Engaging Private Finance in the NBSAP Review and Implementation

Sign-posts for Policymakers

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Partners

This note has been prepared by UNEP FI in partnership with UNDP in the context of the Global Biodiversity Framework Early Action Support project (GEF-7).

The Global Environment Facility (GEF) is a family of funds dedicated to confronting biodiversity loss, climate change, pollution, and strains on land and ocean health. Its grants, blended financing, and policy support helps developing countries address their biggest environmental priorities and adhere to international environmental conventions.

UNDP is the leading United Nations organization fighting to end the injustice of poverty, inequality, and climate change. Working with our broad network of experts and partners in 170 countries, we help nations to build integrated, lasting solutions for people and planet.

Now present in 41 countries, UNDP BIOFIN is working with governments, civil-society, local and indigenous communities, and the private sector to catalyse investments in nature. UNDP BIOFIN supports the development of comprehensive Biodiversity Finance Plans, drawing on 150+ finance solutions, that will help secure the future for people and planet. Solutions that focus on increasing resources, delivering better on what is available, reallocating resources from nature negative to nature positive where they harm to where they help

UNEP Finance Initiative brings together a large global network of banks, insurers and investors that collectively catalyses action and shapes the sustainable finance agenda for more than 30 years. It has helped the finance industry address global environmental, social and governance (ESG) challenges through voluntary initiatives such as the Principles for Responsible Banking, Principles for Sustainable Insurance, and three UN-convened net-zero alliances.

The Kunming-Montreal Global Biodiversity Framework (GBF) calls for a whole-of-society approach to halting and reversing nature loss. The financial system and the private sector are important anchors of the economy and its interactions with nature. Finance is central to the real economic actors that drive biodiversity loss but can also lever positive change. Governments may have more experience working with real economy sectors but comparatively experience in engaging with private finance in particular, but all Parties updating their National Biodiversity Strategy and Actions Plans (NBSAPs) in line with GBF goals and targets will need to consider how private finance relates to their own country's circumstances. By private finance, we refer to entities like banks, insurers, and investors including asset owners and managers that are owned entirely or majority by shareholders, without a government stake. These entities are still subject to government regulation and oversight but they operate with different end missions in mind.

Parties to the CBD are currently revising their National Biodiversity Strategy and Actions Plans (NBSAPs) and National Biodiversity Finance Plans (for countries under BIOFIN) in line with the GBF. The finance sector is an important stakeholder, given the call in Goal D for the alignment of private finance with the goals and targets of the agreements; most of the world's governments are considering how to engage this sector in the NBSAP.[1] While relevance to each country's circumstances, starting point and key relevant sectors will vary, this briefing suggests some broad approaches and signposts existing tools and guidance towards engaging the financial sector. Yet almost universally, the private financial sector will play an increasingly important role in financing nature—because of increasing transparency of dependencies and impacts, and that public sector budgets are stretched. Indeed, public debt reached an all-time high of USD 92 trillion in 2022, presenting an acute challenge to many countries in meeting sustainable development goals.

GBF headlines relating to private finance

Goal D calls for the alignment of all financial flows—including private—with the goals and targets. Target 19 provides detail on closing the nature finance gap including private finance solutions, while Target 15 also specifically references the financial sector in terms of assessing and disclosing nature-related risks, dependencies, impacts and opportunities. Decision 15 / 7 on resource mobilisation encouraged Parties to develop financing plans (including private finance as relevant including removal of harmful subsidies), and decision 15 / 5 on the monitoring framework includes a number of finance indicators including D3 which tracks domestic and international private finance for conservation and sustainable use of biodiversity and ecosystems.

This note has been prepared by UNEP FI in partnership with UNDP BIOFIN in the context of the Global Biodiversity Framework Early Action Support project, which provides technical support to GEF-eligible Parties to the Convention on Biological Diversity (CBD) in their work to review and align components of their NBSAPs with the GBF national targets, policy frameworks, monitoring frameworks, and biodiversity finance.

1 cbd.int/nbsap/post-cop15.shtml

As part of this program, UNEP FI works as part of the wider UNEP team to ensure nature-positive portfolio alignment, support development of a risk and disclosure framework on nature-related risk and opportunities, and support on a systems transition in its thematic work on blue economy and food systems. In this way, UNEP FI works to develop or retrofit, validate and deploy technical resources for alignment of private sector financing with the needs for implementation of the GBF, with UNEP FI members including more than 500 banks, insurers, and investors and over 100 supporting institutions. Through research and action with its members, UNEP FI is helping to build a pipeline of investable blended finance solutions that benefit nature, climate and people. UNEP FI works particularly with banks, insurers and investors in the mainstream of the global financial system, across all global financial hubs and in 80+ jurisdictions. It increasingly works on mainstreaming voluntary private actions into policy to support systemic changes in how financial capital and risk are allocated. Through its membership platforms, UNEP FI directly interfaces with the private financial sector but does not typically work directly with governments. It has partnered with the UNDP BIOFIN programme who have extensive country presence, experience and capacity to support CBD Parties on nature and finance, to increase the emphasis and connections to private finance.

