Deep Dive

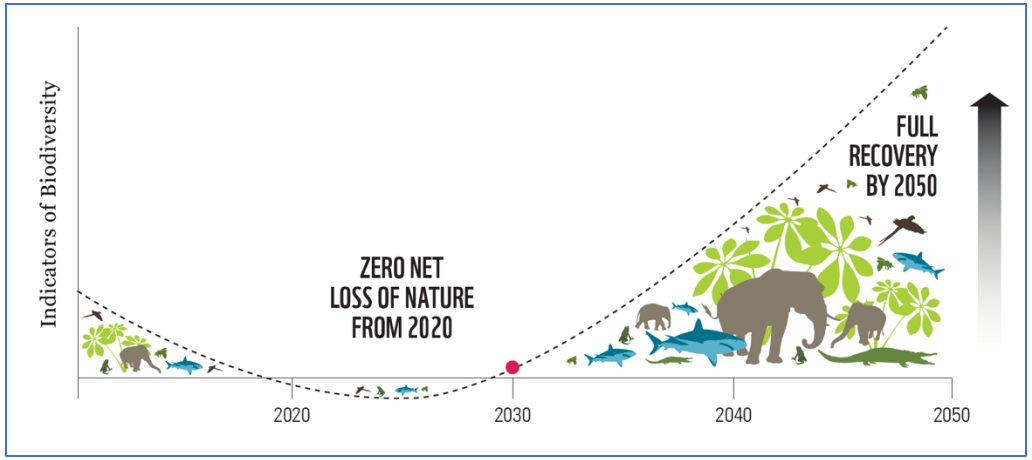
- MDB Nature Finance Common Principles and Taxonomy
- Ocean Finance Tracking
- Q&A on Taxonomy

Duncan Lang
Principal Environment Specialist
Climate Change and Sustainable Development Department
Asian Development Bank

Sanya Grover
Ocean Program Manager
Climate Change and Sustainable Development Department

Growing Demand for and need to Track Nature Finance

- **Growing desire from DMC's to invest in nature** (e.g. PRC, India)
- DMCs signed the Kunming-Montreal Global Biodiversity Framework (**KMGBF**) which aims to **halt and reverse biodiversity loss by 2030, with full recovery by 2050. Finance is critical**.
- **ADB Environment Action Plan 2024-2030 commits to scale nature investment, and track and disclose nature finance** to key stakeholders (DMCs, Board, Civil Society)
- **Development of Nature Solutions Finance Hub, Natural Capital Fund,** and other mechanisms, and mainstreaming Natural Capital Valuation and Accounting.



ADB Projects Mapped to the Sustainable Development Goals, 2022

MDB Joint Nature Statement

- MDB Joint Statement on Nature, People and Planet (Nov 2021) – link
  - Led by **UK Government** and supported by **CBD Secretariat**
  - Signed by: ADB, AfDB, AIIB, CDB, EBRD, EIB, IDB, IDB Invest, WBG
- Key Points of the Nature Statement –
  - Commit to **further mainstream nature** into our **analysis, assessments, advice, investments, and operations by 2025**.
  - **Tackling the drivers of nature loss** by fostering and making '**nature positive' investments**
  - Fostering national and regional level **synergies** (policy coherence)
  - Valuing nature to **guide decision making**
  - **Reporting and disclosure**

Operationalizing the Nature Statement

Launch of MDB Nature Statement at UNFCCC COP26

2021

2023

UNFCCC COP28

MDB Common Principles for tracking nature-positive finance

WBG: Note on Nature Finance Tracking Methodology

2024

2023 NSFH

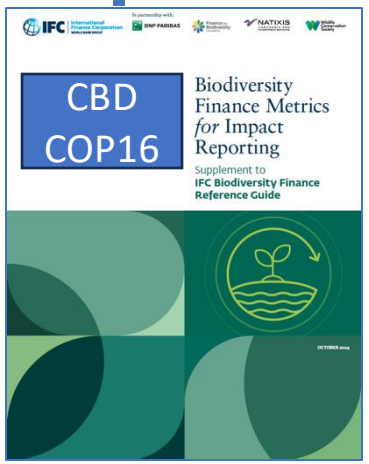
CBD COP16 MDB Nature Group Agreement

1) Revise Common Principle to Nature Finance
2) Create Taxonomy building on IFC Biodiversity Finance Report (below).
3) Develop Voluntary Guidance on Impact Metrics

