Finance *for* Biodiversity Pledge

Position paper

Aligning flows with biodiversity goals and targets, part II

13 June 2022

This is a paper from the Finance for Biodiversity Foundation. Together, 98 financial institutions representing 19 countries and in total €14 trillion in assets have signed the Finance for Biodiversity Pledge. As financial institutions, we recognise the role we have to play in reversing nature loss by 2030 and are committed to ambitious action through our investment and lending practices. The Pledge signatories have already taken initial steps to redirect financial flows away from environmentally harmful activities. The support and extension of these voluntary actions require an enabling environment.

The purpose of this paper is to i) reiterate what the financial sector would like to see in the Global Biodiversity Framework (GBF), ii) illustrate how the alignment of financial flows (across the financial sector) could be implemented by parties and financial institutions and iii) explain how these actions can be broadened and deepened through a supportive regulatory environment.

Introduction

On 16 February 2022, we published a position paper on Aligning Financial Flows with Biodiversity Goals and Targets[1]. The purpose of the paper was to illustrate the growing commitment from the financial sector to help meet biodiversity goals and targets, and to insist that the critical role of the financial sector in helping to reverse biodiversity loss be explicitly referenced in the GBF, so that there is a clear framework for regulatory action.

At the meeting of the Open-Ended Working Group in Geneva in March 2022, we called for changes to the text of GBF Goal D to explicitly require the alignment of all [relevant] financial flows with biodiversity goals and targets as part of the Theory of Change, so that this alignment is clearly a policy aim in its own right, not just an implementing measure. We also called for supporting changes to GBF Targets 14, 15 and 18.

What does aligning financial flows mean for the private sector?

By "aligning all financial flows" we mean:

- including all financial flows from the private sector and public sources;
- reducing the negative impact of existing financial flows; and
- ensuring that new financial flows do not harm nature, and are mainstreamed into all economic sectors.

The reason that we are calling for the alignment of all financial flows is because nature underpins most economic activities. Biodiversity loss presents a financial risk to our customers and businesses, and a systemic risk to the broader economy. The alignment of all financial flows to address this goes beyond the important question of funding nature conservation and goes to the heart of all business and financial activity, regardless of its purpose. Therefore, it is critical that the role of the financial sector in meeting the biodiversity goals and targets is not left to voluntary initiatives and that the GBF provides the right framework for regulatory action.

What is the private financial sector already doing?

The private financial sector is taking important steps to address biodiversity loss. First of all, 98 signatories of the Finance for Biodiversity Pledge have committed to:

1 Collaborating and sharing knowledge on biodiversity
2 Engaging with companies
3 Assessing impact
4 Setting targets
5 Reporting publicly on the above before 2025

Under the Finance for Biodiversity Foundation, member financial institutions are collaborating actively to assess and measure their impact and dependencies on nature and to set targets for protecting biodiversity. They are also establishing a platform to engage jointly with systemically important companies and relevant policymakers via a new programme, Nature Action 100 (NA100). NA100 is expected to be launched this summer[2].

The Pledge signatories are also active within the Taskforce on Nature-related Financial Disclosures (TNFD) in developing a framework for risk management and disclosure. The TNFD will help corporates and financial institutions to understand, identify and manage the (physical and transition) risks associated with their dependencies and impacts on nature, and also to identify the opportunities and help with public disclosure.

In the meantime, the financial institutions are taking action to reduce nature-related financial risks.

Examples from the Finance for Biodiversity Pledge signatories:

Aviva plc - *Redirecting capital towards nature-positive outcomes*

Aviva launched its Biodiversity Policy in September 2021. It outlines several principles to guide decision-making and actions on biodiversity as well as commitments across the company. This includes conducting a biodiversity impact assessment across its investments, direct and underwriting, as well as a deforestation risk assessment across its financing activities and investments. Action on biodiversity is also embedded within Aviva's net zero by 2040 plan, where they seek to ensure that their investments in carbon removals also have positive impacts on biodiversity. The company has committed to invest £100m into nature-based solutions by 2030 as a first step. Aviva, alongside partners WWF, are also advocating for the integration of nature into corporate, finance sector and government net zero transition planning[3].

