Position paper

Aligning financial flows with biodiversity goals and targets

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This is a paper from the Finance for Biodiversity Foundation. In total 84 financial institutions representing 18 countries and over 12.6 trillion euro in assets signed the Finance for Biodiversity Pledge in 2021. We as financial institutions recognise that the Earth's biosphere is the foundation of human resilience and progress and that it is under increasing stress. As financial institutions we are committed to taking ambitious action on biodiversity and we call on global leaders during the 15th meeting of the UN Biodiversity Conference of the Parties (COP 15) in Kunming, China, to agree on effective measures to reverse nature loss in this decade.

Summary

COP15 presents an opportunity for transformative change to address the biodiversity crisis. Establishing an ambitious and transformational post-2020 Global Biodiversity Framework (GBF)[1] is key. To be successful, it must highlight the necessary actions to be taken by all stakeholders, including the financial sector, to urgently halt and reverse biodiversity loss.

In this paper, we welcome the current draft-1 of the GBF and its general reference to the needed alignment of financial flows, both in terms of resource mobilization and as a means of implementing the policy aims. However, we think there is a need for further clarity on two points, which we outline in this paper:

1. The GBF should ensure that the alignment of financial flows is not only an implementing mechanism, but also a policy aim both for government action and for financial market actors, which is crucial to reduce negative impacts on biodiversity and incentivise positive impacts;
2. When the GBF references "financial flows", it should clearly define these as both public and private financial flows and ensure this definition is also reflected in relevant goals and targets.

This paper provides suggested amendments in green to the current draft GBF, which we call on Member States to take into consideration.

What are financial flows?

CBD definition

The secretariat of the Convention of Biological Diversity (CBD) at the first part of COP15 in October 2021, defined[2] aligning flows as *"Channelling financial investments – public and private – towards economic activities that enhance our stock of natural assets and encourage sustainable consumption and production. It would entail the following actions by* ***governments and financial*** *institutions*:

a) ***Identifying, measuring and*** *managing the risks, dependencies and impacts of their investments* ***and financial activities*** *on biodiversity by ~~adopting and applying (E&S/Biodiversity) standards and~~ integrating these nature-related risks in their financial decisions (greening finance),* ***with the goal of reducing negative impacts and increasing positive impacts****;*

b) *Mobilizing funding for a pro-nature/nature positive economy, (conservation projects, mainstreaming biodiversity in economic sectors for sustainable use, financing transitions, nature-based solutions…) and developing adequate financial mechanisms such as blended finance (financing green);*

c) ***Supporting*** *~~Helping~~ countries, including through the public development banks, in the development of national strategies, national biodiversity financial plans,* ***implementing*** *an enabling environment for the financial sector (regulations, support, market-based tools and incentives…);*

d) *Reporting on, and disclosing, their nature-related risks and opportunities (e.g. the work of the Taskforce on Nature-related Financial Disclosure[3]), **with the aim of aligning financial flows with global biodiversity goals and targets**.*"

We support the inclusion of public and private financial investments in this definition but think there are opportunities to further strengthen the definition to make it clearer what governments and financial institutions need to do. See our proposed amendments in green above.

In addition, we propose adding this definition to the GBF Glossary of Terms.

Private financial flows

Private financial flows include those from all non-public sources of finance (corporate revenues and savings), intermediaries (institutional investors, asset managers, commercial banks, insurers, and philanthropic foundations) and implementers (conservation NGOs, private companies, households, and communities)[4]. These bodies are channelling investment and activities like corporate loans, funds, insurance products, blended finance, guarantees, grants and household spending.

Private financial activities can negatively impact biodiversity directly or through value chains. In fact, most global financial capital, with a magnitude of hundreds of trillions[5], moves around with little recognition of impact or dependency on nature. In reality, finance is already having a major impact on biodiversity. The current misalignment of financial flows reflects broader weaknesses and failures in the global economy, including in the design of global finance, both private and public.

