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RESEARCH ARTICLE

# Catching up with climate priorities: Understanding multilateral development banks' evolving approach to biodiversity

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## Abstract

A global consensus now recognises biodiversity as equal to climate change in its importance to sustainable development. While multilateral development banks (MDBs) have developed a strong emphasis on climate change, how do they approach biodiversity as a new priority? Current literature on MDBs' approach to climate change is prolific, but scholarship on biodiversity is scarce. Here, we compare MDBs' climate and biodiversity efforts in order to identify differences, analyze causes, and ultimately propose ways for MDBs to prioritise biodiversity. Methodologically, we analyze MDB documents in the form of policies, high-level announcements, and strategies, in order to compare climate change and biodiversity across five aspects: Financing, policy, strategy, client requirements, and environmental reporting. Subsequently, we apply automated text analysis to examine mentions of climate change and biodiversity in annual reports. Focusing on the 10 largest MDBs, we find that across all five aspects, MDBs' prioritisation of biodiversity lags far behind that of climate change. From that, we recommend that biodiversity be prioritised by MDBs in three ways: By adopting an integrated strategic approach to environmental issues that goes beyond climate, by not only addressing biodiversity through safeguards but also through labeled projects, and by assigning targets as proportions of total financing.

## 1 | ELEVATING BIODIVERSITY IN MULTILATERAL DEVELOPMENT BANKS

Over the last decade, climate change has become a core issue across multilateral development banks (MBDs) (2021). As we gradually see a global consensus that biodiversity is equally critical to a sustainable future, MDBs face pressure to expand biodiversity finance (WWF & The Biodiversity Consultancy, 2021). For example, at COP 26 in Glasgow in 2021, 10 MDBs signed a Joint Statement on Nature, People, and Planet, recognising the critical role of nature for sustainable development, and claiming to have "mainstreamed environmental sustainability considerations, including nature, into all our policies and operations" (2021). This suggests that MDBs' biodiversity efforts should already be prioritised in a similar way to what is being done for climate change. To shed light on this issue and the state of biodiversity finance in MDBs, we compare MDBs' approaches to climate change and biodiversity.

Current literature focuses on how biodiversity is addressed by MDBs through safeguards (Narain et al., 2020), or on attempts to estimate the total financing need (Deutz et al., 2020). Other related literature on MDBs focuses on their potential to contribute to sustainable development more broadly (Larsen, 2018) or on the role of MDBs in climate finance (Michaelowa et al., 2020; Steffen & Schmidt, 2019). Research examining MDBs' policies as the foundation for their ability to contribute to

biodiversity finance and, thus, nature-positive development is sparse. Situated within and drawing from this literature, our contribution is to improve our understanding of MDBs' biodiversity governance and to assess differences between MDBs' biodiversity and climate change approaches.

We find that biodiversity lags far behind climate change across MDBs in terms of financing, policy, strategy, client requirements, and environmental reporting. First, climate finance makes up an increasing proportion of MDB financing with clear absolute and relative financial commitments, while biodiversity finance is rarely measured and labeled. Second, MDB policies are explicit about alignment with the Paris agreement, with less strong commitments to biodiversity, mostly in the form of do-no-harm policies or weak nature-positive policies. Third, strategies for addressing climate change are clear and concrete while strategies on biodiversity are weaker and less directly implementable. Fourth, due to the different nature of the two issues, climate change safeguards primarily take the form of labeled lists for excluded and encouraged projects, while biodiversity safeguards are upheld as minimum performance standards and environmental impact assessments. Fifth, while MDBs have clear standards and frequency in climate reporting no common standard or reporting exists for biodiversity. Finally, we find that climate-related terms are mentioned more frequently in MDBs' annual reports indicating a stronger prioritisation of climate change compared to biodiversity. We find that a key explanation for the discrepancy is the differing characteristics of climate and biodiversity projects, where the latter is made up of projects like solar and wind farms which have clear revenue streams. However, that the approaches need to be different does not suggest that MDBs have less of a role to play in biodiversity finance. We recommend that biodiversity be prioritised by MDBs in three ways: Through an integrated strategic approach to environmental issues that go beyond climate, by not only addressing biodiversity through safeguards but also through labeled projects, and by assigning targets as proportions of total financing.

The paper is structured as follows. After this introduction, the literature on the role of MDBs in climate change and biodiversity finance is reviewed and discussed to situate and clarify our contribution. Next, the methods section elaborates on the data collected and how it is used. After that, a three-part analysis compares 10 MDBs across strategy, safeguards, and financing. Subsequently, we discuss the underlying reasons for the differences and provide recommendations on how to improve MDB biodiversity financing. The final section concludes the paper and suggests further research.

**Policy Implications**

- Biodiversity should be part of an integrated strategic approach to environmental issues that go beyond climate. This means greater integration of biodiversity and climate ambitions beyond the current levels. As climate issues continue to be prioritised by MDBs, tying biodiversity to this can increase its emphasis. For example, where the analysis above shows a clear split between climate and biodiversity in policy and strategy documents, integrating the two can help biodiversity become less long-term and abstract and more short-term and concrete.
- Biodiversity should not only be addressed through safeguards but also be addressed labelled projects. Becoming a project category of its own provides a prerequisite for targeted efforts rather than addressing biodiversity as a co-benefit of achieving other objectives. However, this is made difficult by the lack of revenue-stream mentioned above. Such labelling should not be exclusive by labelling projects as either contributing to climate or biodiversity but should allow for projects to be labelled as both at the same time.
- Based on the above recommendations of integration and labelling, MDBs should assign financing targets to biodiversity. This can be carried out in the same way as for climate finance today, including short- and medium-term targets, annual disclosure on progress towards targets and justification for how targets are in line with the Glasgow commitments. Ultimately, these three recommendations allow biodiversity to become a central priority within a short time frame rather than undergo the same gradual prioritisation trajectory over 20 years as seen with climate change.

## 2 | THE LIMITED LITERATURE ON MDB'S APPROACH TO BIODIVERSITY

MDBs, as well as various national and sub-national development banks, have an exclusive policy mandate of providing development finance, that is, finance for development projects in emerging economies (Xu et al., 2020). More than 533 development banks (and other Development Finance Institutions) that exist globally (Institute of New Structural Economics (INSE) & Agence Francaise de Developpement (AFD), 2023) boast US$

23 trillion in aggregated total assets and contribute US$ 2.2. trillion in financing annually (accounting for more than 10% of total global investment).

