



TOWARDS POST-2020 EXPERTISE ON #8

INSTILLING BIODIVERSITY INTO BUDGETS AND FINANCIAL SCHEMES: HOW TO SHIFT TOWARDS A GREENER SYSTEM?



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Of utmost importance to reach the Aichi targets and related Sustainable Development Goals, biodiversity-positive finance remains a challenge to this day. In the post-2020 Global Biodiversity Framework, learning from the past and involving all actors is essential to take on the challenge of ambitious, achievable targets.



“CURRENT INVESTMENTS IN BIODIVERSITY CONSERVATION, WHEN COMPARED TO THE ECONOMIC VALUE OF ECOSYSTEM SERVICES, PROVIDES A VIVID PICTURE OF THE URGENCY IN BIODIVERSITY FINANCING.”

Annabelle Trinidad in the name of Armida Andres, Assistant Director, Biodiversity Management Bureau, Department of Environment and Natural Resources, Philippines

Biodiversity loss undermines the progress of 35 out of 44 SDG targets ¹, increasing risks of not being able to provide populations with food security, health, economic development, and peace.

The ongoing, unprecedented environmental degradation (75% of land- and 66% of ocean surfaces have been altered ²) thus endangers long-term prosperity and will affect financial flows. The latter conversely represent crucial tools to mitigate such loss.

Biodiversity services have been valued at US\$ 33 trillion per year — the combined GDP of the United States and China ².

This intrinsic link between economic activities and biodiversity loss means that a transformative post-2020 agenda requires efficient, thoroughly oriented financial resource mobilization to shift towards sustainable systems and activities that reduce footprint on biodiversity and remove harmful subsidies.

1. A CASE FOR ACCURATE DATA ANALYSIS AND THOROUGH DISSEMINATION

ESTIMATING CURRENT BIODIVERSITY FINANCING FLOWS

Ongoing global assessments estimate necessary financial efforts for biodiversity conservation at US\$ 150–300 billion/year—continuing the current degradation rate—and US\$ 100–170 billion/year in a more sustainable scenario ³.

Public domestic investments in aid of biodiversity programs have been gauged at US\$ 67.8 billion per year ⁴, far exceeding international public financial flows (US\$ 3.9–9.3 billion/year) and private funding (US\$ 6.6–13.6 billion/year) ⁵. This total biodiversity finance volume would be equivalent to 0.1% of the global GDP ⁶ and correspond to half of the above estimated efforts.

CONTINUING TO DEFINE STANDARDIZED METHODOLOGIES AND TOOLS

Homogenous and accurate assessment methods, and common terminologies among experts, groups, nations, and between the biodiversity community and the financial/private sector are needed to raise investment opportunities and awareness and reinforce budget allocation coherence. The development of common methodologies should be based on a strong science-policy-implementation dialogue. Such dialogue is to ensure the new common tools will balance the unavoidable tension between the need for internationally consistent and comparable metrics and nationally tailored approaches.

Identifying methodologies and categories used by the different stakeholders constitutes an inevitable first step. Some initiatives show the way forward: the International Development Finance Club undertook a methodology mapping among its different members (international financial and development actors). In parallel, the CBD may encourage its parties to report their data by category—rather than total investments—and to provide information on their underlying methodology. Collaborative platforms (e.g. the OECD's Paris Collaborative on Green Budgeting) catalyse best practice-sharing and pave the way for technical support to enhance capacity at all level and across communities. Voluntary initiatives, though impactful, will likely be insufficient to harmonize global standards while maintaining specific regionally or nationally tailored tools. A strong impulse from international arenas such as the CBD seems crucial.

The development of transversal and robust conversion tools, avoiding double counting, could be elaborated in a second phase. Such tools call for coordinated action to avoid parallel developments of competing methodologies. This is time for actors to develop ownership of global platforms as well as conventions—representing unique arenas to engage in meaningful experience-sharing, so that reliable and common standards emerge to estimate global needs and allocate funding programs.

UNDERLINING THE URGENCY TO MEASURE NEEDS AND GAPS

At national level, implementing the following tracking tools is necessary to establish effective biodiversity protection policies and budget allocation:

- + baseline definition—which can be supported by harmonized standards via international stakeholders such as the CBD,
- + effective data collection,
- + strong monitoring and reporting policies.

“WE NEED TO SCALE UP BOTH ACTION AND FINANCE FOR BIODIVERSITY TO ACHIEVE THE OUTCOMES WE WANT, TO HALT AND REVERSE BIODIVERSITY LOSS. EQUALLY IMPORTANT IS TO REFORM SUBSIDIES THAT ARE HARMFUL TO BIODIVERSITY, WHICH ARE AROUND FIVE TIMES HIGHER THAN POSITIVE FLOWS.”

