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Options for considering nature-positive finance tracking and taxonomy

Climate Change Division

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CONTENTS

Glossary

Biodiversity	The variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part.[1]
Degradation	Degradation (of an ecosystem): A level of deleterious human impact to ecosystems that results in the loss of biodiversity and simplification or disruption in their composition, structure, and functioning, and generally leads to a reduction in the flow of ecosystem services.
Drivers	The underlying force(s) governing the nature of the pressure, in which often a distinction is made between direct- and indirect drivers.
Ecological rehabilitation	Ecological repair activities after disturbance that aim to restore ecosystem functioning rather than the biodiversity of a designated native ecosystem.
Ecological remediation	The process of removing pollution or contaminants from the environment such as from soil, surface and groundwater, sediments, etc.
Ecosystem	A dynamic complex of plant, animal and micro-organism communities and their non-living environment interacting as a functional unit.[2]
Ecosystem composition	The variety of living things found within an ecosystem.
Ecosystem condition	Whether an ecosystem functions well (see subsequent definition), broadly depends on its ecological 'condition' (or often used proxies as 'health' or 'state')[3]. Assessing ecosystem conditions usually requires a combination of indicators, mostly physical (e.g. extent, distribution, structure), chemical (e.g. nutrient levels, acidity, toxicity) and biological (e.g. species composition and -abundance).
Ecosystem function	The collective life activities of plants, animals, and microbes and the effects these activities (e.g., feeding, growing, moving, excreting waste) have on the physical and chemical conditions of their environment[4]
Ecosystem integrity	Ecosystems of which their dominant ecological characteristics (e.g., elements of composition, structure, function, and ecological processes) occur within their natural ranges of variation and can withstand and recover from disturbances.[5]
Ecosystem recovery	The process by which an ecosystem regains its composition, structure and function relative to the levels identified for the reference ecosystem. In

[1] IPBES adds that '*This includes variation in genetic, phenotypic, phylogenetic, and functional attributes, as well as changes in abundance and distribution over time and space within and among species, biological communities and ecosystems.*'
[2] Definition used in Article 2 of the UN Convention on Biological Diversity and by IPBES
[3] We use the definition of the EU's Mapping and Assessment of Ecosystem Services (MAES) which defines ecosystem condition as the '*…physical, chemical and biological condition or quality of an ecosystem at a particular point in time.*' From: Maes J., Teller A., Erhard M., *et al.*, (2018) *Mapping and Assessment of Ecosystems and their Services: An analytical framework for ecosystem condition*. Publications office of the European Union, Luxembourg.
[4] Naeem, S., Chapin III, F.S. Costanza, R., Ehrlich, P.R., Golley, F.B., Hooper, D.U., Lawton, J.H., O'Neill, R.V., Mooney, H.A., Sala, O.E., Symstad, A.J. and Tilman, D. (1999) *Biodiversity and Ecosystem Functioning: Maintaining Natural Life Support Processes*. Issues in Ecology 4. Published by the Ecological Society of America.
[5] Slightly simplified from Parrish, Braun and Unnasch (2003) Are We Conserving What We Say We Are? Measuring Ecological Integrity within Protected Areas, https://academic.oup.com/bioscience/article/53/9/851/311604

	restoration, recovery usually is assisted by restoration activities—and recovery can be described as partial or full.
Ecosystem restoration	The process of assisting the recovery of an ecosystem that has been degraded, damaged, or destroyed for biodiversity conservation, the delivery of ecosystem services, or both.
Ecosystem services	All the contributions, both positive and negative, of living nature (i.e. diversity of organisms, ecosystems, and their associated ecological and evolutionary processes) to the quality of life for people.[6]
Ecosystem structure	The living (biotic) and non-living (abiotic) physical components that make up an ecosystem.
Nature	In this report, we take the IPBES definition (*The natural world with an emphasis on its living components)*[7] as a starting point and interpret 'nature' from the 'scientific' perspective focused on the 'external' and 'observable' part of the natural world. In doing so, we take a broad view of nature as not only the 'living' components (including humans), but also their interaction and interdependencies with the non-living material world.
Nature-based solutions	Actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems, which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services and resilience and biodiversity benefits[8].
Pressures	The immediate and direct factors impacting the on the state (condition) of nature.

[6] IPBES glossary: https://ipbes.net/glossary/ecosystem-services; https://ipbes.net/glossary/ecosystem-services.
[7] https://ipbes.net/glossary/nature
[8] UNEP (2022) Resolution adopted by the United Nations Environment Assembly on 2 March 2022 (UNEP/EA.5/Res.5), https://wedocs.unep.org/bitstream/handle/20.500.11822/39752/K2200677%20-%20UNEP-EA.5-Res.5%20-%20Advance.pdf?sequence=1&isAllowed=y

1 Introduction

In all regions of the world, the biosphere -which delivers vital contributions to societies- is deteriorating at an unprecedented scale. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) warns that 25% of animal and plants species it assessed are threatened[9]. Degradation particularly occurs at the level of regulating and non-material contributions of nature, including pollination and the regulation provided by soil organic carbon. It thus directly affects the basic welfare of communities, for instance by jeopardizing global food security and nature-based health care used by an estimated 4 billion people[10]. Critically, a portion of these contributions are irreplaceable. Moreover, nature degradation is closely intertwined with climate change[11]. It hinders communities' and ecosystems' resilience to climate change and is also expected to accelerate as climate change intensifies. While the collapse of ecosystems could result in global GDP decline of USD 2.7 trillion annually by 2030[12], the implementation of 15 key transitions[13] could generate up to USD 10.1 trillion in business value and 395 million jobs by 2030[14]. Multilateral Development Banks (MDBs) can play an instrumental role in this shift by supporting the Vision 2050 on Biodiversity, which requires mainstreaming biodiversity into national development plans and encouraging "deep engagement with development sectors and actors to address the root causes of biodiversity loss"[15]. They are particularly well suited to advance the approach of the draft Global Biodiversity Framework, which proposes 21 targets to reach the Vision 2050 and which places "people's needs" at the core of its theory of change[16].

MDBs' longstanding experience with the inclusion of sustainability considerations in operations with public and private clients and their commitment to developing "projects, business models and/or financing instruments to support economic activity that seek to reverse the drivers of nature loss" and to "tackle the drivers of nature loss by fostering and making nature-positive investments"[17] directly support the implementation of the Post-2020 Global Biodiversity Framework (GBF) under the UN Convention on Biological Diversity (CBD). To operationalize this commitment, MDBs committed in their Joint Nature Statement to lay methodological foundations to align their work on nature-positive investments:

- 1.11 We will […] seek to agree on an operational definition of 'nature positive' in the context of our operations and investments;
- 1.24 We will seek to align our objectives and develop tools and methodologies for tracking 'nature positive' investments across our portfolios.

[9] IPBES (2019). The Global assessment report of Biodiversity and ecosystem services, available at https://zenodo.org/record/6417333#.YtfCk7ZBw2w
[10] IPBES (2019). Ibid
[11] Multilateral Development Banks (2021). Joint Nature Statement by the Multilateral Development Banks: Nature, People and Planet, available at https://ukcop26.org/mdb-joint-statement/
[12] World Bank Group (2021). The Economic Case for Nature, available at https://openknowledge.worldbank.org/bitstream/handle/10986/35882/A-Global-Earth-Economy-Model-to-Assess-Development-Policy-Pathways.pdf?sequence=1&isAllowed=y
[13] Those 15 transitions are across three socio-economic systems: (1) food, land and ocean use, 2) infrastructure and the built environment, 3) energy and extractives)
[14] World Economic Forum (2020). The Future of Nature and Business, available at https://www3.weforum.org/docs/WEF_The_Future_Of_Nature_And_Business_2020.pdf
[15] UN Environment Programme (2019). Towards the vision 2050 on biodiversity: living in harmony with nature, available at https://www.unep.org/news-and-stories/story/towards-vision-2050-biodiversity-living-harmony-nature
[16] Convention on Biological Diversity (2020). Update of the zero draft of the Post-2020 Global Biodiversity Framework, available at https://www.cbd.int/doc/c/3064/749a/0f65ac7f9def86707f4eaefa/post2020-prep-02-01-en.pdf
[17] Multilateral Development Banks (2021). Ibid.

These commitments also directly answer the G7 call for the development of methodologies "to increase and disclose [MDBs'] finance for nature" before the second part of CBD COP15[18].

It is within this context that the Inter-American Development Bank (IDB) contracted Trinomics and Climate Policy Initiative (CPI) to provide options for defining, tracking and reporting nature-positive investments.

This guidance document represents the final deliverable in this contract. The work is based on definitions and principles identified in earlier stages of the contract, interviews with the MDBs and three consultation meetings of which two were with the MDBs[19] and one with external stakeholders[20]. It follows the design principles discussed previously with MDB experts (Annex I - Design principles for developing nature-positive approaches in MDBs). It also provides MDBs with more detail on the pros, cons and underlying principles of the methodological options for defining, screening, tracking and reporting nature-positive investments.

As a first step, this presents options for defining nature-positive finance (Chapter 2). In addition, acknowledging the variety of institutional and ecological contexts in which MDBs operate, the report offers a menu of options they may choose from to screen nature-positive activities (Chapter 3) and well as a variety of approaches to determine the nature-positive contribution to investments (Chapter 4). Finally, the report then proposes principles for tracking and reporting on these investments (Chapter 5).

