

Technical Cooperation Document

I. Basic Information for the TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Natural Capital Lab: Mainstreaming Biodiversity and Financial Innovation
▪ TC Number:	RG-T3728
▪ Team Leader/Members:	Watson, Gregory (CSD/CSD) Team Leader; Acosta Stevenson, Keyla Yaritzel (CSD/CSD); Almeida Oleas, Natalia (LEG/SGO); Dequech Neto, Napoleao (CSD/CSD); Marinho, Isabella (CSD/CSD); Santa Pena, Camilo Andres (CSD/CSD); Silva Zuniga, Mariana Carolina (CSD/CCS); Vizeu Pinheiro, Maria (CSD/RND)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	16 Jun 2020.
▪ Beneficiary:	Regional
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Sustainability(SUS)
▪ IDB Funding Requested:	US\$270,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	12 months
▪ Required start date:	11/1/2020
▪ Types of consultants:	Individuals, Firms
▪ Prepared by Unit:	CSD-Climate Change and Sustainable Development Sector
▪ Unit of Disbursement Responsibility:	CSD-Climate Change and Sustainable Development Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Environmental sustainability; Productivity and innovation

II. Objective and Justification

- 2.1 The Natural Capital Lab is an environmental and economic sustainability-focused initiative launched in 2019 by the IDB Group to drive innovation on sustainable use and conservation of natural ecosystems and biodiversity across land and oceans. Established within the Climate Change and Sustainable Development Division (CSD) of the Inter-American Development Bank (IDB), as a joint venture with IDB Lab, it is designed to serve as a one-stop shop for the IDBG to drive innovation and bridge the gap between traditional environmental and financial actors from the public and private sectors to incubate, accelerate, and scale new solutions to pressing problems. Given that the solutions to many natural capital problems are cross-cutting, it pursues an agenda of projects with all parts of the IDBG (IDB, IDB Invest, IDB Lab), in addition to its own projects, knowledge, and strategic partnerships.
- 2.2 The objective of this technical cooperation is to continue to build upon the work undertaken by the NCL through its work with IDB departments and from the operation RG-T3415, and to

upscale this work by generating the necessary knowledge and activities required for to more formally mainstream biodiversity¹ within the LAC region and across its economic sectors that are represented by IDB's departments.

- 2.3 The Natural Capital Lab has been successful in its first two years of operations demonstrating an impact by developing new financial products, supporting countries in policy reform and development of new products, and in creating internal and external partnerships and networks. It currently is working on a portfolio of projects with IDB Lab, CMF, RND, CCS, INE, WSA, and IDB Invest.
- 2.4 The operation RG-T3415 was key to achieve this successful start by enabling the Lab to generate knowledge and capacity to support the design and implementation of several of these interventions, financed through resources committed by the governments of France and the UK and the Global Environment Facility (GEF).
- 2.5 Specifically, this includes (i) support to building the pipeline of operations financed by the French Natural Capital Lab fund that includes initial operations in Peru and Colombia that are focused on structuring bioeconomy funds, biodiversity bank models and integrating biodiversity in cities; (ii) support to the management and implementation of the Blue Carbon Facility jointly with CCS that provides approximately \$18 million for projects monitoring and restoring Blue Carbon Sinks; (iii) help in developing the GEF Islands Incubator (RG-O1674) as an incubator to promote public and private sector investments the sustainable management of chemicals and waste in the Caribbean and (iv) active support to the IDB working group that is designed the strategy to implement the Pacific Alliance Plastics Pact.
- 2.6 The Natural Capital Lab through RG-T3415 also developed a range of knowledge products that, in combination with the other activities, supported the reasoning to begin dialogue with countries to mainstream biodiversity into economic planning, serving as a foundation to inform the components and activities proposed by this technical corporation. The activities financed thus far included the organization of a Finance Ministerial Meeting to debate the importance of biodiversity integration in LAC's economic growth plans during the UNFCCC Pre-COP in Costa Rica and the preparation of key studies such as the economic valuation of reef ecosystems in the MAR Region and a feasibility study on coastal natural capital in Central America.
- 2.7 The research and knowledge products developed, and the NCL's partnership with the UK Dasgupta Review on the Economics of Biodiversity and with the Convention on Biological Diversity's mainstreaming and finance working groups have generated not only knowledge and innovative solutions but also a significant demand from our clients to implement similar actions. At the same time, the Vice President for Sectors recently set a goal to develop a mainstreaming plan for several different social and environmental areas, including Natural Capital. These factors have led the NCL to determine that a broader and more systematic approach to mainstreaming Biodiversity is needed.
- 2.8 Therefore, this TC will support the challenge to develop a scientific evidence based approach for biodiversity mainstreaming, both by directly supporting the implementation mechanism for mainstreaming and also by developing additional models and case studies to make the value case to internal and external clients on the impact of nature as an asset. The NCL aims to create knowledge products and support cutting-edge activities across both private and public sectors, along with governmental actors of its member countries where programs and products support biodiversity targeted development for countries central planning.
- 2.9 This approach will be developed in the context of a new socio-economic reality because of the