In addition, Aviva Investors also founded the Natural Capital Transition Global Equity Fund (NCTF). This fund invests in companies that either provide solutions to biodiversity loss or are transitioning their business models to manage their impact on nature. The fund engages with all holdings to encourage biodiversity assessment, set up timebound biodiversity-related targets, and identify key weaknesses specific to each company and encourage action to resolve these: if no action is taken in these three areas over a three-year period, the company will be divested from the fund.

Aviva Investors annual letter to the chairs of companies they invest in lists biodiversity as 'one of 4 key stewardship priorities that will shape our voting and engagement activities this year'. In relation to deforestation, they have committed to vote against targeted management resolutions at the worst-performing forest risk commodity companies in the Global Canopy Forest 500 ranking.

Federated Hermes Limited - *Biodiversity-related stewardship and investment*

EOS at Federated Hermes' developed a white paper, *Our Commitment to Nature*, that sets out engagement priorities and expectations of companies. It makes the business case for action and outlines how investor engagement with companies is a key route by which biodiversity loss can be halted and reversed. EOS continues to call on companies to commit to having a net-positive impact on biodiversity throughout their operations and supply chains by 2030 at the latest. The expectation is for this goal to be accompanied by strong governance, effective measurement, an impactful strategy, and regular disclosure. EOS engages with companies across a range of sectors on how they can reduce their contribution to the five drivers of biodiversity loss, including climate change, pollution, and land and sea use change.

Federated Hermes Limited also recently launched a Biodiversity Equity Fund, which invests in a concentrated portfolio of companies that are best in class and are providing solutions to avert loss of biodiversity and support its restoration.

HSBC Asset Management - *Linking land restoration to carbon credits*

Climate Asset Management – a natural capital investment partnership between HSBC Asset Management and climate change specialist firm Pollination – will support a $150 million nature-based carbon programme in East Africa. Working through the Global EverGreening Alliance, the Restore Africa programme aims to restore more than two million hectares of land and directly support two million smallholder farms in the next five years across Kenya, Ethiopia, Malawi, Tanzania, Uganda, and Zambia. The programme is an innovative community-led model that connects the local efforts of farmers on the ground with new revenue streams from global carbon markets. Building on the existing investments of smallholder farms and NGOs to restore degraded ecosystems, the Global EverGreening Alliance will support farmers to adopt regenerative and other sustainable land management practices that sequester greenhouse gas emissions. Climate Asset Management will provide the financing required to implement these activities, against the forward volume of carbon credits expected to be produced. Investors in Climate Asset Management's Nature Based Carbon Strategy would receive the carbon credits generated, as their return.

Storebrand Asset Management - *Aiming for deforestation-free portfolios in 2025*

Storebrand Asset Management has committed to eliminating agricultural commodity-driven deforestation from its portfolios by 2025. It has developed an approach for screening that incorporates two tools: Trase, developed by the Stockholm Environment Institute, Global Canopy and Neural Alpha, and the Forest 500 developed by Global Canopy. Forest 500 identifies and ranks the most influential companies and financial institutions in forest-risk commodity supply chains. The results indicate shortcomings in these companies' commitments, highlighting where greater action and transparency is required. Trase brings together disparate, publicly available data to estimate deforestation impacts associated with soft commodity producers and traders in high deforestation-risk commodity supply chains. This analysis allows Storebrand Asset Management to identify sectors and companies to focus its attention on. The identified companies will need to demonstrate a commitment to eliminating deforestation by taking the following steps, amongst others: stronger awareness and governance, a publicly disclosed commodity-specific policy with quantifiable, timebound commitment, traceability covering the entire supply chain, and monitoring and verification processes to ensure that suppliers are complying with the company's deforestation policy. If dialogues don't progress, escalation will be needed, such as through voting at AGMs, signalling whether companies are moving far or fast enough.

