



Mobilizing Investors to Protect Climate, Land and Biodiversity

Summary of Three Key Events on Natural Capital Investing
November 2019, and outlook 2020





1 Setting the scene

This document provides recommendations for actions that are necessary to enable a systemic change:

1. Use innovations and game changers to develop the Natural Capital Market
2. Applying landscapes approaches for inclusions and de-risking
3. Need for blended-finance
4. Harmonizing green finance taxonomy and E&S monitoring

This year is expected to be the “Super Year” for nature, as we begin what may be the final decade in which we can act to limit the rise in global temperatures to under 2°C above pre-industrial levels – or face severe consequences. This year also marks the final period in the run-up to the United Nations Decade on Ecosystem Restoration, which begins in 2021 and illustrates how the close interconnection between various environmental objectives is increasingly understood.

A healthy, natural environment is at the heart of human development and underpins efforts to achieve all of the Sustainable Development Goals (SDGs). Beyond their intrinsic value, ecosystems provide shelter, food and medicine, while forests and oceans act as huge carbon sinks. Dramatically, the Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services (IPBES) estimates that more than 75 percent of the Earth’s land surface has been degraded by human activity, destroying habitat and over-consuming resources. Close to one million species are endangered, as the world moves dangerously close to planetary boundaries. Biodiversity is also being lost, which is creating a systemic risk for the global economy and society.

At the international level, responses have been designed to find solutions based on common objectives, such as the Bonn Challenge on land restoration, the Land Degradation Neutrality targets, and the Aichi targets on biodiversity. In the coming months, key events, including the World Conservation Congress of the International Union for Conservation of Nature (IUCN) in Marseille, France, and the COP15 of the UN Convention on Biological Diversity in Kunming, China, will reconfirm the importance of these initiatives as well as provide opportunities for greater cooperation in the so-called “New Deal for Nature”.

In tandem with this planning, there is an urgent need to mobilize finance at scale to support nature-based solutions if we are to have any hope of responding effectively to the ongoing climate and biodiversity crises. The private sector has a key role to play, alongside scientists, civil society and governments. Unfortunately, the restoration of ecosystems is still an undervalued tool for climate change mitigation and adaptation. The Biodiversity Finance Initiative (UNDP BIOFIN) estimates annual investments of over US\$400 billion are needed to protect biodiversity, but we can track only US\$52 billion as of 2019. Many investors are deterred by the difficulty in finding projects of a suitable scale, a lack of data to measure impact, and a high level of uncertainty or project risk around many projects. We need an economic rationale and innovative financial methods to effectively build a global, biodiversity-friendly economy.

In response, the organizations Environmental Finance, Finance for Tomorrow, Global Landscapes Forum, Mirova and IDH - The Sustainable Trade Initiative organized three important events in November 2019, dedicated to exploring ways of investing in natural capital. These events aimed to create common ground and understanding about natural capital investments, help build a track record for investors, and foster partnerships among stakeholders.

This 2020 Outlook for Investing in Nature builds on that experience, in order to share key insights for mobilizing economic actors in building sustainable landscapes and protecting our climate, land and biodiversity. It is part of a collective, sustained effort to bring the natural-capital asset class to maturity.

Short summaries of the three events

Global Landscapes Forum summary

How can we move sustainable land-use financing into the mainstream?" That was the key question on 30 November 2019, at the Global Landscapes Forum convened in Luxembourg for its fourth annual Investment Case Symposium, held back-to-back with the UNEP Finance Initiative (UNEP FI) Regional Roundtable on Sustainable Finance. Discussions focused on the development of cutting-edge financial tools and mechanisms, ways to overcome investment risks, financial needs in landscapes, and new policies being enacted to increase the amount of money going to create sustainable landscapes for the future. The event was co-organized by Luxembourg for Finance and hosted by the Government of Luxembourg. The opening plenary examined the paradigm shift needed to support sustainable land-use projects with more ambition. The mid-day plenary discussed existing good practices and solutions in sustainable land-use finance that could be suitable for scaling up and replication in different landscapes. The closing plenary shifted the emphasis to a community of practice, where inclusiveness and knowledge sharing could inspire investor confidence in the benefits of collaboration and long-term partnership.