¹ Mainstreaming of biodiversity is defined by the Convention of Biological Diversity (CBD) as "as ensuring that biodiversity, and the services it provides, are appropriately and adequately factored into policies and practices that rely and have an impact on it" (CBD, 2019).

health crisis and economic consequences in the region. The mainstreaming process of biodiversity in national planning will take into consideration the current economic recovery needs and its related challenges. The knowledge acquired so far demonstrates the vital role of biodiversity for economic growth and encourages the expansion of biodiversity mainstreaming independent as an integral part of the COVID-19 recovery and stimulus².

- 2.10 The IDB's Sector Framework Document (SFD) on Environment and Biodiversity (2018) highlights the Bank's regional commitment as "supports sustainable development by integrating biodiversity and ecosystem services into economic sectors, promoting means to a clean environment, and mainstreaming and applying sustainability criteria in all IDB financing sectors investments." This SFD draws success lessons and outcomes from the Bank's history in mainstreaming of environmental components in its sectoral operations and project cycles. To improve institutional capacity and the mainstreaming of biodiversity and natural capital, the IDB works closely with national and subnational authorities to develop instruments that foster collaboration, policy dialogue and implementation.
- 2.11 This TC is aligned with the Second Update to the Institutional Strategy (AB-3190-2), that has at its center the focus to mitigate climate change and secure environmental sustainability in the LAC region and the challenge of innovation and productivity. It seeks to help countries innovate in using natural capital to enhance productivity and livelihoods through research into new models. In addition, this TC aligns with IDB Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy (GN-2609-1) "the promotion of policy options to increase climate change resilience in cities; and, the adoption of ecosystem-based practices to improve adaptive capacity in terrestrial and coastal environments", per Bank policy Ordinary Capital Strategic Development Programs (GN-2819-1).
- 2.12 This TC aligns with SUS by accelerating the efforts to mainstream biodiversity across the bank's operations while improving access to knowledge to strengthen the institutional, technical and financial capacity of the Bank and its clients to be better prepared to preserve and sustainably use natural resources.
- 2.13 Lastly, this TC has the objective to endorse and is in alignment with the Bank's Corporate Results Framework 2020-2023 (CRF) (GN-2727-6), which sets out indicators and time-bound targets that allow for evidence-based monitoring of the implementation of the Institutional Strategy. Directly this TC will support the relevant indicators to innovation, knowledge creation and dissemination of products, and all-Natural Capital Lab projects will directly support 'Beneficiaries of improved management and sustainable use of natural capital', to "constantly seek better development solutions, applying lessons learned from our work and others"³, among others⁴.

III. Description of Activities and Outputs

- 3.1 This TC is planned to support the mainstreaming of biodiversity into key economic sectors and policy planning of IDB member countries and external clients through consultations, knowledge generation and dissemination, including the design of innovative financial and technological pilot models and methodologies⁵. All knowledge products derived from this TC will remain the Bank's intellectual property. The TC will be structured in three main components; (i) Mainstream Biodiversity in key economic sectors and national development planning (ii) Research and development of new financial models and instruments applied to biodiversity and (iii) Publication and dissemination of results and knowledge obtained through all relevant NCL's interventions.
- 3.2 **Component 1. Mainstream Biodiversity in key economic sectors and national development planning (US\$140,000).** The initial activities of the operation RG-T3415 through the Natural

² <https://blogs.iadb.org/sostenibilidad/en/can-nature-support-a-green-and-inclusive-economic-recovery/>.

