Ninety Fifth Sovereign Debt News Update: African Development Bank and United Nations Environment Programme Partner to Drive Biodiversity Finance in Africa

By:

The African Sovereign Debt Justice Network

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Africa's ecosystems, which are essential to sustaining its biodiversity, are under threat. The continent is home to many of the world's most biodiverse regions, including eight of the 36 recognized global biodiversity hotspots—areas with at least 1,500 vascular plants that are endemic and found nowhere else on Earth, and which have lost at least 70 percent of their primary vegetation.

As a result, the African Development Bank joined forces with the United Nations Environment Programme to advance implementation of the Kunming-Montreal Global Biodiversity Framework in Africa (KMGBF). The framework sets out an ambitious pathway to reach the global vision of a world living in harmony with nature by 2050. The partnership was announced following the Africa, Caribbean and the Pacific regions Multilateral Environmental Agreements Programme Phase III Sub-Regional Workshop hosted by UN Economic Commission for Africa in Addis-Ababa from 25 – 28 July 2023.

The two institutions partnered to establish an Expert Group on Biodiversity Finance, which will provide African countries with knowledge and technical assistance to mobilize greater biodiversity finance for implementation of the framework. The Expert Group on Biodiversity Finance also seeks to offer policy makers and development partners in Africa a platform to connect, share knowledge, approaches, opportunities, and solutions to mobilize biodiversity finance for, nature-positive development pathways in Africa.

The focus will be on achieving Goal D of the Kunming-Montreal Global Biodiversity Framework, which focuses on ensuring adequate financial resources, capacity-building, technical and scientific cooperation, and access to and transfer of technology to fully implement the framework. Goal D also targets closing an annual gap in biodiversity finance of $700 billion and to align financial flows with the Kunming-Montreal Global Biodiversity Framework and the 2050 Vision for Biodiversity.

According to Dr Vanessa Ushie, the Acting Director of the African Development Bank's African Natural Resources Management and Investment Centre, "the African Development Bank recognizes the importance of biodiversity finance in complementing existing development assistance and climate finance to African countries. The magnitude and far-reaching impacts of biodiversity loss in Africa requires innovative financing mechanisms and partnerships that can rapidly scale resource mobilization by public, private and multilateral institutions."

The Challenge of Biodiversity Finance in Africa

Although nature-related risks and the need to protect biodiverse ecosystems are Africa-wide, the priorities and solutions to fund biodiversity protection solutions differ from country to country. To effectively manage Africa's 1,812 national parks, covering 3.1 million square kilo-meters, an estimated annual funding of approximately US$10.2 billion is required, along with an extra US$1 to US$2 billion annually for protected areas that are home to lions. Currently, only 19 percent of Africa's land and 17 percent of the seas around the continent are protected in one form or another. An estimated annual funding of approximately US$20 billion to US$25 billion is needed to align with the 30 by 30 objective.

It is true, as noted by Dr Ushie, that the magnitude and far-reaching impacts of biodiversity loss in Africa requires innovative financing mechanisms and partnerships that can rapidly scale resource mobilization by public, private and multilateral institutions. It is also true that on the other hand, such resource mobilization by public, private, and multilateral institutions has uncountable adverse implications on African countries. Notably, the cost of biodiversity loss goes deeper than the cost of financing solutions. Biodiversity loss has the potential to impact a country's economy at many levels, including trade, security of supply, energy transition and even human health and safety. Partial ecosystem collapse in areas such as fisheries, tropical timber production and wild pollination could potentially lead to credit downgrades for certain African countries. These downgrades could significantly decrease the availability of funding or increase the annual interest payment on debt, leaving many developing nations at significant risk of sovereign debt default and/or fiscal shortages. There is a compelling economic rationale for African sovereigns to take action to prevent, mitigate or reverse adverse biodiversity impacts.

