanger-Lowe (GGKP), Ela Mesinovic (GGKP), Nkoanyane Cornelius Sebutsoe (AfDB), and Salimata Soumare (AfDB) for contributing and feedback on draft versions of the note.

The NC4-ADF initiative was supervised under the leadership of the co-chairs, John Maughan, Acting Coordinator of Secretariat (GGKP) and Vanessa Ushie, Acting Director, African Natural Resources Management and Investment Centre (AfDB). Its vision was set up by Prof. Kevin Chika Urama, Chief Economist and Vice President of the Economic Governance and Knowledge Management Complex (AfDB) as a result of the GGKP Natural Capital Expert Group's collaborative work.

The NC4-ADF initiative and this policy brief was implemented and developed with generous support from the MAVA Foundation for Nature and the Federal Ministry of Economic Cooperation and Development of Germany (BMZ), implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

The opinions expressed and arguments advanced herein are those of the author and do not necessarily represent those of the Bank.

Brief on NC4-ADF - Mainstreaming Natural Capital in African Development Finance

In 2020, the African Development Bank (AfDB) and the Green Growth Knowledge Partnership (GGKP) joined forces with the World Wide Fund for Nature (WWF) and the Economics for Nature (E4N) team to **launch** the Natural Capital for African Development Finance (NC4-ADF) initiative to lay the foundation for mainstreaming natural capital in African development finance. Throughout the last few years, we have worked through key activities, including generating evidence for integrating natural capital into AfDB's development finance operations, prioritizing the role of natural capital in Africa's post-COVID19 recovery, convening peer signatory MDBs to develop a common vision for mainstreaming nature-based solutions in support of the MDB Joint Nature Statement released at COP26 in 2021.





© Kyle LaFerriere / WWF-US

THE AFRICAN CONTEXT

The COVID-19 pandemic has had severe impact on African economies and livelihoods, sparking the first recession in sub-Saharan Africa after 25 years¹. Due to already high debt burdens, many African countries have limited fiscal space for stimulus and recovery packages². As a high percentage of Africans are also employed in the informal economy, widespread lockdowns have exacerbated existing poverty issues and high dependence on imports has increased food insecurity during the pandemic³. Climate change and broader environmental degradation are also compounding the challenges faced by countries post COVID-19⁴. However, Africa still has a wealth of natural resources (or natural capital) that can provide a launch pad for a green economic recovery from the pandemic.

To better understand the role of natural capital in green recovery in Africa, the Natural Capital for African Development Finance (NC4-ADF) programme⁵ in collaboration with the African Union Commission (AUC) and the UNFCCC Regional Collaboration Centre, Kampala, organised a webinar series entitled “Mainstreaming Natural Capital in Africa’s post-COVID19 Development Agenda”. This briefing note summarises the main take-aways from this webinar series and provides an overview of natural capital concepts and how they link to Green Economic Recovery. It highlights Africa’s regional action plan for a post-covid green recovery, and the role natural capital can play in delivering the African Union (AU) Green Recovery Action Plan. It concludes by identifying the ways Development Finance Institutions (DFIs) are and can directly and indirectly support financing natural capital approaches for green recovery in Africa (as summarised in Box 1). Interesting quotations from the webinar speakers are presented and their presentations can be viewed in full on the NC4-ADF webpage (<https://www.greengrowthknowledge.org/initiatives/NC4-ADF>).

“COUNTRIES ARE STRUGGLING TO TACKLE THE COMBINED CHALLENGES OF COVID-19 AND CLIMATE CHANGE”

Dr. Vanessa Ushie, AfDB (African Natural Resources Management and Investment Centre)

BOX 1: ROLE OF DFIS IN FINANCING FOR NATURAL CAPITAL APPROACHES FOR GREEN RECOVERY

1. Strengthen the knowledge base on natural capital approaches to demonstrate that they offer viable opportunities for green recovery.
2. Support countries to build their own natural capital knowledge systems so they can design bankable projects informed by natural capital approaches.
3. Help create the enabling environment to encourage investment in natural capital approaches.
4. Play a convening role to unlock different funding streams for investment in natural capital approaches.
5. Help overcome upfront and maintenance costs for implementing natural capital approaches

1 https://gca.org/wp-content/uploads/2020/12/GCA-AAI_Policy_Brief.pdf

2 https://wwfint.awsassets.panda.org/downloads/african_union_green_recovery_action_plan___2021.pdf

3 https://wwfint.awsassets.panda.org/downloads/africa_covid_hr.pdf?32622/Africa-in-the-context-of-COVID-19

4 https://wwfint.awsassets.panda.org/downloads/african_union_green_recovery_action_plan___2021.pdf

5 The NC4-ADF is a joint initiative by the African Development Bank, the Green Growth Knowledge Platform, the Worldwide Fund for Nature and the Economics for Nature Partnership have joined forces with the WWF and the Economics for Nature (E4N) to mainstream natural capital in African development finance. For more on this initiative, please refer to <https://www.greengrowthknowledge.org/initiatives/NC4-ADF>

INTRODUCTION TO NATURAL CAPITAL AND THE GREEN ECONOMY

Natural capital — the stocks of nature that yields a flow of benefits to people — supports millions of livelihoods across Africa. Between 30 and 50 percent of the wealth in most African countries is natural capital⁶ including renewable resources, such as arable land, forests, woodlands, wildlife, oceans and water, and non-renewable resources, such as oil, natural gas, and minerals⁷. A common approach of characterising the renewable or ‘living’ components of natural capital is through describing the different **Ecosystems** (e.g., forests, wetlands, croplands) in landscapes. These supply **Ecosystem services**, which are the contributions of ecosystems to economic and wider social welfare benefits (e.g., global climate regulation, flood mitigation and crop provisioning).

