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Nature and Food Quality

IDFB

DIALOGUE

The IDFB Paper on Finding Common Ground on the Alignment of All Financial Flows with Biodiversity Objectives

Findings from the Interface Dialogue Finance and Biodiversity

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Abbreviations

ABS:	Access to Benefit Sharing	LSE:	London School of Economics
AFD:	Agence Française de Développement (The French Development Agency)	MDB:	Multilateral Development Bank
BFFI:	Biodiversity Footprint for Financial Institutions	MFF:	Multiannual Financial Framework
BIOFIN:	The Biodiversity Finance Initiative	MFW	
CBD:	Convention for Biological Diversity	4Nature:	IDFC's Making Finance Work for Nature Group
CDP:	Carbon Disclosure Project	MNB:	Magyar Nemzeti Bank
CFMCA:	Coalition of Finance Ministers for Climate Action	MoF:	Ministry of Finance
CI:	Conservation International	NBFP:	National Biodiversity Finance Plan
CIAT:	The International Centre for Tropical Agriculture	NbS:	Nature-based Solutions
COP:	Conference of Parties	NBSAP:	National Biodiversity Strategy and Action Plan
CO2:	Carbon Dioxide	NCFF:	Natural Capital Finance Facility
CPIC:	Coalition for Private Investment in Conservation	NGFS:	Network for Greening the Financial System
DAC:	Development Assistance Committee	NGOs:	Non-governmental Organisations
Defra:	Department for Environment, Food & Rural Affairs (UK Government)	ODA:	Overseas Development Assistance
DFI:	Development Finance Institutions	OECD:	Organisation for Economic Co-operation and Development
DNA:	Deoxyribonucleic Acid	OEWG:	Open Ended Working Group
DNB:	De Central Bank of the Netherlands	PA:	Protected Area
DSI:	Digital Sequence Information	PBAF:	Partnership for Biodiversity Accounting Financials
ECB:	European Central Bank	PBL:	Netherlands Environmental Assessment Agency
EIB:	European Investment Bank	PCAF:	Partnership for Carbon Accounting Financials
ENCORE:	Exploring Natural Capital Opportunities, Risks and Exposure	PDB:	Public Development Bank
ESF:	Social and Environmental Framework (World Bank)	PES:	Payments for Ecosystem Services
ESVD:	Ecosystem Services Valuation Database	PINE:	Policy Instruments for the Environment Database
EU:	European Union	PIP:	Pandemic Influenza Preparedness Framework
FACT		PRI:	Principles of Responsible Investment
Dialogue:	Forest, Agriculture, and Commodity Trade Dialogue	RNA:	Ribonucleic Acid
FfB:	Finance for Biodiversity Foundation/Pledge	SBT:	Science-Based Target
F4B:	Finance for Biodiversity Initiative (Now known as: NatureFinance)	SBTi:	Science Based Targets initiative
FIC:	Finance in Common	SBTN:	Science Based Targets Network
GBF:	Global Biodiversity Framework	SDGs:	Sustainable Development Goals
GCF:	Global Climate Fund	SDR:	Special Drawing Rights
GDP:	Gross Domestic Product	SEEA:	The UN's System of Environmental Economic Accounting framework
GEF:	Global Environment Facility	SFL:	Sustainable Finance Lab
G7:	Group of Seven	STAR:	Species Threat Abatement and Restoration Metric
G20:	Group of Twenty	TCFD:	Taskforce for Climate Related Financial Disclosures
HAC:	High Ambition Coalition	TNC:	The Nature Conservancy
IBAT:	Integrated Biodiversity Assessment Tool	TNFD:	Taskforce for Nature Related Financial Disclosures
IDFB:	Interface Dialogue Finance and Biodiversity	UCL:	University College London
IDFC:	International Development Finance Club	UNDP:	United Nations Development Project
IFC:	International Finance Corporation	UNEP-FI:	United Nations Environment Programme – Finance Initiative
IMF:	International Monetary Fund	UNFCCC:	United Nations Framework Convention on Climate Change
IPBES:	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services	UNGC:	United Nations Global Compact
IPCC:	Intergovernmental Panel on Climate Change	V.2022:	Version 2022
IUCN:	International Union for Conservation of Nature & Natural Resources	WEF:	World Economic Forum
LEAP:	Locate, Evaluate, Assess Prepare integrated assessment process	WHO:	World Health Organisation
		WRI:	World Resources Institute
		WWF:	Worldwide Fund for Nature
		29-LEC:	Article 29, French Law on Energy and Climate

Chapter 1: Introduction

1.1 The set-up of the Interface Dialogue Finance and Biodiversity

At the fifteenth Conference of Parties (COP) to the Convention on Biological Diversity (CBD) in Montreal, the post-2020 Global Biodiversity Framework (GBF) is expected to be adopted. This framework is based on the [2050 Vision](#) and [2030 Agenda](#) of the CBD, namely, “By 2050, biodiversity is valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people” ([CBD, 2018](#)). The GBF will translate this vision and mission into a roadmap with concrete goals, targets, and milestones. Over the past 2 years, 195 governments have negotiated over the design and the means of implementation of the GBF. Financing the framework has been one of the most prominent parts of these multilateral engagements. Governments need to arrive at an agreement on the mobilization of all financial flows that includes all public and private, domestic, and international finance.

The information in this paper is based on the insights generated from the [15 meetings of the IDFB](#), an informal network bringing together approximately 40 governments and over 20 experts from the financial sector that took part in a monthly dialogue. Between September 2021 and December 2022, this network came together 15 times, discussing under Chatham House rules issues ranging from resource mobilization, to public development finance, to the important role that ministries of finance and regulators play in the aligning of all financial flows with the post-2020 GBF. The exchanges and deliberations that came from these meetings centred around the topic of alignment, and the present paper shares the IDFBs understanding and insights on the topic.

1.2 The importance of alignment in the GBF

The IDFB is convinced that the alignment of all financial flows with biodiversity objectives should be included in the GBF to close the biodiversity funding gap. Influential coalitions of private financial institutions, like the Finance for Biodiversity Foundation ([FFB](#)), have called for the GBF to refer explicitly to the alignment of both private and public flows in the goals and targets of the framework, and to the need to stop harmful flows ([FfB, 2022a](#)). Building on the IDFB meetings, the IDFB has developed a ‘[Storyline](#)’ for alignment. It centres around three main elements:

1. All financial flows—public and private, domestic, and international - have to be aligned with biodiversity objectives, and this must be included in the text of the GBF.
2. Private and public institutions have different yet vital roles to play in bridging the gap in finance for nature and in achieving the mainstreaming of biodiversity in the financial sector. Actors such as Central Banks, Supervisors, Public Development Banks (PDBs), and Ministries of Finance (MoFs) all have key roles to play ([SFL, 2022a](#)).
3. Most countries will have to prioritise developing the necessary capacities to plan, implement, revise, and strengthen alignment. Knowledge sharing and exchanges of best practices and lessons learned will be crucial. National Biodiversity Finance Plans (NBFs) or similar instruments linked to ambitious National Biodiversity Strategy and Action Plans (NBSAPs) are the central tools through which can be used to operationalize alignment at the national level.

Alignment of all financial flows with the post-2020 GBF encompasses all financial flows: public and private, domestic, and international. Although alignment has gradually become an important subject of discussion in the negotiations on the new GBF under the CBD, there are governments that still have questions on how to define and implement alignment. The IDFB thus turned its attention to answering these questions and

developing practical advice. For this, the IDFB has looked at what roles various actors will have to play in the defining, operationalizing, and monitoring of alignment of all financial flows.

This paper reflects emerging understanding and expertise on alignment that the IDFB has brought together. As alignment is still very much an emerging area of expertise, this paper does not aim to be a defining paper. Rather, it aspires specifically to help building capacity and inspire and inform policymakers and practitioners working in governments. It is our hope that financial institutions and private and non-profit actors will be inspired, too. We strive to trigger further questions, research, and answers, and hope that this paper - in the short-run – will be a useful input to the negotiations over the post-2020 GBF ahead of COP15. Moreover, we hope it will help with the implementation of the alignment of all financial flows.

1.3 Structure of the IDFB paper

This paper aims to provide answers to a series of questions on alignment that were posed to the [Helpline](#) of the IDFB, such as: *what is the alignment of all financial flows? Which the actors should be involved? What is its potential in terms of resource mobilization, and how can it be implemented?* The paper drew information and lessons from discussions between governments and experts from the financial sector that participated in meetings of the IDFB, and from feedback that experts from a variety of global financial institutions gave on draft versions of this paper. The IDFBs network of knowledge partners includes organisations such as the Biodiversity Finance Initiative ([BIOFIN](#)), Finance for Biodiversity Pledge ([FfB](#)), [NatureFinance](#) (previously known as the Finance for Biodiversity Initiative: F4B), Organisation for Economic Co-operation and Development ([OECD](#)), United Nations Environment Programme – Finance Initiative ([UNEP-FI](#)), the World Wildlife Fund ([WWF](#)), and the [World Bank](#). These organisations, and many others, participated in a series of meetings throughout the development of this paper.

This IDFB paper will touch upon a variety of key issues related to alignment of all financial flows. Chapter two explores the concepts and focus of alignment, and how biodiversity and climate can be linked. Chapter three then delves into the public financial flows that need to be aligned with biodiversity objectives, whilst chapter four looks at the private financial flows in need of alignment. Following this, chapter five introduces the various roles that different actors within the financial system need to play in order to accelerate the alignment of public financial flows. Chapter six then discusses how to operationalize the implementation of alignment at the national level through the use of National Biodiversity Strategy and Action Plans (NBSAPs) and National Biodiversity Finance Plans (NBFs), using an all-government approach. Subsequently, chapter seven introduces the need to develop concrete goals for biodiversity against which progress can be measured on the topic of monitoring the alignment of financial flows, as well as advancements in the public and private sector on monitoring biodiversity-related spending. All of these chapters also provide links to reports for further reading. Finally, chapter eight presents a set of the IDFBs reflections and recommendations on concrete actions to help guide governments on how to accelerate and achieve the alignment of all financial flows with biodiversity objectives.

Chapter 2: Defining the Alignment of All Financial Flows with the Global Biodiversity Framework

2.1 A brief introduction

Around half of the world's Global Domestic Product (GDP) —valued at US \$44 trillion, according to research conducted by World Environment Facility (WEF) — is at moderate to high risk due to dependencies of business on nature and ecosystem services ([WEF, 2020a](#)). Biodiversity loss therefore poses a huge risk to economies, as well as transition and reputational risks as the regulatory landscape changes and awareness grows regarding the impacts of such losses on nature, society and business ([WEF, 2020b](#)). Furthermore, biodiversity loss also creates risks for nature itself as it results in further ecosystem degradation and can be closely linked to climate change.

Nearly 50% of the world's economy is moderately to highly dependent on the direct use of ecosystem services, whilst 70% of the world's poorest and most vulnerable people live in rural areas that depend directly on the use of biodiversity and ecosystem services for their livelihoods and wellbeing ([WEF, 2020a](#); [CBD, n.d.](#)). The annual global gap in funding for biodiversity is variously estimated between US \$599 and \$824 billion per year ([Paulson Institute, 2020](#)). In addition, the amount of subsidies harmful to biodiversity worldwide that have to be eliminated and repurposed is estimated to be between US \$500 to 800 billion ([OECD, 2021a](#)).

This chapter gives a brief introduction to the concept and key aspects of alignment of all financial flows with biodiversity objectives. Alignment of *all* financial flows means that the negative impacts on biodiversity of all public and private financial flows are reduced; that all future financial flows won't do harm to nature and biodiversity, and that benefits for nature are maximized ([FfB Pledge, 2022b](#)).