These activities need to be reduced and redirected to investments and financial activities that have a positive impact on biodiversity. Capital allocation, stewardship, and lending decisions can and should play an integral role in biodiversity protection and restoration. The GBF should directly address this aspect of financial flows.

Public financial flows

Public financial flows include all public sources of finance (government budgets including revenue from taxes, fees, and charges), intermediaries (ministries, public agencies and funds, and development finance institutions) and implementers (local and central government, protected area agencies and public utilities). These bodies channel activities for financial instruments and mechanisms including funds, grants, subsidies, guarantees, concessional debt, payments for ecosystem services and nature offsets[4].

Examples of negative public financial flows include subsidies that are spent every year on activities which harm biodiversity, such as fossil fuels, damaging fertilizers and agricultural practices that negatively impact natural habitats and soil quality, with recent analysis demonstrating that nearly 90% of agricultural subsidies are harmful to biodiversity[6]. These public financial flows must be redirected into incentives for protecting and restoring biodiversity.

Why is aligning public and private financial flows critical?

As target 14 of the GBF recognises, financial flows play a critical role in the overall goal to reverse biodiversity loss in this decade. However, it is insufficient to think about financial flows only as an implementation mechanism or as resource mobilisation in terms of additional financial resources from the public sector.

Firstly, both public and private financial flows are currently causing severe harm to biodiversity, and this must urgently be addressed. The alignment of public and private financial flows should focus on stopping harmful activities that keep destroying nature. The urgently needed reforms of the financial sector and harmful subsidies from governments, including tax regimes and public procurement policies, would have far greater impact on reversing biodiversity loss than simply increasing financing for nature can ever have.

In terms of public financing, reform and realignment is needed to ensure that current deteriorating trends in the biosphere are slowed and reversed. Every year global public spending for financing nature is US$121 billion, while the global financing gap stands at about US$711 billion per year[7]– more or less the GDP of Poland. At the same time, according to the OECD, US$500 billion is spent each year on subsidies that harm biodiversity[4]. As evident from these numbers, a sole focus on an increasing the budget for nature will not create the change that is needed to reverse nature loss. With subsidies that harm nature estimated to be five to seven times greater than funding to protect nature, governments must prioritize realigning harmful subsidies towards incentivizing nature-positive outcomes.

From a private finance perspective, private financial institutions must also contribute to realising the goals of the CBD and implementing the GBF. There are significant opportunities to reshape and redirect existing harmful financial flows that come from the private sector.

In September 2021 we urged, and we continue to urge, governments to establish a regulatory environment that enables financial institutions to address biodiversity-related risks and opportunities, including by introducing consistent and decision-useful corporate disclosure regulations. We strongly believe that the GBF should include an explicit expectation for financial institutions and businesses to align financial flows to global biodiversity goals, supported by appropriate regulatory measures and financial incentives.[8]

Secondly, the public and private sectors must bridge the finance gap on nature together. Current financial flows have proved insufficient for countries to meet their national biodiversity targets, and the funding available for biodiversity has yet to make a significant positive impact in low-to-middle-income countries, which are particularly susceptible to biodiversity loss. A significant increase of public and private financial resources is fundamental. Today most of the funding for nature conservation comes from public sources[9], but in the future the private sector has a critical role to play in closing the financing gap. The appetite among private financial investors for channeling finance towards restoration and conservation projects, although still relatively small, has grown in recent years[10].

Blended finance can be an important cross-cutting vehicle as it enables governments to use limited public money to crowd in a much larger scale of private finance. For corporates and financiers on the other hand, blended finance offers the opportunity to have some costs and risks partly covered by public finance that simply cannot be covered by the market at present.

Why does the private finance sector want to act on biodiversity?