The African Ministerial Conference on the Environment (AMCEN) affirms that natural capital underpins the economy of member states and serve as a gateway to wealth creation for the achievement of the Sustainable Development Goals and the African Union 2063 Agenda. Widespread implementation of **Natural capital approaches** is essential if this potential of natural capital to deliver sustainable social and economic benefits is to be realised. Natural capital approaches drive changes in policy and/or investment decisions by incorporating the values of ecosystems to people into decision-making and planning, aiming to improve human well-being⁸. They increase fiscal and financial flows to **Nature-positive** economic and development activities and away from activities that are harmful to nature and natural capital.



Following the COVID-19 pandemic, a business-as-usual recovery built on unsustainable production and consumption of nature will simply not work due to the risks this poses to economies, livelihoods and human well-being in Africa⁹. Natural capital approaches offer a pathway to build back better and deliver a green recovery from the pandemic in Africa. A Green recovery would be one that support transitions to green economies that deliver improved human wellbeing and social equity, while significantly reducing environmental risks and ecological scarcities¹⁰.

“MOVING TO A GREEN ECONOMY PROTECTS NATURAL CAPITAL”

Stephen Cornelius, WWF

6 <https://africa.panda.org/?32622/Africa-in-the-context-of-COVID-19>

7 <https://www.unenvironment.org/regions/africa/our-work-africa>

8 <https://stapgef.org/sites/default/files/2022-06/Final%20Report%20-%20Natural%20Capital%20Approaches%20-%20June%202022%20FINAL.pdf>

9 https://wwfafrica.awsassets.panda.org/downloads/africa_covid_hr.pdf?32622/Africa-in-the-context-of-COVID-19

10 <https://www.unep.org/pt-br/node/23750#:~:text=The%20UN%20Environment%20Programme%20has,in%20carbon%2C%20resource%20efficient%20and>



© Richard Barrett / WWF-UK

Natural capital approaches can unlock the potential of Africa’s natural wealth to drive green recovery across the continent. Development finance institutions (DFIs) are specialised banks set up to support development in developing countries, and they include multilateral (e.g., World Bank & African Development Bank); bilateral (e.g., French Development Agency) and national development banks. Sub-regional level DFIs such as ECOWAS Bank for Investment and Development (EBID), Development Bank of Southern Africa (DBSA) and Trade and Development Bank (TDB) can play a pivotal role in promoting, enabling and financing implementation of natural capital approaches in Africa in support of green recovery. For instance, in favouring investments in **nature-based solutions** to development issues. Nature-based solutions are actions that work with and enhance nature to help address societal challenges¹¹.

Multilateral development banks have recognised the green recovery from COVID-19 as an important opportunity to build higher social resilience and tackle the climate crisis via nature-based solutions and wider natural capital investments¹². Box 2 highlights how the African Development Bank is integrating natural capital into their policies.

BOX 2: HOW THE AFRICAN DEVELOPMENT BANK IS INTEGRATING NATURAL CAPITAL INTO ITS AGENDA

The African Development Bank Group has integrated natural capital into a policy assessment following the first African Green Growth Readiness assessment which reiterates investment and protection of natural capital as a prerequisite for a green recovery and the green economy. The Bank has repositioned its agenda for natural resources by commencing the development of a natural resources management and investment strategy for the period of 2023-2027. This strategic shift is further reflected through the proposed change in the official name of the African Natural Resources Centre to the African Natural Resources Management and Investment Centre, to pursue three inter-related building blocks, 1. Natural Resources Governance, 2. Valuing Natural Capital, and 3. Investment facilitation in Natural Resources. These pillars embody the Bank’s strategic pivot towards a more direct role in driving investments into natural resources sectors and capturing greater local value from natural resources development for stronger and more resilient economies¹³.

11 https://au.int/sites/default/files/documents/40790-doc-AU_Green_Recovery_Action_Plan_ENGLISH1.pdf

12 <https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1729984378-40>

13 <https://www.afdb.org/en/documents/africa-green-growth-readiness-assessment>

AFRICA'S GREEN RECOVERY ACTION PLAN

The **African Union (AU) Green Recovery Action Plan** (2021-2027) tackles the combined challenges of the COVID-19 recovery and climate change in Africa. It focuses on five critical areas of joint priority, including climate finance, renewable energy, biodiversity and nature-based solutions, climate resilient agriculture and green and resilient cities. The action plan is endorsed by heads of states and dignitaries from AU member states, international organizations, UN Agencies, bilateral and multilateral partners, with commitments to work in harmony to deliver the Green Recovery Action Plan. It highlights the African Unions mandate to bring 100 million hectares of degraded land into restoration by 2030, creating 10 million jobs and contributing to the attainment of 15 of the 17 SDGs¹⁴.