Textbox 1-1 A note to the reader

The content of this report should be regarded as one of the first attempts to formulate options for considering nature-positive finance tracking methodologies. Further development and discussions on the topic are necessary to finalize the approach. In particular, there is a need for detailed guidance on:

1) The materiality of gains to nature, firming up what a 'contribution' to nature could look like. This could be further supported by setting targets per ecosystem;
2) Sector-specific implications, specifying nature-positive investments per sector (e.g., infrastructure, mining, primary agriculture, manufacturing), which could be realized by means of a positive list of activities per sector;
3) How to apply nature-positive approaches within the MDBs and other financial institutions.

[18] G7 (2022). G7 Leaders' Communiqué, available at https://www.consilium.europa.eu/media/57555/2022-06-28-leaders-communique-data.pdf
[19] The first consultation meeting was held on the 14th of June 2022, and the second consultation meeting took place on the 7th of July 2022.
[20] Held on the 14th of July, external organizations present were: 1) UK government (Foreign, Commonwealth and Development Office (FCDO) and Department for Environment, Food and Rural Affairs), Taskforce on Nature Finance Disclosure, and World Resource Institute.

2 Defining nature-positive

This Chapter provides two options for defining nature-positive investments and elaborates on several aspects that need to be considered for their development. The table below presents the two options and discusses their advantages and disadvantages. In the development of these definitions, several versions have been discussed with the MDBs, and those presented here are the two main approaches that stem from these discussions. Option 1 attempts to provide a novel definition, tailored to the operations of MDBs, describing the overarching objective of all nature-positive activities. Option 2 provides a simpler definition, following the objectives of the CBD framework.

Table 2-1 Options for a definition of nature-positive investments

Option 1	
Nature-positive investments are financial resources committed to activities which explicitly and measurably maintain or enhance the integrity of ecosystems against a defined baseline - or create the enabling conditions for doing so	
Pros	Cons
• Presents a novel definition that focuses on an overarching objective (maintaining and enhancing ecosystem integrity), rather than merely biodiversity • Tailored to MDBs' operations	• Uses complex terminology • If read out of context can lead to misunderstandings
Option 2	
Nature-positive investments are financial resources committed to development operations and components thereof that enable the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources	
Pros	Cons
• Closely follows the CBD Framework • Easier to understand by non-experts	• Emphasizes biodiversity which is narrower than the scope of nature-positive investments • Not tailored to MDB's operations (includes fair sharing of benefits of genetic resources, which is of limited relevance to MDBs)

The remainder of this Chapter elaborates on important aspects that should be considered when developing a definition of nature-positive investments. Those are:

- The use of the term **'integrity of ecosystems'** in Option 1 as an attempt capture the functional and regenerative dimension of nature (Section 2.1);
- **The difference between nature-positive and nature safeguard activities** indicating that nature-positive investments should contribute to nature in contrast to the mitigation hierarchy that aims to minimize the harmful impacts on nature (Section 2.2);

- The **scope of the definitions**, illustrating the direct and indirect links with the Long-term goals of the draft post-2020 Global Biodiversity Framework of the CBD (Section 2.3);
- Further justification and guidance on the elements '**explicitly**', '**measurably**' and '**baseline**' used in Option 1 (Section 2.4); and lastly,
- A non-exhaustive list of different types of **nature-positive activities** that could fall under both definitions. This first attempt to operationalize the definitions is achieved by providing several examples related to the agriculture sector (Section 2.5).

2.1 Ecosystem integrity

One of the most important differences between the two definition options proposed in this chapter is the terminology used for the explicit output of the nature-positive investments. Option 1 points to the need to maintain and enhance ecosystem integrity, while Option 2 focuses on the conservation of biodiversity. Although essentially both definitions capture the same objective (i.e. to halt and reverse nature loss), "ecosystem integrity" as a term communicates more accurately the overarching goal of nature-positive activities – to contribute to more resilient, functional, and productive ecosystems. However, the discussions held during the stakeholder consultation revealed that 'ecosystem integrity' was considered by some participants as a complex term that cannot be easily operationalized systematically across different entities. On the other hand, "biodiversity conservation" (Option 2) is more intuitive and aligns more clearly with the Global Biodiversity Framework (GBF). To help make things clearer, below, the term "ecosystem integrity" is explained in more detail.

The contribution of nature-positive investments to the *integrity* of ecosystems is in line with the draft post-2020 GBF which includes the enhancement of the integrity of all ecosystems as a principal goal towards 2050 (Goal A). While the CBD Secretariat has not yet adopted a formal definition of ecosystem integrity, technical guidance published with the draft GBF provides a working definition: '*An ecosystem is generally understood to have integrity when its dominant ecological characteristics occur within their natural ranges of variation and can withstand and recover from most perturbations*.'[21]. Or, in simpler terms, ecosystem integrity is nature's capacity to maintain its characteristic features over time in the face of disturbances[22].

While integrity is often understood as a static 'pristine' or 'fully undisturbed' state, here it is interpreted as a *scale* which can equally be enhanced in ecosystems strongly modified by man such as agro- and urban ecosystems. While integrity is less frequently used than similar terms such as 'condition' or 'state,' it has the added value of more clearly expressing the self-organizing and regenerative capacity of well-functioning ecosystems that can ensure their stability and resilience. This is a critical precondition for the sustained provision of ecosystem services or nature benefits to society for example in mitigating and adapting to climate change. Such ecosystems also provide a sustained habitat for species- and genetic diversity, making the concept both acceptable as a goal for the conservation and restoration of nature for its intrinsic value as well as for co-benefits.

[21] Executive Secretary of the UN CBD (2021) Scientific and technical information to support the review of the proposed goals and targets in the updated zero-draft of the post-2020 Global Biodiversity Framework, https://www.cbd.int/doc/c/e823/b80c/8b0e8a08470a476865e9b203/sbstta-24-03-add2-rev1-en.pdf Definition based on Parrish, Braun and Unnasch (2003) *Are We Conserving What We Say We Are? Measuring Ecological Integrity within Protected Areas*, https://academic.oup.com/bioscience/article/53/9/851/311604

[22] See e.g. Pimentel, D., Edwards, C.A. (2000). Agriculture, Food, Populations, Natural Resources and Ecological Integrity. In: Crabbé, P., Holland, A., Ryszkowski, L., Westra, L. (eds) Implementing Ecological Integrity. Nato Science Series, vol 1. Springer, Dordrecht. https://doi.org/10.1007/978-94-011-5876-3_26

2.2 From mitigating losses to driving gains

Nature-positive activities are those that maintain or enhance nature through implementing the activity itself, and not through the offsetting of its negative impacts. In other words, nature-positive activities must aim to achieve net gains in terms of positively impacting ecosystems and biodiversity and not just ensuring no net loss of nature as part of safeguard policies within broader projects. All MDBs have safeguards policies to limit the interference of investment activities with critical social and environmental development objectives including biodiversity. At the heart of MDB safeguard standards is the 'mitigation hierarchy' (see Annex III – The mitigation hierarchy), which aims to minimize the **net negative impact** (or *net loss*) of activities on nature. Building on the logic of the mitigation hierarchy, the aim of nature-positive investments should be to further increase the contribution that projects or parts of them would bring to net gain in the state of nature.

2.3 Aligning with the Goals of the Global Biodiversity Framework

Both proposed definitions align with the Goals of the Global Biodiversity Framework.[23] While Option 1 does not explicitly mention these goals, they are still encapsulated in the definition. The goals are summarized in the textbox below. More specifically, Goal A is clearly captured by Option 1 as it refers to the enhancement of the integrity of ecosystems. Goal B, although not explicitly stated, is covered by Option 1, as it refers to the consideration of the value of nature's contribution to people, which is an enabling condition for maintaining and enhancing ecosystem integrity. Goal C is not explicitly included in the definition, as equitable sharing of benefits of genetic resources - for all its importance - mostly concerns government authorities responsible for the development of frameworks for accessing genetic resources, sharing benefits, and ensuring compliance, and is therefore of limited relevance in relation to the broad scope of MDB investment portfolios. Goal D is also not included in the definition, as it refers to the increase of nature-positive investments which cannot be part of a description that defines what nature-positive investments is (i.e. put differently, it would be pointless to describe nature-positive investments as the investments that close the nature financing gap).

Textbox 2-1 Long-term goals for 2050 of the draft post-2020 Global Biodiversity Framework of the CBD

Goal A
The integrity of all ecosystems is enhanced, with an increase of at least 15 per cent in the area, connectivity and integrity of natural ecosystems, supporting healthy and resilient populations of all species, the rate of extinctions have been reduced at least tenfold, and the risk of species extinctions across all taxonomic and functional groups, is halved, and genetic diversity of wild and domesticated species is safeguarded, with at least 90 per cent of genetic diversity within all species maintained.

Goal B
Nature's contributions to people are valued, maintained or enhanced through conservation and sustainable use supporting the global development agenda for the benefit of all.

Goal C

[23] Option 2 naturally aligns since it closely follows the CBD Framework.

The benefits from the utilization of genetic resources are shared fairly and equitably, with a substantial increase in both monetary and non-monetary benefits shared, including for the conservation and sustainable use of biodiversity.

Goal D
The gap between available financial and other means of implementation, and those necessary to achieve the 2050 Vision, is closed.

