**Annex C**

*February 25, 2020*

[Redacted]

This Technical Consultation Document is in connection with the *Administrative Agreement regarding the Establishment of the UK Blue Carbon Fund*, signed on April 2, 2019 as it may be amended from time to time (the “Fund Agreement”).

Below is a description of the Valuing, protecting and enhancing coastal Natural Capital to support carbon capture, biodiversity, human well-being and build coastal resilience Project. Unless we receive a written objection from you by close of business of [date], communicated as per the Non-Objection Process set forth in Section 5.1 of the Fund Agreement, we will proceed to allocate $2,312,992 of the Fund to this Project, as per the provisions of Section 5.1 of the Fund Agreement.

**I. BASIC FACTS**

Type of Operation: NON-REIMBURSABLE

Country: Regional

Project name: IDB contributions to Dasgupta Review of Biodiversity Values

Borrower/Beneficiary

Executing Agency: Bank Executed Work

Total project cost: $260,000

Total financing cost: 200,000 pounds

Financing breakdown:

|  |  |  |  |
| --- | --- | --- | --- |
| **Activity/Component** | **IDB/Fund Funding** | **Counterpart Funding** | **Total Funding** |
| Component 1 |  | $50,000 | $50,000 |
| Component 2 |  | $50,000 | $50,000 |
| Component 3 |  | US$150,000 | US$150,000 |
| Contingencies |  | $10,000 | $10,000 |
|  |  |  |  |
| Total |  | $260,000 | $260,000 |

**II. PROJECT DESCRIPTION**

2.1 The term “natural capital” refers to the terrestrial and marine ecosystem components, including biodiversity, that contribute to the generation of valuable goods and services for humankind now and in the future.

2.2 Although it represents only 16% of the planet’s land, Latin America and the Caribbean (LAC) holds 40% of the world’s biological diversity and contains seven of the world’s 25 biodiversity hotspots, six of the 17 “megadiverse” countries, 11 of the 14 terrestrial biomes, and the second largest reef system worldwide. More than 30% of the earth’s available freshwater and almost 50% of the world’s tropical forests are found in the region and LAC possesses a vast array of terrestrial, freshwater, coastal, and marine ecosystems containing some of the richest collections of birds, mammals, plants, amphibians, and landscapes on the planet. This unique source of capital -- natural capital -- generates important life-supporting benefits for people called ecosystem services.

2.3 However, natural resources are under threat. A recent study by WWF showed that South and Central America have lost 89% of their populations of mammals, birds, fish, reptiles, and amphibians3.Global Forest Watch data shows that 4 of the top 10 countries for tropical tree cover loss in 2017 were in Latin America4. The Global Mangrove Alliance has calculated that mangrove deforestation rates are 3-5 times higher globally than terrestrial forests.5 In our oceans, 90% of fish stocks are either fully fished or over-fished6, and plastic pollution has been detected in all major marine environments. Chemical and air pollution continues to advance, with the WHO estimating that 90% of the world’s population lives with toxic air.

2.4 A report launched by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) finds that in 2019 almost a million species are under threat for extinction, and “global goals for conserving and sustainably using nature and achieving sustainability cannot be met by current trajectories, and goals for 2030 and beyond may only be achieved through transformative changes across economic, social, political and technological factors. With good progress on components of only four of the 20 Aichi Biodiversity Targets, it is likely that most will be missed by the 2020 deadline. Current negative trends in biodiversity and ecosystems will undermine progress towards 80% (35 out of 44) of the assessed targets of the Sustainable Development Goals, related to poverty, hunger, health, work, innovation, responsible consumption and production, water, cities, climate, oceans, land and partnerships (SDGs 1, 2, 3, 6, 8,9, 11, 12, 13, 14, 15, and 17). Loss of biodiversity is therefore shown to be not only an environmental issue, but also a developmental, economic, security, social and moral issue as well”9. In addition, nature could provide up to one third of the emissions reductions we need between now and 2030 to keep global temperature rise to less than 2 degrees.

2.5 But today, nature-based solutions such as reforestation and improved agricultural practices comprise only 3% of public funding. McKinsey and company estimate that $300 billion to $400 billion is needed each year to preserve and restore ecosystems, but conservation projects receive just $52 billion, mostly from public and philanthropic sources.10 This shortfall in funding can be partially addressed through mobilization of private investment – by supporting private actors that are sustainably leveraging natural capital, facilitating private investment in conservation and restoration projects, and fostering private innovation in sustainability solutions. It can also be addressed by helping all actors – the public sector, corporates, entrepreneurs, and civil society begin to quantify the value of natural capital in economic terms to drive action.