“TRANSITION TO A GREEN ECONOMY WILL BE A MAJOR TREND THAT WILL SHAPE SOCIO-ECONOMIC OUTCOMES IN THE NEXT 50 YEARS ACROSS THE GLOBE”

Salimata Soumare, AfDB



© Justin Jin / WWF France

Biodiversity and nature-based solutions is one of five priority areas for specific interventions under the Action Plan. This Action Plan highlights the potential for investments this priority area to deliver on the multiple social, environmental, as well as economic and development goals. This is the area where natural capital approaches will most directly support the implementation of the action plan. In this regard, through Biodiversity and nature-based solutions interventions, the Action Plan aims to:

1. Enhance and support the implementation of several **initiatives aimed at combatting habitat degradation** (see Box 4).
2. Support the **development and management of national parks and other protected areas** (see Box 3).
3. Enhance commitment to providing adequate **resources to address the drivers of desertification, land degradation and drought** and support of existing programmes such as the Great Green Wall for the Sahara, Sahel and Southern Africa (see Box 4).
4. Develop and improve mechanisms for **protection of the ocean environment to support biodiversity, climate resilience and the blue economy**.
5. **Raise political ambition on nature-based solutions to climate change**. This intervention also links to nature-based solutions for climate change mitigation and the climate finance priority area of the Green Recovery Action Plan (see Box 5).
6. Support **the development and application of tools to better integrate nature and natural capital** including biodiversity in national, sectoral and urban recovery and development strategies and plans (see Box 6).

14 <https://au.int/en/newsevents/20210714/launch-au-green-recovery-action-plan>

Elsewhere in the plan, the priority area for climate smart agriculture highlights realigning policies, finance and support to incentivise investment in **integrated food production systems that** can deliver multiple co-benefits (see Box 7). The green and resilient cities priority area aims to support equitable and sustainable use of water for socioeconomic development by promoting **investment in improved management of water resources, such as river basin catchments, impoundments and lakes** (see Box 8). It also highlights the role of public green urban spaces, parks with trees, shrubs, water basins and peri-urban forests as nature-based solutions to air pollution risks and the consequences of climate change adaptation in urban areas. These are all linked to natural capital approaches for addressing agricultural or urban development challenges.

The Green Recovery Action Plan will galvanise recovery across its five priority areas through international partners, pan-African institutions, regional economic communities and AU member States by increasing technical support for member states, mainstream green recovery principles into planning, development and investment strategies, and enhance the visibility of African stakeholders in the international fora¹⁵. The action plan encourages development finance institutions to support a clean, resilient, and inclusive green recovery by prioritising these areas in the action plan over carbon intensive or climate vulnerable sectors¹⁶. This should include mainstreaming natural capital approaches into their operations to support the aims of the Action Plan as highlighted above.



15 https://au.int/sites/default/files/documents/40790-doc-AU_Green_Recovery_Action_Plan_ENGLISH1.pdf

16 https://wwfint.awsassets.panda.org/downloads/african_union_green_recovery_action_plan__2021.pdf

NATURAL CAPITAL APPROACHES FOR A GREEN RECOVERY IN AFRICA

A natural capital approach integrates the value of natural capital and ecosystem services to people and the economy into policy and decision-making. Integrating natural capital into the design and evaluation of development projects helps ensure that projects deliver on their economic objectives, whilst delivering co-benefits to people and the environment. It can also help avoid unforeseen economic and social costs associated with environmental degradation.

“AFRICA WITH ITS NATURAL WEALTH AND NATURAL CAPITAL, FROM FORESTS TO CORAL REEFS HAS MUCH TO GAIN FROM THESE TREMENDOUS NATURAL ASSETS. BUT THEIR TRUE VALUE, AND THE SHEER SCALE OF THE WEALTH HAS BEEN INVISIBLE AND OVERLOOKED IN ECONOMIC TERMS”

Dr. Vanessa Ushie, AfDB (African Natural Resources Management and Investment Centre)

At the global scale, a recent study estimates that investing in actions to double conservation of natural capital on land and sea will deliver global economy wide GDP increases of US \$300 to US \$500 billion and 30 million green jobs in the ecotourism and sustainable fisheries sub sectors alone. This would also expand the protected habitat of species threatened with extinction by 2.2 to 2.8 times, whilst reducing atmospheric CO₂ concentrations by 0.9 to 2.6 gigatons annually¹⁷.

“GREEN JOBS CAN HELP PUT AFRICA ONTO A PATHWAY TO LOW CARBON AND CLIMATE RESILIENT FUTURE WHICH WILL LEAD TO SUSTAINABLE IMPROVEMENTS TO THE QUALITY OF LIFE OF MILLIONS OF LIVES ACROSS AFRICA”

Gareth Phillips, AfDB

There is now a strong foundation of experience in investing in nature-based solutions to increase employment following the COVID pandemic, whilst also contributing to achieving the SDGs (e.g., for poverty alleviation, food and water security, nature protection, climate change mitigation and adaptation, and health). Some of the most job-intensive investments can be delivered using natural capital approaches, including reforestation, ecosystem restoration, invasive species removal and agro-ecological approaches to food production¹⁸.

At least 62% of Africa’s GDP is highly or moderately dependent on nature¹⁹. Increasing investments on Africa’s natural capital can deliver substantial economy wide benefits, in addition to job creation, improved social welfare, climate change mitigation and better conservation outcomes. Development finance institutions have a critical role to play in leveraging funding and improving the enabling environment for mainstreaming natural capital approaches into green recovery in Africa. Whilst 70% of African Banks regard green finance as an attractive lending opportunity²⁰, further confidence needs to be built that investing in natural capital is a viable option for delivering on Africa’s Green Recovery Action Plan. Case studies demonstrating this are highlighted below.