Development projects can trigger various environmental externalities, including air emissions, water pollution, hydrological and topographical damage, soil contamination and erosion, and destruction of biodiversity (Coffin, 2007; Laurance et al., 2015; Sidle et al., 2014). Failure to pre-empt and address the adverse environmental impacts of projects can result in a range of physical, regulatory, financial, and reputational risks for project developers that often spill over to project financiers (Bauer & Hann, 2010). These risks usually begin with pushback from environmental groups or local communities, often translating into litigation or regulatory action that leads to project delays, cost overruns, and even project closure (World Economic Forum, 2019; World Resources Institute, 2013). Climate-related financial risks can manifest in the form of physical or transitional risks (Gambhir et al., 2022). Physical risks can result either from extreme weather events such as droughts, floods, and wildfires or from changes in weather patterns, such as rising mean temperatures, which can lead to physical damage to assets or disruptions in supply chains. Transitional risks can result from changes in policy, technology, or market trends stemming from a shift to a low-carbon economy and triggering increased costs of compliance, cost of technology transition, and changing consumer preferences (IADB, 2021). Financial institutions may, in turn, face loan defaults, stranded assets, as well as reputational damage (Mulder & Koellner, 2011). There is, therefore, a clear case for financiers to put in place robust risk management frameworks.

All MDBs follow extensive due diligence processes for assessment of the potential adverse impacts of proposed projects on the environment in order to aid the decision on whether they will finance the project, as well as for stipulating the requirements of environmental impact mitigation and management that the financed projects must adhere to. These requirements, laid out in the banks' environmental and social standards, involve the application of a mitigation hierarchy which allows for sequentially avoiding, minimising, remediating, and offsetting impacts. The most prominent examples of these include the World Bank's Environmental and Social Standards (ESSs) and IFC's Performance Standards (PSs). The World Bank, for example, requires borrowers to conduct an environmental assessment of the proposed project as per the ESS1. This also involves extensive stakeholder consultations, particularly with affected communities, indigenous peoples, and community organisations. The conditions for approval of financing, such as adhering to the ESS, are set out in the Environmental and Social Commitment Plan (ESCP). The World Bank is also responsible for monitoring the environmental and social performance of a project in accordance with the ESCP and the ESSs. Other MDBs and most other bilateral development banks have similar due diligence processes and environmental safeguard requirements (Narain et al. 2023). Most MDBs have also released an Environmental and Social Management System (ESMS) that offers a set of processes and systems for the implementation of the environmental standards. Preliminary due diligence by development banks can also take the form of exclusion lists that prohibit development banks from financing specific damaging activities (e.g., commercial logging in primary tropical moist forests) (Gallagher & Yuan, 2017). Most MDBs have dedicated standards dealing with biodiversity conservation and climate change, for example, World Bank's ESS 6 and IFC's PS 6, respectively, which lay down the requirements for biodiversity impact mitigation, and World Bank's ESS 3 and IFC's PS 3 which stipulate requirements for greenhouse gas emission reduction (IFC, 2012). Most MDBs have also made commitments to align their lending operations with the Paris Agreement (The World Bank, 2018) and have developed detailed frameworks that offer methodological principles to inform and facilitate alignment.

In addition to managing their adverse environmental impacts (greening finance), MDBs have strengthened their ambitions to provide financing with environmentally positive outcomes since the 1980s when the World Bank started to enact more stringent environmental and social frameworks, later known as Environmental and Social Safeguards. Early frameworks focused on ensuring MDB (particularly the World Bank Group) financing does no harm to biodiversity (Dann & Riegner, 2019), and moved to active protection and rehabilitation of nature in the 1990s when the World Bank took a leading role in the Global Environment Facility (GEF). GEF was established in 1990 by 22 participating countries to be implemented by the World Bank, the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). At the time, GEF was seen as “the most important indication of a shift in policies in the UN agencies and the World Bank to incorporate environmental concerns into development perspective (…) based on the increased emphasis on environmental protection” (Gan, 1993).

However, with climate change becoming a more pressing concern, the emphasis on environmental considerations in global finance standards shifted from biodiversity toward climate (Nedopil et al., 2021), and in particular climate change mitigation rather than adaptation (Lee & Han, 2020). Joint commitments to deliver climate change action at scale (African Development Bank (AfDB) et al., 2015) and specific targets for various MDBs to mobilise billions of USD for addressing climate change have been set as a consequence of the Paris Agreement in 2015. MDBs are seen as one of the main financiers in emerging economies to address climate change utilising the theory of change that MDBs through their high credit ratings and direct funding by their developed

country members can raise funds relatively cheaply and provide patient and affordable funding for high-risk sectors and economies, as well as through co-financing to catalyze commercial funding (Gebel et al., 2022). Given this ability, MDBs can play a key role in developing sustainable financing tools and steering private capital to where the positive development impact is greatest (Subhanij et al., 2019). For example, MDBs played a key role in developing the market for green bonds (Teer & Larsen, 2019). Similarly, MDBs have been developing an increasingly holistic climate finance governance system consisting of strategies, policies, measurements, and reporting (IFC, 2015b; Mendez & Houghton, 2020).

While these "greening finance" measures have been put in place for climate finance, development banks have largely neglected biodiversity-positive financing (financing of projects that result in biodiversity conservation and restoration)—despite the head start with the GEF. As per OECD data, multilateral and bilateral development banks invest only about US$ 4–10 billion a year in biodiversity-positive finance annually (OECD, 2020). At the same time, the global biodiversity finance gap is pegged at US$ 700 billion annually (Deutz et al., 2020). In contrast, the climate finance from MDBs is about five to ten times higher: In 2021, eight key MDBs, including the World Bank, ADB, AfDB, IDB, EIB, EBRD, AIIB, and IsDB, committed $50.666 billion in mitigation and adaptation finance to low-income and middle-income economies (ADB, 2022b).

Amidst the increasing urgency to scale up biodiversity finance, MDBs are potentially again uniquely positioned to play a central role in support. They must do so to meet the 2022 UN Convention on Biological Diversity's (2022) Global Biodiversity Framework (GBF), which calls for biodiversity financing from all sources to increase to at least US$ 200 billion per year by 2030, to fulfill the agreed-upon goals of bringing biodiversity loss close to zero by 2030 and to restore nature with net improvements by 2050. Just as in the case of climate finance, multilateral, bilateral, as well as national and sub-national development banks are uniquely positioned to remove the barriers to private involvement given their experience in long-term financing, superior fund-raising capabilities, their convening power, and their familiarity with local markets, investment needs, and private players (Smallridge et al., 2012). They can also stimulate demand for biodiversity-positive investments, acting as match-makers between sources of finance and providers of investible projects (WWF & The Biodiversity Consultancy, 2021).

Despite the growing need for development finance to address biodiversity, scholarly examination of how the two intersect is limited, and it is focused mainly on the "greening finance" measures that development banks have adopted. A handful of studies have examined the coverage of biodiversity-related provisions within the Environmental and Social Safeguards Systems of MDBs (e.g., Gallagher & Yuan, 2017; Himberg, 2015), and a few others have focused on examining whether World Bank safeguards have been effective or not (Buchanan et al., 2018). Literature, academic as well as gray, focused on "financing green" for biodiversity and nature is often confined to the relative financial flows from development banks (e.g., Deutz et al., 2020; Mulder et al., 2021). There are no studies that discuss the commitments, policy, strategy, clients, reporting on biodiversity finance by MDBs, and what MDBs could potentially apply from their experiences in scaling climate finance.

