KPMG

# The Investment Case for Nature

An overview of investment strategies for closing the nature finance gap.



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# Introduction and overview

The business case for protecting and restoring nature and biodiversity is growing. The challenge now is around mobilizing funding (both public and private) to help close the nature financing gap.

The current amount of both public and private expenditure allocated to nature conservation and restoration is hugely insufficient. Global spending on biodiversity amounts to US$166 billion annually.[1] This figure represents about a sixth of the necessary funding required per year by 2030.[2] Closing the "Nature Finance Gap" is now a well-rehearsed problem.

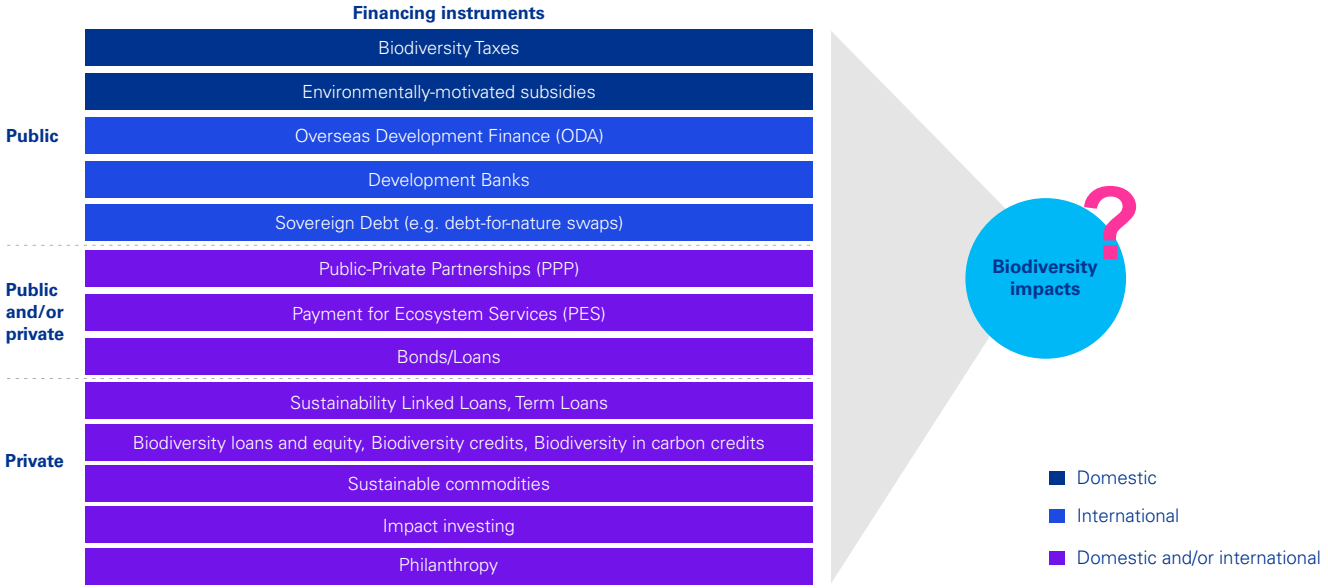
Closing this "Nature Finance Gap" is both a public and a private responsibility. While "nature" is a "public good" and therefore should be financed by "public funding," it also underpins the global economy, providing critical ecosystem services as well as raw materials for the processing, manufacturing and production of goods.[3] The exploitation of natural resources is a key driver in the decline in nature and biodiversity — meaning that companies and the financial sector have both an obligation, as well as an economic incentive, to invest in its conservation and restoration.

The market and business case are starting to rapidly change in this space. Discussions around accurately and consistently pricing the value of Nature in economic decision-making across the global economy are accelerating. In turn this is incentivizing nature-conserving market behavior, helping to mobilize financing to protect and restore nature and fairly reward those who are on the front line of restoring it. This has given rise to so called 'Nature Markets,' as well as conversations around wider financial instruments which could provide funding for nature, including repurposing existing flows of funds, such as on agricultural subsidies and commodities, and use these to drive investment in this space.

The time is now for companies and the financial sector, as well as the conservation communities on the ground, to deploy change to break barriers and meet financing needs for conservation.

This paper provides a clear business case for the need to invest in nature, an up-to-date overview of the current landscape of strategies for financing and investing in this space (both from a public and a private perspective), an analysis of the current challenges in scaling funding in nature, and concludes with clear steps for moving forwards.

**Figure 1. An overview of the different funding strategies that are covered within this paper.**




Note: Green and Blue bonds/loans

Source: KPMG adapted from Biodiversity: Finance and the Economic and Business Case for Action, OECD (2019)

[1] Biodiversity Finance Factbook, Bloomberg (2023)
[2] Financing Nature: Closing the Global Biodiversity Financing Gap (2020)
[3] Everything, everywhere, all at once: how can private finance be unlocked for nature and climate in the international financial architecture? CISL (2023)

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# Why do we need to invest in nature?



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# Businesses depend on nature

## Nature is in severe decline

The IUCN Red List shows that more than 42,100 species are threatened with extinction, including 41 percent of amphibians and 36 percent of reef building corals. Earlier this year, an international team of scientists concluded that six of the nine planetary boundaries are being crossed, pushing the environment "well outside the safe operating space for humanity"[4, 5] while the WEF's Global Risks Report 2023 notes that biodiversity loss and ecosystem collapse are now among the fastest-growing global risks over the next decade. There is global consensus that nature and biodiversity is in severe decline and urgent action needs to be taken.

## The importance of nature to global economy and business

Nature and biodiversity support life on earth. They also provide essential ecosystem services such as the provision of key services (e.g. food, medicine, energy, raw materials), as well as supporting services, (e.g. nutrient cycling) regulating services (e.g. carbon sequestration) and traditional as well as modern cultural and/or intrinsic services (e.g. recreation services that enhance mental and physical well-being).

Nature also underpins the global economy. Factually every business and financial sector entity has dependencies on nature. Businesses and the financial sector are increasingly seeing their expsoures to risks and dependencies on nature. For example, a bank might have exposures in a range of agricultural enterprises or other businesses highly dependent on nature. The overall performance of the exposures are therefore closely tied to the health and resilience of the natural environment. In France it was found that 42 percent of the value of securities held by French financial institutions are highly or very highly dependent on one or more ecosystem services.[6]

Conversely, protecting nature and biodiversity could generate business opportunities worth **$10 trillion annually** through new business, resource efficiency and cost reduction. This could create over 400 million jobs globally by 2030.[7] Regenerative agriculture is one of the key strategies that is starting to be employed by large food companies and other retailers. Regenerative agricultural techniques can lead to a decrease in emissions, help improve biodiversity and increase profit margins.



[4] Katherine Richardson et al., Earth beyond six of nine planetary boundaries (2023)
[5] Potsdam Institute for Climate Impact Research
[6] https://publications.banque-france.fr/en/silent-spring-financial-system-exploring-biodiversity-related-financial-risks-france
[7] How our economy could become more 'nature-positive', WEF (2022)

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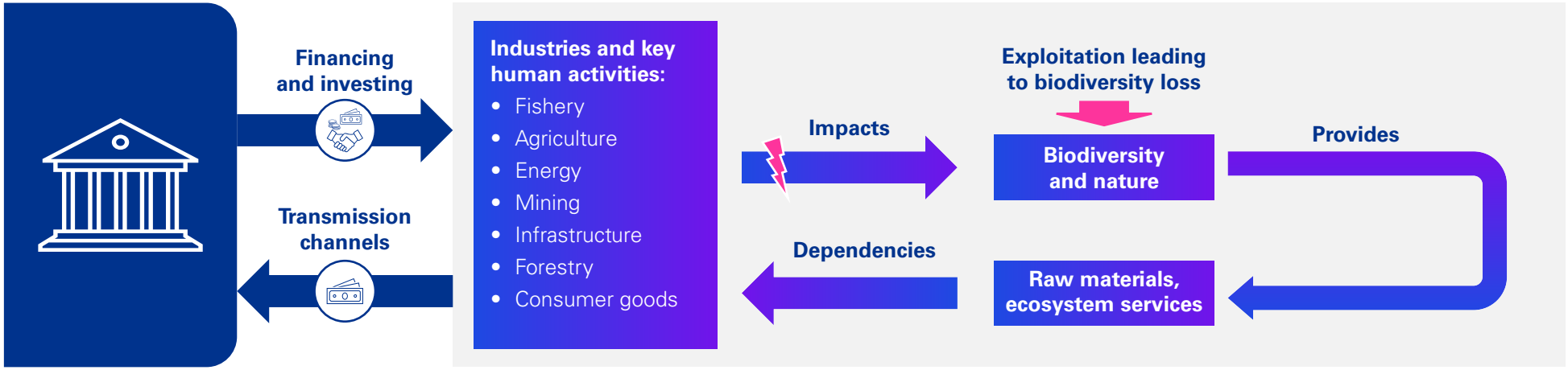
## Biodiversity loss can affect companies across multiple sectors including the financial industry.

Natural capital treats nature somewhat similar to traditional capital — if we invest in it, it creates value, and if we degrade it, we limit its value. However, natural capital has the ability to regenerate its value (if managed well).