2024

2024

CBD COP16



2025

MDB Nature Group Document drafting/ redrafting, technical review.
Mirrors process for Tracking Climate Finance

UNFCCC COP30
Launch of:

1) Common Principles
2) Taxonomy
3) Voluntary Guidance

Common Principles for Nature Finance Tracking

- The Common Principles have been strengthened in the context of GBF implementation to reflect:
  - (i) the importance of tracking the **whole spectrum of MDB investments** that are instrumental to the implementation of the GBF, including the **economy-wide transformation** that needs to happen;
  - (ii) lessons learned by MDBs from piloting nature finance in their respective financial flows and tracking systems; and include
  - (iii) a new MDB Common Nature Finance **Taxonomy** of **eligible activities** across sectors.

Defining Nature Finance

- Nature finance is defined as finance contributing to the nature positive goal of halting and reversing nature loss and supporting the implementation of the GBF through one or more of the following activity groups:
  - (a) Restoration and conservation of biodiversity or ecosystem services;
  - (b) Reduction of the direct drivers of biodiversity or ecosystem services loss;
  - (c) Integration of nature-based solutions across economic sectors; and
  - (d) Design and implementation of policy, tools, or other sectoral instruments enabling (a) to (c).
- Nature Finance Sub-categories (optional for each MDB)

Nature positive finance is nature finance that is i) substantive; ii) delivers measurable positive outcomes for biodiversity or ecosystem services; and iii) is not expected to introduce significant risks or impacts.

Nature mainstreaming finance is nature finance that is expected to enable a broader economic transition toward practices aligned with delivering the nature positive goal, but that does not meet all of the nature positive criteria.

Nature Finance Taxonomy

- Key Elements
  - Built from 2024 IFC Biodiversity Finance Reference Guide and expanded.
  - Components required to meet compliance / safeguard requirements are not eligible.
  - Focus on ex-ante assessment only.
  - The taxonomy is not exhaustive and will be updated.

Sector	Sub-sector	Table number
1. FORESTRY, AGRICULTURE, FISHERIES, AND AQUACULTURE	Forestry	1A
	Crops	1B
	Livestock	1C
	Fisheries and Aquaculture	1D
2. EXTRACTIVES AND ENERGY	Mining	2A
	Renewable Energy – Geothermal, Biomass, Hydro, Solar, Wind	2B
3. TRANSPORTATION	Ports, Waterways, and Maritime Shipping	3A
	Linear Infrastructure	3B
4. WATER, SANITATION, AND WASTE MANAGEMENT	Waste Management	4A
	Water Supply	4B
	Irrigation and Drainage	4C
	Sanitation	4D
5. INDUSTRY, TRADE, AND SERVICES	Tourism	5A
	Manufacturing, Trade, and Retail	5B
6. FINANCIAL SECTOR	Financial Sector Actions and Mechanisms	6A
7. CROSS-CUTTING THEMES	Renewable Natural Resources Asset Management	7A
	Urban Development and Disaster Risk Management	7B
	Green Buildings	7C

Taxonomy – Forestry Example

1A. FORESTRY

Additional considerations:

Refer to cross-cutting considerations A) to C) *(see page 3)*.

Sector-specific considerations:

a) To qualify, activities should not introduce significant adverse environmental risks and impacts that exacerbate the direct drivers of nature loss, and they should be designed to avoid significant conversion of natural habitat and other associated practices detrimental to biodiversity or ecosystem services (e.g., excessive fertilizer use; pesticide use; water or water abstraction). They should also go beyond business-as-usual practices in the sector and beyond compliance with MDB E&S risk management policies and standards.

b) Exotic monoculture plantations are generally excluded from qualifying as nature finance, unless it is demonstrated that they reduce the drivers of nature loss or produce targeted localized benefits to biodiversity and ecosystem services.

c) Sustainable intensification in productive forests should aim to ultimately reduce pressures on natural ecosystems (e.g., by increasing or maintaining yields and quality, and thus reducing pressures to expand the production area)[1]. *(See also additional consideration a)).* Investments in sustainable intensification are to be assessed on a case-by-case basis.

