
THE EBRD APPROACH TO NATURE

Transitioning to a nature-positive economy



European Bank
for Reconstruction and Development



THE EBRD'S ROLE IN HALTING AND REVERSING THE LOSS OF NATURE BY 2030

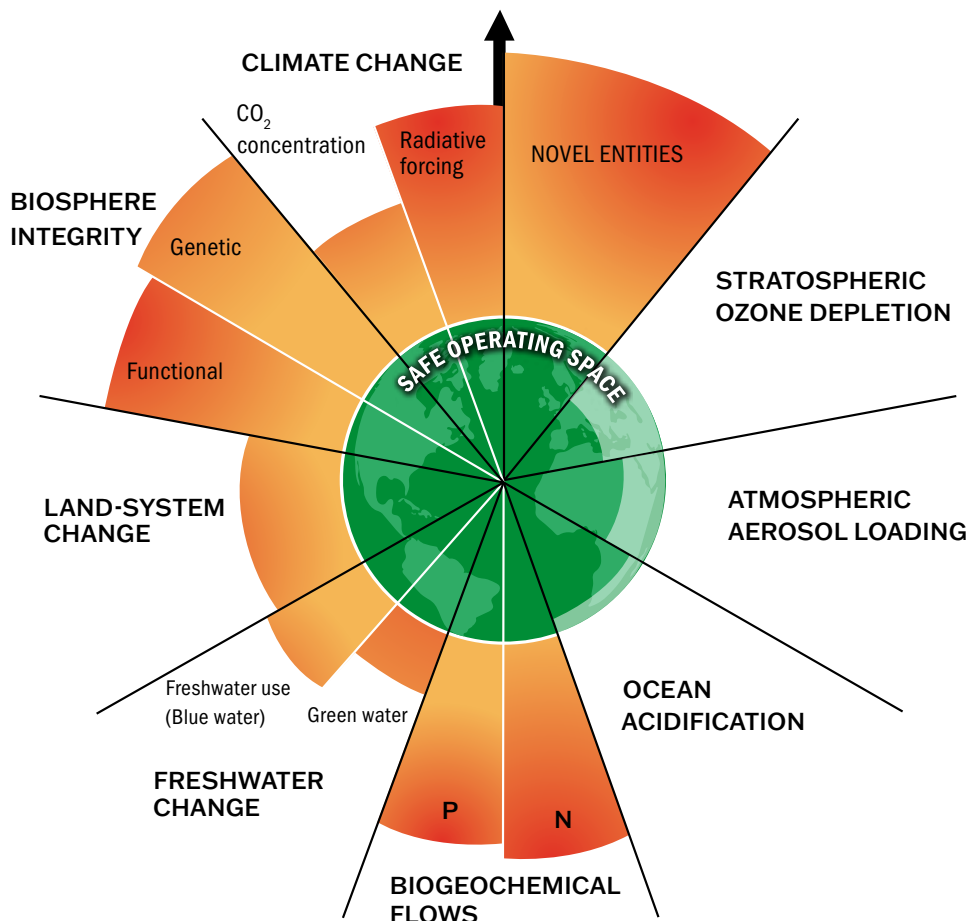
Nature is in crisis. Both the living (plants and animals) and non-living (water and soil) components of ecosystems are declining at unprecedented rates, driven by anthropogenic factors. Human activities such as deforestation, habitat destruction, pollution, overfishing and global warming are the major factors contributing to this decline. Out of nine processes that regulate the stability and resilience of the Earth system, six have now passed beyond the boundary that defines a safe operating zone.

The crisis faced by nature threatens the provision of food, shelter and livelihoods to hundreds of millions of people. It also challenges the world's ability to deliver on its climate goals, as these intertwined crises both exacerbate and are exacerbated by each other.

Nature has a value beyond that given to it by the market. The annual global value of ecosystem services exceeds US\$ 100 trillion.¹ However, markets assign prices to less than US\$ 10 trillion of nature's services per year.² This gap reflects a market failure that is contributing significantly to the global decline in nature and biodiversity.

The EBRD was established “to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative” in Article 1 of the Agreement Establishing the Bank.³ Article 2 also commits the Bank to “promot[ing] in the full range of its activities environmentally sound and sustainable development”. **Addressing this critical environmental market failure is thus in line with the Bank's mandate.**

Figure 1: Nine planetary boundaries



Source: Azote for Stockholm Resilience Centre (2023) based on analysis in Richardson et al. (2023).

