

# Public development banks and biodiversity

How PDBs can align with the Post-2020 Global Biodiversity Framework

**FINAL REPORT – June 2021**

## *Key findings on*

- *How Public Development Banks are 'greening finance' to avoid harm to nature, and 'financing green' to support investments that benefit nature*
- *Practical steps that Public Development Banks can take towards nature-positive investment that supports global biodiversity goals and targets.*

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**Citation:** WWF & The Biodiversity Consultancy 2021. *Public development banks and biodiversity: How Development Finance Institutions can align with the Post-2020 Global Biodiversity Framework*. Full Report, WWF France.

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**Cover photo:** Aerial view of mangroves, The Gambia. © Shutterstock. Mangrove restoration is a nature-based solution providing benefits for climate mitigation, disaster risk reduction and fisheries.

**Disclaimer:** This report includes interpretation of interview conversations and survey responses from Public Development Bank staff and subject matter experts. The views expressed do not necessarily correspond to those of specific Public Development Banks, WWF or The Biodiversity Consultancy.

## **Acknowledgements**

This report was prepared by The Biodiversity Consultancy (TBC) under contract to WWF (World Wide Fund for Nature) France, with funding support from WWF Germany and Agence Française de Développement. Renaud Lapeyre (WWF-France) was responsible for steering and co-ordinating this study, reviewing the report and drafting a revised Abridged Version. We are grateful to members of the WWF Steering Committee and other reviewers for contributing valuable insights, guidance and review: Elizabeth Aceituno, Celine Beaulieu, Hugo Bluet, Kai Dombrowski, Hongxia Du, Magnus Emfel, Sergiu Jiduc, Matthias Kopp, Bruce Liggitt, Beatriz Merino, David McCauley, Antoine Maudinet, Guenter Mitlacher, Florian Titze and Helena Wright. We sincerely thank all the Public Development Bank staff and subject matter experts who generously made time available for interviews and for completing the online survey.

*This report version: version 5, dated 14 June 2021*

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## Table of acronyms

AFD	Agence Française de Développement
AfDB	African Development Bank
ADB	Asia Development Bank
BDB	Bilateral Development Bank
CBD	Convention on Biological Diversity
CoP	Conference of Parties
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EIA	Environmental Impact Assessment
ESIA	Environmental and Social Impact Assessment
GBF	Post-2020 Global Biodiversity Framework
GCF	Green Climate Fund (GCF)
GDP	Gross Domestic Product
GEF	Global Environment Facility
IDB	Inter-American Development Bank
IESC	Independent Environmental and Social Consultant
IFC	International Finance Corporation of the World Bank
MDB	Multilateral Development Bank
NbS	Nature-based solutions
NDB	National Development Bank
ODA	Official Development Assistance
PS	Performance Standards
PS6	IFC's Performance Standard 6 on biodiversity and living natural resources
RDB	Regional Development Bank
SME	Small and Medium-sized Enterprise / Subject Matter Expert
TCFD	Task Force on Climate-related Financial Disclosures (TCDD)
TNFD	Task Force on Nature-related Disclosures (TNFD)
UNEP FI	United Nations Environment Programme Finance Initiative
WB	World Bank / International Bank for Reconstruction and Development

# Executive Summary

## Background

Science has never been clearer about the unprecedented extent and rate at which biodiversity is being lost<sup>1</sup>, pushing vital ecosystems like oceans, forests, and rivers to dangerous tipping points. This erosion of global biodiversity is essentially caused by human activities. The erosion of biodiversity features high on the agenda of crucial international negotiations on climate, sustainable development, and biodiversity now scheduled for 2021, including on the Convention on Biological Diversity's (CBD) post-2020 global biodiversity framework<sup>2</sup>. Preparatory documents and negotiations on the framework highlight that a coherent and concerted approach across the whole of society will be essential if we are to achieve global goals for nature.

More than half of the world's total GDP is moderately or highly dependent on nature and its services<sup>3</sup>. Yet in our globalized economy the impacts of damaging nature are not accounted for in the valuation of goods and services, or in the share prices of the companies that are responsible for that damage. Financial flows to conserve nature are hugely outbalanced by financing targeted to activities that are directly harmful to biodiversity.

Financial institutions themselves have little direct impact on nature but are funding destructive activities in many sectors such as agribusiness and fisheries, extractive industry, infrastructure and urban development, not to mention the harmful effects on ecosystems of human-induced climate change. Only a fraction of this global investment is being mobilized under appropriate conditions for environmental safeguarding and nature protection.

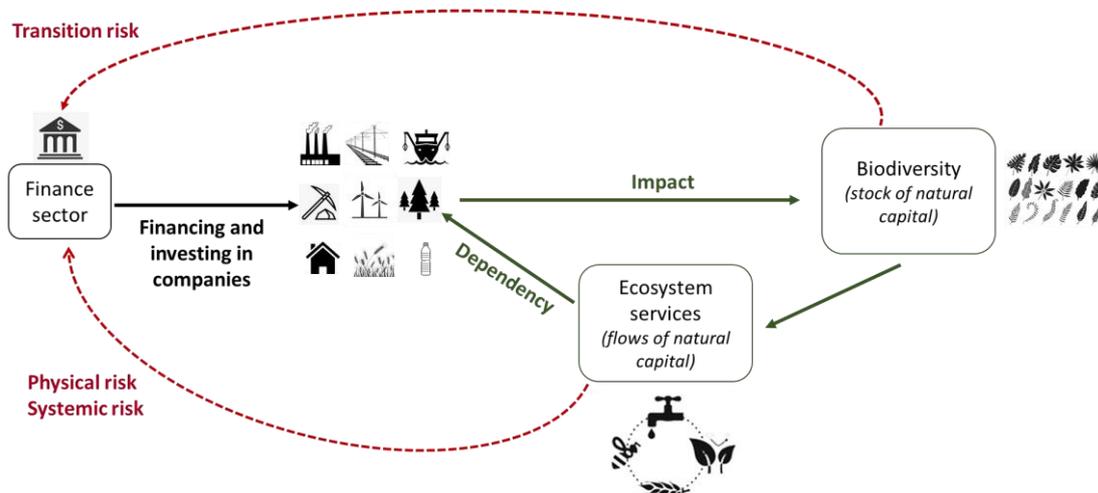


Figure A. Relationship between financial sector, economy, biodiversity and ecosystem services, and resulting risks<sup>4</sup>.

<sup>1</sup> IPBES 2019; WWF 2020a; WEF 2021

<sup>2</sup> <https://www.cbd.int/conferences/post2020>

<sup>3</sup> World Economic Forum (WEF) 2020

<sup>4</sup> Partially adapted from van Toor et al. 2020

Recent published studies have highlighted how harming nature translates into tangible and pervasive risks for investors and businesses, including physical, transition and systemic risk (Figure A).

These biodiversity risks translate directly into impacts on finance (Figure B).

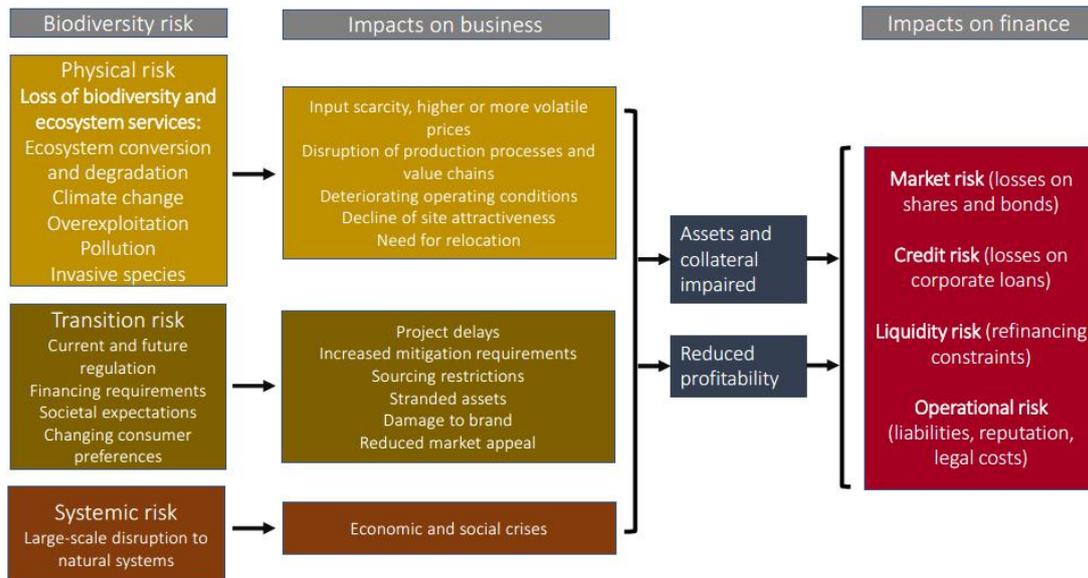


Figure B. Relationship between financial sector, economy, biodiversity and ecosystem services, and resulting risks<sup>5</sup>.

In response to this, it is imperative that the finance sector addresses the impacts of its investments on nature. This requires combining two approaches:

- **Greening finance:** so that investment decisions include better consideration of nature-related risks and impacts, to avoid, minimise, restore and when necessary offset negative impacts to biodiversity.
- **Financing green:** through investments that can create a positive impact on nature, for example through protection and restoration of degraded habitats, or by economic and social development that reduces the pressures on biodiversity. Such investments are increasingly termed 'nature positive'.

Public Development Banks have a unique role to play in shifting financial flows towards sustainability. Financing by PDBs is significant in itself, amounting to c. 2.3 trillion annually or about 10% annually of all private and public financing<sup>6</sup>. But PDBs have much greater influence than this share would suggest. As stated in the 2020 Joint Declaration of all PDBs in the World, "With our public mandates and roots in our respective economic and social fabrics, we build bridges between governments and the private sector; between domestic and international

<sup>5</sup> Partially adapted from van Toor et al. 2020

<sup>6</sup> Basu et al. 2020

agendas; between global liquidity and microeconomic solutions; and between short-term and longer-term priorities. We can significantly contribute to reorienting global finance towards climate and SDGs.”

## Aims

This study aimed to:

- Review and assess how PDBs currently integrate nature in their processes and business models,
- Outline practical recommendations for how this could be improved, to strengthen the role of PDBs in supporting the post-2020 Global Biodiversity Framework and the 2030 Agenda for Sustainability,

with a focus on the two linked but complementary aspects of ‘greening finance’ and ‘financing green’.

## Methods

We compiled information through:

- Identifying and listing PDBs, reviewing documentation for a sample of 98 institutions, and extracting information in AFD’s global database of Public Development Banks<sup>7</sup> when this became available
- Developing and circulating a detailed online survey questionnaire, and analysing the 22 responses
- Thirty-four in-depth semi-structured interviews involving 32 PDB staff from 17 institutions and seven subject matter experts, followed by thematic analysis
- Compiling and rapidly reviewing around 150 further relevant reports and other documents.

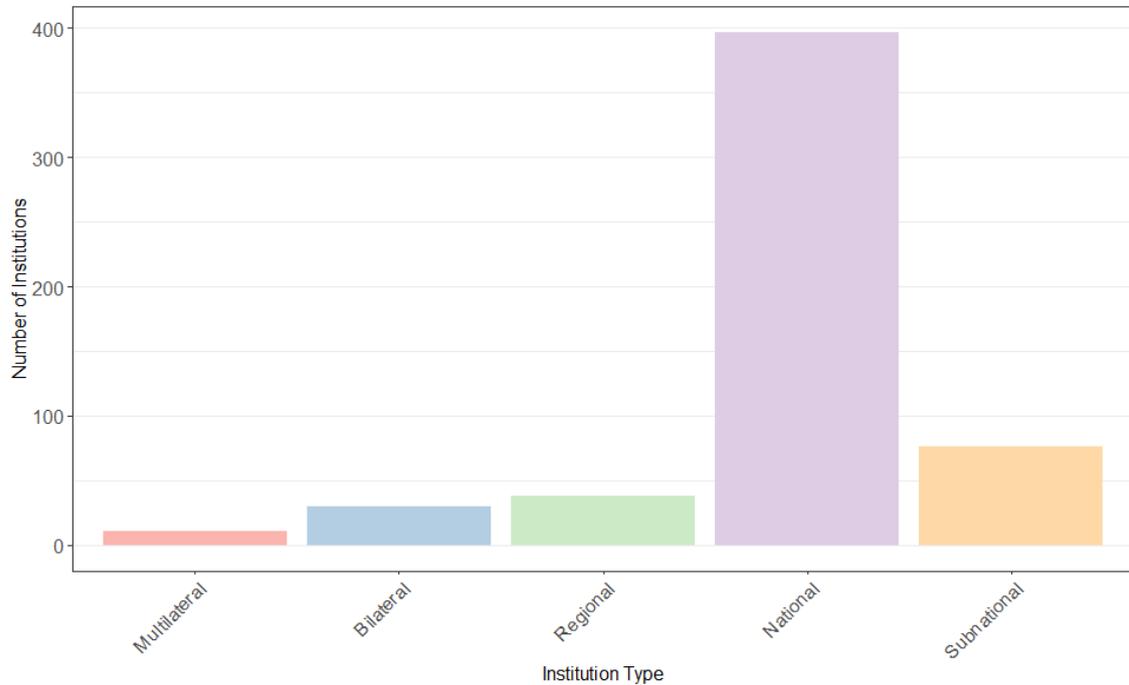
## Public Development Banks

- Public Development Banks (PDBs, also sometimes called Development Finance Institutions, DFIs) are financial institutions with a mandate to finance a public policy on behalf of the State. They have independent financial and legal status but operate under the authority and supervision of government.
- PDBs are a very diverse set of institutions. In total, we identified 552 institutions as PDBs, based on membership of industry forums and/or representation in AFD’s recently developed PDBs database.

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<sup>7</sup> AFD 2020a

- For this study, we categorised PDBs (based on ownership, geographic scope and beneficiaries) as multilateral, bilateral, regional, national or sub-national banks. The vast majority of PDBs are national development banks (Figure C).



*Figure C. Number of PDBs of different categories in the global dataset (N = 552 institutions; 11 multilateral, 30 bilateral, 38 regional, 397 national and 76 sub-national)*

- PDBs are fairly evenly spread across continents, with a particularly large number in the Asia-Pacific. The Americas have a notably high number and proportion of sub-national banks, which are unusual in Africa, while bilateral PDBs are concentrated in Europe.
- PDBs range in size over six orders of magnitude. The smallest have assets of US \$2-3 million and the largest, the China Development Bank, has assets of US \$2.4 trillion. Small and mid-size banks (assets between US \$100 million and US \$10 billion) make up the majority (c. 61%) of PDBs (Figure D). While most multilateral development banks (MDBs) are large (assets over US \$ 10 billion) or very large (assets over US \$ 100 billion), regional banks tend to be smaller.

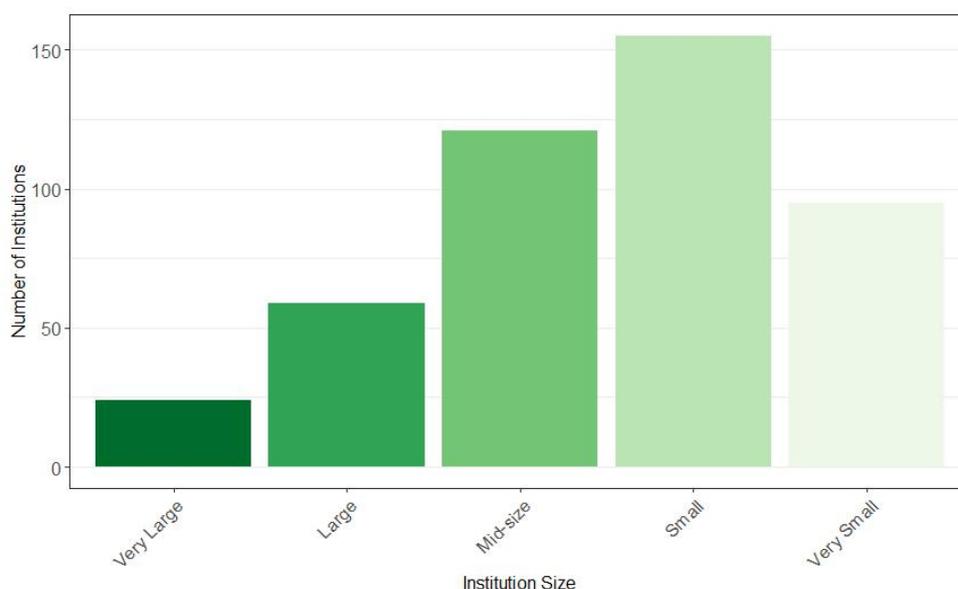


Figure D. The number of PDBs of different size classes ( $N = 454$ ; 98 institutions in the dataset do not have a size class assessed). Source: AFD PDBs Database 2020

- There is a broad range of size in each PDB category, but average (mean) assets for both multilateral and bilateral banks (US\$ 149 and US\$ 139 billion respectively) are around ten times larger than for regional (US \$12 billion), national (US \$ 15 billion) or subnational (US \$ 12 billion) banks.
- Most PDB assets are held by a few very large banks (Figure E). The largest seven PDBs, including three Chinese banks, together hold over half of global PDB assets, compared to only 0.05% held by the smallest 100 banks. Small PDBs (assets < US \$1 billion) and very small PDBs (< US \$100 million) PDBs are concentrated in low and lower-middle income countries.

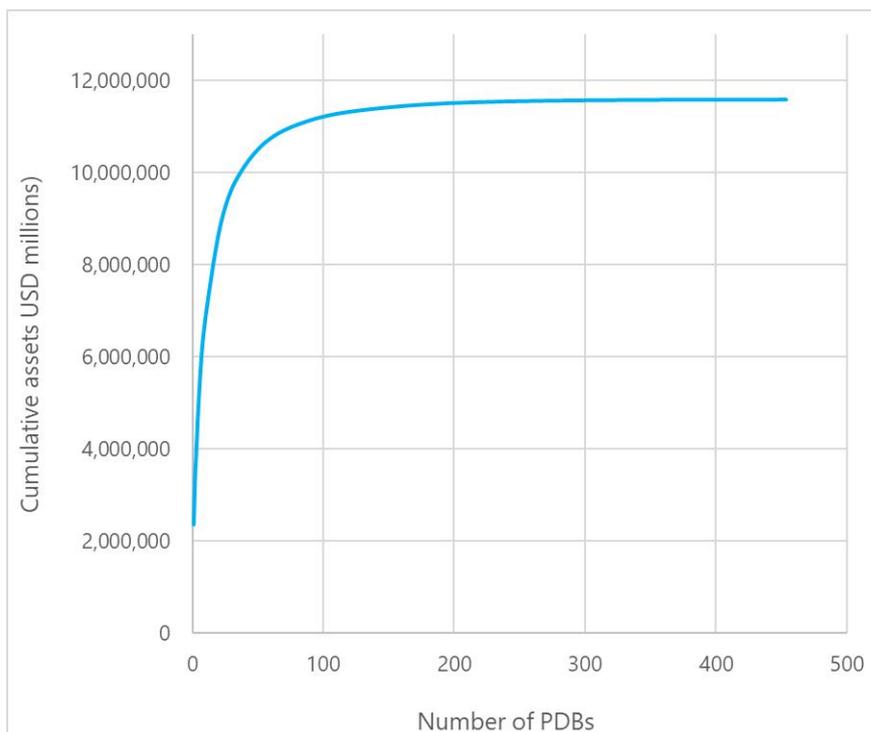


Figure E. Cumulative institutional assets across PDBs ( $N = 454$ ), sorted by asset size. A small number of institutions hold the bulk of total assets. Data source: AFD PDBs Database 2020

### Mainstreaming environmental considerations

- Many PDBs have now made ambitious commitments regarding climate risks in their investments. Implementing these commitments is proving a significant organizational challenge. Respondents suggest that the effort needed to integrate climate considerations may be constraining PDBs from starting on a similar process for nature. On the other hand, climate commitments represent an opportunity to scale up nature-positive investment via nature-based solutions.
- A few prominent PDBs are leading the way to improve biodiversity mainstreaming but at present biodiversity is poorly integrated into the strategies of most larger banks, and is not even on the radar for most smaller ones.

### Sustainability commitments

- PDBs formal mandates are established in legal founding documents and focus on economic and social goals. Only an exceptional few mention environmental protection as part of their mandate. PDBs derive direction from their government owners and are typically supervised by finance ministries. PDB supervisors may not have a clear understanding of nature-related risks which can hinder mainstreaming of nature and environmental sustainability in PDBs' investment decisions. However, PDBs are also often able to influence and guide government on sustainability issues.

- The proportion of reviewed PDBs with stated sustainability commitments<sup>8</sup> decreased from multilaterals through bilateral and regional to national PDBs (Figure F). A similar pattern was evident for specific accreditations or engagements with environmental funds or standards, and for representation of environmental SDGs in PDB reports<sup>9</sup>. Stated commitments for general sustainability were more common than for climate, and still fewer PDBs had stated commitments for biodiversity.

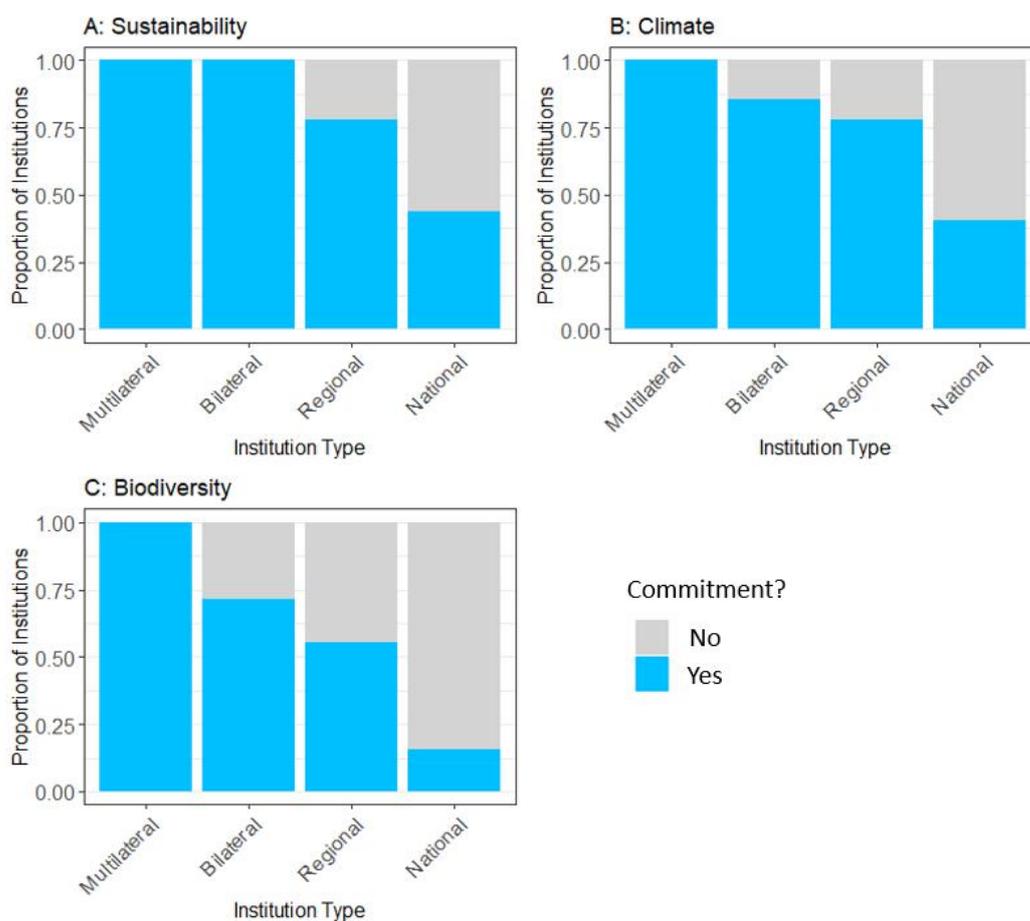


Figure F. The proportion of reviewed PDBs of different types that had stated commitments on (A) sustainability, (B) climate, and (C) biodiversity. Number of PDBs reviewed: Multilateral N = 11, Bilateral N = 21, Regional N = 9, National N = 57

<sup>8</sup> Commitments may be stand-alone statements, included in strategic documents, or expressed through adoption of environmental and social safeguards frameworks.

<sup>9</sup> For 236 PDBs in [AFD's global PDB database](https://www.afd.fr/en/our-work/our-databases).

## Greening finance: reducing harm to biodiversity

### Upstream planning

- Upstream planning (sometimes incorporated in Strategic Environmental Assessment) is a highly valuable and important tool for enabling impact avoidance, and reducing project risks and mitigation costs. However, it is little deployed by PDBs and there are many barriers that prevent it happening. It involves working with government and many other stakeholders; the responsibility of individual PDBs and remit for their involvement may not be clear; it requires significant resources (which are not guaranteed to return from future investment) and can be a lengthy and contentious process. However, IFC has shown the way for other PDBs through pro-active engagement in upstream planning, working at country and sector level to de-risk potential investments.

### Safeguards for biodiversity

- Environmental safeguards<sup>10</sup> are the main mechanism used by PDBs for managing biodiversity risk. Each MDB has its own environmental and social safeguard framework, including standards for biodiversity, while most bilateral development banks have adopted IFC's Performance Standards,. Some banks reference Environmental Impact Assessments (EIAs), thus relying on national regulatory processes. Around half of regional development banks and a large majority of national development banks have no formal biodiversity safeguards (Figure G).

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<sup>10</sup> Policies, standards and operational procedures designed to identify and mitigate adverse environmental impacts that may arise in the implementation of development projects (see e.g. <http://assets.worldwildlife.org/publications/844/files/original/SafeguardsonepagerFINAL.pdf>)

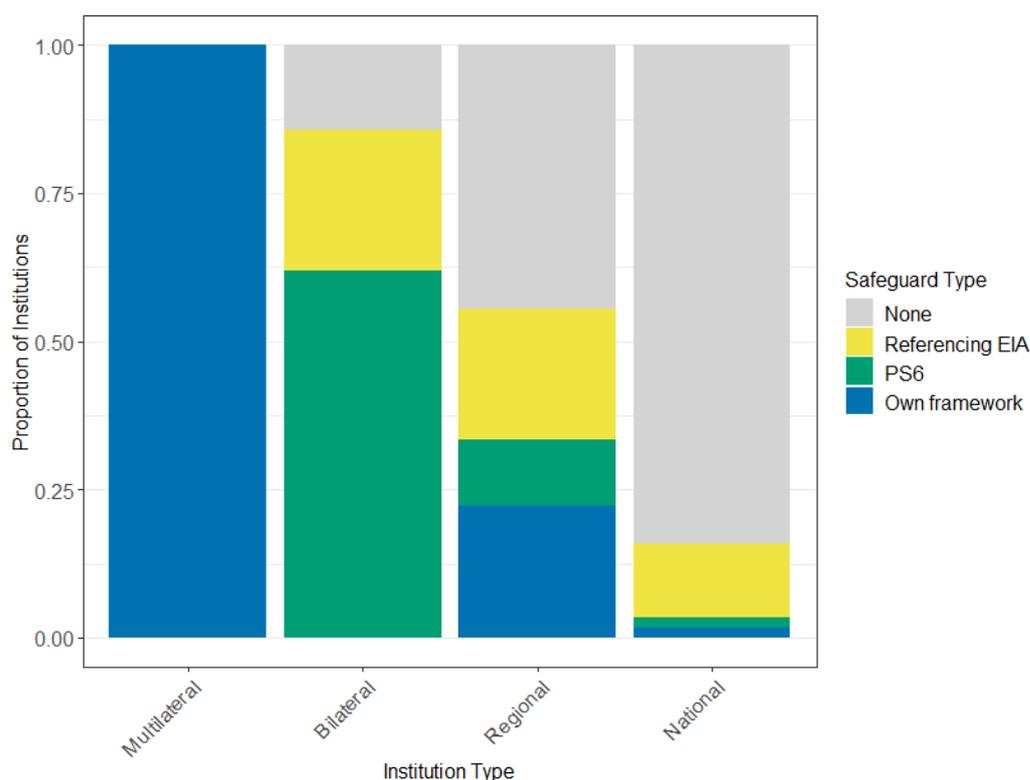


Figure G. Safeguard status of reviewed banks, as proportion of each bank type (Multilateral N = 11, Bilateral N = 21, Regional N = 9, National N = 57)

- [IFC's Performance Standard 6](#) on Biodiversity and Sustainable Management of Living Natural Resources (dating from 2012, with guidance updated in 2019) is widely influential among both public and private banks, and is adopted by the 115 Equator Principles Financial Institutions.
- There is extensive conceptual and practical convergence between the major MDBs' biodiversity standards, expected to be enhanced further by current revisions. Key features of most include:
  - A risk-based approach
  - Application of the Mitigation Hierarchy to avoid, minimize, restore and (as a last resort) offset impacts
  - Criteria to identify biodiversity features of high concern
  - Requirements for measurable outcomes (no net loss or net gain) for priority features
  - Requirements for planning, implementing and monitoring mitigation actions and (if necessary) offsets.
- The requirements of MDB's biodiversity standards go well beyond those of typical EIAs. In many countries, EIAs are likely to fall well short of international good practice for managing biodiversity risk.
- Safeguards are essentially a reactive mechanism to avoid risks and reduce harm. This contrasts with the more 'upstream' proactive approach of integrated strategic planning.

Nevertheless, respondents considered that safeguards have great value, not least in defining a clear process and checkpoints that force consideration and management of risk. Well-applied safeguards strongly encourage developers to apply the mitigation hierarchy, especially to avoid potential project impacts through early planning and alternatives analysis.

## Risk screening

- Especially in the absence of upstream planning, risk-screening is an essential step in the application of safeguards that identifies projects with potentially high biodiversity risk. Many PDBs screen for biodiversity risks and may decide on this basis not to proceed further with high-risk projects. However, risk screening is not universally or consistently applied and important impact avoidance opportunities may thus be missed. The Integrated Biodiversity Assessment Tool (IBAT) is by far the most widely applied risk screening tool, but many PDBs lack access to it.

## Safeguard implementation challenges

- Overall, PDBs' implementation of biodiversity safeguards is variable and patchy, although with performance generally improving among those using formal safeguard frameworks. Larger banks in particular are aware of deficiencies in safeguard application and taking steps to address them. Identified challenges with implementing biodiversity safeguards are:
  - Limited internal PDB capacity
  - Capacity limitations among clients, regulators and stakeholders
  - Considering avoidance too late in the project timeline
  - Inadequate budget provision for mitigation costs
  - Inadequate monitoring and supervision
  - Inadequately addressing indirect and cumulative impacts
  - Difficulty in applying to agricultural projects and to supply chains
  - Difficulty in applying to financial intermediaries and corporate funding
  - Not applicable to public policy loans
  - Inconsistent interpretation and application
  - Poor consultant performance
  - Perceived complexity and cost, causing reduced competitiveness
  - Data gaps and lack of simple, widely applicable metrics.

## Biodiversity offsets

- Biodiversity offsets are an important element of safeguards frameworks. Offsets represent the final step in the mitigation hierarchy, a last resort to compensate for residual impacts that cannot be avoided, minimized or restored. However, they face many design and implementation challenges. Many respondents were sceptical about the feasibility of implementing offsets successfully. Offsets being implemented under PDBs' safeguards frameworks are mostly too recent for their success to be determined.

## Disclosure

- All MDBs have disclosure requirements for project assessments both before and once funding is approved. Routine disclosure is far less common among other types of PDBs, practiced by around a fifth of the bilateral development banks and around 6% of national banks reviewed.
- Improved disclosure could be important in driving up standards. The emerging Task Force for Nature-related Financial Disclosures is a significant development, anticipated to support and encourage PDBs to analyse, report on and address nature-related risk in investment portfolios.

## Financing green: scaling up nature-positive investments

- Most multilateral, bilateral and regional development banks, but far fewer national development banks, are making investments that indirectly benefit nature, e.g. via climate funding (Figure H). Direct investments in nature are being made by far fewer PDBs. Around two-thirds of MDBs do make direct nature-positive investments, using a wide range of financial mechanisms. However, this financing remains very small-scale relative to other investments.
- The nature-based solutions (NbS) sub-set of climate finance presents the largest opportunity for nature positive finance.
- Despite evidence and international declarations to increase funding for NbS as an integral part of climate solutions finance, NbS projects form a very small proportion of such finance. Climate finance itself is still a small fraction of overall PDB lending portfolios that is not yet proportionate to the Paris Agreement.
- Although still a small fraction of overall investment portfolios, there is a rapidly growing demand for impact investing focused on nature-positive outcomes. The 'supply side' of investment-ready 'bankable' nature positive projects is not yet well developed enough to enable societal or Bank aspirations to scale up nature positive financing
- PDBs have a clear potential role as matchmakers between nature-positive projects and a range of investors

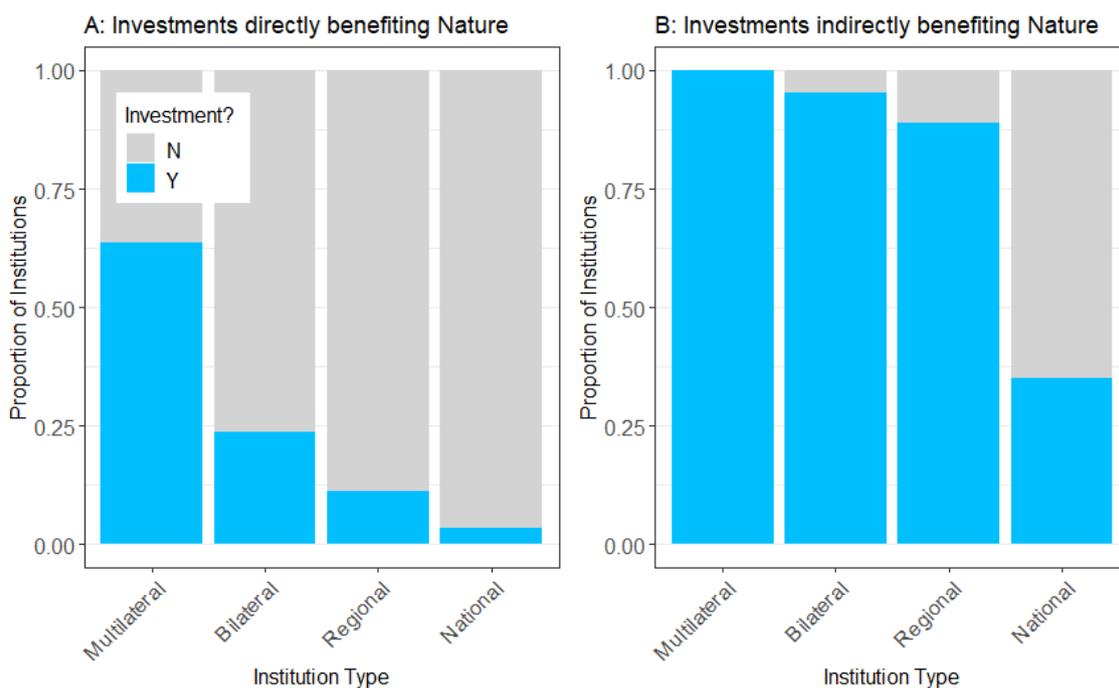


Figure H. The proportion of reviewed banks conducting (A) direct investment in biodiversity, and (B) investment that might indirectly benefit biodiversity, split by type of bank. (Multilateral N = 11, Bilateral N = 21, Regional N = 9, National N = 57.)

- The establishment of Natural Capital Lab units within PDBs as incubators for innovative financing for nature (e.g. IDB followed by ADB, and EIB's Natural Capital Financing Facility<sup>11</sup>) is a promising development that could have large leverage potential.

### Challenges to scaling-up financing green

- Scaling-up is a major challenge facing biodiversity positive investments. They are not direct, traditional business for PDBs and are widely perceived as risky, low return, high transaction cost, and with long lead-times for financial returns due to socio-ecological dynamics. A key reason is there are presently no markets for many of the biodiversity stocks and ecosystem services flows that make up natural capital.
- There is a clear need for governments to strengthen the direction given for PDBs to align their portfolios towards financing green.
- There are technical challenges in measuring and demonstrating biodiversity value, and in aggregating small investment units and bundling benefits, with as yet limited data or scalable metrics.
- Some respondents considered that transition investments in existing industries (e.g., in large scale regenerative agricultural supply chains) could play a key part in mainstreaming global biodiversity goals within PDBs, as a more rapidly scalable complement to

<sup>11</sup> [EIB nd](#)

investments in innovative nature positive business models (e.g., restoration linked to insurance risk concessions).

- NbS is the biggest single nature-positive investment opportunity class, yet it lacks both an appropriately tailored risk appraisal and rating process, and adequate development of intermediaries to aggregate projects and reduce transaction costs.
- Interviewees were generally circumspect about the possibility of rapid scaling up in nature positive finance, given the substantial constraints to overcome.
- Notwithstanding the technical challenges, PDBs' setting goals for nature-positive financing, plus disclosure of progress towards these, would accelerate mainstreaming and drive innovation.
- Banks could also facilitate growth in their nature positive portfolios through developing and publicising clear criteria for bankable nature-positive investments in terms of scale, returns and safeguards.

## Tools and methods to support greening finance and financing green

An increasingly large range of biodiversity metrics and tools is available to help PDBs improve the biodiversity performance of their activities. Reviewing these metrics and tools, we identify six key ongoing trends:

1. More varied, more precise and more useable data layers;
2. Practical tools for portfolio- and corporate-scale biodiversity assessment;
3. Practical metrics for assessing biodiversity opportunities as well as impacts;
4. Integrated availability of climate and biodiversity data;
5. Standardised tools and processes for demonstrating alignment with societal goals for biodiversity;
6. Standardised tools for reporting and disclosure of biodiversity performance.

## Conclusions

### Biodiversity mainstreaming

PDBs are a big and diverse group, and different PDBs are at very different stages in mainstreaming biodiversity. Progress in mainstreaming is broadly related to PDB size class, though in each class there are clear exceptions to the overall picture.

#### *Large PDBs: emerging champions but can do still better*

Several of the large MDBs are leading the way in 'greening finance' though the focus is mainly on safeguards rather than a deeper integration of nature into strategy and process. Some large PDBs are actively innovating on nature positive investments and promoting policy reform, though at relatively small scale. In contrast to climate financing, hardly any of these PDBs as yet have clear stated investment targets for biodiversity.

These leading banks have a cadre of committed and experienced staff and are working actively to address gaps and challenges in safeguard implementation. Capacity is growing, standards and guidance are being refined, and there is a generally improving picture. However, the problems are hard to crack and environment-focused staff are also busy with project work and may have limited power to convene processes and influence decisions in their organisations.

Even among the leaders there remain some significant gaps between stated ambition and implementation reality, and some large PDBs are lagging well behind. China has several of the world's largest PDBs, but these lack stated biodiversity commitments or well-developed safeguards, relying on the ESIA process to manage risk.

#### *Mid-size PDBs: commitments but limited capacity*

Mid-size PDBs (predominantly the members of EDFI or IDFC) present a varied picture. Their attention to biodiversity relates in part to how far they are commercially versus policy focused. A few, following strong government direction, are at the global cutting edge of thinking and action. However, most are much more reactive regarding nature. While signed up to strong safeguards (and sometimes other strong commitments) on paper, there are evidently large gaps in capacity and implementation. Few have biodiversity specialists on staff, relying on a generalist E&S function and external advice. They do not appear to have clear internal targets on climate or biodiversity investment.

#### *Small PDBs: environment barely on the radar*

Among smaller banks, there are a few outstanding examples of commitment and positive activity, though focused more on climate than on biodiversity. For most others the environment is barely on their radar. Some are engaging with climate issues, but the vast majority have very limited or no commitments, processes or staffing in place to address biodiversity concerns, beyond the standard regulatory mechanisms for project approval that are weak in many countries.

## Biodiversity safeguards

Safeguards remain a very valuable if imperfect tool for reducing harm. They have very limited effect in promoting nature-positive financing, despite net gain requirements in some instances.

Effective application of safeguards requires a robust framework, significant resourcing for ensuring and verifying implementation, internal systems and a culture to make sure that biodiversity concerns are considered in project appraisal and approval, a robust disclosure framework that encourages both clients and banks to meet the standards, and a powerful ombudsman or similar oversight mechanism. Few PDBs have such a well-specified approach in place.

Most PDBs (and particularly the smaller national and sub-national banks) do not have formal safeguard frameworks at all for biodiversity, and may not see biodiversity as a major issue, even though their financing may be causing damage to nature.

PDBs face practical challenges applying safeguards in contexts where the regulatory framework is weak and governments have not bought in to safeguard provisions. Budgetary constraints and commercial competition still tend to create an uneven playing field – favouring finance that has less rigorous environmental requirements.

PDBs' reporting on how safeguards are implemented, and the outcomes, remains very patchy and incomplete.

## Financing green

### *Climate and biodiversity*

For PDBs, and the finance sector as a whole, climate is far ahead of biodiversity as a concern for both greening finance and financing green. So-called 'green' investment is nearly entirely climate-focused, mainly on technology. Nature-based solutions are a potential bridge between climate and biodiversity. However, investment remains at very small scale and there are mixed opinions about the potential to scale up.

### *Covid-19 finance*

Financing for COVID-19 recovery has so far paid little attention to nature. Economic stimulation packages could be directed at nature-based opportunities – such as ecotourism, sustainable agriculture and fisheries, ecosystem-based coastal protection and watershed management.

### *Investing in nature*

Direct nature-positive investment by PDBs (and the finance sector generally) is still very small-scale and patchy. It appears that much of current PDB nature-positive financing is not really commercial but in the nature of grants and facilitation of external funding (e.g. from GEF).

Private finance must be unlocked to scale up nature-positive investment significantly. A large suite of finance tools is available for this, but there are many practical challenges. There are mixed opinions about the feasibility of scaling up investment, and the role of 'blended finance' approaches. For PDBs that can access or provide concessionary funding, blended finance does hold potential as a catalyst for private investment – which is the key for going to scale.

## A tiered approach

Overall, PDBs can be classed in three tiers in relation to their level of biodiversity mainstreaming, how they manage biodiversity risk and how far they invest in nature.

### *Tier C: No consideration of nature*

Most small PDBs, including most national and sub-national banks, as well as some larger PDBs, currently do not recognise either biodiversity risks or opportunities. They do not have stated environmental commitments, rely on regulatory EIA processes rather than safeguard frameworks to manage risk, and have no investments in nature.

*Tier B: Some consideration of biodiversity risk, little nature investment or mainstreaming*

Many mid-sized PDBs, including most regional and bilateral banks, do recognise the need to manage biodiversity risk. They typically have at least general environmental commitments and apply biodiversity safeguards (IFC's PS6, or in their own frameworks) though with limited supporting structures or capacity. They usually have few if any direct investments in nature, and these are not driven by institutional policy.

*Tier A: Biodiversity mainstreaming begun, but further work needed*

Most MDBs, some other larger PDBs (especially those with a public-sector focus) and a very few small PDBs at regional to sub-national scale have clear stated commitments to biodiversity. They consistently apply biodiversity safeguards, supported by relatively robust (if not always fully adequate) structures and capacity. They have climate investment targets, and a few are developing targets for investment in nature as a component of these. Their investments in nature are still at a low level, but increasing and driven by institutional policy.

PDBs in all tiers can take steps towards greening finance and scaling-up financing green, but for each tier different steps are appropriate and feasible (see below).

## Overall recommendations

PDBs are an integral part of the larger, complex community of finance institutions. While many recent reports on biodiversity and finance have already put forward a range of recommendations, this study focuses on actions particularly relevant to PDBs – with the emphasis on practical actions that can be started immediately.

Figure I below summarizes the overall problem, necessary actions, constraining factors and recommendations identified in this study. Within the framework of the complementary approaches of greening finance and financing green, and building on the third report of the CBD panel of Experts on resource mobilization, five key PDBs' actions are identified:

1. Fully integrate biodiversity risk into investment decisions
2. Improve upstream planning and early risk screening to enable avoidance of impacts
3. Apply effective safeguards to reduce and compensate for harm to biodiversity
4. Scale up investment in nature-based solutions to meet climate and other development goals
5. Scale up direct investment in nature conservation and restoration.

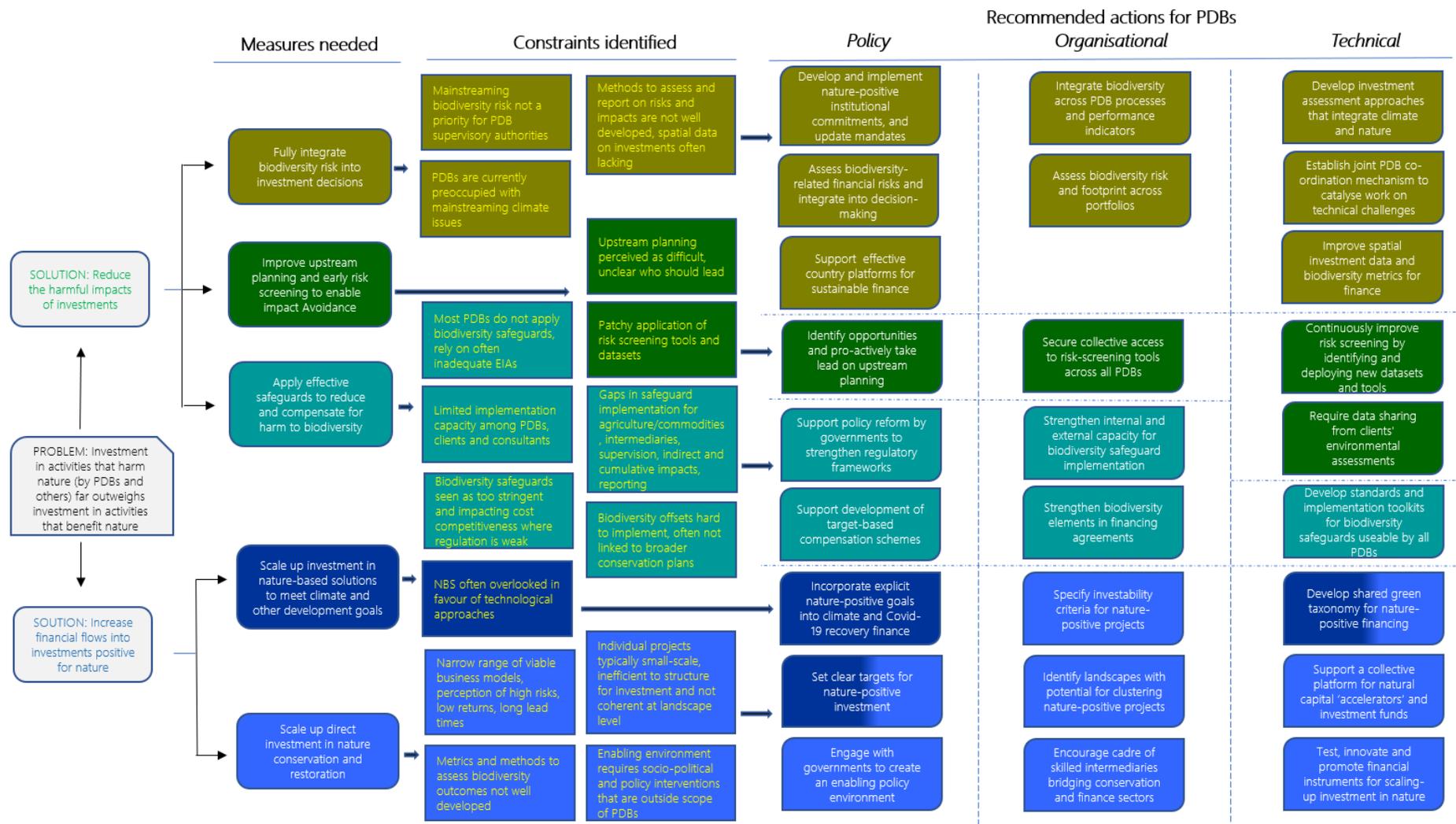


Figure 1. Summary of problem statement, actions needed, constraints identified and recommendations to address these

Interviews, surveys and review of literature highlighted a number of constraints to implementing these key actions. They also indicated ways that these constraints could be addressed. The recommendations below are aimed at PDBs, especially the larger MDBs and bilateral banks, but some are also relevant for governments, NGOs and researchers.

## Greening finance Action 1: Fully integrate biodiversity risk into investment decisions

### *Constraints identified:*

- Mainstreaming biodiversity risk is often not a priority for PDBs' supervisory authorities. Often these are state treasuries or finance ministries with a strongly economic focus.
- PDBs are currently preoccupied with mainstreaming climate issues, which constrains their capacity to integrate nature as well.
- Methods to assess and report on risks and impacts exist but are not well developed. Spatial data on investments is often lacking which is a challenge for assessing risks and impacts.

### *Policy recommendations:*

- Develop and implement nature-positive institutional commitments. PDBs can engage with supervisors and shareholders to re-align the institutional remit and investment strategy towards sustainability, with a public commitment to overall positive outcomes for nature as part of a holistic set of social and environmental imperatives. Preferably, this would be established in an updated legal mandate.
- Assess the economic benefit of managing biodiversity risk. PDBs could recognize the need to assess and act on financial risks related to biodiversity, and start the processes to begin such assessments. This would make the business case for better mainstreaming of biodiversity within PDBs.
- Support effective country platforms for sustainable finance. Country platforms that bring together a range of finance institutions can help to create common standards (and thus a level playing field) for sustainability in financing. PDBs are well placed to lead or support such initiatives.

### *Organisational recommendations:*

- Integrate biodiversity across PDB processes, performance indicators, reporting and disclosure. To mainstream nature in decision-making there is need to review internal processes to ensure that nature considerations are integrated with all stages and elements of investment decision-making and monitoring. By supporting the Task Force for Nature-related Financial Disclosures PDBs can also help develop an effective common framework for nature-related risk analysis, reporting and disclosure in the financial sector.
- Assess biodiversity risk and footprint across portfolios. Using existing tools, PDBs could develop at least an initial understanding of the potential biodiversity risks present in their current investment portfolios.

*Technical recommendations:*

- Establish a joint PDB co-ordination mechanism to catalyse work on technical challenges. PDBs could set up and resource a co-ordination mechanism for collective technical work to allow sharing experience and learning, and co-ordinated follow-through with governments, partners and stakeholders. Although some PDBs' working groups already exist on biodiversity issues, they are internal to existing industry forums representing PDB sub-sets. There is need for a larger platform catalysing technical work with partners.
- Develop investment assessment approaches that integrate climate and nature. To fulfil the potential of nature-based solutions, tools are needed to consider climate and nature together, not in separate silos, when assessing investments
- Improve spatial investment data and biodiversity metrics for finance. PDBs could proactively engage with and support initiatives and processes to improve spatial data and metrics for finance that can support scalable assessment, mitigation, monitoring and reporting of biodiversity risk in future.

Greening finance Action 2: Improve upstream planning and early risk screening to enable impact Avoidance

*Constraints identified:*

- Upstream planning perceived as difficult, and unclear who should lead. For PDBs, upstream planning is generally seen as 'someone else's job', with concern about the cost, time required and the potentially burdensome need to work closely with governments and other stakeholders.
- Patchy application of risk screening tools and datasets. Many PDBs do not apply screening, or do not fully use the range of relevant and up-to-date tools available.

*Policy recommendations:*

- Identify opportunities and pro-actively take lead on upstream planning. PDBs could ramp up collaborative efforts for upstream planning in landscapes/sectors of strategic interest, an effective way to 'de-risk' future projects with associated time and cost savings. Strategic planning is also an opportunity to design a compensation framework (for residual impacts to biodiversity, after rigorous mitigation) that is as effective as possible for conservation.
- Play a stronger role in supporting policy in partner countries (through policy loans or grants to support mainstreaming) and build good practice and standards into national regulation. This could include establishing policies for no net loss/net gain at a national scale. This would require capacity building support for governments to implement these policies and ensure compliance.

*Organisational recommendations:*

- Increase the emphasis on upstream analysis at the geographic and sectoral level, alongside implementation of project-level safeguards.
- Secure collective access to risk-screening tools across all PDBs. This would enable much wider application of key tools such as the Integrated Biodiversity Assessment Tool in support of impact avoidance.

*Technical recommendation:*

- Continuously improve risk screening by identifying and deploying new datasets and tools. Many new tools and datasets are coming on stream that can improve biodiversity risk management.

### Greening finance Action 3: Apply safeguards to reduce and compensate for harm to biodiversity

*Constraints identified:*

- Most PDBs do not apply well-developed biodiversity safeguards but rely on Environmental Impact Assessment. This is an often flawed process that in many countries can fall far short of international good practice, and is not effective for biodiversity risk management.
- Limited implementation capacity among PDBs, clients and consultants can impair the effectiveness of safeguard implementation.
- Biodiversity safeguards can be seen as too demanding, impacting cost competitiveness where regulation is weak. Although this is a short-sighted perspective, it can push governments or business clients towards financiers that have less stringent environmental requirements
- Safeguard implementation often falls short at present in several areas, including for agriculture and supply chains, financing through intermediaries, supervision of mitigation measures, inclusion of indirect and cumulative impacts, and reporting of outcomes.
- Biodiversity offsets can be challenging to implement. Offsets are often also implemented project by project, and not linked to broader conservation plans, which can reduce their value for conservation.

*Policy recommendations:*

- Support policy reform by governments to strengthen regulatory frameworks. MDBs and bilateral PDBs could work with governments that they support to enable policy reform, advising on the elements that need to be incorporated in regulatory frameworks to move towards international good practice
- Support development of target-based compensation schemes. PDBs could support and encourage national governments to develop target-based biodiversity compensation schemes linked to national contributions to the post-2020 global biodiversity goals. This

would reduce the planning and transaction costs for biodiversity offsets, and improve their conservation outcomes.

- As rapidly as possible, strengthen disclosure and reporting, and institute or strengthen grievance mechanisms, on the actual implementation of biodiversity safeguards. Civil society organizations play a crucial role here in closely monitoring safeguard implementation on the ground and supporting complaints and their handling.

*Organisational recommendations:*

- Strengthen internal and external capacity for biodiversity safeguard implementation. MDBs and bilateral PDBs could work together to scale up capacity-development and training efforts on international good practice, for governments, smaller PDBs, consultants and civil society.
- Strengthen biodiversity elements in financing agreements, ensuring budget is allocated for supervisory visits and for monitoring, and setting clear financing, monitoring and reporting requirements for offsets.
- For sectors strongly linked to biodiversity loss, and where current safeguard implementation appears inadequate, e.g. in livestock production, further research may be valuable to better understand current limitations and ways forward.

*Technical recommendation*

- Develop standards and implementation toolkits for biodiversity safeguards useable by all PDBs. Larger PDBs could work with smaller ones to support development of clear benchmarks and develop implementation toolkits for minimum standards on biodiversity performance, including improved transparency and disclosure.

## Financing green Action 4: Scale up investment in nature-based solutions to meet climate and other development goals

*Constraints identified:*

- Despite their great potential to meet climate and other goals, nature-based solutions are often overlooked in favour of technological approaches,
- Practical criteria and guidelines for identifying and implementing nature-based solutions are new and not yet well-known or broadly accepted.

*Policy recommendation:*

- Incorporate explicit nature-positive goals into climate and Covid-19 recovery finance. Biodiversity, climate and health goals are intrinsically linked. A potentially powerful way to scale-up nature positive financing is to incorporate an explicit target for nature positive investments within finance goals for climate. Strategic integration of climate and

biodiversity goals was recently announced by France and the UK<sup>12</sup>, and PDBs could follow this example. A similar approach to Covid-19 recovery finance would help achieve the goal of 'building back better'.

*Technical recommendation:*

- Develop, publicize and apply clear and shared criteria, standards (e.g. in terms of scale, returns and safeguards)<sup>13</sup> and green taxonomy to facilitate growth of bankable nature-positive investments in PDBs' portfolios. 'Taxonomies' are a practical tool to assess the extent to which particular investments can be classed as nature-positive. The EU taxonomy for sustainable activities is currently being extended to cover biodiversity, and could form the basis for a framework with broader application.

## Financing green Action 5: Scale up direct investment in nature conservation and restoration

*Constraints identified:*

- Creating an enabling environment for nature-positive investment may require broader socio-political and policy interventions (e.g. to clarify land tenure and usage rights) that appear to be outside the scope and control of project proponents or PDBs themselves.
- There are few business models that appear viable for nature-positive projects, which are often seen as having high risks and low returns, long lead times and complex stakeholder engagements.
- Individual nature-positive projects are typically small-scale, making them inefficient to structure for investment. Individual projects may also not add up to a coherent conservation approach at landscape level.
- Metrics and methods to assess biodiversity outcomes are not well developed. Such methods exist but are not yet accessible and easy to use, and may have demanding data requirements.

*Policy recommendations:*

- Building on the climate example, PDBs should commit to portfolio alignment with targets agreed at COP15 CBD in Kunming and to transparent monitoring of implementation. This will require bringing PDBs' boards and shareholders on board, but the rationale for this approach is strong.
- Set clear, quantitative targets for nature-positive investment. This will help ensure that nature-positive projects are not always outcompeted by more traditional investments, based on traditional criteria.

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<sup>12</sup> During the One Planet Summit on 11 January 2021. See <https://www.oneplanetsummit.fr/en/coalitions-82/coalition-convergence-climate-and-biodiversity-finance-191>

<sup>13</sup> Such as the IUCN Global Standard for Nature-based Solutions. See IUCN (2020a) and IUCN (2020b)

- Engage with governments to create an enabling policy environment. PDBs could engage with governments through dialogue (as national development banks) or through technical assistance (as bilateral or multilateral development banks), to promote and support policy change.

*Organisational recommendations:*

- Specify investability criteria for nature-positive projects, to help proponents design and structure projects that can be considered seriously for investment.
- Identify landscapes where nature-positive projects can be clustered at an investable scale.
- Support transition investments in existing industries, e.g., in large-scale regenerative agricultural supply chains. This could play a key part as a more rapidly scalable complement to investments in innovative nature positive business models (e.g., restoration linked to insurance risk concessions).
- Encourage cadre of skilled intermediaries who can work cross-sectorally to bridge gaps in approaches, assumptions and processes between the conservation and finance sectors

*Technical recommendations:*

- Develop shared green taxonomy for nature-positive financing (see above)
- Support a collective platform for existing natural capital 'accelerators' and investment funds, to increase efficiencies and allow investors to find investable projects more easily.
- Test, innovate and promote financial instruments for scaling-up investment in nature. PDBs could support and build on the innovative and experimental work of natural capital labs and 'accelerators', to find and scale-up mechanisms that work.

## Key recommendations by tier

As outlined above, different public development banks are at different stages of integrating biodiversity in their decisions and processes. Figure J summarises the key practical recommendations for PDBs across three different tiers, comprising banks that have not started the journey of biodiversity mainstreaming (Tier C), banks that have begun to consider biodiversity (Tier B), and banks that are relatively advanced but have some way still to go (Tier A).