2.2 Greening Finance & Financing Green

All public and private financial institutions including banks, investors, and issuers need to integrate biodiversity considerations into all of their financial decision-making processes ([WWF & AXA, 2019](#)). This is an important element of 'Greening Finance'. The World Bank defines Greening Finance as “directing financial flows away from projects with a negative impact on biodiversity and ecosystems, and towards projects that mitigate the negative impact – or pursue positive environmental impact as a co-benefit” ([World Bank, 2020](#)). Greening Finance also includes the identification of existing harmful financial flows from the public and private financial sectors that support activities with negative impacts on biodiversity, and the redirection of these flows towards projects which have more positive impacts on nature and biodiversity.

Greening Finance refers to the mainstreaming of biodiversity in all financial decision-making. Currently, most decisions and investments do not sufficiently account for biodiversity. When biodiversity is mainstreamed in all financial flows – public and private, domestic, and international - this will ultimately lead to the alignment of all these flows with biodiversity objectives. To fully close the global biodiversity finance gap, biodiversity must be mainstreamed not only throughout the public and private financial sectors; but across all policy making processes and all relevant economic sectors.

Financing Green is the opposite side of the same coin. Achieving global biodiversity goals and bridging the global biodiversity gap also requires the mobilization of financial resources for projects that contribute to the conservation, restoration, and sustainable use of biodiversity and its services to people ([World Bank, 2020](#)). Both Greening Finance and Financing Green essential elements for bending the curve on biodiversity loss. To build a bridge between the two, the delegation of the Netherlands to the CBD have been organising side events on these topics since [COP13 in Cancun](#). Financing Green and Greening Finance are both important

avenues for the alignment of all financial flows with biodiversity objectives.

2.3 Alignment and the post-2020 Global Biodiversity Framework

At the time of writing, the post-2020 Global Biodiversity Framework (GBF) is being negotiated under the Convention on Biological Diversity ([CBD](#)) and is expected to be adopted at the December 2022 [15th Conference of Parties](#) (COP) of the Convention on Biological Diversity in Montreal. The GBF is expected to include goals and targets for pathways towards the conservation, restoration, and sustainable management of biodiversity for the next decade and beyond. Resource mobilization and the alignment of financial flows with biodiversity objectives will form an important component of the GBF. The IDFB hopes that COP15 will lead to a positive outcome with concrete goals and targets that can be used to guide the alignment of all financial flows. In this paper we will define alignment as “alignment of all financial flows with biodiversity objectives”. The GBF has three objectives for biodiversity: conservation, restoration, and sustainable use, thus we will always mean the conservation, restoration, and sustainable use of biodiversity when referring to biodiversity objectives. Terminology used other than ‘alignment to biodiversity objectives’ will only be used when referring to specific policy measures; there we have chosen to stay true to those initiatives and adhere to terminology used in the relevant context, such as nature, biodiversity, nature-positive, environment, the goals and targets of the GBF, or ecosystem services.

2.4 Understanding the meaning of ‘Alignment’

In June 2021, the CBD Secretariat hosted an online [workshop](#) on the concept of the alignment of all financial flows with biodiversity objectives. A number of actions were identified that governments and financial institutions should take in order to work towards alignment. The workshop concluded that the concept of ‘alignment’ should entail both:

1. Mobilizing new finance that will be targeted at nature-positive investments ([CBD, 2021a](#))
2. Aligning existing funding so that they are not anymore harmful to nature ([BIOFIN, 2021a](#)).

Alignment, in other words, encompasses both “Greening Finance” and “Financing Green” ([CBD, 2022](#)). The alignment of all financial flows is multifaceted and goes beyond just the (re)allocation of capital. On one hand, alignment of all flows with biodiversity objectives involves moving public and private financial flows away from activities that are harmful to nature. On the other, it supports the transition and reformulation of the underlying economic incentives towards a structure more supportive to nature-positive investing. These are two fundamentally important parts to the equation that require the implementation of policy measures and the creation of economic incentives to reflect the true costs and benefits of biodiversity and ecosystem services in market transactions ([Paulson Institute, 2020](#)). These economic incentives include a set of environmental taxes, fees and charges, and tradable permits ([OECD, 2021b](#)). The public flows that have to be aligned are addressed in Chapter 3, private flows in chapter 4, whilst the roles that actors within financial systems should play in supporting this alignment are elaborated upon in Chapter 5.

2.5 Linking Biodiversity and Climate Change

In recent years, the interlinkages between biodiversity loss and climate change have become better understood. Neither biodiversity loss nor climate change can be solved without addressing one and the other ([SFL, 2022a](#)). In terms of the Rio Conventions, the goals of the Paris Agreement to limit climate change to 1.5 degrees and the goals of the CBD to stem biodiversity loss cannot be achieved in isolation. Biodiversity loss and climate change, in short, must be tackled together so that their synergies can be maximised, and potential trade-offs reduced ([IPBES & IPCC, 2021](#)). Climate change and biodiversity loss share many of the same drivers and can exacerbate each other. Restored, protected, and sustainably managed biodiversity helps to mitigate climate change, and nature-based solutions for climate change adaptation and mitigation can strengthen

biodiversity ([SFL, 2022b](#)). Policies regarding climate and biodiversity protection must be aligned in order to maximise co-benefits ([IPBES & IPCC, 2021](#)). Trade-offs should be avoided at all costs – care has to be taken when maximising carbon sequestration, for example, otherwise this can contribute to losses of local ecosystems ([IPBES & IPCC, 2021](#)). Research shows that the potential for synergies and co-benefits are much larger than the potential trade-offs, which can be managed through integrated approaches ([IPBES & IPCC, 2021](#)).

Climate change action has gained momentum over the past 20 years, with the Paris Agreement being the main milestone that has led many actors, including financial institutions, to focus on their climate-related risks and on aligning their portfolios with climate goals and targets ([SFL, 2022b](#)). Recently, understanding in the financial sector has grown that biodiversity-related risks need to be better understood and that global frameworks, targets, and goals for biodiversity are urgently needed. At the same time, many financial institutions need to develop a better understanding of their relationships with nature. Much can be learned from the climate sphere. Public and private financial institutions play increasingly important roles in meeting the goals of the Paris Agreement and they should use their experiences there to catch up on addressing biodiversity losses ([SFL, 2022b](#)). Driven by climate-related risks to their reputations and assets, the financial sector is increasingly leveraging its potential to stimulate change on nature-related risks across their portfolios ([PBL, 2020](#)). Many financial institutions are now assessing investment decisions based on climate risks and their capacities to manage those risks ([PBL, 2020](#)). Today, over 65% of the Global Environmental Facility's (GEF) projects integrate environmental impacts such as land degradation, biodiversity, and water with climate considerations, while 10 to 15 years ago 90% of their overall portfolio only focused on climate change mitigation ([IDFB 1, 2021](#)). Fund managers, banks, and financial institutions are increasingly looking for projects that integrate impact on biodiversity in such a way.

Further reading

- The Forest, Agriculture and Commodity Trade (FACT) [joint statement](#) and [Multi-stakeholder Taskforce](#) on countries committing to work together to protect the forests of the world.
- The OECD report prepared at the request of the UK G7 Presidency: [Biodiversity: Natural Capital and the Economy: A Policy Guide for Finance, Economic and Environment Ministers](#) (2021).
- The Global Landscapes Forum introduction to [Greening Finance and Financing Green](#) (2021).
- The [Glasgow Climate Pact](#) decision (2021).
- WWF's annual [Living Planet Report](#) (2022).
- The International Science-Policy Platform on Biodiversity and Ecosystem Services ([IPBES](#)) & Intergovernmental Panel on Climate Change ([IPCC](#)) report on the [Scientific Outcome of the Workshop on Biodiversity and Climate Change](#) (2021) which provides recommendations on how to take actions that create significant positive impacts for both climate and biodiversity.
- Sustainable Finance Lab's (SFL) [From Paris to Kunming](#) (2022) paper emphasising the need for an integrated approach to climate and biodiversity issues within the financial sector to manage synergies and trade-offs.
- The [G20 Environment Communiqué](#) (2021) on the need to address biodiversity and climate-change related challenges in an integrated manner.
- The [G7 Communiqué](#) (2022) on taking joint action on energy, climate, and environment.

Chapter 3: Alignment of public financial flows

3.1 Aligning domestic public financial flows

Public domestic financial flows currently make up the majority of total financial flows that go towards the protection of biodiversity at the global scale ([OECD, 2020](#)). Public domestic expenditures that protect biodiversity are estimated to be worth around US \$68 billion a year, with total global financial flows that protect biodiversity (i.e., public, private, domestic, and international) estimated at around US \$78-91 billion per year ([OECD, 2020](#)). It is therefore very important that national governments take action to green their domestic spending and to understand the impacts of their public domestic flows. To better understand how domestic public finance flows can be aligned with biodiversity objectives, green budget tagging and biodiversity budget tagging can help to increase transparency ([OECD, 2021c](#)). Green budget tagging identifies positive and harmful flows in national budgets in order to work towards ‘green budgeting’ within national budgets ([OECD, 2021c](#)).

3.2 Addressing environmentally harmful subsidies

Government support, including subsidies that are harmful to biodiversity, is estimated to be US \$500 to \$800 billion annually ([OECD, 2020](#); [OECD, 2019](#)). Eliminating and repurposing environmentally harmful incentives including subsidies will be an important action at the national level, especially when it comes to agricultural and food subsidies that drive negative impacts on biodiversity ([UNEP, 2021](#); [WEF, 2020](#)). A number of countries have already started the identification of domestic expenditures that are environmentally harmful. For example, Italy has created [the Italian Catalogue of Environmentally Friendly and Harmful Subsidies](#) in order to evaluate subsidies and tax expenditures across different sectors to create a clear overview of where such expenditures are going ([OECD, 2021a](#)). The German Environment Agency has also engaged in such an exercise, having [published reports](#) looking at the use of environmentally harmful subsidies across a number of different domestic sectors ([OECD, 2021a](#)). Lessons can be derived from developments in climate policy, as various governments have started to create programs and policies which support and incentivize climate-positive investments, such as through the establishment of renewable energy programs and subsidies. Repurposing environmentally harmful subsidies is not a simple feat. As the discussion regarding the gradual phasing out of harmful fossil fuel subsidies continued at COP26 in 2021 showed, although G20 countries agreed in 2009 to move towards the phasing out of such subsidies in the medium term, there has been slow progress thus far ([OECD, 2019b](#)).

3.3 Overseas Development Assistance (ODA)

Official Development Assistance (ODA) is aid provided by governments which goes directly towards the promotion of economic development and welfare improvements for recipient developing countries ([OECD, n.d.](#)). The United Nations maintains a target for developed countries to spend 0.7% of their gross national income on ODA for developing countries. International public spending on biodiversity-related financial flows from OECD Development Assistance Committee (DAC) members in the form of ODA and other international public expenditures are estimated to be roughly between US \$3.9 to \$9.3 billion ([OECD, 2020](#)). Thus, it is important to ensure that ODA flows which go to developing countries are increased and aligned well with biodiversity and nature-related outcomes as well as development objectives, and do not contribute to negative impacts. ODA will be a key, especially for developing countries, to ensure that financial flows for development and biodiversity are increased and repurposed. Private and public institutions can have a large impact on creating a stronger accountability framework for development aid, as they are able to prioritize funding in impactful interventions. Furthermore, as frontline actors DFIs are able to identify practical needs and constraints that are limiting further investments and how to manage and overcome these in order to help unlock future opportunities for investment.