Since the EBRD's inception, the sustainability aspect of its mandate has been incorporated into the Bank's Environmental and Social Policy (ESP), which requires all projects to mitigate negative impacts. For more than 30 years, the Bank has applied this policy to ensure its investments are implemented in a manner that protects and preserves nature.



Eutrophication is a major cause of marine ecosystem degradation around the Baltic Sea. Source: EOS - MODIS 2005-07-11, NASA, processed by SMHI's oceanography unit.

1. See OECD (2019).

2. See Taskforce on Nature Markets and Vivid Economics (2022).

3. See EBRD (1990).



However, while impact mitigation is necessary, it is insufficient to reverse the trend of biodiversity loss.

The Bank, likewise, has a long history of investing in environmental remediation projects, and investment in nature is a key element of its Green Economy Transition (GET) approach.

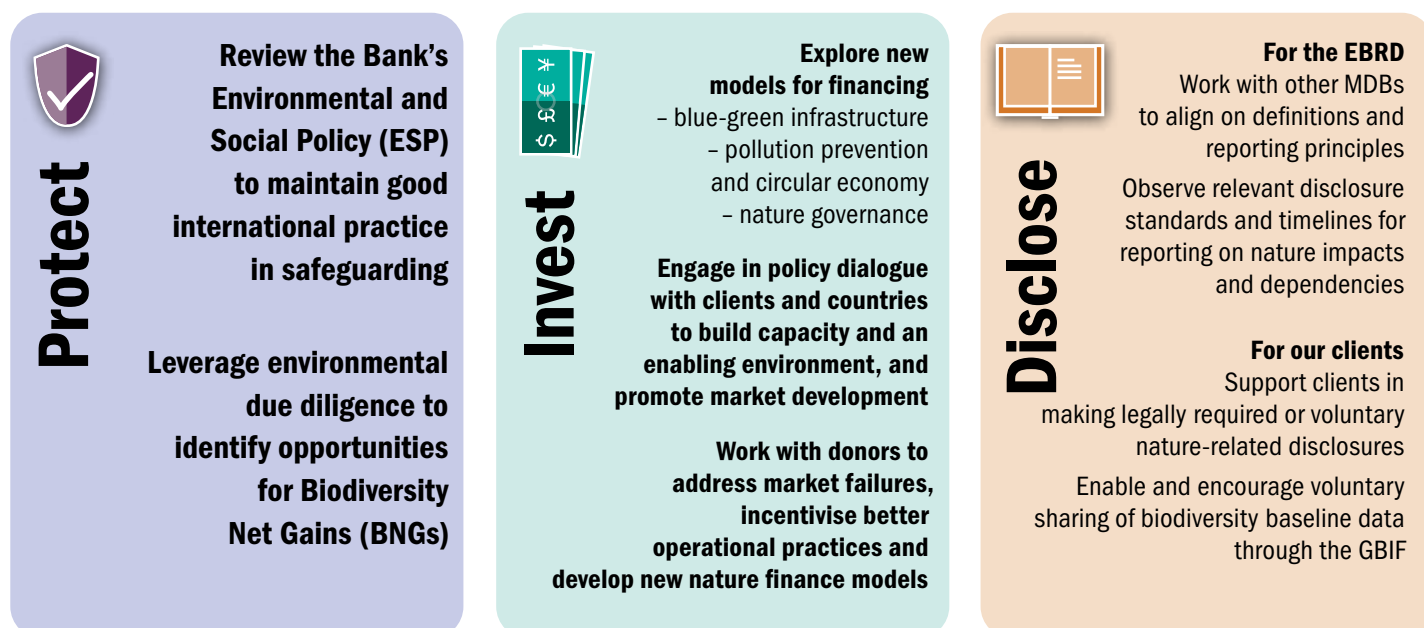


The urgency of the nature crisis demands innovation and increased effort to halt and reverse the global loss of biodiversity by 2030; business as usual cannot deliver the change at the necessary speed. **The EBRD approach to nature is a statement of how the Bank can deliver more benefits for the natural systems of the Earth in a way that is:**



- ▶ guided by the goals and targets of the Kunming-Montreal Global Biodiversity Framework (GBF)
- ▶ building on decades of Bank environmental safeguarding and investment
- ▶ informed by the latest market developments, research, and dialogue with peer organisations.

Figure 2: The three pillars of the EBRD approach to nature



PROTECT

Nature safeguards and the standards the EBRD applies

Nature and biodiversity conservation has been an integral part of the EBRD's operations since its inception. Since 1992, the EBRD's environmental safeguarding function has been incorporated into the Bank's Environmental Policy and, since 2008, also into its Performance Requirements (PRs), which form part of the Bank's ESP and are based on the principle of "do no harm".

