Weekly Summary

Economics of Climate Change

November 8, 2024

COP16: Funding Challenges Stall Biodiversity Initiatives

Biodiversity loss is more complex than reducing greenhouse gas emissions regarding definition, measurement, and impact estimation. Also, while climate action is well-established in public debate, biodiversity is just starting to gain attention. Thus, reaching agreements on protecting natural capital is even harder than for climate change, as seen at COP16, particularly on funding.

Figure 1. **COP16: EXPECTATIONS VS. OUTCOMES: A HALF EMPTY BOTTLE**

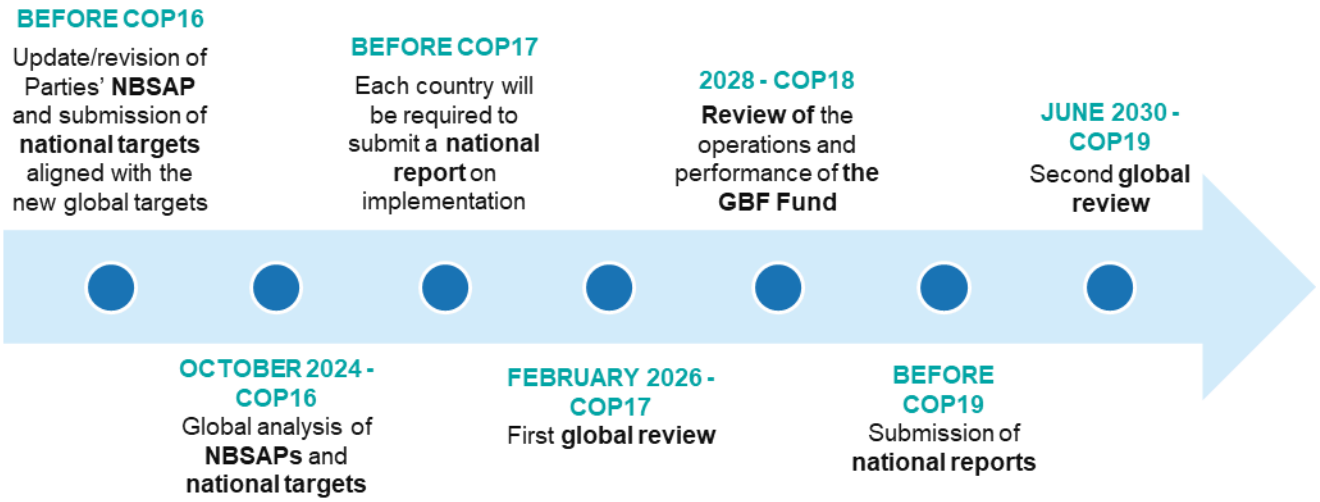
Issue	Expectation	Outcome
Taking stock of progress of the Kunming-Montreal Global Biodiversity Framework (GBF)[1]	Countries are expected to present updates to their National Biodiversity Strategies and Action Plans (NBSAPs)	To date, just 44 of 196 countries have submitted NBSAP
Review of the implementation status of the new framework including a resource mobilization mechanism	Development of a framework including indicators, mechanisms for planning, monitoring, reporting and reviewing progress in implementing the GBF, and a resource mobilization mechanism.	A funding agreement has not been reached, neither about the elimination of harmful subsidies for biodiversity
Multilateral mechanism on the fair & equitable sharing of benefits from the use of digital sequence information on genetic resources	COP16 is expected to finalize and operationalize it	The Cali Fund is launched with resources allocated to Indigenous Peoples and local communities; it will be funded on a voluntary basis.

Source: BBVA Research from different references(see Reading List section).

Biodiversity COPs, a multiannual timeline which is not too tight. The GBF sets a structured timeline (**Figure 2**) for national and international implementation, aimed at reversing biodiversity loss by 2030 and achieving harmony with nature by 2050. Countries, known as Parties to the GBF, must first update their National Biodiversity Strategies and Action Plans (NBSAPs) to align with GBF targets, submitting these new plans and national targets by COP16 in October 2024. This initial phase allows for a global review of progress at COP16, with subsequent assessments at each Conference of the Parties (COP) to monitor ongoing alignment and progress. Following COP16, Parties are required to submit national implementation reports by February 2026 and June 2029, enabling comprehensive global reviews at COP17 in 2026 and COP19 in 2030. This timeline incorporates regular assessments and adjustments to keep countries on track toward the GBF's goals.

