INTERNATIONAL DEVELOPMENT ASSOCIATION'S TWENTIETH REPLENISHMENT MID-TERM REVIEW:

NOTE ON NATURE FINANCE TRACKING METHODOLOGY

IDA Participants requested that the World Bank develop a "methodology to identify, monitor, and track nature-positive World Bank investments in support of biodiversity and ecosystems services," in line with the increased support for nature in the IDA20 special focus on green, climate-friendly development. By developing a robust inputs-based approach for identifying Nature Positive Finance within a broader Nature Finance umbrella, the methodology aims to capture contributions to nature and to the implementation of the Kunming-Montreal Global Biodiversity Framework (KMGBF) in a systematic manner and in a way that is tailored to the development context. The technical approach entails screening projects after Board approval with a combination of a taxonomy and process-based approach.

The new direction of the World Bank's corporate results strategy emerging from the Evolution process emphasizes a more outcome-oriented approach rather than input-based measures. As part of this process, the World Bank is currently developing a new Corporate Scorecard to help track outcomes in line with its renewed vision and mission. Scorecard indicators will be also embedded in the Global Challenge Programs, including on forests, nature, and biodiversity. Learning from the evolving approach to tracking Climate Finance, a shift towards outcomes-based tracking in Nature Finance is envisaged to measure impact better. Nevertheless, the methodology outlined in this note provides a feasible starting point to comprehensively identify the full breadth of the World Bank's interventions, including critical efforts to mainstream nature across sectors, in support of the implementation of the KMGBF. Further guidance will need to be developed ahead of operationalization.

I. INTRODUCTION

1. **Under an overarching theme of *"Building Back Better from the Crisis – Toward a Green, Resilient and Inclusive Future",*** the 20th Replenishment of the International Development Association (IDA20) has stepped up support to client countries in overcoming their most pressing challenges, including climate change and nature loss. The IDA20 special focus on accelerating *green, climate-friendly development* is scaling up financing for climate action, nature-based solutions, and biodiversity. In addition to direct support, IDA20 includes a commitment to develop by mid-term review (MTR) a "methodology to identify, monitor, and track nature-positive World Bank investments in support of biodiversity and ecosystems services."[1]

2. **The increased focus on nature comes in response to analysis that shows the global biodiversity crisis poses serious risks to development and climate goals**. Nature—understood as biodiversity and the services provided by healthy ecosystems—is in unprecedented decline,

[1] This is one of two notes on tracking finance presented at IDA20 MTR. In parallel to this methodology, the IDA20 MTR will consider a note on crisis preparedness financing, which responds to the IDA20 commitment to track such finance under a cross-cutting theme of crisis preparedness and building resilience.

threatening the global economy, and jeopardizing hard-won development gains and putting at risk the attainment of green, resilient, and inclusive development. Nature provides a lifeline to the poorest communities, particularly in coastal areas and near forests, buffering them from extreme climatic events and satisfying essential needs, including the provision of nutritious food, biomass for energy, medicine, and basic raw materials, ensuring a basic safety net and contributing directly to poverty alleviation and livelihoods. Nature also supports hundreds of millions of jobs directly in the forestry, fisheries, and nature-based tourism sectors. Natural ecosystems also serve as critically important carbon sinks, making them essential for achieving global climate goals.

3. **The World Bank (IBRD/IDA, IFC, and MIGA) is one of the leading global financiers of nature supporting the implementation of the Kunming-Montreal Global Biodiversity Framework (KMGBF)**. The World Bank's broad, cross-sectoral portfolio is mainstreaming nature considerations into economic policy, development programs, and strategic sectoral investments across regions. IDA20 is helping scale up support for conserving and sustainably managing the natural assets that underpin jobs, health, livelihoods, and food security in the poorest countries. IDA20 is scaling up integrated and sustainable management of forests, and watersheds, as well as freshwater, coastal and marine ecosystems, and promoting nature smart policies and nature-based solutions. This contributes directly to implementation of many targets and goals of the KMGBF, notably the 2050 Vision and 2030 Mission—the broad ambition to halt and reverse nature loss by 2030, with a view to full recovery by 2050[2] (referred to as the "nature positive goal" in this note).

4. **This note presents a technical methodology for identifying and tracking finance supporting nature, in line with the IDA20 MTR commitment** and as part of implementation of the *Joint MDB Statement on Nature, People and Planet,* signed at COP-26 of the United Nations Framework Convention on Climate Change. The methodology is an outcome of a cross-World Bank collaboration spanning a range of IBRD/IDA sectors and practices, and IFC and MIGA.[3] The methodology aims to identify investments supporting nature and the implementation of the KMGBF systematically, and to contribute to the emerging discussions and efforts among Multilateral Development Banks (MDBs) to identify nature positive investments.

II. DEVELOPMENT OF THE TECHNICAL METHODOLOGY

5. **The purpose of the methodology is to identify the volume of committed finance[4] that supports the nature positive goal embodied in the KMGBF.** It has been designed as an input-based measure to be applied and adapted to IBRD/IDA, IFC and MIGA projects after Board approval to identify those investments that contribute to achieving the KMGBF. In doing so, the methodology can provide entry points for different sectors to incorporate more nature positive investments and practices. Measurement of actual impact of projects on nature following their

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2 The vision of the Global Biodiversity Framework is a world of living in harmony with nature where by 2050, biodiversity is valued, conserved, restored, and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people (*Convention on Biological Diversity 2022*).

3 The methodology has been developed with technical support from The Biodiversity Consultancy.

4 This includes financial support for any country, or public or private sector entity, including through guarantees and client-oriented advisory services (see Annex 2 for details).

implementation is beyond the scope of the present approach. The methodology is built around the principles of conservativeness and transparency, among others (see Annex 1).