**Figure 2. The financial industry's impact of, and dependency on, nature**




**Physical & transition risks**

| Credit risks | Market risks | Reputationalrisks | Liquidity risks | Under writing risk |
|---|---|---|---|---|
| Reduction of credit quality of assets | Losses in on- and off-balance- sheet positions due to market price fluctuations | Losing revenues due to loss of buyers and/or clients | Cash shortfalls or challenges in obtaining refinancing | Loss due to difference between forecasted & actual incidents |

**Example**

1. Increased deforestation along the floodplain of a river due to land clearance
2. Risk profile changes due to an increase in observed erosion and flooding along the riverbank
3. Increased likelihood of disruption of activities and value chains — business risk
4. Increased risk for financial institutions due to non-accounted physical risks in their risk assessment

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# Nature and climate are inextricably linked

## Nature is key to meet climate goals

Climate change and nature are inextricably linked and impact one another. Therefore, companies will not only have to reduce their carbon footprint to meet their net zero targets but also expand on investments that have a positive impact on nature.

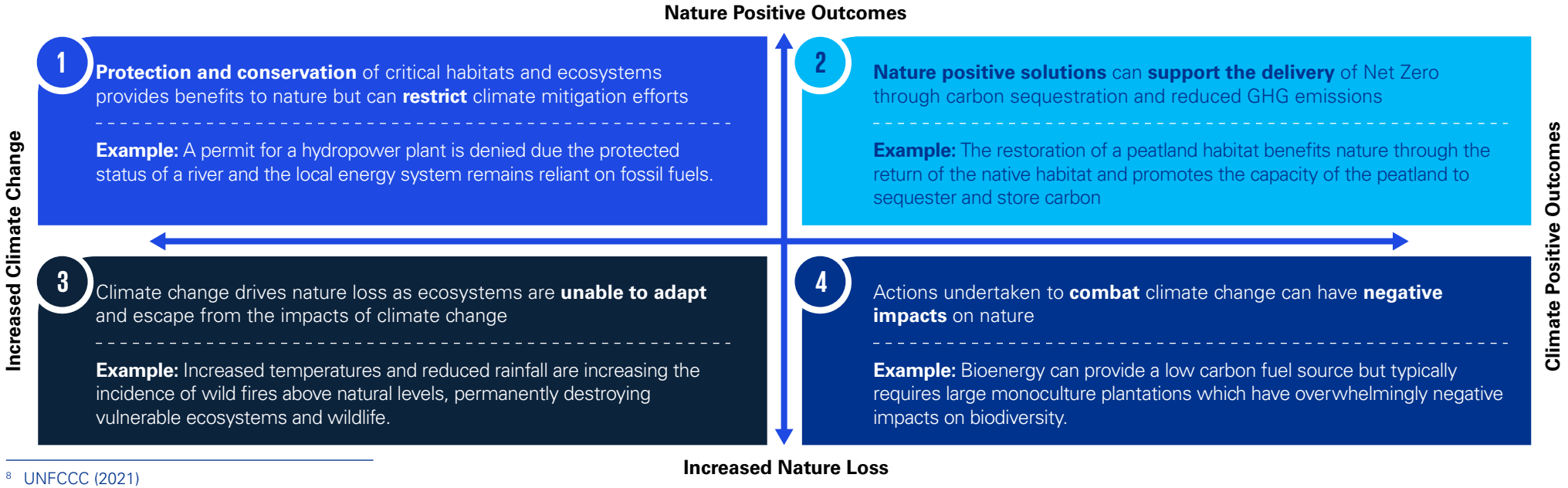
A third of climate solutions depend on nature to meet the Paris Agreement, thanks to natural carbon sinks, such as oceans, soils and forests.[8]

As stated by Crédit Agricole in their Statement on Biodiversity and Natural Capital *"The fight against climate change will not be possible without nature."* As an illustration, terrestrial and marine ecosystems store approximately 5.6 gigatonnes of CO2e annually, which is equivalent to 60 percent of the emissions produced by fossil fuels. Addressing climate change and safeguarding biodiversity will require not only technological solutions, like the widespread implementation of renewable energy, but also the adoption of 'nature-based solutions.'

Nature-based solutions for climate mitigation are a genuine win-win. In particular, companies with forest, land, and agriculture (FLAG) emissions in their supply chains should consider nature-based solutions to drive the delivery of net zero through carbon sequestration and GHG emissions.

If properly managed, ecosystems (including forests, peatlands, mangroves and regeneratively managed farmlands) act as carbon sinks and remove carbon from the atmosphere. For example, the restoration of a peatland habitat benefits nature through the return of the native habitat and promotes capacity to sequester and store carbon.

**Figure 3. The integrated relationship between nature and climate**




[8] UNFCCC (2021)

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# Global policy and regulatory frameworks on nature and biodiversity

### The world's governments have agreed to take action

Recognizing the above, in December 2022, 188 governments adopted the Kunming-Montreal Global Biodiversity Framework (GBF) in Montreal at the CBD's Fifteenth Conference of the Parties (CoP). The GBF is an international blueprint aimed at halting and reversing nature loss by 2030 and is being described as the "Paris Agreement for Nature." The GBF calls for "urgent action to halt and reverse biodiversity loss" and sets out four overarching goals for 2050 which are underpinned by 23 specific targets. Governments are now asked to take the framework and transpose it at the national level to ensure its implementation and demonstrate their national progress and contributions towards this global framework.

As part of the final agreement to the GBF, there was a specific commitment to establish a new Global Biodiversity Framework Fund to support the effective implementation of the GBF, its goals and targets. The Global Biodiversity Framework (GBF) Fund was ratified and launched on 24 August 2023. Two countries announced initial contributions to start its capitalization. This included 200 million Canadian dollars from Canada and 10 million pounds from the United Kingdom. Germany has contributed another 40 million Euros. The Fund is managed by the Global Environment Facility (GEF). The GEF is a family of funds supporting developing countries' action on inter-related environmental challenges.[9]

A number of other forums — notably the UN General Assembly through their adoption of the Leaders Pledge for Nature, the G7, G20 and the UNFCCC — have also recognized the importance of addressing nature and biodiversity.

### Global standard setters and regulators are starting to ask businesses to assess and disclose their nature-related impacts and dependencies.

Other mandatory regulations and directives, as well as further voluntary guidance and standards, are being developed in this space, driving a significant increase in the interests of businesses in nature and biodiversity. In that way, regulation opens an opportunity for business as it defines clear rules to operate within, and can facilitate the inclusion of nature in business models and strategies.

For more information on the regulatory landscape and the implications and opportunities it brings businesses, please refer to the KPMG Paper: "Getting Started on your Nature Journey", KPMG International.



[9] https://www.thegef.org/newsroom/press-releases/new-global-biodiversity-fund-launched-vancouver

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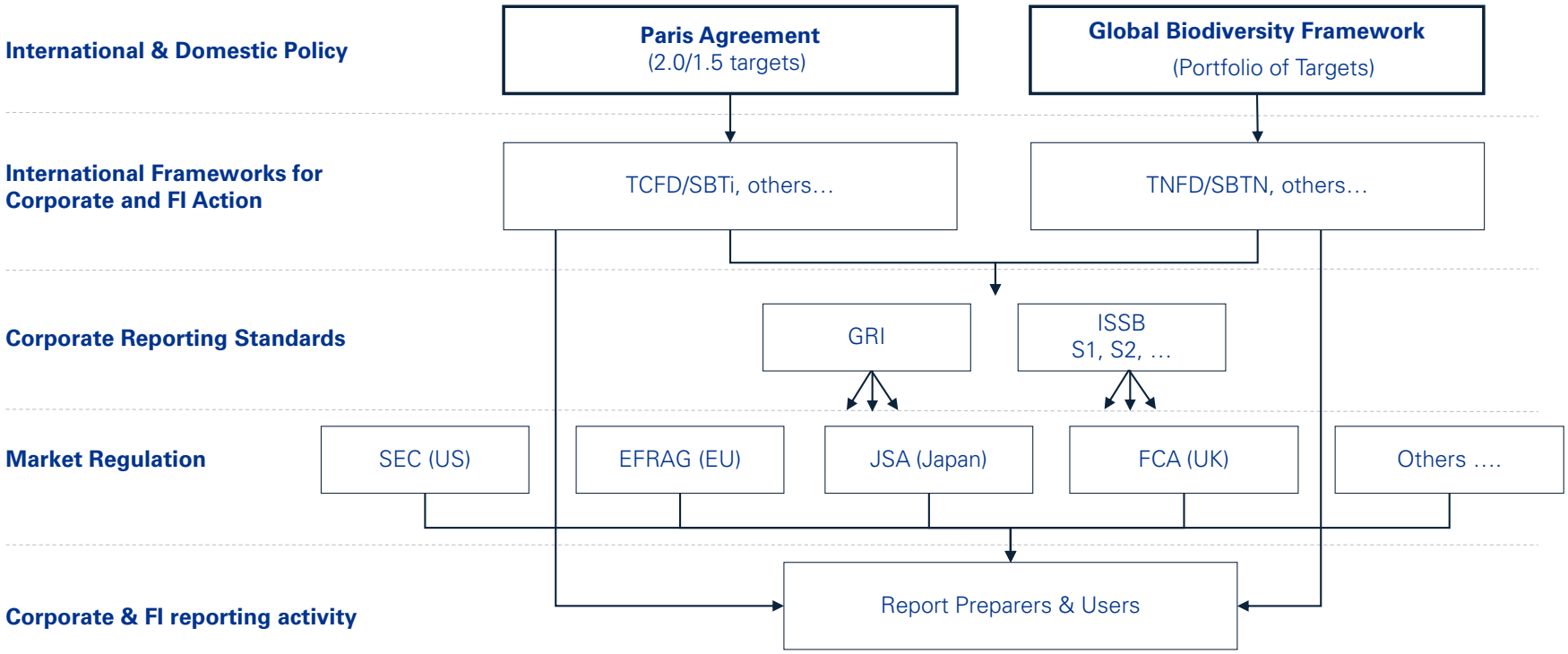
**Figure 4. An overview of the current global policy, regulations, standards and frameworks emerging in this space**




Source: KPMG International adapted from TNFD (2023)

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# Current investments from businesses, financial institutions and philanthropists

### Companies and the financial sector are starting to recognize both their nature-related risks, as well as nature-related opportunities.