2.4 Explicit, measurable, and evidence-based

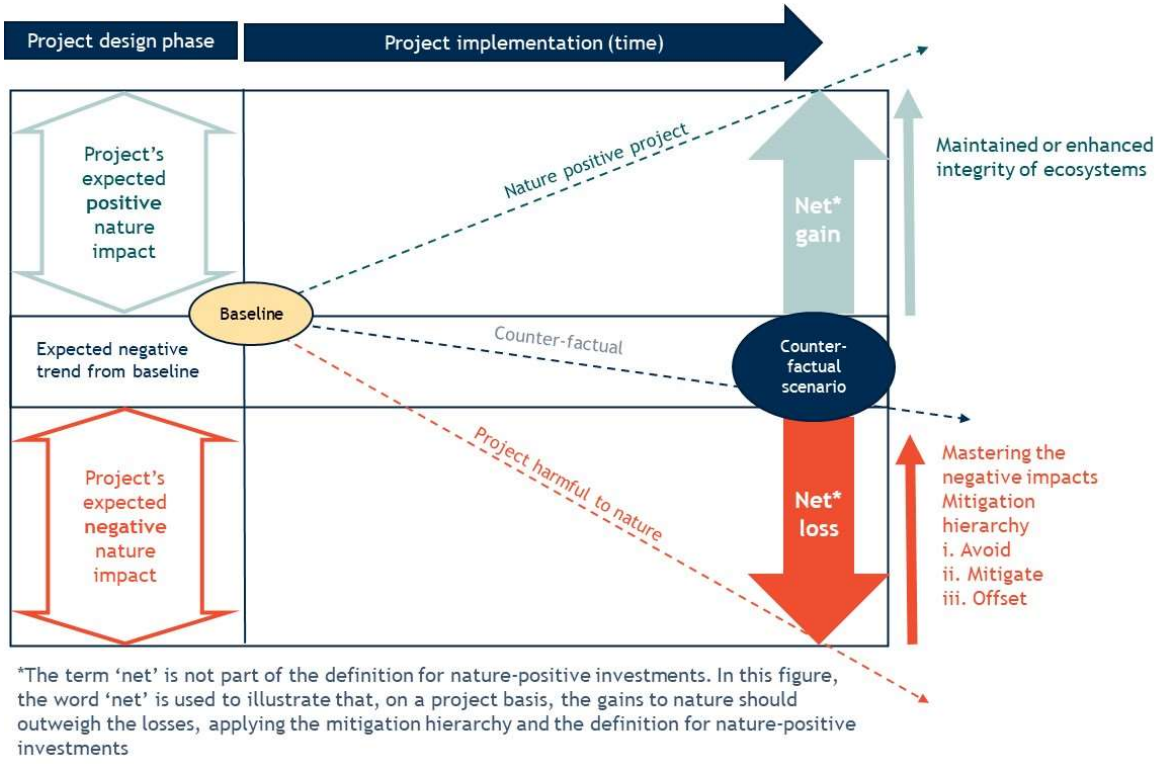
While a broad range of MDB activities could potentially contribute to the objective of maintaining and enhancing ecosystem integrity, they need to be **explicitly recognized** as such in order to be identified, tracked, reported upon and evaluated. Without such clarity at an objective level, it will be impossible to measure and manage progress against nature-positive MDB objectives. This also includes MDB activities which have been developed with other primarily objectives in mind but generate nature co-benefits, such as climate change adaptation and disaster risk management projects. Also for these activities, the nature-positive components will have to be explicitly recognized in the project objectives. When nature-positive objectives are included in a project that does not primarily address nature-related targets, they will be identified during the screening of the projects (see Chapter 3), then scored for their contribution to nature (see Chapter 4) and tracked and reported accordingly (see Chapter 5). Chapter 5 also describes how double-counting MDB resources under multiple financial flows can be avoided.

In order to ensure credibility and avoid allegations of greenwashing, the concrete contribution(s) that nature-positive activities would make to enhancing ecosystem integrity should be made explicit and backed up by scientific evidence. The term **measurable** used in Option 1 refers to the need for the investment to generate benefits that can be measured, so that results are verifiable, and progress can be tracked as part of the MDBs' MRV systems (measurement, reporting and verification). It should be noted that this does not mean that MDBs will have to measure the impact of investments on ecosystem integrity in order to track their nature-positive investments. MDBs can determine ex-ante whether an investment is nature-positive through one of the options presented in Chapter 3 and score it ex-ante according to its contribution to nature, based on one of the options listed in Chapter 4. However, projects must still include measurable results in order to concretely demonstrate the nature-positive outcomes achieved from their implementation.

To be able to assess whether an activity maintains or enhances ecosystem integrity (Option 1) or biodiversity (Option 2), a **baseline** must be established to identify the current state of nature, expected nature trend(s) under a counter-factual scenario without the activity, and the expected contribution of the activity to ensure positive gains. This logic is graphically shown in Figure which shows the change brought about by a project to the state of nature over its lifetime in relation to a baseline and counter-factual scenario of the state of nature which, under a business-as-usual scenario, is expected to see further declines (blue dotted line). The bottom side of the graph in red shows how projects harmful to nature can result in no net losses, *if* negative impacts are fully mitigated. These mitigation activities are not considered nature-positive since they do not result in net gains, which is a prerequisite for nature-positive investments. The upper side of the graph in green shows how projects beneficial to nature can cause net gains and help curb negative trends. It should be noted that under Option 1,

activities that aim at maintaining ecosystem integrity are also considered nature-positive. Therefore, activities that focus on maintaining the baseline of well-functioning ecosystems, through conservation of ecosystems and natural habitats, are covered by Option 1 definition.

Figure 1-1 Graphical representation how MDB investments can generate net gain[24]



Baselines and expected nature-positive contributions to ecosystem integrity and biodiversity can be supported by many different types of information. To establish a baseline, most approaches use a combination of quantitative and qualitative elements, such as the UN's official framework for ecosystem accounting (SEEA EA) which uses two key variables: **Ecosystem extent** (or area) and **ecosystem condition**[25]. While extent is relatively straightforward to identify, especially with increasing frequency and granularity of remote sensing data, condition -or quality in simple terms- can be assessed in a multitude of ways. Textbox 2-2 provides the SEEA typology for different ways of assessing ecosystem condition, which provide a clear and helpful framework of the key characteristics commonly defining the state of nature. Given the high local variation of ecosystems and biodiversity, it is important that current and expected conditions are assessed in a way which is tailored to the local context in which activities will take place. Published data availability can be an issue for this, though other sources of evidence, like local civil society or scientific expert judgement could fill data gaps and validate key assumptions.

Another approach for setting up a baseline could be the assessment of the provision of ecosystem services. There are available databases, such as the Co$tingNature database[26], that incorporate detailed spatial data on estimates of ecosystem service production. Using these frameworks, the

[24] Adapted from: AFD Groupe (2021) Nature+ Finance. Principles for the tracking of biodiversity and nature positive finance.
[25] https://seea.un.org/ecosystem-accounting
[26] http://www.policysupport.org/costingnature

current level of ecosystem service provision would constitute the baseline and estimations on the change of this provision based on the objectives of the intervention would determine progress. Of course, measuring changes in the production of ecosystem services is a very complex and time-consuming process in practice which requires multiple data sources.

Such ecosystem assessment frameworks can be quite overwhelming, and baseline assessment in MDBs should therefore be undertaken by staff with at least a basic understanding of ecology. Beyond the technical condition indicators, in order to track actual contributions that activities make in practice, they should be complemented by concrete implementation indicators that can be monitored and reported on by implementing partners within the lifetime of the project. Various tools are already available to help articulate and assess progress against set objectives, such as the 5-Star Recovery System for ecosystem condition[27] and the AURORA tool for ecosystem services[28]. The most suitable approach will depend on many factors, such as the complexity of the activity in relation to the ecosystem, data availability, or available in-house resources to collect and process available data.

Textbox 2-3 The SEEA Ecosystem Condition Typology (ECT)[29]

Abiotic ecosystem characteristics

- Physical state characteristics: physical descriptors of the abiotic components of the ecosystem (e.g., soil structure, water availability)
- Chemical state characteristics: chemical composition of abiotic ecosystem compartments (e.g., soil nutrient levels, water quality, air pollutant concentrations)

Biotic ecosystem characteristics

- Compositional state characteristics: composition / diversity of ecological communities at a given location and time (e.g., presence / abundance of key species, diversity of relevant species groups)
- Structural state characteristics: aggregate properties (e.g., mass, density) of the whole ecosystem or its main biotic components (e.g., total biomass, canopy coverage, annual maximum normalized difference vegetation index (NDVI))
- Functional state characteristics: summary statistics (e.g., frequency, intensity) of the biological, chemical, and physical interactions between the main ecosystem compartments (e.g., primary productivity, community age, disturbance frequency)

Landscape level characteristics

- Landscape and seascape characteristics: metrics describing mosaics of ecosystem types at coarse (landscape, seascape) spatial scales (e.g., landscape diversity, connectivity, fragmentation)

2.5 Nature-positive activities in the definitions

To maintain a broad scope as to the types of activities that could potentially be relevant to contribute to the maintenance and enhancement of ecosystem integrity, both definition options do not provide a prescription on this. The draft post-2020 GBF includes 21 Action Targets which could provide a helpful framework to evaluate which kind of activities would be relevant (see Annex IV – 2030 action targets in

[27] Society for Ecological Restoration (SER): https://www.ser.org/page/SERNews3113
[28] FAO and WRI (2019): http://auroramonitoring.org/#/
[29] https://seea.un.org/sites/seea.un.org/files/documents/EA/seea_ea_white_cover_final.pdf

the draft post-2020 Global Biodiversity Framework). However, the GBF is mostly written for the nation states that are parties to the CBD and their strategic frameworks and policies, while MDBs operate more at the implementation level and at the interface with private sector partners. Therefore, another potentially helpful guiding framework to identify relevant types of activities is the recently adopted definition of nature-based solutions: '*Actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems, which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services and resilience and biodiversity benefits.*'[30].

When comparing the different frameworks, there is a certain recurrence of types of strategies between them, and Table 2-2 aims to categorize the most common strategies against the principle aims of the two definitions. The table below gives a few concrete examples in relation to the agricultural sector[31], illustrating the operationalization of the working definition.

