Mobilising private finance for biodiversity

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1. Introduction

The world's major investors, banks and other financial institutions are taking note of the upcoming 26th meeting of the Conference of the Parties (COP26) to the United Nations Framework Convention on Climate Change (UNFCCC) to be held in November 2021, and they are committing to take actions in line with the Paris Agreement on Net Zero. For example, the "Glasgow Financial Alliance for Net Zero", brings together leading net-zero initiatives to accelerate the transition to net-zero emissions by 2050. Members include major asset owners and managers as well as banks, totalling over 160 companies with USD 70 trillion in assets. All members will set science-aligned interim and long-term goals to reach net zero no later than 2050 in line with the criteria of the UN Race to Zero campaign.

At the same time, there is a growing concern among investors and financial institutions on emerging risks in their portfolios related to biodiversity (Principles for Responsible Investment, 2020). This may be because investors and financial institutions are becoming more aware of the important links, synergies and trade-offs between climate change and biodiversity; and the fact that human impacts on ecosystems, including the destruction of biodiversity, may play a role in the spillover of infectious disease like COVID-19. Both climate change and COVID-19 have a significant impact on business, and many businesses cannot be environmentally and financially sustainable without dealing with these two issues properly. Against this background, investors and financial institutions are beginning to consider biodiversity aspects in their investment decision-making.

Biodiversity, at the level of genes, species and ecosystems, is relied on by business in direct and indirect ways. Agriculture, for example, is founded on the domestication of wild species, and modern-day agribusiness still relies on the diversity of wild relatives of major food crops to boost resistance against disease and pests.

Meanwhile the soil in which crops grow is a complex and diverse ecosystem itself, and their animal pollinators are estimated to support 5 to 8% of global crop production, with an annual market value of USD 235 billion-USD 577 billion (in 2015,) (IPBES, 2016). Fields from medicine, to architecture, to engineering, rely on nature for materials, chemical compounds and design ideas, as indicated by thousands of patents based on elements of biodiversity (Lenau et al. 2018). Another important aspect is consumers' attitudes toward products and services. As customer awareness about biodiversity increases, so does the tendency to avoid purchasing products and services which do not take account of biodiversity properly, with obvious consequences for profit margins.

At the same time, business can offer important opportunities for innovative and effective contributions to biodiversity conservation which could be new revenue sources in the future, notwithstanding the negative impacts that companies can have on biodiversity through their activities and operations.

This issue brief discusses actions which governments and investors could take to encourage companies to increase the allocation of funds to biodiversity conservation.

2. Financing Aspects of the G20 Environment Ministers' Communiqué

The G20 Environment Ministers' Communiqué of 22 July 2021 recognises that 2021 is a pivotal year for catalysing and scaling up transformative action, and it restated the G20's commitment to the objectives of the 2030 Sustainable Development Agenda, the Convention on Biological Diversity (CBD), and the UNFCCC and its Paris Agreement. The communiqué emphasises the need to integrate these objectives and enhance synergies to realise them. For example, it points to "Nature-based Solutions (NbS)" (e.g. coastal protection by mangroves) to help prevent ecosystem loss, while restoring degraded land and providing benefits to local communities such as support in adapting to climate change impacts.

The communiqué includes a section on "Sustainable Finance," which emphasises the need for diverse sources of finance sustainable development to meet biodiversity, oceans, degraded land and climate change targets. As one way of strengthening synergies in financial flows for different environmental issues, the communiqué recognises "the importance of work on nature-related financial disclosure", and it takes note "with interest of the establishment of the Taskforce on Nature-related Financial Disclosures (TNFD)" — a group that aims to assist financial institutions and companies to incorporate nature-related risks and opportunities into their decision-making processes.

3. TNFD and its expected roles and function

TNFD, which officially launched in June 2021, consists of approximately 30 members from industry, with equal representation, from the financial sector and corporations, from developed and emerging countries, as well as research institutes and NGOs. TNFD will develop a framework to assist financial institutions and companies to incorporate nature-related risks and opportunities into their decision-making processes. The framework will be tested and refined in 2022 before its launch and dissemination the following year.