## 3 | METHODOLOGY AND SOURCES

To analyze MDBs' approaches to biodiversity finance and compare them to their approaches to climate finance, we build a framework of two pillars: First, a qualitative analysis of key components of MDBs' ESMSs based on official sources, and, second, a quantitative analysis of the language on climate and biodiversity in the MDBs' annual reports.

First, we analyze and compare how biodiversity and climate considerations are integrated into the environmental and social management systems (ESMS) of MDBs. We adopt IFC's ESMS framework (IFC, 2015a) (see Figure 1), which builds the four foundations of an ESMS: policy, strategy, client requirements, and reporting. As the standard-setter for environmental impact management for financial institutions (Mendez & Houghton, 2020), IFC's ESMS framework has been applied across global public and commercial financial institutions and thus can serve as a benchmark for MDB's own implementation of ESMS (Nedopil et al., 2021).

From the IFC ESMS, we draw out five components to structure the analysis: First, the financial commitments toward biodiversity or climate, as considered a manifestation of the implementation of policies. Second, the policies themselves, referring to board-approved

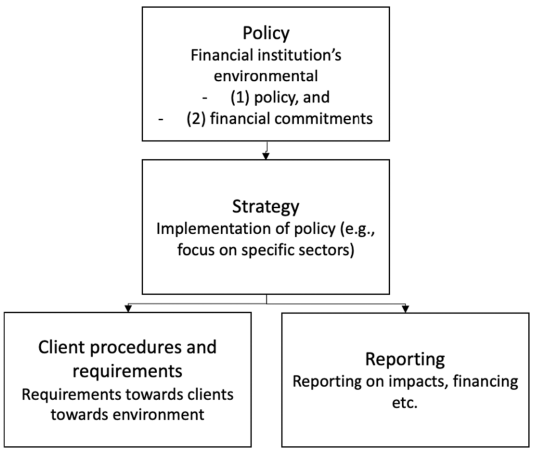


**FIGURE 1** Components of an environmental (and social) management system (ESMS) (based on IFC, 2015b).

documents, that set the longer term and high-level top-down framework that impacts all operations of the MDB. Third, the strategies, which supports the policy and can include environmental standards to accelerate the specific type of projects or engage in specific sectors. Here, we focus on board-approved documents with clear relevance for the whole organisation while avoiding drawing conclusions from single investment programs of MDBs. Fourth, client procedures and requirements, which support the evaluation of projects by the clients and implement specific requirements in project design (e.g., based on performance standards as well as environmental and social standards). Fifth, reporting, which includes standards on reporting on impacts, financing, and environmental (and social) performance.

Based on this framework, we analyze annual reports, strategies, high-level announcements, and policy documents (e.g., safeguards, environmental and social standards) of the 10 largest (by total assets) MDBs, nine of which are also included in the "Joint Report on Multilateral Development Bank's Climate Finance" and are signatories of the MDB Joint Nature Statement in Glasgow (2021) (the exception being New Development Bank) (Table 1).

We evaluate how both biodiversity and climate considerations are integrated top-down into strategy and policy, how MDBs report on climate and biodiversity, which requirements MDBs set for their clients for addressing environmental impacts, and what current and future financing has been made available for biodiversity and climate. Data were manually extracted from annual reports, joint reports, top leadership-approved published announcements (e.g., on future financing), board-approved policies (e.g., safeguards), strategy documents, and financial reporting statements. For current financing for climate, we base our analysis on the Joint Report on Multilateral Development Bank's Climate Finance (African Development Bank (AfDB), 2022) and annual reports (e.g., as NDB is not part of the joint reporting). For future commitments, we focus on top-leadership statements and other published high-level announcements. The analysis is based on this extensive dataset, with the tables of each analytical component summarising and referring to the key texts of the dataset.

As a second step, we quantitatively analyze the prevalence of climate and biodiversity-related language by MDBs as measured in their annual reports. We adopt advancements in quantitative text mining and statistical analysis of unstructured text data. This research design builds on previous studies of standards that used qualitative approaches exclusively (Narain et al., 2020), such as interviews, observations, and mechanisms-based theorising based on authors' subjective opinions (e.g., Reinecke et al., 2012) or "constant comparison" (e.g., Slager et al., 2012). The aim of the quantitative analysis using word count and relative frequency is to reduce such interpretations of context to be more "neutral." We believe that the contextual dimension of action on biodiversity and climate protection is best qualitatively analyzed from policy or safeguard documents, as we do in the first step. Thus, the results of the quantitative text analyses of annual reports focus on highlighting the evolution of the frequency of these words. Ultimately, our intention is that the qualitative first step and quantitative second step cumulatively allow for a comprehensive understanding.

Although still nascent in management literature, text mining methodologies have been used to examine trends in sustainability reports and corporate disclosure (Aureli et al., 2016; Nedopil et al., 2021). Our quantitative analysis allows us to analyze their relative prioritisation. We apply automated text analysis of MDBs' annual reports from 2015 to 2020 for various keywords and evaluate the relative frequency and trends. As a data input, we use English language annual reports, even if annual reports were available in multiple languages. For EIB in 2015 and 2016, we use

**TABLE 1** Multilateral development banks included in the paper.

| Multilateral development Bank (MDB) abbreviation | MDB full name | Member of "joint report on multilateral development Bank's climate finance | Signatory of MDB joint nature statement (2021), Glasgow |
|---|---|---|---|
| ADB | Asian Development Bank | Yes | Yes |
| AfDB | African Development Bank | Yes | Yes |
| AIIB | Asian Infrastructure and Investment Bank | Yes | Yes |
| EBRD | European Bank for Reconstruction and Development | Yes | Yes |
| EIB | European Investment Bank | Yes | Yes |
| IADB | Inter-American Development Bank | Yes | Yes |
| IFC | International Finance Corporation | Yes | Yes |
| IsDB | Islamic Development Bank | Yes | Yes |
| NDB | New Development Bank | No | No |
| WBG | World Bank | Yes | Yes |

**TABLE 2** Current (2020) financing for climate and biodiversity.

| MDB | Climate finance in billion USD (percent of the portfolio) | Biodiversity finance in billion USD (percent of the portfolio) |
|---|---|---|
| ADB | 5.3 (16%) (The Asian Development Bank, 2022b) | No information |
| AfDB | 2.095 (34%) (African Development Bank, 2021) | 0.379 (African Development Bank, 2020) |
| AIIB | 1.2 (12%) (Asian Infrastructure Investment Bank, 2020a) | No information |
| EBRD | 3.86 (28%) (EBRD, 2023) | No information[a] |
| EIB | 27.86 (37%) (European Investment Bank, 2021) | No information |
| IADB | 3.43 (18%) (Inter-American Development Bank, 2021b) | No information |
| IFC | 3.9 (32%) (IFC, 2021b) | No information |
| IsDB | 0.26 (15%) (Islamic Development Bank, 2020a) | No information |
| NDB | 0.816 (19%) (Multilateral Development Banks, 2021) | No information |
| WBG | 21.4 (28%) (The World Bank, 2020) | 1.18 (in aggregate) (The World Bank, 2021) |

[a]EBRD reports about EUR 250 million in financing for the blue economy, but it is not specified in which time frame the money was invested, nor is the blue economy equivalent to biodiversity (e.g., EBRD includes solid waste treatment, ports and harbor expansions into blue economy) (European Bank for Reconstruction and Development (EBRD), 2022).