[30] UNEP (2022) Resolution adopted by the United Nations Environment Assembly on 2 March 2022 (UNEP/EA.5/Res.5), https://wedocs.unep.org/bitstream/handle/20.500.11822/39752/K2200677%20-%20UNEP-EA.5-Res.5%20-%20Advance.pdf?sequence=1&isAllowed=y

[31] The aim of this guidance document is not to provide examples per sector. The agriculture example was given to support the reader in understanding Table 2-2 2-2.

Table 2-2 Overview of common types of nature-related objectives and strategies and how they could translate into nature-positive activities

Option 1	Option 2	Key strategies in relevant typologies	Common sub-strategies	Examples in relation to mainstreaming (for the agricultural sector)	Example of positive contribution to ecosystem integrity
Maintaining ecosystem integrity (to avoid backsliding)	Conservation of biodiversity	Conservation	Protection	Activities reducing crop or livestock losses through better management of conflict species.	Reducing human- protected wildlife conflicts and related poaching/killing.
			Maintenance management	Encouraging upkeep of agricultural land management practices that make agro-ecosystems more resilient, e.g. against climate extremes such as heatwaves, for example ancient integrated agro-forestry systems or semi-natural grazing management maintaining soil health.	Maintaining agro-ecosystem structure and -functioning, reducing pressures, and allowing recovery of (semi-) natural habitats.
			Reducing indirect drivers	Finding alternative/complementary income sources for farmers (to reduce economic dependence on exploitative farming models).	Reducing reliance on exploitative farming practice e.g. driving conversion of natural habitat into farmland. Allowing economic space to transition to more integrated farming systems like organic agriculture.
	Sustainable use of its components		Sustainable use and reducing pressures (direct drivers)	Activities increasing water, pesticide or nitrogen efficiency in agriculture for cost-savings.	Conservation of natural aquifers feeding river-, lake- and wetland habitats- and species against drought and eutrophication.
Enhancing ecosystem integrity	Conservation of biodiversity	Restoration	Restoration management	Encouraging increase in agricultural land management practices that make agro-ecosystems more resilient, e.g. against climate extremes such as heatwaves, for example ancient integrated agro-forestry systems or	Increasing agro-ecosystem structure and -functioning, reducing pressures, and allowing recovery of (semi-) natural habitats.

Option 1	Option 2	Key strategies in relevant typologies	Common sub-strategies	Examples in relation to mainstreaming (for the agricultural sector)	Example of positive contribution to ecosystem integrity
(to overcome historic degradation)				semi-natural grazing management maintaining soil health.	
			Remediation	Amending compacted lifeless soils with organic matter to restore soil fertility.	Drainage and organic substrate will allow the recovery of soil biodiversity and -functioning, allowing plant life.
			Rehabilitation	Restore native vegetation such as hedgerows, trees or natural grassland to encourage pollination or natural pest control.	Small landscape elements provide important reproduction- or feeding habitat for wildlife.
Enabling conditions (relevant for maintenance and enhancement)	Enabling conditions (relevant for biodiversity conservation)	Resource mobilization	Eliminating harmful investments, increasing investment in nature-positive activities from existing sources, using existing investment sources more effectively, develop/tap into innovative new sources, etc.		
		Monitoring and governance	Development of nature and biodiversity strategies and action plans, improving knowledge and data collection, development and implementation of nature-inclusive spatial planning and IA frameworks, businesses assessment and reporting on their dependencies and impacts on biodiversity improving policy coherence, Improving public participation, etc.		
		Awareness, education and valuation	Nature-positive capacity building and development, technical and scientific cooperation and -transfer, ecosystem service valuation and natural capital accounting, etc.		
-	Fair and equitable sharing of the benefits arising from the use of genetic resources	Legislative interventions	Establishing the conditions and the legal framework for ensuring equitable access to genetic resources and benefit-sharing when genetic resources leave the country of origin.		

3 Screening to identify projects and/or activities that contribute to nature

This Chapter provides options for screening projects on their eligibility to be considered as nature-positive projects. Three options for screening will be discussed:

1) a **taxonomy-based approach** for screening (similar to climate mitigation approach);
2) a **process-based screening approach** (similar to climate adaptation approach); and
3) a **combination of both**.

This overarching framework sets out different possibilities for screening, as presented in a decision tree at the end of this Chapter. The proposed options can be used to identify nature positive activities ex-ante, in line with the proposed definitions and the tracking principles (see Chapter 5). Regardless of the selected option, the following overarching **screening criteria** can be applied for a first round of screening:

1. The project or activity contributes to maintain or enhance ecosystem integrity (i.e. this includes conservation and restoration activities as well as sectoral interventions that aim at alleviating pressures or providing nature co-benefits) or the enabling conditions for it (see also the nature strategies in Table 2-2);
2. Standard requirements should be met, e.g., the project should comply with the MDB's environmental and social safeguards policies, and other potential standards, and the project should avoid risks that may affect progress on other social and/or environmental priorities (e.g. climate change and alleviation of poverty).

We note that the first screening criterion focuses on nature-positive contributions (i.e., scope of this study), whereas the second criterion corresponds to the safeguard policies and aims to reduce the negative impacts on nature to ensure that no harm is done to nature. This second criterion is included for completeness, as MDBs by default adhere to social and environmental safeguards.

3.1 Option 1 - Taxonomy-based approach

The first option consists of a **taxonomy-based approach**, making use of a positive activity (or project) list and potentially an exclusion list of harmful activities.

The taxonomy-based approach aims to create a classification system, to help identify nature-positive investment activities. The classification could be based on the three objectives of the Convention on Biological Diversity[32] and follows a sector-based approach, in line with the MDB's operations[33]. The indicative list of eligible sectors/sub-sectors/activities may be further broken down into the level of contribution to nature (e.g., (1) investment's primary objective to contribute to nature conservation

[32] As such, an activity will be classified as biodiversity-related if it promotes at least one of the three objectives of the Convention on Biological Diversity: (1) the conservation of biodiversity, (2) sustainable use of its components (ecosystems, species or genetic resources), or (3) fair and equitable sharing of the benefits of the utilization of genetic resource.
[33] See for instance the IDFC Green Finance Mapping (https://www.idfc.org/wp-content/uploads/2021/11/idfc-gfm2021-full-report-final.pdf)

(including reducing pressures and use sustainably as per Table 2-2) and restoration and (2) investments' co-benefits to nature[34]).

Several taxonomies have been developed and emerged over the past couple of years, like the EU Taxonomy for sustainable activities, that can be used as a basis for MDBs' (common) Taxonomy. The indicative list of eligible projects and/or activities are assumed to be constantly developing and shall include more sectors and economic activities in the course of time. In the development of a taxonomy, the MDB(-s) could consider starting with the sectors that are expected to have the largest contribution to nature (e.g. agriculture and water sector), the sectors that are closest to the MDB's operations (e.g., infrastructure, water, transport and urban sectors), and/or the sectors that have large potential to damage nature (e.g., infrastructure sector). In addition to this iterative approach, it is also expected that the list shall be complemented with nature-positive projects, illustrating good examples.

Table 3-1 Overview of advantages and disadvantages of this approach

Advantages (pros)	Challenges (cons)
• A taxonomy is relatively easy to implement once the list is agreed upon, tagging activities to nature-positive contribution should be relatively straightforward for project teams and less time-consuming. • It would help project teams in the identification of nature-positive projects, which may increase awareness and further contribute to nature-positive investments. • If the taxonomy includes specific targets (e.g. reduction in pesticide use by at least 20%), it could support the tracking/impact assessment. • There are existing taxonomies, like the EU Taxonomy, that can be used as a basis.	• It is next to impossible to develop an exhaustive list of all eligible projects, leaving room for harmful interpretation and greenwashing. • Approach is less accurate as it categorizes activities in general but does not consider each project's specific context. • Developing a well-defined taxonomy, including quantitative targets (x% of restoration) would be resource-intensive. • It can be difficult to capture all 'enabling activities' under a taxonomy as many activities could be classified as such, depending on the context. A process-based approach (see subsequent options) would be better suited to capture enabling activities that could qualify as nature positive.

3.2 Option 2 – A process-based approach

This approach is based on the Common Principles for Climate Adaptation Finance Tracking[35] given the importance of the context-specific character of nature-positive projects. The following three-step process is advisable for the further screening and selection of projects:

1. **Set out the condition of the ecosystem(s)** of the location where the investment activities are supposed to take place. This can be done by means of the baseline development (see Chapter 2), and should give an overall understanding of the ecosystem(s) condition, existing pressures

[34] See for instance IFC's Biodiversity Finance Reference Guide (https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/biodiversity-finance-reference-guide)
[35] MDBs-IDFC Common Principles, 2015. See https://www.eib.org/attachments/documents/mdb_idfc_adaptation_common_principles_en.pdf

and impacts specific to the project activities and within the project boundaries (both spatially and temporally);

2. **State the intention to contribute to nature**, as per the suggested definitions, and the further guidance given in Table 2-2. Project documents should clearly state the intent to enhance (and maintain) the integrity of ecosystems against a defined baseline.
3. **Demonstrate a direct link** between condition of the ecosystem, and the investment activities. In this step, the investment's contribution to nature can be further differentiated between: (1) the investment's primary objective to contribute to nature conservation (including reducing pressures and use sustainably as per Table 2 2) and restoration and (2) the investment's co-benefits to nature.

Bringing together and implementing these three steps will be a complex task, and should be based on a combination of qualitative and quantitative approaches, adapting to local contexts.