³ Second Update to the Institutional Strategy (AB-3190-2)

https://publications.iadb.org/publications/english/document/Second_Update_to_the_Institutional_Strategy_Summary.pdf

⁴ Others as Proportion of terrestrial and marine areas protected, (GN-2727-6).

⁵ Disclosure: The resources used from this TC will not be complementing Bank Sector Budgets.

Capital Lab have generated fundamental knowledge to construct the investment thesis around biodiversity and natural capital. The NCL has raised attention on the economic and fiscal consequences of inaction on biodiversity loss, while outlining viable policies, mechanisms, and instruments to develop biodiversity finance pathways at scale. The demand for biodiversity mainstreaming has been created. This component will finance activities that are required to design a biodiversity mainstreaming strategy within IDB countries and departments as well as with external parties. Departments will be included in the mainstreaming strategy based on demand and areas where there is the highest probability of initial results.

- 3.3 Activities will include (i) supporting the CBD mainstreaming agenda by financing a multi-stakeholder policy dialogue to discuss how to integrate natural capital into planning; (ii) financing capacity building activities within Ministries of Finance to integrate biodiversity into planning (iii) developing knowledge products for key economic sectors such as bioeconomy and countries of the Amazon Region; (iv) financing one study within a client country through the Bank's Housing and Urban Development (HUD) division to identify the opportunities of biodiversity mainstreaming and design the related action plan for the integration of natural capital into operations or policy planning in cities.
- 3.4 **Component 2. Research and development of new financial models and instruments (US\$100,000).** The operation RG-T3415 revealed significant interest from clients to develop new financial models and instruments that could support them to manage natural capital as an asset and not as a cost. The funds under this component will continue to finance individual studies to (i) generate knowledge on proposed natural capital solutions focused in enhancing biodiversity; (ii) support project preparation to deploy Natural Capital Lab resources; (iii) test and incubate new financial, methodological, and business models; and (iv) carry out studies on specific issues in natural capital trading and finance. Activities will include: (i) studies and work to develop new financial instruments to be tested by the Natural Capital Lab and its partners such as the design a special purpose investment vehicle (SPV) to attract approximately USD \$200M to invest in bioeconomy across the Jaguar corridor in Meso America⁶; (ii) the creation of cost-effective methodologies and tools to develop specific nature-based solutions (NBS) in infrastructure⁷; (iii) assessment study on the links between biodiversity and urban areas. These knowledge products will not be academic exercises, they will be used in applied cases to open new areas of work with clients, prove new concepts, or provide initial diagnosis of a problem.⁸
- 3.5 **Component 3. Publication and dissemination of results and knowledge obtained through NCL's interventions (US\$ 30.000)** The NCL is demonstrating to be a unique source of knowledge for the region. The innovative and pioneer work conducted by the NCL with IDB Group departments is generating models and programmatic approaches which can be systematized and generalized for broader use. However, to achieve this, better stored, managed and transferred. The objective of this component is to compile and prepare the knowledge and lessons learned generated by the NCL so far and define how to communicate it to strategic audience. The activities under this component include: (i) design of a knowledge storage system; (ii) design of communication channels to strategic clients and partners; (iii) NCL workshop in Washington DC to showcase investment opportunities on biodiversity and natural capital; (iv) participation in knowledge sharing events⁹.

⁶ This consultancy may be sole-sourced to Atmosclear, Inc. as it will require contracting a firm with proprietary intellectual property on the topic, and as a continuance of work in a joint effort with AFD, who has already funded a firm to develop the intellectual basis for the work.

⁷ These tools will build upon methodologies such as TEEB (the Economics of Ecosystems and Biodiversity), the IDB integrated Economic-Environmental Modelling Framework, and others.

⁸ For example, the Natural Capital Lab has demand from clients to assist in the development of master plans for innovative finance for national parks combining traditional sources of funding (user fees, tourism) with new untested payment for ecosystem service models, and more experimental bonds or equity offerings. Funds could be used to support the modeling and conceptualization of this new financing scheme. Similarly, demand has been noted for assistance in modeling public/private insurance products wherein natural assets are insured as components of resilience.

⁹ A minimal amount of the TC, less than 4% of the total, may be allocated for consultant and staff participation in knowledge sharing events related to the deliverables of this TC.

