



Task Force 02

SUSTAINABLE CLIMATE ACTION AND INCLUSIVE JUST ENERGY TRANSITIONS

Integrating Biodiversity and Social Inclusion into G20 Sustainable Finance Taxonomies

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Abstract

In recent years, sustainable finance taxonomies have become a priority on many national and global policy agendas due to their great potential to direct finance flows to climate-friendly, environmentally sustainable, and inclusive economic activities. Taxonomies play an integral role in creating a common classification language that helps identify sustainable investments, foster greater standardisation, and enhance market transparency. Most of the 40 developing and adopted taxonomies around the world focus on climate change objectives, but only 12 of them consider nature loss. As over half of the world's GDP – \$44 trillion – is moderately or highly dependent on nature and its services associated with the loss of biodiversity, nature-related risks associated with the loss of biodiversity are identified as having significant macroeconomic implications; and failing to account for, mitigate, and adapt to these risks can affect financial stability. Similarly, social inequalities and existing vulnerabilities of marginalised groups are further exacerbated by climate change. However, only a few taxonomies have integrated social objectives so far, despite the multiple benefits of socially valuable investments that can improve livelihoods and community resilience. The G20 encompasses a unique mix of developed and emerging economies as well as biodiversity-rich producer and consumer countries. Therefore, the G20 countries should be at the forefront in developing comprehensive financing strategies aligned with nature- and socially positive outcomes. This policy brief, funded by the Post 2020 Biodiversity Framework – EU support project (a project funded by the EU and implemented by Expertise France) through the project “G20: Sustainable Finance for Nature and People”, analyses the current integration of biodiversity and social inclusion of land- and ocean-based activities in taxonomies and

seeks to propose opportunities and recommendations on how to incorporate these aspects into the taxonomies of G20 countries and beyond.

Keywords: Sustainable Finance, Taxonomy, Biodiversity, Social Aspects, Blue Economy, G20 Countries

*The content of this brief is the sole responsibility of its authors and do not necessarily reflect the views of the European Union, Expertise France or any of the experts consulted in the process of its elaboration.

Diagnosis of the Issue

Government leaders of G20 countries acknowledge the urgent need to address biodiversity loss by strengthening policies and financing. However, global protection efforts are still hindered by a lack of funding. Private finance flows negatively impacting biodiversity amount to an alarming USD 5 trillion, overshadowing investments in Nature-based Solutions (NbS) by 140 times (United Nations Environment Programme 2023).

Similarly, finance to achieve the targets of the Sustainable Development Goals (SDGs) by 2030 is also lacking. It is estimated that USD 4.2 trillion would be needed each year in order to close the financing gap to achieve the 17 goals described in the 2030 Agenda (Office of the United Nations High Commissioner for Human Rights 2022). These goals tackle global challenges, such as poverty, hunger, gender equality, and access to clean water and sanitation, that will be exacerbated by climate change and biodiversity loss (World Meteorological Organization 2023).

Indeed, biodiversity loss is not just intertwined with climate change but also acts as both a cause and exacerbator of social crises. Biodiversity loss triggers social crises like food insecurity, water scarcity, pandemics, and increased vulnerability to natural disasters. Disrupted ecosystems affect livelihoods, especially in agriculture, forestry, and fisheries, destabilising economies. This connection underscores the imperative of addressing biodiversity loss not only for ecosystem preservation but also for bolstering social stability and resilience (G20 2022).

In order to channel more capital into climate- and biodiversity-friendly as well as socially sustainable economic activities, sustainable finance taxonomies (hereinafter taxonomies) can be used to signal to markets which specific economic activities and assets align with national and global sustainability objectives (set out in the Paris Agreement, the Global Biodiversity Framework (GBF), or the SDGs). As acknowledged in the G20 Sustainable Finance Roadmap, taxonomies define which activities can be labelled as sustainable investments and project developments (G20 2021). While taxonomies provide benchmarks to evaluate countries' ambition and performance levels regarding the sustainability of economic activities, they also build the foundation frameworks for disclosure regulations and can thus prevent greenwashing.

There are commonly two approaches in which the taxonomies incorporate environmental and social aspects (Canfora et al. 2022):

1. Substantial contribution: Economic activities and assets are labelled as substantial contributors if they directly improve the current state, reduce pressures, or enable other positive activities. The substantial contribution should be measured and monitored through science-based methods.

2. Do no significant harm (DNSH) criteria and minimum social safeguards (MSS): These are special considerations to prevent unintended or secondary negative impacts on society and the environment while trying to achieve a substantial contribution.