Table 3-2 Overview of advantages and disadvantages of this approach

Advantages (pros)	Challenges (cons)
• This approach would ensure a more accurate identification of the investment activities' contribution to nature, given the focus on the specific context/location. • As such, it would increase the transparency and reduce the risks of green washing. • It would improve the nature-positive tracking and reporting, as the contribution to nature is defined based on a tailored baseline. • Although the data gathering is resource intensive, it does contribute the existing data and knowledge on the condition of ecosystems.	• This approach would be relatively more complex to implement as baseline development would be resource-intensive and requires a minimum understanding of the interactions/dependencies between sectors/activities and nature/ecosystems. • As such, there is a risk that this approach cannot be implemented by the MDBs, in particular for the MDBs with smaller sustainability/nature teams and/or limited capacity • There might also be limited or not granular enough quantitative data available about e.g. nature' state and a more qualitative or experience-based assessment can be used to identify the nature-positive proportion of the project and its overall contribution to nature. • It can be difficult to demonstrate a direct link between enabling activities and contribution to nature, and hence challenging to implement.

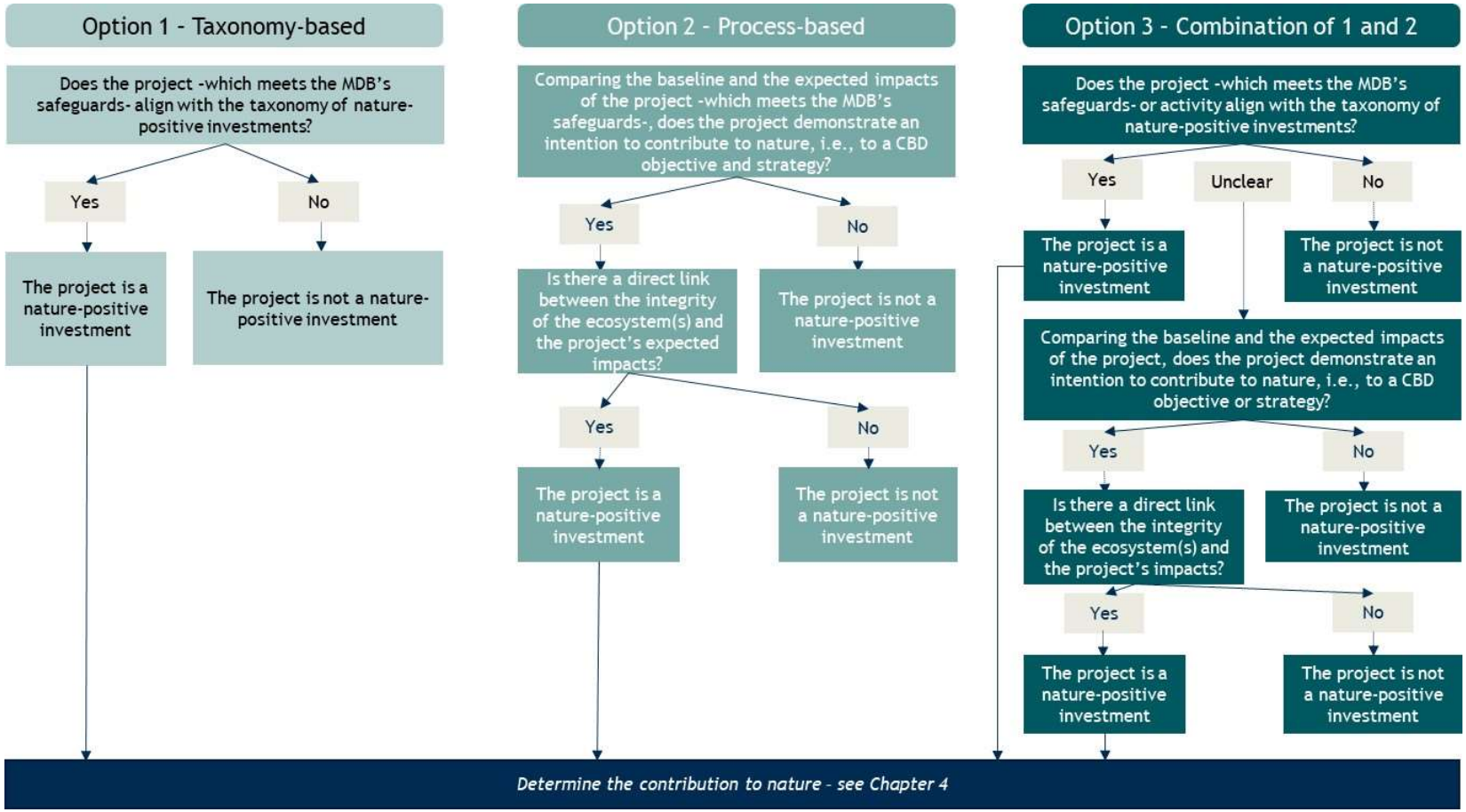
3.3 Option 3 - Any combination of (1) and (2)

This approach combines the two options described above. First, the screening criteria and indicative list are applied to identify projects/activities that could be considered nature positive. In the subsequent step, the 3-steps of the process approach are followed to establish the link between the local context and the investment activities' contribution to improving the integrity of the ecosystem. Importantly, this option also provides the flexibility to apply option (1) for those activities directly matching the positive list (e.g., nature conservation), and option (2) for more complex and less straightforward activities. This approach is also illustrated in the Decision Tree (Figure).

Table 3-3 Overview of advantages and disadvantages of this approach

Advantages (pros)	Challenges (cons)
• This approach allows for 1) easy identification of eligible nature-positive projects, 2) accurate assessment of the actual contribution to nature, reducing the risk of green washing. • The taxonomy used in this case does not need to be as detailed as in Option (1) as it could be further complemented with a context-specific assessment. • It provides the flexibility to adapt the screening approach depending on the complexity of a project and/or financial instruments applied.	• This approach would be resource-intensive to implement, as it would require developing a taxonomy, as well as having a case-by-case assessment to ensure accuracy. • Minimum understanding of nature and biodiversity is required to implement this approach, when applying option 2 on a case-by-case basis.

Figure 2-1 Decision tree to screen projects and/or activities that contribute to nature



3.4 Recommendations

Based on MDBs feedback during the consultation activities and based on the comparison of the advantages of the approach, we suggest applying Option 3 as this option best fits the needs of (most) MDBs. The combination of Options 1 and 2 (Option 3), allows MDBs to strike a balance between accuracy and ease of implementation. Importantly, Option 3 provides the required flexibility for the screening of more complex projects, while also allowing for the easier identification by means of a Taxonomy. In addition, the challenging aspects of following this approach, meaning the greater needs for resources and for specialized knowledge, are more or less expected and justified since addressing environmental issues is a highly technical matter.

Notably, regardless of the selected option, it is recommended that the screening is done at an early stage (pipeline stage) of the project development. Typically, the AFD's experience shows that this early process increases the chances of identifying more eligible projects and the nature related activities of eligible projects, by prompting a dialogue with the project teams and clients.

4 Possible approaches for determining nature-positive contributions

Once eligible projects or activities are identified, the degree to which they contribute to maintaining or enhancing the integrity of ecosystems needs to be determined, to enable the tracking and reporting of nature-positive investments. Since not all nature-positive activities benefit nature at the same degree (e.g. restoring an endangered species would bring about higher benefits compared to merely reducing pollution of an ecosystem), a methodology for gauging this contribution is necessary. In this Chapter, options for a scoring system are proposed to determine the contributions to nature per project or activity and thus determine the share of the project investment that should be counted as nature-positive. The proposed different options for determining the contribution are based on existing approaches such as the OECD DAC Rio markers[36] and the BIOFIN (2018)[37] approach.

There are multiple approaches for determining the level of relevance of a project or activity to nature, once that project has already been deemed eligible. There are three main aspects to consider in the development of an approach to determine the nature-positive share of investments:

- The element that determines the relevance of a project or activity to being nature-positive (i.e. whether to focus on the stated objectives of the project or on its specific actions/investments);
- The specific coefficients to use to count those elements as nature positive investments; and
- The level at which the scoring takes place (i.e. at a project as a whole or at project components, based on percentage of money spent/budgeted).

The first aspect refers to the criterion that will be used to determine the scoring of a project/investment. The main options are to focus either on the stated objectives of the project/investment (i.e. whether it states that it aims to benefit nature) or on the specific implemented actions of the project/investment (i.e. whether it involves actions that have been predetermined as positive to nature). The second aspect refers to the range and number of coefficients that will used to attribute the share of the total budget of a project/investment as nature-positive according to the level of contribution to nature. The third aspect refers to whether the scoring process will be implemented at the project level (i.e. the coefficient is assigned to the total budget of the whole project/investment) or at the component level (i.e. the coefficient is assigned to the budget of each project component separately according to the components (and not the whole project) contribution to nature).

Textbox 4-1 The difference between intent (objective) and impact (action)

Although (ii) and (iii) factors are well-understood, it may be useful to explain what is meant by factor (i) that distinguishes between scoring the project/activity based on its stated objective (intent of the project) or its action (deliverables of the project). In the first case (i.e. attributing nature relevance based on the project's objectives), to determine the nature-positive scoring of a project, the assessment would look ex-ante at whether nature enhancement is a principal objective of the project, a significant objective (but not the central focus of the project), or not

[36] See: "OECD DAC Rio Markers for Climate: Handbook", OECD. https://www.oecd.org/dac/environmentdevelopment/Revised%20climate%20marker%20handbook_FINAL.pdf
[37] See https://www.biofin.org/sites/default/files/content/publications/BIOFIN%20Workbook%202018_0.pdf

included in the objectives of the project at all. In the second case (i.e. attributing nature relevance based on the project's actions), the nature-positive scoring would look again ex-ante at what types of actions are described in the project and attribute a coefficient based on the relevance of these actions to nature enhancement. As illustrated in the BIOFIN (2018) publication[38], a project intended to boost agricultural production as its primary focus, while at the same time bringing biodiversity benefits to the agricultural area (through, for example, restoring native flora into pastures), would be attributed a lower coefficient when scoring looks at the objectives of the project (e.g. 40% as the principal objective of the project is not nature-related) than when scoring looks at the actions of the project (e.g. 100% as the implemented actions involve plant species restoration, which is a primary nature-positive activity). The difference in scoring systems is further explained in the text below.