Indicative Budget (US\$)

Activity/Component Description	IDB/Fund	Counterpart	Total
Comp. 1. Mainstream biodiversity in key sectors	140,000	0	140,000
Comp. 2. Research of financial models.	100,000	0	100,000
Comp. 3. Dissemination of the knowledge obtained	30,000	0	30,000
Total	270,000	0	270,000

IV. Executing Agency and Execution Structure

- 4.1 The TC will be executed by the CSD/CSD and is classified as Research and Dissemination.
- 4.2 The Sector Specialist responsible for the Natural Capital Lab will be responsible for the execution of this TC, in coordination with the Natural Capital Lab team and in constant collaboration with other IDBG staff from different sectors, including IDB Invest and IDB Lab.
- 4.3 Given the nature of this operation and the cutting-edge orientation of the deliverables to be developed, in particular the internal mainstreaming work, the IDB will act as the executing agency. Its regional coverage will require to manage and foster possible synergies and complementarities with Bank operations and research programs. CSD/CSD will coordinate with other departments and divisions and establish partnerships with academia, private sector actors, and governments to achieve these goals. Given that the Natural Capital Lab within CSD is raising funds from donors for natural capital initiatives, it may co-finance some activities with these funding sources, as appropriate.
- 4.4 As the executing agency, the IDB will follow its procurement policies and guidelines related to hiring processes: (i) individual consultants will be hired in accordance with the guidelines set out in policy AM-650; (ii) consulting firms of an intellectual nature only will be hired in accordance with the "Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work" (GN2765-4) and its related Operational Guidelines (OP-1155-4).
- 4.5 No formal evaluation will be undertaken, and monitoring will occur based on the documentation generated. Once the TC is completed, the project team will prepare a report with the lessons learned.

V. Project Risks and Issues

- 5.1 The project is vulnerable to adverse shifts in the international capital market, which may reduce investor appetite for financial instruments, although recent developments in the market, including the announcement of a new Natural Capital fund by HSBC, have demonstrated that interest in this segment is increasing.
- 5.2 The following risks have been identified in the context of this operation:
- 5.3 A risk associated with the international capital markets (low). Financial operations are always vulnerable towards adverse shifts in the international capital market but sustainable financial products have shown to be resilient compared to traditional investments; ii) The NCL team will use its expertise to identify sectors where sustainable investing could better perform under the current economic scenario.
- 5.4 COVID-19 also represents a low risk factor, which will impact:
 - a. Project implementation: Implementation timelines will be revised under the guidance of IDB's risk management tools; ii) Virtual meetings with consultancy firms and beneficiaries are now used in all IDB operations; iii) Commitments from counterparts in complying with deadlines still in place iv) Feedback from beneficiaries will be constantly required to verify the need for changes and actions in the implementation phase; v) Project activities that are less likely to require physical exposure to social contacts will be prioritized during social distancing periods;

vi) Project activities that result in social contacting are less essential and inevitable to be implemented in the short term will follow IDB's guidance on health safety and will receive the necessary precautions.

- b. Project communications: IDB has been prepared for Teleworking for the last 3 years, all employees have access to tools to guarantee continuity of activities; ii) Virtual meetings with consultancy firms and individual consultants and beneficiaries are in place; iii) Online tools as one drive and drop box are available to work on documents, exchanges; iv) Trainings, workshops and events to be held virtual through Teams and Webinars; v) Trainings that are focused on people who might not have access to internet will be postponed if social distancing is still in place in the recipient country
- c. The approval process at the IDB: IDB Operations are not affected by Teleworking. IDB approval of Project Cycle is still in place following IDB policy and procedures (including timeline) for Eligibility, Virtual QRR and Approval, and availability of resources.

VI. Exceptions to Bank policy

- 6.1 There are no exceptions to bank policy involved in this operation.

VII. Environmental and Social Classification

- 7.1 According to the Environment and Safeguards Compliance Policy of the Bank (OP703), the operation has been classified as Category "C", meaning that no environmental assessment studies or consultations are required for this category.

[Results Matrix_5232.pdf](#)

[Terms of Reference_90113.pdf](#)

[Procurement Plan_96252.pdf](#)

[TC Document - Disclosure_57026.pdf](#)