<b>Tier</b> <i>Typically (though not always) includes:</i>	<b>C</b> Smaller PDBs / national and sub-national banks	<b>B</b> Mid-sized PDBs / regional and bilateral banks	<b>A</b> Larger PDBs / the MDBs, some bilateral banks with public-sector focus
<b>Summary of current status</b>			
<i>Mainstreaming and commitments</i>	No consideration of nature	General environmental commitments	Biodiversity commitments, climate targets
<i>Safeguards for biodiversity</i>	Relies on regulatory EIA	Applies PS6 or own framework, but with limited supporting structures or capacity	Applies PS6 or own framework, with relatively robust structures and capacity
<i>Investments in nature</i>	None	Very few, not policy driven	Low-level but increasing, policy-driven
<b>Key recommendations</b>			
<i>Commitments and mainstreaming</i>	Develop institutional environmental commitment	Specify institutional commitments for biodiversity	Build on experience with climate to integrate biodiversity across internal processes and performance measures
<i>Biodiversity-related financial risk</i>		Carry out initial assessment of biodiversity footprint and risk across portfolios	Develop and apply approaches to quantify biodiversity-related financial risks
<i>Upstream planning</i>		Engage with upstream planning processes to de-risk future investments	Lead and support upstream planning processes to de-risk future investments
<i>Risk screening</i>	Institute environmental risk screening for investments	Ensure routine biodiversity risk screening for projects using tools such as IBAT	Strengthen biodiversity risk screening by deploying relevant new datasets and tools
<i>Safeguards for biodiversity</i>	Adopt and implement biodiversity safeguards that reflect basic elements of international good practice, including a requirement to apply the mitigation hierarchy	Strengthen capacity and structures for implementing biodiversity safeguards	Strengthen implementation of biodiversity safeguards in areas of current weakness (e.g. including agricultural projects and supply chains and intermediary financing) Establish or strengthen oversight mechanisms (e.g. an ombudsman function)
<i>Policy and regulation</i>	Support and engage with national platforms for sustainable finance		Engage with beneficiary governments to support policy reform and strengthen regulatory frameworks
<i>Nature-positive investment</i>		Set targets and specify investability criteria for nature-positive investments	Set targets for nature-based solutions within climate finance Test, innovate and promote financial instruments for scaling-up investment in nature
<i>Disclosure and reporting</i>		Strengthen disclosure and reporting on biodiversity risks, mitigation plans and outcomes, and nature positive investments. Engage constructively on biodiversity issues with relevant civil society organisations	Engage with the TNFD to shape and implement its recommendations on reporting and disclosure

Figure J. Summary of recommendations, for three tiers of public development banks at different stages of integrating biodiversity in their financing

Note: This tiered approach assumes that banks in tiers A and B have already implemented, or will seek to implement, relevant actions specified in lower tiers

# 1 Introduction

## 1.1 Reversing biodiversity erosion in the post 2020 Global Biodiversity Framework

Science has never been clearer about the unprecedented extent and rate at which biodiversity is being lost<sup>14</sup>, pushing vital ecosystems like oceans, forests, and rivers to dangerous tipping points. This erosion of global biodiversity is essentially caused by human activities, including direct harm to habitats and wildlife through deforestation and habitat removal due to agriculture, urbanization, large-scale infrastructure development, as well as pollution, invasive species proliferation, and the effects of human-induced climate change.

The erosion of biodiversity features high on the agenda of crucial international negotiations on climate, sustainable development, and biodiversity now scheduled for 2021. Though delayed amid the COVID-19 pandemic and its consequences, discussions on the Post-2020 Global Biodiversity Framework (GBF) at and ahead of the 15th Conference of Parties (CoP) of the United Nations Convention on Biological Diversity (CBD) to be held in Kunming, China, in 2021, will focus on:

- Assessing how far the Strategic Plan for Biodiversity 2011–2020 and its associated 20 Aichi Targets was achieved;
- Negotiating and agreeing a new Strategic Plan and new Targets for the decade 2021–2030, especially related to sectoral economic drivers of biodiversity loss;
- Negotiating and agreeing the means of implementation of such new Targets, in particular financial resource mobilization by all Parties and from all sources.

CBD's preparatory documents and negotiations highlight that a coherent and concerted approach across the whole of society will be essential if we are to achieve the goals of an ambitious GBF<sup>15</sup>. All economic and financial actors must commit to contribute to a) achieving the newly set targets by transforming business models and b) financially supporting biodiversity conservation actions.

## 1.2 Why the finance sector must act for nature

### 1.2.1 Macroeconomic drivers of nature loss

In the past 50 years, the human population has doubled to 7.8 billion people in early 2021. The global economy has grown nearly four-fold and global trade has grown ten-fold, driving up demand for energy and materials. This has exacerbated pressures on the natural environment, with over one third of the terrestrial land surface now being used for agriculture or animal husbandry, a doubling of urban areas since 1992, unprecedented expansion of infrastructure and

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<sup>14</sup> IPBES 2019; WWF 2020a; WEF 2021

<sup>15</sup> WWF 2020b outlines the whole-of-society approach that is needed for the world to become '[nature positive](#)' by 2030.

pervasive overexploitation and pollution of our oceans. Global warming is materializing with an average temperature increase of approximately 1.0°C by 2017, relative to pre-industrial levels, with average temperatures over the past 30 years rising by 0.2°C per decade<sup>16</sup>.

Economic incentives, whether driven by government policy or by markets, have largely favoured economic growth and industrial expansion, without accounting for the real cost of nature destruction – effectively making nature destruction a free commodity<sup>17</sup>. In the globalized economy of the 21<sup>st</sup> century, the impacts of damaging nature are not accounted for in the valuation of goods and services, or in the share prices of the companies that are responsible for that damage. The tendency of economic models and financial markets is to view natural systems simply as assets available for immediate use, or worse, abuse or destruction, without regard for the full value of the asset lost, or the long-term costs to society<sup>18</sup>. Yet approximately US\$ 44 trillion, more than half of the world’s total GDP, is moderately or highly dependent on nature and its services<sup>19</sup>.

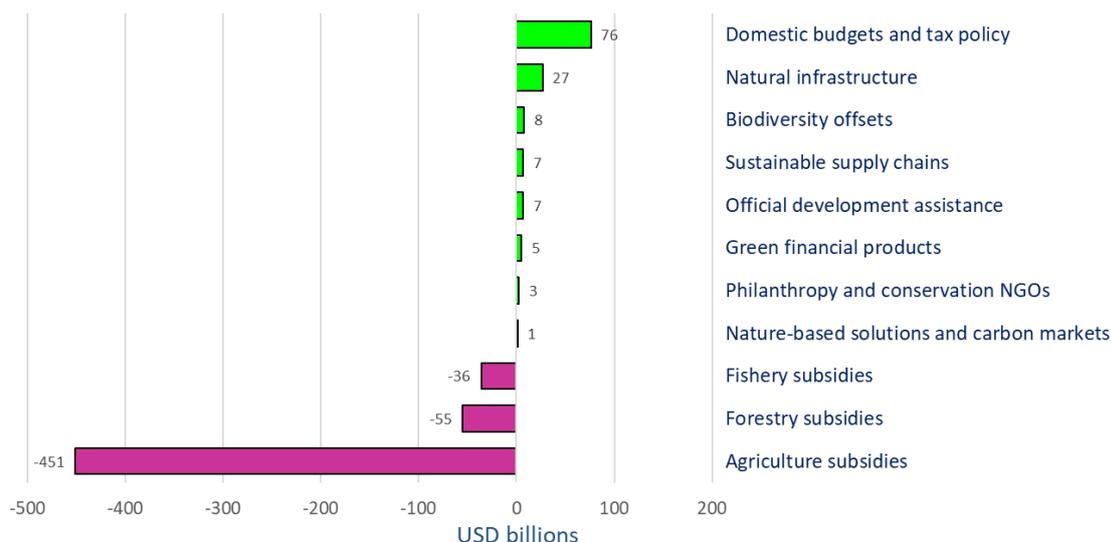


Figure 1. Estimate of harmful subsidies and biodiversity finance flows<sup>20</sup>

<sup>16</sup> [Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, IPBES 2019](#)

<sup>17</sup> [Dasgupta 2021](#)

<sup>18</sup> [Deutz et al. 2020](#)

<sup>19</sup> World Economic Forum (WEF) 2020a. Global GDP in 2019 was c. USD 87.5 trillion (statista.com).

<sup>20</sup> Data from Deutz et al. 2020, using midpoints of values in Table 1. This graph excludes an estimated additional USD 473 billion in fossil fuel production subsidies. Estimates of the scale of total investments potentially harmful to nature are not yet available.

## 1.2.2 Financial institutions tend to finance the erosion of biodiversity

Huge amounts of financing, including harmful subsidies, are being targeted to activities that are directly harmful to biodiversity (Figure 1). Financial institutions have little direct impact on nature, but are funding destructive activities in many sectors such as agribusiness and fisheries, extractive industry, infrastructure and urban development, not to mention the harmful effects on ecosystems of human-induced climate change<sup>21</sup>. Only a fraction of this global investment is being mobilized under appropriate conditions for environmental safeguarding and nature protection. There is a recognition that, currently, capital is systematically misallocated because financial decision-making fails to account for material nature-related financial risks<sup>22</sup>. The recent report 'Bankrolling Extinction' estimated that in 2019 major investment banks provided around €2.2 trillion of financing linked to destruction of ecosystems and wildlife.<sup>23</sup>

Hence, in our globally integrated economy, financial institutions – both public and commercial – are uniquely placed to influence how businesses integrate sustainability considerations into their activities and offerings for products and services.

## 1.2.3 Nature loss creates systemic risks for both society and investors

Like climate change, the human-driven, accelerating erosion of biodiversity is a scientifically proven megatrend that generates previously unthought-of, systemic risks for our global economy and society.

Above all, the Earth's biosphere, and human society, are dependent upon the vastly diverse and complex ecosystem services provided by the natural environment and the species that form its fabric. For example, more than 75 percent of global food crops, including fruits, vegetables, and various important cash crops such as coffee and cocoa, rely on animal pollination<sup>24</sup>. Coastal vegetation, such as mangroves and sand dune mats, are essential to ensure coastal stability and flood protection, a vital ecosystem service in today's context of rising sea levels and extreme weather events that threaten the 10% of human population that live within low elevation coastal areas<sup>25</sup>. Marine and terrestrial ecosystems are the sole sinks for anthropogenic carbon emissions, with a gross sequestration capacity accounting for 60 percent of global anthropogenic emissions. Vegetation, in particular forest cover, plays an essential role in soil stabilization and water storage, regulating runoff and preventing floods.

Recent published studies have highlighted how harming nature translates into tangible and pervasive risks for investors and businesses (Figure 2). These risks can be classified as<sup>26</sup>:

- Physical risks. An example is land erosion and waterway silting due to deforestation or mangrove destruction, affecting flood and coastal protection, as well as the operability of

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<sup>21</sup> [The Sustainable Finance Platform 2020](#)

<sup>22</sup> [Global Canopy & Vivid Economics 2020](#)

<sup>23</sup> Portfolio Earth 2020

<sup>24</sup> [Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, IPBES 2019](#)

<sup>25</sup> [The Ocean Conference 2017](#)

<sup>26</sup> [Global Canopy & Vivid Economics 2020](#)

waterways or hydropower schemes. This also comprises the disruption of commodity supply, due to ecosystem change affecting agricultural productivity.

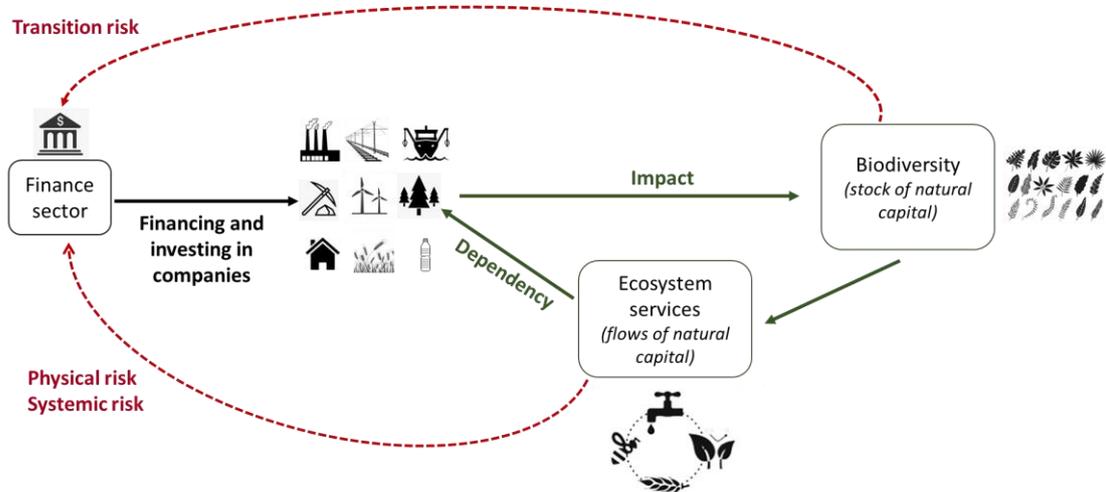


Figure 2. Relationship between financial sector, economy, biodiversity and ecosystem services, and resulting risks<sup>27</sup>.

- Transition risks. Physical risks, evolving legal and regulatory settings, as well as social norms, public opinion and consumer pressure, are likely to impact business models and commercial and economic development strategies, driving harmful activities into obsolescence, reducing investor returns, and rewarding those who support more nature-friendly investments. Reputational risks are a subset of transition risks.
- Systemic risks. These result from wider economic and social trends and disruptions, such as economic crisis resulting from major loss of agricultural production due to loss of pollination; or increased transmission of pathogens to humans leading to health crisis such as the COVID-19 global pandemic.

<sup>27</sup> Partially adapted from van Toor et al. 2020

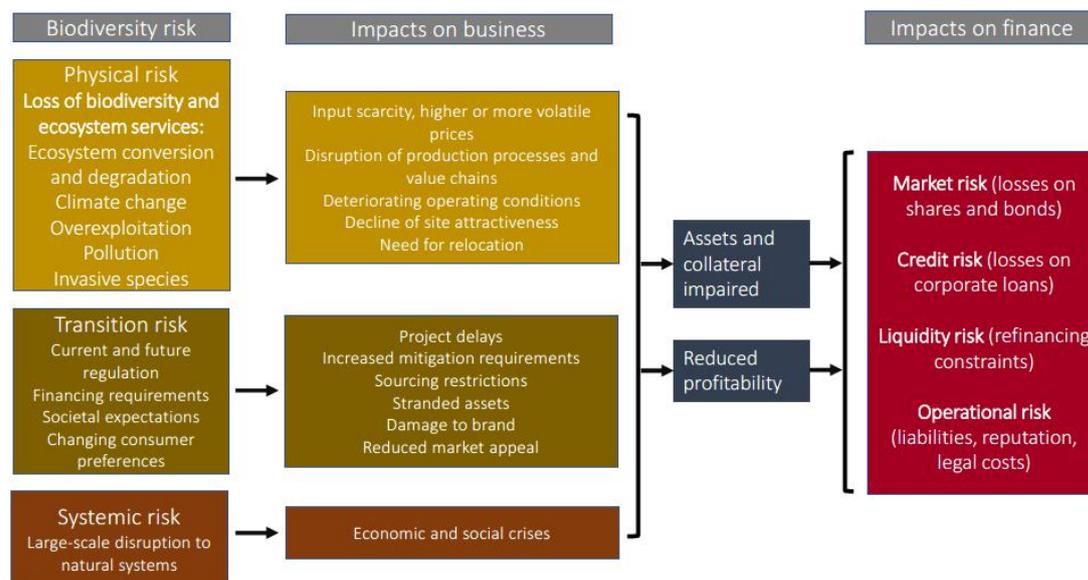


Figure 3. How biodiversity risk is translated into financial risk<sup>28</sup>

These trends are putting at risk a large share of the economy (Figure 3), affecting the portfolio of lendings and investments held by, or managed by, financial institutions globally. As an illustration, the Dutch National Bank (DNB) recently determined that Dutch financial institutions have investments worldwide totalling 510 billion euros (36% of the overall portfolio analysed<sup>29</sup>) in companies that are highly, or very highly, dependent on one or more ecosystem services. Of this, 28 billion euros of investments are related to products that depend on pollination..

#### 1.2.4 The biodiversity imperative for finance

In light of the risks at play, it is imperative that the finance sector addresses the impacts of its investments on nature. This requires combining two approaches:

1. Investment decisions must include better consideration of nature-related risks and impacts, so that investments avoid, minimise, restore and when necessary offset negative impacts to biodiversity – i.e. ‘greening finance’<sup>30</sup>.
2. Financial institutions should *also* focus efforts on ‘financing green’ – in other words, investing into assets, operations and new projects that can create a positive impact on nature, for example through protection and restoration of degraded habitats, or by economic and social development that reduces the pressures on biodiversity, and so has co-benefits for nature. Such investments are increasingly termed ‘nature positive’.

<sup>28</sup> Partially adapted from [van Toor et al. 2020](#)

<sup>29</sup> [van Toor et al. 2020](#)

<sup>30</sup> [World Bank 2020](#)

The positive news is that the financial effort required may be achievable. According to a recently published study by the Paulson Institute, the total global funding gap for biodiversity amounts to an estimated US\$711 billion/year, or between US\$528 and 824 billion per year. Based on this figure, filling the gap requires significantly scaling up current biodiversity finance (c. US\$ 124 to 143 billion, a vast majority of which is public funding) and/or reducing harmful subsidies and other financial flows that cause damage to biodiversity<sup>31</sup>. Whilst this may appear ambitious, this gap represents only about 1% of global GDP – while over 50% of the world’s GDP is at moderately or highly dependent on nature<sup>32</sup>.

### 1.2.5 The finance sector’s responsibility for action

In summary, the finance sector is directly concerned by sustainability issues in general, and nature loss in particular, since:

- Financial flows are incentivizing developments and activities in the real economy, which are directly causing harm to nature, and affecting ecosystems services crucial to the functioning of the Earth’s biosphere, and the sustainability of human society.
- Nature loss translates into systemic and widespread risk for financial institutions and their stakeholders, leading to highly material and pervasive exposure to loss.
- Finance must be redirected, to limit investments that are harmful to nature, focus on investments that benefit nature, and fill the resource gap for stopping, and hopefully reversing, the erosion of biodiversity.

## 1.3 Mobilizing and redirecting finance for biodiversity

### 1.3.1 Call for resources mobilization by the Secretariat of the Convention of Biological Diversity (CBD)

The Global Assessment Report on Biodiversity and Ecosystem Services issued by the Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services in 2019 called for a “*fundamental, system wide reorganization across technological, economic and social factors, including paradigms, goals and values*” in order to halt the loss of biodiversity and ecosystem functions.

It is becoming widely recognized that transformative change is needed to halt and reverse biodiversity loss in order to achieve biodiversity targets as well as a broader set of the Sustainable Development Goals. This will require a “*whole of government, whole of economy and whole of society*” approach in order to address the drivers of the loss of biodiversity and ecosystem functions.

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<sup>31</sup> [Deutz et al. 2020](#)

<sup>32</sup> [World Economic Forum \(WEF\) 2020a](#)

Resource mobilization is also central to transformative change and to the success of the post 2020 global biodiversity framework. The CBD expert panel on resource mobilization<sup>33</sup> proposes a three-pronged approach, addressing the need to:

1. Reduce or redirect resources causing harm to biodiversity;
2. Generate additional resources from all sources to achieve the three objectives of the convention;
3. Enhance the effectiveness and efficiency of resource use.

The expert panel emphasises the centrality of the finance sector to achieving this and details key steps towards this, including:

- Mainstreaming biodiversity within the finance sector – including public development banks – via *assessments* of biodiversity dependencies, impacts and risks embedded within their strategies, operations and processes.
- Enabling - and ultimately requiring – the finance sector, to *account* for dependencies, impacts and risks associated with biodiversity loss, and to reflect these in investment decisions.
- A strong role for governments to *require* that the financial sector report on its actions and risks related to biodiversity.
- An important role for central banks and other regulators to assess biodiversity risks and *address* them systemically, for example by including biodiversity risks in stress tests or applying credit ceilings to activities with particularly significant consequences for biodiversity.

### 1.3.2 Framework for biodiversity finance

The Little Book of Investing in Nature<sup>34</sup>, published January 2021 by Global Canopy, with support from (among others) the UNDP Biodiversity Finance Initiative (BIOFIN), provides a comprehensive framework for biodiversity finance and a consideration of the catalysts for mobilizing resources. The framework consists of five components:

1. Generate revenue, by increasing the funds deployed towards biodiversity protection through public spending, private investment, or other measures that can generate or leverage financial resources allocated to biodiversity (consistent with the CBD recommendation to generate additional resources for biodiversity conservation).
2. Deliver better results for biodiversity conservation through better resource management, improved efficiency, and greater alignment of incentives among actors (consistent with the CBD recommendation to enhance the effectiveness of resources use).

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<sup>33</sup> [CBD 2020a, 2020b](#)

<sup>34</sup> [Tobin-de la Puente & Mitchell 2021](#)

3. Realign expenditures, in particular by reducing investments that have negative impacts on biodiversity and redirect those financial flows towards activities that positively impact biodiversity (consistent with the CBD recommendation to redirect resources causing harm)
4. Avoid future expenditures: Prevent future costs through strategic investments and policy changes that protect biodiversity today and reduce the need for larger expenditures in the long term to restore or replace lost ecosystem services: *"The notion of avoiding future expenditures generally applies to situations in which a particular intervention or investment in the short or medium term may result in large future savings or prevent a significant loss of future revenue. Measures include investments in preventive actions such as green infrastructure, invasive species mitigation, and eliminating or amending existing counterproductive taxes."*
5. Catalyse biodiversity finance: Enhance policy, administrative or investment measures or enabling conditions that can result in new, improved or scaled-up biodiversity finance: *"Catalysts and institutional arrangements that facilitate the flows of biodiversity financing and make it possible for them to achieve scale. These catalysts may support biodiversity at the subnational, national, and international levels across both developed and developing countries."*

The Little Book of Investing in Nature provides an overview of the area of biodiversity finance at a time when governments and international negotiators are urgently seeking pragmatic solutions for the twin crises of climate change and the loss of nature. It aims at providing a simple guide for policy makers and investors as to how to realign investment strategies with the nature conservation imperative. As such, it provides useful guidance for financial institutions, both institutional and commercial.

## 1.4 The role of public development banks

### 1.4.1 A diverse set of public financial institutions

Depending on definitions, there are c. 450-550 Public Development Banks<sup>35</sup> (PDBs)<sup>36</sup> around the world (see section 3.1.4). These institutions are owned or supported by governments, with independent legal status, ability to leverage finance from sources other than government budget transfers, and a mandate to support economic and social development, domestically and/or internationally. PDBs may be generalist or specialized, and invest in such important areas as small and medium enterprises support, agriculture and food systems, housing, trade, infrastructure, as well as providing development finance to institutional and private sector recipients in countries eligible for Official Development Assistance (ODA).

Financing by PDBs is significant in itself, amounting to about 10% of all annual private and public financing (Table 1). But PDBs have also a unique role in the financial system that gives them much

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<sup>35</sup> We use here the term 'Public Development Banks' as a general term that includes Development Finance Institutions. See Section 4.2 for further detail.

<sup>36</sup> [Finance in Common 2020](#)

greater influence than their share of financing would suggest – as instruments of international cooperation, levers to private sector funding and bridges between governments and the private sector; and by setting directions and standards, balancing long- and short-term priorities, influencing public authorities, catalysing private investment and helping to realize the Sustainable Development Goals.

Table 1. Overview of Public Development Bank investments and Official Development Assistance for biodiversity globally. Figures in US dollars.

<b>Number of PDBs</b>	over 450
<b>Aggregate balance sheet (total value of investments)</b>	about \$11.2 trillion <sup>37</sup>
<b>Annual investments</b>	\$2.3 trillion (approximately 10% of total global investments yearly by public and private sources) <sup>38</sup>
<b>Annual non-concessional public biodiversity finance (from PDBs)</b>	Maximum \$222 million <sup>39</sup> (0.01% of annual PDB investments)
<b>Annual concessional public biodiversity finance (Official Development Assistance, mainly from development agencies)</b>	Maximum \$9.1 billion <sup>40</sup> (less than 5% of total annual ODA)

#### 1.4.2 PDB mandate to invest in nature, and exposure to nature-related risk

Given their mandate of supporting social and economic development, nationally and internationally, PDBs can focus their financing onto nature-positive investments and can create incentives for beneficiaries (public and private recipient alike) to embed environmental protection in their decision-making, engage in nature-positive strategies, and improve financing outcomes for nature.

<sup>37</sup> Basu *et al.* 2020

<sup>38</sup> [Finance in Common 2020](#)

<sup>39</sup> OECD 2020. Average upper estimate for 2015-2017, includes investments targeted at biodiversity, or supporting biodiversity conservation or restoration as co-benefit.

<sup>40</sup> OECD 2020. Average upper estimate for 2015-2017, includes investments targeted at biodiversity, or supporting biodiversity conservation or restoration as co-benefit.

There is thus a huge opportunity for PDBs to lead the way in channeling financial flows away from harmful activities and towards positive outcomes for nature to decrease financial risks related to biodiversity loss – in alignment with the emerging post-2020 framework for biodiversity. There are again two aspects to this: ‘greening finance’ (to reduce harm to biodiversity) and ‘financing green’ (scaling up nature-positive investment).

For now, this remains almost entirely a potential, not a realized, opportunity: PDBs have a long way to go in focusing their financing towards investments that benefit biodiversity. PDB investments tagged as biodiversity-related<sup>41</sup> are minuscule relative to total investments, or even relative to the (still low) proportion of concessional Official Development Assistance so tagged (0.01% vs 5%; Table 1). Most PDBs with a domestic development role have a government-defined mandate to support GDP growth, prioritizing economic growth indicators over environmental sustainability. Even those PDBs with commitments aligned to sustainability recognize that they still dedicate a very small fraction of their financing to nature-positive investments, and otherwise invest in economic development activities that may generate negative impacts on biodiversity.

According to a recent report issued under the Finance 4 Biodiversity Initiative, investments by PDB worth US\$3.1 trillion, representing 28% of their overall US\$11.2 trillion balance sheet, are highly dependent upon vulnerable nature and ecosystem services, whilst their overall investments could cause potential damage to nature worth over US\$ 1 trillion<sup>42</sup> (Figure 4). The study also points out that development lending by bilateral and multilateral development banks is concentrated on resource intensive countries with high levels of biodiversity and relatively weak regulation, where negative impacts are most likely, and nature is most vulnerable. This raises the expectation of significant, unmanaged, associated material risk to DFI balance sheets. In parallel, unintended risks posed to vulnerable nature could undermine development objectives. Sectorally, utilities – electricity, gas and water – faces the highest dependency risk across all regions, reaching a total of US\$1.9 trillion. The agriculture, transport and construction sectors are also highly dependent on vulnerable nature. In terms of impacts, the agricultural sector (an intense consumer of land and water) is by far the most significant, accounting for US\$810 billion, or 79% of the global nature at risk.

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<sup>41</sup> PDB biodiversity-related finance may not always be tagged, and PDBs may also provide concessional finance for biodiversity: KfW, for example, made [commitments to biodiversity-focused projects](#) of EUR 2.1 billion between 2014 and 2018.

<sup>42</sup> Basu *et al.* 2020

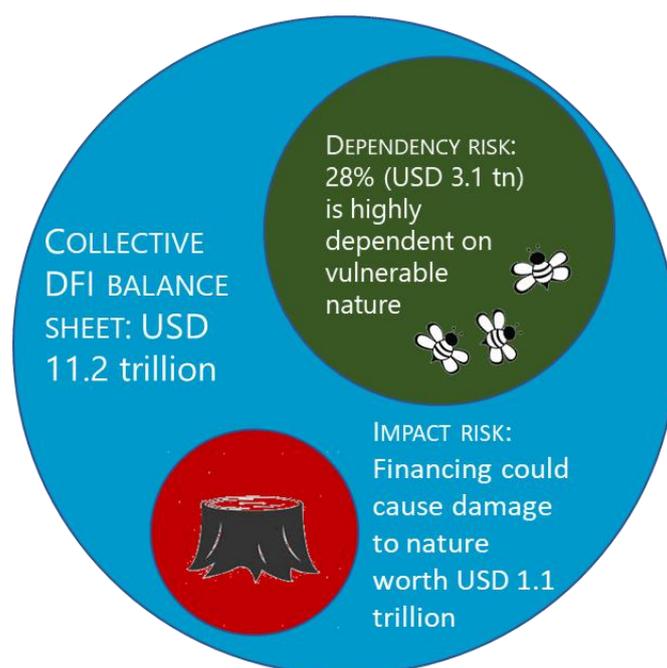


Figure 4. Collective DFI balance sheet, dependency risk, and nature at risk (adapted from Basu et al. 2020, data sources Basic Roots and Vivid Economics). Dependency risk is the aggregate value of assets held in sectors considered highly dependent on nature and in countries considered highly vulnerable to the deterioration of nature. Impact risk is the expected economic value of the damage to nature from lending activities without effective measures to mitigate this harm.

*"Governments should direct their development banks to use their cash and convening power to become global role models for reporting and reducing their impacts on biodiversity... Many PDBs have just one shareholder, their national government, and as such they can be a powerful financial lever of political goals, including to conserve and restore biodiversity. DFIs could become world leaders by showing commercial banks that the data and methods to allow them to measure and reduce their impact on biodiversity already exist."* – Sir Robert Watson, former chair of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), and former chair of the Intergovernmental Panel on Climate Change (IPCC), The Guardian, 28 October 2020

The PDBs leading on nature positive investment are still investing relatively small amounts. Over 2019, the French Development Agency (AFD), a leading European bilateral development finance institution, reported a total of biodiversity-targeted investments (both concessional and non-concessional) amounting to 527 million euros, representing about 3.5% of its overall annual investment of 14.1 billion euros, whilst the German bilateral development finance institution KfW Development Bank reports approximately 500 million euros of biodiversity-related investments yearly, representing about 5.6% of its total yearly investment of 8.8 billion euros.

### 1.4.3 Commitments to mainstream nature in PDB financing decisions

In the past 12 months, protecting and restoring nature has clearly risen up in the international political agenda as an urgent global imperative, alongside the better-recognized issue of climate change.

Many public development banks and international development finance institutions have recently made public commitments to protecting nature and combating biodiversity loss. This is a welcome development in the global financial community and clearly a source of inspiration for many governmental, financial, and corporate stakeholders. In this study, we have also found that various PDBs are working internally to increase the level of mainstreaming of biodiversity in their investment strategy and decision-making processes.

The Joint Declaration of all Public Development Banks in the World, signed during the Finance in Common Summit held in Paris on 12 November 2020<sup>43</sup> states:

*“On biodiversity, oceans and nature, we see their conservation, sustainable management and protection as an essential foundation for development and for the well-being of all, including in designing sustainable food systems. We commit to develop or reinforce strategies, funding and cooperation among PDBs and with the public and private sectors on these issues. We stand ready to help align all financial flows with the future post-2020 Global Biodiversity Framework to be adopted at the COP15 of the Convention on Biological Diversity. Nature-based solutions, sustainable resources and land use as well as better consideration of nature-related risks will be used to promote a biodiversity-positive economy as well as climate neutrality. We will promote One Health approaches integrating human, animal and environmental health as well as ecosystem restoration. Our policies to cause no harm to the environment and fight all threats to biodiversity including the destruction of natural habitats, the overexploitation of wild species and natural resources, pollution, invasive species and climate change, should be strengthened for all key biodiversity areas, including forests, oceans, wetlands and watersheds. We will strive to reach co-benefits among the climate, biodiversity and ocean agendas, whose joint preservation offers powerful opportunities to improve the health of the planet and all people.”*

This joint declaration resonates with the [Leaders’ Pledge for Nature](#) at the United Nation’s Biodiversity Summit held in September 2020, where political leaders from all regions and the European Union, committed to reversing biodiversity loss by 2030, thereby sending a unified signal to step up global ambition; the pledge has currently been signed by 84 countries. A few governments and bilateral development agencies have followed up with steps to implement this pledge through increasing biodiversity-targeted ODA. For instance, the UK Government committed in January 2021 to invest at least UK£3 billion (3.5 billion euros) via international climate finance in projects that protect and restore nature, while the French Development Agency committed to double its yearly investments in biodiversity-related project, to 1 billion euros by 2025. As yet, however, the pledge and the Joint Declaration by PDBs have not prompted tangible new commitments by PDBs to increase nature-positive investments.

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<sup>43</sup> [Finance in Common 2020](#)

## 2 Study aims

The study aimed to:

- Review and assess how PDBs currently integrate nature in their processes and business models
- Outline practical recommendations for how this could be improved, to strengthen the role of PDBs in supporting the post-2020 Global Biodiversity Framework and the [2030 Agenda for Sustainability](#).

The study focused on two linked but complementary aspects of PDBs' business operations:

- Greening finance, i.e. directing financial flows away from projects with negative impacts on nature to projects that mitigate negative impact
- Financing green, i.e. the financing of projects that intend to contribute to the conservation, restoration, and sustainable use of biodiversity and ecosystem services (directly or as a co-benefit)

In practical terms, 'greening finance' involved an assessment of banks' environmental commitments and their safeguard frameworks and processes, including disclosure and reporting, designed to prevent damage to biodiversity and ecosystems. 'Financing green' involved an assessment of banks' nature-positive investments, in either projects designed to benefit biodiversity and ecosystem services directly, or that provided environmental co-benefits through reducing the pressures on nature, typically through climate change mitigation or adaptation, including implementation of nature-based solutions<sup>44</sup>.

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<sup>44</sup>For practical reasons in line with banks' operational processes, we included projects with indirect benefits to nature under the heading of 'financing green'. World Bank (2020) includes projects with 'positive environmental impact as a co-benefit' under the heading of 'greening finance'.

## 3 Study Methods

We compiled information in four main ways:

- Identifying and listing PDBs, reviewing documentation for a sample of institutions, and extracting information in AFD's global database of Public Development Banks<sup>45</sup> once this became available
- Developing and circulating an online survey questionnaire
- In-depth semi-structured interviews with PDB staff and subject matter experts
- Compiling and reviewing relevant literature

These approaches are briefly outlined below, with further details in annexes.

### 3.1 PDBs inventory and document review

#### 3.1.1 Listing PDBs and Development Finance Institutions

We compiled a list of organisations that class themselves as PDBs and Development Finance Institutions (DFIs) ('self-identified PDBs': see also section 4.2) using web information to identify (a) multilateral development banks<sup>46</sup> and (b) the institutional members of:

- The International Development Finance Club (IDFC)
- The European Development Finance Institutions (EDFI)
- The five regional associations that make up the World Federation of DFIs (WDFIs), namely:
  - Association of African Development Finance Institutions (AADFI)
  - Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)
  - Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank (ADFIMI)
  - European Long-Term Investors Association (ELTI)
  - Latin American Association of Development Financing Institution (ALIDE)

Our list also included the US International Development Finance Corporation (DFC) and the Land and Agricultural Development Bank of South Africa (Land Bank, a member of UNEP Finance

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<sup>45</sup> AFD 2020a

<sup>46</sup> African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Finance Corporation (World Bank Group), Islamic Corporation for the Development of Private Sector (Islamic Development Bank Group), Islamic Development Bank, New Development Bank, World Bank (International Bank for Reconstruction and Development/World Bank Group).

Initiative), which class themselves as development banks but are not members of the associations above.

We found eight members of the WFDFI regional associations that appear to be industry forums rather than finance institutions. These were excluded from the list, giving a total of 315 institutions in the 'self-identified PDBs' database.

In a number of cases, two or more PDBs in our dataset belong to the same banking group but have distinct identities (e.g. public-sector focused vs private-sector focused). We did not merge the entries for these banks but retained them as separate institutions.

Our initial compilation based mainly on PDB industry associations did not include sub-national PDBs or a number of other PDBs that do not belong to these associations. These institutions were added to our list following the Finance in Common summit in November 2020, when AFD's database of PDBs was published (see section 3.1.4).

### 3.1.2 Identifying external accreditations and engagements

We reviewed website membership lists to identify which PDBs were accredited agencies, signatories or members of a set of key environmental funds, standards and processes (see also Annex A), namely:

- The Global Environment Facility (GEF)
- The Green Climate Fund (GCF)
- The Task Force on Climate-related Financial Disclosures (TCFD)
- Informal Working Group of the Task Force on Nature-related Disclosures (TNFD)
- UNEP Finance Initiative (UNEP FI)

We focused on these among a larger suite of finance-related initiatives (see Annex A) because accreditation to the funds, or membership of the initiatives, implied a significant institutional commitment to environmental sustainability – more than just notional support or endorsement. Securing accreditation to GEF or GCF is a demanding process, while the requirements of the UNEP Financial Initiative Principles for Responsible Investment and reporting commitments under the TCFD and (likely future) TNFD are non-trivial. In addition, these initiatives all had engagement from a significant number, if still a small minority of PDBs (between five and 26).

### 3.1.3 Document review

We reviewed the websites, annual reports and other relevant documents (where available) of a total of 98 PDBs (30%) of the 315 in the 'self-identified PDBs' database<sup>47</sup>.

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<sup>47</sup> Some institutions initially targeted for review did not have functioning websites or relevant documents available, or did not have documents written in English, French or Spanish. We were not able to review these.

For document review we prioritised the PDBs identified as multilateral development banks (11 out of 11), members of EDFI (12 out of 16), members of IDFC (23 out of 25<sup>48</sup>) and those with external environmental accreditations/engagements as outlined in section 3.1.2 (29 out of 45, including five not in the categories just mentioned). Of the 261 remaining PDBs in the 'self-identified' database, we reviewed documents for a randomly-selected sample of a further 47 banks, spread across regions (11 in Africa, 7 in the Americas, 20 in Asia-Pacific and 9 in Europe).

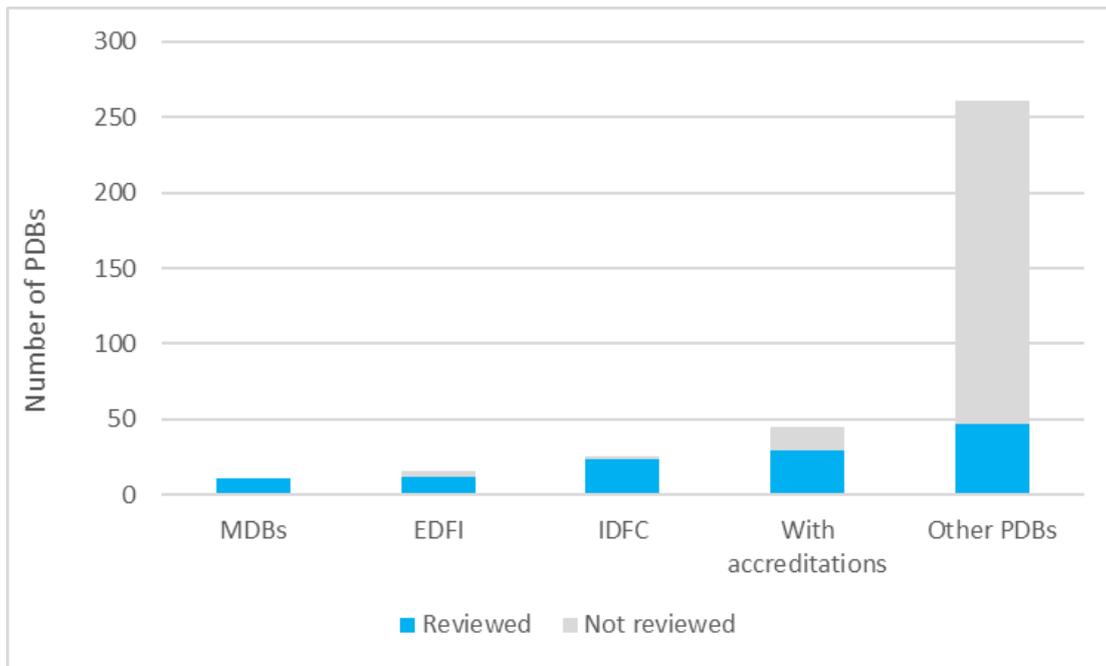


Figure 5. Number of self-identified PDBs (n=315) in each category where documents were reviewed. PDBs 'with accreditations' had specific external environmental accreditations/engagements with GCF, GEF, TCFD, TNFD or UNEP FI

In reviewing documents, we recorded the following:

- PDB geography (country, region and continent of ownership – 'multiple' if more than one)
- PDB's sectoral focus, if any
- Evidence of an environmental sustainability commitment<sup>49</sup>
- Evidence of a climate commitment
- Evidence of a biodiversity/nature commitment
- Whether PDB is accredited or signatory to external environment-related commitments
- Evidence of any formal safeguard framework used for assessing and managing biodiversity risks

<sup>48</sup> The Islamic Corporation for the Development of the Private Sector is both a member of IDFC and classed as a multilateral development bank (a member of the Islamic Development Bank group)

<sup>49</sup> Environmental, climate or biodiversity commitments were looked for in strategy documents and reports, as stand-alone statements (e.g. on PDB websites), and in formal safeguards frameworks.

- Evidence of any disclosure or reporting on biodiversity risk and/or impacts
- Evidence of any investments directly benefiting nature
- Evidence of any investments that might indirectly benefit nature.

As well as yes/no answers to these points, we documented additional detail where possible (e.g. on the form of biodiversity safeguards).

### 3.1.4 Public Development Banks global database

Peking University's Institute of New Structural Economics (INSE) and Agence Française de Développement (AFD) have developed the first public, global database on PDBs, using the institutions' annual reports. This was launched on 9 November 2020 during 'The Invisible Hand: Development Banks in Transition', AFD's 14th International Research Conference on Development organized as part of the Finance in Common Summit.

The AFD PDBs database included institutions based on specific criteria for a Public Development Bank (see section 4.2). This omitted a sizeable number (98) of the self-identified PDBs that are members of the WFDFIs – presumably because they are felt not to fulfil the criteria established by INSE/AFD, though which criteria are not met is not immediately apparent. The AFD PDBs database includes a further 237 institutions not in the 'self-identified PDBs' database. These are non-members of the major PDB/DFI sectoral associations, including 15 regional, 162 national and 56 sub-national banks.

Our aim in this study is to assess how PDBs interact with biodiversity, not to refine a definition of PDBs. We have therefore taken an inclusive view and incorporated in our analysis all self-identified PDBs/DFIs, and the additional institutions in the AFD PDBs database. The combined database includes 552 institutions.

The AFD PDBs database includes information on (among other aspects) institutions' sectoral mandates and balance sheets, and OECD income bands for institutions' countries (not for multilateral or regional banks). This information was included in the combined database for analysis (note that, with exception of OECD income bands, it is only available for the 454 institutions originally in the AFD PDBs database). For purposes of this study, we incorporated the most recent data on PDB assets (from year 2018). Information on net profits also refers to year 2018.

Separately, INSE/AFD also carried out an automated screening of PDBs annual reports in English, using a machine-learning algorithm adapted from one developed by OECD's SDG Financing Lab. For each report, the algorithm assessed the level of certitude that the report contains elements relevant to specific SDGs. The reports cover multiple years for most banks. In order to analyse these data, we extracted the *maximum* score for any year for SDG 13 (climate action), SDG 14 (life below water) and SDG15 (life on land). These scores are available for 236 institutions.

## 3.2 Contacts list

Using our existing contacts and knowledge of the development banking sector, and with input from the WWF Steering Committee, we developed a long-list of contacts for 236 individuals employed in 51 different PDBs (MDBs, EDFI members and IDFC members) as potential targets for interviews and survey responses (see section 3.3). The long-list included individuals whose roles focused on environment (both safeguards and nature-positive investment), climate or sectoral investment.

From the long-list we developed a short-list of 61 PDB staff to invite for interview and to complete the online survey.

Similarly, we developed a long-list of contacts for 54 subject matter experts (not currently employed by PDBs). These included consultants with extensive experience of implementing PDB safeguards, experts on nature-positive investments and experts on biodiversity finance. From this, we shortlisted 22 subject matter experts to invite for interview (subject matter experts were not asked to fill the online survey).

## 3.3 Survey

We designed an online survey for PDBs using Google Forms (Annex D). The survey aimed to obtain standardized information on PDBs and their biodiversity-related activities, and to collect the individual views of PDB staff on the status and importance of mainstreaming biodiversity in PDB decisions. The survey form made clear that information would be reported anonymously, though we requested names of survey respondents and their institutions (both optional) for interpretation purposes.

Invitations to complete the survey and for interview were sent to 61 shortlisted PDB staff from 26 institutions, followed up by reminders as appropriate. We received 22 survey responses back, from 17 institutions, including 12 responses from multilateral, six from bilateral, two from regional and two from national PDBs. Some PDBs preferred to confine responses to a single focal point (see section 3.4).

We were unable to obtain contact details directly for PDBs not on our compiled contact list, including member institutions of the WFDFI regional associations (mainly national and regional development banks). We therefore reviewed all remaining bank websites for general e-mail contact information. Survey invitations including a clear explanation of the study were sent to a further 184 PDBs using the contacts long-list and compiled contacts from websites. We also wrote to the Secretariats of the five regional associations that comprise the WFDFIs, explaining the study and asking them to circulate the survey to their members.

Unfortunately, we received no survey responses from any of these 184 PDBs or the regional secretariats.

Survey respondents had diverse geographical focuses, including global, Africa, Asia, Europe and Latin America. Most (15) had an environmental focus, as specialists or as part of a broader

safeguards/environmental and social remit; two specialized in climate issues and five had other responsibilities (finance, rural development or sectoral specialists). All were from PDBs classed as mid-size or larger – no responses were received from small or very small banks.

The surveys yielded valuable information on respondents' perspectives and their banks' activities and challenges related to environment. We report on these here where relevant. However, our main findings are based on document review and on interviews, as there are too few survey returns to support a detailed analysis.

### 3.4 Interviews

We conducted 34 in-depth interviews with 32 PDB staff from 17 institutions and 7 subject matter experts. Interviews were semi-structured, using a standard set of interview questions but with scope to adapt these as needed according to the role, experience and interests of the interviewee (Annex E). The interview guide was split into several sections with questions on general approaches to biodiversity, environmental commitments, greening finance (e.g. risk management, safeguards), reporting and financing green (e.g. nature positive investment).

Prior to the interview, interviewees were asked to complete a consent form and provided with information on the project to ensure they were informed and consented to the way that interview information would be used. Interviewees were also asked to complete the online survey (see section 3.3). If a response was received, the responses were used to guide the questioning during the interview.

Interviews typically lasted 1-1.5 h and were conducted via Zoom or the interviewee's preferred online meeting platform. We recorded interviews and produced an interview transcript for reference using the online software otter.ai. Detailed findings from each interview were written up in a standardised datasheet.

Datasheets fed into a formal thematic analysis to extract key themes and commonalities, and issues where there were convergent or divergent views. This involved the creation of a thematic framework (a list of key themes that arose in the interviews) after familiarisation with a sub-set of the interviews (73%), which was then used to code the detailed findings within datasheets from all interviews using qualitative coding software. The coded data, and detailed notes from interviews, inform the findings of this report. In this report interview information is reported anonymously with regard to interviewee and institution. In total we conducted 34 interviews, involving 32 PDB staff from 17 institutions and 7 subject matter experts.

Our interview invitations were to staff with a range of roles, including climate and sector leads. However, climate and sector leads were often hesitant to talk with us and usually forwarded out invitation to environment leads in their institution. In some cases, PDBs requested that we channel communication through their biodiversity leads only, so it was not possible for us to obtain views and input from a broader range of staff. Our interview findings are therefore predominantly (though not solely) from PDB staff with a primarily environmental focus.

The report includes examples of respondents' comments on specific issues, from both interviews and surveys. These have been edited where needed to ensure anonymity and readability, without changing any substantive content.

### 3.5 Literature review

We compiled and rapidly reviewed around 150 reports and publications relevant to finance and biodiversity (not including PDBs' own documents reviewed separately: section 3.1.3). These were mainly in the 'grey' literature and mainly recent, published between 2018 and 2020. Topics covered included agriculture and supply chains, climate finance, PDBs, finance for nature, nature-based solutions, reporting and monitoring, risk management, safeguards, and biodiversity tools and methods.

We have cited literature in this report in relation to specific points, but not to support general statements or findings. Not all reviewed documentation has been cited. Cited publications are footnoted for quick reference and also listed in the Reference section (section 10). Relevant reviewed publications are listed under category headings in a Bibliography (Annex C).

## 4 The status of Public Development Banks

### 4.1 Key findings

1. Public Development Banks (PDBs, also called Development Finance Institutions, DFIs) are financial institutions with a mandate to finance a public policy on behalf of the State. They have independent financial and legal status but operate under the authority and supervision of government.
2. PDBs are a very diverse set of institutions. In total, we identified 552 institutions as PDBs, based on membership of industry forums and/or representation in AFD's recently developed PDBs database.
3. For this study, we categorised PDBs (based on ownership, geographic scope and beneficiaries) as multilateral (11), bilateral (30), regional (38), national (397) or sub-national (76) banks. The vast majority of PDBs are thus national development banks.
4. PDBs are fairly evenly spread across continents, with a particularly large number in the Asia-Pacific. The Americas have a notably high number and proportion of sub-national banks, which are unusual in Africa, while bilateral PDBs are concentrated in Europe.
5. PDBs range in size over six orders of magnitude. The smallest have assets of US \$2-3 million and the largest, the China Development Bank, has assets of US \$2.4 trillion. Small and mid-size banks (assets between US \$100 million and US \$10 billion) make up the majority (c. 61%) of PDBs. While most multilateral development banks (MDBs) are large (assets over US \$ 10 billion) or very large (assets over US \$ 100 billion), regional banks tend to be smaller (Figure 11). There is a broad range of size in each PDB category, but average (mean) assets for both multilateral and bilateral banks (US\$ 149 and US\$ 139 billion respectively) are around ten times larger than for regional (US \$12 billion), national (US \$ 15 billion) or subnational (US \$ 12 billion) banks.
6. Most PDB assets are held by a few very large banks. The largest seven PDBs, including three Chinese banks, together hold over half of global PDB assets, compared to only 0.05% held by the smallest 100 banks. Small PDBs (assets < US \$1 billion) and very small PDBs (< US \$100 million) PDBs are concentrated in low and lower-middle income countries.
7. PDBs formal mandates are established in legal founding documents and focus on economic and social goals. PDBs derive direction from their government owners and are typically supervised by finance ministries. PDB supervisors may not have a clear understanding of nature-related risks which can hinder mainstreaming of nature and environmental sustainability in PDBs' investment decisions. However, PDBs are also often able to influence and guide government on sustainability issues.
8. The proportion of PDBs with stated sustainability commitments decreased from multilaterals through bilateral and regional to national PDBs. A similar pattern was evident for specific accreditations or engagements with environmental funds or standards, and for representation of environmental SDGs in PDB reports<sup>50</sup>. Stated commitments for

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<sup>50</sup> For 236 PDBs in [AFD's global PDB database](#).

general sustainability were more common than for climate, and still fewer PDBs had stated commitments for biodiversity.

9. Many PDBs have now made ambitious commitments regarding climate risks in their investments. Implementing these commitments is proving a significant organizational challenge. Respondents suggest that the effort needed to integrate climate considerations may be constraining PDBs from starting on a similar process for nature. A few organisations are leading the way to improve biodiversity mainstreaming but at present biodiversity is poorly integrated into the strategies of most larger banks, and is not even on the radar for most smaller ones.

## 4.2 What is a Public Development Bank

Xu et al. (2020) outline five qualification criteria for Public Development Banks (PDB). Paraphrased and summarised, these are<sup>51</sup>:

- 1) They have independent legal status and separate financial statements (i.e. they are not government agencies or funds)
- 2) They are not purely grant-making (as distinct from aid agencies)
- 3) They are not funded only by budgetary transfers from government
- 4) They have a public policy mandate
- 5) They are sponsored by government.

In general terms, therefore, PDBs<sup>52</sup> are financial institutions with a mandate to finance a public policy on behalf of the State<sup>53</sup>. They have independent financial and legal status but operate under the authority and supervision of government. Supervisory bodies often include the ministry in charge of finance, with, depending on the PDB type and mandate, joint supervision from ministry in charge of foreign affairs, environment and energy transition, etc. Their CEO is typically appointed by the government. Investments are generally approved by an investment committee composed of senior directors of the PDB and, in many instances, representatives of the ministry of finance.

. In reality, PDBs are a very diverse set of institutions that may also include international financial institutions, multilateral banks, housing finance companies, agricultural banks, housing banks and investment funds, as well as some institutions that do not meet standard definitions of "banks"<sup>54</sup>.

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<sup>51</sup> Xu et al. 2020

<sup>52</sup> PDBs may also be referred to as 'Development Finance Institutions (DFIs)'. DFIs are sometimes defined as a subset of PDBs that focuses on private-sector lending, but this distinction is not consistently applied

<sup>53</sup> AFD 2020a

<sup>54</sup> AFD 2020a

## 4.3 Categorising PDBs

### 4.3.1 Types of PDBs

Xu et al. (2020) propose a simple classification of PDBs into three categories according to ownership structure: multi-national, national and sub-national. While this is clear and unambiguous, for the present study we suggest a slightly different classification that also considers the ownership and beneficiaries of the PDB, i.e.

- **Multi-lateral** – PDBs operating across multiple countries, where major shareholders include countries (typically high-income) that are not the ones benefiting from financing (typically lower-income).
- **Bilateral** – PDBs owned by one country (typically high-income) but financing activities in other countries (typically lower-income).
- **Regional** - PDBs operating across multiple countries, where the major shareholders are also the countries benefiting from financing.
- **National** – PDBs with single-country ownership and financing activities in that country.
- **Sub-national** – PDBs owned by a national or sub-national government and financing activities in a particular province or region of a country.

This classification is not completely cut-and-dried: given the diversity of PDBs some will not fit neatly into a particular category – for example, some PDBs have both a bilateral and a national aspect to their financing. However, it is helpful in that the different PDB categories are likely to correspond to differences in mandates, governance and development aims. Globally, national and sub-national banks make up by far the largest number of PDBs (Figure 6). Figure 7 shows the number of institutions in each category where we reviewed documents for this study.

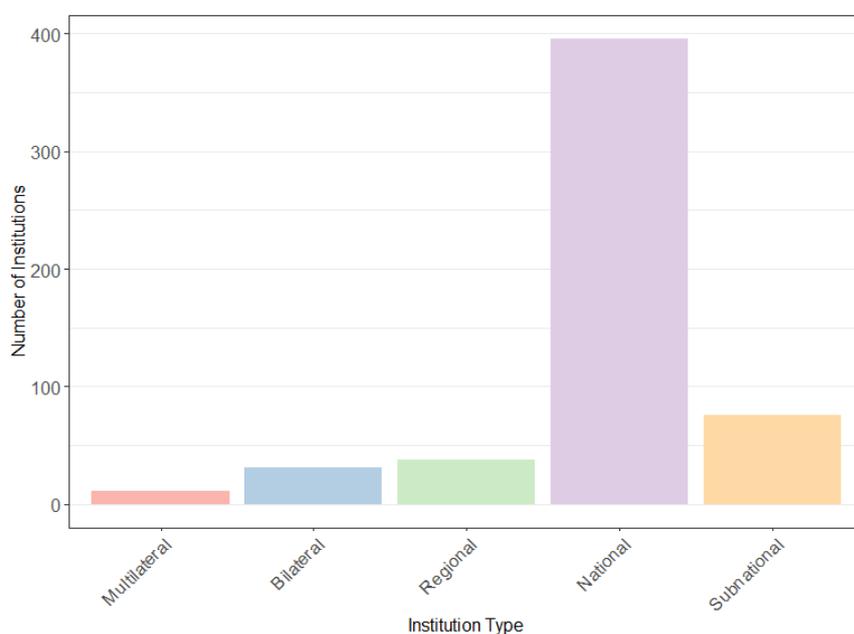


Figure 6. Number of PDBs of different categories in the global dataset ( $N = 552$  institutions; 11 multilateral, 31 bilateral, 38 regional, 396 national and 76 sub-national)

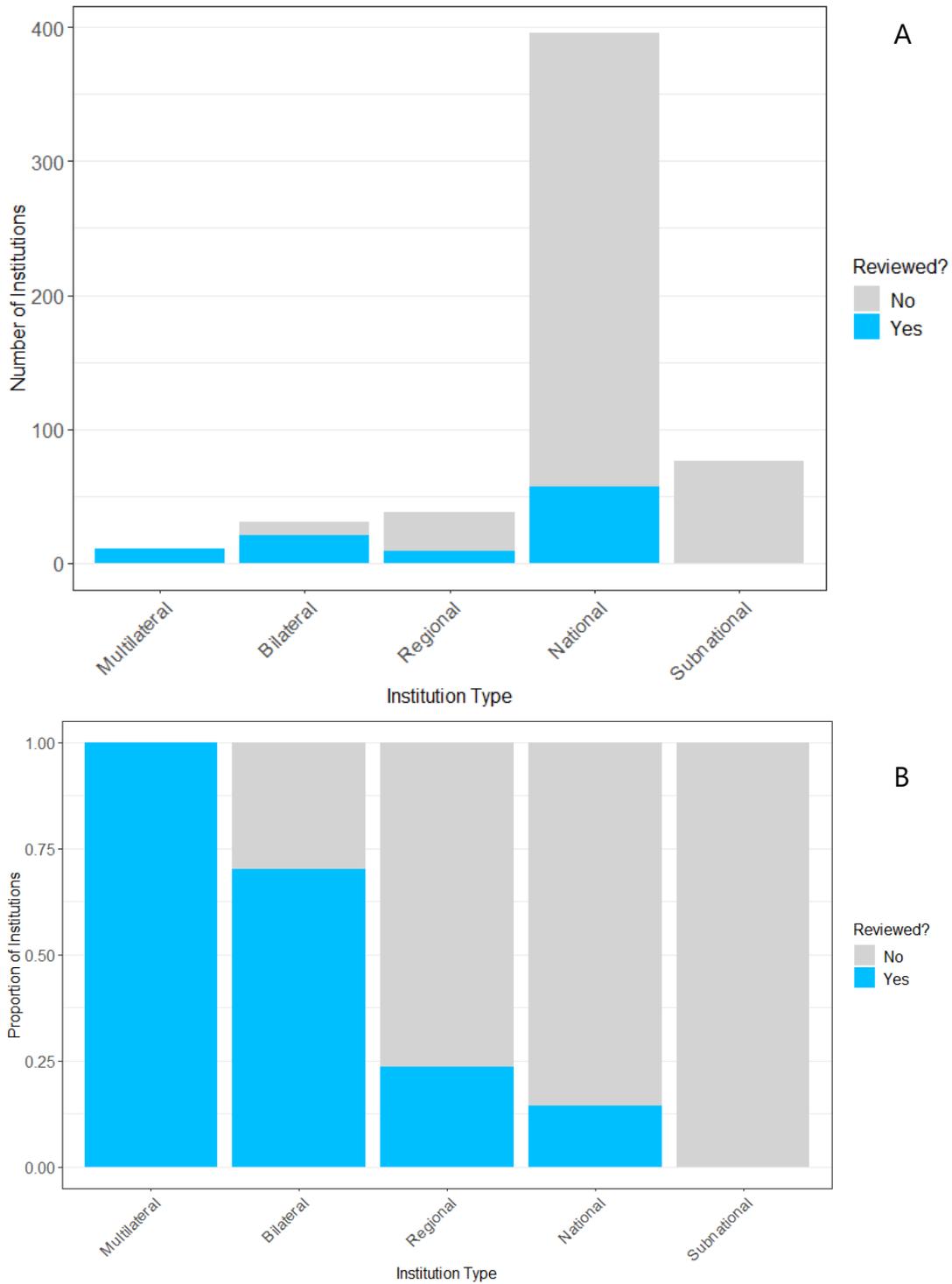


Figure 7. A: number and B: proportion of PDBs in each category where documents were reviewed for this study (Number of PDBs in total: Multilateral N = 11, Bilateral N = 30, Regional N = 38, National N = 397, Subnational N = 76.)

