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# Benchmark Report on Biodiversity Practices of Development Banks



# Mobilizing and aligning resources for nature, a key part of the post-2020 global framework on biodiversity

The current amount of biodiversity finance is around **US\$ 78-91 billion per year** (national, international flows such as ODA, compensation, charities etc.)<sup>1</sup>. A large majority comes from national budgets of developed countries (67 billion \$), followed by ODA (3,9-9,3 billion dollars) and the private sector (6,6-13,6 billion dollars). Nevertheless, **US\$ 700 billion** a year are needed<sup>2</sup> for conservation and sustainable use of ecosystems and natural resources in general. A large part of these costs corresponds to the maintenance of natural capital and its services (fish, wood, soil, sustainable agriculture, water, etc.).

A part of these costs should be supported by the private sector through implementation of biodiversity friendly and accountable supply chains. In the meantime, biodiversity positive impact funds are emerging (Mirova, Moringa, Altheia, etc.), while several large green investment funds are expressing a growing demand for no net loss and/or a greater environmental performance approaches to their investments, including potential exclusion of biodiversity most impacting investments from their portfolio (e.g. Zero deforestation approaches of investment funds in the Amazon<sup>3</sup>). A tendency quite similar to the first step integration of climate issues by the finance sector a decade ago.

Since the adoption of the Strategy for resources mobilization in 2009 at the 9th Conference of the Parties to the Convention on Biological Diversity (CBD-COP9), a comprehensive framework on resource mobilization (RM) has been established to support the implementation of the Strategic Plan for Biodiversity 2011-2020. At COP14, Parties to the CBD affirmed that **resource mobilization would be an integral part of the post-2020 global biodiversity framework**. They decided to initiate preparations for this resource mobilization component at an early stage through establishment of a panel of experts in charge of preparing analyses and reports.

According to this expert panel, resource mobilization will require transformative, inclusive and equitable change across economies and society. A three-pronged approach should be adopted, made up of three complementary components:

- a** Reducing or redirecting resources causing harm to biodiversity
- b** Generating additional resources from all sources to achieve the three objectives of the Convention
- c** Enhancing the effectiveness and efficiency of resource use<sup>4</sup>

Mainstreaming is an important approach in all three components. The public and private sectors, as well as financial institutions are expected to play a key role in this approach.

## Benchmark objectives and methodology

The IDFC working group on “Making Finance Work for Nature” has decided to launch a benchmark on development practices on biodiversity, with the assistance of AFD and the Secretariat.

The objective of this benchmark was twofold:

- Gather and share information on how development financing partners (multilateral and bilateral) integrate biodiversity in their operations, especially in view of identifying practical solutions for increasing their contribution to the financing needs that will be expressed at the COP15 CBD and within the Global Biodiversity Framework ;

<sup>1</sup> OECD (2020), A Comprehensive Overview of Global Biodiversity Finance.

<sup>2</sup> Financing Nature: Closing the Global Biodiversity Financing Gap, TNC/Paulson Institute, September 2020

<sup>3</sup> [https://www.unpri.org/Uploads/c/k/h/investorstatementondeforestationandforesbireshintheamazon\\_502487.pdf](https://www.unpri.org/Uploads/c/k/h/investorstatementondeforestationandforesbireshintheamazon_502487.pdf)

<sup>4</sup> Contribution to a draft resource mobilization component of the post-2020 biodiversity framework as a follow-up to the current strategy for resource mobilization, Third report of the panel of experts on resources mobilization, CBD Secretariat, CBD/SBI/3/5/Add.3, 18 March 2020.

- Support the mobilization of all members of the IDFC Making Finance Work for Nature Group and their exchange on ways to enhance their support to the future objectives of the post 2020 framework on resource mobilization.

The focus of the benchmark covered the following development banks/agencies:

- Multilateral banks (World Bank, African Development Bank, Asian Development Bank, Inter-American Development Bank)
- IDFC members who responded to the questionnaire and/or had relevant public information available (AFD, BNDES, BOAD, CAF, CDB, CDG, CDP, DBSA, JICA, KfW, TSKB)
- And other overseas development agencies and ministers (European Commission, GIZ, German Minister for Development and International Cooperation - BMZ).