6. **The technical approach consists of**: (A) the Nature Finance Framework, which sets the conceptual framing; and (B) the methodology to apply the Framework to projects in a consistent manner.

A. The Nature Finance Framework

7. **Nature Finance is defined as finance contributing to the nature positive goal of halting and reversing nature loss and supporting the implementation of the KMGBF 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;[5]

c. Integration of nature-based solutions across economic sectors;[6] and

d. Design and implementation of policy, tools, or other sectoral instruments enabling (a) to (c).

8. **Nature Finance captures the broad range of transformative actions that need to take place to achieve the nature positive goal,** including: (i) delivering measurable positive gains for nature; and (ii) enabling a broader transition of economic activity away from harmful practices that are driving nature loss toward those aligned with the goal, by mainstreaming nature considerations into policies and investments. 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 (Figure 1):

i. *Nature Positive Finance* is finance that is expected to deliver measurable positive outcomes for biodiversity or ecosystem services, relative to business-as-usual; and

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5 The five direct man-made drivers of biodiversity and ecosystem services loss are land and sea use change, overexploitation, climate change, pollution, and invasive species (*IPBES 2019*). Finance that generates climate change mitigation or adaptation benefits is generally ineligible under this methodology, except if it has targeted benefits for biodiversity and ecosystem services beyond addressing climate change as the driver of nature loss.

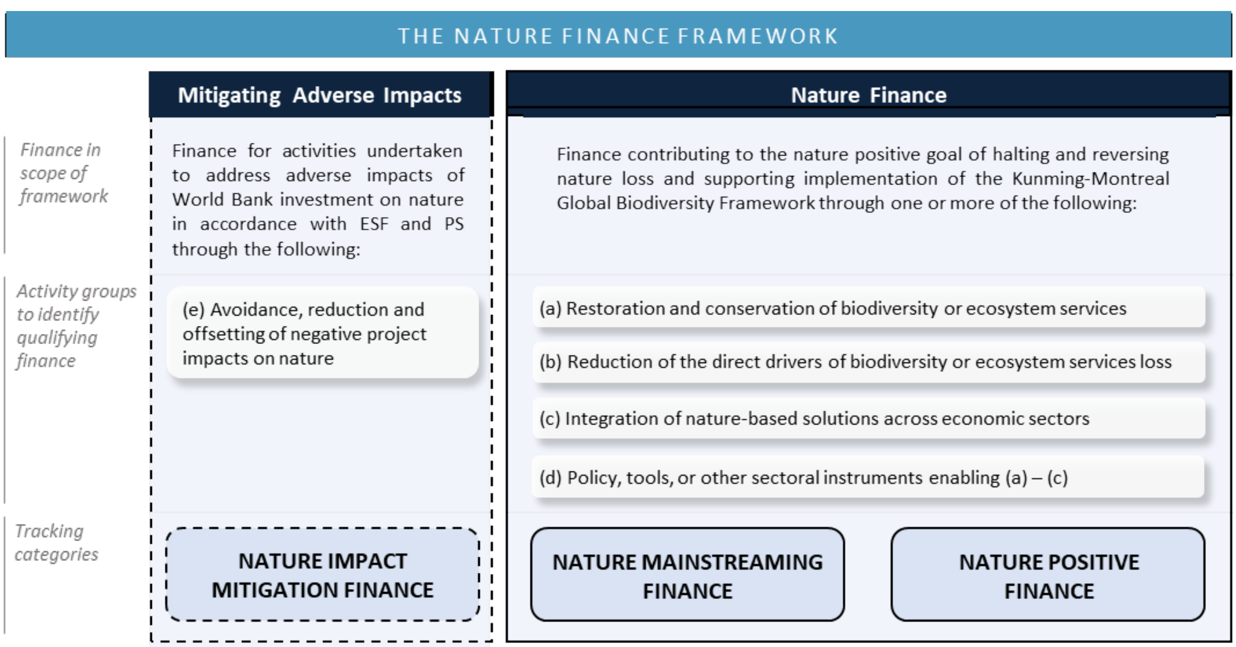
6 Nature-based solutions are actions to protect, conserve, restore, sustainably use and manage […] ecosystems which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services, resilience and biodiversity benefits (*UN Environment Assembly 2022*). In this methodology, (c) is designed to capture nature-based solutions such as green or blue infrastructure – investments in mangroves, wetlands, and watersheds, which enhance the performance of (or substitute) traditional gray infrastructure in areas such as flood protection, water resource management, and protection of built assets from geohazard risks. It also incorporates agroecological approaches for integrated pest management or water conservation, among many other approaches across sectors.

ii. *Nature Mainstreaming Finance* is finance that is expected to enable a broader economic transition toward practices aligned with delivering the nature positive goal.

9. **In addition, all World Bank investment operations are implemented in accordance with the Environmental and Social Framework (ESF), and IFC and MIGA Environmental and Social Performance Standards (PS).**[7] The ESF and PS set out the requirements for the World Bank Borrowers and Clients relating to the identification, assessment, and management of environmental and social risks and impacts associated with projects and investments. The holistic and robust approach to managing biodiversity risks and impacts is therefore an important part of the trajectory toward nature positive.

10. **To capture the activities and associated finance intended solely to ensure compliance with the ESF and PS through the application of the mitigation hierarchy**, **the Framework incorporates a third category of finance: Nature Impact Mitigation Finance**.[8] Unlike Nature Mainstreaming Finance and Nature Positive Finance, both of which capture value addition for nature, this category represents finance directed strictly at identifying, evaluating, and managing any potential adverse risks and impacts of projects on nature, in accordance with the ESF and PS. This category is not included under the definition of Nature Finance, which is designed to capture activities that go beyond ESF/PS compliance. It is also not included in the methodology presented in this note.