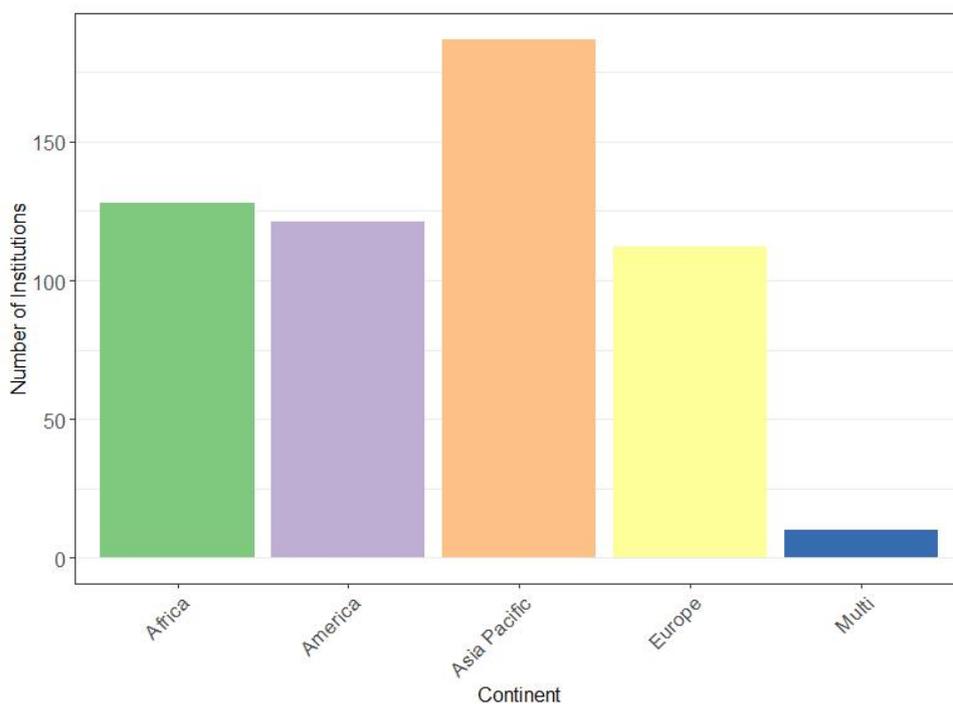


Figure 8. Regional distribution of PDBs (N = 550; two PDBs unclassified)

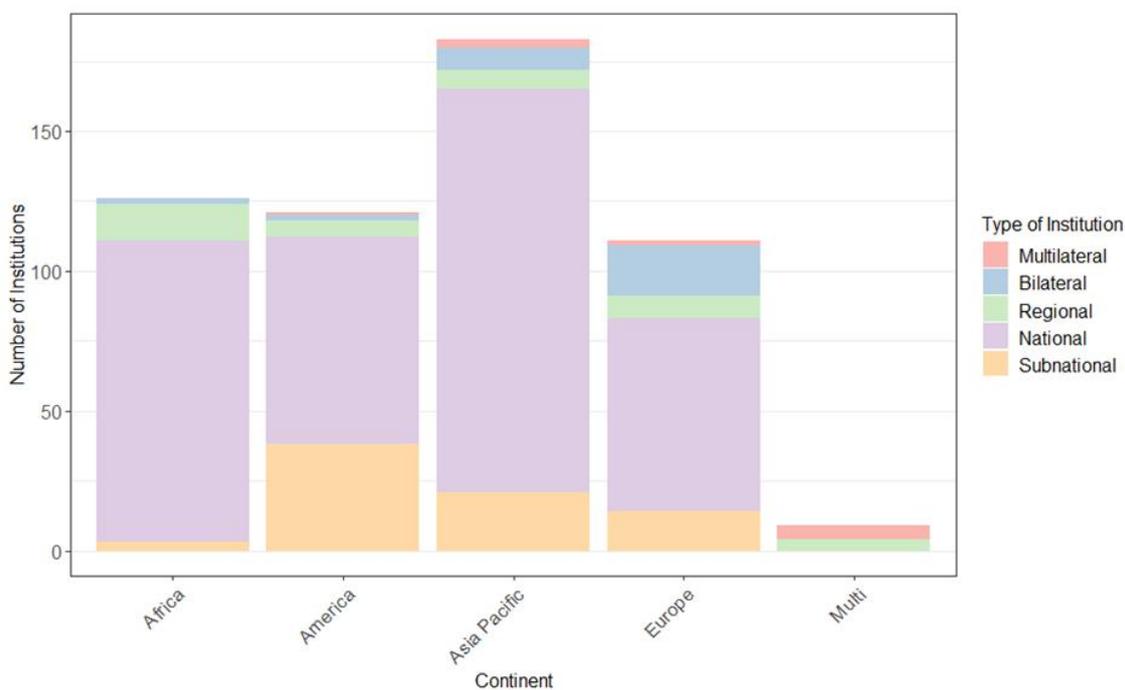


Figure 9. Regional distribution of PDBs by category (N=550; two PDBs unclassified)

PDBs are fairly evenly spread across continents (Figure 8), with a particularly large number in the Asia-Pacific. The Americas have a notably high number and proportion of sub-national banks, which are unusual in Africa, while bilateral PDBs are concentrated in Europe (Figure 9). In terms of

mandated sectoral focus, most banks are generalist (including infrastructure and industry) but nearly as many focus on micro, small and medium enterprises, suggesting an important role for development banks in supporting this sector. A substantial number of banks also specialise in agriculture, export-import, housing or local community development (Figure 10).

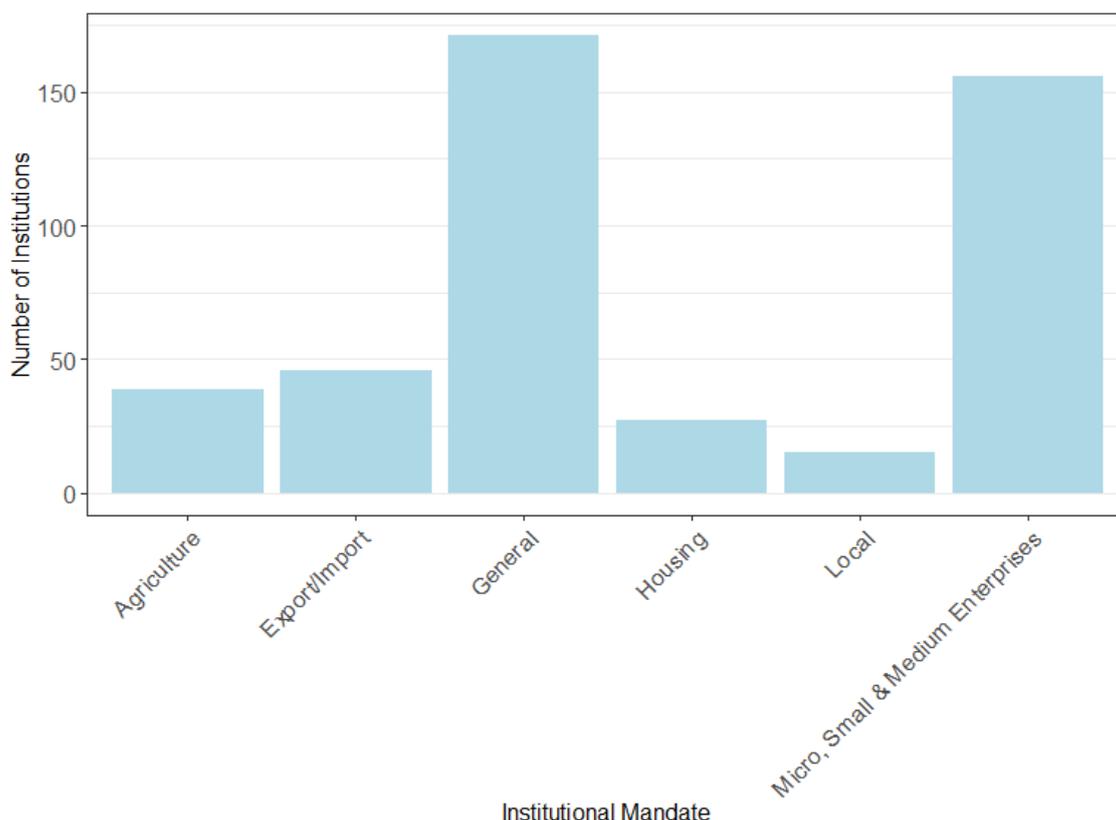


Figure 10. Number of PDBs by mandate (sectoral focus) (N = 454). Source: AFD PDBs database 2020

#### 4.3.2 Classification by size

With respect to their overall assets, PDBs range in size over six orders of magnitude, from institutions with assets (balance sheets) of US \$2-3 million, to the China Development Bank with US \$2.4 trillion in assets. For our analysis, we categorised PDBs where data were available (454 institutions) into the following size classes:

- **Very small** – assets up to US \$100 million.
- **Small** – assets greater than US \$100 million up to US \$1 billion.
- **Mid-size** – assets greater than US \$1 billion up to US \$10 billion.
- **Large** – assets greater than US \$10 billion up to US \$100 billion.
- **Very large** – assets over US \$100 billion.

Figure 11 shows the number of PDBs in different size classes, Figure 12 the categories of PDB in each size class, and Figure 13 the average (mean) assets of PDBs in each size class. Small and mid-size banks (assets \$100 million to \$10 billion) make up the majority (c. 61%) of institutions. While most multilateral banks are large or very large, regional banks tend to be smaller. However, there are some very large national, bilateral and even sub-national banks. Although there is a broad range of size in each PDB category, mean total assets are similar for multilateral and bilateral banks and around ten times larger than for regional, national or subnational banks (Figure 12).

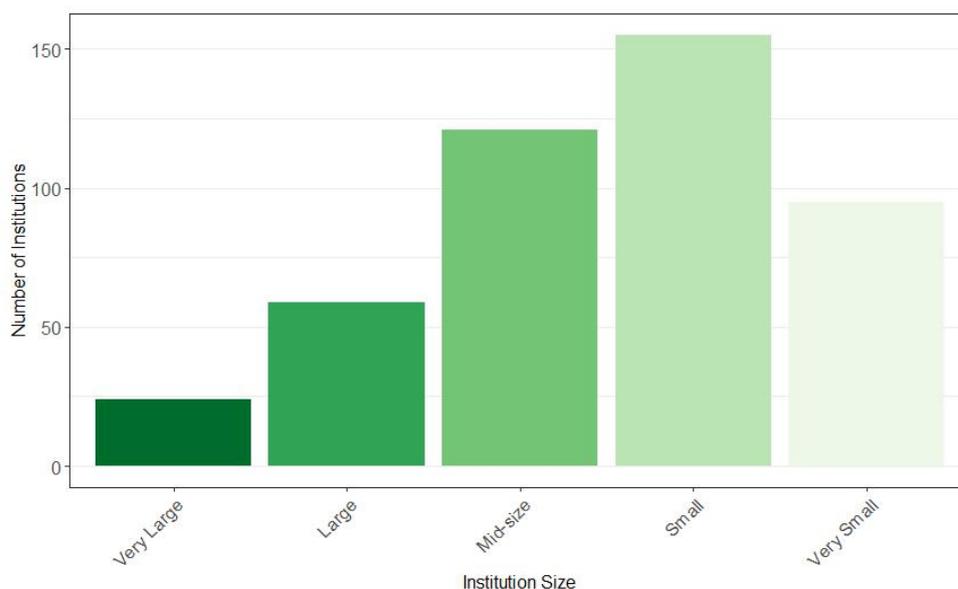


Figure 11. The number of PDBs of different size classes ( $N = 454$ ; 98 institutions in the dataset do not have a size class assessed). Source: AFD PDBs Database 2020

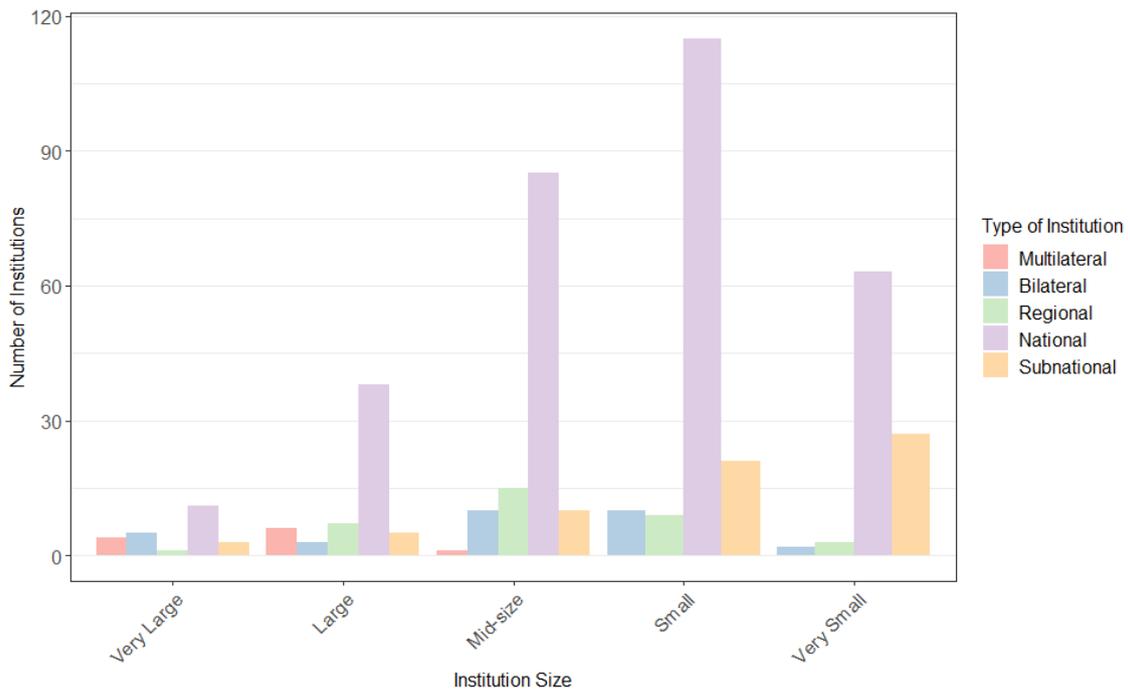


Figure 12. Categories of bank in each PDB size class (n=454; 98 institutions in the database do not have an assigned size class). Source : AFD PDBs Database 2020

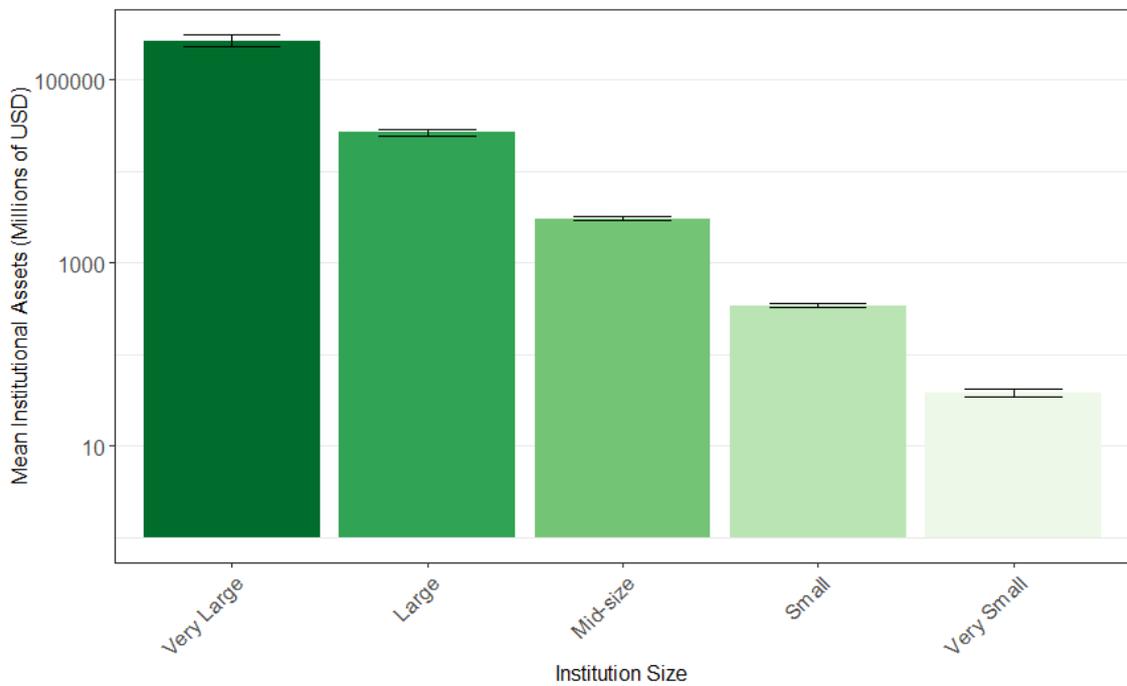


Figure 13. Mean assets (millions of USD) per bank size category, on a logarithmic scale (N = 454. Very Large = 24, Large = 59, Mid-Size = 121, Small = 155, Very Small = 95). Error bars = standard error. Source: AFD PDBs Database 2020

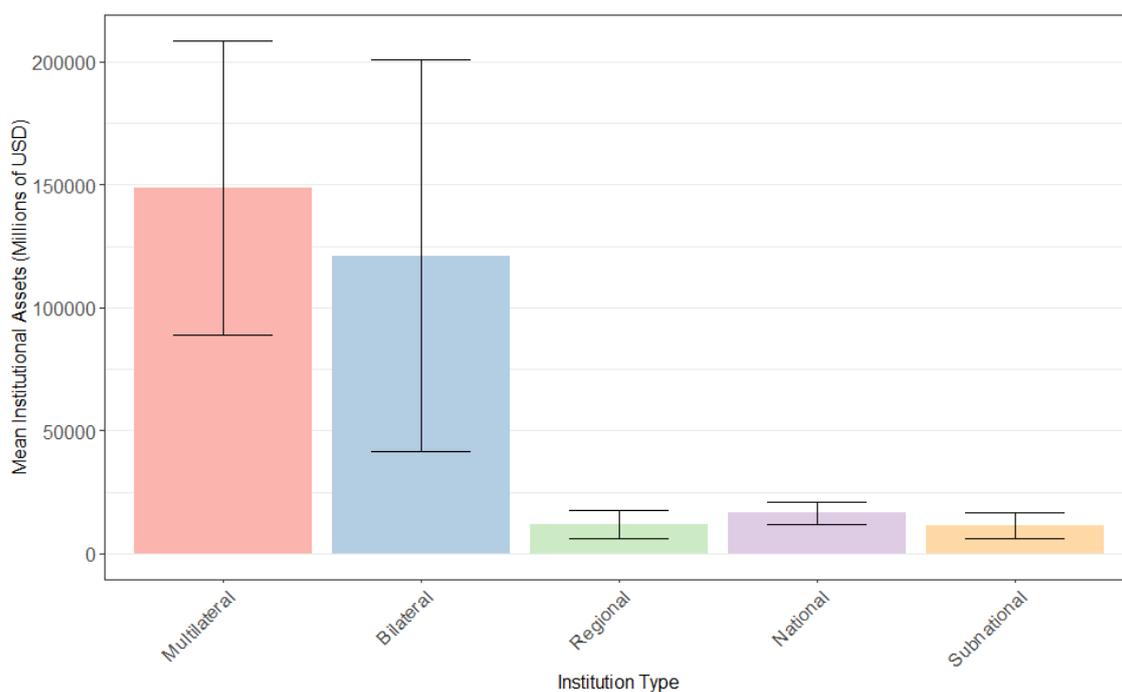


Figure 14. Mean assets (millions of USD) of different categories of PDB (N = 454). Bars show standard errors. Source: AFD PDBs Database 2020

Table 2. Mean assets of different categories of PDBs<sup>55</sup>

Institution type	Mean Institutional Assets (USD millions)	N	SD
<b>Multilateral</b>	149,000	11	199,000
<b>Bilateral</b>	121,000	30	436,000
<b>Regional</b>	12,000	35	34,500
<b>National</b>	16,500	312	78,000
<b>Subnational</b>	11,500	66	43,600

<sup>55</sup> Rounded to 3 significant figures

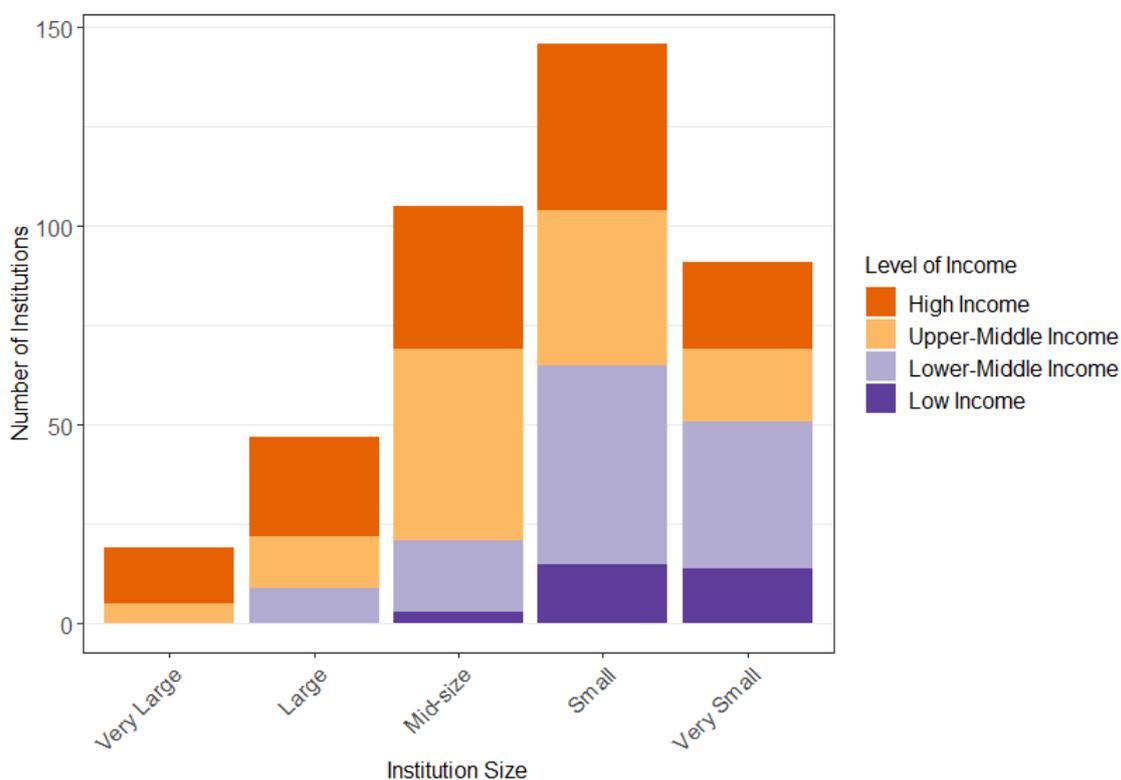


Figure 15. PDB size (based on assets) according to OECD country income category (multilateral and regional banks excluded, N=409). Source : AFD PDBs Database 2020

Considering country income (OECD categories based on gross national income), high and upper-middle income countries have PDBs of all sizes (Figure 15), but small and very small PDBs are concentrated in low and lower-middle income countries. Only high and upper-middle income countries have very large PDBs.

Overall, a few very large banks hold the great bulk of PDB assets (Figure 16). China’s five PDBs have a total of \$4 trillion of assets, accounting for 35% of the world total<sup>56</sup>. The largest seven PDBs together hold 52.2% of total PDB assets: these include the European Investment Bank, Germany’s Kreditanstalt für Wiederaufbau (KfW), Italy’s Cassa di Risparmio di Genova e Imperia and the World Bank (International Bank for Reconstruction and Development), as well as three Chinese PDBs. In contrast, the smallest 100 banks hold only 0.05% of global assets.

<sup>56</sup> AFD 2020a

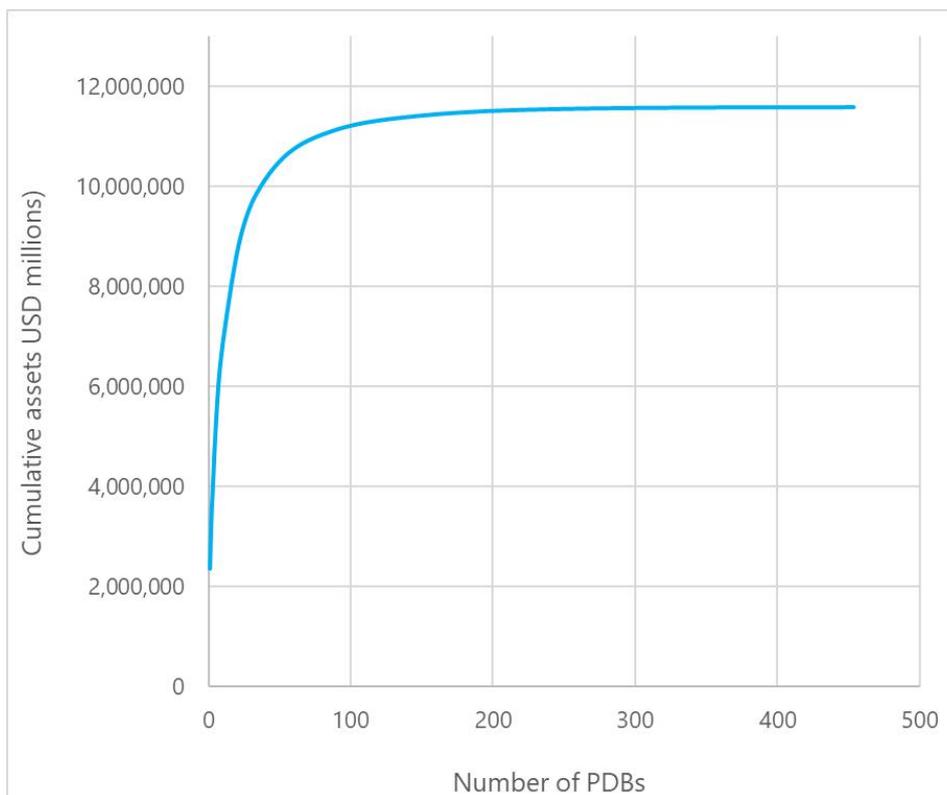


Figure 16. Cumulative institutional assets across PDBs (N =454), sorted by asset size. A small number of institutions hold the bulk of total assets. Data source: AFD PDBs Database 2020

The profitability of banks also varies considerably. Seventy-six (17%) of the 454 banks with financial information are recorded as making either zero profit or an annual loss. At one extreme, Russia's State Development Corporation (VEB.RF) recorded a loss of \$2.5 billion/year, while China Development Bank recorded a profit of \$16.3 billion.

## 4.4 Environmental commitments and engagement

### 4.4.1 Formal mandates and supervision

PDBs' formal mandates are established in their legal founding documents (e.g. government Acts, charters or articles of association). PDBs' original mandates are almost invariably focused on economic and social goals (see box). Through recent legal revisions, some PDBs now have environmental and sustainability considerations embedded in their mandates (see box), though these appear to be the exception rather than the rule. Mandates may also set out a sectoral focus, e.g. on infrastructure or agriculture.

Beyond these formal legal objectives, PDBs derive their direction from their government owners. Even where their legal mandates have not been updated to include sustainability, many banks have established operational environmental objectives or commitments (see section 4.4.2). These are typically supervised by ministries of finance or treasury departments. Bilateral development banks may have joint supervision from ministries of foreign affairs or international development;

some (like KfW) have both a domestic and an international focus. Multilateral banks have multiple government shareholders, with voting rights in governance structures usually pegged to shareholding in the banks. For example, the Board of the African Development Bank (the highest decision-making organ) includes one Governor or alternate from each shareholding country, with voting power proportionate to each country's capital subscription. AfDB governors are generally ministers of finance or economic planning, or their high-level delegates.

Among national PDBs, Government ownership can sometimes result in weak corporate governance for example through political appointments to leadership. This was an issue flagged by some interviewees and highlighted more strongly in AFD's ongoing review of PDBs<sup>57</sup>.

*"Even with more traditional development mandates, PDBs struggle to implement sound risk management – and they operate in the riskier business segments. They often have weak corporate governance frameworks." - MDB*

## Examples of PDBs' formal mandates, established in legal documents

### **Multilateral Development Banks**

The Articles of Agreement establishing the **Asia Development Bank**, also known as the ADB Charter, came into force in 1966. These state that the purpose of the bank is to "foster economic growth and co-operation in the region of Asia and the Far East (hereinafter referred to as the "region") and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually."

The IBRD (**World Bank**) Articles of Agreement came into force in 1945 and were last amended in 2012. They include a lengthy set of economic and social goals that the World Bank summarizes as "end extreme poverty and promote shared prosperity".

Sustainability ("an overarching theme that frames both goals of the World Bank Group") is now also a stated objective but not part of the legal mandate itself.

### **Bilateral Development Bank**

**FinnFund's** Articles of Association (set out in 2012) state that its objects are "to promote, in the form of industrial and other economic cooperation with developing and other countries, the economic and social development of those countries...".

Articles of Association for **Agence Française de Développement** were updated in 2020, stating that its mission is to help implement "the State's foreign development assistance policy" and "development of the French overseas departments and collectivities", by financing "development operations, respecting the environment." The legal mandate for the German development bank **KfW** was updated in June 2020, and now includes promotion, specifically through financing, of environmental protection - alongside SMEs, risk capital, housing, infrastructure, technical innovation and development co-operation.

### **Regional Development Bank**

The **Development Bank of Southern Africa** was reconstituted by the 1997 DBSA Act of the South Africa government. The Act states that the primary purpose of the bank is to "promote economic development and growth, human resource development and institutional capacity building by

<sup>57</sup> Attridge et al. 2020

mobilising financial and other resources from the national and international private and public sectors for sustainable development projects and programmes in South Africa and the wider African continent”.

### **National development bank**

The **Uganda Development Bank** Limited (UDB) was established under the Uganda Development Bank Act Cap. 56 of 1972 with the objective “to promote and finance investment in commercial sectors of the economy with particular emphasis on agriculture, industry, tourism, housing and commerce”. UDB is “required to finance projects that are technically feasible, commercially and economically viable and socially desirable”.

The newly-founded **Scottish National Development Bank**, established via the Scottish National Investment Bank Act (2020), has as its main object “giving financial assistance to commercial activities for the purpose of promoting or sustaining economic development or employment in Scotland”. Unusually it has the ancillary object of “investing to promote environmental wellbeing”, specifically through supporting “the transitions required to meet the net-zero emissions target”, the “circular economy initiatives set out in the latest climate change action plan” and “biodiversity”.

PDBs fall on a spectrum from fully commercially-focused to more policy-focused, which influences the attention and activity they can devote to nature. Bilateral PDBs with an economy-focused international development financing mandate may find that consideration of nature is in apparent conflict with this - leading to, for instance, difficulties in establishing an exclusion list that would overly constrain domestic investment in sectors that damage nature (e.g. on agribusiness or fossil fuel). In developing or emerging economies, PDBs often already feel they have their hands full addressing urgent economic needs and cannot dedicate sufficient resources to environmental sustainability and nature.

*“DFIs need to have a more tangible leadership role in creating an environment favorable for greener projects and for nature-based solutions. This should include influencing national policies and public sector culture, so that public tenders for infrastructure developments have better consideration for nature in particular and sustainability in general.” - SME*

In both cases, this is of course a short-sighted view that does not internalise systemic risk. But PDB supervisors, who are typically Government officials in non-environmental line ministries, seldom have a clear understanding of nature-related risks. The natural inclination is towards a focus on economic performance, and few governments have attempted to mainstream nature as an investment priority via their PDB. Even when government policy ostensibly takes sustainability into account (nearly all governments are signed up to the CBD and to the Sustainable Development Goals) it may be very slow for political-level commitments to cascade into operational decision-making within PDBs.

*“Public sector decision-makers are not sufficiently aware of sustainability imperatives and nature protection imperatives in particular. They tend to be more aware of social issues since these translate more directly into social acceptability challenges.” - BDB*

Some of our interviewees described PDBs as ‘policy takers’ that must align with the direction given by government. When government (or at least the parts of it supervising the bank) is not well

informed or concerned about sustainability, that can be a constraint on the PDB increasing its emphasis on environmental issues. But it is clear that the picture is not so simple – other interviewees made clear that there is a policy dialogue between government and PDB, not a one way stream of instructions. Our interviews indicate that in some instances Ministries rely on the PDB for expertise on sustainability. PDBs are able to influence and guide government, as well as the reverse. This may require some diplomatic skills, so the views and abilities of the PDB leadership are important determinants.

*"PDBs are 'policy takers': they need to align with government-level / supervisory entity commitments, so that pledges taken at government level and political commitments can be cascaded to investment decision making within PDBs." - BDB*

*"Government policy doesn't always fit with bank's intended direction. Not possible to challenge directly, but bank has found diplomatic approaches (and also uses proactive awareness raising) to move policy in the right direction." - RDB*

*"We tend to influence government – rather than the reverse – in fact, the ministry is asking for our support when it comes to analysis of E&S risk." - NDB*

#### 4.4.2 General sustainability, climate and biodiversity commitments

Review of PDBs' documents showed two clear patterns relating to stated sustainability or environmental commitments (beyond their formal mandates) (Figure 17):

- The proportion of PDBs with stated commitments decreased from multilaterals through bilateral, regional to national PDBs.
- The proportion with stated commitments was greatest for general sustainability and lowest for biodiversity, with climate intermediate. This was true for all bank types, except the multilateral development banks which all had stated commitments in all three areas.

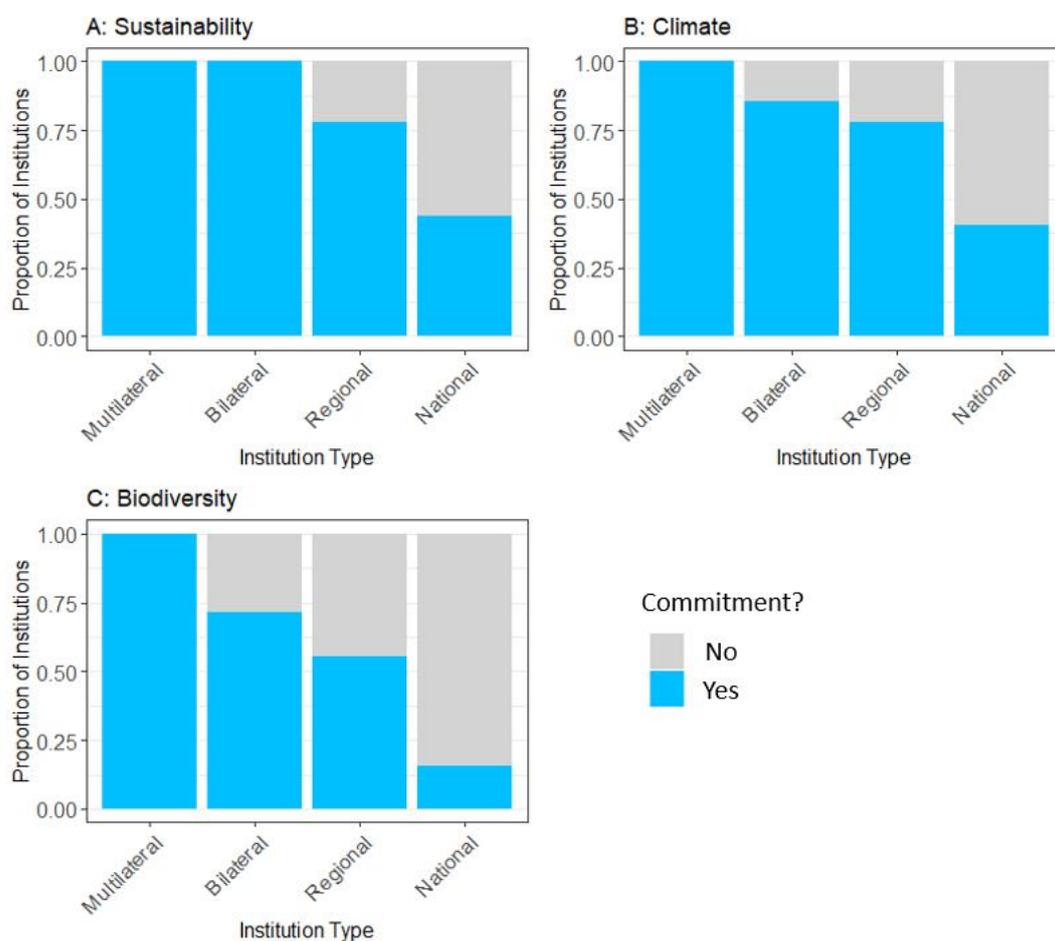


Figure 17. The proportion of reviewed PDBs of different types that had stated commitments on (A) sustainability, (B) climate, and (C) biodiversity. Number of PDBs reviewed: Multilateral N = 11, Bilateral N = 21, Regional N = 9, National N = 57

Among national PDBs, fewer than half had stated commitments to environmental sustainability or climate change, and only 17% had commitments specifically related to biodiversity. These proportions are likely to be yet lower for the national PDBs that we did not review, as our review sample included all national PDBs accredited to key environmental funds or signed up to key environmental commitments (section 4.4.3).

Survey responses were in line with document review. Nearly all respondents (21/22) stated that their PDBs had a commitment related to environmental sustainability and to climate. Fewer respondents (15/22, 68%) stated that their PDB had a commitment related to biodiversity. Only 11/22 (50%) stated that their PDB also had a commitment related to supply chains and/or commodity sourcing, an additional question asked on the survey.

PDBs' stated commitments to sustainability and the environment varied greatly in their scope, specificity and whether or not they were linked to formal safeguard frameworks (section 5.5). (see box).

## **A sample of PDBs' stated commitments to sustainability and environment**

(Quotations were extracted from PDB strategy documents, safeguard frameworks or relevant web pages.)

**Asia Development Bank (ADB)** “ADB affirms that environmental and social sustainability is a cornerstone of economic growth and poverty reduction in Asia and the Pacific. ADB’s Strategy 2020 therefore emphasizes assisting developing member countries to pursue environmentally sustainable and inclusive economic growth. In addition, ADB is committed to ensuring the social and environmental sustainability of the projects it supports. In this context, the goal of the Safeguard Policy Statement is to promote the sustainability of project outcomes by protecting the environment and people from projects’ potential adverse impacts.”

**Asian Infrastructure Investment Bank (AIIB)** “Consistent with the Sustainable Development Goals (SDGs), the Bank recognizes the need to address the three dimensions of sustainable development – economic, social and environmental – in a balanced and integrated manner. In addressing the development challenges of Asia, the Bank subscribes to the principles of sustainable development in the identification, preparation and implementation of Projects.”

**Banque de Développement des Etats de l'Afrique de l'Ouest (BDEO)** Commitment to “the protection and conservation of biodiversity, including endangered species and sensitive ecosystems in modified, natural and critical habitats and identification of areas protected by legislation”.

**European Investment Bank (EIB)** “The EIB is committed to promoting the principles of environmental and social assessment, through the application of the mitigation hierarchy, with the aim of achieving a high level of protection of the environment, human health, rights and well-being.”

**Finnfund** (BDB) “Finnfund’s focus sectors - forestry, agriculture and renewable energy - depend on and potentially have significant impacts on natural resources and biodiversity. We are committed to ensuring that our investments are sustainably designed and implemented to protect biodiversity and increase resilience against climate change; to maintain and enhance ecosystem services; to increase the capacity of forests to store carbon; to protect water resources and access to water through sustainable water management.”

**Inter-American Development Bank (IDB)** “The IDB believes that sound management of environmental and social risks and impacts associated with IDB-financed projects is an essential part of its contribution to helping develop a more inclusive and prosperous region. The IDB is committed to the objective of “do no harm” to people and the environment for the projects it supports by promoting the establishment of clear provisions for effectively managing project-related environmental and social risks and impacts, and whenever feasible, facilitating the enhancement of social and environmental sustainability beyond the mitigation of adverse risks and impacts. ”

**Japan International Cooperation Agency – JICA (BDB)** “With a view to 2020 and beyond, JICA will help the international community to achieve its pledges - specifically, the SDGs (Goals 13, 14 and 15 in particular), the Paris Agreement, the Aichi Biodiversity Targets, and the Ordos Declaration”.

**Korea Development Bank (KDB)** “Central to KDB’s development mission are its efforts to carry out investment and advisory activities to enhance the sustainability of public and private sector operations and the markets they work in, and to achieve positive development outcomes. KDB is committed to ensuring that the costs of economic development do not fall disproportionately on those who are poor or vulnerable, that the environment is not degraded in the process, and that renewable natural resources are managed sustainably.”

**La Banque Agricole**, West Africa (RDB) “The Environmental and Social Management Policy is designed to promote the sustainability of the bank’s activities by protecting the environment and people from the possible negative impacts of financing.”

**The Eastern and Southern African Trade and Development bank - TDB** (RDB) “Sustainable development is core to delivering on the Bank’s growth objectives.”

**The Housing Development Finance Corporation Bank of Sri Lanka - HDFC Bank** (NBD) “In carrying out business, HDFC should be mindful of balancing environmental needs with human needs.”

#### 4.4.3 External accreditations and engagements

Figure 18 shows the proportion (for all institutions in the database) of different types of PDBs accredited to GEF or GCF, or signatories to TCFD, TFND or UNEP FI. In total, 45 PDBs out of 552 (8%) had these accreditations or specific engagements. These included 64% of multilateral and 48% of bilateral banks, with a much lower proportion (16%) for regional banks and lower still (4%) for national banks. No subnational banks had these external accreditations and engagements.

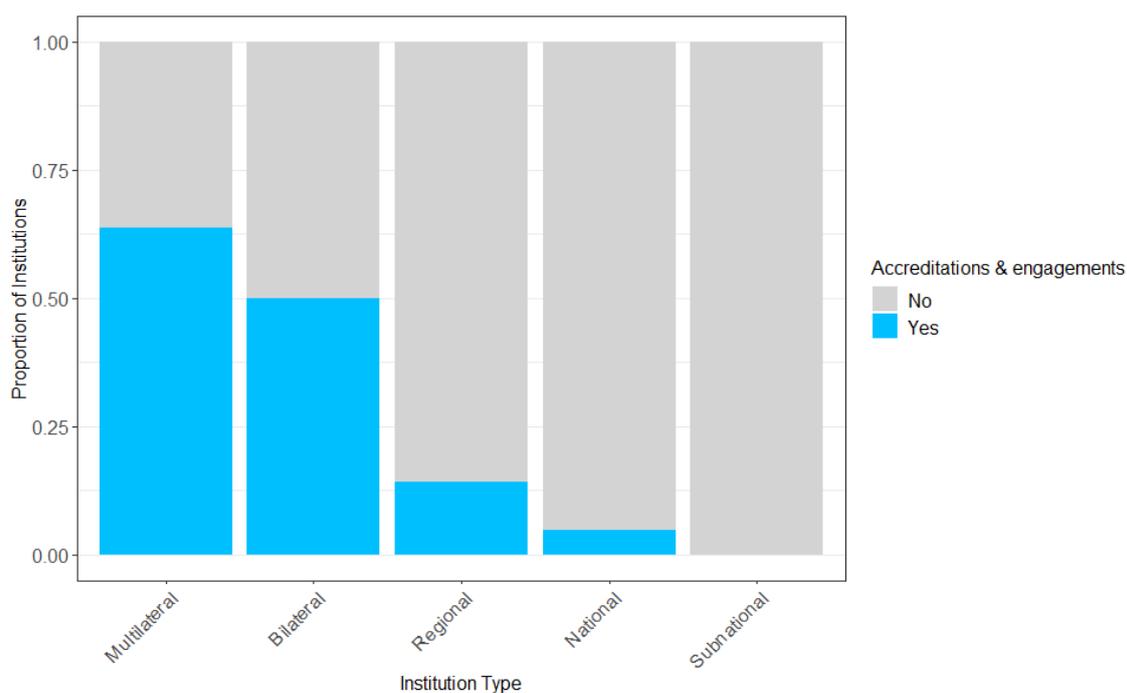


Figure 18. Proportion of all PDBs with external accreditations or engagements with key funds or processes (GEF, GCF, TCFD, TFND, UNEP FI). No subnational banks had any such accreditations or engagements. (N = 552. Multilateral N = 11, Bilateral N = 30, Regional N = 38, National N = 397, Subnational N = 76)

Among individual institutions that did have these external accreditations and engagements, multilaterals were signed up to an average of three (Figure 19). Other types of bank were rarely signed up to more than one commitment.

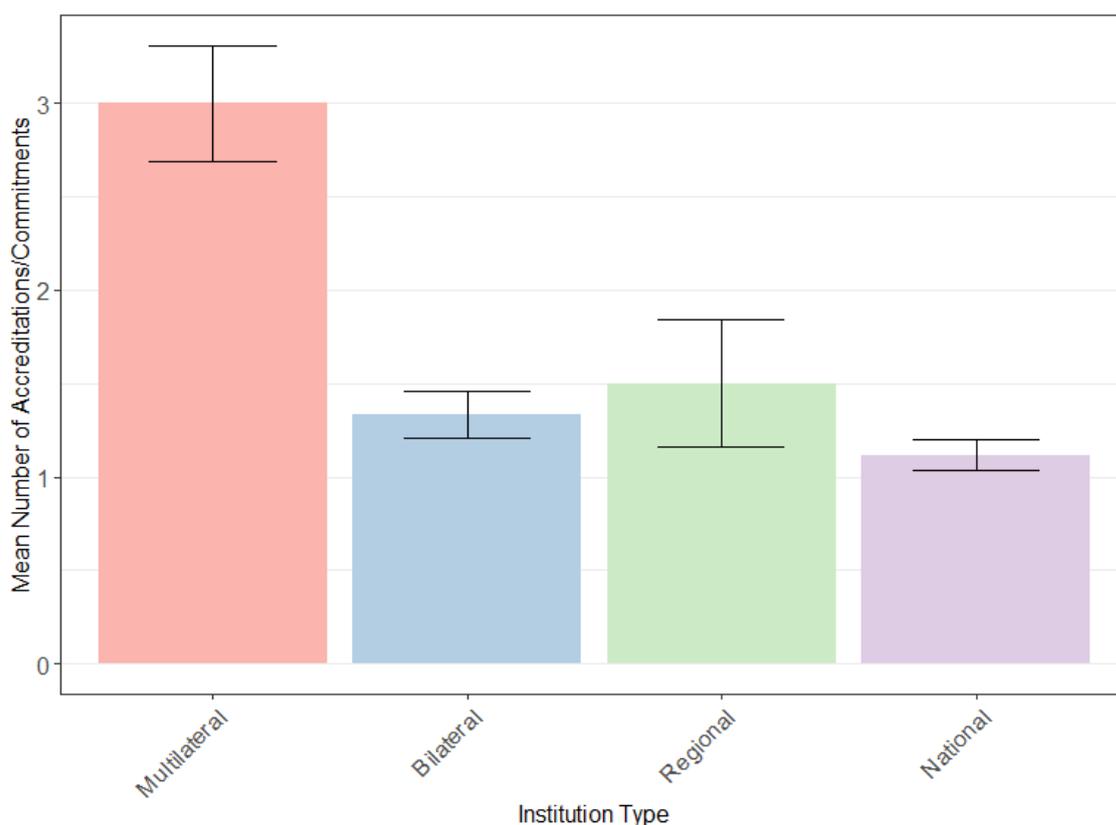


Figure 19: the mean number of external accreditations or engagement by type of institution, for PDBs signed up to at least one accreditation or engagement (error bars = standard errors).  $N = 45$ . Multilateral  $N = 7$ , Bilateral  $N = 15$ , Regional  $N = 6$ , National  $N = 17$ .)

A number of other global forums and standards are potentially relevant to PDBs. These are briefly documented in Annex A. Around 27 PDBs belong to the Climate Action in Financial Institutions initiative (including all MDBs and at least 15 of the 45 PDBs with external accreditations and engagements highlighted above). A handful of PDBs are also members of the UN Global Compact or signed up to the Global Reporting Initiative.

#### 4.4.4 Representation of SDGs in banks' annual reports

For 236 PDBs, the AFD PDBs database includes scores assessing the level of certitude that a bank's annual reports contain elements relevant to specific SDGs (see section 533.1.4). These scores do not indicate whether the report content that related to specific SDGs was substantive, nor whether it reflected any positive action by the PDB itself. However, the scores do provide an indication of the attention that PDBs are paying to the SDGs in their public-facing reporting.

Analysis of these scores (using the maximum for all years represented in the database) showed a higher than 50% certitude on average that text related SDG 13 (climate action), SDG 14 (life below water) and SDG 15 (life on land) would be represented in reports. Scores were slightly but consistently highest for SDG 13 on climate and lowest for SDG 15 on terrestrial biodiversity (Figure 20), in line with findings for document review on environmental and biodiversity commitments.

Examining scores by type of bank, the general trend was a diminution in the likelihood that these SDGs would be mentioned from multilateral/bilateral banks through regional, national and sub-national banks (Figure 21). For sub-national banks, the probability of that any text relating to life on land would be included in an annual report was only around one-third.

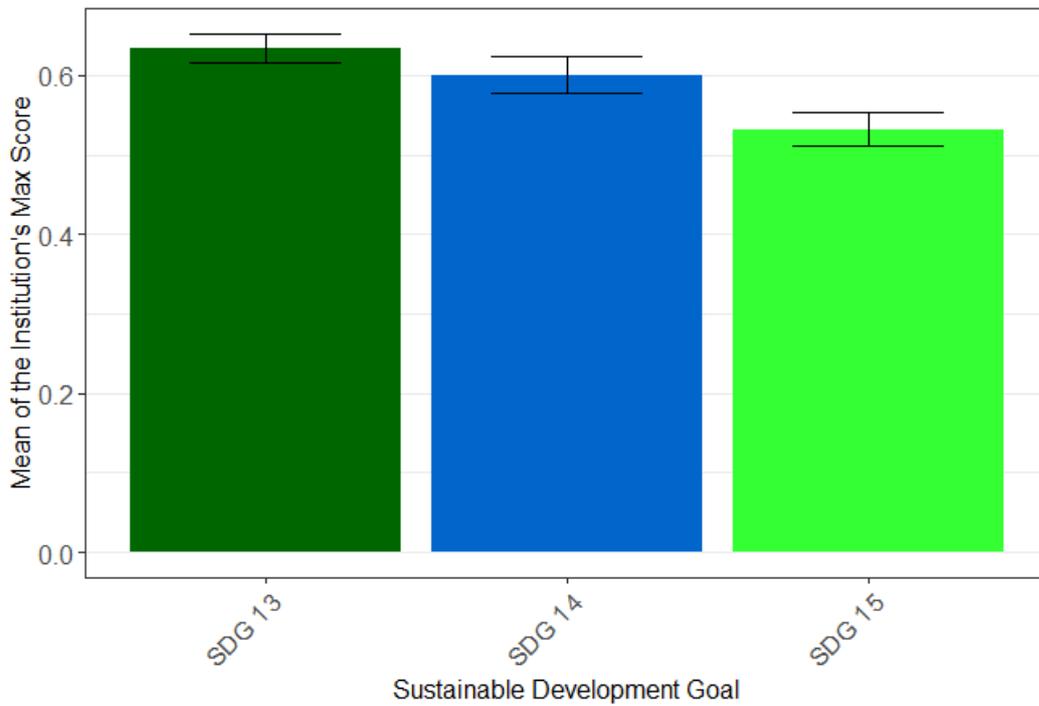


Figure 20. Scores showing probability that text related to specific Sustainability Development Goals would be included in PDB annual reports. The maximum score was used when more than one annual report was scored. Source: AFD PDBs Database 2020

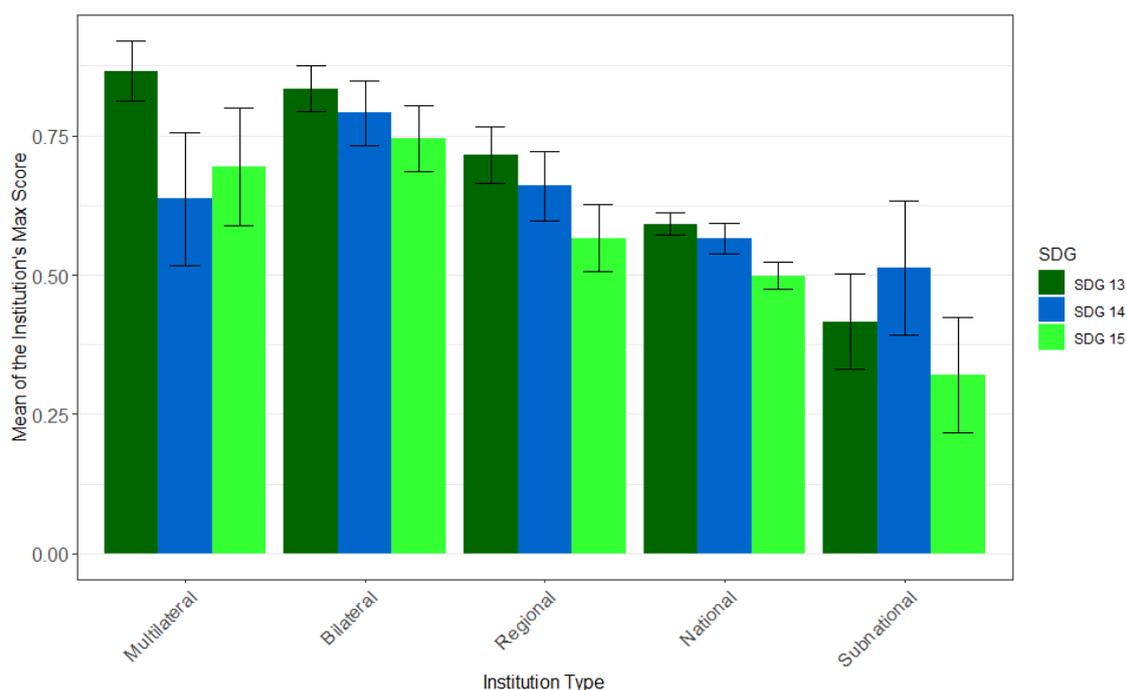


Figure 21. Scores showing probability that text related to specific Sustainability Development Goals would be included in PDB annual reports, by category of bank. The maximum score was used when more than one annual report was scored. N=240. Source for scores: AFD PDBs Database 2020

The same trend was apparent considering size of bank (Figure 22), with scores clearly decreasing overall for smaller banks, especially for SDG 15 'life on land'. However, there was no obvious trend in mean scores according to country income category (Figure 23), though lower-income countries showed a greater range of scores. This is despite the fact that smaller banks are concentrated in lower-income countries, which suggests that the larger PDBs in lower-income countries have a high concern for SDG-related reporting.