UNDP-BIOFIN has developed a methodology to support countries in designing and implementing Biodiversity Finance Plans. The BIOFIN is supporting national experts to draw on qualitative and quantitative data, innovative methodologies, and input from a variety of sectors to create an agenda for action to close the biodiversity finance gap. The BIOFIN Workbook emerged from experiences and lessons learned from implementing BIOFIN in 41 countries, where engaging with the financial sector has been promoted as a 'signature solution'. BIOFIN provides an innovative, stepwise and adaptable approach as well as technical support that enables countries to:

- Assess the policy, institutional and economic context for biodiversity finance and map existing finance solutions as well as subsidies potentially harmful to nature.
- Measure and analyse biodiversity expenditures from the public and private sectors, donors and nongovernmental organizations (NGOs)
- Make a reliable estimate of the finance needed to achieve a country's biodiversity goals, and compare this to biodiversity expenditures and other resources available; and
- Develop a biodiversity finance plan that identifies and mobilizes the resources and policies required to implement the most suitable finance solutions.
- Implement the right mix of Finance solutions identified in the Biodiversity Finance Plan.

All the above results are key deliverables of Component 4 ('Biodiversity Finance') of the Global Biodiversity Framework Early Action Support project.

Contents

Who are the private finance sector and what do they do? Are they really linked to nature?

The private financial sector refers to firms providing financial services that support the wider economy. It encompasses several sub-industries that provide loans, investments and insurance products which allow most companies to operate and underwrite almost all economic activities. In general terms, the health of the private finance sector reflects the state of the wider economy and has a significant impact on it through interest rates, mortgages and loans, debt financing, and capital funds. The financial sector, accordingly, is closely regulated since it has systemic importance to the stability and strength of economies.

Asset owners are the institutions or people—pension plans, insurance companies, official institutions, banks, foundations, endowments, family offices and individual investors—who own actual assets. Meanwhile, 'asset manager' refers to the universe of financial professionals who manage money, securities and other forms of assets on behalf of an owner—including individuals and companies. Their goal is to grow the value of the assets under their management. These include mutual fund managers, investment advisors, alternative investment managers, financial advisors, wealth managers, and stockbrokers. The size of investment industries will be scaled to the availability of assets in a given country. The membership of the Glasgow Financial Alliance for Net Zero, as a point of context, comprises 550 members across seven financial sub-industries, who represent over USD 80 trillion in financial assets under management, USD 70 trillion in banking financial assets, and USD 700 billion in gross written premiums.

For most Global South countries, banks play a larger role in domestic economies than other types of FIs, and are particularly important in lending to small and medium sized enterprises which power most emerging economies. Also notable in emerging markets is the prominence of (bank and non-bank) mobile money platforms, which are considerably boosting financial inclusion and transacting annual amounts heading towards USD 1 trillion per year.[2] Very few

2 Aijaz *et al.* (2023). Mobile money as a driver of digital financial inclusion. Available from: sciencedirect.com/science/article/pii/S0040162522006795

financial transactions take place without at least some insurance cover, and the important role of insurance is increasingly recognised in regards to its potential influence on the climate and nature.[3]

National and international development finance institutions (DFIs) are specialized development banks or subsidiaries set up to support private sector development in emerging markets. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. Export credit agencies (ECAs) or investment insurance agencies are private or quasi-governmental institutions that act as an intermediary between national governments and exporters to issue export insurance solutions and guarantees for financing. The financing can take the form of financial support or credit insurance and guarantees, or both, depending on the mandate the ECA has been given by its government. These entities are quite bank-like, and while some ECAs are government-sponsored, others private, and others a combination of the two.

The financial sector is dependent on nature, largely through the portfolio of companies that it lends to and invests in 'real economy' sectors such as agriculture, real estate, infrastructure and energy. In general terms, economic activity depends on a flourishing biodiversity and intact environment through the provision of ecosystem services. The depletion of these services poses material risks. Central Banks are also engaging in nature-related risk disclosure reporting. A recent assessment from Banque de France shows for example that 42% of securities held by French financial institutions are highly or very highly dependent on nature.[4] Recently, the World Bank[5] also measured the potential exposure of banking systems in 20 emerging markets to nature loss through their lending portfolio. The results show that banks in emerging markets allocate an average of 50% of their credit portfolio to firms whose business processes are highly or very highly dependent on one or more ecosystem services. The results suggest that lower income countries' financial systems are more dependent on nature than those with higher incomes, suggesting that policymakers in Global South countries should be more concerned with the links between their financial sectors, their economies, and bending the curve of nature loss.

