International Finance Corporation
WORLD BANK GROUP

IFC's Approach *to* Biodiversity *and* Nature Finance

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Summary

Rapid economic development has lifted millions out of poverty, but at the same time, it has led to climate change and nature loss. Pollution, land and sea use change, and overextraction of natural resources are all consequences of economic development—these are also some of the top drivers of nature loss and climate change. Economic development, nature, and climate are intertwined, and now this interconnection has come full circle—nature loss and climate change are negatively affecting economic activity. To sustain economic activity, we need to transform the relationship between economic development, nature, and climate into a virtuous cycle by transforming our current global economic models into regenerative models of production and consumption in order to halt and reverse biodiversity loss.

More than half of the world's GDP is generated in industries that depend on nature and its services, yet this economic activity is causing unprecedented biodiversity loss, risking livelihoods, economies, and climate goals. Catalyzing the transition of the global economy to nature-smart production practices that allow nature to regenerate is paramount—and the private sector will play a central role in this transition. IFC is becoming a global leader in helping scale biodiversity finance in emerging economies. This document outlines IFC's approach to addressing this global crisis through catalyzing action by the private sector and private finance.

Context: Why Is Investing in Biodiversity Critical for Business?

Nature is critical to human survival, health, well-being, and economic prosperity. Half of global GDP, or $44 trillion, is generated in sectors that depend on nature and its services. This natural capital generates income that drives economic growth and progress. Yet, economic activity is destroying nature at an unprecedented rate. Nature loss is fundamentally interconnected with climate change, reinforcing each other and presenting compounding and systemic risks. This is happening as rising temperatures disrupt ecosystems, and as the degradation of both soils and seas releases carbon into the atmosphere. This unchecked economic growth is exposing the world to dangerous impacts. The more we continue business as usual, the worse these impacts will become.

Over the last 50 years, 70 percent of the world's biodiversity has been lost, driven by changes in land and sea use, overextraction of natural resources, pollution, global warming, and the spread of invasive species. This alarming decline makes the transition to nature-smart production and consumption practices an urgent global priority. This imperative was recognized in the historic Kunming-Montreal Global Biodiversity Framework signed by 196 countries in 2022 to halt and reverse biodiversity loss by 2030 through a whole-of-economy transformation and directing $700 billion per year to achieve these objectives.

To sustain economic activity and maintain a livable planet, we need to transform the relationship between economic development, nature, and climate into a virtuous cycle. A whole-of-economy transformation is necessary. The global economy must adopt different production and consumption models that allow nature to regenerate. Biodiversity finance—finance that directs capital toward production practices and products that directly address the key drivers of biodiversity loss and help conserve, restore, or avoid negative impacts on nature and ecosystem services—is key to ecosystem services—is key to promoting this transition. Such a shift could create enormous business opportunities and new jobs, while helping to mitigate greenhouse gas emissions.

Four value chains are responsible for 90 percent of human pressures on biodiversity: food, energy, infrastructure, and fashion. This pressure arises from five direct drivers of biodiversity loss: land and sea use change, climate change, resource overextraction, pollution, and the spread of invasive species. The solutions must focus on addressing these drivers of biodiversity loss that are deeply rooted in economic activity.

A transition to nature-smart production practices presents a sizable market opportunity. The World Economic Forum estimates that adopting nature-smart practices in the food, infrastructure, and energy sectors presents opportunities of about $10.1 trillion per year. These opportunities represent cost savings to companies as well as the development of new products and market segments. This transition could also create 395 million new jobs by 2030, and significant opportunities for income diversification, which supports local economic growth.

IFC's Approach to Biodiversity Finance

To scale its own investments and to help grow the biodiversity finance market, in 2022, IFC developed the first-of-its-kind Biodiversity Finance Reference Guide, outlining investment activities and project characteristics that support the transition to nature-smart production practices that protect biodiversity and ecosystem services.

IFC's Biodiversity Finance Reference Guide provides a structured approach for investors and financiers to identify eligible use of proceeds that constitute biodiversity finance and contribute to meeting the targets of the Kunming-Montreal Global Biodiversity Framework. It offers IFC's perspective on potential investment opportunities and how targeted financing can help enable a transition to nature-smart business models and practices that combine conservation needs with sustainable development. It is the world's first market guidance on eligible investment activities under the Green Bond and Loan Principles. The guide aims to help channel private finance toward addressing the drivers of biodiversity loss, drawing on IFC's pioneering investments in, and helping set market standards for, green finance. The document provides a clear set of guidelines and an indicative list of investment activities and project components that help protect or enhance biodiversity and promote the sustainable management of natural resources.