While substantial contribution is the straightforward way to direct action towards specific goals and to track public and private investment, both approaches are necessary to ensure positive outcomes and mitigate potential trade-offs. However, current trends show that biodiversity and social aspects are mainly covered by

DNSH criteria and social safeguards. Whereas all taxonomies focus on climate change mitigation and climate change adaptation as their sustainability objectives, only a few countries have also included biodiversity-related and social objectives. At the end of March 2024, only 20 out of 50 developing or adopted taxonomies have included or plan to include nature-related aspects (ASEAN, Bangladesh, Brazil, China, Colombia, the EU, Georgia, Kenya, Mongolia, Nepal, Panama, Philippines, Russia, Rwanda, Singapore, South Africa, South Korea, Sri Lanka, Thailand, United Kingdom) (Climate & Company and WWF 2022; Marchewitz et al. 2024). When it comes to social objectives, the number is even smaller – only ASEAN, the EU, Georgia, Mexico, Mongolia and the Philippines have integrated social aspects into their taxonomies so far.

To speed up the process of integrating biodiversity and social aspects into taxonomies while also avoiding the so-called silo thinking, a more holistic taxonomy development approach should be taken. In fact, many economic activities that have the potential to substantially contribute to several objectives simultaneously are still not included comprehensively in taxonomies. The best example is the blue economy, which was prioritised last year under India’s G20 presidency (Bajaj and Youdon 2024). A study highlights the potential that G20 countries can have to accelerate the transition to ocean-linked sectors into sustainable practices, i.e., blue economy (Ministry of Environment, Forest and Climate Change and UNDP 2023). Ocean-linked sectors are estimated to contribute USD 1.5 trillion in value added to the global economy, supporting around 31 million jobs. Two-thirds of the global economy is moderately or highly dependent on ocean resources (UNEP Finance Initiative 2022). Yet, activities relating to the blue economy, such as sustainable fisheries, were not included in the last draft of the EU

Taxonomy (European Commission, n.d.) and are still missing in most taxonomies around the world.

This policy brief advocates for a more prominent role of biodiversity and social objectives in taxonomies aiming for synergetic approaches, e.g., by accelerating the integration of cross-cutting economic activities that are part of the blue economy (such as sustainable fisheries that improve food security, coastal protection, community resilience and other aspects of living). This is because the blue economy can be understood as a new flagship that includes economic variables associated with an environmentally sustainable, socially equitable, inclusive, and resilient ocean economy. As such, it covers different economic sectors that depend directly or indirectly on living and non-living marine resources, as well as activities carried out in the coastal zones that depend on these resources. More than just looking at economic sectors, it also considers the ecosystem services provided by the ocean. Together, these issues are surrounded by a wide range of institutions, norms, and international treaties known as ocean governance (European Commission 2022).

Recommendations

Biodiversity-related recommendations:

1. The G20 Sustainable Finance Working Group (G20 SFWG) should promote the inclusion of biodiversity-specific objectives and related economic activities into existing and developing taxonomies. To do this, there are two core actions needed:

→ **Guide objective-setting.** The GBF calls for protecting 30% of land and seas, restoring 30% of degraded lands, reducing pollution and minimising the impacts of climate change, among others (Convention on Biological Diversity 2022). The GBF's goals should be translated at the national level as part of the National Biodiversity Strategies and Action Plans (NBSAPs), which at the same time should have a financial strategy. This offers the perfect opportunity to utilise taxonomies as frameworks to mobilise and monitor relevant objective-oriented investments.

→ **Advice on the definition of activities with substantial contribution:** Some voluntary catalogues can be used and adapted. For instance, the “Biodiversity Finance Reference Guide”, published by the International Finance Corporation in 2023, offers an indicative list of investments, activities, and project components that 1) seek to generate biodiversity co-benefits, 2) promote conservation and/or restoration as the primary objective, and 3) apply nature-based solutions to conserve, enhance, and restore ecosystems and biodiversity. Examples include climate-smart and regenerative agriculture, and regenerative (restorative) aquaculture (International Finance Corporation 2023). The guide also advises policymakers on how to design biodiversity finance taxonomies. Additionally, the International Platform on Sustainable Finance (IPSF) has

announced that they are working on guidance for the “other environmental objectives” of taxonomies including biodiversity. The result of this work will be available by mid-2024.

2. The G20 countries should lead by example. Current trends show that taxonomies from large economies, such as the EU and China, have been very influential in the development of other taxonomies (Climate & Company and WWF 2022). Consequently, the limited integration of biodiversity in the EU and Chinese Taxonomies is reflected in the overall status at the global level. However, megadiverse countries like Colombia have pushed to include context-relevant activities belonging to biodiversity and adaptation objectives, counteracting the trend to focus on mitigation, i.e., GHG emission-reduction targets.