3 WWF Switzerland and Deloitte (2023). Underwriting our planet. Available from: wwf.ch/sites/default/files/doc-2023-09/WWF_Deloitte_Insurance_Biodiversity_Climate_2023.pdf. See also SIF (2021). Nature-related risks in the global insurance sector. Available from: sustainableinsuranceforum.org/publication/sif-scoping-study-nature-related-risks-in-the-global-insurance-sector/

4 Romain et al for Banque de France (2023). A "Silent Spring" for the Financial System? Exploring Biodiversity-Related Financial Risks in France. Available from: publications.banque-france.fr/en/silent-spring-financial-system-exploring-biodiversity-related-financial-risks-france

5 Calice *et al.* (2023). Biodiversity and Finance: A Preliminary Assessment of Physical Risks for the Banking Sector in Emerging Markets. Available from: documents1.worldbank.org/curated/en/099526305022388443/pdf/IDU0e52335a30e0f804949088f30d8c4eee5cee8.pdf

How can private finance support the delivery of the GBF?

Private sector financial institutions oversee trillions of dollars of investable capital, both in their domestic markets and internationally. How they choose to deploy these resources will have a large impact on our ability to meet the goals and targets of the GBF. GBF Target 19 explicitly calls for leveraging private finance, promoting blended finance, implementing strategies for raising new and additional resources, and encouraging the private sector to invest in biodiversity, while Target 15 calls for businesses to assess and disclose biodiversity dependencies, impacts and risks. Since the Montreal COP, UNEP FI and UNDP BIOFIN have worked with their partners and membership platforms to identify how various groups of private finance actors can support the delivery of the GBF.

On 13 July 2023, UNEP FI in partnership with UNDP and other organizations involved in the Finance and Biodiversity Day at COP15[6] released a "High level roadmap for aligning financial flow with the Kunming-Montreal Global Biodiversity Framework " for use by financial policymakers and investors to support their alignment of policies and investment strategies with the 2030 mission of the GBF to reverse nature loss, and the 2050 vision of "living in harmony with nature". This high-level roadmap is intended for reference by all actors within the financial system, from financial policymakers and regulators to supervisory entities, public development banks, commercial financial institutions and private investors—highlighting the importance of action at all levels of society and the important linkages between NBSAPs and national biodiversity finance plans (NBFPs), regulatory action, public investments, and the private financial sector's incentives and ability to build alignment with the GBF.

6 Details available from cbd.int/article/cop15-finance-and-biodiversity-day.

Table 1: Four recent publications provide a detailed overview and reference point for expectations in this regard, for the following groups:

Banks

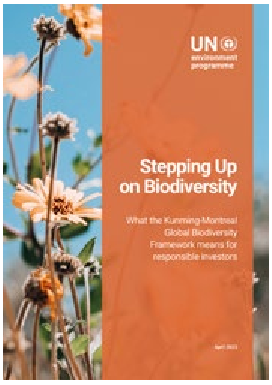
Banking on Nature provides banks with a first overview of how the GBF applies to their industry, through the axes of risk, opportunities, dependencies and impacts. It aims to support the industry in managing associated risks, capturing relevant opportunities and preparing for anticipated policy developments that will yield new compliance and disclosure requirements.

Authored by UNEP FI and its Principles for Responsible Banking (PRB), it presents the key implications for banks of the goals and targets of the GBF, and provides practical examples for the various departments of a bank of immediate actions that can be taken. It will be accompanied by bank Target-Setting Guidance on nature in development during 2023 with a group of banks, experts and partners.

Insurance and reinsurance

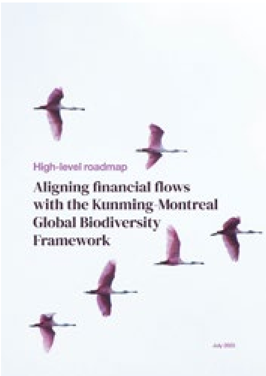
As insurers, risk managers and investors, the insurance industry plays an important role in promoting economic, social, and environmental sustainability—or sustainable development. As such, the Nature-Positive Insurance: Evolving Thinking and Practices paper builds on the PSI Nature Positive Insurance Series organized in 2021, and aims at understanding the role that insurers can play in supporting the goals of the Kunming-Montreal Global Biodiversity Framework and ultimately support the transition to a nature-positive global economy. This paper from the Principles for Sustainable Insurance and the UNEP FI nature team, with involvement of more than 20 insurers, spells out how insurers and reinsurers are increasingly recognizing the need to address nature-related risks in their risk assessment and management frameworks. These risks encompass physical, transition, and systemic risks resulting from the compromise of natural systems, misalignment with emerging regulations, and the breakdown of entire systems. A core element to building an approach for the insurance industry in understanding and embedding nature in sustainability risk management frameworks is framing.

