Government of the Netherlands

IDFB dialogue

Interface Dialogue Finance and Biodiversity
Summary & Notes IDFB17: How frontrunning global investors are closing the biodiversity funding gap (17-09-24)

The International Dialogue for Finance and Biodiversity (IDFB) was established in 2021 by the Government of The Netherlands in the run up to COP15 to bridge the gap between greening finance and financing green. From 2021 to 2022, the IDFB hosted 15 dialogue sessions to bring together perspectives from the public sector and private financial sector. More than 30 countries and 60 experts have engaged in the dialogue sessions, where lessons and best practices on resource mobilisation and engaging the private sector were shared. Furthermore, the IDFB helped to get the alignment of all public and private financial flows in the text of the GBF and published 10 recommended actions to accelerate alignment.

After the establishment of the Kunming-Montreal Global Biodiversity Framework at COP15, this year is another big year for biodiversity. We are approaching the midway point for the Global Biodiversity Framework 2030 Targets and COP16 is fast approaching – the time for implementation has come. Private finance has a huge role to play, in addition to public finance, to implement the alignment of all financial flows and to finance the GBF targets.

Therefore, the torch of the IDFB has been reignited to again bring together experts on resource mobilisation and engagement with the financial sector from all Parties to exchange experiences and lessons learned on the mobilisation of the private sector for the GBF targets, and share knowledge linked to financing the implementation of the GBF. Over the summer, the IDFB did this by facilitating informal discussions through three Open Office Hours, where members of the IDFB network could meet each other and discuss topics and challenges on nature finance they are facing in the run up to COP16. From September to October 2024, the IDFB hosts three Dialogue Sessions to create a space for discussion and learning amongst experts on resource mobilisation on the topic of aligning all financial flows for nature, with a special focus on private finance.

Summary of IDFB17

The 17th Dialogue Session of the IDFB on **private finance and how frontrunning global investors are closing the biodiversity funding gap** was held on the 17th of September 2024. With the implementation of the Global Biodiversity Framework, the private financial sector has an important role to play in closing the biodiversity finance gap (aligning all financial flows, target 19). All parties are asked to make public budgets available for financing nature, but this is not the only possible source of finance. According to the UNEP State of Nature Finance report, private investment must reach at least $210 billion/year by 2050 to contribute to closing the biodiversity finance gap of $737 billion/year needed in 2050. There is a growing group of front-running global investors that are willing to invest but they generally lack the necessary pipeline of projects, data, tools, practical knowledge and vocabulary to actually do so at the scale needed. That is why IDFB17 focuses on how the private sector can play its role in contributing to closing the biodiversity finance gap and how to effectively can disperse (big) money for local-level impact.

The dialogue session was moderated by Caroline van Leenders (Government of The Netherlands) and Daan Groot (host of the IDFB secretariat on behalf of Nature^Squared). They kicked off the session with an introduction on the work of IDFB and shared the key takeaways from the previous IDFB session 16 on locally-led financing. The introduction was followed by presentations from guest speakers from APG, Finance for Biodiversity Foundation and Mirova who shared their knowledge and experience on the topic and provided practical examples as well as barriers for actual investments. This provided plenty food for thought for an engaging group discussion.

Key Takeaways

1. **Global private investors can align, and frontrunners are aligning, with the KM-GBF.**

   As the example of APG demonstrates, frontrunning global investors are aligning with the objectives and mission of the Global Biodiversity Framework. Several challenges remain, such as a common language, data availability, ticket sizes and risk profiles, but the work is under way.

2. **There is a need for structuring projects in larger investment opportunities.**

   Global investors need large, structured investments matching with the right risk profile and ticket size. Several projects need to be developed and brought together to become bankable. This can be done at biome level, landscape level or thematically. Blended finance can be used to de-risk such investments. To organize this properly requires capacity building, technical assistance and financial means.

3. **Finance for Nature Positive can be operationalized and delineated.**

   Through the work of the Finance for Biodiversity Foundation, Nature Positive is defined a subset of nature finance, as finance that is expected to deliver measurable positive outcomes for biodiversity or ecosystem services, relative to business-as-usual.