3.4 The special role of Public Development Banks and Multilateral Development Banks

Public Development Banks (PDBs) and Multilateral Development Banks (MDBs) have special and substantial roles to play due to their need to meet societal goals and because of their connections with the goals of governments in the alignment of all financial flows. Moreover, they have a lot of potential to help realize multiple co-benefits for biodiversity-positive projects and investments. The eight biggest MDBs in the world are responsible for the management of US \$1.83 trillion worth of assets ([NatureFinance, 2021](#)). These institutions are exposed to large nature-related risks, and they put nature and biodiversity at risk themselves through their investments. This is because around 40% of the portfolios of PDBs and MDBs are invested in sectors and countries that are highly nature dependant ([NatureFinance, 2021](#)). PDBs are responsible for around 10% of annual public and private financing, thus both MDBs and PDBs leverage significant amounts of global capital and aligning their flows with biodiversity goals and the GBF could bring large gains for biodiversity ([WWF, 2021a](#)). PDBs and MDBs command considerable leverage both institutionally and financially, especially in countries of the Global South where there is a pressing need for nature-positive investments ([SFL, 2022a](#); [SFL, 2022b](#)). The International Monetary Fund (IMF), for example, has considerable potential to leverage increased amounts of green investments via Special Drawing Right (SDR) allocations by rewarding actions and projects which contribute to biodiversity restoration and preservation, as well as the mitigation of climate change ([SFL, 2022b](#)). SDRs refer to an international reserve asset, or accounting unit, which the IMF created in order to supplement the existing reserves of member countries ([IMF, n.d.](#)). Multilateral environmental funds from organisations such as the [Global Environmental Facility \(GEF\)](#) and the [Green Climate Fund \(GCF\)](#) can provide blended finance and innovative financing structures for biodiversity and climate projects – the GEF being the largest source of multilateral biodiversity funding in the world ([GEF, 2022](#)).

As the [2020 Joint Declaration](#) of 450 PDBs issued through [Finance in Common \(FiC\)](#) showed, development banks are beginning to recognize their important impacts on, and influence on the management of, biodiversity. In this declaration, they committed “to help align all financial flows with the future post-2020 Global Biodiversity Framework” ([FiC, 2020](#)). Furthermore, the [International Development Finance Club \(IDFC\)](#), which is made up of 26 development banks including [Agence Française de Développement \(AFD\)](#), committed in 2020 to the development of biodiversity action plans and management strategies ([IDFC, 2020](#)). The IDFC is developing a [Toolbox](#) to create the building blocks to align the financial flows of development banks. This toolbox will include developing of biodiversity bank-wide strategies with quantified targets; creating innovative finance solutions for funding and scaling nature-based solutions; better managing of risks and dependencies; and engaging in more stringent reporting and tracking of biodiversity and finance ([IDFC, 2022](#)).

When PDBs and governments commit to portfolios in line with biodiversity objectives, they have the potential to reduce their contributions to negative impacts on nature and biodiversity. PDBs and MDBs also play an important role in the development of blended finance structures in order to de-risk biodiversity-positive investments by the private sector. Blended finance can act as ‘cornerstone investments’, providing catalytic capital and encouraging further capital mobilisation from private investors ([World Bank, 2020](#)). PDBs and MDBs thus play an important role in reprioritizing funds, allocation processes, and showing how such funds can be used.

During a number of IDFB meetings, participants discussed the role that PDBs and MDBs should play in efforts to align all financial flows ([IDFB 2, 2021](#); [IDFB 3 & 4, 2021](#); [IDFB 6, 2022](#); [IDFB 9, 2022](#)). As shareholders of these institutions, governments have a responsibility to ensure that PDBs and MDBs:

- Make commitments to incorporate biodiversity and nature considerations into their decision-making and risk-assessment processes, such as through joining groups like the IDFC's Making Finance Work for Nature ([MFW4Nature](#)) Group.
- Report on their investments which contribute to, and invest in, biodiversity, so as to increase transparency and awareness of where action is needed.
- Quantify, report on, and take actions to reduce nature-related risks ([CBD, 2020](#)).
- Conduct regular biodiversity/nature-related stress tests and risk assessments across their investment portfolios in a more rigorous manner to ensure their portfolios align with the safeguards of the IFC Performance Standards ([IFC, 2012](#)).
- Move towards biodiversity-and-nature-positive investment portfolios ([NatureFinance, 2021](#)).
- Actively engage in the development of ecological credit, green bonds, and green credit asset securitization in the field of biodiversity.
- Explore innovative products and blended financing models that could benefit biodiversity ([CBD, 2020](#)).

The capacities of PDBs and MDBs will have to be developed further to build internal expertise and increase understanding of how to assess, measure, monitor, and value the potential harm that investments have on biodiversity and to reduce negative impacts whilst increasing positive impacts ([WWF, 2021a](#)). In this way, PDBs can work towards expanding their mandates and becoming more ambitious in their contributions to maximizing the alignment of their investments with biodiversity objectives ([WWF, 2021a](#)). The European Investment Bank ([EIB](#)) plays a key role in mobilising PDBs and MDBs all over the world. Their Natural Capital Finance Facility ([NCF](#)) was one of the first dedicated financial instruments set up to support investments with a positive impact on biodiversity and which contribute to climate adaptation. It was also the first such instrument to focus on market conditions. The NCF helped the ASN Bank to set up their biodiversity fund. Recently, at COP27 of the UNFCCC, the EIB launched a new framework to support environmental sustainability through environmental investments across the world, thus contributing to green, resilient, and equitable development ([EIB, 2022](#)).

3.5 Aligning economic incentives

When aligning public flows with biodiversity goals, it is essential to look not only at public flows, but also at economic incentives. Economic incentives, when formulated according to - and aligned with – biodiversity objectives, can ensure that public financial flows are going in the right direction. Economic incentives are used to reflect the values of nature and biodiversity in economic and fiscal decision making. They formulate part of a countries' economic policies and play a very important role in the creation of economic conditions that can transform the economic system to one which better aligns financial flows with biodiversity outcomes. Such economic incentives can aid in the creation of a more nature-positive economic system. Both the [World Bank](#) in their paper on [Bending the Curve of Nature Loss](#) and the Finance for Biodiversity ([FfB](#)) Foundation in their second [Position Paper on Aligning flows with biodiversity goals and targets](#) have recommended aligning economic incentives with sustainable practices as this can help to advance and accelerate the transition towards both a net zero and nature-positive economy ([World Bank, 2022](#); [FfB, 2022b](#)).

There are a number of other policy actions that governments can take to strengthen economic incentives in line with the goals of the GBF. These will provide market signals that will in effect influence how the financial sector decides to invest its money. Reducing the funding gap for biodiversity in the long term will require reformulation of economic incentives and of regulatory frameworks so as to integrate negative externalities into costs ([OECD, 2021a](#)). The OECD has identified a number of key areas for aligning financial flows, these include the "aligning [of] budgetary and fiscal policy with biodiversity; [and] embedding biodiversity in the financial sector" ([OECD, 2021a](#)). The FfB Foundation has built on this by stressing the importance of creating a

“supportive regulatory environment” through ensuring that economic incentives are aligned with pushing financial flows towards investments in protecting, restoring, and sustainably managing biodiversity ([FfB, 2022b](#)).

Economic incentives cover a number of different potential measures which governments and Ministries of Agriculture or Economic Affairs can take to create a more conducive environment for aligning financial flows with biodiversity goals. The Dasgupta Review identified tradable permit schemes (similar to those used for carbon credits), the use of bans and quotas (such as the quotas issued in Japan and others for commercial whaling), and taxes and subsidies such as seen with Pigouvian taxes that have helped to internalize costs of externalities for tobacco and carbon ([Dasgupta, 2021](#)). Repurposing harmful subsidies that impact nature and biodiversity negatively is another important economic incentive to consider, and aligning such subsidies with outcomes that are positive for nature and that align with biodiversity goals can help to more efficiently respond to and overcome nature-related risks and better allocate financial resources ([World Bank, 2020](#)). Repurposing these harmful subsidies, as well as taxes and credits which can contribute to the degradation of nature across areas including agriculture, fisheries and forestry should be priority actions for governments ([World Bank, 2020](#)).

Further Reading

- The Dasgupta Review on **The Economics of Biodiversity** (2021). This report calls for systematic and institutional overhaul to enhance understanding of the need to create and realign private and public financial flows so as to benefit, rather than degrade, nature.
- The IPBES & IPCC **report of the Workshop on Biodiversity and Climate Change** that looks at previous policy decisions relating to these two themes and the need for more transformative policy approaches going forwards.
- The OECD Report on **Sustainable Land Use: Aligning Biodiversity, Climate, and Food Policies** (2020). It presents a collection of good practices, and policy insights regarding the better alignment of such policies for achieving more positive outcomes for climate and ecosystems.
- NatureFinance paper on **Aligning Development Finance with Nature’s Needs** (2021). This publication provides insights in to how PDBs can be guided towards better management of risks to nature and push for increased nature-positive investments in investment portfolios.
- The OECD’s report: **A Comprehensive Overview of Global Biodiversity Finance** (2020). The report provides an overview of government support potentially harmful to biodiversity.
- The OECD’s guide to **Tracking Economic Instruments and Finance for Biodiversity** (2021). An overview of economic incentives in place to promote biodiversity conservation and sustainable use, from more than 120 countries. These instruments align incentives towards biodiversity goals and targets.
- BIOFIN’s **Little Book for Investing in Nature** (2021) provides an guide for both policy makers and investors on how to overcome the gap in finance for nature and how to generate and realign finance for nature.
- The NatureFinance report on **Greening Sovereign Debt Performance: Shared Risk and Rewards in Financing the Transition, NatureFinance** (2022). The report is aimed at those involved in sovereign debt markets, policy makers and members of financial institutions, as it discusses how to increase financial market resiliency and scale up sustainable finance.

- The [Leaders' Pledge for Nature](#) (2021).

Chapter 4 Alignment of private financial flows

4.1 Challenges and opportunities for private financial institutions when aligning their portfolios

Private financial flows cover a number of different actors and types of finance within the private financial sector and refer to any flows that come from non-public financial sources. This includes private financial institutions (such as commercial and investment banks, asset managers, and private equity firms), private philanthropic funds from donors and philanthropic institutions, and NGOs ([FfB, 2022a](#)). Currently, the impacts of private finance on biodiversity and nature are not well accounted for or recognized, leading to large-scale degradation of land and seascapes globally ([FfB, 2022a](#); [Wolfs Company, 2021](#)). Alignment of private financial flows will entail looking at all such flows and working to reduce their negative impacts on biodiversity, whilst making sure that biodiversity is mainstreamed across all economic sectors so that new financial flows do not cause harm to nature ([FfB, 2022b](#)). A solid regulatory and policy framework is needed to provide an enabling environment for the private financial sector to align its flows (see also chapter four).

4.2 Actions for the private financial sector

As attention to private investments in the protection, restoration, and sustainable management of biodiversity is growing, the number of initiatives led by the private sector is increasing. Many private financial actors are now calling for action from leaders and policymakers to help make as ambitious commitments as possible and to incentivise action to reduce and reverse nature losses and restore ecosystem resiliency.

Examples of private sector engagement and action on nature-related risk management and encouraging investments in nature, include:

- Contributions of the private financial sector to networks that develop frameworks, standards, and tools for monitoring, measuring, analysis, and tracking over time of relationships to biodiversity, the size of flows which go towards nature-negative outcomes, and for guiding the disclosures of nature-related risks, impacts and dependencies ([IDFB 5, 2022](#); [IDFB 11, 2022](#)).
- Assessments of private sectors' own portfolios in terms of their impacts and dependencies on nature. These are to prepare for opportunities and restrictions of upcoming legislative and regulatory changes ([IDFB 5, 2022](#); [IDFB 8, 2022](#)).
- Development of financial products that benefit biodiversity and contribute to the transition to a more nature-positive economy, for example through the development of green bonds, ecological credits, and green credit asset securitization ([IDFB 6, 2022](#)).
- Development of innovative and blended finance instruments and models that can help increase private financial flows to biodiversity and nature. These can be used as investment vehicles for Nature-based Solutions (NbS) and more sustainable business practices ([IDFB 1, 2021](#); [UNEP, 2021](#)).