2.6 As countries seek to reach their commitments under the Convention on Biological Diversity, the Paris Climate Accord, and Sustainable Development Goals 14 and 15, the sustainable use of natural capital will become vitally important to the achievement of these national commitments, national development strategies, and local livelihoods.

*IDB and the Natural Capital Lab*

2.7 Established in 1959, the Inter-American Development Bank (“IDB” or “Bank”) is the main source of financing for economic, social and institutional development in Latin America and the Caribbean. It provides loans, grants, guarantees, policy advice and technical assistance to the public and private sectors of its borrowing countries.

2.8 The Climate Change and Sustainable Development Sector’s (CSD) main activities include lending operations, technical assistance, and knowledge generation to ensure the mainstreaming of sustainability and climate change issues in Bank operations.

2.9 Recognizing a need to create a space where the public and private sectors can work together in innovative projects, and where partners can be mobilized to support the region’s national capital agenda, in 2018 the IDB created a Natural Capital Lab (NCL) within CSD, IDB Lab Innovation Lab. This Lab focuses on the natural resources that provide a diverse array of ecosystem services to the planet.

2.10 The NCL serves as a one-stop shop for the IDB Group to drive innovation in the conservation, landscape, biodiversity, and marine ecosystem finance spaces. Building from existing IDB group partnerships, the Lab is creating a network of cutting-edge partners from the technology, finance, government, academic, and international organization communities.  The Lab convenes these actors in multi-sectoral dialogues to examine issues such as the valuation of ecosystem services, methodologies to trade these values, innovations in sustainable landscapes, nature-based solutions, ocean conservation, pollution, and territorial approaches.

2.11 It is developing projects to accelerate and incubate natural capital entrepreneurs, deploy new technologies in the natural capital space, pilot blue carbon projects using DEFRA funds, and fund conservation through new instruments. The NCL builds upon past work of the IDB Group in the Biofund and draws from current work of IDB Group teams on topics ranging from natural capital accounting to sustainable infrastructure, and beyond.

*The Economics of Biodiversity Review*

2.12 An independent review on the Economics of Biodiversity was commissioned by Her Majesty’s Treasury (HMT) in spring 2019 and is being led by Sir Professor Partha Dasgupta. The Review is global in nature and its aims are to assess the economic value of biodiversity, to assess the economic costs and risks of biodiversity loss and to identify actions that will simultaneously enhance biodiversity and deliver economic prosperity. The Review will report ahead of the Convention of Biological Diversity 15th Conference of Parties in Kunming, China, in October 2020. The primary audiences for the review are economic and finance policy and decision makers.

2.13 As one of the most active multilateral development banks in terms of action around biodiversity, ecosystem services and natural resources, the UK Review team would like to leverage the IDB’s experience and expertise to support the review, in particular leveraging past or current relevant work including (but not limited to):

* The Natural Capital Lab (NCL), which aims to drive innovation in finance for biodiversity, ecosystems and conservation and test new blended public-private solutions: <https://www.iadb.org/en/environment/natural-capital-lab>
* The ‘integrated economic-environmental modelling’ (IEEM) framework, that aims to integrate environmental and economic impact analysis to help decision makers more accurately analyse the current and potential impacts of a policy or investment decision on both economic and environmental indicators: <https://publications.iadb.org/en/publications?keys=IEEM>
* <https://www.iadb.org/en/topics/environment/biodiversity-platform/the-idbs-biodiversity-platform%2C6825.html>
* The Biodiversity and Ecosystems Services (BES) Programme, that aims to integrate the value of biodiversity and ecosystem services into key economic sectors, invest in conservation, strengthen environmental governance, and promote private sector innovation in environmental protection.

2.14 In particular the NCL has been a focal point with the government of the United Kingdom on the Dasgupta Biodiversity Review, coordinating among IDB departments and divisions to provide inputs to the review process. Among other items thus far, the CSD Manager [Redacted] sits on the review Advisory Panel, the UK review team was invited to participate in an NCL-organized event on biodiversity and nature based solutions finance at the Costa Rica Pre-COP, and NCL has coordinated and shared with the Review team as evidence, an extensive bibliography of IDB publications on biodiversity issues that are relevant for the review.

**Description of Activities and Outputs**

2.15 The IDB and UK government have identified several areas of potential further collaboration in the Dasgupta Biodiversity Review process. These include in the immediate future (Feb-Jun 2020), specific inputs into the Review itself and co-organization of peer review sessions for Review drafts, and in the medium term assistance in publicizing the Review once complete, and potentially supporting implementation of the Review’s conclusions in the region.