Based on these three factors, the following options have been developed:

1) Option 1 "Rio Markers Approach": Three coefficients assigned to projects according to their nature-positive objectives (e.g. 100%, 40%) – *not preferred for reasons discussed below*
2) Option 2: A series of coefficients (e.g. 100% to 0%) assigned according to nature-positive objectives
    - 2a: assigned to projects
    - 2b: assigned to project components
3) Option 3: A series of coefficients (e.g. 100% to 0%) assigned according to their nature-positive actions
    - 3a: assigned to projects
    - 3b: assigned to project components

4.1 Option 1 - Two coefficients assigned to projects according to their nature-positive objectives (i.e. 100%, 40%)

This option follows the OECD Rio Markers approach according to which, to track spending, three percentage coefficients are applied on the overall budget of a project or activity, indicating the extent to which environment or climate issues are targeted. According to this methodology, when environment and climate-relevant objectives are explicitly stated as fundamental in the design of, or the motivation for, a project or activity, a 100% coefficient is applied. When environment and climate-relevant objectives are explicitly stated but are not the fundamental driver or motivation of a project or activity, a 40% coefficient is applied. When no environment or climate-relevant objectives are targeted, a 0% coefficient is applied. Similarly, under Option 1, a MDB investment would be marked with 100% when the principal objective of the activity financed is the maintenance or enhancement of ecosystem integrity and with 40% when ecosystem integrity is a significant objective or a co-benefit but not the main motivation for undertaking the activity.

Table 4-1 Overview of advantages and disadvantages of this approach

Advantages (pros)	Challenges (cons)
• Simple methodology, which is easy to use with less resources.	• Low accuracy of estimations due to the grouping of activities under three categories of coefficients.

[38] Page 82

Advantages (pros)	Challenges (cons)
• Estimating nature-positive benefits of MDB investments requires low administrative processes within MDBs.	• Low accuracy of estimations as the actions of projects or activities are not considered.

4.2 Option 2 - A series of coefficients (e.g. 100% to 0%) assigned according to nature-positive objectives

This option can be divided into two subcategories according to the level at which the scoring takes place:

- Option 2a: A series of coefficients (e.g. 100% to 0%) assigned to projects according to their nature-positive objectives
- Option 2b: A series of coefficients (e.g. 100% to 0%) assigned to project components according to their nature-positive objectives

Both options are based on the Rio Markers approach, but they add a higher degree of granularity in the attribution of a percentage coefficient to secondary biodiversity expenditures. According to this approach, a 100% coefficient is still applied to expenditures with principally nature-related objectives, and the estimated attribution of secondary biodiversity expenditures is based on a range of coefficients that weigh them according to predetermined nature-positive objectives. The attribution can take place at either project or project-component level where the project in question is disaggregated into individual components and subsequently each component is examined for its nature-positive relevance. There are several examples of such approaches developed by various public bodies and other organisations. For instance, the Swiss[39] and the Irish[40] approaches and the BIOFIN (2018) methodology distinguish a greater number of coefficients applied to either project or project component level. More specifically, the attribution system of the BIOFIN approach suggests using a 100% coefficient for primary nature-positive project objectives (e.g. Protected areas, ecosystem restoration) and, for secondary nature-positive project objectives, using 75% for 'high' attribution (e.g. biodiversity-related education, private conservation measures, Payment of Ecosystems (PES) schemes), 50% for 'medium' attribution (e.g. Organic agriculture support, watershed management), 25% for 'medium-low' (e.g. sustainable wetland use, sustainable fisheries, ecosystem-based adaptation), 5% for 'low' (e.g. improved irrigation systems, reduction of fertilizer use, sustainable forestry), and 1% for 'marginal' (e.g. pollution control).

Table 4-2 Overview of advantages and disadvantages of this approach

Advantages (pros)	Challenges (cons)
• Higher accuracy of estimations than Option (1) as different nature-positive objectives are weighted with different values closer to their real impact on nature. • Medium level of effort required for analysis of project objectives.	• Could introduce a greater degree of subjectivity and reduce transparency than Option (1).

[39] Swiss Federal Office for the Environment (FOEN). 2012. Report on Swiss Public and Private Financial Contributions in Support of the Objectives of Convention on Biological Diversity, FOEN, International Affairs Division
[40] https://research.ie/assets/uploads/2018/05/NBER-FINAL-COPY.pdf

4.3 Option 3 - A series of coefficients (e.g. 100% to 0%) assigned according to nature-positive action

This approach can be implemented in two different ways according to level at which the scoring takes place (i.e. project or project component level):

- Option 3a: A series of coefficients (e.g. 100% to 0%) assigned to projects according to their nature-positive actions
- Option 3b: A series of coefficients (e.g. 100% to 0%) assigned to project components according to their nature-positive actions

Both options refer to the detailed analysis of MDB investments to identify ex-ante the actions involved in the project and weigh the project or its components individually with coefficients according to predetermined nature-positive actions. An example of such an approach has been developed by the AFD Group[41], which defines coefficients according to six levers of actions as can be seen in the table below. These levers of actions aim to alleviate the main degradation factors. The hierarchy of the levers of action reflects the hierarchy of these degradation factors as established by the IPBES report (2019). Note that the coefficients presented in the table are those used by AFD Group and not the ones suggested to be used under this option. These would have to be developed by MDBs (with potential external expert support).

Table 4-3 Example of weighing factors for projects with different nature-related components as presented in the AFD Group study

Lever of action for biodiversity	Biodiversity rate	Main degradation factor alleviated
Protection and conservation	100%	Net loss of natural habitats
Ecological restoration	80%	Degradation of ecosystems
Integrated spatial planning	60%	Fragmentation of ecological corridors
Governance and Policy	50%	Weak biodiversity governance
Sustainable management of resources	40%	Overexploitation of resources and pollutions
Efficiency actions (alleviating pressures on ecosystems)	20%	Cumulative chronic pressures

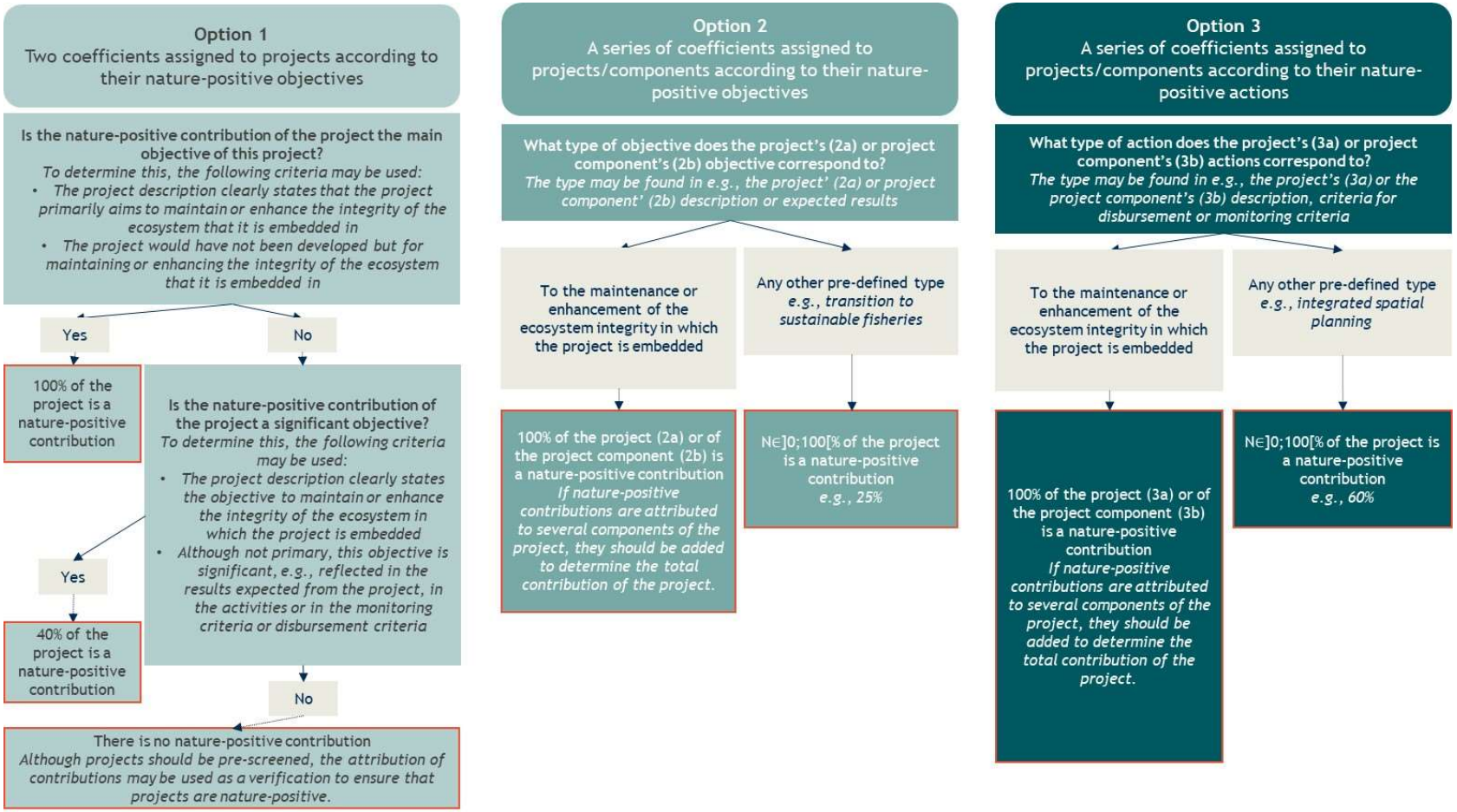
Table 4-4 Overview of advantages and disadvantages of this approach

Advantages (pros)	Challenges (cons)
• This option offers the highest level of accuracy of estimations, as projects (or project components) are assessed for their estimated contribution to nature rather than the intended objectives.	• More complex methodology to use, which brings about greater subjectivity and higher administrative burden to MDBs than the rest of the options.