The approach for this benchmark was to review the whole scope of activities that contribute to the integration of biodiversity into a financial institution investment decisions : integration of biodiversity into **strategies, impact assessment and mitigation/off-set mechanisms, level of biodiversity mainstreaming** in sectors such as water, agriculture, infrastructure etc., **reporting methodologies on biodiversity financing, initiatives and programs** dedicated to biodiversity, as well **organizational aspects** (human resources, governance in place for biodiversity mainstreaming)<sup>5</sup>.

This document provides the results of this work, in light of the conclusions of the panel of experts of the CBD Secretariat. The ambition is to present the benchmark and its conclusions at the Finance in Common Summit, on 12 November 2020. This benchmark provides an overview of development banks contribution to the three components of a possible new framework on resource mobilization within the future post-2020 GBF.

## Development banks contribution to resource mobilization on Biodiversity

### *Reduce or redirect resources causing harm on Biodiversity*

Reduce or redirect resources causing harm to biodiversity refers to the need to identify impact, interdependencies and risks on biodiversity. Development banks can have a role to mainstream biodiversity risk and opportunity assessment in their processes. Development Banks can apply social and environmental safeguards and exclusion lists. According to the Panel of experts, there is a need to look in particular at safeguards regarding finance flow for climate change which could have damaging effects on biodiversity (see insert below).

The benchmark shows that with respect to biodiversity impact assessment mechanisms, all banks or agencies implement **environmental and social safeguard policies** or guidelines and apply environmental due diligences on their investments, generally covering biodiversity issues. Most of them follow the environmental standards of the WB/IFC group<sup>6</sup> (which refers to biodiversity through its *6th Performance Standard on Biodiversity Conservation and Sustainable Management of Living Natural Resources*) for the most impacting projects. Most of them do have exclusion lists. However, the main challenge remains with the effective implementation and of these safeguards and proper control of their results (e.g.: quality and robustness of environmental impact assessments, compliance with “no net loss” approaches, implementation and due follow-up control of off-setting measures, etc.), as well to the content of these exclusion lists.

Beyond E&S Risk Management policies and safeguards, mainstreaming of biodiversity into projects seems to be a growing issue in some banks and agencies. The level of integration remains sector dependent or in existing operational guidelines/standards developed for the purpose. This mainstreaming is generally more systematic and straightforward for the agriculture and water sector. For example, the DBSA has developed «biodiversity» toolkits for analysts involved in environmental impact studies applied for these sectors, including a model for water stress scenarios in relation to climate change.

<sup>5</sup> A first desk review was carried out based on public information available on websites, completed for IDFC members, by the responses to the survey sent by the IDFC Secretariat. This desk review was completed by phone interviews with a couple of institutions in order to deepen the preliminary analysis (Asian Development Bank, DBSA, CAF, Inter-American Development Bank, JICA, KfW, World Bank).

<sup>6</sup> <https://www.worldbank.org/en/projects-operations/environmental-and-social-framework/brief/environmental-and-social-standards#ess6>

The main challenges relates to the integration of biodiversity/nature based solutions in other sectors such as urban development, infrastructures, such as roads and the financial sector (financial intermediation). Some banks are developing **frameworks, technical toolkits or studies**<sup>7</sup> to support their operational teams to better assess negative (risk management) but also positive impacts (cobenefits on biodiversity) of projects on biodiversity. For instance, IDB has developed a Sustainable Infrastructure Framework (currently being tested in 6 countries<sup>8</sup>). AFD implements a mechanism to assess both negative and positive impacts of projects on biodiversity through its *Sustainable Development Analysis and Opinion Mechanism*<sup>9</sup> and has recently created a dedicated function for biodiversity mainstreaming into all investment sectors).

