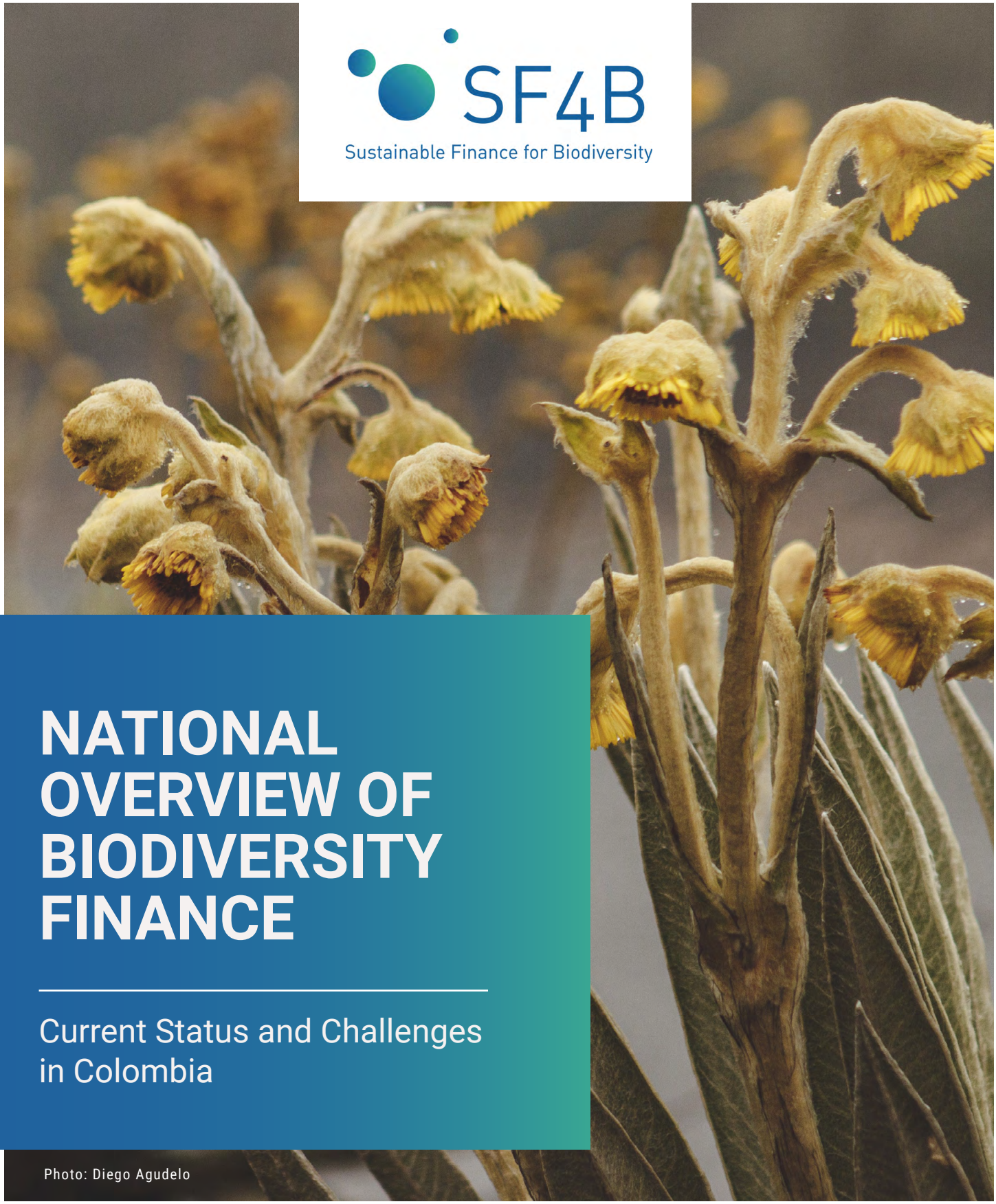
SF4B
Sustainable Finance for Biodiversity



NATIONAL OVERVIEW OF BIODIVERSITY FINANCE

Current Status and Challenges in Colombia

Photo: Diego Agudelo

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NATIONAL OVERVIEW OF BIODIVERSITY FINANCE

Current Status and Challenges in Colombia

Photo: Joel Bohorquez

Content

Acronyms and abbreviations

Photo: Juan Camilo Guarin

ARAS	Environmental and Social Risk Management—Administración de Riesgos Ambientales y Sociales
Asobancaria	Banking and Financial Institutions Association of Colombia—Asociación Bancaria y de Entidades Financieras de Colombia
IDB	Inter-American Development Bank
Bancoldex	Business Development Bank of Colombia—Banco de Desarrollo Empresarial de Colombia
BAP	Biodiversity Action Plan
BIOFIN	Biodiversity Finance Initiative
BNS	Bankable Nature Solutions
CONPES	National Council for Economic and Social Policy—Consejo Nacional de Política Económica y Social
COP	Conference of the Parties
ESA	Environmental Satellite Account—Cuenta Satélite Ambiental
DANE	National Administrative Department of Statistics—Departamento Administrativo Nacional de Estadística
DNP	National Planning Department—Departamento Nacional de Planeación
GCF	Green Climate Fund
GEF	Global Environment Facility
GRI	Global Reporting Initiative
IFC	International Finance Corporation
IPBES	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
IPCC	Intergovernmental Panel on Climate Change
MEbA	Microfinance for Ecosystem-based Adaptation
MinAmbiente	Ministry of Environment and Sustainable Development—Ministerio de Ambiente y Desarrollo Sostenible
MinHacienda	Ministry of Finance and Public Credit—Ministerio de Hacienda y Crédito Público
OECD	Organisation for Economic Co-operation and Development
PAB	Biodiversity Action Plan—Plan de Acción de Biodiversidad
PES	Payments for Ecosystem Services
PIML	Intersectoral Pact for Legal Timber—Pacto Intersectorial por la Madera Legal
PNGIBSE	National Policy on Integrated Management of Biodiversity and its Ecosystem Services—Política Nacional de Gestión Integral de la Biodiversidad y sus Servicios Ecosistémicos
PES	Payment for Environmental Services—Pago por Servicios Ambientales
SARAS	Environmental and Social Risk Management Systems—Sistemas de Administración de Riesgos Ambientales y Sociales
SINA	National Environmental System—Sistema Nacional Ambiental
SPNN	National Natural Park System—Sistema de Parques Naturales Nacionales
Superfinanciera	Financial Superintendencia of Colombia—Superintendencia Financiera de Colombia
TNFD	Taskforce on Nature-related Financial Disclosures
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UPA	Agricultural Production Unit—Unidad de Producción Agrícola
VAT NUMBER	Forestry Incentive Certificate
WCS	Wildlife Conservation Society
WWB	Women's World Banking
WWF	World Wildlife Fund

Executive overview

Despite global efforts, biodiversity loss continues to increase at a rapid rate. Meeting the targets agreed in the Convention on Biological Diversity (CBD), since 1992, are no longer sufficient. Hence, more ambitious targets must be proposed to reverse the trend of loss.

One of the biggest challenges of conserving biodiversity is having the necessary resources to achieve the goals

In countries such as Colombia, there is an enabling environment made up of regulations and institutions interested in reducing biodiversity loss. However, according to the Biodiversity Finance Initiative's data (BIOFIN, 2018), there is a 15% funding gap in the funds needed to reach the country's biodiversity conservation targets by 2030, without making adjustments to the new CBD framework.

In this context, two strategic actors for biodiversity management stand out. On the one hand, given the impact that the productive sectors have on biodiversity and the impact that the loss of biodiversity and its ecosystem services has on the sustainability of companies, it is mandatory that the private sector considers and incorporates in its decisions the materiality of sustainability issues that also affect territories, employment generation, GDP growth, and food sovereignty, among others. On the other hand, the financial sector is fundamental to achieving biodiversity conservation goals and reducing the impact of biodiversity loss for the country. However, as we will see in this document, there are national, international, and sectoral factors that hinder investment in biodiversity since these are transactions in which a high return is not perceived.