Due, in part to the changing policy and regulatory changes, companies and the financial sector are starting to recognize the need to understand their nature-related risks, as well as their nature-related opportunities. Over 1,000 businesses and financial sector entities (the largest private sector participation ever) attended the CBD COP15 meeting in Montreal.

A global survey conducted by the TNFD in the summer of 2023 indicated that out of 239 organizations — headquartered in 36 countries and covering 11 sectors — 70 percent said they plan to start disclosing aligned with the TNFD Recommendations by their financial year 2025 or earlier.[10]

### Private philanthropists are also starting to mobilize

Private philanthropy for sustainable development has surged, with environmental protection amounting to US$ 436 million — accounting for 5 percent of total private philanthropy during 2018-2020.[11] More than half (51 percent) of this funding was allocated to the preservation of biodiversity, while the majority of the remaining portion supported various initiatives within the environmental protection sector. This included engagement at the policy level, as well as activities related to planning and research.

#### It's Now For Nature

The Now For Nature campaign, launched in November 2023, aims to bring together all businesses to act on nature and contribute towards a nature-positive world by 2030. The initiative states that a growing community of businesses and financial sector entities recognize they cannot sustainably grow their business, or achieve their climate goals, without protecting and restoring nature. Through this campaign, businesses are encouraged to share their nature strategies to set out how they are addressing the nature crisis, in a public and accessible way.[12]

> **"Out of 239 organizations (spanning 36 countries and 11 sectors) 70% said they plan to start TNFD-aligned disclosure in 2025 or earlier" — TNFD (2023)**

[10] Getting started with adoption of the TNFD recommendations, TNFD (2023)

[11] Private philanthropy for sustainable development, 2018-2020, OECD (2023)

[12] https://nowfornature.org/

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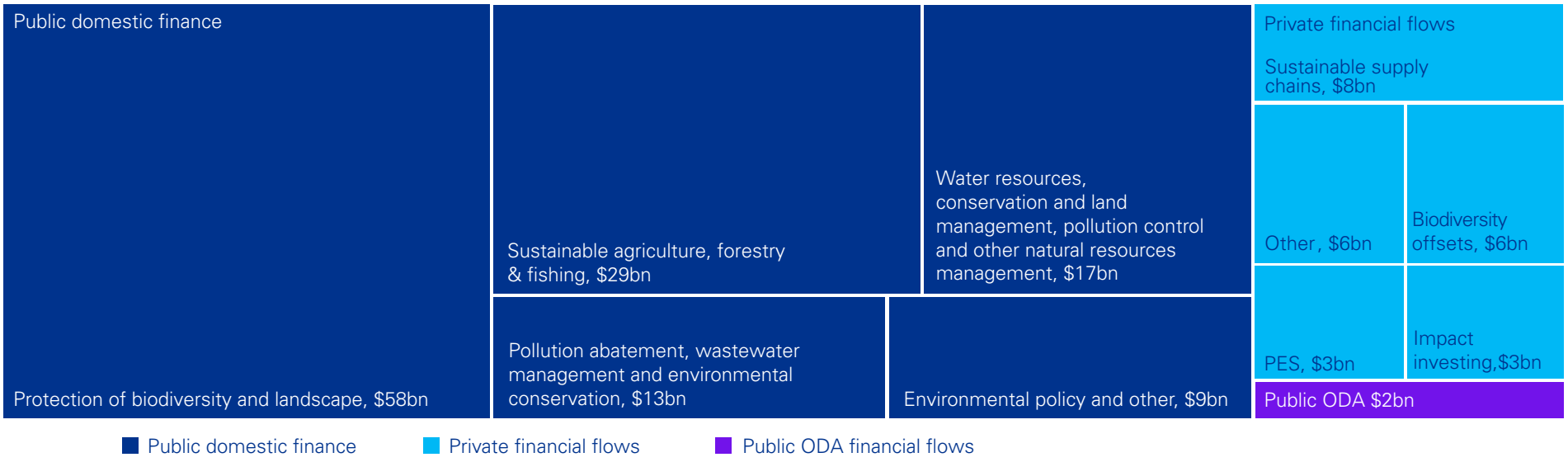
# The remaining Nature Finance Gap

### Despite this, there is still an enormous Nature Finance Gap

Current public and private financial flows to nature finance are estimated to range up to US$154-166 billion a year. [13, 14] Of this, public funding makes up about five-sixths with the private sector contributing just one-sixth.

Figure 3 below shows the composition of the current nature finance landscape.

**Figure 5. Public and private finance in nature US$154 billion (2022 US$)[15]**




[13] Biodiversity Finance Factbook, Bloomberg (2023)

[14] State of Finance for Nature, UNEP (2022)

[15] KPMG International adapted from State of Finance for Nature, UNEP (2022)

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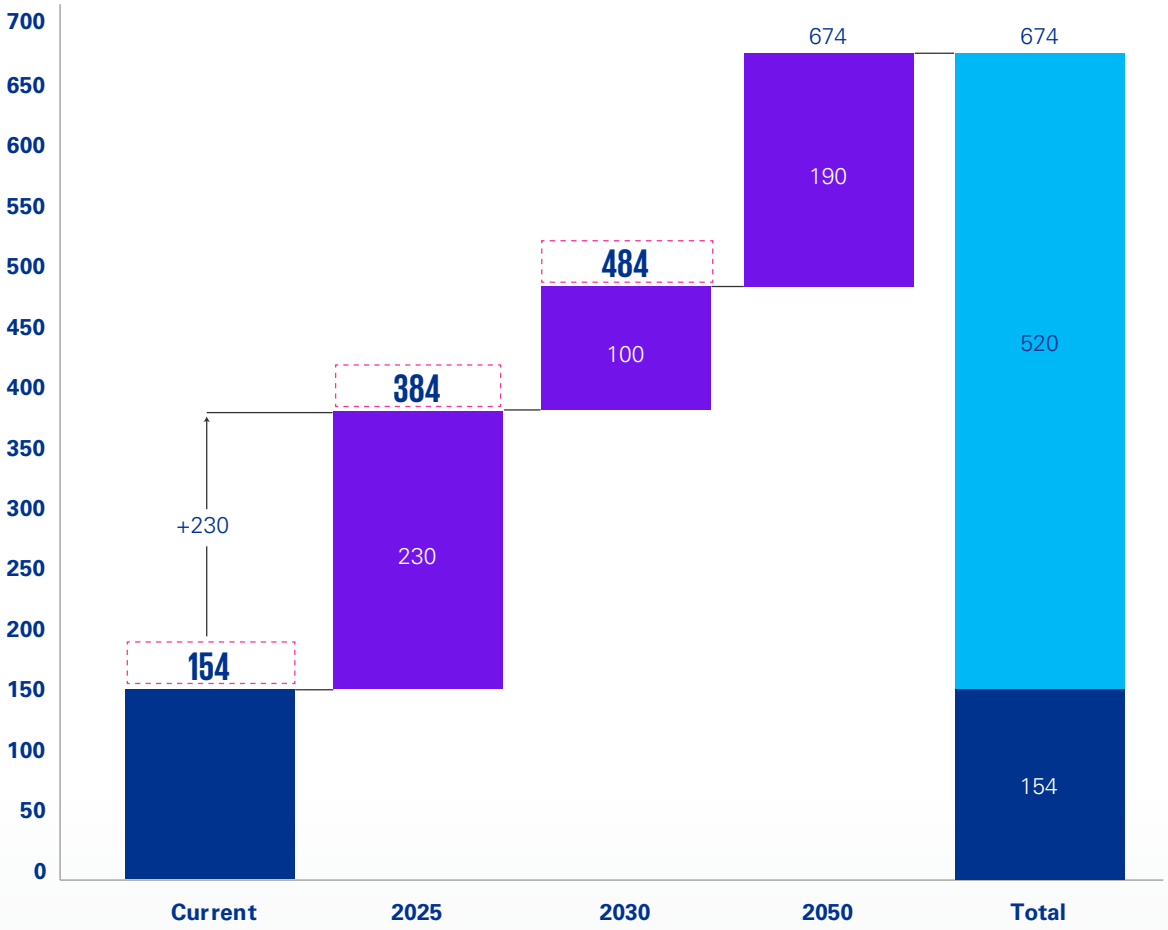
The total funding required to finance nature and biodiversity is estimated to be US$384 billion per year by 2025 and US$484 billion per year by 2030.[16]

There is an investment gap of 60 percent to reach funding required in 2025.

The trajectory of annual nature and biodiversity investment needs to limit climate change to below halt biodiversity loss and achieve land degradation neutrality.

**Figure 6. The Nature Finance Gap**




Source: KPMG International adapted from State of Finance for Nature, UNEP (2022)

[16] State of Finance for Nature, UNEP (2022)



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# What are the different types of investment approaches for nature?



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There are a multitude of different taxonomies which provide overviews of current, new and emerging funding approaches and revenue raising instruments for nature and biodiversity.

The OECD laid out an initial conceptual framework for biodiversity finance and other types of incentives and support.[17] These include a mixture of revenue raising instruments, direct financial instruments and other incentives and support (including many which could be classed as "Nature Markets").