Lastly, banks (and more broadly financial sector inc. insurance carriers, regulators) are becoming aware of the potential financial risks associated with the loss of biodiversity, and show a rising interest to seize the **issue of financial risks related to biodiversity loss**. According to the World Economic Forum's 2020 Global Risks Report (GRR), biodiversity loss and ecosystem collapse are identified as one of the top five risks in terms of likelihood and impact in the coming 10 years.

Several reports point out the urgency to **mainstream these risks into risk management strategies** and promote a business case for why it is vital to prioritize the protection of nature's assets and services within the broader global economic growth agenda<sup>10</sup>. These reports call for the creation of a **task-force on nature-related finance disclosure (TNFD)**, building on the experience of the task-force on climate finance disclosure (TCFD)<sup>11</sup>.

Extract from "Resource Mobilization", Note by the Executive Secretary of the CBD, 18 June 2020 - Annex 2 Draft Elements of a Possible Successor to the Current Strategy for Resource mobilization<sup>12</sup>.

*Strategic Goal 1 - Reduce or redirect resources causing harm to biodiversity*

*"1.3. Identify and incorporate biodiversity impacts, dependencies and risks into strategies, operations and processes of international development finance actors, with a view to at least avoiding or minimizing net harm caused by development finance, including climate finance"*

## **Generate additional resources from all sources**

Generating additional resources from all sources to achieve the three objectives of the Convention, including domestic and international sources, private and public, remains a fundamental part of resource mobilization. For financial institutions, this implies flows that are directed primarily towards biodiversity, as well as identifying and increasing biodiversity co benefits from funding intended primarily to achieve other objectives (for instance, from the agriculture sector, water sanitation, urban development, etc.). Examples of this include also integrating nature based solutions into mitigating and adapting to climate change, and the delivery of other sustainable development goals. This is referred to as "indirect" resources on biodiversity.

7 See "Green Infrastructure Design for Transport Projects: A Road Map to Protecting Asia's Wildlife Biodiversity", ADB, December 2019. Or "Methodological approach to urban tree planing and green areas investment projects", on-going study carried out by CAF.

8 <https://publications.iadb.org/en/what-sustainable-infrastructure-framework-guide-sustainability-across-project-cycle>

9 The sustainable development analysis and opinion mechanism aims to facilitate cross-sector consideration of sustainable development issues in AFD's funded projects. It consists in a sustainable development analysis performed by the project team and in a sustainable development opinion issued by a unit that is independent from the Operations Department, in order to be able to make an informed decision. The conservation of biodiversity and management of natural resources and habitats is one of the 6 dimensions which are assessed. Further information : <https://www.afd.fr/en/ressources/sustainable-development-analysis>

10 "The New Nature Economy Reports", WEF, January 2020 ; "Nature is too big to fail", WWF and PWC, January 2020; "Into the Wild : Integrating Nature into Investments Strategies", WWF and AXA, 2019.

11 The TCFD framework was designed to go beyond risk disclosure to provide a structure within which to embed climate risk and opportunity into effective risk management, corporate strategy and oversight. Nature-related risks and opportunities can be managed by building on the same core TCFD elements. The first meeting of the Informal Working Group on the TNFD was on 10 September.

12 The Secretariat of the CBD released a note on Resource Mobilization as a preparatory document for the third meeting of the Subsidiary Body on Implementation (SBI) of the CBD. This meeting will take in the first quarter of 2021. SBI3 is encouraged to provide input into the post-2020 global biodiversity framework, meaning concrete recommendations related to the development of the post-2020 global biodiversity framework (GBF) and decisions associated with it for the Conference of the Parties at its fiftieth meeting.

## ***Biodiversity programmes and initiatives***

There are three main areas of interest for development banks/agencies:

- Protection and management of forests seems to be a priority issue within a large number of Latin American institutions (CAF, BNDES), JICA, DFID (via its Capacity Building Program for Forest Management), the WB, KfW, AFD and ADB being also active in this area.
- The protection of the oceans is ADB's priority, through its Action Plan for Healthy Oceans and Sustainable Blue Economies (USD 5bn in 2019-2024) or the Coral Triangle Initiative. AFD has developed a dedicated road map for the marine and ocean sector.
- Protected areas are the priority of the initiatives and programs put forward by the European and especially German and French institutions. Activities in this field also include a specific effort toward innovative finance for sustainable management of such PA (conservation funds, payments of environmental services etc.)