**TABLE 3** Committed future financing for climate and biodiversity (in addition to Joint MDB Statement on Nature, People, and Planet).

| MDB | Climate finance | Biodiversity finance |
|---|---|---|
| ADB | USD 100 billion between 2019 and 2030 (75% of operations by 2030) (The Asian Development Bank, 2022b) | No information |
| AfDB | USD 25 billion between 2021 and 2025 (African Development Bank, 2021) | Increase grant funding for activities related to biodiversity |
| AIIB | 50% of total financing approvals by 2025 (Asian Infrastructure Investment Bank, 2021b) | No information |
| EBRD | 50% of total financing approvals by 2025 (EBRD, 2020) | No information |
| EIB | USD1 trillion by 2030, 50% of total financing approvals by 2025 (European Investment Bank, 2020a) | No information |
| IADB | 25% climate and green finance by 2025 (Inter-American Development Bank, 2021c) | 25% climate and green finance by 2025 (Inter-American Development Bank, 2021c) |
| IFC | 35% of total financing approvals between 2021 and 2025 (IFC, 2021a) | No information |
| IsDB | 35% of total financing approvals by 2025 (Islamic Development Bank, 2020a) | No information |
| NDB | 40% of its total financing approvals between 2022 and 2026 (New Development Bank, 2022) | No information |
| WBG | 35% of total financing approvals by 2025 (World Bank Group, 2021) | No information |

both reports applicable to operations inside and outside the European Union. The keywords used for text analysis were "climate," "emission*," and "carbon" for climate and "biodiversity," "nature," and "conservation" for biodiversity, while we manually filtered out topics unrelated to biodiversity in "nature" (e.g., "the nature of the relationship") and similarly for climate (e.g., "investment climate"). To experiment with different keywords, we initially ran the statistics using more search terms than listed here and in the analysis below, but the results did not change. Apart from "ecosystem*," most alternative terms are not mentioned more than once in the annual reports. The term "ecosystem*" regularly referred to economic, social or political ecosystems rather than the ecological system and is consequently not representative of biodiversity.

## 4 | ANALYSIS: COMPARING MDBs CLIMATE AND BIODIVERSITY MANAGEMENT SYSTEMS

In the first qualitative step of the analysis, we compare MDBs' announced and committed climate and biodiversity finance management systems. This includes financing, policy, strategy, requirements for clients, and reporting.

### 4.1 | Financing

As the following tables show, most MDBs have reported (Table 2) and committed to (Table 3) varying amounts of climate finance. Current climate financing ranges between

**TABLE 4** Policies on biodiversity and climate finance.

| MDB | Climate finance | Biodiversity finance |
|---|---|---|
| ADB | **Clear policy (Paris alignment):** All sovereign and 85% non-sovereign operations must be Paris aligned by July 2023, 100% of non-sovereign by July 2025 (The Asian Development Bank, 2018) | **Weak nature positive policy:** Support efforts to maintain and enhance biodiversity and ecosystems in the region (The Asian Development Bank, 2012b); |
| AfDB | **Clear policy (Paris alignment):** Screen 100% of bank portfolio for climate risks and opportunities, mainstream climate finance into all bank projects by 2021 (African Development Bank, 2022) | **Do-no-harm policy**: Follow a rigorous "do-no-harm" approach to biodiversity in all circumstances, proactive efforts to measurably enhance biodiversity through every available opportunity (2021) (African Development Bank, 2022) |
| AIIB | **Clear policy (Paris alignment):** Align operations with the goals of the Paris Agreement by July 1, 2023 (Asian Infrastructure Investment Bank, 2021a) Increase focus on investments in climate change mitigation and adaptation. | **Weak do-no-harm policy**: AIIB seeks, where applicable, to: (a) avoid adverse impacts on biodiversity and ecosystem services; and (b) assist its clients in protecting and conserving biodiversity and promoting the sustainable management of living natural resources (Asian Infrastructure Investment Bank, 2021a) |
| EBRD | **Clear policy (Paris alignment):** Ensure Paris alignment by screening all projects from 2021 in Concept Review Memorandum (CRM) (EBRD, 2019) | **No biodiversity protection policy:** Balance biodiversity preservation with utilisation for economic value (EBRD, 2019) |
| EIB | **Clear policy (Paris alignment):** Paris aligned through climate finance commitment made in 2019 (European Investment Bank, 2018) | **Weak nature-positive policy:** Supports the implementation of the EU Biodiversity Strategy 2030; Commit to foster "nature positive" financing in Glasgow statement (European Investment Bank, 2018) |
| IADB | **Clear policy (Paris alignment):** Align all projects with the Paris Agreement by 2023 (Inter-American Development Bank, 2021a) | **Do-no-harm policy** The IDB "is committed to the protection, conservation, management, and sustainable use of biodiversity, natural resources, and ecosystem services" (Inter-American Development Bank (IADB), 2020) |
| IFC | **Clear policy (Paris alignment):** 85% of Board approved real sector operations will be Paris aligned starting July 1, 2023, and 100% starting July 1, 2025 (IFC, 2021a) | **Weak do-no-harm policy** Investment and advisory activities with the intent to "do no harm" to the environment (IFC, 2012a) |
| IsDB | **Medium stringent policy (Paris alignment planned)**: Launched Climate Change Policy (Islamic Development Bank (IsDB), 2019) and plans to fully align with the Paris Agreement by the end of 2023 (Islamic Development Bank, 2020a) | **None** (Islamic Development Bank (IsDB), 2020a) |
| NDB | **Weak policy:** Promote mitigation and adaptation measures to address climate change based on country systems (New Development Bank, 2023) | **Weak do-no-harm policy:** The NDB promotes the conservation of natural resources, including energy and water, and it supports sustainable land use management and urban development (New Development Bank, 2016) |
| WBG | **Clear policy (Paris alignment):** Paris alignment in all new projects from July 2023 (World Bank Group, 2021) | **Weak nature-positive policy:** Conserve or rehabilitate biodiversity and natural habitats, and promote the efficient and equitable use of natural resources and ecosystem services (The World Bank, 2020) |

12% (AIIB) and 37% (EIB) of the MDB's committed financing in the year 2020. Committed climate finance for the years ahead expands MDBs' financing and specifies the amount of climate finance in a specific time frame (e.g., ADB committed to US$100 billion in climate finance between 2019 and 2030) and/or the share of climate finance in the portfolio (e.g., EBRD's commitment to have 50% of approved projects be related to climate).

