Interface Dialogue Finance and Biodiversity
Results and insights of IDFB 1

Results and insights of the Content Session of IDFB 1 held as a hybrid meeting on 8 September 2021 at the IUCN World Conservation Congress and the reflection session for Parties, held on 21 September 2021

The IDFB
The gap in funding for biodiversity worldwide is estimated to be between 598 and 824 billion USD yearly[1]. To fill this gap, the financial sector has to be involved in achieving an ambitious post-2020 Global Biodiversity Framework (GBF).

The Interface Dialogue Finance and Biodiversity (IDBF) is set up to bring together a group of Parties and financials willing to create momentum around exchange and learning from experiences and best practices that the financial sector has in aligning finance and biodiversity. The ultimate goal is to support Parties in designing and implementing a strong GBF that incorporates and maximizes the effective use of public and private finance.

Main takeaways of IDFB 1

- Momentum on biodiversity in financial sector is driven by awareness on financial risk and the rise and need of nature as a new asset class.
- There is plenty of experimenting going on. What is needed is common ground and cooperation on goals, definitions, metrics for measurement, data, blended finance and reporting.
- Capacity building on biodiversity in and between institutions and actors is key for success of implementation of the Global Biodiversity Framework.

Speakers at session 1
Financial Sector
Avril Benchimol (Global Environmental Fund)
Jorim Schraven (Dutch Entrepreneurial Development Bank)
Edith Kiss (Mirova)
David Meyers (Conservation Finance Alliance)

Parties to the CBD
Aurelien Girault (Government of France)
Monique Akullo (Government of Uganda)
Katie Beckett (Government of United Kingdom)
Lucretia Landman (Government of Switzerland)

Speakers at session 2
Parties to the CBD
William Lockhart (United Kingdom)
Monique Akulo (Government of Uganda)
Hélène Perier (EU Commission)
Lucretia Landman (Government of Switzerland)
Nith Chin (Government of Cambodia)
Kutami Michinori (Government of Japan)
Hayo Haanstra (Government of the Netherlands)

Observers
Odile Conchou (CBD)
Jeremy Eppel (Finance for Biodiversity)

[1] Deutz, A., Heal, G. M., Niu, R., Swanson,E., Townshend, T., Zhu, L., Delmar A., Meghji, A., Sethi, S. A., and Tobinde la Puente, J. 2020. Financing Nature: Closing the global biodiversity financing gap. The Paulson Institute, The Nature Conservancy, and the Cornell Atkinson Center for Sustainability.

Lessons and insights for the Global Biodiversity Framework

Strengthening links with the private sector
Resource Mobilization is a crucial component in the design and implementation of the Global Biodiversity Framework (GBF). Resources from all source - private and public - are necessary. The GBF should stimulate the mobilization of private finance. The private sector needs to know what the ambitions, targets and monitoring frameworks will be and the GBF should include a strong implementation mechanism for planning, monitoring, reporting, review of progress.

On risk
The financial sector is highly dependent on biodiversity and is exposed to risks related to biodiversity loss. But there are also opportunities. An important part of the private sector has been moving in the right direction over the last years but links to the GBF are often insufficient. These links still have to be strengthened by for example integrating dependencies on biodiversity in decision making of investors and financial institutions. We have to understand the issues that the private financial sector raises. Governments can play a role in de-risking. The private sector is unique for every country and every party is unique at the national level.

Capacity building of governments and Public Development Banks
National Biodiversity Finance Plans will be crucial for the implementation of the GBF at national levels. These plans should be instrumental in attracting new financial flows. To make this happen, we have to increase capacity and strengthen the link between the GBF and private finance. Corporate action is needed to make this happen and the IDFB can be helpful in this. Also Public Development Banks (PDB) need capacity building. Awareness of COP15 among PDBs is often insufficient. Even if there is political will, PDBs might just not able to make the link. PDBs need experts to build capacity internally and to get prepared for COP15, PDBs need to make sure that projects will not do any harm to biodiversity. Experts should be brought together to help build capacity internally on the questions how to get prepared for COP15 and how to get to good projects that go beyond window dressing.

