PARIS FINANCE SUMMIT

WWF RECOMMANDATIONS • MAY 2023

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WWF RECOMMENDATIONS TO GOVERNMENTS AND FINANCIAL INSTITUTIONS ATTENDING THE SUMMIT FOR A NEW GLOBAL FINANCIAL PACT - May 2023

RATIONALE

Despite recent achievements, **nature and climate global agendas remain hampered by both lack of solidarity and inadequate finance** able to properly answer the collapse of biodiversity and keep global temperature rise below 1.5°C.

In this context, the Summit for a New Global Financial Pact convened by France and India in Paris (June 22nd-23rd) is to set a new course in our global financial system. To better address the nature and climate crises and their impact on people, taking into account the natural ecosystems they rely on and the climate change consequences they already face.

While developed countries must deliver on climate finance and while financial institutions have to support climate change mitigation and adaptation efforts through their portfolio, **nature is not fully on the table of development institutions nor private investors, either as a risk or as an investment opportunity**. Yet it provides services worth more than 1.5 times the size of global GDP and more than half of GDP is dependent on it[1]. While developed countries committed at COP15 to reach $20 billion in annual international finance for biodiversity by 2025 and $30 billion by 2030, governments, development banks, private companies and financial institutions continue to subsidize destruction of such a natural major economic driver: every year, at least US$ 1.8

[1] OECD, 2019. Biodiversity: Finance and the Economic and Business Case for Action.

trillion of public and private spending is estimated to harm biodiversity[2]. In 2021, MDBs alone provided almost US$ 5 billion in financing for fossil fuel projects. Meanwhile, energy and shipping companies worldwide generate windfall profits in the aftermath of the energy crisis that broke out in 2022 and hit a large share of consumers around the world. In this context, the summit convened in Paris will not only have to address international development institutions' mandates and priorities as well as to explore additional resources, but it will also need to refresh its understanding of the planet and the people as of 2023 and undertake appropriate and deep transformation.

Through the recommendations below, WWF calls governments and international financial institutions to now **look at the world as it is in 2023**: with **people and ecosystems at risk of climate change and nature collapse**, but also **teaming with pioneer finance solutions that await strong political traction** to be deployed at scale.

Only **a solution-oriented roadmap for both nature and climate finance** will be able to provide clear guidance ahead of upcoming international decisions to be taken at G20, SDG Summit, UNFCCC COP28 and CBD COP16. This roadmap will need to provide a comprehensive set of orientations covering **transition towards a nature positive economy**, **reform of the Multilateral Development Banks**, **innovative solutions to address indebtedness** in a sustainable way, and increased **support for climate finance**.

[2] Business for Nature, The B-Team, 2022 : Financing our Survival : Building a Nature-Positive Economy through Subsidy Reform.

WWF RECOMMENDATIONS & SUCCESSFUL STORIES TO BUILD ON

Governments, financial institutions and other financial stakeholders attending the Summit must:

1. **Set up a Nature Positive Economy Roadmap with equitable transition at the core**

WWF calls governments, central banks, financial regulators and supervisors, as well as financial institutions to commit at the Summit to developing a clear and comprehensive Roadmap that embraces and operationalizes all global commitments to create a nature positive economy. This Roadmap should not only focus on climate but also include latest commitments under the Kunming-Montréal Global Biodiversity Framework (GBF), it should articulate numerous initiatives taken in this sense and reflect the diversity of existing and promising tools to contribute to a nature-positive global economy. This will require an inclusive, politically-mandated process to establish a Roadmap that sets out the economic governance reforms necessary for an equitable transition to a global economy which operates within planetary boundaries. It also requires central banks, financial regulators and supervisors around the world, which are critical players of the international financial architecture, to act as precautionary agents to mitigate climate and nature-related risk to financial stability and tackle the twin environmental crisis of climate change and nature loss[3]. They must use monetary policy and financial regulation instruments to mitigate the significant financial and price instability that is caused by biodiversity loss and global warming and to which nations in the global south are disproportionately exposed.