The guide focuses on three major investment categories:

- **Investments that generate biodiversity co-benefits.** Financing that seeks to address the key drivers of biodiversity loss (land/sea use change, pollution, overexploitation of resources, and invasive species) in economic activity.
- **Investments in biodiversity conservation and restoration.** Financing to support nature conservation or restoration and related services as a primary objective of investment.

- **Investments in nature-based solutions.** Financing to support the integration of nature-based solutions into larger projects to provide infrastructure services and displace or complement gray infrastructure.

The guide outlines the key criteria for selecting eligible use of proceeds that qualify for biodiversity finance, as well as the key steps borrowers and issuers should follow to develop biodiversity finance frameworks in line with the Green Bond Principles and Green Loan Principles.

Following the landmark agreement on nature, the Kunming-Montreal Global Biodiversity Framework, reached in December 2022, IFC consulted with the United Nations Secretariat of the Convention on Biological Diversity to expand the Biodiversity Finance Reference Guide to map the indicative list of investment activities to the targets in the Global Biodiversity Framework.

In October 2024, IFC, in collaboration with *BNP Paribas*, the *Finance for Biodiversity Foundation*, *Natixis CIB*, the *Taskforce on Nature-related Financial Disclosures*, and the *Wildlife Conservation Society*, published a **supplement** to the guide that provides impact reporting metrics for each eligible activity.

This publication is another key step toward growing the biodiversity finance market in a transparent and credible way. It responds to the market's growing demand for more comprehensive guidance on impact reporting for biodiversity and nature finance activities, enabling markets to efficiently transition to nature-smart approaches and to attract private capital at scale.

The supplement provides specific metrics for each of the eligible investment activities and project components in the IFC Biodiversity Finance Reference Guide. These metrics should be established during the design phase of investment activities and project components to ensure that information can be collected from the beginning and outcomes can be measured against a baseline. They can be applied to individual projects for use of proceeds instruments or aggregated across a portfolio of investments. Through these suggested metrics, investors can address the reporting challenges that the private sector faces when attribution is challenging, such as when operating within a watershed shared by many stakeholders, or when it could take decades to observe certain ecosystem improvements.

In parallel, IFC is developing new investment projects and financial products, as well as sector-specific approaches to integrate biodiversity into projects. It has also developed a Catalogue of Nature-based Solutions for Infrastructure Sectors (water, mining, and renewable energy). The catalogue provides examples of nature-based solutions that private infrastructure companies can integrate into their core business operations and articulates the business case for doing so to raise awareness of the business benefits of nature-based solutions. Drawing from a World Bank partnership, IFC is expanding the catalogue to include new sectors, such as cities and ports.

IFC's Commitment

Nature is central to green, resilient, and inclusive growth. Countries need to systematically explore opportunities for strategic and innovative investments in biodiversity and ecosystem services that facilitate such growth. Investing in nature provides opportunities for countries to tackle multiple challenges simultaneously.

Climate change and biodiversity loss are intertwined and compound economic and financial risks. Acknowledging these overlaps, the World Bank Group's Climate Change Action Plan commits to scaling investments in nature as part of the transformative action needed to address climate change and biodiversity loss together. Separate approaches to resolving each crisis can be less impactful and fiscally inefficient.

IFC, as part of the World Bank Group, signed a Joint Statement on Nature, People and Planet, committing multilateral development banks (MDBs) to mainstream nature into their operations. The joint statement recognizes that tackling poverty, climate change, and the drivers of nature loss is inextricably linked. It affirms their commitment to more fully integrate nature into their policies, analyses, assessments, advice, investments, and operations. The MDB Common Principles for Tracking Nature-Positive Finance provide guidance on tracking nature positive investments across MDBs' portfolios. In line with these principles, the World Bank Group has developed and released its Nature Finance Tracking Methodology to be applied across all its institutions.

It defines nature finance as finance that contributes to the goal of halting and reversing nature loss and supporting the implementation of the Kunming-Montreal Global Biodiversity Framework through (1) restoring and conserving biodiversity or ecosystem services; (2) reducing the direct drivers of biodiversity or ecosystem services loss; (3) integrating nature-based solutions across economic sectors; and (4) designing and implementing policies, tools, or other sector instruments to support activities (1) through (3).

This definition of nature finance captures the broad range of transformative actions needed to achieve the nature positive global goals, including delivering measurable positive gains for nature and enabling a broader transition of economic activity away from harmful practices that drive nature loss, by mainstreaming nature into policies and investments.

The methodology provides a starting point to comprehensively identify the full breadth of the World Bank Group's interventions, including critical efforts to mainstream nature across sectors, in support of the implementation of the Kunming-Montreal Global Biodiversity Framework.

