

Net Biodiversity Positive Symposium – Session 2

Project Finance and Lender Standards

April 21, 2023

Development vs. Biodiversity



Why Lender Standards are Needed

- Critical Habitat for Critically Endangered Spoon-billed Sandpiper
- “There are no environmental impacts, because this project is of national importance” – *Minister of Environment, Forest, and Climate Change*
- Why lender environmental and social safeguards are needed
- Implemented through project finance as loan covenants

Project Finance and Lenders

What is Project Finance?

- Common funding mechanism for infrastructure projects
- Debt and equity used to finance the project are paid back from the cash flow generated by the project

Many “lenders”

- Most have environmental and social standards
- Most based on IFC
- Commercial banks have adopted through the Equator Principles



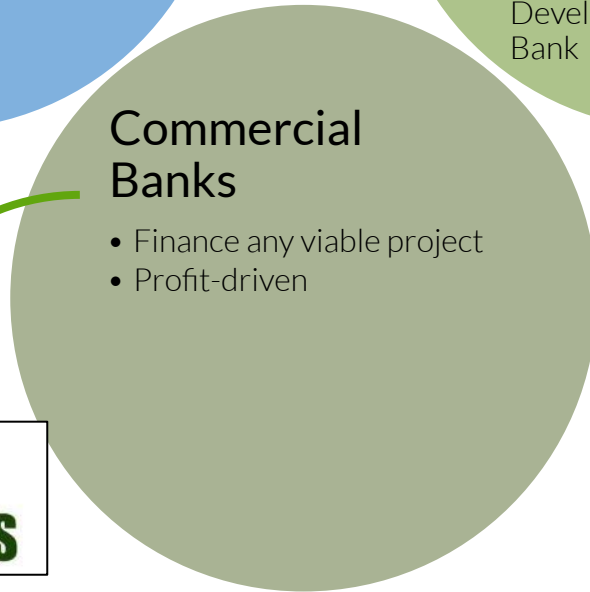
Export Credit Agencies

- Finance Domestic Companies' Overseas
- Examples: EX-IM, JICA, EDC, EKEF



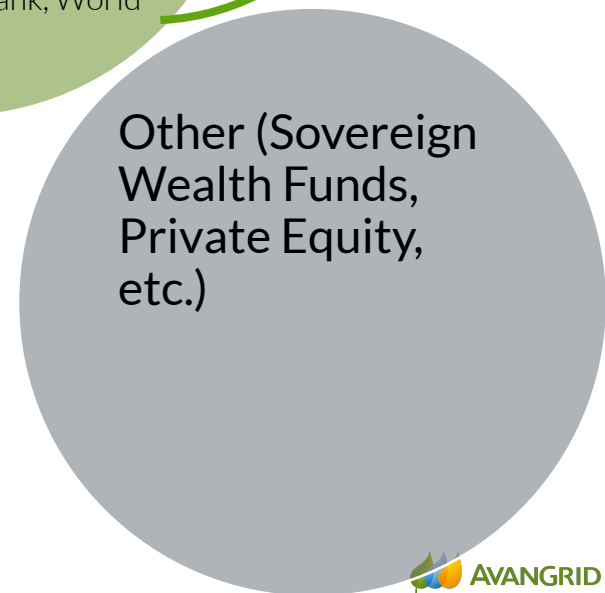
Development Finance Institutions

- Prioritize development impact over profit
- Sovereign, regional, multi-lateral
- Examples: FMO, Asian Development Bank, World Bank



Commercial Banks

- Finance any viable project
- Profit-driven



Other (Sovereign Wealth Funds, Private Equity, etc.)