Katia Karousakis, OECD

Targeted biodiversity investments should be tailored to both needs and capacities, and to financial thresholds that enable transformative change. Financial Needs Assessments (FNA) are impactful tools to inform decision-makers about necessary budget allocation at the domestic level.

BIOFIN Colombia supported a national FNA followed by a gap identification—the difference between biodiversity budget and needs—and assessed the leveraging effects of financial efforts thanks to a differential analysis with business-as-usual practices. Such calculations enabled the government to optimize its budget allocation and highlighted the importance of regular gap updates in order to monitor its variability based on natural system changes and political/economic decisions ⁷.

In parallel to crosscutting needs assessments, national schemes can be used to accelerate domestic capacity evaluation, identify and remedy regulatory gaps, and facilitate tailored budget allocation and international funding grant applications, if based on solid data, including:

- + Long-Term Strategic Approach to Mainstreaming (LTAM)
- + National Biodiversity Strategic Action Plans (NBSAP),

Pollinator species provide 75% of global food crop types with a service estimated to US\$ 235–577 billion/year.

¹ IPBES, 2019, Global Assessment Report on Biodiversity and Ecosystem Services

² World Economic Forum, 2020, Global Risk Report

³ CBD, 2020, Financial Needs Assessment of the Post-2020 Global Biodiversity Framework: Preliminary Second Report of the Panel of Experts

⁴ Between 2015 and 2017

⁵ OECD, 2020, A Comprehensive Overview of Global Biodiversity Finance

⁶ Idem

⁷ According to the presentation of Santiago Aparicio, Director of Environment and Sustainable Development National Planning Department of Colombia during the 4th Global Conference on Biodiversity Finance (2020).

- + Biodiversity Finance Plans,
- + Integrated National Financing Frameworks. These identification and allocation efforts should consider the time lapse between investments and effects and be embedded in global biodiversity-positive instruments.

2. SHIFTING TOWARDS VIRTUOUS AND COHERENT BIODIVERSITY FINANCE SCHEMES

REMOVING HARMFUL SUBSIDIES

In addition to the aforementioned tools, sharper budget allocation encompasses drastic reduction of negative funding, i.e. spending that fails to protect biodiversity or negatively influences actors: harmful subsidies, taxes, and fees.

Global harmful subsidies spending has been estimated to US\$ 500 billion/year by the OECD ⁸, more than five-fold the volume of global biodiversity investment. The Kyrgyz BIOFIN program workplan (identifying negative subsidies such as agricultural subsidies and assessing the impact of reforming allocated support) has shown that harmful subsidies can constitute an important part of national budgets (2,5% of the Kyrgyz budget and 0,5% of its GDP), highlighting not only the importance and urgency of reallocation but also the challenge represented by such reform ⁹.

Following negative spending identification and removal, systematic redesign of fiscal and economic schemes based on refined granularity instruments will aim at shifting funds awarded to harmful subsidies towards programs supporting sustainable sectors or greener practices. Such programs enhance biodiversity-supportive expenditures to incentivize private and public institutions to adopt new practices and switch their performance paradigm.

Mexico's work bespeaks the relevance of smarter biodiversity allocations rather than additional, often inefficient, budgets.

HIGHLIGHTING THE VALUE OF CO-BENEFITS

Biodiversity protection is intrinsically dependent on systemic change, whether it be in the productive value chain or consumption habits. Transformative change is, however, grounded in robust and transversal governance schemes, encompassing all SDGs and benefiting biodiversity. This is why all governance scales (international, regional, national)

should align and facilitate a strategic integration of relevant SDGs into private sector organizations, financing institutions, investment banks, and cooperation actors to leverage engagement in increased and coherent financing.

Based on the interconnection of all sustainability domains, and to echo the climate mobilization example, the biodiversity community could promote the financial opportunity of nature-based solutions and call for more mutual assistance of the three Rio Conventions.

Innovative financial tools with co-benefits help incentivize private stakeholders to jointly consider all development goals and act accordingly. Lessons learned from programs initially tailored for one topic—such as the OECD Research Collaborative on tracking private Climate Finance—could greatly inspire biodiversity financial resource mobilization and an innovative resource mobilization perspective in the post-2020 global biodiversity framework.

MOBILIZING STAKEHOLDERS AT ALL LEVELS

The whole-of-government approach aims at giving priority to biodiversity in administration by structuring a concrete ownership of biodiversity stakes thanks to, inter alia, inter-ministerial committees with clear mandates and allocated budgets.

In a coherent strategy, the whole-of-government approach is accompanied by an integrated governance strategy. All stakeholders are part of such strategies and benefit from coordinated actions, public-private partnerships, and compensation schemes. Among these, we can list subnational authorities and civil society—the private sector Indigenous Peoples and Local Communities and non-state actors alike—as well as neighbouring countries. For instance, South-South cooperation facilitates mutual capacity-building and best practices exchanges while enhancing funding through joint applications for common biodiversity protection programs.