Investors—asset owners and managers



Stepping up on biodiversity provides guidance and advice specifically for investors looking to align their activities with the goals of the GBF. It supports investors in managing risks associated with the biodiversity crisis and preparing for anticipated policy developments. In addition to investing in innovative financial solutions, the technical report recommends integrating biodiversity into investment decision making and assessing and disclosing nature-related dependencies, impacts, risks and opportunities in line with the GBF targets. Investors who align their activities with the goals of the GBF will be able to better manage physical and transition risks related to nature, and seize opportunities linked to the shift towards nature-positive economies.

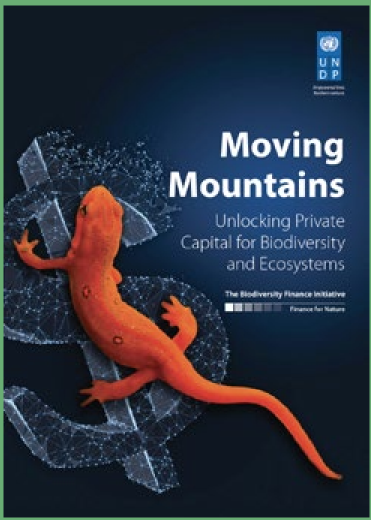
All financial actors including DFIs and ECAs



The high-level roadmap on aligning financial flows with the Kunming-Montreal Global Biodiversity Framework proposes recommendations for all actors within the financial landscape—financial ministries, financial supervisory entities, public development banks, private financial institutions, investors—on integrating the Kunming-Montreal Global Biodiversity Framework (GBF) within their policies and decision-making processes. It builds on the content of the GBF as well as the increasing level of ambition and commitments being expressed by financial actors, as seen at the COP15 Finance and Biodiversity Day, to propose key action that each actor within the financial landscape can take to support the implementation of the GBF and contribute to achieving its 2030 mission of reversing nature loss, and 2050 vision of living in harmony with nature.

Each of the above documents can be used to set expectations of the domestic financial sector in the revision and implementation of the NBSAP. There are also a number of inspiring examples from the BIOFIN portfolio.

Moving Mountains—BIOFIN countries unlocking private capital for nature



BIOFIN's 2020 publication aims to enhance public and private collaboration to unlock private capital for biodiversity and ecosystems. It details engagement of the private financial sector for the development of finance solutions in a number of BIOFIN countries, yielding results including re-directing harmful subsidies and channeling benefits to nature's stewards.

Available here

Case studies include:

- In Sri Lanka, partnership with the central bank to green the banking sector, and increase the size and number of loans and investments into biodiversity-friendly SMEs
- In the Philippines, a fintech app that rewards pro-biodiversity consumer behavior, linked to mobile banking
- In Guatemala, the private sector supported the set up a fund to gather revenues from sport fishing for marine conservation.

On an ongoing basis, BIOFIN countries are sharing their efforts with the financial sector and the results for biodiversity with their peers. For example, Cuba has made gains via regulating its banking sector,[7] and Zambia has adoted new fiscal benefits for green bonds, to encourage investments in projects with environmental benefits.[8]

7 Presented via poster at the 5th BIOFIN Global Conference biofin.org/news-and-media/greening-banking-system
8 biofin.org/news-and-media/zambia-ministry-finance-adopts-new-fiscal-benefits-green-bonds

Engaging private finance in the NBSAP revision and implementation including BFPs

Effectively all countries in the world have at least some private financial sector, particularly banks and insurers, and usually at least one national DFI. The Ministry of Finance and central bank can suggest key stakeholder contacts to invite to engage in the NBSAP revision process. These stakeholders may not always be aware of the call in the GBF for them to contribute. It can help to share resources such as the publications above with the individual financial institutions (FIs), particularly large ones, and also industry associations. If FIs headquartered or operating in your country have signed onto commitments such as the Principles for Responsible Banking (PRB), Principles for Sustainable Insurance (PSI), Principles for Responsible Investment (PRI) or commitments to align their portfolios to net zero in line with the Paris Climate Agreement, these are all excellent entry points to engage them in the NBSAP revision.

It should not be assumed that the private financial sector has any baseline understanding of their linkages with nature today. While there are a growing number of private finance institutions who have assessed or are otherwise increasing their awareness of the risks, impacts, dependencies and opportunities linked to nature, this is not yet commonplace. The axis of risk and return remain the key terms on which to engage financial actors in-country. The financial sector may increasingly perceive nature as an emerging regulatory issue, especially where climate-related requirements have been introduced for finance, and wish to engage to understand and/or work together to shape expectations in this regard. In a number of countries, BIOFIN is conducting studies on nature risk that will provide a baseline to this effect.