**Figure 7. An initial conceptual framework for biodiversity finance and other types of incentives and support**




Note: Green and Blue bonds/loans

Source: KPMG International adapted from Biodiversity: Finance and the Economic and Business Case for Action, OECD (2019)

[17] OECD (2019), Biodiversity: Finance and the Economic and Business Case for Action

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As the OECD conceptual model demonstrates, there are three main sources of biodiversity finance: (i) Public, (ii) Public and/or private and (iii) Private. As figure 5 above indicates, public expenditure for nature and biodiversity accounts for 83 percent of all nature and biodiversity finance. This includes budgets by (local) governments and ministries, multilateral funds, public agencies and others. Private finance on the other hand covers investments and funding by institutional investors, asset managers, commercial banks, philanthropic foundations and private companies. Instruments covered under (ii) can be either public, private or blended finance.

## Public

The UK Government's Dasgupta Review on the Economics of Biodiversity points out that governments are key financial investors in nature given (i) the societal benefits of such investments and (ii) the open access nature of many ecosystems and the fact that accounting prices are not reflected in market prices in many ecosystem services.[18]

Across countries, the majority of public finance for nature is allocated via domestic budgets and through tax policies.[19] These fiscal instruments, which include taxes, fees and charges, can help reflect the value of nature in market prices. The revenue they generate can then be channeled back into the conservation, restoration and sustainable use of nature.

### *Domestically focused levers and mechanisms*

#### Biodiversity Taxes

Biodiversity-relevant taxes include, for example, taxes on pesticides, fertilisers, forest products and on timber harvests. These instruments, which are based on the "polluter pays principle," place an additional cost on the use of a natural resource, or indeed the emission from a pollutant, to reflect the negative impact they have on the environment. Through this mechanism, they provide incentives for both producers and consumers to behave in a more environmentally-sustainable way.

The number of biodiversity-relevant taxes has been steadily increasing over time. There are a total of 229 biodiversity-relevant taxes, of which 206 are in force today, spanning 59 countries. In OECD countries (covering less than 20 percent of sovereign countries), these biodiversity-relevant taxes generate approximately US$ 7.5 billion a year (average 2016-2018) in revenue. The revenue generated from these biodiversity-relevant taxes amounted to 0.92 percent of the total revenue from environmentally-relevant taxes in OECD countries (average 2016-2018).[20]

**Case study**

### Denmark pesticide policy

The Danish pesticide policy was introduced in 1996 and is one of the first of its kind globally. The policy relies on taxes on the one hand, and on a redirection of farming advice service on the other hand. It aims to promote sustainable farming practices, reduce the environmental impact of pesticides, and protect water quality. The pesticide tax in Denmark is designed to reflect the environmental impact of different types of pesticides. The revenue (just under US$100 million per year) generated from the pesticide tax is earmarked for specific purposes, often related to environmental and agricultural initiatives.[21] By imposing a tax on pesticides, Denmark aims to encourage farmers to adopt more sustainable and environmentally friendly agricultural practices. This may include the use of integrated pest management (IPM), crop rotation, and other practices that minimize reliance on chemical pesticides.

#### Biodiversity Fees and Charges and Biodiversity Relevant Permit Schemes

The OECD report "Tracking Economic Instruments and Biodiversity, 2020" also references both biodiversity fees and charges (e.g. fees on entrance to national parks, fees on hunting licences, etc.) and tradable permits (e.g. individual transferable quotas (ITQs) for fisheries, tradable development rights, and tradable hunting rights) as being two additional revenue streams for nature.

#### Environmental subsidies

There are two types of environmental subsidies:[22]

1. Subsidies that are aimed at enhancing natural assets and supporting their sustainable use. These "biodiversity-relevant subsidies" are defined as subsidies which reduce (directly or indirectly) activities that have a proven adverse impact on biodiversity and ecosystems. Some of these types of subsidies include support for environmentally friendly agriculture, forest management and restoration, etc. There are currently an estimated 146 environmentally motivated subsidies relevant to biodiversity in place in 24 countries.[23]
2. There are also a range of subsidies which can have adverse impacts on the environment, such as fossil fuel subsidies, agricultural subsidies, fisheries subsidies, etc. Estimates for global subsidies for energy, agriculture, water and fisheries are in excess of US$4-6 trillion annually.[24] An estimated US$1.8 trillion of these drive destruction of ecosystems and species extinction.

[18] The Economics of Biodiversity: The Dasgupta Review (2021)
[19] Deutz et al. (2020)
[20] OECD: Tracking Economic Instruments and Biodiversity, 2020.
[21] https://ieep.eu/wp-content/uploads/2022/12/DK-Pesticide-Tax-final.pdf
[22] https://www.businessfornature.org/news/subsidy-reform
[23] Tracking Economic Instruments and Biodiversity, OECD (2020)
[24] The Economics of Biodiversity: The Dasgupta Review (2021)

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*Overseas Development Assistance and Bilateral Support*

Overseas Development Finance (ODA)

In addition to governments' domestic expenditure of US$126 billion per year, a further US$2 billion a year is provided for Overseas Development Assistance (UNEP State of Finance Report, 2022).[25]

Sources of bilateral biodiversity-related ODA are concentrated among a few donors, with the USA, Germany, France and Japan estimated to account for over half of committed bilateral biodiversity-related ODA between 2012 and 2016. Germany exceeded the ODA target of 0.7 percent ODA as part of Gross National Income in 2022, contributing US$35 billion in total. Only four other countries also met or exceeded this target (Luxembourg, Sweden, Norway and Denmark). The average percentage of ODA directed towards biodiversity has increased gradually over the years, doubling from 3 percent of total ODA before 2010 to 6 percent in the years after. (OECD (2022)).[26]

Global ODA funding is insufficient to address global biodiversity loss. A range of mechanisms and policy actions, such as the Global Biodiversity Framework Fund, under the Global Environment Facility (GEF), have been established to try to increase public and private funding towards biodiversity.

**Case study**

## The UK Government's Darwin Initiative

The Darwin Initiative is a grants scheme led by the United Kingdom government that focuses on biodiversity conservation and sustainable development in eligible low and middle income countries. It is part of the UK's Overseas Development Assistance (ODA) efforts. The primary goal of the initiative is to support projects that contribute to the conservation of biodiversity and the sustainable use of natural resources in developing countries. The Darwin Initiative operates a competitive grant scheme. Thus far, it has funded over 1,290 projects in 18 biomes and ecosystems across 156 countries.[27]

[25] State of Finance for Nature, UNEP (2022)

[26] OECD (2017), OECD (2022)

[27] https://www.darwininitiative.org.uk/

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### Development Banks

Multilateral development banks (MDBs), bilateral development banks and development finance institutions (DFIs), along with other public development finance institutions, play a central role in securing multilateral ODA. Together they catalyze finance, both public and private, to increase the finance available for conservation and restoration projects.

MDBs and other global funds can take more risk and accept lower financial returns than private investors, thus reducing the overall cost of finance, particularly for training and capacity-building activities that are often required in the early stages of project development. Investments occur directly and through partnerships with other multilateral financial institutions.[28]

### Sovereign Debt (e.g. debt-for-nature swaps)

Sovereign debt serves as a vital channel for the flow of capital from advanced economies to emerging and developing economies,[29] serving as a benchmark interest rate.

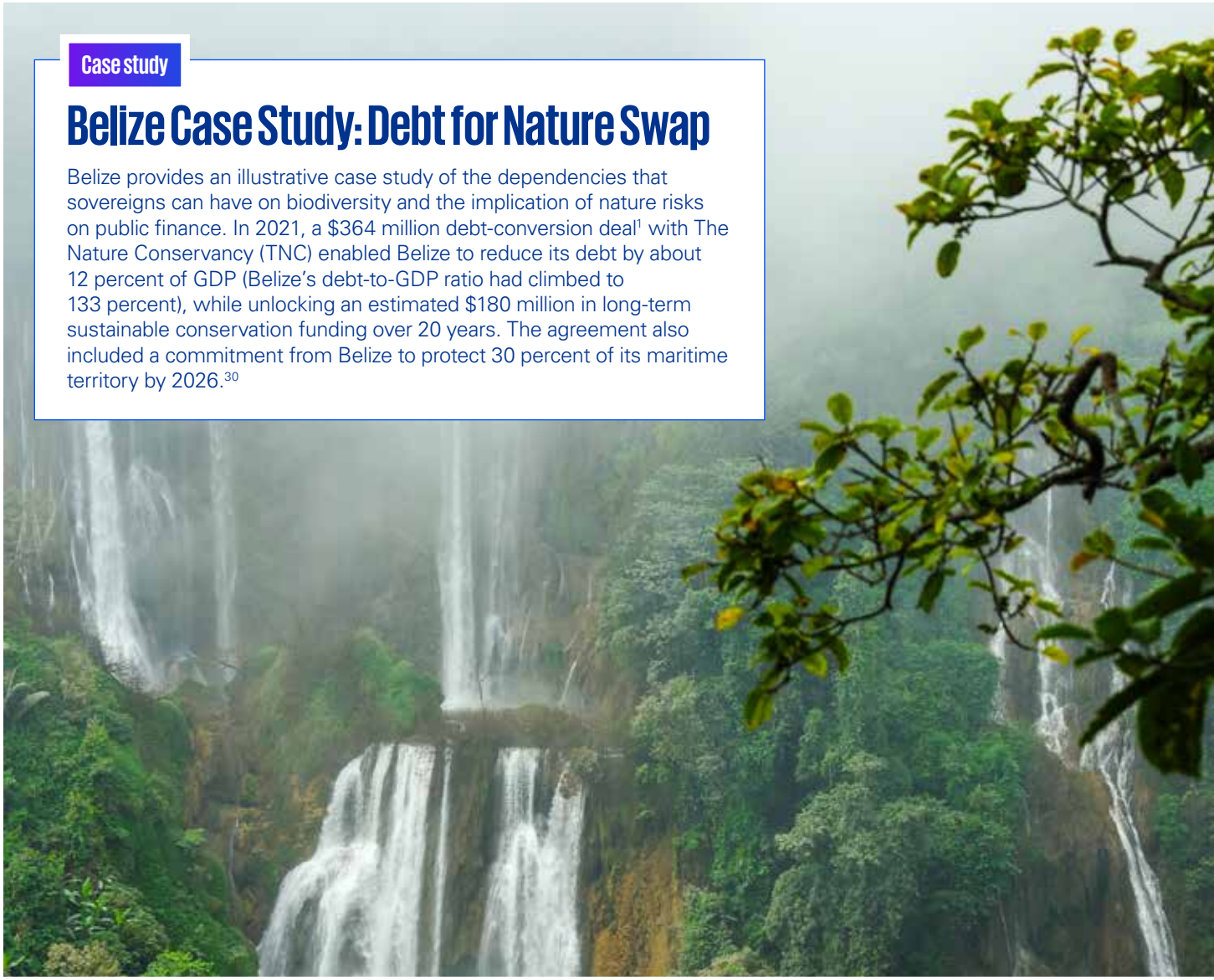
Sovereign debt comes in various forms, including bonded or non-bonded options such as loans, can be long-term or short-term, and with favorable or non-favorable rates. Opportunities emerge through strategies that avoid, reduce, mitigate, or manage nature-related risks. Sovereigns actively addressing nature loss can potentially gain improved market access, increased capital inflows, and favorable financing terms.

Debt-for-nature swaps mean reducing a developing country's debt burden in exchange for guaranteed sovereign commitments on conservation and environmental conservation efforts.

Case study

## Belize Case Study: Debt for Nature Swap

Belize provides an illustrative case study of the dependencies that sovereigns can have on biodiversity and the implication of nature risks on public finance. In 2021, a $364 million debt-conversion deal[1] with The Nature Conservancy (TNC) enabled Belize to reduce its debt by about 12 percent of GDP (Belize's debt-to-GDP ratio had climbed to 133 percent), while unlocking an estimated $180 million in long-term sustainable conservation funding over 20 years. The agreement also included a commitment from Belize to protect 30 percent of its maritime territory by 2026.[30]



[28] The Economics of Biodiversity: The Dasgupta Review (2021)

[29] Assessing Nature Related Issues In Sovereign Debt Investment, Nature Finance (2023)

[30] Assessing Nature Related Issues In Sovereign Debt Investment, Nature Finance (2023)

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## Public and/or Private

The large majority of investment strategies for nature are provided as blended finance (a mixture of public and private finances). Blended finance refers to the strategic use of public and private funds, in collaboration, and is aimed at leveraging the strengths of both public and private sectors.

### Public-Private Partnerships

A Public-Private Partnership (PPP) is a collaborative arrangement between a government or public sector entity and a private sector company or consortium. In PPPs, the two sectors combine their resources, expertise, and capabilities, share risks and responsibilities and finance jointly. This can involve various financial structures, such as loans, equity investments, or a combination of both.

### Payment for Ecosystem Services (PES)

Payments for Ecosystem Services is the name given to a variety of arrangements through which the beneficiaries of environmental services, from watershed protection and forest conservation to carbon sequestration and landscape beauty, reward those whose lands provide these services with subsidies or market payments.

"Arranging payments for the benefits provided by forests, fertile soils and other natural ecosystems is a way to recognize their value and ensure that these benefits continue well into the future." (WWF)

There are estimated to be over 550 active payment for ecosystem services schemes around the world, amounting to an estimated US$36–42 billion in annual transactions.[31] The most common examples are payments for carbon storage, biodiversity conservation and watershed services.

While much faith has been placed in PES as a source of private finance, in reality PES have largely been found to be another form of public subsidy; more than 90 percent of PES are estimated to be funded through public sources.[32]

Case study

## FrieslandCampina

In the Netherlands, the World Wildlife Fund for Nature Netherlands (WWF-NL) have teamed up with dairy company FrieslandCampina, dairy farmers and other stakeholders in the dairy industry to develop the Biodiversity Monitor. It provides dairy farmers with insight into the benefits the environment offers them.

For one, farmers can reduce their operating costs through sustainable management while at the same time benefiting from lower interest rates, a better market price or more advantageous lease conditions.

Some of these benefits even come in different varieties. Farmers might pay a lower interest rate, for example, by taking out a Green Loan or Impact Loan or, alternatively, through a bonus/penalty system for milk prices.[33]

**"Arranging payments for the benefits provided by forests, fertile soils and other natural ecosystems is a way to recognize their value and ensure that these benefits continue well into the future." (WWF)**

[31] Salzman et al. (2018)

[32] The Economics of Biodiversity: The Dasgupta Review (2021)

[33] https://biodiversiteitsmonitormelkveehouderij.nl/

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### Valuing Natural Capital and Ecosystem Services

Valuing natural capital and ecosystem services marks a key development for investing in nature. This approach involves assigning economic values to natural capital and biodiversity components and quantifying ecosystem services, offering a comprehensive understanding of the economic benefits derived from nature. Valuing natural capital encourages companies and financial sector entities to consider environmental factors in their decisions. This paradigm shift enables investors and financial sector entities to integrate biodiversity considerations into strategies, contributing to both environmental sustainability and long-term financial resilience. In 2020, a large private forest manager released a leading and Australian-first Natural Capital Report, assured by KPMG Australia, valuing the natural capital and ecosystem services under the company's custodianship. This process led the company to conservatively calculate a Net Natural Capital Value of AUD $3.37 billion.



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## Green and Blue bonds and loans

Governments, companies and the financial sector can raise monies to fund natural assets via "green or blue bonds and loans". Funding provided via these in these interest-bearing bonds or loans are used for funding projects that are considered to be "environment/ climate/biodiversity friendly."

To date, green bonds and loans have primarily funded climate mitigation and adaptation projects but they can also be used to address and fund nature and biodiversity projects.

The sustainable Blue Finance principles were launched in 2018. It's a global guiding framework to finance a sustainable blue economy, which will be key in underpinning the success of blue bonds. The 14 principles were developed by the European Commission, WWF, the World Resources Institute (WRI) and the European Investment Bank (EIB) and are hosted by the United Nations Environment Programme Finance Initiative (UNEP FI) as part of the Sustainable Blue Economy Finance Initiative.

The table on the right provides an overview of the different examples of biodiversity-relevant bonds.

Biodiversity bonds gain a lot of interest but still cover only a tiny part of the bond market. The need for investment is about eight or nine times higher than what currently flows into biodiversity projects. Due to the fact that different biodiversity issues are at play in each country, what works is also very different between countries. Combined with the complexity, this makes it challenging. Credibility provided by banks, for example through an AAA rating by the World Bank, can help de-risk the process.[34]



[34] Mobilizing private finance for Nature, The World Bank Group (2020)

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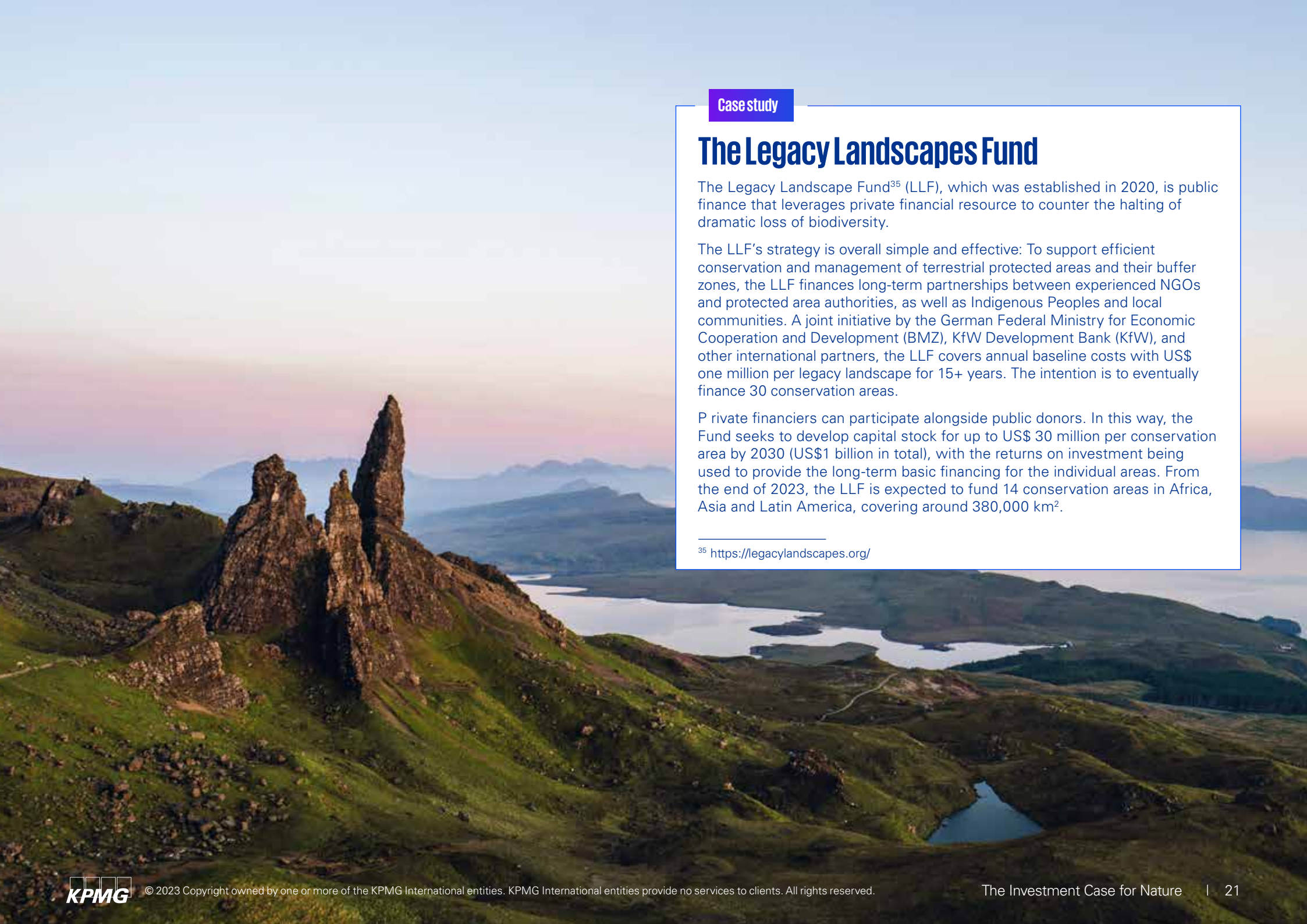

Case study

# The Legacy Landscapes Fund

The Legacy Landscape Fund[35] (LLF), which was established in 2020, is public finance that leverages private financial resource to counter the halting of dramatic loss of biodiversity.

The LLF's strategy is overall simple and effective: To support efficient conservation and management of terrestrial protected areas and their buffer zones, the LLF finances long-term partnerships between experienced NGOs and protected area authorities, as well as Indigenous Peoples and local communities. A joint initiative by the German Federal Ministry for Economic Cooperation and Development (BMZ), KfW Development Bank (KfW), and other international partners, the LLF covers annual baseline costs with US$ one million per legacy landscape for 15+ years. The intention is to eventually finance 30 conservation areas.

P rivate financiers can participate alongside public donors. In this way, the Fund seeks to develop capital stock for up to US$ 30 million per conservation area by 2030 (US$1 billion in total), with the returns on investment being used to provide the long-term basic financing for the individual areas. From the end of 2023, the LLF is expected to fund 14 conservation areas in Africa, Asia and Latin America, covering around 380,000 km$^2$.

[35] https://legacylandscapes.org/

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Case study

## UNDP Rhino Bonds

In March 2022, the World Bank launched the Rhino Bond, the first wildlife conservation bond in the world and the first financial instrument dedicated to protecting a species. The Rhino Bond is based on a 'pay-for-results impact investment', allowing investors to invest in the conservation of the rhino. The return on investment is based on whether rhinoceros numbers increase, and by how much. Innovative, new source of funds is the latest development in an increasingly close relationship between finance, business and biodiversity conservation.[36]

[36] UNDP



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## Private

Many of the private investment mechanisms are covered in some detail above (e.g. equity, bonds, loans, green sovereign debt) — which can be both public and/or private financed). In addition, there are a number of specific private investment mechanisms which are outlined below.

### Sustainability Linked Loans, Term Loans

Sustainability-linked loans (SLL) align with Sustainability Linked Loan Principles (SLLP) by the Loan Market Association (LMA), the Loan Syndications & Trading Association (LSTA) and the Asian Pacific Loan Market Association (APLMA). These loans link interest rates to the borrower's sustainability performance, promoting responsible business practices. Adherence to the SLLP ensures that funds are used legitimately, contributing to sustainable development. Lenders may assess the environmental and social risks associated with the borrower, reinforcing financial integrity while advancing sustainable goals.

Some sustainability-linked loans are including specific key performance indicators (KPIs) linked to nature- or biodiversity-positive impact. However, KPIs on sustainability-linked loans are generally not public and it is therefore difficult to assess their bandwidth currently.

Likewise there is a vast array of unlabelled term loans linked to the value chain of companies that directly or indirectly have a positive impact on nature and biodiversity. These have been traditionally loans financing measures and technologies to avoid or reduce pollution, therefore protecting nature and biodiversity, and increasingly loans that finance adaptations in the value chain of companies to either reduce costs, avoid costs or increase revenues through intact nature ecosystems (nature based solutions). However, these loans until now remain vastly unaccounted for under a nature and biodiversity umbrella and therefore remain unseen.

### Biodiversity loans and equity

There are also a range of different loans and equity arrangements that are being trialled at the small scale in this space (very limited and not yet in a commercial setting). Institutions such as the European Investment Bank are piloting a number of approaches through their dedicated natural capital financing facility which include the following:[37]

- Supporting Rewilding Europe Capital (REC) with a EUR 6 million loan to enable them to provide loans to over 30 nature focused businesses across Europe — from ecotourism to honey production.
- Providing a EUR 12.5 million equity contribution to the Irish Sustainable Forest Fund to enable them to carry out 'continuous cover forestry' — a form of management that is commercially viable, but which maximizes biodiversity, soil health and landscape value.
- A EUR 5 million Natural Capital Financing Facility (NCFF) loan to the Municipality of Athens. The EUR 5 million loan is attached to a EUR 55 million loan for resilient urban renewal and development and will finance and support the integration of green components into the restoration of public squares and streets, create green corridors between greened areas and contribute to the natural restoration of Athens's second landmark hill after the Acropolis, Lycabettus hill.

Case study

## The Eco Business Fund

The Eco Business Fund is another financing mechanism which provides accessible loans to small and growing businesses in sectors with clear links to nature conservation. This fund was established by KfW, Conservation International and Finance in Motion and attracted over US$190 million, offering loans with favourable terms for sustainable agriculture, aquaculture, forestry and tourism projects across Latin America and the Caribbean. The fund invests in businesses that are more risk-prone and thus would not be backed by conventional banks. The fund leverages the power of blended finance to amplify its impact and outreach. In other words, the fund draws its capital from various layers: An initial base of public investors and donors provides a risk cushion to unleash the financial clout of private institutional investors.[38]

[37] Investing in Nature, EIB (2023)

[38] https://www.ecobusiness.fund/en/the-fund

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## Biodiversity offsets

Biodiversity offsetting (compensating) is a relatively common mechanism that entails the design of fund actions to compensate for significant, residual biodiversity loss from "development projects", by achieving biodiversity outcomes elsewhere. Biodiversity offsets are often a legal requirement; over 100 countries have laws or policies in place which require or enable the use of biodiversity offsets.

As a market-like mechanism, biodiversity offsetting is perceived to function poorly. The goal of 'no net loss' (or preferably, 'net gain') can only be achieved by applying the "mitigation hierarchy" correctly: only when negative impacts are avoided, impacts are minimized and the environment is rehabilitated, any unavoidable and necessary harms can be offset through compensatory conservation actions. It is pivotal to adhere to available principles such as defined by IUCN, to effectively respond to negative impacts of biodiversity and ensure no net loss (OECD, 2016a).[39]

Case study

### Business and Biodiversity Offsets Programme (BBOP) pilot

The Business and Biodiversity Offsets Programme (BBOP) has developed principles, interim guidance, and resource documents to assist various stakeholders in biodiversity offset initiatives. These include pilot project case studies, one of which involves the Anglo Platinum pilot. The pilot projects, undertaken by companies and a city council, have played a crucial role in shaping BBOP principles. The Anglo Platinum pilot in early 2000's was started early during the development of the BBOP methodologies. First, an environmental impact assessment was undertaken, including a survey of the vegetation of the impact area and biodiversity information of the offset area. The proposed offset activities of unavoidable impacts of the expansion of an existing mine, included a wildlife reserve with re-stocking of indigenous ungulate component, improved protection, active range management and rehabilitation. The offset was located 8 km away from the impact area, with similar environmental characteristics.[40]



[39] IUCN Policy on Biodiversity Offsets (2016)
[40] Angloamerican case study, Forest Trends (2009)

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### Biodiversity credits

While the goal for biodiversity offsets is usually creating 'no net loss', biodiversity credits aim to achieve positive biodiversity impacts. Credits are a new and emerging mechanism, not driven by legal requirements, drawing on experiences with carbon markets and carbon credits. The concept is to sell "credits" of biodiversity, for example a set metre square of a preserved or restored ecosystem, which is then managed for positive biodiversity impact. Due to integrity issues in both carbon and biodiversity offsets, biodiversity credits are under greater scrutiny than ever before — high quality of projects is key to ensure credibility and integrity. An initiative funded by the UK government has launched a program to pilot biodiversity crediting for nature restoration and conservation projects in Uganda and Zambia.

Terrasos, a company specialized in developing voluntary biodiversity credits, defined a Voluntary Biodiversity Credit (VBC) as "*a transactional unit that represents approximately 10 square meters of a preserved and/or restored ecosystem that is technically, financially, and legally managed by the project developer to achieve quantifiable results in terms of biodiversity.*[41] *Each credit can only be sold once during the life of the project, which avoids double counting.*"

### Biodiversity as a co-benefit in carbon credit projects

Incorporating biodiversity considerations into carbon credit projects can not only lead to environmental benefits but also to financial benefits. By meeting additional certification criteria related to biodiversity, projects can earn premium prices for their credits. Several standards, such as Verra's SD VISta recognize the economic value of biodiversity and provide incentives for projects that incorporate biodiversity conservation and restoration. These standards require project developers to demonstrate measurable positive impacts on biodiversity, such as the conservation of endangered species, the restoration of degraded ecosystems, or the creation of new habitats. As such, credits may be priced higher in the market.

**Case study**

## Minerva-Biofilica Ambipar

In 2022, Ambipar Environment's carbon developer, Biofílica Ambipar Environmental Investments S.A., and Brazilian meat producer, Minerva, entered into a joint venture to assess and implement carbon projects on properties linked to Minerva's supply chain. The collaboration aims to promote sustainable intensification in agricultural production by adopting improved management practices. Additionally, the joint venture will explore other opportunities, such as the conservation of surplus legal reserve areas, reforestation initiatives, and the implementation of REDD+ (Reducing Emissions from Deforestation and Forest Degradation, plus the conservation of forest carbon stocks, sustainable forest management, and increased forest carbon stocks). By leveraging these initiatives, the joint venture seeks to reduce greenhouse gas emissions and promote sustainable development in the region.[42]

[41] https://en.terrasos.co/sobre-terrasos

[42] Brazil's Minerva signs agreement with Biofilica Ambipar for joint venture on carbon projects, Reuters (2022)

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### Sustainable commodities

There are a number of initiatives which channel private finance into improving the sustainability of commodity production, such as forestry, agriculture, fisheries specifically for biodiversity conservation. These include schemes such as the Rainforest Alliance, Forest Stewardship Council and Marine Stewardship Council which aim to provide "certification" and have specific biodiversity objectives.

Case study

## The Africa Sustainable Commodities Initiative

The Africa Sustainable Commodity Initiative (ASCI) issued a regional declaration at COP27, open for endorsement by governments. Signatories commit to promoting a sustainable agro-commodity sector that generates jobs, wealth, and environmental and social sustainability. They would pledge to facilitate the participation and inclusion of stakeholders in investment processes for sustainable production landscapes, and encourage appropriate, accountable and transparent investments in agricultural commodities development in line with the declaration by adopting appropriate tools such as certification. For example, specific participatory approaches on impact assessment with affected communities are required for land use. The declaration emphasizes the crucial role of forests in climate change mitigation, acknowledges the link between agricultural development and deforestation, and stresses the significance of public-private partnerships.[43]

### Impact Investing Strategies

Impact investing is an investment strategy that aims to generate specific beneficial social or environmental impacts in addition to financial gains. One characteristic is that it offers favourable terms for debt or equity or both, especially in the start-up stages of projects. From a biodiversity standpoint this could include, for example, direct investment in businesses that are shown to have a demonstrable positive impact on biodiversity and ecosystem services such as in natural infrastructure and through impact-investing strategies.

One example of a company doing this is Federated Hermes who actively promote that they aim to achieve long-term capital appreciation by investing in a concentrated portfolio of companies that are best in class and are providing solutions to avert loss of and support restoration of biodiversity.

Globally, there are approximately 20 funds that aim to improve biodiversity. One example is the ASN Biodiversity Fund that focuses on a positive impact on both biodiversity and local communities.

Case study

## ASN Biodiversity Fund

The ASN Biodiversity Fund is the first listed fund for natural capital that uses investment from the retail sector. It targets large funds and listed companies that have a measurable positive impact on biodiversity and nature restoration through sectors such as agroforestry and sustainable fishery. For every one million EUR invested, the Fund aims to help restore around 230 hectares of land or sea to a healthy ecological balance.[44] In 2020, ASN Bank, alongside five other Dutch financial institutions, initiated the Partnership for Biodiversity Accounting Financials (PBAF). This collaborative effort aims to establish a standardized framework enabling financial institutions to evaluate and disclose the impact and dependencies on biodiversity resulting from their loans and investments. Fifty-six financial institutions, together with over 11 trillion in assets under management, are already taking action, with more joining every month. This international collaboration signifies a growing commitment within the financial sector to contribute to the mainstreaming and harmonization of biodiversity impact and dependency assessment in the financial sector.[45]

[43] https://www.africasustainablecommodities.net/

[44] https://carbon-pulse.com/206290/

[45] https://beleggingsfondsen.asnbank.nl/asn-biodiversity-fund.html

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Philanthropy

There are a growing number of philanthropic funds and prizes that have been established over the past few years to fund nature conservation projects. These include the Bezos Earth Fund, the Earthshot Prize and the Protecting our Planet Challenge.

Case study

## The Protecting our Planet Challenge

The Protecting Our Planet (POP) campaign was launched in late 2021 ahead of the CBD's CoP15, when nine organizations joined together to pledge US$5 billion over the next 10 years to support the creation, expansion, management and monitoring of protected and conserved areas of land, inland water and sea, working with Indigenous Peoples, local communities, civil society and governments. This marks the largest private funding commitment ever to biodiversity conservation.

The POP group[46] includes foundations representing some of the richest people on Earth and is publicly championed by Swiss billionaire Hansjörg Wyss.

To date, it has been reported that about a quarter of the US$5 billion pledged through the Protecting Our Planet (POP) campaign has already been allocated to land, river and ocean conservation projects around the world.



[46] https://www.protectingourplanetchallenge.org/

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## Integration of nature and biodiversity in existing asset classes

A 2023 Robeco Global Climate Survey of over 300 investors found that mainstream global equities (48 percent of investors) and corporate green bonds (34 percent) are the most common asset classes being used to integrate biodiversity into portfolios, followed by equities in domestic markets (33 percent) and green sovereign debt (31 percent).[47]

The below graphic shows the different asset classes which the survey asked organizations to select in terms of which they would be most likely to prioritize for deeper integration of biodiversity issues over the next one to two years. The survey also found that currently, only 25 percent of the respondents are currently using investment products specifically targeting biodiversity goals, but noted that there has been a big jump in demand for impact investing and thematic strategies compared with the 2022 survey. In this respect, the Sustainable Finance Disclosure Regulation (SFDR) is an important driver to increase transparency in the sector. The investors will need to describe their objectives, monitoring systems, KPIs and how ESG risks are integrated into the investment decisions. The SFDR distinguished impact investors (article 9) with a sustainable objective and ESG integration (article 8) where ESG is integrated in the decision making. Going forward it is expected that the number of nature focused impact funds will rise.

**Figure 8: Which asset classes, if any, will your organization prioritize for deeper intergration of biodiversity issues over the next one to two years?[42]**




% Multiple answers allowed

[41] Global Climate Survey, Robeco (2023)

[42] KPMG adapted from Global Climate Survey, Robeco (2023)

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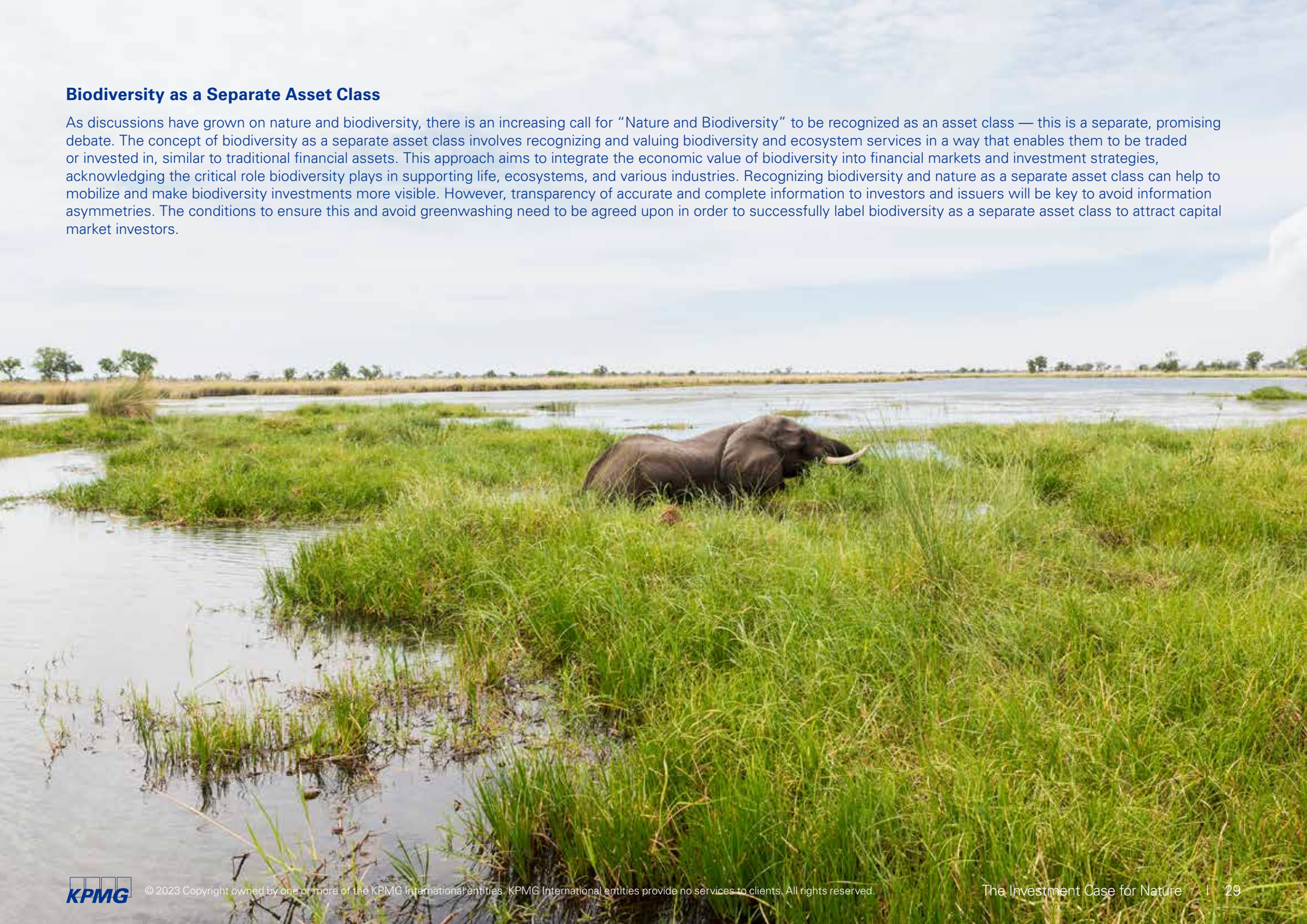
## Biodiversity as a Separate Asset Class

As discussions have grown on nature and biodiversity, there is an increasing call for "Nature and Biodiversity" to be recognized as an asset class — this is a separate, promising debate. The concept of biodiversity as a separate asset class involves recognizing and valuing biodiversity and ecosystem services in a way that enables them to be traded or invested in, similar to traditional financial assets. This approach aims to integrate the economic value of biodiversity into financial markets and investment strategies, acknowledging the critical role biodiversity plays in supporting life, ecosystems, and various industries. Recognizing biodiversity and nature as a separate asset class can help to mobilize and make biodiversity investments more visible. However, transparency of accurate and complete information to investors and issuers will be key to avoid information asymmetries. The conditions to ensure this and avoid greenwashing need to be agreed upon in order to successfully label biodiversity as a separate asset class to attract capital market investors.



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# The current challenges around investing in nature



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Despite the numerous different finance and investment strategies that are increasingly being developed for nature and biodiversity, there are still a number of huge challenges that will need to be addressed if the "nature finance gap" is to be closed.

At the public level, the challenges for driving forward further policies, regulations and finance for nature and biodiversity are mainly around the economic priorities of the government. Despite the science and economics behind the value of nature and biodiversity and the economic and social impacts with its continued decline, many Government's simply don't see it as an economic priority or vote winner — the short term nature of governments mean that they tend to prioritize those areas where they can demonstrate more short term economic impacts or those areas which are seen as key to their voters (e.g. healthcare, education or infrastructure development). This is however rapidly changing. The regionality of nature and biodiversity is supporting the public interest as positive or negative impacts can been seen and experienced by the public.

On the private side, the traditional argument has always been that given the "environment" is a public good — it should be funded only via public funds. Again, however this argument is changing, as businesses and the financial sector better understand both the risks to their businesses from a decline in nature and biodiversity, as well as the opportunities to their businesses if they begin to invest in nature positive strategies. Private companies should understand and acknowledge their own impacts and dependencies on nature and thereby acknowledge their role in taking responsibility to mitigate these. The financial sector can follow and support their transition.

At the project level, the challenge for conversationists is more around understanding how to access the right funding — including matching types of funding and investments that are available, (selecting the right scale to match the right absorption capacity available and required for the project to deliver). There is also a strong role for local communities to package their conservation needs into sizable bankable nature-positive projects.

Key challenges for scaling up private initiatives towards nature and biodiversity however remain. These can be broadly separated into four main issues:

## Lack of incentives

The first challenge can be categorized as a lack of regulatory and financial incentives. For example, the Principles for Responsible Investment (PRI) point to a lack of incentivizing regulation (which would reduce risks and increase opportunities) and resulting high transaction costs/a perceived risks of new products as two key barriers to scaling up action. At the same time, the premise on implementing the right incentives is to get the "price" right, but that is actually very difficult.

Meanwhile, the 2023 Robeco Global Climate Survey of over 300 investors, pointed to regulations hindering or deterring investors taking into account these issues and a lack of international standards and clear regulations on these topics, as well as a lack of demand from investors. Greenwashing — in particularly its use to obscure the true impact of products and services also came out as a key concern.

The WWF, when looking at the challenges under their Nature-based Solutions Accelerator[43] (a joint initiative of HSBC, World Resources Institute (WRI) and WWF, aiming to help remove the barriers to widespread and large-scale adoption of nature-based solutions) found that a lack of clear long term policy support and incentives, few relevant regulations, poor coordination between public and private finance and a weak evidence base on returns on investments were key challenges to scaling private finance.

At the same time, there are also incentives in the form of environmental subsidies, such as harmful subsidies on agriculture, fishery or energy pushing companies in the wrong direction — or making a transition to nature-positive less attractive when compared to the status quo.[44]

## Technical

Biodiversity cannot be captured in one measuring unit, such as exists for carbon footprint, making biodiversity complex. One of the frequently cited challenges from a technical perspective is the non-availability of decision-useful data required for businesses to measure their impacts and dependencies on nature, and corresponding risks and opportunities. This is expected to evolve quickly with the growing number of regulatory requirements. The translation of impacts and dependencies into financial quantities for business, investment and financing decisions, will be critical. While existing case studies illustrate what can be achieved with the current nature data landscape, this is often limited to use of proxies in the interim while waiting for a greater availability of directly measured data. At the same time, when biodiversity data is available it's not in a suitable format for financial decision-making. The transformation of this on the one hand, and the upskilling of knowledge and expertise within businesses, investors and financial institutions on the other hand, takes time.

## Capacity

Perhaps the largest single barrier in driving funding for nature currently is around a lack of capacity and skills in this space. From a private sector point of view, this is around a lack of capacity, skills and expertise in nature and biodiversity to fully understand the issues and opportunities. On the other hand, from the side of many of the conservationists, on the ground looking for funding, it is a lack of capacity, skills and expertise in understanding the different types of private funding mechanisms that are available and how best to access them. Financial sector entities and on the ground conservationists are two very different communities, each with their own language and understanding which makes bringing these two communities together a challenge.

## Financials

Next to the aforementioned challenge that existing projects and solutions are still low in volume and small in scale, there is also the challenge of weak bankability. The financial feasibility and attractiveness of nature investments is often low due to lack of clarity on economic returns, internal rewards, small scale investment requirements, and business strategies as well as an unclear pipeline for the effective acceleration of projects.

[43] https://www.wwf.org.uk/sites/default/files/2022-06/WWF-NBS-Public-Report-Final-270622.pdf

[44] Earth Track (2022)

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# Moving forwards



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To move forwards, it is pivotal that both government and public and private sector companies invest in the building blocks that lay the foundation for bridging the finance gap. It will be critical to tackle the key challenges and barriers which are currently hindering nature and biodiversity from being properly financed. This will require:

**A change in the incentive structure, which includes:**

- Clear international and domestic policies, regulations and standards being developed to effectively incentivize and create a level playing field for businesses, the financial sector and investors in this space. The global blue print for this has now been agreed through the CBD's Global Biodiversity Frameworks. Countries now need to take this and provide clear national biodiversity strategies and action plans which demonstrate how they will deliver upon this framework at the national level. Standard setters such as the ISSB, regulations such as the CSRD, as well as the new TNFD framework all provide incentives to act, these just now need to be delivered by businesses, including financial sector.
- More tangible case studies and examples of effective solutions that work, with clear business cases are required. There are a number of initiatives that are seeking to do this but these need to speak to both the conservation communities that are looking for funding (including i.a. conservation NGOs, land owners, protected area authorities and (local) governments in target countries) as well as banks and investors who are looking to fund. A more effective match-making process is required.
- Internal institutional barriers within companies, such as capacity and knowledge, rewards structures around investing in this space, as well as clear business strategies also need to change. This ultimately depends on education around the importance of nature and biodiversity across the whole of businesses (rather than just those individuals working in a company on these issues).

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**Investment in tackling the current technical barriers, namely nature data and tech which requires:**

- At the global level, investment in core biodiversity data providers to facilitate understanding in the data taxonomy, and a rapid growth in the quality and and scalability of data, that can be translated into decision-useful financial quantities. Furthermore, supporting companies with directly measuring and disclosing their nature-related impacts, dependencies, risks and opportunities will help to improve the quality of measured data, complementing proxy data from third-party data providers, and help them to assess the financial materiality. There is also a need for greater quality assurance and provenance around nature-related data and tools. There are a growing number of tools that are integrating nature-related data without a full scientific understanding of their intent and, in some cases, without acknowledgement of original data providers or licensing requirements.
- Companies being transparent about their nature-related impacts and dependencies and sharing good practice and lessons learned. To drive forwards action, companies need to feel like they are in a race to the top, not the bottom, when it comes to what "good" looks like in this space.

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**Building capacity and breaking down barriers between the different communities operating across this space this will require:**

- Upskilling staff from the conservation community on the different funding strategies available, so they can understand what may work for their project and how they can access funding. Capacity building in target countries of stakeholders and strong project development capacity on the ground are also essential for investments to be successful.
- Businesses and financial institutions similarly will need to upskill on nature and biodiversity within their organizations to understand how best to drive positive biodiversity action and identify opportunities that will arise. The IFC recently published "The Biodiversity Finance Reference Guide"[45] which sets out key criteria for assessing whether activities should be classed as "biodiversity finance" as well as a comprehensive guide to the different types of activities. In addition, the recently published Nature Target Setting guidance by the Principles for Responsible Banking (PRB) assists banks to set actionable, portfolio-wide targets.[46] These guides should provide help and guide banks and investors in this space as they seek to understand what biodiversity finance activities they can fund.
- More interaction between these communities will further facilitate in breaking down barriers. It's important that businesses better understand the situation on the ground: biodiversity investments are different from other investment and can be only successful when impact on-the-ground is successfully made.

Finally, we need to communicate our successes more and recognize how far and how fast this space is moving. The Robeco Climate Survey of 300 investors, showed that some

**66%**

of investors surveyed said biodiversity will be a significant or central factor in their investment policy over the next two years, while

**48%**

said that this is already the case today.

**The tides are turning and the time for investing in nature is now.**

[45] https://www.ifc.org/content/dam/ifc/doc/mgrt/biodiversity-finance-reference-guide.pdf

[46] https://www.unepfi.org/industries/banking/the-principles-for-responsible-banking-introduce-industry-first-guidance-on-nature-target-setting/

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