POST 2020
BIODIVERSITY FRAMEWORK
EU SUPPORT

TOWARDS POST-2020 EXPERTISE WITH #10

BIODIVERSITY LOSS – AN ECONOMIC RISK

GREENING THE FINANCIAL SECTOR FOR RESILIENCE AND TRANSFORMATIVE CHANGE

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Biodiversity loss equals economic loss and is thus a serious financial risk, putting pressure on our whole economic system. Capital mobilisation and trade resilience are essential to mitigate the risks and to make the financial sector—and policymakers alike—available to reach biodiversity targets

"THE WORLD NEEDS TO RECOGNISE THAT LOSS OF BIODIVERSITY AND HUMAN-INDUCED CLIMATE CHANGE ARE NOT ONLY ENVIRONMENTAL ISSUES BUT DEVELOPMENT, ECONOMIC, SOCIAL, SECURITY, EQUITY, AND MORAL ISSUES AS WELL. THE FUTURE OF HUMANITY DEPENDS ON ACTION NOW."
Robert Watson, Chair IPBES, 2019

According to the Organization for Economic Cooperation and Development (OECD), the loss of biodiversity and destruction of ecosystems can affect financial institutions, increase operating costs and risks while affecting private sector performance [1].

The Biodiversity Finance Initiative estimates that funds needed to protect nature run up to USD 440 billion, while current biodiversity investments reach barely USD 55 billion [2]. Ecosystem valuation verifies that the benefits from ecosystem services far exceed the cost of investment in conservation [3], indicating a misallocation of resources and a gap in investment opportunities.

The mobilisation of financial resources to promote a transformative change in the finance sector is an integral part of the post-2020 biodiversity framework, pressing the need for a shift of investments to meet environmental goals [4].

BIODIVERSITY ASSET VALUE versus **CURRENT ANNUAL INVESTMENTS**

USD 125-140 Trillion
Estimate of economic value of renewable natural assets

USD 140-440 Billion
Estimate of Biodiversity finance needs

USD 52 Billion
Current annual global biodiversity funding

Adapted from BIOFIN and OECD, 2019 "Biodiversity asset value versus current investment"

1. GREENING THE FINANCIAL SECTOR - INTEGRATING ENVIRONMENTAL ISSUES

To enhance a thorough economic and social transformation of the financial sector and channel investments into natural capital, a shared understanding and translation of biodiversity targets into the language of financial markets is essential.

HOW TO MAINSTREAM BIODIVERSITY IN THE FINANCIAL SECTOR

Biodiversity mainstreaming comprises the challenge to integrate biodiversity goals into business development plans, risk management, policies, strategies and practices of public and private actors in the financial sector. In this perspective, the following points require consideration:

- Raising awareness of biodiversity values, ecosystem degradation, and natural capital depreciation related to economic risks,
- Identifying the key policies and practices driving biodiversity change within the financial sector,
- Integrating biodiversity into business development plans, strategies, and internal reporting systems, including implementation plans for sustainable production and business management,
- Phasing out investments and business actions harmful to biodiversity to minimise and avoid negative impacts,
- Developing and enhancing positive incentives for investments focusing on conservation, restoration and sustainable use of biodiversity in consistency with the CBD and other relevant international obligations, taking into account national socio-economic conditions.

CHALLENGES OF MAINSTREAMING BIODIVERSITY INTO FINANCIAL MARKETS: FINDING COMMON GROUND

Integrating biodiversity into the core businesses of the financial sector is currently a major challenge. The main reason is a lack of accessible knowledge and communication with the environmental sector; both communities are unable to cooperate in developing sound biodiversity investment opportunities.

To make biodiversity comprehensible, it is crucial to relate it to financial risk mitigation (short, medium, and long term) as well as financial products (insurance/re-insurance) and issues (liability, redress, consideration of ecological debts, etc.). Awareness of the various investment opportunities needs to increase amongst senior management and clients to create a supply and demand for biodiversity investments. Leadership in this field from key stakeholders and the regulatory sector is necessary to incorporate biodiversity into long-term business thinking, including firm standardisation to assure a a high-quality outcome regarding environmental targets.