The role of ecosystem services
Climate change, biodiversity and land degradation are all critical aspects for the engagement of governments and the private sector because they deal with natural capital, which they try to protect. Governments also see innovation in the private sector. Governments have knowledge and tools coming their way that will drive the economy. The government will be able to assess if these tools are transparent, and these tools will be able to show governments what has to be done to protect nature. Capacity building is a crucial component for this work. An important part of the first session of the IDFB was that it drew attention to the importance of other policy instruments that can set the right signals. Ecosystem services can be an example of some an implementing block and this does set the right signals for the private sector. Systems such as payments for ecosystem services can help governments to create business cases and generate investments and financial flows for biodiversity conservation. The 30 by 30 objective is one of these elements that can help governments to protect more areas through the GBF.

Trust when negotiating the post-2020 GBF
Parties negotiating the new GBF are not always ready to trust the role of private finance. Some parties are therefore not fully part of the conversation. There is divergence between an emphasize on the need for more public finance, especially ODA, on the one hand, and mobilizing private finance on the other hand. Before we can talk about mobilizing private finance we have to recognize that divergence of opinion should not result in a pushback on some of the private finance questions. The purpose of the IDFB is to promote discussions about this. Is there anything particular that we want to do after the negotiations? What can we take away from these negotiations and what should we do with this?

Alignment of finance and biodiversity in the GBF
Solid and sizable commitment for public finance is needed and it can be blended to attract and de-risk private financing. Mainstreaming biodiversity in finance is that all financial flows, including private flows, should be aligned with the goals of the GBF. It includes language to this end. Aligning all private flows with goals of the GBF echoes the Paris agreement where we saw that alignment helped to trigger tremendous movements of capital towards climate action. Therefore, financial

alignment should be central to the GBF goals. The GBF should harmonize measurability and accountability. This will help investors to know how to deliver according to the goals set for them in the GBF. Opportunities need to be created through regulations and options in the GBF with clear goals for biodiversity similar to the goals for renewable energy in climate finance under the Paris agreement. In this way, biodiversity projects can generate positive cash flows that private finance can lend against. If you look at current GBF this is where most can be won.

On BIOFIN
Special attention for BIOFIN is merited. It has been very relevant for the GBF. Uganda is an example of a country that implemented BIOFIN. The process exposed the limited dialogue that existed between the private and public sectors in the country. It helped to bring focus on biodiversity for the private sector such as agriculture, energy, water and environment and tourism which could start to transition towards conservation management. An expenditure review was made and policy and development has been better coordinated in the country since. It also led to more increased awareness about biodiversity, the absence of which can be a barrier when you try to mobilize resources from the private sector. When you make an expenditure review, you understand your financing needs and the need for mainstreaming efforts across all sectors. Having integrated management structures to manage ecological fiscal transfers, Uganda understands that when an ecosystem is healthy and performing, it brings more resources. Uganda now has a natural capital account, but also a tourism account, a land use account and others.

General developments, insights and lessons that were shared

From carbon to biodiversity
When climate funds were first set up, carbon prices were very low. There was some CSR that drove demand but now, with more and more parties like the TCFD and with the net-zero commitments in the targets under the Paris Agreement, we are seeing the price on carbon rising and that is creating optimism for carbon funds that address climate mitigation together with biodiversity conservation. Nature-based Solutions (NBS) create great opportunities for ecosystem-based climate adaptation and mitigation. Some NBS also include the possibility to generate carbon credits. This can be interesting for companies because it can contribute to creating a business case while producing added benefits for biodiversity as well.

Awareness on risk is rising
Banks focus on biodiversity since they are increasingly realizing that biodiversity loss is not only a risk to the world but also very much a key risk driver for themselves. The OECD estimated that global ecosystem services from biodiversity are worth about $125 trillion (1.5 times global GDP) and the Dutch Central Bank estimated for the Dutch economy that clients of Dutch banks with (very) high dependency to ecosystem services is equivalent to more than €500 billion of financial exposure (over 0.5 times the Dutch GDP).