Investing in Nature and Climate Finance Day summaries

Finance for Tomorrow – in partnership with Mirova and IDH, The Sustainable Trade Initiative – organized the Investing in Nature event held on 27 November 2019, prior to the Climate Finance Day in Paris. It had the objective of raising awareness, promoting innovation and best practices, and building common ground amongst actors to support the development of the natural capital asset class. While an initial panel aimed to introduce and promote a better understanding of the natural capital sector, a second panel unpacked the underlying business models of investments in natural capital. The final panel explored the question: "How do underlying business models for natural capital fit with banking techniques and asset classes?" The event provided a valuable opportunity for international actors in the natural capital sector to build common understanding and share good practices.

Finance for Tomorrow also organized a dedicated panel on Climate and Biodiversity during its flagship event, the Climate Finance Day, on the broader theme of "Financing the Just Transition". Discussions showcased innovative solutions for natural capital investing and the connection with climate action.

Investing in Natural Capital summary

Environmental Finance's Investing in Natural Capital conference on 25 November 2019 brought together more than 100 financiers, project developers and NGOs to explore the financial attractions of natural capital investments as well as the environmental benefits. The day began with the launch of a report from The Nature Conservancy (TNC) and Environmental Finance titled *Investing in Nature – Private Finance for Nature-based Resilience*. It included a survey which revealed that companies' dependency on natural capital is now a factor in the investment decisions of many mainstream asset owners, such as pension funds and insurance companies, as well as specialist 'impact' investors. Subsequent panel sessions explored why institutional investors should care about natural capital and explained how natural capital risk assessments and portfolio analyses can be conducted. Other sessions presented thematic spotlights on water, forestry, oceans, biodiversity and agriculture, before a final panel discussion of how regulation and legislation can help preserve natural capital. There was particular interest in a proposed Task Force on Nature-related Financial Disclosures, along the lines of the influential Task Force on Climate-related Financial Disclosures. The proposed new task force would be expected in time for discussion at COP15 in Kunming in October 2020.

2 Overarching outcomes of the three events

A systemic change is needed to support natural capital investments

Investors are increasingly mobilized concerning biodiversity issues because they understand that business factors rely on natural capital – a situation comparable to that in 2015, when climate change was identified as a financial systemic risk. Now, there is strong evidence that crossing planetary boundaries is a systemic risk for the economy and society. The value of ecosystem services that nature provides freely has been estimated at US\$120 trillion per year; yet, because these services sustain life, their value (in economic theory) could be defined as infinite.

Investors have the capacity and the responsibility to fund innovative business models such as agroecology, ecotourism and sustainable forestry, as well as green infrastructures. To find and scale-up these solutions, a paradigm shift is necessary in our business relationship with nature. Ecosystems should be considered as giant utilities that keep us safe by providing food, shelter and energy. It is our duty to preserve this vital resource.

Nature-based solutions are defined by IUCN as actions to protect, sustainably manage, and restore natural or modified ecosystems; and that address societal challenges,



The question is not if we move, but the question is if we are able to move quick enough, if we are able to move together and create the right alliances [...] in order to integrate sustainability into financing systems and economics.”

Carole Dieschbourg

Minister for the Environment, Climate and Sustainable Development of Luxembourg



Protecting nature is the best financial investment for our future economies.”

Yann Wherling

French Ambassador for the Environment

The current data on climate, land use and biodiversity loss is alarming:

75% of the earth's lands are degraded due to human activity – IPBES

60% of wildlife species lost in the last 40 years – Living Planet Index

Some 32 million hectares of primary forests across the tropics lost between 2010 and 2015 – IPBES

821 million people were chronically undernourished in 2019 – FAO

providing human well-being and biodiversity benefits. These solutions are also key to addressing the climate change challenge, as estimates state that natural carbon sinks could capture around 30 percent of total additional GHG emissions. However, they still receive only 3 percent of climate finance mechanisms.

For the investment community, nature-based solutions offer new business models and opportunities for Investing in Nature on several fronts, structured by EIB around I) Pro-biodiversity and adaptation businesses (e.g. sustainable forestry, regenerative agriculture, sustainable aquaculture and ecotourism) ; II) Green infrastructure projects (e.g. green roofs, green walls, ecosystem-based rainwater collection / water re-use systems, natural flood protection, erosion control); III) Carbon and biodiversity offsets and compensation projects, where investment into on and off site compensation pools is growing, and a growing number of companies also invest in offsetting and 'in-setting' their carbon impacts, and IV) Other payments for ecosystem services."