d) Alternative livelihoods can qualify as nature finance if they are aimed at reducing pressures on natural ecosystems (e.g., by providing alternative nutrition or income sources) and implemented in a sustainable manner that does not introduce significant adverse environmental risks and impacts that exacerbate the direct drivers of nature loss. Measures to ensure the sustainability of the outcomes for nature over a longer time horizon could also be put in place (e.g., by integrating them into broader local government socio-economic development plans).

e) If natural climate solutions generate carbon credits, such credits have to meet internationally accepted quality certification standards for reducing emissions and producing carbon credits (post-2016 Paris Agreement framework) and sustaining economic opportunities and social benefits for local communities[2] while recognizing the need for safeguards to prevent potential negative social and ecological impacts.

f) See also the Renewable Natural Resources Asset Management section for qualifying activities related to conservation or restoration of natural forest ecosystems, including protected and conserved areas.

Taxonomy – Forestry Example

Activity Group	Qualifying Activities
	FORESTRY
(a) Restoration and conservation of biodiversity or ecosystem services	**Restoration** 1. **Restoring** degraded land or natural habitat (including at landscape level), for example by: o **Rewilding** through creating and restoring habitats for wildlife. o **Natural or assisted regeneration** of degraded forests, which can be complemented with enrichment planting with native species, to generate clear localized benefits to biodiversity (not including monoculture planting).[3] o **Increasing connectivity** of fragmented forest landscapes (e.g., developing ecological corridors; live fences with native species).[4] **Conservation** 2. **Protecting or maintaining natural habitat** features or fragments (including within forest concessions or other productive forests), for example by: o Maintaining or managing **'set-asides'** of High Conservation Value (HCV) areas or High Carbon Stock areas following the High Carbon Stock Approach (HCSA) or establishing **protected and conserved areas.**[5] o Establishing **'buffer zones'** with native species or of natural ecosystems (e.g., riparian buffers).[6] o Establishing **conservation easements,**[7] servitudes, or right of ways. o Creating **managed forest areas** that limit edge effect and habitat fragmentation.

Taxonomy – Forestry Example

(b) Reduction of the direct drivers of biodiversity or ecosystem services loss	**Land use** 3. Implementing management practices, varieties, technology, or infrastructure in **production forests** to increase or maintain yields or quality and ultimately improve habitat for biodiversity and reduce pressures on natural ecosystems *(see also additional considerations a) to c))*, for example by: o **Using low-intensity logging or reduced-impact logging (RIL),** including by increased tree age class. o **Implementing alternatives** to the use of resources from natural forests (e.g., woodlots for fuel and construction materials). 4. Shifting to or implementing **sustainable forest production and management that meets best practices and internationally accepted quality certification standards** to ensure ecological, economic, or social benefits. 5. Implementing **alternative livelihoods** and pathways aimed at reducing pressures on natural forests (e.g., scaling up regenerative models that cultivate or harvest native non-timber forest products (NTFPs) such as acai, nuts, or that diversify the productive landscape), including the development of sustainable tourism. *(See also additional consideration d)).* 6. **Rehabilitating degraded land for forestry production** through sustainable land and water management practices to enhance ecosystem services and prevent natural habitat conversion. *(See also additional considerations a) to d)).* 7. Implementing **fire management/fire risk reduction programs** that directly reduce threats from uncontrolled fires, or manage fire regimes, where there is a demonstrated benefit to biodiversity.[8] **Pollution** 8. Efficient use of fertilizer, increasing **fertilizer use efficiency,** or reducing use of fertilizer, particularly in areas where run-off leads to downstream eutrophication through excess nitrogen and phosphorus. 9. Substitution or reduction in **pesticide use or other chemicals such as herbicides** through other effective pest-control methods (e.g., biological, mechanical, or cultural controls). 10. **Phytoremediation or bioremediation** of contaminated forest soils or adjacent waterways. 11. Reusing or recycling **sustainable forestry residues** to reduce waste (e.g., using woody biomass for biochar production or bio-energy generation).

