



# Financial Incentives for a Biodiversity-Friendly Future – is Green Recovery a Catalyzer?

## Report

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Expert practitioners and decision-makers from the government, NGOs, indigenous peoples and the private sector from different continents (Africa, Asia, Europe, Latin America) joined a discussion on existing approaches and financial incentive measures for biodiversity mainstreaming. Speakers provided insights as to how to bring successful approaches to scale, linking COVID-19 response measures to finance for a biodiversity-friendly future. This exciting dialogue took place at the Global Landscape Forum Biodiversity Digital Conference on the 28th of October 2020. The session was jointly organized by four projects funded by the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety through its International Climate Initiative (IKI) and implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) and World Agroforestry (ICRAF). Adriana Vidal, Senior Forest Policy Officer at IUCN, moderated the session.

### **The importance of financial incentives for a biodiversity-friendly future**

None of the Aichi Biodiversity Targets of the Strategic Plan for Biodiversity 2011-2020 has been ultimately achieved, as recently confirmed on the Global Biodiversity Outlook 5. International attention has now turned to the future global biodiversity agenda, where several priorities will have to change to implement the Post-2020 Biodiversity Framework successfully. Financing mechanisms will be needed to increase investment in biodiversity, in the same way that mainstream finance drives the rest of the economy. Promising trends towards sustainable finance, impact investment and responsible consumption and production patterns must be strengthened to bring them out of niche activities and make a significant impact. It will also be necessary to customize and redesign financial instruments to ensure that investment plans are evaluated for their potential risk to nature, and to create incentives for biodiversity-friendly investment into value chains and ecosystem services.

### **Biodiversity from a financial institution's perspective**

Financial institutions show a growing commitment for the conservation and sustainable use of biodiversity, as evidenced by the "Finance for Biodiversity Pledge" led by 26 financial institutions at the Biodiversity Summit of the United Nations General Assembly in September 2020.

Financial institutions are starting to integrate biodiversity aspects into their products, as the loss of biodiversity and ecosystem services also poses significant risks for their investments. In addition to the loss of reputation and legal risks associated with investments in companies that damage biodiversity, there are also credit and yield losses when economically essential ecosystem services are no longer sufficiently available:

- More than half the world's total gross domestic product (GDP) – at least \$44 trillion USD of economic value generation – is moderately or highly dependent on nature and its services ([World Economic Forum 2020](#)).
- According to a recent study by the Dutch National Bank, Dutch financial institutions have provided 510 Billion Euro (36% of the total investments) in finance to companies that are highly or very highly dependent on one or more ecosystem services, resulting in a material exposure

to risks related to the loss of biodiversity of 36% of the total investments ([Dutch National Bank 2020](#)).

- Analysis by the Food and Land Use Coalition estimates that new investment of \$350 billion a year in sustainable food and land use systems could create more than 120 million new jobs and \$4.5 trillion in new business opportunities worldwide each year by 2030. At the same time this would generate costs savings of \$5.7 trillion per year in damage to people and the planet, more than 15 times the investment cost of up to \$350 billion per year. ([Growing Better 2019](#))

Financial institutions can reduce the risks mentioned above and at the same time, make an essential contribution to preserving biodiversity by taking greater account of biodiversity criteria in investment decisions and lending. In addition, they can specifically promote companies that operate in a biodiversity-friendly manner and offer investment products with a positive impact on biodiversity (impact investment).

## **COVID-19 changed the setting**

The conditions for mainstreaming biodiversity into the finance sector have changed, as the COVID-19 crisis – and the worldwide call for transforming our societies and economies through green recovery and green reconstruction – changed the setting. There is a risk that the challenges faced by economies and societies, as they recover from COVID-19, will lead to reduced attention towards biodiversity by the government and to reduced spending for environmental topics due to lower state revenues or return to harmful practices for the sake of economic growth. However, there are also positive examples of governments that have committed to "build forward better". With the "One Health" approach, COVID-19 has brought attention to the linkages between biodiversity, animal health and human wellbeing. For a sustainable recovery, it is crucial to mainstream biodiversity into the financial sector and to link COVID-19 response measures to financial incentives for a biodiversity-friendly future.

## **Key messages from the panellists**

### ***First discussion round – public sector***

The first group of four panellists from public sector discussed the urgency of biodiversity mainstreaming in the financial sector, as well as entry points for integrating biodiversity conservation and sustainable use in COVID-19 recovery plans.