World Bank Group

International Finance Corporation (IFC)

- Provide financing to private sector doing business in developing countries



Mission : End extreme poverty within a generation and boost shared prosperity

IFC Performance Standards

IFC Performance Standards

- Define IFC clients' responsibilities for managing the environmental and social risks of their projects
- Global benchmark and “international best practice”
- PS6 defines biodiversity requirements



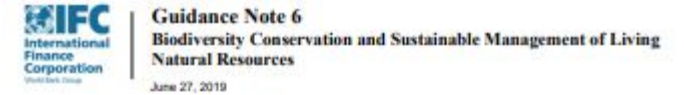
Performance Standards



Biodiversity Requirements

IFC Performance Standard 6 Requirements

- Require net gain for Critical Habitat and no net loss for Natural Habitat
- In place since 2006, significant resources on how to achieve net positive goals (see Guidance Notes), including:
 - Baselines
 - Critical habitat assessment
 - Mitigation design
 - Offset design
 - Monitoring and evaluation
- Required for projects in developing countries by lenders, more limited application in US
- Integrated into internal corporate standards



Guidance Note 6 corresponds to Performance Standard 6. Please also refer to Performance Standards 1–5 and 7–8 as well as their corresponding Guidance Notes for additional information.

Introduction

1. Performance Standard 6 recognizes that protecting and conserving biodiversity, maintaining ecosystem services, and sustainably managing living natural resources are fundamental to sustainable development. The requirements set out in this Performance Standard have been guided by the Convention on Biological Diversity, which defines biodiversity as “the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part; this includes diversity within species, between species, and of ecosystems.”

2. Ecosystem services are the benefits that people, including businesses, derive from ecosystems. Ecosystem services are organized into four types: (i) provisioning services, which are the products people obtain from ecosystems; (ii) regulating services, which are the benefits people obtain from the regulation of ecosystem processes; (iii) cultural services, which are the nonmaterial benefits people obtain from ecosystems; and (iv) supporting services, which are the natural processes that maintain the other services.¹

3. Ecosystem services valued by humans are often underpinned by biodiversity. Impacts on biodiversity can therefore often adversely affect the delivery of ecosystem services. This Performance Standard addresses how clients can sustainably manage and mitigate impacts on biodiversity and ecosystem services throughout the project’s lifecycle.

¹ Examples are as follows: (i) provisioning services may include food, freshwater, timber, fibers, medicinal plants; (ii) regulating services may include surface water purification, carbon storage and sequestration, climate regulation, protection from natural hazards; (iii) cultural services may include natural areas that are sacred sites and areas of importance for recreation and aesthetic enjoyment; and (iv) supporting services may include soil formation, nutrient cycling, primary production.

GN1. The requirements set out in Performance Standard 6 and the interpretation of those requirements provided in this Guidance Note are guided by the Convention on Biological Diversity (CBD), including its Strategic Plan for Biodiversity 2011–2020 and the Aichi Biodiversity Targets.^{GN1} As emphasized by the Biodiversity for Development Program of the CBD, biodiversity loss can result in critical reductions in the goods and services provided by the earth’s ecosystems, all of which contribute to economic prosperity and human development. This is especially relevant in developing countries where natural resource-based livelihoods are prevalent. It should also be noted that the CBD specifically calls on “business to consider the revised 2012 IFC Performance Standards” in its Decision XI-7, paragraph 2 of the 11th CBD Conference of the Parties-11.

GN2. The definition of ecosystem services provided in paragraph 2 of Performance Standard 6 is derived from the Millennium Ecosystem Assessment.^{GN2} All four categories of ecosystem services (provisioning, regulating, cultural and supporting services) are recognized in this Performance Standard. Performance Standard 6 recognizes that sustainable development cannot be achieved if either biodiversity or ecosystem services are lost or degraded by development efforts. While recognizing that these two dimensions are inextricably linked, Performance Standard 6 provides separate client requirements for biodiversity and ecosystem services. This is in part because biodiversity management involves expertise and scientific knowledge found mainly in the community of practice of ecologists and conservation biologists, while the implementation of assessment, mitigation and management programs for ecosystem services often

^{GN1} Biodiversity targets for the 2011–2020 Strategic Plan, “Convention on Biological Diversity”, <http://www.cbd.int/strategicplan/2011-2020/>.

^{GN2} Millennium Ecosystem Assessment Homepage, “Millennium Ecosystem Assessment”, 2006, <http://www.millenniumassessment.org/>.

Source: [IFC](#)