The UNDP Biodiversity Finance Initiative (BIOFIN) estimates that the annual investments need to protect biodiversity total over US\$400 billion, but we can track only US\$52 billion as of 2019. To fill the gap, a systemic change is needed, and a quick transition is expected to move sustainable land use finance into mainstream practices. Investors are confident that the situation can evolve in the right direction much faster than we think, if there is the right commitment.

This document provides recommendations for actions that are necessary to enable a systemic change. It is based on the overarching outcomes of the three events dedicated to natural capital investing that were organized in Europe in November 2019. Recommendations are organized under four themes: accelerating new opportunities; landscape approaches for inclusion; blended finance; green finance taxonomy and environmental and social (E&S) risk monitoring.

We hope these recommendations can help investors and their partners, companies, public authorities and researchers to work together to support natural capital investing in favor of sustainable landscapes and biodiversity.



The current system does not take in and does not fit the work we're doing today. We need the system to change. Easy to say, harder to do.... the system is not built for this purpose."

Jennifer Pryce
President and CEO, Calvert Impact Capital

1. Use innovations and game changers to develop the Natural Capital market

Where we are now

- Natural capital & biodiversity market players are part of a genuine, growing sector. Project developers and green entrepreneurs are central for the development at scale of the sector. Large corporations also have a key role.
- Investments in natural capital are increasing, through green businesses and green infrastructure investments, as well as carbon and biodiversity based offsets and compensation projects, and other payments for ecosystem services.
- Innovative financial vehicles have emerged that can help finance the transition to nature-based and sustainable land use as a new asset class and build proof of concept such as the LDN Fund, Agri3Fund, and the &Green Fund.

Moving forward

- Innovative natural capital investment projects require coalitions of partners on the ground that can deliver on inclusive climate, land use and biodiversity ambitions at scale, while generating financial returns.
- Projects require "technical assistance" to enable them to meet investor requirements, take measures impact, and reduce project risk.
- Policy support and long-term sourcing commitments for sustainable produce can play a key enabling role.
- Other new drivers in the market that can be leveraged include:
 - **Growing awareness:** growth of the demand for organic products in the food market; awareness on increasing resource scarcity; social pressure for a rapid change.
 - **Innovative technology and business models:** innovations such as satellite data and remote sensing; operational business models in nature-based solutions; development of the carbon market related to land use (benefiting from the climate agenda momentum stimulating its uptake).
 - **Institutional investors' demand:** growing appetite from market players as risk perception is decreasing; Environmental, Social and Governance (ESG) regulations, such as the EU Taxonomy for Sustainable Finance.



We are trying to show how nature-based solutions [...] can be turned into solid financial cash flows [...] while not compromising sustainability."

Dorothee Herr
Manager Oceans and Climate Change,
Global Marine and Polar Programme (GMPP), IUCN

2. Applying landscapes approaches for inclusion and de-risking

Where we are now

- A holistic strategy for “investing in nature” is necessary, operating at the intersection of climate, biodiversity, land and poverty reduction. Landscape approaches can help accomplish this by ensuring positive integration, especially with respect to local ecosystems and communities.
- Jurisdictional or landscape approaches aim to reconcile competing social, economic, and environmental objectives, and take place at a scale that matches the administrative boundaries of sub-national or national governments. These approaches can be led by civil society, government, or private sector.
- Even though some concerns can emerge when carbon sequestration or restoration activities relate to large-scale areas, many stakeholders emphasize the fact that landscapes approaches are key as part of the paradigm shift.

Moving forward

- Projects should be co-designed with local beneficiaries, as an effective way to manage risks and leverage new opportunities. Stakeholders should always be included in decisions on investments and related financial instruments. Techniques such as contractual farming or outgrower schemes should be encouraged, together with other social innovation in terms of profit sharing.
- Governments, key private sector actors, NGOs, research institutions and outreach agencies all have a role to play. Monitoring at a jurisdictional landscape level drives transparency to power a cycle of action, investment and sourcing.



We are financing less and less commodities and more and more landscape projects. When you finance commodities, you put pressure on the supply chain to get the lowest price. When you finance a landscape project you finance a community.”

Pierre Rousseau

Senior Strategic Advisor, BNP Paribas



We need tools that are efficient, transparent and rely on local expertise, so that support can be channeled effectively to the final beneficiaries.”

Mariem Dkhil

Crédit Agricole du Maroc (CAM)



Investment is first the will of farmers and local communities to engage in transformation. If we don't have a strategy so [they] have direct interest in transformation, the risk is very high.”