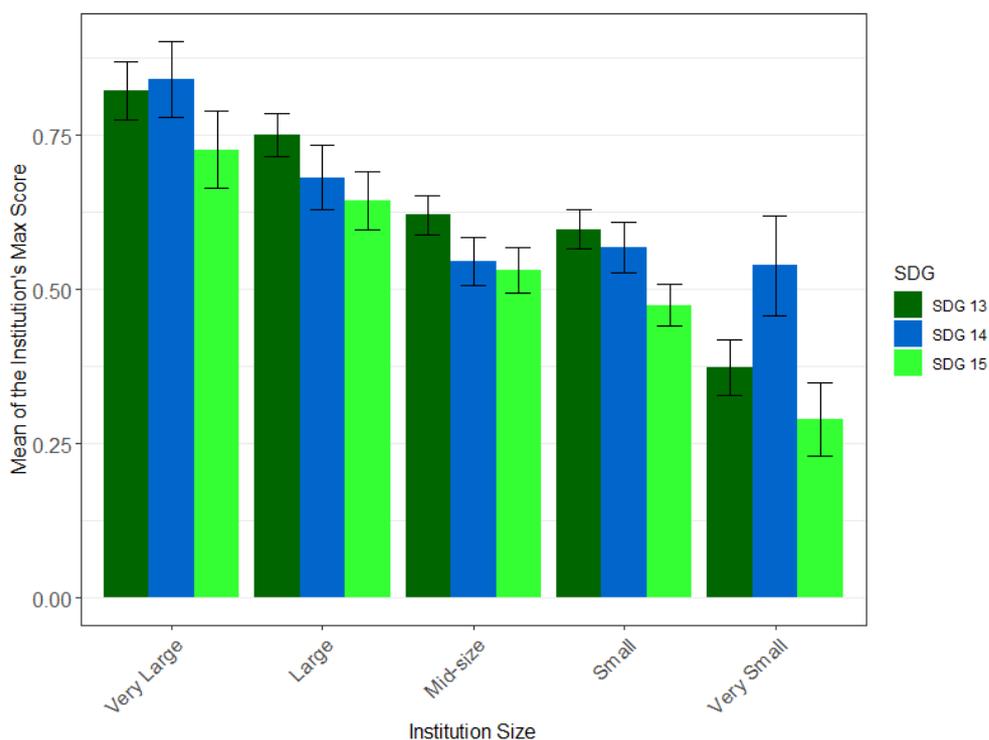


Figure 22. Scores showing probability that text related to specific Sustainability Development Goals would be included in PDB annual reports, by size of bank. The maximum score was used when more than one annual report was scored. N=240. Source for scores: AFD PDBs Database 2020

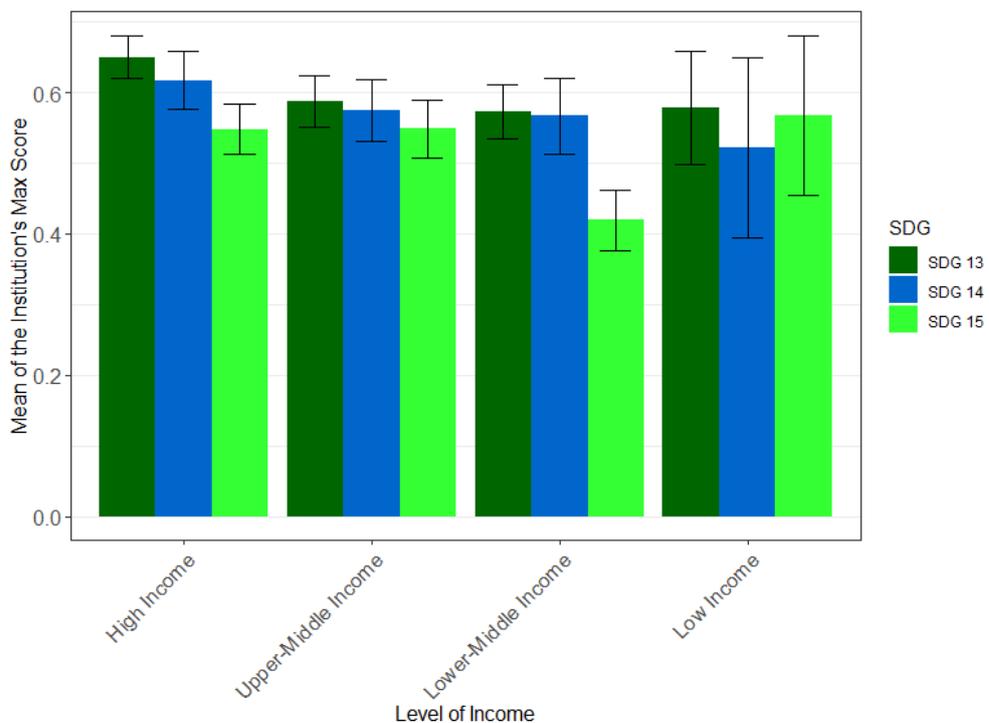


Figure 23. Scores showing probability that text related to specific Sustainability Development Goals would be included in PDB annual reports, by country income level. The maximum score was used when more than one annual report was scored. N=200. Source for scores: AFD PDBs Database 2020

## 4.5 Mainstreaming biodiversity

### 4.5.1 Mainstreaming: the climate experience

Following the Paris Agreement on Climate Change in 2015, many leading PDBs adopted ambitious commitments regarding climate risks in their investments (see box below). PDBs are now struggling to implement these commitments, through updating sector strategies, identifying 'climate-compatible' investment opportunities, securing buy-in from beneficiaries, defining the right markers and ensuring an appropriate level of reporting on climate-related investments. PDBs that have signed up to TCFD are finding this is an organizational challenge too.

With climate, interviewees noted a move, led by central banks and mandated by governments, to progress from self-regulation to formal regulation of the finance sector. This might include requirements to strengthen banks' boards by including people who have knowledge of climate risk regulation, setting minimum requirements regarding project design and implementation of overall risk management, and requirements on disclosure. For banks, this means going beyond safeguards (which inform what they will or will not finance) to actually integrate climate (which can amplify traditional risks) into their own financial risk. This requires them to develop risk metrics and quantified stress tests – then review risk management frameworks and include climate considerations on a more structural basis.

#### **Paris Agreement alignment**

Nine MDBs (African Development Bank Group, the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank, and the World Bank Group (IFC, MIGA, World Bank) [agreed in 2018](#) to develop an alignment approach to develop a common "vision to align financial flows with the objectives of the Paris Agreement." This is being implemented in different ways by each MDB. For example, the World Bank (WB) [in December 2020 increased its target](#) for the proportion of financing that should have climate co-benefits from 28% to 35%. The [EIB has committed](#) to ensure that "all financing activities are aligned to the goals and principles of the Paris Agreement by the end of 2020" and to increase its level of support to climate action and environmental sustainability to exceed 50% of its overall lending activity by 2025. Neither the WB nor EIB yet has specific biodiversity targets for their climate funding.

Among bilateral PDBs, Agence Française de Développement (AFD) has adopted a leadership position in climate and biodiversity. AFD has committed to having all its investments compatible with the Paris Agreement by 2022, alongside its 2017-2022 Climate Strategy<sup>58</sup> which states that 50% of yearly commitments must be positive in terms of climate change adaptation or emissions reduction

Respondents noted that finance institutions (including PDBs) are part of a bigger landscape of macro-economic policy. To achieve this mainstreaming of climate, there will be need for

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<sup>58</sup> [AFD 2017](#)

appropriate fiscal policy in place (e.g. a realistic carbon price, taxation, incentives, spending) – issues that Governments are only just starting to get to grips with.

#### 4.5.2 The Sustainable Banking Network

IFC leads and supports the Sustainable Banking Network (SBN), a community of financial sector regulatory agencies and banking associations from 42 emerging-market countries, committed to advancing sustainable finance in line with international good practice. The aim is to promote an enabling regulatory context that ensures a level playing field and provides the right economic incentives for considering environmental and social sustainability in finance. Through the SBN, banking regulators are developing regulatory frameworks that encourage local banks to adopt sustainable banking practices. In other countries, national banking associations are developing similar voluntary guidance for their members. The box below outlines how regulatory guidance has been formulated through the SBN for Bangladesh. At present, the SBN is focused on climate risks and impacts, and does not address biodiversity, but the approach provides a model that could be used to promote better mainstreaming of nature in financing.

##### **Sustainable Finance regulation in Bangladesh**

With IFC support through the Sustainable Banking Network, Bangladesh Bank (the central bank in Bangladesh) developed its Environmental and Social Risk Management (ESRM) Guideline in 2018. This is a mandatory requirement for all banks and finance institutions to follow. At the end of 2020, Bangladesh Bank consolidated this with its [Sustainable Finance Policy for Banks and Financial Institutions](#) and [Sustainability Rating for Banks and Financial Institutions](#), including a Green Taxonomy and Sustainable Finance Taxonomy for assessing investments. The policy clarifies the roles and responsibilities of the finance sector, and sets out the expectation of the Central Bank with regards to sustainability. Banks will need to report on, for example, Board decisions related to sustainability, their systems for implementing the ESRM, and how much has been invested in green projects as defined in the taxonomy.

#### 4.5.3 PDB progress in biodiversity mainstreaming

Interviews suggested that different PDBs are at different stages in mainstreaming biodiversity considerations. Mainstreaming is being driven by a small number of larger MDBs and bilateral DBs who are leading the way and working to improve the integration of biodiversity into the sector (boxes below). A very few smaller banks are also showing leadership.

*“Mainstreaming of biodiversity and implementation of safeguards among MDBs is making progress but has a long way to go. MDB frameworks look good on paper but not so impressive in practice – some banks still a long way behind. Need biodiversity specialists on staff to be effective.” - MDB*

*“PDBs show a very varied level of nature mainstreaming. Most are relatively small national banks (financing < \$1 bn/y) dealing with mostly infrastructure at national level, usually under state control, with limited capacity to raise money and to finance. Their preoccupations are financial stability, operational capability, refinancing capacity. Biodiversity is not yet in the landscape of these PDBs.” - BDB*

*“Possibly 10-20% of PDBs have started thinking about nature and the biosphere, and have some notion (if not full understanding) that there is an issue regarding risk, exposure and dependence on biodiversity relating to their investment portfolio and their business in the future. Possibly 5-10% of PDBs have ability to do a ‘serious job’ in addressing biodiversity.” – BDB*

### **Netherlands Sustainable Finance Platform**

FMO (the Dutch Development Bank) participates in the Sustainable Finance Platform, a consortium of Dutch banks led by De Nederlandsche Bank (the Dutch central bank). The Platform’s biodiversity working group has carried out substantial work to conceptualise and assess biodiversity risks for the financial sector<sup>59</sup>, as a key step to mainstreaming biodiversity considerations in financing decisions.

#### **AFD’s Transition Strategy**

In October 2020, AFD adopted a new Territorial and Ecological Transition Strategy 2020-2024<sup>60</sup>. At the One Planet summit in January 2021, AFD announced the goal to devote 30% of its climate funding to efforts to foster biodiversity by 2025, and doubling its investment in biodiversity to reach a target of €1 billion.

#### **Biodiversity mainstreaming by BICE**

BICE, the national development bank of Argentina, undertook an analysis of E&S risks in its portfolio as part of a credit line from the World Bank. This led to development of a Social and Environmental Risk Analysis System (SARAS, in its acronym in Spanish), with further support from the World Bank and technical support and training via UNEP Finance Initiative. Since 2017, SARAS has been used on direct investments and is now being applied to assess and report on investments to financial intermediaries. BICE also became a member of IDFC and is participating (as an observer) in its Making Finance Work for Nature (MFW4Nature) group. In November 2020, Argentine President Alberto Fernandez participated in the first global Summit of Public Development Banks and announced a commitment<sup>61</sup> from BICE to allocated funds for at least \$500 million in financing sustainable projects.

In different institutions, progress on mainstreaming may be driven by any or all of political direction, enlightened leadership, staff support within institutions, investor values, and/or public scrutiny.

*“The project portfolio and which projects have not gone ahead, or have been redesigned, because of biodiversity issues gives a better idea of institutional commitment. External pressure plays a large part in generating this commitment.” - MDB*

*“Once a bank really understands value of biodiversity, can find ways to progress this with government - either directly or more subtly. It comes back in practical terms to the role of environmental analysts within banks, who are at the sharp end engaging with EIA professionals.” - RDB*

<sup>59</sup> [The Sustainable Finance Platform 2020](#); [van Toor et al. 2020](#)

<sup>60</sup> [AFD 2020b](#)

<sup>61</sup> See <https://www.lanacion.com.ar/economia/alberto-fernandez-anuncio-bice-prestara-500-millones-nid2508947/>

Interviewees indicated that some larger banks remain poor at integrating biodiversity into their strategies, focusing more on financial, social and/or climate related issues, while this issue is not even on the radar for most smaller banks. Biodiversity is not well mainstreamed in the sector generally, and biodiversity risks and impacts are not adequately assessed in the investment decision process. Most smaller banks do not yet have the capacity (finance, staffing and knowledge) to address biodiversity seriously.

A key issue for some banks was the lack of remit from government (beyond their restricted formal mandates) for the inclusion of biodiversity or sustainability more generally in their financing. There may be limited regard for environmental issues in government ministries, and from non-environmental staff within PDBs, making it difficult to integrate biodiversity considerations in financial decisions.

*“One of the key factors constraining PDBs from moving to a more nature-positive approach lies in government resistance or lack of understanding to having nature considerations embedded into their public policies. Focus still very much on ‘political fundings/financing’ – what are the needs of the country to meet their basic needs (i.e., alleviate poverty). Biodiversity/nature considerations are lower on their agenda than what PDBs are expecting,” - RDB*

*“Lack of understanding of environmental costs is a big challenge - when they do economic analyses environmental costs are mostly in terms of emissions reduction, but we do not have cost estimates in terms of biodiversity loss. This is very difficult to do. We need to think more about the economic consequences of biodiversity loss.” - MDB*

*“Biodiversity is not a familiar concept for finance – especially how biodiversity risk translates into financial risk. We need clearer definitions and identification of risk, and ways to quantify it, which isn’t easy. But public banks can start by defining, identifying, quantifying risk based on existing models. They then need to look at what kind of business model can support managing risk and redirecting flows to sustainable projects. That includes governance considerations and must be aligned with overall government policy as the public banks are part of a broader set of policy tools.”  
– MDB*

Our interviews suggest that many PDBs feel unwilling or unable to take on significant biodiversity commitments before they have integrated their climate ones. This in line with the view of several interviewees that biodiversity generally lags around half a decade behind climate on the political agenda. Biodiversity is viewed as complicated, has no straightforward metric and no clear national or corporate targets, and the systemic risk posed by biodiversity loss is not well or widely understood. This is also a particularly challenging time for the finance sector, with the disruption caused by a global pandemic and historically low interest rates – which may deter some banks from taking on additional challenges.

However, the banks’ experience of mainstreaming climate will likely prove good preparation for doing the same for nature. Current efforts to integrate climate considerations, and to set targets for climate-positive investments, also provide a clear opportunity to scale up nature-positive investments via nature-based solutions (section 6.6.2).

*"Investment risk concepts are not appropriate to support a PDB mandate to invest for nature. They should be adapted to take into account longer term ecological and economic effect, not solely the risk of investment default in the short term." – BDB*

*"In [the] last two years [we] have seen increased interest from credit risk management colleagues – who are now becoming concerned about biodiversity risk. The WEF report was a turning point as clearly underlined biodiversity risk as a financial risk. Are using this momentum to try and elevate the whole biodiversity agenda and ensure that safeguards are mainstreamed and integrated early on. Also just starting to look at impacts of biodiversity risk on our counterparts (clients)." - MDB*

*"At present, biodiversity is mainstreamed moderately well by the larger banks – but not overall impressive. People think they are considering biodiversity fully, but they aren't. An issue of capacity, but that's not the only constraint. It also requires making hard decisions – it's not so easy to avoid biodiversity risk for many projects. An issue of institutional will." - MDB*

#### 4.5.4 PDB respondents' views on investment outcomes

The survey asked respondents for their views on the economic, social, climate and nature outcomes of investments. There was high variation among responses but the mean importance score was above 7/10 for all categories (Figure 24). Overall, respondents tended to rate economic, social and climate outcomes as slightly more important than biodiversity outcomes, with the greatest difference for social scores. Social and climate outcomes were consistently rated as somewhat more important than biodiversity outcomes (Figure 24), with more variation for economic outcomes (which some respondents rated as much more or much less important).

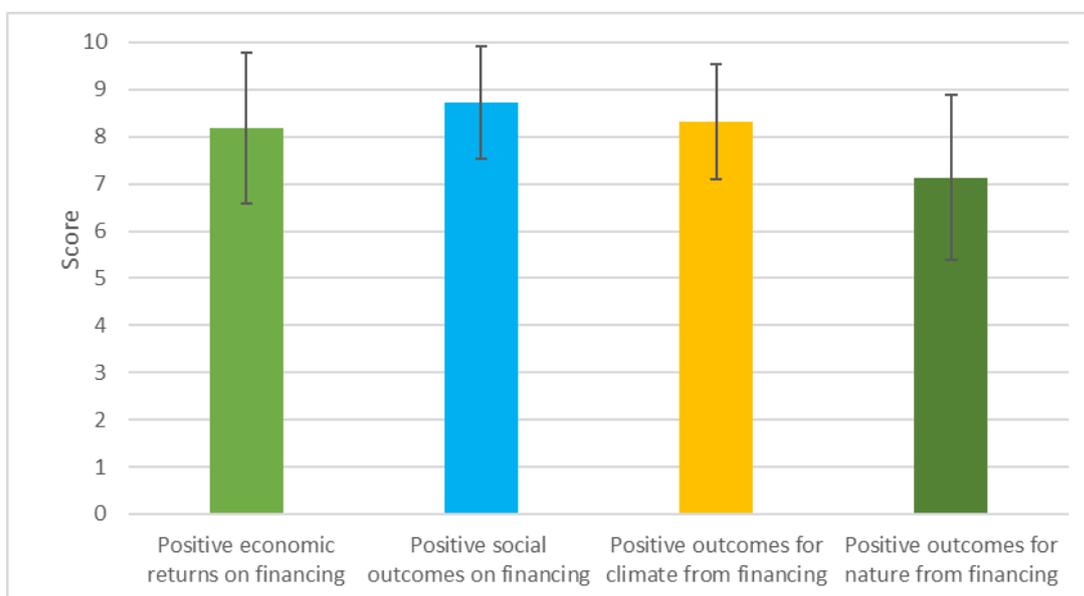


Figure 24. Mean score on the importance of different outcomes of investments across survey respondents (N = 22) (1 – very low importance, to 10 – very high importance). Error bars show standard deviations.

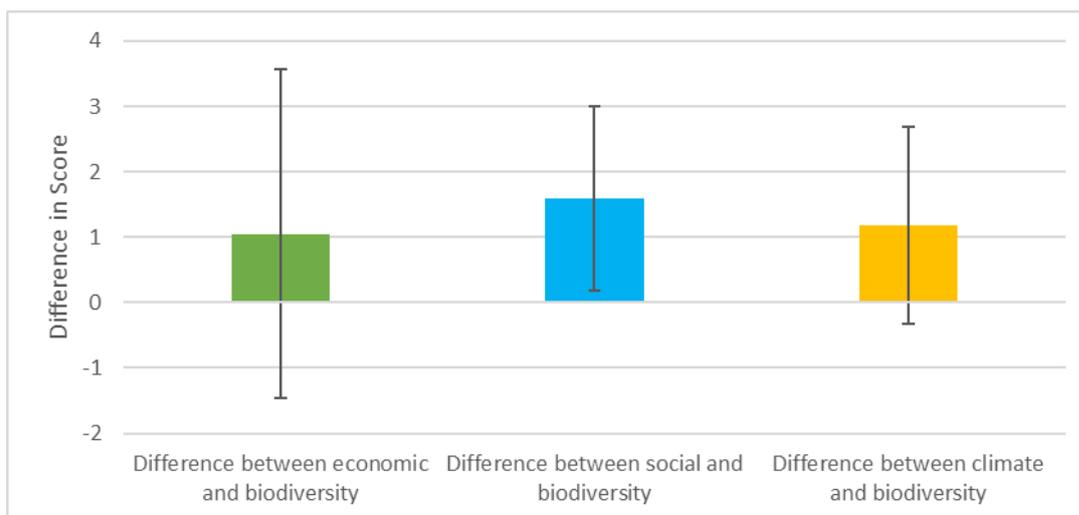


Figure 25. Mean differences in individual respondents' scores for the importance of different outcomes of investments (N = 22). Positive values indicate that the outcome was considered more important than for biodiversity. Error bars show standard deviations.

*"We are predominantly a debt finance institution, so returns are important to sustain operations while still seeking to achieve our mandate of supporting SDGs." – RDB*

*"The importance of nature-positive outcomes is slowly increasing in the context of enhancing nature capital and nature-based solutions." - MDB*

*"Focus is more on mitigating risk than focusing on positive outcomes but we are moving in that direction more and more." - BDB*

Comments from survey respondents (see below) indicate that some larger PDBs are adopting standardized cost-benefit analysis and outcome (development impact) scoring for their projects, including environmental and biodiversity considerations. Other respondents say that their PDBs are still largely focused on financial returns and risk mitigation, but that there is a move towards increased consideration of outcomes for nature.

*"We carry out an economic appraisal for all projects where environmental and social externalities are included in the analysis. Positive outcomes on social, climate and nature are fundamental, and projects are rated according to these outcomes." - MDB*

*"We established a new scoring system where all investments are assessed against social, environment and economic impact criteria. This scoring has had a significant impact on project design." – MDB*

## 5 Greening finance

### 5.1 Key findings

1. Environmental safeguards are the main mechanism used by PDBs for managing biodiversity risk. Each MDB has its own safeguard framework, while most bilateral development banks have adopted IFC's Performance Standard 6. Some banks reference Environmental Impact Assessments (EIAs), thus relying on national regulatory processes. Around half of regional development banks and a large majority of national development banks have no formal biodiversity safeguards.
2. IFC's Performance Standard 6 (dating from 2012, with guidance updated in 2019) is widely influential among both public and private banks, and is adopted by the 115 Equator Principles Financial Institutions.
3. There is extensive conceptual and practical convergence between the major MDBs' biodiversity standards, expected to be enhanced further by current revisions. Key features of most include:
  - A risk-based approach
  - Application of the Mitigation Hierarchy to avoid, minimize, restore and (as a last resort) offset impacts
  - Criteria to identify biodiversity features of high concern
  - Requirements for measurable outcomes (no net loss or net gain) for priority features
  - Requirements for planning, implementing and monitoring mitigation actions and (if necessary) offsets.
4. The requirements of MDB's biodiversity standards go well beyond those of typical EIAs. In many countries, EIAs are likely to fall well short of international good practice for managing biodiversity risk.
5. Safeguards are essentially a reactive mechanism to avoid risks and reduce harm. This contrasts with the more 'upstream' proactive approach of integrated strategic planning. Nevertheless, respondents considered that safeguards have great value, not least in defining a clear process and checkpoints that force consideration and management of risk. Well-applied safeguards strongly encourage developers to apply the mitigation hierarchy, especially to avoid potential project impacts through early planning and alternatives analysis.
6. Especially in the absence of upstream planning, risk-screening is an essential step in the application of safeguards that identifies projects with potentially high biodiversity risk. Many PDBs screen for biodiversity risks and may decide on this basis not to proceed further with high-risk projects. However, risk screening is not universally or consistently applied and important impact avoidance opportunities may thus be missed. The Integrated Biodiversity Assessment Tool (IBAT) is by far the most widely applied risk screening tool, but many PDBs lack access to it.

7. Overall, PDBs' implementation of biodiversity safeguards is variable and patchy, although with performance generally improving among those using formal safeguard frameworks. Larger banks in particular are aware of deficiencies in safeguard application and taking steps to address them.
8. Challenges identified with implementing biodiversity safeguards include:
  - Limited internal PDB capacity
  - Capacity limitations among clients, regulators and stakeholders
  - Considering avoidance too late in the project timeline
  - Inadequate budget provision for mitigation costs
  - Inadequate monitoring and supervision
  - Inadequately addressing indirect and cumulative impacts
  - Difficulty in applying to agricultural projects and to supply chains
  - Difficulty in applying to financial intermediaries and corporate funding
  - Not applicable to public policy loans
  - Inconsistent interpretation and application
  - Poor consultant performance
  - Perceived complexity and cost, causing reduced competitiveness
  - Data gaps and lack of simple, widely applicable metrics.
9. Upstream planning (sometimes incorporated in Strategic Environmental Assessment) is a highly valuable and important tool for enabling impact avoidance, and reducing project risks and mitigation costs. However, it is little deployed by PDBs and there are many barriers that prevent it happening. It involves working with government and many other stakeholders; the responsibility of individual PDBs and remit for their involvement may not be clear; it requires significant resources (which are not guaranteed to return from future investment) and can be a lengthy and contentious process. However, IFC has shown the way for other PDBs through pro-active engagement in upstream planning, working at country and sector level to de-risk potential investments.
10. Biodiversity offsets are an important element of safeguards frameworks. Offsets represent the final step in the mitigation hierarchy, a last resort to compensate for residual impacts that cannot be avoided, minimized or restored. However, they face many design and implementation challenges. Many respondents were sceptical about the feasibility of implementing offsets successfully. Offsets being implemented under PDBs' safeguards frameworks are mostly too recent for their success to be determined.
11. All MDBs have disclosure requirements for project assessments both before and once funding is approved. Routine disclosure is far less common among other types of PDBs, practiced by around a fifth of the bilateral development banks and around 6% of national banks reviewed.
12. Improved disclosure could be important in driving up standards. The emerging Task Force for Nature-related Financial Disclosures is a significant development, anticipated to support and encourage PDBs to analyse, report on and address nature-related risk in investment portfolios.

## 5.2 The project timeline

To aid interpretation of the findings in this chapter, Figure 26 shows a simplified illustration of the project and finance timelines alongside the mitigation timeline, during which environmental safeguards are applied.

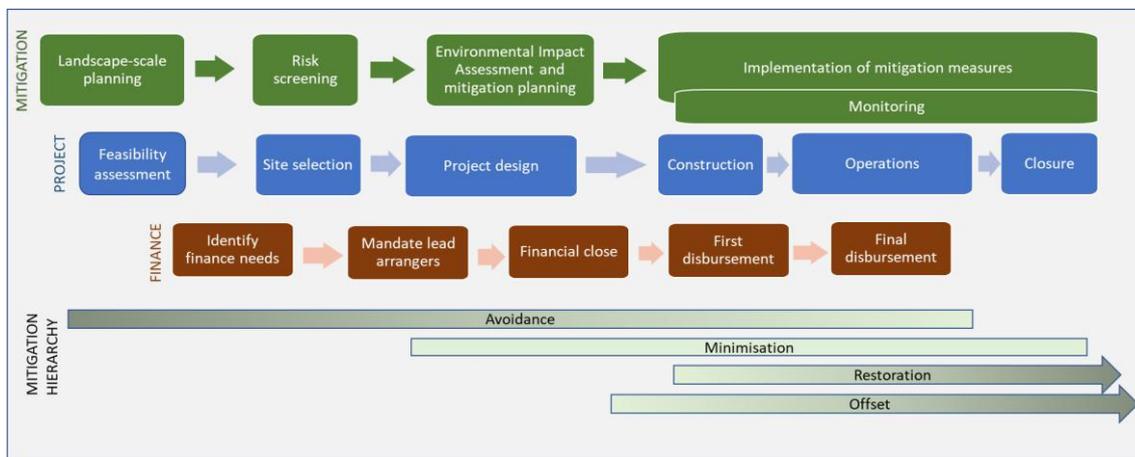


Figure 26. Simplified representation of the project, mitigation and finance timelines, also showing typical implementation timing for the four components of the Mitigation Hierarchy<sup>62</sup>. The mitigation steps (in green) involve implementation of environmental safeguards.

## 5.3 Elements of a typical safeguarding system

To support interpretation of the results and discussion in this chapter, Table 3 below presents the key elements of a well-developed safeguard system typical of a major MDB.

Table 3. Key elements of a well-developed PDB safeguarding system

Element	Description
Safeguard Policy	Sets high-level E&S objectives. Compliance is mandatory.
Performance Standards (PS) / Requirements (PR)	Sets out specific performance requirements. Compliance is mandatory. PDBs/MDBs typically have a suite of PS/PRs covering a range of E&S topics including biodiversity. These are updated periodically (e.g., 5-10 years). Examples include EBRD PR6, IFC PS6. They are typically risk-based and tend to prescribe expected outcomes but not prescribe how outcomes should be achieved. Broad performance standard may also be accompanied by more specific and prescriptive Environment, Health and Safety (EHS) Guidelines that set out minimum requirements for individual activities and sectors, for example, maximum permitted concentrations of pollutants in emitted water. EHS Guidelines typically include a mix of minimum requirements (which are mandatory) and guidelines for which compliance is not mandatory.
Guidance	More detailed guidance to inform proper application of PS/PRs. Guidance, not policy (compliance expected is not mandatory as long as the objectives of the PS are met). Updated more frequently (e.g., 2-5 years). Examples include Guidance Note 6 for IFC's PS6.

<sup>62</sup> Partly adapted from [CSBI 2013](#).

Element	Description
Risk categorisation	<p>Initial desktop assessment (may include site visit). Carried out when a lender is first considering financing a project. Consequently project is categorised as e.g.:</p> <p>Category A – High Risk. Requires intensive Due Diligence process.</p> <p>Category B – Medium Risk.</p> <p>Category C – Low Risk.</p>
Environmental and Social Action Plan (ESAP)	<p>The lender's ESAP will require the project to produce a set of assessments and plans that demonstrate compliance with the requirements of the relevant PS/PRs. For biodiversity this may include:</p> <p>Assessments e.g., Critical Habitat assessment (CHA), residual impact assessment (RIA)</p> <p>Action Plans e.g., Biodiversity Action Plan (BAP)</p> <p>Management Plans e.g., on-site Biodiversity Management Plan (BMP)</p> <p>Monitoring Plans e.g., Biodiversity Monitoring &amp; Evaluation Plan (BMEP)</p> <p>If biodiversity offsets are necessary, the project will be required to produce additional assessments and plans such as e.g., an Offset Strategy, Offset Feasibility Assessment, Offset Implementation Plan, etc. The documentation required by the lender depends upon the risk categorization:</p> <p>For lower-risk projects, documentation requirements will be simpler and compliance with PS/PRs may often adequately be demonstrated in the Environmental and Social Impact Assessment (ESIA) and Environmental and Social Management Plan (ESMP) that is produced as part of the permitting process.</p> <p>For higher-risk projects, standard ESIA's are typically not sufficient to demonstrate compliance with PS/PRs and additional stand-alone plans (as listed above) may be required.</p> <p>The project will be expected to document and implement these actions through an Environmental and Social Management System (ESMS).</p>
Independent Environmental and Social Consultant (IESC)	<p>The lender hires an IESC (typically a group of topic-matter experts rather than a single individual) to provide independent review of a project's compliance with the lender's PS/PRs. The IESC will review project assessments and plans and conduct periodic site visits prior to the loan agreement and during the period of the loan agreement to ensure that the project's assessments and plans, and implementation of such plans, is in compliance with the lender's PS/PRs.</p>
Ombudsman	<p>The Ombudsman is part of the lender's grievance mechanism. Its role is to investigate individuals' complaints against the lender independently and impartially.</p>

## 5.4 Consideration of biodiversity risk

Survey respondents generally felt that biodiversity risk was well considered in informing PDBs' financing decisions overall (Figure 27); it is important to recognise that this is a self-assessment and many of the same respondents highlighted significant challenges and barriers, as discussed further in this section. Most respondents scored their own institutions more highly than PDBs as a whole; this is probably a reflection of a likely self-selection of respondents representing those that take more account of biodiversity. In contrast the one bilateral and two national banks rated their own institutions less favorably than the industry average.

Survey respondents from multilateral, bilateral and regional banks indicated that their PDBs all considered biodiversity risks in investment decisions and had established safeguards frameworks incorporating biodiversity (their own or adopting IFC's Performance Standards). That was not the

case for the two national banks responding to the survey, which do not routinely consider biodiversity risks and do not apply biodiversity safeguards. In most cases, biodiversity safeguards were used for all financing, but sometimes only for high-risk or large-scale investments. Most respondents felt that safeguards were well implemented to inform financing decisions, and to implement and monitor mitigation measures (average scores > 8/10 in both cases).

Where banks considered biodiversity, these were generally addressed during early screening, project scoping and monitoring and evaluation. In fewer cases, risks were also considered at financial close and in quantitative evaluation.

Respondents' comments put emphasis on biodiversity risk being of key importance (and could lead to projects being rejected), but that it might not be considered sufficiently early in the process.

The importance of considering biodiversity at the earliest stage, and preferably at a strategic planning level, also emerged strongly from interviews (see also section 5.9.4).

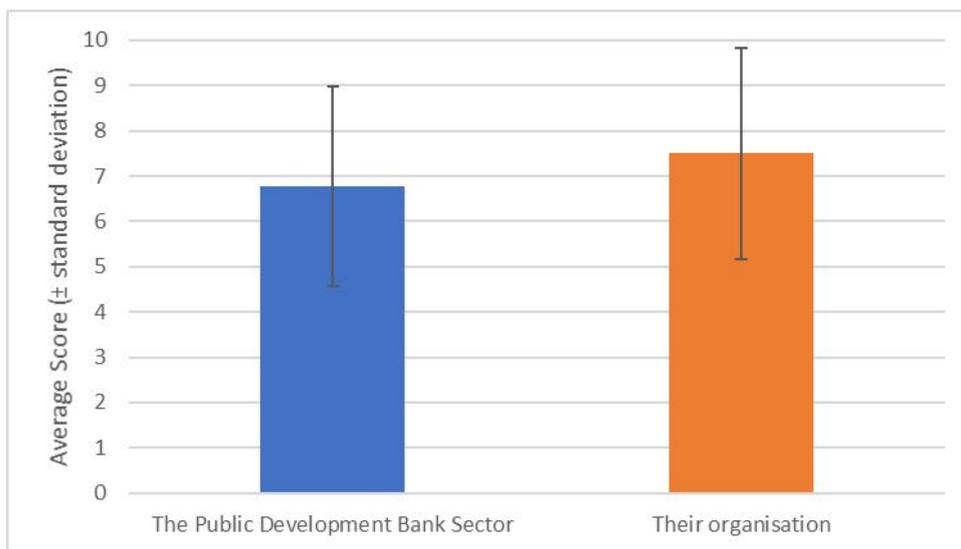


Figure 27. Survey respondents' scores for how fully they feel biodiversity risks are incorporated in informing financing decisions at their organisation (orange) and in PDBs overall (blue). Scores ranged from 1 – not at all considered, to 10 – very well considered

Respondents' views were that increased attention to biodiversity risk is being driven, in different circumstances, by investors, larger banks (and the need to access finance from them), from within banks and – sometimes – by government policy imperatives.

*“Seriousness of implementation is also improving now, as the world is evolving – people are more likely to say something and know how to raise alarm. Banks cannot assume that no-one will notice – they are likely to be held to account.” - MDB*

*“Other PDBs may be smaller and less focused on safeguards, but shareholders are putting risk on their radar - materiality of biodiversity issues becoming more apparent. Can be a risk to project success, and/or to the social license to operate.” - MDB*

## 5.5 Upstream planning for avoidance

Strategic development planning that incorporates environmental considerations (sometimes linked to a Strategic Environmental Assessment) can be an effective way to de-risk future investment. Such upstream planning reduces costs and process for projects and enables avoidance of impacts, the most effective component of the mitigation hierarchy, at a landscape scale and across multiple projects, rather than taking a piecemeal, project-by-project approach.

*"PDBs must work upstream if they are serious about achieving better outcomes. Biodiversity issues are solved at landscape level. PDBs can work together here and with governments, and pool resources. Current approaches still tend to be reactive, need to demonstrate the commercial value of a proactive approach in de-risking investments." - MDB*

*"Multilateral banks should be doing SEAs/strategic planning in countries they work in – something that banks like World Bank and IFC could resource, as national development banks don't have the resources. Allows understanding of the landscape so can immediately apply that knowledge to projects. But other development banks say they don't have the resources for this." - SME*

Interviewees strongly endorsed the value and importance of upstream planning, and the need for PDBs to do more of it. However, there are many barriers that prevent it happening. It involves working with government and many other stakeholders; the responsibility of individual PDBs and remit for their involvement may not be clear; it requires significant resources (which are not guaranteed to return from future investment) and can be a lengthy and contentious process. However, even relatively simple landscape-level analysis, to identify areas of high biodiversity sensitivity using existing datasets, can be very useful in avoiding impacts.

*"There are reasons why strategic land-use plans don't get done, because it's politically difficult to constrain peoples' economic opportunities. Even where plans are developed with close stakeholder involvement, political change can erase them – this has happened a lot in the USA! Vested interests can be very powerful. In Europe, Natura 2000 looks great on paper, a straightforward simple and robust approach to conserving priority areas. But countries have run roughshod over it in practice – can always find a reason why developments are in 'overriding public interest'. If planning and implementation were done right, through an approach like Natura 2000, we would not need Critical Habitat Assessment the like. It is still helpful for PDBs to support some kind of SEAs, as helps them to understand where they do and don't want to support projects – before they even need to get into applying safeguards for mitigation. But can be hard to get it embedded in national policy." – SME*

*Multilateral banks should be doing SEAs/strategic planning in countries they work in – something that banks like World Bank and IFC could resource, as national development banks don't have the resources. Allows understanding of the landscape so can immediately apply that knowledge to projects. But other development banks say they don't have the resources for this. Although people say there aren't resources for SEA, it's too expensive and complex, you can make a lot of headway with really quite simple analyses. Just using what's out there as a starting point and improving it later on. "This is a really good point and a strong recommendation to make." Even if it's not perfect, it would solve so many problems downstream. Just have a bit of spatial planning, that's joined up and using the best available information. - RDB*

Some MDBs are taking strong proactive steps to improve upstream planning (see box for IFC's recent work in this area). Interviewees also noted specific strategic planning exercises led by their PDBs. There is PDB interest and activity in this area, but at present upstream planning is more the exception than the rule, takes place in an ad-hoc way, and most banks have no clear strategy for scaling up its application.

### **IFC's upstream approaches**

The International Finance Corporation's corporate strategy 3.0 focuses not just on financing projects but also creating markets. A foundational pillar of the strategy is IFC's approach to 'Working Upstream', described as "a more proactive way of doing business by getting involved much earlier in the sector and project development process, including conceiving opportunities for unlocking critical sectors of the economy and conducting our own feasibility studies to generate investment-ready opportunities"<sup>11</sup>. Working Upstream "requires a systematic approach to understand the regulatory bottlenecks preventing the flow of private capital into productive investment and addressing these constraints through World Bank Group-wide engagement on policy reforms at the country and sector level".

This may involve screening for potential environmental and social constraints at country, sector or project level, as in the 'Scaling Solar' programme where IFC supports governments with developing and tendering utility-scale solar PPP projects, managing E&S aspects of site selection and preparation and then requiring winning concessionaires to construct and manage the projects using good international industry practices. Advance identification of potential risk and impacts helps to drive avoidance of impacts on biodiversity as well and may reduce the need for more expensive forms of mitigation.

In 2020, IFC hired c. 200 staff to focus on Upstream work (270 as of April 2021), forming dedicated teams in each industry and regional department across the corporation. In Financial Year 2021, over 20% of the IFC Operations budget was designated to these activities and as of end March 2021, IFC's Upstream pipeline, which describes the potential investible opportunities to be created over the following five years, held promise of US\$15 bn own account and \$20 bn in potential mobilization.

*"Our MDB develops country partnership strategies every two years – where countries say "we want you to help us doing X, Y, Z". Most of the time the process doesn't include environment or biodiversity specialists. When projects come to a later stage, they have to put in mitigation measures. But some of these impacts could have been avoided if there was greater consideration of biodiversity risks earlier on. We need broader planning on investments at a country level – which considers environmental risk." - MDB*

*"The bank may not even be engaged with the client at the preliminary design stage where avoidance is most feasible. If mistakes are made – can be hard to correct! If could generate knowledge that clients could use in advance when making initial decisions, could have huge impact later on. Now that the bank is aware of the importance of safeguards, this can be a next phase on non-lending activities." - BDB*

*"In Mozambique, together with other banks, we looked at the national energy strategy and where to put transmission lines (the East-West Transmission Backbone). It worked, but took four years to get it done – not easy with three MDBs and several government agencies working together. It's*

*difficult and complex, but certainly a role that public banks can and should play. It takes time and resources. Need to allow a good 3-5 years in terms of the whole process.” - MDB*

*“Bank should be able to support these broader strategic studies at sector or regional levels. Otherwise will just address a few aspects at project level – a narrow and fragmented approach. In country X we are supporting government to develop industrial zones. At the start, was just technical assistance on legal and financial issues. Now have brought in the E&S aspects which will facilitate studies in three different regions and look at strategic issues – so will be effective facilitation of sustainable industrial development.” - BDB*

*“Around a decade ago we worked with OECD to look at how developing countries could implement SEA principles. Many countries have made good progress, including in LAC. But less applied in sub-Saharan Africa, where few countries include in legislation. Landscape-level analysis should be key in EIA but in practice often the assessment is limited to the project footprint and doesn’t look at the wider ecosystem.” - MDB*

*“The framework clarifies policy and the measure of success is clear – must be no worse off after the project than before. But how to get there may differ geographically. Ideally would emphasise ex-ante, upstream work to boost avoidance. But may often have low capacity, fragile states, where must think through the trade-offs. This may mean a move towards emphasizing minimization or even offset.” - MDB*

## 5.6 Safeguard frameworks

### 5.6.1 Approaches by different types of banks

The main mechanism that PDBs use for managing biodiversity risk is the application of environmental safeguards. Document review (Figure 28 and Figure 29), confirmed by information from interviews information, illustrates how this approach varies across different kinds of banks.

- Each Multilateral Development Bank has its own safeguard framework, typically structured as a suite of environmental and social standards covering different areas of concern (see section 5.3).
- Most bilateral PDBs reference and apply IFC’s Performance Standards (part of IFC’s safeguard framework) , including Performance Standard 6 on Biodiversity and Living Natural Resources.
- A small number of regional and national PDBs reference IFC’s Performance Standard 6 or have developed their own safeguard frameworks. These vary in the detail and comprehensiveness with which they address biodiversity, and some are quite vague and general.

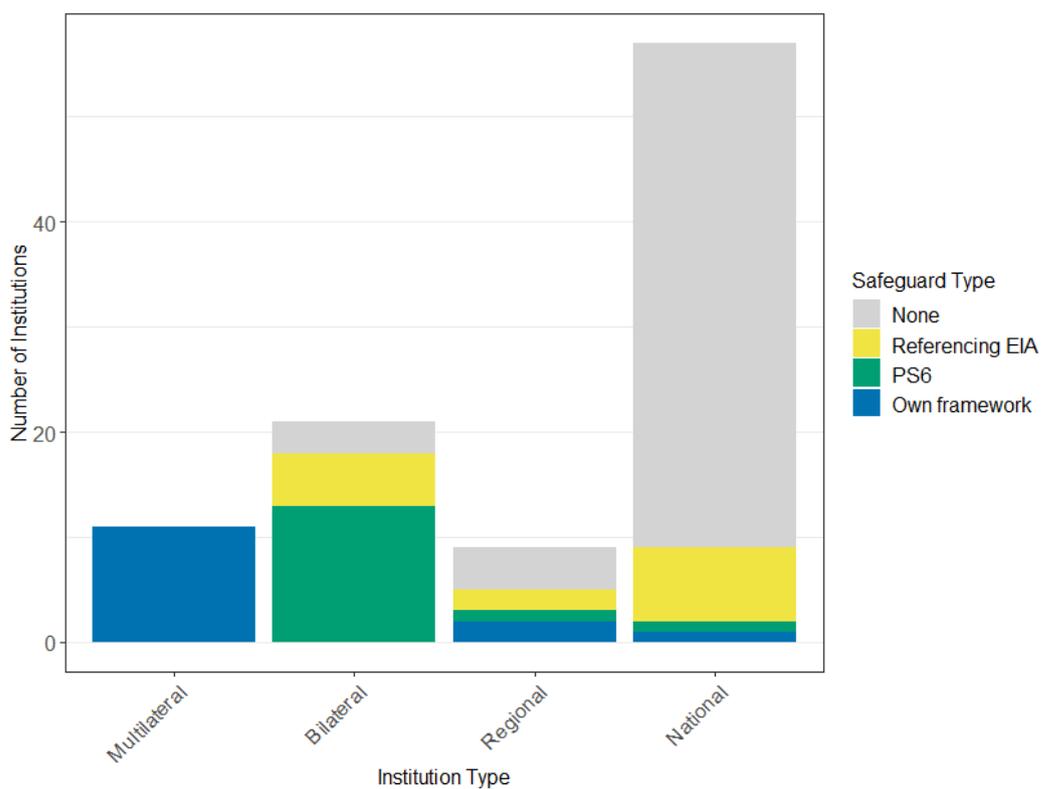


Figure 28. Biodiversity safeguards status of reviewed banks (Multilateral N = 11, Bilateral N = 21, Regional N = 9, National N = 57)

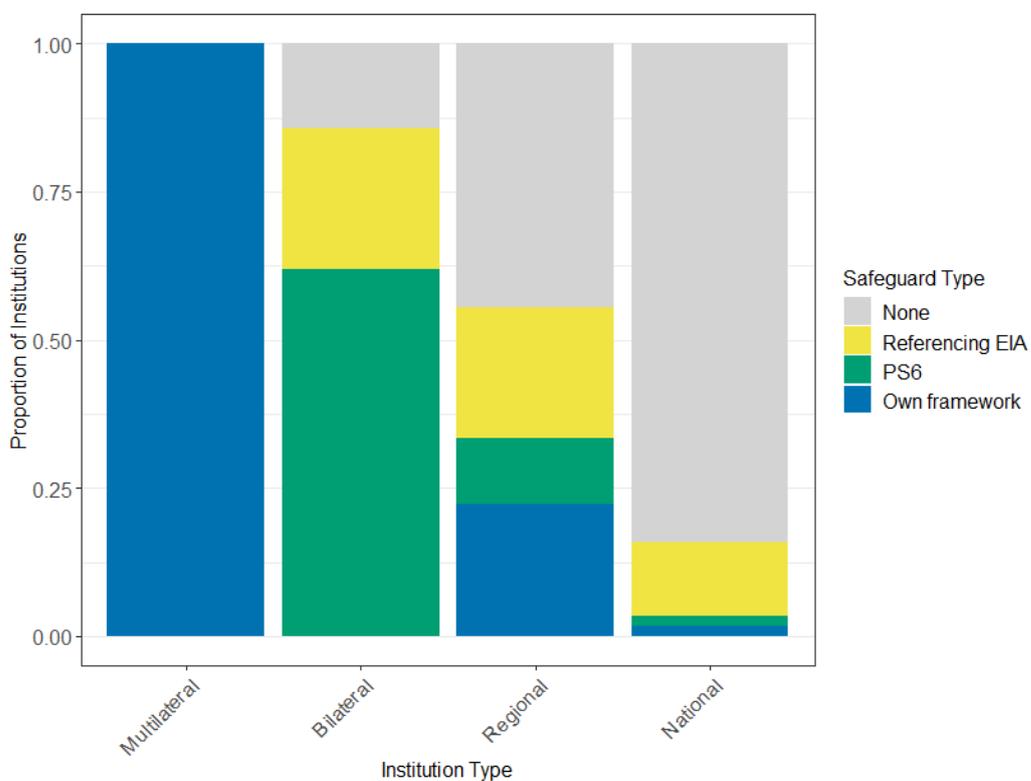


Figure 29. Safeguard status of reviewed banks, as proportion of each bank type (Multilateral N = 11, Bilateral N = 21, Regional N = 9, National N = 57)

- Other bilateral, regional and national PDBs have a general environmental and social policy statement that references the Environmental Impact Assessment (EIA)<sup>63</sup> process for addressing potential biodiversity impacts. EIA is a regulatory permitting process that in many countries falls far short of the good international practice reflected in robust lender safeguards in both scope and implementation<sup>64</sup>.
- Many regional banks, and most national banks, have only general environmental commitments (if any), and no specific requirements for either assessing biodiversity risks, or managing biodiversity impacts. In these cases, risk is presumed to be managed through the regulatory EIA process.

## 5.6.2 MDBs' safeguard frameworks

MDBs' safeguard frameworks include for instance the World Bank Environmental and Social Framework, the European Bank for Reconstruction and Development's (EBRD) Performance Requirements, the African Development Bank's (AfDB) Operational Safeguards and the Inter-American Development Bank's (IDB) Environmental and Social Performance Standards. The most widely known and applied MDB framework is that of the International Finance Corporation's (IFC). IFC's Performance Standards and related policies and guidance have been widely influential among both private and public banks. For example, IFC's standards are incorporated in the Equator Principles, adopted by over 115 private and public financial institutions across the world that are together responsible for the bulk of project financing in developing countries. Related standards, e.g. those of export credit agencies, and guidance<sup>65</sup> have been adopted as industry benchmarks. Standards have started to be incorporated into regulation in some countries too – e.g. IFC's Performance Standards are adopted in Liberia, Papua New Guinea and Peru, and are a requirement in the Guinea Ministry of Environment's guidebook for ESIA's in the mining sector.

IFC's Performance Standard 6 (PS6) addresses Biodiversity and Living Natural Resources. It (and the suite of seven other Performance Standards) dates from 2012. The Guidance Note for PS6 (an important document that details the practical application of the standard) was revised, in light with implementation experience, in 2019. EBRD developed its performance requirement and guidance for biodiversity in 2014, the World Bank (IBRD) launched its extensively revised Environmental and Social Framework and Standards in 2018, IDB approved a new Environmental and Social Policy Framework in 2020, and AfDB and Asia Development Bank are currently revising their 2013 and 2010 safeguard frameworks respectively.

There is extensive conceptual and practical convergence between the major MDBs' biodiversity standards, expected to be enhanced further by the revisions that are underway. Safeguards are

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<sup>63</sup> EIA typically also incorporates social considerations and is nowadays more usually termed Environmental and Social Impact Assessment (ESIA). The two terms are used synonymously in this report.

<sup>64</sup> See, for example, ALERT 2018

<sup>65</sup> For example, the good practices for biodiversity inclusive impact assessment and biodiversity data collection prepared for the Multilateral Financing Institutions Biodiversity Working Group in 2015 (Gullison *et al.* 2015; Hardner, J. *et al.* 2015) or the World Bank's 2018 [guidance note](#) on ecological flows for hydropower projects.

typically applied differently to project lending or equity investments versus investments made in corporates or via financial intermediaries. This is owing to the relatively lower level of direct stake and control the MDB lender has at the environmental footprint level of the value-chain when not lending directly to a project. Many corporates are not currently measuring and disclosing corporate-level biodiversity impacts of their businesses, and lending to financial intermediaries will mostly rely on the intermediaries' own environmental risk management systems.

*"The new framework represents a shift towards substance, representing convergence on a higher standard. Given that capacity to implement is generally thin, it's easier to work if we have a consistent approach." - MDB*

*"The new safeguards will be still more closely aligned with PS6. This helps to harmonise approaches when co-funding and reduce demands and process costs for clients." - MDB*

Some key features, shared by most MDB's safeguard standards, include:

- A risk-based approach, with initial categorization determining how safeguards apply and further criteria for addressing different levels of risk once projects are categorized.
- Application of the Mitigation Hierarchy (avoid, minimize, restore and, as a last resort, offset impacts)
- Criteria (sometimes with quantitative thresholds) for identifying biodiversity of high concern, such as 'Natural Habitat' and 'Critical Habitat'
- Requirements for measurable outcomes, such as 'No Net Loss' or 'Net Gain', for priority biodiversity features
- Requirements for planning, implementing and monitoring mitigation actions and offsets if necessary.

Taken in sum, these requirements go well beyond the typical regulatory requirements of an ESIA, and if implemented fully, form a comprehensive risk management framework. Three MDBs (the Asian Infrastructure Investment Bank, New Development Bank and Islamic Development Bank) have biodiversity standards that are notably less clear and rigorous than the other MDBs, without requirements for measurable outcomes.

Interviewees noted benefits of the move towards consistent high standards across the MDBs as safeguard frameworks are brought up to date, including the inclusion of elements such as agriculture and ecosystem services.

*"Adding in some of the agricultural aspects to the framework has been very helpful – obviously agriculture is a huge user of natural capital and also has huge impacts on it." - MDB*

*"Introduction of ecosystem services in the framework is important – it helps to mainstream consideration of biodiversity but also important for economic markets." – MDB*

## 5.7 Comprehensiveness and effectiveness of safeguard implementation

In the PDBs where biodiversity safeguards are used, they are generally applied across all phases of the project cycle from screening through financial investment decisions and environmental and social action plan assurance (see **Erreur ! Source du renvoi introuvable.**). Safeguards may not apply in some banks to small-scale investments or projects categorized as low-risk. For some types of finance (e.g., public policy loans<sup>66</sup>) a different assessment mechanism may apply.

Survey respondents generally gave high scores when asked their *perception* of how effectively and comprehensively safeguards were applied in their institution (Figure 30).

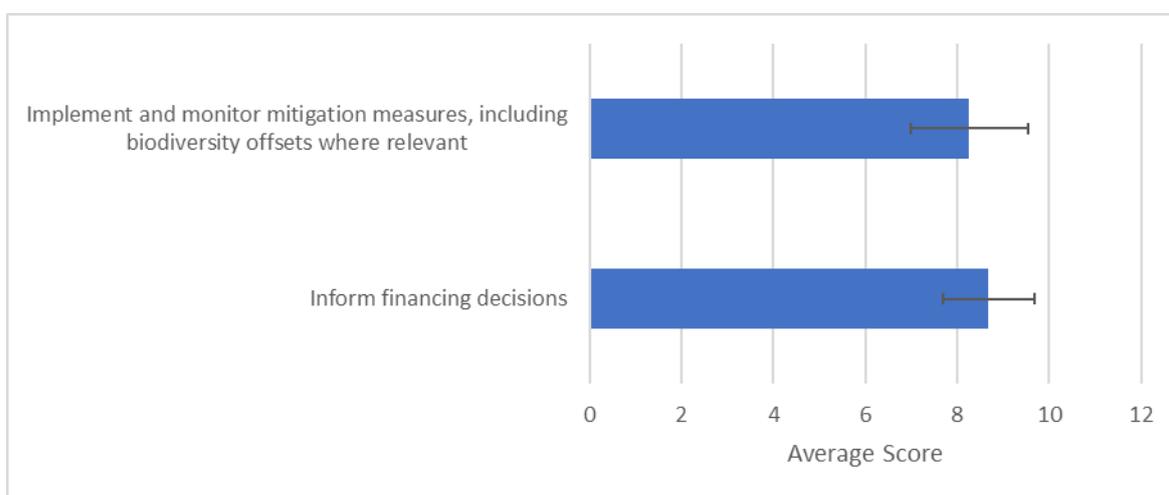


Figure 30. Mean score of respondent's perceptions (19 responses) on the application of their safeguard frameworks for assessing and managing biodiversity risks (from 1 – very limited application, to 10 – effectively and comprehensively applied)

Safeguards are essentially a reactive mechanism, to avoid risks and reduce harm. They react to the emergence of an investment possibility.

This contrasts with the emerging, more 'upstream' proactive approach of working with governments and the private sector on integrated strategic planning (see section 5.5), which can incorporate consideration of multiple capitals. However, whilst recognizing the major limitation that safeguards respond to specific development proposals which are likely to have limited modification potential in some regards, our respondents consider that safeguards have great value, not least in defining a clear process and checkpoints that force consideration and management of risk. Well-applied safeguards strongly encourage developers to apply the mitigation hierarchy, especially to avoid potential project impacts through early planning and alternatives analysis.

<sup>66</sup> Policy-based loans provide governments with budgetary support financing in exchange for enactment of particular policy reforms.

*"Safeguards are not transformational in the same way as financing green – they won't 'bend the arc of history' but they help, and force the right thinking."- RDB*

*"Having the 'ten commandments' of the safeguards framework is helpful in the PDB– makes people sit up and pay attention. Because they exist on paper, and as a list to tick off, someone has to look at them and certify they have been applied. This process alone makes a difference – not just relying on good intentions." - MDB*

*"Safeguards are a rules-based approach – rather than really a reorientation of the business model towards sustainability. But this is gradually changing as part of the broader trend." - MDB*

Ideally, the need to apply safeguards would be limited by more upstream strategic planning to identify and prioritise lower-risk projects where most potential impacts can be avoided. Especially in the absence of upstream planning, risk-screening is an essential step in the application of safeguards that identifies projects with potentially high biodiversity risk. Many PDBs do undertake thorough and early risk screening and may decide on this basis not to proceed further with high-risk projects (see section 5.8), including because of biodiversity risk. However, risk screening is not universally or consistently applied, so important impact avoidance opportunities may be missed in practice (see section 5.8).

Interviewees varied in their views on how effectively safeguards were implemented, but many said that effectiveness often left room for improvement. The overall picture is one of patchy implementation, although with performance improving overall. Among the MDBs at least, it is clear that banks are aware of a range of issues and challenges with safeguard implementation (see following section) and are taking active steps to address these – though they are at different stages in that process.

*"Issues with [our safeguard] on biodiversity are not related so much to content but how it's applied – which has been less stringent than PS6" - MDB*

*"In many projects, find that PDBs are not that rigorous in the application of the safeguards, even when the PDBs publicly pledge to apply the IFC Performance Standards." - SME*

*"In our accountability mechanism, most complaints are focused on biodiversity. Either assessments not right, or mitigation measures inadequate. Mitigation needs to be context-specific but often generic measures are applied whether or not they are actually effective." - MDB*

*"Among the banks, there is a spectrum of effectiveness. Some MDBs have consistently failed to comply with their own standards on nearly every project." – SME*

*"Safeguards are not consistently implemented within or between MDBs, and there remain major gaps for indirect impacts, supply chains, and monitoring and supervision. The most problematic projects are smaller ones with high risk – which are likely to have substantial impacts but not the resources to manage/offset these effectively." - MDB*

## 5.8 Risk screening

Early screening for risk is a key step in safeguard application to enable avoidance of potential biodiversity impacts. Early screening is widely undertaken across our respondent institutions but is not universal. Among survey respondents, all MDBs and bilateral PDBs undertook early risk screening, but two national banks did not.

*Tools are becoming better, now international databases like IBAT. This allows for information on species/biodiversity being considered earlier on in the investment process and thus for proper risk mitigation processes. Applied in existing projects, we sometimes discover new information (i.e. new risks) that lead to compliance gaps, but this is important to inform us what actions needs to be done to address them – BDB*

Survey responses indicate that the great majority of institutions use the Integrated Biodiversity Assessment Tool (IBAT<sup>67</sup>) for screening (88%, 15/17 respondents). IBAT brings together key global datasets and derived data layers on threatened species, key biodiversity areas and protected areas. This information is closely aligned with species threat criteria for Critical Habitat in safeguards frameworks<sup>68</sup>, and therefore valuable for identifying potentially high biodiversity risk and checking against exclusion lists. IBAT charges a subscription fee to cover part of the costs of compiling, updating and managing these large global datasets. Some respondents stated that they did not have resources to subscribe to IBAT, so were accessing the information on IBAT partners' sites: these public data are not supposed to be used for commercial purposes.

*It is also now mandatory to use IBAT to conduct a baseline survey of species to assess whether there are any endangered species present. This is the mandatory business standard now. - MDB*

*IBAT gives you initial information of what it around you, but one would need to go deeper to support a client to set terms of reference for their deliverables and what goes into the reporting process. IBAT is not perfect, but it's a winning tool, especially for those who don't know a region or are working there for the first time. - MDB*

*Staff need to have tools like IBAT on their desks, with access to the right information. - MDB*

Some PDBs have invested in training for all relevant staff on how to use IBAT. However, one interviewee noted that some PDBs are assigning the IBAT query to administrative staff who do not have biodiversity knowledge.

Survey respondents indicated that other risk mapping tools used in addition or alternatively to IBAT included sensitivity maps developed by the PDB itself (five institutions, four of them MDBs) or by others (eight). Eleven PDBs that responded to the survey used other biodiversity metrics or tools. Other sensitivity maps, metrics or tools mentioned included the ASN Bank's Biodiversity

<sup>67</sup> <https://www.ipbes.net/policy-support/tools-instruments/integrated-biodiversity-assessment-tool-ibat>

<sup>68</sup> E.g., see [Critical Habitat: a concise summary](#)

Footprint for Financial Institutions (BFFI)<sup>69</sup>, CDC Biodiversité's Global Biodiversity Score<sup>70</sup>, Data Basin<sup>71</sup> (a science-based mapping and analysis platform), eBird<sup>72</sup> (which compiles bird observers' records), EU Natura 2000 viewer<sup>73</sup>, EU's Mapping and Assessment of Ecosystems and their Services (MAES)<sup>74</sup>, Swiss RE's BES Index<sup>75</sup> and Global Forest Watch<sup>76</sup>. These represent a sample of the many metrics, viewers, tools and datasources now available to help inform assessments of risk, either for particular locations or for broader sectoral/supply chain impacts. Most would need careful expert interpretation to be reliable. Banks may also use site visits and standard ESIA baselines (including biodiversity studies) for projects that are already further advanced in planning.