17 <https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Sustainability/Our%20Insights/Valuing%20nature%20conservation/Valuing-nature-conservation.pdf>

18 https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_757823.pdf

19 <https://www.pnas.org/doi/10.1073/pnas.1710465114>

20 <https://www.afdb.org/en/documents/african-economic-outlook-2022>

BIODIVERSITY AND NATURE-BASED SOLUTIONS FOR GREEN RECOVERY

The first intervention in the Green Recovery Action Plan relates to **initiatives aimed at combatting habitat degradation**. It highlights the need to enhance and support continent wide initiatives, including the Pan-African Action Agenda on Ecosystem Restoration for Increased Resilience (to 2030) and the African Union Sustainable Forest Management Framework (to 2030).

The Pan African Agenda on Ecosystem Restoration highlights that degradation of terrestrial and marine ecosystems in Africa reduces real wealth, and income-earning potential for local farmers, the public sector, and private businesses. However, there are many opportunities that can arise from restoration. These include increased employment, increased business spending, improved livelihoods as well as climate change mitigation²¹. The Pan African Agenda sets out milestones for all Member States to establish national ecosystem restoration plans by 2025 and, collectively, restore 200 million ha of degraded ecosystems of various types by 2030, providing direct benefits for livelihoods. DFIs have a key role to play in supporting the Pan African Agenda and Member States realising the benefits of ecosystem restoration. Financing for the Pan African Agenda will come from a range of public, private and international sources. This includes the African Development Bank, with the New Partnership for Africa's Development Planning and Coordinating (NEPAD) Agency serving as lead coordinating institution. DFIs can assist African countries further on development projects linked to ecosystem restoration to leverage funding from different sources, engaging the private sector and developing innovative financing mechanisms to support ecosystem restoration activities for improved livelihoods.

The African Union Sustainable Forest Management Framework also highlights the immense potential contribution of forests to Africa's socio-economic development. It sets out five critical priority areas, the first is to enhance the value of forests, sustainable production, processing, markets and trade for forest products and ecosystem services²². It highlights the role the African Development Bank plays in funding projects on industrial plantations, conservation, restoration of degraded forests, agroforestry and institutional capacity to realise enhanced economic and social welfare returns from forest management. It also reiterates the importance of maintaining efforts to increase funds for Sustainable Forest Management in Africa, particularly as Official Development Assistance is decreasing.

The second intervention is the **development and management of national parks and other protected areas**. Whilst traditionally viewed as opportunity costs, protected areas are increasingly being appreciated as socio-economic assets that deliver a range of economic and employment opportunities, as well as wider social welfare, landscape resilience, climate mitigation and nature conservation benefits. Yet they are often overlooked in economic development and recovery plans. One reason being, lack of data on the role protected areas can play in stimulating local and national economies, particularly in developing countries.

A study commissioned by the World Bank makes the case that promoting sustainable and inclusive tourism in protected areas can contribute to economic recovery following the COVID-19 pandemic. It highlights that investment in protected areas generates high economy wide returns via nature tourism. The study analyses the economic impact of direct and indirect tourism expenditure in eight protected areas, comprising two from each of the countries, Zambia, Nepal, Fiji and Brazil. Direct expenditure by tourists is on park fees, hotels, transport, leisure and recreation which creates local employment. Indirect expenditure then arises as tourism businesses and employees use the services of other local businesses.

²¹ <https://wedocs.unep.org/handle/20.500.11822/29395>

²² https://pfb-cbfp.org/news-partner/SFM-Convergence-Plan.html?file=files/docs/news/6-2020/SFM_Framework_EN_lowres_02.pdf

Collectively, the World Bank Report estimates that for every dollar invested in protected areas, economic returns of \$6.2–\$28.2 are generated²³. Simultaneously, the Africa's Protected Natural Assets report provides substantive evidence of how more than 7000 conservation areas makes substantial contributions to societal wellbeing and human welfare across Africa²⁴. This reveals the role that DFIs can play in highlighting investment in protected areas as important socio-economic development projects to governments and investors. Box 3 provides more details on the Zambia case study.

BOX 3: INVESTING IN ZAMBIA'S NATIONAL PARKS AND RETURNS FROM NATURE-BASED TOURISM

The World Bank report analysed the impact of tourism expenditure around Zambia's lower Zambezi and South Luangwa National Park. The annual estimated rate of return from tourism expenditure for each dollar invested in protected areas was 16.7 and 28.2, respectively. This also generated jobs for 14% and 30% of the local working age populations, respectively²⁵.

The intervention for **resources to address the drivers of desertification, land degradation and drought** has linked interventions to addressing habitat degradation where natural capital approaches are concerned. Two large scale continental wide projects are highlighted, both aiming to restore 100 million hectares of ecosystems. These are the Great Green Wall Initiative (GGW) and the African Forest Landscape Restoration (ARL) Initiative. The role of DFIs in these is highlighted in Box 4.

BOX 4: ROLE OF DFIS IN GREAT GREEN WALL (GGW) AND AFRICAN FOREST LANDSCAPE (AFL100) INITIATIVES.