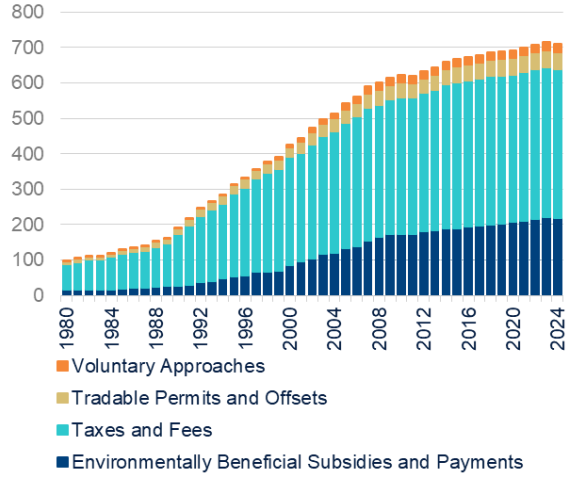
[1]: The Kunming-Montreal Global Biodiversity Framework (GBF), adopted at the 15th Conference of the Parties to the Convention on Biological Diversity (CBD) in December 2022 in Montreal, is a historic landmark agreement for global biodiversity conservation. It sets a vision for 2050 of a world living in harmony with nature through four goals and 23 action-oriented targets. Reference: Issues at stake at the COP16 to the Convention on Biological Diversity.

Figure 2. **TIMELINE FOR THE IMPLEMENTATION OF THE GBF**



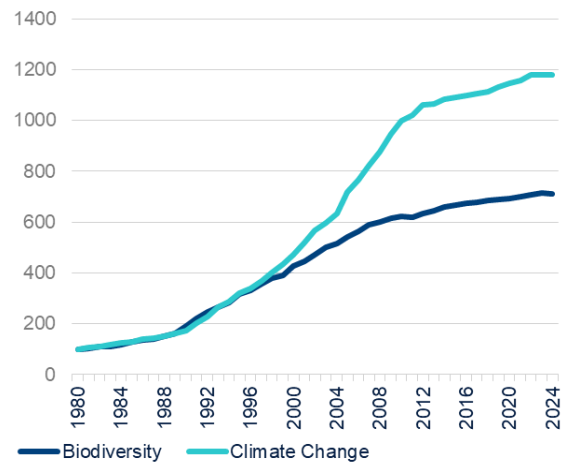
Source: Aubert, G. and Dudley, N., 2023, Progress on implementing the Kunming-Montreal Global Biodiversity Framework, Publication for the Committee on Environment, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg. Available at: Progress on implementing the Kunming-Montreal Global Biodiversity Framework | Think Tank | European Parliament.

Figure 3. **NUMBER OF ACTIVE BIODIVERSITY-POSITIVE INCENTIVES**



Source: BBVA Research with OECD PINE database.

Figure 4. **NUMBER OF ACTIVE POSITIVE INCENTIVES[2]**



Source: BBVA Research with OECD PINE database.

Biodiversity policies: slowing down. If measuring biodiversity is complex and multifaceted, so is monitoring the policies aimed at protecting it. The first approach is simply to count them (**Figure 2**): According to OECD's PINE database, the number of biodiversity-positive incentives[3] is growing more slowly each year. Taxes and fees are the main part of the incentives, with 70 countries reporting active measures. However, revenues are limited: 1.3% of all

[2]: Positive incentives for biodiversity encompass the economic policy instruments (also referred to as "incentive-based" instruments) that provide incentives to conserve and sustainably use biodiversity. They include taxes, fees, environmentally-motivated subsidies, tradable permit schemes, payments for ecosystem services, and biodiversity offsets.