The Sustainable Finance for Biodiversity in Brazil and Colombia (SF4B)[1] project (2021-2023) seeks to contribute to the generation of knowledge and the strengthening of the countries' capacities to promote the financing of actions for the conservation of their biodiversity. This document is the first product of the project, and it is an approximation of the current conditions and challenges faced by Colombia in the construction of a biodiversity finance taxonomy as a tool to motivate investment. This document aims to enable a clearer and more transparent criteria for investment, track the contributions, and trace the information.

Similarly, it is recognized that despite the country's progress in establishing and enabling an environment for biodiversity investment, **there are several challenges involved in building a taxonomy for biodiversity financing, including i) understanding the dependencies and impacts of economic activities on biodiversity, ii) harmonizing a new taxonomy with existing exercises, iii) having appropriate financial instruments, iv) capitalizing on mandatory environmental investments, v) harmonizing with other taxonomies and responsible investment criteria, vi) learning from international developments in the field of taxonomy and biodiversity finance, and vii) tracking information.**

At the date of the publication of this document, the Colombian government had published the Green Taxonomy, a tool aimed at strengthening criteria for channelling resources towards green investments and spending in the country, contributing to green, low-carbon and climate-resilient growth. The SF4B project hopes to support government institutions to address the aforementioned challenges and generate tools and spaces for dialogue to position the taxonomy, strengthen the biodiversity criteria of the tool, and promote the involvement of the financial sector in biodiversity management.

Photo: Fabiana Rizzi

1

Introduction

On the eve of the 30th anniversary of the signing of the Convention on Biological Diversity (CBD), October 2021, the Fifteenth Conference of the Parties (COP15) on Biological Diversity was held. There, one of the main concerns expressed by the secretariat of the convention was that, despite efforts, biodiversity loss has continued to occur at a very high rate and, together with land degradation and climate change, it constitutes an environmental crisis that should be considered a top priority at the global level, as mentioned in the State of Nature's Finance report (United Nations Environment Programme [UNEP], 2021).

The report also highlights that the volume of capital directed to the implementation of nature-based solutions (NTBs) is insufficient. At present, the majority of the USD $133 billion tracked in 2020, has come from public resources.

The private sector's share is only 14% including capital mobilized for sustainable agriculture, forest production chains, private investments in biodiversity actions, and carbon-related markets

(UNEP, 2021).

The analysis of risks related to biodiversity loss becomes a fundamental issue for development considering the high dependency, direct or indirect, on the natural capital of productive sectors, especially in their supply chains. Nearly half of the world's GDP depends, to some degree, on ecosystem services and this dependence poses risks to the sustainability of businesses (World Economic Forum, 2020).

The global context, thus, provides a major challenge for the financial sector. In 2021, EUR 14 trillion in green bonds were issued in Europe to develop renewable energy projects, a landmark event that demonstrates the growth of the financial sector's involvement in the environment (Oxford Business Group, 2021) and that gives insights about how decisions are being made to address the financial gap regarding environmental priorities. However, the criteria or definitions for investing in biodiversity are still under construction.

This is due to—among others— the fact that **the expected return for investors in Bankable Nature Solutions (BNS) and other biodiversity-related actions is not perceived as high enough to be considered attractive (UNEP, 2021). The UNEP identifies the main causes of low leverage of the financial sector for biodiversity-related actions as, the lack or shortage of: i) understanding of biodiversity among banking professionals, ii) assessment of the materiality of biodiversity loss in the context of banking, iii) guidance and practices to be replicated by banks, iv) definition of measurable and tested key indicators for application at bank and portfolio level, v) understanding of the commercial arguments for the restoration of biodiversity and ecosystems to justify a more strategic approach** (United Nations Environment Programme, World Conservation Monitoring Centre, 2021)

In the case of Colombia, biodiversity is particularly a development imperative

Some of the ecosystem services related to biodiversity, highlighted in Colombia's Sixth Submission to the CBD, are those provided by the *páramos*[2], which supply water to 70% of the Colombian population and agricultural activities, as well as the contribution of the National Parks (17'466,973.55ha) to the provision of water and water regulation, which is equivalent to 1.15% of GDP and has an estimated value of USD $ 3,439 million (Ministry of Environment and Sustainable Development [MinAmbiente], 2019).

Despite having relatively developed political, institutional, and regulatory frameworks as well as a large number of conservation figures, in practice, conflicts persist over land use and land-use planning (MinAmbiente, 2017).

2. *Paramos* are high-altitude ecosystems (found between ~ 3200–5000 masl) found mainly in a discontinuous belt stretching along the Andean Mountain range from the Cordillera de Merida in the Bolivarian Republic of Venezuela to the Huancabamba depression in northern Peru, passing through Colombia and Ecuador (Buytaert et al., 2006; IUCN, undated). Paramos are grassland-shrubland ecosystems in areas that are humid year-round, with > 3000 mm of annual precipitation, and that lack strong seasonality (Rundel et al., 1994). Paramo is dominated by tussock grasses (primarily Festuca and Calamagrostis spp.) and rosette plants and is often distinguished by abundant stemmed rosette plants of Espeletia spp. (frailejones). In their middle elevations, Paramos are also characterized by their deep, organic-rich humic or volcanic soils that hold large amounts of water (Balslev and Luteyn, 1992). (FAO, 2019) and (Goldstein & DellaSala, 2020).

The result of these pressures on ecosystems is evident in the historical peak of deforestation in 2017 of 219,552 ha (Instituto de Hidrología, Meteorología y Estudios Ambientales [IDEAM], 2018). According to deforestation monitoring figures, 197,159 hectares were lost in 2018; 158,894 hectares in 2019; and 171,685 hectares in 2020 (IDEAM, 2019).

The transformation and loss of forests and other habitats because of the expansion of the agricultural frontier, illegal logging, illicit crops, illegal mining, and the growth of urban areas, among others, are the main direct drivers of biodiversity loss

The country allocates 38.6% of its land to farming activities: cattle ranching is the main activity on degraded lands and represents 77% of the agricultural frontier and 27% of the continental territory; likewise, agriculture represents 19.7% of the continental land (Instituto Humboldt, 2021).

Information on the loss of coastal marine ecosystems is limited.

Photo: Backroad Packers

The country's challenges in terms of biodiversity conservation are not few and public and private investment is required to reduce its loss

In this context, the SF4B[3] project (2021-2023) was born. It seeks to contribute to the generation of knowledge and the strengthening of capacities to promote the financing of actions for biodiversity conservation in both countries. An important component of the project is the exchange of knowledge with the European Union, given its progress in integrating biodiversity into its sustainable finance issues.

In Colombia, the project prioritised actions to promote and support financial biodiversity networks in the country and the region with international assistance, to develop an online course on biodiversity finance and green taxonomy, and the implementation of pilots to materialize a biodiversity taxonomy proposal.

3. https://www.fs-unep-centre.org/project/sf4b/

This document is a first approach to understanding the reality of the country in terms of the challenges that it faces in the formulation of a sustainable biodiversity finance taxonomy and the involvement of the private sector in its financing

Firstly, it presents the regulatory context and developments in the financial sector as well as the progress that has been made in calculating the biodiversity finance gap, which is based on existing data and the instruments that are being considered to close said gaps. It then discusses the role of the financial sector in biodiversity finance and explains the progress of the green taxonomy process for the country. Finally, a simple stakeholder map for biodiversity management and financing is presented, which acknowledge the stakeholders of the SF4B project and mentions some of the current challenges being faced by biodiversity financing in the country.