Considering the drastic decrease in biodiversity, a wide range of financial assets are affected, leading to a negative impact on the entire financial system. Hence, biodiversity risks need to be considered when making investment decisions. Financial market authorities need to adapt regulations and pay attention to that risk when auditing financial institutions, directly affecting financial flows.

HOW TO INVEST IN NATURE – BIODIVERSITY INVESTMENT OPPORTUNITIES

PRIVATE FINANCE FOR NATURE-BASED SOLUTIONS [5] AND NATURAL CAPITAL

Most biodiversity financing sources are public funds, in particular domestic public budgets, biodiversity-positive agricultural subsidies, and international transfers of public funds as well as private financial instruments (impact investing, philanthropy, biodiversity offsets, equity, loans, bonds, payment for ecosystem services). Although the largest share of grants and concessional funds from the Global Environment Facility (GEF) is dedicated to biodiversity, BIOFIN [6] estimates that ten times [7] more investment is needed to achieve the Aichi Biodiversity Targets [8]. The OECD estimates biodiversity harmful subsidies [9] around USD 500 billion per year, ten times more than the actual investment in biodiversity conservation and sustainable use [10]. As exemplified in paragraph 2.1(c) of the Paris Agreement, an increase in well-allocated private investments is needed to close the apparent funding gap, tackle biodiversity loss, and implement resilient ecosystems and a low-carbon economy.

"THE LOSS OF BIODIVERSITY AND INTERRUPTION OF ECOSYSTEM SERVICES IS A MATERIAL RISK FOR THE FINANCIAL SYSTEM (...) AND NEEDS TO BE INCLUDED IN STRESS TESTS BY INSTITUTIONS AND THEIR SUPERVISORS. MACRO-PRUDENTIAL INSTRUMENTS SHOULD BE USED TO PENALISE NATURE-DEPLETING INVESTMENTS WHERE RELEVANT."
Benoît Lallemand, Secretary-General of Finance Watch, 2019

Companies' dependency on natural capital is an increasingly important factor in the investment decisions of mainstream asset owners, such as pension funds and insurance companies, as well as specialist 'impact' investors. A growing number of private investors consider the value of natural capital and ecosystem services in their investment decisions, calling for an enabling political/regulatory/social environment and increased investment opportunities.

[1] OECD (2019), Biodiversity: Finance and the Economic and Business Case for Action

[2] AXA/WWF report (2019), Into the Wild: Integrating Nature in Investment Strategies

[3] Costanza, Robert et al. (2014), Changes in the global value of ecosystem services

[4] CBD/SBI/3/5 (2020), Estimation of resources needed for implementing the post-2020 framework

[5] For more information: Bulkeley, Harriet & Davis, McKenna. "Nature-based solutions: harnessing the potential for ambitious post-2020 biodiversity outcomes", Towards Post-2020, Expertise on #7.

[6] Biodiversity Finance Initiative

[7] Based on estimates by the high-level panel on global investment required for Biodiversity conservation

[8] AXA/WWF report (2019), Into the Wild: Integrating Nature in Investment Strategies

© Environment Agency Austria — "Global economies must recognise the value of natural capital and ecosystem services and ensure their conservation, for example through suitable investment opportunities."

[9] Based on fossil-fuel subsidies and government support to agriculture that is potentially environmentally harmful

[10] For more information: Tasse, Julia. "Instilling biodiversity into budgets and financial schemes How to shift towards a greener system?", Towards Post-2020, Expertise on #8.

[11] https://cutt.ly/pfcKd5S

[12] TNC report (2019), Private Finance for Nature: New report details progress on market-based solutions to protect natural capital

[13] Practice example: Austrian Financial Market (2020), "Guidelines for managing sustainability risks"

[14] "Biodiversity Footprint for Financial Institutions" (BFFI)

[15] "Global Biodiversity Score" (GBS)

[16] PWC/WWF report (2020), Nature is too big to fail - Biodiversity: the next frontier in financial risk management

STIMULATING ENVIRONMENTAL INVESTMENT PRODUCTS

Investing in natural capital includes purchases of real assets such as forests or agricultural land, private and listed equity, and mitigation offsets for water, biodiversity and greenhouse gas emissions. Green bonds are among the most popular instruments for making sustainable investments, but few help finance the conservation and sustainable use of natural capital, and several have been accused of greenwashing. While the green financial market is becoming increasingly attractive to large mainstream investors, standards are being developed to make evident which 'green bonds' actually benefit nature-based projects. The Green Bond Principles by the International Capital Market Association [11] provide voluntary guidelines that recommend transparency and promote integrity in the development of the Green Bond market.