Taxonomy – Forestry Example

	Invasive species 12. Implementing measures to **prevent, eradicate, contain, and manage invasive species** with the potential to negatively impact biodiversity or ecosystem services, particularly to reduce the risk of invasive species spreading to natural habitats. 13. Implementing measures to **reduce infestation of pests and invasive species** to lower the pressure on water resources or on land. 14. Implementing measures to **reduce the need for chemical controls**[9] of invasive species that could harm biodiversity (e.g., by using biological, cultural, mechanical, and physical control methods).
(c) Integration of nature-based solutions across economic sectors	15. Using **green infrastructure or combined green/grey solutions** that prevent **runoff of agrochemicals** and sediment into rivers (e.g., use of forest buffers; agricultural strips; swales). 16. Implementing **agroforestry** systems linked to sustainable agricultural practices (e.g., mixed tree and crop production; using native or naturalized species, appropriate for local climate conditions), where appropriate to the cropping system and species/habitats present.[10] 17. Investing in **watershed scale reforestation** to be used for filtration and to generate quantifiable water credits through increased infiltration and reduced runoff. 18. **Natural climate solutions** (NCS)[11] programs in forests (e.g., reducing emissions from deforestation and forest degradation in developing countries (REDD+) ventures) that generate clear localized benefits to biodiversity. *(See also additional consideration e)).*
(d) Policy, tools, or other sectoral instruments enabling (a) to (c) above	*See this table for general qualifying activities under this activity group.* **Integrated spatial planning** 19. **Landscape-scale spatial planning** for forestry (e.g., to identify some areas for commercial plantations, while maintaining others for conservation or sustainable harvesting). **Policy, laws and regulations** 20. **Environmental fiscal reform** in favour of fiscal measures **that incentivize sustainable forest management** practices that benefit biodiversity or ecosystem services (e.g., conservation tax credits). 21. **Policy development** to support sustainable and participatory forest management, conservation, or restoration. 22. Interventions aimed at **improving institutional capacity and governance** of forest resources. 23. **Land administration legal and regulatory framework reform** (e.g., formalization of land tenure for smallholders or Indigenous Peoples and Local Communities) to promote sustainable management of forest resources. 24. Developing and implementing **transparency, accountability, or certification frameworks in the forestry sector** (e.g., to improve timber traceability or scale up certification of NTFPs).

Taxonomy – Forestry Example

	25. Support for implementation of commitments to international **forestry conventions and protocols**. 26. Establishment of **early-warning systems** to prevent and respond to forest-related threats, such as illegal deforestation or damaging forest fires. 27. Establishment of **forest monitoring and data management systems** providing policy-relevant information on biodiversity (e.g., remote-sensing measurement, reporting, and verification (MRV) that delivers alerts on forest cover change, carbon density, or biodiversity indicators). **Research and capacity development** 28. Enhancing effectiveness and **sustainability of non-timber forest production** (e.g., training on sustainable harvest techniques; value addition, extension services; outreach connecting conservation to sustainable harvesting and trade). **Other** 29. Investments in **supporting services** related to production forests that reduce impacts on nature (e.g., nurseries of native species). 30. **Value chain development** and interventions intended to reduce impacts of forest use on nature (e.g., investing in downstream value-chain projects that aim to shift demand to sustainable, certified timber).

Inputting Nature Finance within the New CRF

- Environment-Related CRF Indicators – SharePoint page where additional resources and information are provided.

Inputting Nature Finance within the New CRF

ADB

ADB eOperations

Lower Palas Hydropower Project (52193-001)

Welcome Asad Aleem (PRM)

Diagnostics Home My eOps Search Projects Logout Help

Manage Project Information | Project Tasks

Overview | Team Members | Milestone Events | Financing | Cofinancing | Classification | DMF | Safeguards Categorization | DR Indicators | Procurement | Baseline Projections | PDS | Project Missions | F M