Figure 1. Overview of the Nature Finance Framework



Source: World Bank

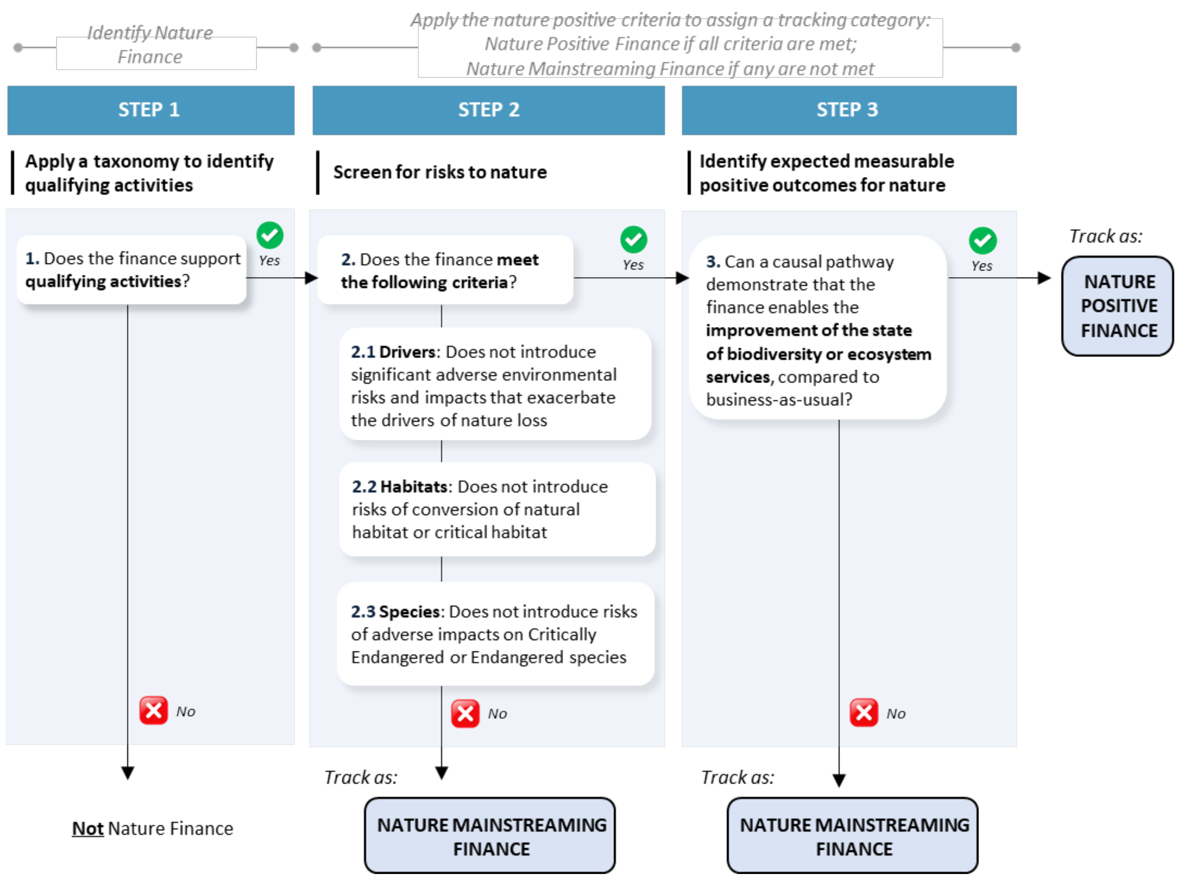
[7] IBRD/IDA *Environmental and Social Framework (ESF); IFC* and *MIGA* Performance Standards on Environmental and Social Sustainability. The ESF applies to Investment Project Financing; it does not apply to Development Policy Financing or Program-for-Results Financing.

[8] Some instruments, such as Program-for-Results Financing, which are outside of the scope of the ESF, may also contain Nature Impact Mitigation Finance.

B. Methodology to Assess Nature Finance

11. **The methodology encompasses a combination of a taxonomy and a process-based approach** (Figure 2). The methodology identifies projects that contain relevant activities qualifying as Nature Finance, and subsequently assigns an appropriate Nature Finance category to the relevant portion of finance: Nature Mainstreaming Finance or Nature Positive Finance. The assessment follows three steps: (Step 1) applying a taxonomy to identify qualifying activities in each sector with respect to the four activity groups (a) to (d); (Step 2) screening for project risks to nature including activities that may inadvertently increase the drivers of biodiversity loss; and (Step 3) identifying measurable positive outcomes for nature (see Annex 2 for further details). The goal of Steps 2 and 3 is to differentiate Nature Positive Finance from Nature Mainstreaming Finance.

Figure 2. Process to Assess Nature Finance



Source: World Bank.

12. **The purpose of Step 1 is to identify activities that could be eligible as Nature Finance**. It uses a taxonomy of eligible activities developed for key sectors (and subsectors) deemed to have the greatest proven potential to contribute positively to biodiversity and ecosystem services through activity groups (a) to (d). These sectors include: agriculture, fishing, and forestry; energy and extractives; financial sector; industry, trade and services; transportation; water, sanitation, and

waste management; and renewable natural resources management; and urban development and disaster risk management.

