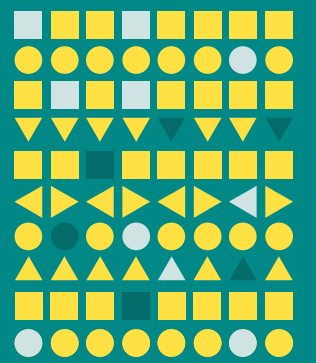


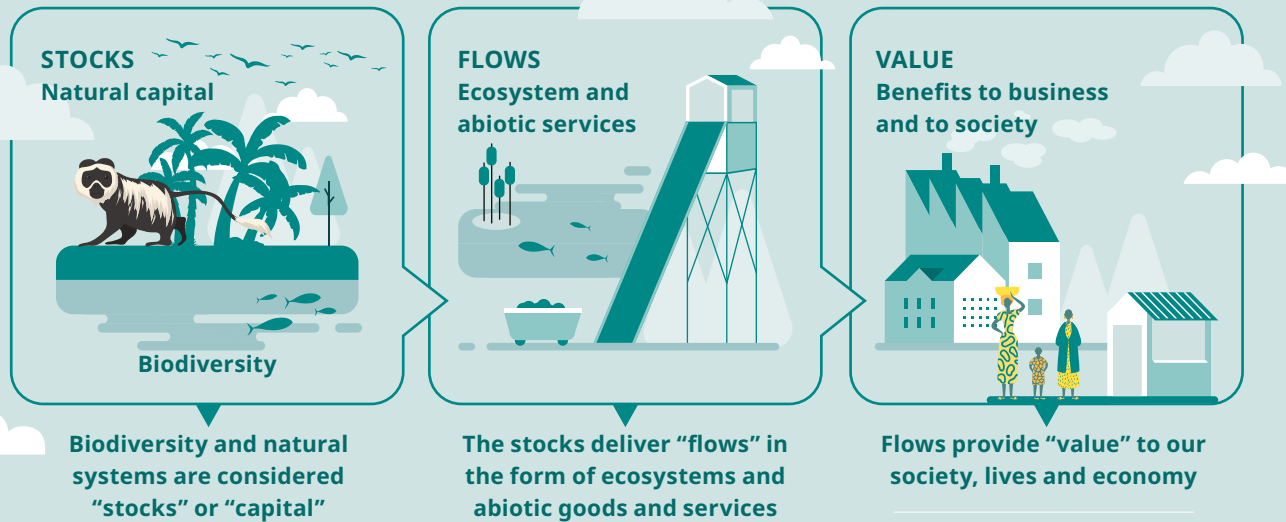
Introduction to Biodiversity Finance



1. What is biodiversity finance?

Biodiversity is considered to be the variety of all life on earth from ecosystems, species and genetic variation. Biodiversity finance, therefore, is the practice of raising and managing capital (i.e. financial resources) using financial and economic incentives to support sustainable management of biodiversity and natural systems.¹ Biodiversity finance can come from both the public and private sectors. As a concept, biodiversity finance has been around for decades and is gaining traction at a global scale.

In order to leverage biodiversity finance, it is important to make the economic case for nature. This can be done through assessing the economic value of the goods and services which we derive from nature. One of the earliest recognised valuations was done in 1997 by Robert Constanza. Over the years, methodologies have improved and valuing nature is becoming easier, such as through Natural Capital Accounts (depicted in the diagram below).



Just like diversifying investments to manage financial risk, biodiversity finance enables us to maintain, manage and protect the diversity of our natural assets – therefore reducing the risks to humanity and increasing resilience to shocks from natural disasters.



2. Why is biodiversity finance important?

Biodiversity provides enormous value to humanity. The Millennium Ecosystem Assessment (2005) clearly linked human well-being to the state of biodiversity and ecosystems. The greater the pressure on biodiversity, as a result of development priorities and other drivers, the greater the risk to humanity.

Biodiversity finance is critical for delivering the transformative changes needed to halt and reverse the loss of biodiversity and ecosystem services.

In December 2022, at COP15 the Kunming-Montreal **Global Biodiversity Framework (GBF)** was adopted. The GBF defines four overarching goals, the fourth of which relates to the securing of adequate financial resources and equitable accessibility to Parties, especially developing countries. A new **Strategy for Resource Mobilisation** was adopted, and the **Global Environment Facility (GEF)** was requested to establish a new GBF Fund to scale up financing and to support the goals and targets of the GBF.

The GBF sets the target to mobilise at least USD 200 billion per year from all sources by 2030. The target for international financial resources to developing countries, including Official Development Assistance (ODA), is set to at least USD 20 billion per year by 2025 and at least USD 30 billion per year by 2030.²



3. The current state & future risk

Today, the Earth is facing a triple planetary crisis – climate change, nature and biodiversity loss, and pollution and waste. Biodiversity loss is the decline or disappearance of biological diversity, which includes ecosystems, species and genetic variation. There are five direct and indirect drivers of biodiversity loss³:

1. Changing use of sea and land
2. Direct exploitation of organisms
3. Climate change
4. Pollution
5. Invasive/non-native species

Deliberately channelling funding towards mitigating these drivers is key to addressing biodiversity loss.

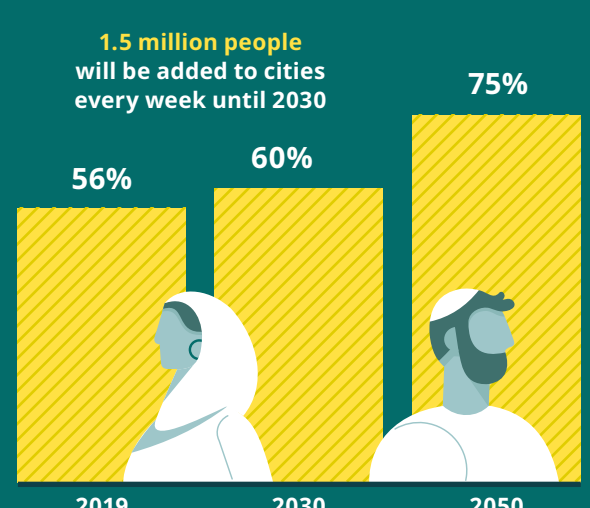
The rapid rate of urban growth is also putting climate, nature and our economy at risk. According to the World Economic Risks Report 2023, biodiversity loss is one of the top four greatest risks that will negatively impact humanity over the next 10 years.

Urban expansion is projected to grow significantly in the next 20-30 years. It is estimated that by 2030, 290 000km² of natural habit will be under threat from urban expansion alone, particularly in developing countries with high biodiversity⁴. More people means more ecosystem goods and services will be needed.

1. UNDP (2018). The 2018 BIOFIN Workbook: Finance for Nature. | 2. Eklöf (2023), Swedish and International Biodiversity Finance: Key facts, figures and concerns, CONCORD Sweden | 3. IPBES (2019) Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science | 4. The Nature Conservancy (2018), Nature in the Urban Century

GLOBAL CITIES' POPULATION

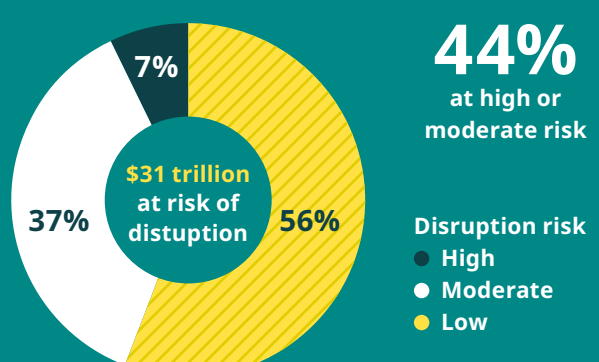
Percentage of global population living in cities



As it currently stands, our global economy is at risk due to biodiversity loss. It is estimated that 44% of the global gross domestic product (GDP) is at high or moderate risk, as shown in the graph below:

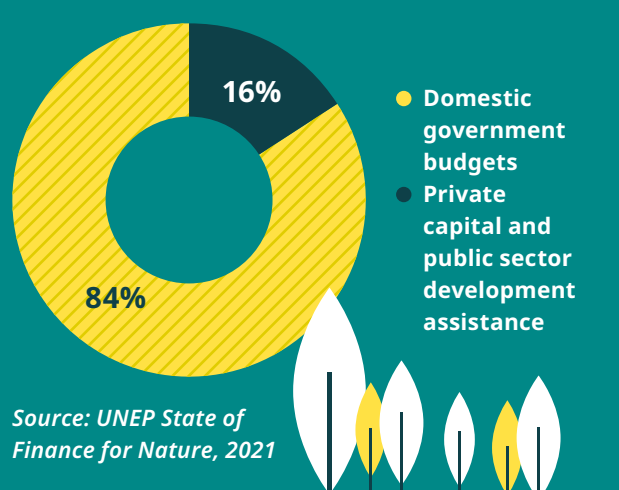
ECONOMIC VALUE AT RISK IN GLOBAL CITIES

Percentage of 2019 GDP by disruption risk posed by biodiversity and nature loss

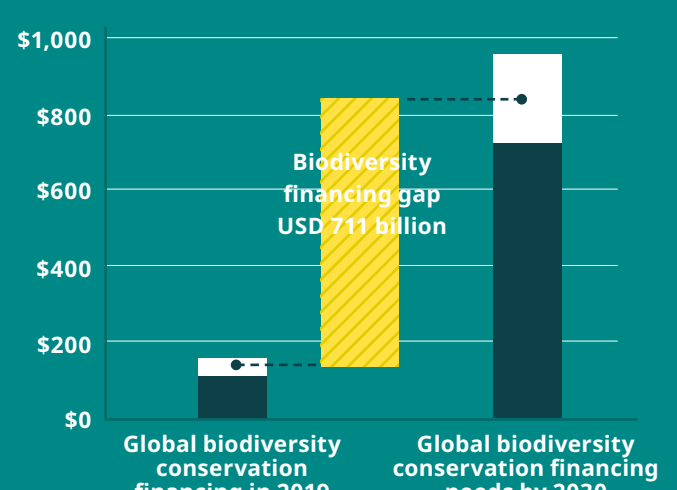


Currently, the world invests approximately USD 154 billion annually in nature-based solutions (NbS), of which a very large proportion (USD 126 billion) comes from domestic government budgets to protect biodiversity, ecosystem landscapes and other nature-related activities. The remainder comes from private capital and public official development assistance.

GLOBAL INVESTMENT IN NATURE



UNEP's State of Finance for Nature 2022 report identifies a USD 4.1 trillion financing gap by 2050. Between now and 2030, it is estimated that USD 722 – 967 billion is required per year to prevent further decline and loss of biodiversity. This highlights the enormous funding gap which needs to be closed.



Ecological function can be stabilised by 2030 and increased from current levels by 2050 if we close the biodiversity finance gap. In addition, with sufficient finance, NbS can provide the means to cost-effectively reach climate, biodiversity and restoration goals and targets.⁵

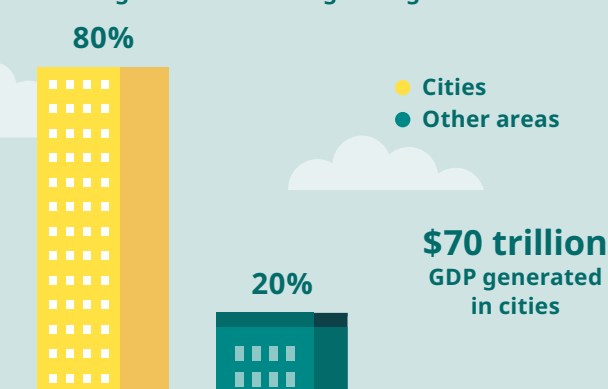
4. What can be done

The healing of society's relationship with nature requires an innovative paradigm shift on development. Implementing nature-based solutions (NbS) can enable this, as well as improving climate resilience and restoration efforts. Research shows that NbS could be 50% more cost-effective than "grey" infrastructure alternatives and delivers 28% more environmental and socio-economic value. In 2021, however, NbS only received 0.3% of overall spending on urban infrastructure⁷.

Biodiversity finance is therefore critical for halting and reversing the loss of biodiversity and ecosystem services at a global scale. Cities are at the forefront of this challenge, as they are the engines of economic growth around the world and are estimated to generate approximately 80% of the global Gross Domestic Product (GDP)⁷. Cities, as economic hubs, therefore have the unique opportunity to tap into the financial resources generated within their regions and seek innovative ways of using these resources toward protection and management of biodiversity and nature for the future.

ECONOMIC VALUE AT RISK IN GLOBAL CITIES

Percentage of 2019 GDP originating in cities



The GBF strategy for resource mobilisation encourages the use of "innovative" finance mechanisms, solutions and instruments. The Biodiversity Finance Initiative (BioFin) has identified 68 different finance solutions that could be used to mobilise financial resources for biodiversity. These are made up of several components, including a finance instrument. However, not all finance solutions or types of finance instruments may be applicable to cities or local governments. Applicability is dependent on the challenge or issues needing to be addressed and the desired financial results and impact.



What can local governments do?

Reform regulations and policies that enable long-term sustainable investments through legal and policy reforms (at national and/or local level, where such is possible) to enable innovation and sustainable utilisation (e.g. reviewing of national and/or local subsidies that are harmful to biodiversity by redirecting or eliminating them and scaling up nature-positive incentives).

Realign budgets (at national and/or local level) by improving the current use of resources through planning and prioritisation to reduce negative impacts and increase nature-positive outcomes that are effective.

Diversify sources of biodiversity finances through working collaboratively and innovatively with private sector and civil society to reduce the risks to public and private investors by developing policies that enable businesses to reduce negative impacts and increase financial flows.

Find synergies with climate finance by dedicating a significant proportion of climate finances for nature and biodiversity.

Generate revenues targeted to biodiversity by encouraging contributions from the philanthropic sector, align biodiversity portfolios to the GBF to attract funding from development banks and financial institutions, and the implementation of innovative finance solutions and instruments that enable financial resources to be mobilised for biodiversity.

5. UNEP (2022) State of Finance for Nature | 6. Deutz, A. et al (2020) Financing Nature: Closing the global biodiversity financing gap | 7. World Economic Forum and Alexander von Humboldt Biological Resources Research Institute (2022) BiodiverCities by 2030: Transforming Cities' Relationship with Nature