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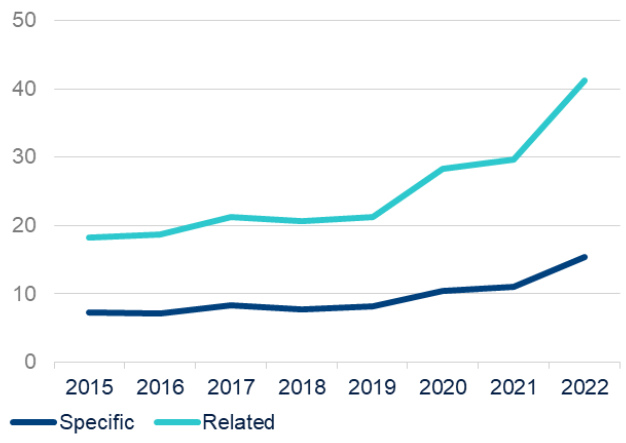
environmentally-related tax revenue or about 0.1% of total tax revenue in OECD countries. Additionally, it is worth noting that climate change incentives, both mitigation and adaptation, are increasing in number far more than biodiversity's (**Figure 3**). **A rough but visual approximation of society's differing commitment to both environmental challenges.**

"Cali Fund", a new benefit-sharing mechanism for genetic resources. Having agreed at COP 15 to establish a multilateral mechanism, including a global fund, to share the benefits from uses of digital sequence information (DSI) on genetic resources more fairly and equitably, COP 16 delegates agreed to implement it. This decision addresses how pharmaceutical, biotechnology, animal and plant breeding and other industries benefiting from DSI should share those benefits with developing countries and Indigenous Peoples and local communities. Under the agreed guidelines, large companies and other major entities benefiting commercially from DSI uses should (voluntarily) contribute to "the Cali Fund," based on a percentage of their profits (1%) or revenues (0.1%).[4]

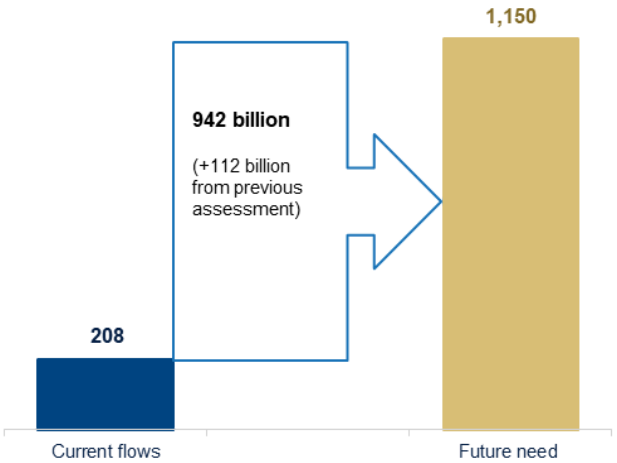
Finance agreement: Another missed opportunity… During COP15 in Montreal, nations set a long-term goal to allocate $700 billion annually by 2030 to address biodiversity loss. As part of the Kunming-Montreal agreement, developed countries committed to providing $20 billion per year by 2025 in international finance. However, reaching this target currently appears challenging.[5] To date, biodiversity finance publicly announced commitments total $8.2 billion annually, 41% of the $20 billion target.[6]

Figure 5. **Development Finance for Biodiversity Trends** (USD BILLION)[7]



Source: BBVA Research from Biodiversity and Development Finance 2015-2022 | OECD.

Figure 6. **CURRENT ANNUAL BIODIVERSITY FINANCE FLOWS VS BIODIVERSITY CONSERVATION FUNDING NEEDS BY 2030** (USD BILLION PER YEAR)



Source: BBVA Research from BloombergNEF, UNEP State of Nature Finance 2023 (current spend); Paulson Institute, Nature Conservancy, and Cornell Atkinson Center for Sustainability, 2020 (future need), CPI Inflation Calculator. Note: Figure uses upper range of estimates.

[4]: At least 50% of this funding will be allocated to Indigenous Peoples, who play a key role in protecting nature.
[5]: COP16 fizzles out as rich countries block global nature fund. Politico. 2 November 2024
[6]: Nature Finance Info. $20 Billion Tracker. 18 October 2024. The amounts in this tracker have been historically lower than the amounts reported by the OECD annual reports, with data for 2022.
[7]: The biodiversity-related (green) line shows the full value of all flows reported to the OECD. The biodiversity-specific (blue) line shows coefficients applied to the information reported to the OECD.