4.3 Initiatives for measuring impacts and dependencies, and transparent reporting

The private sector has begun to step up and recognize the importance of understanding, managing, and mitigating nature-related risks, impacts, and dependencies, despite the fact that economic policy action still lags behind. For financial institutions to understand and know their impacts and dependencies on nature, they have to be able to monitor and measure the impacts and dependencies of their investments on biodiversity or in sectors that have impact on biodiversity. Measuring impacts, dependencies, and nature-related risks is

important for achieving the alignment of all financial flows because it gives a push for private financial actors and institutions to align their investments. Much work is currently being done to develop standardised tools and methodologies for assessing the amount of public and private finance that is aligned with biodiversity objectives. Collaborative initiatives play an important role in building momentum on alignment. They help the financial sector concretely by providing information on biodiversity measurement tools ([FfB, 2022c](#)). Also of importance is standardized reporting based on credible and science-based metrics. Such frameworks would enable financial actors and institutions to track and disclose their current impacts and risks, as well as their progress over time. In order to mainstream practices of transparency and reporting, it will be up to regulators and policymakers to ensure that all public and private financial institutions are incentivized to apply the best disclosure frameworks, or for these actors to make such disclosures compulsory. Increasing and encouraging transparency and disclosure can help to fill important remaining knowledge and data gaps. Both are important elements of creating a wider framework to measure, monitor, and manage the relationship between finance and biodiversity. In recent years, there have been quite a few initiatives, networks, and groups of institutions, investors, and other actors that have pushed the private financial sector to take action on nature-related risks. Some initiatives have also called upon governments and policy makers to do the same and to take appropriate action in reforming the economic, policy, and regulatory frameworks that currently exist. Interesting examples of such initiatives are presented below, a number of which have partaken in the IDFB sessions over the past year. This kind of cooperation is very important for creating exponential learning - which is needed to accelerate system level change.

Finance for Biodiversity (FfB) Pledge

The Finance for Biodiversity (FfB) published a [Pledge](#), which has been signed by more than 100 private financial institutions as of July 2022, to call on global leaders to take action to reverse nature loss by 2030 ([FfB, 2022d](#)). The FfB is an initiative for financial institutions to commit to the protection and restoration of biodiversity. Signatories pledge to engage to collaborate and sharing knowledge, assess impacts, set targets, and publicly report on biodiversity impacts of their investments by 2024. The FfB has been vocal in calling for the GBF to push governments to establish an enabling environment that will accelerate and drive action from the financial sector ([FfB, 2022b](#)). FfB has emphasized that voluntary action is not enough and that, in line with Paris Climate Agreement Article 2.1c, the COP15 should also strive to set a policy mandate for countries that requires the financial sector to align its activities with biodiversity objectives ([FfB, 2022a](#)). They are calling on members of the private financial sector to sign a statement ahead of COP15, drafted alongside the Principles for Responsible Investment ([PRI](#)) and the United Nations Environment Programme Finance Initiative ([UNEP FI](#)), that calls for the post-2020 global biodiversity framework to provide clarity and concrete action to align all economic sectors including that of finance.

FfB and the [EU Business@Biodiversity](#) Platform have published a [guide](#) for financial institutions on approaches for measuring biodiversity. This guidance document provides financial institutions with insight into numerous tools and metrics being developed, or – in some cases - are already available for use, regarding measuring, monitoring, and assessing their biodiversity-related impacts and dependencies ([FfB, 2022c](#)). This document also provides guidance for financial institutions on how to select appropriate tools and metrics for themselves. Tools such as Exploring Natural Capital Opportunities, Risks and Exposure ([ENCORE](#)) and the Integrated Biodiversity Assessment Tool ([IBAT](#)) are continuing to be developed to further help investors and other actors to understand the interlinkages of the economy and biodiversity. ENCORE was modified in 2021 to include guidance to financial institutions on '[Aligning Financial Portfolios with Biodiversity Goals](#)' ([UNEP FI, 2021](#)). The IBAT tool contributes to understanding for financial institutions by providing localised data on biodiversity enabling for pinpointing of conservation opportunities. During the 2nd session of the IDFB, these tools were identified as important in advancing data collection and ecosystem service valuation, with participants discussing how improving the availability of quantitative data, and communicating these results can help to translate the business and finance risks of biodiversity loss ([IDFB 2, 2022](#)).

Taskforce for Nature Related Financial Disclosures (TNFD)

The Task force for Nature-related Financial Disclosures ([TNFD](#)), organised by the UNEP-FI, fills an important gap in the current lack of guidance for financial institutions when it comes to identifying, measuring, and disclosing on biodiversity- and nature-related risks. The release of the [Beta version of the TNFD framework](#) in May 2022 allowed financial institutions and corporates to disclose on nature-related risks, opportunities, dependencies, targets, and strategies. It provides them with an opportunity to comment on and provide feedback regarding the framework before its publication in final form, due in September 2023. The reporting and disclosing of biodiversity and nature risks is intended to help shift financial flows towards more biodiversity conservation, restoration, and sustainable management outcomes.

The framework is also attracting considerable interest from policy makers and regulators as efforts accelerate across several jurisdictions towards integrating biodiversity into sustainability reporting requirements. Pressuring financial institutions to disclose on their biodiversity-related targets and strategies using the TNFD framework can further increase knowledge sharing, understanding of biodiversity-related risks and opportunities, and in building capacity to respond to these risks and opportunities. Government regulators should be encouraged to use the recent [TNFD recommendations](#) on moving to mandatory reporting requirements, or at least encouraging financial actors to begin disclosing according to this framework. The role of the government and regulators in creating the environment necessary for moving towards investments in biodiversity conservation, restoration, and sustainable management is discussed in more detail in Chapter 5.

The Partnership Biodiversity Accounting Financials (PBAF)

The smaller sister of the Partnership Carbon Accounting Financials ([PCAF](#)), the Partnership for Biodiversity Accounting Financials ([PBAF](#)) has presented a new standard for financial institutions to measure the impact of their loans and investments on biodiversity. The [v.2022 Standard](#) is a tool which financial institutions can use to discern these impacts using harmonized principles for biodiversity impact assessments. This tool allows for them to assess their impact and dependencies in relation to biodiversity in a quantified manner, to be able to measure, monitor, report, and take action on biodiversity. Besides important preconditions, the standard explains various methodologies and tools that financial institutions can use to map their impacts. The standard is harmonized as much as possible with other initiatives in the financial sector, such as the TNFD, the Science Based Targets Network ([SBTN](#)), and the [EU Align project](#).

4.4 Digital Sequence Information and Access to Benefit Sharing

During COP15, discussions will take place on a mechanism for the fair and equitable sharing of benefits arising from the use of Digital Sequence Information (DSI) on genetic resources. The term 'DSI' is not fully defined but is used as a placeholder term. It is often understood as referring to the order of nucleotides found in a molecule of DNA or RNA, which largely contains the genetic information determining the biological characteristics of an organism or virus ([CBD, 2018](#)).

The benefits raised through this mechanism are intended to be used for the conservation and sustainable use of biodiversity and would generate financial flows for projects contributing to the conservation and sustainable use of biodiversity. A specific fund for DSI could be a way to facilitate the mobilisation private funding - the development of such a fund can learn from experiences with the Pandemic Influenza Preparedness Framework (PIP). This is an instrument designed for the implementing a global approach to pandemic influenza viruses and increasing access to vaccines and related essentials for fighting pandemics ([WHO, n.d.](#)). Similarly, lessons can be learned from existing frameworks on the exchange of plant materials.

These developments under the CBD process towards the post-2020 GBF create an opportunity to explore ways in which a financial mechanism could be designed to facilitate Access to Benefit Sharing (ABS) and mobilise additional private sector finance derived from, and contributing to, sustainable use of biodiversity. It could be expanded to attract different types of private finance, as well as public flows. The resulting public-private finance could be utilised for capacity building in support of the development of investable projects that generate and share financial and other benefits from the sustainable use of resources derived from nature and biodiversity and ensure that local actors have access to the benefits.

4.5 De-risking investments using philanthropic flows

Private philanthropic actors have long been interested in investing in nature conservation. Many parks and botanical gardens across the globe have been funded with money from wealthy families and philanthropic organisations. This culminated in nine philanthropic organisations pledging, in 2021, to donate a record US \$5 billion towards nature protection and conservation ([Greenfield, 2021](#)). The pledged money will help to fund the protection of 30% of land and sea by 2030 as part of the 30X30 Target. The planet's health has become of increasing importance of the charity agenda, as there is a growing trend for philanthropists to not only focus on traditional beneficiaries of education, poverty, and the arts, but to focus on nature and the climate crisis ([Greenfield, 2021](#)).

Another example of this interest is showcased by the work done by the Coalition for Private Investment in Conservation ([CPIC](#)); a group of leading civil society organizations, private and public sector financial institutions, and academics working to deliver an increase in private, return-seeking investment in conservation. The CPIC is developing new investment models and funding pipelines that will help close the current conservation funding gap and contribute to the global goals for biodiversity conservation and sustainable development.

Although private philanthropy accounts for between US \$222 – 380 million annually of spending on biodiversity, many philanthropic organisations do not report on spending that relates to or affects biodiversity ([OECD, 2020](#)). The question remains on how these financial flows can best be used. From the IDFB perspective, we would argue that instead of direct funding, it would be more effective for the alignment of all financial flows if these philanthropic flows would be applied to de-risk financial investment for actors seeking a certain financial return. The World Bank sees the leveraging of private philanthropic flows as an important way through which blended finance can be used to catalyse new business models and investment vehicles ([World Bank, 2020](#)). Blended finance models involves leveraging philanthropic and public funds as catalytic capital to increase and de-risk private sector investment in nature-related and sustainable development investments and projects ([World Bank, 2020](#)). This can be realised through the provision of technical assistance finance, concessional finance with low interest rates, and offering of guarantees on investments ([World Bank, 2020](#)). The World Bank ([2020](#)) has identified two potentially key roles that blended finance can be used for in biodiversity finance:

- a. Exploring and providing proof-of-concept of new types of business models, and the upscaling and replication of successful ones.
- b. Creating and deploying new investment vehicles focused on conservation and biodiversity protection and restoration.

4.6 Increasing investments in biodiversity

Nature-based Solutions (NbS) provide opportunities for investors to invest in projects that tackle climate change and contribute to biodiversity conservation and restoration at the same time ([World Bank, 2022](#)). Though there is progress in mobilising private finance for NbS, much work remains to be done. Of the US \$133

billion in annual investment in NbS, 86% is made up of public financial flows (UNEP, 2021). A significant increase in private sector investment in NbS is required (UNEP, 2021). A number of other voluntary frameworks and standards have been developed in recent years to help guide investors and institutions on how to avoid negative impacts on nature and biodiversity through their investments. As a starting point, the United Nations Environment Programme (UNEP) has developed a system of screening and managing social and environmental impacts that can be applied to projects and initiatives above a certain value threshold. The World Bank has developed a Social and Environmental Framework (ESF) which has Safeguard Policies for the approval of funding for countries so as to ensure that an investment does not create negative impacts on ecosystems and nature (World Bank, 2018). These safeguards require environmental impact assessments and development of environmental management and action plans. The International Finance Corporation's (IFC) [Performance standard on Biodiversity Conservation](#) and the Sustainable Management of Living Natural Resources is required of IFC clients to be applied for the managing of environmental risks and impacts. This framework can provide stronger guidance for investors on how to sustainably manage their impacts and risks, and to then manage, mitigate, and avoid such impacts in the future (IFC, 2012).