These measures are inextricably linked to stakeholder-responsive enabling conditions. Clear, earmarked domestic budgets and dedicated national institutions are some of those. They will come hand in hand with simple and reliable identification and categorization tools to detect harmful spending or highlight positive projects. This is highly conducive to creating an environment in which companies and national agencies are encouraged to implement strong baseline data collection, track progress through effective monitoring and reporting instruments, and define and stick to red lines.

From this integrated approach, public, private and finance leaders will create solid grounds for transformative measures in resource mobilization for biodiversity.



The Philippines provide an innovative approach to this challenge, by championing stakeholder engagement through its biodiversity national plan development, based on feedback loops, and supporting its own best in class/leading organizations.

⁸ OECD, 2020, A Comprehensive Overview of Global Biodiversity Finance

⁹ Presentation of Lira Zholdubaeva, Climate Change Programme Analyst at UNDP in the Kyrgyz Republic during the 4th Global Conference on Biodiversity Finance (2020).



3. GREEN THE FINANCE, FINANCE THE GREEN

TRANSITION TOWARDS A RESTRUCTURED AND MORE SUSTAINABLE PRODUCTION SYSTEM

Targeted national regulations are likely to prompt increased biodiversity investment from the financial sector. Structuring a stable, long-term regulatory vision would incentivize the integration of ambitious biodiversity targets in their strategy. Such vision should consist in the establishment of clear investment conditions based on science-based tools and standards, motivational, simplified taxing schemes and optimized transaction costs. Investment risk mitigation programs would complement this set of enabling conditions. Among such programs, blended finance constitutes an example of mutually beneficial investment practices. Several international institutions and multilateral and bilateral banks already developed large co-financing/blended finance facilities, such as the Global Environmental Facility, which sixth period (2014-2020) showed a 1 to 5 co-financing ratio—US\$ 1.540 billion leveraged a total of US\$ 8.165 billion ¹⁰.

Secondly, it is crucial to stimulate the integration of the positive and negative impacts on biodiversity of business operations in performance evaluation processes. Companies will be incited to define and implement continuous monitoring of their biodiversity footprint and, more ambitiously, their imported biodiversity footprint, thus encompassing their whole value chain practices and exactly reflecting their environmental impacts. Including biodiversity in financial vulnerability tests and central bank testing processes would stem the case for wider consideration of growing reputational, legal, and commercial risks associated with harmful operating practices. The EU taxonomy is an ambitious policy step in encouraging the private sector to undertake extensive portfolio assessments, making it compulsory for companies and asset managers to take ownership of performance assessment tools based on environmental criteria.

The aim is for the private sector to adopt biodiversity investment vehicles to complement their

portfolios and increase their resilience—green bonds, impact investing schemes, carbon offset programs, payment for ecosystem services, debt-for-nature swaps, or trust funds supporting area-based management programs.

AMBITIOUSLY IMPLEMENT A NEW PARADIGM

Holistic changes, fostering global transparency—such as full finance flows disclosure, and environmental and human health accountability—are now needed for the Post-2020 Global Biodiversity Framework to deliver on its ambitions. For governments, this means adopting better metrics for needs assessment, for screening, monitoring, and reporting of allocated budgets, but also for identification and removal of harmful subsidies.

Enabling conditions incentivize private stakeholders to invest more broadly in biodiversity-positive assets and to integrate footprint-on-biodiversity in their evaluation standards. In a new paradigm, all stakeholders, whether public or private, would show leadership through a complete biodiversity footprint disclosure and associated externalities internalization and reduction. An accompanying framework, supporting change and later sanctioning lack of action, is key to foster a new paradigm.

Fully and effectively integrating biodiversity in business models is another substantial step towards successful system transformation. Consolidating biodiversity as a core element of revenue stream models and strategies is a necessary endeavour considering the vital importance of biodiversity for economic growth and human development. Similarly, national development plans and recovery plans should increasingly position biodiversity as a strategic priority.

This could be supported through the CBD's establishment and support to specific accompanying programs for countries to first integrate biodiversity in their economic/development strategies and second to implement regulations inciting private sector stakeholders to assess and reorganize their portfolio in light of their biodiversity footprint. From this basis, CBD parties and non-state actors may enter a dialogue in which biodiversity is no longer a limit to finance but a core aspect of sturdy and sustainable economic systems as well as international resource mobilization.

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¹⁰ Global Environmental Facility, 2018, Report of the Global Environment Facility to the Fourteenth Meeting of the Conference of the Parties to the Convention on Biological Diversity

Cover page picture: Coral reefs generate US\$ 36 billion per year in tourism revenue.

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