13. **The purpose of Step 2 is to screen for potential adverse risks to and impacts on nature**. The emerging global consensus is that Nature Positive Finance should deliver measurable positive gains for nature and should not cause significant harm to living and non-living components of nature (e.g., air, land, water). Step 2 demonstrates alignment with this consensus and applies a conservative approach by assessing whether finance potentially qualifies as Nature Positive by fulfilling the following criteria: (i) does not introduce significant adverse risks to or impacts on nature that exacerbate the direct drivers of nature loss; (ii) does not introduce risks of conversion of natural habitat or critical habitat; and (iii) does not introduce risks of adverse impacts on Critically Endangered or Endangered species. Where any of these criteria are not met, finance is tracked as Nature Mainstreaming Finance. While this category may not meet all the Nature Positive criteria, it is nevertheless critical for the achievement of the nature-positive goal.

14. **The purpose of Step 3 is to assess whether finance is expected to deliver a meaningful and measurable positive contribution to nature outcomes and could therefore be tagged as Nature Positive Finance**. In keeping with emerging stakeholder expectations around the definition of Nature Positive Finance and the conservative design principle, this step identifies and documents a clear causal pathway demonstrating how the finance is expected to enable improvement in the state of biodiversity or ecosystem services compared with business-as-usual. Box 1 summarizes all the nature positive criteria. Figure 3 provides illustrative examples.

Box 1. Summary of the Nature Positive Criteria

Nature Finance can be tracked as Nature Positive Finance where it meets all of the following eligibility criteria:

1. Does not introduce significant adverse environmental risks and impacts that exacerbate the direct drivers of nature loss;
2. Does not introduce risks of conversion of natural habitat or critical habitat;
3. Does not introduce risks of adverse impacts on Critically Endangered or Endangered species;
4. There is a clear causal pathway with measurable indicator(s) to demonstrate positive outcomes for biodiversity or ecosystem services.

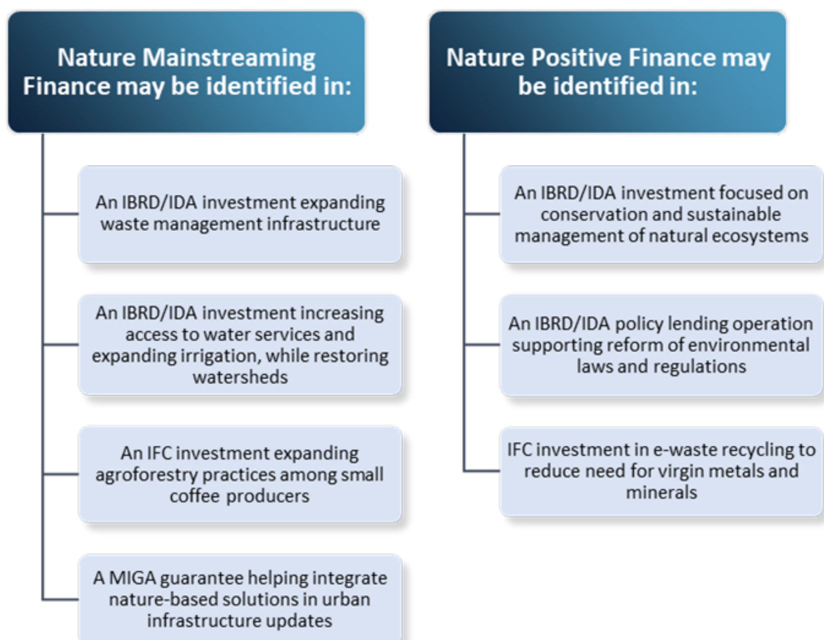
Where any of these criteria are not met, but activities are eligible for Nature Finance, as evidenced in relevant project documentation and the taxonomy, finance is tracked as Nature Mainstreaming Finance. For further detail, see Annex 2.

15. **The Nature Finance Framework and the methodology for applying it to projects aim to balance technical rigor and practical considerations**. The approach is aligned with stakeholder expectations, including the emerging MDB common principles for tracking Nature Positive Finance. By building in Nature Mainstreaming Finance, a severely under-reported category of investments, the approach also captures nature investments that are embedded in broader operations focusing on other development objectives and may not meet the nature positive criteria, but that address the drivers of nature loss by steering the economic sectors that depend – or have an impact – on nature towards sustainable practices, and away from business-as-usual. The

process to identify relevant finance across these multiple tracking categories embeds technical rigor and the precautionary principle of conservative assessment and reporting, while also taking into consideration operational processes and the need for flexibility to adapt it to the broad range of instruments that IBRD/IDA, IFC and MIGA offer. The methodology leverages existing processes to assess environmental risks of projects as part of the application of the ESF and PS.

16. **Synergies and overlaps with the existing Climate Finance methodologies are also considered.** The Nature Finance taxonomy incorporates and highlights relevant activities qualifying for climate mitigation finance under the Common MDB Principles for Climate Mitigation Finance Tracking.[9] Some activities will contribute as Climate Finance (mitigation or adaptation) and Nature Finance. The methodology assumes that investments supporting climate change mitigation or adaptation are eligible as Nature Finance if they demonstrate targeted benefits for biodiversity or ecosystem services beyond addressing climate change as the driver of nature loss. For example, a renewable energy investment expanding solar or wind power would be considered Paris-aligned and qualify as Climate Finance, but it would not directly benefit nature and would not qualify as Nature Finance, unless it incorporates nature-based solutions or other qualifying activities under this Framework. In contrast, forest conservation benefits not only climate but also nature goals and could be reported as Climate Finance and Nature Finance.

Figure 3. Illustrative Examples



Source: World Bank. Note: The examples presented are for illustration purposes only; classification of finance in projects as Nature Mainstreaming or Nature Positive Finance follows a robust assessment process and tracking categories are assigned on a case-by-case basis.