As the Summit is intended to bring back trust and set a shared global leadership, it will be critical for this Roadmap to include a specific workstream dedicated to understanding how to promote an equitable transition to a nature positive economy, build capacity in developing countries and increase finance for nature positive investment. Also to be credible such roadmap will need to achieve sufficient progress to meet climate and biodiversity finance commitments as the Kunming-Montréal GBF target of $20 billion in annual international finance for biodiversity by 2025 and $30 billion by 2030 to developing countries, and mobilizing at least $ 200 billion from all sources per year by 2030, and the commitment to identify by 2025 and eliminate, phase out or reform incentives, including subsidies, harmful for biodiversity, in a proportionate, just, fair, effective and equitable way, while substantially and progressively reducing them by at least $500 billion per year by 2030.

WWF draws attention to the many market, regulatory and conservation initiatives:

- <u>A whole offering of finance vehicles is already available and awaits full political traction through formal launch of Positive Conservation Partnerships (PCPs) and Forest and Land Use Investment Packages (FLIPs)</u>. Innovative finance for high-integrity forests should

[3] 'Call-to action' urging central banks and financial supervisors to step up action on nature and climate, published by WWF in September 2022 in cooperation with a leading group of 90+ non-governmental organizations, think tanks and leading researchers all over the world.

allow us to sign fair deals at COP28. At COP27, France, together with Colombia, the Philippines and Gabon, proposed to create new financial and political contracts to provide strong economic incentives for governments to protect globally-vital reserves of carbon and biodiversity. To this end, France, together with USA, Costa Rica, China, the GEF and the World Bank launched Positive Conservation Partnerships (PCPs). In the same time, the Forest and Climate Leaders' Partnership (FCLP) was launched at COP27 to maintain high-level political leadership on forests and climate, including through the launch of FLIPs in key forest countries. As the One Forest Summit held in Libreville was an opportunity for governments to push forward the PCP initiative and as G7 Leaders have recently encouraged FLIPs by referring to "*country packages*" in countries which host vital reserves of carbon and biodiversity, the Paris Summit in June should be used as milestone and set a clear plan in order to close, by the Amazon Summit (August 2023), the Three Basins Summit (October 2023) and COP28 (December 2023), fair deals with first countries having expressed their interest in significantly strengthening both area and quality of conservation. To this end, WWF has developed an offering of finance vehicles as Project Finance for Permanence (PFPs), Payment for Ecosystem Services (PES) and the NBS Origination Platform to absorb finance at scale, and that could contribute, in 1 or 2 pilot countries (TBD), to the deployment of PCPs. Such contributions can be acknowledged, formalized and pushed forward at the Finance Reform Summit and relevant upcoming events.

- Increased direct support to Indigenous Peoples and Local Communities (IPLC), who manage 80% of the world's biodiversity, is gaining traction, and WWF called to establish and implement a detailed road map to deliver significantly more finance directly to Indigenous Peoples and Local Communities, recognizing that currently less than 1% of nature finance goes to IPLC.
- Momentum and global conversation on Biodiversity Credits is gaining traction. The momentum on biodiversity credits has increased significantly in recent months, with their inclusion in Target 19 of the Kunming-Montreal Global Biodiversity Framework, and a growing number of biodiversity credit initiatives and methodologies established. WWF is actively engaging in this conversation, as a member of the Biodiversity Credits Initiative led by the WEF. Co-leading a working group on Integrity, which is producing the principles and guidance for biodiversity credits and participating in another WG on Pilots, which is compiling a list of Biodiversity Credits pilots that are near 'ready to go'. WWF has submitted Namibia Wildlife Credits to this group.
- A majority of Central Bankers and financial supervisors have formally recognized that biodiversity loss is a potential source of economic and financial risk and committed to developing a response strategy to maintain financial and price stability. The Network for Greening the Financial System (NGFS) brings together central banks and financial supervisors and regulators, including from many nations from the Global South, to strengthen the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage climate- and nature related risks[4] and

[4] Central Bankers and financial supervisors have formally recognized that biodiversity loss is a potential source of economic and financial risk and committed to developing a response strategy to maintain financial and price stability, see: NGFS Statement on Nature-Related Financial Risks, March 2022.

to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development.