Financial institutions have come a long way when it comes to identifying and managing climate-related risks and opportunities. More fulsome engagement by the finance sector started after the adoption of the Paris Agreement on climate change in 2015[11]. Article 2.1.c in the agreement was unprecedented in stimulating financial institutions to commit to and work towards net-zero emissions. The Glasgow Financial Alliance for Net Zero (GFANZ), committed over US$130 trillion of private capital to transforming the economy for net zero during COP26[12]. The notion of "aligning the financial sector with the goals of the Paris Agreement" has become a widely agreed and communicated concept.

Financial institutions are increasingly aware that alongside climate change, the loss of biodiversity and the related decline in ecosystem services are creating risks to businesses and increasing systemic risk for the financial system. Many have already committed to take ambitious action on biodiversity[13]. From an investor perspective, the loss of biodiversity and the degradation of ecosystems is likely to have implications for long-term asset returns. This has been highlighted through the Dasgupta Review on the Economics of Biodiversity[10], an independent review commissioned by the UK Treasury.

Business risk may be related to the direct impacts of a company's operations on biodiversity, or to the dependence of a business on ecosystem services as inputs to production.

In other cases, the business risks associated with biodiversity loss may be indirect, operating through supply chains. All companies, regardless of sector, have an impact on biodiversity and ecosystems and are dependent on ecosystem services. According to the World Economic Forum, US$44 trillion of economic value generation[14] – more than half of the world's total GDP – is moderately or highly dependent on nature and its services. Financial institutions, through their exposure to all sectors of the real economy, will face risks associated with the degradation of nature.

At the same time, biodiversity and ecosystem services are also the basis of new business opportunities. This is most obvious in the case of companies selling goods and services that are directly associated with biodiversity and ecosystems. An enabling policy environment that supports financial institutions in better managing the risks and capitalising on the opportunities is key. Encouraging financial flows that facilitate sustainable use, protection and restoration of biodiversity should be a policy objective, as well as a mechanism for giving financial value to natural capital.

What are our suggestions for the GBF?

For financial flows to become aligned to global biodiversity goals and targets so that the challenges we describe above can be addressed, we suggest the following amendments to the current draft GBF text:

Theory of change

Explanation: The reference to "financial" is linked to resource mobilisation, but the GBF should recognise the significant negative impact that businesses and financial institutions already have on biodiversity and commit to changing that.

Section D, Current paragraph 5 with our suggested amendments: *"As such, Governments and societies need to determine priorities and allocate financial and other resources, **ensure that public and private financial flows are aligned**, internalize the value of nature and recognize the cost of inaction."*

Goal D

Explanation: The Paris Agreement was an important milestone for the financial sector. Article 2.1.c gave financial institutions the signal, loud and clear, that they need to align business models with the goals of the Paris Agreement. In similar way, the GBF should include an explicit goal for financial institutions and businesses to align financial flows to global biodiversity goals and targets. It is important not only to focus on increasing recourses for nature, but also to mention that harmful financial flows need to be reversed.

Current Goal D: *"The gap between available financial and other means of implementation, and those necessary to achieve the 2050 Vision, aligning public and private financial flows, is closed."*

OEWG co-chairs' suggestions for Goal D[15] with our suggested amendments: ***"Building on past investments,*** *the gap between available financial and other means of implementation, and those necessary to achieve the 2050 Vision, is closed **by aligning public and private financial flows with the goals and targets of the Global Biodiversity Framework, reducing harmful flows and increasing resources ~~have been increased~~**."*

Current Milestone D.1 with our suggested amendments: *"Adequate financial resources to implement the framework are available and deployed, progressively closing the financing gap up to at least US $700 billion per year and **all public and private financial flows are aligned with goals and targets of the Global Biodiversity Framework, and harmful flows are reduced** by 2030."*

Target 14

Explanation: The private financial sector is needed and will be critical if we are to deliver the urgent action required to halt and reverse biodiversity loss in this decade. However, thinking about resource mobilization only in terms of new financial resources from the public sector would mean missing out on the opportunities which exist to reshape and redirect existing global financial flows that come from private financial institutions. It is the role of governments to enable financial institutions to align with the goals and targets of the GBF.