[9] *Common MDB Principles for Climate Mitigation Finance Tracking*

III. ADDITIONAL CONSIDERATIONS

17. **As noted earlier, this technical methodology has been developed in accordance with the IDA20 MTR commitment, providing a new approach to identify Nature Finance comprehensively and transparently in a development context.** However, the new direction of the World Bank's corporate results strategy emerging from the Evolution process emphasizes a more outcome-oriented approach rather than input-based measures. As part of this process, the World Bank is currently developing a new Corporate Scorecard to help track outcomes in line with its renewed vision and mission. Scorecard indicators will be embedded in the Global Challenge Programs, including on forests, nature, and biodiversity. Learning from the evolving approach to tracking Climate Finance, a shift towards outcomes-based tracking in Nature Finance is envisaged to be able to measure impact better. Nevertheless, the methodology outlined in this note, while subject to the inherent limitations of input-based tracking, provides a feasible starting point to comprehensively identify the full breadth of the World Bank's interventions, including critical efforts to mainstream nature across sectors, in support of the implementation of the KMGBF. With the initial technical approach now developed, the next step will be to prepare for its operationalization, including by developing additional guidance and conducting further testing.

ANNEX 1. PRINCIPLES FOR TRACKING NATURE FINANCE

1. **The methodology has been designed around the following principles,** developed in line with emerging discussions among MDBs on tracking nature positive investments[10] and the Common Principles for Climate (Mitigation and Adaptation) Finance adopted by all MDBs to ensure consistency between the finance tracking methods and to allow for comparability across financial flows:

a. *Inputs-based tracking:* The methodology is designed to track inputs or expected contributions to improved biodiversity or ecosystem services outcomes, but not *ex-post* actual impacts.

b. *Conservative assessment:* Adopting a precautionary approach, when there is reasonable doubt or incomplete data to conclude whether an activity or component is eligible to be tracked as Nature Finance, including Nature Positive Finance, it is preferable to under-report rather than over-report Nature Finance, to ensure technical rigor and integrity of the assessment.

c. *Clear reporting of Climate Finance and Nature Finance:* It is important to identify and tag finance that qualifies as both Nature Finance and Climate Finance (mitigation or adaptation) in a transparent manner.

d. *Consistency across institutions and instruments:* While the application of the framework is designed to be adapted to the specificity of each World Bank institution and instruments within scope of the methodology, finance should be tracked consistently using a common set of criteria.

e. *Transparency*: Results and assumptions used in applying the methodology to projects should be documented transparently for auditability.

f. *Granularity:* Assessment should be done at the greatest level of project disaggregation feasible.

[10] *IDB (2022) Options for Considering Nature-positive Finance Tracking and Taxonomy*

ANNEX 2. TECHNICAL OVERVIEW OF THE NATURE FINANCE METHODOLOGY

1. The Nature Finance Framework and the associated methodology are designed to be applied to a diverse range of lending and policy operations. For IBRD/IDA, this could include Investment Project Financing, Development Policy Lending and Program-for-Results Financing; for IFC, any Direct Investments in the real sector and client-related advisory engagements, among others; and for MIGA this could apply to guarantees for various types of financial instruments (e.g., shareholder and non-shareholder loans, equity, and swaps, among others). While the scope of this framework is designed to cover various project, corporate, policy and program financing operations, the term ‘project’ is used in this Annex as a general, shorthand term to refer to any discrete financing operation or a guarantee within scope.

2. This Annex outlines the technical approach developed to identify Nature Finance and assign it to the tracking categories of Nature Positive Finance and Nature Mainstreaming Finance, in accordance with the Nature Finance Framework. The methodology comprises three steps: (Step 1) a taxonomy to identify qualifying activities; (Step 2) screening for risks to nature; and (Step 3) identifying and documenting intended measurable positive outcomes. Step 1 involves applying a taxonomy of activities that qualify as Nature Finance, while Steps 2 and 3 follow a process-based approach and decision tree to assign Nature Finance to Nature Mainstreaming and Nature Positive categories (see Figure A2.1 for details).

3. The methodology presented in this note has been refined through testing carried out on a sample of active and pipeline IBRD/IDA projects spanning different sectors and instruments, as well as a range of IFC and MIGA projects. The methodology has been designed to be applied to projects with information available at Board approval stage. More detailed guidance would need to be developed prior to operationalization.

A. STEP 1: Identify Qualifying Activities

4. Assessors use a taxonomy of qualifying activities (positive list) to identify Nature Finance[11]. The assessor reviews the Project Appraisal Document (PAD) or equivalent documentation to identify relevant activities[12] that could qualify as Nature Finance and cross-checks them against the list of qualifying activities in the taxonomy arranged by activity groups (a) – (d). If the project’s activities are not captured in the taxonomy, the assessment ends and no Nature Finance is assigned.