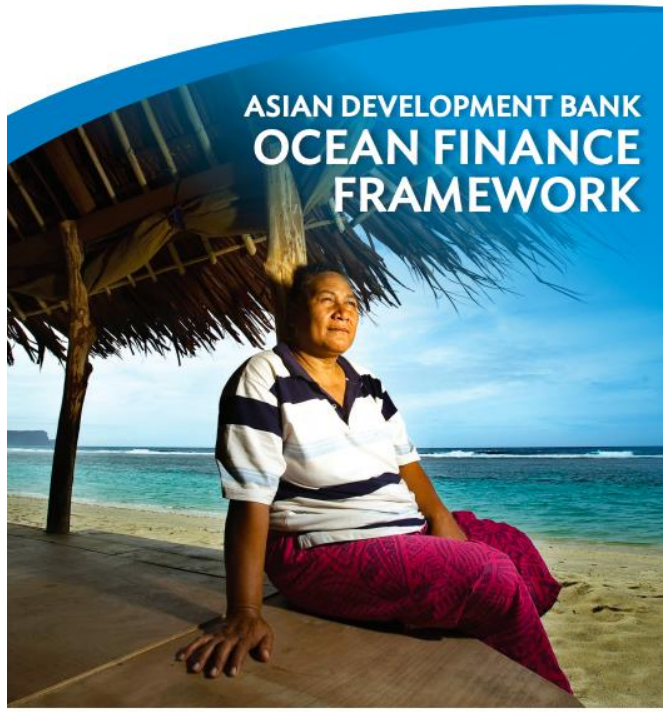
Project Overview

Update

Overview | State-Owned Entity Information | Project Collaboration

* Project Group Name	Lower Palas Hydropower Development Project
* Project Name	**Lower Palas Hydropower Project**
Project Number	**52193-001**
Country	**Pakistan**
Approval Level	**President**
Category Type	**Sovereign**
Project Financing Amount	**USD 800,000,000.00**
Additional Financing	☐
* Related to COVID19 response efforts?	○ Yes ◉ No
Borrower/Recipient	**Islamic Republic of Pakistan**
Project Description	**The proposed LPHP is a strategic investment that will (i) enable a structural shift to a low cost, low carbon fuel mix that improves energy security; (ii) reduce the cost of electricity generation ranging in the range of 10% depending upon assumptions; (iii) reduce the sector deficit by injecting positive cash flow and saving foreign exchange for the Government of Pakistan by displacing imported fuel; and (iv) build the broader institutional capacity of WAPDA to harness the hydropower potential of the country in a sustainable manner; and (v) provide a financing and investment model that can be followed for other hydropower projects in Pakistan.** **Once completed, LPHP will add 665 MW (2,590 GWh) annually to the national grid and provide economic and social benefits to the local community and economy as a whole. These will include improved infrastructure particularly through the access road, water supply, employment opportunities particularly during the construction phase and trade benefits for local residents through better infrastructure and electrification. The project will**

Oceans Finance Tracking



- Guiding document – ADB's OFF
- Eligibility
  - Location – 30 DMCs border an ocean, sea or a major river flowing into the ocean; must be within coastal zone (land and water bodies within 100 kms of the coast, and/or the marine environment)
  - Screening and exclusions – must adhere to Safeguards, no negative impact on the oceans
  - Must have direct or indirect benefits to at least one ocean health objective

Oceans Finance Tracking

Example: FSM Chuuk Water Supply and Sanitation Project

1. Location: FSM ✓
2. Sector and subsector: Water and other urban infrastructure and services ✓
3. Distance from the coast: within 100kms of the coast ✓
4. Project must demonstrate a significant contribution toward at least one ocean objective (as per the OFF) ✓

