

Progress and Prospects of Biodiversity Finance at COP28



By Department of International Communication and Cooperation, International Institute of Green Finance, Central University of Finance and Economics

Outcomes of Biodiversity Financing at COP28 Conference

Biodiversity loss has widespread impacts on human life, contributing to climate change, endangering food security, and posing a threat to human survival. According to the United Nations Environment Programme, one million species out of an estimated eight million face the risk of extinction. To tackle this issue, the Kunming-Montreal Global Biodiversity Framework release in 2022, sets ambitious targets to stop and reverse the decline in nature by 2030. Biodiversity financing is essential for attaining sustainable development and meeting the goals of the Kunming-Montreal Framework.

At COP28, Razan Al Mubarak, the UN Climate Change High-Level Champion, emphasized the top priority of the COP28 Presidency in ensuring the acknowledgment, support, and financial backing of nature in its most intact and comprehensive form as a prerequisite for climate action. The conference witnessed the introduction of a set of ambitious new initiatives by the Presidency and its partners. National and regional investment plans and partnerships emphasizing nature-based climate action, aligned with the Paris Agreement and the recently adopted Kunming-Montreal Global Biodiversity Framework, were unveiled by heads of state and government officials.

Brazilian President Lula da Silva and the COP28 Presidency announced a two-year partnership to mobilize new resources and political support for nature on the road to COP30 in Belém.

COP28 UN Climate Change High-Level Champion Razan Al Mubarak announced that the United Arab Emirates will contribute \$100 million in new funding for nature-based climate projects. The initial investment of \$30 million will be directed to Ghana's "Resilient Ghana" initiative. The program, initiated by Ghanaian

Biodiversity loss has widespread impacts on human life, contributing to climate change, endangering food security, and posing a threat to human survival. According to the United Nations Environment Programme, one million species out of an estimated eight million face the risk of extinction. To tackle this issue, the Kunming-Montreal Global Biodiversity Framework release in 2022, sets ambitious targets to stop and reverse the decline in nature by 2030. Biodiversity financing is essential for attaining sustainable development and meeting the goals of the Kunming-Montreal Framework. During COP28, governments and relevant institutions, including China, came together to discuss biodiversity finance.



President Nana Akufo-Addo, has garnered an additional \$80 million in support from Canada, Singapore, the United States of America, and other private sector-aligned initiatives.

Tonga's Prime Minister Siaosi 'Ofakivahafolau Sovaleni disclosed that the Bezos Earth Fund will allocate \$100 million in funding for Pacific Small Island Developing States (P-SIDS) to support the 'Unlocking Blue Pacific Prosperity Plan.' The initiative aims to safeguard 30% of the nations' waters and exclusive economic zones by 2030.

A group of philanthropies, including Bloomberg Philanthropies, Builders Vision, and Oceankind, unveiled a new funding commitment of \$250 million through the Ocean Resilience Climate Alliance (ORCA). The financial support is aimed at safeguarding vulnerable marine regions, supporting initiatives for ocean-based mitigation, and conducting research on the impacts of climate change.

French President Emmanuel Macron has announced financial support for three forest financing initiatives, allocating \$100 million to Papua New Guinea, \$60 million to the Democratic Republic of the Congo, and \$50 million to the Republic of the Congo. The objective is to encourage private investment in conservation and local development through verifiable carbon credit transactions.

Indonesian President Joko Widodo and Norwegian Prime Minister Jonas Gahr Støre have proposed a \$100 million partnership to support Indonesia's groundbreaking FOLU Net Sink 2030 plan.

The Asian Development Bank, in collaboration with the OPEC Fund, Saudi Arabia, Agence Française de Développement (AFD), France and the ASEAN Catalytic Green Finance Facility at the Green Climate Fund, introduced the Nature Finance Hub. This innovative initiative aims to secure \$1 billion from development partners, with plans to attract an additional \$2 billion in private finance by 2030 for climate projects focused on nature.

These climate initiatives centered on nature have further advanced previous commitments, such as the Glasgow Leaders' Declaration at COP26, in which 145 nations pledged to stop and reverse deforestation and land degradation by 2030. Furthermore, the significant Kunming-Montreal Global Biodiversity Framework, established in December last year, has received unanimous backing from 196 nations, aiming to collaboratively avert the comprehensive loss of nature by 2030.

During COP28, the Chinese Pavilion organized side events on November 30th and December 6th, focusing on "Biodiversity Conservation and Synergistic Mechanisms for Climate Change Response" and "Multi-stakeholder Efforts to Promote Harmony between Humans and Nature." These sessions delved into various biodiversity initiatives and provided updates on biodiversity finance progress in China.