DBSA has developed programs on transition to responsible banking (GEF project SANBI DBSA - Biodiversity Partnership for Water Security and Natural Capital Valuation Partnership with UNEP-FI). AFD provides funding on various areas (forest management, terrestrial and marine protected areas, integrated management of coastal zones, biodiversity friendly value chains etc.).

A large part of financial resources mobilized by benchmarked entities aim at supporting stakeholder platforms (CAF, IADB, AfDB, EC), technical assistance for biodiversity mainstreaming into national policies (WB, ADB or GIZ), dedicated field projects (JICA, AfDB, DBSA, BNDES, BOAD or ADB) or research programs (JICA, DFID, AFD). A lot of their projects involves co-financing between institutions.

Specific facilities/funds have been put in place to leverage financing for biodiversity mainstreaming and propose financial incentives for countries to invest in biodiversity protection and sustainable use (Asian Development Fund, Natural Capital Lab/IDB, Blue and Green Agenda Trust funds /WB...). DBSA manages several funds related to biodiversity and climate change (Global Environment Facility, Green Climate Fund, SADC Water Fund, etc). This list is not exhaustive.

The review and exchanges undertaken show that there is a need to develop a better capacity to promote convincing storytelling and biodiversity business cases so that beneficiaries accept to borrow money to invest on biodiversity and ecosystem management. Some studies exist that demonstrate economic returns of such investment in agriculture, tourism, water, fisheries projects (DBSA, ADB, AFD...) or on projects involving the private and public sectors (for instance, IDB/Natural Capital Lab). The lack of awareness and willingness among Finance Ministries to scale up investments toward the natural capital has also been highlighted as a challenge for greater investment of development banks for biodiversity.

## ***Biodiversity and climate change convergence***

Synergies between climate change and biodiversity are a key issue of the international negotiations towards COP15 on Biodiversity and COP26 on Climate Change. Most of development banks / agencies recognize the strong linkages between biodiversity and climate change in particular through the mobilization of Nature-based solutions (NBS) for development, which are recognized as a real opportunity for climate change attenuation or adaptation. Most of the institutions reviewed have implemented a number of projects explicitly promoting NBS (ADB, DBSA, etc.), for instance through blue economy projects or funds (CAF, ADB, IDB, WB). According to the Sustainable Infrastructure Framework of IDB, a sustainable infrastructure "supports the sustainable and efficient use of natural resources, including energy, water, and materials and promotes nature-based solutions". In some countries where the fight against climate change is not politically supported, subjects might be necessary to disconnect. Nonetheless, no banks yet promote an integrated biodiversity and climate change investment strategy of reporting framework. In Spring 2020, AFD has committed to 30% of its Climate Finance in favor of Biodiversity by 2025 (meaning eligible to the DAC 1 or 2 categories).

Extracts from “Contribution to a draft resource mobilization component of the post-2020 biodiversity framework as a follow-up to the current strategy for resource mobilization”, Third report of the panel of experts on resources mobilization, CBD Secretariat.

“The public sector and development banks should continue to provide early stage grants, donor guarantees, concessional finance and support blended financial solutions. This should leverage private sector investment by reducing project risk and increasing the likelihood of market returns. The supply of green credit lines in financial institutions within developing and developed countries should be scaled up;” (p.10)

“Funding for natural solutions for climate change adaptation and mitigation that deliver co benefits for biodiversity should be identified and scaled up, recognizing that nature is essential for meeting commitments in the Paris Agreement.<sup>42</sup> This includes adopting blue carbon as well as forest carbon into regulatory and voluntary carbon offset markets, and supporting regenerative agriculture, which ensures increasing productivity, adaptation through resilience, and mitigation benefits” (p.11)