The Biodiversity Finance Plan is a major element of the NBSAP revision—Financial Institutions may have concrete suggestions of how they themselves, or their industries, can contribute to shifting harmful flows or new positive flows. Even if private finance is not fully engaged in developing the NBSAP, there may be a wide variety of entry points for their contributions—either on a voluntary basis, or through new regulations or policies related to the financial sector. While it may not be possible to have private finance sector engagement during the updating of the NBSAP, it is essential to have such representatives involved in the development of the Biodiversity Finance Plan. This will ensure that the plan is realistic and implementable, and makes best use of the relative strengths of different stakeholders in the country. Suggestions for how various parts of the financial sector can contribute to individual GBF goals and targets are presented in the sectoral guidance listed above. Countries should exchange on additional ideas and opportunities.

Private financiers may be looking for meaningful positive impact KPIs for the nature-positive financial products—it would be ideal if these KPIs match domestic targets that are meaningful within the NBSAP. Another tangible way to involve private finance in the NBSAP implementation is via market-based mechanisms such as biodiversity credits. Following the wording agreed in Target 19, countries may be investigating setting up voluntary biodiversity credits markets following international best practices. It is recommended that countries consult definitions, integrity principles, assessment frameworks and other guidance from the Biodiversity Credits Alliance (see Text Box 1).

Text Box 1: The Biodiversity Credit Alliance (BCA)

The Biodiversity Credit Alliance (BCA)[9] exists to provide guidance for the formulation of a credible and scalable biodiversity credit market that stands up to the scrutiny of multiple market participants. Key among them are Indigenous Peoples and Local Communities who live at the frontline of the nature crisis, and are represented on BCA's Community Advisory Panel (CAP). Together BCA is working to ensure strong foundations and principles exist and can be applied by all market entrants to the market. BCA's vision is a transparent, trustworthy and efficient global market in biodiversity credits founded on just and equitable principles, and underpinned by innovation.

BCA works to facilitate the transition to a nature positive economy aided by an integrated, efficient and scaled voluntary biodiversity credit (VBC) market. BCA considers biodiversity credits to be an effective complement to, but not a replacement of, the private sector's supply chain transformation efforts. BCA views biodiversity credits as an effective mechanism for advancing the private sector's participation in ecosystem remediation and transformative landscape approaches in line with science-based principles.

BCA is a voluntary international alliance that brings together diverse stakeholders to support the realisation of the Kunming–Montreal Global Biodiversity Framework, in particular Targets 19(c) and (d), which "encourage the private sector to invest in biodiversity" utilising, amongst others "biodiversity credits … with social safeguards."

BCA's mission is twofold:

Help steer the development of a voluntary biodiversity credit market by building a framework of high-level, science-based principles.

Provide guidance and encourage best practice for market participants on the application of these principles, empowering them to achieve and maintain equitable, high quality transactions that meet strict integrity criteria.

BCA was launched during the Fifteenth meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD COP 15) in December 2022, in Montreal. Initially BCA was launched as an informal working group of field-based conservation practitioners, researchers, academics, and standard setters, but has grown to include representatives of Indigenous Peoples and Local Communities who form the BCA Communities Advisory Panel (CAP), as well as representatives of the private sector, with the World Business Council for Sustainable Development as a key partners.

The BCA Secretariat is facilitated by United Nations Development Programme (UNDP), United Nations Environment Programme Finance Initiative (UNEP FI) and the Swedish International Development Cooperation Agency (SIDA).

Further details and materials available from biodiversitycreditalliance.org

9 Convened by UNDP, UNEP FI and SIDA. biodiversitycreditalliance.org

What is portfolio alignment?

The concept of portfolio alignment refers to the degree of alignment between all of an FI's financing activities across all product and transaction types with an impact goal. The concept has become increasingly popular via the call in article 2.1c of Paris Agreement, which has resulted in more than 550 FIs headquartered in more than 50 countries making commitments to align their portfolios with a 1.5°C target.[10] Portfolio alignment tools are used to generate metrics to determine the overall level of alignment of a portfolio, by assessing the performance of its individual holdings. For nature, this includes the ENCORE tool and its biodiversity module.[11] The approach of aligning portfolios is also being established in the global plastics treaty.[12]

Towards alignment of finance with the GBF goals and targets, science-based targets for nature linked to planetary boundaries are in development by the The Science Based Targets Network (SBTN). In the first release[13] SBTN equips companies to assess their environmental impacts and set targets, beginning with freshwater and land, enabling companies to both reduce their negative impacts and increase positive ones for nature and people. Specifically, the released first nature targets will help companies improve their impacts on freshwater quality (specific to nitrogen and phosphorus) and freshwater quantity as well as protect and restore terrestrial ecosystems. These targets can then be built on by financial actors to set portfolio-wide targets linked to nature.