Further Reading

- The UNEP [State of Finance for Nature report](#) (2021). This report provides an overview in global trends for both public and private investments in NbS, with significant increases in private investment needed.
- The UN-convened [Net-Zero Asset Owner Alliance](#), an initiative of institutional investors aiming to transition their portfolios to net-zero.
- [Biodiversity: Finance and the Economic and Business Case for Action](#), OECD (2019): This report highlights the economic and business case for taking ambitious action on reversing biodiversity loss and realigning biodiversity-related financial flows.
- The WEF report: [Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy](#) (2020). This report provides a deep dive into the materiality of nature losses to business across all industries, even where it may appear that an industry has only limited dependencies and impacts upon nature.
- BIOFIN's [Little Book for Investing in Nature](#) (2021) provides an guide for both policy makers and investors on how to overcome the gap in finance for nature and how to generate and realign finance for nature.
- The FfB Pledge's [letter](#) (2022) to the [Finance Ministers Coalition for Climate Action on](#) the need to take urgent regulatory action on biodiversity.

Chapter 5: The role of actors within the financial system

5.1 Regulators, supervisors, central banks, and Ministries of Finance

To increase financing green, governments can support the development of financial instruments and blended finance mechanisms that can create more investment opportunities and increase the attractiveness of such investments. Furthermore, to accelerate greening finance, governments can contribute via the reformulation of policy and financial regulatory mechanisms. By encouraging, or mandating, the measuring, monitoring, and management of biodiversity risks and integration of such considerations into business decisions within the financial sector, governments can push for the mainstreaming of biodiversity in investment decision-making ([World Bank, 2020](#)).

There are special actors that change the rules of the financial sector such as central banks, regulators, and ministries of finance. They can take many policy actions to reform fiscal and regulatory policies to create an enabling environment for transforming financial systems towards supporting biodiversity conservation, restoration, and sustainable management. This chapter identifies roles that regulators, supervisors, ministries of finance, central banks, and authorities of financial markets can take on to accelerate alignment.

5.2 Central banks, supervisors, and regulators

The primary roles of central banks include the maintaining of financial stability through risk-based, methodical, and efficient frameworks, and ensuring price stability through their fiscal policies. Central banks and regulators across the world – therefore throughout much of the economy and the financial sector – are susceptible to risks in the face of large-scale, unprecedented biodiversity losses. These risks materialize as physical risks due to losses of ecosystem services; reputational risks due to financing of companies which negatively impact nature; transition risks; and regulatory and legal risks due to changes in government policies and regulations aimed at reducing damage to biodiversity. “[Indebted to Nature](#)” (2020), a pivotal report released by the Netherlands Environmental Assessment Agency ([PBL](#)) and the Dutch Central Bank ([DNB](#)) in June 2020, helped to kickstart an important conversation about this amongst central banks and supervisors worldwide. Similar reports have been published since, for example by the [Banque de France](#), reiterating these findings of the deep linkages of biodiversity loss, financial instability, and exposure to biodiversity-related risks in the years since. Central banks and supervisors play a particularly important role in understanding risks and aligning financial flows with biodiversity so that they can move towards investments in biodiversity conservation, restoration, and sustainable management. Thus, they should respond to transitional, financial, and physical risks that biodiversity losses pose by integrating biodiversity protection into monetary policies and investment portfolios ([NGFS-INSPIRE, 2022](#)).

Currently, many banks and financial institutions struggle to accurately assess systemic risks associated with biodiversity losses ([UCL, 2020](#)). Central banks and supervisors can support the alignment of flows with concrete actions and policies. This can be through actions such as the introduction of more targeted monetary policies that could include restrictions on large-scale exposures on investments that impact nature and biodiversity, and the introduction of credit floors and/or ceilings and lending quotas to increase strictness of lending ([SFL, 2022b](#)). Furthermore, by taking a precautionary approach to monetary policy and financial supervision, they can increase financial and economic resilience. Central banks can, additionally, interact with governmental departments to better identify actions which cause (potential) harm to biodiversity and nature so as to inform lending criteria ([LSE, 2022](#)).

For alignment to be realized, there need to be strong regulatory frameworks in place that effectively monitor impacts on nature and biodiversity and monitor alignment of flows with biodiversity objectives. These frameworks must enable central banks and supervisors to internalize biodiversity and nature-related risks into

their risk assessments, investment processes, and decision-making approaches, and have appropriate systems in place to measure and monitor impacts of finance on biodiversity and nature ([World Bank, 2020](#)). According to a recent paper of the Sustainable Finance Lab (SFL), developing such monitoring frameworks will ultimately help to increase mobilization of finance for projects and investments as they can aid private financial institutions in understanding what they should be paying attention to and what the important trends are ([SFL, 2022a](#)).

Central banks and supervisors should encourage the use of what the DNB calls ‘fit and proper’ testing of key financial personnel to ensure adequate in-house understanding of biodiversity-related risks ([SFL, 2022a](#)). Supervisors are beginning to consider climate-related risks when it comes to risk assessments. The OECD, in September 2022, launched a project to develop a framework for helping to identify biodiversity-related risks, impacts and dependencies for central and retail banks, which it is currently working to apply in Hungary with the Magyar Nemzeti Bank. Such projects can help to accelerate the integration of nature-related risk assessments in the financial sector ([MNB, 2022](#)).

5.3 Concrete actions for regulators

The World Bank report [Mobilizing Private Finance for Nature \(2020\)](#) identified a number of essential and concrete policy reforms that are needed to increase private finance mobilization for nature and to accelerate the transition to a more nature-positive economic and financial system. These policy reforms emphasize the role of supervisors and regulators in helping to reform the financial sector as they can promote and engage in the development of important tools, including, but not limited to:

- Taxonomies: Developing green taxonomies for identifying activities which are sustainable and good for nature and biodiversity can help at the national level to determine which sectors and activities are key to invest in, and can provide a means by which to monitor the alignment of financial flows with biodiversity objectives
- Supervisory and regulatory risk assessments: Developing strong methods for conducting risk assessments and accounting for the value of natural capital in the domestic economy can be beneficial to accelerating the transition
- Encouraging disclosures of biodiversity risks: Encouraging the increase of financial institutions which disclosure on nature-related risks, opportunities, impacts and dependencies, which can also contribute to the reduction of the data gap on biodiversity and nature-related risks, opportunities, impacts, and other factors such as the complex relationships with nature that many facets of the economy have. Pushing for the development of a standardized, global framework, such as the TNFD, for the reporting and disclosing of nature and biodiversity-related risks
- Developing and increasing the reach of international networks of actors that are driving change: regulators can engage with networks of other regulators and private sector initiatives to mainstream biodiversity concerns in the risk analyses in financial risk assessments, drawing lessons from experiences with the mainstreaming of climate concerns in risk analysis
- Integration of biodiversity in risk assessments: Better integrating nature and biodiversity into the management of risks in the financial sector by developing strong frameworks, standards, and reporting metrics for both disclosing and tracking biodiversity-related risks, impacts, and dependencies

(Source: [The World Bank, 2020](#)).

5.4 Leveraging best practices

The Network for Greening the Financial System ([NGFS](#)) is a network of 95 central banks and financial supervisors that aims to accelerate the scaling up of green finance and develop recommendations. They have

turned their attention first to central banks' roles in mitigating, avoiding, and adapting to climate change. In 2020 the NGFS developed a set of [climate scenarios of potential futures](#) under different degrees of warming. An expanded edition of these standards, designed with input from climate scientists and economists, was released in 2022 to provide updated information on how physical and transition risks will evolve under various future scenarios ([NGFS, 2022](#)). These scenarios help different actors in financial decision-making as they inform financial actors where they may need to adapt their policies or strategies in order to better align with goals and targets of the Paris Agreement, and how to adjust to different risks.

In March 2022, the NGFS released a [Statement on Nature-Related Financial Risks](#) recognizing the influential role of biodiversity in risk analyses based on the significant macroeconomic risks nature loss would pose. This statement emphasized that financial institutions will have a vital role to play in tandem to national governments to address these risks effectively ([NGFS, 2022](#)). The NGFS has identified key tasks for central banks and supervisors:

- Recognizing the risks associated with biodiversity loss for the economy and financial institutions
- Building capacities to understand, assess, and address these risks
- Building the necessary policy and financial environments to mobilize investment for nature

This will help them to understand the financial risks of their impacts and dependencies and push for such institutions to begin developing management practices to mitigate and respond to these risks. The NGFS paper on [Central Banking and Supervision in the Biosphere](#) (2022) recognized the importance of developing scenarios for understanding biodiversity-related risks, both physical and transitional, for central banks, supervisors, and other financial actors to develop more forward-looking strategies and policies. Developing integrated scenarios that enable the understanding of the interlinkages and potential feedback loops existing between climate and nature-related risks are needed to develop coherent policies and mitigation and adaptation strategies ([NGFS-INSPIRE, 2022](#)).

5.5 Ministries of Finance

Ministries of Finance (MoFs) need to play a pivotal role in creating an enabling environment and incentive framework ([IDFB 6, 2022](#)). Through their actions, MoFs will help the financial sector to achieve a reduction in physical, transition, and reputational risks associated with biodiversity loss. For this to be achieved, it is important for economic and financial policies to be reformed so as to integrate biodiversity loss and nature-based solutions ([UNEP, 2021](#)). Targeted policies are needed that encourage the disclosures of nature-related risks and opportunities of financial decisions and that ensure their alignment with biodiversity objectives ([CBD, 2021b](#)). Furthermore, developing a global coalition of MoFs for nature – such as there already exists for climate – is a recommendation of the SFL ([SFL, 2022b](#)). Such a coalition could help to promote and mainstream the integration of biodiversity- and- nature-related risk assessments in financial decision making more globally ([SFL, 2022b](#)).

The World Bank identified a number of policy areas across which MoFs need to take action ([World Bank, 2020](#)). This report highlighted the fact that MoFs are themselves highly exposed to risks related to nature losses, and play a critical role in managing the financial and economic policies of governments which can shape and drive more conservation, restoration, and sustainable use of nature ([World Bank, 2022](#)). MoFs have the power to drive a number of policy actions forwards, these include:

- Economic policy reform: including creation of a whole-of-economy approach to reducing nature loss; mainstreaming nature across other ministries and policies; assessing nature-based risks and opportunities at the macroeconomic level; and repurposing of harmful subsidies and creation of economic instruments which incentivize protection and restoration of nature

- Integration of nature-smart planning and use of Nature-based solutions across sectors: including the integrated management of nature and nature-smart planning; increasing sustainable planning and management of landscapes; integrating nature into sectoral planning approaches and investing strategies
 - Designing and mandating the use of valuation techniques, metrics, measurement, and decision-support tools: engaging with other ministries to support natural capital accounting and integration of natural capital considerations into budgeting and planning decisions; promoting increased data collection and dissemination; developing financial models which show the fiscal implications of biodiversity losses to inform policy and decision-making
 - Mobilization of finance for nature: developing policies and regulation to integrate nature risks in financial decision making; increasing funding for nature (e.g., via PES, taxes, debt for nature swaps); incentivizing and aiding in the development of blended finance mechanisms to mobilize more private finance for nature
- (Source: [World Bank, 2022](#)).