The canonical reference for biodiversity finance, OECD's Biodiversity and Development Finance highlights that the contribution of development finance to the Kunming-Montreal Global Biodiversity Framework (KMGBF) is currently 23% away from its Target 19a (i.e. USD 20 billion by 2025), considering the biodiversity-specific approach (**Figure 4**). It is worth noting that KMGBF aims to increase international public resources for biodiversity by at least USD 30 billion per year by 2030, from developed to developing countries, and to at least 200 billion per year by 2030 the level of financial resources from all sources.

… and an increasing gap with funding needs. The gap between current biodiversity finance and future needs has grown to $942 billion (**Figure 5**), as modest investment increases have not kept up with inflation. While biodiversity finance has seen a slight increase since the Global Biodiversity Framework was established in December 2022, it is still far from the trajectory needed to meet the targets set in Montreal. It is worth noting that: i) a five-fold increase to $1.15 trillion by 2030 is needed; ii) there is an uneven contribution from public finance sources (increasing) vs. private finance instruments, stabilized below previous peaks; iii) The cost of inaction impacts companies and governments, with 55% of global GDP moderately or highly dependent on nature.

How to foster biodiversity finance: aligned policies for attracting investors. Instruments for increasing financial ambition include biodiversity offsets and carbon markets, natural infrastructure, domestic budgets and tax policies, green financial products, supply chain management, official development assistance (ODA), and the alignment of subsidies for agriculture, forestry, and fisheries. To effectively foster strategies and mechanisms for scaling up biodiversity finance, it is crucial to establish **strong political commitment** and leadership that prioritize biodiversity in national agendas and integrate it into broader policies. **Strengthening institutional capacities and technical expertise** enables effective management of financial initiatives, while **robust legal and regulatory frameworks support innovative financial instruments and market development**. Inclusive stakeholder engagement ensures broad participation and support, and demonstrating the economic value of biodiversity helps attract investors.[8]

Overall, the negotiations at COP16 revealed the ongoing conflicts among stakeholders over the policy actions and financing required in order to tackle biodiversity depletion. Despite the substantial interest for action, targeted measures are harder to implement due to complexities over the scope of degradation and required policy remedies with a particular focus on the fairness of distribution of the economic burden of biodiversity policies across societies. At this stage, one thing is certain: There exists an urgent need for funding biodiversity policies and the current level of committed contributions is far behind the needed amount. Achieving biodiversity preservation and adaptation depends on strong, coordinated and timely commitment supported by legal measures and financial incentives.

[8]: Reference: Financing Nature: Closing the global biodiversity financing gap. The Paulson Institute, The Nature Conservancy, and the Cornell Atkinson Center for Sustainability. 2020.

COP16. Reading List

- Financing Nature: Closing the global biodiversity financing gap. The Paulson Institute, The Nature Conservancy, and the Cornell Atkinson Center for Sustainability. 2020.
- COP16 (official site).
- COP16: Landmark biodiversity agreements adopted | UN News. 3 November 2024.
- STATEMENT: COP16 Biodiversity Summit Concludes with Some Progress, but Major Work Remains. WRI. 2 November 2024.
- Issues at stake at the COP16 to the Convention on Biological Diversity. European Parliament. October 2024.
- Tracking Economic Instruments and Finance for Biodiversity 2024. OECD, October 2024.
- Biodiversity and Development Finance 2015-2022 | OECD. September 2024.

Highlights of the Week

- **Global | Energy Technology Perspectives 2024 – Analysis - IEA.** Global market for key clean technologies is set to triple to more than $2 trillion over the coming decade as energy transitions advance.
- **Global | Progress in national climate policy efforts remains insufficient to achieve 2030 targets | OECD.** A significant gap in policy ambition exists between globally agreed temperature goals and the emissions reductions of national climate targets, according to a new report on countries covered by the OECD's International Programme for Action on Climate (IPAC).
- **Europe | Progress on climate action - European Commission.** The EU achieved a net 8% reduction in greenhouse gas emissions in 2023 compared to the previous year. This marks the largest annual reduction in decades (excluding the exceptional, temporary decline due to the pandemic in 2020), a cut largely driven by the growth in renewable energy generation and fall in coal and gas use.
- **Mexico | Mexican energy plan to boost state power company, set rules for private producers - Reuters.** Energy priorities for Mexico's government include boosting state-owned national electricity company CFE while also setting rules for private companies that produce electricity from renewable sources.(Full presentation in Spanish available **here**).

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