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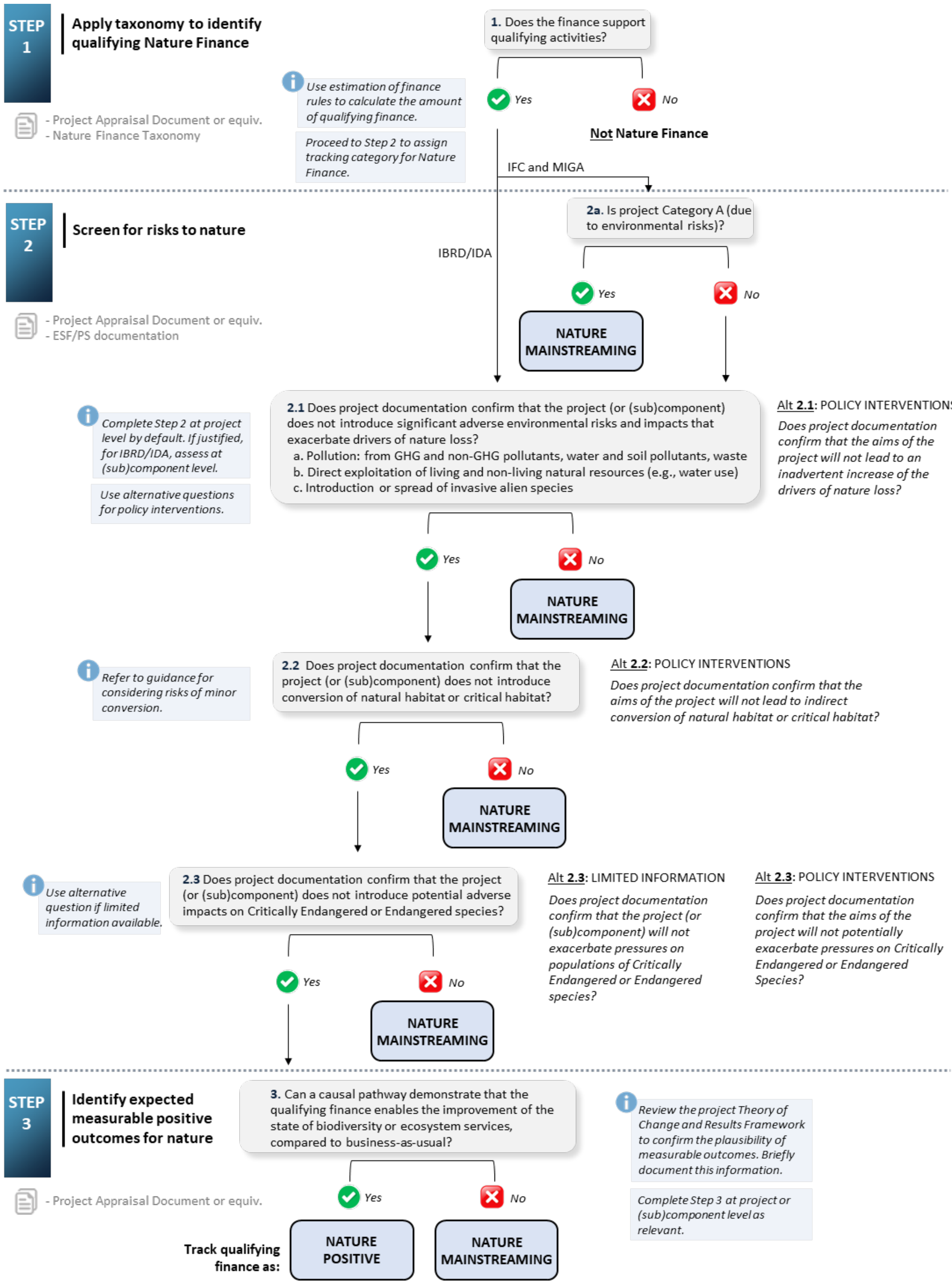
11 For sectors not included in the taxonomy or not fully covered by the cross-cutting themes, assessors would use a case-by-case assessment to confirm the positive contribution of activities to nature.

12 In IBRD/IDA investment operations involving a framework approach, where sub-projects and activities may not be fully defined at Board approval stage, the assessment should consider (conservatively) whether the types of planned sub-projects align with activity groups (a) to (d). ‘Activities’ here also refers to policy-based interventions and other interventions within the scope of this methodology.

Figure A2.1. Methodology for Nature Mainstreaming Finance and Nature Positive Finance



5. An initial taxonomy of qualifying activities has been developed for 13 subsectors and two cross-cutting themes[13] deemed to have the greatest proven potential to contribute positively to biodiversity and ecosystem services, and arrest and reverse nature loss. This taxonomy includes tables for key sectors (agriculture, fishing, and forestry; energy and extractives; financial sector; industry, trade, and services; transportation; water, sanitation, and waste management), cross-cutting themes (renewable natural resources asset management; urban development and disaster risk management), and for general policy, tools or other sectoral instruments relevant to all sectors, as shown in Table A2.1.

Table A2.1. List of Sectors and Cross-cutting Themes in the Nature Finance Taxonomy

Sector	Subsector / Theme
Agriculture, fishing, and forestry	Crops
	Forestry
	Fisheries
	Irrigation and drainage
	Livestock
Energy and extractives	Mining
	Renewable energy – geothermal, biomass, hydro, solar, wind
Financial sector	Financial sector
Industry, trade and services	Tourism
Transportation	Ports / waterways
Water, sanitation, and waste management	Waste management
	Water supply
	Sanitation
Cross-cutting themes	Renewable natural resources asset management
	Urban development and disaster risk management
Activity group (d): policy, tools, or other sectoral instruments	All subsectors / themes

Source: World Bank.

6. Each table in the taxonomy lists activities that qualify as Nature Finance (either Nature Mainstreaming Finance or Nature Positive Finance, depending on whether the nature positive criteria are met), arranged by the four 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) policy, tools, or other sectoral instruments enabling (a) to (c).

7. Under activity group (b), the qualifying activities address the following drivers of nature loss: land and sea use change, pollution, direct exploitation of natural resources, and invasive species. Activities that support climate change mitigation or adaptation are eligible as Nature Finance, if they demonstrate targeted benefits for biodiversity or ecosystem services beyond mitigating climate change as a driver of nature loss. For example, adding renewable energy – solar, wind, or hydro – capacity, to transition to clean energy would not qualify as Nature Finance unless it demonstrates targeted benefits for biodiversity or ecosystem services, through incorporation of

[13] Aligning to current World Bank sector and theme code taxonomy and definitions where possible.

nature-based solutions or integration of additional conservation and restoration initiatives that go beyond ESF/PS compliance.