It is highly important that MoFs promote and implement such policy actions as they can help to shape the market and financial sector and can support other efforts domestically to streamline actions and policies on biodiversity conservation, restoration, and sustainable management.

Ministries of Finance can further contribute to the transition towards a more nature-and-biodiversity-positive financial system through making biodiversity- and nature-related data publicly available and accessible to inform financial decision making. This includes geospatial data, as well as data related to ecosystem services and monitoring data, and data regarding complex relationships with biodiversity, on the risks and opportunities associated with nature and biodiversity, as well as relating to the impact of companies on nature over time. Moreover, MoFs can play a role in developing management strategies for economic growth that integrate nature considerations and balance trade-offs ([World Bank, 2022](#)). The private sector has asked for more guidance from finance ministries regarding the repurposing of subsidies and taxes to conservation and restoration goals, whilst the G7 and G20 have emphasized the importance of action coming from different government ministries – including MoFs ([IDFB 6, 2022](#); [G7, 2022](#)).

Further Reading

- The OECD's publication on **Biodiversity, Natural Capital, and the Economy: A Policy Guide for Finance, Economic and Environment Ministries** (2021). This report shows how Finance, Economic and Environment Ministries can drive the transformative changes required to halt and reverse the loss of biodiversity.
- The WWF & AXA report: **Into the Wild: Integrating Nature into Investment Strategies** (2020) provides recommendations for governments and financial institutions on integration of nature into financial decision-making.
- The World Bank presentation on **Policy actions ministries of finance can take to manage nature-related risks** (2022) offers insights into the report '**An Overview of Nature-related Risks and Potential Policy Actions for Ministries of Finance: Bending the Curve on Nature Loss**. The report has a lengthy list of recommendations for how Ministries of Finance can act to manage and mitigate nature-related risks.
- SFL's paper **From Paris to Kunming** (2022) emphasising the need for an integrated approach to climate and biodiversity issues within the financial sector to manage synergies and trade-offs.
- The 2020 WWF Global Futures report on **Assessing the Global Economic Impacts of Environmental Change to Support Policymaking**. This report is useful for policy makers in formulation of policy that aims to create transformational change of financial and economic systems.
- WWF's **Transitioning to a Net Zero and Nature Positive Economy** (2022) paper which provides insight for central banks and supervisors as to what roles and actions they can wield to contribute to addressing climate and environmental crises.
- The OECD's policy paper on **Biodiversity, Natural Capital and the Economy: A policy guide for finance, economic and environment ministers** (2021) shows how these different ministries can contribute to driving transformative changes to halt biodiversity losses.

Chapter 6: Needs for the implementation of alignment

6.1 A whole-of-government and landscape approach

If the alignment of all financial flows is to be part of the new text of the GBF as is expected, governments will have to ensure that it is translated into concrete action. This chapter discusses how alignment of all financial flows can be implemented as part of national-level implementation of the GBF. Three essential components of national-level implementation include development of strong National Biodiversity Strategy and Action Plans (NBSAPs), National Biodiversity Finance Plans (NBFPs), and through employing an all-government approach. The importance of taking a landscape approach for alignment, as well as developing NBSAPs and NBFPs, were topics of discussion in a number of IDFB sessions, with IDFB 12 taking a special focus on the interplay between NBFPs and the GBF ([IDFB 5, 2022](#); [IDFB 6, 2022](#); [IDFB 12, 2022](#)). Guidance on how to integrate and use a landscape approach will be published soon by Esther Wolf of Wolf's Company and [EcoAgriculture Partners](#).

6.2 The need for ambitious and clear National Biodiversity Strategy and Action Plans

Alignment of all financial flows will ultimately have to be achieved at the national level. The linking of alignment of financial flows to the local context and investments at the local level is key. All flows that are not currently in coherence with the goals of the GBF and biodiversity objectives will need to be identified and brought in line with the GBF. National Biodiversity Strategy and Action Plans (NBSAPs) are the main means of implementation. They are obligatory for all countries which are signatories to the CBD under [Article 6 \(CBD, 2006\)](#). As of 2022, at least 193 governments have developed an NBSAP. These Strategy and Action Plans create important openings through which countries can identify risks and opportunities for planning the protection, restoration, and sustainable management of biodiversity across all relevant sectors and at the national level. Usually, the development of an NBSAP is taken on by the Ministry of the Environment, or an equivalent department. However, it is crucial that all government departments and ministries and other relevant parties are involved in the process of making these plans to ensure mainstreaming of biodiversity across other relevant sectors. UNEP has provided [additional guidance](#) for governments on the formulation of their NBSAPs ([CBD, 2021c](#)). The GEF provides finance for the development and revision of NBSAPs but offers no finance for broader cross-sectoral integration – which is important for this planning process.

The NBSAP Accelerator proposal by Colombia and others

During the Open-Ended Working Group (OEWG) 3 in Geneva and OEWG4 in Nairobi, both hosted in 2022, a Colombian delegation presented a NBSAP Accelerator proposal to countries and organisations. This Accelerator is an innovative mechanism – which functions in a similar way to the NDC Partnership – that channels resources, technical assistance, and support for capacity building to developing countries. This support and assistance is intended to accelerate progress in implementing the post-2020 GBF. The Colombian party has invited interested parties to join an informal NBSAP Accelerator Task Force to support in the development and strengthening of the proposal so that it may be adopted at the COP15. A number of governments and organisations are now involved in this task force including – but not limited to – Antigua & Barbuda, Australia, Belgium, Canada, Chile, China, Costa Rica, Cuba, Czech Republic (EU Presidency), European Commission, and France. Organisations involved include CIAT, BIOFIN, Conservation International (CI), The Nature Conservancy (TNC), and WWF.

6.3 Developing Finance Strategies: National Biodiversity Finance Plans

National Biodiversity Finance Plans (NBFPs) are a process for the detailed planning of financing of the implementation of the GBF. The objectives of NBFPs are to identify ways to mobilize more finance for conservation, to align existing funds, and to move away from harmful incentives. NBFPs are developed using a bottom-up and whole-of government approach to the design and development of such plans. Involving all relevant ministries instead of just the one ministry responsible for nature – usually the Environment Ministry -

is one way through which to achieve this all-encompassing approach and is a key part of mainstreaming. The IDFB proposes that the goal of NBFPs should be enlarged and encompass the alignment of all financial flows to the GBF.

The BIOFIN method

The Biodiversity Finance Initiative ([BIOFIN](#)) helps governments to identify finance solutions that enable better implementation of their NBSAPs and has provided a [workbook](#) of concrete guidance to countries so that they can assess existing expenditures on biodiversity. This is because the internalization of biodiversity negative externalities is crucial. The important role of BIOFIN and the BIOFIN process was discussed in detail, and even presented their work, in a number IDFB sessions ([IDFB 6, 2022](#); [IDFB 7, 2022](#); [IDFB 8, 2022](#)). While working with over 40 countries to create sustainable finance solutions to protect biodiversity, BIOFIN proved to be particularly crucial in designing and implementing NBFPs and NBSAPs. The experience gathered across these countries has enabled BIOFIN to develop a [Finance Solutions Map](#) that provides insights into a variety of tools, mechanisms, and strategies for biodiversity finance. These tools are useful for both governments and corporates, as they provide cross-sectoral solutions for both public and private finance. In many cases the BIOFIN process exposed a lack of communication and collaboration between different ministries. This can hamper biodiversity related spending, as biodiversity finance planning requires a more integrated approach across sectors and ministries so that green budgets and regulations can be developed. The work of BIOFIN has illustrated how involving all relevant government ministries in the analysis of financial flows for biodiversity is essential – otherwise referred to as an ‘all-government approach’ ([BIOFIN, 2021a](#)). MoFs should be encouraged to coordinate with other relevant ministries, such as Ministries of Agriculture, Fisheries, and Forestry on relevant policy actions and attempts to align financial flows. Furthermore, engaging and coordinating with central banks, regulators and supervisors, and development banks, whilst engaging in the previously discussed essential actions of economic incentive and policy reform, can help to accelerate the alignment of all financial flows ([IDFB 13, 2022](#)).

Moreover, whilst implementing its methodology across many of the countries in the BIOFIN process, BIOFIN has found that there is in general a lack of transparency between public and private financial institutions. This has contributed to limited data availability which was exposed often during the implementation of the Phase 1 of the BIOFIN process.

Further Reading

- The BIOFIN [Workbook](#) (2018) explaining and giving guidance on the BIOFIN process. It provides guidance on the BIOFIN approach to developing biodiversity finance plans.
- BIOFIN and UNDP’s publication [on National readiness for nature-related disclosures in emerging markets](#) (2022) which provides case studies of a number of emerging economies that were led by UNDP-BIOFIN.
- A helpful post by BIOFIN on [10 things you should know about national biodiversity finance plans](#) (2021) that provides a number of insights into the BIOFIN methodology for developing National Biodiversity Finance Plans (NBFPs) by outlining several key components that go into the creation of such plans.
- Published by Defra of the UK government, the [10 Point Plan for Financing Biodiversity](#) (2022) includes commitments to increase international and domestic funding for biodiversity from all sources, reduce harmful expenditures, and align public and private flows to be nature-positive.

Chapter 7: Monitoring the Alignment of All Financial Flows

7.1 Monitoring spending and progress

When it comes to monitoring the alignment of all financial flows with biodiversity objectives, there are two essential elements to the monitoring equation. The first relates to the monitoring of how much biodiversity-positive spending is being done by governments and private financial actors in all sectors of the economy. This includes funding such as ODA and public subsidies, and the amounts of finance that financial institutions are investing in nature. The second essential element is establishing a concrete and clear goal that progress on alignment can be monitored against. In this chapter, we will first touch upon the need for concrete goals and targets to align flows with, and then upon tools for monitoring public and private flows.

7.2 Towards concrete goals and targets for biodiversity

There have been increasing calls for developing concrete goals for biodiversity to enable and ease the process of monitoring financial flows and progress being made in achieving biodiversity objectives. The Paris Agreement has shown that such goals help to galvanise action from different sectors and can help make the monitoring of progress more tangible. Biodiversity goals and targets thus need to be based on scientific data and provide clear objectives against which progress can be monitored. The proposed text of the GBF provides clear goals for the restoration, conservation, and sustainable use of biodiversity, and ensuring the adoption of these goals is vital. Calls from networks such as the [SBTN](#) and the High Ambition Coalition ([HAC](#)) for Nature and People are clear about this.

The High Ambition Coalition

The HAC is an intergovernmental group, chaired by Costa Rica, France, and the United Kingdom, which engages over 100 countries. It calls for a ‘global deal for nature and people’ centred around the 30X30 Target: Protecting at least 30% of the world’s land and oceans by 2030 ([TNC, 2022](#)). This would entail a global effort that involves:

- The setting of spatially based targets for conservation
- Increased effectiveness of the management of Protected Areas (PAs)
- Large increases in both public and private finance for nature and long-term management of conserved and protected areas
- The development of implementation mechanisms through which to achieve these goals
 - developing goals and interim targets such as zero deforestation and conservation from 2020; developing a % of retained land cover and of water.

