



# NATURE+ FINANCE

Principles for tracking biodiversity and nature-positive finance

#WorldInCommon

## Contents

Introduction	
--------------	--

#### SECTION 1

Our Nature+ Commitment 5
1   Changing course: towards a strong sustainability framework for the preservation of nature 6
2   AFD's strategic and financial commitment for biodiversity
SECTION 2
Founding principles of AFD
Nature+ finance 9
1   Building on best standards for biodiversity finance10
2   Systematically assessing the alignment of investments with the future GBF
3   Calculating Nature+ Finance according to potential biodiversity net gains
4   Making a deep commitment to protection of the planet
5   Nature+ impacts: a systematic criteria for investment decision-making
6   Integrating Nature+ accountability into the Group's SDGs reporting

© AFD, June 2022

Cover photo: Félix Vigné/AFD; page 5: Alexis Rosenfeld/Divergence; page 9: Zuleika de Souza/AFD

Graphic design: Animal pensant

## Introduction

he year 2020 was a major turning point for the economic and financial sector globally in terms of awareness of the systemic risks posed by accelerating and interconnected biodiversity loss and climate breakdown.

The post-2020 global biodiversity framework (GBF), currently being negotiated under the Convention on Biological Diversity (CBD), calls on all stakeholders to align their objectives, in an effort to reconcile development and nature, and encourages investments and practices that lead to nature positive outcomes.

This alignment with the future GBF goes hand in hand with the commitment initiated in 2015 that led to the Paris Agreement and is a necessary step in solving the biodiversity and climate crises, as climate change and nature are interconnected and we will not solve one crisis without solving the other.

AFD Group is committed to fostering nature positive development. Building on more than 20 years of action for biodiversity – by promoting sustainable agriculture, green cities and a sustainable blue economy – in 2019 it developed a biodiversity road map with two main targets: (i) build the Group's financial contribution towards biodiversity to reach EUR 1 billion by 2025; (ii) ensure that 30% of the Group's climate finance is nature positive.

This strategy has involved making internal transformations and creating a dedicated team to mainstream biodiversity across all sectors. It has also given birth to a set of tools and methods to facilitate this process and allow robust and detailed accountability on resource mobilization for biodiversity.

This document presents the principles guiding AFD on the road to aligning its investments with the ambitions of the future global framework. As such, these principles are at the core of our Nature+ approach to development. They serve a double purpose of increasing the impacts of the Group's investments for the protection of nature, as well as promoting a Nature+ economy in partner countries.

Furthermore, these principles build on AFD and the main MDBs' experience of tracking climate finance and on the Common Principles thereof; they integrate what is currently known of the future GBF and the work of the Taskforce on Nature-related Financial Disclosures (TNFD) and the European guidelines for sustainable finance. They will only deliver their expected impacts on resource mobilization and enable biodiversity financing to gain the necessary traction if they are shared and harmonized amongst financial institutions.

AFD participates actively in dialogue within the Finance in Common platform and the Making Finance Work for Nature working group of the International Development Finance Club (IDFC) in order to establish Common Principles for the tracking of biodiversity finance that are tailored to public development banks.

## OUR NATURE+ CONNITMENT

1

SECTION

1

#### 1 Changing course: towards a strong sustainability framework for the preservation of nature

eports from the Intergovernmental Panel on Climate Change (IPCC), Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and World Economic Forum (WEF) in 2020-21 called for stronger action to address the urgency of the climate and ecological crises. Other studies<sup>1,2,3,4</sup> highlighted the cost of inaction, in economic and social terms, and the global and systemic nature of the resulting financial risk.

This new data shows how the financial sector, and its public component (development banks, central banks and regulatory bodies), needs to step up and take its share of responsibility in creating development pathways reconciled with the preservation of our planet. To this end, the global financial sector must align both with the Paris Agreement and the post-2020 global biodiversity framework (GBF).