This information on current and committed climate finance stands in contrast to the dearth of information provided by most MDBs' about their current or committed biodiversity finance. Some MDBs report the financing volume of single projects, but no consistent or aggregate information is available with one (and possibly two) exceptions: the AfDB, which reported US$ 379 million of current funding for nature-based solutions in 2019. Meanwhile, IADB committed to "25% climate and green finance by 2025," and accordingly highlighted the difference between climate and other green finance. Yet, IADB did not specify any commitments for biodiversity finance.

## 4.2 | Policy

As for the MDBs' policies, understood as board-approved policies guiding the MDB's overall decision-making and

strategy over a longer period of time, we find that climate finance commitments are relatively uniform across most of the MDBs with a focus on having non-sovereign operations (i.e., compared to sovereign operations focused on lending to governments) or all projects aligned with the Paris Agreement by July 2023 (see Table 4). Some MDBs further specify their climate policy to increase focus on climate change mitigation (e.g., AIIB). Several MDBs (e.g., IsDB) have provided specific climate finance policies (Islamic Development Bank (IsDB), 2019).

For biodiversity finance, the MDBs' policies vary more widely. While the Glasgow statement commits MDBs to

**TABLE 5** MDB's climate and biodiversity finance strategies.

| MDB | Climate finance | Biodiversity finance |
|---|---|---|
| ADB | **Clear strategy**:<br>Accelerating low greenhouse gas emissions development. Scale up support for climate change mitigation by prioritising investments for low GHG emission energy (The Asian Development Bank, 2018) | **Vague strategy**.<br>Biodiversity finance strategies only mentioned peripherally in agricultural strategy (Asian Development Bank (ADB), 2021). A new strategy/safeguard policy development was announced in November 2021 (Asian Development Bank (ADB), 2021) |
| AfDB | **Clear strategy**<br>Through the Climate and Green Growth Strategic Framework (March 2022)<br>Paris alignment—aligned with the objectives of Paris Agreement and countries' NDCs, long-term strategies (LTSs) and other national climate commitments (African Development Bank, 2022) | **Vague strategy**<br>"Commitment to nature, committed to further strengthening its use of nature-based solutions in 2021–2030, such as the Sahel Climate Initiative and Great Green Wall" (African Development Bank (AfDB), 2019), and "managing natural assets efficiently and sustainably" (African Development Bank (AfDB), 2019). |
| AIIB | **Clear strategy**<br>Through Climate Action Plan containing "crucial action areas to steer AIIB's investment" (Asian Infrastructure Investment Bank (AIIB), 2023) | **Vague strategy** (similar to policy – see above):<br>"Addressing direct and indirect impacts on the physical and biological environment" (Asian Infrastructure Investment Bank (AIIB), 2020) |
| EBRD | **Clear strategy**:<br>Support the transition to a green, low-carbon and resilient economy through the 2021–2025 Green Economy Transition (GET) approach (EBRD, 2020) | **Exclusion strategy**<br>Project with significant adverse biodiversity impact is excluded from the GET approach (EBRD, 2020) |
| EIB | **Clear strategy**:<br>Implemented through the Climate Bank Roadmap covering all operations (European Investment Bank, 2020a) | **Exclusion strategy**<br>Excludes projects with high biodiversity risk through Guidance Note for Standard 3 on Biodiversity and Ecosystems (European Investment Bank, 2018) |
| IADB | **Clear strategy/action plan**<br>Support for low-carbon transition detailed in the Climate Change Action Plan 2021–2025 (Inter-American Development Bank, 2021a) | **Clear strategy**<br>Supporting sustainable development in the Amazon Basin & Tropical Forests, accelerating biodiversity mainstreaming across the IDB and the region, developing innovative financing mechanisms and tools; boosting nature-based investments; and integrating nature-based solutions into gray infrastructure investments (Watson et al., 2022) |
| IFC | **Clear strategy**<br>IFC will engage in innovative investments and advisory services to support climate-friendly solutions and opportunities for business. IFC will also support adaptation measures that promote sustainable investments (World Bank Group, 2021) | **Vague strategy**<br>Planning to integrate biodiversity considerations at the earliest stages of planning, particularly for the agriculture and infrastructure sectors (World Bank Group, 2021) |
| IsDB | **Vague strategy**<br>The Sustainable Finance Framework integrates climate concerns into financing practice (Islamic Development Bank, 2019) | **Exclusion strategy**<br>The Sustainable Finance Framework excludes projects not meeting the requirements of biodiversity conventions (Islamic Development Bank, 2019) |
| NDB | **Vague strategy**<br>"The Bank will focus its financing on select areas of operation, while prioritising climate-smart, disaster-resilient, technology-integrated, and inclusive projects" (New Development Bank, 2022) | **Vague strategy**<br>"promote nature-based solutions and better management of natural resources" (New Development Bank, 2022) |
| WBG | **Clear strategy**<br>Address project-level impacts on climate change and consider the impacts of climate change on the selection, siting, planning, design, and implementation and decommissioning of projects (World Bank Group, 2021) | **Vague strategy**<br>Commitment to bridge the biodiversity financing gap by bringing governments and the private sector together (World Bank Group, 2021) |

"scaling up incentives that are either positive or neutral for biodiversity" (UN Climate Change Conference, 2021), individual MDBs have significant differences in committing or envisaging nature-positive or do-no-harm principles to nature. While nature-positive approaches aim to induce an actively beneficial biodiversity outcome, do-no-harm principles aim to avoid any biodiversity damage. AfDB, for example, aims "to measurably enhance biodiversity through every available opportunity" and, simultaneously, to "do no harm" on any projects (AfDB, IADB). In contrast, other banks aim to reduce harm where possible (e.g., AIIB) or have the intent to "do no harm" (IFC). Overall, MDBs' policies impacting biodiversity finance exist across all banks, with some having clear ambitions.

## 4.3 | Strategy

MDBs operationalise the implementation of the overall policy by providing more concrete direction, for example, which sectors should be targeted for implementing the higher level policies through their strategy documents. Table 5 highlights strategies by MDBs in relation to climate and biodiversity. For climate finance, many MDBs have developed dedicated climate finance strategies (e.g., the Climate and Green Growth Strategic Framework by AfDB published in March 2022 or IADB's Climate Change Action Plan). All MDBs have developed specific strategies with clear targets. For example, ADB aims to prioritise investments in low-emission energy projects.