BIODIVERSITY FINANCE DEVELOPMENT IN CHINA

China has included biodiversity conservation in its green finance standards and has undertaken initiatives to create financial products and implement eco-financial mechanisms supporting biodiversity financing. Furthermore, China has started calculating and piloting the application of Gross Ecosystem Product (GEP), offering a methodology to quantify the value of ecosystem products and services. Nevertheless, China's endeavors in biodiversity financing are at an early stage, requiring additional in-depth research and practical initiatives. This part of the article will delve into China's exploration and experimentation in biodiversity financing, emphasizing the integration of biodiversity into green

finance classification standards, the creation of financial products associated with biodiversity, and the establishment of eco-financial mechanisms.

Firstly, incorporating biodiversity into green finance classification standards is a crucial step in China's exploration of guiding funds towards biodiversity protection. Currently, China has preliminarily included biodiversity protection in existing financial classification standards, and aspects related to biodiversity are included in documents such as the "Green Credit Guidelines (GCG)," the "Green Industry Guidance Catalogue (2023 Edition)," and the "Green Bond Endorsed Projects Catalogue (2021 Edition)." For instance, in the "Green Bond Endorsed Projects Catalogue (2021 Edition)," China has listed over 20 items related to biodiversity, covering areas such as green agriculture, green fisheries, natural forest conservation, forest resource cultivation, national parks, wetland protection, comprehensive marine management, desertification control, aquatic species protection, mining ecological restoration, and underground water restoration.

Secondly, certain financial institutions in China have introduced diverse financial products associated with biodiversity in various formats. These products encompass bank loans, insurance, green bonds emphasizing biodiversity, and funds. As an illustration, in the domain of bank credit products, the Postal Savings Bank of China in Lishui City unveiled innovative financial products in 2021, where ecological credit serves as a prerequisite for financial credit. Instances of such products include the "Ecological Credit + Finance" (生态信用+金融) model, "Two-Mountain Loan" (两山贷), "Tea Merchant E-Loan" (茶商E贷), and "Ecological Prosperity Loan" (生态富民贷). At the insurance product level, in May 2022, Qinghai Province introduced the "Compensation Measures for Personal and Property Losses Caused by the Key Protection of Terrestrial Wildlife," aiming to effectively manage conflicts between humans and wildlife and ensure the systematic advancement of insurance compensation efforts. The policy stipulated an annual insurance premium of CNY 3 million during the initial year of the pilot period, with the provincial government covering this cost. On the bond front, the Bank of China issued a two-year green bond in September 2021, raising USD 580 million specifically for safeguarding terrestrial and marine biodiversity in China. In terms of fund products, Zhangjiajie in Hunan led the way in 2017 with the "Contractual Private Equity" fund for poverty alleviation, totaling CNY 2 billion. This innovative fund, utilizing a blend of equity and debt, injected funds to support the creation of premium outdoor tourism routes in Zhangjiajie, showcasing an approach that harmonizes local economic development with biodiversity conservation in ecologically rich but economically underdeveloped regions. Despite these initiatives, China's strides in innovative biodiversity financial products still lag behind those in the international financial market. It remains imperative for the green finance divisions of financial institutions to concentrate on further exploration in the years ahead.

Thirdly, China has implemented a government-led, multi-tiered ecological financing mechanism. The predominant funding for biodiversity protection in China continues to originate from government fiscal allocations, with a comparatively lower share from private and international sources. In its pursuit of ecological civilization, China is proactively investigating the convergence of ecological protection with financial systems. The country has introduced market-driven ecological financing mechanisms driven by policy incentives, directing diverse departmental funds' involvement. These mechanisms focus mainly on development models aligned with ecological considerations, strategies for actualizing the value of ecological products, and systems for

ecological compensation. In the advancement of mechanisms for the ecological environment-oriented development model, in April 2021, the Ministry of Ecology and Environment, the National Development and Reform Commission, and the China Development Bank issued the "Notice on the Approval of Initiating the Ecology-Oriented Development (EOD) Pilots." The notice identified 36 projects for piloting the Ecological-Environment-Oriented Development (EOD) model, spanning the years 2021 to 2023. In October 2021, the Ministry of Ecology and Environment, the National Development and Reform Commission, and the China Development Bank released the "Notice on Recommending the Second Batch of Ecological Environment-Oriented Development Model Pilot Projects" and approved the second batch of pilot projects. In March 2022, the Office of the Ministry of Ecology and Environment issued the "Guidelines for Reservation Storage of Ecological Environmental Protection Financial Support Projects (Pilot)," encompassing projects operating through the ecological environment-oriented development (EOD) model, government and social capital cooperation (PPP) model, and other market-oriented approaches. These guidelines aim to promote and guide financial investments into significant ecological and environmental protection projects.