How can private finance sector action be scaled up through the Global Biodiversity Framework?

Voluntary action alone will be insufficient to change practices across the financial sector in a way that protects and restores biodiversity at the rate and scale required. Broadening the scope of the voluntary action being taken by some financial institutions will require supportive action from governments, regulators, and public finance institutions.

Progress achieved on policy and reporting frameworks for climate change can serve as a blueprint for nature-related risks, potentially enabling a much swifter response. As we have seen with climate-related regulation, an acceleration of regulation is required to support the financial sector's response to the biodiversity crisis. Furthermore, given the strong link between climate change and biodiversity loss, we need a harmonised policy approach that will deliver net-zero greenhouse gas emissions, in line with the goals of the Paris Agreement, and tackle the nature crisis. It is critical that the GBF, especially through Goal D, create the impetus for governments to create an enabling environment that will facilitate and increase action from the financial sector to reverse biodiversity loss in this decade.

While there is still a long way to go in creating effective policy mechanisms to address nature-related risks, we believe that Goal D should be framed to serve as the basis for driving further regulatory action by requiring the alignment of all public and private financial flows. The need for an enabling regulatory environment to support implementation by the financial sector should be mirrored in targets 14 and 15.

Mandatory disclosure and standardized data

Whilst the financial stability implications of climate change have become widely accepted by financial authorities, further analysis into the scale and breadth of biodiversity-related financial risks is complicated by data gaps, methodological challenges, and a widespread lack of understanding about financial materiality related to biodiversity loss. Recent initiatives such as the Taskforce for Nature-related Financial Disclosures aim to fill these gaps. With time, governments should introduce regulation to make such disclosures mandatory for businesses and financial institutions, as has been the case for climate-related financial disclosures through the Taskforce on Climate-related Financial Disclosures (TCFD) framework. For this reason, it is critical that target 15 in the GBF make explicit reference to 'disclosing impacts and dependencies'.

In Europe, the Sustainable Finance Disclosure Regulation (SFDR) incorporates a company's impact on biodiversity-sensitive areas under the principal adverse impacts' framework. In France, Article 29[4] of the law on Energy and Climate has already been introduced. It requires financial institutions, including investors, banks and insurers, to disclose their biodiversity and climate-related impacts and risks. In addition to disclosure, French financial institutions will be required to / need to articulate their strategy for reducing negative biodiversity impacts. This should include specific targets and a measure of alignment with international biodiversity goals. It is expected that the TNFD will support the implementation of this law. With time, we expect to see more countries implement similar requirements for financial institutions, based on France's leading example.

Central banks and nature-related financial risks

Central bank and financial supervisors have gained increasing attention as key components in the transition towards a financial sector that actively contributes to international climate ambitions and to the Sustainable Development Goals. They increasingly also recognize their role in tackling biodiversity-risk of private financial flows.

Central banks and financial supervisors are public institutions charged with maintaining price and financial stability, typically achieved via their control over monetary policy, their provision of liquidity to the banking system, and via financial regulation and supervision, says research of the Stockholm Resilience Centre[5]. The Network for Greening the Financial System (NGFS), which comprises over 90 central banks and financial supervisors, has recognized that climate change and broader environmental threats such as biodiversity loss are 'sources of financial risk' and that 'central banks and supervisors should [...] ensure that the financial system is resilient to these risks'.

For example, the Dutch central bank, De Nederlandsche Bank (DNB), has quantitatively mapped the physical and transition risks of domestic biodiversity loss, estimating that 36% of Dutch financial institutions are highly dependent upon at least one ecosystem service. An analysis of the European Central Bank's corporate sector purchase program (CSPP) portfolio – which accounts for 20% of the euro-denominated bond market – found that over 40% of the studied assets are potentially exposed to high or very high dependencies on ecosystem services. Using an extended methodology that accounts for upstream effects, the Banque de France has found that all securities held by French financial institutions are to a greater or lesser extent dependent on ecosystem services through their supply chains. The World Bank has also used these methodologies for Brazil, finding similar results.

