

## Key Messages from the Report on *Financing Nature: Closing the Global Biodiversity Financing Gap*

### The Challenge

- Earth is experiencing one of the most dramatic extinction episodes in history, posing enormous risks to human prosperity and well-being;
- We are only beginning to understand and quantify the magnitude of these risks but we know enough to know that we should hedge these risks by investing in nature; the most important step is to protect our remaining natural capital.
- Current economic systems do not appropriately value nature due to market failures; many of the benefits of nature are public goods and market pricing is difficult, if not infeasible; as a result, policy makers often treat it as a free good, valuing it as zero. Those who conserve biodiversity are not adequately rewarded financially and those who damage biodiversity are not appropriately penalized.

### Central Insights from the Financing Nature Report

This major new report from The Paulson Institute, in partnership with The Nature Conservancy and Cornell University, sets out the economic case for valuing nature, including addressing the market failures driving global biodiversity loss. The report is also the most comprehensive effort to date to examine global financial flows into biodiversity protection, calculate the total investment needed to protect the most important biodiversity and identify the key policies and mechanisms to bridge the gap.

The *Financing Nature* report has been designed to influence the negotiations ahead of the 15<sup>th</sup> Conference of the Parties (COP15) to the UN Convention on Biological Diversity (CBD) in Kunming, China in 2021, at which governments are due to agree on a new Global Biodiversity Framework, including targets for finance and resource mobilization over the next ten years.

The report provides four central insights:

- **Closing the gap relies heavily upon government actions.** Governments need to do more to protect natural capital and put in place a combination of policy reforms to reduce negative impacts on biodiversity, such as **reforming harmful agricultural subsidies** and reducing investment risk by public and private investors. Governments must also **develop new financial innovations to increase available funding for conservation**, promoting green investments, and supporting development of nature-based climate solutions, natural infrastructure and biodiversity offsets.
- **The private sector can play a pivotal role, but governments need to pave the way.** Governments need to put in place the right regulatory environment, smart incentives and market structures to catalyze financial flows from the private sector into biodiversity conservation.
- **The only way to stop global biodiversity loss is to ensure that nature is appropriately valued in all economies.** This will require bold political leadership and transformative policies, mechanisms and incentives that discourage harmful actions and encourage large-scale finance for nature.
- **The gap between the amount currently spent on biodiversity conservation and what is needed is large, but it can be closed.** As of 2019, current spending on biodiversity conservation is between \$124 and \$143 billion per year, against a total estimated biodiversity protection need of between \$722 and \$967 billion per year. This leaves a current biodiversity financing gap of between US\$ 598 billion and US\$ 824 billion per year.

### Key Facts about Closing the Financing Gap

- Around half of the Biodiversity Financing Gap could be closed with no new investment;

- Harmful subsidy reform is the single biggest opportunity to close the gap; nearly US\$ 542 billion is spent each year on agricultural, fisheries, and forestry subsidies<sup>1</sup> that are harmful to nature. Redirecting those payments to incentivize more sustainable practices would benefit nature and could also help to mitigate climate change and improve food security;
- The total finance needed from the seven mechanisms that increase annual capital flows into biodiversity conservation is US\$ 445.7 – 632.5 billion. This is less than the world spends on soft drinks in a year.

### **Recommended Actions**

The key finding of this report is that governments must undertake catalytic policy reforms to unleash biodiversity funding. The six recommended actions below will accelerate the implementation of each of the nine financing mechanisms described in the report (see Table 1 in attachment) and materially contribute to closing the biodiversity financing gap.

**Recommended Action 1:** Countries must take *immediate policy actions* to protect their natural capital and expand biodiversity financing. This report identifies nine mechanisms for resource generation and harm-prevention including prioritizing rural economic support that subsidizes farmers to provide ecosystem services, avoiding major infrastructure development impacts on critical habitats, and investing in nature-based climate solutions.

**Recommended Action 2:** Government and philanthropic donors should use their funds strategically to support countries to implement the financing mechanisms and to catalyse subsequent public and private sector investment. This report calls for a doubling of foreign aid for biodiversity with the incremental resources being devoted to biodiversity-rich countries and toward implementation of these mechanisms.

**Recommended Action 3:** National and sub-national governments should strengthen their regulatory and financial enabling conditions, in order to significantly accelerate private actions and finance for biodiversity conservation.

**Recommended Action 4:** Private sector actors should increase their opportunities to invest in biodiversity and minimize their biodiversity-related financial risks. In addition, major companies should adopt science-based targets for biodiversity within their operations and investments consistent with the 2050 vision of the UN Convention on Biodiversity.