New guidance is expected soon for alignment of banking portfolios via the PRB nature working group, and from the Finance for Biodiversity Foundation for asset managers.

10 GFANZ. gfanzero.com/about/

11 See NCFA. May 2021. Aligning Financial Portfolios with Biodiversity Goals: How to use the ENCORE biodiversity module

12 See UNEP FI. May 2023. Finance Leadership Group on Plastics contributes to development of international instrument to end plastic pollution. unepfi.org/news/finance-leadership-group-on-plastics-reacts-to-inc-secretariat-options-paper-for-an-international-instrument-to-end-plastic-pollution/

13 SBTN. 2023 sciencebasedtargetsnetwork.org/take-action-now/take-action-as-a-company/what-you-can-do-now/

How can we shift harmful financial flows?[14]

- Private financial flows include those from all non-public sources of finance (corporate revenues and savings), intermediaries (institutional investors, asset managers, commercial banks, insurers, and philanthropic foundations) and implementers (conservation NGOs, private companies, households, and communities). These bodies are channeling investment and activities, including corporate loans, funds, insurance products, blended finance, guarantees, grants and household spending. Private financial activities can negatively impact biodiversity directly or through value chains. In fact, most global financial capital, with a magnitude of hundreds of trillions, moves around with little recognition of impact or dependency.

- As Target 14 of the GBF on values and mainstreaming recognises, fiscal policies and financial flows play a critical role in the overall goal to reverse biodiversity loss in this decade. Accordingly, it is insufficient to think about financial flows only as an implementation mechanism or for resource mobilisation in terms of additional financial resources (as captured in Target 19). Private financial flows are currently causing severe harm to biodiversity, and this must urgently be addressed. The alignment of private financial flows should focus on stopping harmful activities that keep destroying nature. With 55% of the world's GDP—equivalent to USD 58 trillion exposed to material nature risk without immediate action[15] financial institutions and businesses can no longer afford to overlook nature in strategy, risk management and capital allocation decision making.

- The size and frequency of nature-related losses, and related impact on economies and societies is becoming clearer every year. Encouragingly, so too is the understanding that nature-related risk is as great a challenge as climate risk is for the financial sector. The TNFD has accordingly been working to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

- Engagement is an important way for financial institutions to leverage their power for more sustainable outcomes. This refers to the long-term active dialogue between investors and companies on environmental, social and governance factors. An active dialogue offers investors the opportunity to discuss sustainability risks and opportunities with companies and provides them with insights into investors' expectations of corporate behavior. It is closely linked to the concept of transition finance, meaning the development and agreement between the parties of a detailed, credible and testable long-view transition plan to engender confidence that the activities being financed are meaningfully contributing to sustainable outcomes—in this case, the GBF goals and targets.

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14 Refer to Finance for Biodiversity. February 2022. Aligning financial flows with biodiversity goals and targets, financeforbiodiversity.org/wp-content/uploads/Finance-for-Biodiversity-Foundation-Paper_Financial_Flows_16Feb2022.pdf

15 PwC, 2022. PwC boosts global nature and biodiversity capabilities with new Centre for Nature Positive Business. Available from: pwc.com/gx/en/news-room/press-releases/2023/pwcboosts-global-nature-and-biodiversity-capabilities.html

- A more blunt and direct instrument is the use of policies for financial exclusions. A growing number of private and public institutions have adopted coal-specific financing, insurance, and investment policies to help achieve sustainability goals. Best practices consist of balancing exclusion criteria with an engagement process: (1) Companies unable or unwilling to meet sector targets should be excluded from portfolios. (2) Companies already engaged in transitioning to more sustainable practices can be included in investment portfolios, but new investments should depend on the achievement of specific, time-bound targets supporting their gradual exit from the most harmful activity. An example of exclusions for nature-related harmful activities is the prohibition of financing deep sea mining, "bottom trawling" along the seafloor or of products linked to deforestation. Exclusions rely on knowing the "use of proceeds" in the financial transaction. Major challenges are encountered in applying exclusions when financing is made for general purpose corporate loans or financing sovereigns where detail of the specific activity being financed is not available. The PRB Target-Setting Guidance for Nature, available soon,[16] will provide recommendations for banks on how to address this challenge. The PRB Target-Setting Guidance for Nature will illustratively suggest ways for banks to define nature-positive finance, engagement opportunities, set meaningful nature KPIs for transition and suggested areas of finance to phase out where there is scientific consensus.

How can policy-makers unlock more private finance domestically?