In the establishment of mechanisms for the ecological compensation system, in May 2016, the General Office of the State Council issued the "Opinions on Improving the Ecological Protection Compensation Mechanism," which outlined the establishment of a stable investment mechanism and a multi-channel funding compensation system. On September 12, 2021, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the "Opinions on Deepening the Reform of the Ecological Protection Compensation System", exploring diverse compensation methods.

In the construction of mechanisms for the realization of the value of ecological products, in April 2021, the General Office of the Central Committee of the Chinese Communist Party and the State Council issued the "Opinions on Establishing and Improving the Value Realization Mechanism of Ecological Products."

The document encourages activities that combine ecological environment protection and restoration with the operation and development of ecological products. The opinion also proposes increased support from green finance, encouraging enterprises and individuals to explore the "ecological asset rights mortgage + project loan" model to support the improvement of ecological environments and the development of green industries in the region. It encourages banking institutions to increase support for medium and long-term loans to entities engaged in the operation and development of ecological products, reasonably reduce financing costs, and enhance the quality and efficiency of financial services. Additionally, it encourages government financing guarantee institutions to provide financing guarantee services for eligible entities engaged in the operation and development of ecological products. The document also suggests exploring the path and model of securitization of ecological product assets. In November 2021, the "Guideline on Encouraging Social Capital to Participate in Ecological Protection and Restoration," issued by the General Office of the State Council, clarified policy measures provided to social capital participating in ecological protection and restoration. These measures include planning and control, property rights incentives, resource utilization, financial and tax support, and financial support.

OUTLOOK ON BIODIVERSITY FINANCE

There are several challenges in financing biodiversity protection in China, marked by a substantial funding gap, inadequate funding sources, deficiencies in biodiversity financial standards and disclosure policies, and insufficient capacity building and talent development. At the global level, there have been solutions and practices addressing these issues in China, and it is beneficial for the country to explore, analyze, and draw insights from these international experiences.

Addressing Funding Gaps: Strategies in Investment, Financing, and Innovative Financial Product Development

China has a leading position in the global green finance market, yet the investment and financing specifically allocated for biodiversity protection remain modest, creating a substantial funding gap for China's biodiversity conservation initiatives.

Currently, internationally, efforts are primarily focused on expanding existing green finance classification standards to incorporate biodiversity content or formulating specific biodiversity financial classification standards to clearly define the scope and boundaries of biodiversity protection. The goal is to clearly outline the parameters and boundaries of biodiversity protection to channel funds into related sectors. Concurrently, the public sector is using fiscal measures to encourage private capital involvement in biodiversity protection. Financial institutions are also actively exploring and innovating biodiversity financial products, introducing a diverse range of financial instruments such as biodiversity bonds, loans, funds, and notes. Through the synergy of these three approaches, the objective is to steer, encourage, and motivate funds to flow into biodiversity protection, effectively addressing funding challenges.

In terms of establishing classification standards, the "EU Sustainable Finance Taxonomy" channels funds toward six major environmental objectives. While objectives related to the sustainable use and protection of water and marine resources, as well as ecosystem protection and restoration, explicitly contribute to positive outcomes supporting biodiversity, other goals may also affect the drivers of biodiversity loss. However, the current stage of the EU taxonomy primarily concentrates on



identifying carbon-intensive activities and lacks specific attention to the biodiversity loss issue. The absence of relevant indicators to capture and regulate biodiversity impacts poses a challenge in designing technical screening criteria for biodiversity. Consequently, there is a difficulty in quantitatively assessing the alignment between biodiversity outcomes and the taxonomy's intent, necessitating reliance on qualitative analysis and expert judgment.

Secondly, in terms of fiscal policy incentives introduced by the public sector, with the backing of the United Nations Development Programme's Biodiversity Finance Initiative (BIOFIN), the Seychelles Islands in Africa are in the process of formulating a practical fiscal framework. This framework is designed to encourage high quality investments by private entities in biodiversity, encompassing tax relief for certified expenditures, employee salaries, and other costs associated with biodiversity conservation. In South Africa, a conservation management plan has been put into action to bolster biodiversity preservation through agreements between conservation agencies and landowners. This strategy is further reinforced by biodiversity tax incentives, mitigating potential income losses due to restrictions on land management.