TNFD follows the example of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board (FSB) of the world's financial regulators in 2015, to promote information disclosure by corporations on finance-related impacts of climate change. The recommendations of TCFD are becoming an international standard for disclosure on corporate strategies, targets, risk management and indicators on how to deal with risks and opportunities from climate impacts. The Joint Declaration of the G7 Summit held in June this year stated that the G7 members "support moving towards mandatory climate-related financial disclosures that provide consistent and decision-useful information for market participants and that are based on the TCFD framework, in line with domestic regulatory frameworks".

However, while the TCFD was established and is operated under the FSB, the TNFD was established as a volunteer initiative by organisations interested in ecosystem and finance. Another difference is that the TNFD focuses on both the risk from ecosystems (the risk of degradation or deterioration of ecosystem services on which business depends) and the risk to ecosystems (the risk of pollution or other negative impacts on ecosystems). Consequently, the TNFD requires more technically complex and region-specific approaches, so the extent to which standardisation is possible is not yet clear. In addition, since application of the TNFD framework to actual business is voluntary, the extent to which it will be supported politically and become an international standard in future is also uncertain. It is, however, encouraging that the TNFD was recognised in the communiqué of the G20 Environment Ministers' Meeting.

4. Finance Aspects of the Proposed Post-2020 Global Biodiversity Framework under the Convention on Biological Diversity

On 12 July, 2021, the First Draft of the Post-2020 Global Biodiversity Framework (GBF) was made public. The draft is being further discussed at the third meeting of the OEWG, ending in early September 2021, and will be presented for approval at the 15th meeting of the Conference of the Parties (COP) to the CBD, which is due to conclude in May 2022. The text of the GBF is likely to change as it is negotiated, but it is expected that key elements will be maintained.

The vision of the draft framework is "a world of living in harmony with nature where: By 2050, biodiversity is valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and

delivering benefits essential for all people." The 2030 mission of the draft framework, towards the 2050 vision, is: "To take urgent action across society to conserve and sustainably use biodiversity and ensure the fair and equitable sharing of benefits from the use of genetics resources, to put biodiversity on a path to recovery by 2030 for the benefit of planet and people". The draft framework currently consists of four "2050 Goals" and 10 "2030 Milestones", as well as 21 "2030 Action Targets".

Goal D is entirely focused on closing "the gap between available financial and other means of implementation, and those necessary to achieve the 2050 Vision", with the milestones of "Adequate financial resources to implement the framework are available and deployed, progressively closing the financing gap up to at least US $700 billion per year by 2030" and, "Adequate financial and other resources for the period 2030 to 2040 are planned or committed by 2030". Target 18 , meanwhile, is to "Redirect, repurpose, reform or eliminate incentives harmful for biodiversity, in a just and equitable way, reducing them by at least US$ 500 billion per year, including all of the most harmful subsidies, and ensure that incentives, including public and private economic and regulatory incentives, are either positive or neutral for biodiversity". Target 19 is to "Increase financial resources from all sources to at least US$ 200 billion per year, including new, additional and effective financial resources, increasing by at least US$ 10 billion per year international financial flows to developing countries, leveraging private finance, and increasing domestic resource mobilization".

Target 15 of the First Draft of the Post-2020 GBF is that "All businesses (public and private, large, medium and small) assess and report on their dependencies and impacts on biodiversity, from local to global, and progressively reduce negative impacts, by at least half and increase positive impacts, reducing biodiversity-related risks to businesses and moving towards the full sustainability of extraction and production practices, sourcing and supply chains, and use and disposal". This is related to the activities of the TNFD addressed in the communiqué of the G20 Environment Ministers' Meeting.

5. Current financial flows and funding gaps in biodiversity

According to the report, "State of Finance for Nature" (UNEP et al. 2021), the annual amount of funding for NbS was USD 133 billion with 2020 as base year, of which 86% or USD 115 billion was public funds, and 14%, or USD 18 billion, was private funds. One-third of the public funds was used for ecosystem conservation and two-thirds for forest and peatland restoration, water conservation and natural pollution control. Private funds target business and profit-making activities, such as ecosystem offsets, sustainable supply chains, and ecosystem investment funds. The report also estimates that NbS will require USD 536 billion annually by 2030, of which USD 203 billion would be for forest-related activities, USD 193 billion for forest grazing, USD 7 billion for peatland restoration, and USD 0.5 billion for mangrove restoration.