8. To capture the targeted benefits for nature arising from climate action, the taxonomy incorporates relevant activities identified as climate mitigation finance by MDBs,[14] facilitating easier identification of activities that could be tagged as both Climate Finance and Nature Finance. In addition, the taxonomy incorporates relevant activities from the IFC Biodiversity Finance Reference Guide[15] to ensure interoperability.

9. The taxonomy is not exhaustive in terms of the range of sectors and qualifying activities included. For the identified sectors, activities with potential positive gains for biodiversity or ecosystem services but with limited proof of concept or associated with a high risk to nature have not been included. Other sectors not currently detailed in the taxonomy could also have activities eligible as Nature Finance. These activities would need to be assessed on a case-by-case basis as identified in projects.

10. The taxonomy is a positive list of activities that add value to nature and qualify as Nature Mainstreaming Finance and potentially as Nature Positive Finance if certain criteria are met. It is not intended to apply to activities undertaken solely as a compliance requirement to meet World Bank environmental and social standards. This means that if an activity is listed in the taxonomy but is included in a project to meet ESF/PS requirements, it is not eligible as Nature Finance. For example, if an offset is required as part of compliance with ESF/PS, even if the goal is net gains, it is not eligible as Nature Finance. Finance where the intent is to meet compliance requirements is to be identified separately under the Nature Impact Mitigation Finance category. If uncertain, the assessor should apply a precautionary approach and not include the activity and its associated cost as Nature Finance.

11. If qualifying Nature Finance is found, the assessor proceeds to Step 2 to determine if it should be identified as Nature Mainstreaming Finance or Nature Positive Finance.[16]

B. STEP 2: Screening for Risks to Nature

12. In Step 2, the assessor uses available project documentation to assess three criteria for Nature Positive Finance that screen for potential adverse impacts or risks to living and non-living nature.[17] These provide assurance that finance reported as nature positive is not associated with significant harm to any component of nature or to significant biodiversity values, aligning to emerging global consensus on criteria for nature positive investment.

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14 *Common MDB Principles for Climate Mitigation Finance Tracking*

15 *IFC (2023) Biodiversity Finance Reference Guide*

16 While some activities may be eligible as Nature Finance with contributions to the implementation of the KMGBF, assessors need to be cognizant that some aspects of a project may result in adverse impacts to nature and therefore require mitigation to meet ESF/PS requirements (intended to be tracked under the Nature Impact Mitigation category).

17 The non-living components of nature include air, land, and water.

13. Step 2 is designed to be applied by default at the project level. For IBRD/IDA, in some situations, this step could be applied at component or (sub)component level. The methodology acknowledges the complexity of the IBRD/IDA portfolio, and that direct nature conservation and restoration activities are often incorporated within larger, multi-sectoral operations, reflecting the Bank's overall approach to mainstreaming nature across sectors. Therefore, for large projects with multiple discreet objectives and a defined nature investment component, the assessment could be applied at (sub)component level as justified.

14. To complete Step 2, the assessor follows a decision tree adapted for different instruments and institutions, as described generally below and summarized in Figure 1. The project documents that may be useful include the PAD or equivalent, Environmental and Social Review Summary (ESRS), Environmental and Social Management Framework (ESMF), Environmental and Social Systems Assessment (ESSA), Environmental and Social Impact Assessment (ESIA), Environmental and Social Risk Assessment and Review (ESRAM), Environmental and Social due diligence reports, Feasibility Studies, and others. The assessment particularly considers documentation related to Environmental and Social Standard (ESS) 3 / Performance Standard (PS) 3 on Resource Efficiency and Pollution Prevention and Management, and ESS6 / PS6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources.

i. Step 2.1: Drivers of Nature Loss

15. The first criterion is to confirm that finance tracked as Nature Positive Finance does not introduce[18] significant adverse environmental risks and impacts[19] that may exacerbate the direct drivers of nature loss.

16. For IFC and MIGA, the project's risk categorization is used in Step 2a to automatically assign qualifying finance from projects with an Environmental and Social Risk Categorization rating of Category A (based on environmental risks) to Nature Mainstreaming Finance. Only finance from IFC and MIGA projects that do not have a Category A rating proceeds to the specific assessment in Step 2.1. For IBRD/IDA, the specific assessment below is applicable to all projects.

17. The specific assessment considers how the project interacts with some of the direct drivers of nature loss,[20] and whether the finance may exacerbate these pressures:(a) pollution: from greenhouse gas (GHG) and non-GHG pollutants, water and soil pollutants, waste; (b) direct exploitation of living and non-living natural resources (e.g., water use); and (c) introduction or spread of invasive alien species. If project documentation confirms that such risks and impacts are not expected to be significant,[21] the assessor proceeds to Step 2.2. Otherwise, the assessment ends and qualifying finance is tracked as Nature Mainstreaming Finance.

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[18] The term does not introduce is practically interpreted as not identified as material in project documentation or adverse risks and impacts are identified in the project documentation but not considered significant.

[19] The term significant adverse environmental risks and impacts follows definitions of the ESF/PS as applicable.

[20] Risks of exacerbating global climate change are not included as they are assessed through the World Bank's Paris Alignment process. Risks of exacerbating the driver of land and sea use change are covered by Step 2.2.

[21] For IFC and MIGA, as finance from projects with significant environmental risks (Category A) would have already been assigned to Nature Mainstreaming Finance in Step 2a (a step specific to IFC and MIGA), Step 2.1 is used for Category B projects to assess if there are particular aspects of the project that exacerbate the drivers of nature loss due to the inherent risk of the sector and/or contextual risks associated with the project.

