

## Position paper

# Aligning financial flows with biodiversity goals and targets, part 3

2 December 2022

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This is a paper from the Finance for Biodiversity Foundation. Together, 111 financial institutions, representing 20 countries, 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 reiterate what the finance sector thinks is necessary in the post-2020 Global Biodiversity Framework (GBF), which will be discussed at the fifth meeting of the Open-Ended Working Group (OEWG) from 3 to 5 December, prior to the 15th Conference of the Parties (COP15) between 7 and 19 December 2022.

We build on our earlier position paper <sup>1</sup> and position paper <sup>2</sup>. These position papers explain our support for the GBF and provide specific text suggestions on aligning financial flows and mandatory disclosure requirements for businesses (Goal D, targets 14 and 15). They reflect our position at the meetings of OEWG-3 in Geneva and OEWG-4 in Nairobi, in which we participated as an observer of the Convention on Biological Diversity (CBD).

## Introduction

The economic transformation required to protect biodiversity and safeguard the natural systems that our economies and financial systems depend upon to function cannot be left to the voluntary actions of relatively few private actors. At COP15 of the UN Convention on Biological Diversity, the final negotiations on the GBF will occur and new goals for biodiversity action will be adopted by the Parties. It is critical that the new goals require urgent regulatory action, much like we have seen from the Paris Agreement and the subsequent climate-related regulations at the national level.

In order to achieve this, we call on all the Parties to support the alignment of public and private financial flows with the goals and targets of the GBF as a key policy aim, globally and

locally. It should be about both financing green and greening finance, meaning that positive financial flows are increased and financial flows that harm biodiversity are reduced.

This paper states the language that we think must remain in the GBF to properly give effect to this economic transformation. It is critical that the Parties agree to explicitly include the alignment of all financial flows in the goals and targets of the GBF. It is equally critical that the Parties focus on implementation at the national level and through their National Biodiversity Strategies and Action Plans (NBSAPs), once the GBF is agreed. Implementation should include:

- Setting disclosure regulations for financial institutions
- Requiring financial institutions to develop and execute transformation pathways
- Integrating nature-related risks alongside climate-related risks into regulatory frameworks for financial institutions
- Supporting central banks and financial supervisors to play a role in shaping private finance sector action
- Creating economic incentives for businesses and the finance sector to incorporate nature into decision-making

## Aligning financial flows

The alignment of all financial flows<sup>3</sup> goes beyond the important question of funding nature conservation and goes to the heart of all business and financial activity, regardless of its purpose. The economy is embedded in and enabled by nature, so financial institutions are dependent on biodiversity and ecosystem services through their financing of companies in all sectors of the economy.

Many companies that are receiving investment or loans are undertaking activities that are currently having a significant negative impact on biodiversity through their products, operations and supply chains. This includes through contributing to land use and sea use change, direct exploitation of species, climate change and pollution. For instance, companies that produce food and beverages have large agricultural supply chains, where there may be links to deforestation, pesticide run off, soil degradation and other issues that are harmful to biodiversity.

By requiring the alignment of financial flows, we can reduce the financing of, and investment in, companies and activities that are causing this significant harm to biodiversity. For instance, banks can refrain from offering loans to companies operating in areas of high conservation value or those with exposure to deforestation risks. Furthermore, by aligning financial flows, investors can allocate capital in a way that provides solutions to the biodiversity crisis, contributing to positive impacts and creating new markets. Investors can also engage with companies in their portfolios to ask for progress on mitigating biodiversity risks.

Accordingly, a focus on aligning financial flows with global biodiversity goals should be an overarching policy goal in the GBF, so that it can subsequently be implemented at the regional, national and local levels. We also think the glossary of the GBF should be updated to reflect the broader definition of aligning flows (see suggested text in the next section).

## Global Biodiversity Framework text recommendations

We have based our text recommendations on the draft text created by the informal group<sup>4</sup> in October 2022.

- Text that should be kept in is **bold**
- Text that should be removed is ~~crossed out~~
- Text that should be added is **green**

### Goal D

#### Rationale

For all the reasons given above it is imperative that the reference to “public and private financial flows aligned” remains in Goal D. Alignment of financial flows must be a key policy aim and key policy outcome of the GBF, not just a target as a means of achieving other policy aims. It is also important that the policy aim is achieved within the specific goals and timeframe of the GBF, and that this is clear in the text. We think that linking the alignment of all financial flows with the 2050 vision lacks certainty as to what the alignment should be with and risks achieving prompt implementation of the GBF in the shorter and medium term. We therefore need to link alignment of financial flows with the specific requirements of the GBF. We suggest “the post-2020 GBF” rather than the “2050 vision”.