2

Scenario for financing the conservation, restoration, and sustainable use of biodiversity

Colombia has a regulatory framework that considers and includes the importance of biodiversity and its ecosystem services in the country's economic and social development, integrating an efficient and sustainable use approach in development policies and in accordance with international commitments.

This vision of the country should instil into the productive sectors the need to incorporate biodiversity criteria in decision-making, as it has become a determinant of the viability of operations and projects. The sectors subject to environmental licensing for the development of projects, such as mines, energy, and roads, were the first to move in this direction.

The policy framework for biodiversity management in Colombia is comprehensive and has a vision that includes the different sectors and regions of the country. It **represents challenges for the articulation and integration of the productive sectors in the national goals of management, conservation, and restoration of biodiversity along with opportunities for environmentally sustainable growth, which allows the risks associated with biodiversity loss to be reduced.**

The following is a timeline listing the relevant regulations for biodiversity management in Colombia. It is worth mentioning that only **the CONPES 3934[4] and 4023[5] list the financial sector at the development banking level as financiers and co-responsible for policy compliance.** Despite their importance, the involvement of commercial banks, insurers or investors is not mentioned in the policy documents.

4. CONPES Document 3934. Green Growth Policy.
5. CONPES Document 4023. Policy for reactivation, revitalization and sustainable and inclusive growth: New Commitment for the Future of Colombia.

Figure 1.

National policy framework for biodiversity management

Law 165 of 1994

1

It introduced the Convention on Biological Diversity.

National Policy for the Integrated Management of Water Resources 2010

2

It defines guidelines for water management in the country, understood as a good for public use, highlighting integrated management and promoting its conservation.

National Restoration Plan 2015

4

It promotes ecological restoration, recovery, and rehabilitation of disturbed areas and allows the technical channelling of resources and initiatives to reduce the country's vulnerability.

National Policy for the Integrated Management of Biodiversity and its Ecosystem Services (PNGIBSE) 2012

3

It seeks to implement the integrated management of biodiversity and its ecosystem services by improving the resilience of socio-ecological systems.

This policy recognises biodiversity as the source of the supporting, regulating, and provisioning ecosystem services of the country. It has an Action Plan (BAP) with targets for 2020, 2025 and 2030.

CONPES 3934 Green Growth Policy 2018

5

It boosts the country's productivity growth and economic competitiveness while ensuring the sustainable use of natural wealth and social inclusion in a climate compatible manner. The policy objectives include: generating conditions that promote economic opportunities based on the wealth of natural capital by boosting the bioeconomy and promoting the development of the forestry sector.

It assigns responsibilities to development banks to finance actions and create investment lines for green growth.

Law 1930 of 2018, which dictates provisions for the integrated management of tropical moorlands

6

It establishes the importance of the páramos (tropical moorlands) as strategic ecosystems and sets guidelines for their integrity, preservation, restoration, sustainable use, and knowledge generation.

CONPES 4021 National Policy for the Control of Deforestation and the Sustainable Management of Forests

7

It seeks to implement cross-sectoral strategies to control deforestation and promote forest management, fostering the sustainable use of natural capital, the forest economy and community development. This policy focuses on the 11 high deforestation nuclei (HDN) located in 150 municipalities which are considered to be the most affected territories by the loss of natural forest cover in Colombia.

Decree 690 of 2021: Sustainable Management of Wild Flora and Non-timber Forest Products

9

It defines the criteria for planning and implementing sustainable practices for the management, use, and harvesting of wild flora and non-timber forest products, safeguarding the balance of ecosystems and their functions.

CONPES 4023 Economic Reactivation 2021

8

Aimed at developing capacities so that, in the short term, the country can resume its development path prior to the COVID-19 pandemic. In the long term, it intends to move towards more sustainable and inclusive growth and to develop the ability to respond adequately to future shocks.

E2050 Colombia - Colombia's E2050 long-term climate strategy to comply with the Paris Agreement

10

It sets long-term socio-economic development objectives and GHG emission reduction targets to strengthen the country's resilience while helping to identify national and international public and private investment priorities. The goal is to transform Colombia into a climate-resilient country by 2050 based on human well-being, biodiversity conservation, and water security. For example, it prioritises agrobiodiversity under agri-food system models, production/conservation mosaics.

Note. Own construction from official websites.

As previously mentioned, Colombian regulations for environmental management do not contemplate the role of commercial banks in the fulfilment of national objectives, nor is there a guideline for the establishment of environmental and social risk management systems for the financial sector in the country. However, Asobancaria (2021a) developed the General Guide for Environmental and Social Risk Management (ARAS) after being motivated by the sector's growing interest in standards and good practices to manage potential risks derived from impacts on the environment and society. This guide compiles general policies, methodologies and procedures that could be incorporated into a system that seeks to manage these risks in operations. In addition, it is configured as a practical tool for financial institutions to be able to generate their own ARAS by integrating it into their processes according to the needs and particularities of each type of business.

The document is adapted to each type of financial institution and incorporates reference elements to assess a wide variety of operations, considering the provisions related to portfolio analysis, sensitive sectors, and the number of operations conducted. The environmental and social questionnaire incorporated in the Environmental and Social Risk Management Systems (SARAS) includes a chapter with specific questions on Biodiversity Conservation and Sustainable Management of Natural Resources (Asobancaria, 2021). Among the standards it references are the environmental and social performance standards of the International Finance Corporation (IFC), which have specific recommendations regarding the measurement of biodiversity impacts. Despite the above, given that there are no specific investment lines for biodiversity in banking institutions, few IFC criteria related to biodiversity are incorporated into the SARAS of banks.

There are also public and private initiatives that contribute to the development of enabling conditions for the implementation of sustainable financing tools with environmental and social benefits:


Photo: Karoll Amado

The SISCLIMA Financial Management Committee:

A body for inter-institutional coordination and public-private dialogue that seeks to provide public policy guidelines to include climate change criteria in economic and financial planning.

The Good Practice Guide for the issuance of green bonds:

That contains the minimum instructions on the prospectus for the issuance of green bonds and its minimum information requirements. It is framed in the green bond principles of the International Capital Market Association (ICMA) (Superintendencia Financiera de Colombia, 2020).

The Green Protocol:

An agreement signed in 2017 between Asobancaria, representing the financial sector, and the national government. It has three strategies: to promote sustainable development financing, to utilise sustainable resources in their internal processes, and to include environmental and social impacts and costs in credit and investment risk analysis (Asobancaria, 2012).

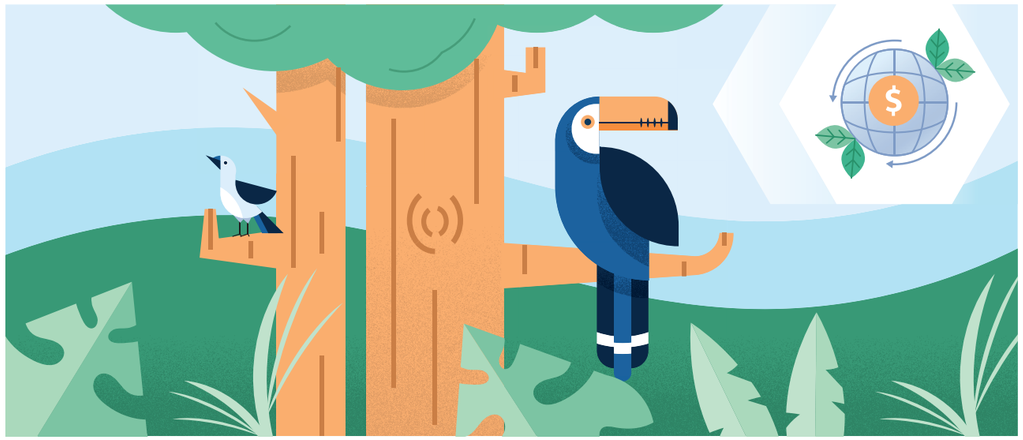
The Responsible Investment Taskforce:

Is a space for interaction and dialogue between public and private actors working on the promotion and implementation of responsible investment; it seeks to articulate the different institutional efforts, make experiences and good practices visible, and promote collaboration in the field of sustainable and responsible investment in Colombia.