In keeping with the emerging consensus that "nature positive" should be reserved for finance that is expected to deliver measurable positive gains for nature, but also to capture the investments that integrate nature in various economic sectors, the framework tracks nature finance via two categories:

- **Nature positive finance is finance that is expected to deliver measurable positive outcomes for biodiversity or ecosystem services, relative to business as usual.**
- **Nature mainstreaming finance is finance that is expected to enable a broader economic transition toward practices aligned with delivering the nature positive goal.**

Nature positive finance must meet all of the following eligibility criteria:

- Does not introduce significant adverse environmental risks and impacts that exacerbate the direct drivers of nature loss.
- Does not introduce risks of conversion of natural habitat or critical habitat.
- Does not introduce risks of adverse impacts on critically endangered or endangered species.
- There is a clear causal pathway with measurable indicators to demonstrate positive outcomes for biodiversity or ecosystem services.

As a member of the World Bank Group, IFC will apply the WBG Nature Finance Tracking Methodology to track its own nature finance investments.

Scaling Investments

BBVA Colombia and IFC issue the world's first biodiversity bond

BBVA and IFC issued the first tranche ($15 million) of the world's first biodiversity bond in July 2024, and the second tranche ($20 million) in September. The $70 million bond will finance projects that address the key drivers of biodiversity loss, particularly focused on reforestation, regeneration of natural forests on degraded lands, climate-smart and regenerative agriculture, and restoration of wildlife habitats. BBVA in Colombia is the issuing bank and IFC the structurer and investor. IFC is providing advice to establish eligibility criteria and reporting indicators for activities that help protect, maintain, or improve biodiversity and ecosystem services, as well as promote optimal sustainable management of natural resources. IFC will also build technical capabilities within BBVA and raise awareness among its clients about financing opportunities for biodiversity in Colombia.

BBVA Colombia is a leading retail bank in Colombia and the main foreign investor in the country's financial system. It has more than 400 offices and service centers and 1,485 ATMs in Colombia. It has 5.5 million clients and 6,000 employees, nearly 60 percent of whom are women. During 2023, BBVA Colombia financed more than 214.8 billion Colombian pesos in areas aligned with biodiversity, such as land use, terrestrial habitat, ecotourism projects, smart agriculture, and conservation of marine habitats, mammals, and birds.

IFC commits $50 million to BTG Pactual TIG's Latin American reforestation strategy

In July 2024, IFC committed $50 million to help mobilize $1 billion for the BTG Pactual Timberland Investment Group's (TIG) Latin American reforestation strategy. BTG Pactual TIG, a division of BTG Pactual Asset Management, is one of the world's largest timberland managers with $7.1 billion in assets and commitments and nearly 3 million acres under management throughout the United States and Latin America (as of Q1 2024). Conservation International serves as the impact adviser for the strategy. The reforestation strategy focuses on conserving, restoring, and planting trees on deforested and degraded properties in selected regions in Latin America, including the Cerrado biome in Brazil, one of the most biodiverse, seasonally dry ecosystems in the world. About half of the Cerrado has already been converted to other uses.

By investing in projects that are dedicated to sustainable commercial tree farms across half its footprint, and the protection and restoration of native ecosystems across the other half, BTG Pactual TIG seeks to integrate the protection and restoration of important habitats with sustainable commercial production. This innovative approach targets deforested and degraded land. By reforesting this land, BTG Pactual TIG seeks to integrate commercial, social, biodiversity, and greenhouse gas sequestration goals into a single strategy.

The transaction marks IFC's first engagement with an institutional timberland investment manager. It is expected to generate carbon credits through nature-based solutions, support climate mitigation efforts, and strengthen sustainable forest management practices in Brazil. These efforts will foster jobs and expand economic opportunities in rural areas of the country.

With Conservation International's advice on environmental and social impacts, the strategy aims to protect and restore about 135,000 hectares (more than 330,000 acres) of natural forests in deforested landscapes. The strategy also seeks to plant millions of trees in sustainably managed commercial tree farms, independently certified to Forest Stewardship Council standards, on another approximately 135,000 hectares of previously deforested and degraded land.

IFC invests in Natura's bond to improve sourcing of bioingredients from the Amazon

In July 2024, IFC announced its support to Natura to promote sustainable sourcing, which will promote the bioeconomy in the Amazon and contribute to the protection and regeneration of the Amazon rainforest. IFC's investment will also contribute to boosting the local economy and communities and support sustainable agroforestry supply chains in the forest.

IFC invested 300 million Brazilian reais in a sustainability-linked bond of 1.32 billion Brazilian reais issued by Natura in the form of debentures. This is the first sustainability-linked bond with sustainability performance targets linked to Amazon sourcing in Brazil, and Natura's 13th debenture issuance. As the anchor investor of this issuance, IFC also helped Natura mobilize additional funding to support investments in the Amazon.

IFC's investment will help Natura develop and source bioingredients from the Amazon, enhance manufacturing and distribution infrastructure in its operations, and buy equipment to update and grow its product line.

Additional Information

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