2. **Hasten Multilateral Development Banks (MDBs) to align with the Paris Agreement and the Kunming-Montréal Global Biodiversity Framework**

WWF calls governments to formally ask MDBs to deliver on the 2021 MDB joint statement on nature and to actively align their activities and mandates with the Paris Agreement and the Kunming-Montréal GBF. Last year, an independent review established by the G20 provided recommendations for MDBs to reform their capital adequacy and ultimately unlock more financial resources to support their mission. WWF believes that carrying out such a reform also provides a unique opportunity for MDBs to actively align their activities and mandates with the Paris Agreement and the Kunming-Montréal GBF.

WWF draws attention to existing pieces of expertise in favor of MDBs strengthened mobilization.

- WWF has issued a set of recommendations to MDBs. The paper shows that MDBs contribute significantly less to biodiversity than to climate finance, but have an essential role to play in the implementation of the Kunming-Montréal Global Biodiversity Framework, by reducing harm to biodiversity (greening finance), increasing nature-positive investments (financing green), especially through Nature Based Solutions and using their leverage, encouraging governments to develop ambitious Nationally Determined Contributions and National Biodiversity Strategies and Action Plans (NBSAPs) to be developed across the whole-of-government with key sectors involved. The national biodiversity finance plans, with support of BioFin, should be a key component of the NBSAPs. MDBs should work to include and improve biodiversity indicators as part of the macroeconomic data considering that natural capital represents at least 40% of global GDP[5] and should be reflected in their strategies and economic policy[6].
- The EU Commission-mandated High-Level Expert Group on Sustainable Finance in Low- and Middle Income Countries (HLEG LMIC)**,** of which WWF is a member, advocates for a new type of strategic engagement model based on national development priorities to ensure long-term transformative change that fosters sustainable finance and investment in Low- and Middle Income Countries[7] and supports the emergence of an enabling environment that fosters the development of local capital markets and the issuance of sustainability-related capital instruments.

[5] The Economics of Biodiversity: The Dasgupta Review, 2021

[6] These WWF recommendations are a follow-up from the opinion piece on MDB reform that we published on April 6th, ahead of the WB/IMF Spring Meetings and builds from the report on Public Development Banks and Biodiversity published by WWF France in 2021.

[7] Mid-term report (forthcoming in June 2023)

3. **Call G20 leaders to adopt a package for sustainable debt**

WWF calls governments to prepare G20 leaders to adopt a comprehensive package in favor of sustainable debt in vulnerable countries. Such a G20 package should acknowledge maturity and encourage use of debt-for-nature swaps and sovereign climate-/nature-linked bonds as part of the G20 Common Framework for Debt Treatments. As automatic debt services suspension mechanisms in the event of climate disasters are also under discussion, they could be extended to damage caused by biodiversity loss to fully reflect economic instability resulting from nature risks. G20 governments can enable appropriate incentives to commit to incentives and deliver on ambitious environmental policies by issuing sovereign "climate-/nature-linked bonds", a new type of performance-linked debt instruments, where countries explicitly target sustainable climate- and nature outcomes in return for financing under more favorable terms[8].

WWF draws attention to successful stories supported by WWF and recent guidelines drafted together with the African Development Bank (AfDB)[9] to relieve the debt burden of vulnerable countries while supporting ambitious environmental policies:

- WWF has worked with the United-States, French, German, Dutch, and other creditor countries to structure foreign debt-for-nature swaps, including the second one in Ecuador in 1987.
- Since 2001, WWF has helped design several debt-for-nature swap agreements under the US Tropical Forest Conservation Act (and previously under the Enterprise for the Americas Initiative). Both mechanisms were formed to relieve the debt burden of developing countries owed to the U.S. government, while generating funds in local currency to support tropical forest conservation activities.
- Capital raised through debt-for-nature swaps can be applied through trust funds or foundations specifically set up to channel funding to local biodiversity conservation (see communication from WWF Zambia).
- WWF and AfDB also co-authored a guidance on Debt-for-Nature-Swaps: Feasibility and Policy Significance in Africa's Natural Resources Sector.
- WWF is actively exploring debt conversion opportunities in several countries in the Global South but better enabling conditions such as credit enhancements (political risk insurance and loan guarantees) provided by additional DFI could lower transaction costs and allow for a bigger debt swap pipeline.
- Countries like Chile and Uruguay have already issued Sustainability Linked Bonds, linking cost of capital to meeting specific targets related to their National Determined Contributions (and in the case of Uruguay also to the area of native forest standing).

[8] Unlike green or sustainability bonds, where "use of proceeds" are earmarked to specific projects/activities, sustainability-linked bonds are general purpose bonds that rely instead on financial incentives to spur environmental performance, measured through specific KPIs in which WWF is able to contribute to develop based on our scientific expertise. See: Striking the right note: Key performance indicators for sovereign sustainability-linked bonds, World Bank, 2022.

[9] Debt-for-Nature-Swaps: Feasibility and Policy Significance in Africa's Natural Resources Sector, African Development Bank, October 2022

Investors showed significant appetite for both issues, showing that the markets are interested in this kind of innovative products.

- To be fully effective, Debt- for- nature swaps must be part of a more comprehensive discussion on the evolution of the international financial system in the face of ecological challenges[10].

4. Deliver immediate progress on fossil fuel phase-out and climate finance mobilization to maximize chances of success at COP28

WWF calls governments to deliver concrete progress (extended coalitions, commitment to establish new taxation schemes on shipping, oil & gas revenues within relevant fora and with a specified deadline for adoption) to stop financing and subsidizing fossil fuels, to significantly scale up finance for renewable energy sources and to find new sources of additional funding to cover Loss and Damage and increasing resources needed for adaptation.

As Glasgow COP26 historically created some space for the core issue of fossil fuels to be discussed within UNFCCC, Sharm El-Sheikh COP27 confined this space. In this context, tangible progress on fossil fuel phase-out will be needed ahead of COP28 at the Paris Summit in order to build back trust between partners and adherence to UN climate talk and to maximize chances for COP28 to make a credible step towards the Paris Agreement.

At the Finance Summit, governments, financial institutions and other financial stakeholders will need to push a set of urgently needed commitments to do no harm (stop financing and subsidizing fossil fuels, significantly scale-up finance for renewable energy sources; make climate disclosure mechanisms mandatory rather than voluntary; align finance with national implementation plans such as NDCs and NAPs), to do more good (developed countries must deliver on their commitments to provide at least $100 billion per year from 2020 through to 2025, they must provide scaled up finance thereafter in line with the New Collective Quantified Goal to be agreed, they must double climate finance for adaptation and provide additional funding to cover the costs of Loss and Damage in vulnerable countries and regions, including through the new fund to be agreed under the UNFCCC) and to influence for good (mobilize private investment and unify decarbonization pathways (Chatham House, 2023), multilateral institutions and agencies can encourage private sector participation in global development priorities such as the SDGs and the Paris Agreement. A further step to scale up private climate investment (alongside public investment) is for institutions to adopt a common climate scenario framework - that means agreeing on what needs to be prioritized in terms of investment).

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[10] Debt- for- nature swaps: a two- fold solution for environmental and debt sustainability in developing countries? French Central Bank Bulletin 244/2, January/February 2023.

WWF draws attention to the WWF's list of '[Always Environmentally Harmful](#)' activities, which central banks, financial regulators and financial supervisors can use to adapt their monetary policy and financial regulation instruments[11].

For more information

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[11] 'Call-to action' urging central banks and financial supervisors to step up action on nature and climate, published by WWF in September 2022 in cooperation with a leading group of 90+ non-governmental organizations, think tanks and leading researchers all over the world.