The NGFS Study Group's recommendations on the topic of biodiversity and financial stability have focused on the need to develop risk assessment methodologies, such as biodiversity-related scenarios, and signal the importance of accounting for biodiversity to financial institutions under their supervisory jurisdiction.[6]

Reforming economic policy

Economic incentives and the phasing out of harmful subsidies also play a key role in enabling economic conditions for transformations. Economic policy reform to align incentives with sustainable practices (e.g., reform of subsidies and other government support harmful to nature and help better capture the value of nature in decision-making through environmental taxes and tradable permits). We therefore welcome the recommendations of the Coalition of Finance Ministers for Climate Action in managing nature-related financial risk using policy levers like aligning economic incentives with sustainable practices.[7]

The so-called 'Amazon soy Moratorium' in Brazil during the years 2004-2012 led to the rapid and 84% decrease in the rate of deforestation. The combined effects of more stringent national legislation, increased government capacities, international partnerships, and consumer pressure led to visible improvements on deforestation risks in the Brazilian Amazon. Restrictions to access to credit, and new rules for municipal subsidies to economic sectors with high deforestation risk played a key role. A phase-out of deforestation-prone economic activities, to new and socially inclusive business models that support regenerative farming practices, reforestation and job opportunities, will require investments.

What further action is required in Nairobi and at COP15?

We are pleased that the bracketed negotiated text of the Global Biodiversity Framework for Goal D in the Report of the Open-ended Working Group following the Geneva meeting has included the concept of the alignment of all financial flows into the text for further discussion in Nairobi. Below you can find our further recommendation for Goal D and also for the accompanying Targets 14 and 15.

Goal D

We urge Parties to support the inclusion of the following text in Goal D:

- *"the alignment of all public and private financial flows with [the 2050 Vision and the goals and targets of this framework is achieved]"*
- financial flows that is "harmful to biodiversity is reduced"

We recommend keeping the **bold** parts in the text of Goal D in the Report of the third meeting of Open-ended Working Group (part II)[8]:

[In accordance with Article 20 of the Convention] [Building on past investments,] [By 2050,] [Address] the [biodiversity finance] gap [between available financial resources [from all sources] and other means of implementation, and those necessary] to achieve the 2050 Vision and the goals and targets of the post-2020 global biodiversity framework [is closed], [prioritizing a significant increase in public resources, and through direct access modalities] [and by 2030,] resources from all sources have been significantly increased [including non-financial means of implementation [by $X by 2030 and $Y by 2050][by % of GDP and used efficiently and effectively], **[financing harmful to biodiversity is]** **[reduced** by $X by 2030] [and [eliminated] by 2050]]] and enhance capacity building and development, technical and scientific cooperation, and technology transfer, and [all financial resources]**[public and private financial flows]** **are aligned with [the 2050 Vision and the goals and targets of this framework** [and effective mainstreaming of biodiversity across all policies and sectors [across all national levels] **is achieved**]][biodiversity objectives] [CBD objectives].

We note that there are alternate versions of Goal D provided. We support Alt 1 as a possible alternative for the text above:

- Alt 1 – We support the way that the alignment of public and private financial flows is referred to in Alt 1. It captures all financial flows, regardless of their purpose, and is clear on the need to reduce harmful flows. This fully captures our policy intentions.
- Alts 2 and 3 – We think that these alternates are incomplete in the way that they refer to the alignment of public and private financial flows, as the alignment is limited to the context of resource mobilisation for biodiversity goals and targets. We fully support increased resource mobilisation for these aims and believe that the private sector has a big role to play in this. However, the policy on aligning all financial flows to meet biodiversity goals and targets is incomplete if we do not capture all flows, regardless of their purpose. Should either Alt 2 or Alt 3 become the preference of the Parties, we urge that the reference to the alignment of public and private financial flows is broadened to include all flows. We believe that referring to the alignment of all flows regardless of purpose will result in an increase in private sector activities towards biodiversity-positive investments and actions.
- Alt 4 – This alternate fails to refer to the alignment of financial flows at all. Should Alt 4 become the preference of the Parties, as with Alt 2 and Alt 3 above, we urge that the reference to the alignment of public and private financial flows regardless of their purpose be explicitly included in the text.