PDBs indicated that they also used IBAT and many of the other tools for later project stages – ie for financing assessment, and post-finance monitoring and supervision.

The few PDBs not using risk-screening tools cited several reasons: that other sources of information were adequate, they had insufficient information about tools, the tools were too costly, and/or they had insufficient technical capacity to apply tools.

*We have no well-defined internal biodiversity risk screening tool; this is mainly based on our own intuition / professional judgement. As ESIA's are often of poor quality, they usually check on the IBAT / KBA database to identify the presence of important areas and flag them in the Scope of Work for the Environmental and Social Due Diligence/ external support. They don't properly screen against important species (IUCN Red List). - BDB*

## 5.9 Issues and challenges with safeguard implementation

Survey results showed that a range of factors were felt to constrain safeguard implementation (Figure 31). There was large variation in the results across participants, but with several challenges scoring above five on average. Highest scoring constraints were available staff time, availability of biodiversity data, capacity to monitor implementation, availability to improve implementation when not satisfactory and availability of technical expertise amongst staff.

Interviewees raised a wide range of issues and challenges in implementing safeguards, discussed below.

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<sup>69</sup> <https://www.asnbank.nl/over-asn-bank/duurzaamheid/biodiversiteit/biodiversity-in-2030.html>

<sup>70</sup> <https://www.cdc-biodiversite.fr/gbs/>

<sup>71</sup> <https://databasin.org/>

<sup>72</sup> <https://ebird.org/home>

<sup>73</sup> [https://ec.europa.eu/environment/nature/natura2000/data/index\\_en.htm](https://ec.europa.eu/environment/nature/natura2000/data/index_en.htm)

<sup>74</sup> [https://ec.europa.eu/environment/nature/knowledge/ecosystem\\_assessment/index\\_en.htm](https://ec.europa.eu/environment/nature/knowledge/ecosystem_assessment/index_en.htm)

<sup>75</sup> <https://www.swissre.com/institute/research/topics-and-risk-dialogues/climate-and-natural-catastrophe-risk/expertise-publication-biodiversity-and-ecosystems-services.html>

<sup>76</sup> <https://www.globalforestwatch.org/>

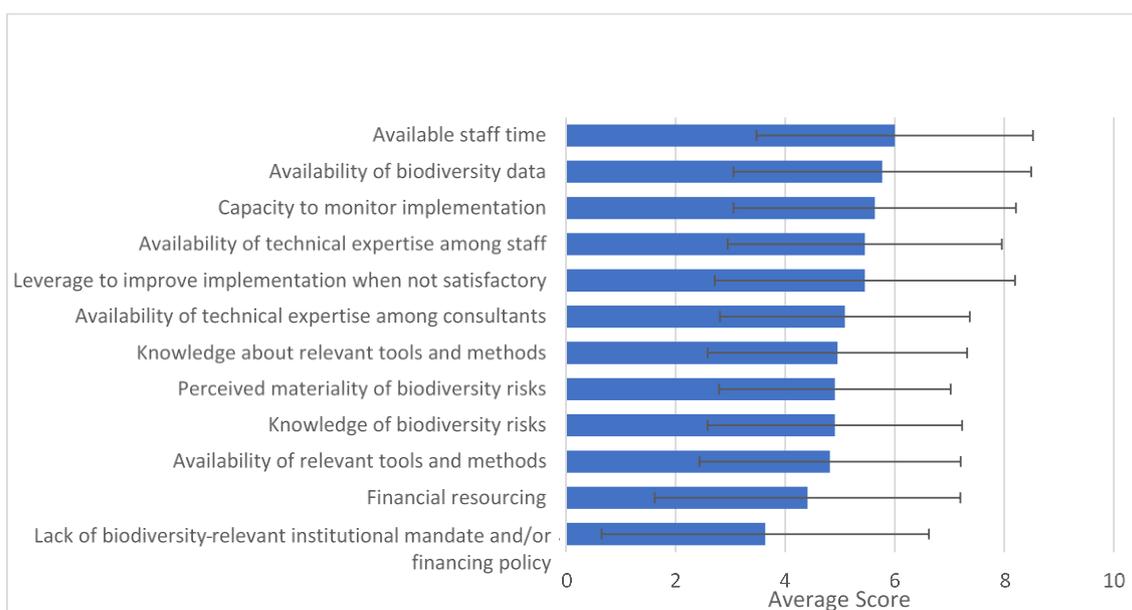


Figure 31. Mean score across respondents (n=22) for constraints during the assessment of biodiversity risk. Scores were ranked from 1 (no constraint) to 10 (very significant constraint). Error bars = standard deviation.

### 5.9.1 Structures, processes and internal capacity

The PDBs interviewed have varying structures and capacity related to environment and biodiversity. Some include units focused specifically on environmental safeguard implementation and compliance within the DFI, including specialist expertise on biodiversity. In other cases, staff are taking on a broad generalist environment and social (E&S) role within a unit focused on environmental, social and governance (ESG) risk management. E&S skillsets may also be dispersed across numerous departments rather than in a single unit. Climate issues and climate finance are often handled by separate units to the ESG expertise. Smaller banks often rely on external consultant expertise for projects with potentially high risks for biodiversity. The box below outlines the illustrative structure of the E&S function in a bilateral PDB.

#### **Illustrative E&S structure of a bilateral PDB (interviewee quote)**

“The Front Office part of the organization, i.e. the ‘deal team’, consists of four sectoral divisions (energy, agribusiness, private equity, financial institutions). There are regional teams in each division and sectoral teams within each region, with typically at least one E&S officer in each sectoral team working within a matrix structure – i.e. working on different deals involving different team members. The Front Office team is responsible for bringing an opportunity to investable stage in terms of risk management and commercial viability, The Back Office team (Credit Department) then makes decisions on deals. There are also E&S officers in the credit team whose responsibilities are to challenge the front office E&S officers in their risk identification and mitigation. A recent change is that all E&S officers report to the Director responsible for ESG, rather than to the respective Commercial Director in their department, signifying a more serious approach to E&S risk management at senior level.”

Survey respondents ranked personnel capacity as fairly high across the board, with slightly lower capacity for post-financing decisions and monitoring compliance (Figure 32). However, the range of scores was high with some participants outlining capacity as very low, and others as very high. The scores indicate that in almost all cases, capacity could be improved to fully cover the policy requirements of the PDBs, even at the largest MDBs.

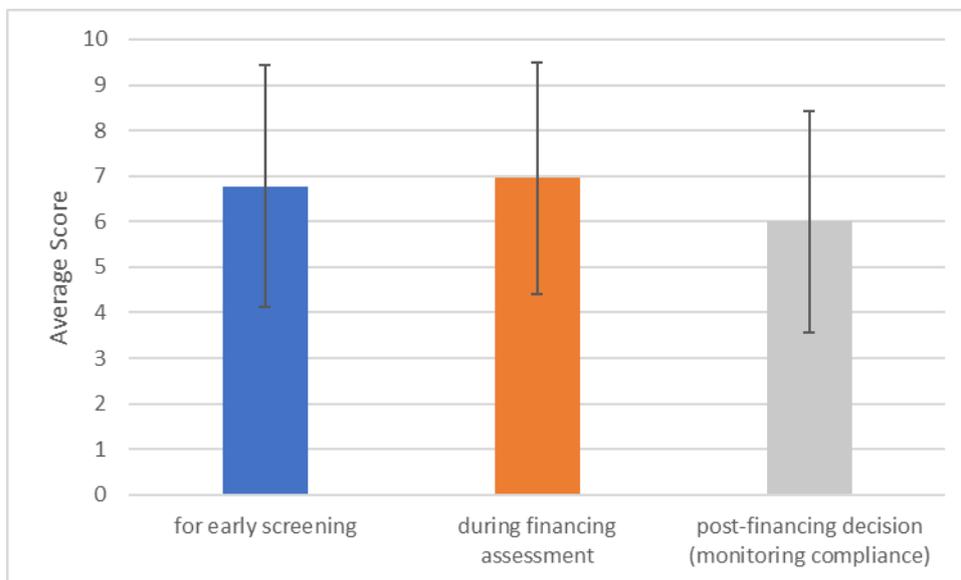


Figure 32. Mean score across respondents for personnel capacity at the PDBs for managing biodiversity risk at different stages of the investment cycle (n=22). Scores were ranked from 1 (entirely inadequate) to 10 (fully covering requirements). Error bars = standard deviation

There was however a contrast in survey results from the national development bank responses, indicating that there is very low capacity at these organizations compared to the bi or multi-lateral institutions. This finding was reflected in interviews. Many PDBs noted institutional moves to reinforce E&S capacity and processes in recent years, and often to decentralize the functions. Even large banks, however, may find it difficult to monitor and supervise projects once finance is approved. Project supervision was highlighted as a gap by several interviewees, who also pointed out that adding capacity has costs – which may end up raising the cost of borrowing and makes banks uncompetitive. While robust risk management may in the long-term be cost-saving, in the short-term it is still often seen as an additional expense and burden by clients and by banks themselves.

Quotes from interviews illustrate the variance in capacity according to the type of PDB.

*“Our ESG division does not have a dedicated biodiversity expertise, but four members of staff who have biodiversity related experience through projects etc. and dedicate about 20% of their time to biodiversity related aspects, be it through project appraisal or other.” - BDB*

*“My main role is typical of an ESG specialist - directly involved on deals, working as part of the deal team, with responsibility to ensure compliance of clients to our standards and support (‘hand hold’) clients to fill capacity gaps, e.g. in interpreting safeguard requirements, on the ground application, tools and reporting templates.” - MDB*

Large MDBs may have a separate, independent accountability function. For example, IFC's Compliance Advisor Ombudsman<sup>77</sup> responds to complaints from project-affected communities with the goal of enhancing social and environmental outcomes on the ground. IFC has recently reinforced capacity for managing E&S risks, including setting up a new department to reinforce risk management capacity (see box).

### **IFC reinforcing capacity for managing E&S risks**

IFC recently made two important structural changes to improve E&S policy and risk oversight.<sup>78</sup> First, a new Environmental and Social Policy and Risk Department (CES) was created to enable more proactive and systematic engagement with affected communities and civil society organizations, and more frequent and comprehensive reporting to IFC's Board and stakeholders. The new department oversees high-risk IFC projects, supports stakeholder grievance response by project teams, and can mobilize a rapid response team as needed for complex and sensitive projects.

CES ensures that IFC has appropriate E&S risk management systems, procedures and capacity in place. It acts as 'custodian' of IFC's environmental & social policies and standards; reviews E&S aspects of all projects at origination and provides oversight, guidance and support on E&S for high-risk projects in all stages of the project cycle. This improves IFC's ability to resolve stakeholder complaints quickly and effectively; to transform lessons learned into guidance, learning and knowledge products; and to develop E&S risk management tools and systems.

Second, IFC's ESG Advice and Solutions department (CEG) was integrated with Operations. CEG works closely with investment, advisory and upstream teams and clients to identify, evaluate and manage ESG related challenges and opportunities. It leverages IFC's expertise and experience in emerging markets to maintain the bank's leadership in sustainability through adoption of ESG standards.

Together, these departments offer a range of expertise to help IFC's clients understand and solve complex ESG issues, manage risks, and find value-added opportunities in their business operations. IFC views this as broadening its development impact and encouraging transparency and accountability.

The process of safeguard application during the financial investment decision process is significant for effectiveness. In particular, pre-deal sign-off on safeguards alignment by E&S specialists, rather than commercially focused staff, is seen as important to ensure that safeguards are rigorously implemented.

*"Change in accountability for sign off on safeguards has been significant – formerly by a sector manager, now by environment and by social specialist. So sign off is by people who know what they are looking at, can calibrate good practice, see through smokescreens and see what makes sense or not in ESIA (important, given that ESIA's can be 'cut and paste' and not particularly robust)." - MDB*

*"From last year we started using IBAT. We started revamping all our procedures. We now standardize our reporting structure - the ESIA, monitoring report etc. We have a seven-step Business Standard that provides guidelines on what is required at each step of the project, and how to assess progress."*

<sup>77</sup> <http://www.cao-ombudsman.org/>

<sup>78</sup> [IFC Annual Report 2020](#)

*This is extremely detailed and mandatory training for all the employees for every country that they work in.” - BDB*

*“Our internal checkpoints were not working as well as they could. Have recently addressed this with improved business standards – developed to ensure processes are well streamlined. This has created big improvements” – BDB*

*“Now that the E&S team has more capacity, we are rushing less, taking more time to plan and review – with much more rigour than before. All projects must comply with bank standards – so there are now clear checkpoints at key stages. So long as that is followed, projects will properly mainstream E&S, and loan agreements will be prepared properly. It still can be difficult to get clients to fully understand what they are signing up to in loan agreements. But we see that compliance is definitely improving – if there are significant biodiversity issues, mitigation is being implemented. Monitoring is improving too.” – MDB*

Independent expert interviewees were more skeptical that banks had adequate capacity: in their experience gaps existed for biodiversity risk management even in the largest and best-resourced institutions. Some PDB interviewees also stressed that effective safeguard implementation required many elements beyond the existence of a robust safeguards’ framework, including:

- Significant resourcing for ensuring and verifying implementation,
- Appropriate management and decision-making systems
- The culture to support biodiversity concerns being appropriately considered in project appraisal and approval,
- A robust disclosure framework that encourages both clients and banks to meet the standards, and
- A powerful ombudsman or similar grievance/oversight mechanism.

A key enabling factor is also having biodiversity specialists on staff (not just consultants): indeed, it was suggested that the number of in-house specialists was a good indication of how seriously PDBs were taking biodiversity risk management. Interviewees noted a lack of specific biodiversity expertise at many PDBs, because this specialized knowledge base will often not be present among a fairly typical team of several dedicated sustainability or safeguard-focused professionals. As a result, unqualified people may be conducting biodiversity related internal assessments without understanding outputs, e.g. applying the IBAT database tool for project screening. Therefore, there may be a high reliance on consultants for specialist knowledge and advice. Some PDBs however cited a preference not to take on biodiversity specialists in order to avoid creating bottlenecks – it worked better for them to have a team of generalists that all spent some time working on biodiversity issues, gaining the necessary knowledge and experience on-the-job.

*“Proper overview of biodiversity risks takes time, money, capacity, energy and resources. This is not fully acknowledged.” - MDB*

*"Within the bank itself, in the last decade there's been a significant gap in resources and staffing for safeguard implementation. This is gradually being filled. Now have almost doubled the staff, so there's much greater capacity. The bank is taking it seriously." - MDB*

*"Internal bank capacity also needs to be drastically improved. We need more human resources. With current staff available, we barely have enough time to meet project deadlines, let alone focus on our own technical capacity development (training, keeping up with latest trends on innovative tools for example)." - MDB*

Internally, institutions appear to be at different stages of development. In some, biodiversity risk management is fully accepted across the institution, and the role of the E&S team is seen as supportive; in others, investment officers still see this team negatively as imposing unnecessary delays and cost burdens to the operations of the bank and the aspirations of their clients, as well as making the bank potentially less competitive than another with less focus on often time-consuming safeguards. Making the case for biodiversity risk management internally is a long-term process, and some interviewees mentioned that their institutions have embarked on active training programmes for staff. Investment staff seeing first-hand that lack of management of biodiversity issues through safeguards application can cause a project to be halted would have a salutary effect in highlighting the importance of risk management.

*"We are making efforts to democratize the understanding of sustainability aspects, including biodiversity, to all staff. This is requiring a change of culture, which is in progress but not yet complete." – NDB*

*"There is some internal resistance to safeguards application and project improvement on E&S dimensions. This is why we have implemented a training process to sensitise internal investment staff and raise awareness on importance of the topic." – BDB*

*"There is a good level of buy-in on ESG aspects within our PDB. In particular regarding nature, there is a recent precedent whereby a project was abandoned by decision of the General Director on grounds of the project being clearly harmful for critical habitats; as a result, every investment officer is aware that 'critical habitats' can 'kill' a project and they tend to assess the issue early on." – BDB*

## 5.9.2 Client, regulator and stakeholder capacity

Banks, companies and government clients may be unwilling to embrace biodiversity safeguards. This may be because of low client capacity to implement them, or even a lack of recognition that this capacity is needed. Banks and other finance intermediaries are often unwilling to fully integrate safeguards into practice. They may be seen as producing more complexity, legal and procedural hurdles to investment, resulting in a lack of buy in from internal staff who are unwilling to push with clients.

The cost and effort of safeguard application often seems high to clients throughout the investment decision process, and they may be reluctant to pay for the ongoing costs of loan agreement (ESAP) implementation. National regulatory agencies may see the safeguards as too tough, leading to conflicts.

*"A key issue is how can we create general regulatory convergence, not just islands of good practice. Even where regulations are robust, implementation may not be. There is need to build overall national capacity and to raise expectations. This involves creating understanding what good practice looks like internationally – so bar can be raised overall." – MDB*

*"Client government understanding of managing biodiversity impacts from development projects is often extremely low compared to the requirements of the DFI's biodiversity safeguard. Government might also lack capacity to implement enforcement and monitoring well. Mainstreaming biodiversity expectations at ministerial and policy level is key." – MDB*

Issues related to client perceptions can vary by country and region.

*"E&S safeguards are not viewed as a limitation or impediment to project anymore, there is good buy-in across the organisation. This is also true for some recipients, but this varies. For example, in China, there is strong buy-in for nature conservation but not much for social aspects. In Latin America, there is more awareness of social risks, including to indigenous people." – BDB*

A lack of capacity at some regulatory agencies regarding biodiversity risks, means they can be overlooked or not valued in processes for the creation, screening and approval/permitting of projects.

*"For many countries the safeguards are not a priority but need to be considered because they are imposed by the lenders. The country needs to have a strong environmental protection authority. The next challenge is capacity development." – MDB*

*"We are improving active support to project preparation, especially for governments. This means more support on the biodiversity elements, including identification of indicators to monitor and ensuring costs are integrated into budgets. Preparation is a key stage for safeguards, both for planning and implementation." – MDB*

*"Capacity is not there. Either in our bank or within governments. We need to have greater expertise and time/resources for biodiversity." – MDB*

*"With government technocrats, and finance ministries in particular, there is pervasive ignorance and lack of regard of environmental issues, and of nature-related issues in particular. The issue within PDBs is similar. Even within more progressive institutions, technical teams often battle internally to make progress. Most smaller banks are far from even being at that point." – SME*

*"You seem to be missing the question of the capacity of borrowers - and this capacity is both in terms of planning and policy (choosing the right projects) and in terms of regulations and implementation (doing the projects right). This is where the really huge gap exists - even where there is capacity in countries, these institutions have little impact on the main decision makers – which are the more powerful ministries and private sector" – MDB*

Particularly when funding small clients (including banks), there can be challenges because client capacity is insufficient to implement planned mitigation and monitoring, through the Environmental and Social Action Plan – a near universal key tool (although the name differs among

institutions) that organizes the loan condition agreements with respect to the application of E&S safeguards Interviewees flagged the dangers of small budget but high-risk projects – as the resources and capacity to address risks may be lacking.

*“The key tool to address risk is the Environmental and Social Action Plan. This is legally binding so we can include clear requirements e.g. for having a monitoring system. But we need to often be realistic and perhaps apply a step-wise approach that considers the capacity of the investee, and tenor of the financing agreement.” – BDB*

*“The most problematic projects are smaller ones with high risk – they are likely to have substantial impacts but not the resources to manage/offset these effectively.” – BDB*

The capacity of other stakeholders, including NGOs and research institutions, can also be a constraint.

*“We need to work with other stakeholders on implementation – can’t do it all ourselves. External capacity can be a constraint. This includes among borrowers/clients.” – BDB*

*“Need engagement and buy in of communities and stakeholders for collaborative management and monitoring – can’t be done from [headquarters]” – BDB*

*“Our PDB has also made significant effort setting up local companies to provide capacity to planned projects to ensure local content – which is often a key requirement – and thus facilitate projects down the line.” – MDB*

*“There is a broader issue of stakeholder capacity. For instance, national institutions working on biodiversity that may have crucial expertise and information but have weak systems for data management. Institutional capacity strengthening at country level may be important for future project planning as well as long-term management and monitoring of assets.” – MDB*

Interviewees had mixed views about the role of civil society. Some felt that NGOs were not active enough in holding PDBs to account, which would help institutions to wake up to the need to manage risks better. Others felt that NGO engagement was not always in good faith, and NGOs were sometimes wanting to wreck projects rather than find constructive solutions.

*“Better national regulation is useful – even if just on paper. Regarding civil society – when too activist can put banks off lending. Civil society role is important, right to hold banks to account and ensure promises are kept. But needs to be in good faith – understanding that the perfect can’t be enemy of the good-enough.” – MDB*

### 5.9.3 Inter-bank technical support

Larger PDBs are increasingly partnering with and supporting other PDBs, to improve their own effectiveness long-term in particular countries and regions.

In co-investments, smaller banks often rely upon the safeguards and processes of larger banks regarding biodiversity risks.

*"When co-investing with other DFIs, [our MDB] generally takes the lead on E&S appraisal and verification of safeguards implementation. This is because: we need to ensure quality of safeguards process, we have much more resource, and the impact of safeguards process may be very significant - on a typical large agribusiness plantation project, the cost of implementing an Environmental and Social Action Plan is typically around 40 million USD." – MDB*

*"Yes, larger PDBs have a role in supporting smaller banks to develop and implement effective safeguard policies. We work on a partnership model. Some of the smaller PDBs may not have large portfolios, but they have the bandwidth to really go into depth when it comes to risk identification/assessment and mitigation in ways that a large PDB like ours cannot. We have a technical assistance fund and capacity development team." – BDB*

*"We partner with a varied range of lenders – some commercial, some DFIs, including at national level. And with the big MDBs to co-finance. Such partnerships are encouraged. Can be issues applying safeguards with national development banks – especially those not exposed to safeguards in the past. They see a lot of challenges, as are focused on national requirements where there's lots of gaps." – MDB*

*"Need for capacity building in national and regional banks also recognized. We are supporting some regional banks improve their safeguards processes. Capacity building also needed for key national institutions that can support safeguards implementation (e.g. national biodiversity institutes)." – MDB*

PDB forums and information exchanges are active in the E&S sphere and seen as bringing considerable value.

*Question: Do you think the MDBs and larger DFIs have a role in supporting smaller DFIs to develop and implement effective safeguard policies? "Yes, and it's already happening, like IFC has issued guidelines and technical documents. When IFC is involved in deals they also deploy a specialists' team which is really helpful for us to 'learn by doing'. Knowledge and experience sharing is really helpful to facilitate capacity development by transfer of knowledge amongst the E&S advisors. Fortunately, the E&S aspect is not competitive so they can talk relatively freely. EDFI has a quarterly meeting of E&S advisors, IFC, ADB, AfDB also have annual meetings that we attend. These are helpful especially because they create a sense of community, a safe place to ask questions/ask advise/share experience openly." – BDB*

*"Membership in IDFC is also very helpful. Banks talk to each other and disclose how far they have got. Peer pressure and encouragement is proving effective in raising the bar. This will help build a collective response to climate and biodiversity issues, and a wider green economy movement. But needs to consider not just the risk perspective, but the positive value add aspect too." – BDB*

#### 5.9.4 Impact avoidance

As part of their safeguard frameworks, most large PDBs carry out project screening for biodiversity risks, using tools such as IBAT (see section 5.8). Increasingly, PDBs also will walk away from projects that are screened as unacceptably risky, or that do not meet exclusion criteria.

*"Critical Habitats are considered as potential red flags, are looked at very carefully and projects with significant impacts on Critical Habitat are likely to be screened out from our proposed investment." - BDB*

Few safeguards frameworks include cut-and-dried exclusions for biodiversity. IFC's revised Guidance Note 6 rules out projects in Natural or Mixed World Heritage Sites, and Alliance for Zero Extinction Sites (the single last refuges for highly threatened species). EDFI's joint Exclusion List rules out finance for projects that would cause 'destruction' of High Conservation Value areas – defined as natural habitats where these values are considered to be of outstanding significance or critical importance. Most EDFI banks have interpreted this to mean Critical Habitat as defined by IFC's PS6 (which differs from IFC's approach which allows some loss of Critical Habitat if stringent conditions are met and there is an overall net gain), and interviewees noted that the term 'destruction' has been difficult to define unambiguously. Several interviewees noted that in/out exclusions, while seemingly simplifying decisions, can be problematic. Generally, the MDBs (followed by other banks) have favoured a risk-based rather than a rules-based approach – permitting some flexibility when a project is in fact low risk and low impact yet located in or near a sensitive area.

Although many PDBs have recognized the value of early risk screening<sup>97</sup>, it still is often the case that for various reasons biodiversity is not adequately considered until relatively late in the project timeline. For example, when project locations and initial design are already decided, the options for impact avoidance become much more limited. One common reason for later consideration is when projects are brought to PDBs with an investment request after initial design and environmental assessment have already been completed. 'Retro-fitting' standards in such instances can be difficult and costly, and the scope to avoid some impacts may be lost. This is another reason why improved upstream planning, and improved capacity and awareness among clients, are important (see sections 5.9.2 and **Erreur ! Source du renvoi introuvable.**). 'Retro-fitting' standards can also be a problem when existing projects are being re-financed – it may require extensive new baseline studies, for example.

*"Sometimes E&S aspects are considered too late in the investment appraisal process, and E&S appraisal timeline is constrained by other imperatives, eg political milestones, internal yearly investment targets, etc. This is improving, nowadays project managers or in-country officers are more prepared to analyse E&S aspects in advance of the project identification committee." – BDB*

*"Client needs to integrate environmental and social aspects carefully before advancing the planning. Sectoral staff sometimes tend to push projects for approval both within bank and for clients. Still often see that detailed design completed before considering the ESIA – but they need to be integrated, with E&S considerations informing the design from the start. Requires better working and communication across teams, and harmonization of timelines – to make sure that the right things are done at the right time." - MDB*

*"The bank may not even be engaged with the client at the preliminary design stage where avoidance is most feasible. If mistakes are made then – can be hard to correct!" - RDB*

### 5.9.5 Implementation budgets

It is common in sensitive environments for the ESAP in the loan agreement to require substantial upfront and ongoing budgets to implement effectively. Mitigation costs are hard to estimate and may not be fully incorporated in either Capex or project operational cost modelling, creating potential budgetary issues.

*"There can be problems with budgeting in management plans. ESMP<sup>79</sup> budgets should cover all key risks and mitigation – but some provisions for biodiversity might not be adequately included in project costs – creating implementation challenges." - MDB*

*"Planners and people making decisions are not aware of the costs of having to integrate environmental mitigation. For example, if you want to implement an avoidance measure by rerouting linear infrastructure, how much will this cost?" - MDB*

### 5.9.6 Monitoring and supervision

Even if safeguards are applied diligently in the investment decision process, implementation is often patchy during the supervision phase that follows financial close. A further issue for assurance of mitigation outcomes required by safeguards (e.g., no net loss outcomes from long-term offset performance) is that conservation gains that were legitimately planned and reasonably foreseen may still be accruing after the loan is paid off. Project supervision and monitoring was highlighted as an area that is challenging to implement and where many PDBs still struggle to be effective. Many interviewees highlighted the need for better monitoring of mitigation and impacts and/or procedures to deal with issues if identified.

*"Project supervision is often weak. Need more restrictions in common terms agreements, making sure those clauses are translated into legal documents. Supervision visits can be hard to fit in, when you are managing 10-15 projects at once. So capacity is an issue. But if PDBs boost capacity and have really rigorous monitoring that will in turn increase the cost of borrowing and could make them uncompetitive. Even though from the strategic point of view, robust safeguards save money in the long run because takes away so much risk and so many potential problems." - SME*

*"MDBs have a problem with common terms agreements for clients - not all safeguards requirements are adequately translated in there. If things go wrong they rarely call clients out, may just walk away from loan if really. Once assessments are disclosed – and once all disbursements are out – the MDBs don't have a great deal of leverage." - SME*

*"Internal surveys demonstrate that the safeguards team is genuinely perceived as support rather than a block within the institution. We are diligent at applying safeguards to the investment decision-making process, but not so much after financial close (ie project monitoring) due to number of projects to monitor vs limited resources." - BDB*

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<sup>79</sup> Environmental & Social Management Plans – the detailed plans that enable the integrative and guiding ESAP to be implemented.

*"PDBs are not very good at monitoring. They don't have the indicators, so even though clients will have monitoring programmes can't easily see which projects have a positive outcome and whether conservation outcomes were achieved. So can't go through the bank's databases and assess how far mitigation and restoration have been successful." - MDB*

*"With biodiversity safeguards, there is a tendency to front-load – good documentation and Critical Habitat Assessment and offsets strategy. But follow through less satisfactory – implementation poor, governance structures, monitoring and indicators often lacking. Effective implementation is key!"- MDB*

### 5.9.7 Indirect and cumulative impacts

Many safeguards stipulate that risk assessments include indirect and cumulative impacts<sup>80</sup>. Cumulative impacts can be difficult to estimate, and both these and indirect impacts may be partly or wholly seen as not being the responsibility of the bank/client or unrealistic to include, and, therefore, are prone to not being adequately covered in assessments and mitigation. This is a significant gap, as for some projects the indirect impacts can be much larger (and more difficult to manage) than those from the direct footprint. Cumulative impacts from numerous projects or pressures may also be significant even when individual project impacts are not.

*"Landscape-level analysis should be key in EIA but in practice often the assessment is limited to the project footprint and doesn't look at the wider ecosystem." - MDB*

*"On indirect impacts, we need to get better. Need to think about incentives for a good job – comes back to accountability of bank for indirect impacts of lending." - MDB*

*"For mines, impacts can occur up to 70 km away – but easy to excuse and to take only some limited measures. Clients tend to push back strongly, considering uncertainties in assessing impacts and difficulty of allocating responsibility." - SME*

*"How we assess the Cumulative Impacts is important. We still have a long way to go on that aspect." - MDB*

### 5.9.8 Agriculture and supply chains

Safeguards are relatively easy to apply to large and spatially discrete projects (e.g., mines) but more challenging to apply to supply chains such as of agricultural commodities. This is a serious drawback because the impacts of agricultural development projects can be on a huge scale (much

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<sup>80</sup> Indirect impacts are those triggered by something caused by the project (for example forest clearance from agricultural expansion due to population increase to satisfy the labor and services demands of a project and its workforce) rather than the project itself. Cumulative impacts refer to the multiplicative effect of all sources of impacts in the area of interest, including the project and other existing or foreseen developments (e.g., multiple water extraction and diversion schemes could render a river system with less than minimum ecological flows); when cumulative impacts are taken into account, otherwise potentially acceptable project impacts could become unacceptable due to thresholds effects.

bigger than a mine footprint, for example). PDBs are working to address this gap, for example by improving supply chain tracking and increasing technical capacity, but face many technical and practical challenges, among them:

- Traceability is very difficult for agricultural supply chains, though tools for this are gradually improving (see Section 7). Companies rarely have details of the whole supply chain
- PDBs can influence their investee but if the investee's business is integrated to a supply chain, it is difficult to influence the other parties
- Commodities' environmental and social performance assurance often relies on certification, which (in interviewees' opinion) is flawed and unreliable (often with differences in rigour among jurisdictions).
- The way forward will differ depending whether commodities are produced by many small-scale farmers or by fewer large agro-businesses – cannot use 'one size fits all' approaches.

*"Some commodity traders manage to implement a "no deforestation" but this is rare and difficult to implement; this said, using satellite imagery, there are now options to monitor deforestation quite easily so the issue is not technical." - BDB*

*"Our PDB does have a supply chain requirement – as client has some control over suppliers. Problem comes with looking at supply chain as a whole, especially with agribusiness and sectors dependent on natural resources. Not perfect – taking a 'best effort' and risk-based approach. Hope will be improved when colleagues undertake credit risk analysis on the client – if this shows that there's a financial impact owing to supply chain issues, then will have greater leverage." - MDB*

*"Now looking at massive, diffuse corporate loans for agro-commodity exporters – which is a real challenge. There is no traceability on commodities in these big deals, and structural barriers that prevent traceability unless a product is certified with a separate supply chain or controls. Which is a tiny fraction of output from these big clients. Even if a small portion of the product comes from deforestation, that footprint can be bigger than, say, the entire portfolio of mining projects." - SME*

*"If it's a certified product then in theory it should be traceable, but certification is also very flawed. Who is verifying certification?" - SME*

*"Some promising action taken by Chinese finance, which has gone far beyond anything from lenders from other regions or national banks. There is also now a seriousness and concern from within MDBs to resolve the problem, informed by experience in Asia, where there is longer experience in dealing with agricultural impacts." - SME*

*"Supply chain elements are very weak. Have tried on many projects to talk about supply chains and had this sidelined by the environment manager – seen as just too difficult." - SME*

*"Biggest challenge is that unlike say energy or mining, agriculture is very often a small business of small farmers; a business of poor people. There are huge agribusiness companies, but they tend to maximise profit at the back end via supply chains and have often (not always) outsourced growing.¶ How to avoid criminalizing the poor farmer and making it impossible for them to meet a high bar?*

*They shouldn't have to pay for that opportunity cost or the transition cost for deforestation free and climate smart agriculture- when would rather charge the big agribusiness." - MDB*

### 5.9.9 Financial intermediaries

A large portion of PDBs' investments are in the form of corporate loans or investment via financial intermediaries. For example, according to IFC's 2019 annual report, 56% of its long-term own-account commitments was in the 'financial market' sector, and 38% of its overall portfolio exposure was to financial markets<sup>81</sup>.

Safeguards are relatively easy to apply for discrete project investments, but much harder when loaning to financial intermediaries (e.g., banks, fund managers). They will be funding many investments and projects and may have limited risk management and reporting systems. This is important, as for many PDBs a high proportion of lending is to other financial institutions that are closer to the ground and can reach more beneficiaries (for example, SMEs). PDBs do take steps to assess whether client E&S policies are in line with their own requirements, and if intermediaries are funding any projects with high E&S risk.

PDB's standards still apply to these investments, but they are typically managed through requirements on clients to implement good practice Environmental and Social Management Systems (ESMS)<sup>82</sup>, and without the ability to supervise the detail of specific action or management plans under the ESMSs for the multiple projects which may emerge in part from the intermediary's funds that arise from the PDBs. This is seen as the only viable way of managing risk in what may be large, diverse and fast-changing portfolios, but it can be very 'light-touch'. For example, [IFC's reporting template for financial intermediaries](#) only requires reporting of broad ESMS functioning and very significant issues arising; it does not require quantification of footprints, reporting of investments in critical habitat or other measures of biodiversity risk or performance. Interviewees flagged this as a weak point in safeguard implementation, as it is very difficult to monitor and supervise intermediaries adequately.

*"Most difficult is to track and monitor risks and impacts within portfolio of financial intermediaries, investment funds and banks." - BDB*

*"[Applying safeguards] is much more difficult when lending to banks given the lower level of maturity and sophistication on E&S aspects, as well as the diversity of underlying financing deals (such as SME credit lines, energy efficiency credit lines, capital increase borrowing). We require that the bank adopts an exclusion list consistent with ours, implements an E&S Management System covering the entire portfolio, and reports on [high E&S risk, large or long-tenure] investments. Our leverage over banks is quite limited (one possibility is early payback but this is difficult to trigger and rarely done)." - BDB*

<sup>81</sup> [IFC 2019 annual report](#). We use 2019 as the most recent full year not affected by the COVID pandemic.

<sup>82</sup> These systems are generally those already in practice within the debtor organization, which are often enhanced in terms of biodiversity risk management by the specific requirements of safeguards, such as a Biodiversity Action Plan.

However, compared to other financial intermediaries, there are fewer problems lending to private equity management funds.

*“Private equity management funds have usually well understood the interest of aligning with E&S best practice and the SDGs as this tends to generate value within their asset portfolio. Since there are only a limited number of assets within the portfolio, it is easy to assess E&S risk asset by asset, monitor how the management fund manages due diligence audits, and generally have assurance that safeguards are being applied.” - BDB*

#### 5.9.10 Public policy and sectoral loans

Safeguards are not designed to apply to public policy loans, i.e. where PDBs provide governments with budgetary support financing in exchange for enactment of particular policy reforms. Some large MDBs will carry out a Strategic Environmental Assessment of policy proposals, but this is a significant undertaking. For sectoral budget lending, PDBs have limited controls, beyond establishing initial commitments from government on E&S risk management.

*“Sectoral budgetary lending is not ideal since the PDB has limited leverage on commitments & performance related to nature. But it is better than nothing. It is a means to establish long-term relationship at political level and reinforce policy dialogue.” - BDB*

#### 5.9.11 Inconsistent interpretation and application

Application of safeguards can be inconsistent both within and between banks and can vary depending on the specific advisors, consultants, teams or sectors involved. The complexity of application of standards such as PS6 can lead to variable application by different teams and consultants. This lack of repeatability may be an issue for positive biodiversity outcomes. A related issue is that difficulties can arise when multiple investors have differing approaches and standards for risk assessment and management (e.g., different safeguard requirements or technical specification for identifying sensitive biodiversity). There may be difficulties caused when safeguards do not align with domestic approaches for assessing risk, or with other regulatory bodies.

Incomplete application of safeguards can result in failure to adequately identify and plan for minimizing, managing, and mitigating E&S impacts. The IDB has published findings of where this has occurred and resulted in substantial costs<sup>83</sup>.

*“Safeguards are not consistently implemented within/between MDBs, and there remain major gaps for indirect impacts, supply chains and monitoring/supervision.” - SME*

*“[For issues such as defining Critical Habitat under PS6] the principal challenge is that we still don't have a method that generates repeatable results. If we looked at a project, analyzed it, and proposed an approach, two consultants might easily come up with different answers – neither of them wrong. This cascades across all the people that potentially do this, from the most to the least sophisticated.*

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<sup>83</sup> Watkins et al. 2017

*We have a variety of opinions. This continues to create a lot of confusion. Very typical that expert consultant will come up with a completely different answer on a project (whether working for lender, client or as IESC [Independent Environmental & Social Consultant; a team of these from different disciplines is normally hired to help with project supervision]) than whoever designed it or suggested it – however talented they are. Requires clearer 'case law' and precedents. There is need for discussion amongst professionals so can begin to basically agree on interpretations and approaches for different situations. But not easy as the standards are very complex." - SME*

*"Very few people who assess Critical Habitat really understand how this works – so the many other banks using PS6 won't apply it correctly. This has significant real-world consequences at times, and gets the banks annoyed and confused – makes it harder for them to explain biodiversity standards internally." - SME*

*"From experience working with other PDBs that all require PS6, the details of how PS6 is applied vary quite a lot, depending on the E&S advisor. PDBs that deal in natural resources investments or management tend to have a better understanding of PS6." - BDB*

*"Aware of differences among sectors & financing types. Works well for infrastructure projects. Rural development, agriculture and large-scale transportation are more complicated. Very siloed into sectors and some are less interested in safeguards." - MDB*

#### 5.9.12 Consultant performance

Many PDBs rely on external consultants to support their limited in-house expertise on biodiversity. Consultants also play a key role for the bank's clients in applying PDB safeguard requirements. But there are widespread gaps in consultant understanding of the technical nuances of the safeguards, and competition on cost often leads to poor-quality work. National consultants, who may understand the environmental and social context best, often have limited experience in safeguard application and international consultants may lack important local knowledge. Poor assessments by consultants lead to poor safeguard implementation, and/or to delays as PDBs require improvements – potentially undermining the credibility of safeguards.

*"There are pervasive problems with the EIA process – as competition for work drives down prices, and leads to poor work and 'cut and paste' exercises. Bank staff have to challenge findings – problematic as they are very stretched, and it can be difficult to continue to question when consultant persists in determining impacts of negligible significance. When many small projects go through the sieve and there's no effective mitigation, impacts can add up to be quite significant." - MDB*

*"Capacity to understand and apply safeguards remains a constraint – technically complex." - BDB*

*"Capacity gaps exist for consultants, but not the key issue. If the client is on top of things, they should ensure consultants produce what's needed and will review materials before go back the PDB. But client capacity can be inadequate, and bank often receives reports after little or no client review." - MDB*

*"Given limited understanding of the methods, impossible that the Equator Banks or the 400+ other PDBs are going to be able to apply them correctly. And they rely on consultants to do this for them*

*– but experience reviewing consultants’ reports is that quality is pervasively poor. This can also be a real challenge for developers trying to do the right thing – when big banks reject their assessments because they not up to scratch. It’s a solvable problem with investment in capacity building. But project flow is pressing, and big banks are unwilling to take on this problem. They are also not keen to issue additional clarifying guidance beyond what’s already out there, as may lead to legal and procedural problems.” - SME*

*“Need more experts! – only a handful available who really understand the safeguards and their application. More capacity needed in consultancy – biodiversity experts who also understand the projects and policies of institutions. Local/national capacity especially lacking.” - MDB*

### 5.9.13 Complexity, cost and competitiveness

Safeguard implementation is complex, often requiring skilled specialist consultants (who may not have a consistent approach). This can cause poor implementation, slow and tedious decision-making and fatigue with the approach. Simple approaches can be better implemented (though may not necessarily produce satisfactory outcomes).

*“The current Performance Standards are great and have a strong rationale – but it takes people years to learn how to apply them, making it impossible to scale.*

Robust safeguards can be costly to implement. As the playing field is not level, there is an issue with safeguards pushing beneficiaries away and moving to finance with less demanding environmental standards. Stringent safeguards can also deter private investors from coming on board with projects developed by PDBs. This is a particular problem with PDBs that operate in a fully commercial way.

However, more forward-looking governments and businesses are starting to see that there are drawbacks to ‘cheap money’, as lack of attention to E&S issues can cause serious problems, costs and delays further down the line.

Pulling out of an investment due to environmental concerns can also leave the door open for banks with less robust environmental safeguards, leading to worse biodiversity outcomes than if the original bank had continued with the sub-optimal investment. This is a challenging issue to document however.

For private sector clients, complex safeguards impose significant extra up-front costs and can be a particular challenge to smaller or less-experienced companies. They can also create tension with government and regulators, when requirements go well beyond the standard regulatory demands – they may see this as creating an unhelpful precedent. Companies also see PDB processes as unnecessarily rigid and unrealistic – when banks insist on costly and impractical measures for marginal mitigation gains, this is seen as unhelpful and counterproductive. PDB interviewees had mixed views on this issue, some insisting on the need to hold firmly to standards and others favouring a more flexible and pragmatic approach.

Some PDBs are focused mainly on investments that are less likely to attract commercial funding, and/or can offer concessionary rates and/or technical support. These are less likely to face a competitiveness problem because of high E&S standards.

*"Biggest constraint is probably the cost of borrowing. The more rigorous the safeguards process, the higher the cost. In a competitive world where people go after cheap money, that can box out higher priced lending from other banks. A lot of lending still doesn't come with the kind of attention to environmental and social issues provided by the large MDBs." - MDB*

*"We were to close a deal on a project but with quite a long list of requirements to ensure proper E&S safeguards. In the end, the project secured financing from a lender without such high E&S standards. So, it is really competitive in practice. We are required to operate at a commercial level, so cannot offer more favourable terms than commercial banks." - BDB*

*"E&S safeguards are not really perceived as an obstacle to competitiveness since our investments are on projects or locations that struggle to attract private sector financing. Our 'additionality' principle also means that the financing is on quite competitive terms and includes technical assistance." - BDB*

*"Increased cost of borrowing may be the biggest constraint to effective safeguard implementation. But governments are starting to see that targeting cheap money can be counterproductive, as may be many hidden costs without a robust and effective safeguards framework being applied." - MDB*

*"Compliance with PDB standards imposes significant extra work for clients. It can also be challenging to work with authorities, especially when precedents are being created – can be concerns about the perceived high standards that will set a difficult bar for other projects." - SME*

*"The PDB decision-making process on investments can be overly slow and tedious, especially when multiple banks are involved on a given project. PDBs have a tendency to push for a literal application of safeguards without always considering practical constraints and development imperatives, which tends to slow down projects whilst resulting in marginal additional E&S benefits." - SME*

*"Challenge: convincing other stakeholders (less caring towards the environment) involved in the deal process that it's better to be proactive and do more now to safeguard nature rather than put commerciality first now and suffer later. It really does take time, capacity, and thus costs to address this in reality." - BDB*

#### 5.9.14 Data and metrics

Data gaps were highlighted by many interviewees as a challenge when implementing safeguards. For some parts of the world and for some taxa, biodiversity data remain limited. The very species that are often of most concern are those that are poorly-known, rare and with uncertain ranges and status. For projects covering large areas or long distances, like transmission lines, it can be unfeasible to collect adequate field data on all features of concern. And migratory, wide-ranging or nomadic species are often poorly mapped and documented.

Many interviewees also mentioned a dearth of suitable metrics for biodiversity, to assess against no net loss/net gain targets and to measure negative or positive impacts. Metrics for supply chains are particularly problematic. Although methods exist, it can be difficult to work out which is appropriate, and they are often data-demanding and require specialized knowledge to apply.

*"Metrics that others use are not so effective. Too complex or not representative, and hard for finance sector to grasp. From the scientific point of view the metrics do exist – but need a specialist to apply and interpret to measure the impact – e.g. the STAR metric seems very difficult to use in practice. The Global Biodiversity Score from CDC and ASN Finance Institutions Footprint measures looked promising at first, but the metrics are not very meaningful or easy to use for smaller banks." - MDB*

*"Biodiversity data is lacking for appropriate safeguard implementation. Lack of biodiversity data can make assessments of risks difficult." - BDB*

*"Supply chain safeguards hampered by inadequate data and reporting" - MDB*

*"There is a lack of indicators for measuring the outcomes of safeguard implementation after the investment." – MDB*

*"Metrics used by other banks are more difficult for us to apply, for example to small municipal projects that make up one big loan – we are not usually funding big agricultural projects." - RDB*

## 5.10 Offsets

Biodiversity offsets are the final step in the mitigation hierarchy, a last resort to compensate for residual impacts that cannot be avoided, minimized or restored. Offsets are sometimes seen as a mechanism to mobilise finance for biodiversity conservation (see section 6.4.3), but this is a misapprehension: if simply compensating for impacts elsewhere offsets are reducing harm but not enhancing conservation overall<sup>84</sup>. PDB safeguards require offsets to achieve 'net gain' in some circumstances (e.g., in Critical Habitats for IFC Standards), which arguably represents additional conservation investment, but what constitutes 'net gain' (as opposed to 'No Net Loss' for example) is not specified.

Offsets are an important element of safeguards frameworks. However, they face many design and implementation challenges. Studies of existing offsets have found that intended outcomes are often poorly achieved<sup>85</sup>, although there is little evidence yet of the effectiveness of offsets being implemented under PDB safeguards frameworks – as these have mainly begun to be implemented too recently to be assessed.

The expense and difficulty of implementing offsets, where these are a strict requirement, should encourage developers to do as much as possible to avoid and minimize impacts. Interviewees confirmed that this positive effect was visible with their clients. However, a number of interviewees

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<sup>84</sup> See for example Pilgrim & Bennun 2014 and Simmonds *et al.* 2019

<sup>85</sup> Brown & Penelope (2016)

also raised doubts about the feasibility of successfully implementing offsets, and the long time horizons they often involve relative to project timespans.

*"I am skeptical about biodiversity impacts offsetting and the Net Gain approach as per IFC PS 6. Not convinced that I have ever seen an offset project actually work; also these are typically not compatible with the short timeline of the investment cycle (offsets typically take much more time to materialize)." - BDB*

*"Offsetting can sometimes work when the right conditions are provided, in particular when the receiving ecosystem has enough resilience to support an offsetting project. Can cite two examples. A coastal wind power project involved the destruction of some mangrove habitats, but a mangrove rehabilitation / restoration project was designed and was highly successful. Elsewhere an agroforestry company has gone above and beyond certification commitments, with a forestry project developed over already-degraded land, and blended with conservation sub-projects." – BDB*

At present, offsets implemented under safeguards frameworks are stand-alone and not generally integrated into a national conservation plan or related to national conservation targets. In future, offsets would be much more effective if requirements were set in line with national conservation targets<sup>86</sup>, ideally set via nationally determined contributions to biodiversity informed by the post-2020 Global Biodiversity Framework<sup>87</sup>. This would also provide a framework for setting science-based targets for nature-positive investments. Developing this kind of framework is beyond the scope of PDBs but they may be able to support the processes involved.

## 5.11 Reporting and disclosure

### 5.11.1 Status

All the multilateral banks have disclosure requirements for project assessments both before and once funding is approved. This typically takes the form of at least a summary of the ESIA and (in some cases) environmental and social action plans being publicly posted online, as well as supervision audits performed by IESC. Document review indicated that routine disclosure is much less common among other types of PDBs (Figure 33).

*In-depth biodiversity report is publicly disclosed (upgrade from HCV assessment and alignment with PS6 requirements), Biodiversity Action Plan (BAP) and Biodiversity Management/Monitoring Plan - BDB*

*The negative impacts and the mitigation measures as well as positive impacts are summarised in the Environmental and Social Data Sheets, however these are not quantified. As of 2021, the positive impacts going forward will be captured in our reporting in line with sustainability taxonomy.- MDB*

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<sup>86</sup> Simmonds et al. 2019

<sup>87</sup> Maron et al. 2020

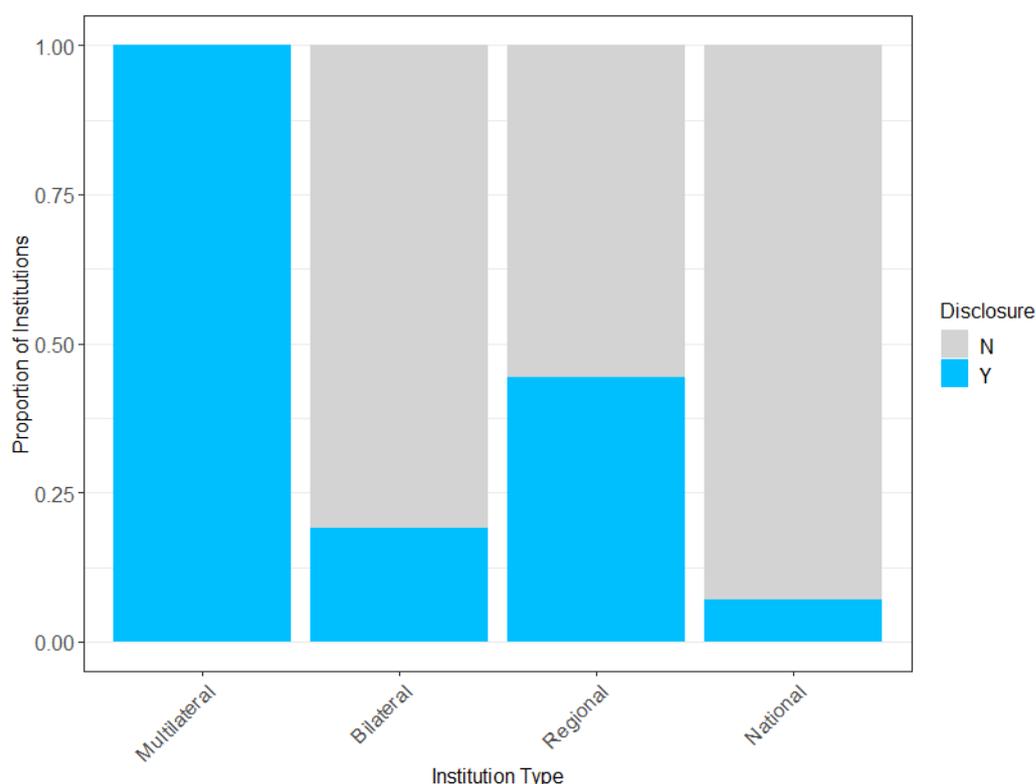


Figure 33. The proportion of reviewed banks that disclosed information on biodiversity impacts and/or risks, by bank type. (Multilateral N = 11, Bilateral N = 21, Regional N = 9, National N = 57)

Survey responses showed a similar pattern. Half of the PDBs responding to our survey (9/18, 50%), including all MDBs, disclose information on biodiversity risk with varying levels of detail. Slightly fewer (8/18, 44%) disclose information on actual or predicted biodiversity impacts, whether negative or positive. Disclosure is mainly via documents (or their summaries) produced through the standard ESIA and due diligence process.

Reporting of ongoing mitigation, impacts and outcomes – as opposed to one-off disclosure of assessments – appears to be limited at present. There is also weak reporting of impacts at portfolio level. This may relate to capacity and resource challenges for monitoring, and the perceived lack of easy-to-use methodologies for reporting biodiversity impacts.

*In general, PDBs are weak in reporting biodiversity impacts of financing at the portfolio level. - MDB*

*We are on a working group advising on how to report on biodiversity risk and what data to disclose. Currently no standards are in place and metrics and reporting tools (scores) are not very easy to use by the financial sector especially for non-specialists. - MDB*

*We use a Development Results Template - significant positive impacts are recorded there and feed into annual sustainable reporting but there are very few projects with metrics on biodiversity so hence little is ever fed upwards. Some dedicated green funds have focused on biodiversity but mainstream finance does not present with easy to report biodiversity metrics. - RDB*

*In our Sustainability Report we report quantitatively and qualitatively – though reporting could be improved and standardized. - MDB*

### 5.11.2 Task Force for Nature-related Financial Disclosures

Several PDBs (see Annex A) are involved in the Informal Working Group to develop this Task Force<sup>88</sup> (see box below), which follows the lead of the Task Force for Climate-related Financial Disclosures (TCFD). The Task Force aims to aid in the appraisal of nature-related risks and shift global financial flows towards nature-positive outcomes by providing a framework for corporations and financial institutions to evaluate, manage and disclose their dependencies and impacts on nature.

Few of our interviewees were yet aware of the process to set up the TNFD. Several are involved in the TCFD and noted the need to work through that process before engaging actively with further reporting requirements.

#### **TNFD – the Task Force on Nature-related Financial Disclosures**

Following publications highlighting the exposure of the financial sector to nature related risk, and realization that financial institutions are unable to fully identify, measure and manage nature-related risk<sup>89</sup>, a group of financial institutions have created an informal working group with a purpose to establish a Task Force for Nature-related Financial Disclosures (TNFD) – echoing to some extent the Task Force on Climate-related Financial Disclosures (TCFD).

With 73 members to-date, including leading public development banks, commercial financial institutions, government supervisory entities, and think tanks and consortia, the TNFD initiative is a unique opportunity to establish and adopt a common framework for assessing, and publicly reporting on, nature-related risks and impacts in portfolio investments. Widespread adoption of the TNFD should result in improving awareness and fostering pro-active leadership for nature-positive financing. This will in turn support a systemic shift in how financial institutions manage risk, moving capital away from activities that harm nature and toward those that support it at scale.

The key study developing the case for a TNFD made several specific recommendations for its development and operations<sup>90</sup>:

*A TNFD is essential to act as a global convening institution and accelerate action on nature-related financial risks by both creating unified reporting standards and offering resources for capacity building.*

*This should use the format and principles of the TCFD, building on lessons learned from its experience, while recognising that biodiversity is a much more complex issue and will require different approaches.*

<sup>88</sup> Support for TNFD's formation was given by the declaration, signed by 450 PDBs at the Finance in Common Summit, 2020.

<sup>89</sup> [WWF France & AXA 2019](#)

<sup>90</sup> [Global Canopy & Vivid Economics 2020](#)

*The primary aim of the TNFD should be to develop an international reporting standard supported by regulators and financial institutions. In doing so, it should also facilitate information sharing and accelerate international uptake of best practices among financial institutions.*

*Even before a TNFD is established, financial institutions can act now to reduce risk exposure and position themselves to capitalise on nature-related financial opportunities. Navigating the sustainable transition will define company and investor success and failure over the coming decade. Financial institutions can benefit from starting this transition now, with proactive institutions able to leverage nature-related financial opportunities by (i) building capacity throughout their organisation to measure and account for emerging risks and (ii) engaging with investee and client companies.*

The TNFD Informal Working Group (IWG) plans a two-year programme of work for the Taskforce, to resolve the reporting, metrics, and data needs of financial institutions that will enable them to better understand their risks, dependencies and impacts on nature. In collaboration with the corporate sector, reporting frameworks will be developed in 2021, and tested early in 2022 before being made available worldwide<sup>91</sup>.

The TNFD is a significant development. If successful, and if its standards are widely adopted and supported widely by PDBs, there could be numerous benefits – not just for PDBs’ own risk analysis, reporting and disclosure, but going far beyond:

- PDBs, thanks to their leadership and influence, have the potential to significantly raise interest from other financial institutions and businesses into TNFD, thus fostering widespread adoption and implementation by a meaningful number of public and private stakeholders across the global economy.
- Being supported by an array of internationally credible financial institutions and other stakeholders, TNFD will provide a solid framework for analyzing, reporting upon, and addressing, nature-related risk exposure in the portfolio, therefore limiting the effort required from other PDBs or institutions to design their own risk assessment and reporting system.
- Widespread implementation of TNFD will allow for the sharing, comparison, benchmarking of data on nature-related risks and investments, allowing to frame a common understanding of the landscape for nature investment, and supporting the ongoing definition of ambitious targets for positive change.
- In certain circumstances or regions of the world, TNFD has the potential to influence regulatory frameworks for reporting, publicly disclosing, and addressing nature-related risks, thereby creating a regulatory incentive to address these risks for financial institutions and businesses alike.

Recommendations published by the co-chair of the Informal Working Group on TNFD, Global Canopy<sup>92</sup>, note that *“Even before a TNFD is established, financial institutions can act now to reduce risk exposure and position themselves to capitalise on nature-related financial opportunities. Navigating the sustainable transition will define company and investor success and failure over the*

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<sup>91</sup> [Bringing Together a Taskforce on Nature-related Financial Disclosures n.d.](#)

<sup>92</sup> Global Canopy and Vivid Economics (2020)

*coming decade. Financial institutions can benefit from starting this transition now, with proactive institutions able to leverage nature-related financial opportunities by (i) building capacity throughout their organisation to measure and account for emerging risks and (ii) engaging with investee and client companies".*

## 6 Financing green: investing in nature

### 6.1 Key findings:

1. Financing Green is in its infancy.
2. The nature-based solutions (NbS) sub-set of climate finance presents the largest opportunity for nature positive finance.
3. Despite evidence and international declarations to increase funding for NbS as an integral part of climate solutions finance, NbS projects form a very small proportion of such finance. Climate finance itself is still a small fraction of overall PDB lending portfolios that is not yet proportionate to the Paris Agreement.
4. By 2019, the total value of climate finance assets among the eight largest MDBs summed to \$166 billion. This represents solid growth that looks set to continue, but still represents a small proportion of overall finance portfolios. In order to achieve either climate or nature goals, PDBs will need to align their entire portfolios with such goals.
5. Although still a small fraction of overall investment portfolios, there is a rapidly growing demand for impact investing focused on nature-positive outcomes. The 'supply side' of investment-ready 'bankable' nature positive projects is not yet well developed enough to enable societal or Bank aspirations to scale up nature positive financing
6. PDBs have a clear potential role as matchmakers between nature positive projects and a range of investors.
7. The establishment of Natural Capital Lab units within PDBs as incubators for innovative financing for nature (e.g. IDB followed by ADB, and EIB's Natural Capital Financing Facility<sup>93</sup>) is a promising development that could have large leverage potential.
8. Scaling-up is a major challenge facing biodiversity positive investments. They are not direct, traditional business for PDBs and are widely perceived as risky, low return, high transaction cost, and with long lead-times for financial returns due to socio-ecological dynamics. A key reason is there are presently no markets for many of the biodiversity stocks and ecosystem services flows that make up natural capital.
9. There are technical challenges in measuring and demonstrating biodiversity value, and in aggregating small investment units and bundling benefits, with as yet limited data or scalable metrics.
10. Some respondents considered that transition investments in existing industries (e.g., in large-scale regenerative agricultural supply chains) could play a key part in mainstreaming global biodiversity goals within PDBs, as a more rapidly scalable complement to investments in innovative nature-positive business models (e.g., ecosystem restoration to reduce disaster risk, linked to reduced insurance premiums).