The ambition of the GBF is to take urgent action across society to put biodiversity on a path to recovery for the benefit of planet and people by 2030 in order to live in harmony with nature by 2050. The theory of change underlying this vision is based on a twofold necessity: protect ecosystems on at least 30% of the planet (GBF's preservation of biodiversity outcome) and, at the same time, promote the sustainable management of economic activities and natural capital, conducive to sustainable development (GBF's nature-positive economy outcome). Economic actors therefore have a collective responsibility to strengthen their management of nature-related risks, impacts and dependencies and to act positively for nature by developing new opportunities.

The level of investment needed to reach these goals is estimated between USD 722 and 967 billion per annum<sup>5</sup>, of which a mere 15% is financed today, while each year USD 1 trillion goes towards investments that are detrimental to nature. Meeting this challenge calls for profound transformations in our economies and societies to adjust our spatial planning, management of natural capital and consumption to the biophysical limits of the planet.

- Ecosystem services (ES) were estimated in 2011 at USD 125-145 billion, i.e. more than 150% of global GDP.
- 2 | Land use change led to the destruction of more than 4.3-20.2 billion USD/year of ES between 1997 and 2011 (Constanza et al., 2014).
- 3 | USD 44 billion, i.e. more than 50% of global GDP is nature dependant (WEF, 2020).
- 4 | More than 30% of the population in tropical areas depends heavily on natural capital (Fedele et al., 2021), 40% of the world population depends on biomass as their only source of energy (WHO, 2016), while more than 800 million smallholders depend directly on nature as a source of food and income.
- 5 | USD 149-192 billion of which to finance 30% of protection (Deutz et al., 2020). To date, protected areas (16% of land and 7.4% of oceans), receive 24.3 billion USD/year, i.e. ~33% of real needs (Waldron et al., 2020).

France, as a country hosting a significant share of planetary biodiversity, through its Overseas Territories and Exclusive Economic Zone at sea, has made this issue a core component of its foreign policy, through its official development assistance (ODA) and the One Planet Summit in particular, and thus carries out diplomacy that is nature positive.

#### Biodiversity or Nature? The scope of our approach

Biological diversity, or biodiversity, is a concept that relates to all components of the living world, and has three dimensions: ecological diversity (ecosystems), specific diversity (species), genetic diversity (genes). It covers all natural environments and forms of life (plants, animals, fungi, bacteria, viruses, etc.), as well as their evolution and interactions.

Nature, as a concept, is larger in scope as it also comprises non-living elements of the physical world (air, land, water, minerals, etc.). It also always incorporates a strong cultural dimension.

Like the Taskforce on Nature-related Financial Disclosures (TNFD), AFD Group incorporates these nature-related aspects into its biodiversity assessment. In this document, the terms "nature" and "biodiversity" are used interchangeably.

All scientific research clearly shows that the biological diversity of species and ecosystems is key to sustaining nature's services to humans (food, materials, living environment, etc.) and to the resilience of habitable environments, particularly to climate change. Preserving biodiversity contributes to food security, health, economic stability, employment, and ultimately to tackling poverty.

Protecting biodiversity/nature means sustaining its vital contribution to human societies, while also preserving species and ecosystems for their intrinsic value.

### 2 | AFD's strategic and financial commitment for biodiversity



s a key player in France's international cooperation, AFD Group contributes directly to this policy through its strategic orientation plan and its strategies to support territorial and ecological and climate transitions.

Since 2020, its investment policy for the planet has had two main targets, both of which are to be achieved by 2025: (i) allocate EUR 1 billion per year to projects with biodiversity co-benefits and (ii) ensure that 30% of its climate finance is nature positive.

These targets have entailed, at the operational level, a commitment to widen the scope of biodiversity mainstreaming across all sectors of intervention and to adjust AFD's financial products and technical assistance accordingly, as it has been done for the climate over the last decade. It has also involved institutional and organizational transformations, and investment in decision-making processes.

