



Biodiversity for Life 2.0 Facility

Nature and biodiversity finance: key financial instruments

Introduction

Biodiversity finance plays a key role in supporting the conservation and sustainable use of biological diversity. Investing in biodiversity ensures ecosystem resilience, supports sustainable development and contributes to meeting international commitments like the Kunming-Montreal Global Biodiversity Framework. This framework mandates halting biodiversity loss, restoring degraded areas and conserving significant portions of terrestrial and marine environments by 2030. Current trends in greening investments highlight an increasing integration of biodiversity into financial decisions, promoting investments that not only mitigate harm but actively contribute to nature conservation and restoration.

The EU's commitment to supporting biodiversity and providing biodiversity finance is displayed in its Biodiversity Strategy 2030, where it commits to spending at least EUR 20 billion a year on nature. Below is a list of key instruments that allow for the provision of biodiversity finance that can be mobilised using European Fund for Sustainable Development Plus (EFSD+) guarantees, blended finance and relevant technical assistance.

Note: 'target audience' in the texts below suggests key counterparts for discussing such instruments, (e.g. for regulatory purposes, advocacy, development, research, sale or purchase), as well as for developing a pipeline of projects that can utilise such instruments.

Biodiversity finance instruments

Biodiversity offsets

Biodiversity offsets compensate for negative impacts on biodiversity from development projects while aiming for no net loss (NNL) or even a net gain (NG) of biodiversity. They are used by companies to balance unavoidable impacts on biodiversity by creating, restoring or enhancing biodiversity elsewhere. Hence, biodiversity offsets allow for new and additional ecosystem financing to be raised from the private sector. This is already quite a common tool, as more than 30 countries already have laws requiring biodiversity offsets. However, while some offset programmes have achieved positive outcomes, the instrument has drawn criticism regarding the difficulty of achieving genuine NNL, the potential for negative incentives, and the frequent lack of robust monitoring and governance.

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Target audience

Private sector (e.g. property developers, infrastructure projects, extractive industries, agricultural and forestry sectors); ministries of environment; environmental NGOs; local communities.

Selected further reading

[Carbonbrief](#)

Example

[UK Biodiversity Offsetting Pilot](#), which was tested in six areas to inform national policy.

Biodiversity credits

Biodiversity credits are tradable units representing quantified and verified improvements in biodiversity. They provide a financial mechanism for investing in biodiversity conservation and restoration, similar to carbon credits but focused on biodiversity outcomes, and without seeking to offset any specific negative impacts. Still in their infancy, these instruments hold a large potential for achieving positive outcomes for nature, while benefiting local communities and indigenous peoples, as long as their issuance is anchored in high integrity, equity and inclusion, and transparency.

Target audience

Ministries of environment; standard-setters; private sector (e.g. corporations with high environmental impact; biodiversity project developers, tourism industry); environmental NGOs; academia and research sector; development finance institutions (DFIs); protected areas.

Selected further reading

[Financing-for-nature](#)

Example

The [Australian Biodiversity Conservation Trust](#) issues credits for conservation activities.

Debt-for-Nature swaps

These agreements involve a country's foreign public debt being reduced in exchange for its commitment to restoring nature and undertaking environmental conservation projects. They can help heavily indebted countries reduce debt while taking actions such as funding biodiversity conservation or implementing new protected areas. This can alleviate a recipient country's public debt while supporting nature restoration and climate change adaptation.

However, negotiation challenges, concerns about effectiveness and sovereignty, and scarce availability of suitable debt contribute to a limited implementation of this instrument, despite its appeal.

Target audience

Ministries of finance; DFIs; local communities; private sector (e.g. tourism, agriculture and forestry sectors); environmental NGOs; civil society organisations; media.

Selected further reading

[World Economic Forum \(WEF\)](#)

Examples

- [EIB's debt-for-climate swap for Barbados under the Global Gateway](#) is an innovative instrument related to this field. While aiming to finance water infrastructure, it also has biodiversity protection benefits, as it reduces the environmental impact of treated effluent on marine life and the local ecosystem;

- [Costa Rica's debt-for-nature-swap](#), where USD 26 m debt was written off by the USA in exchange for conservation efforts;
- [Ecuador's Amazon and ocean-linked debt-for-nature swaps](#).