The above-mentioned spaces do not have a particular emphasis on biodiversity finance, but they do give signals about the public-private intention to foster enabling environments for responsible investment

This is reinforced by the latest Progress Report from the International Finance Corporation's Sustainable Banking and Finance Network, according to which Colombia has made progress towards a more sustainable investment environment (Sustainable Banking Network, 2020). This report found that Colombia moved towards a stage of market maturity in promoting the shift towards sustainable finance, demonstrating actions to establish an enabling environment and industry initiatives.

The Colombia report highlights the progress made by the country in recent years and the efforts, both private and public, to develop mechanisms, guidelines, and directives for the implementation of good practices, the inclusion of environmental and social risk criteria, as well as the construction of definitions that guide the sector towards the development of sustainable finance.



2.1

Biodiversity Management Funding Gap

Although the regulatory framework enables the development of biodiversity management with an integrated vision between public and private actions, there are still great challenges for the implementation of regulations and the fulfilment of goals proposed in national plans.

Increasing the number of resources allocated to finance biodiversity management is one of these challenges

In this regard, the BAP sets a 2030 target that seeks to build a comprehensive financial strategy, led by public institutions, which will contribute to increasing the resources allocated to finance biodiversity management.

In the initial BAP Financial Plan document constructed in 2018, it was estimated that an investment of USD $6.2 billion is needed to meet the 2030 targets, which would imply increasing investment to USD $22 million per year (BIOFIN, 2018). **Given that national environmental commitments are currently more ambitious, the actual amount required to meet the targets could be higher than the one calculated in 2018.**

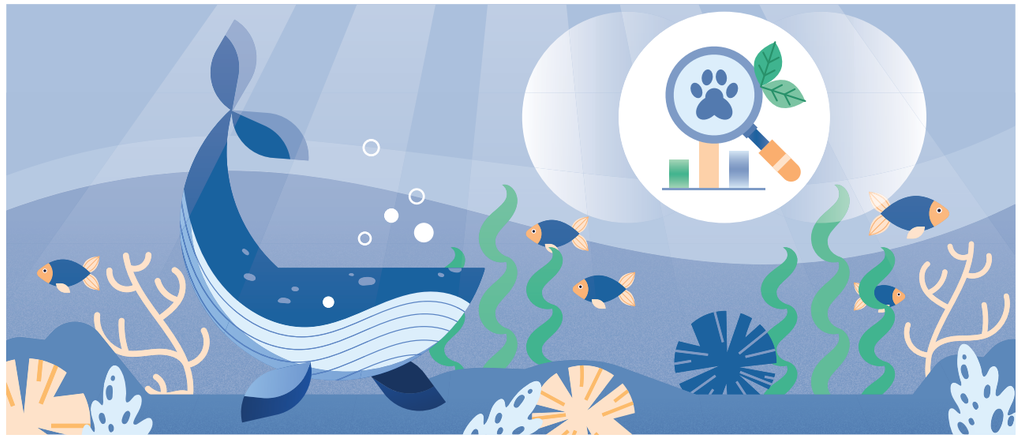
With this objective in mind, different approaches have been used to develop exercises to track and measure funding flows for environmental management. The developments of the National Administrative Department of Statistics (DANE), framed in the Environmental Satellite Account (ESA) and the analysis and evaluation of instruments and mechanisms for financing biodiversity and its ecosystem services developed by BIOFIN, are the most important ones. These developments provide the current scenario for estimating economic resources directed towards environmental financing and biodiversity. At the same time, they represent the basis for the development of future exercises to track, classify and analyse private and public capital flows.

Environmental Satellite Account (ESA) DANE

It aims to assess the actions of different economic sectors to conserve, mitigate impacts, or protect the environment. Specifically, the Environmental and Economic Account of Environmental Activities and Associated Transactions (ESA) provides information on the response of the society to environmental degradation and natural resource depletion.

Based on information reported through budget execution, the ESA presents results of the measurement of current expenditure and investment on environmental activities, such as environmental protection and resource management, by government entities, and public sanitation service providers and producers, such as the manufacturing industry (DANE, 2020).

Recent figures from the DANE funding tracking, reported in DANE's Environmental Satellite Account (ESA), show that, by 2020, the total government spending on environmental protection reached a value of COP 4,8 trillion. Additionally, biodiversity and landscape protection activities accounted for 32,1% of these resources



BIOFIN

The international BIOFIN initiative, present in 40 countries, works hand in hand with governments, civil society, and the private sector to support the development of comprehensive biodiversity financing plans. This initiative, in Colombia since 2015, has developed an analysis of investments in protection, conservation, sustainable use of biodiversity, and inclusion of sectoral policies in most public initiatives; furthermore, it has identified trends, financial gaps, and opportunities aimed at meeting the country's biodiversity targets.

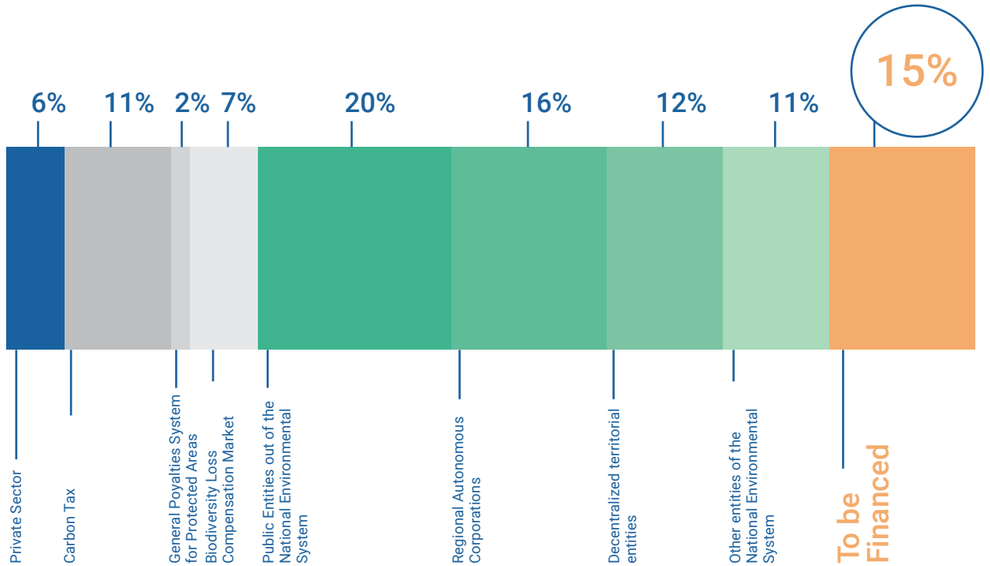
The exercise carried out by the BIOFIN initiative focused on tracking and measuring funding flows for biodiversity management, including the projection of investment flows needed to finance actions up to 2030 with special emphasis on the origin of resources and the use of mostly public financial mechanisms and instruments

Based on projections of historical resource flows to finance the PNGIBSE and to meet the 2030 targets, it is estimated that about 65% of the financing requirements would be covered by public (represented by the green range in the graph below) and private expenditure; 20% is considered to have the potential to be financed by leveraging existing financial mechanisms such as carbon tax, biodiversity offsets and SGR with protected areas (USD $1.2 trillion); **and the remaining 15% is considered to be the difference that will need to be financed** (USD $0.93 trillion) (BIOFIN, 2018).

Figure 2.

Financial Potential - BAP Financing Plan[5]

Note: From Movilizando recursos para la biodiversidad. Plan financiero, by BIOFIN, 2018.