At the organizational level, our climate and biodiversity teams have merged in order to integrate these two topics into our country-level investment strategies. A Green Task Force has also been set up, bringing together a network of biodiversity focal points at headquarters, as well as at our country and regional offices. This community of practice acts as a catalyzer and an accelerator of AFD's transformation into a Nature+ public development bank.

Biodiversity is now fully integrated, alongside climate, into our accountability framework, in terms of impacts, co-benefits and investment strategies. Our biodiversity metrics and accounting methods, in place since 2013, are evolving to provide a more reliable and accurate picture of our resource mobilization for biodiversity.

This document details the principles underpinning AFD's new accounting method introduced in January 2022. What we refer to interchangeably as "Nature+ Finance" or "Biodiversity Finance" results from the application of this accounting method. **SECTION 2** 

## FOUNDING PRINCIPLES OF AFD'S NATURE+ FINANCE

#### 1 | Building on **best standards** for biodiversity finance

uilding on AFD's 10 years of experience of monitoring biodiversity investments, our new Nature+ method is inspired by best practices and standards for assessing biodiversity-positive finance. First, our analytical framework is fully compatible with the OECD guidelines<sup>6</sup> for monitoring the compliance of ODA with the Convention on Biological Diversity (CBD). Therefore, only investments with a score above 0 according to the OECD/ Development Assistance Committee (DAC) marker for biodiversity are assessed for the financial value of their biodiversity co-benefits. In other words, a project or investment must fulfill two conditions<sup>7</sup> in order to be deemed Nature+:

(i) Compliance with the highest standards on environmental due diligence in strict conformity with the biodiversity mitigation hierarchy to guarantee no net loss for nature<sup>8</sup>

(ii) The project must be explicitly designed to produce a net gain for biodiversity<sup>9</sup> with reference to a scientific baseline comparing scenarios with and without the project.

Second, the accounting method draws on the Common Principles for Climate Mitigation Finance Tracking<sup>10</sup> and proposes, for biodiversity, a parallel and consistent approach to that used to assess compatibility with the Paris Agreement in terms of climate change mitigation and adaptation. Similarly, the Nature+ approach similarly verifies the contribution of an investment to a biodiversity preservation goal or to a Nature+ economic goal, consistent with the post-2020 global biodiversity framework (GBF), through six levers included in the methodological framework (see page 12).

Furthermore, the criteria and indicators used to qualify a Nature+ project at AFD also take into careful consideration:

(i) the European Commission's technical expert group on sustainable finance  $^{\mbox{\tiny 11}}$ 

(ii) the Taskforce on Nature-related Financial Disclosures (TNFD)  $^{\rm 12}$ , in which AFD is directly involved

(iii) tracking biodiversity finance within the Making Finance Work for Nature working group of the International Development Finance Club (IDFC) with its 26 member banks.

- **6** | Guidelines updated in 2018 available <u>here.</u>
- 7 | Refer to Annexes | and II for the scope of analysis of positive impacts on nature/ biodiversity of a project funded by AFD.
- 8 | See AFD's environmental and social risks management policy <u>here</u>. Our exclusion list has been updated, specifically as regards biodiversity and deforestation-related aspects (the new list will be published in 2022).
- 9 | DAC marker elegibility criteria at AFD are related to our sustainable development analysis mthodology which will also be released in 2022.
- 10 | See the Common Principles (2021) <u>here</u>.
- 11 | It details the technical criteria for the six environmental objectives of the EU taxonomy (Regulation EU 2020/852).
- 12 | Over 2021-23 the TNFD will progressively formalize in 20212-23 a common framework for financial institutions to report on their nature-related risks and dependencies, and on their nature-positive investments.

The Nature+ Finance method thus consolidates the Group's accountability with regard to its strategic and financial commitments to nature. It also improves the reliability and clarity of France's bilateral commitment to implement the Convention on Biological Diversity (CBD). Moreover, it is helping AFD Group to prepare for the application of European Regulation 2020/852 on sustainable finance and biodiversity. AFD therefore plans to be actively involved in defining and adopting common principles for public development banks in order to track for tracking of biodiversity finance and align their investments with the future GBF.