Sustainable finance instruments

(green and blue bonds, green and blue loans, sustainability-linked bonds, sustainability-linked loans)

Green bonds and green loans are instruments used exclusively to fund projects that provide environmental benefits. (Bonds are publicly traded financial instruments, while loans are typically provided by banks or other financial institutions directly to a borrower.)

On the other hand, sustainability-linked bonds and sustainability-linked loans tie the level of the interest rate to the sustainability actions of the borrower, without putting any conditions on the types of funded projects.

A sub-category of green bonds and green loans, dubbed blue bonds and blue loans, have emerged recently. They are aimed at financing the blue economy, e.g. halting the decline of marine fisheries, aquaculture, and offshore renewable energy.

All the above-mentioned instruments, which in fact are not used *solely* for biodiversity finance, are growing rapidly. Hence, this momentum may be used to increase their currently modest share in financing biodiversity finance.

Target audience

Financial institutions; central banks;

ministries of finance; DFIs; corporate sector; environmental NGOs; investors; insurance companies.

Selected further reading

[EU Capacity4dev Global Green Bond Initiative](#), [GGBI](#), [ICMA's Principles, Guidelines, and Handbooks on Green Bonds, Green Loans, Sustainability-linked Bonds, Sustainability-linked Loans](#); [ICMA's guidance on Blue-Themed Bonds](#).

The EU has also recently launched [the EU Sustainable Finance Advisory Hub](#) to provide support for issuing green bonds and other sustainability-related instruments.

Examples

- [Dutch Green Bonds](#): about EUR 7 billion raised for sustainable projects;
- [EBRD's EUR 1 billion 7-year green bond](#).

Biodiversity equity instruments

Alongside loans, another potential financing instrument is an equity investment to support the development of biodiversity projects. Such investments may be made either directly in a biodiversity-related project or, more commonly, in a fund which aims to invest in multiple biodiversity conservation and restoration projects, such as forestry and agroforestry.

Target audience

DFIs; asset managers; project developers; landowners.

Example

The [European Investment Bank \(EIB\)](#) has [committed an equity investment of EUR 12.5 million to the Irish Sustainable Forest Fund](#), through its Natural Capital Financing Facility (NCFG). The aim is to support a continuous cover forestry approach, a method which not only maintains commercial viability, but also enhances biodiversity, soil quality and landscape value. Further information can be found on [SLM website](#).

Payments for ecosystem services (PES)

'Ecosystem services' refers to the valuable benefits provided by the natural environment, such as the supply of water, food and timber; the regulation of air quality and flood risk; tourism services as well as soil formation. Hence, payments for these services are a financial agreement where ecosystem service providers (typically landowners or local communities and indigenous people) receive payments from beneficiaries who gain from the services provided by ecosystems. For example, landowners may be paid by a water utility to incentivise them to look after a source of water located on their land. PES thus create financial incentives for conserving and managing ecosystems sustainably.

Target audience

Farmers and landowners; local communities; environmental NGOs; ministries of environment; ministries of agriculture; ministries of water resources; ministries of tourism; forestry departments; private sector (e.g. water utilities, agricultural sector; forestry sector, tourism industry); financial institutions.

Selected further reading

[CIFOR-ICRAF on Payment for Ecosystem Services](#).

Examples

- [Mexico's PES Program](#), which pays communities for forest conservation;
- [OECD Tracking Economic Instruments and Finance for Biodiversity](#) provides a list of the 10 largest PES programmes.

Conservation trust funds

Conservation trust funds (CTFs) are legally independent institutions that provide sustainable funding for biodiversity projects through grants, performance-based systems or PES. CTFs pool resources from various donors to finance long-term conservation efforts; they direct them in the form of grants to programmes and projects through non-governmental organisations (NGOs), community-based organisations (CBOs) and governmental agencies (such as national parks agencies).

Target audience

Environmental NGOs and community-based organisations; local communities; international donors and philanthropists; tourism sector; national parks agencies; ministries of environment.

Selected further reading

[Conservation Finance Alliance](#).