**Monique Akullo**, Senior Internal Monitoring and Evaluation Officer at National Environment Management Authority (NEMA), emphasized the need to take into account biodiversity for a sound economic and infrastructure development. Africa needs to focus on nature-based solutions due to its rich biodiversity. Ms. Akullo highlighted different entry points for integrating biodiversity conservation and sustainable use in COVID-19 recovery plans: green financing instruments, such as Payment of Ecosystem Services, trust funds or ecological fiscal transfer; initiatives supported and led by the private sector, like PPPs; continuous communication with key stakeholder as well as scaling up approaches driven by political will.

**Humberto Delgado Rosa**, Director for Natural Capital, European Commission, Directorate General for the Environment, underlined that nature degradation is a risk to our society and livelihoods. Putting money into nature protection pays off: in terms of job creation, new business opportunities and in

terms of recovery from the COVID crisis. Also, nature protection is becoming increasingly important for people and decisive for their voting decision. The EU approved the biodiversity strategy for 2030 this summer. It is crucial for long-lasting recovery, as the current and past pandemics have resulted out of the mismanagement of nature. Biodiversity is embedded in the guidance to EU member states for their recovery plans. The principle of "Do no harm" is part of the EU Green Deal and should be applied when rethinking subsidies, employment schemes and infrastructure in favour of nature.

**Dr. V. B. Mathur**, Chairman at the National Biodiversity Authority, India, stated that India is participating in the UNDP Biodiversity Finance Initiative (BIOFIN) and has calculated a gap in biodiversity funding of approximately 6.5 billion dollars annually. Globally, according to a recent report, the 50 largest banks gave funding of 2.6 trillion dollars which mostly went to biodiversity harming activities. Political leadership should look at investments of banks and realign both public and private finance. For green and efficient recovery from the COVID-19 pandemic, it is crucial to review all subsidies with the aim to reduce/minimise harmful or perverse subsidies in all sectors, particularly the agricultural sector. India's economic stimulus packages are designed to raise agricultural productivity to combat hunger, provide local jobs and at the same time support biodiversity conservation. However, further biodiversity mainstreaming and alignment of government policies all over the world as well as in India is needed to secure biodiversity and livelihoods.

**Gabriel Quijandría Acosta** Vice Minister for Strategic Development of Natural Resources at the Ministry of the Environment, Peru, emphasized that biodiversity deserves public attention and investment in the same sense as for education and infrastructure. On the one hand, biodiversity loss is linked to risks such as pandemics, and on the other hand investments into biodiversity directly benefit people, especially in remote areas, promoting new economic opportunities, innovation and sustainable livelihoods. The demand for non-sustainable products is declining, for example in cacao and coffee, thus making investments into non-sustainable products less and less feasible. To promote and conserve biodiversity, niche sustainable finance products will not be enough. What is needed is a revolution of the financial sector redirecting its resources into sustainable and biodiversity-friendly actions and non-harming projects.

### ***Audience survey***

An online survey among the audience showed that the majority had the impression that biodiversity was receiving more attention due to the current COVID-19 crisis (64 % agreed with this statement, 36 % disagreed). Through a word cloud, the audience identified mindset as the main barriers for mainstreaming biodiversity in the financial sector, followed by politics, capitalism, returns, uncertainty, knowledge and information, perverse incentives, policies and externalities.

### ***Second discussion round – private sector, indigenous peoples and civil society***

The second group of four panellists from the private sector, indigenous peoples and civil society reflected on their perspectives on financial incentives for the conservation and sustainable use of biodiversity, focussing on existing approaches, experiences and instruments.

**Rodrigo de la Cruz**, Technical Advisor to the Indigenous Forum of Abya Yala (FIAY) and International Indigenous Forum on Biodiversity (IIFB) stressed the need to include indigenous peoples into decision making and into the action plans on investment directives and the design of development funds because of their traditional knowledge on biodiversity and in order to pay credit to the territorial rights



of indigenous peoples. There are many investment opportunities in indigenous territories, including innovations based on traditional knowledge in the areas of pharmacy, food and cosmetics, as well as ecotourism, utilization of sustainable certified woods, forestry and solar energy. However, for financial investment in indigenous territories, it is crucial to establish environmental and social safeguards, designed with the participation of indigenous peoples. The work should be based on mutual collaboration and respect, building on lessons learnt and experiences from other areas such as the CBD (Nagoya Protocol), IUCN, UNESCO and IPBES.

**Hugo Verkuilj**, Program Development Manager Sustainable Food at Hivos highlighted that Triodos Bank and the Hivos-Triodos Fund had signed the biodiversity pledge. The fund has been growing continuously over the past 25 years and offers financial inclusion and direct investments in SMEs as well as indirect investments through financial intermediaries. It has a focus on Africa, benefiting mainly rural, marginalized communities. An important lesson is that blended finance mechanisms can provide the opportunity to bring investments towards SMEs in higher risk areas. Another important lesson is that it is possible to bring more biodiversity to agricultural areas through agroecological approaches. In terms of green recovery, instead of realizing the same stimulus packages as in the past, packages should put biodiversity in the centre, ultimately reorganizing the current economic order.

**Maureen Erasmus**, Advisor and Non-Executive Director on several boards in the financial services sector, recognized that the financial sector was late in realizing the importance of biodiversity. Nevertheless, the mindset of the financial sector is changing quickly, and forerunners are taking actions. One of the biggest challenges is to frame biodiversity in financial terms. Risks and financial impacts have not yet been valued, and thus it is not measured in every action the finance sector does. Biodiversity must be qualified as an asset. It is necessary to qualify the risks of biodiversity loss and quantify revenue opportunities. Regulators need to build in biodiversity aspects; financial institutions will have to provide opportunities for biodiversity-friendly investments. With growing stakeholder pressure for transparency and nature-based investments being the fastest growing area, the motivation for financial institutions to change is multi-fold.

**Sascha Müller-Kraenner**, Executive Director of the NGO Environmental Action Germany (Deutsche Umwelthilfe, DUH), specifically stated that the European Green Deal is outlining the importance of biodiversity and offering a roadmap for a green recovery after the COVID pandemic. However, in order to use the European Green Deal as a blueprint, three things are needed: First, specific and quantifiable and measurable targets need to be set. Large amounts of recovery resources should be linked to measurable targets. Second, the "Do no harm" principle needs

to be applied by giving up harmful subsidies and making a negative list. And finally, a monitoring system is needed. With these three things in place, an essential aspect is to align the EU Common Agricultural Policy with the principles of the European Green Deal, as a large share of the EU budget goes into agricultural subsidies, and the agricultural policy has effects far beyond the EU.

## Conclusions

1. Investing in biodiversity means to invest in a sustainable future, into a common good, as important as education or health. Economic development relies on biodiversity and ecosystem services. Sustainable production and consumption patterns should become standard.
2. Indigenous peoples should be included in decision making on investment and the design of funds because of their traditional knowledge on biodiversity and their territorial rights
3. Give priority to invest in SMEs related to biodiversity within Recovery Programs. Existing experiences are showing that it is possible to bring finance to SMEs, even in areas with high risk for investors, through blended finance mechanisms.
4. The finance sector is just beginning to recognize the necessity of conserving biodiversity. In order to support this tendency and bring sustainable finance out of the niche, the importance of biodiversity needs to be translated into financial language, by qualifying the monetary risks of biodiversity loss and quantifying the possibility of economic gains by valuating biodiversity.
5. We need adequate governance structures and leadership for the integration of biodiversity. We must rethink subsidies, employment schemes and infrastructure in favour of nature. Voluntary commitments by financial actors and companies are not enough: to protect and sustainably use biodiversity. On the political level, the setting of rules by regulation and the creation of incentives for biodiversity-friendly production schemes are needed.
6. To avoid pandemics in the future, nature needs more space. The "Do no harm" principle should be applied in recovery and stimulus programs. Measurable targets and monitoring systems are needed. If all of this is in place, COVID-19 response programs can have the potential to accelerate a shift towards a biodiversity-friendly future. The big challenge remains to design, approve and implement this kind of green recovery programmes.



## Partners

GIZ, World Agroforestry, IUCN and Global Nature Fund collaborated for this event in implementation of four projects funded by the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMU) through its International Climate Initiative (IKI).

- Private Business Action for Biodiversity (implemented by GIZ)
- Trees on Farms for Biodiversity (implemented by World Agroforestry (ICRAF) in partnership with the Centre for International Forestry Research (CIFOR), Centro Agronómico Tropical de Investigación y Enseñza (CATIE), International Union for Conservation of Nature (IUCN), Georg-August-Universität Göttingen and Leibnitz Universität Hannover)
- Biodiversity and Ecosystem Services in Agrarian landscapes (implemented by GIZ)
- Impact Investments for the sustainable use of biodiversity in Peru (implemented by GIZ)

## Further links

- Biodiversity friendly production and commercialization ([paper](#))
- Finance that Works for Biodiversity ([workshop report](#))
- On the Way to Forest Landscape Restoration. Financing, Implementation and Recommendation. ([publication](#))
- Private capital for nature conservation: Could impact investments be a solution? ([publication](#))

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