18. For policy interventions, the assessor considers whether the aims of the project could lead to an inadvertent increase of the direct drivers of nature loss.

ii. Step 2.2: Natural Habitat and Critical Habitat

19. The second criterion is to confirm that finance tracked as Nature Positive Finance does not introduce risks of conversion[22] of natural habitat or critical habitat,[23] which also captures the driver of land and sea use change. If project documentation confirms that there is no expected conversion of natural habitat or critical habitat, the assessor continues to Step 2.3. Otherwise, the assessment ends and qualifying finance is tracked as Nature Mainstreaming Finance.

20. In practice, direct restoration and conservation activities may at times need to accommodate minimal levels of conversion to facilitate optimal conservation outcomes.[24] In addition, activities supporting other development or environmental objectives may involve minimal levels of conversion that are not material to nature and may otherwise qualify for Nature Positive Finance. To accommodate these scenarios, minor conversion is not considered as conversion if: (a) it is a small area in absolute terms (e.g., no more than a few hectares) and relative to the area in question (e.g., no more than a small proportion of the site); and (b) it does not significantly affect the biodiversity values of affected natural ecosystems or the services and values they provide to people.

21. For policy interventions, the assessor considers whether the aims of the project could lead to indirect conversion of natural habitat or critical habitat.

iii. Step 2.3: Critically Endangered and Endangered Species

22. The third criterion is to confirm that finance tracked as Nature Positive Finance does not introduce risks of adverse impacts on Critically Endangered or Endangered[25] species. If project documentation confirms that there are no risks of adverse impacts, the assessor continues to Step 3. Otherwise, the assessment ends and qualifying finance is tracked as Nature Mainstreaming Finance. In cases of limited information, the assessor can consider the intentionality of qualifying activities and how they interact with pressures on these species as a proxy.

23. For policy interventions, the assessor considers whether the aims of the project could potentially exacerbate pressures on Critically Endangered or Endangered species based on the intentionality of the qualifying activities.

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22 The term conversion includes significant degradation.
23 Critical habitat and natural habitat follow definitions of ESS6/PS6 (whichever is applicable).
24 For example, the establishment of a new protected area typically involves the establishment of at least basic infrastructure for rangers to effectively manage the area to protect its biodiversity values.
25 As listed in the Global IUCN Red List of Threatened Species.

C. STEP 3: Identifying Expected Measurable Positive Outcomes

24. Step 3 involves identifying one or more causal pathways and indicators for qualifying activities, based on project documentation. This is the fourth criterion for Nature Positive Finance, to confirm the plausibility of positive and measurable outcomes for biodiversity or ecosystem services by documenting a clear pathway demonstrating how the finance will enable improvement in the state of biodiversity or ecosystem services compared with the business-as-usual.

25. Nature Positive Finance is tracked after Board approval, based on expected positive outcomes for biodiversity or ecosystem services. To have confidence that positive outcomes are likely, the causal pathway and means of measurement should be clearly defined and justified through an auditable track of information.

26. Step 3 is designed to be applied at the project or (sub)component level as relevant, typically applied at the same level as Step 2.

27. In this step the assessor refers to summaries of the project's theory of change or other relevant documentation. The assessor summarizes the justification and rationale for strong causality between the qualifying finance and the expected enhancement of biodiversity or ecosystem services. This should include a description of the business-as-usual (i.e., the current state of practices in the relevant sector and the expected trajectory of biodiversity or ecosystem services in the absence of the investment) and any factors that may influence expected outcomes as relevant (e.g., social, economic, and/or political risks). The assessor confirms how financed activities are expected to make a meaningful or substantive contribution to nature and result in positive outcomes.

28. The assessor checks the project's results framework or equivalent for a suitable indicator(s) for monitoring biodiversity or ecosystem services outcomes[26] from the interventions and notes this indicator(s) as part of the rationale paragraph[27].

29. Where there is a clear causal pathway, the committed finance can be tracked as Nature Positive Finance. Otherwise, the qualifying finance is tracked as Nature Mainstreaming Finance.

30. When sufficient information is not available in project documentation to definitively answer Step 2 or Step 3, the assessor should apply a precautionary approach and track the qualifying finance as Nature Mainstreaming Finance.

[26] This would include, as relevant, indicators for measuring outcomes from policy-related interventions.

[27] While measurement of actual impacts of projects on nature is beyond the scope of this methodology, it is good practice to monitor outcomes during and/or after project implementation.

D. Estimating Relevant Finance

31. The methodology provides a set of guiding rules[28] for quantifying the portion of a project identified as Nature Finance (either Nature Mainstreaming Finance or Nature Positive Finance). Estimation of the relevant investment amount based on project documents available at Board approval is made conservatively and at the highest level of project disaggregation feasible. The following guiding rules, adapted from climate mitigation finance tracking, are designed for IBRD/IDA investment projects (and can be tailored to other instruments such as policy-based lending, as well as IFC and MIGA investments, client-oriented advisory, and guarantees):

a. If all activities under a (sub)component qualify, 100 percent of the (sub)component can be assigned as Nature Finance.

b. If only some activities qualify in a (sub)component and the precise budget allocation for these activities is available, this granular information is used to assign Nature Finance.

c. If only some activities qualify in a (sub)component and the precise budget allocation for these activities is not available, financing is assumed to be divided equally across all activities described.

d. In scenarios (b) and (c), the project management component is discounted proportionately.

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[28] The guiding rules for estimating the share of Nature Finance in project components are aligned with the Climate Finance tracking approach for coherent reporting.