Private finance is needed in most contexts for achieving the GBF goals and targets, both for nature-positive outcomes and for transition finance as described above. The UNDP BIOFIN database of financial resources is a source of information for countries on funding sources including private financial offerings which are publicly available.[17] A select few financial instruments and structures involving public-private partnerships or blended finance structures have been found promising for meeting GBF goals and targets—these include pooled investment vehicles, bonds, risk mitigation instruments (guarantees and insurance), high quality carbon credits, and biodiversity offsets and credits. These have the potential to scale and catalyze additional financing for biodiversity. The use cases and key considerations for each are highlighted in this paper. Additionally, the working paper provides a snapshot of key funders and investors, their relative risk-return profiles, and instances of their participation in financing nature and biodiversity. The paper Gupta (2022)[18] is available on request, and though it pre-dates the GBF, it usefully analyzes a few financial instruments and structures involving public-private partnerships or blended finance structures are analyzed—pooled investment vehicles, bonds, risk mitigation instruments (guarantees and insurance), high quality carbon credits, and biodiversity offsets and credits. These have the potential to scale and catalyze additional financing for biodiversity. The use cases and key considerations for each are high-

16 Via unepfi.org/banking/bankingprinciples/

17 Available from biofin.org/index.php/finance-solutions.

18 Gupta, 2022. Analyzing key financial mechanisms and instruments for financing biodiversity. Working Paper for the United Nations Environment Programme (UNEP) In the lead-up to COP15. Available on request from UNEP FI—not updated since the GBF.

lighted in this paper. Additionally, the working paper provides a snapshot of key funders and investors, their relative risk-return profiles, and instances of their participation in financing nature and biodiversity.

Two financial products that show significant promise—first, debt for nature conversions (or 'swaps') that have gained traction with the largest-ever closing recently for Ecuador, and second, the design of a new market accelerator fund—are spotlighted in the paper. Debt for nature conversions help governments lower high debt service burdens and enable green or blue investments with the resulting fiscal savings. A new market accelerator fund can provide early-stage capital, focused technical assistance, and capacity building to near-bankable biodiversity projects, which can reduce financing lead times, and directly link development support with commercially oriented investments.

As it is a rapidly emerging area, UNEP FI, PRI, and the Finance for Biodiversity Foundation are collectively tracking developments and sharing these with our respective memberships and stakeholders. Together these organisations are running an annual 'new green shoots' series capturing market developments for nature finance in January from the year before. We also zoom in on how financial institutions, via blended finance solutions, can help to substantially and progressively increase the level of financial resources from all sources to implement national biodiversity strategies and action plans in line with Target 19. We will present innovative solutions from project developers and conservation organisations who are already working to close the global biodiversity funding gap, and dive into the role that sovereign sustainability-linked bonds can play. The BFPs developed with the support of BIOFIN represent a pipeline of prioritized finance solutions that the country can implement to close the financing gap.

Biodiversity Finance Plans (BFPs) can provide the supportive enabling environment for financial tools such as the above to be used to finance NBSAP implementation. In some cases, additional legal clarity, policies or other measures would also be required. For sovereign debt-related solutions, considerable engagement and partnership with Ministries of Finance are essential.

What options are available to regulate the financial sector vis-a-vis biodiversity?

Policy-makers and regulators may consider enacting new requirements of the financial sector across a number of broad areas,[19] as relevant to their domestic circumstances:

1. Mandatory (or voluntary) nature-related disclosure and data

Following Target 15, countries may look to integrate recommendations of international frameworks, such as the one from the Taskforce on Nature-related Financial Disclosures (TNFD), into regulations affecting corporates including financial actors. It is expected that nature-related disclosures will become a core part of every large company's annual reporting, both in response to domestic legislation and as norms and standards increasingly encourage it. Examples of this already exist, such as in France with the government's 2021 decree[20] extending annual reporting by financial investors to include biodiversity information and their individual biodiversity footprint.

The TNFD was launched in 2021 with the support of UNDP and UNEP FI and other partners, has recently published its final framework for businesses and other entities to report on nature-related risks, impacts, dependencies and opportunities. The TNFD recommendations and guidance will enable business and finance to integrate nature into decision making, and ultimately support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.[21] Banks can be required to disclose biodiversity-related data from the projects that they finance,[22] into national and international repositories such as the Global Biodiversity Information. From 2021, UNDP-BIOFIN started conducting studies[23] to assess countries' readiness for nature-related disclosures in emerging markets. The studies were based on ten questions and data collected through interviews and questionnaires with regulators and supervisors. All countries mentioned the need for developing capacities as new instruments are released, such as the final iteration of the TNFD Framework. Countries listed the need for raising the capacities of regulators to be able to define risks in the national context; put in place institutional protocols for collecting, collating and publishing disclosures; and understanding and adopting disclosure standards within the national context.

19 This section is adapted from this piece The Global Biodiversity Framework—what's next for financial policy and regulation?—United Nations Environment prepared by UNEP FI's Global Policy Team and Nature Team.