It is important to clarify that the analysis conducted by BIOFIN bases its calculations on the tracking of public resources; the 6% estimated from the private sector contribution corresponds to compensation resources for the loss of biotic components. However, **the potential for private sector funding can be higher if other market-based and sector-driven financial mechanisms and instruments are included, representing an opportunity for the financial sector to build the bridge between supply and demand for biodiversity funding flows.**

6. The National Environmental System - SINA is the set of guidelines, regulations, activities, resources, programs, and institutions that allow the implementation of Colombia's general environmental principles. Information on how the SINA is conformed can be consulted at: https://www.minambiente.gov.co/ordenamiento-ambiental-territorial-y-sistema-nacional-ambiental-sina/


Photo: Juan Camilo Guarin

2.2

Biodiversity financing instruments

Although the instruments analysed by BIOFIN are applied to the development of private sector activities, they are mainly public in nature or are promoted by public initiatives. Despite **the lack of comprehensive measurements of the potential contribution of private sector instruments to biodiversity management financing, they are considered as options with the potential to fill the biodiversity financing gap.**

The following are the mechanisms prioritised by BIOFIN to contribute to closing biodiversity funding gaps and problems.

Figure 3.

Mechanisms with gap financing potential

Note. From Movilizando recursos para la biodiversidad. Plan financiero, by BIOFIN, 2018.

In Payments for Ecosystem Services (PES) schemes, a beneficiary of the environmental service makes a payment for actions that maintain and improve environmental conditions in a specific area (Fondo Acción, 2016). The implementation of the National PES Programme has created the conditions for the development and consolidation of these schemes in the country. By 2020, the total accumulated area under PES schemes was 299,326 hectares, and for that year alone a total of 79,414 new hectares were reported under conservation models with PES in 24 projects, benefiting 3,780 families in 120 municipalities (MinAmbiente , 2021).

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A clear example of the financial sector's participation in a PES scheme is BanCO₂, which was born in 2013 as an initiative for the conservation of ecosystems, working hand in hand with farmers and Indigenous communities in rural areas of Colombia

Photo: Alejandro Ortiz

The platform led by Más Bosques and Bancolombia seeks to offset the carbon footprint of individuals and companies through a PES-type scheme with communities. The compensation resources are delivered to the owners of the land through an instrument called Ahorro a la Mano, which allows access to a bank account without the need to go to a bank. This invention, the first of its kind in the country, expanded the number of beneficiaries and allowed the programme to become widespread, receiving resources from individuals and companies interested in compensating their emissions. Currently BanCo2, present in several regions of the country, is a mechanism that has even been used by companies to compensate and fulfil their environmental obligations.

One of the instruments that can have a major impact on biodiversity are environmental offsets and royalties. The associated resources are indeed important, but they cannot be considered as investments aimed at closing structural gaps in biodiversity loss. They are effective mechanisms to restore and incentivise sustainable use, but they are not adequate to reduce biodiversity loss on a large scale.

The national development policies presented in this report call for a fundamental transformation in the way business is done so that instead of diminishing or compensating for damage, the activities themselves generate positive impacts (positive biodiversity)

↓

This goal requires further work on that last instrument of institutionalisation and sustainability of financial solutions applicable to all economic sectors and actors.

Photo: Maria Jesus Erfazuriz

3

Role of the Financial Sector

In recent years, the financial sector has moved towards building mechanisms and instruments to integrate environmental impacts into its business models and contribute to the country's sustainable development. These actions include the analysis of environmental and social risks and the development of financial instruments considered green because of their positive impact on the environment.

The tools used by financial institutions in Colombia to manage environmental and social risks range from the evaluation of environmental and social documentation and the implementation of international standards and norms to the use of online tools that facilitate the measurement of socio-environmental impacts. Those instruments that incorporate **biodiversity** in their **analysis criteria** are presented below.

Figure 4.

Available tools incorporating biodiversity criteria

Note. Own elaboration based on Environmental and Social Risk Assessment Tools. Characterization of the main tools used in Colombia, by Cardenas, 2019.

Assessment of potential impacts on sensitive areas based on the analysis of environmental and social documentation

The SARAS of financial institutions take into account possible impacts on sensitive areas in their risk assessment. By reviewing documents such as certificates of title and ownership of the land where the initiative to be financed will be developed, it is possible to identify and categorise risks to areas of international, national, or regional importance, either within a conservation category or within ecosystems of high biodiversity value.

Implementation of performance standards on environmental and social sustainability IFC

They aim to support organisations in identifying and managing environmental risks and impacts in their projects. They include a specific standard on biodiversity conservation and sustainable management of living natural resources. These performance standards consider measures for prevention, mitigation, correction, or compensation of impacts on modified, natural, and critical habitats, and legally protected areas. They also consider the management of ecosystem services on which the project and affected communities depend; furthermore, they contemplate practices for verifying impacts on biodiversity in the supply chain (IFC, 2012).

Use of online tools - Tremarctos Colombia

This is an online platform that helps to obtain approximations of environmental and socio-economic impacts generated by infrastructure, hydrocarbon, and mining projects along with estimates of the area to be compensated.

The tool has the option to generate early warning reports on biodiversity, using the geo-referenced location of the project as main input data; it identifies the impact of a project on areas employing conservation mechanisms and provides an approximate value of the area to compensate for biodiversity losses caused by the project.

According to data from Asobancaria (2021), by 2019, the percentage of adoption of policies or guidelines for the evaluation of environmental and social risks, in projects to be financed in its associated entities, was 74%. That year, 5,331 socio-environmental risk assessments were carried out of which 85% were approved; by 2020, this portfolio reached COP 19.3 trillion pesos. Nonetheless, no data is available on the amount of the portfolio that meets criteria for risks related to biodiversity and its ecosystem services.

Efforts are still needed to integrate the concept of the dual materiality of biodiversity loss by the sector

According to the latest sustainability report of Asobancaria (2020), only four entities in the sector have determined the degree of dependence that their company has on assets related to biodiversity and ecosystem services; this type of analysis is considered an opportunity for improvement and a challenge to be taken on by the sector.

Aligned with the country's context of environmental policies and commitments, the financial sector has developed products that seek to address sustainable investment interests. The growing offer of financial products and services that promote or generate positive environmental impacts is evidence of the progressive interest of actors in green financing mechanisms. 36% of financial institutions offer these types of products and services; in 2019 this portfolio reached COP 4.6 trillion (Asobancaria, 2021). However, there is still no estimate of the percentage of this portfolio that is directly allocated to activities related to biodiversity management.

Recently, some of the more developed instruments in this category are green bonds. Currently, the Colombian financial market issues public and private green bonds as well as a good practice guide for their issuance.

The financing portfolio linked to the public issuance led by Ministerio de Hacienda y Crédito Público (MinHacienda, 2021) included 27 projects of up to COP 2 trillion in water management and sanitation, clean transport, renewable energy, sustainable agricultural production, circular economy, ecosystem services, biodiversity protection, and adaptation to climate change.

On the private sector side, several financial institutions have built financing initiatives based on thematic bonds. Currently, the Colombian market has issued COP 1.5 trillion in green bonds and COP 1.1 trillion in sustainable bonds, mostly to channel resources towards renewable energy and energy efficiency projects (BVC, 2022).

Although there are still no significant amounts in bonds that directly channel investments towards the protection and recovery of biodiversity and its ecosystem services.

This type of financing instrument, increasingly implemented by public and private entities, represents an opportunity for the financing of biodiversity management in the country

As the number of these initiatives grow, so does the necessity to build a common frame of reference, a taxonomy that establishes the definition of investment themes and determines the standards and requirements for the classification of financing instruments and mechanisms and their effective alignment and contribution to the country's environmental and social objectives.