PR 6, covering biodiversity, aims to: protect and conserve biodiversity using a precautionary approach; adopt the mitigation hierarchy in the design and implementation of projects to achieve no net loss and, in critical habitats, a biodiversity net gain; maintain ecosystem services; and promote good international practice in the sustainable management and use of living natural resources. Accordingly, for all projects where potentially negative impacts on biodiversity are identified, the EBRD requires the avoidance, minimisation, restoration and offsetting of impacts, to ensure that projects are neutral for nature.

The EBRD's PRs are often more robust than national standards in the economies where the Bank operates, thus avoiding impacts that would otherwise have occurred without its involvement.

Going beyond compliance

While BNGs are a requirement on those EBRD projects that have the potential to cause the most harm to nature, as an approach, they have the potential to be applied more widely both in extent and scope. This application would contribute, in particular, to the achievement of Target 2 of the GBF, which calls on world governments to restore at least 30 per cent of degraded ecosystems by 2030.

The EBRD will be able to highlight credible implementation opportunities to its clients by applying its environmental and social due diligence tools and systematically identifying feasible BNGs on projects. Moreover, it may be able to direct funding, including concessional finance, and technical assistance to unlock these opportunities.

Box 1. BNGs incorporate actions that leave the natural environment in a measurably and materially better state than the baseline. These gains can be measured in terms of habitat size, species, condition, distinctiveness and/or strategic significance.

Example: The Kumtor mine in the south-eastern Kyrgyz Republic is an excellent example of this. From 1995 to 2015, the Bank worked with the client to set up the Sarychat Irtys Nature Reserve, covering a large area (150,000 hectares) in a region adjacent to the mine. The project was successful in helping to restore snow leopard and argali populations, with lynx, ibex and bear also benefiting.

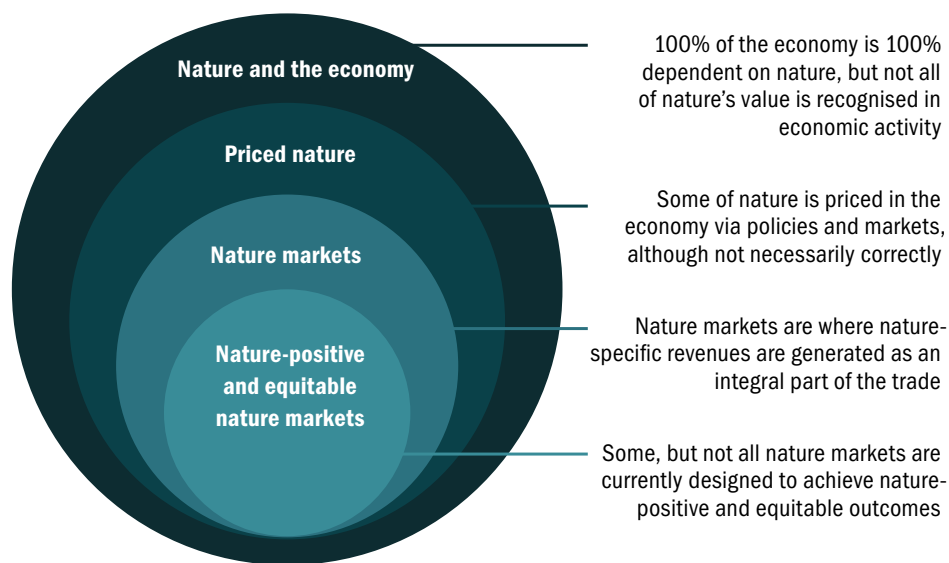




INVEST

Market failures to adequately protect and value nature and biodiversity are a key driver of the nature crisis. Addressing these failures is appropriate under the Bank's transition mandate. However, the lack of well-functioning markets for nature makes commercially driven investments a challenge. Only a fraction of nature's value to the economy is priced by markets, and most markets are not structured to conserve or sustainably manage natural resources.

Figure 3: Nature markets in the economy



Source: Taskforce on Nature Markets and Vivid Economics (2022).

There is increasing recognition that businesses have major impacts on nature loss and depend on well-functioning and healthy ecosystems to operate. Both the public and private sectors, therefore, have an important role to play in nature recovery and the nature-positive transition. The EBRD has an opportunity to support its clients in this transition by investing in steps to reduce impacts on nature, manage nature-related risks and capitalise on the increase in nature-positive opportunities.

The EBRD has a legacy of environmental investment. Projects that protect nature and achieve environmental objectives have been part of the Bank's financing since its inception. Historically, these investments have primarily focused on pollution prevention, solid waste management and wastewater treatment, as in some EBRD regions, a legacy of heavy industrialisation and natural resource extraction has left natural ecosystems in a vulnerable state.

The EBRD can build on this experience and explore new opportunities to generate nature investment

and policy dialogue opportunities across both the public and private sectors. This exploratory work will build on the EBRD's strengths and green economy transition approach, taking incremental steps to support the goals and targets of the GBF, including mobilising finance to halt and reverse the global loss of nature and biodiversity by 2030. The approach will focus on three key areas through direct and intermediated finance, technical assistance and policy dialogue:

1. **Blue-green infrastructure:** Actively recover ecosystems using natural capital assets and nature-based solutions as physical infrastructure to provide ecosystem services (GBF Targets 2, 11 and 12).
2. **Pollution prevention and circular economy:** Reduce pressures on ecosystems by decreasing pollution and reducing the resource intensity of the economy (GBF Target 7).
3. **Primary production and nature governance:** Work with clients to reduce drivers of biodiversity loss resulting from agriculture, forestry and fishery activities within their supply chains (GBF Targets 7, 10 and 15).

New approaches could include innovative investment models and

cost-saving resilience investments in nature-based solutions, as well as financial instruments that create incentives for investing in nature, such as key performance indicator (KPI)-linked investments with resource-intensity, pollution prevention or nature restoration targets.

Box 2. Blue-green infrastructure

Nature-based solutions are increasingly used to meet a variety of objectives, including climate change mitigation and resilience, as well as health and social impact. They are often cost effective, and there is an opportunity to integrate more nature-based elements into infrastructure and municipal projects. The EBRD Green Cities programme provides an entry point to finance priority blue-green infrastructure investment projects. The demonstration effect of public projects may also encourage the use of nature-based solutions in the private sector.

Example: In 2023, the EBRD financed the City of Chisinau's activities to rehabilitate the River Bic and make it an attractive and beneficial asset. The project includes a blend of solutions that help to control the attenuation, release and conveyance of rain and river water, including both grey engineered and nature-based solutions.



Box 3. Pollution prevention

Much like terrestrial ecosystems, aquatic biodiversity is facing unprecedented declines, in part due to anthropogenic pressures from pollution. Even in developed countries with greater waste management and sanitation facility coverage, poor design and a lack of maintenance lead to massive annual discharges into surface, groundwater and marine systems. Circular systems are also underdeveloped and have the potential to reduce pressure on natural resources and pollution.

Example: The Near Zero Waste programme was designed to respond to Türkiye's waste-management challenges by supporting private companies in implementing state-of-the-art waste minimisation techniques and technologies with high potential for replicability. The programme included a combination of policy dialogue, blended finance and knowledge-sharing activities.



Box 4. Primary production and nature governance

The global food system is one of the primary drivers of biodiversity loss, and transforming this sector will be critical to meeting global goals. Key drivers of impact include contributions to climate change, land conversion, increasing intensification, a lack of crop diversity, water use and water pollution. However, transforming primary production systems requires not only engaging with and supporting crop and livestock producers, but also taking a whole-of-value-chain approach to building a food system that is conducive to the production, sale and distribution of sustainable agricultural products. In addition, transforming the food system is likely to require innovative financial mechanisms to catalyse new approaches, demonstrate commercial viability and achieve biodiversity impacts. Programmes such as the EBRD's Corporate Climate Governance Facility can help introduce nature-related aspects of sustainable business into the Bank's technical cooperation with clients.

Example: The EBRD provided results-based concessional finance to a leading Ukrainian agricultural producer. The KPIs associated with the concessional lending included sustainable corporate aspects of sustainable business, such as strategy and risk disclosure in line with the Taskforce on Climate-related Financial Disclosures, and innovative approaches to emissions reduction, such as adopting conservation agriculture practices.



OPPORTUNITIES AND PARTNERSHIPS

Nature is a shared resource, and its stewardship requires collaboration with a wide range of stakeholders. As countries develop or enhance their National Biodiversity Strategies and Action Plans, the EBRD will support clients in understanding and acting on the national and global priorities that affect them. This work will include dedicated technical cooperation for specific clients, as well as general support for initiatives and frameworks that provide public resources to help businesses and governments align their activities with the GBF. It will also include the development of national-level tools, such as biodiversity-offset tracking and accounting, with government ministries.