#### Text suggestions

##### Option 1

Adequate means of implementation, [including financial resources, capacity-building[, scientific cooperation] and access to and transfer of [appropriate environmentally sound technology] [and resources] [numerical values to be added] to **fully implement the post-2020 global biodiversity framework** are [[addressed] [secured] [from all sources] and] [equitably] accessible to all Parties[, particularly developing countries [and small island developing States]] [, that are most environmentally vulnerable] [in accordance with Article 20 of the Convention] [with **public and private financial flows aligned with post-2020 GBF 2050-vision.** [and to close the biodiversity finance gap] ].

##### Option 2

This option was not discussed by the informal working group. If this option is to be considered, the text in bold must be retained.

Adequate means of implementation to fully implement the post-2020 global biodiversity framework are secured and employed by [all] Parties, **with public and private financial flows aligned with post-2020 GBF 2050-vision.**

### Target 14

#### Rationale

Target 14 rightly includes the alignment of all financial flows with the goals and targets of the GBF as part of the requirements for an enabling environment. However, we believe that the words “progressively” and “relevant” should be removed because they create uncertainty as to what the actual obligation is and risks permitting unacceptable delays in implementation. We also think the reference to specific sectors should be removed because an economy-wide approach is required. In addition, there is a risk of omitting a material sector, or misclassification. For instance, food and beverage producers are a clear omission in the proposed text. In addition, deep sea mining is an activity rather than a sector classification. Both of these instances highlight the risks of trying to list sectors, but if this approach is to be taken, then it is important that any classification is made by reference to internationally understood sector classification standards.

#### Text suggestions

Ensure the [full] integration of biodiversity and its multiple values into policies, regulations, planning and development processes, poverty eradication strategies, [national accounts,] and strategic environmental and environmental impact assessments within and across all levels of government and across all sectors, [in particular agriculture, forestry, fisheries, aquaculture, finance, tourism, health, manufacturing, infrastructure, energy and mining, and deep-sea mining with safeguards,] **progressively aligning all relevant public and private activities, [fiscal] and financial flows with the goals and targets of this framework.**

## Target 15

### Rationale

Mandatory reporting by businesses and financial institutions is critical for the effective implementation of aligning financial flows. We appreciate the need for a phased approach to mandatory reporting. We also consider it useful to state that the target requires disclosure to be consistent with internationally recognised disclosure standards, such as the Taskforce on Nature-related Financial Disclosures (TNFD) or the Global Reporting Initiative (GRI).

### Text suggestions

Take legal, administrative or policy measures to [ensure that all] [significantly increase the number or percentage of] **business and financial institutions** [, particularly large and transnational companies and **companies with significant impacts on biodiversity** ,] [that]: (a) [Through mandatory requirements] **Regularly monitor, assess, and fully and transparently disclose their [dependencies and] impacts on biodiversity in accordance with international standards [along their operations, supply and value chains and portfolios]**; (b) [Provide information needed to consumers to enable the public to make responsible consumption choices]; (c) [Comply and report on access and benefit-sharing, as applicable;] (d) [Take legal responsibility for infractions] [, including through penalties, and liability and redress for damage and addressing conflicts of interest;] **in order to** [significantly] **reduce** [by half] **negative impacts on biodiversity, increase positive impacts**, reduce biodiversity-related risks to business and financial institutions, and [moving towards sustainable patterns of production] [foster a circular economy] [, consistent and in harmony with the Convention and other international obligations, together with Government regulations.]

## Glossary of the GBF

The glossary of the GBF<sup>5</sup> is currently focussed on resources for nature. We think it should be updated to reflect the broader definition of aligning financial flows. Our suggested text amendments are **in bold** below.

Financial flows are aligned with biodiversity values	"Aligning flows" means <b>reducing harmful public and</b> private financial flows and channelling financial <b>activities and</b> investments – public and private – towards economic activities that enhance our stock of natural assets and encourage sustainable consumption and production.
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*Definition of aligning financial flows in the glossary of the first draft of the GBF, version May 2022*

## Footnotes

- <sup>1</sup> [Position Paper 1 - Aligning financial flows with biodiversity goals and targets](#), Finance for Biodiversity Foundation, February 2022
- <sup>2</sup> [Position Paper 2 - Finance for Biodiversity Foundation, Aligning flows with biodiversity goals and targets](#), Finance for Biodiversity Foundation, June 2022
- <sup>3</sup> In our [Position Paper 1](#), we included a definition of the 'alignment of financial flows' on page 1 and 2, Finance for Biodiversity Foundation, February 2022
- <sup>4</sup> [Report of the meeting of the informal working group on the post-2020 GBF](#), CBD, October 2022
- <sup>5</sup> [Glossary for the first draft of the post-2020 Global Biodiversity Framework](#), CBD, May 2022

This paper has been developed within the Public Policy Advocacy working group of the Finance for Biodiversity Foundation and was compiled by Sonya Likhtman (Federated Hermes Limited), Emine Isciel (Storebrand Asset Management), Suresh Weerasinghe (Aviva Plc), Thomas O'Malley (HSBC Asset Management).

We would like to thank everybody who contributed with co-reading and suggestions for this position paper.

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