

July 15, 2022

Re: Comment on Draft Biodiversity Finance Reference Guide

To whom it may concern,

Accountability Counsel thanks the International Finance Corporation for the opportunity to comment on its draft Biodiversity Finance Reference Guide. As an organization that supports local communities seeking justice for harm caused by internationally financed projects, we welcome and appreciate efforts to set standards around biodiversity finance, which can contribute to harm despite being well-intentioned.

As the IFC provides guidance on biodiversity finance, it risks promoting “greenwashing” if it does not adequately prioritize and require good governance of biodiversity projects. **Accountability mechanisms are foundational good governance tools, and the IFC’s guidance should include requirements to establish them.**

#### *Why Accountability Mechanisms are Necessary for Biodiversity Projects*

Local communities living near project sites are often the first to be aware of a project’s impact, and they bear the most direct and immediate risks if those impacts are negative. Local communities will raise issues to investors if a trusted channel exists for them to do so.<sup>1</sup> Hearing directly from local communities is therefore one of the most significant ways for investors to understand their net impact and to address problems. As it sets standards, IFC should build on and strengthen existing guidance to make creating channels to hear from local communities a mandatory aspect of project design and impact reporting.

Our case experience supporting project-affected communities confirms that when biodiversity projects are implemented without the participation of local communities, significant environmental and social harm can result. For example, a [conservation project](#) in Myanmar that was intended to protect 1.4 million hectares of biodiverse forests instead risks worsening climate change by setting up a system ripe for illegal logging and deforestation. Affected Indigenous communities, who had not given free, prior, informed consent for the project, were able to raise a complaint through the investor’s accountability mechanism and propose an alternate project design.

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<sup>1</sup> See “Listening to community voices to combat ‘impact washing’ and promote good governance,” by Margaux Day, *Impact Alpha*, available at <https://impactalpha.com/community-voices-can-combat-impact-washing-and-promote-good-governance/>.

So far, [over 50 complaints](#) about conservation and biodiversity projects have been filed at the independent accountability mechanisms of development finance institutions. Of those complaints, 34% cite environmental harm, and 25% cite threats to biodiversity.

### *Examples of Green Finance Guidelines and Impact Measurement and Management Standards that include Accountability Mechanisms*

If the IFC's Biodiversity Finance Reference Guide does not require accountability mechanisms to be established, it will be behind and inconsistent with good practice, and indeed inconsistent with other IFC documents. The following guidelines, standards, and metrics all require green and ESG investors to establish accountability mechanisms (sometimes referred to as grievance redress mechanisms):

- **IFC's Operating Principles for Impact Management:** The Principles encourage signatories to implement "good international industry practice" to measure unintended impact and cites explicitly the UN Guiding Principles for Business and Human Rights, which requires accountability mechanisms.<sup>2</sup>
- **GCF's Environmental and Social Policy:** All recipients of GCF financing, termed "accredited entities," are required to establish investor-level effective grievance redress mechanisms to receive complaints and feedback.<sup>3</sup>
- **China's Green Finance Guidelines:** In June 2022, the China Banking & Insurance Regulatory Commission issued Green Finance Guidelines that require all Chinese financiers to establish accountability mechanisms.<sup>4</sup>
- **UNDP SDG Impact Standards for Private Equity Funds, Bond Issuers, and Enterprises:** All 3 sets of standards recommend that institutions assure that they have established or participate in "effective grievance and reparation mechanisms for affected Stakeholders."<sup>5</sup>
- **Global Reporting Initiative's Universal Standards:** Signatories are required to report on the existence and quality of their grievance mechanisms.<sup>6</sup>

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<sup>2</sup> Operating Principles for Impact Management, *available at* <https://www.impactprinciples.org/sites/default/files/2021-06/Impact%20Principles%20Brochure%20Revised.pdf>.

<sup>3</sup> Green Climate Fund, Environmental and Social Policy, *available at* [https://www.greenclimate.fund/sites/default/files/document/environment-social-policy\\_0.pdf](https://www.greenclimate.fund/sites/default/files/document/environment-social-policy_0.pdf).

<sup>4</sup> See "How China's new complaints procedures can prevent 'green' ESG investments from harming local communities," by Margaux Day and Yaqian (Zelda) Liang, *South China Morning Post*, *available at* <https://www.scmp.com/comment/opinion/article/3181704/how-chinas-new-complaints-procedures-can-prevent-green-esg>.

<sup>5</sup> UNDP SDG Impact Standards, *available at* <https://sdgimpact.undp.org/practice-standards.html>.

<sup>6</sup> GRI 3: Material Topics 2021, Disclosures 3-1 and 3-3(e)(1), *available at* <https://www.accountabilitycounsel.org/wp-content/uploads/2021/10/gri-3-material-topics-2021.pdf#page=16>.

- **World Economic Forum/International Business Council Stakeholder Capital Metrics:** An expanded metric on Human Rights Review, Grievance Impact, and Modern Slavery calls for disclosures on the number and type of grievances reported with associated impacts related to salient human rights issues and detail the types of impacts.<sup>7</sup>

In contrast, the draft Biodiversity Finance Reference Guide under-emphasizes the importance of hearing from communities about biodiversity finance’s environmental and social impacts. The draft Guide refers to the Suggested Impact Reporting Metrics compiled by the Green Bond Impact Reporting Working Group, which lists some human rights risks associated with biodiversity projects. These include lack of consultation, physical and economic displacement, and human rights violations by parties charged with enforcing conservation schemes. Despite this acknowledgement that biodiversity finance can cause environmental and social harm, however, the Working Group merely “suggest[s]” reporting on these potential negative impacts. The Biodiversity Finance Reference Guide should clarify that knowing about, managing, and reporting on unintended impact is mandatory and that one key way to do so is by setting up an accountability mechanism.

#### *Recommended Edits to the the Biodiversity Finance Framework*

We recommend the following amendment to the third criterion for assessing eligibility for use of proceeds under Biodiversity Finance: “Are Environmental, Social and Governance (ESG) safeguards and standards, such as the IFC Performance Standards, applied in the implementation of the project ~~if there are material environmental and social risks~~ **and is the project governed by an effective accountability mechanism?**”

We also recommend the following addition to the section on Impact Reporting: “The issuer or borrower should make all reasonable efforts to gather data for impact reporting. Upon the identification of the activities that are eligible for receiving proceeds from biodiversity finance, the issuer or borrower can work with investors, ~~and~~ **experts, and project-affected communities** to define suitable impact indicators to include in annual impact reports. To the extent possible, it is recommended to use impact indicators included in the monitoring protocols of applicable certification system or those included in the ICMA Handbook for Impact Reporting.”

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<sup>7</sup> WEF Stakeholder Capitalism Metrics, core metric on “Material Issues Impacting Stakeholder,” and expanded metric on “Human Rights Review, Grievance Impact, and Modern Slavery,” available at [http://www3.weforum.org/docs/WEF\\_IBC\\_Measuring\\_Stakeholder\\_Capitalism\\_Report\\_2020.pdf](http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf).

Thank you again for the opportunity to contribute to the development of IFC's Biodiversity Finance guidance.

Sincerely,



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