4. **A multi-layered approach for financial institutions is needed.**

   A whole range of strategies need to be applied by financial institutions in parallel to contribute to the KM-GBF, encompassing both the phasing out of negative flows while simultaneously increasing the amount of finance for reducing pressures and finance for nature positive. Private equity can take a role in financing enabling technologies, service providers and innovation.

5. **Clarity from governments helps financial institutions to take on their role.**

   This includes taxonomies, sectoral transition plans and clear policy pathways on national GBF implementation through NBSAPs and NBFPs.

Role and needs of global investors in helping to achieve the GBF (Claudia Kruse, Chief Sustainability & Strategy Officer, APG)

Biodiversity commitments & objectives

As a frontrunning Dutch pension investment company APG has committed to align with the objectives of the Kunming-Montreal GBF by 2050. In line with the KM-GBF, APG has set an interim objective for 2030 for their investment portfolio to contribute to halting the loss of biodiversity. An important first step is to analyse the impact of their investment portfolio, using tools such as ENCORE and geospatial data. One of the specific objectives is to eliminate deforestation from their investment portfolio. In 2024, APG is working on refining what this means and how to report progress towards this target. They are conducting engagement with companies in sectors with high deforestation risk to foster the dialogue on bringing policies in line with global agreements. It was stressed that dialogue and engagement is an important part of arriving at solutions. Another specific objective of APG to invest €10 billion, on behalf of pension fund ABP, in biodiversity-related SDGs, of which € 9 billion in Sustainable Development Investments (SDIs)13 and €1 billion in impact investments that demonstrate measurable progress towards ecological transition.

Barriers to mainstreaming nature in finance & investing positively

Mainstreaming nature in finance and investing positively can be challenging for global investors. A key issue is that the ticket size, and risk profile, of most nature projects is not matching with investor requirements – nature projects often have a small ticket size which is not appealing to global investors due to high transaction costs and regulation. That is why APG is looking at larger structured investments fitting requirements in terms of risk, transparency and size. Secondly, it can be challenging to assess the impact of an investment on sustainability and biodiversity. If the positive impact cannot be sufficiently guaranteed, investors cannot invest funds that earmarked for positive impact. Thirdly, a global investor like APG is heavily reliant data for making investment decisions. While data is increasingly becoming available, investors need specific information that can be easily integrated into their investment frameworks. Finally, while a lot of biodiversity impact takes place in emerging and developing countries, private financiers are hesitant to invest in frontier markets due to their risk profile. Risk-mitigation such as blended finance structures, including first loss and guarantee instruments, could provide useful incentives to make these investments more attractive for risk-averse global investors.

APG is a strong supporter of collaboration with other investors and other stakeholders. It was discussed that national targets and (sectoral) transition plans for nature can have important knock-on effects on investment decisions and that regulations on corporate reporting & disclosures and taxonomies are crucial in improving transparency and data availability. A *whole society approach* is needed where everyone plays their part. Alignment on definitions is also key for making investments with a positive impact on nature which is why the work of the Finance for Biodiversity Foundation (FfB) on the working definition of Finance for Nature Positive is such an important step.

Needs & opportunities for mitigating risks and scaling up nature-positive investments

From the discussion that followed, it was suggested that something that could help global investors in scaling up nature-positive investments is to create a portfolio of projects to increase ticket sizes. An intermediary organisation or platform could act as a recipient and facilitate the link between private investors and project developers. A mechanism that could be useful for this purpose include for example *bioregional facilities*, as presented by Samantha Power (Finance for Gaia, formerly World Bank) during IDFB16. Another inspiring example that was mentioned in this regard is the UK Environmental Land Management Schemes (ELS) where different stakeholders, including the private sector, are brought together in a consortium to develop landscapes in accordance with nature and business needs.

Working Model Finance for Nature Positive (Natacha Boric, Head of Policy and Positive Impact, Finance for Biodiversity Foundation)

The Finance for Biodiversity Foundation (FfB Foundation) shared a sneak preview of their discussion paper on the working model of Finance for Nature Positive which was well received by the Community. They will present their working model at the New York Climate Week as well as COP16 in Cali and warmly invite people to provide feedback.