The HAC aims to have the [Global Goal for Nature & People](#) agreed upon during the COP15 in Montreal this December ([HAC, 2022](#)). Furthermore, Nature Positive has provided a [Call to Action](#), signed by over 340 organisations, for a [Global Goal for Nature](#) – echoing the calls for setting of overarching global biodiversity goals. This Global Goal has three essential milestones to be achieved ([Nature Positive, 2022](#)):

1. Zero net-loss of nature from 2020
2. Net-positive gains in nature by 2030
3. Full recovery of nature by 2050

This Global Goal has been adopted and supported by the [G7 2030 Nature Compact](#), the [Leaders’ Pledge for Nature](#), the [IUCN](#), and [Business for Nature](#). These organisations have called for the Global Goal for Nature to be enshrined in the GBF at COP15. The SBTN has developed a set of [interim targets for nature](#) to guide companies on setting targets based on the best available scientific information. These targets are to guide companies on aligning with both emissions targets enshrined in the Paris Agreement, and with the goal to reverse nature loss by 2030 ([SBT, N.d.](#)). Thus, the SBTN framework is also aligning with the Nature Positive

Global Goal for Nature ([SBTN, 2020](#)). These developments show that there is momentum for developing a concrete set of goals and targets for biodiversity and enshrining them in the GBF this December in Montreal.

Finally, the [10 Point Plan](#), created, endorsed and being promoted by Ecuador, Gabon, Maldives, and the United Kingdom, emphasises the need to galvanise political action and support for taking action on biodiversity and filling the gap in finance for nature. It supports global efforts to finance the protection, restoration, and sustainable use of nature. The publication: '[Political Vision: A 10 Point Plan for Financing Biodiversity](#)' encourages governments to take a whole of society approach and the creation of an ambitious post-2020 GBF. The plan calls for the management of biodiversity loss and the significant risks it poses to public health, security, and the global financial systems. Ecuador, Gabon, Maldives, and the United Kingdom are encouraging and calling for countries and governments to endorse the plan in order to further build momentum for it at the COP15. The 10 Point Plan provides clear means through which to reduce the global biodiversity finance gap, and emphasises the need for finance from all sources, including public and private, domestic and international, to play a role in accelerating the transition to a more nature positive economy ([Defra, n.d.](#)).

7.3 Monitoring alignment of public financial flows

A number of countries have methods for monitoring progress on achieving national targets for integrating biodiversity values into policies, regulations, planning, development processes, poverty reduction strategies, and accounts at all levels. This helps to ensure that biodiversity values are mainstreamed across all sectors and integrated into assessments of environmental impacts. Good methods, metrics, and tools for measuring and monitoring the alignment of both public and private, domestic, and international financial flows will be crucial for government members of the CBD to track their progress in achieving the goals and targets of the GBF. During the IDFB 11 meeting, participants agreed upon and emphasised the need for the development of methods and metrics to conduct this measuring and monitoring ([IDFB 11, 2022](#)). Monitoring systems should effectively measure and quantify the impacts that public and private investments and expenditures of financial institutions and government agencies have on biodiversity. Getting an overview of the amounts of public and private financial flows that are spent on biodiversity-positive and negative projects and investments can contribute to creating a clearer picture of how we can transition to a system where financial flows contribute to conservation, restoration, and sustainable use of nature and biodiversity.

Governments need to take a whole-of-government approach to developing appropriate measures and metrics to measure financial flows, both of the public and private sectors, and to develop appropriate financial incentives to help to transition finance towards more biodiversity conservation, restoration, and sustainable management projects and investments that reduce harm to biodiversity. The landscape of metrics and methodologies that can be used to measure or track alignment is rich.

The Rio Markers

The [OECD DAC Rio markers](#) are the main instrument for governments to monitor their public spending on biodiversity via ODA and Development Finance Institutions (DFIs), such as through MDBs and PDDBS, just as the Rio markers are used to track finance related to the objectives of other Rio Conventions such as on [climate change and desertification](#). They look at financial flows that are related to biodiversity across all sectors. The Rio Markers enable governments to track these financial flows and report on them. They enable cooperation on activities that can benefit biodiversity. Issues remain, however, with data gathering and with the way in which countries apply these markers. Measuring and tracking financial flows such as ODA and other international development finance is important as it can help to green finance and contribute to the do no harm principle and achievement of Agenda 2030.

Tools for monitoring green budgeting

Some tools already exist that can contribute to the monitoring of the alignment of financial flows, these tools need only to be repurposed rather than set up from scratch. One such example of this is the [ODA Database of](#)

[the OECD](#), which already tracks at the country and sector level existing ODA flows. Another is the Policy Instruments for the Environment ([PINE](#)) Database that gathers quantitative and qualitative information on six types of policy instruments. Furthermore, NBSAPs can be a useful means by which countries can track their biodiversity expenditures, as was previously discussed in Chapter 4. NBSAPs should include objectives and processes to support alignment and should also ensure the monitoring of progress on alignment. Conducting a review of biodiversity-related expenditures at the national level can help to identify the amounts of finance flowing towards biodiversity-positive impacts. NBSAPs can further contribute to the alignment of financial flows if they help investors identify investments that contribute to the conservation, restoration, and sustainable management of biodiversity. BIOFIN has done a lot of interesting work with various countries on Biodiversity Expenditure Reviews, which are an important step in the BIOFIN process itself ([BIOFIN, 2018](#)). Biodiversity Expenditure Reviews are key tools for assessing spending that is biodiversity positive at the national level. BIOFIN has already conducted these reviews in 35 countries so far, which has helped a number of these countries to institutionalise these reviews as tags in their national budgeting systems ([BIOFIN, 2021b](#)). A monitoring framework is also in development by the World Bank.

As important actors in the financial sphere, PDBs and MDBs should also be engaged in the monitoring of financial flows that affect biodiversity. Tracking their financial flows can help with future investments to ensure that they are going towards biodiversity-positive outcomes and can help to align their portfolios with the GBF ([WWF, 2021b](#)). An important development in this field is being worked on by the World Bank. The World Bank is developing a method for monitoring how much of its own investments are in biodiversity. The intention is that this framework will be useful in defining a standard for public and private banks to guide future investment decision-making processes.

7.4 Ideas for monitoring the alignment of the private financial sector

Currently, there are not many tools and methods available for private financial institutions to monitor their spending and investments. Central banks and regulators are developing methods to monitor how financial institutions are handling risks and biodiversity impacts, and methods are being developed to measure which financial institutions are mitigating their biodiversity-related financial risks and whether they have - or are - developing a transition plan to mitigate further. This is where transparency in the financial and economic sectors becomes important for monitoring and measuring: they should work hand in hand in the continued development of monitoring frameworks for the private sector.

Ministries of Finance, supervisors and regulators can, and increasingly do, play important roles in supporting the mainstreaming of biodiversity risk assessments by financial institutions and other financial actors in their decision-making processes. These assessments can help to develop an overall understanding of the scale of progress being made towards becoming aware of the biodiversity-related financial risks of financial decisions and the quantification of these risks. Governments can further drive measurement of biodiversity risk in the financial sector by helping to increase understanding of the links between financial risks of the loss and degradation of biodiversity. Furthermore, the measuring of impacts and dependencies of financial actors on biodiversity can be measured and monitored by two means: 1) analysing the level of uptake of biodiversity-related concerns by financial institutions, and 2) Identifying financial institutions that already disclose their biodiversity-related impacts and dependencies. This can be done via tracking the number of institutions which are disclosing their impacts and risks in accordance with the 2023 TNFD framework. Looking to the future, regulators and central banks are expected to increase their activities relating to monitoring through the use of stress testing and scenarios which are being developed by the NGFS.

7.5 The NatureFinance Alignment Tool

NatureFinance – formerly the Finance for Biodiversity Initiative (F4B), established in 2019 – has as its mission “aligning global finance with nature positive and equitable outcomes”. NatureFinance is currently working on developing a Tool to promote greater nature-finance alignment, including to track progress on alignment of both public and private financial flows and to help in identifying policy options to accelerate action to increase their alignment. A prototype of the Tool, underpinned by the NatureFinance Alignment Index, is being launched at the CBD COP15 in Montreal, and will provide an overview of the state of alignment globally, by type of flow, and at country and sector level. Building on this during 2023, NatureFinance will develop an interactive Dashboard that will be accessible online and will enable actors to base their nature-related goal setting upon a quantitative framework that is both strong and credible. A series of pilots of the Tool will be undertaken in 2023 to refine and improve its value for both private and public financial institutions, and for governments, to quantitatively assess alignment so they can plan for a nature-positive transition ([IDFB 8, 2022](#)). Later in 2023, NatureFinance will draw on the results derived from the development of the Tool, including the pilots, to produce a Policy Paper with insights and recommendations on how to accelerate progress on nature-finance alignment. NatureFinance provided insight into the Tool and Alignment Index to participants at the 14th IDFB session.

7.6 Lessons from climate action

Creating new - and improving existing - methods and metrics for measuring and monitoring biodiversity can be advanced through the development of more concrete goals for biodiversity. Developing goals that are quantifiable and against which progress can be tracked more concretely, as the 1.5-degree goals of the Paris Agreement has done for climate action, can help to increase the uptake and usefulness of these methods and metrics ([The Biodiversity Consultancy, n.d.](#)).

The Science Based Targets Network and the Paris Agreement

The Science Based Targets Network ([SBTN](#)) is a network of organisations which develops guidance for companies and cities on setting science-based targets (SBTs) and has developed guidance for companies to bring them in line with the goals of the Paris Agreement. This guidance helps companies create goals and targets that are actionable, measurable, time-bound, and enable actors to align their activities with more positive societal and environmental outcomes ([SBTN, n.d.](#)). Founding members and engaged organisations include the WWF, UN Global Compact ([UNGC](#)), World Resources Institute ([WRI](#)), and the Carbon Disclosure Project ([CDP](#)). Over 4000 companies were engaged as part of the Science Based Targets initiative (SBTi) to work towards creating such goals. Now, the SBTN is working to create effective, science-based guidance for companies to set targets for nature - targeting air, water, land, oceans, and biodiversity. The development of guidance for nature targets is different than the process of developing goals for climate as there remains no global goal for nature and no single indicator that can be used to track progress. This is because the drivers of biodiversity loss are complex, varied, and location specific, and the protection and restoration of nature requires actions that reduce negative impacts whilst increasing positive impacts ([SBTN, n.d.](#)). The uptake of SBTs since the Paris Agreement was established has been promising: within 2 years of the Agreement being signed, over 800 companies reporting to the CDP stated their intention to begin setting SBTs ([SBTN, 2017](#)). This included companies across many industries, such as finance and real estate. The practice is quickly moving towards becoming a business norm, showing how such guidance for biodiversity-related targets and goals could be beneficial for upcoming nature-related agreements ([SBTN, 2017](#)).

The Paris Collaborative on Green Budgeting

A number of countries, including France, are developing green budgets with help from the OECD, which initiated the [OECD Paris Collaborative on Green Budgeting](#) at the [2017 One Planet Summit](#). The objective of Green Budgeting is to use the tools of budgetary policymaking to help achieve environmental goals. This

includes evaluating environmental impacts of budgetary and fiscal policies and assessing their coherence for the delivery of national and international commitments. Green budget tagging is the process of examining public domestic financial flows to identify what is positive and what is negative in terms of greening the agenda. France, for example, has undertaken green budget tagging to identify positive and negative financial flows within their national budget. Furthermore, the EU has undertaken biodiversity budget tagging and has established a target for biodiversity in their Multiannual Financial Framework ([MFF](#)). The OECD is currently examining the different approaches used across various countries and the lessons learned so as to develop an understanding on best practices and how other countries can apply green budget tagging. The Paris Collaborative on Green Budgeting aims to develop innovative tools that help to accelerate the alignment of national expenditures with both climate and biodiversity goals.

Further reading

- The BIOFIN [Workbook](#) (2018) explaining and giving guidance on the BIOFIN process. It provides guidance on the BIOFIN approach to developing biodiversity finance plans.
- The UN's System of Environmental Economic Accounting ([SEEA](#)) framework, a database integrating environmental and economic data in order to give a view of their interrelationships.
- The Biodiversity Footprint for Financial Institutions ([BFFI](#)) is a tool which provides a biodiversity footprint for financial institutions' investments, in order to calculate positive and negative biodiversity-related impacts of their overall investment portfolios.
- The EU Business@Biodiversity Platforms updated [Assessment of Biodiversity Measurement Approaches for Businesses and Financial Institutions](#) (2021) regarding available approaches to measuring biodiversity.