### 2 | Systematically assessing the **alignment of investments** with the future GBF



FD's commitment to biodiversity translates into a systematic assessment of the impacts of our investments on nature of our investments, regardless of the implementing partner, country, sector or financial product.

The assessment takes the form of standard criteria (presented in detail on page 8), which are used to determine whether the project aligns with the future GBF. GBF's two goals – preserving biodiversity and promoting a Nature+ economy – are each linked to three levers<sup>13</sup>, which relate to a series of eligibility criteria and monitoring indicators<sup>14</sup> that are used to qualify the effectiveness of the investment's contribution to a given lever.

In practice, this assessment is performed on the basis of the pre-Board project documentation and its purpose is to verify whether the design, logical framework, activities, and human and financial resources are consistent with the chosen biodiversity outcomes and associated lever. This assessment ultimately verifies whether the project contains a meaningful and efficient biodiversity strategy, with an adequate action framework and resources, in respect of the impacted ecosystems and natural capital, while taking into account the stresses on them in the sector and context of the project.

This general approach to assessing biodiversity co-benefits is currently being detailed and adapted to AFD's sectors that contribute most to biodiversity finance (water and sanitation, agriculture, green cities, national public and private finance etc.), and will lead to the development of an internal Nature+ Taxonomy for the Group's investments.

- 13 The six levers are, in short: (i) protection (ii) restauration;
   (ii) integrated spatial planning; (iv) policies and governance; (v) sustainable management of resources;
   (vi) ecological performance of investments.
- 14 These indicators reflect, as much as possible, the wording of the GFB and the nature and environmentrelated Sustainable Development Goals of the 2030 Agenda.

	Biodiversity levers	Eligibility criteria
D	1 - Effective protection or conservation of ecosystems and/	The investment/project contributes to: a) The extension and/or restauration of natural areas and species that benefit from sustained protection (category I to V IUCN) or other effective area-based conservation measures (OECMs), OR
	or natural species (terrestrial, aquatic and marine)	<ul> <li>b) Building the capacities and means/resources of protected areas' governing bodies, and the conditions and means necessary for the sustainable preservation of the conservation status of the areas concerned, OR</li> <li>c) The conservation (<i>in situ</i> or <i>ex-situ</i>) of healthy and resilient populations of natural species,</li> </ul>
vatic		and/or of their genetic heritage.
Nature conservation	2 - Restauration of natural ecosystems	The investment/project produces net gains for biodiversity, or in terms of increased functionalities or services within degraded ecosystems, through an implementation plan including:
ture		a) Active ecological restauration of the state of conservation of ecosystems, OR
Nat	(terrestrial, aquatic and marine)	b) A significant reduction on a comparable scale of the anthropogenic pressure(s) primarily responsible for the deterioration in the conservation status of the ecosystem concerned (examples: invasive species, pollution, fragmentation, overexploitation of natural capital, etc.).
	3 - Integrated spatial planning of rural and urban territories	The project/investment increases the area of space benefiting from spatial planning addressing land/sea use change, retaining most of the intact and wilderness areas and/ or reinforces the regulation of human and economic activities within the territory, whereby the functioning of ecological areas, networks and services, as well as natural capital, is preserved – even when the ecosystems are exploited for productive ends.
	4 - Integrated policies/ strategies, biodiverstiy governance and	The investment/project substantially reinforces the ambition, effectiveness and means of governance and implementation of:
		a) Strategies, policies and public action plans (at State or decentralized level) for biological diversity, aligning with the GFB and its monitoring framework, OR
onomy	financial resource mobilization for biodiversity	b) Strategies of the private sector (businesses, financial institutions or civil society organizations) for the mainstreaming of biodiversity in their activities and the reduction of their overall ecological footprint.
Nature-positive society and economy	5 - Sustainable management of natural resources (quantitative and qualitative) and value chains	The investment/project produces a significant and measurable net gain in terms of the environmental efficiency of production and extraction practices, of processing and supply chains, and of the cycle of inputs/outputs dependent on natural capital, thus contributing to the sustainability (in quantity or quality) of the natural capital being used or developed. Such net gains can be achieved through strategies aimed at:
		a) Moving natural resource-dependent production or processing sectors (agriculture, forestry, fisheries, industry) towards practices/technologies that adequately manage negative impacts on the natural environment and promote nature and nature-based solutions, OR
		b) Implementing master plans and investment programmes on a proportional scale to reduce the pollution and waste resulting from economic activities (reduction at the source of emission, treatment, recovery via the circular economy).
	6 - Ecological efficiency of a local investment or significant reduction of a local and chronic human- induced pressure	The investment/project produces net gains for biodiversity, but at relatively small scale or limited in terms of its effects on the ecological quality or functionality of the environment it influences; either the envisaged nature-positive activities are isolated and are not included in an integrated approach to biodiversity, or the substantially reduced pressures on biodiversity are localized and chronic in nature.