Background Working Model 'Finance for Nature Positive'

The Finance for Nature Positive working model developed by the FbF Foundation and UNEP FI was designed to advance consensus towards a common understanding on how private finance can meaningfully contribute to the nature-positive goal: *'Halt and reverse nature loss by 2030 on a 2020 baseline, and achieve full recovery by 2050*' (Nature Positive Initiative, 2023). The discussion paper aims to establish the basis for a practical framework to guide the activities of private financial institutions within major asset classes, covering the activities of banks, asset managers, and asset owners. The discussion paper provides a frame to scale nature finance effectively while limiting risks of greenwashing. It does not allow a financial institution or portfolio to claim to "be" Nature Positive, but rather to contribute to Nature Positive. The working model is relevant for financial institutions, project developers and a broader group of stakeholders. The 'Finance for Nature Positive' working models builds from the definitions developed by the World Bank Group in its Note on Nature Finance Tracking Methodology, and includes the concept of Nature Positive which is build on existing scientific and sustainability models, existing sets of principles, recognized impact frameworks as well as lessons learned from the Net-Zero concept in relationship to climate .

Definitions

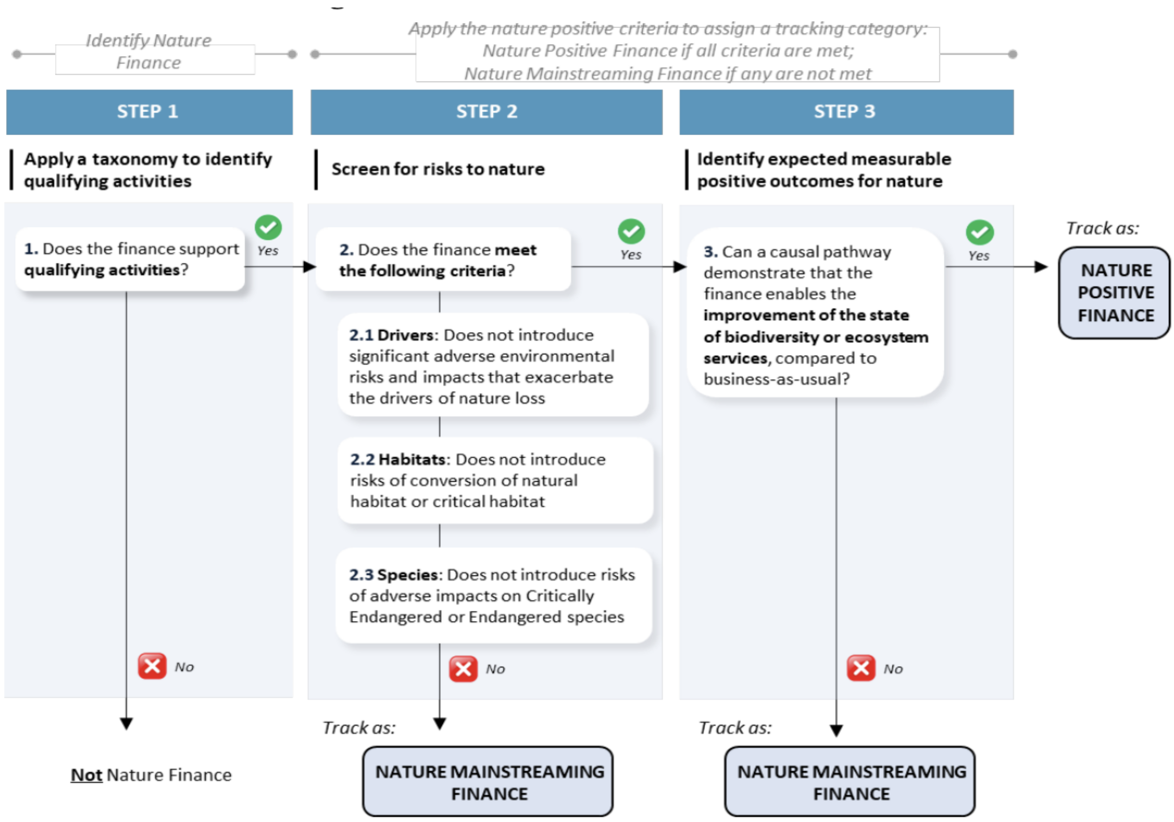
Nature finance is diverse and the Finance for Nature Positive working model distinguishes the following definitions:

- **Nature Impact Mitigation Finance** is finance for activities undertaken to address adverse impacts on nature in accordance with the Work Bank Group's Environmental and Social Framework (ESF) and IFC and MIGA Performance Standards (PS).
- **Nature Finance** is defined as finance contributing to the nature positive goal of halting and reversing nature loss and supporting the implementation of the Global Biodiversity Framework.

- **Nature Positive Finance** is finance that is expected to deliver measurable positive outcomes for biodiversity or ecosystem services, relative to business-as-usual; and

- **Nature Mainstreaming Finance** is finance that is expected to enable a broader economic transition toward practices aligned with delivering the nature positive goal.

This means that not all nature finance qualifies as finance for nature positive. The following image describes the various steps to ascertain which types of finance can be coined as Nature Positive Finance.



In short, there are three steps to take to ascertain whether finance can be qualified as Nature Positive:

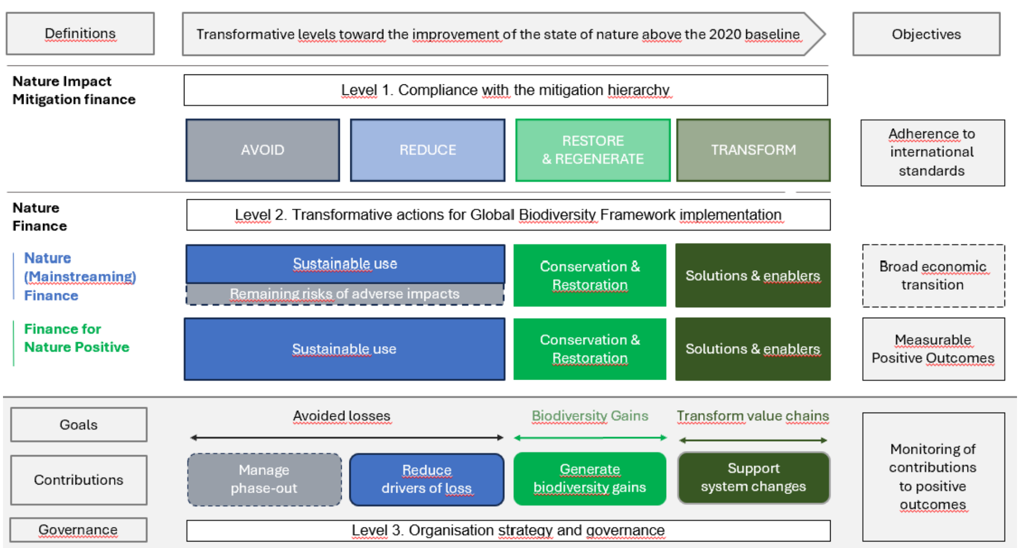
- **Step 1: Apply a taxonomy to identify qualifying activities**
    - Nature Positive Finance supports qualifying activities
- **Step 2: Screen for risks to nature**
    - Nature Positive Finance meets the following criteria:
        - Does not introduce significant adverse environmental risks and impacts that exacerbate the drivers of nature loss (**drivers**)
        - Does not introduce risks of conversion of natural habitat or critical habitat (**habitat**)
        - Does not introduce risks of adverse impacts on Critically Endangered species (**species**)
- **Step 3: Identify expected measurable positive outcomes for nature**
    - Nature Positive Finance enables the improvement of the state of biodiversity or ecosystem services, compared to business-as-usual.