Other innovative instruments include sustainability-linked loans - in which the interest paid depends on the borrower's environmental performance - or blended finance funds - where private institutions invest alongside public finance institutions and/or philanthropic organizations. The latter's main attraction lies in de-risking, provided by the public or philanthropic capital. However, few of these funds exceed USD 100 million, and larger private investors prefer the bond market, where transactions of USD 300 million – USD 1 billion are standard, offering greater liquidity and relatively lower transaction costs [12].

Even though the sustainable investment market is expanding, driven by initiatives triggered by the Paris Agreement and the Sustainable Development Goals (SDGs), green finance represents only a small part of the market. Clear standards, quantifiable targets, validated indicators, and more scientific data to respond to a growing demand for ecologically earmarked financial products are needed to ensure positive results. Now is the time for actors, including the UN, parties, development banks, and the private sector, to get together and decide on an ambitious way forward.

2. A PATHWAY TO INTEGRATE GREEN FINANCING TOOLS AND STANDARDISATIONS

BIODIVERSITY RISK MANAGEMENT

While awareness about biodiversity risks and impacts is rising, regulatory and market developments have yet to integrate biodiversity-related financial risks into existing risk management processes [13]. Tools to evaluate environmental impacts have been developed and are promising instruments linking the private sector to its biodiversity footprint. Two prominent examples, the BFFI by the ASN Bank [14] and the GBS by the Caisse des Dépots et Consignations (CDC) [15], calculate the biodiversity footprint of companies and investment portfolios. Apart from these specific tools, it is essential to identify and measure concrete, quantitative, comparable indicators to evaluate biodiversity relevant implications and meet sustainable targets on a general level.

SUSTAINABLE FINANCE STANDARDS IN ASIA

In the vastness of Asian economic systems, diverse initiatives on sustainable finance and taxonomy prioritise different aspects and criteria. The People's Bank of China (PBoC) has set out mandatory disclosures for banks to categorise their portfolios as 'green', 'brown' and 'neutral'. Banks can earn green 'points' that contribute to the PBoC's risk assessments. A green refinancing policy was launched, allowing commercial banks to use green loans/bonds as collateral for lending at discounted rates. Further, Chinese President Xi and French President Macron announced in 2019 the Beijing Call for Biodiversity Conservation and Climate Change, expressing the need to "make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development, as well as for the conservation and sustainable use of biodiversity" [16].

"THE ABSOLUTE IMPERATIVE IS OBVIOUSLY (...) TO MOVE TOWARDS SO-CALLED GREEN GROWTH THAT RESPECTS OUR ENVIRONMENT. I BELIEVE THAT WHAT WE ARE SEEING TODAY IS THAT THE WAY IN WHICH WE HAVE NOT SUFFICIENTLY RESPECTED BIODIVERSITY, THE WAY IN WHICH WE HAVE NOT SUFFICIENTLY RESPECTED OUR ENVIRONMENT IS BOOMERANGING US IN THE FACE."

Christine Lagarde, President of the European Central Bank, 2020

The Asia Sustainable Finance Initiative (ASFI), a multi-stakeholder forum, aims at similar goals as the global International Development Finance Club (IDFC), to utilise the finance sector to create resilient economies that deliver on the SDGs and the Paris Agreement, implementing Environmental, Social, and Governance (ESG) best practices, while preserving natural capital.

International coordination is essential to develop a common global framework, while ensuring flexibility for regional specificities, including the different needs of developed and emerging markets. Generally, the effectiveness of a global standard needs to be considered, as it has to be based on the lowest common denominator.