**Recommended Action 5:** Governments and international agencies should improve the tracking and reporting on biodiversity finance. Additional public funding should be secured to support these institutions to enhance global finance data collection and build capacity of governments to collect and share data.

**Recommended Action 6:** In the context of the UN Convention on Biological Diversity negotiations, Parties should agree to develop and implement National Biodiversity Finance Plans (NBFPs) to guide the implementation of their national efforts towards the CBD's new Global Biodiversity Framework. To achieve this outcome by 2030:

- Global target: increase financial flows to investments that generate improvements in biodiversity; globally to close the biodiversity finance gap by 2030 (est. US\$ 598-824 billion annually);
- Process target: achieve 100% adoption of NBFPs by all parties by 2030;
- National targets: full and effective implementation of National Biodiversity Strategies and Action Plans (NBSAPs);
- Global target: double international public funding for biodiversity by 2030, especially to help developing countries to implement their NBSAPs and NBFPs.

### **The Nine Financial and Policy Mechanisms and their Potential to Close the Gap**

The report identifies nine mechanisms to address the closing of the biodiversity financing gap. Two of the nine decrease the overall need for funding by reducing and reforming expenditures that cause harm. The remaining seven mechanisms increase funding flows into biodiversity conservation.

<sup>1</sup> Note that the Financing Nature report does not address fossil fuel subsidies.

The attached Table 1 below shows the current and potential future scale of financing flowing through these mechanisms to support biodiversity conservation. The estimates reflect the degree of uncertainty.

## Background

The world is in the midst of one of the most dramatic extinction episodes in history, posing enormous risks to human prosperity and well-being. Tropical forests, our greatest stores of both biodiversity and carbon, are in retreat. Coastal wetlands, vital to migratory birds and fisheries and also a significant global stock of carbon, are deteriorating worldwide. These losses undermine economic opportunities, food and water security, and community resilience. Although extinction is a natural phenomenon, scientists estimate that our planet is now losing species at 1,000 times the natural rate of one to five per year. If we continue on this trajectory, we face a future where 30 to 50 percent of all animal and plant species may be lost by the middle of the 21st century.

Scientists are only beginning to understand and quantify the magnitude of these risks. And the destruction of natural environments brings people and wildlife into contact in a way that presents public health risks through the spread of zoonotic diseases. It may be no coincidence that we have seen multiple outbreaks of zoonoses during this time of rapid biodiversity loss, including SARS, Ebola, MERS and, of course, SARS-CoV-2, the virus responsible for the COVID-19 pandemic and the devastating impact it has wreaked across the world.

**Attachment: Table 1: Financial and policy mechanisms to close the gap**

<b>Financial and Policy Mechanisms</b>	<b>2019, US\$ bn/year</b>	<b>2030 potential, US\$ bn/ year</b>
<i>A. Mechanisms that decrease the overall need for funding to be spent on biodiversity conservation</i>		
Harmful subsidy reform (agriculture, fisheries, and forestry sectors)	(542.0) - (273.9)	(268.1) - 0*
Investment risk management	Estimates unavailable	
<i>B. Mechanisms that increase capital flows into biodiversity conservation</i>		
Biodiversity offsets	6.3 - 9.2	162.0 - 168.0
Domestic budgets and tax policy	74.6 - 77.7	102.9 - 155.4
Natural infrastructure	26.9	104.7 - 138.6
Green financial products	3.8 - 6.3	30.9 - 92.5
Nature-based solutions and carbon markets	0.8 - 1.4	24.9 - 39.9
Official development assistance (ODA)	4.0 - 9.7	8.0 - 19.4
Sustainable supply chains	5.5 - 8.2	12.3 - 18.7
Philanthropy and conservation NGOs**	1.7 - 3.5	Not Estimated
<b>Total Positive Financial Flows</b>	<b>123.6 - 142.9</b>	<b>445.7 - 632.5</b>

Note: All figures in this table are reported in 2019 US\$. \*Assumes a global subsidies reform scenario that phases out by 2030 the most harmful subsidies as described by OECD (2020)<sup>2</sup>. \*\* While future flows for philanthropy and conservation NGOs are seen as highly catalytic for mobilizing private sector financial flows, it was determined that they did not pass the threshold for inclusion in this report as a main mechanism for scaling up to close the biodiversity financing gap.

<sup>2</sup> OECD, 2020. Rising fossil fuel support poses a threat to building a healthier and climate-safe future. Available at: <https://www.oecd.org/fossil-fuels/>