As for biodiversity finance strategies, information is scarcer, indicating a lack of strategy on biodiversity. Biodiversity is mentioned in single documents (e.g., for ADB in the agricultural strategy) or in the form of expansion of nature-based solutions (AfDB). Some MDBs have exclusion lists covering biodiversity-related risks (e.g., EBRD, IsDB). Yet others, such as the World Bank Group, commit to bridging the biodiversity finance gap by bringing governments and the private sector together. However, because the WBG lacks a biodiversity-related policy or financial commitments, it is unclear which biodiversity finance gap is targeted.

## 4.4 | Client requirement

MDBs, as major providers of finance to other clients (e.g., sovereign and non-sovereign clients), can require their clients to apply specific procedures and reporting regarding adverse or positive impacts on climate and biodiversity. As Table 6 shows, there are large variations between MDBs on climate and biodiversity, but also between requirements regarding procedures or reporting on climate or biodiversity aspects. Various, but not all, MDBs require clients to apply IFC Performance Standards 3 and 6 (e.g., IADB and EBRD). Other MDBs have developed their own requirements (e.g., ADB). General requirements for climate finance include reducing emissions and quantifying emissions in the project development phase (most MDBs) and reporting emissions (e.g., EIB, IADB). For biodiversity finance, the requirements range from assessing impacts (e.g., ADB) to avoiding impacts where possible (e.g., AIIB, EBRD, EIB). Only WBG, AIIB, EBRD, and EIB have requirements of "net gain" in critical habitats. Reporting on biodiversity impacts is not regularly required by any MDB.

## 4.5 | Environmental reporting

Reporting informs the public on MDBs' environmental impacts and their environmental commitments. As Table 7 shows, most MDBs have applied relevant internationally recognised standards for climate reporting (e.g., reporting based on Task Force for Climate-related Financial Disclosures (TCFD)). As discussed above, all MDBs report on their climate finance portfolios. Nevertheless, the degree of emission reporting varies, for example, AIIB focuses on the energy sector, while IFC reports on its emissions based on the IFI harmonised standard. In contrast, reporting on biodiversity finance is based on non-binding commitments through the Glasgow statement. Only a few MDBs support the Task Force for Nature-related Financial Disclosures (TNFD) (e.g., ADB, EBRD, EIB). Possibly due to TNFD's early development stage, no MDB has established biodiversity-related reporting on impacts and financial commitments (see above).

## 4.6 | Quantitative analysis of frequency of terms in annual reports

In the quantitative analysis of the frequency of keywords related to the environment in annual reports of all involved MDBs, we evaluate the gravity and thus relevance of climate and biodiversity-related statements similar to Nedopil et al. (2021) who analyzed global green finance standards (including those of MDBs) to research evolution of environmental focus (e.g., to find that green finance standards focused originally on biodiversity, to evolve to a focus on climate and recently back to biodiversity). The goal of the analysis is to evaluate the relative frequency of the terms and their evolution over time, not to qualitatively evaluate meaning (the foundation of implementation for biodiversity and climate finance would be found in the MDBs' official policy, strategy, and process documents rather than in annual reports).

Similar to the global trend of green finance standards (Nedopil et al., 2021), Figure 2 on the left side shows how MDB's mention of terms related to climate

**TABLE 6** MDBs' requirements for clients' environmental management.

| MDB | Climate finance | Biodiversity finance |
|---|---|---|
| ADB | **Implementation: Emission reduction**<br>Clients must promote emissions reductions and quantify emissions (The Asian Development Bank, 2012a)<br>**Reporting: No information** | **Implementation: Risk Evaluation**<br>The client must assess the significance of project impacts and risks on biodiversity and natural resources (The Asian Development Bank, 2012a)<br>**Reporting: No information** |
| AfDB | **Implementation: Resource efficiency**<br>The client must include resource efficiency and pollution prevention principles. Throughout the different phases of the project's lifecycle, the borrower assesses and evaluates resource efficiency and pollution-prevention techniques and implements them. (African Development Bank, 2013)<br>**Reporting: no information** | **Implementation: Reduction of harm**<br>Evaluation: borrower or client ensures that the project will not cause significant modification of natural habitats, with exceptions (African Development Bank, 2013)<br>**Reporting: No information** |
| AIIB | **Implementation: Emission reduction**<br>Assess proposed project with respect to climate change mitigation and adaptation; assess the impacts of the project on climate change, and design and implement the project to minimise emissions in accordance with the aims of the Paris Agreement (Asian Infrastructure Investment Bank, 2020c)<br>**Reporting: GHG emission**<br>AIIB supports the client in evaluating the potential climate impacts and risks, and in GHG emissions reporting (Asian Infrastructure Investment Bank, 2020b) | **Implementation: Reduction of harm**<br>Evaluation: Avoid adverse project impacts on biodiversity, where feasible. Otherwise restore or offset. In critical habitats, a net gain is required (Asian Infrastructure Investment Bank, 2021a)<br>**Reporting: no information** |
| EBRD | **Implementation: assess climate risks** (EBRD, 2019)<br>**Reporting: No information** | **Implementation: Reduction of harm**<br>Follows IFC PS 6—Seek to avoid impacts on biodiversity and ecosystem services where feasible. Otherwise restoration should be implemented (The World Bank, 2016)<br>**Reporting: No information** |
| EIB | **Implementation: estimate climate risk/emissions** (European Investment Bank, 2018)<br>**Reporting: emission and climate risk information** (European Investment Bank, 2018) | **Implementation: Reduction of harm**<br>Follows IFC PS6—Seek to avoid impacts on biodiversity and ecosystem services where feasible. Otherwise restoration should be implemented (The World Bank, 2016)<br>**Reporting: No information** |
| IADB | **Implementation: evaluate alternatives to reduce emissions** (IFC, 2012b) (Follows IFC PS3)<br>**Reporting: quantify and report emissions** (for projects >25 k tonnes of CO2e) including indirect emissions according to internationally recognised standards (IFC, 2012b) | **Implementation: Reduction of harm**<br>Follows IFC PS6: Seek to avoid impacts on biodiversity and ecosystem services where feasible. Otherwise restoration should be implemented (The World Bank, 2016)<br>**Reporting: No information** |
| IFC | **Implementation: evaluate alternatives to reduce emissions** (IFC, 2012b) (Follows IFC PS3)<br>**Reporting: quantify and report emissions** (for projects >25 k tonnes of CO2e) including indirect emissions according to internationally recognised standards (IFC, 2012b) | **Implementation: Reduction of harm**<br>Follows IFC PS6: Seek to avoid impacts on biodiversity and ecosystem services where feasible. Otherwise restoration should be implemented (The World Bank, 2016)<br>**Reporting: No information** |
| IsDB | **Implementation: No information**<br>If the project has potentially adverse environmental or social risks and impacts, it requires the Client to: (i) conduct an environmental and social assessment, and (ii) design, document and implement appropriate actions (Islamic Development Bank, 2020b) | **No information** |
| NDB | **Implementation: climate impacts/risks assessment; mitigation or adaptation measures.**<br>Identify opportunities for no- or low-carbon use, where applicable, and for reducing emissions from the project (New Development Bank, 2016)<br>**Reporting: quantify and report emissions**<br>For projects with significant greenhouse implications, where technically and financially feasible, quantify direct and indirect emissions in line with national protocols (New Development Bank, 2016) | **Implementation: reduction of harm**<br>"Avoid adverse impacts on biodiversity. When avoidance of adverse impacts is not possible, implement measures to minimise adverse impacts and restore biodiversity" (New Development Bank, 2016)<br>**Reporting: no information** |