© Environment Agency Austria — "Transformative change of the economic sector is crucial to meet biodiversity targets"

THE EU TAXONOMY REGULATION

The European Commission established a framework under the taxonomy for sustainable finance, as a classification instrument to help financial players and companies determine which activities qualify as sustainable and ensure that EU funding supports biodiversity-friendly investments. The initiatives operate under the EU's six environmental objectives: climate change mitigation; climate change adaption; protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems. An essential target is to provide incentives for investments that reduce environmental harm to achieve environmental goals. The EU Taxonomy is a vital sub-segment of the EU Action Plan on Sustainable Finance, demonstrating how the financial sector can become key in achieving the SDGs and the Paris Agreement as well as protecting resilient ecosystems.

FROM IDEAS TO ACTION: WHAT CAN BE DONE? HOW CAN IT CONTRIBUTE?

+ Finding common language:
Linking biodiversity to financial risk mitigation and other financial topics will make the issue more visible and comprehensible for the sector, highlighting the need for action and triggering the development of appropriate financial products, green/biodiversity portfolios, and adapted business and investment policies.

+ Mainstreaming biodiversity-related financial risks into classic risk management:
Classification of biodiversity-related financial risks must position biodiversity degradation and natural capital depreciation within the classic risk management framework. Once biodiversity is part of the risk management portfolio, management changes will follow naturally, leading to a more holistic approach within the business sector [17].

+ Measuring/including biodiversity in Sustainability Reporting and Adverse Impact Reporting:
Financial market participants need to measure their direct and indirect impact on biodiversity and ecosystems. This is essential when assessing the risks at portfolio or investment level and plays a role in any assessments at corporate level. To raise awareness within the relevant sectors, it is a necessity to include biodiversity aspects in mandatory and voluntary reporting systems.

+ Environmental fiscal reform:
Promoting tax systems and pricing that reflect environmental costs, including biodiversity loss, should encourage changes in national fiscal systems to shift the tax burden from labor to pollution, underpriced resources, and other environmental externalities. The 'user pays' and 'polluter pays' principles are to be applied to prevent and correct environmental degradation.

HOW COP15 NEGOTIATIONS WILL PAVE THE WAY FORWARD

The OECD publication 'Scaling Up Finance Mechanisms for Biodiversity' aims to contribute to discussions on resource mobilization under the CBD. Available data makes eminent that transformative change of the economic sector is crucial, and only achievable by involving social parties and leading stakeholders (including platforms like ASFI and IDFC). The CBD can contribute to closing the gap between the environmental and finance sectors, discussing the mainstreaming of biodiversity into financial markets and the integration of biodiversity into reporting systems. Stakeholders need to engage with ambition at all levels and create the decision-making space to bring about thorough transformation. The CBD's review of the strategy for resource mobilisation [18] may serve as a basis underpinning informed decisions for the post-2020 GBF. COP15 can pave the way by setting strong targets, recommending indicators, and enhancing the need for an enabling environment. Discussing these issues ambitiously will strengthen existing initiatives and increase the integration of sustainable finance into NBSAPs and global development strategies.

INVESTMENT IN HEALTHY ECOSYSTEMS - A RISK MANAGEMENT APPROACH

The COVID-19 pandemic has shaken society at different levels; measures have been taken globally that seemed impossible only months ago. The after-effects of the crisis hold the chance for new, sustainable developments in the financial, industry, and transport sectors. Governments and financial actors should consider sustainability when supporting sectors responsible for the leading causes of biodiversity loss and ecosystem degradation. Possibilities to channel economic collapse to rebuild and invest in sustainability, resilient ecosystems, and a healthy planet are opportunities to regain stability as well as preserve a healthy society.

[17] AXA/WWF report (2019), Into the Wild: Integrating Nature in Investment Strategies

[18] CBD/SBI/3/5 (2020), Estimation of resources needed for implementing the post-2020 framework

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"Peat lands are globally highly endangered ecosystems with a wide range of ecosystem services, their fast destruction being thoroughly linked to economic risks and financial loss."

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CBD COP 15 ___ KUNMING 2021
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