Additionally, as concerns private finance in Africa, the African Sovereign Debt Justice Network (AfSDJN) observes that there is widespread scepticism about the actual ability of private finance to achieve their biodiversity conservation goals. Environment, Social, and Governance (ESG) frameworks might embed an inherent bias towards developed market sovereign issuers, leading to increased financing costs for emerging markets like those in Africa. On a more structural level, from a development perspective, there is fear that the rise of private biodiversity finance will reduce the role of official lenders such as the African Development Bank, the International Monetary Fund (IMF) or the World Bank and increase the influence of private markets. As a result, in its newly launched book, the AfSDJN emphasizes why the global climate and biodiversity finance and debt governance priorities must reflect and align with the climate and biodiversity justice demands of the countries that contributed least to the devastating impact of climate change and biodiversity loss for their peoples.

Moreover, multilateral development banks (MDBs) are creating new avenues to accommodate private sector investment. For instance, the AfDB recently announced collaboration between APG Asset Management, Achmea and African Development Bank, supporting the bank's sustainable development loans by providing capital through the US$1 billion ILX Emerging Market Private Credit Strategy Fund I. The cooperative agreement between the parties seeks to show how grant funding—from government institutions in the UK, Netherlands and Germany—can be effective in mobilizing large-scale capital from pension funds to multilateral development banks and other DFIs to support projects for sustainable development goals (SDG) in emerging markets. In this case, the funding enables the African Development Bank to consolidate financial resources from institutional investors in order to close the financing gap required to meet the bank's environmental ambitions for providing loans to the private sector in 54 African states.

However, on the grand scheme of events, it is clear that these MDB avenues seek to make investment more profitable for the private sector. The (optimistic) rationale of these avenues is the need to ‘incentivise’ private capital to ‘crowd in’ economic growth, biodiversity and development financing. However, this assumes that it is possible to equate commercial goals and the public interest, which is not always the case without creating financial barriers that undermine access to public services, such as user fees.

Furthermore, sovereign issuances to address biodiversity crises are also developing in emerging markets, including market mechanisms such as SDG-linked or sustainability-linked bonds (SLB), as well as green bonds and green loans. Arguably, the flexibility of instruments such as SLBs that link to forward-looking targets, makes these instruments more attractive to emerging market issuers. However, these instruments have significant adverse impacts which should not be ignored. For instance, whereas the step-up provisions in SLBs aim to deter non-compliance with the predetermined sustainability performance targets and key performance indicators, the challenge these step-up provisions present to sovereigns is that the higher returns going to investors for sovereign issuers' failure to meet sustainability targets - which by definition are failures that harm humans and nature, means the debt payable by the sovereign issuer will increase. This has an impact on the citizens. For example, unsustainable debts that may result from inter alia, increased debt servicing as a result of SLB step-up provisions have adverse impacts on the realization of human rights and biodiversity conservation objectives of the sovereign issuer. The adverse implications may occur through diversion of resources from fundamental social services to servicing of SLB penalty. This has consequential impacts on the issuer’s sustainable development objectives.

With the foregoing in mind, it is imperative to note that no matter what the scale of the issue or the solutions, driving change for biodiversity protection in Africa requires a concerted and inclusive approach that accommodates the needs of all stakeholders, most importantly the citizens. Therefore, any innovative forms of financing for biodiversity conservation from public, private or multilateral institutions should ensure that their key goal is to ensure sustainable biodiversity conservation.

Besides, a number of debt-related proposals are being made to fill the biodiversity finance gap. While each proposal is unique and may present some benefits in specific contexts, they cannot be seen as adequate solutions on their own. As shown, many also present risks, such as adding to debt burdens, placing the financial onus of addressing the biodiversity crisis onto vulnerable countries, and opening the door to conditionality which historically has involved austerity measures at a national level, causing immense harm to communities. Therefore, wealthy polluting governments must provide adequate, better quality, new and additional grant-based biodiversity finance so vulnerable African countries are not forced to pay for a crisis they did not create. There is also need to introduce a multidimensional vulnerability index to enable all vulnerable countries to access grants irrespective of income status.

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