Bernard Giraud

President of Livelihoods Funds



To enable the natural capital investment space to grow, well-structured technical assistance (TA) can help reduce risk, support more and better investments in sustainable and inclusive development, and mobilize data.”

Nienke Stam

*Manager LDN TAF at IDH
The Sustainable Trade Initiative*



3. Need for blended finance

'Blended finance' is a way to mobilize private capital by structuring public-private partnerships where the public finance helps to attract private capital. This mobilization of capital from the private sector to support the 2030 Agenda and the SDGs is crucial because private capital and private debt represent massive financial resources, still largely untapped by SDG activities.

Where we are now

- The presence of de-risking instruments to enable a transition to a sustainable land use and low-carbon economy is growing, crowding-in additional private capital including commercial bank finance.
- There is still a huge gap to fill for blended finance to catalyze transactions. Much more public money is needed to continue de-risking and crowding-in private funding. It should support the transition phase to mainstreaming investments in nature, to a greater degree than is occurring today. For example, solar and wind energy solutions were initially subsidized and are now becoming profitable.

Moving forward

- We need to find the right balance between public and private finance in de-risking strategies.
- Transaction costs remain too high; it is necessary to improve access by investors and project developers to blended finance tools.
- To go from billions to trillions, sustainable land use investment "blueprints" that can be scaled and replicated are essential.



Huge sums remain unemployed each year due to difficulties in unlocking public finance to serve as bait for private investment."

Pierre Rousseau

Senior Strategic Advisor, BNP Paribas



Global funds such as the Green Climate Fund can play a catalytic role and collaborate with private funds to help channelling the available trillions to the ground."

Juan Chang

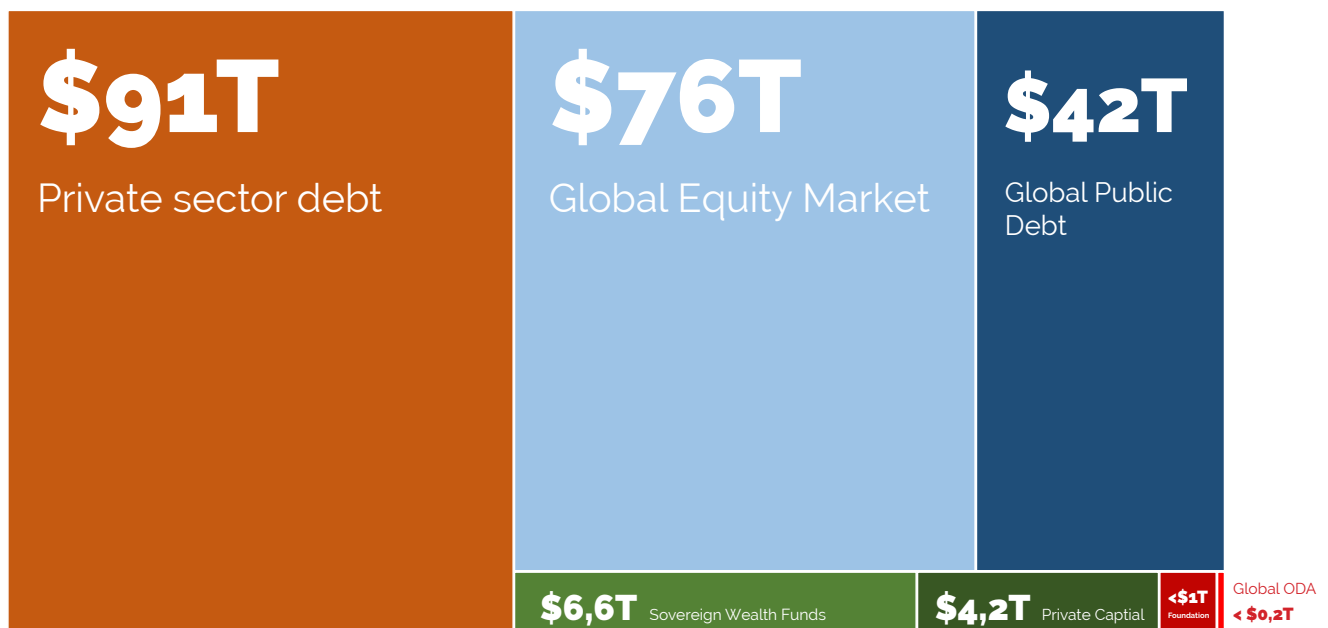
Head of Land Use team, Green Climate Fund



We need efficient use of public money, only where it's needed and for transition phases. The objective is not to compensate for imperfections or high risks; it is rather to compensate for the perception of high risk."