**TABLE 6** (Continued)

| MDB | Climate finance | Biodiversity finance |
|---|---|---|
| WB | **Implementation: quantify GHG emissions**<br>"Borrower will estimate of gross GHG emissions resulting from the project where feasible. WBG will provide assistance where necessary to the Borrower" (The World Bank, 2018)<br>**Reporting: quantify and report emissions**<br>The Borrower will provide regular reports as set out in the ESCP. Such reports will provide an accurate and objective record of project implementation, including compliance with the ESCP and the requirements of the ESSs (The World Bank, 2018) | **Implementation: Reduction of harm**<br>Evaluation: Borrower will avoid adverse impacts on biodiversity and habitats; appropriate mitigation measures are put in place, in accordance with the mitigation hierarchy, to achieve no net loss and, where feasible, preferably a net gain of biodiversity over the long term (The World Bank, 2016)<br>**Reporting: no information** |

finance in their annual reports increased in importance between 2015 and 2019 and dropped slightly in 2020—driven probably by a focus on COVID-related financing by MDBs. The relative frequency of climate-related terms ranges from 0.19% (2015) to 0.36% (2019) of all words in the annual reports. In contrast, MDBs overall do not emphasise biodiversity finance (see Figure 2 right side). In 2015, the relative average frequency of biodiversity-related keywords across all reports stood at 0.00%. While the relative frequency increased slightly in 2017 (to 0.02%), multiple MDBs do not have any mentions of biodiversity finance-related terms in their annual reports. Accordingly, the relative frequency of climate finance reporting across all annual reports of MDBs compared to reporting on biodiversity is between 6300% and 10,000% higher.

When comparing various MDBs with each other, data suggest large variations in climate reporting, ranging from a relative frequency of 0.03% (NDB in 2016) to 1.21% (EIB in 2019). Similarly, biodiversity-related reporting varies widely, with EBRD mostly lacking biodiversity-related terms and EIB and IADB having reported regularly on biodiversity-related events since 2017. The WBG has expanded its biodiversity-related reporting over the past 6 years (Figure 3).

## 5 | DISCUSSION AND RECOMMENDATIONS

The above analysis demonstrates clear differences between MDBs' approaches to climate and biodiversity issues over the past decade. While environmental and in particular biodiversity considerations have driven environmental standard development of MDBs, such as the World Bank's development of Environmental and Social Standards in the 1980s and the World Bank's leadership in the Global Environmental Facility since the 1990s, interpreting these findings presents a need to consider the extent to which differing financial characteristics of climate and biodiversity projects affect the way they are addressed by MDBs.

An explanation for the discrepancy over the past decade may be that climate change, since the Paris Agreement in 2015, has received more political and public attention leading to the establishment of climate targets through national authorities (e.g., in nationally determined contributions under the UNFCCC framework) with the quantification of climate financing needs by governments, financial institutions, and civil society organisations (Climate Policy Initiative (CPI), 2021). Another explanation might be found in the growing "financialisation" of MDBs, such as the World Bank (Jomo & Chowdhury, 2019): MDBs have evolved from fulfilling public policy roles where "profitability was not a goal" in the first decades after their establishment in the wake of World War 2 (Lindbaek et al., 1998) to a mantra of "maximising finance for development" through the mobilisation of private sector capital and a growing need to generate profits through their projects and private sector investment partners. As such, climate mitigation projects with clear revenue streams, for example in green energy transition such as solar and wind farms see the largest shares of financing from MDBs (Buchner et al., 2023). In contrast, biodiversity projects would often only have long-term and indirect financial benefits with few opportunities for private investors' financial returns (Nedopil, 2022).

To address the biodiversity crisis, it is critical that MDBs become actively involved given their role in market-creating and standard-setting as well as their ability to catalyze private capital (Gebel et al., 2022; Subhanij et al., 2019; Teer & Larsen, 2019). Furthermore, MDBs must do so to meet their own commitments to biodiversity finance made in Glasgow. From this outset, we recommend that biodiversity is prioritised by MDBs in three ways: First, biodiversity should be part of an integrated strategic approach to environmental issues that goes beyond climate. This means greater integration of biodiversity and climate ambitions beyond the current levels of abstraction. As climate issues continue to be prioritised by MDBs, tying biodiversity to this can increase its emphasis. For example, where the analysis above shows a clear split between climate and biodiversity in policy and strategy documents, integrating the two can help biodiversity become less long-term and abstract and more short-term and concrete like climate change. This will mean that climate policy and strategies account for biodiversity ambitions while the goals can remain separate.

**TABLE 7** MDB's environmental reporting standards.

| MDB | Climate finance | Biodiversity finance |
|---|---|---|
| ADB | Support for TCFD announced in 2021; calculates emissions and uses an estimation of the carbon shadow price (The Asian Development Bank, 2019) | Is preparing to implement the TNFD recommendations in 2023; commits to enhance reporting through Glasgow statement (The Asian Development Bank, 2022a; UN Climate Change Conference 2021, 2021) |
| AfDB | According to IDFC's commitment to account for the GHG emissions of direct investment. Tool to track climate emissions promised in 2013. (African Development Bank, 2013) | Commits to enhance reporting through Glasgow statement (UN Climate Change Conference 2021) |
| AIIB | Tracks GHG emissions reductions via its Energy Sector Strategy; in 2021 planned to build capacity to measure GHG emissions of transport infrastructure (Asian Infrastructure Investment Bank, 2020b) | Commits to enhance reporting through Glasgow statement (UN Climate Change Conference 2021) |
| EBRD | Discloses by the TCFD recommendations since 2020; commits to enhance reporting through Glasgow statement (EBRD, 2021b) | Supporting TNFD since 2019 but makes no commitment to disclose by it; commits to enhance reporting through Glasgow statement (EBRD, 2021a; UN Climate Change Conference 2021) |
| EIB | Disclosed by the TCFD recommendations since 2020 (European Investment Bank, 2020b) | Supports TNFD and will review how to disclose it in 2022; Commits to enhance reporting through Glasgow statement (European Investment Bank, 2020a; UN Climate Change Conference 2021, 2021) |
| IADB | Evaluating the applicability of TCFD (Inter-American Development Bank, 2021a) | Commits to enhance reporting through Glasgow statement (UN Climate Change Conference 2021, 2021) |
| IFC | TCFD reporting since 2018, ESIA reporting on projects; GHG emission reporting based on IFI harmonised standards (IFC, 2012b) | Commits to enhance reporting through Glasgow statement (UN Climate Change Conference 2021, 2021) |
| IsDB | No information. Only disclosure on green sukuk management of proceeds (Islamic Development Bank, 2019) | Commits to enhance reporting through Glasgow statement (UN Climate Change Conference 2021, 2021) |
| NDB | No information | No information |
| WB | In 2015, WBG is committed to accounting for the GHG emissions of direct investment projects that they finance (The World Bank, 2016) | Commits to enhance reporting through Glasgow statement (UN Climate Change Conference 2021, 2021) |