As the benefits of nature are enjoyed by all, investing in its protection and restoration must also be a partnership. Box 6 highlights a selection of opportunities for donors to partner with investors and clients to enable the wide environmental, social and economic benefits that nature finance can provide beyond project boundaries.

Support for nature finance must be linked to the ambition of its impact, which may be very large relative to the financial cost of investment. Nature also has significant linkages to other key agendas, such as climate and gender, and the co-benefits of these activities must also be recognised. Definitions and standards are rapidly evolving, and the EBRD will consider these new approaches in future revisions of its impact and financial reporting frameworks.

Box 5. Gender, equity, and inclusion linkages

The Bank will promote gender equality and human capital development as co-benefits of its nature-positive investments and policies.

This will include:

- collecting sex-disaggregated data to reflect underserved groups' dependencies, as well as women's contribution to nature and biodiversity conservation
- ensuring that vulnerable groups have equal access to the economic opportunities brought about by nature and biodiversity conservation and recovery efforts, particularly when it comes to land and livelihood protection
- ensuring that underserved groups have equal opportunities as regards access to employment and green finance, promoting nature and biodiversity.

The Bank will also support its clients in addressing the changing skills requirements brought about by the nature-positive transition and will encourage inclusive participation and decision-making processes for nature and biodiversity, in line with the GBF's Gender Action Plan.

Box 6. The value of blended concessional finance

Investment support

The nature crisis demonstrates that “business as usual” is not sustainable – but operational changes can come with significant risk. **First-loss cover and other guarantees and credit enhancements** can support projects that may otherwise be too risky for investment.

Concessional rate lending can recognise the value that nature finance offers beyond project boundaries and can encourage businesses and investors to adopt approaches that benefit nature, even when there is no business case for the client. **Sustainability-linked products** can provide performance incentives and encourage more ambitious commitments.

Direct grants are powerful tools for impact. Grants can enable donors to access and influence opportunities for enhancing nature that may not otherwise be achievable.

Technical support and capacity building

Nature is a highly context-dependent issue. **Technical studies** to understand the potential for nature-based solutions or harm reduction measures will be widely needed.

As the management of natural capital assets is also very different to the management of business-as-usual “grey” engineered approaches, there is significant need for **capacity building** in nature governance and green skills.



Box 7. The recovery of marine ecosystems and the Blue Mediterranean Partnership (BMP)

Since 2001 the Northern Dimension Environmental Partnership (NDEP) has invested in preventing pollution from reaching the Baltic and Barents Seas. As monitored by the Helsinki Convention, this has effectively contributed to the reduction of eutrophication and the restoration of marine ecosystems in the region, particularly around the Gulf of Finland. This success has encouraged donors to look south and translate this model to other geographies.

The Mediterranean region, in particular, is a recognised marine biodiversity hotspot and a vital resource of economic activity for 500 million people living in 22 countries. It is the fifth-largest regional economy after France, Italy, Spain and Türkiye, generating an annual economic value of almost half a trillion euros. However, the Mediterranean ecosystem is under threat from habitat loss and degradation, overfishing, pollution and climate change.

Inspired by the work of the NDEP in the Baltic region, the BMP is a joint initiative of the EBRD with l'Agence Française de Développement (AFD), the European Investment Bank (EIB), the Kreditanstalt für Wiederaufbau (KfW) and the Union for the Mediterranean (UfM), as well as other potential future partners, beneficiary countries (Egypt, Jordan and Morocco) and donors. Donors to the BMP include the European Commission, the Swedish International Development Cooperation Agency and AFD with confirmed contributions, and Germany and Spain, which are expected to announce donations over

the course of 2024. The Partnership aims to mobilise much-needed donor resources for the sustainable blue economy, which will include a variety of activities to support healthy marine and freshwater ecosystems. These may include wastewater treatment, plastic pollution prevention, sustainable tourism and aquaculture, and coastal resilience, among other things.

The BMP will promote the Sustainable Blue Economy Finance Principles, the world's first global guiding framework to ensure the alignment of investments with United Nations Sustainable Development Goal 14 on "life below water". It will also help to deliver the 2021 UfM Ministerial Declaration on Sustainable Blue Economy.



The Bank expects to see significant learning and evolution in nature finance and policy over 2024. For the EBRD, 2024 will be a year of exploration, in which the Bank will progress on the three pillars outlined in this approach. By piloting new approaches and working closely with clients, political leaders, donors and knowledge partners, the Bank will uncover the scale of the opportunity to deliver impact for nature within its mandate.

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