Gautier Quéru

Director, Land Degradation Neutrality Fund, Mirova



Available finance: public and private pools of capital vs Official Development Aid (ODA)

Source: WWF Netherlands

4. Harmonizing green finance taxonomy and E&S monitoring

Where we are now

- In green taxonomy developments, such as those promoted by the European Union (the EU sustainable finance framework), land use sectoral expertise and science should be considered carefully. For example, a focus on climate change issues should be compatible with positive impacts vis-à-vis biodiversity conservation, land degradation neutrality, and other environmental and social benefits.
- Properly measuring land use investment results and impacts, based on coherent data, is key for sustainable land use finance. Nonetheless, the diversity of standards and related methodologies make it difficult to understand what reported impacts mean.
- A clear measurement approach for ESG impact is still missing for large companies and investors.

Moving forward

- Properly integrating and considering the diversity of SDG-related targets in green taxonomy developments is critical. Inclusion and participation of a wide spectrum of scientists and experts in land use sectors is needed to further improve the current framework on sustainable land use.

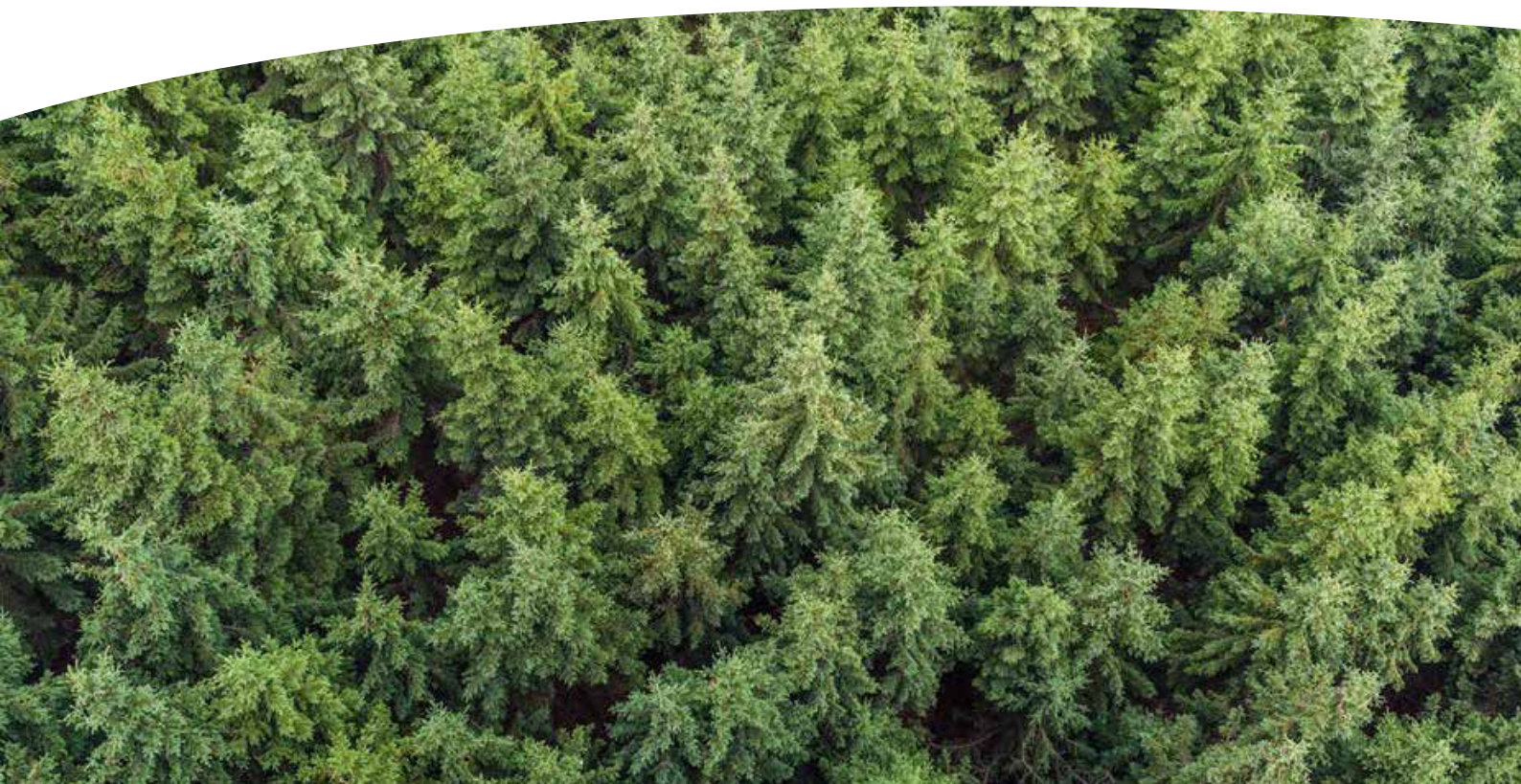
- More research on environmental and social risks at the landscape level is needed. A call was made to the different existing labels for a more concerted approach, and for mainstreaming in existing certification standards more elements of impacts of land use capital flows.
- Standardization in the measurement of positive impacts is key in order to reach scale and to avoid deal-by-deal decisions on what data to measure. Impact data measurement costs need to be integrated in business models.
- As part of the solution, involving local beneficiaries and stakeholders in reporting and impact measurement could improve the quality of results monitoring. Community certification agents and local whistle-blowers may be part of the equation.
- Natural capital accounting can be part of the solution, to integrate both market and non-market values of environmental services in decision-making processes.