2.16 Based on the Review’s needs and IDB’s expertise, the following have been identified as immediate contributions from IDB that would be of particular value to the Review:

* **Component 1:** Produce a paper on Latin America by synthesising existing evidence from IDB and the Region. This case study could take a narrative approach setting out the evolution of the thinking on biodiversity in LAC from an early focus on extraction, through conservation and to a new focus on leveraging natural capital, drawing from examples from IDB’s activities around biodiversity action, and weaving into the narrative how increased evidence and awareness of the links between biodiversity and our well-being has supported the evolution.
  + The paper will include three case studies on the topic.
* **Component 2:** Develop a report on state-of the art financial innovations in the sector, that may be underway or untested, but that are introducing new financial models into either national budgeting and programming, private investment, or public-private partnerships.
  + The paper will include three case production of case studies for three IDB projects that have demonstrated innovative finance models that have worked, delving into the detail of how and why they have worked, and any lessons that may apply for application elsewhere or / and scaling up.
* **Component 3:** IEEM The Integrated Economic-Environmental Modeling (IEEM) Platform fills an important gap in the economic development literature and practitioner’s toolbox. At the core of IEEM is a future-looking computable general equilibrium framework that enables the analysis of the impact of public policy and investment on indicators such as Gross Domestic Product (GDP), income and employment, but also on wealth and natural capital, all in a quantitative, comprehensive and consistent framework. IEEM generates indicators that enable decision-makers to quantitatively assess strategies to achieving complex policy goals including those embodied by the Sustainable Development Goals, green growth targets and decarbonization plans. IEEM’s value-added over a conventional economy-wide framework include: (i) integration of rich environmental data based on the first international statistical standard for environmental-economic accounting, the System of Environmental-Economic Accounting Central Framework, into an economy-wide model; (ii) IEEM’s environmental modeling modules that capture the specific dynamics of each natural capital asset; (iii) IEEM indicators that reflect impacts on the three dimensions of sustainable development, namely the economy, society and the environment, which are embodied in the concept of wealth, and; (iv) IEEM’s linkage with geospatial ecosystem services modeling which demonstrates policy impacts on a broad range of ecosystem services values, including regulating and non-market ecosystem services, in a spatially explicit way.

2.17 This component is comprised of three case studies and one policy brief

* The first case study will assess the impacts of implementing a Payment for Ecosystem Services (PES) Program in Colombia. The second case study will evaluate the impacts of key aspects of Costa Rica’s decarbonization plan as it relates to the agriculture and forestry sectors. The third case study will examine the economic, natural capital and ecosystem service (ES) impacts of tipping points in the Amazon biome. The policy brief will present our experience in integrating natural capital accounting in economy-wide analysis to inform public policy and investment decision making.

**Main activities**

2.18 The program will undertake these activities through a combination of efforts

* The IDB will create a multi-sectoral team to supervise this work, under the auspices of the NCL, including experts in natural capital accounting, biodiversity finance, IDB operations, and the CSD Sector Economist.
* This team will provide inputs, direction, and develop detailed terms of reference for the hiring of an external author(s) for items 1 and 2 above. This author will consult the IDB-constructed bibliography (annex 1) and the team will provide additional information/contacts for selected projects in the case studies.
* The IEEM expert will hire specialized firms and individuals to support the activities under component 3.
* During the development of the reports, or upon their completion, the team may participate in a technical mission to discuss results/provide inputs to the Dasgupta review team and Defra. These missions may take place simultaneously or separately, depending on the UK review team’s needs.

**Execution period: 6 months**

**Expected Results Framework indicators and, when available, preliminary expected results:**

2.19 Results for the components above will be consistent with the Terms of References attached. They will include: Production of 2 thematic papers, and 3 reports and 1 policy brief on IEEM papers, including case studies, for the Dasgupta review.

**III. PROJECT AGENCIES**

3.1 The project will be executed by the IDB with support from CSD and RND. The IDB will regularly coordinate with the Dasgupta review team in the UK Treasury on the terms of reference, consultant selection, workplan, and deliverables.

**IV. STRATEGIC ALIGNMENT**

4.1 The proposed program is consistent with the UK Government’s focus on understanding the value of natural resources, in particular, the overarching goals of the Dasgupta review of Biodiversity, which aims to develop concrete examples to illustrate the theoretical framework to be developed within the review. This includes, inter alia, a review of successful programming in Latin America and the Caribbean, and tools and mechanisms that have valued coastal ecosystems and mangroves.

**V. IDENTIFICATION OF POTENTIAL RISKS**

4.1 The main risk for this work is the extremely compressed timeline for the deliverables. The project team has attempted to reduce this risk by selecting consultants with a high knowledge base, creating touchpoints during the deliverable process to realign the workplan along areas of highest priority for the UK government and the review process, and by moving quickly on contracting experts.

**VII. Environmental and Social Classification**

7.1 As this is a project to produce knowledge, no ESG classification will be undertaken

Sincerely,

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Name:

Title:

Date: