

UNDP-BIOFIN's input to CBD Notification SCBD/SSSF/AS/ML/GD/88367 "Call for Evidence on Resource Mobilization"

The **Biodiversity Finance Initiative (BIOFIN)** managed by UNDP is a global platform seeking to improve the management of nature and nature's services through an enhanced understanding and use of finance solutions. with the support of the Governments of Germany, EU, Norway, Flanders and Switzerland. BIOFIN was developed to provide a **comprehensive methodology** for governments to find solutions to overcome some of the barriers in advancing biodiversity finance, including: the failure of markets and public fiscal and development planning systems to reflect the real value of biodiversity and ecosystem goods and services (or the real costs of losing them); ingrained adverse incentives that encourage biodiversity-harmful activities; a lack of coordination and shared language among finance ministries and environment ministries; structural capacity deficits related to biodiversity finance; limited revenue streams from biodiversity actions that could generate increased private sector investment; and an over-reliance on a limited range of finance solutions. BIOFIN has been supported since 2012 by the EU and the Governments of Germany, Switzerland, Norway and Flanders.

The **BIOFIN methodology** is implemented in over 35 countries, through a five-step approach: (1) Review existing financing policies/mechanisms; (2) Measure current expenditure levels for biodiversity; (3) Estimate future financial needs; (4) Design strategic plans to prioritize and deploy the right mix of finance solutions to fill this gap; and (5) Implement finance solutions. This Methodology is tailored to the unique country context.

The great challenges the world is facing regarding biodiversity loss and degradation requires scaling up greatly biodiversity finance from all sources of funding. The BIOFIN process at a country level has shown that there is great opportunity of bringing together the finance, banking and private sector into biodiversity finance. The SDGs level of ownership by both governments and the private sector has shown the growing interest in understanding where are the investment opportunities for scaling up financial flows into biodiversity conservation, sustainable use and most recently, in ecosystem restoration and regeneration. Improved choice, design and implementation of effective, well-tailored finance solutions will strengthen countries' chances to fast-track the achievement of national and global biodiversity targets identified in the post-2020 framework

The following input and ideas are based in BIOFIN's experience at the national, regional and global levels in implementing the BIOFIN methodology and development and implementation of national biodiversity finance solutions.

(A) Please provide your evaluation of the structure, content and effectiveness of the Strategy for Resource Mobilization adopted by decision IX/11, 1 indicating as much as possible the gaps in meeting the targets.

It would be worthwhile to review the format used for the strategy, and ensure it includes key elements such as global baseline data on biodiversity finance, details on strategic directions, targets and a clear action plan. The current format resembles more an expression of intent rather than an actual strategy. Another way around this is not to call it a strategy but a guiding framework or something similar.

(B) Please provide a summary of your experiences in achieving Aichi Biodiversity Target 20 and implementing the Strategy for Resource Mobilization, and their adequacy, and your views on the need for appropriate further action.

Several elements of the Strategy are integrated into the BIOFIN methodology and work at the national level. In particular, countries have improved information base on funding needs, gaps and priorities (goal 1), strengthen national capacities (goal 2), developed a Finance Biodiversity Plan identifying the current and potential finance mechanisms as well as implementation of the post viable finance solutions (goals 3, 4 and 6) and generated an incredible amount of documented stories and experiences, and knowledge based products to share within the BIOFIN community and beyond (goal 6 & 8).

Based on the 23 Biodiversity Finance Plans submitted by countries, around 180 finance solutions are currently being implemented, with the most popular ones focusing on generating new resources and realignment of expenditures through taxes in the forestry/tourism sectors, public sector funding, and market-based mechanisms such as carbon offsets and PES. Future work should deal with the more challenging finance solutions such as better delivery which requires fundamental changes in government budgeting systems (such as results based budgeting, procurement processes, and better planning). Likewise, further actions are needed to engage with the private sector starting with reporting frameworks, shared planning exercises (including NBSAP).

The BIOFIN methodology includes two key assessment processes related to biodiversity finance, assessing biodiversity expenditures, both public and private, and estimating finance needs based on NBSAPs as well as other national priorities. BIOFIN countries have developed over the years strong capacities in these processes. In some countries like Mexico and Chile, assessing biodiversity expenditures has been closely worked with the national environmental accounting authorities implementing the SEEA framework. In countries like Bhutan and Indonesia, the expenditure tagging system has been fully integrated into the finance ministries' budgeting platform by introducing budget lines or ensuring an online tagging system (as in the case of Indonesia).

During implementation of the BIOFIN methodology, countries have worked under a bottom-up approach with a strong level of support and ownership by governments of the information and results that have arisen of this process. Most BIOFIN countries have included their results in the CBD Online Financial Reporting framework.

(c) Please provide any relevant information that would support the estimation of the resources from all sources needed for different scenarios of the implementation of the post-2020 framework;

Around 30 countries have been working with BIOFIN have assessed their national biodiversity finance needs. These national assessments have been primarily based, but not limited to, NBSAPs as well as other national priorities, plans and programs. Estimating finance needs based only on the NBSAP has shown that even if all finance needs were met, it is likely that biodiversity loss would not be stopped. In general, countries have found that biodiversity mainstreaming in other sectors has been poorly included within NBSAPs, providing evidence that the greatest costs in biodiversity still lie in funding conservation costs rather than reducing negative impacts in biodiversity from other productive sectors. Hence, estimating finance needs of the implementation of the post-2020 framework will require including the costs of reducing negative impacts and avoiding future costs¹.

Costing of the NBSAPs through the BIOFIN methodology provided interesting insights of the way biodiversity national strategies are designed; in most cases, the scope of reducing pressures from the underlying causes of biodiversity loss is still narrow, this is reflected in the numbers resulting from the costing process. In most cases, conservation and protected areas are still the areas where most resources are needed; areas such as mainstreaming and sustainable use would be the second most important in terms of finance needs. BIOFIN teams faced challenges with the costing work as many plans did not have clear and costable targets, and for any update of NBSAPs it would be highly beneficial to emphasize this part of the NBSAP process even stronger. Countries can also benefit from looking at Biodiversity Expenditure Reviews to identify a broader spectrum of actions for their NBSAPS that address the full national conservation needs.

(d) Please provide your views on the possible structure and content of a draft resource mobilization component of the post-2020 biodiversity framework, as a follow-up to the current Strategy for Resource Mobilization;

The new component of resource mobilization and/or biodiversity finance under the post 2020 framework should include:

- i) Scope: the new component should build on the need for countries to have a strong national biodiversity finance ecosystem where both the public and private sector as well as international resources have enabling conditions to escalate and increase their impact in meeting the post 2020 targets.
- ii) Structure and content: it should include the following elements:
 - a. A clear **baseline section** demonstrating the current state of biodiversity finance in the world, including the potential and challenges of major financing mechanisms.

¹ The concept of avoiding future costs is one of BIOFIN's finance solution approaches; by reducing negative impacts in biodiversity, resources will not be spent in the future to restore biodiversity.

- b. **expand the concept of resource mobilization into biodiversity finance** with several approaches in order to increase financing from all sources, increase finance resource effectiveness, avoid future expenditures or costs through strategic investments and policy changes, and realign expenditures²
- c. **national biodiversity accounting and budget tagging** as the best way to track national financial flows
- d. **scaling up private capital investments** under a shared responsibility approach through, among others, dependencies risks assessments, positive impacts in conservation, ensuring and unveiling financial returns from nature-based projects and enhancing public-private partnerships.³
- e. **further involvement and participation of the banking sector** to support the new post 2020 targets, avoiding costs and negative impacts in biodiversity through project finance and banking transactions, ie. implementation of the Equator principles and developing new and innovative investment vehicles adequate for biodiversity scale projects.
- f. facilitate **national biodiversity finance readiness** processes

(e) Please provide your views and any relevant information concerning options and approaches for mobilizing and providing additional resources from all sources;

BIOFIN's experience has shown that it is key to understand what the current level of expenditure at the national level is and where the biodiversity finance needs are in order to develop a finance strategy tailored to the national context, financial ecosystem, public policy framework and key development national challenges. BIOFIN countries have developed an inventory of existing finance mechanisms in order to find opportunities to improve them or identifying gaps for solutions that didn't exist before. The priority ones were included in the Biodiversity Finance Plan and many of them are currently in implementation under BIOFIN Phase II.

Engaging the private sector as well as developing a tagging system in national budgets will allow countries to track national and sub-national expenditures. The financial sector and in particular, central banks, have an increasing role in triggering positive actions and reducing negative impacts in biodiversity and climate change. The Central Bank of Sri Lanka developed the Sustainable Finance Roadmap with the technical assistance of International Finance Corporation and BIOFIN supported the process as it would provide the foundation for soft

² These four approaches are considered by the BIOFIN methodology as "finance solutions".

³ Please refer to the publication by UNDP (2020). Moving Mountains: Unlocking Private Capital for Biodiversity and Ecosystems, New York

<https://www.biodiversityfinance.net/sites/default/files/content/publications/BIOFIN%20-%20Moving%20Mountains%20-%20Unlocking%20private%20capital%20for%20biodiversity%20and%20ecosystems%20%28Web%20Version%29.pdf>

credit facilities for biodiversity friendly development projects and encourage development initiatives to be sensitive to the biodiversity and already 4 commercial banks have initiated sustainable finance schemes under this roadmap.

Experience has shown that one of the biggest challenges is the need to unlock finance mechanisms that were designed to benefit biodiversity (or avoid harmful impacts) but do not have the enabling conditions or mechanisms to access these funds. Some examples are the water tariff system in Peru, royalties from the mining sector for biodiversity in Colombia, involving the private sector and sub national governments in PES in Mexico, among others.

On the other hand, several BIOFIN countries have prioritized finance solutions that benefit both nature and people. Evidence shows that governments are more inclined in supporting finance mechanisms that include social and economic benefits aligned with their national development priorities such as poverty alleviation and economic growth. The **BIOFIN Catalogue of Finance Solutions**⁴ offer an extensive array of mechanisms and approaches that countries can develop, according to their national needs and priorities and mainly based on their Finance Plans.

Future finance reporting frameworks should account for resources that are not necessarily transferred or donated to another party. Significant amount of resources can be unlocked from the private sector through investments, corporate social responsibility (CSR), or through sustainability principles embedded in operations. In some instances, CSR activities are internalized by the corporates themselves thus making it difficult to estimate the actual spending. Yet, if designed properly, these type of activities can contribute to biodiversity targets.

(f) Please provide your views and any relevant information on possible ways to strengthen the engagement of a wider range of financial and private institutions, at all levels and from all sources, to support the implementation of the post-2020 framework;

Financial institutions need to be part of the post 2020 challenges and solutions. Transition to greener production systems that reduces environmental impacts and avoids biodiversity loss will need the public and private financial sector as an ally. However, this sector is still understanding the role and the potential that biodiversity and nature-based projects can provide, both in terms of financial return as well as reducing future risks. There is great scope to expand this knowledge; bridging the environmental sector with the finance sector is key if we expect to see the scale of capital flows needed to meet global and national biodiversity finance needs.

One of BIOFIN findings at the national level has been that the scale and quantity of investible projects is very limited. There is a strong need for countries, both for public and private

⁴ Please consult the Biodiversity Finance Solution Catalogue <https://www.biodiversityfinance.net/finance-solutions>

stakeholders, to develop projects that are bankable and capable of scaling up (move beyond pilot phase projects). Today, we have a growing number of entrepreneurs developing projects in search of nature-based solutions for global change. Impact investors are becoming increasingly interested in understanding that potential that projects and business-related initiatives offer to reduce environmental impacts and support sustainable use of biodiversity and productive systems. Several BIOFIN countries are working with private investors, project developers and entrepreneurs to develop a portfolio of investible projects. Mexico and Costa Rica are working on finance solutions in order to connect producers with potential investors interested in projects with social and nature based solutions.

(g) Please provide your views and any relevant information on possible ways to further mainstream biodiversity into national economic budgets and development plans, including key productive sectors;

Understanding the budgeting process is key. Identifying the players and dynamics amongst the institutional players is also an essential component of the process. For example the involvement of Parliament or Congress is an important step in getting budgets approved. Sufficient knowledge on budgeting timeframes, planning timeframes and incorporating relevant language in planning documents is critical and need to be included in the framework of the NBSAPs process, as these are yet viewed as soft policies. As a result of the Biodiversity Expenditure Review process in Cuba, the government approved for the first time in the country a **Specific Environmental Accounting Standard** (NEC No.11) issued by the Ministry of Finance and Prices. This policy outcome will allow Cuba to account for revenues and expenditures for biodiversity.

Having a Unit of Biodiversity Finance within the Ministries of Finance and/or Environment would allow countries to track biodiversity financing and identify gaps; this is the case of Seychelles where they established a Biodiversity Finance Unit for the coordination of all biodiversity-related projects and their mainstreaming into the economic planning and annual budgetary planning processes.

The Biodiversity Expenditure Review proved to be a very effective tool to review the status of mainstreaming biodiversity in any country as effective mainstreaming needs to go beyond the national planning level to have a real impact.

(h) Please provide your views and any relevant information on possible ways to improve the readiness and capacity of Parties to access and utilize financial resources in support of the implementation of the post-2020 framework.

Based on BIOFIN's experience, countries will need to develop a finance and investment plan for the post 2020 framework, based on a costing process at the national level, in order to



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have an integrated and comprehensive instrument that will support national implementation. This finance plan should be based on an assessment of available finance mechanisms and solutions at the country level. The years after COP 10, countries have developed greater capacities and finance mechanisms in order to mainstream biodiversity into national development plans as well as in financial sector, including public and private banks and the insurance sector.