The Finance for Nature Positive working model underlines the improvement of the state of nature above the 2020 baseline as an overaching goal, in accordance with the recommendations of the Nature Positive Initiative. It defines three ‘transformative levels’ for financial institutions:

- **Level 1**: Compliance with the mitigation hierarchy (**Nature Impact Mitigation Finance**)
  - Avoid; Reduce; Restore & Regenerate; Transform
  - *Objective: Adherence to international standards*
- **Level 2:** Support of transformative opportunities for the implementation of the Global Biodiversity Framework
  - Sustainable use; Conservation & Restoration; Solutions & enablers
  - *Objective: Broad economic transition (**Nature (Mainstreaming) Finance**), Measurable positive outcomes (**Finance for Nature Positive**)*
- **Level 3**: Organisation strategy and governance
  - Phasing out activities with adverse impacts; Reducing drivers of loss; Generating biodiversity gains; Supporting system changes (transforming value chains)
  - *Objective:* Monitoring of contributions to positive outcomes

For finance to contribute towards Nature Positive, it needs to be transformational at all three levels. Financial institutions need be compliant with the mitigation hierarchy, support transformative opportunities, and need to have an organisation strategy and governance system in place that supports the improvement of the state of nature above the 2020 baseline.

« FINANCE FOR NATURE POSITIVE » WORKING MODEL



The discussion paper furthermore stresses the importance of **sustainable taxonomies** including biodiversity, to guide their analysis of market opportunities and help with the exercise of tracking financial flows aligned with the mission of the GBF. FfB Foundation, on behalf of the financial sector, calls for clear policy pathways from governments on GBF implementation, focusing on the underlying economic activities that will genuinely mobilise private resources at the scale and speed required.

The discussion paper will be officially launched during the New York Climate Week, more information below:

➔ **Webinar** « Countdown to Cali: Private Sector Contributions to Resource Mobilisation » on 25 September, 2 pm CEST – Register here.

Reflection on strategies for financial institutions to contribute to the GBF and mobilizing private finance for nature (Hadrien Gaudin-Hamama, co-chair of the Positive Impact working group of Finance for Biodiversity Foundation, Impact & ESG specialist at Mirova)

Financial institutions can play a key role in reducing pressures on biodiversity as well as generating nature-positive outcomes. Hadrien shared with us various strategies that are available for financial insitutions to support companies in the transition to contributing to nature-positive outcomes:

- Applying a ‘phase out’ strategy, excluding detrimental activities such as deforestation-linked commodities.
- Investing in companies that are reducing pressures on biodiversity (e.g., regenerative agriculture, sustainable forestry, sustainable chemicals).
- Investing in restoration (e.g., asset classes like natural capital, regenerative agriculture projects, (peat)land restoration projects).
- Investing in innovations and enablers (indirect, this can be done through private equity).

He further stressed that to close the gap the biodiversity finance gap, we cannot only rely on Nature-based Solutions, but we also need nature mainstreaming finance. During the discussions that followed, it was discussed that frameworks such as the EU taxonomy are needed to prevent greenwashing, and that such frameworks also need to be developed for other asset classes.

Discussion

There were a lot of interesting discussions during the session. One of the topics was transformational change. It is a term that is often mentioned, but not always clearly understood. Transformational change refers to a *whole society approach* where every actor at every level can play a role in changing the system. There are various useful resources out there that can support the understanding, including:

- The upcoming IPBES section on Transformational Change (launching soon)
- WBCSD, ERM SI, *Catching the Wave: Seizing the Opportunities of Sustainability Transformation.* 2024
- Nature^Squared, Arcadis (as part of the SUSTAIN project), *Changing the rules of the game: Reforming targets, regulations and incentives to promote Nature Positive outcomes.* 2024.

Another area that was of interest to the participants is the development of biodiversity credits, how that can substantiate biodiversity impact and how it could avoid the issues that we have learned from the carbon market. At COP16, important guidance documents on these questions will be published, for example from the International Advisory Panel on Biodiversity Credits. IDFB may organize a session on this after COP16.

Outlook on Nature Finance at COP16

There are a lot of finance-related side events being organised at COP16 and there was tremendous interest expressed for sharing and promoting each other's events to ensure that the alignment of all financial flows (including private finance) gets to the forefront of the discussions. IDFB will present an overview of relevant events and share it with its community. Participants are requested to send any relevant events to the IDFB secretariat: info@idfb-dialogue.org. IDFB will also organize an informal gathering at COP16 on Sunday the 27th of November, the night before Finance and Biodiversity Day.

Participants of IDFB17

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