At this point, the Microfinance for Ecosystem-based Adaptation to Climate Change (MEbA) programme stands out. This is an initiative that aims to provide instruments that allow small agricultural producers to implement adaptation measures. MEbA began in 2017 with resources from international cooperation. That same year, Bancamía, UNEP and Bancoldex inaugurated a demonstration farm in Ubaté so that producers could see the implementation of 11 adaptation measures. In the case of Bancamía (BBVA microfinance foundation), the bank developed a line of loans called "CrediVerde" which includes 40 adaptation measures, 22 of which are already being financed. Similarly, Bancoldex grants resources, through a contest, taking into account the results of MEbA; then, the resources are executed by microfinance institutions, banks, and NGOs that have a line of credit with Bancoldex.

4

Why is a Green Taxonomy needed?

The sustainable finance taxonomy is a tool that provides definitions so that issuers, investors, companies, government institutions, among others, have clarity—and the same information—regarding which activities are considered sustainable (MinHacienda, 2021).

In the case of Colombia, this tool is called Green Taxonomy and aims to establish a common classification system for economic activities and assets that contribute to the achievement of the country's environmental objectives in order to have a clear scenario for issuers and investors

The Taxonomy contributes to the mobilisation of resources because it provides clarity and transparency to financial flows, which allows greater confidence among the relevant actors in environmental investment or in biodiversity in this particular case.

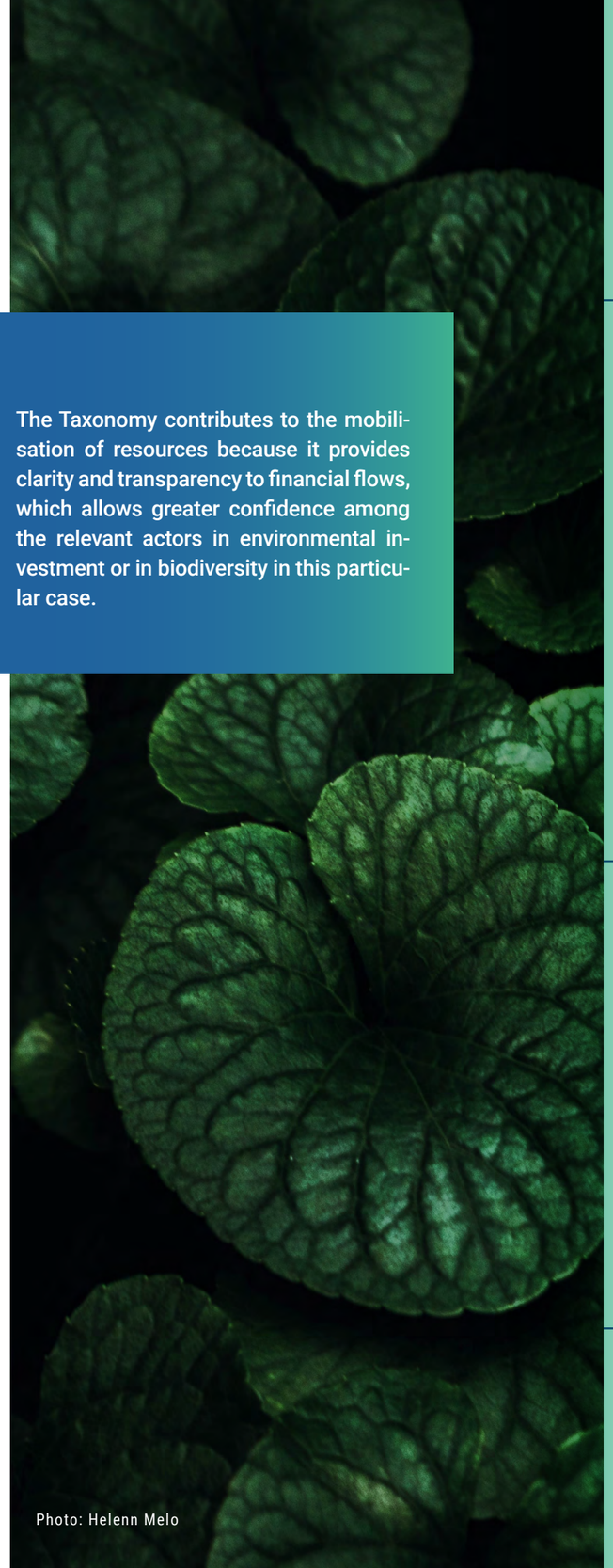
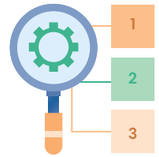
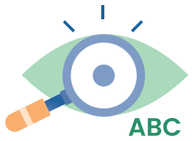


Photo: Helenn Melo

Figure 5.

Main uses of Green Taxonomy

 Support stakeholders in the identification and evaluation of economic activities and assets that contribute to the achievement of environmental objectives. Promote the effective mobilization of private and public resources for environmental investments that allow the country to comply with its international commitments.	 Facilitate the differentiation and classification of green financial instruments from other financial instruments and promote the development of green capital markets in Colombia.
 Encourage the homologation of criteria and definitions for green finance through a common language, increasing transparency and preventing greenwashing.	 Support the monitoring and tracking of green investments aimed at environmental sustainability goals as well as the identification of activities with free potential made for resource targeting.

Note. From Taxonomía Verde de Colombia. Fase I para la Construcción de la Taxonomía Verde Colombia. Green Taxonomy of Colombia, by MinHacienda et al., 2021.

For the construction of the Colombian Green Taxonomy, the European Union's process for Sustainable Finance was taken as a reference recognising the importance of seeking alignment with other taxonomies that allow the best possible response to the global nature of markets and environmental challenges

(Superintendencia Financiera de Colombia, 2021).

Similarly, the Climate Finance Monitoring, Reporting and Verification System (MRV) was taken into account with regard to the identification of economic activities.

The *Mesa de Taxonomía* (today the *Comisión Intersectorial para la Taxonomía Verde*), formed by the Ministry of Finance and Public Credit (MinHacienda), the Ministry of Environment and Sustainable Development (MinAmbiente), the National Planning Department (DNP), the National Administrative Department of Statistics (DANE) and the Financial Superintendence of Colombia (SFC), was in charge of the preparation, design and development of this tool, and will be in charge of the implementation of the Green Taxonomy in Colombia.

By the end of 2021, two technical documents were published and commented: The first one covers the analysis of seven (7) sectors: energy; construction; waste management, and emission capture; water supply and treatment; transport; information, and communication technology; and manufacturing. The second one, targeting three (3) land-use relevant sectors: livestock, agriculture, and forestry, respectively analysed under five (5) environmental objectives: climate change mitigation, climate change adaptation, ecosystem and biodiversity conservation, water management, and land management.

In April 2022, the President of the Republic launched the Green Taxonomy as a tool aimed at channelling resources towards green investments and spending, increasing the country's competitiveness on a path of development that is resilient to climate change, with low-carbon growth, and in line with the commitments made in international agreements (MinHacienda, 2022). At the same time, work is being done to define the governance scheme of the Green Taxonomy, to secure its ownership and socialisation, and to make sure it is kept up to date, among others.

The growing development of sustainable finance and green taxonomy in the national context represents an opportunity for mobilising and channelling financial flows for the management of biodiversity and its ecosystem services, enabling the financing of the biodiversity investment gap and increasing the share of the private sector in the total current investment

The Green Taxonomy is expected to enable the development of new financial products and the positioning of biodiversity-positive activities in the portfolios of financial institutions. Furthermore, the published Green Taxonomy document recognises the importance of the financial sector in managing the environmental risks that the taxonomy seeks to control. Finally, it lists the applications for its different users.

Within the framework of the SF4B project, the objective is to assist the national exercise of supporting the construction, use and appropriation of the Taxonomy of Finance for Biodiversity

recognising that this tool will increase private investment flows to activities of conservation, restoration, and sustainable use of biodiversity, and that it will generate a traceability exercise that builds confidence among the actors involved in biodiversity management and associated investments.