Since 2007, the GGWI is being implemented in the southernmost border of the Sahara Desert and aims to ensure restoration of 100 million hectares of land, provide food security for 20 million livelihoods, create 350,000 green jobs, and sequester 250 million tonnes of carbon by 2030²⁶. The Great Green Wall is an extraordinary collaborative effort on an unprecedented scale, it involves more than 20 African partner countries and a broad set of international partners²⁷. In 2021, the AfDB pledged to mobilise USD 6.5 billion in support of the GGWI over the next 5 years, highlighting a lack of resources to adapt economies to the consequences of climate change as one of the main constraints on the Sahel region's development. The European Investment Bank is supporting governments, private sector, private funds and micro-finance institutes to be part of the GGW efforts. The French Development Agency have pledged €600 million over the 2021-2025 period of the GGW, with the aim to strengthen the resilience of rural populations and land-based economic activities. The World Bank plans to invest more than \$5 billion between 2020 and 2025 across 10 countries of the Sahel, Lake Chad and Horn of Africa regions. This will fund over 60 projects to restore degraded landscapes, improve agriculture productivity, increase climate resilient infrastructure and boost livelihoods and jobs. Funding for the GGWI is also being provided via the Global Environment Facility, European Commission, Green Climate Fund and International Fund Agriculture Development²⁸.

The African Forest Landscape Restoration (AFR100) Initiative is a country-led programme to restore 100 million hectares of deforested and degraded landscapes across Africa by 2030. It is being supported by the World Bank via its landscape restoration portfolio. The NEPAD Agency of the African Development Bank is providing the secretariat and will play a key role in strengthening collaboration on the continent.

23 <https://openknowledge.worldbank.org/handle/10986/35737>

24 <https://www.giz.de/de/downloads/giz-2021-en-africas-protected-natural-assets-full-report.pdf>

25 <https://openknowledge.worldbank.org/handle/10986/35882>

26 <https://www.greatgreenwall.org/2030ambition>

27 <https://www.greatgreenwall.org/partners>

28 https://static1.squarespace.com/static/564a15a0e4b0773edf86e3b4/t/6152fd627c3cb34be41dbe29/1632828805698/Technical+brief+GGWA+sept21_clean.pdf

The intervention for the **protection of the ocean environment to support biodiversity, climate resilience and the blue economy** recognises the potential for marine and other aquatic ecosystems for wealth and job creation, food security and economic development as highlighted in the Africa Blue Economy Strategy²⁹. The strategy highlights the importance of coastal tourism, contributing 3.4% to GDP in 2018 and highlights the role that developing eco-tourism in the sub sector can play in ecosystem conservation. It also highlights opportunities to develop coastal wetland projects to generate climate finance. One of the ways DFIs are supporting delivery of a ‘Sustainable’ Blue Economy, is by signing up to the Sustainable Blue Economy Finance Principles, the first global framework for guiding finance and investments towards Sustainable Blue Economy pathways³⁰. These Principles are hosted by UNEP FI, with over 70 members from public and private sector FIs, the World Bank, Asian Development Bank, European Investment Bank and European Bank for Reconstruction and Development are all now signatories to the Principles.

Concerning the Action Plan intervention **to raise political ambition on nature-based solutions to climate change**, the potential for nature-based solutions for climate change mitigation was recognised at the UNFCCC Convention of the Parties in Glasgow 2021 (CoP 26)³¹. These are land-stewardship actions that capture or reduce greenhouse gas (GHG) emissions by protecting, better managing and restoring ecosystems. Such actions that can deliver low-cost climate mitigation solutions (i.e., relatively low mean marginal abatement cost per tCO₂e)³². Nature-based solutions for climate change adaptation are covered elsewhere in this brief.

“LOSSES ARE RISING FROM CLIMATE CHANGE, AND ARE LIKELY TO EXCEED US \$ 50 BILLION A YEAR BY 2040, AND YET OUT OF OVER US \$600 BILLION OF CLIMATE FINANCE COMMITTED IN 2020, ONLY ABOUT 3 PERCENT CAME TO SUB-SAHARAN AFRICA”

Gareth Phillips, AfDB

As climate finance acts as a critical enabler of the Green Recovery Action Plan, establishing a pipeline of projects on nature-based solutions for climate change mitigation will provide cost-effective options for attracting climate finance. Thereby, transforming African countries Nationally Determined Contributions into a pipeline of bankable projects can deliver multiple co-benefits (including for adaptation). Existing climate finance facilities and tools supported by DFIs can facilitate this and bring these projects to the market. Box 5 provides an example for South Africa.

BOX 5: DEVELOPMENT BANK OF SOUTH AFRICA’S CLIMATE FINANCE FACILITY

The Climate Finance Facility (CFF) of the Development Bank of Southern Africa (DBSA) is a specialized lending facility designed to upscale and incentivise private investment in low-carbon and climate-related infrastructure projects across the Southern African Development Community (SADC) region including South Africa, Namibia, Lesotho, and Eswatini. Launched in Feb 2019, the CFF is an example of a “green bank” model applied to an emerging market and offers significant proof-of-concept value to middle and low-income countries intending to scale up private investment for meeting the commitments under the nationally determined contributions, SDG targets, and the Paris Agreement. It will deploy capital to fill market gaps, coupled with de-risking and increasing the bankability of climate projects to crowd in private sector investment³³. CFF is utilizing two main credit enhancement instruments i.e., long-term subordinated debt and tenure extension. It has raised an initial \$110 million with DBSA and Green Climate Fund (GCF) as the two anchor funds. The programme has a lifespan of 20 years with a 5-year implementation period³⁴.