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<sup>93</sup> [EIB nd](#)

11. NbS is the biggest single nature-positive investment opportunity class, yet it lacks both an appropriately tailored risk appraisal and rating process, and adequate development of intermediaries to aggregate projects and reduce transaction costs.
12. Interviewees were generally circumspect about the possibility of rapid scaling up in nature positive finance, given the substantial constraints to overcome.
13. Notwithstanding the technical challenges, PDBs' setting goals for nature-positive financing, plus disclosure of progress towards these, would accelerate mainstreaming and drive innovation.
14. Banks could also facilitate growth in their nature positive portfolios through developing and publicising clear criteria for bankable nature-positive investments in terms of scale, returns and safeguards.

## 6.2 Context

Green financing consists of channeling investment flows towards projects, businesses, and assets that have the potential to positively support the achievement of Agenda 2030 and the Sustainable Development Goals (SDGs)<sup>94</sup>. It involves combining an economically pragmatic and sustainable business, with the delivery of 'green' benefits being an integral core component and justification. As opposed to 'greening finance', 'financing green' entails not only mitigating potential negative environmental or social risks and impact, but also generating positive returns and accountability in environmental and social sustainability. The key instruments used for "financing green" are described in Annex B.

A barrier to 'financing green' is that the environmental and social benefits generated by the activity may be perceived to be detrimental to productivity, competitiveness, or financial returns. As a typical example, and in contrast with intensive agriculture aimed at achieving maximum production at minimum cost, green agriculture involves re-thinking intensive production techniques, avoiding deforestation and wherever possible supporting re-forestation, rationalizing (or wholly avoiding) the use of agrochemicals, reducing pressure on water resources, growing strains of crops which are robust and adapted to the local environment, securing ethical work conditions, equitable pay for workers, etc.

Green business may also include nature restoration through reforestation or mitigating land degradation and soil erosion; infrastructure that preserve and sustain natural water resources; substitution of greenhouse gas-intensive activities by the activities with neutral GHG balance; nature conservation and sustainable natural area management, etc.

Projects and business in the green economy are often developed and proposed by innovative entrepreneurs and may involve project structuring that differs from conventional activities in the 'grey' economy - including decentralized project locations, collective / collaborative project

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<sup>94</sup> Green financing focuses particularly on SDGs 13-15 on climate action, life below water and life on land. However the SDGs are all interconnected and to be achieved in unison. Achieving SDGs 13, 14, & 15 is a precondition of achieving all others and *vice versa*.

development involving communities, civil society, and other partners, often at limited scale. As a result, green projects do not match the typical risk rating criteria generally used in the finance sector, focusing on ease of project implementation, financial viability of the business model, and as-low-as-possible risk of default. These are amongst the reasons why green investments mostly remain limited to innovative pilot projects, small-scale sustainable agriculture or agroforestry, and reliance on nature-based solutions. These are still mostly funded through philanthropy, grants, and highly concessional loans.

As a result, financing of nature-positive projects and investments by PDBs remain marginal – with the more mature development finance institutions dedicating only a few percentage points of their yearly investment figures. Overall yearly financial flows towards ‘green’ activities are estimated by the Paulson Institute’s report, *Financing Nature (2020)*, at less than 45 billion dollars per year (see breakdown in Table 4)<sup>95</sup>.

*Table 4. Financial flows towards ‘green’ projects and investments (from Deutz et al. 2020)*

<b>Project / investment type</b>	<b>Annual investment (USD)</b>
Natural infrastructure	27 billion
Sustainable value chains	8 billion
Green financial products	6 billion
Philanthropy and conservation NGOs	3 billion
Nature-based solutions and carbon markets	1 billion

### 6.3 Banks financing green

Figure 34 contrasts the proportion of banks making investments directly versus indirectly benefiting nature (including loans, equity and grants). The majority of MDBs had at least some direct investment in biodiversity but relatively few other institutions did so. The majority of MDBs, BDBs and Regional Development Banks have some investments with potential indirect benefits on biodiversity, but only a few national level development banks did.

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<sup>95</sup> Deutz et al. 2020

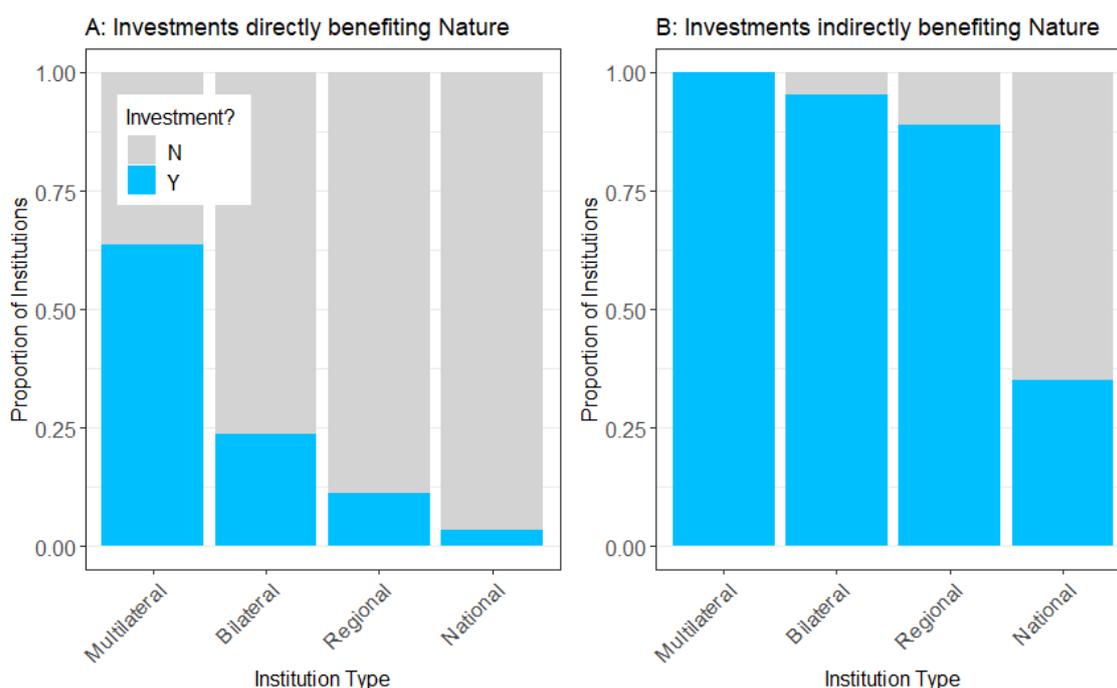


Figure 34. The proportion of reviewed banks conducting (A) direct investment in biodiversity, and (B) investment that might indirectly benefit biodiversity, split by type of bank. (Multilateral N = 11, Bilateral N = 21, Regional N = 9, National N = 57.)

## 6.4 Nature-positive finance: survey findings

### 6.4.1 Conducting nature-positive financing

Survey findings are presented here for context; as there were a relatively small number of respondents these findings should be treated as anecdotal rather than broadly representative of the sector.

Overall, 11/22 respondents stated their organizations are involved in nature positive financing, and 6/22 that they are not. In all cases, respondents indicated that the percentage of financing that was directed towards nature was less than 10% (including grants and technical assistance as well as loans and equity). This included respondents from multilateral, bilateral and regional banks, but no respondents from national banks.

Of the nature positive financing, estimates of how much was directly relevant for biodiversity varied from more than 50% to less than 1%.

These directly relevant investments included (according to the 11 participants from organizations involved in nature-positive financing):

- Support to Protected Areas (5 respondents)
- Other ecosystem or species protections (6 respondents)
- Ecological restoration (7 respondents)
- Promoting sustainable natural resource use (9 respondents)
- Payments for conservation or ecosystem services (4 respondents)

- Biodiversity-friendly commodities (6 respondents)
- Law enforcement (4 respondents)
- Research and/ or monitoring (2 respondents)

There appears to be a focus on types of investment that can more easily generate a return (e.g., bio-friendly commodities, promoting sustainable natural resource use).

Indirect nature positive investments included (according to 11 respondents):

- Climate change adaptation (11 respondents)
- Climate change mitigation (10 respondents)
- Disaster risk reduction (7 respondents)
- Environmental restoration (7 respondents)
- Regenerative agriculture and/or food security (7 respondents)
- Water security (11 respondents)
- Human health (6 respondents)
- Sustainable livelihoods (7 respondents)
- Assurance of PS3/PS4 commitments (1 respondent)

A strong focus of indirect investments appears to be on climate change adaptation and mitigation as well as water security.

*"We have in place the Natural Capital Financing Facility. It will also be progressively increasing its financing to nature as part of its new E&S commitments" - MDB*

*"All our investments do have a direct and indirect nature positive financing by ensuring compliance with PS6 requirements." - MDB*

*"We have little capacity to follow up if the assumptions made actually did result in positive outcomes - it depends on whether the bank could insist on clear targets and indicators and methods of reporting and under bid contexts this is difficult. If safeguards were included then all banks would insist and it would level the playing field." - RDB*

#### 6.4.2 Rates of Return

Of PDBs that conduct nature positive financing, 5/11 respondents suggested that expected rates of return varied according to context. One respondent indicated positive returns are expected but at lower than commercial rates, and 2/11 stated that there is no set requirement, and returns may be negative.

Comments indicated that a key issue is that the market does not really exist for the scaling up of nature positive financing.

#### 6.4.3 Financial Instruments

A range of financial instruments were used by PDBs for nature positive financing (Table 1). Some larger MDBs used a full suite of financial mechanisms (see table below). Larger banks appear more

likely to use innovative financing mechanisms and targeted investment in conservation businesses.

*Table 5. Types of Financial Instrument used for Nature Positive Financing by PDBs (survey responses, N=22, of which N=11 were engaged in some form of nature positive financing)*

<b>PDB Type</b>	<b>Multilateral</b>	<b>Bilateral</b>	<b>Regional</b>
Private loans and/or equity linked to positive environmental outcomes	5	1	0
Public loans linked to environmental programs	6	1	0
Investments integrating Natural Capital Accounting	4	0	0
Targeted investment in conservation businesses	4	1	0
Financial guarantees or risk insurance (blended finance)	6	0	0
First loss or other concessional capital (blended finance)	4	0	1
Technical assistance funds or project preparation grants (blended finance)	7	1	1
Green Bonds or Sustainability Bonds	5	1	1
Pay for success structures (i.e., social impact bonds)	2	1	0
Grants	5	1	2
Leveraging debt conversion for nature conservation (debt-for-nature swaps)	2	0	1
<b>Total responses</b>	<b>7</b>	<b>2</b>	<b>2</b>

#### 6.4.4 Blended Finance and Tagged Finance

Three of the 11 respondents from organizations using nature positive financing state that over 50% of their nature positive financing is blended finance, three gave the figure as 1-10%, while 5/11 indicated they did not know.

#### 6.4.5 Tracking nature-positive investments

In terms of tracking nature-positive investments, very few banks (2/11 respondents in our survey) use the Rio Markers<sup>96</sup> (OECD DAC codes), a very high-level rating, as labels for the biodiversity-related scope of an investment. Two others use a sustainability taxonomy that they feel provides greater granularity.

#### 6.4.6 Intentions in future

10/22 respondents state their PDBs intend to start or increase the use of nature positive financing in future. This includes MDBs, Bilateral, Regional & national banks. 8/22 respondents said they do not know. 4 respondents said their organizations are not planning to increase these investments in future.

<sup>96</sup> See for example OECD 2018

Of those saying yes:

*"We need to deliver on InvestEU, cited in the EU Biodiversity Strategy 2030 and the EU Green Deal. Requires new commitments to 2025 and 2030 on environment sustainability." - BDB*

*"Driven by key individuals in management." - BDB*

*"Need to upstream, and de-risk the sector, and meet our new strategy." - MDB*

Of those saying no:

*"Lack of nature positive framework of DFI community level / little awareness and expectation on that front at shareholder level." - BDB*

*"This is not our mandate"- BDB*

*"We are working on a bioeconomy line of credit with an MDB" – NDB*

#### 6.4.7 Constraints and Challenges

There was high variation between responses (Figure 35), with all potential constraints receiving some high and some low scores. Availability of suitable investment opportunities is a consistently key constraint that emerges in the responses i.e., there is not currently a well-developed supply side of the market to scale up nature positive financing.



Figure 35. Survey respondents' mean scores for constraints facing nature-positive financing. Scaled from 0 – no constraint to 10 – very significant constraint. Error bars = standard deviation, N = 22.

## 6.5 Interview findings

The interview findings were broadly aligned with the survey findings presented above.

### 6.5.1 Interviewees overall opinions on the scale and opportunities of impact investing for biodiversity

Respondents generally agreed that financing green for biodiversity is in its infancy, still at an experimental stage and the magnitude of funds is tiny, and even climate funding (which, if nature-based solutions are used may be able to have biodiversity co-benefits) is far smaller than mainstream funds.

*"There may be more money going to climate than to biodiversity, but still tiny amounts when compared to the funds that are changing landscapes – this highlights the need to 'green up' other finance. Climate finance can help with the benefit stacking ...but not at sufficient scale to fix biodiversity issues – still very small – GCF has had around \$17 billion since set up, which in relative terms is negligible" (MDB)*

Respondents' opinions about the potential scale and opportunities of financing green varied but was generally much nuanced. Some individuals were very positive about opportunities for impact investing, and focused on the possibility for PDBs to act as 'match-makers' to broaden the spectrum of investors linking to projects.

*"There is increased awareness and willingness for impact investing, the growth is just truly rapid. There is a good awareness on the investors' side on the need to take urgent action for climate and biodiversity." (BDB)*

*"We have projects coming to us with a pitch ... we do the matching [to our investment team] – previously there was not one person's job to do this, now we do" (MDB)*

However, interviewees were more often quite circumspect about the potential for significant scaling-up. Several respondents acknowledged the value of individual initiatives for financing green (e.g., the now well-known Rhino Bond), but highlighted that biodiversity-focused funding may remain a relatively 'niche' part of overall funding:

*"Biodiversity is not 'directly business'. Like for example, climate directly links to the business by renewable energy investments. [There is] no business model yet for biodiversity." (BDB)*

*"Simpler and easier to make money through climate change, especially off big infrastructure projects." (SME)*

This may be due to supply limitations:

*"The awareness and money are there, essentially but the projects/investments are not yet ready. Either quantity wise, or quality wise, they are not yet commercially viable. In addition, sometimes when there are some projects, they are too small in terms of ticket size to be eligible for PDBs"*

*financing. This would lead to a too high of a transaction cost compared to the size of the investment.” (DBD)*

...or due to the many challenges with developing impact investments discussed in subsequent sections. These respondents therefore emphasized the need to focus on improving existing finance:

*“Regenerative agriculture has potential to scale up – and this kind of work does need transitional finance, supported by public sector. But that’s really not about making a profit off biodiversity, but doing things better to reduce harm and biodiversity. This seems to be the way to make real change, rather than trying to find profit everywhere.” (SME)*

...and some worried that over-optimism about the opportunities for profitable nature positive investments could actually be counterproductive:

*“[I have a] concern that this has been dangled in front of countries, as “this is the way out - the private sector will save you”, and they’ve fixed on that – which is dangerous because biodiversity is a public good for the most part, and you are not going to generate a profit out of most aspects of biodiversity or its conservation.” (SME)*

The overall finding therefore is that professionals involved (or considering involvement) in developing positive impact investing for biodiversity are notably more circumspect than is common in the broader literature<sup>97</sup>. Below we explore some of the particular challenges leading to these assessments.

## 6.5.2 Economic challenges

The commercial realities of delivering sufficient financial returns by financing green were a key theme cited by multiple interviewees. The challenges cited included:

- **Limited returns:** *“profit margins are small, risks high, not easy.” (National)*
- **The long lead-time for nature positive investments**, particularly where complex governance arrangements for PES or green bonds were required – *“Typically 5-10 y of upfront investment and preparation before revenue comes on stream.” (SME)*. This was perceived by multiple interviewees as creating a significant opportunity cost : *“[The] gestation period of projects is long which means a high opportunity cost of cash & capital (an investor will prefer ‘easier’, ‘shorter lead time’ investment opportunities)” (BDB)*.
- **Difficulty de-risking investments**, for either public funds : *“De-risking is challenging – public institutions don’t like to take the first loss piece if other DFIs are also involved. Riskier projects typically need 20% protection minimum before private sector investors willing to come in – which is considerable for the size of projects being funded.” (MDB)* *“There is limited concessional capital out there” (MDB)*, or private funds *“Where concessional finance leverages commercial debt or equity, the gap is really insurance and guarantees.” (SME)*

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<sup>97</sup> For example see Deutz et al. 2020

- **A narrow range of economically viable business models:** “[We] still see the default to simplistic and often unfeasible business approaches such as “ecotourism”. There is need to professionalize nature-based business and not assume that just because communities are stewards for nature they are going to be effective private-sector entrepreneurs at the same time.” (MDB). This was seen by many interviewees as a more fundamental challenge than challenges with de-risking, for example: “There is still this problem of profitability of the business, it needs to be there. Blended finance of course can help to reduce risk, but it doesn’t have direct impact on the commercial terms on the business as such. The more crucial part is how to make biodiversity a commercial business model.” (BDB)

The combination of these factors meant that interviewees felt that existing financial incentives for financing green were unlikely to drive them to scale, and significant political and policy interventions would be required to encourage scaling up, but that with political will there was significant potential to scale rapidly.

*“Nature-positive investments are typically long-term, perceived to have a small return on investment (if any at all), are small scale and involve multiple participants, and not perceived that favourably in terms of credit risk. This leaves PDBs with very limit margin for action: difficulty to overcome the perception of investment risk tends to confine nature-positive investments instead of facilitating mainstreaming. ¶ Therefore, there must be a strong political drive to channel PDB investment towards nature-positive investment.” (BDB)*

*“Having a specific institutional target [for nature positive investments] would make a big difference!” (MDB)*

*“Having specific indicators – would explosively change [the number of projects]” (MBD)*

### 6.5.3 Policy and capacity challenges

A lack of policy support, both within PDBs themselves, and within countries of investment was frequently cited as a major challenge.

*“PDBs receive a mandate from their governments; this is focused on developing infrastructure, supporting SMEs, making the economy function. At the moment there is a very low level of mainstreaming of nature by PDBs. This is largely due to insufficient political leadership from supervising entities / governments.” (BDB)*

*“Another challenge for upscaling investment is lack of government support. At this point, there is a certain type of resistance towards loan-type facility used for climate/nature financing. Main challenge for scaling up investment for biodiversity would be leadership ... political leaders or decision makers are still focused on economic growth, environment is still very much deprioritized.” (MDB)*

*“Government resistance or lack of understanding is a challenge. One of the key factors constraining DFIs from moving to a more nature-positive approach lies in government resistance or lack of understanding to having nature considerations embedded into their public policies. Focus still very much on ‘political funding/financing’ – what are the needs of the country to meet their basic needs*

*(i.e., alleviate poverty). Biodiversity/nature considerations are lower on their agenda than what DFIs are expecting.” (MDB)*

These policy issues also resulted in legal challenges, about ensuring property rights for investments, which negatively affected the potential availability of investable projects.

*“Major challenge here for banks and financial services – there isn’t a good robust pipeline of investable projects. The regulatory framework is a challenge in many places. Issues of how to regulate natural capital – who owns it, who can use it – related to land tenure etc.” (MDB)*

PDBs’ Internal incentives and capacity were also cited as a significant challenge as nature positive investments took time and resources.

*“These investments are generally small however structuring the deals takes longer than the average time for a large infrastructure project and is very resource intensive. Therefore, loan officers are not keen on supporting such operations as the incentives of the institution have not changed (even with the new commitments) which is business volume.” (MDB)*

#### 6.5.4 Technical challenges

Multiple interviewees emphasised the technical challenges of financing green. The most frequently mentioned challenges were metrics and issues of scale and bundling.

*“Challenges with nature-positive projects/nature-based solutions include (a) defining and bounding the asset to enable investment, (b) bundling smaller projects together to make investable bundles, (c) planning linked projects at a landscape scale to ensure coherence, (d) ensuring the necessary shifts in policy and stakeholder resource-use – which is beyond scope of a private investor, (e) measuring positive project impacts.” (Private)*

Metrics were repeatedly mentioned as a major technical blocker for being able to demonstrate the value of a particular investment.

*“We need metrics for measuring biodiversity impacts and values. Without it biodiversity will struggle to be mainstreamed.” (MDB)*

*“Some technical things that could help considerably – including better metrics” (SME)*

*“Lacks proper consensus on metrics and taxonomy” (BDB)*

*“[Our MDB] doesn’t detect any pressure to report more on outcomes. And I can’t see how we could do that at the moment – because the consistent metrics aren’t there. STAR metric holds promise. But need to agree on a consistent set of simple and practicable metrics.” (MDB)*

However, some emphasized that it was important to have targets of some kind, even if the metrics to measure performance were not yet perfect, and that progress could be made even with the metrics currently available.

*"Metrics are a challenge at the moment. Encouraging them to set interim targets to show the direction of travel – work towards bending the curve even without perfect metrics." (SME)*

*"Because we don't have the measurements, what commitments we can make as DFIs on these topics (biodiversity/nature)? ... everybody is wary of committing to something when they don't know what it really means to their portfolio. There's a general strategy of 'let's just make the commitments and see what happens'. The measurement, no one has the full picture yet so we shouldn't hold us back from actually doing something. We have to start somewhere." (BDB)*

A second common theme was that many nature positive projects were small-scale and unfeasible for a PDB to finance due to the high transaction costs of identifying many individual projects to reach an economically attractive scale.

*"Nature positive projects are not big enough to attract investment, they need to be part of a larger initiative to scale-up investment across multiple individual projects." (SME)*

*"... financing for green faces the challenge of pipeline, there is not enough investable/bankable 'green' investments or that they are really hard to find so would take too much time to identify (high transaction costs)." (MBD)*

*"Finding projects hard, especially large ones. Projects are typically very small and need to be bundled. ... To effectively finance and mainstream NBS need to develop larger-scale investment programmes into which they can be wrapped – ie integrate them into broader investments." (MDB)*

### 6.5.5 Catalysing nature-positive investments

Recognising the challenges to scaling up nature-positive investments, and the need for new thinking and approaches, some PDBs are setting up units to drive innovation in this area. A notable example is IDB's Natural Capital Lab (see box). ADB is in the process of setting up a similar lab. These are promising ventures but as yet only pilots, supported by seed money that is a very small proportion of the total investments of their PDBs.

#### **The Natural Capital Lab at IDB**

IDB's [Natural Capital Lab](#) was set up to drive innovation in nature positive financing. It bridges the gap between the environmental and finance sectors and works to incubate, accelerate and scale new solutions. The Lab uses blended finance and a risk-tolerant approach to implement projects across all parts of the IDB Group.

The financial innovation activities of the lab "funding in the form of grants, loans, equity, risk capital, or guarantees" to a range of activities, include testing new models, creating enabling regulatory frameworks, identify and support entrepreneurs, link projects to finance, and experiment with investments base on natural capital valuation and risk.

The lab also undertakes strategic dialogues and develops partnerships with global initiatives, finance ministries and international actors (such as the CBD) to promote innovation and position natural capital as a driver of development.

## 6.6 Biodiversity and climate finance

### 6.6.1 The role of PDBs

Our findings from surveys, interviews and literature review show that PDBs and international development finance institutions are critical actors in any action on climate change, particularly in emerging economy contexts. They have control of the flow of financial capital into many nationally-significant projects that can result in a negative or positive effect on climate action and can either enable or stem any transition to a 1.5°C-aligned economy<sup>98</sup>. These institutions can also make a significant contribution to building capacity – institutional, technical, knowledge – on climate positive policy both for public institutions and private market participants<sup>99</sup>. However, much of the research literature is unanimous in signaling that for these banks to play a transformational role, they need to do more to integrate climate goals into underlying development objectives, better align their overall portfolios with the Paris Agreement, and scale up efforts to unlock climate positive, nature-based solutions in commercial investment<sup>100</sup>.

Despite the barriers, climate finance is a significant asset class for PDBs. In the 2019 review of climate finance by the eight largest development banks (i.e. AfDB, ADB, AIIB, EBRD, EIB, IDBG, IsDB and WBG), approximately US\$66.6 billion had been committed to climate finance, of which 76% is for climate change mitigation finance, and 24% for climate change adaptation finance. Existing investment portfolios in climate finance and climate co-finance now total more than US\$165 billion<sup>101</sup>.

During the survey, most interviewees clearly placed climate as a top priority in their PDB's investment focus. Most international development finance institutions have phased out the financing of fossil fuel power generation, except under some specific circumstances. In the wake of the Paris Agreement, ambitious targets have been set to dedicate a significant share of the yearly investment (sometimes up to 50%, as for AFD) to climate change reduction and adaptation related projects. Significant progress has been made in mainstreaming the imperative to address climate change in the PDB's investment strategy, with significant effort being dedicated to identifying, designing, and effectively closing climate-related investments.

Nonetheless, many PDBs continue to invest as much in fossil fuels as they do in energy-related climate finance, especially domestic-focused PDBs, and in particular in countries that rely on domestic fossil fuel resources for domestic power generation or export. Furthermore, in some cases, what is defined as standalone climate finance actually consists in existing investment, bundled under a climate focused portfolio banner<sup>102</sup>.

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<sup>98</sup> WWF 2020c

<sup>99</sup> OECD 2018; AfDB *et al.* 2019

<sup>100</sup> Thwaites 2019; AfDB 2019

<sup>101</sup> AfDB *et al.* 2019

<sup>102</sup> Wright *et al.* 2018

Perhaps the most useful summary analysis of both the opportunity and the challenge of scaling up climate finance is the review undertaken by WRI <sup>103</sup>. Their findings can be summarized as follows:

- Climate finance commitments by financial institutions continue to grow.
- Development banks are now paying attention to adaptation finance and managing climate risks associated with new and existing infrastructure loans (although the proportion of investments that consider this varies widely between banks).
- Many development banks are showing signs of struggling to scale up their climate funding, with the mobilisation of private investment for climate an ongoing challenge.
- Most development banks still need to meet their 2020 targets and set post-2020 goals. As of 2019, ABD, AfDB, EBRD and IDB had still to meet existing 2020 targets, set in 2015.
- Development banks need to align their entire portfolios with climate goals. It is not enough for financial institutions to scale up 'green' activities. They also need to cease investing in high emissions activities driving the climate crisis.

Inclusion of biodiversity finance targets within targets for climate finance is one potentially powerful way to scale up nature-positive investment, including through nature-based solutions (see section 4.5.1 and the following section). Although few PDBs have yet set such targets, there are some encouraging signs. For example, at the One Planet summit in January 2021, AFD announced the goal to devote 30% of its climate funding to efforts to foster biodiversity by 2025.

## 6.6.2 Nature-based solutions offer the opportunity to benefit nature and climate

Nature Based Solutions (NBS) are approaches that seek to protect, sustainably manage, and restore natural or modified ecosystems, addressing societal challenges effectively and adaptively, and simultaneously providing human well-being and biodiversity benefits (IUCN 2020). NBS are frequently used to address climate change mitigation and adaptation and by definition come with co-benefits. NBS provide opportunities for offsetting negative impacts created by non-biodiversity focused impacts (e.g., by investing in mangrove restoration as part of the overall environmental and social action plan (ESAP) for a coastal wind power project). NBS also represent an interesting emerging asset class for development banks and commercial banks alike that appears to provide many "win-win" opportunities for both climate and biodiversity<sup>104</sup>.

However, there remains a range of challenges and potential barriers to scaling up NBS to the level required to be a significant contribution to the level of action to tackle the climate and biodiversity crises.

Development finance has historically been tended to favour investment into "conventional" industry practice; for example 'grey' rather than green infrastructure' and large scale conventional agriculture. This model has typically favoured large investment "tickets" assigned to clearly-

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<sup>103</sup> Thwaites 2019

<sup>104</sup> Mackinnon *et al.* 2008

identified and well-established beneficiaries, with direct control over the proposed project or portfolio. This provides comfort on the beneficiary's ability to develop and implement the proposed project, secure effective disbursement as per the loan agreement, and generate appropriate returns in terms of development - such as contributing to local wealth and livelihoods, economic growth, and/or the improvement of social infrastructure and services. In doing so, PDBs apply conventional investment appraisal processes, focusing on financial indicators, economic returns, and short-term default risk - seeking to maximise "development efficiency per invested dollar".

Unfortunately, this conventional investment portfolio design approach applies poorly to NBS-based projects, which are often innovative and non-conventional in nature, proposed by "young" and less well-established project entities, involving small investment "tickets" and relying on collaboration amongst a range of stakeholders such as local communities, farmer cooperatives, etc. These have been so far preferentially considered as candidates for grants, technical assistance, philanthropic investment, or "small" loans, with a more long-term perspective to allow time for socio-ecological dynamics to develop. As a result, whilst many PDBs have recognised the importance of NBS as part of new investments, they do not have a consistent policy approach for how best to consider and value in new project screening, or ongoing investment governance.

### 6.6.3 Covid-19 recovery finance

The Covid-19 pandemic has been clearly linked to destruction of nature, highlighting the importance of nature conservation for human health and wellbeing, as well as the global economy<sup>105</sup>. At the Finance in Common summit in November 2020, PDBs pledged to unite their efforts for a green recovery from the pandemic.

*[With COVID-19 finance] we have the opportunity to shift the way projects are being funded, green growth is made more mainstream for borrowers. – MDB*

*The opportunity to use COVID-19 finance to benefit of people and nature was weak because the team that worked on this did not engage the environmental specialists in the bank and rushed in to a whole lot of stuff that could and should have been more carefully analysed – RDB*

Nearly all survey respondents (20/22 respondents, 16/18 institutions) indicated their organizations are providing funds to help with recovery from the COVID pandemic. Of these, 8/16 institutions indicated these investments will include funding related to tackling climate change, and 6/20 (all from MDBs) indicated investments in nature and biodiversity would form part of the package. However, several of these respondents explained in comments that while funding would be subject to the usual safeguards, including consideration of biodiversity risks, it would not explicitly target biodiversity or climate change objectives.

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<sup>105</sup> [UNEP & ILRI 2020](#)

*“Support to climate change and biodiversity is by virtue of all investments being subject to our policies which encourage consideration of risks. Not aware of Covid-19 financing explicitly targeted at biodiversity or climate change objectives, other than would occur at any other time.” - MDB*

Interviews established that where PDBs have established emergency rescue facilities for clients, these are focused almost entirely on social and health aspects – not nature. That is to be expected in terms of the immediate emergency, and future recovery funding might be structured differently. However, some interviewees felt that the pandemic response was undermining existing protections for nature, and that little or no recovery finance would go towards the environment in the longer-term.

*“We are shifting from COVID Rescue to COVID Recovery - with the hope to help support sustainable recovery including climate and biodiversity ends” – MDB*

*[The pandemic] has enhanced people’s understanding of what nature does for humans and hence tends to raise awareness of nature conservation imperatives. - BDB*

Two interviewees pointed out that while the large increase in sovereign debt to fund emergency measures is problematic, it also may mean sizeable new opportunities or debt-for-nature swaps in the near future.

More directly, the pandemic is of course having a significant impact on PDBs’ work to assess and monitor projects – field-based work and international travel have become impossible in many cases. That has caused high-risk projects in particular to be paused until due diligence can be done. Respondents suggested that this is also changing work patterns in positive ways that may potentially reduce PDBs’ own environmental footprint through reduced travel in future (though it may be too early to judge).

*The way we do business has changed. There is less field work. Usually, we would go 3-4 times a year and about 10-15 people would fly each time. We’ve definitely reduced our emissions and carbon footprint. We’ve changed the way we monitor and the way we deal with projects. We’ve started building better file repositories. It has become much easier to set up meetings. The negative side is that implementation of projects in the field has become very difficult. - MDB*

*Now with Covid-19, the role of remote tools like IBAT is really important - BDB*

## 6.7 Perspectives and opportunities

There are many initiatives and a growing range of new and established mechanisms for increasing financial flows for nature (listed in Annex B). However, this financing remains relatively small-scale and patchy.

While the broader literature emphasizes that there may be great potential – as yet mainly unrealised – for scaling up nature positive investment<sup>106</sup>, interviewees for this survey were

<sup>106</sup> See for example Deutz *et al.* 2020, Credit Suisse *et al.* 2014 and Credit Suisse & McKinsey & Co. 2017

generally significantly more circumspect. While some emphasized the potential to scale up given sufficient prioritization (for example through specific targets and KPIs), others emphasized significant challenges mentioned above, focusing around the financial fundamentals of nature positive investments, lack of standardized and widely-accepted metrics, the small-scale of many potential investments and consequent high transaction costs, and regulatory and policy challenges.

## 7 Tools and methods to support greening finance and financing green

### 7.1 Key findings

We identify six key trends in biodiversity data availability of particular relevance to PDBs:

1. More varied, more precise and more useable data layers;
2. Practical tools for portfolio- and corporate-scale biodiversity assessment;
3. Practical metrics for assessing biodiversity opportunities as well as impacts;
4. Integrated availability of climate and biodiversity data;
5. Standardised tools and processes for demonstrating alignment with societal goals for biodiversity;
6. Standardised tools for reporting and disclosure of biodiversity performance.

### 7.2 Context

The previous two chapters considered current practice and challenges for both greening finance and financing green. In particular, the [Integrated Biodiversity Assessment Tool \(IBAT\)](#) portal, which provides commercial access to key data layers such as the IUCN Red List of Threatened Species and World Database of Protected Areas, remains a staple of biodiversity risk assessment for PDBs, and a variety of other tools are already in use (section 5.8).

However, an increasingly large range of additional biodiversity metrics and tools is available, enabled by increasing amounts of primary biodiversity data as well as increasing data on other aspects of nature, like carbon sequestration potential. Some of these have significant potential to help PDBs improve the biodiversity performance of their activities. This chapter therefore takes a forward-looking perspective and focuses on identifying opportunities for PDBs to adopt tools to improve performance in both greening finance and financing green.

Given the large number of tools and metrics<sup>107</sup>, a number of initiatives have summarised and categorised the available tools to provide a manageable overview for business (see box).

Rather than duplicate those reports, we provide an overview of six key trends in tool and metric development that have particular potential for improving the biodiversity outcomes of PDBs' activities, because they help address some of the challenges identified elsewhere in this report. These six trends are inter-dependent, and should be considered together.

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<sup>107</sup> For example the TradeHub project has compiled [a list](#) of over 50 different biodiversity measures and models relevant to agricultural commodities alone (WCMC / Tradehub 2020) and a recent review found more than 250 different actively used indicators for birds alone (Fraixedas *et al.* 2020.)

As the examples below will show, there is rapid innovation in this field; we highlight some of the most promising initiatives to show the direction of travel and hopefully, illustrate what is possible for PDBs. However, the list is not exhaustive, and should not be taken as necessarily providing endorsement of these particular tools.

The main conclusion of this chapter, is that this rapid improvement in data availability means that PDBs can significantly 'ratchet-up' expectations of the level of biodiversity assessment and reporting that clients can feasibly perform, whether it is at site-, commodity-, supply-chain or corporate scale.

### **Selected resources for understanding the biodiversity metrics and tools available for the finance sector**

Given the increasing number of biodiversity metrics and tools available for business and finance, a number of initiatives have, or are in the process of, developing guidance for companies. Initiatives and publications of particular relevance for PDBs include:

The forthcoming third update of the EU Business and Biodiversity platform's *Assessment of biodiversity measurement approaches for businesses and financial institutions*<sup>108</sup> which provides a comprehensive categorisation of tools and metrics by business application and organisational focus area, with detailed accompanying case studies.

WWF France's *Natural capital and organizations strategies: an overview of available tools*<sup>109</sup> which provides a summary of use-cases and pros and cons of various available tools, including tools focusing on ecosystem services.

The Capitals Coalition has published biodiversity guidance<sup>110</sup>, including on how to select tools and metrics, and this will shortly be updated with an accompanying "Decision Tree" to guide companies to appropriate tools and approaches.

UNEP-WCMC have published a guide to the drivers, business-case and major processes around biodiversity assessment for business<sup>111</sup>.

The IUCN SSC Monitoring Specialist Group have established a database of sources of biodiversity data<sup>112</sup>.

IUCN Netherlands has published a guide to biodiversity tools for business<sup>113</sup>.

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<sup>108</sup> Lammerant 2021

<sup>109</sup> [WWF France 2019](#)

<sup>110</sup> Capitals Coalition & CCI 2020

<sup>111</sup> UNEP-WCMC 2020

<sup>112</sup> [Stephenson & Stengel 2020](#)

<sup>113</sup> [Goedicke et al. 2020](#)

## 7.3 More, bigger and more easily accessible derived biodiversity data layers

The first important trend is the increasing availability of *derived* biodiversity-relevant datasets at a global scale. These datasets take ‘raw’ underlying biodiversity or physical data (e.g. species ranges, physical measures of forest canopies) and transform them into measures or indices which are more amenable to interpretation. Many of these have been developed to inform the CBD goal-setting process and have subsequently been made publicly available.

For example, IBAT has begun to make derived data layers available, starting with a global layer of threat- and rarity-weighted species richness (‘range rarity’) and, imminently, the STAR data layer (see below). In common with many other data providers, IBAT has also begun to offer access as a web service which enables companies to integrate IBAT-hosted data into their own data services.

Examples (among many) of other derived biodiversity data layers available (and already in regular use by some PDBs) include a global map of [terrestrial habitat types](#)<sup>114</sup>, a collection of forest condition layers including the Forest Structural Condition Index and Forest Structural Integrity Index<sup>115</sup> and the Forest Landscape Integrity Index<sup>116</sup> and a global map of likely Natural and Modified Habitat<sup>117</sup>. Taken together, this collection of data layers – and many others like them – represents a significant improvement in the level of available biodiversity data, especially as many are intended to be updated on a regular basis.

### 7.3.1 Summary trend

An on-going and rapid increase in the number, type and accessibility of up-to-date derived biodiversity layers.

### 7.3.2 Implications

The on-going and rapid increase in the number, type and accessibility of up-to-date global derived biodiversity layers is a major enabling factor for each of the four other trends described below and is of particular value for PDBs in that it:

- Makes traditional project risk-screening even more valuable, by allowing more detailed and timely assessments of biodiversity risks, thus streamlining environmental risk categorisation, and allowing more fine-grained assessment of opportunities to avoid and minimise impacts before they occur.
- Enables greatly improved risk screening at supply chain and corporate scale, even for investments which may have footprints in dozens of countries. For example, the

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<sup>114</sup> Jung *et al.* 2020

<sup>115</sup> Hansen *et al.* 2019

<sup>116</sup> Grantham *et al.* 2020

<sup>117</sup> Gosling *et al.* 2020

Biodiversity Impact Metric (BIM) designed particularly for assessment of commodity supply chains relies on the global range-rarity layer now available through IBAT to weight the significance of impacts in different countries<sup>118</sup>.

- Enables more detailed country- or sector-level assessments of biodiversity risk, which enables strategic and cumulative impact assessments to be undertaken more easily.

### 7.3.3 Recommendations for PDBs

- Ensure that requirements and expectations for biodiversity risk assessments, and environmental categorisation, as well as guidance for clients are periodically updated to maximise uptake of new biodiversity data layers and to 'ratchet-up' expectations.
- Participate in initiatives like the [EU Business and Biodiversity Platform](#), the UNEP-[WCMC Aligning Measures](#) programme, or the [Finance for Biodiversity Pledge](#) to help PDBs stay up-to-date on current data and approaches.

## 7.4 Tools for portfolio- and corporate-scale biodiversity assessment

A large portion of PDBs' investments are in the form of corporate loans or investment via financial intermediaries. Traditionally, such biodiversity risk in such investments is managed through requirements on clients to implement Environmental and Social Management Systems (ESMS – see section 5.9.9) as the only scalable way of managing risk in what may be large, diverse and fast-changing portfolios. Recently, however, there are an increasing number of tools which enable assessment – sometimes quantitative – of the current or potential biodiversity impact of portfolio- and corporate- scale investments, or for particular commodities – we profile some examples of these in the box below. These tools open new possibilities for PDBs to understand and manage the biodiversity impacts of corporate- and financial-intermediary investments above-and-beyond traditional ESMS based systems.

### 7.4.1 Summary trend

Rapid innovation and proliferation of tools to estimate biodiversity impacts of portfolio- and corporate-scale investments, rapidly and even without privileged access to data from the potential investment. Even more fine-grained assessments are increasingly possible for individual commodities.

### 7.4.2 Implications

It is increasingly feasible to require corporate and financial intermediary clients to quantify their biodiversity footprints – and opportunities – in a standardised manner and to integrate the results into risk management.

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<sup>118</sup> CISL 2020

### 7.4.3 Recommendations for PDBs

- Increase the use of biodiversity footprinting tools in due diligence for corporate and financial intermediary investments ;
- Develop and publish guidance on use of portfolio- and corporate-scale biodiversity footprinting tools (in the same way that [some commercial investors have](#)) so as to send an advance market signal and drive up-take and innovation.
- Require quantified estimation of biodiversity impacts and opportunities as part of client ESMS for corporate and financial-intermediary investments.

#### **Examples of tools for portfolio- and corporate-, and commodity-scale biodiversity assessment of particular relevance for PDBs**

##### *Sector-level*

[ENCORE](#) is a freely available tool that provides information on the potential direct dependencies and impacts of economic activities on natural capital, including proxy measures for biodiversity. The links between economic activities and natural capital are assigned qualitative materiality ratings (Very High, High, [...] Very Low) for dependencies and impacts to help users gain a sense of priority issues per industry. The underlying data is based on sector averages, scientific and grey literature, and expert opinion. The tool has been used by financial institutions to obtain a 'big picture' understanding of investment portfolios' impact on and exposure to different biodiversity impact drivers. It is most suitable for institutions wishing to understand the overall materiality of biodiversity impacts of investment in a sector or across sectors. The inclusion of impacts as well as dependencies and a finer-grained division of impact types (aligned with the Natural Capital Protocol) represents a significant advance over traditional materiality matrices used by the financial sector such as the [SASB materiality matrix](#), while the tool and underlying database being openly available enables greater transparency.

ENCORE is a relatively new tool and as such is still being actively developed. An imminent (Q1 2021) update will provide enhanced user functionality and visualisations to aid interpretation of the knowledge base. Future versions may include a spatial assessment of hotspots of natural capital risks, and integration of a supply chain view for dependencies and impacts. An ENCORE biodiversity module is also currently in development, which will enable financial institutions to understand how their portfolios might be aligned with global biodiversity goals, using spatially explicit goal-relevant metrics. The biodiversity module is planned for release in Q2 2021.

The Land Bank of South Africa (in collaboration with the Natural Capital Finance Alliance) has [recently used ENCORE](#) to apply a Rapid Natural Capital Risk Assessment, focused on large-scale maize production in South Africa's North West Province.

##### *Corporate / portfolio-level tools*

Three notable recently-developed tools for assessing biodiversity impacts at portfolio or corporate level are The [Biodiversity Footprint for Financial Institutions \(BFFI\)](#), the [Global Biodiversity Score \(GBS\)](#) and the [Corporate Biodiversity Footprint \(CBF\)](#).

These tools all apply the same general process of using trade and life-cycle inventory databases to convert company activity data (e.g., turnover, quantity of a commodity consumed or

produced) into physical impacts (e.g., area of land used, quantity of emissions) and then using a biodiversity model to convert physical impacts into a quantity of biodiversity lost.

While conceptually similar, the tools differ in the models and data sources used<sup>119</sup>, as well as their business model. BFFI and GBS are intended to be optimised for transparency and ability to use granular company data, while CBF is intended to be optimised for scalability. All three tools are under active development: BFFI and GBS have both been piloted with companies and financial institutions, while CBF is due to be launched in 2021.

By packaging multiple databases in a single package, with automated analysis, these tools greatly simplify the process of estimating an entity's biodiversity footprint. Further, by providing standardised methods, they enable comparison of relative impacts between components of a company or between companies.

The tools share some similar limitations, principally<sup>120</sup>:

- the biodiversity models used by these tools necessarily make some simplistic assumptions as a trade-off for broad applicability;
- they only attempt to measure a limited subset of biodiversity (local species loss for BFFI and mean species abundance for GBS and CBF);
- they do not include any weighting for biodiversity significance (for example they do not take account of variations in species richness or extinction risk in different places), so this needs to be added separately where required.

The results therefore need to be interpreted with an understanding of the assumptions used and recognising that they can only provide an approximation of a company's impact. At present the tools are most suitable for 1) obtaining an overall understanding of order-of-magnitude of a company's or portfolio's biodiversity footprint and 2) identifying particular components, or "hotspots", of an investment that make a disproportionate contribution to the overall footprint and can therefore be prioritised for further assessment and mitigation. While GBS (and BFFI) can in principle be used to set and track targets<sup>121</sup> this can be challenging to do without additional work (and hence in a standardised way), since the tools' outputs are not always sufficiently sensitive to changes in company activities.

Despite these limitations, the ability to rapidly produce a standardised assessment of a company or portfolio's biodiversity footprint is a huge step forward and opens many opportunities for PDBs. These tools – and others – are under active development and so are likely to improve over time; there is an opportunity for PDBs to guide or contribute to their development.

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<sup>119</sup> GBS and CBF both use the [GLOBIO](#) model to convert physical impacts into biodiversity impacts, while BFFI uses the ReCiPe model (Huijbregts *et al.* 2017). For converting activity data into physical impacts, BFFI and GBS both use publicly available databases, and provide an option for companies to input their own, more granular, data; CBF uses commercial datasets in addition to publicly available ones, and uses web-scraping to derive company-specific parameters. CBF does not provide an option for companies to input their own data. For more details see Lammerant *et al.* (2021).

<sup>120</sup> A more technical issue is that the impact estimates made for individual pressures may not be strictly comparable as they consider different sub-sets of taxa present at a given location. See Lammerant *et al.* 2021 for a more nuanced discussion of these models.

<sup>121</sup> CDC Biodiversité 2019

### *Commodity-level tools*

As discussed above, corporate-scale tools need to make compromises to be able to cover a vast range of activities. Commodity-level tools are more focused and so can provide more precise data. For example, the [Trase](#) project has compiled a database focusing on commodity-driven deforestation. The tool currently covers a limited set of commodities and geographies but provides a high level of spatial detail as well as yearly data. The project recently launched a beta version of a finance-oriented portal [Trase.finance](#), which allows investors to assess companies and financial institutions' exposure to deforestation risk. Although not included in the online portal, the data can be linked with biodiversity layers to quantify and understand the biodiversity significance of impacts – for example Green et al. 2019 provide a proof of concept using a custom metric, but Trase data can in principle be combined with STAR or various other metrics<sup>122</sup>.

While still an evolving platform, Trase is indicative of the level of assessment that is feasible for individual commodities and so of the level of expectation PDBs can set about assessing and quantifying risks in commodity supply chains. Various commercial commodity risk tools also exist, including Transform Platform and MapHubs, though these are more tightly focused, do not, as yet, include biodiversity metrics in their reporting products, and are closed-data systems.

## 7.5 Metrics for opportunities as well as impacts

Traditional safeguard systems are focused on reducing impacts, and increasingly, compensating for the most significant impacts. The bulk of tools and metrics currently used by PDBs therefore focus on enabling assessment of risk and potential impacts (Section 5.8). However, it is increasingly evident that meeting global goals will require a positive focus on opportunities as well as on impacts.

This has led to a focus on the development of biodiversity metrics which specifically focus on assessing opportunities in terms of gains in biodiversity. Most biodiversity metrics, including those targeted at financial institutions, can be adapted to forecast potential positive gains<sup>123</sup>. However, this can require complex assumptions about counterfactuals and reference conditions and may not be explicitly linked to global goals.

The Species Threat Abatement and Restoration (STAR) metric<sup>124</sup>, is a new metric specifically designed to identify opportunities for reducing extinction risk. STAR is derived from the IUCN Red List of Threatened Species and identifies the potential contribution of threat reduction or ecological restoration at any given terrestrial location to reducing the overall burden of extinction risk. It combines measures of biodiversity significance (number of threatened species and rarity), with intensity of extinction risk (threat status). It is designed to help businesses and others measure the potential contributions towards global goals for species biodiversity which could be delivered by positive conservation actions in particular places. Importantly, it can be

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<sup>122</sup> Green et al. 2019

<sup>123</sup> See Temple et al. 2012 for project level examples, and CREM and Pré Sustainability 2019 for portfolio-scale examples.

<sup>124</sup> Mair et al. 2021

disaggregated by the individual threats contributing to extinction risk which allows users to understand not just *where* investments will make the most difference, but also *what* actions (e.g., reducing pollution, controlling invasive species) could give the greatest gains, making it a practical tool.

STAR is scalable and additive, and so can be used to compare potential gains across sites and can be used to set targets aligned with the 'extinction risk' component of draft global goals for biodiversity. The global STAR data layer is being piloted by IUCN and partners and will be made available to businesses via the IBAT portal.

STAR currently has some limitations – it covers a limited set of biodiversity and only covers the terrestrial realm for example – but the underlying metric can in future be adapted to include other taxa and realms.

Opportunity-focused metrics for the ecosystems component of draft global biodiversity goals have not yet been developed, but work is underway by various consortia, including the Science-based Targets Network, UNEP-WCMC, IUCN and others.

#### 7.5.1 Summary trend

Metrics for assessing biodiversity opportunities are becoming available.

#### 7.5.2 Implications

It is increasingly feasible for PDBs to assess, or require clients to assess, potential opportunities within their investment portfolios.

#### 7.5.3 Recommendations for PDBs

- Engage with IUCN or other organisations to pilot use of STAR for assessing biodiversity opportunities.
- Encourage the development of similar opportunity-focused metrics for other aspects of global biodiversity goals, notably the 'extent, connectivity and integrity of ecosystems' component, for example by sending a market signal of the need for such layers, or by engaging with organisations like SBTN.

## 7.6 Integrated assessment of biodiversity and climate impacts

Increasing evidence shows that an integrated approach assessing impacts and opportunities on multiple aspects of nature simultaneously can create more effective and cost efficient outcomes

than focusing on climate or biodiversity in isolation<sup>125</sup>. This is particularly the case for leveraging the opportunities of climate finance to contribute to biodiversity goals also (see Section 6.6).

The pace of development and availability of climate data has been at least as fast as that for biodiversity, with new layers offering high-resolution assessments of natural carbon sequestration potential<sup>126</sup>, as well as higher-resolution assessments of existing stocks. These layers allow assessment of the carbon benefits of ecological restoration as well as avoided deforestation. However, until recently, biodiversity and climate data has been mostly provided by separate platforms (e.g., [IBAT](#) for biodiversity and [Nature4Climate](#) for avoided deforestation). This means that integrated consideration of biodiversity and climate data sets has required individual PDBs or their clients and consultants to manually combine layers of biodiversity and climate potential.

Recently, an increasing set of initiatives have begun to enable integrated access to and assessment of climate and biodiversity data, including:

- [Global Forest Watch](#) now provides both potential carbon sequestration and biodiversity layers as well as its core deforestation data.
- [Nature4Climate Mapper](#) now allows filtering by various metrics of biodiversity significance.
- [NatureMap](#) provides a combined carbon + biodiversity significance layer as well as individual carbon and biodiversity layers.
- FAO have integrated a biodiversity component into [their EX-Ante Carbon-balance Tool \(EX-ACT\)](#) to enable combined assessment of climate and biodiversity impacts of a project. The tool is available as a standalone module called [B-INTACT](#) (see box)

Barriers do remain: there is not yet one fully integrated portal, and licensing of these tools and data layers for commercial use may not be straightforward, or may require multiple subscriptions. Nevertheless, the trend is clear, and streamlined integration of climate and biodiversity layers will greatly facilitate identification of synergies and trade-offs between biodiversity and climate objectives, as well as a broader 'nature positive' approach.

### **FAO's Biodiversity Integrated Assessment and Computation Tool (B-INTACT)**

The B-INTACT tool is designed to enable assessment of potential biodiversity impacts of project-level activities in the Agriculture, Forestry and Land Use (AFOLU) sector. It integrates with the broader EX-ACT tool which assesses potential climate mitigation outcomes of projects, as well as a broad suite of factors influencing project feasibility.

B-INTACT assesses biodiversity impacts using the Mean Species Abundance (MSA) metric<sup>127</sup>. The pressures (e.g., land-use change) deriving from potential project activities are translated into biodiversity impacts using the GLOBIO model. B-INTACT adapts the GLOBIO model to a project-level use-case and further extends it by:

<sup>125</sup> de Lamo *et al.* 2020; Strassburg *et al.* 2020

<sup>126</sup> Cook-Patton *et al.* 2020

<sup>127</sup> FAO 2021

- Mapping GLOBIO land-use classes to IPCC land-use classes (with some interpolation to ensure complete coverage).
- Adding an option for estimating the financial value of impacts using the [Ecosystem Service Valuation Database](#) (EVSD) developed by TEEB.
- Allowing for weighting of impacts to different ecosystem patches according to a measure of ecological value (or significance). The tool currently integrates measures of vulnerability, endemism and extinction risk based on the IUCN Red List of Threatened Species, with an option for user-provided values. It also requires consideration of the presence of Key Biodiversity Areas and Protected Areas.

B-INTACT also allows for assessment of contextual factors, such as whether a project operates in an area of water stress, and also allows for qualitative assessment of biodiversity pressures and values that are not included in the quantitative element of the tool.

B-INTACT is intended for use in early project appraisal to assess project conceptual feasibility; it would also be of use for scoping detailed assessments such as biodiversity baseline studies and an ESIA. Although intended principally for assessing Agriculture, Forestry and Land-Use projects with climate goals, it could be used by any project with a significant land-use component.

While B-INTACT seems a capable and promising tool, it is currently released under a license that does not permit commercial use and a commercial use option is not provided. Use by PDBs for commercial investments (rather than grants) would therefore require negotiation of an appropriate licensing scheme, or a version of the tool that did not include the non-open source components (principally the Ecosystem Service Valuation Database and the layers based on the IUCN Red List of Threatened Species).

### 7.6.1 Summary trend

Global-scale climate and biodiversity metrics are increasingly available in the same portals, greatly facilitating combined analysis.

### 7.6.2 Implications

It is increasingly feasible for PDBs to assess, or require clients to assess, climate and biodiversity synergies and trade-offs, for example in early risk screening.

### 7.6.3 Recommendations for PDBs

- Issue guidance for clients on the need for joined-up climate and biodiversity assessments, which would also send a market signal to data providers to make such data more easily available.
- Engage with initiatives providing climate and biodiversity data to encourage ready availability of combined climate and biodiversity data (e.g., to help clarify / streamline licensing terms for commercial use).

## 7.7 A focus on alignment with societal goals for biodiversity

The term 'nature positive' is broad and potentially open to interpretation. As highlighted by several interviewees this creates difficulties identifying investments that are truly positive for nature. The availability of 1) metrics with which to set targets and 2) a target setting framework that ensures alignment with societal goals is therefore a key requirement for scaling up nature positive investing.

The concept of 'science-based targets for nature' is gaining traction as a means of defining actionable and evidence-based targets that are aligned with societal goals. The concept is applicable at all scales, including for global, national and institutional target setting<sup>128</sup>.

The main process currently working on defining a mechanism for non-state actors to set science-based targets for nature is that of a broad consortium of organisations called the [Science-Based Targets Network](#) (SBTN). SBTN is developing an approach based on the success of the Science-based Targets Initiative which helps companies set targets for climate aligned with the Paris Agreement<sup>129</sup>. The concept of science-based targets for nature is increasingly adopted by commitment platforms, including the Fashion Pact, OP2B, and Finance 4 Nature and so is reaching a critical mass.

SBTN defines science-based targets as "measurable, actionable and evidence-based targets aligned with societal environmental sustainability goals" with the intention that they will draw both on goals agreed during the CBD post-2020 process, and the wider scientific concept of planetary boundaries<sup>130</sup>.

SBTN released [initial guidance](#)<sup>131</sup> in September 2020 that sets out the broad ambition for SBTs, defines the intended scope and a provisional level of ambition for SBTs, and the broad process and principles that companies setting SBTs should adhere to. SBTN envisage that financial institutions, including PDBs, can be among the organisations setting science-based targets for nature.

The technical work to develop standards for metrics, thresholds for target setting and appropriate tools is ongoing with final guidance intended for 2022. SBTN's [corporate engagement programme](#) is a platform by which companies (including financial institutions) can pilot the SBTN process and contribute to the development of methodologies.

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<sup>128</sup> Andersen *et al.* 2020

<sup>129</sup> In simple terms, this process takes the estimated global carbon budget available for humanity and the target emission reduction trajectory under the Paris agreement target and provides a process for individual companies to work out their 'equitable share' and use this to set targets to reduce their emissions or emissions intensity so they do not exceed that share.

<sup>130</sup> See for example Steffen *et al.* 2015

<sup>131</sup> SBTN 2020

SBTs will initially be most applicable to large companies and so of interest to PDBs with significant corporate loan and financial intermediary portfolios. However, over time SBTN intends to make the process accessible to SMEs as well.

### 7.7.1 Summary trend

Technical work to design a process of setting science-based targets for nature is well underway.

### 7.7.2 Implication

SBTs offer a potential tool for PDBs to use to assess whether investments are really nature positive, in particular for corporate loans. The tools and metrics developed for the SBT process may be applicable to smaller nature positive investments as well.

### 7.7.3 Recommendations for PDBs

- Consider engaging in the SBTN corporate engagement programme to understand how the process and associated tools and metrics could be used for nature positive investing.
- Encourage their clients to commit to setting SBTs for Nature.