Based on previous sections, MDBs can use a decision tree to determine whether to include activities in their nature-positive finance tracking, and how to attribute weightings to relevant projects.

[41] AFD Groupe, 2022. Nature+ Finance. Principles for the tracking of biodiversity and nature positive finance

Figure 3-1 Decision tree to determine nature-positive contributions



4.4 Recommendations

While each of the presented options has its own merits, a few key points have emerged in consultations: First, Option 1 has far too low a granularity by applying just two types of coefficients on nature-positive projects; therefore, and according to MDB feedback, it should not be considered further.

Second, the detail offered by component-level scoring as opposed to the project-level scoring in both Options 2 and 3 seems to increase the accuracy of estimations of nature-positive financial flows and could incentivize a focus on nature positive investments even within broader projects.

Between Options 2 and 3, it is unclear which would be the preferred approach. Based on this work, Option 2b seems to strike a good balance between adequately detailed scoring and simplicity in its implementation. Feedback received has mentioned that an important consideration for the selection of the most appropriate option is the financial instrument through which the nature-positive investment is made. For instance, EIB uses an action-based approach for scoring the nature-positive contribution of green bonds, while they use an objective-based approach for their sustainability linked bonds as this is more suitable for a process-based approach. An additional consideration is whether the selected option will be applied to direct financing (e.g. project loans and grants) or indirect financing operations (e.g. on-lending, equity funds, policy-based lending), and guarantees. All options work well when addressing direct financing, but an objective-based approach would work better for indirect financing instruments, since a precise explanation of all the activities implemented under the financed project may not always be available, while the objective/goal of the project is always described.

5 Tracking and reporting on nature-positive investment

Once nature-positive activities are identified using the guidance in Chapters 2-4, financial flows must be tracked and reported. This Chapter lays out overarching principles for tracking nature-positive finance. Borrowing from the Common Principles for Climate (Mitigation and Adaptation) Finance Tracking, these principles also aim to ensure consistency with climate finance tracking methodologies developed and utilized by the MDB Group and the International Development Finance Club (IDFC).

5.1 Conduct ex-ante tracking

Tagging should be based on project design and documentation and should be done prior to project implementation.

While *ex-post* tracking would be more rigorous, allowing MDBs to evaluate the actual impacts of projects on nature, an *ex-ante* approach offers higher feasibility for MDBs: an accurate assessment of nature-positive contributions *ex-post* would require substantial resources and information to evaluate the direct and indirect cause-effect relationship between a project and an outcome, isolating the potential impact of other external factors which might have contributed to it. Moreover, the time required to realize and verify the actual impacts of activities on the state of nature *ex-post* may vary considerably across activities and impacts, usually spanning several years (for example, it could take years to witness and then report on the restoration of an ecosystem towards a defined baseline). Hence, an *ex-post* approach would not allow for consistent annual tracking of financial flows at the portfolio level.

In addition, the *ex-ante* approach has been the preferred option for tracking climate mitigation and adaptation finance and is part of the MDB joint methodology for tracking climate finance. Using an *ex-ante* approach in this context would ensure consistency in methodologies and allow for comparability of tracked nature-positive and climate finance flows.

The use of an *ex-ante* approach relative to the wider project timeline also creates opportunities for embedding or enhancing nature-positive activities within the early stages of project preparation, planning and design (see Chapters 3 and 4), thus offering potential to increase the nature-positive impacts of projects.

It is worth noting that as internal capacities and resources grow, MDBs can seek to carry out *ex-post* monitoring, reporting and verification of their project portfolios to confirm actual nature-positive impacts and outcomes, as well as to finetune the *ex-ante* methodologies for future iterations of the tracking exercise. For example, if, based on project appraisals, a coefficient of 30% was chosen to value the nature-positive aspects of a project, but an *ex-post* assessment shows that only 20% of the value of the project was directed towards nature-positive activities, the *ex-ante* coefficient chosen and applied may be revised accordingly.

5.2 Track direct financial commitments

MDBs should track financial commitments made during a set period of time, rather than disbursements. Commitments record the amount of expected transfer at the time of approval or contract close,[42] irrespective of the time required for disbursing funds.

Tracking should only encompass financial commitments made directly by each MDB through their own funds and exclude any external funds managed and/or implemented by the Bank. Co-financing provided by other public or private investors should also not be included, but instead tracked and reported separately. This helps to avoid double-counting of flows when commitment figures are aggregated across institutions.

While disbursement information would provide a more accurate picture of the actual volume of finance devoted to nature-positive solutions (as projects can get severely delayed or cancelled after financial commitment), data on disbursements is often limited; thus, tracking financial commitments makes it easier to compare finance flows across various actors.

Wherever possible, MDBs are also encouraged to track financial disbursements, which would allow them to assess and report on the effectiveness of their intervention by evaluating what portion of funds committed actually went through, and at what rate these funds were disbursed after approval.

5.3 Tend toward conservativeness

If data to support a detailed analysis of nature-positive activities is unavailable or unreliable, eligibility for inclusion must be assessed on the basis of expert judgement, adopting a conservative approach, *i.e.*, leaning toward under-reporting rather than over-reporting nature-positive finance. This is particularly important in order to avoid suspicion of greenwashing and perverse incentives to overreport.

5.4 Maximize granularity

Nature-positive activities should be identified at the highest level of project disaggregation possible (e.g., project component/sub-component/activities). This ensures MDB staff are only capturing and measuring the value of the project which has nature-positive characteristics, thus increasing accuracy of analyses when looking at aggregated figures (e.g., portfolio analyses). In terms of the menu of options for determining nature-positive contributions proposed in Chapter 4), it follows from the principle of granularity that MDBs are encouraged to adopt either Option 2b (a series of coefficients assigned to project components according to their nature-positive objectives) or Option 3b (a series of coefficients assigned to project components according to their nature-positive actions) whenever possible.

5.5 Avoid double-counting when aggregating flows

[42] Depending on the context, financial commitment may refer to a firm obligation by means of Board approval decision on investment programs, the closure of financing contracts or similar actions.

Given its intrinsic interdependency with several climate solutions, nature-positive finance can often overlap with climate finance. This potential overlap varies greatly depending on the type of activities financed; for example, while pure biodiversity conservation projects would only count toward nature-positive finance (with no overlap with climate finance), several climate mitigation and adaptation projects have nature co-benefits and should therefore count toward both climate and nature-positive finance. In the latter case, the risk of double-counting nature-positive and climate finance flows when reporting aggregated environment-related flows is high.

For example, if a USD 100 million water preservation project categorized as climate adaptation finance is also estimated to have a 30% nature-positive contribution, an MDB would report USD 100 million as climate finance and USD 30 million as nature-positive finance which would not be double counting. In the absence of an internal mechanism to avoid double counting of these flows, the risk is that the MDB would aggregate these flows and overreport total funding at USD 130 million.

MDBs should, therefore, use caution and deploy an integrated approach for tracking which would tag climate projects delivering nature co-benefits to both climate and nature finance. By carefully identifying these overlapping flows, MDBs can then accurately track and report climate and nature-positive finance, both as separate and aggregated flows, avoiding double-counting and over-reporting. This also ensures further transparency and allows MDBs to track and report on finance flows delivering both climate and nature-positive co-benefits.

5.6 Attribute nature-positive coefficients consistently

Choosing from the menu of options proposed in Chapter 3, and operationalized via Chapter 4, each MDB should decide on an internal approach for determining nature-positive contributions, applying their choice consistently across operations (that is, across all projects/sectors). While attribution approaches may be refined iteratively as internal capacity grows, each MDB must decide on an approach to consistently apply across all workstreams to ensure comparability of nature-positive finance flows and allow for aggregation of figures.

While MDBs might initially choose different approaches based on their current capacities and institutional structures, moving forward, as they gain more practical experience and develop expertise, MDBs are encouraged to pursue a common, coordinated tracking approach, allowing them to aggregate investment figures and jointly report on nature-positive finance as a group – as they currently do for climate finance.

6 Conclusions

This issues paper, along with the literature review and design principles delivered under the same contract, attempts to bring clarity to the concept of nature-positive investments, articulating options for a) defining these investments, b) screening eligible projects/activities and c) scoring projects/activities to determine financing amounts which contribute to maintaining and/or enhancing the integrity of ecosystems.

For the screening of eligible projects, it is advised to apply option 3, applying a combination of a Taxonomy approach and a process-based approach. Option 3 will help MBDs to strike a balance between efficiency and accuracy, and the possibility of applying a process-based approach will increase the chances that the more complex projects are identified as nature positive. For determining the nature-positive contribution of investments, it is recommended to apply option 2 or option 3, due to the higher levels of accuracy of these methods. Furthermore, it is advised to select option 2 or option 3 based on the most prevalent type of financial instrument used for nature-positive investments.