20 See tresor.economie.gouv.fr/Articles/2021/06/08/publication-du-decret-d-application-de-l-article-29-de-la-loi-energie-climat-sur-le-reporting-extra-financier-des-acteurs-de-marche.

21 See tnfd.global

22 See Guidance Note: On Biodiversity Data Sharing—For EPFI Clients, Equator Principles. September 2022. equator-principles.com/app/uploads/Biodiversity_Data_Sharing_Clients_Sep2020-1.pdf.

23 See UNDP (2022). National readiness for nature-related disclosures in emerging markets. Available from: biofin.org/knowledge-product/national-readiness-nature-related-disclosures-emerging-markets

2. **Increasing nature-positive financial flows, aided by harmonized taxonomies and standards**

Many countries are putting in place sustainable finance taxonomies to classify which parts of the economy may be marketed as sustainable investments, as a tool for market transparency. Fleshing out science-based performance indicators for reversing biodiversity loss will be a key element of any sustainable finance taxonomy. For example the EU Taxonomy Regulation already includes the protection of healthy ecosystems as one of its six environmental objectives and is currently developing science-based thresholds for biodiversity. In Latin America, UNEP FI and UNDP have supported the development of a LAC Taxonomy Common Framework,[24] namely a guidance document that can serve as a voluntary reference to orient countries that are in the process of or intend to develop sustainable finance taxonomies, to encourage comparability of nascent taxonomies in the region.

3. **Biodiversity targets and due diligence obligations to form a mandatory part of companies' governance**

Nature loss and nature positive targets will need to be embedded as part of directors' duties and due diligence processes, including for financial institutions. For example, environmental risk considerations are already being included in the emerging EU Corporate Sustainability Due Diligence Directive, obliging in-scope entities to perform an assessment of potential adverse impacts in their supply chains.

4. **Clarification of supervisory expectations and guidance on biodiversity risk management**

Global South financial institutions are most directly exposed to nature-related risk. As noted above, the World Bank found that countries with lower incomes had financial sectors with higher direct dependence on nature. As nature risk is now evident, central banks and supervisors will need to address the physical and transition risks stemming from nature loss as a core part of their mandates, supervisory expectations and rules. Some have already begun to release guidance on how financial institutions should manage environmental risks beyond climate, and it can be expected for this to expand and become a core part of their mandate. More detail can be found via the Taskforce on Nature-related Financial Disclosures.[25]

5. **Zoom in on harmful subsidies**

Countries applying the BIOFIN methodology will reveal what harmful subsidies are harming nature. In some cases, new policy or regulation may be required to engage private finance in helping to shift such subsidies.

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24 See United Nations Environment Programme, 2023. Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean. Latin America and the Caribbean. Available from: undp.org/sites/g/files/zskgke326/files/2023-07/common-framework-of-sustainable-finance-taxonomies-lac.pdf

25 Taskforce on Nature-related Financial Disclosures. tnfd.global/

What next for public-private collaboration on biodiversity finance?

UNEP FI and UNDP BIOFIN are launching a community of practice between public sector and private finance actors to share lessons and refine approaches to financing NBSAPs and delivering on Biodiversity Finance Plans in Global South countries. The conversation on financing NBSAPs takes place against the background of the highest sovereign indebtedness ever recorded,[26] particularly after the major global economic shock linked to Covid-19. Solutions that help alleviate debt in emerging markets are critical, and early lessons from debt-for-nature conversions are an important point of reflection. Another major opportunity for reflection is the emergence of a market in biodiversity credits as well as the links between voluntary carbon markets, nature-based solutions and NBSAPs. Many issues also revolve around how private finance can tangibly support GBF Target 3 relating to Protected and Conserved Areas, and in particular those led by Indigenous Peoples and Local Communities.

Via the community of practice, countries and FIs will be supported to better collaborate to streamline and raise ambition in the numerous and sometimes overlapping standards, methodologies and expectations hindering efficient and speedy implementation in the market. The GBF enables this international alignment; policy makers are encouraged to make use of multilateral forums such as the Network for Greening the Financial System (NGFS), the IFRS International Sustainability Standards Board (ISSB), the International Platform on Sustainable Finance (IPSF), G7 and G20 as relevant, and others to coordinate their regulatory responses.

The Global Biodiversity Framework Early Action Support project support provides opportunities for countries in regions and language groups to exchange best practices to shifting harmful flows, leveraging private finance for nature, and ensuring that financial incentives reward nature's stewards. A series of webinars, learning and exchange opportunities will be available to countries as they progress through the NSBSAP review and development of their BFPs in the months ahead.

26 UNCTAD (2023). World of Debt. unctad.org/publication/world-of-debt/dashboard

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