Chapter 8: Actions for the Alignment of All Financial Flows

In this final chapter we present actions that governments can take to start working on the alignment of all financial flows with biodiversity objectives. The actions we outline in this chapter take inspiration from the 15 dialogue sessions that the IDFB organized between August 2021 and December 2022, and the more than 50 reports that are published on its website. These actions also build on the December 2022 CBD synthesis workshop on the alignment of all financial flows with the post-2020 Global Biodiversity Framework (GBF) and are in line with the 10-point plan for Financing Nature that was signed and co-launched by Ecuador, Gabon, the Maldives, the Netherlands, and the United Kingdom, amongst others, in November 2022.

The goals and targets of the GBF will have to be translated into NBSAPs to advance national-level implementation. They will set the scene for defining the biodiversity objectives needed for the alignment of financial flows. Thus, they will form the basis for defining clear and measurable actions by all actors that play a role in building nature considerations into financial decision-making. Here, it is key that governments translate ambitious NBSAPs into strong NBFs that take the alignment of all financial flows into account and offer a long-term perspective on the roles that different actors in society need to play. In this chapter, the IDFB provides a list of actions that could be incorporated into NBFs to make a start on the alignment of all financial flows with biodiversity objectives.

10 actions for the alignment of all financial flow to biodiversity objectives:

1. Take a whole-of government approach

In order to drive the alignment of all financial flows with biodiversity objectives, a 'Whole-of-Government' approach should be adopted. This means the involvement of not only ministries of environment or foreign affairs, but also of other ministries that may need to repurpose their subsidies and economic incentives. Similarly, Public Development Banks (PDBs) and Multilateral Development Banks (MDBs), regulators and supervisors, and ministries of finance and private financial institutions need to work on the alignment of all financial flows with biodiversity objectives. They should work together to create and standardize metrics, measurement tools, and valuation methods related to the impacts and dependencies on biodiversity and ecosystems. They should develop - and guarantee - open access data on the state of biodiversity and ecosystem services.

2. Conduct a national assessment of the funding needs based on NBSAPs

To align all financial flows with biodiversity objectives, national assessments of the funding needs of the NBSAP of a country should be conducted. This will help to identify the amount of finance within national budgets that are relevant for biodiversity and nature. The IDFB advises governments to make use of the BIOFIN process to conduct such an assessment and to engage in a BIOFIN process for assessing the biodiversity gap at the national level. BIOFIN supports countries in assessing their financial flows, with the intention to design national budgets that are more in line with positive outcomes for nature.

3. Increase and align ODA and domestic finance with biodiversity objectives

An important public financial flow that needs to be brought in line with the NBSAP of each respective country, and increased, is ODA funding. Measuring and tracking financial flows such as ODA and other international development finance can be conducted by using the OECD DAC Rio markers as a way for governments to monitor their public spending on biodiversity through ODA. At the national level, NBFs require targets for creating access to all available domestic financing in support of the implementation of the NBSAPs.

4. Repurpose harmful subsidies

In order to drive the alignment of all financial flows with biodiversity objectives, governments need to identify and assess the types and magnitudes of subsidies and incentives in place at the national level that are harmful for biodiversity. Governments can use the advice and recommendations available from the OECD and learn from countries that have already taken steps in that direction to then repurpose these subsidies.

5. Create an enabling economic environment

To drive the alignment of all financial flows with biodiversity objectives, an enabling environment at the national level needs to be developed. This will involve the implementation of the right economic incentives through economic policy reform and by mainstreaming biodiversity across economic policy in all ministries. NBFs should stimulate the use of natural capital accounting in all budgets of the government. This will also entail the creation of economic instruments which incentivize protection and restoration of nature.

6. Call on PDBs and MDBs to take responsibility

Because of their mission to help solve societal needs and their sizable investments in both social and environmental projects, PDBs and MDBs have a special and substantial role to play in alignment. When these banks commit to aligning their portfolios with biodiversity objectives, they can lead the way to not only reduce their contributions to negative impacts on nature and biodiversity, but also to the development of tools for measuring spending and impacts, and in designing blueprints for investing in nature. MDBs should be encouraged to join the newly established MDB Biodiversity Working Group currently being chaired by the European Investment Bank (EIB).

7. Support coalitions of private financial institutions

Governments developing NBFs should pay attention to the support of effective and productive partnerships of financial institutions. Coalitions of private financial institutions working on biodiversity are a great force for the alignment of financial flows. Partnerships of first movers can accelerate the development of methods to measure impacts and dependencies, frameworks for disclosure, translation of data to usable information, and blueprints for new investment opportunities. Through NBFs, they can be supported in contributing to the transition. As can be seen in the example of the Partnership for Carbon Accounting Financials (PCAF) becoming a global standard, there is great potential for the Partnership for Biodiversity Accounting Financials (PBAF), especially in emerging markets.

8. Develop blended finance structures

Use the interest of private philanthropic institutions to create blended finance facilities for nature and invite philanthropic financial institutions to use their funds to mobilize private capital by de-

risking investments in nature instead of donating their money. Because of their mandates to help realize co-benefits for projects and investors, PDBs and MDBs also play an important role in the development of blended finance structures. There is a lot to learn from innovative financial structures that are being developed in the climate space or for landscape restoration.

9. Leverage the roles of supervisors and regulators

To achieve the alignment of all financial flows with biodiversity objectives, supervisors and regulators should use their unique positions and mandates. Central banks should be encouraged to analyse the dependencies of national financial systems on biodiversity and to join the Network for Greening the Financial System (NGFS). A study by the national regulator on financial risks related to biodiversity losses should be a part of every NBFP, and lessons can be learned from other countries that have already conducted such studies, like The Netherlands, France, and Malaysia. Insights of new research should be shared in the NGFS to improve methods and increase granularity of data.

10. Encourage transparency and disclosures

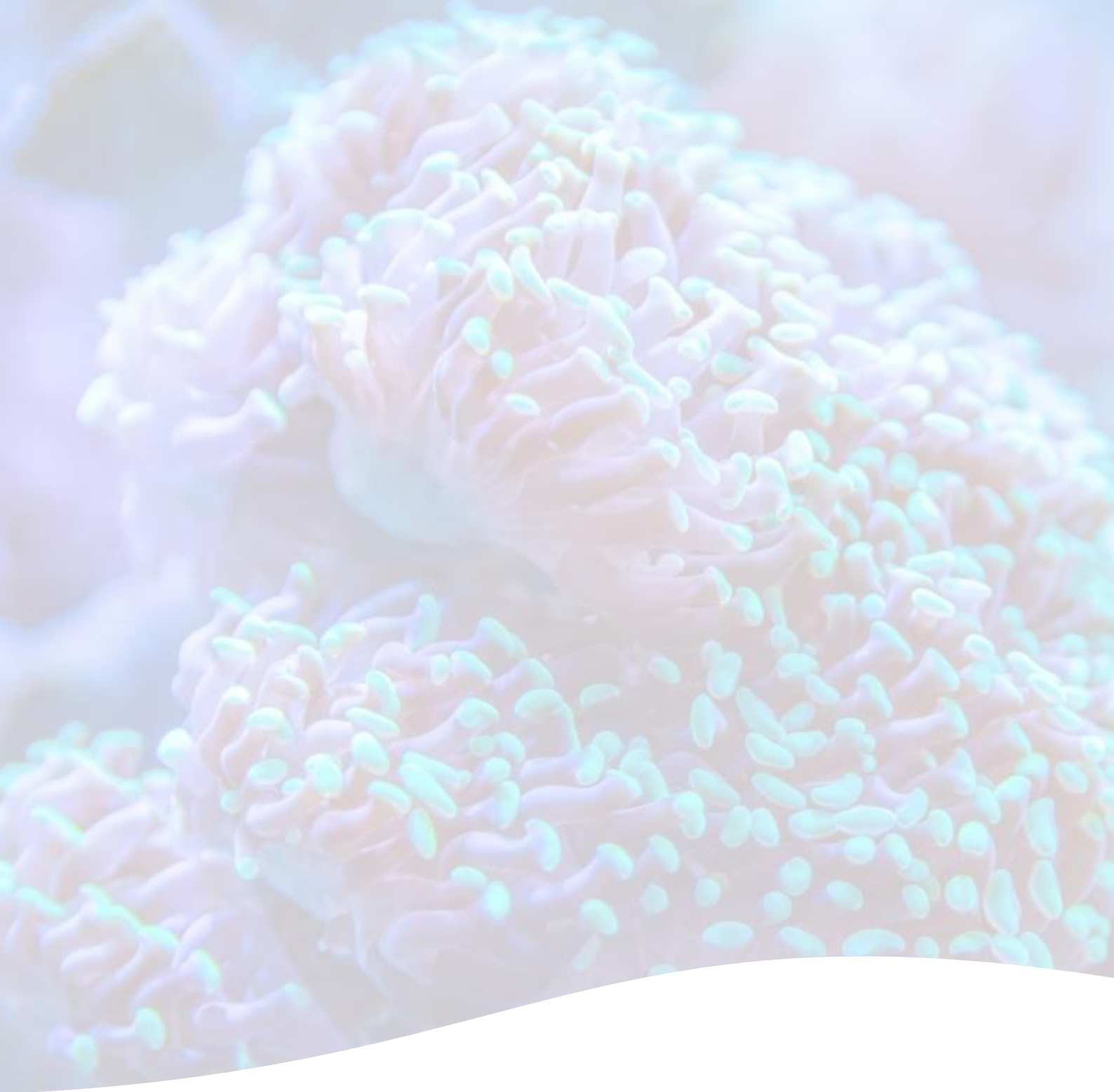
Ministries of Finance can encourage more transparency through the disclosure of the relationships of financial institutions with biodiversity and nature, whether these are about risks, impacts, or dependencies. Publishing the of financial institutions on their risk and management strategies related to biodiversity loss can contribute to closing the biodiversity data gap and help business actors to take concrete and better-informed actions. Where countries may struggle to encourage increased transparency and disclosure practices, starting a national dialogue on disclosure will be an important first step. Whilst developing NBFPs, governments should follow the example of the French progressive legislative framework: the “29-LEC”. This decree introduced a reporting obligation on biodiversity from 2022. MoFs should join the Coalition of Finance Ministers for Climate Action (CFMCA) and push them to broaden their scope to consider nature-related risks, and to share lessons on leveraging innovative funding for nature via developing Payment for Ecosystem Services (PES) systems, taxes, and debt for nature swaps, etc.

In conclusion

Governments and financial actors should not develop climate tunnel vision. They should integrate climate and biodiversity actions and address them together. Nature loss and climate change are interrelated crises, and neither can be successfully resolved in isolation. They should be tackled together at all levels and across all actions.

The third observation of the IDFB storyline was the need for capacity building on finance and biodiversity for many government departments, financial actors, and institutions to create an enabling environment for alignment of all financial flows with biodiversity objectives. We hope that this IDFB paper and the above proposed actions help to guide governments and other actors on how to build this capacity by giving concrete guidance.

What we learned as the IDFB, as well as from the work being done by BIOFIN and the many financial coalitions we engaged with throughout the IDFB sessions, is the great power of cooperation in creating transformational change. Effective and productive partnerships at all levels for the development of knowledge and capacities is essential for realising exponential change and continued learning. So please co-create, co-operate, and work together!



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