GEF sees more integration
Ten to fifteen years ago, 90% of the overall portfolio of the GEF was related to climate change mitigation. Today, over 65% of the GEF projects integrate a combination of different environmental impacts such as land degradation, biodiversity and international waters with climate change mitigation. Fund managers, banks and financial institutions are trying to invest in projects that have this integrated angle with impact in several environmental areas. Focusing on several cash flows that come from these different areas is a way of diminishing risk. The same projects can have impact in several environmental areas and generate additional sources of cashflows that will help these projects to deliver the type of return that is needed in the first years.

Innovation and conservation as a new asset class
Conservation is emerging as a new asset class. To understand what biodiversity is as an asset class, biodiversity teams have to be created. There is a lot of innovation and new tools for measuring impact on biodiversity are becoming available. These tools are important for comparing biodiversity across different types of investments. An example is IUCN’s STAR tool that can create a harmonized score across countries while the measuring of biodiversity was until recently very localized. Mirova is piloting this tool and the Partnership Biodiversity Accounting Financials (PBAF) is working on harmonizing principles of underlying biodiversity impact assessment. It is important that the CBD is

co-chair of the TNFD. It is building on the TCFD to provide a framework for corporate and financial institutions to report an act on nature related risks and to support that shift towards the nature cost of economy that we are seeking.

Insights on mobilizing private investments with public funds

Blending for de-risking
There is the need to de-risk investments that are biodiversity positive or nature-inclusive. Blended finance is crucial on the de-risking side. Blended finance is structured as a hybrid between philanthropic money, multilateral development banks, public finance and private finance investors.
The GEF has a blended finance window (non-grant instrument) to mobilize private sector investments, into for example biodiversity, and sees several investments happening that integrate different areas of environmental impact.

The need for measuring
You cannot manage what you cannot measure so developments in the area of measuring are crucial. There are values of ecosystem services such as soil production, water regulation and reduced coastal protection that contribute to the values of nature. This trend is not yet captured by the market and knowledge on those values is therefore not reaching financial players yet.

Importance of local investments
A lot of investments are happening at a very small scale. But how do we aggregate small communities? Their microfinance needs could be a really great opportunity for new forms of investment. So we have to start working with microfinance organizations more effectively and we think that development banks could play a major role in providing blended finance that is essential to get local actors involved in investments that can be scaled up. The greatest impact can be achieved in projects and investments that are appropriate and beneficial for the local levels.

Role of Governments
There are two main ways of looking at finance for nature. One is to focus on how do we get more private finance in nature. In this area there are some really innovative approaches including blended finance and impact bonds. The bigger picture is that there is a vast amount of money that the private sector currently invests in activities that are known to be harmful to nature. Governments are key for both sides of the coin. They can help to create a level playing field for what is acceptable in a country and they can help provide revenue streams for ecosystem services other than tourism and carbon right now.

Regulation
In France, there is a set of recent regulations for financial market participants to enhance and strengthen their disclosure. This means measuring impact on biodiversity and dependencies on biodiversity while integrating biodiversity related risks. This creates an opportunity for investors to align their portfolio to the long term objective of the CBD.

In climate finance, governments actually created opportunities such as positive cash flows through regulation and through renewable energy programs. If you do not have a healthy robust market economy in the country and clear regulations and enforced rules, you are just not going to get the level of investment needed. Countries therefore need a solid investment infrastructure.

It is important that public banks better understand what the different sectors need and what works and what not. It might also be useful to work out how public money is spent in the most effective way in terms of biodiversity impact. Instead of investing public finance in accountability of the private sector, it might be more effective for development banks to use public finance to invest in policy environment. Without the right policies, the private sector will not move. In the meantime, a lot of initiatives are happening in many countries with the involvement of governments and other stakeholders. Concrete examples are important because countries to learn from.

For feedback and more information please contact:

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