29 https://www.au-ibar.org/sites/default/files/2020-10/sd_20200313_africa_blue_economy_strategy_en.pdf

30 <https://www.unepfi.org/blue-finance/the-principles/>

31 <https://www.un.org/en/climatechange/cop26-day-7-sticking-points-and-nature-based-solutions>

32 <https://www.nature.com/articles/s41558-021-01198-0>

33 https://greenbanknetwork.org/wp-content/uploads/2019/07/Convergence__Climate_Finance_Facility_Case_Study__2019.pdf

34 https://greenbanknetwork.org/wp-content/uploads/2019/07/Convergence__Climate_Finance_Facility_Case_Study__2019.pdf

The intervention for **development and application of tools to better integrate nature and natural capital** recognises the need for communication and awareness creation on natural capital and ecosystem values to support better management. This is also identified as a prerequisite for forest management in Africa under The Sustainable Forest Management Framework for Africa. The development of national accounts of biodiversity and ecosystem services, including on the cost--benefits of restoration, to inform policy and decision--making is also recognised as a research priority for the Pan-African Action Agenda on Ecosystem Restoration for Increased Resilience. DFIs can play a key role in supporting countries to build and strengthen their knowledge base for implementing natural capital approaches in this regard. The World Bank has supported many countries in Africa via its Wealth Accounting and the Valuation of Ecosystem Services partnership and Global Program on Sustainability³⁵. As well as providing direct assistance and platforms for experience sharing, there are networks on mainstreaming natural capital in Africa that DFIs should participate in (Box 6).

BOX 6: AFRICAN NETWORKS FOR MAINSTREAMING NATURAL CAPITAL

The **Africa Natural Capital Accounting Community of Practice (NCA-CoP)** is a regional hub of learning and knowledge exchange devoted to foster the compilation of natural capital accounts in support of the design, implementation, and evaluation of green climate-friendly policies for sustainable development in Africa. It brings together government institutions, non-governmental organisations, and academia for building momentum in mainstreaming natural capital accounting in statistical production and policy. It was established with the support of the World Bank in 2019³⁶. In Africa, the biggest banks and insurers have also come together to form the **African Natural Capital Alliance (ANCA)** to tilt efforts on shifting financial flows from actions that degrade natural capital towards long-term stewardship of nature for sustainable economic growth. ANCA strives to ensure that policies and practices of companies, financial institutions, policymakers and regulators, integrate the risks and opportunities of natural capital³⁷.



© Justin Jin / WWF France

35 <https://www.wavespartnership.org/>

36 <https://ecastats.uneca.org/ncacop/About>

37 <https://africabusinesscommunities.com/banking-and-finance/news/african-financial-institutions-uneca-and-fsd-africa-form-african-natural-capital-alliance/>

CLIMATE SMART AGRICULTURE AND GREEN AND RESILIENT CITIES FOR GREEN RECOVERY

The Economics for Land Degradation (ELD) initiative provides several economic analyses that demonstrate investing in climate resilient agricultural techniques, such as agroforestry, silvopasture and sustainable land management that can enhance both food security, productivity and deliver multiple wider benefits³⁸. These would support **integrated food production systems** that deliver multiple benefits highlighted under the climate smart agriculture priority area of the Green Recovery Action Plan. However, the upfront costs of these interventions are often high. These are types of opportunities DFIs can target for further support, where high investment costs create a barrier to the uptake of natural capital approaches despite them delivering favourable public and private returns over the long run. Box 7 provides an example from Rwanda.



© Brent Stirton / Reportage for Getty Images / WWF

BOX 7: HOW NATURAL CAPITAL APPROACHES CAN SUPPORT SUSTAINABLE INVESTMENTS AND MARKETS³⁹

The International Finance Corporation of the World Bank highlights how considering natural assets and the services they provide alongside financial assets offers insight for building long-term sustainability and resiliency in private sector activities. It lays out an example for the tea production sub-sector in Rwanda, given emerging concerns on the reliability of income streams for farmers, erosion, flooding and landside risks associated with climate change. A natural capital approach was employed to estimate the benefits of planting high-yielding tea varieties using contour planting on slopes previously used to grow corn.

Investing in contour planting meant higher upfront costs. However, in combination with the perennial cover of tea plants, soil erosion and surface water runoff would be reduced. With contour planting, a smallholder's income increased by US\$1,260 per hectare annually, and downstream farmers benefitted from lower potential financial losses valued at US\$510 per hectare on an annual basis. Given likely increased rainfall under climate change, this intervention also made the tea plantation landscapes more resilient. The assessment supports discussions on financing upfront costs for implementation.

³⁸ <https://www.eld-initiative.org/en/where-we-work/africa/>

³⁹ https://www.ifc.org/wps/wcm/connect/5c60c3de-598a-461e-a3a5-119000c498ec/EMCompass_Note+92-Natural+Capital_web_FINAL+2020_updated.pdf?MOD=AJPERES&CVID=nqxc2W



Africa is exposed to many water-related risks, such as water pollution, floods, droughts and water scarcity, which are likely to become more acute with climate change. The green and resilient cities priority area of the Green Recovery Action Plan highlights **investment in improved management of water resources, such as river basin catchments, impoundments and lakes** as an intervention. A recent review identified actions to remove non-native vegetation which can increase water availability and restoring native forests can increase water availability in the dry season⁴⁰. Box 8 provides a case study of such actions to improve water security for Cape Town, South Africa.