Annex I - Design principles for developing nature-positive approaches in MDBs

The following design principles were proposed to and discussed with the MDB informal working group meeting and were used to inform the recommendations and implementation options in this guidance.

For definitions and screening

1. Be science-based, supported by established evidence and tools to assess nature impacts and dependencies, drawing upon different types of knowledge (e.g. from civil society groups)

2. Take an ecosystem-approach, where any actions contributing to the achievement of a nature-related targets would be eligible, however are supported by an ex-ante assessment of likely improvements in the actual condition of native reference ecosystems where possible.

3. Be tailored to local context e.g. in relation to the types of ecosystems, risks and opportunities, and drivers and pressures. Nature-positive investments make explicit their intended contribution to nature-related objective in the biogeographic region they take place, as well as related local strategies and action plans responding to them.

4. Take a broad scope as to what could be counted as nature-positive activities to ensure the inclusion of investments in different sectors and projects that provide nature co-benefits, if they provide an explicit intended contribution to nature-related objectives as prioritized under (2) and (3) and the restorative continuum.

5. Strike a right balance between a common framework definition that allows for comparability and aggregation of reporting, and more specific definitions tailored to capture critical local priorities e.g. in terms of ecosystem condition, impacts, dependencies, or potential co-benefits.

For tracking:

6. Ensure the possibility for MDBs to quantify the nature-positive segment of their investments to facilitate disclosure under other frameworks (for instance by aligning with the OpEx-CapEx measure under the EU Taxonomy, or by aligning with the TNFD recommendations), in a more precise way than the OECD-DAC Rio Markers.

7. Prevent double counting of investment flows across different environmental objectives, to facilitate comparison with established systems such as the OECD DAC Rio Markers for Climate and with the EU Taxonomy. Bearing in mind the growing recognition of nexus approaches, projects may however qualify for more than one environmental objective.

8. Be supported by practical and operational support to internal staff and external stakeholders. Pragmatic guidelines (e.g., making use of charts and decision chains) should be tailored at non-experts and at organizations that have a potentially limited access to sets of quantitative data.

Annex II – Task 1 report: Literature review on nature relevant finance

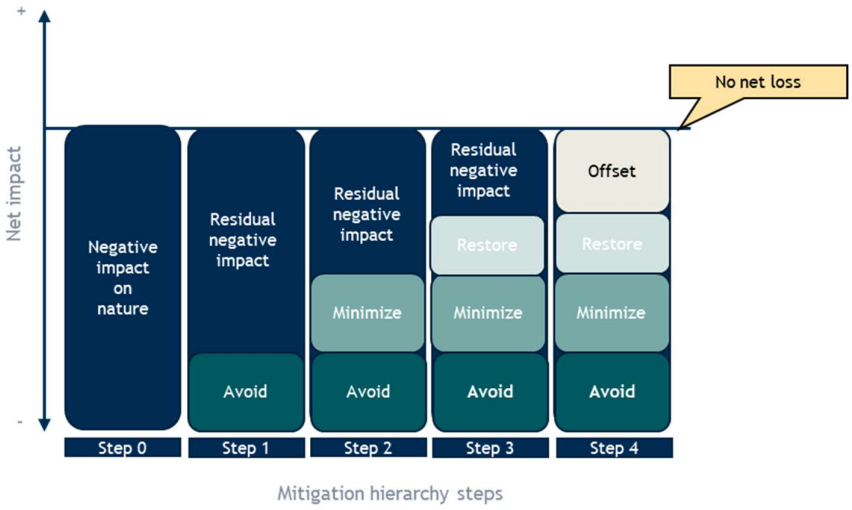
This report is attached separately.

Annex III – The mitigation hierarchy

This Annex explains the principles of the mitigation hierarchy. The mitigation hierarchy aims to manage the negative impacts of activities, on in this case nature, by providing an order of priority in dealing with them:

1. As a first priority, impacts should be **avoided**, in the case of MDBs by not investing in projects that undertake such activities or the parts of these projects which do, or by changing their design to eliminate impacts from the outset;
2. Where impacts cannot be avoided, they must be **minimized** as much as possible;
3. Where nature values are still impacted after minimization, they must be **remediated** on site (in situ);
4. Where residual impacts remain, risks and impacts should be compensated or **offset**.

Figure iii-1 Schematic overview of how different steps in the mitigation hierarchy mitigate of offset different impacts on nature[43]



[43] Own figure, based on: https://www.thebiodiversityconsultancy.com/our-work/our-expertise/strategy/mitigation-hierarchy

Annex IV – 2030 action targets in the draft post-2020 Global Biodiversity Framework

1. Reducing threats to biodiversity

- **Target 1:** Ensure that all land and sea areas globally are under integrated biodiversity-inclusive spatial planning addressing land- and sea-use change, retaining existing intact and wilderness areas.
- **Target 2:** Ensure that at least 20 per cent of degraded freshwater, marine and terrestrial ecosystems are under restoration, ensuring connectivity among them and focusing on priority ecosystems.
- **Target 3:** Ensure that at least 30 per cent globally of land areas and of sea areas, especially areas of particular importance for biodiversity and its contributions to people, are conserved through effectively and equitably managed, ecologically representative and well-connected systems of protected areas and other effective area-based conservation measures, and integrated into the wider landscapes and seascapes.
- **Target 4:** Ensure active management actions to enable the recovery and conservation of species and the genetic diversity of wild and domesticated species, including through ex situ conservation, and effectively manage human-wildlife interactions to avoid or reduce human-wildlife conflict.
- **Target 5:** Ensure that the harvesting, trade and use of wild species is sustainable, legal, and safe for human health.
- **Target 6:** Manage pathways for the introduction of invasive alien species, preventing, or reducing their rate of introduction and establishment by at least 50 per cent, and control or eradicate invasive alien species to eliminate or reduce their impacts, focusing on priority species and priority sites.
- **Target 7:** Reduce pollution from all sources to levels that are not harmful to biodiversity and ecosystem functions and human health, including by reducing nutrients lost to the environment by at least half, and pesticides by at least two thirds and eliminating the discharge of plastic waste.
- **Target 8:** Minimize the impact of climate change on biodiversity, contribute to mitigation and adaptation through ecosystem-based approaches, contributing at least 10 GtCO2e per year to global mitigation efforts, and ensure that all mitigation and adaptation efforts avoid negative impacts on biodiversity.

2. Meeting people's needs through sustainable use and benefit-sharing

- **Target 9:** Ensure benefits, including nutrition, food security, medicines, and livelihoods for people especially for the most vulnerable through sustainable management of wild terrestrial, freshwater and marine species and protecting customary sustainable use by indigenous peoples and local communities.
- **Target 10:** Ensure all areas under agriculture, aquaculture and forestry are managed sustainably, in particular through the conservation and sustainable use of biodiversity, increasing the productivity and resilience of these production systems.

- **Target 11:** Maintain and enhance nature's contributions to regulation of air quality, quality and quantity of water, and protection from hazards and extreme events for all people.
- **Target 12:** Increase the area of, access to, and benefits from green and blue spaces, for human health and well-being in urban areas and other densely populated areas.
- **Target 13:** Implement measures at global level and in all countries to facilitate access to genetic resources and to ensure the fair and equitable sharing of benefits arising from the use of genetic resources, and as relevant, of associated traditional knowledge, including through mutually agreed terms and prior and informed consent.

3. Tools and solutions for implementation and mainstreaming

- **Target 14:** Fully integrate biodiversity values into policies, regulations, planning, development processes, poverty reduction strategies, accounts, and assessments of environmental impacts at all levels of government and across all sectors of the economy, ensuring that all activities and financial flows are aligned with biodiversity values.
- **Target 15:** All businesses (public and private, large, medium and small) assess and report on their dependencies and impacts on biodiversity, from local to global, and progressively reduce negative impacts, by at least half and increase positive impacts, reducing biodiversity-related risks to businesses and moving towards the full sustainability of extraction and production practices, sourcing and supply chains, and use and disposal.
- **Target 16:** Ensure that people are encouraged and enabled to make responsible choices and have access to relevant information and alternatives, taking into account cultural preferences, to reduce by at least half the waste and, where relevant the overconsumption, of food and other materials.
- **Target 17:** Establish, strengthen capacity for, and implement measures in all countries to prevent, manage or control potential adverse impacts of biotechnology on biodiversity and human health, reducing the risk of these impacts.
- **Target 18:** Redirect, repurpose, reform or eliminate incentives harmful for biodiversity, in a just and equitable way, reducing them by at least US$ 500 billion per year, including all of the most harmful subsidies, and ensure that incentives, including public and private economic and regulatory incentives, are either positive or neutral for biodiversity.
- **Target 19:** Increase financial resources from all sources to at least US$ 200 billion per year, including new, additional and effective financial resources, increasing by at least US$ 10 billion per year international financial flows to developing countries, leveraging private finance, and increasing domestic resource mobilization, taking into account national biodiversity finance planning, and strengthen capacity-building and technology transfer and scientific cooperation, to meet the needs for implementation, commensurate with the ambition of the goals and targets of the framework.
- **Target 20:** Ensure that relevant knowledge, including the traditional knowledge, innovations and practices of indigenous peoples and local communities with their free, prior, and informed consent, guides decision-making for the effective management of biodiversity, enabling monitoring, and by promoting awareness, education and research.
- **Target 21:** Ensure equitable and effective participation in decision-making related to biodiversity by indigenous peoples and local communities, and respect their rights over lands, territories and resources, as well as by women and girls, and youth.

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