## ***Enhance the effectiveness and efficiency of resource use***

This third component refers to the need to recognize the importance of factors such as sound (a) governance and planning; (b) capacity building; (c) the creation of platforms and partnerships, (d) effective design and uptake of international development finance, and (e) effective monitoring and reporting and review of results. In this context, international development finance has a key role to support capacity building as well as technical assistance and can also contribute to a better and more systematic reporting on resource mobilization and biodiversity finance. We can also consider here the definition and adoption of strategies on biodiversity by development banks as an important element to contribute to a more effective and efficient use, as well as aspects related human-resources organization.

## ***Development Banks/Agencies vision and political support on biodiversity***

The majority of banks and agencies do have strategic frameworks which addresses biodiversity. Institutions’strategic corpus present two different levels of integration of biodiversity, with some organizations having both of them :

- **Development of a dedicated strategy:** CAF, European Commission (EC), BMZ, DFID, JICA and AFD. The DBSA should have a Biodiversity Strategy by Spring 2020.
- **Integration of biodiversity in broader environmental or institutional strategies** (ADB, AfDB, BOAD, IDB, AFD): BOAD addresses biodiversity issues through its 2015-2019 environmental and climate strategy (document under revision for the period 2020-2025). Another examples are AfDB, ADB or IDB, for which the subject of biodiversity is taken into account in their corporate strategy, through “Transition towards Green Growth Goals” for AfDB; the “2030 Strategy” and its third priority “Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability” and lastly, the IDB Institutional Strategy where climate change and environmental sustainability is considered a cross-cutting priority. For both IDB and ADB, framework documents have been developed to operationalize these priorities<sup>13</sup>.

Some bilateral development banks or agencies do not have specific strategies as they implement strategies of their government. Example of this situation is the KfW and GIZ, who follow the BMZ’s Biodiversity Strategy. At the exception of the BMZ strategy on Biodiversity, none of the development banks biodiversity related strategies contains financial commitments on biodiversity. Nevertheless, some of them propose qualitative commitments that are integrated in their corporate result frameworks (IDB<sup>14</sup>, ADB<sup>15</sup>) or action plan with strategic objectives, related to Aichi targets as monitoring indicators (CAF, AFD<sup>16</sup>).

<sup>13</sup> <https://www.adb.org/about/strategy-2030-operational-priorities> and <https://www.iadb.org/en/sector/environment-and-natural-disasters/sector-framework>

<sup>14</sup> IDB: Group Corporate Results Framework, 2020-2023

<sup>15</sup> ADB: Corporate Results Framework, 2019-2024

<sup>16</sup> CAF: Strategic Biodiversity Program 2015-2020. <https://scioteca.caf.com/handle/123456789/891> ; AFD Biodiversity Road Map

While Banks board of directors show a growing awareness on biodiversity challenges (as an echo from the international agenda), the subject does not yet appear to be a priority area. Drawing lessons from the process that supported the rise of a now established climate finance, top level political support from the board would be a key step forward for a more systematic integration of biodiversity into investment strategies and decision process of development banks.

### Box 1 - JICA strategic agenda on natural environmental conservation

Three strategic agenda are identified within JICA's basic policies :

- 1 Sustainable forest management and its contribution to climate change counter measures as well as forest conservation and climate change adaptation
- 2 Enhance resilience and livelihoods through sustainable use of natural resources (e.g. combating desertification)
- 3 Conservation of biodiversity through management of protected areas and buffer zones.

## Reporting of biodiversity financings

Information on accounting for biodiversity financing is scarce. As highlighted in a report by CBD Secretariat, there is today **no agreed voluntary guidance to facilitate the reporting on biodiversity finance**<sup>17</sup>.