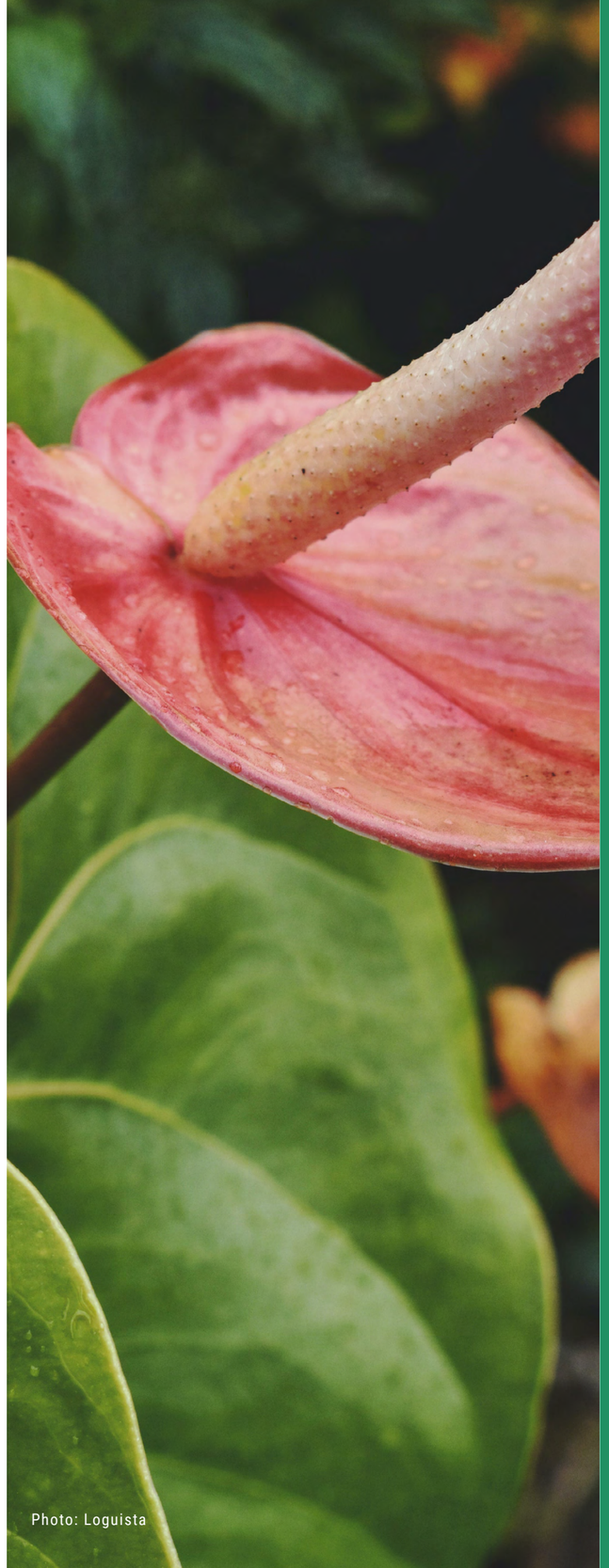


Photo: Loguista

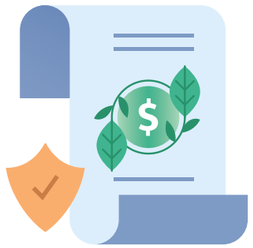
5

The actors of Biodiversity Financing

Due to the multiple disciplines that interact in this area, there are many actors involved in biodiversity management and its financing. This section has been developed based on the identification of stakeholders related to biodiversity management presented by the PNGIBSE and the scope of the SF4B project.

Main stakeholder groups are listed below:

i) policy makers, regulators, and administrators, ii) direct users of biodiversity, iii) financial sector, iv) Multilateral Banking and International Cooperation. While all sectors are relevant, the most representative ones are listed below.

Group	Relevance - Role
Policy makers, regulators, and biodiversity managers 	Institutions in charge of generating the country's sectoral environmental policy and its implementation along with defining the mechanisms for financing national or sub-national conservation goals. These include: the Ministry of Environment and Sustainable Development (MinAmbiente), the National Planning Department (DNP) and regional environmental authorities. The Ministry of Agriculture and Rural Development is included because of its role in administering, regulating, and approving agricultural land use.
Direct users of biodiversity 	The agriculture, forestry, and livestock sectors are prioritised in the construction of Colombia's Green Taxonomy from the point of view of land use. Their activities can be decisive in halting biodiversity loss or even generating an increase in positive biodiversity. Mining, hydrocarbon, energy, road and infrastructure sectors impact biodiversity and invest in its use in the framework of projects and their environmental licensing. This constitutes a tangible strategy for the development of ecosystem restoration and conservation actions in the territories. Cosmetics, bioeconomy, and innovation sectors make use of biodiversity by promoting initiatives to access it and make use of its genetic resources.

Group	Relevance - Role
Financial sector 	They have previous experience and learnings in climate finance; they have information regarding scenarios suitable for application; they develop capacity-building actions and promote best practices for the growth of their affiliates. Its affiliates are responsible for financing, insuring, and investing in the development of activities that may be related to the knowledge, use, and conservation of biodiversity. They mobilise large amounts of capital in investments of all types. In addition, they have the ability to interpret "signals" that position investments. They serve the market as a bridge between the demand and the supply side of financing flows. Finally, they have a role in channelling and efficiently allocating biodiversity investments through market-based mechanisms. The Superintendencia Financiera de Colombia and the Ministry of Finance and Public Credit (MinHacienda) define economic policy and tools to ensure the security of Colombia's financial sector.
Multilateral Banking	Potential funders of the construction of the taxonomy and of projects within the framework of the taxonomy.
NGOs, Research Institutes	They have an interest in improving knowledge around biodiversity investment taxonomies. They generate the key knowledge for biodiversity considerations to be integrated into financial services and taxonomy—Science-based taxonomy.

Intersectoral Commission of Green Taxonomy

Comprising MinHacienda, MinAmbiente, DNP and Superfinanciera, it constitutes the governance scheme for the Green Taxonomy.

Project SF4B

SF4B
Sustainable Finance for Biodiversity

It has been designed to support capacity building of government and financial sector institutions in Green Taxonomy and Biodiversity Finance.

It proposes to develop working groups on Green Taxonomy to promote investment in biodiversity in the region.

6

Challenges of the biodiversity taxonomy funding in Colombia

As previously mentioned, in April 2022, Colombia published its Green Taxonomy, a tool aimed at identifying and evaluating economic activities that can contribute to meeting the country's environmental objectives and, in turn, promote public and private investment in environmental issues. The current Taxonomy does not have a chapter specifically tackling biodiversity issues although this dimension is partially addressed from the perspective of adaptation to climate change and the livestock, forestry, and agricultural sectors. Considering the inherent difficulty of adopting the dual materiality of biodiversity loss and the difficulties of measuring positive and negative impacts of financial activities, building such a taxonomy is a challenge but also an opportunity.

Some of the most challenging areas are:

1. Understanding the dependencies and impacts of economic activities on biodiversity

This implies the use of methodologies and tools not yet used in Colombia and under development in other regions. This understanding also implies developing capacities in financial institutions to incorporate biodiversity criteria in decision-making as well as identifying the tools or lines of financing that put biodiversity at risk and with which a balance should be struck.

This is one of the “Next Steps” identified by the national government and will be addressed in this project.

2. Gathering what already exists.

Currently in Colombia, the BIOFIN initiative, led by UNDP, has calculated the financing gap needed to meet the BAP conservation targets.