Thirdly, in terms of financial market product innovation, various types of biodiversity financial products have emerged on the international financial market, including biodiversity bonds, loans, funds, and notes. Among these, biodiversity bonds have garnered significant attention. Notably, in March 2022, the International Development Association revealed plans to release a \$150 million five-year bond explicitly allocated for safeguarding black rhinos in South Africa. This bond, commonly referred to as the "Rhino Bond," stands as the inaugural financial instrument exclusively designed for the conservation of a particular species.

Regarding biodiversity loans, the key strategy is to incorporate biodiversity goals into existing loan products. An example of this is the development of a novel green microcredit product named "BioCredito" by the Federation of Municipal Savings and Credit Banks (FEPCMAC) of Peru in 2020. This initiative, supported by BIOFIN, seeks to encourage sustainable business activities that contribute to both environmental protection and biodiversity conservation.

At the biodiversity fund level, in 2018 in Mexico, SVX Mexico, an impact investment advisory, BIOFIN and the Mexican Fund for the Conservation of Nature have constituted the Regenerative Investments Consortium. The consortium's goal is to streamline investment flows and bolster the capabilities of diverse conservation organizations and invested entities. The focus of its investments spans companies involved in sustainable activities across sectors like fisheries, agriculture, forestry, tourism, water, ranching, landscape management, and green infrastructure development.

On the biodiversity notes level, in December 2014, Credit Suisse collaborated with the UK-based company Althelia Ecosphere to launch Nature Conservation Notes. These notes were designed to invest in sustainable agriculture and nature conservation, aiming to increase the income of local residents in African and Latin American countries while protecting relevant species.

Establishing and Improving Classification Standards and Information Disclosure Systems for Biodiversity Finance

In terms of classification standards, China has not yet introduced targeted, explicit, and comprehensive classification standards specifically for biodiversity finance. Relevant standards are currently encompassed within existing green finance classification standards. In comparison, the European Union (EU), in its official "EU Taxonomy" released in June 2020, distinctly outlines ecological diversity and ecosystem protection and restoration as a separate major objective. The EU defines relevant economic activities, forming the framework for biodiversity finance classification. In March 2022, the EU's Technical Expert Group on Sustainable Finance released detailed technical guidelines for the biodiversity and ecosystem protection and restoration goals outlined in the "EU Taxonomy." In 2023, the EU introduced a collection of 48 new economic activities and identification standards related to this legislation, including two directly associated with biodiversity protection goals. These additions expanded and further refined economic activities under this goal.

Regarding information disclosure, China has yet to establish a clear and comprehensive framework and guidelines specifically for disclosing biodiversity information. Currently, there has been initial progress in global environmental information disclosure standards related to biodiversity.

An increasing number of international organizations and governments are exploring standards and frameworks for biodiversity disclosure. Representative initiatives at the level of disclosure framework and rule formulation include the guidelines from the Climate Disclosure Standard Board (CDSB) for biodiversity-related disclosure under the CDSB framework, the disclosure framework of the Taskforce on Nature-related Financial Disclosures (TNFD), and the Global Reporting Initiative (GRI) GRI 304: Biodiversity 2016 standard, among others. Regarding disclosure practices, while some companies and financial institutions have begun disclosing biodiversity information, the overall number of entities engaging in disclosure is comparatively small. Awareness of the risks linked to biodiversity loss is limited, and the disclosed data remains constrained and difficult to quantify. Enhancing biodiversity information disclosure is fundamental for financial institutions to manage biodiversity risks. Despite commendable advancements in establishing international standards for biodiversity-related information disclosure, there is substantial scope for improvement in the implementation of disclosure practices.

Advancing Research and Capacity Building in Relevant Fields

Biodiversity finance faces challenges in capacity building and interdisciplinary talent development. At present, biodiversity finance research is predominantly theoretical. Addressing the escalating demands for capacity building in biodiversity finance requires the cultivation of a versatile workforce proficient in both ecological and financial aspects. This dual expertise is crucial for the ongoing challenge and forms the basis for future advancements in biodiversity finance.

At present, the growing international collaboration and communication in the field of biodiversity finance provide a strong basis for future capacity-building and talent development initiatives. For instance, NGFS-INSPIRE formed a collaborative Study Group on "Biodiversity and Financial Stability" in April 2021. The mid-term and final reports released in October 2021 and March 2022 respectively analyzed the transmission mechanisms of biodiversity-related financial risks and their effects on the financial system. The reports emphasized the necessity for methodological support in evaluating biodiversity-related financial risks.



Translation: Daria Gerasimenko, International cooperation specialist at the International Institute of Green Finance, daria_gerasimenko@iigf.com.cn

Link to the original:

<https://mp.weixin.qq.com/s/hnsSQGu4vZuc1ctbkNBkVQ>