Social inclusion-related recommendations:

1. G20 SFWG should take the lead in promoting the development of social taxonomies. According to the report “Inequality Inc.”, published by Oxfam International in February 2024, global income inequality has grown for the first time in 25 years. Women and minorities are in particular are disproportionately affected by growing income inequality. Given that Brazil currently holds the presidency of the G20, it is extremely appropriate to highlight the social agenda, given the social inequalities the country faces. Therefore, advocating the urgent need to develop social taxonomies is necessary. It should be noted that Brazil is currently developing its taxonomy, and that the social aspect is being considered. Other examples can be found in ASEAN, Mexico, Georgia, Mongolia, and the EU.

2. G20 Financial Inclusion WG should boost the Global Partnership for Financial Inclusion (GPII) under the Brazilian presidency. The GPII is committed to advancing financial inclusion globally by increasing the quality of access to, as well as the use of, sustainable formal financial services, thereby expanding opportunities for underserved and excluded households and enterprises, as one of the instruments to ensure financial well-being and to support productivity. Integrating social and biodiversity into G20 sustainable finance taxonomies can be a mechanism to support it. This financial inclusion has the potential to help fight poverty and inequality and Brazil could advocate for its advancement for the benefit of individuals and Micro, Small and Medium Enterprises (MSMEs).

Cross-cutting recommendations:

1. Promote the inclusion of the blue economy as a perfect catalyser for multiple socio-environmental objectives. Another interesting fact about biodiversity and social matters is their cross-cutting character which allows their integration into multiple interventions and developing synergies to tackle several issues simultaneously. Nevertheless, several taxonomies and policy frameworks separate the protection of water ecosystems from terrestrial ones, the classical divide between water and biodiversity (e.g., SDG 14 life below water and SDG 15 life on land). However, this is due to a practical decision, rather than a biological one. Both overarching ecosystem categories should be considered for comprehensive approaches. For illustrative purposes, the ocean hosts 13% of all currently described living species (Bœuf 2017), which help sink about 25% of anthropogenic CO₂ emissions (DeVries 2022) and contains 50 times more CO₂ than the atmosphere (Prentice et al. 2023). Fortunately, again, there are already guidelines that

serve to be adapted per jurisdiction. e.g., the UNEP FI guide “Turning the Tide: How to Finance a Sustainable Ocean Recovery”, which describes investment opportunities per sector including renewable energies, seafood, and tourism (UNEP Finance Initiative 2021).

Scenario of outcomes

Based on the above-mentioned arguments regarding the importance of integrating biodiversity and social inclusion into G20 sustainable finance taxonomies, the following outcomes could be expected in case the G20 does not act in a swift and timely manner:

Topic	Suggested actions	Potential consequences of inaction
Integration of biodiversity aspects	The G20 SFWG should promote the integration of biodiversity-specific objectives and economic activities into existing and developing taxonomies, guiding objective-setting and advising on substantial contributions (i.e., sending explicit signals to the market on the required investments for transformation).	Without this integration, efforts to protect and restore ecosystems continue to lack adequate funding and coordination, hindering the achievement of global and national biodiversity goals.
Integration of social aspects	The G20 SFWG should foster the development of social taxonomies to address rising global income inequality, utilising Brazil's G20 presidency as a momentum to emphasise the social agenda. As part of these efforts, the Global Partnership for Financial Inclusion (GPFI) offers a platform that should be boosted under Brazil's presidency.	Failing to develop social taxonomies will miss the chance to use such investment frameworks to address income inequality and global economic disparities, which hinder social progress and stability. Furthermore, without financial inclusion, poverty and inequality will persist, limiting access to financial services for underserved populations and MSMEs.

As this policy brief illustrates, the inclusion of blue economic activities as a cross-cutting approach to integrate both biodiversity and social aspects into taxonomies in a holistic manner, the following potential scenarios of outcomes are expected:

1. Incorporating the blue economy into taxonomies can lead to increased capital directed towards ocean conservation and sustainable marine resource management, which can fortify marine ecosystems while also fostering economic growth in coastal communities. Investments in the blue economy can fund projects like marine protected areas and sustainable fisheries management, preserving marine biodiversity. Moreover, by integrating social inclusion measures, such investments can empower coastal communities through employment and training opportunities, promoting equitable access to resources.

2. Nevertheless, integrating the blue economy into sustainable finance taxonomies offers promise but also requires careful navigation of trade-offs. Ultimately, by leveraging capital markets and aligning with disclosure frameworks, it can drive positive environmental and social outcomes. Balancing economic interests with sustainability imperatives is vital to ensure the long-term effectiveness of such initiatives. For instance, sustainable fisheries may clash with industries reliant on unsustainable practices, posing economic challenges. Additionally, ensuring equitable distribution of benefits among stakeholders may encounter resistance from established power dynamics.

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