As described in the draft of the Post-2020 GBF, it is estimated that the funding gap is USD 700 billion per year until 2030, which is about one fourth of the USD 2.5 – 3 trillion per year financing gap to achieve the SDGs in developing countries (UNCTAD, 2019). In order to fill this gap, USD 500 billion per year could be raised without additional new spending by cutting and redirecting subsidies that have a negative impact on ecosystems (e.g. unnecessary subsidies for chemical fertilisers and pesticides that have a serious impact on ecosystems in order to boost agricultural production) towards the conservation of ecosystems. The remaining USD 200 billion per year could be mobilised from various financial sources including private funds. Global government expenditure amounted to about USD 35 trillion in 2020 (IMF), so the required USD 200 billion amounts to a modest 0.5%.

It should be noted that the State of Finance for Nature report estimates do not contradict the funding gap estimated by the draft Post-2020 Global Biodiversity Framework, because the former is focused only on NbS.

6. Favourable trend to scale up financing for biodiversity

In recent years, there has been a rapid increase in investments that take into account environmental, social and governance (ESG) investing in their decision-making. For example, green bonds provide finance to projects that improve the environment, such as renewable energy, green buildings, clean transportation, water management, climate change adaptation, and biodiversity conservation. Globally, the issuing of green bonds increased six-fold from about USD 45 billion in 2015 to about USD 270 billion in 2020. Of the USD 270 billion, about 5% was allocated to biodiversity conservation, mostly from national governments or public institutions such as bond issuers (MOEJ/Green Finance Portal). Recently, the private sector has been promoting "precision agriculture", which increases yield and minimises fertiliser and pesticide inputs by identifying and controlling spatial and temporal variations in temperature, soil fertility and soil moisture. There has also been promotion of "vertical agriculture", which produces crops vertically in urban high-rise buildings, shipping containers, disused warehouses, etc., minimising the need for excessive land, energy, water and chemicals. In the future, as private companies expand their investments in such projects that lead to the conservation of ecosystems, it is likely that they will consider issuing green bonds targeting investors who are active in ESG investments.

An examples of impact investment is Mirova, a French company specialising in ESG investment management. They launched the "Land Degradation Neutrality Fund" and raised about USD 200 million from institutional investors as well as public funds including the European Investment Bank, Agence Française de Développement, the British Government, and the Canadian Government. Private investors account for 60% of total funding, which will be invested in sustainable agriculture in developing countries. Crops will include sustainable coffee, cocoa, timber and fruit through restoration of deforested areas. The fund evaluates any impacts in terms of its contribution to climate change countermeasures (mitigation and adaptation), rural development, gender equality and biodiversity conservation (Mirova, 2021). Since impact investment priorities impacts, such as solving social problems, rather than profitability, it requires a blended finance approach in which the public

and private sectors share responsibilities and risks. This type of business model can be expected to expand as support for biodiversity conservation projects increases.

7. Recommendations for governments and investors to promote private financing biodiversity conservation

The fact that finance for biodiversity conservation features so prominently in international agreements such as the G20 and the CBD could encourage investors and financial institutions to allocate funds to this field of sustainable development. Such an international-level intervention would, however, be effective only if reflected in national regulations, which may take some time to develop. The following is a list of potential actions which investors, financial institutions and governments could take to encourage companies to allocate funds to biodiversity.

(1) Setting financial targets for ecosystem conservation

The First Draft of the Post-2020 GBF sets out quantitative targets for 2030, looking forward toward 2050, in which USD 200 billion per year needs to be mobilised from all financial sources including private capital. One of the most effective approaches to mobilise private capital is blended finance — the strategic use of public finance to attract additional finance towards sustainable development. Investors and financial institutions are expected to share the targeted amount to allocate funds to biodiversity related activities. For example, the State of Finance for Nature report indicates that private funding for ecosystem conservation has amounted to USD 18 billion since 2020, and this may be a starting point for the private sector to set its own targets for 2030. Governments should discuss with the private sector how much and in which credit enhancement means public funds are needed to mobilise such private finance.