#### 3 | Calculating Nature+ Finance according to potential biodiversity net gains

nce a project's contribution to the GBF goals has been determined and it has been assigned to a lever, the next step of the method is apply a weighting factor to the chosen lever, and converting the related co-benefits in financial terms. This step uses a "biodiversity rate" (ranging from 20% to 100%) as a proxy to establish the relation between the Nature+ impacts or co-benefits of an investment and a financial commitment for biodiversity.

Taking into consideration the OECD guidelines<sup>15</sup> for tracking biodiversityrelated ODA, a project's financial contribution to biodiversity is calculated using a standard discount rate applied to the total amount of the financial commitment for projects assigned to one of the six levers:

Biodiversity lever	Biodiversity rate	Main causes of deterioration
LAB 1: Protection and conservation	100%	Net loss of natural habitats
LAB 2: Ecological restauration	80%	Degradation of ecosystems
LAB 3: Integrated spatial planning	60%	Fragmentation of ecological corridors
LAB 4: Governance and policy	50%	Weak biodiversity governance
LAB 5: Sustainable management of ressources	40%	Overexploitation of resources and pollution
LAB 6: Local ecological efficiency	20%	Cumulative chronic pressures

The progression of the biodiversity rates, from 20% to 100%, reflects the hierarchy of pressures established by the IPBES in its 2019 report on the state of ecosystems. Conversely, as shown in the above table, the six levers seek to alleviate the main causes of environmental deterioration globally. Furthermore, the relative values of the biodiversity rate are also a means to promote the levers expected to play a central role in the realization of the GBF's long-term vision up to 2050: "By 2050, biodiversity is valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people".

15 The OECD guidelines apply a weighting factor between 0 et 100% to projects contributing to biodiversity and to the CBD outcomes.

#### Net gain

A project generates a net gain, a Nature+ impact or biodiversity co-benefits if nature itself or the governance of biodiversity are improved as a result of project implementation, in the project's physical area of influence.

Demonstrating net gain is ideally based on a comparison with a counterfactual scenario, which models a "no project" trajectory from the baseline situation (measuring and collecting data for this "no project" scenario usually entails identifying a control group or area, which is deemed not affected by the project). In practice, this means calculating a "dual difference" between the development over time of the state of biodiversity in the "with project" scenario (i.e. "state of biodiversity at t" - "state of biodiversity at 0" = biodiversity gain over t) and the development over the same interval in the "no project" scenario (using the same calculation): "biodiversity gain in the project scenario over t" - "biodiversity gain in the NO project scenario over t" = biodiversity NET GAIN, as presented in the figure below.

This rigorous approach to calculating net gain is often a challenge in the reality of project implementation, and it will therefore be adjusted to the availability of data and to the available time and resources for project preparation.