Examples

- [The Prespa Ohrid Nature Trust – PONT, a transboundary CTF between Greece, Albania, and North Macedonia](#);

- [GEF's Trust Fund for Environmental Conservation.](#)

Green commodities

Products certified for their sustainable and biodiversity-friendly practices can include certified timber, fisheries and agricultural products. They provide financial premiums to producers for maintaining and increasing biodiversity on agricultural land, reducing natural habitat conversion to farmland, and improving water management in agriculture.

Target audience

Private sector (agricultural sector; food and drinks Industry; retail sector); certification bodies; environmental NGOs; ministries of agriculture; ministries of trade and industry.

Selected further reading and example
[UNDP's Green Commodities Programme.](#)

Blended finance

Blended finance refers to the strategic use of development finance and philanthropic funds to mobilise private capital flows towards sustainable development goals in pioneering projects and challenging environments, including biodiversity. Blended finance structures can include concessional loans, equity, guarantees, grants and technical assistance.

Target audience

Donor and philanthropic organisations providing concessional capital; DFIs; financial institutions; corporate sector.

Selected further reading

[OECD on Blended Finance; IFC on Blended Finance.](#)

Examples

Several examples can be found in the document.

Public-private partnerships (PPPs)

Collaborative arrangements between public and private sectors for biodiversity projects. PPPs leverage private sector expertise and capital for conservation efforts, often supported by public funding. For example, they can be applied to projects related to managing protected areas and forests.

Target audience

Ministries of finance; ministries of environment; infrastructure, energy and transport sectors; water utilities; financial institutions; DFIs.

Selected further reading

[National Adaptation Plan \(NAP\) Global Network on PPPs; OECD on PPP.](#)

Example

[African Parks Network](#) manages national parks through PPPs. Governments retain ownership of the parks and determine national conservation policy, while African Parks, acting as a private sector entity, has the operational control of the parks. By signing long-term management partnerships with governments and local communities, African Parks takes responsibility for the parks' biodiversity conservation, community engagement and sustainable tourism development. African Parks is also in charge of raising funds to

finance operations and conservation projects. This is achieved through tourism income, monetisation of ecosystem services, institutional funding, private philanthropy and government support.

Risk-sharing mechanisms

Financial tools like guarantees, insurance, risk capital and risk-sharing facilities reduce the financial risk for investors in biodiversity projects; and thus enhance the attractiveness of biodiversity investments.

Target audience

International donors and philanthropists; insurance companies; national risk-sharing organisms; financial institutions.

Selected further reading

[OECD on Risk-Sharing Mechanisms](#); [World Bank on Risk-Sharing](#); [UNDP on Risk Financing](#).

Examples

- [The EU recently agreed to 24 new guarantee programmes](#) to boost investments in enlargement and neighbourhood regions, through the EFSD+. Among other things, these aim to increase the issuance of green bonds in EU partner countries.
- [Finance in Motion's Latin American Green Bond Fund \(LAGreen\)](#) has received risk capital from the EU to develop green bonds in Latin America.
- [Althelia Climate Fund](#) raised USD 133.8 million for forest conservation and sustainable land use, thanks to a risk-sharing mechanism.

Biodiversity-relevant tradable permits

Biodiversity-relevant tradable permits are cap-and-trade programmes that set limits (i.e. caps) on resource exploitation to limit environmental impacts while allowing permit holders to trade them. For example, this includes individual transferable quotas for fisheries, tradable development rights and tradable hunting rights. Permits may be provided either for free to companies or auctioned to raise funds for biodiversity finance.

Target audience

Ministries of environment; tax authorities; tourism industry; private sector (corporate sector); environmental NGOs; media.

Selected further reading

[OECD Tracking Economic Instruments and Finance for Biodiversity](#).

Examples

- [Water Quality Trading in the USA](#);
- [Bighorn sheep hunting auctions in Alberta](#).

Conclusion

Biodiversity finance is instrumental in addressing the need for biodiversity conservation and the resilience and sustainability of ecosystems, leading to sustainable development. By utilising and supporting a range of financial instruments, the EU can foster the mobilisation of funds necessary to support biodiversity initiatives in its partnerships globally.