To date, only few banks report their biodiversity financings, using OECD DAC Rio markers. A scoring system of three values is used, in which official development finance activities reported to the DAC are screened and "marked" as either (i) targeting the conventions as a **"principal" objective** (score "2") or (ii) as a **"significant" objective** (score "1"), or (iii) **not targeting the objective** (score "0")<sup>18</sup>. DAC members generally report 100% of finance marked as "principal objective" (marker 2), but when it comes to marker 1 ("significant" objective), DAC members use different shares (%) of finance (see. EU and AFD approaches below). There is **no common reporting standards for bilateral as well as for multilateral development banks**.

For instance, for KfW, to 610 million € (all together with GIZ funding) and for AFD to 400 million € (in 2019). The ADB provides information on the share of its «environmental sustainability» activity, following ex-ante analyzes carried out on the projects (according to their level of risk, see above). In 2017, 45% of loans approved by IDB were « aligned » with cross-cutting issues of climate change and biodiversity and were of 5,1 billion US\$ (renewable energies, energy efficiency, water sanitation, solid wastes, green credit lines, sustainable tourism, etc.).

The total amount for biodiversity dedicated projects tends to remain low in general and mainly financed by grants. Increasing the level of loans on biodiversity projects has been highlighted as a challenge, as beneficiary countries usually do not want to borrow money for biodiversity protection projects.

## Eu accounting system for biodiversity financing

Score (Marker)	Status of the biodiversity theme	Budget of the action considered relevant to the biodiversity theme
0	Not targeted	0 %
1	Significant objective	40 %
2	Principal (or main objective)	100 %

<sup>17</sup> Evaluation and review of the strategy for resources mobilization and Aichi targets 20, Report of the panel of experts on resources mobilization, First Drar, CBD Secretariat, January 2020

<sup>18</sup> [https://www.oecd.org/dac/stats/DCD-DAC\(2016\)3-ADD2-FINAL%20-ENG.pdf](https://www.oecd.org/dac/stats/DCD-DAC(2016)3-ADD2-FINAL%20-ENG.pdf)

## Box 2 – AFD’s approach on quantification of biodiversity commitments

For example, for the calculation of AFD’s financial commitments, an internal weighting approach is applied according to the contribution of the project to the conservation of biodiversity, which is based on these «Rio markers». Marker projects 2 are therefore 100%, whereas marker 1 projects are weighted at 5, 30 or 80% depending on their impact on biodiversity.

This weighting varies according to the sector of activity of the project: 80% for the management of forests and fisheries, 30% for agroecology, pastoralism, bio-equitable sectors and wastewater treatment as well as IWRM (integrated management of water resources), 5% for urban development with a biodiversity component, sustainable waste treatment or environmental credit lines (excluding climate). By way of illustration, between 2013 and 2017, the average annual commitment volume of AFD amounted to € 253 million. In 2018, AFD’s «biodiversity» activity amounted to € 446m, of which 77% consisted of loans and 23% of grants. The DAC2 projects (dedicated to biodiversity and the sustainable management of natural resources), and DAC1 (non-dedicated – mainly agro-ecology and wastewater treatment) respectively account for 50% of AFD total investing for biodiversity in 2018.

## Human resources and organization

The situations in terms of capacities and expertise seems to vary among development banks, from small teams dedicated to E&S risk management to larger teams supporting the design of projects (grants and/or loans) integrating biodiversity subcomponents, as well as studies/operational methods/guidelines for operational teams, and technical support to project teams during project feasibility/design to develop high-quality technical assistance programs etc.)<sup>19</sup>.

For instance, ADB works to proactively improve environmental sustainability during project feasibility and design to develop high-quality technical assistance, grants, and loans. The Climate change and sustainable development Department of IDB provides also support to operations in other sectors so as to mainstream climate change and sustainability considerations to improve their effectiveness. AFD Group has set up a Green Task Force gathering Biodiversity Referents from various AFD Group Departments (technical, geographical, research, strategy, etc.) and human resources to support task team leaders on biodiversity mainstreaming (in addition to teams working environmental risks mitigation and project managers developing a portfolio of biodiversity dedicated investments).

<sup>19</sup> Information coming mainly from the interviews.