## 7.8 Increasingly standardised tools for transparency and disclosure

While metrics are critical for assessing whether investments are nature positive, they are of little use on their own. Even good metrics can be misleading if used or presented in misleading ways. Standardised reporting and disclosure systems can help in interpretation of metrics and can encourage transparency and good practice. Existing systems like GRI focus on risks rather the biodiversity outcomes and so are not useful for assessing whether a company is – or could become – nature positive. Our interviewees considered qualitative systems like Rio markers too simplistic for biodiversity, and the EU Sustainability Taxonomy does not yet include technical screening criteria for biodiversity (due 2023). However, a number of current initiatives are approaching readiness and can potentially help improve transparency and disclosure of biodiversity impacts and outcomes, including:

- The Biological Diversity Protocol is a standard that was launched by the [Biodiversity Disclosure Project](#) in March 2021. It applies financial accounting principles<sup>132</sup> to company reporting of biodiversity impacts and gains and overall net biodiversity position. By providing a standardised framework it facilitates understanding and transparency around a company's reporting about biodiversity. An associated software tool is in development.
- The recently adopted UN [System of Environmental-Economic Accounting—Ecosystem Accounting](#) provides a framework of accounts – including some guidance on metrics – for recording stocks, losses and gains of ecosystems. It is intended principally for use by jurisdictions. By providing a standardised framework for ecosystem accounting, it could

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<sup>132</sup> Houdet *et al.* 2020

provide a basis for understanding – and raising awareness of – potential for biodiversity positive investments in a jurisdiction.

- The [Platform for Biodiversity Accounting Financials](#) is a consortium of banks, including one BDB, which aims to develop standards for biodiversity assessment by financial institutions. It currently draws heavily on the experience of ASN Bank with the Biodiversity Footprint for Financial Institutions (BFFI) tool, but the group's inaugural 'common ground' paper aims to set out broad principles and be agnostic to particular tools or metrics<sup>133</sup>.

### 7.8.1 Summary trend

A number of standards and tools for reporting on biodiversity position and outcomes (and not just risk or processes) are nearing readiness.

### 7.8.2 Implications

It is feasible for companies and jurisdictions to report on biodiversity position and changes in a standardised way.

### 7.8.3 Recommendations for PDBs

- Pilot use of standards like the BDP for reporting the biodiversity outcomes of their project investments.
- Engage with processes like PBAF to develop or enhance standards for biodiversity reporting.
- Require companies benefiting from corporate loans to report their biodiversity position using standards like the BDP.
- Engage with jurisdictions in which they invest to encourage the piloting of the SEEA-EA as a basis for building understanding the potential opportunities for nature positive investments.

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<sup>133</sup> PBAF Netherlands 2020

## 8 Conclusions

### 8.1 Status of biodiversity mainstreaming in PDBs

PDBs are a large and diverse group. Their perspectives and activity on biodiversity mainstreaming are very varied, and to a large extent relate to size and resources as well as to political steer and mandate.

#### 8.1.1 Large PDBs

- The largest MDBs are leaders in 'greening finance', with a cadre of highly committed and experienced staff working on biodiversity and environment. There is significant progress on standards and on implementation, and active work is underway to fix a range of problems (e.g. agriculture, supervision, offsets, consistency) of which the banks are well aware. MDBs are also actively innovating on nature positive investments and promoting policy reform, though at relatively small scale. Capacity is growing, though may still not be adequate, and there is a generally improving picture.
- However, MDB E&S staff are also busy with projects and the problems are hard to crack. They may also have limited power to convene processes or influence decisions in their institutions. Progress is therefore not rapid, and there remains a gap between standards on paper and implementation in reality for some MDBs. Only a few have clear stated investment targets on climate and biodiversity. There is also limited evidence of broader co-ordination and sharing of experience – these large institutions seem to be quite siloed from each other. There are several MDBs that we were not able to interview, where documentation suggests they are lagging in their attention to biodiversity.
- Three of the world's largest development banks are the China Development Bank (the world's biggest PDB by assets), Agricultural Development Bank of China and Export-Import Bank of China. None of these has a stated commitment relating to biodiversity, nor a formal safeguard framework that goes beyond reference to ESIA; neither do the two smaller Chinese PDBs in the inventory (the Silk Road Fund and China Africa Development Fund). The China Development Bank is however signed up to the UN Global Compact (see Annex A).
- Current 'best practice' could be better (see 8.2 below). There are significant gaps in how safeguards are applied to agriculture and to intermediaries, for example, at even the leading institutions. And other banks have not caught up yet even to this level.

#### 8.1.2 Mid-size and small PDBs

- Mid-size banks (mainly those that are members or EDFI or IDFC) are on a spectrum from fully commercially-focused to more policy-focused, which relates to their attention and activity on nature. One or two are at the cutting edge of thinking and action, testing new approaches, making significant investment in capacity and in nature-positive projects, innovating and attempting to institute systemic change and genuine mainstreaming inside and outside their institutions. They have taken a clear leadership position, but it is not clear if others can or will follow this lead.

- Most mid-size banks remain much more reactive regarding nature. While signed up to strong safeguards (and sometimes other strong commitments) on paper, there are clearly large gaps in capacity and implementation. Few have biodiversity specialists on staff, relying on a generalist E&S function and external advice. They do not appear to have clear internal targets on climate or biodiversity investment.
- Among smaller banks, there are a few shining examples of commitment and positive activity, though these are focused more on climate than on biodiversity. For example, Development Bank of Southern Africa (DBSA) and Minas Gerais Development Bank (Banco de Desenvolvimento de Minas Gerais) had prominent roles in the Finance in Common summit (November 2020) and are displaying strong leadership on environment. For most other smaller banks, the environment is barely on their radar. Some are engaging with climate issues, but the vast majority have very limited or no commitments, processes or staffing in place to address biodiversity concerns, beyond the standard regulatory mechanisms for project approval that are weak in many countries. In a few such countries, the finance sector is coming under new regulatory rules or guidance on sustainable investment, to which smaller PDBs will need to respond. However, these new sustainability frameworks are strongly climate-focused at the moment with little or no biodiversity element.

## 8.2 Safeguards: greening finance

- Our review surfaced a long list of challenges that PDBs are facing in implementing safeguards effectively. Nevertheless, safeguards remain a very valuable if reactive and imperfect tool for reducing harm. They have very limited effect in promoting nature-positive financing, despite net gain requirements in some instances.
- Effective application of safeguards requires a robust framework, significant resourcing for ensuring and verifying implementation, internal systems and a culture to make sure that biodiversity concerns are considered in project appraisal and approval, a robust disclosure framework that encourages both clients and banks to meet the standards, and a powerful ombudsman or similar oversight mechanism.
- IFC Performance Standards are by far the most widely used set of standards by PDBs. They provide a consistent framework that has been adopted by many stakeholders, including PDBs but also various commercial financial institutions (via the Equator Principles), corporations, and a small number of governments.
- Safeguard frameworks cover a range of environmental and social aspects. Many PDB clients are more concerned about the social dimension, meaning that nature needs to be integrated in a holistic approach to sustainability – not just biodiversity, but also other environmental aspects, and, most importantly, communities in their relation to nature (livelihoods, land tenure, culture, etc.). Effective integration of nature also requires a vision of social imperatives, stakeholder expectations, as well as solid stakeholder engagement strategy.
- Many PDBs do not have formal safeguard frameworks at all for biodiversity, and may not see biodiversity as a major issue, even though their financing may be causing damage to nature.

- PDBs that do have safeguards often have inadequate capacity and resources (including the wider support ecosystem of specialists) to screen for biodiversity risks, apply safeguards to project assessment, and especially to support and monitor implementation of mitigation measures. Among bilateral PDBs and MDBs, capacity to apply biodiversity safeguards is also often concentrated in head offices, with country programme staff having limited specialist knowledge.
- Even PDBs with robust safeguard frameworks are yet to effectively integrate them across their full investment and project lifecycles, to cover supply chain impacts (important in many sectors such as agriculture), value chain impacts, other indirect and cumulative impacts, corporate financing and financing through intermediaries.
- PDBs face practical challenges applying safeguards in contexts where the regulatory framework is weak and governments have not bought in to safeguard provisions. PDBs and their investors often also have to arbitrate between conflicts among sustainability issues, such as social investment or employment vs the protection of nature.
- Budgetary constraints and commercial competition also still tend to create an uneven playing field – favouring finance that has less rigorous environmental and social requirements. Project developers also widely view some PDBs that insist on properly-applied safeguards as overly bureaucratic and insufficiently pragmatic in their application of the safeguard process, creating additional costs and delays in project development. This tends to tilt the playing field in favour of less demanding financiers.
- PDBs’ reporting on how safeguards are implemented, and the outcomes, remains very patchy and incomplete.

## 8.3 Nature-positive investment: financing green

### 8.3.1 Climate and biodiversity

- For PDBs, and the finance sector as a whole, climate is far ahead of biodiversity as a concern for both greening finance and financing green. The (relative, far from complete) success in advancing the climate agenda in finance does point the way for biodiversity and demonstrate what is achievable. But biodiversity is different from climate and intrinsically more challenging, so it may not be feasible simply to follow the same path.
- Climate still predominates massively in ‘green’ investment by PDBs (and the finance sector in general). Much investment is focused on technology, especially renewable energy. Nature-based solutions are a potential bridge between climate and biodiversity, but investment remains at very small scale and there is mixed opinion about the potential to scale up.
- The same applies to financing for COVID-19 recovery. Economic stimulation packages could focus on activities that damage nature, or alternatively be directed at nature-based opportunities – such as ecotourism, sustainable agriculture and fisheries, ecosystem-based coastal protection and watershed management.

### 8.3.2 Investing in nature

- Direct nature-positive investment by PDBs (and the finance sector generally) is still very small-scale and patchy. It appears that much of current PDB nature-positive financing is not really commercial but in the nature of grants and facilitation of external funding (e.g. from GEF). To scale up nature-positive investment significantly will require unlocking private finance. A large suite of finance tools is available to enable nature-positive investment, but there are many practical challenges in ramping up investment levels, including the lack of an enabling environment, difficulties in identifying and developing investable projects of sufficient scale, perceived high risk and an uncertain basis for measurement and monitoring. There are mixed opinions about the feasibility of scaling up investment, and the role of 'blended finance' approaches. For PDBs that can access or provide concessionary funding, blended finance does hold potential as a catalyst for private investment – which is the key for going to scale.

## 8.4 Tools and metrics

- An increasingly large range of additional biodiversity metrics and tools is available, enabled by increasing amounts of primary biodiversity data as well as increasing data on other aspects of nature, like carbon sequestration potential. Some of these have significant potential to help PDBs improve the biodiversity performance of their activities.
- This rapid improvement in data availability – and importantly, in usability – means that PDBs can significantly 'ratchet-up' expectations of the level of biodiversity assessment and reporting that clients can feasibly perform, whether it is at site-, commodity-, supply-chain or corporate scale. This is particularly the case for lending via financial intermediaries, where it is increasingly feasible for PDBs to require quantitative reporting on biodiversity performance (outcomes) rather than simply on process report (ESMS).
- However, many PDBs have not yet adapted their guidance and procedures to take account of these opportunities, nor have they fully engaged with some of the processes that would enable them to do so.
- Unclear or cumbersome licensing for commercial use is a significant barrier to use of many of the tools; negotiating common access terms for all PDBs could reduce these barriers significantly.

## 9 Recommendations

PDBs are an integral part of the larger, complex community of finance institutions. There have been many recent reports on biodiversity in finance, and financing biodiversity. Rather than repeating their recommendations here we focus on points particularly relevant to PDBs – with the emphasis on practical actions that can be taken immediately. There is need for systemic long-term change, but that has to start first with smaller, practical steps.

The recommendations below are targeted mainly at MDBs and the larger PDBs including those in EDFI, IDFC, China’s development banks and the US DFC. These organisations have the capacity, resources and often the mandates to follow through on the actions proposed. They also represent by far the bulk of global PDB financing, and likely the bulk of potential PDB financial impact on biodiversity. These larger banks are also well placed to encourage and support smaller and less well-resourced PDBs that are presently lagging behind on biodiversity issues.

This notwithstanding, there are steps that *all* PDBs can take to improve how biodiversity is integrated in their decision-making. Section 9.6 outlines the key steps (a prioritised set of recommendations) for three tiers of PDBs at different stages of biodiversity mainstreaming.

Our recommendations are aligned with and complement the more general recommendations emerging from AFD’s broader study of PDBs and sustainable development (Riaño et al. 2020, summarized in the box below), which are focused more on finance and targeted particularly at national development banks.

In order to structure and better organized these recommendations, the overall problem, necessary actions, constraining factors and finally recommendations identified in this study are summarized in Figure 36.

The overall problem, and a major driver of biodiversity loss, is that investment in activities that harm nature far outweighs investment in activities that benefit nature (see section 1.2). Although PDBs finance “only” around 10% of global investments annually (section 1.4.1), they have a unique role to play in reorienting all finance towards sustainability, helping to “mobilize, secure and direct the finance we need for the future we want”<sup>134</sup>.

The solutions to this problem are broadly to reduce the harmful impacts of investments (‘greening finance’) and to increase financial flows into investments that are positive to nature (‘financing green’) – the two themes of this report.

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<sup>134</sup> [Finance in Common Joint Declaration, 2020](#)

**Recommendations for scaling up PDBs transformative alignment with the 2030 Agenda for Sustainable Development, summarized from Riaño et al. (2020):**

PDBs' strategies should lead to a complete, comprehensive and systemic integration of the SDGs, percolating all of their activities, instead of classifying existing projects with individual SDGs. The 2030 Agenda needs to be solidly anchored within PDBs' organizational culture, backed by adequate incentives and capacity building. More support is needed for early-stage project preparation and for facilitating the structuring of SDG bankable projects.

PDBs need to take ownership and leadership in their roles as enablers and catalysers of sustainable finance. They must work side-by-side with other stakeholders, underpinned by strategic partnerships and blended finance, to play a larger and potentially transformational role in scaling up finance to achieve the SDGs.

PDBs' actions need to be upheld by a clear SDG national policy and budget – through an Integrated National Financing Framework (INFF) for instance – and tailor-made regulations that increase their appetite for risks and investment in non-traditional sectors or difficult settings. Establishing an 'SDG Credit Score' would encourage and support PDBs to drive sustainable development transformations.

PDBs, particularly national development banks, need to expand their lending capacities, taking a less conservative approach to lending practices. They have many opportunities to leverage new resources and increase the volume of loans.

We identify three key actions needed for greening finance:

- Fully integrate biodiversity risk into investment decisions
- Improve upstream planning and early risk screening to enable avoidance of impacts
- Apply effective safeguards to reduce and compensate for harm to biodiversity

And two key actions needed for financing green:

- Scale up investment in nature-based solutions to meet climate and other development goals
- Scale up direct investment in nature conservation and restoration.

Interviews, surveys and review of literature highlighted a number of constraints to implementing these key actions, and suggested some practical ways forward. These are outlined in the next sections.

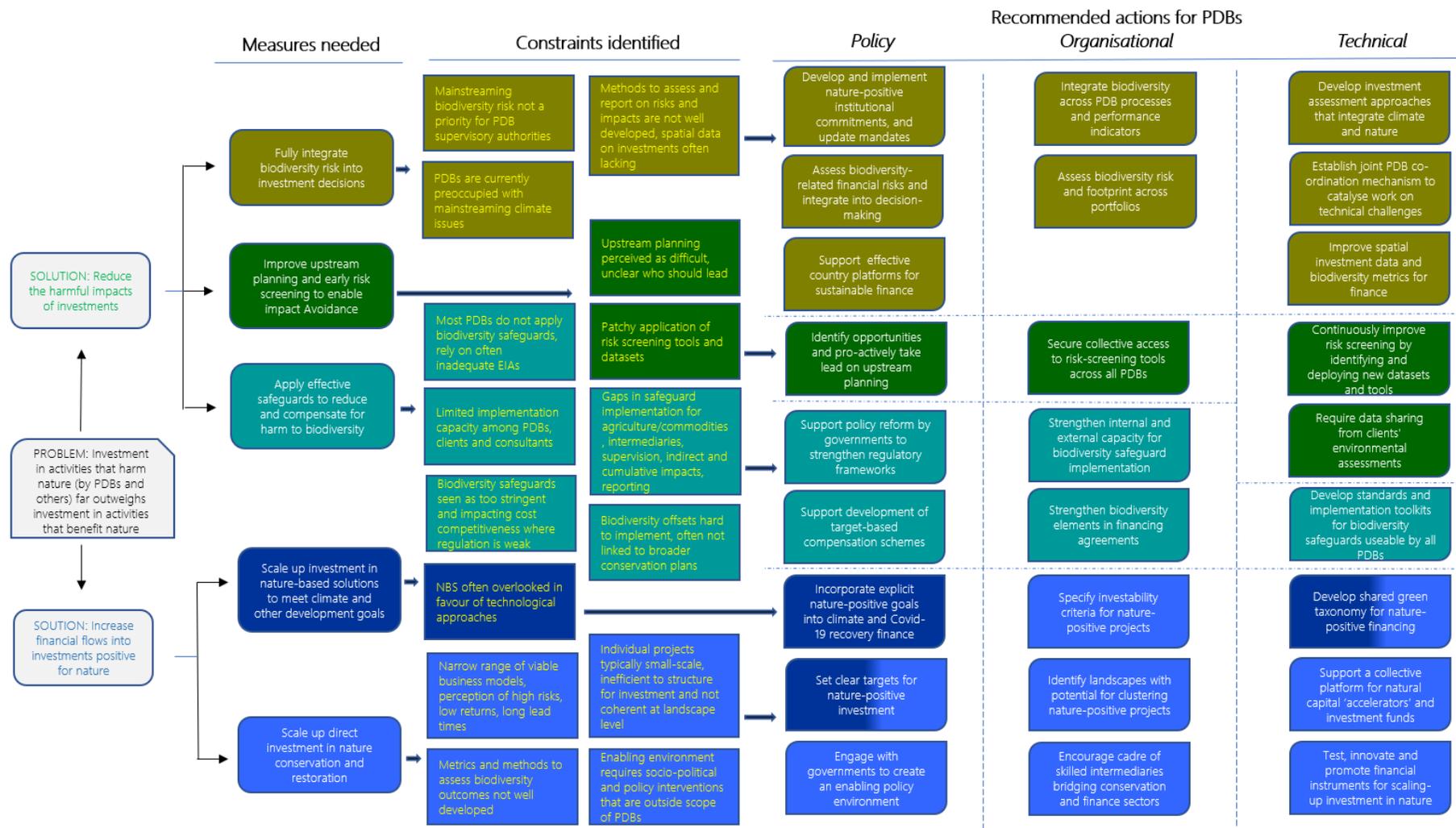


Figure 36. Summary of problem statement, actions needed, constraints identified and policy, organizational and technical recommendations to address these

## 9.1 Greening finance Action 1: Fully integrate biodiversity risk into investment decisions

*"We stand ready to help align all financial flows with the future post-2020 Global Biodiversity Framework to be adopted at the COP15 of the Convention on Biological Diversity. Nature-based solutions, sustainable resources and land use as well as better consideration of nature-related risks will be used to promote a biodiversity-positive economy as well as climate neutrality." (Finance in Common Joint Declaration)*

Responses to our review show that many PDBs are convinced that protecting nature is important, and also fundamental to their investment strategy.

Yet biodiversity is far from being mainstreamed into strategy and decisions, and there remain some perceptions that considering biodiversity creates a constraint to investment – especially when viewed alongside all the other imperatives of sustainable development.

Genuine mainstreaming of biodiversity is a challenge for PDBs. Nature-related risk can be hard to demonstrate and measure, and nature has little political voice. Yet the accelerating rate of biodiversity erosion, and the pervasive and global risks that this creates for our society and biosphere – let alone for finance institutions – make it crucial that PDBs live up to their commitments. This means raising the ambition and pace of nature mainstreaming throughout PDBs operating culture and practice, and within a holistic approach to sustainability that is compatible with other economic, social and environmental sustainability imperatives.

### 9.1.1 Constraints identified

#### 9.1.1.1 *Mainstreaming biodiversity risk not a priority for PDB supervisory authorities*

PDBs' remits are determined by their government shareholders, and they are effectively agents of their governments' development policies, whether nationally or internationally.

Unfortunately, PDBs' supervisory entities, typically state treasuries or finance ministries, are often still a long way from mainstreaming nature in their own decision making. Priority is given to GDP growth-related indicators such as consumption, SME investments, and employment. Budgetary constraints are often a barrier to effective integration of a substantive nature strategy – all the more in the context of the global covid-19 pandemic and resulting economic crisis

Yet the flow of information and influence between PDBs and government is not one way. PDBs can mobilize the technical expertise that their supervisory entities may lack, and often have a unique opportunity to experiment and to demonstrate the effectiveness of nature-focused investments. If PDBs can show the political, economic, and (for internationally focused PDBs) diplomatic benefits from investing for nature, government will be more inclined to support a decisive nature-related mandate for the PDB.

PDBs with an international development mandate also have a unique opportunity to exert positive policy influence on governments in other countries, through policy loans to national and local

public institutions, technical assistance packages, diplomatic influence, and the contractual provisions of loan agreements.

#### 9.1.1.2 *PDBs are currently preoccupied with mainstreaming climate issues*

Climate change is now widely accepted by society and decision-makers as a global crisis requiring urgent action. The Paris Agreement and resulting national commitments are being translated into policy, creating expectations that climate issues will be mainstreamed into the finance sector. A number (though still a minority) of PDBs are working intensively to integrate climate risks into their investment decision-making.

Biodiversity loss is in many ways a more complex issue than climate change, with risks that are harder to assess and metrics that are less well developed. Policy attention to biodiversity also lags significantly behind climate change, in practice if not in terms of stated political commitments. Forward-looking banks are fully occupied at present attempting to mainstream climate change in their decision-making, and may not have the capacity yet to start this process for biodiversity.

#### 9.1.1.3 *Methods to assess and report on risks and impacts are not well developed, spatial data on investments often lacking*

Biodiversity information and metrics are rapidly evolving and improving (see section 7). There is a common view, including among some of our respondents, that biodiversity metrics relevant to finance are lacking. This is a misconception, although there is no straightforward biodiversity counterpart to tonnes equivalent of CO<sub>2</sub>. But metrics still require specialist knowledge to apply, and need further development for ready application to assess biodiversity risk in finance. The limited spatial data on investments, especially for corporate and intermediary finance, is also a practical limitation to assessing and tracking biodiversity risks and impacts.

### 9.1.2 Policy recommendations

#### 9.1.2.1 *Develop and implement nature-positive institutional commitments*

*"We welcome Governments' support and measures aiming at unleashing our potential to better serve their policies...Our mandates should aim to integrate the contribution to the goals of the Paris Agreement and SDGs. They should also explicitly require us to shift away from investments that are not compatible with a just and inclusive transition towards sustainable, low-carbon and resilient development trajectories... Based on our collective work, we will aim to engage our shareholders and regulators in considering options to optimize our balance sheets." (Finance in Common Joint Declaration)*

PDBs can engage with the Board of Directors, government supervisory entities and shareholders to re-align the institutional remit and investment strategy towards sustainability, with a public commitment to overall positive outcomes for nature as part of a holistic set of social and environmental imperatives defined under the SDGs and related global targets, including the post-2020 global biodiversity framework. The aim would be that all financing has overall benefits or co-benefits for the biosphere, whether via a 'net gain' approach to safeguards and/or investments in nature. As part of this commitment, PDBs could also set a timetable and process for quantifying

the biodiversity footprint of all financing (section 9.1.3.2) and clear and ambitious targets for nature-positive investment in their portfolios (section 9.4.2), starting at a level that is currently achievable but ratcheted up over time.

Ideally, the aim of supporting environmental sustainability, including the protection and restoration of nature, would be enshrined in an updated legal mandate. The time and effort needed to achieve this will vary among PDBs and could be considerable in some cases. While updating legal mandates is an important long-term objective, PDBs can make considerable progress towards nature-positive financing under their existing mandates.

For governments, this approach would be in line with efforts to direct national budgets towards sustainability, for instance through the [Paris Collaborative on Green Budgeting](#).

#### 9.1.2.2 *Assess biodiversity-related financial risks and integrate into decision-making*

Understanding biodiversity-related financial risks and incorporating this into investment policy and decisions is a key part of mainstreaming nature in finance. Public Development Banks could recognize the need to assess and act on financial risks related to biodiversity, and institute processes to begin such assessments. Many of the components needed for this are in place but have not been brought together into a workable methodology. As part of this process, banks could also develop and implement a protocol to collect evidence (individually and collectively) on the financial cost-benefit of implementing effective biodiversity safeguards, as short-term financial costs of safeguard implementation are likely to be outweighed by long-term savings through successfully managing risks.

#### 9.1.2.3 *Support effective country platforms for sustainable finance*

*“The adaptation of financial regulatory frameworks on asset-based criteria can bolster our capacity to enable climate and sustainable development investments and promote transparency of investments portfolios...At the national level, we will support the development and implementation of effective country platforms, building on the G20 Reference Framework, whereby national development banks could play a major role alongside other development finance stakeholders for investments to translate into sustainable and accountable impacts” (Finance in Common Joint Declaration)*

Country platforms that bring together a range of finance institutions can help to create common standards (and thus a level playing field) for sustainability in financing. National development banks are well positioned to lead such a process, with external support (technical or financial) from MDBs and bilateral development banks. One MDB, the IFC, has already made significant progress on this via the [Sustainable Banking Network](#) (see section 4.5), which is active in 42 countries. The Sustainable Banking Network (SBN) develops standards and targets for sustainability, either agreed and adopted by a forum of national finance organisations or via Central Bank regulation. At present the SBN is focused on climate. There may be scope for PDBs to start similar initiatives in additional countries, or to join forces with IFC to support expansion of the SBN’s geographic scope as well as incorporation of nature alongside climate as a key concern in national initiatives. Support and engagement (especially from bilateral and multilateral PDBs) with [The Network of Central Banks and Supervisors for Greening the Financial System](#) may also

be relevant. This is a recommendation for national and regional PDBs as well as for larger institutions.

### 9.1.3 Organisational recommendations

#### 9.1.3.1 *Integrate biodiversity across PDB processes, performance indicators, reporting and disclosure*

*"[We will] take into account and manage direct and indirect climate, biodiversity, environmental and social risks and opportunities, inspired by existing international initiatives and recommendations such as those of the... [and the] Task Force on Nature-related Financial Disclosures (TNFD)" (Finance in Common Joint Declaration)*

Where PDBs consider biodiversity in decisions, this is largely a reactive, 'add-on' approach via safeguards. To systematically mainstream nature in decision-making there is need to review internal processes to ensure that nature considerations are integrated with all stages of investment decision-making and monitoring, across all sectors and financial services, and that there is pro-active effort to generate nature-positive investment. This should include revision of the investment risk-rating process to ensure that nature-related risks (from both dependencies and impacts) and benefits are also fully considered. To be effective, another important step is to integrate biodiversity considerations in targets and performance indicators for both staff and institutions as a whole, alongside other strategic sustainability imperatives such as climate and One Health.

The Task Force for Nature-related Financial Disclosures is a significant and potentially important process that is anticipated to provide an effective common framework for nature-related risk analysis, reporting and disclosure in the financial sector. PDBs should support and engage actively with TNFD to ensure its recommendations are fit for purpose, and adopt and implement the resulting framework.

#### 9.1.3.2 *Assess biodiversity risk and footprint across portfolios*

While methodologies to assess biodiversity-related financial risks are in development, it is important that PDBs develop at least an initial understanding of the potential biodiversity risks present in their current investment portfolios. Using existing tools, such as biodiversity footprinting approaches together with spatial finance information, PDBs could initiate portfolio assessments to define, identify and (where possible) quantify biodiversity risk and – equally as important – identify information gaps to be filled.

### 9.1.4 Technical recommendations

#### 9.1.4.1 *Establish joint PDB co-ordination mechanism to catalyse work on technical challenges*

To accelerate the development of new methods and tools and the solution to technical challenges, PDBs could set up and resource a co-ordination mechanism for collective technical work. This would allow sharing experience and learning, and co-ordinated follow-through with governments,

partners and stakeholders (including the conservation research community and conservation NGOs).

PDBs are in a unique position to build coalitions and to foster broader collaboration with other financial institutions, research institutions and NGOs. Like climate change, nature loss is a worldwide threat causing pervasive and systemic risks to our global economy. Thus, a successful response must be rooted in cooperation.

This co-operative approach among banks and with other stakeholders could speed development of the technical tools and solutions, and the capacity, needed to support nature-positive financing. It could also help broaden the integration of nature amongst PDBs and the wider finance sector, as well as governments and businesses. It can also help to grow public support, shape political agendas, collectively reinforce PDBs' commitments to invest for nature, and build transparency and trust.

There is already a large number of existing forums and initiatives for finance (see Annex A), and MDBs, EDFI, and IDFC have their own experience-sharing forums and working groups, such as IDFC's [Making Finance work for Nature](#). So there may be reluctance to set up yet another such mechanism. However, these groups are internal to existing industry forums that represent PDB sub-sets. There is need for a larger platform catalysing technical work with partners. A co-ordinated approach beyond PDBS only (at minimum, assigning lead responsibility to one or more institutions) will be essential to implement a number of the recommendations in this report. It is nevertheless possible that an existing forum or forums could take on this role as an extension to their current mandate and activities.

#### *9.1.4.2 Develop investment assessment approaches that integrate climate and nature*

Forward-looking PDBs are setting targets for climate-positive investments and integrating climate risks into investment assessment. Some are also now also setting targets for nature-positive investments within their climate funding (e.g. AFD's commitment that 30% of its climate finance must be biodiversity positive). Nature-based solutions are a potentially powerful approach to deploy finance to benefit both climate and biodiversity, but they are still little deployed. One mechanism to help change this is to consider climate and nature together, rather than in separate 'silos', when assessing investments. Some methodological development is needed to produce easily useable tools that can facilitate this.

#### *9.1.4.3 Improve spatial investment data and biodiversity metrics for finance*

PDBs could proactively engage with and support initiatives and processes to improve spatial data and metrics for finance that can support scaleable assessment, mitigation, monitoring and reporting of biodiversity risk and the positive and negative impacts of financing (including for agricultural value chains), and portfolio-level science-based targets for nature<sup>135</sup> in future.

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<sup>135</sup> See for example initial guidance for business on science-based targets for nature from the Science-based Targets Network.

## 9.2 Greening finance Action 2: Improve upstream planning and early risk screening to enable impact Avoidance

### 9.2.1 Constraints identified

#### 9.2.1.1 *Upstream planning perceived as difficult, unclear who should lead*

One of the most effective tools to mitigate biodiversity impacts is strategic land- or sea-use planning that can guide developments to low-risk areas (see section 5.5). But pro-active upstream planning is still the exception rather than the rule, with most projects relying on safeguard frameworks to manage risks. For PDBs, upstream planning is generally seen as ‘someone else’s job’, with concern about the cost, time required and the potentially burdensome need to work closely with governments and other stakeholders.

#### 9.2.1.2 *Patchy application of risk screening tools and datasets*

Screening for biodiversity risk early in the planning process is also key to implementing avoidance, the most effective step of the mitigation hierarchy. PDBs do undertake screening; however, many also do not, or do not have the access and knowledge needed to deploy the most relevant and up-to-date risk screening tools (such as IBAT) and datasets.

### 9.2.2 Policy recommendations

#### 9.2.2.1 *Identify opportunities and pro-actively take lead on upstream planning*

PDBs could ramp up collaborative efforts for upstream planning in landscapes/sectors of strategic interest. This would require identifying regions with potential for significant future investment in particular sectors (e.g. solar or wind energy) and supporting and working with governments, other PDBs and other stakeholders to carry out strategic land- or sea-use planning (where appropriate, as a component of formal strategic environmental assessment). The costs of such an exercise, if well planned and executed, would likely be far outweighed by the advantages of de-risking future projects.

Strategic planning also provides an opportunity to design a compensation framework (to offset residual biodiversity impacts) that maximises the value for conservation through a target-based compensation approach<sup>136</sup>. This would likely involve the use of aggregated offsets (covering more than one project), and could be linked to defined national conservation targets set in line with goals in the CBD post-2020 biodiversity framework<sup>137</sup>.

PDBs can also play a stronger role in supporting policy in partner countries (through policy loans or grants to support mainstreaming), so as to build good practice and standards into national

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<sup>136</sup> See e.g. [Simmonds et al. 2020](#)

<sup>137</sup> [www.cbd.int/conferences/post2020](http://www.cbd.int/conferences/post2020)

regulation. This could include establishing policies for no net loss/net gain at a national scale. This would also require support for governments to build capacity to implement these policies and ensure compliance.

### 9.2.3 Organisational recommendations

#### 9.2.3.1 *Increase the emphasis on upstream planning*

Following the example of IFC (section 5.5), PDBs could increase their organizational emphasis on upstream analysis at the geographic and sectoral level, and ensure that this is built into policy and processes, alongside implementation of project-level safeguards.

#### 9.2.3.2 *Secure collective access to risk-screening tools across all PDBs*

Access issues prevent some PDBs from using key risk screening tools routinely. IBAT is a particularly important tool for risk screening (section 5.8) and there is need to make it accessible to all. IBAT is only available for commercial use via a fee. As subscriptions support a part of the costs of collecting and curating the data in IBAT it cannot be provided free to commercial users.

PDBs could negotiate and fund a collective subscription to IBAT. This would allow all to use it routinely for risk screening, secure a predictable revenue stream for IBAT's partner organisations and greatly scale up IBAT's application to reduce harm to biodiversity. Negotiating subscriptions should also include consideration of access to third-party tools which incorporate data that is normally available to commercial users only through IBAT, for example Global Forest Watch and B-INTACT, since these may add significant value beyond IBAT.

### 9.2.4 Technical recommendations

#### 9.2.4.1 *Continuously improve risk screening by identifying and deploying new datasets and tools*

Many new tools and datasets relevant to risk screening are coming on stream (section 7). PDBs that already use tools such as IBAT can improve their risk management by broadening their use to include other tools and datasets where relevant. A technical PDBs co-ordination hub (section 9.1.4.1) could help to track new risk-screening resources and share information and experience in how they can be best applied.

PDBs can also help improve the information base for risk screening, and fill existing gaps, by engaging with data-sharing initiatives such as [Data4Nature](#), a collaboration between AFD and the Global Biodiversity Information Facility. This encourages sharing and use of data collected during environmental assessment and monitoring, via the GBIF platform. In private finance, the Equator Principles Financial Institutions have adopted a similar data-sharing approach, supported by recently published guidance<sup>138</sup>.

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<sup>138</sup> [EPFI 2020](#)

## 9.3 Greening finance Action 3: Apply effective safeguards to reduce and compensate for harm to biodiversity

### 9.3.1 Constraints identified

#### 9.3.1.1 *Most PDBs do not apply biodiversity safeguards, rely on often inadequate EIAs*

The MDBs, many bilateral and some regional PDBs have formal safeguards systems that incorporate biodiversity, either their own or through adopting an existing framework – most commonly IFC's. However, the large majority of smaller PDBs, as well as some very large bilateral and national development banks, rely on regulatory environmental impact assessment, an often flawed process that in most jurisdictions falls well short of good international practice and is not adequate to manage biodiversity risk.

#### 9.3.1.2 *Limited implementation capacity among PDBs, clients and consultants*

There are widespread capacity gaps for understanding and implementing biodiversity safeguards, both among PDBs themselves (though some are taking steps to address this) and among their client organisations and national (and sometimes international) consultants. These gaps can constrain the effectiveness with which safeguards are applied.

#### 9.3.1.3 *Biodiversity safeguards seen as too stringent and impacting cost competitiveness where regulation is weak*

Well-applied biodiversity safeguards reduce risks and therefore overall costs for investments in the long term. In the short term, however, they can be seen as expensive, cumbersome and imposing unnecessary requirements and constraints. Especially where regulatory systems are weak, this can create an uneven playing field for finance, pushing governments or business clients towards financiers that have less stringent environmental requirements.

#### 9.3.1.4 *Gaps in safeguard implementation for agriculture/commodities, supply chains, intermediaries, supervision, indirect and cumulative impacts, reporting of outcomes*

Well-implemented biodiversity safeguards can be very effective tools for risk management. However, respondents pointed out a number of areas where implementation commonly falls short, for a variety of reasons. Some MDBs are actively working to address these issues, but gaps can correspond to large volumes of financing and large potential impacts so demand broader attention.

#### 9.3.1.5 *Biodiversity offsets hard to implement, often not linked to broader conservation plans*

Challenges exist in implementing offsets to compensate for residual impacts on biodiversity. These include, among others, long-term financing and monitoring of outcomes. Arguably, most offsets developed under PDB safeguards frameworks have been implemented too recently to draw firm conclusions about their effectiveness, but this highlights the need for adequate resourcing, planning and capacity.

Offsets are also generally developed as ad-hoc, stand-alone interventions for particular projects. This can mean lost opportunities to aggregate offsets for economies of scale and improved conservation outcomes, and sub-optimal contributions to achieving broader conservation goals and targets.

### 9.3.2 Policy recommendations

*“Our policies to cause no harm to the environment and fight all threats to biodiversity including the destruction of natural habitats, the overexploitation of wild species and natural resources, pollution, invasive species and climate change, should be strengthened for all key biodiversity areas, including forests, oceans, wetlands and watersheds.” (Finance in Common Joint Declaration)*

#### 9.3.2.1 Support policy reform by governments to strengthen regulatory frameworks

MDBs and bilateral banks could work with governments that they support to enable policy reform, advising on the elements that need to be incorporated in regulatory frameworks to move towards international good practice. This would help level the playing field for investment, as well as providing the basis (along with robust implementation) to improve biodiversity outcomes and reduce systemic risk from biodiversity loss.

#### 9.3.2.2 Support development of target-based biodiversity compensation schemes

PDBs could support and encourage national governments to develop target-based biodiversity compensation schemes (see section 9.2.2.1 above) linked to national contributions to the post-2020 global biodiversity goals. This would reduce the planning and transaction costs for biodiversity offsets, and improve their conservation outcomes.

#### 9.3.2.3 Strengthen disclosure and reporting on biodiversity safeguards implementation

There is an urgent need to strengthen disclosure and reporting, and institute appropriate grievance mechanisms (or strengthen these, where they exist), relating to the actual implementation of biodiversity safeguards. Civil society organizations can play a crucial role here in closely monitoring safeguard implementation on the ground and supporting complaints and their handling.

### 9.3.3 Organisational recommendations

#### 9.3.3.1 Strengthen internal and external capacity for biodiversity safeguard implementation

*“Governments can reinforce this momentum through capacity-building programs for PDBs, accompanying the strengthening of a comprehensive, coherent and efficient global development finance architecture.” (Finance in Common Joint Declaration)*

To address capacity gaps, it is important that PDBs continue to strengthen their internal capacity to advise, support and supervise clients on implementation of biodiversity safeguards. MDBs and bilateral PDBs could also work together to scale up capacity-development and training efforts on

international good practice, for governments, smaller PDBs, consultants and civil society in countries/regions of strategic interest.

For sectors strongly linked to biodiversity loss, and where current safeguard implementation appears inadequate, e.g. in livestock production and commodity supply chains, further research may be valuable to better understand current limitations and ways forward.

#### 9.3.3.2 *Strengthen biodiversity elements in financing agreements*

There is need to review and strengthen biodiversity elements in common terms (financing) agreements with clients and related legal documents, allocate project budget for supervisory visits and for monitoring, and set clear financing, monitoring and reporting requirements for offsets.

#### 9.3.4 Technical recommendations

##### 9.3.4.1 *Develop standards and implementation toolkits for biodiversity safeguards useable by all PDBs*

Smaller PDBs may lack the capacity to develop their own safeguard frameworks or to implement relatively sophisticated and demanding frameworks such as IFC's PS6. Yet there is much to be gained if all PDBs could adopt at least some minimal common requirements – an approach strongly supported by many professionals. Larger PDBs could collaboratively support regional DFI associations to work with their members to set clear benchmarks and develop implementation toolkits for minimum standards on biodiversity performance, including improved transparency and disclosure that are attainable by smaller banks but meaningful in improving outcomes.

## 9.4 Financing green Action 4: Scale up investment in nature-based solutions to meet climate and other development goals

### 9.4.1 Constraints identified

#### 9.4.1.1 *Nature-based solutions often overlooked in favour of technological approaches*

Nature-based solutions have great potential to support climate mitigation, climate adaptation, disaster risk reduction and many other environmental goals. However, their full potential is far from being realised, and they are routinely overlooked in favour of technological solutions. Practical criteria and guidelines for identifying and implementing nature-based solutions are new and not yet well-known or broadly accepted.

### 9.4.2 Policy recommendation

#### 9.4.2.1 *Incorporate explicit nature-positive goals into climate and Covid-19 recovery finance*

*"Recovering from Covid-19 and achieving the Sustainable Development Goals (SDGs) and the objectives of the Paris Agreement are one and the same, i.e. interlaced and complementary goals to*

*be pursued together... We will strive to reach co-benefits among the climate, biodiversity and ocean agendas, whose joint preservation offers powerful opportunities to improve the health of the planet and all people.” (Finance in Common Joint Declaration)*

Biodiversity and climate goals are intrinsically linked. Given PDBs’ current focus on climate finance, including setting targets for investment, a powerful way to scale-up nature positive financing is to incorporate an explicit target for nature positive investments within the climate goal (as already done by, for example, AFD: see section 6.6.2). At national level, strategic integration of climate and biodiversity goals was recently announced by France and the UK<sup>139</sup>, and PDBs could follow this example.

A similar approach to Covid-19 recovery finance would help achieve the goal of ‘building back better’, in line with the Sustainable Development Goals. There is need for PDBs urgently to assess finance support to Covid-19 recovery efforts to ensure that sustainability considerations, including biodiversity, are built in to conditions and anticipated outcomes.

### 9.4.3 Technical recommendation

#### 9.4.3.1 *Develop shared standards and taxonomy for nature-positive financing*

PDBs could develop, publicize and apply clear and shared criteria, standards (e.g. in terms of scale, returns and safeguards)<sup>140</sup> and a green taxonomy to facilitate growth of bankable nature-positive investments in their portfolios. So-called ‘taxonomies’ are a practical tool to assess the extent to which particular investments can be classed as nature-positive. The EU taxonomy for sustainable activities<sup>141</sup> currently covers climate change and is being extended to include biodiversity (due in 2023). This should provide an excellent basis for classifying investments, but there may be need to adapt or extend it to develop a framework that can be used outside the EU. With facilitation from a technical co-ordination mechanism (see section 9.1.4.1) PDBs could convene a process to develop a shared green taxonomy as a benchmark and common language for nature-positive financing.

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<sup>139</sup> During the One Planet Summit on 11 January 2021. See <https://www.oneplanetsummit.fr/en/coalitions-82/coalition-convergence-climate-and-biodiversity-finance-191>

<sup>140</sup> Such as the IUCN Global Standard for Nature-based Solutions. See IUCN (2020a) and IUCN (2020b)

<sup>141</sup> See [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en)

## 9.5 Financing green Action 5: Scale up direct investment in nature conservation and restoration

*“Solutions are urgently needed... to unlock the potential of all financial flows, public and private and help shift current development pathways towards sustainability.” (Finance in Common Joint Declaration)*

### 9.5.1 Constraints identified

#### 9.5.1.1 *Enabling environment requires socio-political and policy interventions that are outside scope of PDBs*

For nature positive projects to succeed, broader interventions may first need to be in place (e.g. to clarify land tenure and usage rights). These often appear to be outside the scope and control of project proponents or PDBs themselves.

#### 9.5.1.2 *Narrow range of viable business models, projects seen as having high risks, low returns, long lead times*

Within PDBs, investment appraisal and risk assessment approaches tend to discriminate against nature-positive investments – which often rely on non-traditional business models and involve the collaboration of multiple stakeholders. For a project to attract investment, it has to involve a simple implementation process, reassuring the investor that the money would be effectively disbursed and the proposed activities effectively realized. In addition, “avoided loss of nature”, or restoration of previously degraded habitat, is poorly valued in the investment financial assessment process – the benefit of a nature-positive investment is therefore poorly recognized by investment appraisal.

Potential nature –positive projects are also too often confined to a relatively narrow set of business models (e.g. ecotourism), that are not appropriate or viable in all circumstances; hence the need for innovative business models, which might also require policy change to create an enabling environment.

#### 9.5.1.3 *Individual projects typically small-scale, inefficient to structure for investment and not coherent at landscape level*

Nature-positive projects are typically small and can be challenging to structure for investment. Individually, they may not achieve significant conservation gains. To be viable economically and in terms of biodiversity outcomes, projects need to be clustered into larger investable packages.

#### 9.5.1.4 *Metrics and methods to assess biodiversity outcomes not well developed*

PDBs lack readily available and useable measurement approaches to assess and compare the potential and actual biodiversity gains from potential nature positive projects. Such methods exist but have not been sufficiently standardized and developed to be accessible and easy to use. They may also require data inputs that go beyond readily available global datasets.

## 9.5.2 Policy recommendations

### 9.5.2.1 *Set clear targets for nature-positive investment*

By setting and publicizing explicit targets for direct nature-positive investment (in addition to investment via climate or other goals: section 9.4.2.1), PDBs can also effectively set criteria for nature-positive projects which would be different than for more traditional investments (which will tend to outcompete nature-positive projects based on traditional criteria).

Building on the climate example, PDBs could commit to portfolio alignment with targets agreed at COP15 CBD in Kunming and to transparent monitoring of implementation. This will require bringing PDBs' boards and shareholders on board, but the rationale for this approach is strong.

### 9.5.2.2 *Engage with governments to create an enabling policy environment*

PDBs could engage with governments through dialogue (national development banks) or/and technical assistance (bilateral or multilateral development banks), so as to promote and support policy change that can build a regulatory, fiscal and market landscape that will foster investment into nature-positive businesses.

## 9.5.3 Organisational recommendations

### 9.5.3.1 *Specify investability criteria for nature-positive projects*

By clearly specifying the criteria that nature-positive projects need to meet to be considered investable, PDBs can help proponents to design and structure projects that can be considered seriously for investment.

### 9.5.3.2 *Identify landscapes and sectors with potential for clustering nature-positive projects*

PDBs that have set targets for nature-positive investment could work towards meeting these by identifying high-potential landscapes, e.g. where habitat restoration or sustainable use of natural products could be developed into an investable business proposition. By focusing on these landscapes, and providing technical support where needed, they can facilitate development of clustered nature-positive projects at an investable scale.

PDBs could also support transition investments in existing industries, e.g., in large-scale regenerative agricultural supply chains. This could play a key part as a more rapidly scalable complement to investments in innovative nature positive business models (e.g., restoration linked to insurance risk concessions).

### 9.5.3.3 *Encourage cadre of skilled intermediaries bridging the conservation and finance sectors*

One significant barrier to nature-positive investment is the gap in approaches, assumptions and processes between the conservation and finance sectors. Skilled intermediaries are needed who can work cross-sectorally to bridge this divide at national and regional level. A few such organisations already exist, supporting the development of investable projects and effectively acting as a broker. PDBs could identify, engage with and support the capacity development of

such intermediaries facilitate development and effective implementation of investable nature-positive projects and financing deals. Natural Capital Labs and similar structures set up to promote innovation and facilitate nature-positive financing (see also section 9.5.4.2) may have an important role to play here.

#### 9.5.4 Technical recommendation

##### *9.5.4.1 Develop shared green taxonomy for nature-positive financing*

See section 9.4.3.1 above.

##### *9.5.4.2 Support a collective platform for natural capital 'accelerators' and investment funds*

A small number of PDBs and other organisations have formed, or are setting up, 'accelerators' or 'laboratories' to catalyse nature-positive investments (section 6.5.5). Private investors and NGOs have also joined forces to create the [Coalition for Private Investment in Conservation](#) (see Annex A). PDBs could build on and broaden these initiatives to and support a shared forum or platform for natural capital 'accelerators' and private investors in nature-positive projects, to increase efficiencies and the ease of finding investable projects.

##### *9.5.4.3 Test, innovate and promote financial instruments for scaling-up investment in nature*

Building on existing approaches and the innovative work of natural capital labs and 'accelerators', PDBs could develop mechanisms to test, innovate and promote financial instruments for scaling-up investment in nature – either as individual banks or as collectives.

## 9.6 Key recommendations by tier

As outlined above, different public development banks are at different stages of integrating biodiversity in their decisions and processes.

summarises the key practical recommendations for PDBs across three different tiers, comprising banks that have not started the journey of biodiversity mainstreaming (Tier C), banks that have begun to consider biodiversity (Tier B), and banks that are relatively advanced but have some way still to go (Tier A).

<b>Tier</b>	<b>C</b>	<b>B</b>	<b>A</b>
<i>Typically (though not always) includes:</i>	Smaller PDBs / national and sub-national banks	Mid-sized PDBs / regional and bilateral banks	Larger PDBs / the MDBs, some bilateral banks with public-sector focus
<b>Summary of current status</b>			
<i>Mainstreaming and commitments</i>	No consideration of nature	General environmental commitments	Biodiversity commitments, climate targets
<i>Safeguards for biodiversity</i>	Relies on regulatory EIA	Applies PS6 or own framework, but with limited supporting structures or capacity	Applies PS6 or own framework, with relatively robust structures and capacity
<i>Investments in nature</i>	None	Very few, not policy driven	Low-level but increasing, policy-driven
<b>Key recommendations</b>			
<i>Commitments and mainstreaming</i>	Develop institutional environmental commitment	Specify institutional commitments for biodiversity	Build on experience with climate to integrate biodiversity across internal processes and performance measures
<i>Biodiversity-related financial risk</i>		Carry out initial assessment of biodiversity footprint and risk across portfolios	Develop and apply approaches to quantify biodiversity-related financial risks
<i>Upstream planning</i>		Engage with upstream planning processes to de-risk future investments	Lead and support upstream planning processes to de-risk future investments
<i>Risk screening</i>	Institute environmental risk screening for investments	Ensure routine biodiversity risk screening for projects using tools such as IBAT	Strengthen biodiversity risk screening by deploying relevant new datasets and tools
<i>Safeguards for biodiversity</i>	Adopt and implement biodiversity safeguards that reflect basic elements of international good practice, including a requirement to apply the mitigation hierarchy	Strengthen capacity and structures for implementing biodiversity safeguards	Strengthen implementation of biodiversity safeguards in areas of current weakness (e.g. including agricultural projects and supply chains and intermediary financing) Establish or strengthen oversight mechanisms (e.g. an ombudsman function)
<i>Policy and regulation</i>	Support and engage with national platforms for sustainable finance		Engage with beneficiary governments to support policy reform and strengthen regulatory frameworks
<i>Nature-positive investment</i>		Set targets and specify investability criteria for nature-positive investments	Set targets for nature-based solutions within climate finance Test, innovate and promote financial instruments for scaling-up investment in nature
<i>Disclosure and reporting</i>		Strengthen disclosure and reporting on biodiversity risks, mitigation plans and outcomes, and nature positive investments. Engage constructively on biodiversity issues with relevant civil society organisations	Engage with the TNFD to shape and implement its recommendations on reporting and disclosure

Figure 37. Summary of recommendations, for three tiers of public development banks at different stages of integrating biodiversity in their financing

Note: This tiered approach assumes that banks in tiers A and B have already implemented, or will seek to implement, relevant actions specified in lower tiers

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## Annex A. Key finance-related forums, commitments, initiatives and standards

Name	Type	Focus	Finance focus?	Financial institutions' membership	PDB members
<b>Biodiversity in Good Company</b>	Initiative	Biodiversity	No	Private banks - mainly German	None
<b>BIOFIN</b> - the Biodiversity Finance Initiative UNDP	Initiative	Biodiversity	Yes	Countries	n/a
<b>Business for Nature</b>	Forum	Biodiversity	No	Mainly other sustainability forums/initiatives	None
<b>Climate Disclosure Standards Board</b>	Standard/NGO	Reporting climate	No	No members	n/a
<b>Club B4B</b>	Forum	Biodiversity	No	Private banks	Caisse de Depots (CDC) France
<b>Coalition for Private Investment in Conservation (CPIC)</b>	Forum	Biodiversity	No	Private Investors	EIB
<b>Convergence</b>	Forum	Blended Finance	Yes	Private investors	IFC, DFC, FinDev Canada, DBSA
<b>Cross-sector Biodiversity Initiative</b>	Forum	Biodiversity	No	EPFIs, three MDBs	EBRD, IDB, IFC
<b>Finance for Biodiversity Pledge</b>	Commitment	Biodiversity	Yes	Mainly private banks	Caisse de Depots (CDC) France
<b>Financial Centres for Sustainability</b>	Forum	Sustainability	Yes	Financial centres	None
<b>Global Impact Investing Network</b>	Forum	Sustainability	Yes	Private investors, PDBs, private banks and insurers	7 PDBs
<b>Global Reporting Initiative</b>	Standard	Reporting sustainability	No	Some private banks	EIB, KfW
<b>International Integrated Reporting Council</b>	Forum	Reporting sustainability	No	Private investors, banks,	World Bank
<b>International Platform on Sustainable Finance</b>	Forum	Green investment	Yes	Governments. PDB observers	EBRD, EIB, EDFI observers

Name	Type	Focus	Finance focus?	Financial institutions' membership	PDB members
<b>Natural Capital Finance Alliance</b>	Forum	Natural capital	Yes	Companies and private banks	None
<b>One Planet Business for Biodiversity</b>	Forum	Biodiversity	No	(Commodities-based companies)	None
<b>Operating Principles for Impact Management</b>	Standard	Social and environmental impact	Yes	Investors and PDBs	c. 18 MDBs and bilaterals
<b>Partnership for Biodiversity Accounting Financials (PBAF)</b>	Forum	Biodiversity	Yes	Netherlands finance institutions	FMO
<b>Science-based Targets Initiative</b>	Commitment/initiative	Climate	No	Private banks	FMO road-tested 2019 guidance
<b>Sustainability Accounting Standards Board</b>	Standard/Foundation	Reporting - sustainability	No	Investment Advisory Group - private investors	None
<b>Task Force for Climate-related Financial Disclosures</b>	Standard			A range of financial institutions	11 PDBs
<b>Task Force for Nature-related Financial Disclosures (informal working group)</b>	Informal Group	Working Biodiversity	Yes	Private and public banks	5 PDBs
<b>UN Global Compact</b>	Commitment	Sustainability	No	Private banks	5 PDBs
<b>UNEP Finance Initiative</b>	Standard/forum	Sustainability	Yes	Mainly private banks	c. 20 PDBs
<b>We Mean Business Coalition</b>	Forum	Sustainability	No	Private banks	None
<b>World Business Council for Sustainable Development</b>	Forum	Sustainability	No	Some private banks	None

## B4B + Club

The aim of the Business for Positive Biodiversity Club is to facilitate the development of an indicator for biodiversity footprinting, termed the Global Biodiversity Score (GBS), which is adapted for the needs and constraints of its members. This tool allows financial institutions and companies to identify and quantify the impact of their actions throughout the value chain on

biodiversity, enabling them to take action to reduce them. This tool was launched on May 12, 2020.

### Biodiversity in Good Company

This cross-sectorial collaboration of companies have come together to improve the role of businesses in the protection and sustainable use of biological diversity. Companies are encouraged and supported in their commitment to integrate biodiversity and ecosystem services into their environmental and sustainability management systems and operations throughout the value chain. The initiative acts as a forum for exchanging experience, opportunities for business action for biodiversity, building biodiversity business cases, and creating awareness. Members also commit to publishing their biodiversity-related activities, improving transparency and turning commitments in to action.

### BIOFIN - the Biodiversity Finance Initiative UNDP

BIOFIN was initiated to respond to the urgent funding needs for national and global biodiversity conservation funding. In the first phase of the initiative, which ran from 2012-2019, BIOFIN developed and piloted a new methodological framework to identify, develop and implement a national evidence-based finance plans. Phase 2 will run until 2022 and will enable other countries to implement their finance plans and prioritise finance solutions.

### Business for Nature

The objectives of this global coalition are to 1) act as a unified voice calling for political change to reverse nature loss, 2) demonstrate business ambition and action for protecting nature, 3) showcase business solutions by translating commitments into action for meaningful impacts on nature, and 4) communicate the business case for reversing nature loss. Partners include businesses, industry associations, research institutions and NGOs. The coalition guides businesses in understanding their impacts and dependencies on nature, and making informed and credible commitments for nature. They highlight the reliance of businesses on ecosystem services and the risks and opportunities that this presents to the global economy.

### Climate Action in Financial Institutions

This initiative aims to provide public and private financial institutions an opportunity to learn from each other, to disseminate good practice and lessons learned and to collaborate on areas of common interest. Guided by five Voluntary Principles for Climate Mainstreaming, institutions aim to shift from financing climate activities in incremental ways, to making climate change – both in terms of opportunities and risk – a core consideration and a “lens” through which institutions deploy capital.

The five principles are:

- Commit to climate strategies
- Manage climate risks
- Promote climate smart objectives
- Improve climate performance

- Account for your climate action

Supporting institutions include 25 Bilateral, Regional & National Development Banks, 12 Multilateral Development Banks and subsidiaries and 14 Commercial Financial Institutions from developed and developing countries.

### Climate Disclosure Standards Board

This international consortium of business and environmental NGOs aims to contribute to more sustainable economic, environmental and social systems. They are committed to advancing and aligning the mainstream corporate reporting model to equate natural capital with financial capital. The consortium seeks to enhance nature-related financial disclosures for the four core elements of air (including climate change), water, land, and biodiversity (including drivers of deforestation). Their framework enables businesses to report environmental information with the same rigour as financial information. This increases transparency and improving quality and quantity of decision-useful information.

### Coalition for Private Investment in Conservation (CPIC)

This global coalition of civil society organizations, private and public sector financial institutions and academia focuses on enabling conditions which support an increase in private, return-seeking investment in conservation. Their new investment models and funding pipelines aim to close the current biodiversity conservation funding gap while facilitating sustainable development. Building on collective experience, CPIC is developing replicable, scalable investment “blueprints”. This will increase deal flow for focus sectors, including coastal resilience, forest landscape conservation and restoration, green infrastructure for watershed management, sustainable agriculture intensification, and sustainable coastal fisheries.

### Convergence

Convergence is a global network which generates blended finance data, intelligence and investment from the private sector into developing countries. Their aim is to decrease the SDG funding gap across sectors by promoting a blended finance approach.

### Cross-sector Biodiversity Initiative (CSBI)

The CSBI was established to develop and share good practices for biodiversity and ecosystem services in the extractive industries. The initiative is a partnership between IPIECA, the International Council on Mining and Metals (ICMM) and the Equator Principles Association, the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC) and the Inter-American Development Bank (IDB).

Their [cross-sectoral guide](#) for the implementation of the mitigation hierarchy provides practical guidance, innovative approaches and examples for technical specialists, extractive industry experts and financial institutions. The initiative has also developed a [Timeline Tool](#) to act as a roadmap for biodiversity management through effective implementation of the mitigation hierarchy within

project schedules. CSBI has also provided guidance on [good practices](#) for the collection of biodiversity baseline data.