The Taxonomy to be built should recognise this exercise as well as the elements of the Environmental Satellite Account, so that the tracking of investments permits the gathering of the most realistic data possible

3. Having the right financial instruments in place

This means building, with institutions, the financial and economic instruments that can be applied to biodiversity investment, and likewise, it implies closing the gaps in the application of existing ones.

This involves engaging the financial, insurance, investment, and private sectors to identify the opportunities and needs that they require to invest in biodiversity. It is important to highlight the economic benefits of positive biodiversity activities versus the risks of continuing *business as usual*.

4. Capitalise on mandatory investments

One way to engage the private sector is to recognise the effort involved in complying with environmental obligations arising from environmental permits and licenses. Such investments can be a cornerstone for the development of large-scale and multi-stakeholder projects. The Taxonomy will need to define how environmental obligations that contribute to reducing biodiversity loss are accounted for.

5. Harmonize with other taxonomies and criteria for responsible investment

The taxonomy should consider scenarios where funding can be assessed considering diverse types of sustainable investments such as climate change, sustainable development, and others as defined by the country. It is important to avoid “double counting” of investments or conflicting eligibility criteria since the taxonomy should not result in a detrimental incentive or an instrument that undermines another environmental initiative.

6. Learn from international developments in the field of taxonomy and finance for biodiversity

This will enable synergy and accelerate the learning curve of government and financial sector institutions through the exchange of information.

7. Tracking information.

In line with the above, as defined in the taxonomy, a variety of mechanisms should be created to report, track, review, and adjust biodiversity investment information by the institutions in charge of the data. The information should comply with environmental, geographic, and financial attributes so that it can be used by financial institutions.

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Photo: Danilo Arenas

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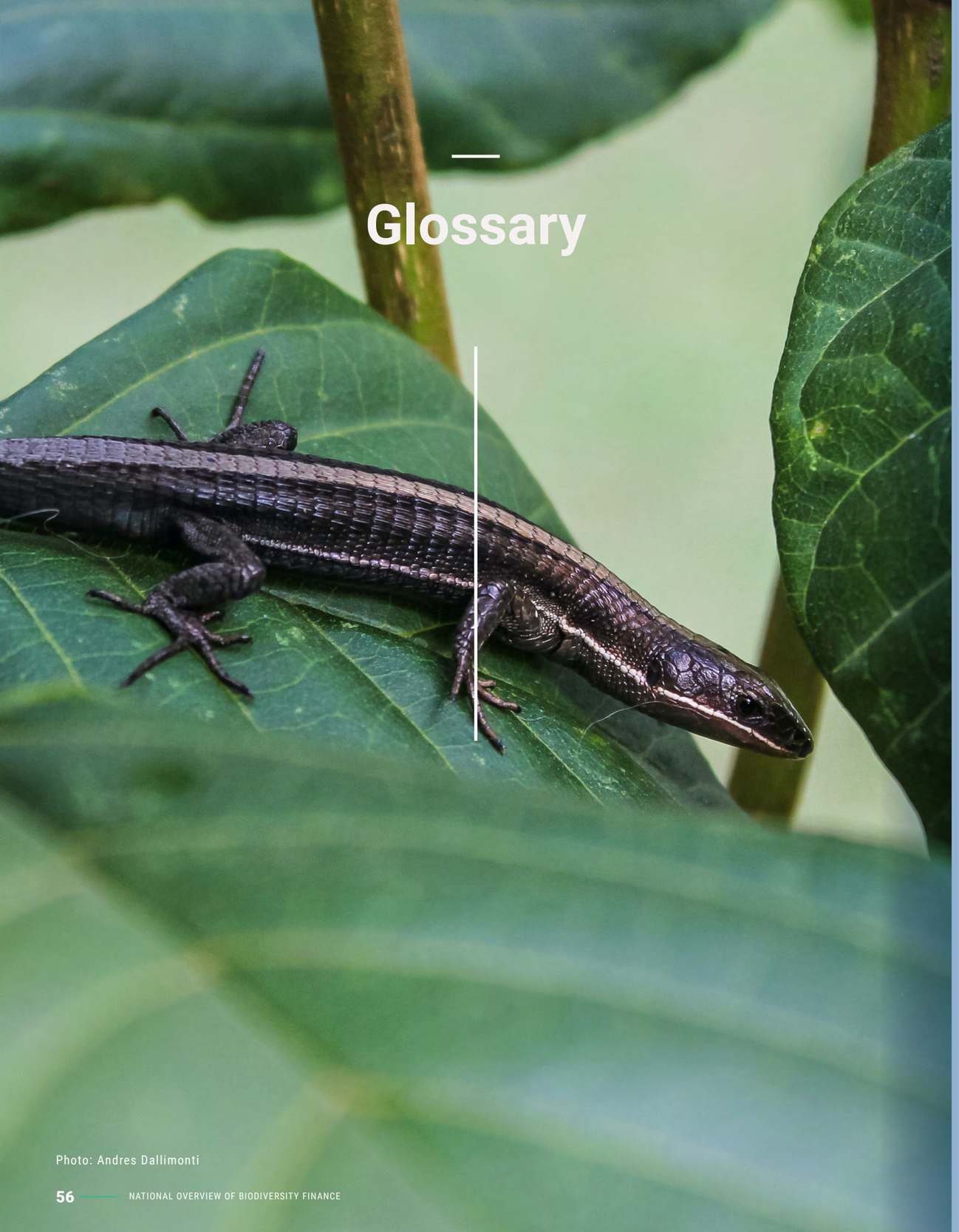

Glossary

Photo: Andres Dallimonti

Biodiversity: variability among living organisms from all sources, including, inter alia, terrestrial, marine, and other aquatic ecosystems and the ecological complexes of which they are part; includes diversity within species, between species and of ecosystems (United Nations, 1992).

Green bonds: any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or refinance, in part or in full, new and/or existing, eligible green projects (International Capital Market, 2021).

Carbon Neutrality: equivalence to zero between anthropogenic emissions and removals of Greenhouse Gases (Congreso de Colombia, 2021).

Ecosystem degradation: persistent reduction of ecosyste
ms in their capacity to provide ecosystem services (Millennium Ecosystem Assessment, 2005).

Dual materiality: contemplates two dimensions of materiality. Impact materiality refers to sustainability issues that are material to a reporting entity in terms of scale, severity, and urgency. Financial materiality refers to sustainability issues that are material because they affect the value of the company, its value chain, or its assets (European Corporate Reporting Lab, 2021).

Biodiversity finance: spending that contributes—or aims to contribute—to the conservation, sustainable use, and restoration of biodiversity. Biodiversity finance comes from both public and private sources, and it can be channelled through intermediaries such as public financial institutions and private asset owners and managers. It can be mobilised and delivered, nationally and internationally, through a variety of financial instruments and mechanisms (Organisation for Economic Co-operation and Development, 2020).

Sustainable Finance: the process of taking environmental, social, and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects (European Commission, 2022).

Ecosystem services: those processes and functions of ecosystems that are perceived by humans as a direct or indirect benefit (ecological, cultural, or economic). They include provisioning services, such as food and water; regulating services, such as the prevention of natural disasters through floods, droughts or landslides and disease or pest control; livelihood services, such as soil formation and nutrient recycling; and cultural services, whether recreational, spiritual, religious, or other non-material benefits (Millennium Ecosystem Assessment, 2005).

Nature-based solutions: actions to protect, sustainably manage, and restore natural or modified ecosystems that effectively and adaptively address societal challenges, such as climate change, food security or disaster risk, while simultaneously providing benefits for human well-being and biodiversity (Cohen-Shacham, Walters, Janzen, & Maginnis, 2016).

Direct users of biodiversity: those who use biodiversity and its ecosystem services as the main element for developing their activities or as raw material or input for production (Ministerio de Ambiente y Desarrollo Sostenible, 2012).

Photo: Andres Herrera

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NATIONAL OVERVIEW OF BIODIVERSITY FINANCE

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