In any event, this approach emphasizes the importance of detailing and analyzing the following items, for project appraisal: (i) the baseline situation in terms of vulnerabilities and deterioration of nature; (ii) the project's contribution in terms of positive impacts for nature; (iii) the dynamics at play in the project area and how they are deemed to influence the project's expected outcomes. Bringing together and consolidating these three levels of analysis remains a complex task, and should be implemented with pragmatism (mixing qualitative and quantitative approaches) and efficiency, and adapting to local contexts.



### 4 | Making a deep commitment to **protection of the planet**

ligning with France's objective to protect 30% of the planet's surface by 2030, the Nature+ accounting method integrates an incentive for projects contributing to the protection of nature (through the high rates of levers 1, 2 and 3). The role of the Nature+ economy is taken into consideration, through the three associated levers, and is promoted through mainstreaming. To this end, an additional 10% of biodiversity finance is allocated to projects showing Nature+ impacts within protected areas<sup>16</sup> or Key Biodiversity Areas<sup>17</sup>, considered as priority areas for the implementation of the 30% ambition.

### 5 | Nature+ impacts: a **systematic criteria** for investment decision-making

y 2022, every project will be assessed in order to determine its biodiversity impacts, using the standard and method described above. The Project Manager or Task Team Leader is responsible for performing this assessment and is supported by a biodiversity-climate expert. The project's contribution to nature-positive climate finance can also be assessed in line with AFD's

commitment for 30% of its climate finance to be biodiversity positive.

The result of this assessment is reported in a dedicated section of the project document presented to the Board. The contribution of projects to biodiversity can thus be included (using the corresponding amount of biodiversity finance as an indicator) within the decision process during appraisal and, finally, at Board level.

Projects and investment decisions, in a given year, contributing to biodiversity finance (once their commitments have been discounted using the biodiversity rates presented above) add up to form the annual Nature+ Finance

- **16** | See the glossary of the technical guide for definitions.
- 17 | See the mapping of scientific and technical criteria for this standard <u>here</u>.

for AFD Group. This allows the tracking of progress towards the target of EUR 1 billion per year by 2025. Reaching this amount corresponds to a twofold increase in AFD Group's resource mobilization for biodiversity, from the reference amount of EUR 565 million of biodiversity finance in 2020.

As mentioned above, the systematic application of this method to all our investments will improve AFD's ability to communicate clearly on the resources mobilized in line with the GBF outcomes, and will contribute to the objective of climate-biodiversity convergence.

### 6 | Integrating Nature+ accountability into the Group's SDGs reporting



FD Group's Nature+ approach is one component of its extra-financial reporting alongside and linked to its Climate reporting. Together, these nature and climate dimensions form the "Planet" dimension of AFD Group's contribution to the Sustainable Development Goals.

The latter is also monitored globally according to the six dimensions of sustainable development, via a sustainable development analysis system that can be consulted on the AFD Group website.

#### Towards a world in common

AFD Group implements France's policy in the areas of development and international solidarity. The Group includes Agence Française de Développement (AFD), which finances the public sector and NGOs, as well as research and education in sustainable development; its subsidiary Proparco, which is dedicated to private sector financing; and Expertise France, a technical cooperation agency. The Group finances, supports and accelerates transitions towards a fairer, more resilient world.

With our partners, we are building shared solutions with and for the people of the Global South. Our teams are at work on more than 4,000 projects in the field, in the French Overseas Departments and Territories, in 115 countries and in regions in crisis. We strive to protect global public goods – promoting a stable climate, biodiversity and peace, as well as gender equality, education and healthcare. In this way, we contribute to the commitment of France and the French people to achieve the Sustainable Development Goals (SDGs). Towards a world in common.



www.afd.fr Twitter: @AFD\_France - Facebook: AFDOfficiel - Instagram: afd\_france 5, rue Roland-Barthes - 75598 Paris cedex 12 - France Tel.: +33 1 53 44 31 31