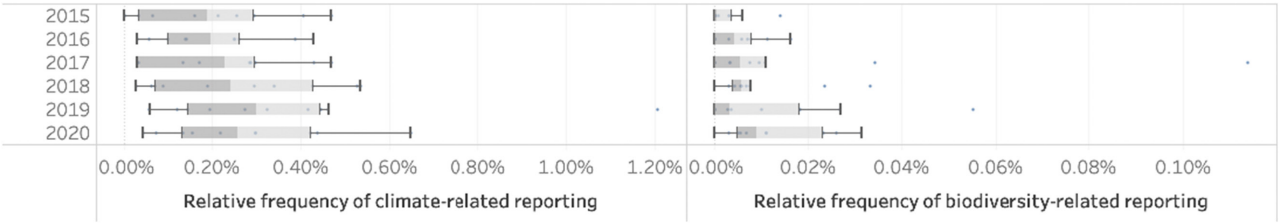


**FIGURE 2** Relative frequency of climate and biodiversity finance-related terms in all MDBs' annual reports 2015–2020 (note that left side for climate has a scale of 0–1.2% and the right side for biodiversity from 0% to 0.1%).

Second, biodiversity should not only be addressed through safeguards but also as labeled projects. Becoming a project category of its own provides a prerequisite for targeted efforts rather than addressing biodiversity as a co-benefit of achieving other objectives. However, this is made difficult by the lack of revenue-stream mentioned above. Such labeling should not be exclusive by labeling projects as either contributing to climate or biodiversity but should allow for projects to be labeled as both at the same time. This can further drive the integration of the two as suggested in the first recommendation.

Third, based on the above recommendations of integration and labeling, it becomes possible for MDBs to assign financing targets to biodiversity. This can be carried out in the same way as for climate finance today, including short- and medium-term targets, annual disclosure on progress toward targets, and justification for how targets are in line with the Glasgow commitments. Ultimately, these three recommendations allow biodiversity to become a central priority within a short time frame rather than undergo the same gradual prioritisation trajectory over 20 years as seen with climate change. Still, these recommendations are derived primarily by identifying gaps in a side-by-side comparison and should not be interpreted as the only actions needed by MDBs to enhance biodiversity

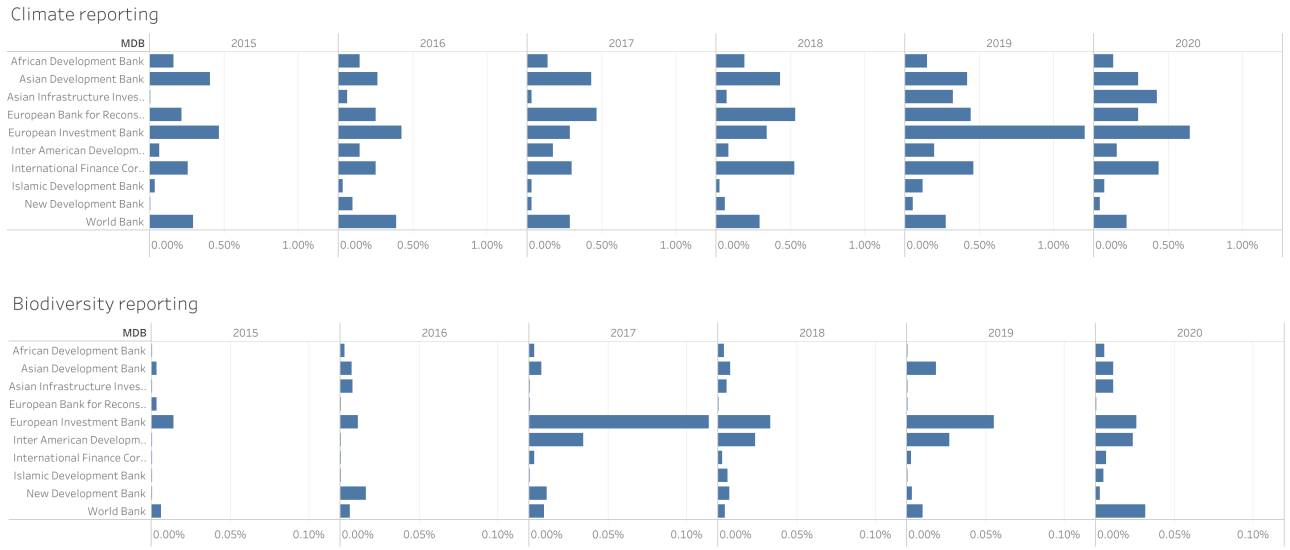


**FIGURE 3** Climate (top) and biodiversity (bottom) related reporting by different MDBs 2015–2020 (Axes are not synchronised).

performance. Instead, further research is needed on MDB biodiversity approach that captures the unique characteristics of biodiversity compared to climate change.

## 6 | CONCLUSION

We contribute to the growing literature on biodiversity finance and the role of multilateral development banks, with a focus on emerging economies. Here, we have shown that MDBs' prioritisation of biodiversity lags far behind that of climate change in terms of financing, policies, strategies, client requirements, and environmental reporting. Our analysis directly compares climate and biodiversity approaches, demonstrating clear differences of how climate has become a systematic and central issue while biodiversity remains a peripheral priority. This is the case across rhetoric, official strategies, operational practices, and financing flows. This is concerning as biodiversity financing is urgently needed, as MDBs can play a central role, and as MDBs committed to addressing the biodiversity crisis in Glasgow. From these findings, we recommend that MDBs integrate climate and biodiversity in policies and strategies, emphasise the labeling of biodiversity projects, and provide quantitative commitments to biodiversity in a similar way as for climate. While we have demonstrated the stark contrast between climate and biodiversity in MDBs, further research is needed on how to overcome the issue of lacking revenue streams from biodiversity projects as well as on how biodiversity can be prioritised fast enough to meet the Glasgow commitments.

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## CONFLICT OF INTEREST STATEMENT

The authors have no conflict of interest to declare.

## DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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