The potential for nature-based solutions to many **other urban development challenges** is being recognised. A recent report highlights the substantial urban heat island mitigation benefits of planting trees in Tshwane City, South Africa could be realised given predicted climate change impacts⁴¹. A similar study highlights potential benefits from planting urban trees in Addis Abba for mitigating urban air pollution health impacts and flood damage⁴². A key constraint to adoption of urban natural capital approaches is that investors often lack key information on business opportunities and risk profiles related to them and many of the wider benefits they deliver are public in nature. DFIs can help address this with grants and concessional loans to encourage the development of bankable pipeline of projects for urban nature-based solutions, de-risk private sector participation and aggregate projects to facilitate private and institutional investment at scale⁴³.

BOX 8: BUSINESS CASE FOR WATER FUNDS, CAPE TOWN, SOUTH AFRICA⁴⁴

In the Greater Cape Town region, water security has been a major concern, especially since the city faced a three-year drought during 2015-2018. Around water catchments of the region, invasive alien plants including Australian acacias, consume up to 20% more water per hectare than the native fynbos vegetation. The Greater Cape Town Water Fund Steering Committee put forward a business case for restoration of priority watersheds to boost water supply. Results show that investing R372 million (USD 25.5 million) to clear invasive weeds in priority catchments will generate expected annual water gains of 100 billion litres within 30 years. Catchment restoration is significantly more cost-effective than other water augmentation solutions, supplying water at 10% to 35% of the unit cost of alternative options, such as desalination or groundwater exploration. Approximately 350 job opportunities will be created in the first five years of implementation. The project would also deliver improvements to local native biodiversity.

40 https://wwfint.awsassets.panda.org/downloads/waterways_to_resilience_naturebased_solutions_wwfabinbev.pdf

41 https://wwfint.awsassets.panda.org/downloads/making_the_case_for_investing_in_nature_based_infrastructure.pdf

42 <https://nbi.iisd.org/wp-content/uploads/2022/04/savi-tree-planting-addis-ababa-ethiopia.pdf>

43 https://www3.weforum.org/docs/WEF_BiodiverCities_by_2030_2022.pdf

44 <https://www.nature.org/content/dam/tnc/nature/en/documents/GCTWF-Business-Case-April-2019.pdf>

ROLE OF DFIS IN MAINSTREAMING NATURAL CAPITAL APPROACHES INTO GREEN RECOVERY

The Green Recovery Action Plan sets out multiple intervention areas where natural capital approaches can contribute to green recovery. The case studies highlighted above illustrate where natural capital investments, such as nature-based solutions, can support green recovery. Natural capital approaches are shown to yield relatively high job creation and deliver longer-term co-benefits, including climate change adaptation and mitigation, improved food and water security, and better conservation outcomes. The case studies presented reveal DFIs are already playing a major role in mainstreaming natural capital approaches into green recovery and development in Africa.

However, there remain multiple hurdles to negotiate on the pathway to mainstreaming natural approaches for a green recovery. Different countries show varying progress in overcoming these. These barriers can be broadly grouped into those related to building and institutionalising knowledge on using natural capital approaches to inform development projects and those related to enabling the financing for their implementation (Figure 1).