(2) Promoting information disclosure of risks on ecosystems

The framework for nature-related financial disclosure that TNFD is aiming to propose will be a useful tool for corporations to expand their investment and financing with consideration to biodiversity conservation. While waiting for the TNFD's framework, however, corporations can begin preparing for information disclosure on biodiversity, because many of them have started climate-related financial disclosure as recommended by TCFD. Since the TCFD recommendation requires corporations to analyse the risks of climate change, such as flood or drought at their operation sites, these kinds of practices can also help corporations to consider how to conserve biodiversity in response to such climate risks.

(3) Strengthening Linkages between Net Zero and Ecosystem Conservation

In the run-up to UNFCCC COP26, major international investors and financial institutions are increasing their efforts to move towards net zero, including participation in the UN framework of "Race to Zero Campaign". When investors engage businesses on climate, they should include biodiversity, since biodiversity-related activities like NbS can also contribute to climate mitigation and adaptation. Forest conservation and restoration, and other initiatives that reduce atmospheric CO2 concentrations while conserving biodiversity, offer opportunities for carbon credit schemes. It is, however, necessary to design a system in which carbon offsetting is effective in reducing CO2 emissions. In this way, the net-zero movement of corporations could provide opportunities to promote the expansion of investment and financing of projects which contribute to biodiversity conservation.

(4) Taxonomy of activities toward sustainability

In order to direct investments towards NbS, investors and financial institutions in cooperation with governments, need to develop a clear definition of NbS and a list of relevant NbS activities or projects with their eligible criteria. The European Union (EU) is currently developing such a "taxonomy of sustainable activities" in key sectors, including forestry, agriculture, water management, energy and manufacturing. The taxonomy will include specific criteria to be considered for each activity. Others might benefit from using this taxonomy of NbS as a starting point for their own.

(5) Quantifying the value of NbS

In making investment decisions, it is difficult to compare NbS with other investment options unless the economic and financial benefits of NbS can be quantified. Many methods and tools have been developed to evaluate natural capital and environmental values. For example, the Nature Capital Protocol developed a method to numerically evaluate the direct and indirect impacts of companies on nature and their dependence on natural capital, while the International Institute for Sustainable Development (IISD) and partners developed a method to quantify the economic and financial benefits of nature-based infrastructure. Investors and financial institutions collaboratively need to refine existing tools so that they can be more easily applied to NbS

(6) Raising awareness among companies of the benefits of biodiversity and the risks of biodiversity loss

Unless corporations understand why they need to be engaged in NbS, they are unlikely to expand their investment in this area. The conservation and appropriate management of biodiversity is the foundation of sustainable development and business, and corporations will be helping themselves by understanding their level of dependence on nature, the risks of ecosystem degradation and loss, the negative impacts of business

on biodiversity, and opportunities to develop innovative technologies and business models. From this perspective, research institutions or NGOs which have technical expertise on biodiversity should support capacity building of corporations to understand the framework of TNFD and its application to their business.

(7) Risk-sharing between public and private sectors in financing NbS

The private sector is responsible for identifying negative impacts on biodiversity, and mitigating and managing such impacts during the design, construction and operation of projects or activities. For example, financial institutions can apply the Equator Principles which is a risk management framework for determining, assessing and managing environmental and social risk in project finance. However, companies are generally unwilling to bear risks associated with NbS, as they are often unable to control or manage these risks alone. For example, the legal system in a country that supports NbS may not be effective and transparent; unexpected natural events may occur at the project site; or the planned community participation may be unsuccessful. If the project suffers losses due to such issues, it is public institutions that are expected to supplement or guarantee such losses, or to take responsibility for mitigating such risks in advance. A rule setting on risk-sharing between public and private sector could be a very effective solution. However, some developing countries are finding it difficult to set such rules, because governments tend to expect the private sector to take on all the risks in projects led by companies. It is also difficult to standardise risk-sharing roles because the risks vary depending on where the project is located and the nature of the project. We recommend that the private sector should take the initiative to establish a knowledge platform so that companies can learn from each other's good and bad practices when it comes to sharing risks.

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