### Finance for Biodiversity Pledge

The Finance for Biodiversity Pledge has brought together 37 financial institutions from 13 countries commit to protect and restore biodiversity through their finance activities and investments, and to call on global leaders to do the same. By 2024, signatories have committed to: 1) collaborate and share knowledge on assessment methodologies, biodiversity-related metrics, targets and financial approaches for positive impact, 2) engage with companies to reduce negative and increase positive biodiversity impacts by incorporating biodiversity criteria into ESG policies, 3) assess the impact of financing activities and investments, 4) set and disclose science-based targets for biodiversity, 5) public reporting on biodiversity impacts of their portfolios.

### Financial Centres for Sustainability (FC4S)

The objective for FC4S is to accelerate the growth of sustainable finance by facilitating expertise sharing and driving action for shared priorities among financial institutions. FC4S is taking action for nature towards the SDGs through local green initiatives, integrating ESG factors along the value chain of investments and investing in green bonds. In 2020, FC4S joined banks and companies along with UK, French, Swiss and Peruvian governments to set up a Task Force on Nature-related Financial Disclosures in an effort to reduce funding to economic activities which are harmful to biodiversity and increase funding to those with a positive impact.

### Global Impact Investing Network (GIIN)

PDB members: BIO, DFC EBRD, FinnFund, FMO, IFC, SIFEM, Swedfund

The GIIN is dedicated to increasing the scale and effectiveness of impact investing around the world. By facilitating knowledge exchange, developing innovative investment approaches and tools and evidence for the industry, the network aims to reduce barriers to impact investing and increase funding for solutions to the world's biggest challenges. Impact investing for the environment focuses on sustainable agriculture, renewable energy and conservation sectors, as well as climate finance across sectors.

### Global Reporting Initiative (GRI)

The initiative aims to use the widely used [GRI standards](#) to enable organisations to be transparent and take responsibility for their environmental impacts. Their standards create a global common framework for impact reporting, which drives information sharing and informed decision making. Several standards cover various environmental aspects and GRI 304 is specifically focused on biodiversity impacts.

### International Integrated Reporting Council (IRCC)

The IRCC promotes communication about value creation and integrated reporting to improve financial stability and sustainable development. Integrated reporting encourages a holistic

approach where organisations can better understand their dependencies on the natural environment and consider impacts that are not priced into conventional markets.

### International Platform on Sustainable Finance

[https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/international-platform-sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/international-platform-sustainable-finance_en)

PDB observers: EBRD, EIB, EDFI

The ultimate objective of the IPSF is to scale up the mobilisation of private capital towards environmentally sustainable investments. The IPSF therefore offers a multilateral forum of dialogue between policymakers that are in charge of **developing sustainable finance regulatory measures** to help investors identify and seize sustainable investment opportunities that truly contribute to climate and environmental objectives. Through the IPSF, members can exchange and disseminate information to **promote best practices, compare their different initiatives and identify barriers and opportunities of sustainable finance**, while respecting national and regional contexts. Where appropriate, willing members can further strive to align their initiatives and approaches.

### Natural Capital Finance Alliance (NCFA)

This forum aims to enable banks, investors and insurers to make better decisions by assessing their impacts and dependencies on nature. Together with UNEP FI, the [ENCORE](#) (Exploring Natural Capital Opportunities, Risks and Exposure) Tool has been developed under the [Advancing Environmental Risk Management \(AERM\) project](#) to help the financial sector identify, reduce and manage risks of environmental impacts and dependencies.

### One Planet Business for Biodiversity (OP2B)

OP2B is an agricultural focused cross-sectorial, action-oriented business coalition on biodiversity. Their aim is to drive systemic change and action to protect and restore cultivated and natural biodiversity throughout value chains. The coalition engages institutional and financial decision-makers to develop and promote policy recommendations for the 2021 CBD COP15 framework. Three pillars underpin their actions: 1) scaling up regenerative agricultural practices; 2) boosting cultivated biodiversity and diets through product portfolios; and 3) eliminating deforestation / enhancing the management, restoration and protection high-value natural ecosystems.

### Operating Principles for Impact Management

<https://www.impactprinciples.org/>

PDB signatories: BIO, CDC UK, DEG, EBRD, EDFI (as association), EIB, FinDev Canada, FMO, IDB, IFC, Islamic Corporation for Development of the Public Sector, JICA, Norfund, OeEB (Austria), PROPARCO, STOA, Swedfund, US DFC,

Impact investing can be defined as “investments made into companies or organizations with the intent to contribute to measurable positive social or environmental impact, alongside financial returns.”

The Impact Principles, launched in April 2019, provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle. These 9 principles bring greater discipline and transparency to the impact investing market, requiring annual disclosure statements and independent verification of Signatories' impact management systems and processes.

Signatories are a diverse group of impact investors, comprised of asset managers, asset owners, Multilateral Development Banks and Development Finance Institutions. In addition to committing to this global standards, Signatories have the opportunity to collaborate and lead on key impact investing initiatives that will help shape the future of this growing market.

Principles require *inter alia* definition and management of strategic impact on a portfolio basis; systematic assessment of investment impacts; assessing, addressing, monitoring and managing potential negative impacts; and publicly disclosing alignment (with regular independent verification).

#### PRINCIPLE 5:

Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

### Partnership for Biodiversity Accounting Financials (PBAF)

This partnership of financial institutions was initiated in 2019 by ASN Bank with the aim of producing a harmonised biodiversity accounting approach for the financial sector. The partnership explores the opportunities and challenges around biodiversity impact assessment and disclosure in their [Common Ground Paper](#) published in 2020.

### Science-based Targets Initiative (SBTi)

The partnership between CDP, the United Nations Global Compact (UNGC), World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) emerged from one of the We Mean Business Coalition commitments. The initiative aims to drive ambitious corporate climate action by enabling companies to set science-based emissions reduction targets. Through this, the initiative will contribute to accelerating the transition to a zero-carbon economy, boosting innovation and driving sustainable growth. Their actions for climate include promoting best

practice, providing technical assistance and expert resources to companies setting science-based targets, and carrying out independent assessment and validation. The Science Based Targets Network is working in parallel to set science-based targets for water, land, ocean, and biodiversity by 2025.

### Sustainability Accounting Standards Board (SASB)

SASB standards were established to enable businesses to identify, manage and communicate financially-material sustainability information to their investors. The standards provide industry-specific disclosure topics and accounting metrics, protocols for compiling data, and activity metrics for normalisation. The environmental dimension of SASBs sustainability topics covers the use of natural resources such as water, minerals and biodiversity, as well as the release of harmful substances into the environment, which may affect natural resources.

### Task Force on Climate-related Financial Disclosures

PDB members: Asian Development Bank, Development Bank of Japan, European Bank for Reconstruction and Development, European Investment Bank, European Investment Fund, Inter American Development Bank, International Finance Corporation, Japan Bank for International Cooperation, Japan Finance Corporation, Kreditanstalt für Wiederaufbau (KfW), Nordic Investment Bank

TCFD was established to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. Recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets. TCFD is currently engaged in helping companies implement the recommendations and promoting advancements in the availability and quality of climate-related disclosure.

### Task Force on Nature-related Financial Disclosures (informal working group)

PDB member: Agence Française de Développement, International Bank for Reconstruction and Development, Banco de Desarrollo de América Latina, International Finance Corporation, European Bank for Reconstruction and Development

The Task Force aims aid in the appraisal of nature-related risks and shift global financial flows towards nature-positive outcomes by provide a framework for corporations and financial institutions to evaluate, manage and disclose their dependencies and impacts on nature. The task force is being established through a partnership between Global Canopy, the United Nations Development Programme (UNDP), the United Nations Environment Programme Finance Initiative (UNEP FI), and the World Wide Fund for Nature (WWF). Together, seek to build awareness and capacity to reduce the negative impacts of the financial sector on nature and biodiversity.

## The Equator Principles

PDB members: FMO , KfW IPEX-Bank [specialist banker for German/Europe export industry], Korea Development Bank, Swedbank AP,

“The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.

The EPs apply globally, to all industry sectors and to five financial products: 1) Project Finance Advisory Services, 2) Project Finance, 3) Project-Related Corporate Loans, and 4) Bridge Loans and 5) Project-Related Refinance, and Project-Related Acquisition Finance . The relevant thresholds and criteria for application is described in detail in the Scope section of the EPs.

Currently 111 Equator Principles Financial Institutions (EPFIs) [database says 114] in 37 countries have officially adopted the EPs, covering the majority of international project finance debt within developed and emerging markets.

EPFIs commit to implementing the EPs in their internal environmental and social policies, procedures and standards for financing projects and will not provide Project Finance or Project-Related Corporate Loans to projects where the client will not, or is unable to, comply with the EPs.

While the EPs are not intended to be applied retroactively, EPFIs apply them to the expansion or upgrade of an existing project where changes in scale or scope may create significant environmental and social risks and impacts, or significantly change the nature or degree of an existing impact.

The EPs have greatly increased the attention and focus on social/community standards and responsibility, including robust standards for indigenous peoples, labour standards, and consultation with locally affected communities within the Project Finance market. They have also promoted convergence around common environmental and social standards. Multilateral development banks, including the European Bank for Reconstruction & Development, and export credit agencies through the OECD Common Approaches are increasingly drawing on the same standards as the EPs.”

The EPs have also helped spur the development of other responsible environmental and social management practices in the financial sector and banking industry and have supported member banks in developing their own Environmental and Social Risk Management Systems.

Regarding Principle 3 (“Applicable Social and Environmental Standards”), refer to this page for the Designated Countries list.

## World Business Council for Sustainable Development (WBCSD)

The WBCSD is an international CEO-led organisation with over 200 businesses coming together to accelerate sustainability by improving the positive impact for shareholders, the environment and society. Through scalable science-based solutions the organisation helps companies deliver measurable impacts for nature. This is driven by projects on food, land, water and ocean use; infrastructure and the built environment; and energy and extractives. The organisation has also published [several guides](#) on biodiversity and business, such as their [Biodiversity Management Plan Guidance](#).

## UNEP Finance Initiative

PDB members: Asian Development Bank, Banco de Desarrollo del Ecuador, Banco de Fomento Agropecuario, Banco Nacional de Desenvolvimento Econômico e Social, Banco Nacional de Fomento, Bank Pembangunan Malaysia, Caisse de Dépôts et de Gestion, China Development Bank, Croatian Bank for Reconstruction and Development, Development Bank of Japan, Development Bank of Philippines, European Bank for Reconstruction and Development, Finnish Fund for Industrial Cooperation Ltd, Industrial Development Corporation (South Africa), Kreditanstalt für Wiederaufbau (KfW), Land Bank (South Africa), Netherlands Development Finance Company, Norwegian Investment Fund for Developing Countries, Swedfund International AB, VEB.RF – State Development Corporation. Several other PDBs state that they follow the Principles for Responsible Investment, but are not listed as signatories.

Through its network of members, UNEP FI facilitates the co-creation of practical resources and knowledge sharing to enable financial institutions to embed sustainable financial market practices into their strategies. UNEP FI works with members across the financial sector and their frameworks include the [Principles for Responsible Banking](#) (PRB), [Principles for Sustainable Insurance](#) (PSI), and [Principles for Responsible Investment](#) (PRI).

To facilitate sustainable development both on land and in the oceans, UNEP FI hosts the [Sustainable Land Use](#) initiative, focused on forested developing countries, and the [Sustainable Blue Finance](#) initiative which lays out the [Sustainable Blue Economy Finance Principles](#). Developed together with the [Natural Capital Finance Alliance](#), the [ENCORE Tool](#) and the [Natural Capital Protocol](#) assists financial institutions to explore natural capital opportunities, risks and exposure; the [Agricultural Lending](#) guide enables natural capital credit risk assessment; and the [Drought Stress-Testing Tool](#) for assessing loan portfolios. Each of these frameworks, tools and initiatives can provide the basis for action on biodiversity and [target setting](#).

## UN Global Compact

PDB members: China Development Bank, Croatian Bank for Reconstruction and Development, Groupe Crédit Agricole du Maroc (GCAM), VEB.RF – State Development Corporation, Swedfund International AB

The world's largest corporate sustainability initiative calls companies to align their strategies and actions with universal human rights, labour, environment and anti-corruption principles. This is underpinned by the Sustainable Development Goals. The UN Global Compact pushes businesses

to move beyond traditional compliance-based approaches towards a more sustainable approach focused on actively addressing environmental risks and opportunities. Their [Framework for Corporate Action on Biodiversity and Ecosystem](#) enables corporate sustainability strategies to integrate the development, implementation, and disclosure of policies and practices on biodiversity and ecosystem services.

## We Mean Business Coalition

The We Mean Business Coalition aims to accelerate the zero-carbon transition by catalysing business action and driving policy change. Through the coalition, companies can publicly commit to ambitious goals which contribute towards a zero-carbon economy. This includes net-zero emissions, zero-carbon energy system, zero-carbon transport system, climate smart agriculture, zero-carbon construction, and climate-competent companies by improving internal capacity.

## Annex B. Innovative finance mechanisms for nature: overview

### Public Development Banks

PDBs currently use a range of finance mechanisms to achieve their investing and economic support objectives. The following review of appropriate finance mechanisms for PDBs is based on a combination of interview discussions, review of the published literature, and the experience of the experts' team with regards to these instruments. This section begins with a review of several overarching principles and suggested approaches and then concludes with a review of the pros and cons of each mechanism.

### Innovation and Impact

Public Development Banks are using a wide range of finance mechanisms or tools to achieve their objectives (see Report Section). Some standard mechanisms that have been the mainstay of PDBs for years such as direct investment (debt and equity), subsidized debt and loan guarantees continue to be effective and an essential part of each bank's portfolio of tools. In addition to these standard tools, increasing innovation and experimentation has been occurring both within the PDBs themselves and in the larger sustainable finance community. This innovation has resulted in valuable insights and new mechanisms that are worth exploring for most banks either because they can generate greater impact relative to investment or they can be more efficiently implemented.

It is important to recognize that adopting financial instrument and finance mechanisms that are new to an organization presents operational, legal, and financial challenges – the cost of which should be included in any decisions to pursue new opportunities. With that understanding, it should be noted that many of the most interesting innovations are being developed or supported by PDBs because they have more flexibility to explore innovation in sustainable development finance than do purely commercial banks.

Given the general economic development mandate of PDBs, investments in nature that are likely to produce the greatest economic return to the country or region should be prioritized to generate understanding of the opportunities and to build buy-in from political decision makers on the value of investing in nature.

### Description of Finance Mechanisms beneficial to nature.

#### Private loans and/or equity linked to positive environmental outcomes

Most PDBs utilize the mechanisms of private investment to support companies and projects that have public benefit. These investments can run the gamut of completely risk adjusted return objectives (i.e. similar rates/returns compared to the private banking sector) to heavily concessional financing that either accepts greater relative risk or lower relative returns than the

private market would bear. This concessional element of investing available to the PDBs allows for the banks to target their investments into companies and projects that provide for desired social outcomes such as job creation, economic growth, equality, and other sustainable development objectives.

The maintenance of natural ecosystems and biodiversity is a public good, a key part of sustainable development, and an appropriate investment target for PDBs. The ways in which PDB can use private loans and equity investment to support ecosystem health and continuous provision of ecosystem services to their target population include the following approaches:

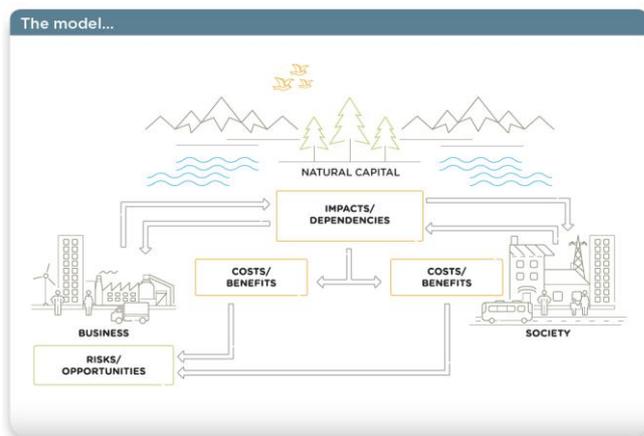
1. Link concessional loans to reducing harmful impacts on nature – a) access to low interest loans or b) the level of concessionalism is linked to specific activities or outcomes of the private company or project receiving the concessional loans. Certain businesses have substantial negative impacts on nature (for positive impact focused investing see D. investment in conservation businesses) and access to finance at favorable terms can provide a strong incentive to change the activities of a company and reduce negative impacts. This approach goes beyond safeguards to positively incentivize good behavior and investments.
2. Transition Finance – many companies would like to improve their environmental footprint but experience competing demands for investment capital in the company (i.e. marketing, R&D, etc.) and environmental actions are often seen as a cost rather than a return-based investment. However, many environmental initiatives such as energy efficiency, reduction of toxic waste through re-engineering or changing materials, and supporting sustainable supply chains, have very clear positive returns on investment (ROI). It should be noted that cost savings go right to the bottom line profit. Transition financing provides companies (and projects) the ability to design and implement these cost saving (and risk reduction) opportunities through outside PDB financing and encourages them to make these changes a priority.
3. Enterprise Challenge Funds – this is a specific use of concessional finance to offer companies enhanced incentives to achieve specific types of environmental objectives. The challenge comes from offering a grant or subsidized loan to a company that initiates and partially finances a specific environmental project or program. Challenge Funds are especially effective when there is a specific environmental objective that has been identified and prioritized – such as reducing airborne particles or reducing harmful industrial pollutants.

### Public loans linked to environmental programs

Most PDBs provide loans to national and subnational government agencies, departments, and jurisdictions (e.g. states and municipalities). PDBs can link access to this financing, interest rates, and other financial conditions to environmental targets and specific environmental programs. Many of these loans can be supported by bond issuances by the PDB and if the proceeds of the bond are earmarked for environmental programs, they can be classified as “green bonds” – a highly desired type of bond that has been rapidly growing in volume and investor interest over the past few years.

## Investments integrating Natural Capital Accounting

Natural Capital Accounting is defined as, “The stock of renewable and nonrenewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people (Natural Capital Protocol, [Capitals Coalition](#)). Accounting for natural capital in investment decisions helps to assure that investments are not economically harmful and supports the maintenance of the full capital that a country or region may possess. PDBs could require consideration of natural capital by both their clients and their analysts.



Source: The path towards the Natural Capital Protocol: a primer for business. Capitals Coalition.

## Targeted investment in conservation businesses

Seeking to make direct investments in pro-conservation businesses is perhaps the most direct option for seeking positive outcomes for nature and the economy. Investments would follow the PDB’s existing approach to financing businesses (either directly or through intermediaries) and would set up a set of criteria to prioritize conservation focused businesses for the specific funding window. Criteria can be based on the companies’ intentions or documented history of supporting outcomes defined in national or global environmental initiatives or policies such as climate agreements, biodiversity targets (e.g. Convention on Biological Diversity, CBD), of nature related targets in the Sustainable Development Goals (SDGs). Additional options could include a program to support innovation in conservation businesses through providing funds for technical assistance to startups and SMEs through impact funds, incubators and accelerators.

## Financial guarantees or risk insurance (blended finance)

Financial guarantees are a staple of PDB’s tool kit and most banks are familiar with this mechanism. Reducing risk is an effective means to balance the risk/return ratio for investments that either have lower than desired returns (i.e. below a specific hurdle rate) or higher than desired risks for pure private sector investment. This is a low-cost option that reduces risk for private finance partners. The mechanism works through providing some kind of financial guarantee against loss. For example, a loan guarantee can be provided to a national or regional bank to encourage that bank to make loans in an area or sector where they are not familiar – i.e. coastal communities or

clean energy. If there are losses (non-repayment of loan) then the guarantee compensates the local bank for those losses greatly decreasing investment risks. Often a loan guarantee covers 50% of the risk (so that the target financial institution also takes on risk) and the cost to the financial institution is often very low – 1 or 2% of the total guarantee amount. For development banks that have strong balance sheets, these types of guarantees often do not require setting aside the entire reserve but only an anticipated potential loss amount (e.g. 10%). Financial insurance products can function in a very similar way but often involve specialized insurance providers.

#### First loss or other concessional capital (blended finance)

Concessional capital is a general term for the provision of below market rates for access to capital. There are multiple forms of concessional finance but the main forms are concessional loans and quasi-equity products. Concessional loans are simply below market rates intended to support certain types of businesses (i.e. ecotourism) that are desirable based on specific economic or policy choices. It is important to target the concessional financing towards specific areas and company types that are not receiving adequate levels of commercial investment as concessional capital has the risk of affecting functioning existing capital markets. The “first loss” concept is based on the idea of establishing different finance tranches within a specific investment or investment package. The different tranches of the investment can have different attributes such as different interest rates (concessional capital) and different levels of risk. Often the equity investors are the first loss (prior to debt) investors in the event of default or business closure. Public Development Banks can assume first loss for a loan product that improves the return to risk ratio for equity investors or other debt investors – thus encouraging private investments into businesses that would be perceived as too risky without the concessional approach. Another innovative approach that has been used by the Inter-American Development Bank is revenue-based equity or profit-based equity where the company does not sell ownership but sells rights to future earnings to the investor. There are many other forms of hybrid equity/debt that can also be used as a form of concessional finance.

#### Technical assistance funds or project preparation grants (blended finance)

Technical assistance funds or project preparation grants are often used in blended finance to develop an investable pipeline of deals or to build the capacity of a specific company or organization to be able to receive concessional or commercial finance. The technical assistance funds often precede an investment but could also be provided alongside an investment to cover costs that increase a company’s sustainability (e.g. organic certification) but that are unlikely to be eligible for commercial finance. As defined in the name, these funds are often provided with no repayment – grants – although there are alternative approaches that may be more effective such as forgivable loans where if the company achieves a specific environmental or social milestone, the loan is forgiven and becomes a grant.

## Green Bonds or Sustainability Bonds

Green bonds (or sustainability bonds) are defined by the Climate Bond Initiative as “A financial debt instrument that is almost entirely linked with green and climate friendly assets or projects.”<sup>142</sup> Sustainability bonds are a broader grouping that would include all bonds that are almost entirely linked to one or more of the UN’s Sustainable Development Goals. The green bond market has moved over a trillion dollars (US) since they were established a decade ago. Green bonds can be 1) sovereign bonds – issued by countries, states, or municipalities, 2) public development bank issuances, or 3) commercial bonds issues by private banks on behalf of corporate clients. Bonds can be issued as a private placement to accredited individuals and institutions or offered on the public markets. PDB use green bonds to raise capital for specific green initiatives and then once the money is raised, they can make investments in the target sectors to achieve the desired impacts. Bonds are loans and must be repaid with interest (called a coupon).

## Pay for success structures (i.e. social impact bonds)

Pay for success (PFS) structures are a “set of outcomes-based financing strategies that directly and transparently link resources to impact.”<sup>143</sup> Pay for success (also known as outcome-based financing or impact bonds) works when there are a specific set of desired measurable outcomes and some level of risk in achieving those outcomes. The systems require an outcome buyer – some entity willing to pay for the results (often a government agency or philanthropy) – an initial investor willing to take on the risk of failure in exchange for a reward payout (often set to a specific return like a bond), and one or more implementing actors who, with financing from the initial investor can implement more experimental programs than would have occurred under direct government financing. The growth of PFS approaches in social impact has led to the exploration of the tool for environmental impact including the development of the [Rhino Bond](#) with support from a range of actors.

## Leveraging debt conversion for nature conservation (debt-for-nature swaps)

Debt conversion for nature (debt-for-nature-swaps) have been used for decades as a means to achieve two goals simultaneously – reduce a developing country’s debt burden and increase financing for nature. Debt conversions can be especially interesting when a developing country has a high debt to GDP ratio and is at risk of defaulting on certain loans, or when the use of difficult to access hard currency is required for debt servicing. If the debt is trading or valued well below the face value, the debt holder could be willing to sell the debt at a reduced price. The savings of this type of transaction can be allocated to nature through the establishment or financing of a [Conservation Trust Fund](#). In fact, many of the oldest CTFs were established by this approach for initial financing. Allowing the repayment of the loan or contributions to the CTF in local currency relieves the country of needed to generate and export hard currency to service their previous debts. [The Nature Conservancy](#) has an international program focused on debt

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<sup>142</sup> <https://www.climatebonds.net/certification/glossary>

<sup>143</sup> <https://socialfinance.org/social-investment-approach/>

conversion for nature that they refer to as Blue Bonds because many of the target countries would use the proceeds of a debt conversion for marine conservation actions.

## Biodiversity Offsets

Biodiversity offsets are a mechanism to achieve no net loss of biodiversity from infrastructure, extractive industries, and other economic activities that, regardless of mitigation efforts, still result in residual impacts on nature. Offsets and “compensation” regulations exist in many countries as a means to minimize harm to nature but robust financial mechanisms to support offset programs are found in only a few countries. As such, many biodiversity offset initiatives are driven by large developers and extractive industry companies due to either reputation management or financing needs (e.g. Equator Banks require IFC Performance Standards to be followed). Financing biodiversity offsets can be an interesting opportunity for PDBs and a full range of interesting approaches was elaborated in a report entitled, “[Options and Financial Mechanisms for the Financing of Biodiversity Offsets](#)”<sup>144</sup>.

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<sup>144</sup> Barnard *et al.* 2017

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## Annex D. Survey content

Example (filled anonymously) of Google Forms survey used to collect information on PDBs' greening finance and financing green activities.

## Making finance nature-positive: the role of Public Development Banks

### Introduction to the Study:

The continued rapid global loss of wild nature, alongside climate change, poses serious risks for human societies and economies. The urgency of addressing biodiversity erosion has been reinforced by very recent initiatives from heads of State and leading international organisations, including the Global Leaders' Pledge at the United Nations' Leaders' Event for Nature and People ahead of the UN Biodiversity Summit (30 September 2020), and the recent launch of a Task Force on Nature Related Financial Disclosures (TNFD) by various Public Development Banks, commercial financial institutions, NGOs and regulatory bodies.

In 2021, Parties to the Convention on Biological Diversity are expected to agree on 2030 Targets in the context of the Post-2020 Global Biodiversity Framework (GBF). A concerted approach across the whole of society will be needed to implement this framework and put nature on a path to recovery. Public Development Banks (PDBs, often also known as Development Finance Institutions) have a key role to play through their own financing policies and through leveraging private sector investment. As outlined by the World Bank (2020), this role could involve both 'greening finance' (better considering nature when making investments) and 'financing green' (scaling up investments to protect and restore nature).

Many PDBs are advancing a nature-positive approach to financing but may be facing a range of constraints. This survey is part of a study (conducted by The Biodiversity Consultancy for the World Wide Fund for Nature (WWF)) to take stock of PDBs' efforts to consider nature in their financing decisions and identify opportunities for closer alignment with global biodiversity goals. The study aims to highlight the efforts that PDBs are already making, identify constraints and challenges, and develop constructive recommendations to help overcome these. The focus is on supporting and further encouraging PDBs' efforts, not on criticising any shortcomings.

### Informed Consent and Confidentiality:

To inform this study, we would greatly appreciate you providing your perspective through completing this questionnaire. You will be asked to provide information on your institution's general approach to biodiversity, its work to address biodiversity risks and impacts in financing and, if applicable, its approach to nature-positive financing. You will also be asked for your views on current challenges, and opportunities to improve practice.

Individual responses to this survey are confidential. Responses will be aggregated and analysed in order to inform our study, culminating in a report, outlining current practice at PDBs and recommending practical steps to improve the management of biodiversity risks, impacts and opportunities. Any use of answers to illustrate findings will be done anonymously and not linked back to yourself or your organisation, unless you give specific permission otherwise. All data will be stored in compliance with EU data privacy regulation (GDPR) requirements.

Depending on your institution's activities, the survey should take approximately 10-20 minutes to complete.



### Personal and Organisational Details

This section asks for some introductory information on your role and your organisation.

#### Your Organisation:

Please provide information on your Public Development Bank below.

#### Public Development Bank (PDB) Name:

Including your organisation's name will help our analysis, but answers will be used anonymously and not linked back to any organisation.

Please choose the Public Development Bank type that best characterises your organisation \*

- Multilateral
- Bilateral
- Regional
- National
- Sub-National
- Other: \_\_\_\_\_

Is your organisation a member of: \*

	Yes	No	Do not know
IDFC (International Development Finance Club)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
EDFI (European Development Finance Institutions)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
WFDI (World Federation of Development Finance Institutions)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

**Sectoral focus areas (if any - please choose all that apply): \***

- None / Not Applicable
- Public Sector
- Private Sector
- Industrial
- Infrastructure
- Agribusiness
- Tourism
- Microfinance
- Other: \_\_\_\_\_

**Approximate gross annual financing value (in US dollars equivalent) \***

- USD \$1 million to \$10 million
- USD \$10 million to \$100 million
- USD \$100 million to \$1 billion
- USD \$1 billion to \$10 billion
- USD > \$10 billion
- Do not know

**Geographic focal areas (if any)**

\_\_\_\_\_

**Your role:**

Please provide information below on your role within the Development Finance Institution.

Job title / position \*

Managing Director

Does your role have an environmental focus? \*

Yes

No

Personal and Organisational Details - continued.

Does the environmental focus of your role encompass (please select all that apply): \*

Natural Resources

Biodiversity

Climate Change

Other: .....

### Environmental Commitments

This section focusses on overarching commitments that your organisation has made to address risks and opportunities related to nature.

Does your PDB have a mandate or commitment ... \*

	Yes	No	Do not know
related to environmental sustainability in general?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
related to climate?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
related to nature or biodiversity specifically?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
covering supply chains/materials or commodity sourcing?	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

If yes to any of the above, please include specific wording of commitment(s) or a link to source documents, if available.

ESG Due Diligence is based on the EDFI Principles on Responsible Finance of Sustainable Development

Is your PDB a member, supporter, signatory or accredited entity of any broader forum or commitment related to nature and/or the environment? \*

For example, Green Climate Fund, Task Force for Nature-related Financial Disclosures Information Working Group, Task Force on Climate-related Financial Disclosures, UNEP Finance Initiative

- Yes
- No
- Do not know

If yes, please specify which:

---

Outcomes of Financing

<https://docs.google.com/forms/d/1GJnFIXDF4E3p5zHjgt6JnfyVkpmtFsrlhMNRtzSMgEJedI#response=ACYDBNgg4I30E1huuYkk9wpOyMacPt...> 6/32

This section focusses on your perceptions of PDBs' general approaches to the outcomes of financing. Financing includes all financial instruments applied by PDBs, inter alia public and private loans and equity, guarantees and grants.

For the following three questions, please rate the importance (as you perceive it) of Public Development Banks achieving:

Positive economic returns on financing \*

1 2 3 4 5 6 7 8 9 10

Very Low Importance           Very High Importance

Positive social outcomes on financing \*

1 2 3 4 5 6 7 8 9 10

Very Low Importance           Very High Importance

Positive outcomes for climate from financing \*

1 2 3 4 5 6 7 8 9 10

Very Low Importance           Very High Importance

Positive outcomes for nature from financing \*

1 2 3 4 5 6 7 8 9 10

Very Low Importance           Very High Importance

Please add any comments on the importance of economic, social, climate and nature-positive outcomes from PDB financing:

---

### Biodiversity Risks and Impacts

This section focusses on how biodiversity risks and impacts are addressed in financing decisions. This includes your organisation's use of biodiversity safeguards and the use of risk management tools and methods throughout the financing decision process

Financing may create direct or indirect risks for biodiversity. These may in turn create risks for projects, companies or finance institutions, e.g. through stakeholder concern and action, project delays, increased costs and reputational damage.

Across the entire Public Development Bank sector, please rate how fully you feel biodiversity risks are incorporated in informing financing decisions, on a scale of one (very little considered) to ten (very thoroughly considered) \*

1 2 3 4 5 6 7 8 9 10

Very little considered           Very thoroughly considered

Please add any comments on consideration of biodiversity risks in financing decisions:

---

Does your organisation consider biodiversity risks in investment decisions? \*

- Yes  
 No  
 Do not know

Please rate how fully you feel biodiversity risks are incorporated in informing financing decisions in your organisation, on a scale of one (very little considered) to ten (very thoroughly considered) \*

1 2 3 4 5 6 7 8 9 10

Very little considered           Very thoroughly considered

#### Biodiversity Risks and Impacts - General

At what stage in financing decisions is biodiversity-related risk considered? (check all that apply)

- Early screening
- Project scoping
- Quantitative evaluation (e.g. cost-benefit analysis)
- Financial close
- None of these
- Monitoring and evaluation
- Other: .....

#### Biodiversity Risks and Impacts - Biodiversity Safeguards

If your PDB is one of the Multilateral Development Banks your published safeguard framework will be reviewed separately during the study. Is your PDB one of the Multilateral Development Banks? \*

Multilateral Development Banks include: The African Development Bank Group, the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank and the World Bank Group (World Bank, IFC, MIGA)

- Yes
- No

#### Biodiversity Risks and Impacts - Biodiversity Safeguards - 2

Does your PDB apply a formal safeguard framework for assessing and managing biodiversity risks? \*

- Yes, all financing
- Yes, some financing
- No
- Do not know

#### Biodiversity Risks and Impacts - Biodiversity Safeguards - 3

You indicated only some financing is covered by biodiversity safeguards. Please indicate the type of financing covered :

e.g. project lending, corporate lending, equity investment, grants, above a certain level of financing.

#### Biodiversity Risks and Impacts - Biodiversity Safeguards - 4

Is the safeguard framework based on the framework of one the MDBs or another PDB? \*

- Yes
- No
- Do not know

If yes, please specify which:

Multilateral development banks: The African Development Bank Group, the Asian Development Bank, the Asian Infrastructure Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank Group, the Islamic Development Bank, the New Development Bank and the World Bank Group (World Bank, IFC, MIGA)

IFC

Biodiversity Risks and Impacts - Biodiversity Safeguards - 5

What key elements does your safeguard framework include (please select all that apply): \*

- Application of the mitigation hierarchy
- Application to sourcing of materials or commodities (i.e. supply chains)
- Application to ecosystem services
- Identification of Protected Areas or other sensitive sites
- 'No go' provisions in some circumstances (e.g. no financing projects within World Heritage Sites)
- Requirements related to defined biodiversity criteria (e.g. 'natural habitat')
- Requirements with quantitative biodiversity thresholds
- Process-based requirements in some circumstances (e.g. Biodiversity Action Plans)
- Outcome-based requirements in some circumstances (e.g. No Net Loss or Net Gain for biodiversity features)
- Use of compensation or offsets where necessary to address residual impacts on biodiversity
- None of the above
- Other: \_\_\_\_\_

If your safeguards framework includes 'no go' provisions, please specify the circumstances when these apply:

\_\_\_\_\_

#### Biodiversity Risks and Impacts - Biodiversity Safeguards - 6

For the following two questions, please rate how fully (from 1 – very limited application, to 10 – effectively and comprehensively applied) you think your PDB's safeguard framework for assessing and managing biodiversity risks is applied to:

Inform financing decisions \*

1 2 3 4 5 6 7 8 9 10

Very limited application           Effectively and comprehensively applied

Implement and monitor mitigation measures, including biodiversity offsets where relevant \*

1 2 3 4 5 6 7 8 9 10

Very limited application           Effectively and comprehensively applied

Please add any comments on the application of your safeguard framework.

### Biodiversity Risks and Impacts - Risk Management Tools

To support safeguard frameworks, or instead of them, your organisation may use other tools and methods for assessing biodiversity risk through the financing process. The following questions ask you about these.

Which specific tools or methods (if any) do you use to assess and manage biodiversity risk and impacts (negative or positive), at project or portfolio level? (please check all that apply) \*

- Sensitivity maps or scores developed by your PDB
- The Integrated Biodiversity Assessment Tool (IBAT)\*
- Other biodiversity metrics\*\* (please specify below)
- Other external sensitivity maps or scores (please specify below)
- Other tools or methods (please specify below)
- None of the above

\*The Integrated Biodiversity Assessment Tool (IBAT) is a risk screening and assessment tool that brings together key global biodiversity datasets, including Protected Areas, Key Biodiversity Areas and the IUCN Red List of Threatened Species. IBAT is a multi-institutional programme of work involving BirdLife International, Conservation International, IUCN and UNEP-WCMC.

\*\*Biodiversity metrics may include those based on species data (e.g. IUCN's Species Threat Abatement and Restoration metric), ecosystem data (e.g. WCS's Ecosystem Intactness metric), or integrative biodiversity 'Footprint' (e.g. CDC's Global Biodiversity Score)

If you selected 'other' in the options above, please specify the metrics, methods or tools used by your organisation:

If you selected any of the options above as used by your organisation, when do you apply these tools (please check all that apply)?

- For early screening
- During financing assessment
- Post-financing decision (monitoring compliance)
- Post-financing decision (working with projects and investments to improve their impact).

If you selected 'None of the Above', what are the main reasons you do not apply these tools (please check all that apply)?

- Biodiversity not considered a material risk
- Other sources of information are adequate
- Insufficient information about tools
- Insufficient technical capacity to apply tools
- Tools are too costly
- Tools not suited for application
- Do not know/not applicable

\*The Integrated Biodiversity Assessment Tool (IBAT) is a risk screening and assessment tool that brings together key global biodiversity datasets, including Protected Areas, Key Biodiversity Areas and the IUCN Red List of Threatened Species. IBAT is a multi-institutional programme of work involving BirdLife International, Conservation International, IUCN and UNEP-WCMC.

\*\*Biodiversity metrics may include those based on species data (e.g. IUCN's Species Threat Abatement and Restoration metric), ecosystem data (e.g. WCS's Ecosystem Intactness metric), or integrative biodiversity 'Footprint' (e.g. CDC's Global Biodiversity Score)

If you selected 'other' in the options above, please specify the metrics, methods or tools used by your organisation:

If you selected any of the options above as used by your organisation, when do you apply these tools (please check all that apply)?

- For early screening
- During financing assessment
- Post-financing decision (monitoring compliance)
- Post-financing decision (working with projects and investments to improve their impact).

If you selected 'None of the Above', what are the main reasons you do not apply these tools (please check all that apply)?

- Biodiversity not considered a material risk
- Other sources of information are adequate
- Insufficient information about tools
- Insufficient technical capacity to apply tools
- Tools are too costly
- Tools not suited for application
- Do not know/not applicable

Does your PDB publicly disclose assessments of biodiversity risks for your financing? \*

- Yes
- No
- Do not know

If yes, please provide details of disclosure processes if possible:

.....

Does your PDB report the biodiversity impacts of your financing? \*

- Yes – only negative impacts
- Yes – only positive impacts
- Yes – both negative and positive impacts
- No

If yes, please briefly describe what information is collected and reported:

.....

Please add any comments on disclosure and reporting of biodiversity risks and impacts:

.....

Biodiversity Risks and Impacts - Other

Are there other ways (not covered in the previous questions) that your organisation addresses biodiversity risks and impacts in its financing? Please specify:

.....

Do you have any suggestions for screening criteria that could be used to ensure that biodiversity risks are better addressed in financing decisions across all sectors (including e.g. agriculture or transport)?

.....

### Biodiversity Risks and Impacts - Challenges and Constraints

This section focusses on challenges and constraints faced by PDBs that can hinder assessment and management of biodiversity risk and impacts.

Please rate the personnel capacity (staff time and technical expertise) available in your institution for effectively implementing biodiversity safeguards and managing biodiversity risk (1 = entirely inadequate to 10 = fully covering requirements) for each of the following decision stages:

for early screening \*

1 2 3 4 5 6 7 8 9 10

Entirely inadequate           Fully covering requirements

during financing assessment \*

1 2 3 4 5 6 7 8 9 10

Entirely inadequate           Fully covering requirements

post-financing decision (monitoring compliance) \*

1 2 3 4 5 6 7 8 9 10

Entirely inadequate           Fully covering requirements

## Biodiversity Risks and Impacts - Challenges and Constraints - 2

This section focusses on challenges and constraints faced by PDBs that can hinder assessment and management of biodiversity risk and impacts.

Please assess how much the following factors constrain your PDBs assessment and management of biodiversity risks in financing (1 = no constraint, 10 = very significant constraint)

Lack of an institutional mandate and/or financing policy that considers biodiversity \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Perceived materiality of biodiversity risks \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Existence and adequacy of safeguard framework \***

1 2 3 4 5 6 7 8 9 10

No constraint            Very significant constraint

**Availability of technical expertise among staff \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of technical expertise among consultants \***

1 2 3 4 5 6 7 8 9 10

No constraint            Very significant constraint

**Available staff time \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Financial resourcing \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Existence and adequacy of safeguard framework \***

1 2 3 4 5 6 7 8 9 10

No constraint            Very significant constraint

**Availability of technical expertise among staff \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of technical expertise among consultants \***

1 2 3 4 5 6 7 8 9 10

No constraint            Very significant constraint

**Available staff time \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Financial resourcing \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Existence and adequacy of safeguard framework \***

1 2 3 4 5 6 7 8 9 10

No constraint            Very significant constraint

**Availability of technical expertise among staff \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of technical expertise among consultants \***

1 2 3 4 5 6 7 8 9 10

No constraint            Very significant constraint

**Available staff time \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Financial resourcing \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of biodiversity data \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of relevant tools and methods \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Knowledge about relevant tools and methods \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Knowledge of biodiversity risks \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Capacity to monitor implementation \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of biodiversity data \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of relevant tools and methods \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Knowledge about relevant tools and methods \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Knowledge of biodiversity risks \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Capacity to monitor implementation \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of biodiversity data \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Availability of relevant tools and methods \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Knowledge about relevant tools and methods \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Knowledge of biodiversity risks \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

**Capacity to monitor implementation \***

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Leverage to improve implementation when not satisfactory \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Please provide details of other constraints in the assessment and management of biodiversity risk (if not captured in the questions above).

Please add any comments on challenges and constraints in assessing and managing biodiversity risks and impacts:

### Nature-positive Financing

This section focusses on nature-positive financing instruments, or 'financing green'. These increase "financial flows to projects that contribute – or intend to contribute – to the conservation, sustainable use and restoration of biodiversity and ecosystems and their services to people" (World Bank, Mobilizing Private Finance for Nature, 2020).

Financing may be directly focussed on enhancing biodiversity\* (for example, improved Protected Area management or ecological restoration), or have another aim but benefit biodiversity indirectly\*\* (e.g. climate mitigation or regenerative agriculture).

Nature-positive financing may involve a wide range of instruments, among others loans, equity, guarantees, grants, bonds, concessionary finance and technical support.

\*I.e. where the principal aim or a significant aim is to protect, enhance or restore biodiversity; to improve capacity, planning, regulation, policy or knowledge related to this; or to support countries' other efforts to implement the Convention on Biological Diversity. This corresponds to levels 1 and 2 of the OECD DAC Rio biodiversity markers used for monitoring development finance flows.

\*\* i.e. where the financing does not have biodiversity benefits as a principal aim or significant aim, as defined above (so corresponding to OECD DAC Rio markers level 0 for biodiversity), but is likely to be positive for biodiversity through alleviating current or future pressures on nature, or facilitating nature regeneration.

### Nature-positive Financing - General

Is your PDB conducting nature-positive financing? \*

- Yes
- No
- Do not know / Not applicable.

#### Nature-positive Financing - General - 2

What % of your total financing (by monetary value) can be classed as nature positive? \*

- Do not know/not applicable
- Less than 1%
- 1% to 10%
- More than 10%

What % of your nature-positive financing is directly focused on biodiversity? \*

i.e. nature-positive financing directly focussed on biodiversity is where the principal aim or a significant aim is to protect, enhance or restore biodiversity; to improve capacity, planning, regulation, policy or knowledge related to this; or to support countries' other efforts to implement the Convention on Biological Diversity. This corresponds to levels 1 and 2 of the OECD DAC Rio biodiversity markers used for monitoring development finance flows.

- Do not know/not applicable
- None
- Less than 1%
- 1% to 10%
- More than 10% and less than 50%
- More than 50%

#### Nature-positive Financing - General - 3

<https://docs.google.com/forms/d/1GJnFIXDF4E3p5zHjgt6JnfyVkpmtFsrhMNRtzSMgE/edit#response=ACYDBNgg43i0E1huuYkk9wpOyMacP...> 21/32

Is your PDB conducting nature-positive financing? \*

- Yes
- No
- Do not know / Not applicable.

#### Nature-positive Financing - General - 2

What % of your total financing (by monetary value) can be classed as nature positive? \*

- Do not know/not applicable
- Less than 1%
- 1% to 10%
- More than 10%

What % of your nature-positive financing is directly focused on biodiversity? \*

i.e. nature-positive financing directly focussed on biodiversity is where the principal aim or a significant aim is to protect, enhance or restore biodiversity; to improve capacity, planning, regulation, policy or knowledge related to this; or to support countries' other efforts to implement the Convention on Biological Diversity. This corresponds to levels 1 and 2 of the OECD DAC Rio biodiversity markers used for monitoring development finance flows.

- Do not know/not applicable
- None
- Less than 1%
- 1% to 10%
- More than 10% and less than 50%
- More than 50%

#### Nature-positive Financing - General - 3

<https://docs.google.com/forms/d/1GJnFIXDF4E3p5zHjgt6JnfyVkpmtFsrihMNRtzSMgE/edit#response=ACYDBNgg43i0E1huuYkk9wpOyMacP...> 21/32

What are the targets of this nature-positive financing directly focused on biodiversity (please select all that apply)? \*

- Do not know/not applicable
- Support to Protected Areas
- Other ecosystem or species protection
- Ecological restoration
- Promoting sustainable natural resource use
- Payments for conservation or ecosystem services
- Biodiversity-friendly commodities (typically certified with premium prices)
- Law enforcement
- Research and/or monitoring and/or information management
- Other: .....

Please add any comments on your PDB's main targets of direct nature-positive financing:

.....

Nature-positive Financing - General - 4

What are the main targets of any nature-positive financing made by your PDB that indirectly benefits biodiversity (i.e. financing that is not targeted at biodiversity, but can be expected to benefit biodiversity through the actions it supports) (please select all that apply) \*

- Do not know/not applicable
- Climate-change adaptation
- Climate-change mitigation
- Disaster risk reduction
- Environmental restoration
- Regenerative agriculture and/or food security
- Water security
- Human health
- Sustainable livelihoods
- Other: .....

Please add any comments on your PDB's main targets of indirect nature-positive financing:

.....

For nature-positive financing, what level of direct financial return does your PDB usually require? (Please choose one) \*

- Do not know/not applicable
- Varies according to context
- Usual commercial rates
- Positive returns at lower than commercial rates
- Return of original investment
- No set requirement (returns may be negative)

Please add any comments on the rate of direct financial return from nature-positive financing:

.....

What are the main financial mechanisms/instruments your PDB uses for nature-positive financing? Please select all that apply. \*

Note: Numbers in brackets e.g. (2) refer to definitions available below the question.

- Private loans and/or equity linked to positive environmental outcomes
- Public loans linked to environmental programs
- Investments integrating Natural Capital Accounting (1)
- Targeted investment in conservation businesses (2)
- Financial guarantees or risk insurance (blended finance) (3)
- First loss or other concessional capital (blended finance) (4)
- Technical assistance funds or project preparation grants (blended finance) (5)
- Green Bonds or Sustainability Bonds (6)
- Pay for success structures (i.e. social impact bonds) (7)
- Grants
- Leveraging debt conversion for nature conservation (debt-for-nature swaps)
- Do not know/not applicable
- Other: .....

1 - Integration of Natural Capital Accounting into investment projects assures that companies receiving an investment are aware of their main risks and opportunities associated with nature (e.g. carbon, water, deforestation). Natural Capital Accounting increasingly leads from understanding of impacts and dependencies on nature to key insights into business models and supply chain management.

2 - Private or public companies that engage in business activities that support nature conservation, e.g. ecotourism, sustainable fishing and forestry, ecological restoration for carbon or biodiversity marketplaces

3 - Blended finance approaches provide catalytic financing to increase private sector investment in sustainable development. In this case, PDBs provide credit enhancement through guarantees or insurance on below-market terms

4 - Blended finance approaches provide catalytic financing to increase private sector investment in sustainable development. In this case, PDBs provide funds on below-market terms within the capital structure to lower the overall cost of capital or to provide an additional layer of protection to private investors

5 - Blended finance approaches provide catalytic financing to increase private sector investment in sustainable development. In this case, PDBs provide grants for technical assistance (pre- or post-investment), transaction design or project preparation to strengthen commercial viability and developmental impact.

6 - A fixed-income instrument specifically earmarked to raise money for climate and/or environmental projects. Green Bonds are typically asset-linked and backed by the issuing entity's balance sheet, so they usually carry the same credit rating as their issuer's other debt obligations

7 - Also called "pay for performance": an agreement to pay for services, including some profit margin, once private companies or NGOs have successfully implemented projects or programs that seek to achieve quantified public benefits (e.g. a reduction of a certain percentage of wildlife poaching)

What proportion of your PDB's total nature-positive financing represents blended finance\*?

\*

- Do not know/not applicable
- Less than 1%
- 1% to 10%
- More than 10% and less than 50%
- More than 50%

\* Blended finance - providing catalytic capital to increase private sector investment in sustainable development, e.g. through a concessionary loan or guarantee

Is your nature-positive financing tagged so it can be distinguished from other financing? \*

	Yes	No	Do not know
Using the OECD DAC Rio Markers**	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Using another system	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

\*\* Policy markers for monitoring development finance flows that target the themes of the Rio Conventions. The markers have three levels and cover four areas: biodiversity, desertification and climate change mitigation and adaptation. OECD = Organisation for Economic Co-operation and Development Assistance Committee

Please add any comments on why you are or are not using the OECD DAC Rio Markers:

---

If using another system for tagging nature positive investments, please specify:

---

### Nature-positive Financing - Challenges and Constraints

This section focusses on challenges and constraints faced by PDBs that can hinder the investment in nature positive solutions.

Does your PDB have intention to start using, or increase the use of, nature-positive financing? \*

- Yes
- No
- Do not know / not applicable.

Please can you briefly outline why your PDB has/does not have this intention:

.....

#### Nature-positive Financing - Challenges and Constraints - 2

For each of the following questions, please assess how much the following factors constrain your PDB from starting to use, or increasing the use, of nature-positive financing (1 = no constraint to 10 = very significant constraint)

Institutional mandate and/or financing policy \*

1 2 3 4 5 6 7 8 9 10

No constraint            Very significant constraint

Rates of financial return \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Does your PDB have intention to start using, or increase the use of, nature-positive financing? \*

- Yes
- No
- Do not know / not applicable.

Please can you briefly outline why your PDB has/does not have this intention:

.....

#### Nature-positive Financing - Challenges and Constraints - 2

For each of the following questions, please assess how much the following factors constrain your PDB from starting to use, or increasing the use, of nature-positive financing (1 = no constraint to 10 = very significant constraint)

Institutional mandate and/or financing policy \*

1 2 3 4 5 6 7 8 9 10

No constraint            Very significant constraint

Rates of financial return \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Availability of suitable investment opportunities \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Technical expertise to locate and/or assess investments \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Available staff time \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Availability of relevant information \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Availability of relevant tools and methods to assess potential investments \*

1 2 3 4 5 6 7 8 9 10

No constraint           Very significant constraint

Other challenges and constraints (please specify)

.....

Please add any comments on factors that constrain the use of nature-positive financing:

.....

### Financing COVID-19 Recovery

The OECD and others have called for finance to support a sustainable, resilient recovery after the COVID-19 crisis by 'building back better'. Among other things, this would involve economic recovery packages focused on 'alignment with long-term emission reduction goals, factoring in resilience to climate impacts, slowing biodiversity loss and increasing circularity of supply chains' (OECD, 2020).

Is your institution providing finance intended to support recovery from the current COVID-19 pandemic? \*

- Yes
- No
- Do not know / Not applicable

### Financing COVID-19 Recovery - 2

Does the finance provided by your institution to support recovery from the COVID-19 pandemic aim to support activities related to: \*

	Yes	No	Do not know / Not applicable
Climate Change	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Biodiversity	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

Please provide details of any environmentally-targeted funding for pandemic recovery, and any other comments on this issue:

---

#### Recommendations

Do you have any specific recommendations about how PDBs (your organisation and/or others) could move towards improved 'greening finance' (i.e. better integrate biodiversity risks and impacts in their financing)?

---

Do you have any specific recommendations about how PDBs (your organisation and/or others) could significantly scale up 'financing green' (i.e. financial flows towards nature-positive activities)?

---

Do you have any other feedback on this survey or further notes to your answers?

---

#### Contact Information

You have now reached the end of the survey. We would appreciate the opportunity to follow up on specific answers. If you are willing to be contacted, please provide your name and e-mail below. Your answers to the survey will remain anonymous, unless you grant specific permission in follow up correspondence.

Name

---

### Email

By providing your e-mail address, you give permission for us to contact you regarding this study. Your e-mail address will not be used for any other purpose

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### End of Survey

Many thanks for taking part in the survey!

If you would like to contact us, or have any further questions regarding the project please feel free to email [enquiries@thebiodiversityconsultancy.com](mailto:enquiries@thebiodiversityconsultancy.com) with subject 'PDBs study'.



This form was created inside The Biodiversity Consultancy.

Google Forms

## Annex E. Semi-structured interview questions

### Notes for interviewers

- *This is a flexible set of questions. It is designed to prompt discussion. You can select, adapt, add and re-order according to the context.*
- *If you add or improve questions, please add these edits to the sharepoint copy, so they are available to other interviewers*
- *It's unlikely that all these questions would be answered in one interview. If your interviewee has a lot to say, you may need to ask very few questions.*
- *These questions are framed for PDBs, but the same topics apply for Subject Matter Expert interviews. However, you will need to reframe the questions accordingly to ask about PDBs in general – not 'their' PDB.*
- *Please review survey answers from your interviewee, if available, before the interview. Survey answers may point to particular areas to explore in more detail.*
- *You may also wish to share key questions with interviewees in advance of the interview to help them to prepare.*

### 1. General

How far do you feel biodiversity is currently mainstreamed in DFI financing decisions – and how does this vary between and within DFIs?

Where does your DFI sit on this spectrum? – what do you think is the main reason it is leading / lagging?

What in your opinion are the key factors constraining DFIs from moving to a more nature-positive approach – both in greening their finance (reactive approaches) and financing green (proactive approaches)?

Recent research has highlighted the role that DFIs could play in both setting an example, and catalysing a nature-positive approach for private finance. What is your view about that role for DFIs? If it's a good idea, what is needed to make it happen?

### 2. Safeguards

The recent World Bank 'Financing Nature' report sees greater potential for 'greening finance' (better application of environmental safeguards) than 'financing green' (scaling up investment in nature-positive projects). What is your view on that?

In your DFI (or others you're aware of) are there difference in how safeguards are applied across different financing types and targets (e.g. loans vs equity vs guarantees; project vs corporate vs intermediary finance; private sector vs state corporations vs government finance)? What are the implications for the effectiveness of safeguards?

Do you think there are significant barriers to implementing effective biodiversity safeguards in your DFI or others you are aware of?

Do you think the main barriers technical or institutional or political? (e.g. data gaps vs implementation capacity vs DFI mandates and shareholder priorities). Can you elaborate?

The safeguards of the MDBs and some larger DFIs have moved to outcome requirements for biodiversity (no net loss or net gain), at least for some circumstances. But it appears that most smaller DFIs rely on an environmental assessment process, aligned with typical

Government regulation, that is more about acceptable limits of harm. Do you agree with that assessment? If so, what could be done to encourage DFIs to adopt more rigorous, outcome-focused safeguards?

*Note to interviewers: nnl/net gain outcomes require rigorous application of the mitigation hierarchy and using offsets where necessary. Governments are also moving towards such policies which will be required to achieve the targets expected to be in the CBD post-2020 framework.*

What is your view on reinforcing safeguard frameworks and their implementation to:

- More effectively address indirect impacts (often included in theory, but less so in practice)
- Address supply-chain impacts (eg feedstock for agricultural projects)
- Require nnl/net gain for all projects – not just those with high biodiversity risks
- Moving to a general 'nature positive' approach – so ALL projects are expected to achieve 'net gain'?

Do you think the MDBs and larger DFIs have a role in supporting smaller DFIs to develop and implement effective safeguard policies?

In your opinion - what are 1-3 most important practical steps (by DFIs or others) that could improve the effectiveness of DFI safeguards for biodiversity?

### **3. Tools to assess biodiversity risks and impacts**

If you don't use tools to assess risks and impacts – can you explain why you choose not to?

If you do:

- Does the tool or tools you use provide what you need?
- What constraints or gaps do you encounter?
- What key features would you look for in a more effective risk management/impact assessment tool?

How much of a need do you see for DFIs to assess risks and impacts on:

- Ecosystem services (which are the key ones?)
- Dependencies on ecosystem services?
- Corporate/portfolio level risks and dependencies
- Contributions to global targets and goals (eg the Aichi Targets and their successors, the SDGs related to nature)

In your opinion - what 1-3 practical improvements could most improve the uptake and application (by DFIs or others) that could improve the effectiveness of DFI safeguards for biodiversity?

### **4. Reporting**

If you don't report/discard risks and impacts – what are the key constraints?

If you do – what prompted that decision, is there intention to enhance reporting/disclosure over time?

How does reporting/disclosure for biodiversity match up with reporting/disclosure on social and climate risks/impacts in your DFI?

What's your view on the move to set up a Task Force for Nature-related Financial Disclosures – based on the one for climate – is this going to make a difference to greening finance?

## 5. Nature-positive finance

If your DFI isn't making nature positive investments, can you explain why not?

If you are –

- Which approaches do you think have the most potential for scaling up?
- What constraints are you experiencing in making or expanding nature-positive investments?
- Do you think these constraints are typical for other DFIs?

What do you see as the main challenges in scaling up 'blended finance'? How could these be overcome?

*Note to interviewers: 'Blended finance' – where DFIs catalyse nature-positive private sector investment, for example through technical support, concessionary loans or guarantees.*

What are the 1-3 practical actions that would help to scale up nature-positive investments across a broad range of DFIs?

## 6. Climate and biodiversity

Do you see a difference in the way that DFIs are thinking about, and acting on, climate compared to biodiversity?

Are there lessons for biodiversity from DFIs action on climate?

Concern and action for biodiversity seems to be lagging in the finance sector, despite overwhelming documentation of the scale of biodiversity loss and the risks this poses – why do you think this is?

Nature-based solutions are often talked about as a way to integrate biodiversity and climate actions. What potential do you see for NBS to act as a bridge between climate and biodiversity for DFI financing?

## 7. COVID-19 financing

What do you see as the risks and opportunities for biodiversity from COVID-19 recovery finance?

How could PDBs help to ensure that COVID-19 recovery financing 'builds back better' for the environment and biodiversity?

## 8. Conclusions

Any other insights you would like to share, or practical recommendations for moving towards nature-positive financing?