One thing is for sure, sustainable finance is here to stay and will become the new norm."

Julie Becker

Founder of Luxembourg Green Exchange and Deputy CEO of Luxembourg Stock Exchange



3 Outlook 2020

If we hope to respond to the climate and biodiversity crises in an inclusive manner, the political momentum of 2020 – the so-called “Super Year” for nature – needs to be owned and used to support a systemic change in our business relationship with nature.

The theme of the COP15 on Biological Diversity in Kunming, China, is “Ecological civilization: Building a Shared Future for All Life on Earth”. This holistic approach reaches to the core of humanity and its relationship to the natural world, aiming for true sustainable development. It calls for a transformative paradigm to maintain the integrity and resilience of the planet’s systems.

Barriers do remain to ‘investing in nature’, such as risk perception and transaction costs, lack of data and standards, and scale for investment opportunities. However, opportunities are emerging, thanks to innovative public-private investment strategies and ‘blueprint investments’ that build a track record, based on a growing demand for sustainable products.



We need to believe so much in what we say that governments will respond to our call for change.”

Sébastien Treyer
Executive Director, IDDRI



Emissions reached their highest point in 2018. If we hope to offer a sustainable world to the next generation, we need to scale our efforts five-fold in collective current commitments.”

Ivo Mulder
Head of Climate Finance Unit, UNEP

To go from billions to trillions in investments, we must shift the system and help the financial sector in this process. Blended finance instruments are needed to support the transition phase to mainstreaming investments in nature. To be able to integrate natural capital and conservation finance into mainstream activities, banks and asset owners must know the specificities of the sector, financing techniques and risk, return and impact profiles. To speed up the transition, the worlds of biodiversity and finance should talk to each other: there is an urgent need for more exchanges between natural scientists, investors and policy-makers.

Time is running out. We must find a way to mobilize finance at scale to support nature-based solutions if we are to have any hope of responding effectively to the ongoing climate and biodiversity crises. Investors are calling for bold strategies to preserve biodiversity in the post-2020 agenda. All stakeholders must cooperate and raise their voices to sustain the ambition for a “New Deal for Nature”.



Calendar

Date	Events
23 April	Digital Forum: Food without farmers (IFOAM and GLF), online
3 - 5 June	GLF Bonn Digital Summit – Food in the time of climate crisis, online
11 - 18 June	IUCN World Conservation Congress, Marseille
15 June	One Planet Summit, Marseille
27 - 31 July	Third Meeting of the CBD Working Group September “Nature Summit” in UN GA, New York
15 - 28 October	UNCBD COP15, Kunming
October (tbd)	GLF Kunming – Securing Biodiverse Landscapes and Ecosystems (alongside CBD COP 15), Kunming
29 October	Climate Finance Day, Paris
14 -15 November	GLF Glasgow: 2020-2030 (alongside UNFCCC COP26), Glasgow
25 November	Natural Capital Investment – Environmental Finance
December (tbd)	GLF Investment Case Symposium

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