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Biodiversity finance

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Abstract

We study biodiversity financethe use of private capital to finance biodiversity conservation and restorationwhich is a new practice in sustainable finance. First, we provide a conceptual framework that lays out how biodiversity can be financed by pure private capital and blended financing structures. In the latter, private capital is blended with public or philanthropic capital, whose aim is to de-risk private capital investments. The main element underlying both types of financing is the monetization of biodiversity, that is, using investments in biodiversity to generate a financial return for private investors. Second, we provide empirical evidence using deal level data from a leading biodiversity finance institution. Our findings are consistent with a three dimensional efficient frontier (return, risk, and biodiversity impact)deals with a favorable risk return profile tend to be financed by pure private capital, whereas for other deals the biodiversity impact needs to be sufficiently large for blended finance to be used. Overall, our results suggest that blended finance is an important tool for improving the risk-return profile of these projects, thereby increasing their appeal to private investors and crowding in private capital. Finally, our results suggest that private capital is unlikely to substitute for effective public policies in addressing the biodiversity crisis

Keywords: biodiversity finance, biodiversity conservation, biodiversity restoration, blended finance, private

Full text

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