© Brent Stirton / Reportage for Getty Images / WWF

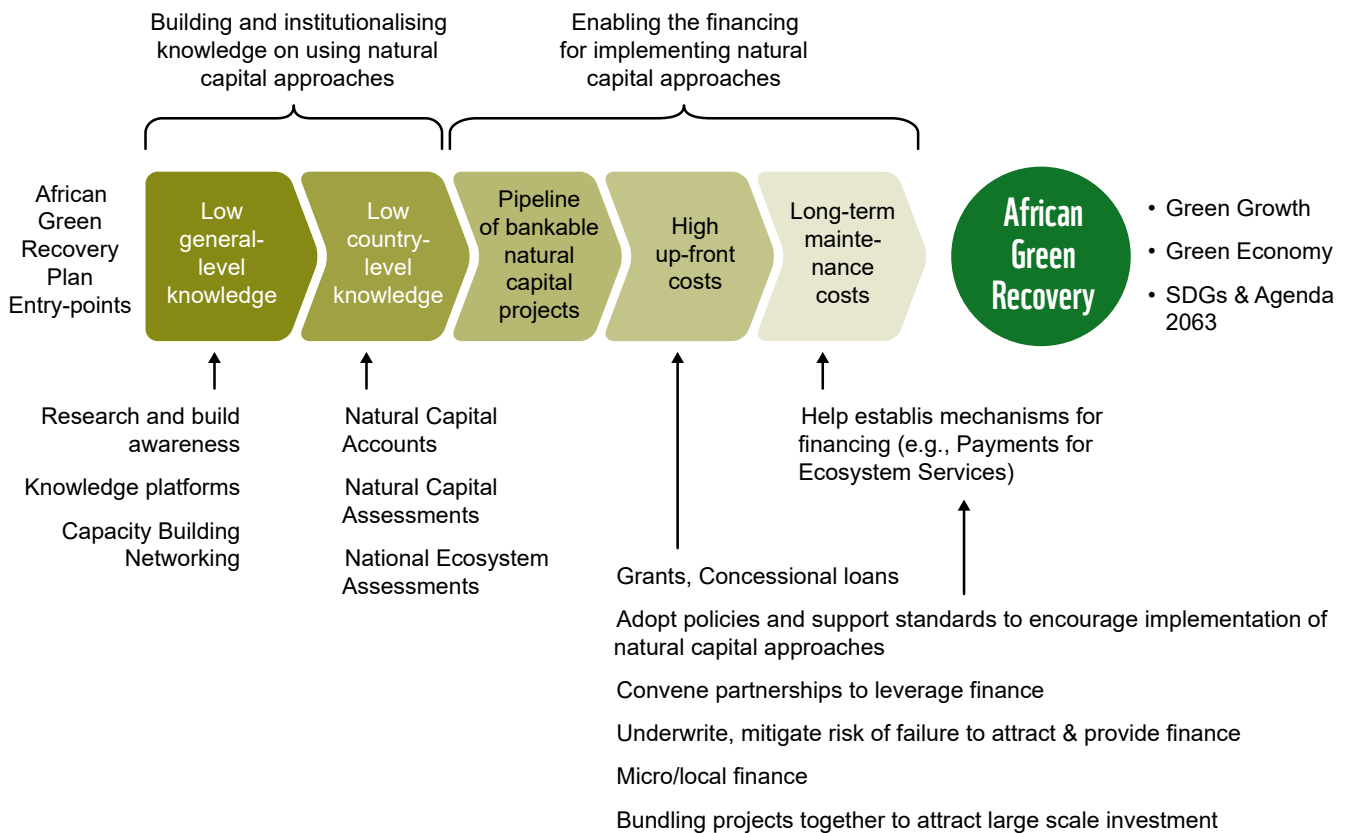
The World Bank and African Development Bank have greatly contributed to building the knowledge base on natural capital approaches to development planning, from continental efforts linked to sustainable forestry to local efforts in protected areas and tea plantations. As such, DFIs should not ignore the importance of assisting countries in developing their information systems for natural capital so they are enabled to formulate well-designed bankable projects that provide attractive natural capital investment opportunities. By supporting and participating in the networks and partnerships on natural capital mainstreaming in Africa, DFIs can also better understand and contribute to this agenda.

“GREEN TECHNOLOGIES WOULD LEAPFROG INFRASTRUCTURE BACKLOGS IN DIFFERENT SECTORS SUCH AS WATER, TRANSPORT, HEALTH AND BIODIVERSITY. THIS MAY ASSIST AFRICAN COMMUNITIES HEDGE THEMSELVES AGAINST FUTURE STRANDED ASSETS.”

Catherine Koffman, Development Bank of Southern Africa (DBSA)

DFIs are playing an important role in creating an enabling environment to encourage investment away from economic activities that damage natural capital and threaten long-term economic prospects, towards projects that enhance it. This includes developing their own policies (e.g., Box 1, AfDB), as well as supporting frameworks such as the Sustainable Blue Economy Finance Principles.

Figure 1. Options for DFIs in supporting Natural Capital Approaches for a Green Recovery in Africa



As the Green Recovery Action Plan identifies, the gap on financing for development in Africa is expected to increase and this clearly creates a barrier implementing development projects to support green recovery. However, natural capital approaches offer an opportunity to attract funding for multiple sources, given the multiple benefits their implementation will realise at the landscape level. This includes attracting climate change financing, a priority area of the Action Plan. The GGWI and AFR 100 projects provide examples of how these opportunities can be realised in practice and at scale. As well as financially supporting these initiatives, DFIs can play a crucial convening role in bringing funders together, as the AfDB are doing as secretariat for the AFR100. This can be replicated at all scales to overcome upfront investment and long-term maintenance costs often associated with implementing natural capital approaches. This is particularly relevant where multiple public good type benefits are realised.

DFIs can also support overcoming investment and maintenance costs for implementing natural capital approaches by:

- Prioritising micro-finance to smallholders and other managers of local natural capital assets, with favourable repayment terms that support actions that enhance natural capital and deliver better long-term outcomes.

- Encourage investments from the private sector in natural capital investments by mitigating or offering guarantees to reduce some of these risks associated with natural capital approaches.
- Bundling projects together to attract large scale investment, for example in the context of green or impact bonds.
- Helping countries to establish payments for ecosystem services and other mechanisms that can establish revenue streams for maintenance of natural capital.

Clearly, the design of natural capital approaches and implementation of associated development projects must be country led. DFIs can support countries in overcoming key barriers mainstreaming natural capital approaches in green recovery planning in Africa. DFIs, including the AfDB, have positioned themselves as catalysts for such transformative change. However, they remain constrained by the availability of scarce public funds. By fostering a more integrated development that recognises different development objectives, natural capital approaches offer a pathway to mobilise finance from multiple sources. In this way, they can help deliver much more effective development planning, with better outcomes for people and nature.



© Meg Gawler / WWF



Working to sustain the natural world for the benefit of people and wildlife.

together possible™ panda.org

© 2023

© 1986 Panda symbol WWF - World Wide Fund for Nature (Formerly World Wildlife Fund)

© "WWF" is a WWF Registered Trademark. WWF, Avenue du Mont-Bland, 1196 Gland, Switzerland. Tel. +41 22 364 9111. Fax. +41 22 364 0332.

For contact details and further information, please visit our international website at www.panda.org