Target 14 and 15

Goal D and the references to the alignment of public and private financial flows must be connected with the respective Targets, in particular Targets 14 and 15, by clearly identifying concrete measures for both the public and private sectors, to ensure the implementation of the alignment of public and private financial flows by all relevant actors. These targets should make clear the need for Parties to create enabling environments to facilitate action from financial institutions and businesses, and to clarify that this also includes the reduction of harmful private financial flows. The draft text of those targets in the Report of the Open-Ended Working Group appropriately reflects our position, so we urge that those concepts remain in the text.

The important elements for Targets 14 and 15 are reflected in our previous paper.

We recommend keeping the bold parts and removing the crossed-out parts in the text in the Report of the third Open-ended Working Group (part II):

Target 14

[Ensure the full integration of] [Fully integrate] biodiversity and its [multiple] values into policies, regulations, planning and development processes, poverty reduction strategies, [accounts,] and environmental impact assessments, across all levels of government and [across all] sectors of the economy, [~~progressively~~]* **aligning all public and private activities**, [fiscal] and **financial flows with the goals and targets of this framework** [and the Sustainable Development Goals].

** Please note that we would like to see 'progressively' removed, as it is inconsistent with the urgency required. Immediate action is needed.*

Target 15

[[Increase significantly the number or percentage of] [Take legal, administrative and policy measures to] [**Ensure through mandatory requirements** that [all]] **businesses and financial institutions** [, especially [large ~~and economically significant~~* businesses] [those with significant impacts on biodiversity,]] [**assess, monitor, [disclose**]][regular evaluations] and [transparently report] [and accept responsibility for their] on their dependencies and impacts on biodiversity, human rights [and the rights of mother earth] [**across operations, value chains and portfolios**,] **reduce [and manage] negative impacts** [by at least half], [ensuring ABS compliance and reporting,] **and increase positive impacts**[, ensuring legal responsibility and accountability, through regulation of their activities, imposing penalties for infractions, ensuring liability and redress for damage and addressing conflicts of interest] reducing biodiversity-related risks **to businesses and financial institutions** and supporting the circular economy, [moving towards [sustainable patterns of production and extraction] the full sustainability] [of extraction and production practices], sourcing, supply chains, use and [disposal], [providing information needed to consumers to enable the public to make responsible consumption choices that are biodiversity positive] [following a rights-based approach] consistent and in harmony with the Convention and other relevant international obligations, together with Government regulation.]

** Please note, we find the word 'economically significant' problematic as it lacks definition. It would be better to be clear as to exactly what size, or defined economic impact, of company this is to apply to.*

Footnotes

1 Aligning financial flows with biodiversity goals and targets, Finance for Biodiversity Foundation, February 2022.
2 Global investors developing new collaborative engagement initiative to drive nature action, Finance for Biodiversity Foundation, April 2022
3 Aligning the UK Financial System to Net Zero: WWF-Aviva, 2022
4 Article 29, French government, November 2019
5 Economy and Finance for a Just Future on a Thriving Planet, Stockholm Resilience Centre, June 2022
6 Central banking and supervision in the biosphere, NGFS-INSPIRE, 2022
7 'An Overview on Nature-Related Risks and Potential Policy Actions for Ministries of Finance', Coalition of Finance Ministers for Climate Action, June 2022
8 Report Open-ended Working Group part II in Geneva, CBD, March 2022

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

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