Focus Area	Ocean Objectives		ADB Sectors	ADB Subsectors	Location Eligibility
B. Pollution control	1. Solid Waste Management[a]	Reduce marine debris and/or associated impacts to marine species and ecosystems.	ANR WUS	- Rural solid waste management - Urban solid waste management - Renewable energy generation— biomass and waste	Within 50 km of the coast[b] or within 50 km of rivers (and their tributaries) that flow to the ocean.[c]
	2. Resource Efficiency and Circular Economy	Reduce marine debris and/or associated impacts to marine species and ecosystems.	WUS ANR IND	- Urban solid waste management - Rural solid waste management - Trade and services - Small and medium-sized enterprises development	Projects anywhere in eligible DMCs may be considered if they can demonstrate significant and quantifiable bene-fits to ocean health and the blue economy.
	3. Non-point Source Pollution Management	Reduce pollution (nutrients, sediments, chemicals) of coastal and/or marine environments.	ANR	- Irrigation - Agricultural drainage - Agriculture research and application - Land-based natural resources management - Agricultural policy - Rural water policy	Includes projects within 200 km of the ocean or within 50 km of rivers (and their tributaries) that flow to the ocean. Projects elsewhere in eligible DMCs may be considered by exception if they can demonstrate significant and quantifiable benefits to ocean health and the blue economy.
	4. Wastewater Management	Reduce wastewater pollution of coastal and/or marine environments.	ANR WUS	- Rural sanitation - Urban sewerage, urban sanitation - Agri-processing and industrial effluent control	Coastal zone (land and water bodies within 100 km of the coast) and/or the marine environment. Projects elsewhere in eligible DMCs may be considered by exception if they can demonstrate significant and quantifiable benefits to ocean health and the blue economy.

Oceans Finance Tracking

Table 7: Detailed Cost Estimates by Outputs
($ million)

Item		Amount
A.	**Base Cost**[b]	
1	Output 1: Continuous and safe water supplies provided	8.53
2	Output 2: Effective, efficient, and safe sanitation provided	2.85
3	Output 3: Chuuk Public Utility Corporation made financially and technically sustainable	1.65
	Subtotal (A)	**13.03**
B.	**Contingencies**[c]	**0.61**
	Total Project Cost (A+B)	**13.64**

[a] Including taxes and duties of US$0.88 million. Such amount does not represent an excessive share of the project cost. The government will finance all taxes and duties applicable in FSM through exemptions.
[b] In mid-2020 prices as of 27 August 2020.
[c] Physical and price contingencies, and a provision for exchange rate fluctuation are included.
Source: Asian Development Bank.

Table 8: Wastewater Management

Example Project Outputs	Example Indicators
Wastewater collection and treatment systems built or upgraded	Wastewater treatment capacity added or improved (m^3/day)*
Policies and regulations to improve wastewater collection and treatment	Annual absolute (gross) amount of wastewater discharge avoided before and after the project in m^3/a and p.e./a and as % (outcome)
Promotion campaigns to increase willingness to pay for domestic wastewater collection and treatment implemented	People benefiting from improved services in urban areas (number)+ (outcome)
Sanitation infrastructure and services improved and expanded	Households with new or improved sanitation (number)+

m^3/a = cubic meters per annum, p.e./a = population equivalent per annum.
* Indicators that contribute results to ADB's Strategy 2030 Operational Priority 3 (OP3) indicators.
+ Indicators that contribute results for other operational priorities in the ADB Corporate Results Framework.
Source: ADB.

13. **Output 1: Continuous, resilient, and safe water services provided.** The climate and disaster resilience and operational efficiency of CPUC's water supply operations will be further strengthened by:

(i) rehabilitating about four kilometers of additional watermains;
(ii) rehabilitating and expanding the Tonoas water supply system;
(iii) demolishing the water tank at Peniesene;
(iv) providing three-phase electricity to the Wichen River water treatment plant and to deep wells in Wichap;
(v) enhancing the monitoring and operation of the Weno water supply and sewerage networks by supplying, installing, and maintaining a supervisory control and data acquisition system (also contributes to outputs 2 and 3);
(vi) identifying undocumented connections to CPUC's network by carrying out a water supply and sewer connection survey;
(vii) replacing asbestos cement pipes with polyethylene pipes to reduce leakage; and
(viii) providing drilling rigs for the construction and rehabilitation of groundwater supply wells on the raised islands of Chuuk Lagoon, which currently rely on rainwater harvesting and unsafe shallow wells for potable water.

14. **Output 2: Effective, resilient, and safe sanitation services provided.** The reliability of CPUC's sewerage system and access to improved sanitation in Chuuk State will be further enhanced by:

(i) providing onsite sanitation facilities, which will be owned, operated, and maintained by CPUC for households in Weno and Tonoas that have no access to CPUC's sewer system, to complete the entire sanitation service chain;
(ii) providing replacement pumps for Weno's sewerage system Lift Station No. 8 and associated pump controls; and
(iii) purchasing portable toilets to pilot public toilet facilities for community events.