Current Target 14: *"Fully integrate biodiversity values into policies, regulations, planning, development processes, poverty reduction strategies, accounts, and assessments of environmental impacts at all levels of government and across all sectors of the economy, ensuring that all activities and financial flows are aligned with biodiversity values."*

OEWG co-chairs' suggestion for Target 14[15] and our suggested amendments: *"Fully integrate biodiversity and its multiples values into policies, regulations, planning, development processes, poverty reduction strategies, accounts, and assessments of environmental impacts at all levels of government and across all sectors of the economy, **creating an enabling environment and** ensuring that all activities and **public and private financial flows, including the finance sector,** are aligned with the goals **and targets** of the global biodiversity framework."*

Target 15

Explanation: Business are not party to the Convention so target 15 should be addressed to Member States and request them to create the enabling environment that business need to identify, assess and disclose their impacts and dependencies on biodiversity in order to minimise the negative impacts and shift capital flows.

Current Target 15 with our amendments: *"**Require** all businesses **and financial institutions** (public and private, large, medium, and small) **to regularly measure,** assess and ~~report on~~ **disclose** their dependencies and impacts on biodiversity, **across operations, value chains and portfolios**, from local to global, and progressively reduce negative impacts, by at least half and increase positive impacts, reducing biodiversity-related risks to businesses **and financial institutions** and moving towards the full sustainability of extraction and production practices, sourcing and supply chains, and use and disposal."*

Target 18

Explanation: This target aligns with Goal D and is focused on decreasing negative incentives. It is not clear what kind of incentives. We think that it is important to make clear that this target is about all (in)direct subsidies including tax and public procurement policies and that they need to be redirected, reformed, repurposed or eliminated and that positive incentives for biodiversity need to be scaled up.

Current Target 18 with our suggested amendments:

"Redirect, repurpose, reform or eliminate ***all direct and indirect subsidies and*** *incentives harmful for biodiversity,* ***including tax and public procurement policies****, in a just and equitable way, reducing* ***the most harmful subsidies*** *~~them~~ by at least US$ 500 billion per year, ~~including all of the most harmful subsidies~~, and ensure****ing*** *that incentives, including public and private economic and regulatory incentives are either positive or neutral for biodiversity."*

Footnotes

1. First draft of the Global Biodiversity Framework. Convention of Biological Diversity, 2021
2. Roundtable B: Closing the Financing Gap and ensuring the means of implementation. High-Level Segment of the United Nations Biodiversity Conference in Kunming, 2020
3. Taskforce on Nature-related Disclosures
4. A Comprehensive overview of Global Biodiversity Finance. OECD, April 2020
5. Capital Markets Fact Book. Sifma, July 2021
6. Multi-billion-Dollar Opportunity: Repurposing agricultural support to transform food systems. FAO-UNDP-UNEP, September 2021
7. Financing Nature: Closing the Global Biodiversity Financing Gap. Paulson Institute, the Nature Conservancy and Cornell Atkinson Center for Sustainability, September 2021
8. Financial Institution Statement ahead of the Convention on Biological Diversity COP15. (signed by 78 financial institutions). Finance for Biodiversity Foundation and Ceres, 2021
9. The Little Book of Investing in Nature. Global Canopy, 2021
10. The Economics of Biodiversity: The Dasgupta Review. Dasgupta, P., February 2021.
11. Paris Agreement. UNFCCC, 2015
12. Glasgow Financial Alliance for Net Zero (GFANZ). October 2021
13. Finance for Biodiversity Pledge (signed by 84 financial institutions)
14. Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy. WEF in collaboration with PwC, January 2020
15. Reflections by the co-chairs following the first session of the third meeting of the working group on the post-2020 Global Biodiversity Framework. CBD/WG2020/3/6, November 2021

This paper has been developed within the Public Policy Advocacy working group of the Finance for Biodiversity Foundation.

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